BRIT LIMITED
PRESS RELEASE
12 FEBRUARY 2021
UNAUDITED FULL YEAR RESULTS FOR THE YEAR ENDED 31 DECEMBER 2020

STRONG RATE INCREASES AND PREMIUM GROWTH IN AN UNPRECEDENTED YEAR

Key points

- Gross written premiums of US$2,424.4m (2019: US$2,293.5m), a 5.7% increase (5.6% at constant FX rates).
- Risk adjusted premium rates increases on renewal business of 10.6% (2019: 5.9%), bringing the total increase since 1 January 2018 to 20.2%.
- Net earned premium[1] of US$1,713.9m (2019: US$1,638.5m), an increase of 4.5% at constant FX rates.
- Attritional ratio of 52.6%, an improvement of 2.4 percentage points (pps) (2019: 55.0%), with most classes showing a strong underlying performance.
- Combined ratio[1,2] of 112.6% (2019: 95.8%), including 15.9 pps of COVID-19 relates losses and 7.8pps of other major losses (2019: 3.6pps).
- Combined ratio[1,2] excluding COVID-19 related losses of 96.7%.
- Return on invested assets[3] after fees of US$45.5m or 1.0% (2018: US$148.1m or 3.6%).
- Loss on ordinary activities before the impact of FX and tax of US$233.7m (2019: profit of US$183.0m).
- Loss after tax of US$232.0m (2019: profit of US$179.9m).
- Balance sheet remains strong: adjusted net tangible assets[4] of US$1,436.8m (2019: US$1,150.4m).
- Capital surplus of US$341.0m (2019: US$348.9m) and a strong capital ratio[5] of 122.1% (2019: 128.4%).
- We have continued to focus on our 'Leadership, Innovation, Distribution' strategy, including:
  - Launch of Ki, the first fully digital and algorithmically-driven Lloyd's of London syndicate;
  - Launch of a direct pay claims facility in collaboration with Visa and Vitesse; and
  - Sponsorship of a US$300m catastrophe bond via Sussex Capital UK PCC Limited.

Matthew Wilson, Group Chief Executive Officer of Brit Limited, commented:

'At a time when the global pandemic is still ravaging communities, we spare a thought for our colleagues, brokers and clients who have had to deal with the ultimate tragedy of losing a loved one through COVID-19. The human cost, the economic impact and the toll on mental welfare has been at a level no one could have foreseen as we began the year. I am proud of the way in which everyone in Brit has responded to the challenge and not only managed to service our clients, but to excel in doing so.

Our products are designed to support businesses and individuals in such difficult times and we have focussed on responding to claims as they have been notified. We have stood tall with respect to valid COVID-19 claims and the financial impact on Brit has been significant. Furthermore, 2020 was also a very active year for catastrophe events, being the fifth-costliest on record.

Despite the backdrop of COVID-19, there were a number of positives in the period. We achieved risk adjusted rate increases of 10.6%, with almost all classes contributing to the increase. This gives a total overall increase since 1 January 2018 of 20.2%. In this positive rate environment, we continued to grow our written premium to US$2,424.4m. During the period we also delivered an attritional claims ratio of 52.6%, an improvement of 2.4pps, reflecting underwriting discipline, rigorous risk selection, and rate increases.

Looking ahead to 2021, against the challenging backdrop there are a number of indicators to give us cause for optimism, including rate increases, the withdrawal of capacity in the market from certain classes and our improving attritional claims ratio. In this environment, our clear strategy of embracing data driven underwriting discipline, rigorous risk selection and planned targeted growth for 2021, coupled with innovative capital management solutions and continued investment in distribution, positions us well to respond to the opportunities and challenges ahead.'

Notes

1. Excludes the effect of foreign exchange on non-monetary items.
2. Excludes amounts attributable to third-party underwriting capital providers.
3. Inclusive of return on investment related derivatives, return on associates and after deducting investment management expenses and third-party share of investment return.
4. Adjusted net tangible assets are defined as total equity, less intangible assets net of the deferred tax liability on those intangible assets, less non-controlling interest.
5. The capital ratio is calculated as available resources as a percentage of management entity capital requirements.

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About Brit Limited

Brit is a market leader in global specialty insurance and reinsurance. We underwrite across a broad class of commercial insurance with a strong focus on property, casualty and energy business. Brit is a reputable and influential name in the Lloyd's market and we pride ourselves on our specialist underwriting and claims expertise.

We operate globally via a combination of our own international distribution network that benefits from Lloyd's global licences and our broker partners, and underwrite a broad class of commercial specialty insurance. Our underwriting capabilities are underpinned by a strong financial position, our underwriting expertise and discipline and customer service.

We have a strong track record and are passionate about our business, our people and our clients and we have focused on cultivating a franchise that is built on delivering exceptional service. Our culture is centred on achievement and we have established a framework that identifies and rewards strong performance.

Brit is a member of the Fairfax Financial Holdings Limited group of companies (Fairfax). The Fairfax financial result for the year ended 31 December 2020, which included the Brit Limited financial result, was published on 11 February 2021.

www.britinsurance.com

Disclaimer

Officer statements

‘At a time when the global pandemic is still ravaging communities, we spare a thought for our colleagues, brokers and clients who have had to deal with the ultimate tragedy of losing a loved one through COVID-19. It is clearly a year that many will wish to forget, albeit ironically it will probably be one of the most memorable of the 21st century. The challenges brought about by COVID-19 have been on a global scale not seen since the second world war. The human cost, the economic impact and the toll on mental welfare has been at a level no one could have foreseen as we began the year.

The excellence of any group of people, a team or a company, is seldom measured during the best of times, it is exhibited during the worst of times. We must never forget that the primary aim of business is to service its customers and reward its shareholders, and with significant COVID underwriting losses, we must acknowledge that we have not achieved the latter. That said, I am so very proud of the way in which everyone in Brit has responded to the challenge that has impacted every aspect of life, and not only managed to service our clients, but to excel in doing so.

Our immediate priorities as the crisis emerged were to ensure the safety of our employees and continuity of our service to our clients and brokers. All our offices were quickly and successfully able to move to remote working using our robust IT estate and systems and have maintained a continuity of service to our clients, remaining fully open for business throughout the year. Our underwriters have been actively engaging with clients and brokers, delivering market-leading responsiveness. Our Claims team continues to service our policyholders in these challenging circumstances, proactively working with our third-party adjusters to ensure claims continue to be handled promptly and to our usual high standards. It was pleasing that in 2020, Marsh and Lockton rated Brit the number one carrier for service provided in the London Market, while AJG ranked us third in the London Market and Aon ranked us third out of 34 carriers.

The crisis has impacted many of our clients. Our products are designed to support businesses and individuals in such difficult times and we have focussed on responding to claims as they have been notified. We have stood tall with respect to valid COVID-19 claims and the financial impact on Brit has been significant, with claims of US$270.7m related to COVID-19 being reported within Major Losses in the period. COVID-19 has predominantly impacted our Contingency (Event Cancellation) and Casualty Treaty books. These losses have driven an increase of 15.9 percentage points (pps) in our combined ratio, bringing the overall combined ratio to 112.6%.

2020 was also a very active year for catastrophe events, being the fifth-costliest on record. The net impact to Brit of these events, before reinstatements, was US$132.5m, or 7.8pps on the combined ratio (2019: US$58.4m/3.6pps).

The pandemic has also severely impacted investment markets. The first quarter of 2020 saw markets suffer their worst period since the 2008 financial crisis, as investors priced in the short-term impact of the shutdown and potential longer term impact of a global recession, while the remainder of the year witnessed a recovery. Brit’s investment return for the year was a positive US$45.5m, driven by the performance of our fixed income portfolio. Our overall operating result before FX movements was a loss of US$233.7m and our result after tax was a loss of US$232.0m.

Despite the backdrop of COVID-19, there were a number of positives in the period. We achieved risk adjusted rate increases of 10.6%, with almost all classes contributing to the increase. This gives a total overall increase since 1 January 2018 of 20.2%. In this positive rate environment, we continued to grow our written premium to US$2,424.4m, an increase of 5.6% at constant exchange rates.

During the period we delivered an attritional claims ratio of 52.6%, an improvement of 2.4pps, reflecting underwriting discipline, rigorous risk selection, and rate increases. We have also maintained our long-standing track record of prior year reserve releases, improving the combined ratio by 3.6pps (US$61.5m).

Brit’s brand purpose is ‘writing the future’. In May, we were proud to announce plans to launch Ki, a standalone business and the first fully digital and algorithmically-driven Lloyd's of London syndicate, in collaboration with Google Cloud. Ki Syndicate 1618, with backing from Blackstone and Fairfax, commenced underwriting for the 2021 year of account in November 2020. We believe Ki will redefine the commercial insurance market and places Brit at the forefront of innovation in our sector.

We strive to ensure equal opportunity is part of how we conduct ourselves as a business and as a team. The simple message is that discrimination in all its forms will not be tolerated at Brit. We continue to work hard on inclusion and are committed to proactively addressing its challenges. We have formed an Inclusion and Diversity Committee and launched the Brit People Forum, so we can listen to and learn from the personal stories of the widest spectrum of the Brit community and come together to make inclusion and diversity ‘business as usual’ for Brit.

During 2020, we have received continued support from our owner, Fairfax. This support has enabled us to continue to focus on our strategy and to position ourselves well for the opportunities as they arise.

In September, we appointed Mark Allan as CEO of Ki, and as such he will be stepping down from his role as Group CFO, once his successor has started. Mark has made a significant contribution to Brit over the last ten years and will remain both on the Brit Executive and on the Brit Ltd and Brit Syndicates Ltd Boards as an Executive Director. I am delighted that Gavin Wilkinson will be joining in May 2021 as Group CFO, subject to regulatory approval.

Looking ahead to 2021 and beyond, significant uncertainty still surrounds COVID-19 and the timeframes over which vaccination programmes will allow lockdowns to be eased. We also face the consequences of the economic support measures taken by governments driving yields down to record lows and the likely impact on the economy, with recessionary risks heightened.

However, against this challenging backdrop there are a number of indicators to give us cause for optimism, including rate increases, the withdrawal of capacity in the market from certain classes and our improving attritional claims ratio. In this environment, our clear strategy of embracing data driven underwriting discipline, rigorous risk selection and planned targeted growth for 2021, coupled with innovative capital management solutions and continued investment in distribution, positions us well to respond to the opportunities and challenges ahead.'

Matthew Wilson
Group Chief Executive Officer

'For Brit and the wider insurance market, 2020 has proved to be very challenging, with results heavily impacted by the COVID-19 pandemic and its impact on insurance, investment and currency markets, and other major loss events. Brit's operating result before FX movements for 2020 was a loss of US$233.7m (2019: profit of US$183.0m), while the post-tax result was a loss of US$232.0m (2019: profit of US$179.9m).

Our underwriting loss of US$215.0m and combined ratio of 112.6% included major losses of US$403.2m (or 23.7pps of the combined ratio), resulting from COVID-19 related claims (US$270.7m), Hurricane Laura (US$65.4m), Hurricane Sally (US$27.1m), Hurricane Zeta (US$15.5m), the Nashville Tornadoes (US$13.7m) and US Civil Unrest (US$11.7m). However, we were pleased with the attritional ratio of 52.6%, an improvement of 2.4pps, and to continue our long-standing track record of prior year reserve releases (US$61.5m), benefiting our combined ratio by 3.6pps.

