

BRIT UW LIMITED  
ANNUAL FINANCIAL STATEMENTS  
31 DECEMBER 2020



Registered No. 03217775

# **BRIT UW LIMITED**

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# **BRIT UW LIMITED**

## **Company Information**

### **Directors**

M A Allan  
A E Usher  
M D Wilson  
S Dawes  
C G Denton (resigned on 12 February 2020)  
Brit Corporate Services Limited

### **Secretary**

Brit Corporate Secretaries Limited

### **Registered Office**

The Leadenhall Building  
122 Leadenhall Street  
London  
EC3V 4AB

### **Registered Number**

03217775

### **Independent Auditors**

PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
7 More London, Riverside  
London  
SE1 2RT

# BRIT UW LIMITED

## Strategic Report

The Directors present their Strategic Report on Brit UW Limited (the Company) for the year ended 31 December 2020.

### Principal activities

The Company is registered in the United Kingdom and is an authorised corporate member of Lloyd's, providing capacity to Brit Syndicates 2987 and 2988.

### Result

The Company made a loss after tax for the 2020 calendar year of US\$215.3m (2019 profit: US\$5.6m).

### Review of the business

The Company continued to provide 100% of the capacity of Syndicate 2987. The Company also provides 18.46% of the 2018 year of account and 55.83% of the 2020 year of account capacity of Syndicate 2988. Both syndicates are managed by another Brit Group company, Brit Syndicates Limited (BSL or the Managing Agent); BSL provides effective governance and oversight to the underwriting business of the syndicates.

Capacity of Syndicate 2987 for the open years of account was 2018: £1,400.0m, 2019: £1,360.0m and 2020: £1,590.0m. Total Syndicate capacity of 2988 for the 2018 year of account was £98.5m, and the 2020 year of account was £149.0m.

### Summary of the income statement

The Company's key performance indicators (KPIs) during the year were as follows:

	2020 US\$m	2019 US\$m
Gross premiums written	2,406.1	2,266.1
Net premiums written	1,426.3	1,320.0
Earned premiums, net of reinsurance	1,375.2	1,305.2
<b>Underwriting result <sup>(i)</sup></b>	<b>(237.8)</b>	<b>(65.5)</b>
Investment return <sup>(ii)</sup>	38.0	61.9
Other charges	(18.2)	(17.4)
<b>Loss before the effect of foreign exchange</b>	<b>(218.0)</b>	<b>(21.0)</b>
Effect of foreign exchange	4.0	16.8
<b>Loss before tax as reported</b>	<b>(214.0)</b>	<b>(4.2)</b>
<b>Combined ratio <sup>(iii)</sup></b>	<b>117.3%</b>	<b>105.0%</b>

(i) Underwriting Result: Balance on Technical Account less the investment return allocated to the Technical Account.

(ii) Investment Return: Total investment return ignoring split between Technical and Non-Technical Account.

(iii) Combined Ratio: Technical Account expenses (Claims Incurred Net of RI plus Net Operating Expenses over Net Earned Premium)

### Financial performance

The Company's financial performance is discussed below:

Gross written premium	2020 US\$m	2019 US\$m	Movement %
Global Speciality Direct	1,830.3	1,728.6	5.9%
Global Speciality Reinsurance	575.8	537.5	7.1%
<b>Total</b>	<b>2,406.1</b>	<b>2,266.1</b>	<b>6.2%</b>

# BRIT UW LIMITED

## Strategic Report (continued)

### Syndicate 2987

Gross premiums written for 2020 was US\$2,333.4m, an increase of 3.1% over 2019 (US\$2,262.4m), also 3.1% at constant rates of exchange. Global Specialty Direct business increased by 2.7% to US\$1,771.1m (2019: US\$1,724.7m), while Global Specialty Reinsurance increased by 4.6% to US\$562.3m (2019: US\$537.7m). The key drivers for the increase are outlined below. Growth arose in core Direct classes (Specialty (including Marine), Property, and Cyber) and Reinsurance classes (Property Treaty). This reflects a combination of continued positive rating movements building on that of 2019 and 2018, capitalising on market opportunities as they arose, and targeted growth within business initiatives such as Scion, (a US MGA owned by the Brit Group launched in 2019). These increases were partially offset by reduced demand in A&H, Contingency and Political and Credit Risks classes, due to the impact of COVID-19 related restrictions.

During the year, further short tail Property and Liability classes were exited or accounts non-renewed, where it was believed that they were either underperforming, inadequately priced or outside of the Syndicate's risk appetite. Underwriting discipline continues to be retained, and the product set has been streamlined to refocus on classes where there are sustainable opportunities and the potential to operate at scale. The estimated risk-adjusted rate increase on renewed business was 10.6% bringing a total increase since 1 January 2018 to +20.2%. Positive rate movements were achieved across all classes, with the exception of Terrorism, with the largest increases achieved in Property D&F, Marine Cargo and Excess Casualty. The retention rate for the period was 76.1% (2019: 78.0%). The reduction in 2020 reflects the continued action taken to improve the Syndicate's performance by discontinuing underperforming business lines.

The Syndicate reported an underwriting loss of US\$196.1m (2019: profit US\$33.5m) and a combined ratio of 113.9% (2019: 97.5%). Major losses were a significant factor in the Syndicate's result for the 2020 financial year.

2020 saw an elevated frequency of named US windstorms. The Syndicate picked up losses from several of those events, with the material ones being classified as major losses and set out in the table above. Coupled with losses from the Nashville Tornadoes and US Civil Unrest earlier in the year, these events contributed 7.0% to the combined ratio. In addition, the financial impact of COVID-19 on Brit has been significant, with a loss estimate of US\$215.0m being reported within Major Losses in the period. COVID-19 has predominantly impacted the Contingency (Event Cancellation) and Casualty Treaty books (Medical Expenses and PA). Losses from the pandemic in 2020 have added 15.3% to the combined ratio. The result also includes US\$49.8m of prior year reserve releases improving the combined ratio by 3.5% (2019: 2.9%). The underlying claims performance in 2020 showed improvement, with a reduction in the attritional loss ratio to 48.8% (2019: 51.4%). This reflects favourable underlying claims experience across the Direct portfolio (principally Programmes and Facilities, Property and Specialty) and the effect of strong compound rate increases, combined with a change in mix as the Syndicate targeted growth on high-performing segments while taking remedial action on more marginal business.

Net investment return for the 2020 financial year totalled \$50.3m, a 40.1% increase compared to the previous year (2019: \$35.9m). In March 2020, 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 unrealised gains from fixed income securities. Whilst income returns are expected to be lower going forward, the Syndicate continues to seek opportunities to increase the yield on the portfolio where appropriate opportunities arise. Realised losses were recorded on the equity portfolio following market selloffs in the first quarter of 2020, however since then equities have recovered well and recouped some of the unrealised losses.

### Syndicate 2988

In its fourth year of underwriting Syndicate gross premiums written increased by 51.3% to £167.0m (US\$214.3m) (2019: £110.4m / US\$141.0m). When adjusted for constant rates of exchange, premiums have increased 52.0% (2019 rebased at 2020 rates: £109.8m / US\$140.1m). Brit UW Limited's shares of the 2018 and 2020 years of account amounted to US\$109.5m. The intercompany transactions involving Syndicate 2987 and Syndicate 2988 have been eliminated upon determining Brit UW Limited's combined financial performance and position.

# **BRIT UW LIMITED**

## **Strategic Report (continued)**

Actual written premiums for the 2020 financial year were above plan, with income in a number of classes being adversely impacted by the COVID-19 pandemic, but this was more than offset by opportunities in other classes. The estimated risk adjusted rate change on renewed premium was an increase of 10.8% (2019: 5.7%) with rate increases achieved on the majority of lines.

The Syndicate reported an underwriting loss of £35.3m (2019 loss: £10.8m), equivalent to US\$45.3m, and a combined ratio of 128.7% (2019: 111.4%). The Syndicate was significantly impacted by the Covid-19 pandemic and losses from natural catastrophes, particularly windstorms in the United States. Brit UW Limited's share of the 2018 and 2020 years of account represents US\$7.6m of underwriting loss with a corresponding combined ratio of 113.6%.

COVID-19 has been a significant loss event, primarily concentrated in the Contingency class due to event cancellations, though also hitting the Casualty Treaty business. Loss estimates account for loss exposure to events planned to be held up to the year end and those which are expected to be cancelled/postponed. Additionally, the Syndicate reported an Unexpired Risk Provision of £2.5m at average rates of exchange and a Risk Margin of £1.3m both included within the Syndicates COVID-19 estimate. The impact of the pandemic added 28.2% to the combined ratio for 2020.

2020 saw an elevated frequency of named US windstorms. The Syndicate picked up losses from several of those events, with the material ones being classified as major losses. Coupled with losses from the Nashville Tornadoes and US Civil Unrest earlier in the year, these events contributed 12.3% to the combined ratio, compared to 6.1% in the prior year. Absent the 2020 major loss events, the loss ratio is 53.9% (2019: 65.3%). This reduction relative to the prior year is driven by favourable experience on the 2019 and 2018 years, as well as the impact of the improving rating environment on the loss ratios for the 2020 year of account.

Despite the market volatility due to COVID-19, the investment portfolio performed strongly in the first half of the year due to the Syndicate's investment strategy. The portfolio performance was weaker in the second half of the year due to falling yields on government debt. The portfolio of investments during 2020 was broadly consistent with 2019, but the Syndicate increased the investment managers mandate to include corporate bonds in Q3 2020 in order to diversify the portfolio and to increase investment return. Brit UW Limited's share of the investment return net of investment management fees was US\$0.3m.

### **Corporate**

During the year, the Company renewed a fully collateralised reinsurance contract with a Group company, Brit Reinsurance (Bermuda) Limited, the benefit of which is charged in favour of Lloyd's. The outward reinsurance premium on this contract amounted to US\$71.5m (2019: US\$78.0m).

A claim of US\$45.2m, triggered by the stop loss clause of the contract because of cumulative major loss events across the open years of account, was notified to Brit (Reinsurance) Bermuda Limited. This has been recorded as a change in the Reinsurers' Share of Provisions for Claims.

The corporate ledger of the Company reflects a reinsurance contract that was concluded with Swiss Re. Rather than Swiss Re directly participating on Syndicate 2988 for the 2020 year of account, the Corporate ledger reflects the cession to Swiss Re of this 20% such that the net effect on the Company is nil; the Swiss Re contract related entries as per the corporate ledger have equal and opposite corresponding ones embedded within the Syndicate business related part of the Company's financial statements.

Investment return was a loss of US\$19.9m (2019: profit of US\$19.0m) primarily being driven by the corporate equity portfolio.

### **Coronavirus (COVID-19) outbreak**

#### **Overview**

The COVID-19 pandemic is a global crisis, the like of which has not been seen for generations. As well as the devastating human cost, it has created an extraordinarily significant amount of global disruption and economic uncertainty, with the impact on the global economy likely to be felt for many years to come.

## **BRIT UW LIMITED**

### **Strategic Report (continued)**

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.

#### ***Brit's operational response***

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.

#### ***Impact on the Brit Group***

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.

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

Scenario testing around the ongoing impact of the pandemic: Assessments were performed throughout 2020, with the most recent in December. This used Brit's baseline 2021 financial plan, and considered moderate and severe downside scenarios. For example, against a base case of a vaccination programme roll-out in Q1 2021, the moderate scenario assumed the programme would not start until Q2 2021 or later, while the severe scenario assumed a slow vaccination roll-out with potential side effects. The impact of premium volumes, rates, defaults, claims deterioration and investment return were all assessed under both the moderate and severe scenarios. In addition to the impact on capital from trading losses, the exercise also considered the impact of interest rates on management capital requirements.

#### ***Impact on Brit UW Limited***

Brit UW Limited has primarily been exposed to COVID-19 through its underwriting participation on Brit syndicates 2987 and 2988, and through the impact of financial markets on its direct investment portfolio. During 2020, we undertook a review to assess the potential financial impact of COVID-19 on the Company and reviewed the Company's resulting forecast borrowing and capital positions. The overall claims impact on the Brit UW Limited's financials was US\$235.9m.

As a result of the review, the following actions were taken to maintain the financial strength of the Company. They were approved by the Board on 10 June 2020 and by the Brit Insurance Holdings Limited Board, the Company's immediate parent, on 18 June 2020.

- Brit Insurance Holdings Limited injected US\$250m of capital into the Company to replenish the capital position, with sufficient headroom for further volatility. This was a non-cash capital injection.
- A new £350m loan facility was created between Brit Insurance Holdings Limited and the Company, at Libor plus 1.5%, to replace the existing loan facilities, to provide the Company with access to funds to cover its forecast obligations.

# BRIT UW LIMITED

## Strategic Report (continued)

As a result of these actions, the Company's financial position is significantly improved, with positive net assets at 31 December 2020.

We continue to monitor the situation and will adapt our plans as necessary to ensure we act in the best interests of all our stakeholders.

More information regarding the impact on Brit UW Limited is detailed further in the section "Critical accounting judgements and key sources of estimation uncertainty" – "Insurance contract liabilities", which is part of the Notes to the Financial Statements.

## Outlook

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.

Preserving a strong financial position is critical to the long-term success of an insurance business. Brit Group's consolidated statement of financial position remains strong as we maintain our 'conservative best estimate' reserving policy which provides us with a secure foundation. Brit Limited continues to benefit from the support of its majority shareholder, Fairfax, with a capital contribution of US\$200m provided in April 2020 to strengthen the resilience of the balance sheet to further shocks.

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.

## Capacity

Syndicate 2987 stamp capacity for the 2021 year of account has increased to £1.73bn from £1.59bn for the 2020 year of account as the Syndicate seeks to focus on the growth of sustainable profitable classes of business after taking decisive action to exit certain classes during 2020. The Company continues to provide 100% of the capacity. Syndicate 2987's GWP is planned to grow by 12.5% in 2021. As in previous years, portfolio management is core to the Syndicate's strategy. Classes are segmented into 'High Performing', 'Core Growth', 'Core New Initiatives', 'Core Opportunistic' and 'Portfolio Management' segments. Underlying growth is driven primarily by the 'High Performing' and 'Core Growth' segments, while the largest increases in Risk Adjusted Rate Change (RARC) are targeted on the weakest performing segments of the portfolio.

Syndicate 2988's stamp capacity for the 2021 year of account has increased to £173.5m from £149.0m for the 2020 year of account with the level of planned premium being written off this stamp increasing by 14.6%. 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. The Company continues its support to Syndicate 2988 by providing 52.67% of the 2021 capacity.

Significant uncertainty still surrounds COVID-19 and the timeframes over which vaccination programmes will allow lockdowns to be eased. There are also the potential consequences of the measures taken by governments driving yields down to record lows and the likely impact on the economy, with recessionary risks heightened.



# **BRIT UW LIMITED**

## **Strategic Report (continued)**

Brit continues to explore opportunities for efficiencies in processing and continues to work with distribution partners to become more competitive in local markets. Against this challenging backdrop there are a number of indicators to give cause for optimism, including rate increases, the withdrawal of capacity in the market from certain classes and the Syndicate's improving attritional claims ratio. In this environment, the Syndicate's clear strategy of embracing data driven underwriting discipline, rigorous risk selection, and focussing upon Leadership, Innovation and Distribution, positions it well to respond to the opportunities and challenges ahead.

### **Investments**

Political and economic uncertainty and challenges continue. 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.

In March 2020, 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 unrealised gains from fixed income securities. Whilst income returns are expected to be lower going forward, the Syndicate 2987 continues to seek opportunities to increase the yield on the portfolio where appropriate opportunities arise. Realised losses were recorded on the equity portfolio following market sell-offs in the first quarter of 2020, however since then equities have recovered well and recouped some of the unrealised losses.

Despite the market volatility due to COVID-19, Syndicate 2988's investment portfolio performed strongly in the first half of the year due to the Syndicate's investment strategy. The portfolio performance was weaker in the second half of the year due to falling yields on government debt. The portfolio of investments during 2020 was broadly consistent with 2019, but Syndicate 2988 increased the investment managers mandate to include corporate bonds in Q3 2020 in order to diversify the portfolio and to increase investment return.

