

**BRIT REINSURANCE (BERMUDA) LIMITED  
REPORT & FINANCIAL STATEMENTS**

31 December 2023

# Brit Reinsurance (Bermuda) Limited

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<b>Contents</b>	<b>Page</b>
Directors, Officers and Other Information	1
Strategic Report	2
Directors' Report	6
Independent Auditors' Report	8
Income Statement: Technical Account-General Business	11
Income Statement: Non-Technical Account	12
Statement of Financial Position	13
Statement of Changes in Equity	15
Notes to the Financial Statements	16

# Brit Reinsurance (Bermuda) Limited

## DIRECTORS, OFFICERS AND OTHER INFORMATION

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### **Executive Directors:**

K Grieves (Resigned 6 December 2023)  
C Denton (Resigned 27 March 2024)  
K Maffit (Appointed 7 December 2023)  
J O'Shaughnessy (Appointed 13 December 2023)

### **Non-Executive Directors:**

G Pewter (Independent Chairman)  
A Waring (Independent)  
G Wilkinson

### **Secretary:**

Conyers Corporate Services (Bermuda) Limited

### **Registered Office:**

2 Church Street,  
Clarendon House,  
Hamilton HM CX,  
Bermuda

### **Independent Auditors:**

PricewaterhouseCoopers Limited  
P.O. Box HM1171,  
Hamilton, HM EX,  
Bermuda

# Brit Reinsurance (Bermuda) Limited

## STRATEGIC REPORT

The Directors present their Strategic Report for the year ended 31 December 2023. This Strategic Report contains information about our business and provides an insight into how we operate and our approach to sustainability and risk management. It provides context for our Financial Statements, sets out our key performance indicators (KPIs) and analyses our financial performance.

### Principal activities

The principal activity of Brit Reinsurance (Bermuda) Limited (the Company or Brit Re) is that of underwriting reinsurance business, primarily for the Brit Limited Group of companies (Brit Group), which is in turn part of the Fairfax Financial Holdings Limited Group (Fairfax) via 86.2% ownership. The Company also underwrites a small portfolio of third-party casualty and property treaty business. The property business was underwritten through a fronting arrangement with Sussex Re for which the Company earns fees which ceased at 31 December 2023.

The Company holds a Class 3B licence issued by the Bermuda Monetary Authority and credit rating from A.M. Best to support its underwriting activities.

During 2023, A.M. Best reaffirmed a Financial Strength Rating of A (Excellent), with a 'stable' outlook, to Brit Re. This rating reflects Brit Re's financial strength, which A.M. Best assesses as 'very strong', and the positive impact of having Fairfax, a Canadian company whose shares are listed on the Toronto Stock Exchange ([www.fairfax.ca](http://www.fairfax.ca)), as its ultimate parent.

### 2023 Underwriting review

	<b>2023</b>	<b>2022</b>
	<b>\$m</b>	<b>\$m</b>
Gross written premium	436.5	463.8
Net premiums written	388.0	415.3
Net premiums earned	400.7	389.6
Net claims incurred	(242.9)	(271.9)
Underwriting related expenses	(33.1)	(24.3)
Underwriting result	124.7	93.4
Investment return net of fees	149.2	(86.9)
<b>Profit before the effect of foreign exchange</b>	<b>273.9</b>	<b>6.5</b>
Effect of foreign exchange (FX)	(4.4)	10.0
<b>Profit on ordinary activities before tax</b>	<b>269.5</b>	<b>16.5</b>
Combined ratio (excluding FX)*	68.9%	76.0%

\*Net combined ratio is a measure of profitability; and is the net claims incurred plus underwriting related expenses as a percentage of net premiums earned

### Gross Written Premium

Overall gross written premiums (GWP) decreased by 5.9% to \$436.5m (2022: \$463.8m).

The decrease in GWP in 2023 was primarily due to decreased premium written on the whole account quota share (WAQS) with Syndicate 2987 in addition to slightly less premium written on the Group Excess of Loss (XL's) and third party property and casualty business. This is partially offset by a premium increase on the Funds at Lloyds (FAL) contract and property quota share under the fronting arrangement. The FAL contract is a fully collateralised excess of loss contract supporting Funds at Lloyd's.

# Brit Reinsurance (Bermuda) Limited

## STRATEGIC REPORT *(continued)*

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### **2023 Underwriting review (continued)**

In 2023 the WAQS benefited from strengthening premium rates achieved by Syndicate 2987 in 2023, however while rate increases continue to accelerate in certain portfolios, others have seen increased competition and a reduction in the level of rating, putting some pressure on premium income. Despite the Syndicate also continuing to take advantage of favourable market conditions with growth in its core portfolios, GWP decreased in the current year as a result of exiting a number of unattractive lines due to the implementation of strategic actions to reduce catastrophe exposure. This therefore led to a decrease in GWP for Brit Re's WAQS contract.

In 2023 the Company continued to write property business that is ceded to Sussex Re under a fronting arrangement which ceased at 31 December 2023. This is the reason for the consistent reinsurance premium of \$48.5m in 2023 (2022: \$48.5m).

### ***Underwriting result***

The 2023 result reflects a good attritional performance with lack of major catastrophe events, underwriting profit for the year of \$124.6m, and a net combined ratio of 68.9%. On the WAQS there has been a continued focus on managing catastrophe exposure within Syndicate 2987, with Brit Re also taking advantage of the Group reinsurance programme.

The company's claims incurred are driven by the WAQS with a small amount of attritional claims incurred on other business written.

### **Major loss activity**

#### **Natural catastrophes**

Worldwide natural disasters in 2023 resulted in economic losses of around \$250bn (2022: \$250bn), in line with the five-year average, while insured losses were in the region \$95bn (2022: \$125bn), below the five-year average of \$105bn (Source: Munich Re). Brit Re's exposure is primarily through the WAQS with Syndicate 2987 with major natural catastrophe losses in 2023 amounting to \$8.8m driven by the Hawaiian wildfires (\$6.3m) and Hurricane Idalia (\$2.5m). Brit Re does not have material exposure to other catastrophe events which occurred during the year. While some claims are anticipated to emerge, it is expected that these will be attritional in scale and less than noted in 2022.

#### **Russian Invasion of Ukraine**

During 2023, net loss estimates arising from the Russian Invasion of Ukraine increased to \$6.1m (2022: \$5.9m) as the financial impact of events became more certain.

#### **Global Economic Environment**

Brit remains cognisant of the potential impacts of inflation, with work being undertaken collaboratively internally to quantify and mitigate its impact on profitability. There is continued focus on ensuring that underwriting and pricing adequately addresses inflationary trends and Brit continues to review the key drivers of claim settlement costs and frequency by class of business. The Syndicate's reserves continue to be set at a margin above the actuarial best estimate incorporating management's current view of social and economic inflation.

### **Expenses**

The Company's underwriting related expenses excluding foreign exchange increased by 36.6% to \$33.2m (2022: \$24.3m), reflecting the growth in acquisition costs to \$23.1m (2022: \$20.6m) related to the WAQS and \$3.6m (2022: \$1.8m) related to the fronted property quota share.

# Brit Reinsurance (Bermuda) Limited

## STRATEGIC REPORT *(continued)*

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### 2023 Underwriting review (continued)

#### Expenses (continued)

Expenses also includes support services provided by Brit Group. This expense was reduced in 2023 to \$1.7m (2022: \$1.9m), which is the result of a review of the services provided.

#### Investment return

Investment return, net of fees, during 2023 was a gain of (\$149.2m) or (9.1%) of average invested assets (2022: loss of \$86.9m or 6.1% of average invested assets). This was mainly driven by gains on funds \$51.8m, on debt securities \$51.7m and equity securities \$36.0m with the remaining gain driven by mortgages and loans \$6.0m, derivatives \$9.3m and cash and cash equivalents \$2.2m less investment fees.

In 2023 there was a foreign exchange loss of \$4.4m (2022: gain of \$10.0m). A proportion of assets and liabilities along with some expenses are denominated in currencies other than US dollars, and the company seeks to reduce the impact of movements in foreign exchange rates by using derivatives to match the currencies of assets and liabilities (see note 4.7).

#### Summary

In summary, the profit on ordinary activities for the year before tax and foreign exchange was \$273.8m (2022: profit of \$6.5m) and profit before tax was \$269.5m (2022: profit of \$16.5m). The 2023 net combined ratio (excluding effect of FX) was 68.9% (2022: 76.0%).

#### Financial position of the business at year-end

As at the date the financial statements were approved, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future.

The Company has maintained a strong balance sheet and capital position. The Company's net assets increased by \$53.4m to \$972.7m reflecting profit after tax of \$273.4m and dividend payments of \$120.0m and \$100.0m in May 2023 and December 2023 respectively (2022: \$150.0m May 2022).

#### Future Outlook

The Directors are currently reviewing the business model.

#### Principal risks and uncertainties

Risk management at the Company is a continuous process that links directly to the organisation's business and risk management strategies and the associated Board risk tolerances.

Major risks are managed through Board implementation and monitoring of comprehensive policies and procedures including risk management, investments, underwriting, reserving and claims.

The information on principal risks and uncertainties is disclosed in Note 4 to the financial statements.

# Brit Reinsurance (Bermuda) Limited

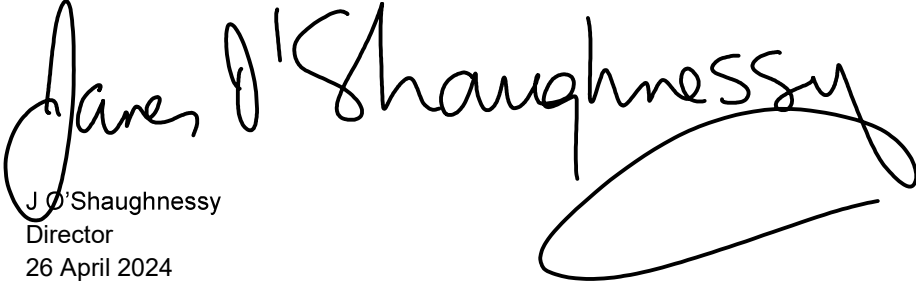
## STRATEGIC REPORT *(continued)*

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### **Our people, culture, social, community and environmental matters**

To generate value, we recognise that our people, culture, social and community strategies must be both sustainable and aligned to the long-term interests of all our stakeholders. We seek to make both a positive contribution to society and to be aware of the long-term consequences of our actions. We also seek to generate new commercial opportunities by developing strong stakeholder relationships and by recruiting and retaining a highly skilled, engaged and motivated workforce.

This report was approved by the Company's Board of Directors on 23 April 2024.



J O'Shaughnessy  
Director  
26 April 2024

# Brit Reinsurance (Bermuda) Limited

## DIRECTORS' REPORT

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The Directors submit their report and audited financial statements for the year ended 31 December 2023.

### Directors

The Directors of the Company who served during the year and up to the date of signing the financial statements were as follows:

G Pewter (Independent Non-Executive Chairman)  
K Grieves (Executive) (Resigned 6 December 2023)  
C Denton (Executive) (Resigned 27 March 2024)  
K Maffit (Executive) (Appointed 7 December 2023)  
J O'Shaughnessy (Executive) (Appointed 13 December 2023)  
A Waring (Independent Non-Executive)  
G Wilkinson (Non-Executive)

None of the Directors had any interest in the share capital of the Company.

### Results and dividends

The profit for the year, after taxation, amounted to \$273.4m (2022: profit of \$15.5m).

The net assets at 31 December 2023 are \$972.7m (2022: \$919.3m) attributable to the owners of Brit Re (Brit Insurance Holdings Limited).

