

**BRIT REINSURANCE (BERMUDA) LIMITED**  
**(Formerly Brit Insurance (Gibraltar) PCC Limited)**  
**REPORT & FINANCIAL STATEMENTS**

31 December 2017

Company Registration No. 53121

# 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	4
Independent Auditor's Report	6
Income Statement: Technical Account-General Business	9
Income Statement: Non-Technical Account	10
Statement of Financial Position	11
Statement of Changes in Equity	13
Notes to the Financial Statements	14

# Brit Reinsurance (Bermuda) Limited

## DIRECTORS, OFFICERS AND OTHER INFORMATION

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### **Executive Directors:**

K Grieves  
J Bonanno

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

M Cloutier (Chairman of Brit Re) (Appointed 7 December 2017)  
M Allan  
C Garrod (Appointed 7 December 2017)  
J Nichols (Appointed 7 December 2017)  
N Meyer (Resigned 28 November 2017)  
M Christophers (Resigned – 28 November 2017)  
N Feetham (Resigned – 28 November 2017)

### **Secretary:**

Conyers Corporate Services (Bermuda) Limited

### **Registered Office:**

2 Church Street  
Clarendon House  
Hamilton HM CX  
Bermuda

### **Independent Auditor:**

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

# Brit Reinsurance (Bermuda) Limited

## STRATEGIC REPORT

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The Directors present their Strategic Report for the year ended 31 December 2017.

### Principal activities

The principal activity of the Company is that of underwriting reinsurance business of the Brit Limited group of companies for which the Company holds a Class 3B licence issued by the Bermuda Monetary Authority.

The Company changed its domicile from Gibraltar, to Bermuda on 28 November 2017, following which the Company was renamed Brit Reinsurance (Bermuda) Limited (Brit Re). The Company, formerly known as Brit Insurance (Gibraltar) PCC Limited, discontinued operations in Gibraltar from this date. The Company also ceased to have a cell structure from 28 November 2017.

This was a natural move as the Brit Group continues to expand its Bermuda platform, which is highly complementary to the Group's continued focus on the US market. Bermuda is an important hub for Brit and its combination of a mature regulatory environment, including Solvency II equivalence, and access to highly qualified and experienced people makes it the right home for the Company to support the Group's longer term strategy.

### Review of business

In 2017, the Company continued to write quota share and excess of loss contracts and an aggregate stop loss policy on a similar basis to previous years.

	<b>2017</b>	<b>2016</b>
	<b>US\$m</b>	<b>US\$m</b>
Gross written premium	303.9	277.6
Net written premium	300.2	272.3
Net earned premium	291.0	275.6
Net claims incurred	(249.3)	(174.8)
Underwriting related expenses	(16.8)	(19.5)
Underwriting result	24.9	81.3
Investment return net of fees	89.4	(4.2)
Other charges	-	(0.2)
<b>Profit before the effect of FX</b>	<b>114.3</b>	<b>76.9</b>
Effect of foreign exchange	8.2	5.7
<b>Profit on ordinary activities before tax</b>	<b>122.5</b>	<b>82.6</b>
Combined ratio (excluding the effects of FX movements)	91.4%	70.6%

The Company's result for the year ended 31 December 2017 reflects significant major loss activity and an outstanding investment return.

The profit on ordinary activities for the year before tax and foreign exchange was a profit of US\$114.3m (2016: US\$76.9m) and profit before tax was US\$122.5m (2016: US\$82.6m). The 2017 combined ratio was 91.4% (2016: 70.6%).

Gross written premiums (GWP) increased by 9.0% to US\$303.9m (2016: US\$277.6m). The drivers of increase, which was in line with expectations, were:

- Prior year premium development; and
- Underwriting initiatives

# Brit Reinsurance (Bermuda) Limited

## STRATEGIC REPORT *(continued)*

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### Review of business (continued)

2017 was dominated by the extent and scale of natural catastrophes, with multiple hurricanes, earthquakes and wildfires, resulting in a terrible human impact and significant economic consequences in the regions affected. The economic loss estimate from these events is in the region of US\$353bn, while the insured loss is estimated at between US\$134bn and US\$140bn, making it the second most costly year on record after 2011.

Against this backdrop, the Company's net claims incurred during 2017 amounted to US\$249.3m (2016: US\$174.8m). The Company's expenses reduced by 13.9% to US\$16.8m (2016: US\$19.5m), following implementation in 2016 of Solvency II.

The net investment return, net of fees, during 2017 was an outstanding US\$89.4m or 5.2% of average invested assets (2016: loss of US\$4.2m or 3.0%), driven by gains on our equity and fund investments.