In the first quarter of 2020 investment markets sold off due to fears around the financial impact of the coronavirus pandemic, before staging a partial recovery over the remainder of the year. Our investment return for the year, net of fees, was US$45.5m or 1.0%, driven by gains in our fixed income portfolio of US$141.3m, partly offset by losses in our equity (US$42.5m) and fund (US$32.8m) portfolios.

Preserving a strong financial position is critical to the long-term success of an insurance business. Our statement of financial position remains strong as we maintain our 'conservative best estimate' reserving policy which provides us with a secure foundation. During the period, our management capital requirement increased from US$1,227.7m to US$1,540.3m, primarily reflecting the dramatic fall in interest rates in response to COVID-19, but also reflecting our investments alongside partners in Ki, Syndicate 2988 and Sussex. We raised capital from our parent, Fairfax, amounting to US$524.0m during the period to ensure we trade into 2021 with a strong capital position. At the end of the period our adjusted net tangible assets totalled US$1,436.8m (31 December 2019: US$1,150.4m), after payment of a US$20.6m dividend, and our capital surplus was US$341.0m (31 December 2019: US$348.9m).

We are very excited about the prospects for our new digital business, Ki, that brings together the best of Lloyd's underwriting with the latest technology and data science. This cutting-edge business is a first for the market and has a fundamentally different operating model, designed to dramatically improve the broker experience for follow capacity in Lloyd's. We are delighted to have worked with world-class partners in Google Cloud and University College London on the launch.

Ki has raised US$500m of committed capital from two backers, funds managed by Blackstone Tactical Opportunities and Fairfax. It has also onboarded its first trading partners, a leading group of Lloyd's brokers, giving their clients access to our valuable capacity and sustainable business model. In October 2020, Ki Syndicate 1618 achieved 'permission to underwrite' from Lloyd's, and in November it bound its first risk, with the line having been generated by Ki's proprietary algorithm, a first in the Lloyd's market.

In December, we sponsored our first 144A catastrophe bond issuance, via Sussex Capital UK PCC Limited. The bond provides US$300m of multi-year named storm and earthquake protection for a risk period of four years to 31 December 2024. Structured on an annual aggregate state-weighted basis, the proceeds from the bond will be used to collateralize a reinsurance agreement with Brit Syndicates Limited, acting on behalf of Syndicate 2987, and Sussex Capital UK PCC Limited. This is the first time a protected cell of a UK domiciled multi-arrangement risk transformation vehicle has issued a 144A catastrophe bond and provides Brit with valuable catastrophe protection over the next four years to complement our traditional reinsurance programme.

While we have seen some positive market developments in 2020, the year has been defined by COVID-19. In 2021, the world faces ongoing uncertainty and challenge arising from the pandemic. However, our strategy, discipline and plans for 2021 position us well against the significant macro-economic challenges that lie ahead.'

Mark Allan
Group Chief Financial Officer

Brit at a Glance

We are a market-leading global specialty (re)insurer and the largest business that trades primarily on the Lloyd's of London platform, the world's leading specialist commercial insurance market. We provide highly specialised insurance products to support our clients across a broad range of complex risks, with a strong focus on property, energy and casualty business.

We care deeply about our clients' needs, ensuring that we not only surround them with – and invest in – the best talent in the industry, but also combine the depth of our experience with the latest technology to deliver a relentless innovation agenda. Acting in open, honest partnership, our clients can be sure that with Brit by their side the future isn't something to be feared, it's something to be seized.

We operate globally via a combination of our own international distribution network that benefits from Lloyd's global licences and our broker partners. Our underwriting capabilities are underpinned by a strong financial position and our commitment to deliver superior returns to our shareholders.

At Brit, LEADERSHIP, INNOVATION and enhancing our product DISTRIBUTION are at the heart of our strategy, underpinned by our strong underwriting and claims expertise.

We have a strong track record and are passionate about our business, our people and our customers and we have focused on cultivating a franchise that is built on delivering exceptional service. Our culture is centred on achievement with four key tenets: delivering on commitments and ensuring the same from others; managing risk actively to optimise reward; focusing efforts to maximise results; living a distinct ethos. In addition, we encourage enthusiasm for improvement, be it changes to process, policy or working practices, we encourage new thinking, and we encourage collective working and open and honest communication.

The Fairfax Group

Since June 2015, Brit has been a member of the Fairfax Financial Holdings Limited group (Fairfax), a Canadian company whose shares are listed on the Toronto Stock Exchange (www.fairfax.ca). At the start of 2020, Brit was 89.3% owned by FFHL Group Limited (FFHL), a Fairfax company, while Brit's remaining shares were owned by the Ontario Municipal Employees Retirement System (OMERS), the pension plan manager for government employees in the Canadian province of Ontario. On 28 August 2020, FFHL purchased all 48,000,000 Class A shares from OMERS, thereby increasing Fairfax's ownership of the Brit Group to 100.0%.

We believe that Fairfax is an excellent partner for Brit, enabling us to enhance our global product offering. It provides us with expanded underwriting opportunities and distribution channels and supports our ability to be a leading global specialty (re)insurer.

2020 underwriting review

COVID-19

COVID-19 has had a significant impact on the insurance industry, with commentators likening the direct effect of the pandemic to 9/11 or the combined effects of Hurricanes Katrina, Rita and Wilma. Lloyd's has suggested that COVID-19 could be the market's largest ever single loss event, initially estimating a potential of US$107bn in claims, with Lloyd's share likely to be in excess of US$4.0bn. Given the protracted nature of the pandemic, these estimates are likely to be significantly exceeded.

Our immediate priorities as the crisis emerged were to ensure the safety of our employees and continuity of our service to our clients and brokers. All our offices were quickly and successfully able to move to remote working using our robust IT estate and systems and have maintained a continuity of service to our clients, remaining fully open for business throughout the lockdown period. Our underwriters have been actively engaging with clients and brokers, delivering market-leading responsiveness. Our Claims team continues to service our policyholders in these challenging circumstances, proactively working with our TPAs to ensure claims continue to be handled promptly and to our usual high standards.

The financial impact on Brit has been significant, with claims of US$270.7m related to COVID-19 being reported within Major Losses in the period. These losses have driven an increase of 15.9 percentage points (pps) in our combined ratio. COVID-19 has predominantly impacted our Contingency (Event Cancellation) and Casualty Treaty books.

COVID-19 is a highly unusual insurance event, 'earning' over a prolonged period. Estimating the overall cost is highly subjective and is dependent on factors such as how long lockdowns and social distancing continue, the ability to reschedule events and the potential of minimising cost by either the early cancelling/postponing of events or holding them behind closed doors. All these factors play into our loss estimates.

We also continue to monitor our wider business, which may be impacted by claims arising directly or indirectly from the events unfolding, and we continue to consider the potential impact on medium-term claims from a global recession, which typically brings increased moral hazard, fraud and a more litigious environment generally.

Brit notes the outcome of the Supreme Court ruling on 15 January 2021 in respect of the FCA's COVID-19 related business interruption test case. Brit was not party to this action, the outcome of which does not have a material impact on the Group.

During 2020, we have managed to maintain the collaborative, can do attitude that has set us apart in the market, and proved we can operate a leading insurance business remotely and electronically. Our ability to collaborate using technology has allowed us to carry on with our goals, and our culture of managing risk actively has allowed us to adapt. We have moved paper-based brochures to e-books, physical stamps to e-stamps and, thanks to our portals and PPL, are able to seek out new business opportunities with our e-distribution capability.

We have learnt much about ourselves during lockdown and our culture has excelled, showing itself to its best. New positive cultural attributes have also emerged during lockdown, together with some areas that we need to work harder on in a working from home environment.

Investment markets were also significantly impacted by COVID-19. In the first quarter of 2020, markets suffered their worst quarter since the financial crisis as investors priced in the short-term impact of COVID-19 and potential longer term impact of a global recession. Markets subsequently rebounded following fiscal and monetary stimulus and recovered further in quarter four following positive vaccine news, with value stocks performing particularly well. Brit's investment return for the twelve months to 31 December 2020 was a positive US$45.5m, which is discussed later in this report.

Major loss activity

2020 also saw a high level of non-COVID-19 related major loss activity, with an estimated US$83bn of global insured losses arising from natural catastrophes and man-made events, an increase of 32% over 2019 (US$63bn) and the fifth-costliest on record. Natural catastrophes, including hail storms, wildfires and floods, accounted for US$76bn of the estimate, as well as having a devastating impact on people's lives, homes and businesses. The windstorm season was very active, with record number of named storms, albeit resulting in only moderate insured losses of US$20bn. The estimated global economic loss of all 2020 events is approximately US$187bn (2019: US$149bn).

The main events impacting Brit in 2020 were Hurricane Laura, Hurricane Sally, Hurricane Zeta, the Nashville Tornadoes and US Civil Unrest. The net impact to Brit of the claims incurred from these events, before reinstatements, was US$132.5m, or 7.8pps on the combined ratio (2019: US$58.4m/3.6pps). Whilst moderate individually, they accumulate to a significant total, well above average expectations. These events have disproportionately hit insurance lines and less populated areas outside of the peak zones. As a result, we have seen higher exposure from our coverholder business, which is deliberately weighted to these exposures and provides balance to the overall property account.

Rate increases

The market has continued to benefit from strengthening premium rates during 2020. Brit achieved an overall risk adjusted rate increase of 10.6% (2019: 5.9%). All divisions have continued to achieve rate increases, with the largest increases achieved in Property D&F, Marine Cargo, D&O and Excess Casualty.

RARC since 1 January 2018 now +20.2%, analysed across portfolios as follows:

	2018 **%**	**2019** **%**	**2020** **%**	**TOTAL** **%**
London – Direct	3.6	7.1	10.7	21.4
London – RI	3.1	2.4	7.2	12.7
Overseas Distribution	4.5	6.4	14.6	25.5
TOTAL	3.7	5.9	10.6	20.2

Our customers

Our customers are our priority. When a customer has a claim, we understand they are facing difficult and unexpected challenges. They expect the insurance they have purchased to respond and deliver when they need it most. We see each and every claim as an opportunity to deliver the claims service our customers need to move forward with their lives.

This claims service has included:

- Driving a strong effort to respond to a high volume of COVID-19 claims experienced throughout the year, including assisting many commercial lines customers and brokers who had previously never experienced a loss, with the extra support they needed to expedite and resolve their claim;
- Working with our local third-party claims adjusters on a high volume of property and business interruption claims in a variety of jurisdictions in response to COVID-19 and related government actions. Collaboration with our local TPAs was robust and required extra effort in the early stages of developing a response strategy;
- Maintaining a focus on responding to our customers and pursuing opportunities to reduce claims lifecycle and bring claims to resolution at every opportunity;
- Utilising Geospatial Intelligence Centre technology to advance our property claims adjusting capabilities by capturing high resolution images of Brit-insured properties affected by events ranging from tornadoes in Nashville, to Hurricanes Laura, Sally and Zeta. Losses were immediately referred to our TPAs for payment, where covered damage(s) could be determined, even when affected areas could not be accessed by local field adjusters;
- Swiftly establishing dedicated loss funds for our TPAs and coverholders, to expedite claims payments;
- Proactively making interim or partial payments whenever possible to support our insureds' recovery efforts; and
- Completing a proof of concept and subsequently introducing to brokers our new Brit Direct Pay innovation. Brit Direct Pay provides our customers the option of self-directing their payment through a custom app directly to their Visa bank card so that their claims payment can be transferred within hours, or sooner. This is the first of its kind in the London market, and we have plans to expand the capability to the US in 2021.