The Company paid dividends during the year of \$220.0m (2022: \$150.0m). The Directors do not recommend the payment of a final dividend (2022: \$nil).

### Research and development

The Company has not undertaken any research and development activities during the year.

### Financial instruments

Details of financial instruments are provided in Note 12 and Note 13 to the financial statements.

### Staff costs

Related staff costs are disclosed in Note 10 of these financial statements.

### A.M. Best credit rating

On 14 December 2023, A.M. Best affirmed Brit Re's Financial Strength Rating of A (Excellent), with a 'stable' outlook. This rating reflects Brit Re's balance sheet strength, which A.M. Best assessed as 'very strong'.

### Statement of disclosure of information to the auditors'

So far as each person who was a Director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditors' in connection with preparing its report, of which the auditors' are unaware. Having made enquiries of fellow Directors and the auditors', each Director has taken all the steps necessary as a Director in order to be aware of any relevant audit information and to establish that the auditors' are aware of that information.



# Brit Reinsurance (Bermuda) Limited

## DIRECTORS' REPORT *(continued)*

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### 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 that give a true and fair view of the state of affairs of the Company and of its profit or loss for that period. In preparing those financial statements, the Directors are required to:

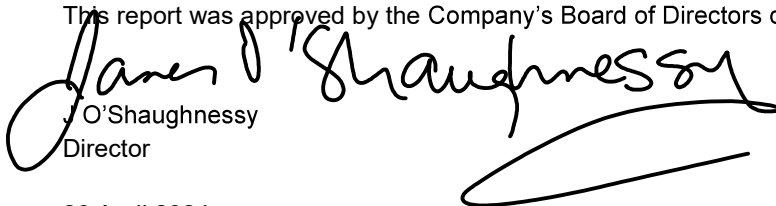
- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare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

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with The Bermuda Insurance Act 1978. 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.

### Independent Auditors'

PricewaterhouseCoopers Limited remain in office as the Company's auditors.

This report was approved by the Company's Board of Directors on 23 April 2024.

  
James O'Shaughnessy  
Director

26 April 2024



## Independent auditor's report

To the Board of Directors and Shareholder of Brit Reinsurance (Bermuda) Limited

### Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Brit Reinsurance (Bermuda) Limited (the Company) as at 31 December 2023, and its financial performance and its cash flows for the year then ended in accordance with FRS 102 "The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland" and FRS 103 "Insurance Contracts".

### What we have audited

The Company's financial statements comprise:

- the income statement for the year then ended;
- the statement of financial position as at 31 December 2023;
- the statement of changes in equity for the year then ended;
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

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### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's 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 are independent of the Company in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code) and the ethical requirements of the Chartered Professional Accountants of Bermuda Rules of Professional Conduct (CPA Bermuda Rules) that are relevant to our audit of the financial statements in Bermuda. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code and the ethical requirements of the CPA Bermuda Rules.

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### Other information

Management is responsible for the other information. The other information comprises the listing of Directors, officers and other information, the strategic report and the directors' report, (but does not include the financial statements and our auditor's report thereon).



Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above 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, 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 in this regard.

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### **Responsibilities of management and those charged with governance for the financial statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with FRS 102 “The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland” and FRS 103 “Insurance Contracts” and for such internal control as management determines 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, management is 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 management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company’s financial reporting process.

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### **Auditor’s 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 auditor’s 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 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.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control.



- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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*Prue Whitehouse Cooper Ltd.*

**Chartered Professional Accountants**

**Hamilton, Bermuda**

**26 April 2024**

# Brit Reinsurance (Bermuda) Limited

## INCOME STATEMENT for the year ended 31 December 2023

### TECHNICAL ACCOUNT - GENERAL BUSINESS

		2023	2022
	Note	\$m	\$m
Gross written premium	6	436.5	463.8
Outward reinsurance premiums	6	(48.5)	(48.5)
Net premiums written	6	388.0	415.3
Change in the gross provision for unearned premiums	6	11.4	(40.9)
Change in the provision for unearned premiums, reinsurers' share	6	1.3	15.2
Net change in the provision for unearned premiums		12.7	(25.7)
Earned premiums, net of reinsurance	6	400.7	389.6
Allocated investment return transferred from the non-technical account	5	149.2	(86.9)
		549.9	302.7
Claims incurred, net of reinsurance:			
Claims paid:			
- Gross amount	7	(198.0)	(179.8)
- Reinsurers' share		5.2	0.6
Net claims paid		(192.8)	(179.2)
Change in the provision for claims:			
- Gross amount	7	(48.7)	(135.2)
- Reinsurers' share		(1.4)	42.5
Net change in the provision for claims		(50.1)	(92.7)
Claims incurred, net of reinsurance	7	(242.9)	(271.9)
Net operating expenses	9	(37.5)	(14.3)
		(280.4)	(286.2)
<b>Balance on the technical account for general business</b>		<b>269.5</b>	<b>16.5</b>

The notes on pages 16 to 55 form part of these financial statements.

**Brit Reinsurance (Bermuda) Limited**  
**INCOME STATEMENT**  
for the year ended 31 December 2023

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**NON-TECHNICAL ACCOUNT**

	<b>2023</b>	2022
	<b>Note</b>	<b>\$m</b>
		<b>\$m</b>
Balance on the technical account for general business		16.5
Investment income		28.2
Unrealised (losses) on investments		(78.0)
Unrealised gains on investments		-
Realised (losses) on investments		(32.6)
Investment expenses and charges		(4.5)
Net investment return	<b>5</b>	(86.9)
Allocated investment return transferred to general business technical account		86.9
Other (Charges)/Income		-
Interest and Other Similar Income		-
<b>Profit on ordinary activities before taxation</b>		<b>16.5</b>
Tax on ordinary activities	<b>11</b>	(1.0)
<b>Profit for the financial year</b>		<b>15.5</b>

No other comprehensive income has been recognised and therefore no statement of other comprehensive income has been presented.

The notes on pages 16 to 55 form part of these financial statements.

Brit Reinsurance (Bermuda) Limited  
STATEMENT OF FINANCIAL POSITION  
as at 31 December 2023

	2023	2022
	\$m	(restated)* \$m
Note		
<b>Assets</b>		
<b>Investments:</b>		
Financial investments	12      1,619.3	1,422.8
Derivative assets	13      13.6	1.1
	<b>1,632.9</b>	1,423.9
<b>Reinsurers' share of technical provisions:</b>		
Provision for unearned premium	6      17.5	16.2
Claims outstanding	7      49.1	50.5
	<b>66.6</b>	66.7
<b>Debtors:</b>		
Debtors arising out of reinsurance operations	230.2	243.2
Amounts due from Group Undertakings	14      0.6	86.2
Other debtors	15      25.9	0.7
Deferred tax asset	11      4.8	-
	<b>261.5</b>	330.1
<b>Other assets:</b>		
Cash at bank and in hand	27.0	47.1
	<b>27.0</b>	47.1
<b>Prepayments and accrued income:</b>		
Deferred acquisition costs	17      13.0	11.2
Other prepayments and accrued income	13.2	5.7
	<b>26.2</b>	16.9
<b>Total assets</b>	<b>2,014.2</b>	1,884.7

\*see note 24 for further details

The notes on pages 16 to 55 form part of these financial statements.

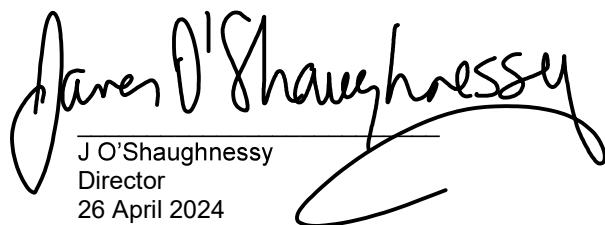
Brit Reinsurance (Bermuda) Limited  
STATEMENT OF FINANCIAL POSITION  
as at 31 December 2023

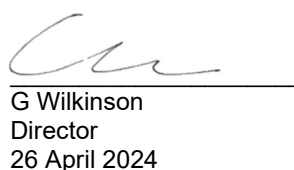
	Note	2023 \$m	2022 (restated)* \$m
<b>Equity and liabilities</b>			
<b>Capital and reserves:</b>			
Called up share capital	16	659.2	659.2
Profit and loss account		313.5	260.1
<b>Total Equity</b>		<b>972.7</b>	919.3
<b>Technical provisions:</b>			
Provision for unearned premium	6	157.6	167.5
Claims outstanding	7	818.7	759.9
		<b>976.3</b>	927.4
<b>Creditors:</b>			
Derivative liabilities	13	7.2	8.4
Creditors arising out of reinsurance operations		54.2	28.6
Other creditors		3.6	0.9
Accruals and deferred income		0.2	0.1
		<b>65.2</b>	38.0
<b>Total liabilities</b>		<b>1,041.5</b>	965.4
<b>Total equity and liabilities</b>		<b>2,014.2</b>	1,884.7

\*see note 24 for further details

The notes on pages 16 to 55 form part of these financial statements.

The financial statements on pages 11 to 55 were approved by the Board of Directors on 23 April 2024 and signed on its behalf by:

  
J O'Shaughnessy  
Director  
26 April 2024

  
G Wilkinson  
Director  
26 April 2024



**Brit Reinsurance (Bermuda) Limited**  
**STATEMENT OF CHANGES IN EQUITY**  
for the year ended 31 December 2023

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	Called up share capital \$m	Profit and loss account \$m	Total equity \$m
<b>At 1 January 2023</b>	659.2	260.1	919.3
Profit for the financial year	-	273.4	273.4
Dividends to shareholder	-	(220.0)	(220.0)
<b>At 31 December 2023</b>	659.2	313.5	972.7
<b>Of which is attributable to:</b>			
Ordinary shareholder	659.2	313.5	972.7

	Called up share capital \$m	Profit and loss account \$m	Total equity \$m
<b>At 1 January 2022</b>	659.2	394.6	1,053.8
Profit for the financial year	-	15.5	15.5
Dividends to shareholder	-	(150.0)	(150.0)
<b>At 31 December 2022</b>	659.2	260.1	919.3
<b>Of which is attributable to:</b>			
Ordinary shareholder	659.2	260.1	919.3

The notes on pages 16 to 55 form part of these financial statements.

# Brit Reinsurance (Bermuda) Limited

## NOTES TO THE FINANCIAL STATEMENTS

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### **1. Structure of the Company**

The Company is incorporated in Bermuda as a Class 3B reinsurer in accordance with the provisions of The Bermuda Insurance Act 1978.

The registered office of the Company is 2 Church Street, Clarendon House, Hamilton HM CX Bermuda.

### **2. Basis of preparation and Statement of compliance**

The financial statements cover those of the individual entity and are prepared as at and for the year ended 31 December 2023. The financial statements have been prepared on a going concern basis, under the historical cost convention, as modified for the fair value of financial instruments carried at fair value through profit or loss and 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 FRS 103 "Insurance Contracts").

Legislation applied in the preparation of these financial statements includes the Bermuda Insurance Act 1978.

The financial statements are presented in US dollars (\$) which is the Company's functional currency and rounded to the nearest \$0.1m. Items included in the annual financial statements are measured using the functional currency which is the primary economic environment in which the Company operates.

The financial statements for the year ended 31 December 2023 were approved for issue by the Board of Directors on 23 April 2024.