We believe our financial strength, underwriting discipline and our clear strategy focused on leadership, innovation and distribution, uniquely position us to respond to the challenges of today's market and to benefit from opportunities as they arise

### **Principal risks and uncertainties**

The information on principal risks and uncertainties is disclosed in Note 3 to the Financial Statements.

The Company has managed the risks associated with COVID-19 in line with the requirements of its risk management policies, as follows:

- **Operational risk**

COVID-19 has caused a temporary shift from an office-based working environment to a remote working environment for all staff on 18 March 2020. This tested Brit's operational capabilities and could have potentially disrupted the operations of Brit or its outsourced service providers. However, Brit and its service providers have adapted well. All business processes have been carried out and operational performance has remained strong.

We have put in place support mechanisms for employees and we continue to communicate regularly to ensure that people feel engaged and supported through these uncertain times. From an operational and IT perspective, the business continues to operate effectively. The investment in 2019 in Microsoft's Office 365, Teams 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 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.

# BRIT UW LIMITED

## Strategic Report (continued)

- **Insurance risk**

COVID-19 has resulted in material net insurance losses to the Company however these are in line with potential catastrophe losses the Group monitors using catastrophe modelling tools and realistic disaster scenarios (RDS). The Group has a rigorous process for establishing reserves for insurance claim liabilities, including those associated with COVID-19. We continue to monitor and assess the impact of COVID-19 and significant uncertainties remain around loss estimates given the complexities of the pandemic and its evolving nature. 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.

- **Investment and market risks**

Whilst financial markets have experienced volatility in 2020, the volatility is experienced is within the range of stress and scenario tests carried out.

- **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 the date of this report, there has not been a material increase in defaults.

- **Solvency and Liquidity risk**

Throughout 2020, the Company has complied with its regulatory capital requirements. Following the COVID-19 outbreak, stress testing of liquidity resources was conducted, in order to assess the Company's ability to continue meeting its obligations as they fell due. This stress testing demonstrated that the Company will continue to have access to sufficient liquidity, even in severe stress scenarios.

We continue to monitor this risk closely.

## Stakeholder engagement

The Board recognises the importance of engaging with the Company's key stakeholders.

Why we engage	Form of engagement	Impact of engagement
<b>Members and the wider Brit Group</b>  Brit UW Limited is owned by Brit Insurance Holdings Limited, and ultimately by Fairfax Financial Holdings Limited. Our aim is to provide long term sustainable value for our shareholder and the wider Brit and Fairfax Groups. Engagement ensures that our objectives are aligned and that our strategy, operating environment and performance are clearly understood.	Brit UW Limited shares a number of Directors with Brit Insurance Holdings Limited and Brit Limited, and the Brit Executive Committee has two representatives on the Brit UW Limited Board. There is also regular contact between Brit executives and senior management and those of our ultimate shareholder.	This engagement helps ensure that Brit UW Limited's strategy is aligned to and supported by our shareholder and the wider Brit Group. Such engagement also presents us with underwriting and investment opportunities, and can result in favourable collaboration with other members of the Fairfax Group.
<b>Investment managers</b>  We implement our investment strategy using the expertise of investment managers. We engage with them to monitor performance and to ensure guidelines are adhered to.	Brit UW Limited supported by the Brit Investment Department and is represented on the Brit Investment Committee. Brit has regular discussions with its managers to monitor performance and assess market outlook, and receives regular reports.	Such engagement ensures assets are managed within risk tolerances and guidelines and that any changes are implemented in a timely fashion. Insights from our managers enhance our investment strategy and performance.

# BRIT UW LIMITED

## Strategic Report (continued)

<p><b>Reinsurers</b></p> <p>Brit UW Limited purchases a fully collateralised material reinsurance contract from another Group company, Brit Reinsurance (Bermuda) Limited. Engagement ensures the terms of the contract meets our needs and that an appropriate premium is charged.</p>	<p>Brit UW Limited, in conjunction with the Brit outwards reinsurance team, engages directly with Brit Reinsurance (Bermuda) Limited. We also employ the services of third party experts to validate the terms and cost of the policy.</p>	<p>This engagement allows us to ensure we have the appropriate level of protection purchased at an appropriate price.</p>
<p><b>Key suppliers</b></p> <p>We rely on a number of key suppliers to help us meet the needs of our customers' and those of other stakeholders. On-going engagement helps us ensure that those needs are met and standards are maintained. Such suppliers include Brit Group Services Limited.</p>	<p>Brit has a rigorous on-boarding process for new suppliers. Partnerships with critical suppliers are fostered by a range of activities including ongoing dialogue and face to face meetings. We also engage in areas such as technical and product roadmaps, integration planning and disaster recovery.</p>	<p>Such engagement helps us to:</p> <ul style="list-style-type: none"> <li>• Provide a better service to and satisfy stakeholders needs;</li> <li>• Enhance operational processes, leading to efficiencies and increased competitive advantage;</li> <li>• Comply with laws and regulations;</li> <li>• Improve technological resilience;</li> <li>• Ensure supplier robustness and integrity.</li> </ul>

## Section 172(1) Statement

### Introduction

As Directors, our key responsibility is to promote the success of the Company. This principle is the cornerstone of our discussions and our decision making. Each Director is cognisant that in discharging this key responsibility, they must have regard to matters set out in s172(1)(a-f) of the Companies' Act. The Directors consider, both individually and collectively, that they have acted in the way they consider, in good faith, would be most likely to promote the success of the Company.

### Our strategy

The Board is responsible for a number of key strategic decisions and on-going performance monitoring. The Directors' assessment of long-term value creation considers the Company's resilience. They determine and monitor risk appetites and tolerances, and they ensure the Company has an effective risk management framework in place.

### Board information

The Board receives information on a range of relevant topics, and receives information on other areas as requested by the Directors from time to time.

### Our policies and practices

All relevant factors are appropriately addressed by the Board when considering matters reserved for it, as set out in its terms of reference. It ensures that all relevant considerations to assist it discharge its responsibilities are embedded in the key operations of the business, in order to help promote the long-term success of the Company.

The Board reviews its key stakeholder map on an annual basis. New key stakeholder relationships are identified through information received and considered by the Board on a regular basis, or through the Board's consideration and approval of substantial contracts and commitments.

# **BRIT UW LIMITED**

## **Strategic Report (continued)**

### ***Training***

To assist the Directors discharge their responsibilities, they are provided with on-going training and development opportunities. They have received a number of in-depth briefings on specific relevant issues. For the wider workforce, there is a comprehensive staff development programme tailored to meet individual needs. Elements of this training are mandatory, with all staff required to successfully complete e-learning modules on key areas such as money laundering, bribery and corruption, data protection, fraud and cyber risk.

### ***Our culture***

Building and maintaining the Company's reputation and its high standards of business conduct are essential to the future success of the Company. This is embedded in our culture and in our brand purpose, launched in October 2019. The wider group also maintains a 'Code of Conduct' setting out the standard we expect from all of our staff. This is regularly reviewed and updated, and compliance is attested to by each employee on an annual basis.

### ***Our stakeholders***

The Board recognises the importance of engaging with its broader stakeholder base. Key stakeholders are set out above, together with why and how we engage with them and the outcomes of that engagement.

### ***Key decisions made by the Directors during the year***

- **Reinsurance contract with Brit Reinsurance (Bermuda) Limited**

During the year, the Company renewed a fully collateralised material reinsurance contract with a Group company, Brit Reinsurance (Bermuda) Limited, the benefit of which is charged in favour of Lloyd's, for a premium of US\$71.5m (2019: US\$78.0m). In approving this contract, the Directors considered the limits and terms of this contract and, after reviewing a report commissioned from an independent expected, approved the premium payable for this contract.

- **2021 business plan and capital requirements**

The Directors reviewed and approved the 2021 business plan. The plan included the Company's underwriting and investment strategy, together with the capital needed to support the plan. The Directors considered the Company's immediate and longer-term strategic priorities, together with the risks facing the business. They also considered the needs and expectations of the Company's shareholders and those of the wider stakeholder group. After due discussion, the Directors concluded that the plans and attaching capital requirements positioned the Company well for 2021 and the longer term.

- **Capital injection**

Brit Insurance Holdings Limited injected US\$400.2m of capital into the Company to replenish the capital position, with sufficient headroom for further volatility. This was a non-cash capital injection.

- **Loan facility**

A new £350m loan facility was created between Brit Insurance Holdings Limited and the Company, at Libor plus 1.5%, to replace the existing loan facilities, to provide the Company with access to funds to cover its forecast obligations.

By Order of the Board



A E Usher  
Director

21 September 2021

# **BRIT UW LIMITED**

## **Directors' Report**

The Directors present their report and the financial statements for the year ended 31 December 2020.

### **Principal activities**

Details of the Company's principal activities and a review of the business are included in the Strategic Report.

### **Result and Dividend**

The Company made a loss after tax for the 2020 calendar year of US\$215.3m (2019 profit: US\$5.6m).

No interim dividend was paid during the year (2019: US\$nil). The Directors did not recommend the payment of a final dividend for the year ended 31 December 2020 (2019: US\$nil).

### **Going Concern**

The Company is the sole provider of capacity to Syndicate 2987, which represents the majority of the business activity of the Brit Group. Capacity is also provided to Syndicate 2988 for certain years of account at certain participation levels. As such, Directors have a reasonable expectation that, where necessary, appropriate funding would be made available to the Company, through investment, lending or utilisation of the credit facilities of the Brit Group and, therefore, it has access to adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Strategic Report, Directors' Report and Financial Statements.

### **Directors**

The names of the Directors as at the date of this report are listed on page 2.

### **Employees and environmental matters**

All staff in the United Kingdom are employed by the Group's service company, Brit Group Services Limited, and the full staff cost disclosures are included in the notes to those financial statements. Further information on the Group's employment policies can be found in the financial statements of Brit Group Services Limited.

The wider Brit Group is committed to managing and reducing its environmental impact in a cost effective and responsible manner.

### **Future developments**

The Company intends to continue to build on its historical performance during 2021 and beyond.

### **Statement of Directors' responsibilities**

The Directors are responsible for preparing the Strategic Report, Directors' Report and the Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgments and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

## **BRIT UW LIMITED**

### **Directors' Report (continued)**

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

### **Statement of Disclosure of Information to Auditors**

In accordance with the provisions of section 418 of the Companies Act 2006, each of the persons who are Directors of the Company at the date of approval of this report confirms that:

- So far as the Director is aware, there is no relevant audit information (as defined in the Companies Act 2006) of which the Company's auditors are unaware; and
- The Director has taken all the steps that he/she ought to have taken as a Director to make himself/herself aware of any relevant audit information (as defined) and to establish that the Company's auditors are aware of that information.

PricewaterhouseCoopers LLP will remain in office as the Company's auditors.

By Order of the Board



A E Usher  
Director  
21 September 2021

# **BRIT UW LIMITED**

## **Independent auditors' report to the members of Brit UW Limited**

### **Report on the audit of the financial statements**

#### **Opinion**

In our opinion, Brit UW Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2020 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Strategic Report, Directors' Report and Financial Statements (the "Annual Report"), which comprise: the Statement of Financial Position as at 31 December 2020; the Income Statement, and the Statement of Changes in Equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

#### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### *Independence*

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

#### **Conclusions relating to going concern**

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the company's ability to continue as a going concern.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

#### **Reporting on other information**

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion on, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

## **BRIT UW LIMITED**

### **Independent auditors' report to the members of Brit UW Limited (continued)**

With respect to the Strategic report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

#### *Strategic Report and Directors' Report*

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' Report for the year ended 31 December 2020 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' Report.

### **Responsibilities for the financial statements and the audit**

#### *Responsibilities of the directors for the financial statements*

As explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

#### *Auditors' responsibilities for the audit of the financial statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.



**Independent auditors' report to the members of Brit UW Limited (continued)**

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of regulatory principles, such as those governed by the Prudential Regulation ("PRA") and the Financial Conduct Authority ("FCA"), and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to the risk of management override of controls, including the potential for management bias in accounting estimates. Audit procedures performed by the engagement team included:

- Discussions with management, including consideration of known or suspected instances of non-compliance with laws and regulations and fraud;
- Evaluation and testing of the operating effectiveness of management's controls designed to prevent and detect irregularities;
- Testing and challenging, where appropriate, the assumptions and judgements made by management in their accounting estimates;
- Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations or narrative in the journal description or posted by senior management; and
- Reading key correspondence with regulatory authorities which included the FCA and the PRA in relation to compliance with laws and regulations.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditors' report.

*Use of this report*

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

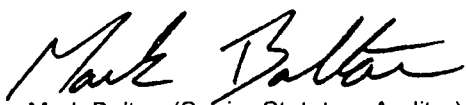
**Other required reporting**

**Companies Act 2006 exception reporting**

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.



Mark Bolton (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
London  
21 September 2021

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# BRIT UW LIMITED

## Income Statement

Technical Account – General Business  
for the year ended 31 December 2020

		Year ended 31 December 2020	Year ended 31 December 2019
	Note	US\$m	US\$m
Gross premiums written	4	2,406.1	2,266.1
Outward reinsurance premiums		(979.8)	(946.1)
<b>Net premiums written</b>		<b>1,426.3</b>	<b>1,320.0</b>
Change in the gross provision for unearned premiums	16	(44.5)	(47.4)
Change in the provision for unearned premiums, reinsurers' share	16	(6.6)	32.6
<b>Net change in the provision for unearned premiums</b>		<b>(51.1)</b>	<b>(14.8)</b>
Earned premiums, net of reinsurance		1,375.2	1,305.2
Allocated investment return transferred from the Non-Technical Account		51.9	28.2
<b>Total technical income</b>		<b>1,427.1</b>	<b>1,333.4</b>
Claims paid:			
Gross amount	17	(1,318.0)	(1,357.2)
Reinsurers' share	17	572.1	684.6
<b>Net claims paid</b>		<b>(745.9)</b>	<b>(672.6)</b>
Change in the provision for claims:			
Gross amount		(421.5)	80.0
Reinsurers' share		229.9	(125.7)
<b>Net change in the provision for claims</b>		<b>(191.6)</b>	<b>(45.7)</b>
Claims incurred, net of reinsurance		(937.5)	(718.3)
Net operating expenses	6	(675.5)	(652.4)
<b>Total technical charges</b>		<b>(1,613.0)</b>	<b>(1,370.7)</b>
<b>Balance on the Technical Account for general business</b>		<b>(185.9)</b>	<b>(37.3)</b>

# BRIT UW LIMITED

## Income Statement (continued)

Non-Technical Account  
for the year ended 31 December 2020

		2020	2019
	Note	US\$m	US\$m
<b>Balance on the Technical Account – general business</b>		<b>(185.9)</b>	<b>(37.3)</b>
Investment income		39.6	48.1
Realised (losses) on investments		(4.6)	(17.3)
Unrealised gain on investments		12.2	55.5
(Loss) on derivatives		(9.2)	(24.4)
Net investment return		38.0	61.9
<b>Allocated investment return transferred to the general business Technical Account</b>		<b>(51.9)</b>	<b>(28.2)</b>
Interest receivable and similar income	7	0.2	0.2
Other charges	8	(14.4)	(0.7)
<b>Loss on ordinary activities before tax</b>		<b>(214.0)</b>	<b>(4.2)</b>
Tax on loss on ordinary activities	10	(1.3)	9.8
<b>(Loss) on ordinary activities after tax</b>		<b>(215.3)</b>	<b>5.6</b>

There were no amounts recognised in other comprehensive income in the current or preceding year other than those included in the Income Statement. Therefore no Statement of Other Comprehensive Income has been presented.

The Notes on pages 22 to 55 form part of these financial statements.