Our underwriting

Our overall GWP for 2020 was US$2,424.4m, an increase of 5.7% over 2019 (US$2,293.5m), or 5.6% at constant rates of exchange. We saw dramatic reductions in some areas of the business as COVID-19 impacted travel, events and M&A and have continued to refine our portfolio where conditions have been challenging. This has reduced the headline growth rate despite us seeing strong growth in other areas including Property Treaty, Specialty, Property, Financial and Professional Lines and Scion, reflecting the strong rating environment and targeted growth as conditions improved.

Our retention ratio, the proportion of our business that renews on a premium weighted basis, was 76.1%, marginally lower than in 2019 (78.0%). Across all lines, we have retained our underwriting discipline and are prepared to discontinue accounts that we believe are inadequately priced or outside of our appetite.

Distribution remains central to our strategy, and we continue to build our network. Our overseas offices make a significant contribution to the Group, providing 19.2% of GWP, and allowing us to access business not generally available in London. In 2020 they generated US$465.4m of premium (2019: US$508.7m).

- Brit Global Specialty USA (BGSU) has written US$289.7m of premium (2019: US$305.9m). We have streamlined and refocused our product set, focusing on classes where we see sustainable opportunities and the potential to operate at scale.
- Scion Underwriting Services Inc., our US MGA headed by Scott Brock, generated US$64.8m of premium for Brit in 2020, in its third year of operations (2019: US$46.0m). This growth reflected the strong rating environment and increased market traction.
- Ambridge Partners LLC, our New York based MGA, generated US$27.8m of premium for Brit (2019: US$46.7m). This reduction reflects the reduction in corporate transactional activity resulting from the impact of COVID-19 and from other factors such as Brexit uncertainty.
- Our Bermuda operation continues to selectively write reinsurance business in lines and markets that we believe are well rated. Premiums generated by our Bermuda office in 2020 equated to US$83.1m (2019: US$110.1m). The reduction relates to discontinuing our Casualty Treaty operation in 2020 as previously announced.

Our combined ratio in 2020 was 112.6%, including 15.9pps in respect of COVID-19, 7.8pps in respect of other major losses and (3.6)pps of reserve releases. Over the past five years, we have delivered an average combined ratio of 104.1% despite the impact of COVID-19 and extreme catastrophe years of 2017 and 2018. Excluding the impact of COVID-19 related claims, our 2020 combined ratio was 96.7% and our five-year average is 100.9%.

Overall, the combination of strong portfolio management and underwriting discipline has led to us achieving a 52.6% attritional ratio in 2020 (2019: 55.0%), a strong underlying performance.

As part of our standard reserving process, we released US$61.5m of net reserves established for prior year claims, the equivalent of a combined ratio reduction of 3.6pps (2019: US$47.9m/2.9pps). This reflected an improvement in Brit's overall net estimates arising from the 2017 to 2019 major loss events, and favourable attritional development across our London Direct and London Reinsurance portfolios. These releases were partly offset by a strengthening in our Overseas Distribution portfolio, reflecting adverse attritional experience and inflationary pressures in BGSU.

Our business developments during 2020

During 2020 we have continued to focus on our underwriting strategy. Developments have included:

- **Ki, the first algorithmically driven Lloyd's of London syndicate**

  Ki is a standalone business, launched for 2021, and the first fully digital and algorithmically-driven Lloyd's of London syndicate (Syndicate 1618) that will be accessible anywhere, at any time. We believe Ki will redefine the commercial insurance market with its digital and data-first model.

  Ki marks a step change for an industry that is yet to face the disruption seen across the rest of financial services and other industries. It aims to significantly reduce the amount of time and effort taken for brokers to place their follow capacity, creating greater efficiency, responsiveness and competitiveness. Google Cloud brings to Ki enterprise-grade cloud solutions powered by innovative technologies that enable rapid transformation at scale. Ki's algorithm is able to evaluate Lloyd's policies and automatically quote for business through a digital platform which brokers can access directly. The selection process is performed using a proprietary algorithm developed with support from University College London and their Computer Science department. Ki follows several 'nominated' lead syndicates across the Lloyd's market, including Brit. Ki offers brokers a line on every risk in the selected classes led by these markets.

  Ki truly embraces all that is represented in 'The Future at Lloyd's' by bringing data, technology, innovation and artificial intelligence to the fore in the complex world of corporate and specialty underwriting. With Lloyd's focus on e-placement and the ever-increasing adoption of electronic trading, we expect the transition in how the Lloyd's market transacts business to be accelerated.

  Ki completed one of the largest fundraises of any start-up in Europe in 2020 with US$500m of committed capital invested by Blackstone Tactical Opportunities (Blackstone) and Fairfax. This capital commitment has funded Ki's launch and will enable the business to grow rapidly to significant scale.

  Securing support from Blackstone, one of the world's leading investment firms, is a significant statement of confidence in Ki and the vision we have set out. With its investors, Ki has the financial firepower to rapidly scale the business and support its plan to provide a truly differentiated offering to brokers and clients.

  Ki has also onboarded its first trading partners, a leading group of Lloyd's brokers including Aon, Aon Re, BGCI, including Ed and Besso, Bishopsgate, BMS, Gallagher, Guy Carpenter, Howden, Lockton, Lockton Re, Marsh, Miller, Price Forbes, AmWins/THB, Tysers, Willis, and Willis Re. Ki has agreed to provide valuable capacity to each trading partner in 2021, giving their clients immediate security about placing business in Lloyd's.

  Ki is continuing to focus on innovation, with two upgrades to the platform deployed in the first 60 days following launch. In 2021, Ki will deliver additional platform capability on the back of broker feedback, broaden out the use of non-Brit Lloyd's lead markets into new classes and digitally integrate with a number of broker partners.

  These developments are Lloyd's firsts, enabling seamless and instantaneous commitment of follow capacity in the market and comes on the back of the recent launch of Lloyd's Blueprint Two and realises a vision for the digital future for the Lloyd's follow market.

  Ki has brought together a team combining the best talent from the current Lloyd's model, with a strong focus on relationships and deep underwriting and broker expertise in the Portfolio Underwriting team led by Dan Hearsum, combined with leading technology, data science and actuarial skills in its Portfolio Management and Development functions, led by Alan Tua and James Birch respectively.

  In October 2020, Ki Syndicate 1618 achieved 'permission to underwrite' from Lloyd's, and in November it bound its first risk, with its line having been generated by its proprietary algorithm, a first in the Lloyd's market. Ki plans to write cUS$400m of GWP in its first year, which would make it the largest ever digital start-up in Lloyd's.

  Further information can be found at www.ki-insurance.com and https://youtu.be/_gZUqDGjTrI.

- **Issue of Brit sponsored US$300m Cat Bond**

  On 14 December 2020, Brit successfully sponsored a 144A cat bond issuance, via Sussex Capital UK PCC Limited. The bond provides US$300m of multi-year named storm and earthquake protection for a risk period of four years to 31 December 2024. Structured on an annual aggregate state weighted basis, the proceeds from the bond will be used to collateralize a reinsurance agreement with Brit Syndicates Limited, acting on behalf of Syndicate 2987, and Sussex Capital UK PCC Limited. This is the first time a protected cell of a UK domiciled multi-arrangement risk transformation vehicle has issued a 144A cat bond.

- **Private Client launch**

  In May, we announced the launch of our new Private Client offering. Brit Private Client offers brokers operating in the high and ultra-high net worth market, and their clients, a credible new alternative, combining Brit's brand and reputation in claims and service with a team of highly regarded market practitioners. It differentiates itself through its bespoke approach, offering clients personalised solutions through a single policy that will include significant limits, worldwide coverage and additions such as personal cyber. Coverage includes homes, rare and valuable possessions, annual travel and cars all in one policy. The focus of the book is the UK and Ireland.

- **E-trading microsite**

  In July, our e-trading microsite (www.britinsurance.com/e-trading) went live, increasing our ability to shine a light on our Cyber, Kidnap and Ransom, Terror, Flood and Private Client portal services. This demonstrates how innovation is becoming central to everything we do at Brit, while also demonstrating our distribution strategy in action.

- **Continued development of BGSU**

  BGSU Cyber and Technology expansion: In January, we appointed an Assistant Vice President (AVP), Cyber and Technology and, in April, we appointed an AVP, Cyber. These roles will support the underwriting and growth of Brit's US Cyber portfolio.

  BGSU Programs: In April, BGSU appointed a Vice President (VP), Programs, to develop BGSU's Specialty Program offering and identify future opportunities for growth, working closely with prospective MGAs. In December, BGSU appointment a VP Programs, to develop and expand the current portfolio.

  BGSU Terrorism: BGSU launched a Terrorism product with the appointment of a VP, Terrorism. Working with the London Terrorism team, the US team will look to enhance Brit's profile as a highly respected Terrorism market leader.

- **Continued Portfolio Management**

  Where classes remain challenging, we have continued to take action to improve our performance and maintained our rigorous risk selection criteria. During 2020, we examined the classes we write in BGSU and took the following decisions:

  - **BGSU Cargo and First Dollar:** BGSU exited Cargo and First Dollar, and completed two renewal rights disposals in respect of these classes. Under both transactions, a number of Brit staff transferred with the renewal rights.

  - **BGSU Property E&S:** In November, BGSU exited Property E&S following a review of its performance and prospects. Despite significant rate rises, the lack of scale, inherent volatility and cost of reinsurance protection made this book untenable. We are reallocating the catastrophe aggregate to our Programs and Reinsurance Classes where we see greater opportunity to make profitable margins both now and over the market cycle.

- **Commonwealth (CICA)**

  During 2020, we progressed the sale of CICA. The transaction completed on 5 February 2021 for a consideration of US$19.7m. CICA is a US admitted carrier that holds a number of licences to operate as an insurance company. Brit originally acquired CICA in April 2018 at a cost of US$16.4m.

- **2021 business planning**

  With the launch of Ki Syndicate 1618, Brit's planned premium growth across all three syndicates for 2021 is 27.9%. This makes Brit one of the fastest growing large managing agents in the market, demonstrating the value and strength of Brit to the Lloyd's Market.

  Syndicate 2987's GWP is planned to grow by 12.5%. As in previous years, we continue to actively manage the portfolios by segmenting Classes into 'High Performing', 'Core Growth', 'Core New Initiatives', 'Core Opportunistic' and 'Portfolio Management'. Growth (excluding RARC) is driven primarily by the 'High Performing' and 'Core Growth' segments, while the largest increases in RARC are targeted on the weakest performing segments of the portfolio.

  Syndicate 2988's GWP is planned to grow by 12.8%. The 2021 plan promotes continued diversification of the Syndicate's portfolio, by growing the 'High Performing' and 'Core Growth' segments such as Casualty Treaty. Growth in Syndicate 2988 premium is largely a function of greater penetration into Syndicate 2987's business plus selective growth of existing business.