# Brit Reinsurance (Bermuda) Limited

## NOTES TO THE FINANCIAL STATEMENTS

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### 3. Principal accounting policies

The following accounting policies have been consistently applied in dealing with items which are considered material in relation to the Company's financial statements:

#### a) Underwriting activities

- (i) Premiums written relate to reinsurance inwards business and direct 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 receivable or notified, less an allowance for cancellations. Premiums are accreted to the income statement 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 recognised where, under an insurance policy that contains a contractual right to reinstatement, a loss event occurs that triggers reinstatement.
- (ii) Unearned premiums represent the proportion of premiums written in the year that relate to unexpired terms of policies in force at the date of the Statement of Financial Position, generally calculated on a time apportioned basis. The movement in the provision is taken to the income statement technical account in order that premium is recognised over the period of the risk.
- (iii) Commission and other acquisition costs incurred during the financial year that are related to securing new reinsurance inwards contracts and/or renewing existing reinsurance inwards contracts, but which relate to subsequent financial years, are deferred to the extent that they are recoverable out of future revenue margins.
- (iv) Deferred acquisition costs are capitalised and amortised over the life of the policy to which they relate on a basis consistent with the earnings pattern of that policy.
- (v) Claims incurred comprise claims and claims handling costs paid in the year and changes in the claims outstanding provisions, including provisions for claims incurred but not reported (IBNR) and related expenses, together with any adjustment to claims from prior years. Claims handling costs are mainly external costs related to the negotiation and settlement of claims.
- (vi) 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 date of the Statement of Financial Position, 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 date of the Statement of Financial Position.
- (vii) The ultimate cost of outstanding claims is based on statistical techniques of estimation applied by the Company's internal actuaries. The primary sensitivity in these methods is the assumption that past experience is indicative of the final outcome of current business and, where past experience is insufficient that the market benchmarks are representative of the Company's own underwriting.
- (viii) 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.
- (ix) 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 income statement technical account for the period in which the adjustments are made.
- (x) Premiums and claims on reinsurance assumed are recognised in the income statement 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

# Brit Reinsurance (Bermuda) Limited

## NOTES TO THE FINANCIAL STATEMENTS

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### 3. Principal accounting policies (continued)

#### a) Underwriting activities (continued)

the inwards business being protected. Reinstatement premiums on both inwards and outwards business are accreted to the income statement on a pro rata basis over the term of the original policy to which they relate.

- (xi) 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 income statement technical account. If a reinsurance asset is impaired the Company reduces its carrying amount accordingly, and will immediately recognise the impairment loss in the income statement 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 that 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.

#### b) Other Accounting Policies

- (i) Transactions in foreign currencies other than Sterling, US dollars, Canadian dollars and Euros are translated at the rate of exchange ruling at the date the transaction is processed. 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 US dollars are translated at the rate of exchange ruling at 31 December of each year. Exchange profits or losses arising on the translation of foreign currency amounts relating to the Company's reinsurance operations are included within net operating expenses in the technical account.
- (ii) Provisions are liabilities with uncertainties in the amount or timing of payments. Provisions are recognised if there is a present obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made at the date of the Statement of Financial Position.
- (iii) Investment return comprises all investment income, interest receivable, dividend income, realised investment gains and losses and movements in unrealised gains and losses, net of investment management charges. Interest income is recognised using the effective interest method. Dividend income is recognised when the shareholder's right to receive payment is established. 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 date of the Statement of Financial Position 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.
- (iv) Investment return is initially recorded in the non-technical account. A transfer is made from the non-technical account to the technical account to reflect the investment return on funds supporting underwriting business. All investment return is considered to arise on such funds.

# Brit Reinsurance (Bermuda) Limited

## NOTES TO THE FINANCIAL STATEMENTS

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### 3. Principal accounting policies (continued)

#### b) Other Accounting Policies (continued)

- (v) 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 the Company and management personnel on a fair value basis.
- (vi) The fair values of quoted financial investments are based on current bid prices. If the market for an investment is not active, the Company establishes fair value by using valuation techniques such as recent arm's length transactions, reference to similar listed investments, discounted cash flow models or option pricing models. Gains and losses on investments designated as FVTPL are recognised through the income statement. Investments are held on the Statement of Financial Position at fair value.
- (vii) Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the contract.
- (viii) 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.
- (ix) A financial liability is derecognised when it is extinguished which is when the obligation in the contract is discharged, cancelled or expired.
- (x) 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.
- (xi) Financial assets other than investments are carried at amortised cost less impairment. 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.
- (xii) Derivative financial instruments include foreign exchange contracts, forward rate agreements, interest rate futures, currency and interest rate swaps and other financial instruments that derive their value mainly from underlying interest rates, foreign exchange rates, credit indices, commodity values or equity instruments. All derivatives are initially recognised in the Statement of Financial Position at their fair value, which represents their cost. They are subsequently remeasured at their fair value, with movements in this value recognised in the technical account. Fair values are obtained from quoted market prices or, if these are not available, by using valuation techniques such as discounted cash flow models or option pricing models. All derivatives are carried as assets when the fair values are positive and as liabilities when the fair values are negative. Derivative contracts may be traded on an exchange or over-the-counter (OTC). Exchange-traded derivatives are standardised and include certain futures and option contracts. OTC derivative contracts are individually negotiated between contracting parties and include forwards and swaps. Derivatives are subject to various risks including market, liquidity and credit risk, similar to those related to the underlying financial instruments. Many OTC transactions are contracted and documented under International Swaps and Derivatives Association (ISDA) master agreements or their equivalent, which are designed to provide legally enforceable set-off in the event of default, reducing the Syndicate's exposure to credit risk. The notional or contractual amounts associated with derivative financial instruments are not recorded as assets or liabilities on the Statement of Financial Position as they do not represent the fair value of these transactions.
- (xiii) Withholding taxes on investment income are presented as taxation on ordinary activities and measured based on the prevailing withholding tax rates applicable to the investment.

# Brit Reinsurance (Bermuda) Limited

## NOTES TO THE FINANCIAL STATEMENTS

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### 3. Principal accounting policies (continued)

#### b) Other Accounting Policies (Continued)

- (xiv) Final dividends to the Company's shareholder are recognised in the financial statements in the period in which they are declared in a general meeting or by the member passing a written resolution. Interim dividends are recognised when they are paid.

#### c) Critical accounting estimates and judgements in applying accounting policies

The Company makes various assumptions about the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the reported amounts of assets and liabilities within the next financial year.

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.

#### **Estimation and judgement in relation to determining the ultimate liability arising from claims made under Insurance contracts**

The estimation of the ultimate liability arising from claims made under insurance contracts is the Company's most critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimate of the amounts that the Company 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 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.

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 internal 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;

# Brit Reinsurance (Bermuda) Limited

## NOTES TO THE FINANCIAL STATEMENTS

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### 3. Principal accounting policies (continued)

#### *c) Critical accounting estimates and judgements in applying accounting policies (Continued)*

- The initial ultimate selections derived by the actuarial department, along with the underlying key assumptions and methodology, are discussed at 'pre-committee' meetings. For policies that are assumed on a quota share basis from Syndicate 2987, the Company relies on the Syndicate 2987 'pre-committee' meetings with class underwriters, divisional underwriting directors and the claims team at 'pre-committee' meetings. A specific Brit Re 'pre-committee' meeting for other Brit Re policies is held with the Brit Re underwriters, Finance and Operations Director and Operations Manager. The actuarial department may make adjustments to the initial ultimates following these meetings;
- Following the completion of the 'pre-committee' meetings and peer review process within the actuarial department, the ultimate selections (actuarial estimate), assumptions, methodology and uncertainties are presented to the Management Committee for discussion and debate. For policies that are assumed on a quota share basis from Syndicate 2987, the ultimate selections are presented on a look-through basis from the Syndicate 2987 ultimates; and
- Following review of the actuarial estimate, the Management Committee recommends the committee estimates to be adopted in the financial statements.

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.

The Company has carefully considered the impact of the higher levels of inflation. Reserves continue to be set at a margin above the actuarial estimate which is set on a best estimate basis. As part of the year-end reserving exercise, the impact of inflation has been considered in detail by the internal Actuarial team to ensure that assumptions are consistent with the Company's forward looking expectations for claims inflation. Various techniques have been considered in line with guidance from regulators.

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 Company is aware.

#### **Estimation premium income**

Premium income reported by the Company includes estimates for ultimate premiums for certain contracts, in particular those written under delegated authority agreements. These ultimate premiums are written in line with expected attachments of the underlying policies. The Company considers relevant information when determining estimates, including information provided by brokers and coverholders, past underwriting experience, market conditions, and the contractual terms of policies. As updated information relating to such variables becomes available, for example when bordereaux are received, adjustments to estimates are recorded in the period in which they are determined, and will impact gross premiums written and provisions for unearned premium in the technical account

# Brit Reinsurance (Bermuda) Limited

## NOTES TO THE FINANCIAL STATEMENTS

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### 3. Principal accounting policies (continued)

#### *c) Critical accounting estimates and judgements in applying accounting policies (continued)*

#### **Estimation and judgements in respect of fair value of financial investments**

Financial investments are carried in the Statement of Financial Position at fair value. Determining the fair value of certain investments requires estimation.

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 that set out in FRS 102. 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. At 31 December 2023, financial investments amounting to \$187.3m (2022: \$134.1m) were classified as level three.

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 results of operations and reported financial condition. For further information, refer to note 12.

#### **Estimation and judgements in respect of Deferred Tax**

On 27th December 2023, Bermuda enacted a Corporate Income Tax regime (CIT) effective from 1 January 2025 at a rate of 15%. Under the new legislation, an economic transition adjustment (ETA) has been introduced which mandates a revaluation of Bermudian taxpayers' balance sheet to market value as at 30 September 2023 resulting in an increase in the tax basis of net assets. A Deferred Tax Asset of \$4.8m has been accordingly recognised in these financial statements as at 31 December 2023. This Deferred Tax Asset arises due to the difference between the UK GAAP undiscounted view of the Company's reserves and the estimated fair value of the reserves. No other material differences between book value and fair value as at 30 September 2023 have been identified.



# Brit Reinsurance (Bermuda) Limited

## NOTES TO THE FINANCIAL STATEMENTS

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### 4. Risk management policies

#### 4.1 Risk management overview

The Company's activities expose it to a number of key risks which have the potential to affect its ability to achieve its business objectives. The following describes the Company's 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 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, and 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 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 GAAP requirements.

The key governance bodies of the Company in the risk management process are set out below:

- The Board, which is responsible for setting business and risk strategy and ensuring the principal risks and uncertainties facing the Company are managed;
- The Committees of the Company, including the Risk Oversight Committee and the Audit Committee; and
- The Management Committee, which is responsible for the management of the overall risk profile within the agreed limits.

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

#### 4.2 Insurance risk

This is the risk of a financial loss due to actual experience being different than that assumed when an insurance product was designed and priced. This is the principal risk the Company is exposed to through the underwriting process which arises from the inherent uncertainty in the occurrence, timing and amount of the insurance liabilities. The Company is exposed to insurance risk directly through the Quota Share and FAL contracts and the additional third-party casualty and property business that it writes.

This risk arises due to the possibility that insurance contracts are under-priced, under-reserved or subject to catastrophe claims. The areas of insurance risk discussed below are underwriting (including aggregate exposure management) and reserving risk.

# Brit Reinsurance (Bermuda) Limited

## NOTES TO THE FINANCIAL STATEMENTS

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### 4. Risk management policies (continued)

#### 4.3 Underwriting risk

The Company is exposed to underwriting risk both directly through the Quota Share contract and other written business. Underwriting risk 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 Company as a result of unpredictable events.

The Company is also exposed to the risks resulting from underwriters accepting risks for premiums which are insufficient to cover the ultimate claims which result from such policies. The underwriting environment and the associated impact on premium rates, including trends due to the underwriting cycle, are factored into the Brit Group's pricing models and risk management tools, and is continually monitored to assess whether any corrective action is required.