## BRIT UW LIMITED

### Statement of Changes in Equity for the year ended 31 December 2020

	Called up share capital	Share premium account	Retained earnings	Total equity
	US\$m	US\$m	US\$m	US\$m
<b>At 1 January 2020</b>	-	146.2	(182.6)	(36.4)
Contribution	-	400.2	-	400.2
Total comprehensive income for the year	-	-	(215.3)	(215.3)
<b>At 31 December 2020</b>	-	546.4	(397.9)	148.5

	Called up share capital	Share premium account	Retained earnings	Total equity
	US\$m	US\$m	US\$m	US\$m
<b>At 1 January 2019</b>	-	146.2	(188.2)	(42.0)
Total comprehensive income for the year	-	-	5.6	5.6
<b>At 31 December 2019</b>	-	146.2	(182.6)	(36.4)

The Notes on pages 22 to 55 form part of these financial statements.

# BRIT UW LIMITED

## Statement of Financial Position

as at 31 December 2020

		2020			2019		
	Note	Corporate US\$m	Syndicates US\$m	Total US\$m	Corporate US\$m	Syndicates US\$m	Total US\$m
<b>Investments</b>							
Financial Investments	14	223.4	2,099.6	2,323.0	156.1	2,003.9	2,160.0
Derivatives	15	-	1.9	1.9	-	1.5	1.5
		223.4	2,101.5	2,324.9	156.1	2,005.4	2,161.5
<b>Reinsurers' Share of Technical Provisions</b>							
Provision for unearned premiums	16	18.6	365.9	384.5	-	387.6	387.6
Claims outstanding	17	63.6	2,173.2	2,236.8	-	1,969.9	1,969.9
		82.2	2,539.1	2,621.3	-	2,357.5	2,357.5
<b>Debtors</b>							
Arising out of direct insurance operations		-	632.9	632.9	-	637.4	637.4
Arising out of reinsurance operations		-	496.6	496.6	-	477.6	477.6
Deferred taxation	13	77.2	-	77.2	80.3	-	80.3
Other	20	9.4	454.5	463.9	9.5	327.8	337.3
		86.6	1,584.0	1,670.6	89.8	1,442.8	1,532.6
<b>Other Assets</b>							
Cash at bank and in hand		1.9	76.7	78.6	0.5	31.9	32.4
FIS	27	430.7	(430.7)	-	397.8	(397.8)	-
Other	18	-	289.4	289.4	-	243.7	243.7
		432.6	(64.6)	368.0	398.3	(122.2)	276.1
<b>Prepayments and Accrued Income</b>							
Deferred acquisition costs	19	-	262.0	262.0	-	254.8	254.8
Other		0.8	7.5	8.3	1.3	9.3	10.6
		0.8	269.5	270.3	1.3	264.1	265.4
<b>Total Assets</b>		<b>825.6</b>	<b>6,429.5</b>	<b>7,255.1</b>	<b>645.5</b>	<b>5,947.6</b>	<b>6,593.1</b>

# BRIT UW LIMITED

## Statement of Financial Position (continued)

as at 31 December 2020

		2020			2019		
	Note	Corporate US\$m	Syndicates US\$m	Total US\$m	Corporate US\$m	Syndicates US\$m	Total US\$m
<b>Capital and reserves</b>							
Called up share capital	22	-	-	-	-	-	-
Share premium account		546.4	-	546.4	146.2	-	146.2
Retained earnings		(397.9)	-	(397.9)	(181.9)	-	(181.9)
<b>Shareholders' funds</b>		<b>148.5</b>	<b>-</b>	<b>148.5</b>	<b>(35.7)</b>	<b>-</b>	<b>(35.7)</b>
Derivative contract liabilities	15	-	8.2	8.2	-	12.4	12.4
<b>Technical Provisions</b>							
Provision for unearned premiums	16	-	1,025.6	1,025.6	-	973.4	973.4
Claims outstanding	17	-	4,765.7	4,765.7	-	4,287.5	4,287.5
		-	5,791.3	5,791.3	-	5,260.9	5,260.9
<b>Creditors</b>							
Arising out of direct insurance operations		-	62.8	62.8	-	55.6	55.6
Arising out of reinsurance operations		30.7	527.7	558.4	-	575.1	575.1
Other	21	646.4	39.5	685.9	681.2	43.6	724.8
		677.1	630.0	1,307.1	681.2	674.3	1,355.5
<b>Total liabilities and Shareholders' funds</b>		<b>825.6</b>	<b>6,429.5</b>	<b>7,255.1</b>	<b>645.5</b>	<b>5,947.6</b>	<b>6,593.1</b>

The financial statements on pages 17 to 55 were approved by the Board of Directors on 21 September 2021 and were signed on its behalf by:



A E Usher  
Director

# **BRIT UW LIMITED**

## **Notes to the Financial Statements**

for the year ended 31 December 2020

### **1. Accounting policies, statement of compliance and basis of preparation**

#### **1.1 Statement of compliance and basis of preparation**

The financial statements have been prepared in compliance with FRS 102 and FRS 103, being the applicable UK GAAP accounting standards, and in accordance with The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 (The Regulations 2008), and where appropriate the provisions of Schedule 3 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (The Regulations) relating to insurance companies.

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

The financial statements are prepared under the historical cost convention, as modified by the recognition of certain financial assets and liabilities measured at fair value. The annual basis of accounting has been applied to all classes of business written by Brit Syndicates. All amounts are presented in rounded US\$m to one decimal place, unless otherwise stated.

#### **1.2 Product classification**

Insurance contracts are those contracts that transfer significant insurance risk at the inception of the contract. Insurance risk is transferred when an insurer agrees to compensate a policyholder if a specified uncertain future event adversely affects the policyholder. The significance of insurance risk is dependent on both the probability of an insured event and the magnitude of its potential effect to the policyholder.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period.

#### **1.3 Significant accounting policies**

##### **a) Underwriting Activities**

##### **i) Premiums**

Premiums written relate to business incepted during the year, together with any differences between booked premiums for prior years and those previously accrued, and include estimates of premiums due but not yet received or notified, less an allowance for cancellations. Premiums are accreted to the Technical Account on a pro rata basis over the term of the related policy, except for those contracts where the period of risk differs significantly from the contract period. In these circumstances, premiums are recognised over the period of risk in proportion to the amount of insurance protection provided. Reinstatement premiums are accreted to the Technical Account on a pro rata basis over the term of the original policy to which it relates. Premiums are stated gross of commissions but net of premium taxes and other duties levied on premiums.

Premiums during the 2020 calendar year also include a same-day transaction of cash consideration paid and received to reflect the transfer of European Economic Area (EEA) insurance liabilities from the Syndicate to Lloyd's Insurance Company S.A. (LIC) and the reinsurance of the same EEA insurance liabilities by LIC back to the Syndicate under a separate reinsurance contract, under a Part VII scheme. More information on the Part VII transfer is disclosed under note 5.

##### **ii) Profit commissions**

Income arising from whole account quota share contracts is recognised when the economic benefits are highly probable. These are netted off against commission costs which are included within the 'acquisition costs' line in the income statement.

## BRIT UW LIMITED

### Notes to the Financial Statements (continued)

#### Note 1.3 (continued)

iii) **Deferred acquisition costs**

Commission and other acquisition costs incurred during the financial period that are related to securing new insurance contracts and/or renewing existing insurance contracts, but which relate to subsequent financial periods, are deferred to the extent that they are recoverable out of future revenue margins. Deferred acquisition costs are capitalised and amortised over the life of the policy to which they relate on a basis consistent with earnings pattern of that policy.

iv) **Claims incurred**

Claims incurred comprise claims and claims handling costs paid in the year and changes in the provisions for outstanding claims, including provisions for claims incurred but not reported ("IBNR") and related expenses, together with any adjustments to claims from prior years. Claims handling costs are mainly external costs related to the negotiation and settlement of claims.

v) **Outstanding claims provisions**

Claims outstanding represent the estimated ultimate cost of settling all claims (including direct and indirect claims settlement costs) arising from events which have occurred up to the statement of financial position date, including IBNR, less any amounts paid in respect of those claims. Claims outstanding are reduced by anticipated salvage and other recoveries. The Company does not discount its liabilities for unpaid claims, the ultimate cost of which cannot be known with certainty at the statement of financial position date.

Claims provisions have been established on an individual class of business basis. The underwriting and management teams conduct a quarterly review of each class of business. Claims are projected to the ultimate position and provision is made for known claims and claims IBNR.

Whilst the Directors consider that the estimate of claims outstanding is fairly calculated on the basis of the information currently available to them, there is inherent uncertainty in relation to the ultimate liability which will vary as a result of subsequent information and events. Adjustments to the amounts of the claims provisions established in prior years are reflected in the financial statements for the period in which the adjustments are made.

vi) **Provision for unearned premiums**

The proportion of written premiums that relate to unexpired terms of policies in force at the statement of financial position date is deferred as a provision for unearned premiums, generally calculated on a time apportioned basis. The movement in the provision is taken to the Technical Account in order that revenue is recognised over the period of the risk.

vii) **Unexpired risks provision**

Provision is made for any deficiencies arising when unearned premiums, net of related deferred acquisition costs, are insufficient to meet expected claims and expenses after taking into account future investment return on the investments supporting the unearned premiums provision. The expected claims are calculated having regard to events that have occurred up to the statement of financial position date.

Unexpired risk surpluses and deficits are offset where business classes are managed together and a provision is made if an aggregate deficit arises. At 31 December 2020 Syndicate 2987 reported an unexpired risks provision of \$12.4m (2019: US\$ nil). This is included within the claims outstanding liability on the balance sheet.

viii) **Reinsurance**

Reinsurance is assumed and ceded in the normal course of business. Premiums and claims on reinsurance assumed are recognised in the Technical Account along the same basis as direct business, taking into account the product classification. Reinsurance premiums ceded and reinsurance recoveries on claims incurred are included in the respective expense and income accounts. Reinsurance outwards premiums are earned according to the nature of the cover. 'Losses occurring during' policies are earned evenly over the policy period. 'Risks attaching' policies are expensed on the same basis as the inwards business being protected. Reinstatement premiums on both inwards and outwards business are accreted to the Technical Account on a pro rata basis over the term of the original policy to which they relate.



## BRIT UW LIMITED

### Notes to the Financial Statements (continued)

#### Note 1.3 (continued)

Reinsurance assets include amounts recoverable from reinsurance companies for paid and unpaid losses and loss adjustment expenses, and ceded unearned premiums. Amounts recoverable from reinsurers are calculated with reference to the claims liability associated with the reinsured risks. Revenues and expenses arising from reinsurance agreements are therefore recognised in accordance with the underlying risk of the business reinsured.

Gains or losses on buying reinsurance are recognised immediately in the Technical Account and are not subject to amortisation

If a reinsurance asset is impaired, the Company reduces its carrying amount accordingly, and will immediately recognise the impairment loss in the Technical Account. A reinsurance asset will be deemed to be impaired if there is objective evidence, as a result of an event that occurred after initial recognition of the asset, that the Company may not receive all amounts due to it under the terms of the contract, and that the event has a reliably measurable impact on the amounts that the Company will receive from the reinsurer.

#### ix) **Expenses**

BSL has charged the Brit Syndicates a fixed fee and has borne all the management expenses of Brit Syndicates, other than those related to the direct cost of underwriting and investment management charges. Investment management charges are netted off against investment return, as disclosed in note 8. Any internal or external claims adjustment or settlement costs are included within gross claims paid.

#### x) **Syndicate assets and liabilities**

Underwriting members at Lloyd's have several but not joint liability for the transactions of the syndicates in which they participate. Therefore, for each managed syndicate on which the Company participates, only the relevant proportion of the transactions, assets and liabilities of those syndicates are reflected in the financial statements. Syndicate assets are held subject to trust deeds for the benefit of the syndicate's insurance creditors.

As at 31 December 2020 the Company provided 100% of the capital for Syndicate 2987 and therefore all transactions, assets and liabilities of Syndicate 2987 have been included in the Company's financial statements. The Company managed the underwriting of, and participated as a member with an 18.46% share of the 2018 year of account and 55.83% share of the 2020 year of account of Syndicate 2988. Consequently, 18.46% of the 2018 year of account and 55.83% of the 2020 year of account have been reflected into the financial position and performance of the Company's financial statements. The Company did not participate as a member of the 2019 year of account of Syndicate 2988.

#### **(b) Investments**

The Company has designated on initial recognition its financial assets held for investment purposes (Investments) at fair value through profit or loss (FVTPL). This is in accordance with the Company's documented investment strategy and consistent with investment risk being assessed on a portfolio basis. Information relating to investments is provided internally to the Directors of BSL and management personnel on a fair value basis.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of financial assets and liabilities traded in active markets (which are the principal markets or the most advantageous markets that maximise the amount that would be received to sell the asset or minimises the amount that would be paid to transfer the liability) are based on quoted market bid and ask price for both financial assets and financial liabilities respectively.

The fair value of financial assets and liabilities that are not traded in an active market, including over-the-counter derivatives, is determined using valuation techniques. The Company uses a variety of methods and makes assumptions that are based on market conditions existing at each reporting date. Valuation techniques include the use of comparable recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, option pricing models and others commonly used by market participants and which make the maximum use of observable inputs.

Gains and losses on investments designated as FVTPL are recognised through the income statement. Interest income from investments in bonds and short term investments is recognised at the effective interest rate.

## **BRIT UW LIMITED**

### **Notes to the Financial Statements (continued)**

#### **Note 1.3 (continued)**

##### **(c) Investment return**

Investment return comprises all investment income, realised investment gains and losses, movements in unrealised gains and losses and interest and dividend income.

Realised gains and losses on investments carried at market value are calculated as the difference between sale proceeds and purchase price and are recognised when the sale transaction occurs. Unrealised gains and losses on investments represent the difference between the valuation at the statement of financial position date and

their valuation at the previous statement of financial position date, or purchase price, if acquired during the year, together with the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current period.

Investment return is initially recorded in the Non-Technical Account. A transfer is made from the Non-Technical Account to the general business Technical Account to reflect the investment return on funds supporting underwriting activities.

##### **(d) Recognition and derecognition of financial assets and financial liabilities**

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the contract and are initially recognised at transaction price and subsequently measured at either fair value or at amortised cost using the effective interest rate method.

A financial asset is derecognised when either the contractual rights to the asset's cash flows expire, or the asset is transferred and the transfer qualifies for derecognition under a combination of risks and rewards and control tests.

A financial liability is derecognised when it is extinguished which is when the obligation in the contract is discharged, cancelled or expired.

All 'regular way purchases and sales' of financial assets are recognised on the trade date, i.e. the date that the Company commits to purchase or sell the asset. Regular way purchases and sales are purchases and sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the marketplace.

If the carrying value of such an asset is impaired, it is reduced to the recoverable amount by an immediate charge to the income statement. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

##### **(e) Derivatives**

Derivative financial instruments typically include currency forward contracts, equity options, inflation options, futures, put options and interest rate swaps. Derivatives are initially and subsequently measured at their fair value with movements in the fair value being immediately recognised in the income statement. Fair values are obtained from quoted market prices, discounted cash flow models, risk models and option pricing models as appropriate. All derivatives are carried as assets when the fair values are positive and as liabilities when the fair values are negative.

##### **(f) Investment expenses and charges**

Investment expenses and charges comprise investment management expenses.

##### **(g) Net operating expenses**

Operating expenses have been charged to the underwriting year for which they were incurred. These include the Company's share of the Syndicate operating expenses, the remuneration payable to BSL and the direct costs of membership of Lloyd's.

##### **(h) Pension costs**

Brit Group Services Limited operates a defined contribution pension scheme on behalf of the BSL. Contributions are charged to the Syndicate within the fixed fee.

# **BRIT UW LIMITED**

## **Notes to the Financial Statements (continued)**

### **Note 1.3 (continued)**

#### **(i) Foreign currencies**

In accordance with FRS102, the functional currency is the currency of the primary economic environment in which the Company operates. The functional currency for the Company is the United States dollar (US\$). Items included in the financial statements are measured using the functional currency which is also the Company's presentational currency.

Unless otherwise stated, transactions in Sterling, Canadian dollars and Euros are translated at the average rates of exchange for the period. Monetary assets and liabilities in currencies other than United States dollars are translated at the rate of exchange ruling at 31 December of each year. Transactions in foreign currencies other than Sterling, United States dollars, Canadian dollars and Euros are translated at the rate of exchange ruling at the date the transaction is processed.