Overview of Results

The Group's income statement, re-analysed to show the key components of our result, is set out below:

	2020 US$m	2019 US$m	2018 US$m	2017 US$m	2016 US$m
Gross written premium	2,424.4	2,293.5	2,239.1	2,057.0	1,912.2
Net earned premium (Note 1)	1,714.0	1,638.5	1,466.1	1,540.1	1,515.1
Underwriting result (Note 1)	(215.0)	68.4	(56.9)	(172.8)	54.6
Underwriting result	(215.0)	68.4	(56.9)	(172.8)	54.6
Return on invested assets, net of fees	45.5	148.1	(82.1)	204.2	102.9
Corporate expenses	(23.6)	(20.3)	(20.0)	(24.0)	(21.3)
Finance costs	(23.6)	(23.7)	(18.8)	(17.1)	(18.8)
Other items	(17.0)	10.5	(3.4)	2.6	1.1
(Loss)/profit on ordinary activities before tax, and FX	(233.7)	183.0	(181.2)	(7.1)	118.5
FX movements	3.2	3.3	(9.1)	12.6	41.3
(Loss)/profit on ordinary activities before tax	(230.5)	186.3	(190.3)	5.5	159.8
Tax	(1.5)	(6.4)	23.8	16.0	(2.2)
(Loss)/profit for the year after tax	(232.0)	179.9	(166.5)	21.5	157.6

Note 1: Excluding the effects of foreign exchange on non-monetary items.

Group performance and total value created

2020 was dominated by COVID-19 and other major losses. However, we also saw a further improvement to market conditions, a strong attritional performance, continued reserve releases and a good investment return.

The result on ordinary activities for the year before tax and FX was a loss of US$233.7m (2019: profit of US$183.0m), loss before tax was US$230.5m (2019: profit before tax of US$186.3m) and loss after tax was US$232.0m (2019: profit after tax was US$179.9m). Return on adjusted net tangible assets (RoNTA), excluding the effects of FX, was (19.6)% (2019: 18.1%). RoNTA for 2020 after including foreign exchange movements was 18.4% (2019: 18.4%) and total value created for the year was a negative US$217.0m (2019: positive US$198.6m).

Our adjusted net tangible assets at 31 December 2020 totalled US$1,436.8m (2019: US$1,150.4m).

We measure our performance using our key performance indicators (KPIs).

	2020	2019
Return on net tangible assets before FX movements (RoNTA)	(19.6)%	18.1%
Total value created	US$(217.0)m	US$198.6m
Combined ratio	112.6%	95.8%
Investment return (net of external investment related expenses)	1.0%	3.6%
Capital ratio	122.1%	128.4%
Ratio of front office employees to back office employees	140.9%	150.9%

In 2020, our RoNTA was 19.6% negative (2019: 18.1% positive), reflecting the impact of COVID-19, and other major losses activity, partly offset by a strong attritional performance, solid prior year reserve releases, and a positive investment return. This return resulted in a five-year average RoNTA of (0.6)%.

In 2020, value creation was a negative US$217.0m, or 18.9% of opening adjusted NTA (2019: positive US$198.6m). The Company has generated a total value of US$(30.3)m over the past five years, an average of US$(6.1)m per annum.

The combined ratio is our key underwriting metric. Our combined ratio in 2020 was 112.6% (2019: 95.8%), including 15.9pps in respect of COVID-19 related claims and 7.8pps (2019: 3.6%) in respect of other major losses, partly offset by (3.6)pps (2019: (2.9)%) of reserve releases. Over the past five years, we have delivered an average combined ratio of 104.1% despite the impact of COVID-19 and extreme catastrophe years of 2017 and 2018. Excluding COVID-19 related claims, our 2020 combined ratio was 96.7% and our five-year average combined ratio was 100.9%.

The return on our invested assets was US$45.5m or 1.0% (2019: US$148.1m/3.6%). This was a combination of US$73.2m (2019: US$87.3m) of investment income, US$7.5m of realised gains (2019: losses of US$51.9m), US$11.6m of mark-to-market unrealised losses (2019: gains of US$134.8m), return on associated undertakings of US$2.0m (2019: US$0.3m) and losses on investment related derivatives of US$13.9m (2019: losses of US$2.8m), less fees of US$12.6m (2019: US$11.7m). Our 2020 return also includes a positive adjustment of US$0.9m (2019: negative adjustment of US$7.9m), which represents the amount included in 'Investment return, net of fees' which is attributable to third-party investors.

Our investment strategy takes a long-term view of markets, which can lead to significant variations in our year-on-year return figures. Over the past five years, we have delivered an average investment return of 2.0%.

Our statement of financial position remains strong. At 31 December 2020, following capital injections from Fairfax in 2020 of US$524.0m, Group capital resources totalled US$1,881.3m (2019: US$1,576.6m) giving surplus management capital of US$341.0m (2019: US$348.9m), or 22.1% (2019: 28.4%) over our Group management capital requirement. During 2020, our capital requirements increased from US$1,227.7m to US$1,540.3m, primarily reflecting movements in interest rates and Brit's share of the capital requirement of Ki Syndicate 1618. Brit has met its regulatory capital requirements at all times during 2020.

At 31 December 2020, the ratio of front office employees to back office employees was 140.9% (2019: 150.9%), reflecting that we had approximately 1.4 front office employees for every back office employee. The reduction in the ratio in 2020 follows the trend in recent years and primarily reflects the relative increased back office staff to support our overseas growth, third-party capital management and regulatory requirements.

In addition to our KPIs, we have other measures that offer further insight into the detail of our performance. These measures include:

- Premium related: Risk adjusted rate change; Retention rate;
- Claims related: Claims ratio; Attritional loss ratio; Major claims ratio; Reserve release ratio; and
- Underwriting expense related: Underwriting expense ratio; Commission ratio; Operating expense ratio.

Underwriting

Overview

Our underwriting result for the year was a loss of US$215.0m (2019: profit of US$68.4m) and our combined ratio, which excludes the effect of foreign exchange on non-monetary items, was 112.6% (2019: 95.8%). The premiums, claims and expenses components of this result are examined below.

Premiums written

Premium growth	**2020 US$m**	**2019 (Restated) (Note1) US$m**	**Growth %**	**Growth at constant FX rates %**
London Market Direct	1,411.6	1,361.7	3.7	3.6
London Market Reinsurance	479.2	427.5	12.1	12.0
Overseas Distribution	437.6	462.0	(5.3)	(5.3)
Discontinued underwriting	5.0	11.2	(55.4)	(57.3)
Other underwriting	91.0	31.1	192.6	192.6
Group total	2,424.4	2,293.5	5.7	5.6

Note 1: The 2019 analysis has been re-analysed to reflect the underwriting class monitoring structure introduced in 2020.

Gross written premium (GWP) increased by 5.7% to US$2,424.4m (2019: US$2,293.5m). At constant exchange rates, the increase was 5.6%. London Market Direct business increased by 3.7% to US$1,411.6m (2019: US$1,361.7m), London Market Reinsurance increased by 12.1% to US$479.2m (2019: US$427.5m), Overseas Distribution decreased by 5.3% to US$437.6m (2019: US$462.0m) and Other Underwriting increased by 192.6% to US$91.0m (2019: US$31.1m).

The drivers of the increase in Group GWP, which was in line with expectations, are as follows:

- Current year premiums: Growth in our core London Market Direct (Specialty, Property, and Financial and Professional Liability) and Reinsurance classes (Property Treaty), reflected the strong rating environment and targeted growth as we capitalise on market opportunities. These increases were partially offset by reduced demand in certain classes due to the impact of COVID-19 related restrictions, our withdrawal from a number of underperforming classes, and the non-renewal of certain accounts due to poor performance or pricing inadequacy. Within Overseas Distribution, while there was an overall reduction in premium, increases were seen in targeted BGSU classes (Excess Casualty, Casualty RI US, Professional Liability, Cyber and General Liability) and in Scion.

- Prior year premium development: The book again experienced favourable development on prior years, but at a lower rate than in 2019. This resulted in a year-on-year reduction of US$23.5m.
- Foreign exchange: The impact of foreign exchange resulted in a US$1.7m year-on-year increase in premium, which reflects the movement during 2020 of the US dollar against a number of currencies in which the Group writes business.

Premium ratings

Measure	Commentary	Track record
Risk adjusted rate change	The risk adjusted rate change (RARC) shows whether premium rates are increasing, reflecting a hardening market, or decreasing, reflecting a softening market. A hardening market indicates increasing profitability. In 2020, we achieved a RARC of 10.6%, bringing the RARC since 1 January 2018 to 20.2%.	2020 10.6% 2019 5.9% 2018 3.7% 2017 (1.3)% 2016 (3.3)%

2020 saw a continued positive rate environment, building on that of 2019 and 2018, with an overall risk adjusted premium rate increase of 10.6% across the portfolio (2019: 5.9%), bringing the total increase since 1 January 2018 to +20.2%.

In 2020, London Direct increased by 10.7% (2019: 7.1%), London Reinsurance by 7.2% (2019: 2.4%) and Overseas Distribution by 14.6% (2019: 6.4%). All Divisions achieved rate increases, with the largest increases achieved in Property D&F, Marine Cargo, D&O and Excess Casualty.

Retention rates

Measure	Commentary	Track record
Retention rate	The retention rate shows the proportion of our business that renews, on a premium weighted basis, compared to the previous year.	2020 76.1% 2019 78.0% 2018 80.2% 2017 83.6% 2016 84.3%

Our retention rate for the period was 76.1% (2019: 78.0%). The reduction reflects the continued action we have taken to improve our performance by discontinuing underperforming business lines.

Outwards reinsurance

Our reinsurance expenditure in 2020 increased by US$11.5m to US$648.8m, but reduced as a proportion of GWP from 27.8% to 26.8%. This reflects our targeted reduction in ceded premium (predominately proportional treaties), as we focus on retaining a greater portion of our high-performing portfolios and those with significant rate increases.

Net earned premium

Net earned premium (NEP) in 2020, excluding the effects of foreign exchange on non-monetary items, increased by 4.6% to US$1,713.9m (2019: US$1,638.5m). At constant exchange rates, the increase was 4.5%. London Market Direct business increased by 6.1% to US$979.3m (2019: US$922.9m), London Market Reinsurance increased by 11.5% to US$338.5m (2019: US$303.6m), Overseas Distribution decreased by 3.2% to US$308.5m (2019: US$318.7m) and Other Underwriting increased by 16.8% to US$65.9m (2019: US$56.4m). These movements reflected the movements in GWP, together with the proportional reduction in reinsurance spend.

Claims

Measure	Commentary	Track record
Claims ratio	The claims ratio measures the performance of the whole underwriting book, encompassing risks written in the current year and in prior years.	2020 72.6% 2019 55.7% 2018 63.1% 2017 72.0% 2016 56.5%

The claims ratio can be further analysed into its underlying components, as follows:

Measure	Commentary	Track record
Attritional loss ratio	The attritional loss ratio measures the performance of the underlying underwriting book by measuring the effect of attritional claims.	2020 52.6% 2019 55.0% 2018 57.2% 2017 56.4% 2016 55.5%
Major claims ratio	The major claims ratio measures the effect of claims arising from major losses on our performance. The 2020 ratio reflects the impact of COVID-19 related claims (15.9%) and other of major loss activity (7.8%).	2020 23.7% 2019 3.6% 2018 12.0% 2017 16.2% 2016 4.5%
Reserve release ratio	The reserve release ratio measures the performance of reserves held on the statement of financial position at the start of the year. A negative ratio indicates an overall net release, which means that prior year claims are performing better than estimated at the start of the year. A positive ratio indicates that over the course of the year, the amount required to meet those prior year claims has increased.	2020 (3.6)% 2019 (2.9)% 2018 (6.1)% 2017 (0.6)% 2016 (3.5)%

Our underlying claims performance in 2020 was strong, with a reduction in our attritional loss ratio to 52.6% (2019: 55.0%). This reflects favourable underlying claims experience across our London Market Direct portfolio (principally Programmes and Facilities, Property and Specialty) and the effect of strong compound rate increases, combined with a change in mix as we target growth on our high-performing segments while taking remedial action on more marginal business.
The financial impact of COVID-19 on Brit has been significant, with a loss estimate of US$270.7m being reported within Major Losses in the period. COVID-19 has predominantly impacted our Contingency (Event Cancellation) and Casualty Treaty books, with a smaller impact on Property, Property Treaty and Personal Accident. These losses have driven an increase of 15.9pps in our combined ratio.