The underwriters utilise the Brit Group technical pricing framework or seek independent pricing advice where required to ensure that the pricing process in the Company is appropriate. The Company has also developed underwriting guidelines, including limits of authority, which are binding upon all staff authorised to underwrite business. The Management Committee oversees compliance with the underwriting guidelines. In addition, the Brit Group internal audit department, which is entirely independent of underwriting, periodically checks compliance with the underwriting guidelines.

In order to limit risk, the number of reinstatements per policy is limited, deductibles are imposed, and policy exclusions are applied.

The Company is rated 'A' by A.M. Best. Any future downgrade to the Company's credit rating may adversely affect the Company's standing in the market.

#### Underwriting risk profile

The underwriting strategy includes a diverse and balanced portfolio of risks. This portfolio is assessed as part of the business planning and strategy process which operates annually. The business plan is approved by the Board and is monitored by the Management Committee.

# Brit Reinsurance (Bermuda) Limited

## NOTES TO THE FINANCIAL STATEMENTS

### 4. Risk management policies (continued)

#### 4.3 Underwriting risk (continued)

##### Sensitivity to changes in net claims ratio

The Company profit before tax is sensitive to a 1% change in the net claims ratio for each class of business as follows:

Category	31 December 2023		31 December 2022	
	\$m	%	\$m	%
Quota Share	3.0	76%	3.1	80%
Stop Loss	0.8	20%	0.6	15%
Other	0.2	4%	0.2	5%
<b>Total</b>	<b>4.0</b>	<b>100%</b>	<b>3.9</b>	<b>100%</b>

#### 4.4 Reserving risk

This is the risk that the actual cost of losses for obligations incurred before the valuation date will differ from expectations or assumptions set as part of the reserving process. This is a key risk for the Company as the reserves for unpaid losses represent the largest component of the Company's liabilities and are inherently uncertain. The Management Committee chaired by the Interim Finance Director is responsible for the management of the reserving risk for the Company.

The Company has a rigorous process for establishing reserves for insurance claim liabilities and a number of controls are used to mitigate reserving risk. The claims policy sets out the approach to management of claims risk. In particular, this deals with notification, validation of policy terms and conditions, investigations and use of experts, setting of provisions for case estimates, negotiation and settlement of claims, claim authorities, the peer review process, file management, review and external audits, suspicious and disputed claims and ex-gratia payments.

The Brit Group has an experienced team of actuaries covering all Brit entities, including Brit Re. The actuarial team performs the quarterly reserving analysis using a wide range of actuarial techniques to estimate the claims liabilities in line with the Reserving policy. They work closely together with other business functions such as underwriting, claims management and exposure management to ensure that they have a full understanding of emerging claims experience.

The Brit 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 Management Committee as part of the formal governance arrangements for the Company. The estimate agreed by the committee is used as a basis for the Company's financial statements. The reserves in the financial statements are presented to the Audit Committee who recommend the reserves to the Board for ultimate sign off.

#### 4.5 Investment risk management

##### Introduction

This section describes the Company's approach to managing its investment risk, from both a quantitative and a qualitative perspective. Investment risk includes market risk (which is covered in section 4.6), investment credit risk (which is covered in section 4.9) and liquidity risk (which is covered in section 4.10).

# Brit Reinsurance (Bermuda) Limited

## NOTES TO THE FINANCIAL STATEMENTS

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### 4. Risk management policies (continued)

#### 4.5 Investment risk management (continued)

##### Investment governance

Investment risk is managed in line with the elements of the RMF. The Board has overall responsibility for determining the investment strategy, including defining the risk tolerance. This is achieved through investment policies and guidelines, which reflect the risk appetite and the business strategy of the Company.

The Brit Reinsurance (Bermuda) Limited Board assesses the effectiveness of the Company's investment performance. The Investment strategy is executed through an outsourced investment management agreement, which is in line with prevailing regulations, with Hamblin Watsa Investment Counsel Limited (HWIC) and a selection of other third-party investment managers.

The Risk Oversight Committee ensures that the investment risk is managed within the framework and also reports to the Board. A Brit Group Investment Operations Committee oversees the operational risk that is relevant to the investment management function which is then reported to the Management Committee, as well as Risk Oversight Committee and Board as relevant.

Quarterly information is provided covering portfolio composition, performance and forecasting. Any operational issues and breaches to the risk appetite framework are reported to the Risk Oversight Committee and the Board.

##### Risk tolerance

Investment risk tolerances are set by the Board, defining the Company's appetite to investments, solvency risk, currency risk and liquidity risk. The appetite for these elements of investment risk is derived from the overall risk appetite and business strategy of the Company and reflects a number of factors, including the current and expected economic climate, capital management strategy, liquidity needs and asset liability matching (ALM) policy. The investment risk tolerance helps determine the investment strategy.

Risk metrics are monitored and reported on regularly to ensure that performance is within the Board-approved levels, and limits continue to remain appropriate, within the governance framework highlighted above.

##### Solvency matching

Assets are considered by both currency and duration profile in relation to the liabilities thereby managing the impact of foreign exchange and interest rate risk on the solvency position.

Under this strategy, the assets are sought to be held in proportion to the currencies of the technical provisions. A solvency matched benchmark is calculated which is the cash flow profile for investments which would minimise the sensitivity of the Company's solvency position to changes in interest and exchange rates. The Company seeks to implement this strategy through the use of cash, investments, and foreign exchange forward contracts in the respective currencies. The investment guidelines stipulate duration limits and the positioning and sensitivity for both the asset and solvency position is reported quarterly (see Note 4.6).

##### Investment management

The investment management strategy is delivered through outsourced Investment Management Agreements (IMAs) with HWIC and a selection of other third-party investment managers. The IMAs prescribe the investment parameters within which HWIC and the other managers are permitted to make asset allocation decisions on behalf of the Company. The Company's investment policy details the parameters, roles and responsibilities relating to the management of the investment portfolio.

# Brit Reinsurance (Bermuda) Limited

## NOTES TO THE FINANCIAL STATEMENTS

### 4. Risk management policies (continued)

#### 4.6 Market risk profile

##### Introduction

Market risk 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: interest rate risk, currency risk and other price risk. Credit risk on financial investments and cash is covered in the credit risk section.

##### Interest rate 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 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 to a 100 basis points parallel shift in interest rates. The longer the duration of a security, the more sensitive it is to changes in interest rates.

The banded durations of the Company's financial investments and cash and cash equivalents sensitive to interest rate risk are shown in the table below:

As at 31 December 2023		Duration					
Assets	Statement of Financial Position \$m	Up to a year \$m	1-3 years \$m	3-5 years \$m	Over 5 years \$m	Equities \$m	Total \$m
Financial investments	1,619.3	454.9	278.4	344.0	310.2	231.8	1,619.3
Derivatives	13.6	12.9	0.7	-	-	-	13.6
Cash at bank and in hand	27.0	27.0	-	-	-	-	27.0
	<b>1,659.9</b>	<b>494.8</b>	<b>279.1</b>	<b>344.0</b>	<b>310.2</b>	<b>231.8</b>	<b>1,659.9</b>

As at 31 December 2022		Duration					
Assets	Statement of Financial Position \$m	Up to a year \$m	1-3 years \$m	3-5 years \$m	Over 5 years \$m	Equities \$m	Total \$m
Financial investments	1,422.8	375.7	281.3	419.8	80.4	265.6	1,422.8
Derivatives	1.1	0.3	-	0.8	-	-	1.1
Cash at bank and in hand	47.1	47.1	-	-	-	-	47.1
	<b>1,471.0</b>	<b>423.1</b>	<b>281.3</b>	<b>420.6</b>	<b>80.4</b>	<b>265.6</b>	<b>1,471.0</b>

The duration of the investment portfolio is set within an allowable range relative to the targeted duration.

# Brit Reinsurance (Bermuda) Limited

## NOTES TO THE FINANCIAL STATEMENTS

### 4. Risk management policies (continued)

#### 4.6 Market risk profile (continued)

As the claims liabilities are measured on an undiscounted basis, the reported liabilities are not sensitive to changes in interest rates. This leads to the conflict between targeting a longer duration to protect the solvency position against movements in interest rates, whilst a shorter duration for the assets will reduce the possible volatility around the income statement.

#### Sensitivity to changes in investment yields

The sensitivity of profit to the changes in the investment yields is set out in the table below. The analysis is based on the information as at 31 December 2023.

(\$m)	Impact on profit before tax	
	2023	2022
<b>Increase</b>		
25 basis points	(10.2)	(7.3)
50 basis points	(20.4)	(14.6)
100 basis points	(40.9)	(29.2)
<b>Decrease</b>		
25 basis points	10.2	7.3
50 basis points	20.4	14.6
100 basis points	40.9	29.2

The effect on shareholder's equity would be the same as the effect on profit. The assets included within this sensitivity analysis exclude the exposure to funds, which for the purpose of this calculation, are assumed to have zero duration.

#### 4.7 Currency risk

Currency risk is the risk that movements in exchange rates impact the financial performance or solvency position of the Company. The Company matches assets to liabilities for each of the main currencies. Company capital is held in proportion to the liabilities, to minimise the impact on solvency and distributable earnings from movements in exchange rates. The split of assets and liabilities for each of the Company's main currencies, converted to US Dollars, is set out in the tables below:

Converted \$ millions	GBP £	US \$	CAD \$	EUR €	Total
<b>As at 31 December 2023</b>					
Total assets	83.0	1,683.3	103.8	144.1	2,014.2
Total liabilities	(159.9)	(809.0)	(36.3)	(36.4)	(1,041.5)
<b>Net assets excluding the effect of derivatives</b>	<b>(76.9)</b>	<b>874.3</b>	<b>67.5</b>	<b>107.8</b>	<b>972.7</b>
Adjustment for foreign exchange derivatives	135.9	(37.8)	(47.9)	(50.2)	-
<b>Adjusted net assets</b>	<b>59.0</b>	<b>836.5</b>	<b>19.6</b>	<b>57.6</b>	<b>972.7</b>

# Brit Reinsurance (Bermuda) Limited

## NOTES TO THE FINANCIAL STATEMENTS

### 4. Risk management policies (continued)

#### 4.7 Currency risk (continued)

Converted \$ millions	GBP £	US \$	CAD \$	EUR €	Total
As at 31 December 2022 (restated)*					
Total assets	72.8	1,625.1	61.2	125.6	1,884.7
Total liabilities	(157.5)	(744.9)	(31.7)	(31.3)	(965.4)
Net assets excluding the effect of derivatives	(84.7)	880.2	29.5	94.3	919.3
Adjustment for foreign exchange derivatives	201.7	(125.9)	(25.4)	(50.4)	0.0
Adjusted net assets	117.0	754.3	4.1	43.9	919.3

\*see note 24 for further details

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

The Company seeks to materially match its currency position so holds net assets across a number of currencies. The Company takes into consideration the underlying currency of its liabilities and invests its assets proportionately across these currencies so as to protect the solvency of the Company, and hence capital available for distribution to the shareholder, against variation in foreign exchange rates. As a result, the Company holds a significant proportion of its assets in foreign currency investments.

Foreign currency forward contracts can be used to achieve the desired exposure to each currency. From time to time the Company may also choose to utilise options on foreign currency derivatives to mitigate the risk of reported losses due to changes in foreign exchange rates. The degree to which options 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 currency exchange rates.

#### Sensitivity to changes in foreign exchange rates

The table below gives an indication of the impact on profit of a percentage change movement in the relative strength of the US dollar against the value of Sterling, Canadian dollar, Australian dollar and Euro simultaneously. The analysis is based on information as at 31 December 2023.