Exchange profits or losses arising on the translation of foreign currency amounts relating to underwriting activities are included within the Non-Technical Account as prescribed by FRS 103.

#### **(j) Current taxation**

The Syndicates results included in these financial statements relate to the annually accounted result for each calendar year presented. Syndicate income is subject to corporation tax in the year following closure of the relevant year of account. FIS income is also subject to corporation tax in the year in which it is earned.

#### **(k) Deferred taxation**

Deferred tax is recognised in respect of all temporary differences that have originated but not reversed at the statement of financial position date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more tax.

Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying temporary differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which temporary differences reverse, based on tax rates and laws enacted or substantively enacted at the statement of financial position date.

#### **(l) Offsetting of financial instruments**

Financial assets and liabilities are offset and the net amount reported in the Statement of Financial Position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously.

## **2 Critical accounting judgements and key sources of estimation uncertainty**

Various assumptions are made that affect the reported amounts of assets and liabilities. Estimates and judgements are regularly re-evaluated and are based on a combination of historical experience and other factors, including exposure analysis, expectations of future experience and expert judgement.

### **a) Insurance contract liabilities**

The estimation of the ultimate liability arising from claims made under insurance contracts is Brit Syndicates' most critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimate of the amounts that each Syndicate will ultimately pay to settle such claims. Significant areas requiring estimation and judgement include:

- Estimates of the amount of any liability in respect of claims notified but not settled and incurred but not reported claims (IBNR) to be included within provisions for inwards insurance and reinsurance contracts;
- The corresponding estimate of the amount of outwards reinsurance recoveries which will become due as a result of the estimated claims on inwards business;
- The recoverability of amounts due from reinsurers; and
- Estimates of the proportion of exposure which has expired in the period as represented by the earned proportion of premiums written.

# BRIT UW LIMITED

## Notes to the Financial Statements (continued)

### Note 2 (continued)

The assumptions used and the manner in which these estimates and judgements are made are set out below, including the reserving process for the estimation of gross, and net of reinsurance, ultimate premiums and claims:

- Quarterly statistical data is produced in respect of gross and net premiums and claims (paid and incurred);
- Projections of ultimate premiums, reinstatement premiums and claims are produced by the actuarial department using standard actuarial projection techniques (e.g. Basic Chain Ladder, Bornhuetter-Ferguson, Initial Expected Loss Ratio). The Basic Chain Ladder and Bornhuetter-Ferguson projection methods are based on the key assumption that historical development of premiums and claims is representative of future development. Claims inflation is taken into account in the Initial Expected Loss Ratio selections but is otherwise assumed to be in line with historical inflation trends, unless explicit adjustments for other drivers of inflation such as legislative developments are deemed appropriate.
- Some classes of business have characteristics which do not necessarily lend themselves easily to statistical estimation techniques e.g. due to low data volumes. In such cases, for example, a policy-by-policy review may also be carried out to supplement statistical estimates;
- In the event of catastrophe losses, and prior to detailed claims information becoming available, claims provision estimates are compiled using a combination of output from specific recognised modelling software and detailed reviews of contracts exposed to the event in question;

The estimates and judgements are applied in line with the overall reserving philosophy and seek to state the claims provisions on a best estimate, undiscounted basis. A management risk margin is also applied over and above the actuarial best estimate to allow for the inherent uncertainty within the best estimate reserve position.

Brit has adopted a comprehensive approach to reserving for COVID-19 related losses, in line with its policy of reserving on a 'conservative best estimate' basis and carrying an explicit risk margin above that 'conservative best estimate'. A detailed analysis of the principal exposed classes has resulted in net COVID-19 related losses of US\$215.0m for Syndicate 2987, US\$12.4m of which was carried as an unexpired risk reserve recognised in respect of events dated after 31 December 2020. COVID-19 has been a significant loss event for Syndicate 2988 as well, with US\$44.5m of related losses; Brit UW Limited's share of the respective losses is US\$24.8m. The overall impact on the Brit UW Limited's financials was US\$235.9m (US\$227.0m net of the cession under the reinsurance agreement with Swiss Re, as disclosed under the Financial Performance – Corporate of the Strategic Report), being the aggregation of the above mentioned impacts on Syndicate 2987 and the share of Syndicate 2988, less the portion included in the Brit UW Limited's share of Syndicate 2988 value above that relates to reinsured claims under the Intersyndicate Whole Account Quota Share reinsurance agreement with Syndicate 2987. The Syndicates' main exposures to COVID-19 relates to Contingency and Casualty Treaty accounts, with lower levels of exposure in Property, Property Treaty and Personal Accident. Significant uncertainties remain around the 2020 loss estimates given the complexities of the pandemic. Furthermore, as the pandemic continues, there remains uncertainty in relation to contingency business and events scheduled for 2021, with questions remaining as to factors such as the roll out and effectiveness of vaccines, and the roadmap to reducing or ending restrictions. The Syndicate will continue to monitor developments, the legal landscape and all impacted areas of the business.

In addition to claims provisions, the reserve for future loss adjustment expenses is also subject to estimation with consideration being given to the level of internal and third party loss adjustment expenses incurred annually. The estimated loss adjustment expenses are expressed as a percentage of gross claims reserves and the reasonableness of the estimate is assessed through benchmarking. Further judgements are made as to the recoverability of amounts due from reinsurers. Provisions for bad debts are made specifically, based on the solvency of reinsurers, internal and external ratings, payment experience with them and any disputes of which the Syndicates are aware.

The carrying value at the date of the statement of financial position of gross claims reported and loss adjustment expenses and claims incurred but not reported were US\$4,765.7m (2019: US\$4,287.5m) as set out in Note 9 to the financial statements. The amount of the reinsurers' share of the claims provisions estimated at that date is US\$2,236.8m (2019: US\$1,969.9m).

## **BRIT UW LIMITED**

### **Notes to the Financial Statements (continued)**

#### **Note 2 (continued)**

##### **b) Estimation of future premiums (pipeline premiums)**

Written premiums include pipeline premium of US\$762.3m (2019: US\$736.4m) which represent future premiums receivable on in-force insurance contracts. Pipeline premium estimates are typically based on standard actuarial projection techniques (e.g. Basic Chain Ladder) on the key assumption that historical development of premiums is representative of future development.

##### **c) Fair value of financial assets determined using valuation techniques**

Financial investments are carried in the statement of financial position at fair value. Determining the fair value of certain investments requires estimation techniques, using designated methodologies, estimations and assumptions.

The Company values investments using designated methodologies, estimations and assumptions. These securities, which are reported at fair value on the statement of financial position, represent the majority of the invested assets. The measurement basis for assets carried at fair value is categorised into a 'fair value hierarchy' in accordance with the valuation inputs and consistent with UK GAAP.

The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (level one); the middle priority to fair values other than quoted prices based on observable market information (level two); and the lowest priority to unobservable inputs that reflect the assumptions that the Company considers market participants would normally use (level three). To the extent that valuation is based on models or inputs that are unobservable in the market, the determination of fair value requires more judgement and accordingly, those instruments included in level three will require a greater degree of judgement to be exercised during valuation than for those included in level two or level one.

The classification within the fair value hierarchy is based on the lowest level of significant input to its valuation. Any change to investment valuations may affect the Company's results of operations and reported financial condition.

For further information refer to note 14.

##### **d) Deferred tax asset in respect of carried forward losses**

The deferred tax asset includes an amount of US\$77.2m (2019: US\$80.3m) which relates to carried forward tax losses in respect of Lloyd's undeclared year of account losses for 2018, 2019 and 2020 which will be taxed under the Lloyd's declaration basis in the years 2021, 2022 and 2023 respectively, and current year tax losses carried forward. The Company has concluded that the deferred tax asset is recoverable based on the Lloyd's approved plan for the year of account 2021 and forecast future results for the Brit Group UK entities.

The losses can be carried forward indefinitely and have no expiry date, however a further deferred tax asset of US\$55.8m (2019: US\$2.4m) has not been recognised on the basis that it is not yet possible to measure the asset reliably due to further work required to forecast results beyond 2027 and the year of account 2024.

## Notes to the Financial Statements (continued)

### 3. Principal Risks and Uncertainties

#### Risk management overview

Brit UW Limited is the sole corporate member of Syndicate 2987 and has a participating share of 18.46% of the 2018 year of account and 55.83% of the 2020 year of account of Syndicate 2988.

Syndicate 2987's and Syndicate 2988's activities expose the Company to a number of key risks which have the potential to affect its ability to achieve its business objectives. The following describes these Syndicates' financial and insurance risk management from a quantitative and qualitative perspective.

The risks arising from any of the business activities are managed in line with the Group Risk Management Framework (RMF) in order to protect policyholders and maximise shareholder value. This established framework addresses all the risks surrounding the organisation's activities past, present and, in particular, future. It sets out risk management standards, risk appetite and provides a consistent methodology and structure to the way in which the risks are identified, measured and managed.

The key elements of the RMF are set out below:

**Identification:** Risk events, risks and relevant controls are identified, classified and recorded in the risk register. This is a continuous process which considers any emerging and existing risks.

**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.

These elements of the framework are supported by appropriate governance, reporting management information, policies, culture, and systems.

The framework applies across all risk categories and is managed by the Chief Risk Officer (CRO). The ownership of many of the day-to-day activities is delegated to the relevant risk committee and members of the risk management team. The key categories of risk include: insurance, market, credit, liquidity and operational risks defined in line with UK GAAP requirements.

The RMF operates at the Group and at Syndicate level. The key governance bodies in the risk management process of Brit Syndicates are set out below:

- The BSL Board, which is responsible for setting business and risk strategy and ensuring the principal risks and uncertainties facing each Syndicate are managed;
- Executive Committee which is responsible for the management of the overall risk profile within the agreed limits; and
- The individual risk committees, which reflect the risk categories and are responsible for the management and monitoring of each risk against appetite. These committees include the Underwriting Committee, the Reserving Committee, the Investment Committee, the Credit Committee and the Operational Committee.

The key risk exposures for the individual categories and how these are managed are discussed in the sections below.

#### Insurance risk

Insurance risk arises from the possibility of an adverse financial result due to actual experience being different from that expected when an insurance product was designed and priced. The actual performance of insurance contracts is subject to the inherent uncertainty in the occurrence, timing and amount of the final insurance liabilities. This is the principal risk the Syndicates are exposed to as their primary function is to underwrite insurance contracts. The risk arises due to the possibility of insurance contracts being underpriced, under-reserved or subject to unforeseen catastrophe claims.

The areas of insurance risk discussed below include: underwriting (including aggregate exposure management), reinsurance and reserving.

## **BRIT UW LIMITED**

### **Notes to the Financial Statements (continued)**

#### **Note 3 (continued)**

##### **(i) Underwriting risk**

This is the risk that the insurance premiums will not be sufficient to cover the future losses and associated expenses. It arises from the fluctuations in the frequency and severity of financial losses incurred through the underwriting process by the Syndicates as a result of unpredictable events.

The Syndicates are also exposed to the risks resulting from its underwriters accepting risks for premiums which are insufficient to cover the ultimate claims which result from such policies. Although premium rates are starting to rise, this follows a number of years of downwards pressure on premium rates and therefore this risk is considered to be high in the current underwriting environment.

This trend in premium rates has been factored into Brit Syndicates' pricing models and risk management tools and is continually monitored to assess whether any corrective action is required. Additional controls over the underwriting strategy are described in the section below.

The Syndicates write all of their business through Lloyd's and therefore can take advantage of Lloyd's centralised infrastructure and service support. Lloyd's also has an established global distribution framework, with extensive licensing agreements providing the Syndicates access to over 200 territories. Exclusively using the Lloyd's platform subjects the Syndicates to a number of resulting underwriting risks.

##### **Controls over underwriting strategy**

The BSL Board sets the Syndicates' underwriting strategy for accepting and managing underwriting risk. The Underwriting Committee meets monthly to drive the underwriting strategy and to monitor performance against the plans. The assessment of underwriting performance is all-encompassing applying underwriting KPIs, technical pricing management information (MI), premium monitoring, delegated underwriting operations and claims. The risks are managed by the committee in line with the underwriting risk policy and within the risk tolerance set by the BSL Board. The underwriting risk policy also sets out a number of controls, which are summarised below.

The Managing Agent carries out a detailed annual business planning process for each of its underwriting units. The resulting plans set out premium, territorial and aggregate limits and reinsurance protection thresholds for all classes of business and represent a key tool in managing concentration risk. Performance against the plans is monitored on a regular basis by the Underwriting Committee as well as by the Boards of the regulated entities.

A dedicated Risk Aggregation team also performs analysis including realistic disaster scenario (RDS) analysis on a regular basis to ensure that each Syndicate's net losses remain within their risk appetite.

The Managing Agent has developed underwriting guidelines, limits of authority and business plans which are binding upon all staff authorised to underwrite. These are detailed and specific to underwriters and classes of business. Gross and net line size limits are in place for each class of business with additional restrictions in place on catastrophe exposed business.

A proportion of the Syndicates' insurance risks are written by third parties under delegated underwriting authorities, with the remaining being written through individual risk acceptances or through reinsurance treaties. The third parties are closely vetted in advance and are subject to tight reporting requirements. In addition, the performance of these contracts is closely monitored by underwriters and other departments with regular audits being carried out.

The technical pricing framework ensures that the pricing process for each Syndicate is appropriate. It ensures pricing methodologies are demonstrable and transparent and that technical (or benchmark) prices are assessed for each risk. The underwriting and actuarial functions work together to maintain the pricing models and assess the difference between technical price and actual price. The framework also ensures that sufficient data is recorded and checked by underwriters to enable the Syndicates to maintain an effective rate monitoring process.

Compliance is checked through both a peer review process and, periodically, by the Managing Agent's Internal Audit department which is entirely independent of the underwriting units.

# BRIT UW LIMITED

## Notes to the Financial Statements (continued)

### Note 3 (continued)

In order to limit risk, the number of reinstatements per policy is limited, deductibles are imposed, policy exclusions are applied and whenever allowed by statute, maximum indemnity limits are put in place per insured event.

#### Underwriting risk profile

The core insurance portfolio of property, marine, energy and casualty (including liability) covers a variety of largely uncorrelated events and also provides some protection against the underwriting cycle as different classes are at different points in the underwriting cycle. The underwriting portfolio is managed to target top quartile underwriting performance and the mix of business is continually adjusted based on the current environment (including the current pricing strength of each class). This assessment is conducted as part of the business planning and strategy process which operates annually and uses inputs from the technical pricing framework. The business plan is approved by the BSL Board and is monitored monthly.

#### Geographical concentration of premium

The Syndicates enter into policies with policyholders from all over the world, with the underlying risk relating to premiums spread worldwide. This allows the Syndicates to benefit from a wide geographic diversification of risk. The three principal locations of the Syndicates' policyholders are the United States, UK and Ireland and mainland Europe. The concentration of insurance premium before and after reinsurance by the location of the underlying risk is summarised below:

Premiums written	Gross US\$m	Net US\$m
<b>2020</b>		
United States	1,309.7	760.8
United Kingdom	159.1	90.5
Europe (excluding UK)	57.7	31.0
Other (including worldwide)	879.6	544.0
<b>Total</b>	<b>2,406.1</b>	<b>1,426.3</b>

Premiums written	Gross US\$m	Net US\$m
<b>2019</b>		
United States	1,194.5	793.1
United Kingdom	139.9	91.1
Europe (excluding UK)	69.1	41.5
Other (including worldwide)	862.6	394.0
<b>Total</b>	<b>2,266.1</b>	<b>1,320.0</b>



# BRIT UW LIMITED

## Notes to the Financial Statements (continued)

### Note 3 (continued)

#### Portfolio mix

The Syndicates' breakdown of premium before reinsurance by principal categories is summarised below:

Gross Premiums Written		2020		2019	
		US\$m	%	US\$m	%
Short-Tail Direct Insurance	Property, Marine, Energy, Accident & Health, BGSU <sup>(i)</sup> , Aviation, Terrorism and Political	1,152.0	48%	1,157.2	51%
Long-Tail Direct Insurance	Professional Lines, Specialty Lines, Specialist Liability	678.3	29%	571.4	25%
Short-Tail Reinsurance	Property Treaty	300.0	12%	232.9	10%
Long-Tail Reinsurance	Casualty Treaty	275.8	11%	304.6	14%
<b>Total</b>		<b>2,406.1</b>	<b>100%</b>	<b>2,266.1</b>	<b>100%</b>

(i) Brit Global Specialty USA (BGSU)

Each Syndicate underwrites a business mix of both insurance and reinsurance, long and short tailed business across a number of geographic areas which results in a diversification of the Syndicates' portfolios. The business mix is monitored on an ongoing basis with particular focus on the short tail vs. long tail split and the proportion of delegated underwriting business. Long tail business is currently 41% of the portfolio as at 31 December 2020 (2019: 39%) and delegated underwriting represents approximately 39% (2019: 42%). Underwriting risk is mainly driven by US catastrophe exposure. Casualty Treaty is also a driver due to its long-tail exposure.