Foreign exchange gains, net of returns on foreign exchange related derivatives, totalled US\$8.2m (2016: US\$5.7m). The gain on foreign exchange reflects the movement of Sterling during the year. A portion of our revenues and expenses, and assets and liabilities, are denominated in currencies other than US dollars, hence we are exposed to fluctuations in the values of those currencies against the US dollar. We have sought to reduce the impact on our stakeholders of the effects of movements in foreign exchange rates by matching the currencies of our liabilities and capital requirements with the assets we hold.

The Company has maintained a strong balance sheet and capital position. The Company's net assets increased by US\$107.2m to US\$989.2m, reflecting profit after tax of US\$122.2m, partly offset by a dividend payment of US\$15.0m. Following the change of domicile of the Company from Gibraltar to Bermuda, (i) the entirety of the Company's existing authorised and issued share capital was converted into shares of US\$1 each, (ii) the Company's authorised share capital was increased to US\$1,000,000,000 divided into 1,000,000,000 ordinary shares of US\$1 each, and (iii) further ordinary shares were issued such that the issued share capital of the Company was increased from US\$204,110 to US\$609,244,210 divided into 609,244,210 ordinary shares of US\$1 each. Such changes were made with the consent of the Company's sole shareholder and in accordance with Bermuda law.

### Principal risks and uncertainties

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

This report was approved by the Company's Board of Directors on April 23, 2018.



K Grieves  
Director

# Brit Reinsurance (Bermuda) Limited

## DIRECTORS' REPORT

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The Directors submit their report and the audited financial statements for the year ended 31 December 2017.

### **Directors**

The Directors of the Company who served during the year were as follows:

M Cloutier (Chairman of Brit Re) (Appointed 7 December 2017)  
K Grieves  
J Bonanno  
M Allan  
C Garrod (Appointed 7 December 2017)  
J Nichols (Appointed 7 December 2017)  
N Meyer (Resigned 28 November 2017)  
M Christophers (Resigned – 28 November 2017)  
N Feetham (Resigned – 28 November 2017)

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 US\$122.2m (2016: US\$78.8m).

During the year the Company paid an interim dividend of US\$15.0m (2016: \$115.0m). The Directors do not recommend the payment of a final dividend.

### **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 accounts.

### **Charitable giving**

The Company is committed to supporting the communities in which it operates and charities that are meaningful to its employees.

### **Staff costs**

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

### **Environmental matters**

The Company is committed to managing and reducing its environmental impact in a cost effective and responsible way. Further detail on this is available in the Brit Limited's annual report and accounts for the year ended 31 December 2017, copies of which can be obtained from The Leadenhall Building, 122 Leadenhall Street, London, EC3V 4AB, or by visiting [www.britisurance.com](http://www.britisurance.com).

# Brit Reinsurance (Bermuda) Limited

## DIRECTORS' REPORT *(continued)*

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### Future developments

The Company intends to continue to build on its strong historical performance during 2018 and beyond.

### Statement of disclosure of information to the auditor

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 auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow Directors and the auditor, each Director has taken all the steps that he is obliged to take as a Director in order to make himself aware of any relevant audit information and to establish that the auditor is aware of that information.

### 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 UK Companies Act 2006 and 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 Auditor

PricewaterhouseCoopers LLP remain in office as the Company's auditor.

This report was approved by the Company's Board of Directors on April 23, 2018.



K Grieves  
Director



## **Independent auditor's report**

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

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### **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 December 31, 2017, and its financial performance for the year then ended in accordance with Financial Reporting Standard 102 and Financial Reporting Standard 103, being applicable United Kingdom Generally Accepted Accounting Practice.

### ***What we have audited***

The Company's financial statements comprise:

- the income statement for the year ended December 31, 2017;
- the statement of financial position as at December 31, 2017;
- the statement of changes in equity for the year then ended;
- the notes to the financial statements, which include a summary of significant accounting policies.

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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 Ethics Standards Board for Accountants' Code of Ethics for Professional 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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*PricewaterhouseCoopers Ltd., Chartered Professional Accountants, P.O. Box HM 1171, Hamilton HM EX, Bermuda  
T: +1 (441) 295 2000, F: +1 (441) 295 1242, [www.pwc.com/bermuda](http://www.pwc.com/bermuda)*



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### **Other information**

Management is responsible for the other information. The other information comprises of the listing of directors and officers of the Company, 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 for the financial statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Financial Reporting Standard 102 and Financial Reporting Standard 103, being applicable United Kingdom Generally Accepted Accounting Practice, 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.

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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.