Non-COVID-19 related catastrophe activity was again significant, with 2020 being the fifth most costly year on record to the industry. The Group incurred major claims, before reinstatement premiums, of US$132.5m, or 7.8pps of the combined ratio (2019: US$58.4m/3.6%), as set out below. Major losses are defined as claims which are initially assessed as having the potential to exceed US$15.0m (net of reinsurance and allowing for reinstatements), incurred from natural or man-made catastrophes, or from large single risk loss events.

Major losses	**2020 US$m**	**2019 US$m**
Nashville Tornado	13.7	–
US Civil Unrest	11.7	–
Hurricane Laura	65.4	–
Hurricane Sally	27.1	–
Hurricane Zeta	15.5	–
Hurricane Dorian	–	24.3
Typhoon Faxai	–	12.5
Typhoon Hagibis	–	24.8
Total before COVID-19 related losses	133.4	61.6
COVID-19 related losses	271.4	–
Total before third-party investors’ share	404.8	61.6
Third-party investors’ share (Note 1)	(1.6)	(3.2)
Total	403.2	58.4
CoR	23.7%	3.6%

Note 1: Accounting rules require Brit to consolidate Sussex Capital and Versutus II which have third-party investors. This adjustment eliminates the third-party share of major losses which is included in the Group’s consolidated income statement within ‘gains on other financial liabilities’. Of this US$1.6m, US$0.7m is in respect of COVID-19 related losses and US$0.9m is in respect of other major losses.

As part of our standard reserving process, we released US$61.5m of net reserves established for prior year claims, the equivalent of a combined ratio reduction of 3.6pps (2019: US$47.9m/2.9pps), maintaining our unbroken record of reserve releases since we started disclosing them in 2004.

The 2020 release reflected improvements in Brit’s overall net estimates arising from the 2017 to 2019 major loss events, and favourable attritional development across our London Direct and London Reinsurance portfolios. These releases were partly offset by a strengthening in our Overseas Distribution portfolio, reflecting adverse attritional experience and inflationary pressures in certain BGSU classes.

Underwriting expenses

Our underwriting expense ratio was 40.0% (2019: 40.1%).

Measure	Commentary	Track record
Underwriting expense ratio	The underwriting expense ratio measures the cost we incur to acquire every US$1 of premium. There are two key components to this – commission costs and operating expenses.	2020 40.0% 2019 40.1% 2018 40.2% 2017 40.4% 2016 39.9%

The underwriting expense ratio can be further analysed into its underlying components, as follows:

Measure	Commentary	Track record
Commission ratio	The commission ratio measures our distribution costs and shows how much of every US$1 of premium is paid to acquire our business.	2020 26.6% 2019 27.2% 2018 27.8% 2017 27.6% 2016 27.2%
Operating expense ratio	The operating expense ratio helps us understand how much it costs us to support the underwriting activities. This ratio shows how much of every US$1 of premium we spend supporting our underwriting activities.	2020 13.4% 2019 12.9% 2018 12.4% 2017 12.8% 2016 12.7%

Commission costs were US$454.3m and the commission expense ratio was 26.6% (2019: US$443.3m/27.2%). The decrease in the ratio principally reflects a change in business mix towards lower commission business, a drive to reduce overall acquisition costs and changes to our outwards reinsurance programme.

Our operating expenses are analysed below.

Expenses

Our operating expense ratio increased to 13.4% (2019: 12.9%). Operating expenses for the period were as follows:

Expense analysis	**2020 US$m**	**2019 US$m**
Underlying operating expenses including bonus provisions	275.9	275.3
Project costs, timing differences and other expense adjustments (Notes 1, 2)	7.0	1.1
Total operating expenses	282.9	276.4

Note 1: Timing differences relate to movement in deferred non-commission acquisition costs.
Note 2: Includes minority share of expenses incurred by consolidated vehicles, and expenses relating to non-controlling interests.

Underlying operating expenses during 2020 increased by US$0.6m to US$275.9m (2019: US$275.3m). This small increase relates to the consolidation of a full year of Ambridge expenses (consolidated from 18 April 2019), the consolidation of a proportion of Syndicate 2988 expenses following Brit providing a proportion of its capital for 2020, increased legal and professional charges and regulatory levies, partly offset by lower staff, travel and entertainment costs.

The allocation of operating expenses within the Consolidated Income Statement and the Segmental Information is as follows:

Disclosure of operating expenses	**2020 US$m**	**2019 US$m**
Acquisition costs	145.4	150.6
Other insurance related expenses	113.9	105.5
Total insurance related expenses	259.3	256.1
Other operating expenses	23.6	20.3
Total operating expenses	282.9	276.4

Other income

Other income totalled US$14.1m (2019: US$45.9m), as set out below:

Other income	2020 US$m	2019 US$m
Fee and commission income (Note 1)	29.7	45.6
Change in value of ultimate parent company shares (Note 2)	(15.6)	0.3
Total other income	14.1	45.9

Note 1: Total fee and commission income is included within our underwriting result and our combined and expense ratios.

Note 2: Change in value of ultimate parent company shares is included within our corporate result.

Fees and commissions generated by the Group's underwriting management activities have decreased in 2020, totalling US$29.7m, a reduction of 34.9% (2019: US$45.6m/increase of 225.7%). Included in the reduction were: US$15.9m in respect of the change in value of shares held by Brit in its ultimate parent, US$6.4m in respect of Brit's increased share of Syndicate 2988 resulting in less third-party income, and US$9.5m in respect of Ambridge, which experienced lower revenues in 2020 reflecting the reduction in corporate transactional activity resulting from the impact of COVID-19 and other factors such as Brexit uncertainty.

Losses on other financial liabilities

The statement of financial position of the Group includes liabilities representing third-party investors' share in structured undertakings consolidated by the Group. These structured undertakings are Sussex Capital, Versutus II and an equity UCITS. Changes in the value of these liabilities during a year are recorded in the Group's consolidated income statement as 'losses on other financial liabilities', as follows:

Losses on other financial liabilities	2020 US$m	2019 US$m
Underwriting vehicle related (Note 1)	(6.0)	(2.6)
Investment vehicle related (Note 2)	–	(7.9)
Total losses on other financial liabilities	(6.0)	(10.5)

Note 1: Allocated to the Group's underwriting and investment result as it represents the third-party share.

Note 2: Allocated to the Group's investment result as it represents the third-party share of the investment result.

Return on invested assets

The investment portfolio is managed, for the most part, by Hamblin Watsa Investment Counsel Limited, a Fairfax subsidiary with an excellent long-term track record, whose sole business is managing investment portfolios of Fairfax group companies. They are supported by a number of external managers across core fixed income and a small allocation to specialised credit.

The return on our invested assets was US$45.5m or 1.0% (2019: US$148.1m/3.6%). This result is analysed below:

Investment return	2020 US$m	2019 US$m
Income	73.2	87.3
Realised gains/(losses)	7.5	(51.9)
Unrealised (losses)/gains	(11.6)	134.8
Investment return before fees	69.1	170.2
Investment management fees	(12.6)	(11.7)
Investment return, net of fees	56.5	158.5
Investment related derivative return	(13.9)	(2.8)
Third-party investors' share of investment return (Note 1)	0.9	(7.9)
Return on associated undertakings	2.0	0.3
Total return	45.5	148.1
Total return	1.0%	3.6%

Note 1: This adjustment eliminates the amount included in 'Investment return, net of fees' which is attributable to third-party investors. This amount is included in the Group's consolidated income statement within 'Gains on other financial liabilities'.

Return on invested assets (net of fees)	
Year	**%**
2020	1.0
2019	3.6
2018	(2.0)
2017	4.9
2016	2.6

In March, the significant fall in yields, as the Federal Reserve delivered two emergency interest rate cuts totalling 150bps in response to the emerging economic impact of the COVID-19 pandemic, boosted our unrealised gains from fixed income to US$64.5m (2019: unrealised gains of US$22.4m). However, our total portfolio income return decreased to US$73.2m (2019: US$87.3m) due to the fall in yields. While we expect income returns going forward to be lower, we continue to seek opportunities to increase the yield on our portfolio where appropriate opportunities arise.

Following market sell-offs in the first quarter of 2020, our equity portfolio has recovered well. However, it has underperformed the broader market rally, due to its value bias. Realised and unrealised losses from equities for the year totalled US$48.8m (2019: gain of US$90.5m). The return on funds was also negative for the year, with a loss of US$32.8m (2019: loss of US$17.8m), the majority of which is unrealised.

The return on cash has reduced over the year, in line with the fall in interest rates. Our approach to cash management during the year has, and continues to be, to limit the amount of operational cash and to maximise amounts held within short-term government bills.

At 31 December 2020, the running yield (expressed as yield as a percentage of invested assets) of our total portfolio was 0.6% (2019: 1.5%). This has decreased over 2020 in line with the decrease in base rates and decline in the yield curve in the US and continues to represent a challenging environment for insurance groups.

Our share of our associated undertakings' net profit was US$2.0m (2019: US$0.3m).

- Camargue Underwriting Managers Proprietary Limited, a leading managing general underwriter of a range of specialised insurance products and specialist liability solutions in South Africa in which Brit holds a 50% share, contributed US$1.0m to this return (2019: US$0.6m);
- Sutton Special Risk Inc., a leading Canada-based managing general underwriter specialising in Accident & Health business in which Brit acquired a 49% share on 8 January 2019, also contributed US$1.0m (2019: US$0.7m) to this return; and
- In 2019, Ambridge Partners LLC contributed US$(1.0)m to the associated undertaking result. On 19 April 2019, Ambridge became a 100% subsidiary of the Group and ceased to be an associated undertaking.

Foreign exchange

We manage our currency exposures to mitigate the impact on solvency rather than to achieve a short-term impact on earnings. We experienced a total foreign exchange gain of US$3.2m in 2020 (2019: gain of US$3.3m), reflecting the movement of the US dollar against other currencies in which we trade and hold assets. This total foreign exchange related gain comprised:

- An unrealised revaluation loss of US$12.4m (2019: gain of US$14.0m), relating to the retranslation of transactions and balances held in currencies other than US dollar. This includes the effect of movements in US dollar, which gave rise to a gain on our long positions on Canadian dollar, Euro and Sterling;
- Gains of US$12.8m (2019: losses of US$15.2m) on derivative contracts which were entered into to help manage our monetary FX exposures and therefore should be viewed in conjunction with our monetary FX movements; and
- Gains of US$2.8m (2019: gains of US$4.5m), as a result of the IFRS requirement to recognise non-monetary assets and liabilities at historic exchange rates. This adjustment is essentially a timing difference. The adjustment for the full year 2020 comprises an increase in the debit carried on the statement of financial position at 31 December 2019 (US$2.0m).