#### Aggregate exposure management

Each Syndicate is exposed to potential large claims from natural catastrophe events. The catastrophe risk tolerances are defined for each Syndicate's risk appetite framework. These are reviewed and set by the Board on an annual basis.

Syndicate 2987 has a tolerance of 19% of Brit Limited Group Net Tangible Assets for major catastrophe events (as defined by World Wide All Perils 1-in-30 Aggregate Exceedance Probability (AEP)). This tolerance is set annually based on the Net Tangible Assets at the beginning of the year and equates to a maximum acceptable 1-in-30 AEP modelled loss (after all reinsurance) of US\$197.2m as at 31 December 2020 (2019: US\$198.6m). This is in addition to other tolerances set within the catastrophe risk appetite framework.

Syndicate 2988 has a tolerance of 51% of its Economic Capital Assessment for major catastrophe events (as defined by Worldwide All Perils 1-in-30 Aggregate Exceedance Probability (AEP)). This equates to a maximum acceptable 1-in-30 AEP modelled loss (after all reinsurance) of £76m (US\$103.9m) as at 31 December 2020 (£49.1m as at 31 December 2019). This is in addition to other tolerances set within the catastrophe risk appetite framework.

The Syndicates closely monitor aggregation of exposure to natural catastrophe events against agreed risk appetites using stochastic catastrophe modelling tools, along with knowledge of the business, historical loss information, and geographical accumulations. Analysis and monitoring also measures the effectiveness of the Syndicate's reinsurance programmes. Stress and scenario tests are also run, such as Lloyd's and internally developed Realistic Disaster Scenarios (RDS).

## BRIT UW LIMITED

### Notes to the Financial Statements (continued)

#### Note 3 (continued)

Below are the key RDS losses to the Syndicates for all classes combined (in US\$ millions) (unaudited):

Lloyd's prescribed RDS event	Estimated industry loss	Modelled 2987 Syndicate Loss <sup>(i)</sup>			
		2020 Gross	2020 Net	2019 Gross	2019 Net
Gulf of Mexico Windstorm	111,000	990	68	820	107
Florida Miami Windstorm	131,000	1,060	34	860	93
US North East Windstorm	81,000	1,011	98	838	104
San Francisco Earthquake	80,000	1,458	273	1,031	138
Japan Earthquake	77,664	380	125	284	101
Japan Windstorm	16,504	80	33	71	30
European Windstorm	29,357	98	45	89	39

The Modelled 2988 Syndicate loss is presented below. Brit UW Limited is only exposed to 18.46% of the 2018 year of account and 55.83% of the 2020 year of account related losses of Syndicate 2988.

Lloyd's prescribed RDS event	Estimated industry loss	Modelled 2988 Syndicate Loss <sup>(i)</sup>			
		2020 Gross	2020 Net	2019 Gross	2019 Net
Gulf of Mexico Windstorm	111,000	96	37	82	32
Florida Miami Windstorm	131,000	108	37	103	33
US North East Windstorm	81,000	93	22	78	33
San Francisco Earthquake	80,000	134	53	111	34
Japan Earthquake	77,664	42	42	16	16
Japan Windstorm	16,504	8	8	7	7
European Windstorm	29,357	8	8	4	4

(i) At 31 December 2020 exchange rates

Actual results may differ materially from the losses above given the significant uncertainties within model assumptions, techniques and simulations applied to calculate these event loss estimates. There could also be unmodelled losses which result in actual losses exceeding these figures. Moreover, the portfolio of insured risks changes dynamically over time.

#### Sensitivity to changes in net claims ratio

The Syndicates' result for the financial year is sensitive to an independent 1% change in the net claims ratio for each principal category as follows:

Change in reported profit/loss Category	2020		2019	
	US\$m	%	US\$m	%
Short-Tail Direct Insurance	8.7	60%	8.3	60%
Long-Tail Direct Insurance	2.3	16%	2.3	17%
Short-Tail Reinsurance	1.1	7%	0.9	6%
Long-Tail Reinsurance	2.4	17%	2.3	17%
<b>Total</b>	<b>14.5</b>	<b>100%</b>	<b>13.8</b>	<b>100%</b>

## **BRIT UW LIMITED**

### **Notes to the Financial Statements (continued)**

#### **Note 3 (continued)**

##### **(ii) Reinsurance risk**

Each Syndicate purchases reinsurance to manage its exposure to individual risks and aggregation of risks arising from individual large claims and catastrophe events. This allows the Syndicates to mitigate their exposure to insurance losses against their risk appetite, reduce volatility of reported results and protect capital.

Proportional quota share reinsurance is purchased to provide protection against claims arising either from individual large claims or aggregation of losses. Quota share reinsurance is also used to manage net exposure to classes of business where the Syndicates' risk appetite is lower than the efficient operating scale of the class of business on a gross of reinsurance basis. These placements are reviewed on the basis of market conditions.

The Syndicates may use the following types of reinsurance to protect themselves from severe size or frequency of losses:

- (i) Facultative reinsurance may be used to reduce risk relating to individual contracts. The amount of cover bought varies by class of business. Facultative reinsurance is also used as a tool to manage the net line size on individual risks to within tolerance.
- (ii) Risk excess of loss reinsurance may be used to protect a range of individual inwards contracts which could give rise to individual large claims. The optimal net retention per risk is assessed for each class of business given the Syndicate's risk appetite during the business planning exercise.
- (iii) Aggregate catastrophe excess of loss cover to protect the Syndicate against combined property claims from multiple policies resulting from catastrophe events.

Syndicate 2987 has in place a comprehensive programme of excess of loss reinsurance to protect itself from severe size or frequency losses, whereas Syndicate 2988 has a selective reinsurance programme.

In December 2020 Brit issued a catastrophe bond which provides US\$300m of reinsurance protection to Syndicate 2987. The bond has a four-year term and covers losses from US named windstorms and US earthquakes. The bond was issued in the UK via Sussex Capital UK PCC Limited.

Given the fundamental importance of reinsurance protection to the Syndicates' risk management, Brit Syndicates have in place internal controls and processes to ensure that the reinsurance arrangements provide appropriate protection of capital and maintain Brit's ability to meet policyholder obligations. The Head of Outwards Reinsurance, the Chief Underwriting Officer, Chief Risk Officer/Chief Actuary propose external reinsurance arrangements with input from class underwriters for class level reinsurance.

The Chief Underwriting Officer proposes reinsurance arrangements with Brit Reinsurance (Bermuda) Ltd (see note 26 for further information). All reinsurance purchases are reviewed by the Outwards Reinsurance Committee. The Head of Outwards Reinsurance monitors and reports on the placement of reinsurance protections.

The Syndicates remain exposed to a number of risks relating to its reinsurance programme:

- It is possible for extremely severe catastrophe losses to exhaust the reinsurance purchased. Any losses exceeding the reinsurance protection would be borne by the Syndicates.
- Some parts of the programme have limited reinstatements which limit the amount that may be recovered from second or subsequent claims. If the entirety of the cover is exhausted, it may not be possible to purchase additional reinsurance at a reasonable price.
- A dispute may arise with a reinsurer which may mean the recoveries received are lower than anticipated.

These risks are managed through a combination of techniques and controls including risk aggregation, capital modelling and internal actuarial review of outward reinsurance costs. The counterparty risk in relation to reinsurance purchased is managed by the Credit Committee. This is further discussed in the Credit risk section below.

# BRIT UW LIMITED

## Notes to the Financial Statements (continued)

### Note 3 (continued)

#### (iii) Reserving risk

Reserving risk arises as the actual cost of losses for policyholder obligations incurred before 31 December 2020 may differ from the established reserves due to inaccurate assumptions or unforeseen circumstances. This is a key risk for the Syndicates as the reserves for unpaid losses represent the largest component of the Syndicates' liabilities and are inherently uncertain. The BSL Reserving Committee is responsible for the management of each Syndicate's reserving risk.

The Syndicates have a rigorous process for establishing reserves for insurance claim liabilities and a number of controls are used to mitigate reserving risk. The reserving process starts with controls over claims data which ensure complete and accurate recording of all paid and notified claims. Claims adjusters validate policy terms and conditions, adjust claims and investigate suspicious or disputed claims in accordance with the Syndicates' claims policy. Case reserves are set for notified claims using the experience of specialist claims adjusters, underwriters and external experts where necessary.

Whilst the case reserve is expected to be sufficient to meet the claims amount when it is settled, incurred but not reported (IBNR) claims require additional reserves. This is particularly the case for the longest tailed classes of business where the final settlement can occur several years after the claim occurred. Actuarial projection techniques are employed by the Syndicates' experienced actuaries to establish the IBNR reserve. These techniques project IBNR reserves based on historical development of paid and incurred claims by underwriting year. For the most uncertain claims, the triangulation techniques are supplemented by additional methods to ensure the established reserve is appropriate. The actuarial team work closely with other business functions such as underwriting, claims and risk aggregation to ensure that they have a full understanding of the emerging claims experience across each Syndicate.

Brit Syndicates' reserving policy sets out the approach to estimating claims provisions and is designed to produce accurate and reliable estimates that are consistent over time and across classes of business. The actuarial best estimate set out in the policy is subject to sign-off by the Reserving Committee, as part of the formal governance arrangements for the Syndicates. The estimate agreed by the committee is used as a basis for the Syndicates' financial statements. A management risk margin is also applied over and above the actuarial best estimate to allow for the inherent uncertainty within the best estimate reserve position and wider inherent uncertainty across the economic and insurance environment. This margin increases the reserves reflected in the Syndicates' financial statements above the mean expectation. Finally, the reserves in the financial statements are presented to the Audit Committee for recommendation to the BSL Board who are responsible for the final sign-off. As part of their audit engagement, reserves are subject to external actuarial review by the Syndicates' auditors.

The reserves can be more or less than is required to meet the claims arising from earned business. The level of uncertainty varies significantly between the classes written by the Syndicates but typically is highest for those classes where there are longer delays in the settlement of the final claim amount. More specifically, the key areas of uncertainty within the Syndicates' reserves are considered to be claims from the long tail direct and reinsurance classes. The issues contributing to this heightened uncertainty are common to all entities which write such business.

#### Liquidity risk

This is the risk that Syndicates may encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. The predominant liquidity risk the Syndicates face is the daily calls on its available cash resources in respect of claims arising from insurance contracts.

The Managing Agent monitors the levels of cash and cash equivalents on a daily basis within each Syndicate, ensuring adequate liquidity to meet the expected cash flow requirements due over the short term.

The Syndicates also limit the amount of investment in illiquid securities in line with the liquidity policy set by the BSL Board. This involves ensuring sufficient liquidity to withstand claim scenarios at the extreme end of business plan projections by reference to modelled RDS. Contingent liquidity also exists in the form of the Group's revolving credit facility.

# BRIT UW LIMITED

## Notes to the Financial Statements (continued)

### Note 3 (continued)

The tables below present the fair value of monetary assets and the undiscounted value of monetary liabilities of Brit UW Limited (including Syndicate 2987 and the Company's share of Syndicate 2988) into their relevant maturing groups based on the remaining period at the end of the year to their contractual maturities or expected repayment dates.

<b>At 31 December 2020</b>	<b>Up to a year</b>	<b>1-3 years</b>	<b>3-5 years</b>	<b>Over 5 years</b>	<b>Equities</b>	<b>Total</b>
<b>Assets (Fair values)</b>	<b>US\$m</b>	<b>US\$m</b>	<b>US\$m</b>	<b>US\$m</b>	<b>US\$m</b>	<b>US\$m</b>
Reinsurance assets	685.2	702.6	372.5	476.5	-	2,236.8
Financial investments	1,323.5	181.1	297.2	155.5	365.7	2,323.0
Derivative contracts	1.8	-	-	0.1	-	1.9
Insurance receivables	1,129.5	-	-	-	-	1,129.5
Cash at bank and in hand	78.6	-	-	-	-	78.6
Other	176.3	87.3	22.7	3.1	-	289.4
	<b>3,394.9</b>	<b>971.0</b>	<b>692.4</b>	<b>635.2</b>	<b>365.7</b>	<b>6,059.2</b>
<b>Liabilities (Undiscounted values)</b>	<b>US\$m</b>	<b>US\$m</b>	<b>US\$m</b>	<b>US\$m</b>	<b>US\$m</b>	<b>US\$m</b>
Insurance contract liabilities	1,319.0	1,486.2	811.9	1,148.6	-	4,765.7
Derivative contracts	8.2	-	-	-	-	8.2
Credit facility	12.0	-	-	-	-	12.0
Insurance & other payables	1,295.1	-	-	-	-	1,295.1
	<b>2,634.3</b>	<b>1,486.2</b>	<b>811.9</b>	<b>1,148.6</b>	<b>-</b>	<b>6,081.0</b>

<b>At 31 December 2019</b>	<b>Up to a year</b>	<b>1-3 years</b>	<b>3-5 years</b>	<b>Over 5 years</b>	<b>Equities</b>	<b>Total</b>
<b>Assets (Fair values)</b>	<b>US\$m</b>	<b>US\$m</b>	<b>US\$m</b>	<b>US\$m</b>	<b>US\$m</b>	<b>US\$m</b>
Reinsurance assets	565.2	622.1	345.3	437.3	-	1,969.9
Financial investments	1,525.4	82.6	38.8	60.6	452.6	2,160.0
Derivative contracts	1.2	-	-	0.3	-	1.5
Insurance receivables	1,114.7	0.3	-	-	-	1,115.0
Cash at bank and in hand	32.4	-	-	-	-	32.4
Other	83.8	125.7	31.6	2.6	-	243.7
	<b>3,322.7</b>	<b>830.7</b>	<b>415.7</b>	<b>500.8</b>	<b>452.6</b>	<b>5,522.5</b>
<b>Liabilities (Undiscounted values)</b>	<b>US\$m</b>	<b>US\$m</b>	<b>US\$m</b>	<b>US\$m</b>	<b>US\$m</b>	<b>US\$m</b>
Insurance contract liabilities	1,189.8	1,314.1	749.2	1,034.4	-	4,287.5
Derivative contracts	12.4	-	-	-	-	12.4
Credit facility	60.0	-	-	-	-	60.0
Insurance & other payables	1,293.7	-	-	-	-	1,293.7
	<b>2,555.9</b>	<b>1,314.1</b>	<b>749.2</b>	<b>1,034.4</b>	<b>-</b>	<b>5,653.6</b>

\*Note: the tables above exclude provisions for unearned premiums and deferred acquisition costs as, although monetary assets and monetary liabilities under FRS103, these are not considered to be sensitive to liquidity risk.

### Credit risk

This is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The main sources of credit risk relate to:

# BRIT UW LIMITED

## Notes to the Financial Statements (continued)

### Note 3 (continued)

- Reinsurers: through the failure to pay valid claims against a reinsurance contract held by a Syndicate.
- Brokers and coverholders: where counterparties fail to pass on premiums or claims collected or paid on behalf of a Syndicate.
- Investments: through the issuer default of all or part of the value of a financial instrument or derivative financial instrument.
- Cash and cash equivalents: through the default of the banks holding the cash and cash equivalents.

The insurance and non-insurance related counterparty credit risks are managed separately by the Company.