(\$m)	Impact on profit before tax	
	2023	2022
<b>US dollar weakens</b>		
10% against other currencies	<b>13.6</b>	16.5
20% against other currencies	<b>27.2</b>	33.0
<b>US dollar strengthens</b>		
10% against other currencies	<b>(13.6)</b>	(16.5)
20% against other currencies	<b>(27.2)</b>	(33.0)

The effect on shareholder's equity would be the same as the effect on profit.

# Brit Reinsurance (Bermuda) Limited

## NOTES TO THE FINANCIAL STATEMENTS

### 4. Risk management policies (continued)

#### 4.8 Other price 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 (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

Financial assets and derivatives that are recognised at their fair value are susceptible to losses due to adverse changes in their prices. This is known as price risk.

Listed investments are recognised in the financial statements at quoted bid price. If the market for the investment is not considered to be active, then the Company establishes fair valuation techniques. This includes using recent arm's length transactions, reference to current fair value of other similar investments, discounted cash flow models and other valuation techniques that are commonly used by market participants.

The prices of fixed and floating rate income securities are predominantly impacted by currency, interest rate and credit risks.

The Company invests a proportion of its assets in equities and other variable yield securities.

Other price risk is controlled by investing in accordance with the "prudent person principle" within the Investment guidelines which also establish maximum allocations to different asset classes.

#### Sensitivity to changes in other price risk

The sensitivity of the profit to the changes in the prices of equity and other variable yield securities and units in unit trusts is set out in the table below. The analysis is based on the information as at 31 December 2023.

(\$m)		Impact on profit before tax	
		2023	2022
<b>Increase in fair value</b>	10%	<b>57.2</b>	53.1
	20%	<b>114.3</b>	106.2
	30%	<b>171.5</b>	159.3
<b>Decrease in fair value</b>	10%	<b>(57.2)</b>	(53.1)
	20%	<b>(114.3)</b>	(106.2)
	30%	<b>(171.5)</b>	(159.3)

The effect on shareholder's equity would be the same as the effect on profit.



# Brit Reinsurance (Bermuda) Limited

## NOTES TO THE FINANCIAL STATEMENTS

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### 4. Risk management policies (continued)

#### 4.9 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 in a timely manner.

##### **Reinsurance credit risk**

This is the risk that reinsurers fail to pay valid claims against a reinsurance contract held by the Company.

Credit risk from reinsurers is controlled through only transacting with reinsurers that meet certain minimum requirements and that have been approved by the Management Committee. The Brit Group's Finance function reviews the list of approved reinsurers and their maximum exposure limits at least annually and following any significant changes in a reinsurer's position, including changes in credit rating. The Brit Group's Finance function also monitors exposure against the assigned reinsurer limits and may request collateral where any limits are breached.

Any reinsurance aged debts are monitored by the Management Committee. Any material aged debts are reported to the Risk Oversight Committee and the Board at least quarterly.

##### **Premium debtor risk**

This is the risk that the Brit Group fails to pass on premiums or claims collected or paid on behalf of the Company.

The Company's most material premium debtors are Brit Syndicate 2987 and Brit UW Limited. As both policyholders are part of the Brit Group, the premium debtor credit risk associated with these transactions is considered negligible. Additionally, Brit Re has the right to offset premium debt against claim amounts owed to Syndicate 2987.

##### **Investment credit risk**

##### **Investment credit risk management process**

The Management Committee chaired by the Interim Finance Director is responsible for the management of investment credit risk. The Investment Risk Framework and Investment policy set out clear limits and controls around the level of investment credit risk. The Company has 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 Company's cash and investments. In addition, the investment risk framework further limits potential exposure to credit risk through the monitoring of the aggregate investment risk limits.

# Brit Reinsurance (Bermuda) Limited

## NOTES TO THE FINANCIAL STATEMENTS

### 4. Risk management policies (continued)

#### 4.9 Credit Risk (continued)

#### Investment credit risk profile

The summary of the investment credit risk exposures for the Company is set out in the tables below:

As at 31 December 2023	AAA	AA	A	BBB and below	Equities	P1	Not rated	Total
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Financial investments	512.3	6.7	380.1	229.2	231.8	-	259.2	1,619.3
Derivative Assets	-	-	-	-	-	-	13.6	13.6
Derivative Liabilities	-	-	-	-	-	-	(7.2)	(7.2)
Cash at bank and in hand	-	-	0.7	-	-	23.3	3.0	27.0
<b>Total</b>	<b>512.3</b>	<b>6.7</b>	<b>380.8</b>	<b>229.2</b>	<b>231.8</b>	<b>23.3</b>	<b>268.6</b>	<b>1,652.7</b>

As at 31 December 2022*	AAA	AA	A	BBB and below	Equities	P1	Not rated	Total
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Financial investments	553.2	3.8	185.1	207.4	265.6	-	207.7	1,422.8
Derivative Assets	-	-	-	-	-	-	1.1	1.1
Derivative Liabilities	-	-	-	-	-	-	(8.4)	(8.4)
Cash at bank and in hand	-	-	1.1	-	-	39.7	6.3	47.1
<b>Total</b>	<b>553.2</b>	<b>3.8</b>	<b>186.2</b>	<b>207.4</b>	<b>265.6</b>	<b>39.7</b>	<b>206.7</b>	<b>1,462.6</b>

\*the prior year table has been re-presented to include derivative liabilities in order to be comparable with the current year presentation.

# Brit Reinsurance (Bermuda) Limited

## NOTES TO THE FINANCIAL STATEMENTS

### 4. Risk management policies (continued)

#### 4.10 Liquidity risk

This is the risk the Company 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 Company faces is the daily calls on its available cash resources in respect of claims arising from insurance contracts.

The Company monitors the levels of cash and cash equivalents on a daily basis, ensuring adequate liquidity to meet the expected cash flow requirements due over the short-term.

The Company also limits the amount of investment in illiquid securities in line with the Liquidity policy set by the Board. This involves ensuring sufficient liquidity to withstand claim scenarios at the extreme end of business plan projections by reference to an extreme windstorm event, asset class stresses and reinsurer disputes.

#### As at 31 December 2023

Assets	Statement of Financial Position \$m	Fair values					Equities \$m	Total \$m
		Up to a year \$m	1-3 years \$m	3-5 years \$m	Over 5 years \$m			
Financial investments	1,619.3	454.9	278.4	344.0	310.2	231.8	1,619.3	
Derivative Assets	13.6	12.9	0.7	-	-	-	13.6	
Debtors arising out of reinsurance operations	230.2	230.2	-	-	-	-	230.2	
Amounts due from Group undertakings	0.6	0.6	-	-	-	-	0.6	
Reinsurers' share of claims outstanding	49.1	8.1	41.0	-	0	-	49.1	
Cash at bank and in hand	27.0	27.0	-	-	-	-	27.0	
	1,939.8	733.7	320.1	344.0	310.2	231.8	1,939.8	

Liabilities	Statement of Financial Position \$m	Fair values				Total \$m
		Up to a year \$m	1-3 years \$m	3-5 years \$m	Over 5 years \$m	
Claims outstanding	818.7	118.8	448.5	123.4	128.0	818.7
Derivative Liabilities	7.2	0.2	0.4	6.6	-	7.2
Other creditors	3.6	3.6	-	-	-	3.6
	829.5	122.6	448.9	130.0	128.0	829.5

# Brit Reinsurance (Bermuda) Limited

## NOTES TO THE FINANCIAL STATEMENTS

### 4. Risk management policies (continued)

#### 4.10 Liquidity risk (continued)

As at 31 December 2022 (restated)\*

Assets	Statement of Financial Position	Fair values					Equities	Total
		Up to a year	1-3 years	3-5 years	Over 5 years			
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	
Financial investments	1,422.8	375.7	281.3	419.8	80.4	265.6	1,422.8	
Derivatives	1.1	0.3	-	0.8	-	-	1.1	
Debtors arising out of reinsurance operations	243.2	243.2	-	-	-	-	243.2	
Amounts due from Group undertakings	86.2	86.2	-	-	-	-	86.2	
Reinsurers' share of claims	50.5	24.7	21.5	3.3	1.0	-	50.5	
Cash at bank and in hand	47.1	47.1	-	-	-	-	47.1	
	1,850.9	777.2	302.8	423.9	81.4	265.6	1,850.9	

\*see note 24 for further details

Liabilities	Statement of Financial Position	Fair values				Total
		Up to a year	1-3 years	3-5 years	Over 5 years	
	\$m	\$m	\$m	\$m	\$m	\$m
Claims outstanding	759.9	205.4	233.1	123.8	197.6	759.9
Derivatives	8.4	8.4	-	-	-	8.4
Other creditors	0.9	0.9	-	-	-	0.9
	769.2	214.7	233.1	123.8	197.6	769.2

# Brit Reinsurance (Bermuda) Limited

## NOTES TO THE FINANCIAL STATEMENTS

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### 4. Risk management policies (continued)

#### 4.11 Operational risk

Operational risk is the potential for loss arising from the failure of people, process or technology or the impact of external events. The nature of operational risk means that it is dispersed across all functional areas of the Company.

Brit Group risk is considered part of operational risk. The Company is dependent upon a number of functions provided by the Brit Group through outsourcing agreements to support its operation. It is noted that other than the risks relating to the outsourcing arrangements, the Company and Brit Group's interests are aligned and therefore the amount of residual Brit Group risk is considered to be small.

Cyber security risk is also considered part of operational risk. Cyber security breaches, could, if they occurred, cause significant financial losses and/or damage to the reputation of the Company.

#### Operational risk management process

Operational risk exposures are managed through a consistent set of management processes that drive risk identification, assessment, control and monitoring.

An operational RMF is in place to ensure an appropriate standard approach is taken to managing operational risk across the Brit Group, including the Company. The key elements of this framework are:

- Allocation of responsibility for the identification and assessment of operational risk. Standard tools are used to facilitate these assessments.
- Definition of standard elements of sound operating controls that are expected to be in place to address all identified operational risks.
- A process that integrates with the Company's internal model to support the setting and monitoring of operational risk appetite and tolerances.
- Governance, reporting and escalation for operational risk.
- Infrastructure supporting the operational RMF; and
- Operational risk management training and awareness.

The Company has a number of controls in place that mitigate the operational risk relating to cyber security and outsourcing functions to the Brit Group. One of these controls is performance monitoring against contractual Service Level Agreements (SLAs), which involves agreement with the Brit Group at the start of the outsourcing contract. The SLAs are monitored to ensure the delivery of expected business benefits and identify and address issues of underperformance.

#### 4.12 Commercial and strategic risks

There is a risk that the Company's strategy is not appropriate or is not implemented effectively which could result in material losses.

The Company is currently rated 'A' by A.M. Best. Any future downgrade to the Company's credit rating would adversely affect the Company's standing in the market.

The Company actively manages its commercial and strategic risk. Strategic decisions are subject to the Management Committee, Risk Oversight Committee and Board review prior to implementation.

# Brit Reinsurance (Bermuda) Limited

## NOTES TO THE FINANCIAL STATEMENTS

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### 4. Risk management policies (continued)

#### 4.13 Other material risks

##### **Geopolitics**

Geopolitical events, such as Russia's invasion of the ongoing wars in Ukraine and the Middle East and the Gaza conflict, have the potential to cause insurance losses and disruption to financial markets. Insurance losses could arise either as a result of direct damage from the conflicts or from second order impacts such as supply chain disruptions and economic instability. There may also be a potential impact on the operational costs of the Company attributable to the downstream effects of high inflation. The Company continues to monitor developments closely. Brit's exposures are actively monitored and managed. Geopolitical risk events may also impact the global economy, as discussed below.