The allocation of the FX result within the Consolidated Income Statement is as follows:

Foreign exchange gains and (losses)	2020 US$m	2019 US$m
Net change in unearned premium provision – non-monetary FX effect	(3.2)	3.4
Acquisition costs – non-monetary FX effect	1.4	(1.7)
Net foreign exchange gains – non-monetary (Note 1)	4.6	2.8
	2.8	4.5
Net foreign exchange (losses)/gains – monetary (Note 1)	(12.4)	14.0
Return on derivative contracts – FX related instruments (Note 2)	12.8	(15.2)
	0.4	(1.2)
Total gains	3.2	3.3

Note 1: The sum of these two amounts, US$7.8m, is the 'Net foreign exchange loss' figure per the Consolidated Income Statement (2019: US$16.8m 'Net foreign exchange gains').
Note 2: The 2019 figure excludes a gain of US$0.4m on a derivative contract entered into to effectively hedge the Sterling proportion of the Group's expenses, which is allocated to expenses.

Tax

Our tax on ordinary activities for 2020 resulted in a tax charge of US$1.5m (2019: tax charge of US$6.4m), based on a group loss before tax of US$230.5m (2019: profit before tax of US$186.3m).

The Group is liable to taxes on its corporate income in a number of jurisdictions where its companies carry on business, most notably the UK, Australia and the US. Corporate profits and losses in Bermuda are exempt from tax. The tax charge is calculated in each legal entity across the Group and then consolidated. Therefore, the Group effective rate is sensitive to the location of taxable profits and is a composite tax rate reflecting the mix of tax rates in those jurisdictions.

The 2020 Group rate varies from the weighted average rate in those jurisdictions due to a number of factors. The principal factors are an increase of US$41.5m in the unrecognised deferred tax asset in respect of undeclared Lloyd's syndicate years of account, and the impact of the change in the UK tax rate used for the calculation of deferred taxes, from 17% for brought forward balances to 19% for carried forward balances. The rate is further influenced by the impact of exempt income such as dividend income, disallowable expenses and by non-UK taxes arising in our Lloyd's syndicates.

Financial position and capital strength

Overview

Our business is underwritten principally through our wholly-aligned Lloyd's Syndicate 2987, which benefits from Lloyd's ratings of A (Excellent) from A.M. Best, AA- (Very Strong) from Fitch and A+ (Strong) from Standard & Poor's.

Our capabilities and ambition are underpinned by our strong financial position. At 31 December 2020, our adjusted net tangible assets totalled US$1,436.8m (2019: US$1,150.4m). At 31 December 2020, following capital injections from Fairfax in 2020 of US$524.0m, Group capital resources totalled US$1,881.3m, giving surplus management capital of US$341.0m (2019: US$348.9m), or 22.1% (2019: 28.4%), or 22.1% (2019: 28.4%) over our Group management capital requirement of US$1,540.3m.

Brit has in place a US$450m revolving credit facility (RCF), expiring on 31 December 2023. Under our capital policy we have identified a maximum of US$250.0m (2019: US$250.0m) of this facility to form part of our capital resources, with the balance available for liquidity funding. At 31 December 2020, the cash drawings on the facility were US$130.0m (2019: US$140.0m) and a US$130.0m uncollateralised letter of credit (LoC) was in place (31 December 2019: US$80.0m/uncollateralised) to support our underwriting activities. At the date of this report, cash drawings had reduced to US$93.0m and the US$130.0m uncollateralised LoC remained in place.

Brit has in issue £135.0m subordinated debt (the Notes) which is listed on the London Stock Exchange. The Notes were issued in December 2005, were callable in whole by Brit on 9 December 2020 and mature in 2030. On 14 December 2020, Brit announced that it had determined not to exercise its call option to redeem the Notes, in accordance with Condition 7(b) of the Notes. It also announced that, in accordance with the terms of the Notes, the interest rate had been reset and was now 3.6757% (previously 6.625%).

At 31 December 2020, our gearing ratio was 28.0% (2019: 29.9%).

Brit's invested assets (financial investments, investments in associates, cash and cash equivalents and derivative contracts) at 31 December 2020 were US$4,857.1m (31 December 2019: US$4,182.2m).

Our asset allocation, on both a look-through basis and statutory disclosure basis, is set out in the tables below:

31 December 2020	Statutory basis							Total invested assets (look-through)
	Equity securities	Debt securities	Loan instruments	Specialised investment funds	Cash and cash equivalents	Associated undertakings	Investment Derivatives (net)	
	US$m	US$m	US$m	US$m	US$m	US$m	US$m	US$m
Look–through basis								
Government debt securities	–	1,814.9		27.3	–	–	–	1,842.2
Corporate debt securities	–	1,577.6		1.7	–	–	–	1,579.3
Structured products	–	–	–	18.7	–	–	–	18.7
Loan instruments	–	–	23.0	–	–	–	–	23.0
Equity securities	376.7	–	–	212.5	–	20.5	–	609.7
Alternative investments	–	–	–	–	–	–	–	–
Cash and cash equivalents	–	–	–	5.6	775.7	–	–	781.3
Investment related derivatives	–	–	–	(1.4)	–	–	4.3	2.9
Total invested assets (statutory)	376.7	3,392.5	23.0	264.4	775.7	20.5	4.3	4,857.1

31 December 2019	Statutory basis							Total invested assets (look-through)
	Equity securities	Debt securities	Loan instruments	Specialised investment funds	Cash and cash equivalents	Associated undertakings	Investment Derivatives (net)	
	US$m	US$m	US$m	US$m	US$m	US$m	US$m	US$m
Look–through basis								
Government debt securities	–	1,611.8	–	9.7	–	–	–	1,621.5
Corporate debt securities	–	1,339.2	–	2.2	–	–	–	1,341.4
Structured products	–	0.1	–	18.2	–	–	–	18.3
Loan instruments	–	–	–	–	–	–	–	–
Equity securities	403.9	–	–	242.7	–	19.4	–	666.0
Alternative investments	–	–	–	8.5	–	–	–	8.5
Cash and cash equivalents	–	–	–	5.1	520.1	–	–	525.2
Investment related derivatives	–	–	–	(0.8)	–	–	2.1	1.3
Total invested assets (statutory)	403.9	2,951.1	–	285.6	520.1	19.4	2.1	4,182.2

We have extended the duration of our portfolio in 2020. This offers some protection for our solvency position against falling interest rates, while still protecting our assets from the potential of rising rates, as economies begin to reopen and the impact of the extensive government stimulus continues.

We also took the opportunity to increase our credit allocation when spreads widened in the first quarter of 2020, although the swift reversal resulted in less reinvestment opportunities for maturities in the second half of the year. The allocation to credit risk, is primarily defensive, focused, high quality, investment grade non-cyclical companies. Equity allocations are invested in a portfolio of both listed and private (non-listed) equities and funds.

The assets remain primarily invested in cash and fixed income securities (2020: US$4,202.8m or 86.5% of the portfolio; 2019: US$3,488.1m or 83.4% of the portfolio). The fixed income portfolio is short dated, with a majority allocation to government bills. Corporate bonds represent 32.5% (2019: 32.1%) of the total portfolio with 1.0pps (2019: 1.9pps) of this figure being below investment grade.

The exposure to equities and funds has fallen over 2020 (2020: US$628.4m or 12.9% of the portfolio; 2019: US$692.8m/16.6%), predominately due to market movements.

The duration of our portfolio at 31 December 2020 was 1.45 years (2019: 1.1 years), which is shorter than the duration of our liabilities. US rates fell significantly across the curve over 2020, as the US Federal Reserve delivered two emergency interest rate cuts totalling 150bps in March, in response to the emerging economic impact of the COVID-19.

At 31 December 2020, 83.7% of our invested assets were investment grade quality (2019: 81.1%).

Outlook

Looking ahead to 2021 and beyond, significant uncertainty exists for the insurance industry.

- Significant uncertainty still surrounds COVID-19 and the timeframes over which vaccination programmes will allow lockdowns to be eased. We also face the consequences of the measures taken by governments driving yields down to record lows and the likely impact on the economy, with recessionary risks heightened.
- The frequency of major events and magnitude of the resulting claims, with 2020's experience following on from those of 2017 and 2018, the most costly back-to-back years on record;
- The impact of medium loss events, with commentators attributing an increase in the frequency and severity of such events to climate change and other factors such as population growth and increasing insured values;
- Further pressures on attritional ratios continue, largely driven by the soft market years of 2017 and 2018 and by social inflation in the US Casualty market;
- The cost of doing business in the London market remains elevated. The market needs to become more efficient in processing and work with distribution partners to become more competitive in local markets;
- Despite the welcome withdrawal of some capacity, available capacity continues to exceed demand;
- In a number of markets where we operate, we see increasing competition from local carriers; and
- We continue to face political and economic uncertainty and challenges. 2020 saw continued volatility in financial markets and experienced weakening growth, recession fears, falling yields, heightened tension around international trade and loose monetary policy. These trends show no signs of abating as we go into 2021 and the resulting outlook for the investment market continues to be challenging.

However, against this challenging backdrop there are a number of indicators to give us cause for optimism, including rate increases, the withdrawal of capacity in the market from certain classes and our improving attritional claims ratio. In this environment, our clear strategy of embracing data driven underwriting discipline, and rigorous risk selection, coupled with innovative capital management solutions and continued investment in distribution, positions us well to respond to the opportunities and challenges ahead.

- Preserving a strong financial position is critical to the long-term success of an insurance business. Our statement of financial position remains strong as we maintain our 'conservative best estimate' reserving policy which provides us with a secure foundation. We also benefit from the financial strength of our ultimate parent, Fairfax, and from our relationships with our capital partners supporting Ki, Syndicate 2988 and the Sussex vehicles.
- We also continue to take action to improve our performance and maintain our underwriting discipline and rigorous risk selection criteria in all areas of the business.
- Leadership – We strive to provide direction and authority within our business and to our industry. We are supportive of the Future at Lloyd's Blueprint and are proud to have worked with Lloyd's to be the first Lloyd's Syndicate to use ILS capacity to back our capital at Lloyd's, a landmark achievement.
- Innovation – Our purpose is to help our clients and partners thrive in an uncertain world and drive the industry forward in terms of products, services and technology, and innovation is at the heart of our strategy. BritX, our Innovation team, was launched in 2019 to create real change and action, and was the driving force behind Ki. It is aimed at targeting opportunities to disrupt our market and has identified a number of opportunities of real potential.
- Distribution – Our strategy is to deliver our products to our customers in a more efficient manner. This includes increased digital distribution and positioning ourselves closer to our customers. We have an established local distribution platform in the US, our largest market, and now have an established Bermuda operation, which houses Brit Re (our captive reinsurer and A-rated reinsurance carrier), Sussex Re (our ILS vehicle) and BGSB (our reinsurance service company).

We are ready to face the future with optimism.

Principal risks and uncertainties

Risk Management Framework

Brit delivers shareholder value by actively seeking and accepting risk within agreed limits. Risk management at Brit is a continuous process that links directly to the organisation's business and risk management strategies and the associated Board risk tolerances.