### (i) Investments credit risk

#### Investment credit risk management process

The Investment Committee is responsible for the management of investment credit risk. The Investment Guidelines and Investment Policy set out clear limits and controls around the level of investment credit risk. The Syndicates have established concentration guidelines that restrict the exposure to any individual counterparty. The investment guidelines further limit the type, credit quality and maturity profile of both the Syndicates' and Company's cash and investments. In addition, the investment risk framework further limits potential exposure to credit risk through monitoring of the aggregate investment risk limits.

#### Investment credit risk profile

The summary of the investment credit risk exposures for Brit UW Limited (including Syndicate 2987 and the Company's share of Syndicate 2988) is set out in the tables below:

US\$ millions	AAA	AA	A	P-1	P-2	BBB and below	Equities	Not Rated	Total
<b>At 31 December 2020</b>									
Financial Investments	1,070.5	199.3	418.0	-	-	151.0	365.7	118.5	2,323.0
Derivative contracts	-	-	-	-	-	-	-	1.9	1.9
Cash at bank	-	-	30.8	-	-	47.8	-	-	78.6
Other	146.2	26.3	26.3	-	-	29.0	-	61.6	289.4
<b>Total</b>	<b>1,216.7</b>	<b>225.6</b>	<b>475.1</b>	<b>-</b>	<b>-</b>	<b>227.8</b>	<b>365.7</b>	<b>182.0</b>	<b>2,692.9</b>
<b>At 31 December 2019</b>									
Financial Investments	1,052.6	263.8	213.1	-	-	148.4	452.6	29.5	2,160.0
Derivative contracts	-	-	-	-	-	-	-	1.5	1.5
Cash at bank	-	3.6	28.3	-	-	0.5	-	-	32.4
Other	122.7	29.1	24.1	-	-	26.5	-	41.3	243.7
<b>Total</b>	<b>1,175.3</b>	<b>296.5</b>	<b>265.5</b>	<b>-</b>	<b>-</b>	<b>175.4</b>	<b>452.6</b>	<b>72.3</b>	<b>2,437.6</b>

# BRIT UW LIMITED

## Notes to the Financial Statements (continued)

### Note 3 Insurance Credit Risk (continued)

#### (ii) Insurance Credit Risk

##### Insurance Credit Risk Management Process

The Credit Committee, chaired by the Brit Group Chief Financial Officer, is responsible for the management of credit risk arising from insurance activities.

Reinsurer credit risk is managed by transacting only with reinsurance counterparties that satisfy a minimum level of financial strength or provide appropriate levels of collateral, and have been approved for use by the Credit Committee; The reinsurer security list, which sets out the list of approved reinsurance counterparties, is reviewed at least annually and following any significant change in risk profile, which includes any changes to reinsurers' financial ratings. Credit risk appetite limits are set for reinsurance entities and groups to limit accumulations of risk. These positions are monitored quarterly against current statement of financial position exposures and in relation to a number of extreme loss scenarios.

Reinsurance aged debt is monitored and managed against risk appetite limits set by the Credit Committee. A bad debt provision is held against all non-rated reinsurers or any reinsurer where there is deemed to be a specific risk of non-payment.

Any breaches of credit risk appetite are reported to the Risk Oversight Committee and the BSL Board on at least a quarterly basis.

##### Insurance Credit Risk Profile

The summary of the insurance credit risk exposures for Brit UW Limited (including Syndicate 2987 and the Company's share of Syndicate 2988) is set out in the tables below:

US\$ millions	AAA	AA	A	Collateral	Not rated	Total
<b>As at 31 December 2020</b>						
Reinsurance on claims outstanding	5.7	550.6	396.8	1,189.6	94.1	2,236.8
Insurance and reinsurance receivables	-	20.3	13.9	4.6	1,090.7	1,129.5
<b>Total</b>	<b>5.7</b>	<b>570.9</b>	<b>410.7</b>	<b>1,194.2</b>	<b>1,184.8</b>	<b>3,366.3</b>
<b>As at 31 December 2019</b>						
Reinsurance on claims outstanding	3.4	467.2	313.8	1,102.1	83.4	1,969.9
Insurance and reinsurance receivables	-	1.3	-	-	1,113.7	1,115.0
<b>Total</b>	<b>3.4</b>	<b>468.5</b>	<b>313.8</b>	<b>1,102.1</b>	<b>1,197.1</b>	<b>3,084.9</b>

Insurance credit risk arises primarily from reinsurers (whereby reinsurers fail to pay recoveries due to the Syndicates in a timely manner) and brokers and coverholders (whereby intermediaries fail to pass on premiums due to the Syndicates in a timely manner).

Total collateral of US\$1,594.3m (2019: US\$1,453.6m) and US\$58.7m / £42.9m (2019: US\$49.5m / £37.4m), is held in third party trust accounts or as a letter of credit (LOC) to guarantee Syndicate 2987 and Syndicate 2988 respectively against reinsurance counterparties. This is available for immediate drawdown in the event of a default. As at 31 December 2020, US\$1,198.7m (2019: US\$1,102.0m) and US\$4.7m / £3.4m (2019: US\$5.7m / £4.3m) of amounts recoverable from reinsurers were protected by cash and cash equivalents held in third party trust accounts or by LOC's for Syndicate 2987 and Syndicate 2988 respectively.

## BRIT UW LIMITED

### Notes to the Financial Statements (continued)

#### Note 3 Insurance Credit Risk (continued)

The following table shows movements in impairment provisions during the year:

US\$ millions	Provision against Reinsurance Assets	Provision against Insurance Receivables
<b>2020</b>		
At 1 January 2020	-	11.3
Release for the year	0.5	(9.1)
Net foreign exchange differences	-	(0.8)
<b>At 31 December 2020</b>	<b>0.5</b>	<b>1.4</b>
<b>2019</b>		
At 1 January 2019	-	10.9
Release for the year	-	0.5
Net foreign exchange differences	-	(0.1)
<b>At 31 December 2019</b>	<b>-</b>	<b>11.3</b>

The following table shows the amount of insurance receivables that were past due but not impaired at the end of the year:

	2020 US\$m	2019 US\$m
0-3 months past due	36.6	16.2
4-6 months past due	6.5	29.7
7-9 months past due	(0.3)	0.6
10-12 months past due	0.6	0.4
More than 12 months past due	5.3	2.5
<b>Total</b>	<b>48.7</b>	<b>49.4</b>

#### Market risk

This is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk. Credit risk on financial investments and cash is covered in the credit risk section.

##### (i) Currency risk

Currency risk is the risk that movements in exchange rates impact the financial performance or solvency position of the Syndicates.



# BRIT UW LIMITED

## Notes to the Financial Statements (continued)

### Note 3 Currency risk (continued)

The split of assets and liabilities for Brit UW Limited's (including Syndicate 2987 and the Company's share of Syndicate 2988) main currencies is set out in the tables below:

Converted US\$ millions	UK £	US \$	CAD \$	EUR €	Total
<b>As at 31 December 2020</b>					
Total assets	1,147.7	5,090.1	737.1	271.5	7,246.4
Total liabilities	(1,024.1)	(5,379.9)	(358.1)	(335.2)	(7,097.3)
<b>Net assets excluding the effect of derivatives</b>	<b>123.6</b>	<b>(289.8)</b>	<b>379.0</b>	<b>(63.7)</b>	<b>149.1</b>
Adjustment for foreign exchange derivatives	(209.0)	421.5	(299.9)	87.5	-
<b>Adjusted net assets</b>	<b>(85.4)</b>	<b>131.7</b>	<b>79.1</b>	<b>23.7</b>	<b>149.1</b>
<b>As at 31 December 2019</b>					
Total assets	1,177.0	4,521.0	656.9	238.3	6,593.2
Total liabilities	(1,109.4)	(4,878.8)	(334.3)	(306.4)	(6,628.9)
<b>Net assets excluding the effect of derivatives</b>	<b>67.6</b>	<b>(357.8)</b>	<b>322.6</b>	<b>(68.1)</b>	<b>(35.7)</b>
Adjustment for foreign exchange derivatives	(205.1)	389.9	(264.3)	79.5	-
<b>Adjusted net assets</b>	<b>(137.5)</b>	<b>32.1</b>	<b>58.3</b>	<b>11.4</b>	<b>(35.7)</b>

The non-US dollar denominated net assets of the Company may lead to profits or losses (depending on the mix relative to the liabilities), should US dollars vary relative to these currencies.

The Company manages its exposure in each of the main four currencies and the net asset position is rebalanced periodically. Where mismatches occur these may lead to FX gains and losses reported through the income statement.

Foreign currency forward contracts may be used to achieve the desired exposure to each currency. From time to time the Company may also choose to utilise foreign currency derivatives to manage the risk of reported losses due to changes in foreign exchange rates. The degree to which derivatives are used is dependent on the prevailing cost versus the perceived benefit to shareholder value from reducing the chance of a reported loss due to changes in foreign exchange rates. The details of foreign currency derivatives contracts entered into are given in Note 15.

### Sensitivity to changes in foreign exchange rates

The table below gives an indication of the impact on the result of a percentage movement in the relative strength of the US dollar against the value of the Sterling, Canadian dollar, Euro and Australian dollar simultaneously, after taking into consideration the effect of hedged positions. The analysis is based on the information at 31 December 2020.

US\$ millions	Impact on result before tax and net assets	
	2020	2019
<b>US dollar weakens</b>		
10% against other currencies	1.7	(6.8)
20% against other currencies	3.5	(13.6)
<b>US dollar strengthens</b>		
10% against other currencies	(1.7)	6.8
20% against other currencies	(3.5)	13.6

# BRIT UW LIMITED

## Notes to the Financial Statements (continued)

### Note 3 (continued)

#### (ii) Interest rate risk and price risk

Interest rate risk is the risk that the fair value and/or future cash flows of a financial instrument will fluctuate because of changes in interest rates. The Company is exposed to interest rate risk through its investment portfolio, borrowings and cash and cash equivalents. The sensitivity of the price of these financial exposures is indicated by their respective durations. This is defined as the modified duration which is the change in the price of the security subject to a 100 basis points parallel shift in interest rates. The greater the duration of a security, the greater the possible price volatility.

Insurance liabilities are measured on an undiscounted basis and therefore the reported liabilities are not sensitive to changes in interest rates.

The banded durations of the Company (including Syndicate 2987 and the Company's share of Syndicate 2988) financial instruments and cash and cash equivalents sensitive to interest-rate risk are shown in the table below:

US\$ millions at 31 December 2020	1 year or less	1 to 3 years	3 to 5 years	Over 5 years	Equities	Total
Financial Investments	1,323.5	181.1	297.2	155.5	365.7	2,323.0
Cash at bank and in hand	78.6	-	-	-	-	78.6
Derivatives	1.8	-	-	0.1	-	1.9
Other	176.3	87.3	22.7	3.1	-	289.4
<b>Total</b>	<b>1,580.2</b>	<b>268.4</b>	<b>319.9</b>	<b>158.7</b>	<b>365.7</b>	<b>2,692.9</b>

#### As at 31 December 2019

Financial Investments	1,525.4	82.6	38.8	60.6	452.6	2,160.0
Cash at bank and in hand	32.4	-	-	-	-	32.4
Derivatives	1.2	-	-	0.3	-	1.5
Other	83.8	125.7	31.6	2.6	-	243.7
<b>Total</b>	<b>1,642.8</b>	<b>208.3</b>	<b>70.4</b>	<b>63.5</b>	<b>452.6</b>	<b>2,437.6</b>

The Company takes into account the duration of its required capital, targeting an investment portfolio duration that, under a variation in interest rates, preserves the solvency ratio of the Syndicates. The duration of the investment portfolio is then set within an allowable range relative to the targeted duration. This is achieved by the use of interest rate derivatives.

#### Sensitivity to changes in investment yields

The sensitivity of the result and net assets to the changes in the investment yields is set out in the table below.

US\$ millions	Impact on result before tax	
	2020	2019
<b>Increase</b>		
25 basis points	(9.5)	(5.4)
50 basis points	(19.1)	(11.0)
100 basis points	(38.1)	(22.0)
<b>Decrease</b>		
25 basis points	9.5	5.4
50 basis points	19.1	11.0
100 basis points	38.1	22.0

# **BRIT UW LIMITED**

## **Notes to the Financial Statements (continued)**

### **Note 3 (continued)**

#### **COVID-19**

The Coronavirus (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 the most material to the Syndicates being event cancellations. The pandemic has also caused significant volatility in the financial markets. Although share prices recovered from significant falls following the news of the vaccine trials' success rates, interest rates remain at depressed levels given the economic outlook.

The Syndicates have managed the risks posed by the pandemic in line with the Risk Management Framework (RMF). Management has focused on ensuring staff wellbeing, launching a number of initiatives following the introduction of mandatory working from home. The Managing Agent has been able to maintain a strong operational performance and continue to serve the Syndicates and their customers despite the pandemic. The underwriting and investment portfolios are actively managed to reflect market developments, and actions have been taken in both areas in 2020 to ensure it is appropriately positioned for both the pandemic and the recessionary economic conditions.

Risk Management provided reports on the impact of the pandemic on the business throughout 2020 to the Board and Risk Committee. Covid-19 will continue to be an area of focus with the key risks going forward being further financial market volatility and uncertainty over the ultimate claims arising from Covid-19. The wellbeing of staff also remains a priority.

#### **The United Kingdom's exit from the EU (Brexit)**

The Brexit transition period ended on 31 December 2020 with a trade deal being agreed on 24 December 2020. The trade deal came into effect on 01 January 2021 replacing the existing arrangements under the transition period. The key risk to the Syndicates was considered to be the successful completion of the Part VII transfer to Lloyd's Brussels as the Syndicates' ability to service historical policies with EEA claims was dependent on this. The Part VII transfer was successfully completed on 30 December 2020 as originally scheduled. It should be noted that the Syndicates have been successfully writing EU business via Lloyd's Brussels since 01 January 2019.

#### **Emerging risks**

The Syndicates undertake a formal emerging risk review annually with the results reported to the Risk Oversight Committee and included in the Own Risk & Solvency Assessment (ORSA) report. 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. 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**

Climate change is a key example of a developing risk identified as part of the Syndicates' emerging risk review, and the potential impact on the insurance industry is an area of focus for the market and regulators. The financial risks to insurers may include the potential for increases in the 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 twelve made landfall in the US and six of those were Category 3 hurricane strength or higher, both statistics either equalling or setting new records. Additionally, this year was record breaking for wildfires, with California seeing its first ever gigafire, a blaze that burns at least a million acres of land.

Climate change has been recognised as an emerging risk in the Syndicates' ORSA since 2014 and has been an area of focus since having been identified as a high priority in the 2018 emerging risks analysis. Climate change specific tests and scenarios have been included in both Syndicates' ORSA and Solvency II internal model.

## **BRIT UW LIMITED**

### **Notes to the Financial Statements (continued)**

#### **Note 3 (continued)**

The Syndicates are managing the risks associated with climate change in line with the RMF and are responding to the latest regulatory guidance in this area. This will continue to be an area of management and Risk Committee 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 Catastrophe, Liability and Investment risks:

- 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. This is being addressed by the continuous monitoring of scientific studies, regular reviewing of the completeness of the existing models and the application of the Brit View of Risk. Brit's exposure to natural catastrophe risks is monitored and 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. To date these types of claims have not generally been successful but there remains risk going forward. Brit's exposure to these types of claims 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. The Syndicates have a diversified investment portfolio, with limits on exposure to individual issuers. The Syndicates are developing metrics to strengthen their understanding of the potential impacts of climate change on its investments.

In addition to financial risk, the Managing Agent is considering 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 internal sustainability initiatives.

#### **Capital risk management**

##### **Capital framework at Lloyd's**

The Society of Lloyd's (Lloyd's) is a regulated undertaking and subject to the supervision of the Prudential Regulatory Authority (PRA) under the Financial Services and Markets Act 2000, and in accordance with the Solvency II framework.

Within this supervisory framework, Lloyd's applies capital requirements at member level and centrally to ensure that Lloyd's complies with Solvency II, and beyond that to meet its own financial strength, licence and ratings objectives.