*Reference: Independent Auditor's Report on the Financial Statements of Brit Reinsurance (Bermuda) Limited as at December 31, 2017 and for the year ended*

*Page 2 of 3*



- 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 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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*Priscilla Home Coopers Ltd.*

**Chartered Professional Accountants  
Hamilton**

**April 23, 2018**

**Brit Reinsurance (Bermuda) Limited**  
**INCOME STATEMENT for the year ended 31 December 2017**

**TECHNICAL ACCOUNT - GENERAL BUSINESS**

	Note	2017 US\$m	2016 US\$m
Earned premiums, net of reinsurance:			
Gross premiums written	6	303.9	277.6
Outward reinsurance premiums	6	(3.7)	(5.3)
Net premiums written	6	300.2	272.3
Change in the gross provision for unearned premiums	6	(8.3)	2.2
Change in the provision for unearned premiums, reinsurers' share		(0.9)	1.1
Net change in the provision for unearned premiums		(9.2)	3.3
Earned premiums, net of reinsurance	6	291.0	275.6
Allocated investment return transferred from the non-technical account	5	89.4	(4.2)
		380.4	271.4
Claims incurred, net of reinsurance:			
Claims paid:			
- Gross amount	7	(140.1)	(119.6)
- Reinsurers' share		-	-
Net claims paid		(140.1)	(119.6)
Change in the provision for claims:			
- Gross amount	7	(109.2)	(55.2)
- Reinsurers' share		-	-
Net change in the provision for claims		(109.2)	(55.2)
Claims incurred, net of reinsurance	7	(249.3)	(174.8)
Net operating expenses	9	(8.6)	(13.8)
		(257.9)	(188.6)
<b>Balance on the technical account for general business</b>		<b>122.5</b>	<b>82.8</b>

The notes on pages 14 to 44 form part of these financial statements.

**Brit Reinsurance (Bermuda) Limited**  
**INCOME STATEMENT for the year ended 31 December 2017**

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**NON-TECHNICAL ACCOUNT**

	Note	2017 US\$m	2016 US\$m
Balance on the technical account for general business		<b>122.5</b>	82.8
Investment Income		<b>16.4</b>	28.7
Unrealised gains/(losses) on investments		<b>53.8</b>	(53.1)
Realised gains on investments		<b>23.4</b>	25.3
Investment expenses and charges		<b>(4.2)</b>	(5.1)
Net investment return	5	<b>89.4</b>	(4.2)
Allocated investment return transferred to general business technical account		<b>(89.4)</b>	4.2
Other charges		-	(0.2)
<b>Profit on ordinary activities before taxation</b>		<b>122.5</b>	82.6
Tax on ordinary activities	11	<b>(0.3)</b>	(3.8)
<b>Profit for the financial year</b>		<b>122.2</b>	78.8

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

The notes on pages 14 to 44 form part of these financial statements.

**Brit Reinsurance (Bermuda) Limited**  
**STATEMENT OF FINANCIAL POSITION as at 31 December 2017**

	Note	2017 US\$m	2016 US\$m
<b>Assets</b>			
<b>Investments:</b>			
Financial investments	12	1,479.7	1,234.6
Derivative assets	13	8.9	7.1
		<b>1,488.6</b>	1,241.7
<b>Reinsurers' share of technical provisions:</b>			
Provision for unearned premium	6	1.3	2.2
		<b>1.3</b>	2.2
<b>Debtors:</b>			
Debtors arising out of reinsurance operations		122.5	77.1
Amounts due from Group Undertakings	14	89.5	60.2
Other debtors	15	4.7	3.5
		<b>216.7</b>	140.8
<b>Other assets:</b>			
Cash at bank and in hand		44.7	91.9
		<b>44.7</b>	91.9
<b>Prepayments and accrued income:</b>			
Deferred acquisition costs	17	6.5	5.0
Other prepayments and accrued income		0.6	0.6
		<b>7.1</b>	5.6
<b>Total assets</b>		<b>1,758.4</b>	1,482.2

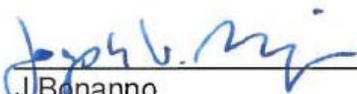
The notes on pages 14 to 44 form part of these financial statements.