Brit's Risk Management Framework (RMF) applies a consistent methodology and structure to how risks are identified, measured, managed and monitored. This process enables us to protect policyholders and maximise shareholder value by ensuring the risk and capital implications of business strategy are well understood.

The RMF has the following key elements:

- **Identification:** Risk events, risks and relevant controls are identified and classified. This is a continuous process which considers any emerging and existing risks. The risk register sets out the significant risks faced by the business and identifies the potential impact and likelihood of each risk.
- **Measurement:** Risks are assessed and quantified and controls are evaluated. This is done through a combination of stochastic modelling techniques, stress and scenario analysis, reverse stress testing and qualitative assessment using relevant internal and external data.
- **Management:** The information resulting from risk identification and measurement is used to improve how the business is managed.

A key part of the RMF is the setting of risk tolerances and risk appetite. Risk tolerances are set by the Board and represent the maximum amount of risk Brit is willing to accept to meet its strategic objectives. Risk appetite is set by management and reflects the maximum amount of risk that Brit wishes to take in the current market environment. The actual amount of risk taken is monitored against the tolerances and appetites on an ongoing basis.

The RMF, including the risk tolerances and appetite, reflects Brit's strategy and seeks to ensure that risk is accepted in the areas which are expected to maximise shareholder value whilst continuing to protect policyholders against extreme events. The process applies to both the Brit Group and to the individual underwriting entities (such as Lloyd's syndicates).

The risk management team, led by the Chief Risk Officer (CRO), monitors whether Brit is operating within the risk tolerance levels approved by the Board. This includes assessments of any new strategic initiatives and the principal risks and uncertainties faced by the business as detailed below.

All Brit staff are involved in ensuring there is an appropriate risk culture which promotes the identification and management of risk. Brit's risk culture aims to ensure the risk and capital implications of decisions are understood and there is open communication about risks and issues in all areas of the business.

Brit's approach to risk management is designed to encourage clear decision-making as to which risks Brit takes and how these are managed based on the potential strategic, commercial, financial, compliance and legal implications of these risks.

Risk Governance

The Board is responsible for overseeing our risk management and internal control systems, which management is responsible for implementing.

Brit maintains a strong risk governance framework using Risk Oversight Committees and Audit Committees whose membership consists of independent non-executive Directors. The Board, Risk and Audit Committee agendas are designed to ensure all significant areas of risk are reported on and discussed. The Risk Oversight Committees monitor and review the risk profile and the effectiveness of all risk management activities and, in particular, monitor adherence to agreed risk limits.

Our Internal Audit function provides assurance to the Risk Oversight Committees, Audit Committees and Boards, while external experts are regularly used for independent assessments.

Brit operates a three lines of defence model for governing risk. Within the first line of defence individual risk committees monitor day-to-day risk control activities. The risk management function, as a second line of defence, provides oversight over business processes and sets out policies and procedures. Internal Audit, as a third line of defence, provides independent assurance and monitors the effectiveness of the risk management processes.

Key risks

The RMF categorises the risks to Brit as follows:

- Overarching risk: strategic, earnings and solvency; and
- Individual risk categories: insurance, market, liquidity, credit and operational and group.

The key risks and uncertainties are set out in the following table and the principal risks in the current environment are set out below.

Risk category	Risk	Description
Insurance	Underwriting – pricing	Emerging experience is inconsistent with the assumptions and pricing models used.
	Underwriting – catastrophe	Premiums are insufficient to meet the long-term profitability expected.
	Reserving	Prior year reserves are insufficient to cover claims (net of reinsurance).
Investment	Investment market risk	Invested assets adversely affected by changes in economic variables, such as interest rates, bond yields, equity returns, credit spreads, credit ratings.
Operational and group	People	Failure to attract, motivate and retain key Directors, senior underwriters, senior management and other key personnel, on whom our future success is substantially dependent.

COVID-19 risk management

The COVID-19 pandemic originated in Hubei Province in China and has since spread across the globe. Governments have taken various actions to contain the pandemic, including social distancing measures, travel restrictions and lockdowns, resulting in the closure of certain businesses. This has given rise to insurance claims from various lines of business, with our Contingency (Event Cancellation) and Casualty Treaty books being the most impacted. The pandemic has also caused significant volatility in the financial markets. Although investment markets have substantially recovered from significant falls experienced in H1 2020, interest rates remain at depressed levels given the economic outlook.

The Group has managed the risks associated with COVID-19 in line with the requirements of its risk management policies. Further details are provided below.

- **Operational risk**

  COVID-19 has caused a temporary shift from an office-based working environment to a remote working environment for all staff since 18 March 2020. Brit and its outsourced service providers have adapted well. Operational performance has generally been strong.

  All key business services have continued to operate with no material impact from COVID-19. The investment in 2019 in Microsoft Office 365 and the decision to rollout laptops to all full-time employees has made working remotely relatively seamless. Underwriting can be managed through PPL, Whitespace and reinsurance trading platforms, and underwriting and claims staff contact details are available online or via the Brit App. The Claims team continues to service our policyholders in these challenging circumstances.

  We immediately put in place support mechanisms for our employees and we continue to communicate regularly to ensure that people feel engaged and supported. We regularly monitor and report on the performance of controls and operational effectiveness. The ongoing monitoring of the operational risk profile has not identified any material concerns or failings.

  In 2020, Marsh and Lockton rated Brit the number one carrier for services provided in the London Market, while AJG ranked us third in the London Market and Aon ranked us third out of 34 carriers.

- **Insurance risk**

  COVID-19 has resulted in additional claims to the Group, principally relating to event cancellation covers. The Group has a rigorous process for establishing reserves for insurance claim liabilities, including those associated with COVID-19. However, significant uncertainties remain around loss estimates given that the pandemic is ongoing. We also continue to monitor the potential for claims arising indirectly from the pandemic. For example, due to the global recession which may lead to an increased risk of moral hazard, fraud and a more litigious environment generally.

The underwriting portfolio is actively managed to reflect market developments, and action has been taken to ensure Brit is appropriately positioned for both the pandemic and the recessionary economic conditions. The Group is now applying communicable disease exclusions across the vast majority of its business.

- **Investment and Market risk**

Financial markets have experienced volatility in 2020. The investment portfolio is actively managed to reflect market developments, and action was taken to ensure Brit's portfolio is appropriately positioned for the recessionary economic conditions and to take advantage of opportunities in asset prices where these arose. The volatility in investment returns experienced over the course of 2020 is within the range of stress and scenario tests carried out by the Group.

- **Credit risk**

COVID-19 has caused economic disruption around the world with many businesses and individuals forced to cease business activity in light of government lockdowns. As at 31 December 2020, the Group has not seen a material increase in defaults but continues to monitor this closely.

- **Solvency and Liquidity risk**

As at 31 December 2020, the Group held a surplus of US$341.0m over its management capital requirements. All regulatory capital requirements have been complied with by the Group's individual insurance subsidiaries throughout 2020. It should be noted that our regulatory capital requirements calculation as at 31 December 2020 included an allowance for the uncertainties associated with COVID-19 as described above.

Brit continues to benefit from the support of the wider Fairfax Group, with capital contributions of US$524.0m provided during the year to largely strengthen the resilience of the statement of financial position to further shocks.

Following the COVID-19 outbreak, the Group conducted stress testing of its underwriting subsidiaries' liquidity resources, in order to assess their ability to continue making claims payments as they fell due. This stress testing demonstrated their continued ability to access sufficient liquidity, even in severe stress scenarios. At 31 December 2020, the Group held US$2,623.5m of cash and short-dated government debt securities, and US$190.0m undrawn on its RCF.

As part of the terms of the RCF, Brit is obliged to ensure that borrowings under the facility will not exceed 40% of consolidated net tangible assets (defined as the aggregate of the share capital of the Company, the amount standing to the credit of the consolidated reserves of the Group and any financial indebtedness of the Group which is fully subordinated to the facility). At 31 December 2020 Brit was well within this threshold, with RCF drawings equating to 16.0% of consolidated net tangible assets (2019: 16.9%).

Emerging risks

Brit undertakes a formal emerging risk review annually with the results reported to the Risk Oversight Committees and included in Brit's Own Risk and Solvency Assessment (ORSA) and Commercial Insurer's Solvency Self-Assessment (CISSA) reports of the underwriting entities. The review is an important part of the risk identification aspect of the RMF and includes horizon scanning of the internal and external risk environment to identify potential new or developing risks to Brit. These risks can then be included in the risk register and managed appropriately as required.

The emerging risk review has previously identified risks such as the United Kingdom's exit from the EU (Brexit) and cyber risk. These risks have been managed throughout their development and are now monitored as part of the business as usual risk management process.

Climate change related financial risks

Climate change has been recognised as an emerging risk in the ORSA since 2014 and has been an area of focus since having been identified as a high priority by Brit's 2018 emerging risks analysis. Its potential impact on the insurance industry is an area of focus for the wider insurance market and its regulators.

The financial risks to insurers may include the potential for increased frequency and severity of weather-related natural catastrophes, for example, hurricanes and wildfires. This year has seen the most active Atlantic hurricane season on record, with 30 named storms being recorded. Of these 12 made landfall in the US, six of which were category three hurricane strength or higher, both statistics either equalling or setting new records. 2020 was also a record year for wildfires, with California seeing its first ever 'gigafire', a blaze that burns at least a million acres of land.

Climate change specific tests and scenarios have been included in both ORSAs and Brit's Solvency II internal models.

Brit is managing the risks associated with climate change in line with the RMF and is embracing the latest regulatory guidance. This will continue to be an area of management, Risk Committee and Board focus, with a multi-disciplinary Climate Change Risk Working Party having been set up to consider the financial risks associated with climate change.

The three main areas of risk identified for Brit are natural catastrophes, liability claims and investment losses:

- **Natural catastrophe risks** relating to climate change are the risk of increased frequency and severity of weather-related natural catastrophes. This could result in additional claims to Brit. We continuously monitor scientific studies, regularly review the completeness of existing models and the application of the Brit view of risk. Brit's exposure to natural catastrophe risks is monitored on an ongoing basis by the Risk Management Function.

- Climate change could result in additional **liability claims**. For example, there is the potential for claims against firms for their contribution to climate change. While such claims have not generally been successful to date, there remains an ongoing risk. Brit's exposure is limited through limits on gross underwriting exposure and through the purchase of reinsurance.

- **Investment losses** have the potential to arise from exposure to industries perceived to be contributing to climate change. Brit has a diversified investment portfolio, with limits on exposure to individual issuers. Brit is developing metrics to strengthen its understanding of the potential impacts of climate change on its investments.

Brit also actively considers the potential implications of climate change and sustainability on its investment and underwriting strategies, how it should engage more widely on environmental and ethical issues, and its own sustainability initiatives.

United Kingdom's exit from the EU (Brexit)

We have continued to work to minimise the impact of Brexit on Brit and our clients. While direct European business is not material for Brit, we have continued to monitor and evaluate the associated risks.

Our new processes are operational and we commenced writing business via Lloyd's Brussels in the fourth quarter of 2018, for risks incepting on or after 1 January 2019.

Brit notes the Trade and Cooperation Agreement (TCA) between the UK and the EU, which governs the UK and EU's economic and trading relationship from 1 January 2021. Brit also notes the areas on which further agreement still needs to be reached, including financial services and data adequacy.