##### **Global economic environment**

Inflation in the USA and the UK remains above target levels and interest rates have risen relative to recent years. Recessionary risks remain given these factors as well as geopolitical risks. Recessions may impact the frequency and cost of claims, investment results, the likelihood of counterparty defaults and the potential for operational risk events. Brit continues to actively monitor and respond to changes in the economic environment.

Brit Group has considered the impact of the increased level of inflation and the economic downturn. Increased focus has been placed on ensuring pricing models adequately address current inflationary trends. Feeding into these models is an enhanced framework assessing the key drivers of claim settlement costs for each class of business. Inflationary impacts were also considered during the year end reserving process.

We remain cognisant of the impact of inflation on the underlying portfolio. We continue to review the key drivers of claim settlement costs and frequency by class of business, which in turn will further inform any required recalibration of our pricing models. Our reserves continue to incorporate our current view of social and economic inflation and include a risk adjustment to allow for uncertainty.

##### **Climate Change**

##### **Risk Management Framework**

Climate change is a key example of a developing risk identified as part of the Company's emerging risk review, and the potential impact on the insurance industry is an area of focus for the market and regulators.

Brit's Risk Management Framework (RMF) sets out the methodology by which Brit Group, which the syndicate is managed by, identifies, measures, and manages risks associated with climate change. Brit considers natural catastrophe risk, liability risk and investment risks to be the most material risks. Using Board tolerances and management metrics, exposure to the above risk types is managed and monitored on an ongoing basis. The RMF is reviewed annually, and regulatory developments are monitored on an ongoing basis.

# Brit Reinsurance (Bermuda) Limited

## NOTES TO THE FINANCIAL STATEMENTS

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### 4. Risk management policies (continued)

#### 4.13 Other material risks (continued)

##### *Climate risk management*

###### Natural catastrophe risks

Relates to climate change are the physical risks of increased frequency and severity of weather-related natural catastrophes. This could result in additional claims. Climate change to date may already be affecting present-day weather events and therefore claims.

Natural catastrophe modelling (further detailed below) is leveraged in pricing as well as outwards reinsurance purchasing decisions. Brit Group seeks to ensure a balanced and well diversified portfolio (including exposure to weather perils), Brit Group has reviewed its property underwriting strategy in recent years and has sought to reduce concentrations in peak catastrophe regions. These initiatives benefit Brit Re through its whole account quota share arrangement with S2987 as well as on its third party business.

Natural Catastrophe risk is assessed using an external vendor model by Verisk (AIR) for the most material and established perils. Using external vendor models is a market practice for most general insurance firms as they are built by scientists and specialists. The modelling is supplemented using the Brit Group View of Risk (BVoR). The BVoR is a set of in-house adjustments used to apply Brit's view of risk to vendor model output. We continuously monitor scientific studies, regularly review the completeness of existing models and the application of the BVoR.

Exposure to natural catastrophe risks at key return periods is monitored on an ongoing basis by the Risk Management Function. Board limits are in place to ensure Brit is not over exposed to natural catastrophe risk.

###### Liability risk

Climate change could result in additional liability claims arising from increasing climate litigation against clients. The claims could arise from firms being held responsible for directly contributing to climate change, not taking climate change into account in business decisions or inadequate disclosures.

Brit's exposure is managed by use of limits on gross underwriting exposure, contract wording and through the purchase of reinsurance.

There is uncertainty over whether courts rule against insurers and if so, over what time horizon such rulings would occur. The number of climate change litigation related claims notifications is monitored to enable early identification of any material uptick.

###### Market risks

Investment losses have the potential to arise from exposure to industries contributing to climate change which could subsequently result in the market value of investments in these industries reducing as the economy transitions away from fossil fuels. This transition risk could occur over the short or long term depending on government policies and financial market movements.

# Brit Reinsurance (Bermuda) Limited

## NOTES TO THE FINANCIAL STATEMENTS

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### 4. Risk management policies (continued)

#### 4.13 Other material risks (continued)

Brit Re has a diversified investment portfolio, with limits on exposure to individual issuers. Exposure to concentrated positions is monitored and reported quarterly to the Management Committee and Board.

##### Other risks

There may be reputational risk to firms if customers deem they are insufficiently responsive to concerns about climate change. Brit Group has developed an ESG strategy which cascades to all its entities, including Brit Re.

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.

The three main areas of risk identified for the Company are natural catastrophes, liability claims and investment losses. Internal scenario analysis has been performed on all three risk types to identify the most material risk types as well as the most exposed segments within each risk as described below. Analysis performed to date has identified physical risks arising from natural catastrophes as having the highest potential for losses therefore this is an area of greater focus.

#### ***Climate scenario analysis and understanding climate risk***

Climate scenario analysis is key to understanding the potential impact of climate-related risks. Analysis performed to date has identified physical risks arising from natural catastrophes as having the highest potential for insured losses therefore this is an area of greater focus.

A climate change scenario is included in Brit Re's Commercial Insurer's Solvency Self-Assessment (CISSA) Which encompasses natural catastrophe, market and liability risk.

A more detailed climate change related litigation risk scenario analysis was performed in 2022. This considered the potential net impact of climate change related litigation under three hypothetical scenarios.

The findings from the scenarios have been integrated into:

- The internally developed Brit View of Risk which is used to supplement natural catastrophe modelling software.
- Brit Group's Property Catastrophe Underwriting Strategy, identifying the most sensitive regions and perils to climate change.
- Industry level exposure monitoring for Brit's asset portfolio for 'high risk' sectors
- Clarity on potential losses to be accounted for in underwriting and business planning decisions.
- CISSA Processes to ensure climate change related risks are considered across relevant areas of the business.



# Brit Reinsurance (Bermuda) Limited

## NOTES TO THE FINANCIAL STATEMENTS

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### 4. Risk management policies (continued)

#### 4.14 Capital Management

Management capital is the capital required by the Company for current trading purposes based on our business strategy and regulatory requirements. Management capital requirements are in excess of capital requirements under the Bermuda regulatory regime, which became effective on 1 January 2013.

The capital policy is set by the Board and is based on the output of the internal model which reflects the risk profile of the business. The policy requires capital to be held well in excess of regulatory minimum requirements and underpins the Company's financial strength. The Company proactively responds to developments in the financial environment to ensure its capital strength is maintained whilst optimising risk adjusted returns.

The Company seeks to hold capital resources at an appropriate level for the business to provide management with:

- The flexibility to absorb major losses while still being in a position to take advantage of subsequent market dislocations;
- The ability to pursue opportunity-driven growth in the Company's core business; and
- The support to provide continuity in regular dividend payments to the shareholder.

The Company is subject to the solvency and capital adequacy requirements of the Bermuda Monetary Authority. All requirements have been complied with during the year by the Company.

Under the Bermuda Insurance Act 1978, the Company is required to maintain at all times a minimum level of statutory capital and surplus. The Company's available statutory capital consists of ordinary share capital and retained earnings, which amounted to \$967.9m as at 31 December 2023 (2022: \$919.3m) reflecting UK GAAP capital of \$972.7m less the deferred tax asset of \$4.8m as advised by the BMA. This represented a surplus of \$610.3m (unaudited) (2022: \$511.6m (unaudited)) over regulatory requirements, being the enhanced capital requirement. The Company is also required to maintain an unaudited minimum liquidity ratio whereby the value of its relevant assets is not less than 75% of the amount of its relevant liabilities and this has been met.

# Brit Reinsurance (Bermuda) Limited

## NOTES TO THE FINANCIAL STATEMENTS

### 5. Net Investment return

Year ended 31 December 2023

	Investment income \$m	Net realised gains/(losses) \$m	Net unrealised gains/(losses) \$m	Total investment return \$m
Equity securities	4.1	30.9	1.0	36.0
Debt securities	41.3	(55.1)	65.6	51.8
Mortgages and Loans	5.4	0.6	-	6.0
Specialised investment funds	0.3	-	51.8	52.1
Derivatives	-	3.9	5.4	9.3
Cash and cash equivalents	2.2	-	-	2.2
<b>Total investment return before expenses</b>	<b>53.3</b>	<b>(19.7)</b>	<b>123.8</b>	<b>157.4</b>
Investment management expenses	(8.2)	-	-	(8.2)
<b>Net investment return</b>	<b>45.1</b>	<b>(19.7)</b>	<b>123.8</b>	<b>149.2</b>

Year ended 31 December 2022

	Investment income \$m	Net realised gains/(losses) \$m	Net unrealised gains/(losses) \$m	Total investment return \$m
Equity securities	5.0	0.6	11.4	17.0
Debt securities	21.4	(14.4)	(63.2)	(56.2)
Mortgages and Loans	1.0	-	-	1.0
Specialised investment funds	-	0.7	(13.5)	(12.8)
Derivatives	-	(19.5)	(12.7)	(32.2)
Cash and cash equivalents	0.8	-	-	0.8
<b>Total investment return before expenses</b>	<b>28.2</b>	<b>(32.6)</b>	<b>(78.0)</b>	<b>(82.4)</b>
Investment management expenses	(4.5)	-	-	(4.5)
<b>Net investment return</b>	<b>23.7</b>	<b>(32.6)</b>	<b>(78.0)</b>	<b>(86.9)</b>

# Brit Reinsurance (Bermuda) Limited

## NOTES TO THE FINANCIAL STATEMENTS

### 6. Provision for unearned premium

	Gross \$m	Reinsurers' share \$m	Net \$m
<b>Balance at 1 January 2023</b>	<b>167.5</b>	<b>(16.2)</b>	<b>151.3</b>
Premiums written in the year	436.5	(48.5)	388.0
Premiums earned in the year	(447.9)	47.2	(400.7)
<b>Change in provision for unearned premium</b>	<b>(11.4)</b>	<b>(1.3)</b>	<b>(12.7)</b>
Effect of movement in exchange rates	1.5	-	1.5
<b>Balance at 31 December 2023</b>	<b>157.6</b>	<b>(17.5)</b>	<b>140.1</b>

	Gross \$m	Reinsurers' share \$m	Net \$m
Balance at 1 January 2022	129.1	(1.0)	128.1
Premiums written in the year	463.8	(48.5)	415.3
Premiums earned in the year	(422.9)	33.3	(389.6)
Change in provision for unearned premium	40.9	(15.2)	25.7
Effect of movement in exchange rates	(2.5)	-	(2.5)
Balance at 31 December 2022	167.5	(16.2)	151.3

All net premiums for the current year and the prior year relate to inwards reinsurance business.

# Brit Reinsurance (Bermuda) Limited

## NOTES TO THE FINANCIAL STATEMENTS

### 7. Claims outstanding

	Gross \$m	Reinsurers' share \$m	Net \$m
<b>Balance at 1 January 2023</b>	<b>759.9</b>	<b>(50.5)</b>	<b>709.4</b>
<b>Claims incurred in current underwriting year</b>	<b>121.7</b>	<b>3.8</b>	<b>125.5</b>
<b>Claims incurred in prior underwriting years</b>	<b>125.0</b>	<b>(7.6)</b>	<b>117.4</b>
<b>Claims paid in the year</b>	<b>(198.0)</b>	<b>5.2</b>	<b>(192.8)</b>
<b>Change in provisions for claims</b>	<b>48.7</b>	<b>1.4</b>	<b>50.1</b>
<b>Effect of movement in exchange rates</b>	<b>10.1</b>	<b>0.0</b>	<b>10.1</b>
<b>Balance at 31 December 2023</b>	<b>818.7</b>	<b>(49.1)</b>	<b>769.6</b>

	Gross \$m	Reinsurers' share \$m	Net \$m
Balance at 1 January 2022	647.4	(8.1)	639.3
Claims incurred in current underwriting year	192.6	(47.8)	144.8
Claims incurred in prior underwriting years	122.4	4.7	127.1
Claims paid in the year	(179.8)	0.6	(179.2)
Change in provisions for claims	135.2	(42.5)	92.7
Effect of movement in exchange rates	(22.7)	0.1	(22.6)
Balance at 31 December 2022	759.9	(50.5)	709.4

# Brit Reinsurance (Bermuda) Limited

## NOTES TO THE FINANCIAL STATEMENTS

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### 8. Insurance and reinsurance contracts

#### Assumptions and changes in assumptions

##### *Process used to decide on assumptions required*

The risks associated with these insurance liabilities and in particular with casualty insurance are complex and subject to a number of variables that complicate quantitative analysis.