Although, as described below, Lloyd's capital setting processes use a capital requirement set at syndicate level as a starting point, the requirement to meet Solvency II and Lloyd's capital requirements apply at overall and member level respectively, not at syndicate level. Accordingly the capital requirements in respect of Syndicate 2987 and Syndicate 2988 are not disclosed in these financial statements.

##### **Lloyd's capital setting process**

In order to meet Lloyd's requirements, each syndicate is required to calculate its Solvency Capital Requirement (SCR) for the prospective underwriting year. This amount must be sufficient to cover a 1 in 200 year loss, reflecting uncertainty in the ultimate run-off of underwriting liabilities (SCR to ultimate). The syndicate must also calculate its SCR at the same confidence level but reflecting uncertainty over a one year time horizon (one year SCR) for Lloyd's to use in meeting Solvency II requirements. The SCRs of each syndicate are subject to review by Lloyd's and approval by the Lloyd's Capital and Planning Group.

A syndicate may be comprised of one or more underwriting members of Lloyd's. Each member is liable for its own share of underwriting liabilities on the syndicate(s) on which it participates but not other members' shares. Accordingly, the capital requirement that Lloyd's sets for each member operates on a similar basis. Each member's SCR shall thus be determined by the sum of the member's share of the syndicate SCR to ultimate.

# BRIT UW LIMITED

## Notes to the Financial Statements (continued)

### Note 3 (continued)

Where a member participates on more than one syndicate, a credit for diversification is provided to reflect the spread of risk, but consistent with determining an SCR which reflects the capital requirement to cover a 1 in 200 year loss to ultimate for that member. Over and above this, Lloyd's applies a capital uplift to the member's capital requirement, known as the Economic Capital Assessment (ECA). The purpose of this uplift, which is a Lloyd's not a Solvency II requirement, is to meet Lloyd's financial strength, licence and rating objectives. The capital uplift applied for 2020 was 35% of the member's SCR to ultimate.

### Capital Calculation

The SCR to Ultimate is calculated using a stochastic risk-based capital model developed by the Brit Group which allows the BSL Board to identify an appropriate level of capital required. This capital requirement is specific to the actual reserving history, reinsurance programme and business profile of Syndicate 2987 and Syndicate 2988 rather than being based on company market averages. The BSL Board reviews and approves all capital modelling submissions to Lloyd's.

The FAL provided by the corporate member takes account of any estimated surpluses or expected losses in respect of open years. Any consequential deficit must be funded as part of the coming into line exercise. Consequently the actual FAL provided may be higher or lower than the ECA.

### 4. Segmental information

	Brit Global Speciality Direct US\$m	Brit Global Speciality Reinsurance US\$m	Corporate US\$m	Total US\$m
<b>Year ended 31 December 2020</b>				
Gross premiums written	1,830.3	575.8	-	2,406.1
Net premiums written	1,164.3	362.3	(100.3)	1,426.3
Net premiums earned	1,094.7	363.4	(82.9)	1,375.2
Claims incurred net of reinsurance	(750.7)	(249.2)	62.4	(937.5)
Net operating expenses	(544.4)	(124.9)	(6.2)	(675.5)
<b>Underwriting result</b>	<b>(200.4)</b>	<b>(10.7)</b>	<b>(26.7)</b>	<b>(237.8)</b>
Investment return	35.8	18.3	(2.2)	51.9
<b>Balance on Technical Account</b>	<b>(164.6)</b>	<b>7.6</b>	<b>(28.9)</b>	<b>(185.9)</b>
<b>Year ended 31 December 2019</b>				
Gross premiums written	1,728.7	537.4	-	2,266.1
Net premiums written	1,192.6	205.4	(78.0)	1,320.0
Net premiums earned	1,207.5	175.7	(78.0)	1,305.2
Claims incurred net of reinsurance	(657.0)	(61.3)	-	(718.3)
Net operating expenses	(498.7)	(109.3)	(44.4)	(652.4)
<b>Underwriting result</b>	<b>51.7</b>	<b>5.1</b>	<b>(122.4)</b>	<b>(65.6)</b>
Investment return	22.7	9.0	(3.4)	28.3
<b>Balance on Technical Account</b>	<b>74.4</b>	<b>14.1</b>	<b>(125.8)</b>	<b>(37.3)</b>

All premiums were concluded in the UK.

Commissions on direct insurance gross premiums written during 2020 were US\$377.7m (2019: US\$339.9m).

# BRIT UW LIMITED

## Notes to the Financial Statements (continued)

### 5. Analysis of underwriting result

An analysis of the underwriting result before investment return is set out below:

Year ended 31 December 2020	Gross Written Premiums US\$m	Gross premiums Earned US\$m	Gross claims incurred US\$m	Gross operating expenses US\$m	Reinsurance balance US\$m	Total US\$m
Direct Insurance:						
Accident and health	41.5	40.7	(29.0)	(19.3)	1.7	(5.9)
Motor (other classes)	-	-	(0.1)	-	0.4	0.3
Marine aviation and transport	199.0	195.3	(98.2)	(66.2)	8.6	39.5
Fire and other damage to property	750.8	737.0	(338.3)	(266.6)	(66.8)	65.3
Third party liability	736.7	723.1	(382.5)	(200.5)	(39.4)	100.7
Miscellaneous	102.3	100.3	(239.8)	(55.6)	76.5	(118.6)
<b>Total Direct Insurance</b>	<b>1,830.3</b>	<b>1,796.4</b>	<b>(1,087.9)</b>	<b>(608.2)</b>	<b>(19.0)</b>	<b>81.3</b>
Reinsurance	575.8	565.2	(651.6)	(139.6)	(66.5)	(292.4)
Corporate	-	-	-	(6.2)	(20.5)	(26.7)
<b>Total</b>	<b>2,406.1</b>	<b>2,361.6</b>	<b>(1,739.5)</b>	<b>(754.0)</b>	<b>(106.0)</b>	<b>(237.8)</b>

Year ended 31 December 2019	Gross Written Premiums US\$m	Gross premiums Earned US\$m	Gross claims incurred US\$m	Gross operating expenses US\$m	Reinsurance balance US\$m	Total US\$m
Direct Insurance:						
Accident and health	38.8	39.3	(20.7)	(13.4)	(3.8)	1.4
Motor (other classes)	-	-	0.1	-	(0.1)	-
Marine aviation and transport	129.2	160.4	(109.3)	(45.8)	(1.6)	3.8
Fire and other damage to property	520.6	495.5	(268.6)	(159.8)	(64.0)	3.1
Third party liability	475.0	473.7	(260.4)	(124.6)	(89.2)	(0.5)
Miscellaneous	117.5	125.2	(60.7)	(22.4)	(12.3)	6.4
	<b>1,281.1</b>	<b>1,294.1</b>	<b>(719.6)</b>	<b>(366.0)</b>	<b>(171.0)</b>	<b>14.0</b>
Reinsurance	985.0	924.6	(557.6)	(319.3)	(28.1)	19.5
Corporate	-	-	-	(44.4)	(78.0)	(98.9)
<b>Total</b>	<b>2,266.1</b>	<b>2,218.7</b>	<b>(1,277.2)</b>	<b>(729.7)</b>	<b>(277.2)</b>	<b>(65.4)</b>

On 25 November 2020 the High Court sanctioned the transfer to Lloyd's Insurance Company S.A. (LIC) of syndicates' European liabilities in accordance with Part VII of the Financial Services and Markets Act 2000. The scheme took effect on 30 December 2020, whereupon all relevant policies (and related liabilities) underwritten by the 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.

# BRIT UW LIMITED

## Notes to the Financial Statements (continued)

### Note 5 (continued)

The combined effect of the two transactions had no economic impact for the Syndicates, and accordingly there is no impact on the income statement or statement of financial position. Current year underwriting results for the transferred policies have been reported in the same classes of business as in prior years, as the effective date of the transfer was 30 December 2020, and in line with Society of Lloyd's guidance no movements were processed on these policies on 31 December 2020. In future years, results relating to these risks will be reported under the Reinsurance Accepted class of business, reflecting the new contractual arrangement with LIC. The total cash consideration paid and subsequently received equated to US\$172.0m for Syndicate 2987 and US\$1.7m for Syndicate 2988 in totality.

### 6. Net operating expenses

	2020 US\$m	2019 US\$m
Acquisition costs	565.1	543.5
Movement in deferred acquisition costs	(4.9)	(6.7)
Operating expenses	209.3	209.4
Names' personal expenses on Lloyd's Syndicates	(15.5)	(16.5)
	754.0	729.7
Reinsurance commissions receivable	(78.6)	(77.3)
<b>Total</b>	<b>675.4</b>	<b>652.4</b>

The audit fee for the current year has been borne by a fellow Group company and amounts to US\$19.2k (2019: US\$20.0k).

### 7. Interest receivable and similar income

	2020 US\$m	2019 US\$m
Intragroup interest receivable and other income	0.2	0.2
<b>Total</b>	<b>0.2</b>	<b>0.2</b>

### 8. Other charges

	2020 US\$m	2019 US\$m
Lloyd's market service expenses	(0.2)	(0.2)
Investment management fees	(7.5)	(6.8)
Foreign exchange gain/(loss)	3.9	16.9
Intragroup interest payable	(10.6)	(10.6)
<b>Total</b>	<b>(14.4)</b>	<b>(0.7)</b>

### 9. Claims development

The following tables illustrate the development of the estimates of earned ultimate cumulative claims incurred, including claims notified and IBNR, for each successive underwriting year, illustrating how amounts estimated have changed from the first estimates made. Non US dollar cumulative claims estimates and cumulative payments are translated into US dollars at the period end rate as at 31 December 2020.

As these tables are on an underwriting year basis, there is an apparent large increase from amounts reported for the end of the underwriting year to one year later as a large proportion of premiums are earned in the year of account's second year of development.

# BRIT UW LIMITED

## Notes to the Financial Statements (continued)

### Note 9 (continued)

#### Estimate of cumulative gross incurred claims

US\$m	2010 & Prior	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>Underwriting year</b>											
At end of underwriting year		447.9	481.4	448.3	481.1	457.2	536.8	911.5	835.9	651.1	847.1
One year later		841.5	906.2	961.1	1,100.6	1,013.9	1,250.7	1,656.4	1,542.9	1419.3	
Two years later		887.8	971.0	1,010.1	1,151.2	1,090.1	1,378.7	1,729.4	1,703.7		
Three years later		885.9	947.7	1,002.6	1,166.7	1,075.1	1,363.3	1,759.0			
Four years later		891.5	985.1	1,022.4	1,157.6	1,043.8	1,378.1				
Five years later		871.6	995.2	1,007.6	1,137.5	1,039.8					
Six years later		858.4	983.6	994.6	1,130.6						
Seven years later		856.5	969.5	971.6							
Eight years later		859.0	956.2								
Nine years later		852.3									
<b>Current estimate of cumulative claims incurred</b>		852.3	956.2	971.6	1,130.6	1,039.8	1,378.1	1,759.0	1,703.7	1419.3	847.1
Cumulative payments to date		790.2	849.4	836.0	929.0	764.7	959.9	1,138.1	859.8	338.9	111.2
<b>Gross outstanding claims provision at 31 Dec 2020</b>	285.2	62.1	106.8	135.6	201.6	275.1	418.2	620.9	843.9	1080.4	735.9

#### Estimate of cumulative net incurred claims

US\$m	2010 & Prior	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>Underwriting year</b>											
At end of underwriting year		313.4	330.2	300.7	333.8	309.1	338.0	466.6	487.1	370.2	461.0
One year later		593.3	628.4	647.9	735.7	694.0	736.7	823.4	875.6	803.0	
Two years later		618.5	663.1	680.1	771.1	729.5	778.1	860.0	959.2		
Three years later		605.9	648.4	677.9	773.9	698.8	776.4	880.8			
Four years later		605.8	657.5	683.3	727.5	673.3	775.7				
Five years later		591.9	656.9	640.0	720.3	669.9					
Six years later		579.8	625.8	628.1	718.2						
Seven years later		572.8	616.6	611.7							
Eight years later		572.3	605.4								
Nine years later		570.6									
<b>Current estimate of cumulative claims incurred</b>		570.6	605.4	611.7	718.2	669.9	775.7	880.8	959.2	803.0	461.0
Cumulative payments to date		528.3	551.2	541.0	601.7	507.8	563.9	564.8	484.0	226.0	82.3
<b>Net outstanding claims provision at 31 Dec 2020</b>	124.4	42.3	54.2	70.7	116.5	162.1	211.8	316.0	475.2	577.0	378.7



# BRIT UW LIMITED

## Notes to the Financial Statements (continued)

### 10. Tax on loss on ordinary activities

#### (a) Tax on loss on ordinary activities:

	2020 US\$m	2019 US\$m
Current tax:		
UK corporation tax at 19% (2019: 19%)	0.1	1.2
Overseas tax	-	(0.1)
Double tax relief	1.2	1.2
	1.3	2.3
Adjustments in respect of prior years	1.2	1.4
Total current tax credit	2.5	3.7
Deferred tax:		
Origination and reversal of temporary differences	(12.1)	6.8
Effect of future tax rate changes	8.9	(1.3)
Adjustments in respect of prior years	(0.6)	0.6
Total deferred tax (charge) / credit	(3.8)	6.1
Tax (charge) / credit on loss on ordinary activities	(1.3)	9.8

Overseas tax and the double tax relief principally arise from taxes suffered as a result of the Company's operations at Lloyd's. Double tax relief is effectively limited to an amount equal to the tax due at the UK tax rate on the same source of income.

#### (b) Factors affecting tax (credit)/charge for the year:

The tax on the entity's profits before tax differs from the theoretical amount that would arise based on the standard rate of tax as follows:

	2020 US\$m	2019 US\$m
Loss on ordinary activities before tax	(214.0)	(4.2)
Loss on ordinary activities multiplied by standard rate of UK corporation tax at 19% (2019: 19%)	40.7	0.8
Effect of tax rate change	8.9	(1.3)
Effect of temporary differences not recognised	(53.1)	7.0
Non-taxable items	0.5	0.2
Foreign tax	1.1	1.1
Adjustments to tax in respect of prior years	0.6	2.0
Total tax (charge) / credit to income statement (Note 10(a) above)	(1.3)	9.8

#### (c) Effect of post balance sheet rate changes

UK legislation was substantively enacted on 9 September 2016 to reduce the main rate of UK corporation tax from 19% to 17% from 1 April 2020.

The reduction in rate from 19% to 17% has been used in the calculation of the UK's deferred tax assets and liabilities as at 31 December 2019.

## BRIT UW LIMITED

### Notes to the Financial Statements (continued)

#### Note 10 Tax on loss on ordinary activities (continued)

UK legislation was substantively enacted on 24th May 2021 to increase the main rate of UK corporation tax from 19% to 25% from 1 April 2023. As the increase in the UK tax rate had not been substantively enacted at the balance sheet date, the rate of 19% has been used in the calculation of the UK deferred tax assets and liabilities as at 31 December 2020. Had the increased rate been enacted at the balance sheet date, the impact would be to increase the total deferred tax asset at the end of the year from US\$77.2m to US\$101.6m and to increase the amount unrecognised from US\$55.8m to US\$73.4m.

#### 11. Staff numbers and costs

All staff in the United Kingdom are employed by the Group's services company, Brit Group Services Limited, and the full staff cost disclosures are included in the notes to those financial statements. The Company is recharged an appropriate amount by Brit Group Services Limited for the services it receives from those staff.

#### 12. Directors' remuneration

None of the Directors received any remuneration for their services to the Company during the year ended 31 December 2020 (2019: US\$nil).

#### 13. Deferred tax

	2020 US\$m	2019 US\$m
Carried forward losses	25.8	-
Undeclared year of account losses	51.4	80.3
	77.2	80.3
Provision at the start of the year	80.3	73.9
Other adjustments in respect of prior years	(0.6)	0.6
Effect of rate change	8.9	(1.3)
Origination and reversal of temporary differences	(12.1)	6.8
Effect of Foreign Exchange	0.7	0.3
<b>Deferred tax asset</b>	<b>77.2</b>	<b>80.3</b>

Deferred assets, all of which arise in the United Kingdom, are considered recoverable where it is expected that there will be future taxable income based on the approved business plans and budgets of the Brit Group. The net deferred tax asset recorded in the year arises from significant catastrophe-related activity, which is not expected to recur. The losses can be carried forward indefinitely and have no expiry date. Please see note 2 d) for further detail on the estimation of deferred tax assets.