The main risk to Brit was the ability to service historical policies with EEA claims. However, the successful completion in December 2020 of the transfer to Lloyd's Insurance Company S.A. (LIC) of Syndicate 2987's and Syndicate 2988's European liabilities in accordance with Part VII of the Financial Services and Markets Act 2000, provides a mechanism to address this risk. This transfer was sanctioned by the High Court on 25 November 2020 and took effect on 30 December 2020, whereupon all relevant policies (and related liabilities) underwritten by the Group's syndicates for years of account between 1993 and April 2019 (or October 2020 in the case of German reinsurance) were transferred to LIC. On the same date, a 100% Quota Share Reinsurance Agreement was entered into, whereby LIC reinsured all risks on the same policies back to the relevant open years of account of the syndicates that wrote the transferring policies and/or inherited liabilities on transferring policies through Reinsurance to Close of earlier years of account. The combined effect of the two transactions has no economic impact for the Group.

Financial information and availability of accounts

The financial information set out above is unaudited and does not constitute the Company's statutory accounts for the year ended 31 December 2020 or 2019. The 2020 financial information is derived from the Company's unaudited 2020 statutory accounts and the 2019 financial information is derived from Company's 2019 statutory accounts.

Statutory accounts for 2019 have been delivered to the Registrar of Companies. The auditor has reported on those accounts; its report was unqualified and did not contain statements under Section 498(2) or (3) of the Companies Act 2006.

The audited statutory accounts for 2020 are expected to be available on the Company's website no later than 12 March 2021. An announcement will be made when they are available. The Directors do not anticipate any modification or emphasis of matter paragraph in the auditor's report required to be included with the statutory accounts for 2020.

The statutory accounts for 2020 will be delivered to the Registrar of Companies following the Company's annual general meeting.

The unaudited preliminary results were approved by the Board on 10 February 2021.

Responsibility statement of the Directors

The Directors confirm that, to the best of their knowledge:

- The unaudited consolidated financial statements, contained within the Company's 2020 unaudited statutory accounts, which have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position, and profit or loss of the Group; and
- The Strategic Report, contained within the Company's 2020 unaudited statutory accounts, includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

Matthew Wilson
Group Chief Executive Officer
10 February 2021

Mark Allan
Group Chief Financial Officer
10 February 2021

Consolidated Income Statement

For the year ended 31 December 2020

	Year ended 31 December 2020 US$m	Year ended 31 December 2019 US$m
Revenue		
Gross premiums written	**2,424.4**	2,293.5
Less premiums ceded to reinsurers	**(648.8)**	(637.3)
Premiums written, net of reinsurance	**1,775.6**	1,656.2
Gross amount of change in provision for unearned premiums	**(52.2)**	(43.8)
Reinsurers' share of change in provision for unearned premiums	**(12.7)**	29.5
Net change in provision for unearned premiums	**(64.9)**	(14.3)
Earned premiums, net of reinsurance	**1,710.7**	1,641.9
Investment return	**56.5**	158.5
Return on derivative contracts	**(1.1)**	(17.6)
Gain on business combination	**–**	10.2
Other income	**14.1**	45.9
Losses on other financial liabilities	**(6.0)**	(10.5)
Net foreign exchange gains	**–**	16.8
Total revenue	**1,774.2**	1,845.2
Expenses		
Claims incurred:		
Claims paid:		
Gross amount	**(1,326.8)**	(1,366.6)
Reinsurers' share	**391.4**	509.1
Claims paid, net of reinsurance	**(935.4)**	(857.5)
Change in the provision for claims:		
Gross amount	**(417.6)**	83.2
Reinsurers' share	**113.9**	(140.2)
Net change in the provision for claims	**(303.7)**	(57.0)
Claims incurred, net of reinsurance	**(1,239.1)**	(914.5)
Acquisition costs	**(598.7)**	(595.2)
Other operating expenses	**(137.5)**	(125.8)
Net foreign exchange losses	**(7.8)**	–
Total expenses excluding finance costs	**(1,983.1)**	(1,635.5)
Operating (loss)/profit	**(208.9)**	209.7
Finance costs	**(23.6)**	(23.7)
Share of net profit of associates	**2.0**	0.3
(Loss)/profit on ordinary activities before tax	**(230.5)**	186.3
Tax charge	**(1.5)**	(6.4)
(Loss)/profit for the year	**(232.0)**	179.9

All (losses)/profits arise from continuing operations.

Consolidated Statement of Comprehensive Income
For the year ended 31 December 2020

	Year ended 31 December 2020 US$m	Year ended 31 December 2019 US$m
(Loss)/profit attributable to:		
Owners of the parent	**(229.3)**	179.9
Non-controlling interests	**(2.7)**	–
(Loss)/profit for the year	**(232.0)**	179.9
Other comprehensive income		
Items not to be reclassified to profit or loss in subsequent periods:		
Actuarial losses on defined benefit pension scheme	**(5.5)**	(4.7)
Deferred tax gain relating to actuarial losses on defined benefit pension scheme	**1.8**	6.4
Items that may be reclassified to profit or loss in subsequent periods:		
Change in unrealised foreign currency translation losses on foreign operations	**2.3**	3.7
Total other comprehensive income	**(1.4)**	5.4
Total comprehensive income recognised for the year	**(233.4)**	185.3
Total comprehensive income for the year attributable to:		
Owners of the parent	**(230.7)**	185.3
Non-controlling interests	**(2.7)**	–
Total comprehensive income for the year	**(233.4)**	185.3

Consolidated Statement of Financial Position
At 31 December 2020

	31 December 2020 US$m	31 December 2019 US$m
Assets		
Intangible assets	**181.2**	**192.6**
Property, plant and equipment	**60.5**	**67.9**
Deferred acquisition costs	**247.3**	**243.6**
Investments in associated undertakings	**20.5**	**19.4**
Reinsurance contracts	**1,764.1**	**1,628.1**
Employee benefits	**48.8**	**51.9**
Deferred taxation	**49.8**	**41.1**
Current taxation	**8.5**	**11.4**
Financial investments	**4,056.6**	**3,640.6**
Derivative contracts	**14.9**	**15.7**
Insurance and other receivables	**1,302.0**	**1,240.2**
Cash and cash equivalents	**775.7**	**520.1**
Assets classified as held for sale	**17.8**	**–**
Total assets	**8,547.7**	**7,672.6**
Liabilities and Equity		
Liabilities		
Insurance contracts	**5,813.0**	**5,266.1**
Borrowings	**314.5**	**316.2**
Other financial liabilities	**62.0**	**75.5**
Provisions	**2.3**	**3.5**
Deferred taxation	**9.9**	**–**
Current taxation	**–**	**1.2**
Derivative contracts	**9.2**	**14.2**
Insurance and other payables	**620.7**	**676.0**
Liabilities directly associated with assets classified as held for sale	**1.8**	**–**
Total liabilities	**6,833.4**	**6,352.7**
Equity		
Called up share capital	**8.6**	**7.0**
Share premium	**1,027.9**	**505.5**
Capital redemption reserve	**1.0**	**1.0**
Foreign currency translation reserve	**(84.1)**	**(86.4)**
Retained earnings	**639.2**	**892.8**
Total equity attributable to owners of the parent	**1,592.6**	**1,319.9**
Non-controlling interests	**121.7**	**–**
Total liabilities and equity	**8,547.7**	**7,672.6**

Consolidated Statement of Cash Flows
For the year ended 31 December 2020

	Year ended 31 December 2020 US$m	Year ended 31 December 2019 US$m
Cash flows from operating activities		
Cash used in operations	**(414.3)**	(467.0)
Tax received	**2.7**	0.6
Interest received	**63.3**	70.1
Dividends received	**6.3**	5.3
Net cash outflows from operating activities	**(342.0)**	(391.0)
Cash flows from investing activities		
Purchase of intangible assets	**(6.5)**	(5.2)
Purchase of property, plant and equipment	**(1.2)**	(4.9)
Acquisition of subsidiary undertaking	**–**	(31.1)
Acquisition of associated undertaking	**–**	(13.0)
Dividends from associated undertakings	**1.0**	0.5
Net cash outflows from investing activities	**(6.7)**	(53.7)
Cash flows from financing activities		
Proceeds from issue of shares	**524.0**	70.6
Drawdown/(repayment) on revolving credit facility	**(10.0)**	132.0
Purchase of shares for share-based payment schemes	**(3.0)**	(25.0)
Interest paid	**(14.0)**	(14.5)
Transactions with non-controlling interests	**124.0**	–
Dividends paid to owners of the parent	**(20.6)**	(20.6)
Net cash inflows from financing activities	**600.4**	142.5
Net increase/(decrease) in cash and cash equivalents	**251.7**	(302.2)
Cash and cash equivalents at the beginning of the year	**520.1**	818.2
Effect of exchange rate fluctuations on cash and cash equivalents	**3.9**	4.1
Cash and cash equivalents at the end of the year	**775.7**	520.1

Consolidated Statement of Changes in Equity

For the year ended 31 December 2020

	Called up share capital US$m	Share premium US$m	Capital redemption reserve US$m	Foreign currency translation reserve US$m	Retained earnings US$m	Total attributable to owners of the parent US$m	Non-controlling interests US$m	Total equity US$m
At 1 January 2020	**7.0**	**505.5**	**1.0**	**(86.4)**	**892.8**	**1,319.9**	–	**1,319.9**
Total comprehensive income recognised	**–**	**–**	**–**	**2.3**	**(233.0)**	**(230.7)**	**(2.7)**	**(233.4)**
Issuance of share capital	**1.6**	**522.4**	**–**	**–**	**–**	**524.0**	**–**	**524.0**
Dividend	**–**	**–**	**–**	**–**	**(20.6)**	**(20.6)**	**–**	**(20.6)**
Transactions with non-controlling interests	**–**	**–**	**–**	**–**	**–**	**–**	**124.4**	**124.4**
At 31 December 2020	**8.6**	**1,027.9**	**1.0**	**(84.1)**	**639.2**	**1,592.6**	**121.7**	**1,714.3**

	Called up share capital US$m	Share premium US$m	Capital redemption reserve US$m	Foreign currency translation reserve US$m	Retained earnings US$m	Total equity US$m
At 1 January 2019	**6.8**	**435.1**	**1.0**	**(89.7)**	**731.8**	**1,085.0**
Total comprehensive income recognised	**–**	**–**	**–**	**3.7**	**181.6**	**185.3**
Recycling of foreign exchange losses upon acquisition of Ambridge	**–**	**–**	**–**	**(0.4)**	**–**	**(0.4)**
Issuance of share capital	**0.2**	**70.4**	**–**	**–**	**–**	**70.6**
Dividend	**–**	**–**	**–**	**–**	**(20.6)**	**(20.6)**
At 31 December 2019	**7.0**	**505.5**	**1.0**	**(86.4)**	**892.8**	**1,319.9**

Nature and Purpose of Group Reserves

Share premium: The balance represents the difference between the price at which shares are issued and their nominal value, less any distributions made from this account.

Capital redemption reserve: The balance represents the amount by which share capital is diminished in the event of a share cancellation and is required to be recognised in a legal reserve to maintain the Group's capital.

Foreign currency translation reserve: The balance on this reserve represents the foreign exchange differences arising from the translation of financial statement information of entities within the Group from functional currencies to the presentational currency of the Group.

Retained earnings: Retained earnings represents the cumulative comprehensive income retained by the Group after taxation and after any distributions made from this account.