The Brit Group has an experienced team of actuaries covering all Brit entities, including Brit Re. For policies that are assumed on a quota share basis from Syndicate 2987, the actuarial function will assume a look-through basis to the underlying Syndicate 2987 contracts. For these contracts, the methods described below are applied to the underlying Syndicate 2987 contracts and split by class. For all other contracts written by the Company, the methods described will be applied directly.

The actuarial function uses several statistical methods to incorporate the various assumptions made in order to estimate the ultimate costs of claims. The two methods more commonly used are the chain-ladder and the Bornhuetter-Ferguson methods.

Chain-ladder methods may be applied to premiums, paid claims or incurred claims (i.e. paid claims plus case estimates). The basic technique involves the analysis of historical claims development factors and the selection of estimated development factors based on these historical patterns. The selected development factors are then applied to cumulative claims data for each underwriting year that is not yet fully developed to produce an estimated ultimate claims cost for each underwriting year.

Chain-ladder techniques are most appropriate for mature classes of business that have a relatively stable development pattern. Chain-ladder techniques are less suitable in cases in which the insurer does not have a developed claims history for a particular class of business or for underwriting years at early stages of development where the outcome is still highly uncertain.

The Bornhuetter-Ferguson method uses a combination of a benchmark or market-based estimate and an estimate based on claims experience. The former is based on a measure of exposure such as premiums; the latter is based on the paid or incurred claims to date. The two estimates are combined using a formula that gives more weight to the

experience-based estimate as time passes. This technique is used in situations in which developed claims experience is not available for the projection (recent underwriting year or new classes of business).

The choice of selected results for each year of each class of business depends on an assessment of the technique that has been most appropriate to observed historical developments. In certain instances, this has meant that different techniques or combinations of techniques have been selected for the individual underwriting year or Groups of underwriting years within the same class of business.

Standard statistical techniques may not be solely appropriate for assessing ultimate claims for a number of classes of business (e.g. casualty treaty) and particular events (e.g. natural catastrophes), therefore alternative methodologies may be employed to add additional rigour to the process. Examples include reviewing potential exposure on a policy by policy basis and taking account of market intelligence to determine the Company's share of the loss.

# Brit Reinsurance (Bermuda) Limited

## NOTES TO THE FINANCIAL STATEMENTS

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### 8. Insurance and reinsurance contracts (continued)

#### Assumptions and changes in assumptions (continued)

##### *Process used to decide on assumptions required (continued)*

In addition to the estimation of claims reserves, certain estimates are produced for unearned premiums. For open market business, earned premium is calculated at policy level. However, premium derived from delegated underwriting authorities is calculated by applying the 1/144ths method to estimated premiums applied to the master policy. This assumes that attachments to master policies arise evenly throughout the period of that master policy.

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 earned on the same basis as the inwards business being protected.

##### *Changes in assumptions*

The Company did not change its estimation techniques for the reinsurance contracts disclosed in this Note during the year.

#### Claims development tables

The following table shows the estimates of cumulative incurred claims, including both claims notified and IBNR for each successive underwriting year at each reporting date. The amounts are reported on an earned basis, which leads to a large increase in incurred claims in the second year, due to the premium earning pattern.

The claims from prior years have been adjusted at current FX rates to make them comparable on a year-by-year basis. Claims in currencies other than \$ have been retranslated at 31 December 2023 exchange rates.

# Brit Reinsurance (Bermuda) Limited

## NOTES TO THE FINANCIAL STATEMENTS

### 8. Insurance and reinsurance contracts (continued)

#### Assumptions and changes in assumptions (continued)

#### Claims development tables (continued)

#### Estimate of cumulative gross incurred claims:

\$m Underwriting year	2014 & prior	2015	2016	2017	2018	2019	2020	2021	2022	2023
At end of underwriting year		4.8	79.2	133.1	109.4	93.4	160.8	125.3	193.1	122.3
One year later		152.8	175.6	222.9	205.0	196.0	240.1	227.2	293.6	
Two years later		161.6	186.2	232.8	227.2	206.6	251.0	229.8		
Three years later		157.7	187.8	242.5	203.9	211.0	254.9			
Four years later		151.8	190.2	226.0	204.2	220.0				
Five years later		151.8	189.1	225.0	207.8					
Six year later		146.8	198.6	226.9						
Seven years later		148.3	200.4							
Eight years later		148.3								
Current estimate of cumulative claims incurred		148.3	200.4	226.9	207.8	220.0	254.9	229.6	293.6	122.3
Cumulative payments to date		126.5	174.9	195.6	165.6	138.7	172.7	95.5	61.5	3.5
Gross outstanding claims provision at 31 Dec 2023	49.4	21.8	25.5	31.3	42.2	81.3	82.2	134.1	232.1	118.8

#### Estimate of cumulative net incurred claims:

\$m Underwriting year	2014 & prior	2015	2016	2017	2018	2019	2020	2021	2022	2023
At end of underwriting year		4.8	78.8	133.1	109.4	93.4	160.8	117.3	145.3	114.2
One year later		152.4	175.6	222.9	205.0	196.0	239.7	224.0	249.5	
Two years later		161.6	186.2	232.8	227.2	206.6	250.5	227.2		
Three years later		157.7	187.8	242.5	203.9	211.0	254.4			
Four years later		151.8	190.2	226.0	204.2	220.0				
Five years later		151.8	189.1	225.0	207.8					
Six year later		146.8	198.6	226.9						
Seven years later		148.3	200.4							
Eight years later		148.3								
Current estimate of cumulative claims incurred		148.3	200.4	226.9	207.8	220.0	254.4	227.1	249.5	114.2
Cumulative payments to date		126.5	174.9	195.6	165.6	138.7	172.3	94.4	56.9	3.5
Net outstanding claims provision at 31 Dec 2023	49.4	21.8	25.5	31.3	42.2	81.3	82.1	132.7	192.6	110.7

The 2020 and prior years have been impacted by the loss portfolio reinsurance contracts entered into by Brit, on behalf of Syndicate 2987, in the 2018 and 2021 calendar years with Riverstone Managing Agency Limited (for and on behalf of Lloyd's Syndicate 3500). Riverstone assumed all claims handling responsibility for the transferring business.

# Brit Reinsurance (Bermuda) Limited

## NOTES TO THE FINANCIAL STATEMENTS

### 9. Net operating expenses

	2023 \$m	2022 \$m
Acquisition costs	27.5	23.3
Change in deferred acquisition costs	0.1	(2.5)
Reinsurance commissions and profit participation	2.2	(0.1)
Administrative expenses	3.3	3.6
Foreign exchange gains/(losses)	4.4	(10.0)
	<b>37.5</b>	14.3

Administrative expenses include:

	2023 \$m	2022 \$m
Audit remuneration	0.1	0.1

The audit remuneration is broken down into \$65.9k (2022: \$63.3k) associated with fees payable for the audit of the Company's report and financial statements and \$7.6k (2022: \$7.3k) relating to audit-related assurance services relating to the regulatory submissions to the BMA.

### 10. Staff costs

Staff Costs comprise:

	2023 \$m	2022 \$m
Wages and salaries	0.8	0.9
Pension contributions	-	0.1
	<b>0.8</b>	1.0

Charges included in wages and salaries relating to share-based payment schemes recognised in the income statement were below \$0.1m in 2023 (2022: \$0.1m). Pension contributions are in respect of defined contribution pension schemes.

	2023 No.	2022 No.
Headcount of staff were as follows:		
Management	4	5
Administration	1	1
Average Headcount	<b>5</b>	6



# Brit Reinsurance (Bermuda) Limited

## NOTES TO THE FINANCIAL STATEMENTS

### 10. Staff costs (continued)

	2023 \$m	2022 \$m
Staff costs include Directors' remuneration as follows:		
Aggregate remuneration	0.8	0.9

These amounts represent remuneration based on an apportionment of the Directors' time.

The Directors' remuneration disclosed above includes the following amounts paid to the highest paid Director:

	2023 \$m	2022 \$m
Aggregate remuneration	0.4	0.4

### 11. Tax on ordinary activities

Under current Bermuda law, the Company is not required to pay any capital distributions in Bermuda on either income or capital gains. The Company has received an undertaking from the Bermuda government exempting it from all local income, withholding and capital gains taxes until March 31, 2035. At present time no such taxes are levied in Bermuda. Withholding tax is incurred on non-Bermudian investment income.

On 27th December 2023, Bermuda enacted a Corporate Income Tax regime (CIT) effective from 1 January 2025 at a rate of 15%. Under the new legislation, an economic transition adjustment (ETA) has been introduced which mandates a revaluation of Bermudian taxpayers' balance sheet to market value as at 30 September 2023 resulting in an increase in the tax basis of net assets. A Deferred Tax Asset of \$4.8m has been accordingly recognised in these financial statements as at 31 December 2023. This Deferred Tax Asset arises due to the difference between the UK GAAP undiscounted view of the Company's reserves and the estimated fair value of the reserves. No other material differences between book value and fair value as at 30 September 2023 have been identified.

<b>Tax charge in the income statement:</b>	<b>2023 \$m</b>	<b>2022 \$m</b>
<b>Current Tax:</b>		
Overseas withholding tax incurred	(0.9)	(1.0)
<b>Total Current Tax</b>	<b>(0.9)</b>	<b>(1.0)</b>
<b>Deferred Tax:</b>		
Deferred tax in respect of economic transition adjustment	4.8	-
<b>Total Deferred Tax</b>	<b>4.8</b>	<b>-</b>
Total Tax Credited/(Charged)to the Income Statement	<b>3.9</b>	<b>(1.0)</b>

# Brit Reinsurance (Bermuda) Limited

## NOTES TO THE FINANCIAL STATEMENTS

### 11. Tax on ordinary activities (Continued)

#### Factors affecting tax charge for the year

The tax assessed for the year is higher than the exemption from tax in Bermuda. The differences are explained below:

	<b>2023</b>	2022
	<b>\$m</b>	\$m
Profit on ordinary activities before tax	<b>269.5</b>	16.5
Tax calculated at standard rate of tax on income	-	-
Overseas withholding tax incurred	<b>(0.9)</b>	(1.0)
Deferred tax in respect of economic transition adjustment	<b>4.8</b>	-
Total tax credited/(charged) to income statement	<b>3.9</b>	(1.0)

### 12. Financial investments

	<b>Market value</b>	Market value	<b>Cost</b>	Cost
	<b>2023</b>	2022	<b>2023</b>	2022
	<b>\$m</b>	\$m	<b>\$m</b>	\$m
Shares and other variable yield securities and units in unit trusts	<b>523.5</b>	506.4	<b>429.0</b>	467.9
Debt securities and other fixed income securities	<b>1,095.8</b>	916.4	<b>1,090.6</b>	976.6
	<b>1,619.3</b>	1,422.8	<b>1,519.6</b>	1,444.5

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

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

- (a) Level one – Valuations based on quoted prices (unadjusted) in active markets for identical assets;
- (b) Level two – Valuations based on 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
- Level three – Valuations based on inputs for the assets that are not based on observable market data (unobservable inputs).