Deferred tax assets have not been recognized in respect of undeclared year of account losses of US\$293.8m (2019: US\$14.1m) as it is not considered probable that they can be utilised in the foreseeable future.

The deferred tax asset of US\$77.2m (2019: US\$80.3 m) relates to carried forward tax losses in respect of Lloyd's undeclared year of account losses for 2018, 2019 and 2020 which will be taxed under the Lloyd's declaration basis in the years 2021, 2022 and 2023 respectively, and current year tax losses carried forward. The Company has concluded that the deferred tax asset is recoverable based on the Lloyd's approved plan for the year of account 2021 and forecast future results for the Brit Group UK entities.

# BRIT UW LIMITED

## Notes to the Financial Statements (continued)

### 14. Financial Investments

	Market value 2020 US\$m	Market value 2019 US\$m	Cost 2020 US\$m	Cost 2019 US\$m
Shares and other variable yield securities	381.3	453.3	373.7	434.4
Debt securities and other fixed interest securities	1,941.7	1,706.7	1,896.6	1,690.5
Derivative contracts	1.9	1.5	16.8	16.8
	<b>2,324.9</b>	<b>2,161.5</b>	<b>2,287.1</b>	<b>2,141.8</b>

US\$235.4m (2019: US\$143.3m) of "Shares and other variable yield securities" and "Debt securities and other fixed interest securities" are listed. These comprise 10.1% (2019: 6.6%) of the total market value of investments.

All financial investments have been designated as held at fair value through profit or loss.

#### (i) Disclosures of fair values in accordance with the fair value hierarchy

2020	Level 1 US\$m	Level 2 US\$m	Level 3 US\$m	Total US\$m
Equity securities	114.0	-	119.9	233.9
Debt securities	1,244.6	697.0	-	1,941.6
Derivatives	-	1.6	0.3	1.9
Specialised investment funds	39.3	94.0	14.2	147.5
	<b>1,397.9</b>	<b>792.6</b>	<b>134.4</b>	<b>2,324.9</b>

2019	Level 1 US\$m	Level 2 US\$m	Level 3 US\$m	Total US\$m
Equity securities	120.5	-	132.1	252.6
Debt securities	581.2	1,125.5	-	1,706.7
Derivatives	-	1.2	0.3	1.5
Specialised investment funds	116.9	69.0	14.8	200.7
	<b>818.6</b>	<b>1,195.7</b>	<b>147.2</b>	<b>2,161.5</b>

The Company has classified the fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making those measurements. The fair value hierarchy comprises the following levels:

- (a) Level one - quoted prices (unadjusted) in active markets for identical assets;
- (b) Level two - inputs other than quoted prices included within level one that are observable for the asset, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- (c) Level three - inputs for the assets that are not based on observable market data.

Assets are categorised as level one where fair values determined in whole directly by reference to an active market relate to prices which are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis, i.e. the market is still active.

## BRIT UW LIMITED

### Notes to the Financial Statements (continued)

#### Note 14 Financial Investments (continued)

For assets and liabilities that are recognised at fair value on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level of input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Fair values for level two and level three assets include:

- Values provided at the request of the Company by pricing services and which are not publicly available or values provided by external parties which are readily available but relate to assets for which the market is not always active; and
- Assets measured on the basis of valuation techniques including a varying degree of assumptions supported by market transactions and observable data.

For all assets not quoted in an active market or for which there is no active market, the availability of financial data can vary and is affected by a wide variety of factors, including the type of financial instrument, whether it is new and not yet established in the marketplace, and other characteristics specific to each transaction. To the extent that valuation is based on the models or inputs that are unobservable in the market, the determination of fair value requires more judgement. Accordingly, the degree of judgement exercised is higher for instruments classified in level three and the classification between level two and level three depends highly on the proportion of assumptions used, supported by market transactions and observable data.

#### Valuation techniques

##### Level one financial assets

Inputs represent unadjusted quoted prices for identical instruments exchanged in active markets (where transactions occur with sufficient frequency and volume). The fair value of securities sold short and the majority of the company's equities are based on published quotes in active markets. These also include government bonds and treasury bills issued in Canada and in the US.

##### Level two financial assets

Inputs include directly or indirectly observable inputs (other than Level one inputs) such as quoted prices for similar financial instruments exchanged in active markets, quoted prices for identical or similar financial instruments exchanged in inactive markets and other market observable inputs.

Level two securities contain certain investments in US and non-US government agency securities, US and non-US corporate debt securities, loan instruments and certain specialised investment funds.

US government agency securities are priced using valuations from independent pricing vendors who use discounted cash flow models supplemented with market and credit research to gather specific information. Market observable inputs for these investments may include broker-dealer quotes, reported trades, issuer spreads and available bids. Non US government agency securities are priced with OTC ("over-the-counter") quotes or broker-dealer quotes. Other market observable inputs include benchmark yields and reported trades. Issuer spreads are also available for these types of investments.

US and non-US corporate debt securities are investment grade and the information collected during pricing of these instruments includes credit data as well as other observations from the market and the particular sector. Prices for all these securities are based on a limited number of transactions (OTC prices/broker-dealer quotes) so they are derived indirectly using inputs that can be corroborated by observable market data. These also include certain private placement corporate debt securities which are valued with the use of discounted cash flow models.

Level two specialised investment funds contain credit opportunities funds that are valued based on the underlying assets in the fund on a security by security basis. A number of direct and indirect inputs such as benchmark yield curves, credit spreads, estimated default rates, anticipated market interest rate volatility, coupon rates and anticipated of principal repayments are considered during their valuation.

##### Level three financial assets

Level three securities contain investments in private equity/limited partnerships where the fund's underlying investments, which include both equity and debt investments, are not traded/quoted in an active market. Pricing models for these underlying investments factor in interest rates, bond or credit swap spreads and volatility.

# BRIT UW LIMITED

## Notes to the Financial Statements (continued)

### Note 14 Financial Investments (continued)

Level three specialised investment funds include securities that are valued using techniques appropriate to each specific investment. The valuation techniques include fair value by reference to net asset values (NAVs) adjusted and issued by fund managers based on their knowledge of underlying investments and credit spreads of counterparties. In some instances, certain investment funds are classified as level three because they may require at least three months' notice to liquidate.

Level three equities include investments in limited partnerships where the fund's underlying investments are not traded/quoted in an active market. In some instances, limited partnerships are classified as level three because they may require at least three months of notice to liquidate.

### 15. Derivative contracts

The Company purchases derivative financial instruments:

- i) to hedge its foreign currency exposure on future commitments;
- ii) as part of its investment management strategy.

	2020 US\$m	2019 US\$m
Foreign exchange forward contracts	1.6	1.2
Non-currency based inflation options	0.3	0.3
Other financial investments – derivatives	1.9	1.5
Foreign exchange forward contracts liabilities	(8.2)	(12.4)
<b>Net value of derivatives at 31 December</b>	<b>(6.3)</b>	<b>(10.9)</b>

The hierarchy of fair values of derivative contracts is included within the Fair Value Hierarchy in Note 14 above.

### 16. Provision for unearned premium

	Gross US\$m	Reinsurers' share US\$m	Net US\$m
<b>Balance at 1 January 2020</b>	<b>973.4</b>	<b>(387.6)</b>	<b>585.8</b>
Premiums written in the year	2,406.1	(979.8)	1,426.3
Premiums earned in the year	(2,361.6)	986.4	(1,375.2)
Effect of movement in exchange rates	7.7	(3.5)	4.2
<b>Balance at 31 December 2020</b>	<b>1,025.6</b>	<b>(384.5)</b>	<b>641.1</b>

	Gross US\$m	Reinsurers' share US\$m	Net US\$m
Balance at 1 January 2019	919.1	(352.4)	566.7
Premiums written in the year	2,266.1	(946.1)	1,320.0
Premiums earned in the year	(2,218.7)	913.5	(1,305.2)
Effect of movement in exchange rates	6.9	(2.6)	4.3
Balance at 31 December 2019	973.4	(387.6)	585.8

# BRIT UW LIMITED

## Notes to the Financial Statements (continued)

### 17. Claims Outstanding

	Gross US\$m	Reinsurers' share US\$m	Net US\$m
<b>Balance at 1 January 2020</b>	<b>4,287.5</b>	<b>(1,969.9)</b>	<b>2,317.6</b>
Claims incurred in current underwriting year	845.3	(388.0)	457.3
Claims incurred in prior underwriting years	894.2	(414.0)	480.2
Claims paid in the year	(1,318.0)	572.1	(745.9)
Effect of movement in exchange rates	56.7	(37.0)	19.7
<b>Balance at 31 December 2020</b>	<b>4,765.7</b>	<b>(2,236.8)</b>	<b>2,528.9</b>

	Gross US\$m	Reinsurers' share US\$m	Net US\$m
Balance at 1 January 2019	4,331.8	(2,068.4)	2,263.4
Claims incurred in current underwriting year	647.3	(274.6)	372.6
Claims incurred in prior underwriting years	629.9	(284.3)	345.6
Claims paid in the year	(1,357.2)	684.6	(672.6)
Effect of movement in exchange rates	35.7	(27.2)	8.5
Balance at 31 December 2019	4,287.5	(1,969.9)	2,317.6

### 18. Other assets

Other assets comprise overseas deposits which are lodged as a condition of conducting underwriting business in certain countries.

### 19. Deferred acquisition costs

	2020 US\$m	2019 US\$m
Balance at 1 January	254.8	245.4
Change in deferred acquisition costs	4.9	6.7
Effect of movement in exchange rates	2.3	2.7
<b>Balance at 31 December</b>	<b>262.0</b>	<b>254.8</b>

### 20. Other debtors

	2020 US\$m	2019 US\$m
Amounts due from the Corporate Member	420.9	316.2
Balances owed to the Syndicates by the Corporate Member	0.2	0.5
Outstanding settlements on investments	21.1	5.9
Current taxation	8.8	6.0
Other debtors	12.9	8.7
<b>Total</b>	<b>463.9</b>	<b>337.3</b>

Balances between the Corporate Member and the Syndicates have been reported gross on the Statement of Financial Position.

## BRIT UW LIMITED

### Notes to the Financial Statements (continued)

#### 21. Other creditors

	2020 US\$m	2019 US\$m
Amounts due to the Syndicates	420.9	316.2
Balances owed by the Corporate Member to the Syndicates	0.2	0.5
Balances owed by the Syndicates to Group undertakings	(0.8)	0.3
Amounts due to Group companies	209.9	302.0
Outstanding settlements on investments	(1.7)	6.8
Accruals and deferred income	30.7	36.9
Credit facility	12.0	60.0
Other creditors	14.7	2.1
<b>Total</b>	<b>685.9</b>	<b>724.8</b>

The credit facility is for a maximum of US\$450.0m (including a US\$80.0m letter of credit) where both Brit UW Limited and Brit Insurance Holdings Limited are borrowers. As at 31 December 2020, Brit UW Limited was US\$12.0m drawn on the facility, Brit Insurance Holdings Limited was drawn by US\$118.0m and the US\$118.0m letter of credit was uncollateralised.

#### 22. Called up share capital

	31 December 2020 £	31 December 2019 £
Allotted, called up and fully paid:		
382 (2019: 82) Ordinary shares of £1	<b>382</b>	<b>82</b>

Brit Insurance Holdings Limited injected US\$400.2m of capital into the Company to replenish the capital position, to contribute to the Company's 2020 liquidity requirements. This was a non-cash capital injection.

#### 23. Controlling parties

The Company is a private company, limited by shares and is incorporated in England and Wales. The Company is a wholly owned subsidiary of Brit Insurance Holdings Limited, a company registered in the United Kingdom.

The intermediate holding company, in which Brit UW Limited's result is consolidated, is Brit Limited, a company registered in the United Kingdom. Copies of Brit Limited's consolidated financial statements can be obtained by writing to The Leadenhall Building, 122 Leadenhall Street, London EC3V 4AB or from the website [www.britinsurance.com](http://www.britinsurance.com).

The ultimate parent undertaking at the year-end is Fairfax Financial Holdings Limited, a company registered in Canada and listed on the Toronto Stock Exchange. Copies of Fairfax consolidated financial statements can be obtained by writing to 95 Wellington Street West, Suite 800, Toronto, Ontario, Canada, M5J 2N7 or from the website at [www.fairfax.ca](http://www.fairfax.ca).

#### 24. Disclosure exemptions

The Company has taken advantage of the disclosure exemptions provided by paragraph 1.12 of Financial reporting Standard 102. Accordingly, these financial statements do not include the following:

- Statement of Cash Flows;
- A reconciliation of shares outstanding at the beginning and end of the period;
- Disclosure of key management personnel compensation.

## **BRIT UW LIMITED**

### **Notes to the Financial Statements (continued)**

#### **Note 24 Disclosure exemptions (continued)**

The Company has been consolidated into the consolidated financial statements of Brit Limited, copies of whose financial statements can be obtained from The Leadenhall Building, 122 Leadenhall Street, London EC3V 4AB or from the website [www.britinsurance.com](http://www.britinsurance.com).

#### **25. Related party transactions**

The Company has taken advantage of the exemption in FRS 102 not to disclose transactions with other wholly owned subsidiaries within the Group. This is by virtue of the entity being wholly owned within a group whose consolidated financial statements are publicly available (see Note 24 above).

#### **26. Guarantees**

The Funds at Lloyd's requirement of US\$1,598.8m (2019: US\$1,285.5m) for Brit UW Limited in respect of Syndicate 2987 is provided in part through the fully collateralised reinsurance contract between Brit UW Limited and Brit Reinsurance (Bermuda) Limited. The maximum claim under the reinsurance contract is US\$650m. The balance is provided by way of cash, investments and a letter of credit in Brit UW Limited amounting in aggregate to US\$948.8m (2019: US\$635.5m) which are charged in favour of Lloyd's.

#### **27. Funds in Syndicate**

As at 31 December 2020, Syndicate 2987 held US\$430.7m (2019: US\$397.8m) of undistributed profit relating to closed years of account. The investment return for the calendar year was a loss of US\$1.4m (2019: US\$7.9m profit). During 2020 the 2017 closed year of account result of US\$51.6m was released from FIS. The undistributed profits are included in the Statement of Financial Position under 'Financial Investments' (with a corresponding consolidation adjustment in other assets), and associated investment return reported in the Income Statement: Non-Technical Account.

In 2020 a capital injection of US\$86.1m occurred. Funds in Syndicate are included in the statement of financial position under financial investments and the associated investment income reported in the non-technical account.

#### **28. Subsequent events**

On 14 December 2020 Brit Limited successfully sponsored its debut 144A catastrophe bond (cat bond) issuance, Sussex Capital UK PCC Limited. The bond, which was issued via Sussex Capital UK PCC Limited, a Brit Group Company, will provide 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 the Syndicate 2987. The cat bond inceptioned from 1 January 2021.

Subsequent to the year-end, on 4 January 2021, under the 100% Quota Share Reinsurance Agreement between the Syndicate and LIC, the Group was required to set up advanced funds in segregated Part VII settlement accounts managed by the Managing Agent on behalf of LIC from which claims with respect to transferred liabilities will be settled. As this transaction took place after the end of the reporting period, there is no impact on the Syndicates related statement of financial position or income statement as at 31 December 2020.

On 15 January 2021, the UK Supreme Court upheld the judgement on the Financial Conduct Authority (FCA) business interruption (BI) insurance test case. The FCA brought the case forward in May 2020 to seek legal clarity on whether insurers were obligated to pay out on BI claims related to the COVID-19 pandemic. Brit was not party to this action, the outcome of which does not have a material impact on the Syndicates. Brit is committed to paying all valid claims and has maintained sufficient reserves to fulfil its contractual obligations.