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 Reinsurance (Bermuda) Limited

## NOTES TO THE FINANCIAL STATEMENTS

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### 12. 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***

Inputs represent unadjusted prices for identical instruments exchanged in active markets (where transactions occur with sufficient frequency and volume on an arm's length basis). The main asset classes in the level one category are listed equities, government bonds and treasury bills issued in Canada, the UK and in the US.

##### ***Level two***

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. The main asset classes in the level two category are 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 Over The Counter (OTC) 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.

# Brit Reinsurance (Bermuda) Limited

## NOTES TO THE FINANCIAL STATEMENTS

### 12. Financial investments (continued)

#### Valuation techniques (continued)

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 timing of principal repayments are considered during their valuation.

#### Level three

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

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.

Level three mortgages and loans include securities which are not traded/quoted in an active market. The valuation techniques include fair value by reference to third party agency valuations which are typically lagged. In some instances, mortgages and loans are classified as level three because they may require extended periods to liquidate.

The following tables show the disclosures of fair values in accordance with the fair value hierarchy by asset class.

<b>As at 31 December 2023</b>	<b>Level 1 2023 \$m</b>	<b>Level 2 2023 \$m</b>	<b>Level 3 2023 \$m</b>	<b>Total 2023 \$m</b>
<b>Equities</b>	<b>159.9</b>	<b>-</b>	<b>69.5</b>	<b>229.4</b>
<b>Debt securities</b>	<b>508.0</b>	<b>490.0</b>	<b>26.7</b>	<b>1,024.7</b>
<b>Mortgages and Loans</b>	<b>-</b>	<b>-</b>	<b>71.1</b>	<b>71.1</b>
<b>Specialised investment funds</b>	<b>-</b>	<b>274.1</b>	<b>20.0</b>	<b>294.1</b>
	<b>667.9</b>	<b>764.1</b>	<b>187.3</b>	<b>1,619.3</b>

# Brit Reinsurance (Bermuda) Limited

## NOTES TO THE FINANCIAL STATEMENTS

### 12. Financial investments (continued)

#### Valuation techniques (continued)

As at 31 December 2022	Level 1 2022 \$m	Level 2 2022 \$m	Level 3 2022 \$m	Total 2022 \$m
Equities	211.2	-	54.4	265.6
Debt securities	548.6	311.4	32.5	892.5
Mortgages and Loans	-	-	23.9	23.9
Specialised investment funds	-	217.5	23.3	240.8
	759.8	528.9	133.3	1,422.8

#### Transfers between fair value levels

Fair values are classified as level one when the financial instrument or derivative is actively traded and a quoted price is available. In accordance with the Company's policy if an instrument classified as level one subsequently ceases to be actively traded, it is immediately transferred out of level one. In such cases, instruments are classified into level two, unless the measurement of its fair value requires the use of significant unobservable inputs, in which case it is classified as level three. All fair value measurements above are recurring as they are required to be measured and recognised at the end of each reporting period.

#### Transfers from level one to level three

There were \$45.0m transfers (2022: \$0m) from level one to level three in 2023.

*In 2023 Poseidon Acquisition Corp acquired all outstanding common shares of Atlas Corp which was previously a public company. Following the acquisition this took the company private resulting in the transfer of the investment from level 1 to level three. Poseidon common shares will be monitored for significant events that could impact the valuation throughout the year, with a more in depth valuation analysis to be completed at year end.*

### 13. Derivatives

	2023 \$m	2022 \$m
Derivative assets	13.6	1.1
Derivative liabilities	(7.2)	(8.4)
	6.4	(7.3)

# Brit Reinsurance (Bermuda) Limited

## NOTES TO THE FINANCIAL STATEMENTS

### 13. Derivatives (continued)

As at 31 December 2023	Level 2 \$m	Level 3 \$m	Total \$m
Derivative contract assets	10.7	2.9	13.6
Derivative contract liabilities	(7.2)	-	(7.2)
	3.5	2.9	6.4

As at 31 December 2022	Level 2 \$m	Level 3 \$m	Total \$m
Derivative contract assets	0.1	1.0	1.1
Derivative contract liabilities	(8.4)	-	(8.4)
	(8.3)	1.0	(7.3)

There were no transfers between any fair value levels for derivatives during 2023.

Derivatives are used to manage the foreign exchange and interest rate exposure for the Company. During the year the instruments used were currency forwards, inflation floors and credit default swaps. In addition, the Company also holds equity warrants.

### 14. Amounts due from Group undertakings

	2023 \$m	2022 \$m
Deposits with Brit Insurance Holdings Limited	0.3	86.0
Other amounts due from Group Undertakings	0.3	0.2
	0.6	86.2

The balance with Brit Insurance Holdings Limited relates to cash deposited in the Group where interest is earned on commercial terms.

### 15. Other debtors

	2023 \$m	2022 \$m
Withholding tax	0.6	0.3
Outstanding Settlements on Investments	24.9	0.2
Other debtors	0.4	0.2
	25.9	0.7

\$0.6m corporation tax recoverable in 2023 is in respect of withholding tax (2022: \$0.3m).

# Brit Reinsurance (Bermuda) Limited

## NOTES TO THE FINANCIAL STATEMENTS

### 16. Called up share capital

The share capital of the Company as at 31 December 2023 was \$659,244,210 (2022: \$659,244,210) divided into 659,244,210 ordinary shares of \$ 1 each, fully paid up.

	2023 \$m	2022 \$m
<b>Allotted, called up and fully paid</b>		
<b>659,244,210 ordinary shares of \$1 each</b>	<b>659.2</b>	659.2
	<b>659.2</b>	659.2

### 17. Deferred acquisition costs

	2023 \$m	2022 \$m
At 1 January	11.2	7.7
Costs deferred during the year	6.3	7.5
Amortisation charge for the year	0.1	(2.5)
Foreign exchange movements	(4.6)	(1.5)
<b>At 31 December</b>	<b>13.0</b>	11.2

### 18. Charges over the assets of the Company

The Company entered into a Lloyd's Deposit Trust Deed (third party deposit) on 12 October 2016 (replacing an earlier covenant and charge arrangement) pursuant to which the Company provides funds at Lloyd's (FAL) on behalf of Brit UW Limited, a Group company. The Company has agreed to pay an amount not exceeding \$550.0m (2022: \$550.0m) to, or at the direction of, The Society of Lloyd's (the Society) in respect of Brit UW Limited's FAL obligations. As security for the performance of its obligations, the Company has created a charge over its assets in favour of the Society.

The Company has granted Brit Syndicates Limited, as managing agent of Lloyd's Syndicate 2987, a security interest over certain funds and securities held in the collateral accounts established under a custody agreement with The Bank of New York Mellon (BNYM). This security was granted to secure the Company's obligations under various reinsurance agreements entered into between Brit Syndicates Limited, as managing agent of Lloyd's Syndicate 2987 (as cedant) and the Company (as reinsurer). As at 31 December 2023, funds held in the collateral accounts were in the sum of \$812.4m (2022: \$670.6m).

The Company has assets held in custody at BNYM for the benefit of Riverstone Managing Agency Limited in its capacity as managing agent of Lloyd's Syndicate 780. This security was granted to secure the Company's obligations under a quota share treaty reinsurance contract incepting on 1 April 2019. As at 31 December 2023, funds held in a collateral account were the sum of \$14.7m (2022: \$14.3m).

Brit Re writes property business which is ceded to Sussex Re Limited for which the Company receives fees. Brit Re's exposure under the arrangement is collateralised by Sussex Re such that the probability of exhausting that collateral is 0.1% (1:1000 years). The collateral is held in trust by Bank of New York Mellon, the funds at 31 December 2023 were the sum of \$227.1m (2022: \$201.3m).

# Brit Reinsurance (Bermuda) Limited

## NOTES TO THE FINANCIAL STATEMENTS

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### 19. Share-based payments

The Brit Limited Group operates two schemes, including (i) a long-term incentive plan (LTIP) (treated as equity-settled) with awards granted under a Fairfax Financial Holdings Limited LTIP scheme, and (ii) an employee share ownership plan (ESOP) (treated as equity-settled) denominated in Fairfax Financial Holdings Limited shares that are made available to the employees of the Company. These schemes are deemed to fall within the scope of Section 26 'Share-based payments' of Financial Reporting Standard FRS102.

Fairfax Long Term incentive Plan (LTIP) schemes have no performance conditions and a vesting period of 3 to 10 years. The Fairfax ESOP has no performance conditions and no vesting period.

Charges relating to employees of the Company recognised in the income statement under FRS 102 for the share-based payment arrangements were below \$0.1m in 2023 (2022: below \$0.1m).

For more information refer to the Brit Limited consolidated accounts, which can be obtained by writing to The Leadenhall Building, 122 Leadenhall Street, London, EC3V 4AB or by visiting [www.britinsurance.com](http://www.britinsurance.com).

### 20. Dividends

Interim dividends amounting to \$220.0m were paid in the year (2022: \$150.0m). The Directors do not recommend the payment of a final dividend.

### 21. Disclosure exemptions

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

- A statement of cash flows
- A reconciliation of the number of shares outstanding at the beginning and end of the year
- Specific information relating to share-based payment included within equivalent disclosures for the Group
- Disclosure of key management personnel compensation

The Company has been consolidated into the Group financial statements of Brit Limited. The Brit Limited consolidated financial statements and accompanying notes provide further detail in respect of these areas, copies of whose accounts can be obtained from The Leadenhall Building, 122 Leadenhall Street, London, EC3V 4AB or by visiting [www.britinsurance.com](http://www.britinsurance.com).



# Brit Reinsurance (Bermuda) Limited

## NOTES TO THE FINANCIAL STATEMENTS

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### 22. Related party transactions

#### Other members of the Group

The Company has taken advantage of the exemption afforded by FRS 102, paragraph 33.1A, in not disclosing transactions with other entities wholly owned within the Brit Limited Group. Transactions with related parties that require disclosure in accordance with FRS 102 were as follows:

#### a) Hamblin Watsa Investment Counsel Limited

Hamblin Watsa Investment Counsel Limited (HWIC), a subsidiary of Fairfax, is an investment manager to the Company. The Company incurred and paid investment management fees to HWIC of \$3.8m in 2023 (2022: \$3.7m).

### 23. Ultimate controlling party

The immediate parent undertaking at the year-end is Brit Insurance Holdings Limited, a company registered in England and Wales. The ultimate parent undertaking at the year-end is Fairfax Financial Holdings Limited (Fairfax), a company which is federally incorporated and domiciled in Ontario, Canada. Copies of Fairfax consolidated accounts can be obtained by writing to 95 Wellington Street West, Suite 800, Toronto, Ontario, Canada, M5J 2N7 or by visiting [www.fairfax.ca](http://www.fairfax.ca).

### 24. Restatement of comparatives

The Company has identified that the processing of cash payments in respect of a quota share reinsurance contract had not been set up correctly and, as a result, balances in respect of that reinsurance contract were not presented correctly in the financial statement for the year ended 31 December 2022. As such, the amounts presented in respect of 'Creditors arising out of reinsurance operations' and 'Debtors arising out of reinsurance operation' have been reduced by \$19.3m in the comparative period of the statement of financial position and related notes. There is no impact on the income statement or net assets as a result of this restatement.