**Brit Reinsurance (Bermuda) Limited**  
**STATEMENT OF FINANCIAL POSITION as at 31 December 2017**

	Note	2017 US\$m	2016 US\$m
<b>Equity and liabilities</b>			
<b>Capital and reserves:</b>			
Called up share capital	16	609.2	0.2
Share premium account		-	609.0
Retained earnings		380.0	272.8
<b>Total capital and reserves</b>		<b>989.2</b>	882.0
<b>Technical provisions:</b>			
Provision for unearned premium	6	101.6	88.5
Claims outstanding	7	664.0	510.0
		<b>765.6</b>	598.5
<b>Creditors:</b>			
Derivative liabilities	13	1.0	0.4
Other creditors	18	2.3	0.9
Accruals & Deferred income		0.3	0.4
		<b>3.6</b>	1.7
<b>Total liabilities</b>		<b>769.2</b>	600.2
<b>Total equity and liabilities</b>		<b>1,758.4</b>	1,482.2

The financial statements on pages 9 to 44 were approved by the Board of Directors on April 23, 2018 2018 and signed on its behalf by:

  
 \_\_\_\_\_  
 K Grieves  
 Director

  
 \_\_\_\_\_  
 J Bonanno  
 Director

The notes on pages 14 to 44 form part of these financial statements.

**Brit Reinsurance (Bermuda) Limited**  
**STATEMENT OF CHANGES IN EQUITY for the year ended 31 December 2017**

	<b>Called up share capital</b>	<b>Share premium account</b>	<b>Retained earnings</b>	<b>Total equity</b>
	<b>US\$m</b>	<b>US\$m</b>	<b>US\$m</b>	<b>US\$m</b>
<b>At 1 January 2017</b>	<b>0.2</b>	<b>609.0</b>	<b>272.8</b>	<b>882.0</b>
Profit for the financial year	-	-	<b>122.2</b>	<b>122.2</b>
Dividends	-	-	<b>(15.0)</b>	<b>(15.0)</b>
Reclassification of shares	<b>609.0</b>	<b>(609.0)</b>	-	-
<b>At 31 December 2017</b>	<b>609.2</b>	-	<b>380.0</b>	<b>989.2</b>
<b>Of which is attributable to:</b>				
Ordinary shareholders	<b>609.2</b>	-	<b>380.0</b>	<b>989.2</b>

	<b>Called up share capital</b>	<b>Share premium account</b>	<b>Retained earnings</b>	<b>Total equity</b>
	<b>US\$m</b>	<b>US\$m</b>	<b>US\$m</b>	<b>US\$m</b>
<b>At 1 January 2016</b>	0.2	609.0	309.0	918.2
Profit for the financial year	-	-	78.8	78.8
Dividends	-	-	(115.0)	(115.0)
<b>At 31 December 2016</b>	0.2	609.0	272.8	882.0
<b>Of which is attributable to:</b>				
Ordinary shareholders	0.2	-	2.3	2.5
Cellular shareholders	-	609.0	270.5	879.5

The notes on pages 14 to 44 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's change in domicile to Bermuda resulted in the dissolution of its structure as a protected cell company. On 28 November 2017, the Company was incorporated in Bermuda as a Class 3B reinsurer in accordance with the provisions of The Bermuda Insurance Act 1978.

As at 31 December 2017, the Company has no active cells and the assets of the Company are non-cellular assets.

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 2017. 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 Financial Reporting Standard 102 (FRS 102) and Financial Reporting Standard 103 (FRS 103), being applicable United Kingdom Generally Accepted Accounting Practice (UK GAAP).

On 7 December 2017, the Company transitioned from Gibraltar Generally Accepted Accounting Practice (GGAAP), Gibraltar Financial Reporting Standard 102 (GFRS 102) and Gibraltar Financial Reporting 103 (GFRS103) to UK GAAP. There were no changes in accounting policies arising from the transition to UK GAAP and there has been no effect to the reported financial position and financial performance.

Legislation applied in the preparation of these financial statements includes the Bermuda Insurance Act 1978 and the UK Companies Act 2006.

The financial statements are presented in US dollars (US\$) which is the Company's functional currency and rounded to the nearest US\$0.1m. Items included in the annual accounts 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 2017 were approved for issue by the Board of Directors on April 23, 2018.

#### 2.1 Amendments to FRS 102: Fair value hierarchy disclosures

In March 2016 an amendment was made to FRS 102 which impacted disclosures under the fair value hierarchy for entities in specialised industries including insurance. The amendments are effective for accounting periods beginning on or after 1 January 2017. The Company early adopted the amendments for the year ended 31 December 2016.

# 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 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 profit and loss account on a pro rata basis over the term of the related policy, except for those contracts where the period of risk differs significantly from the contract period. Premiums are recognised over the period of risk in proportion to the amount of reinsurance protection provided. Reinstatement premiums are accreted to the profit and loss account on a pro rata basis over the term of the original policy to which they relate.
- (ii) Unearned premiums represent the proportion of premiums written in the year that relate to unexpired terms of policies in force at the statement of financial position date, generally calculated on a time apportioned basis. The movement in the provision is taken to the 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 earned 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 outstanding claims provisions, including provisions for claims incurred but not reported (IBNR) and related expenses. Claims handling costs are mainly those 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 statement of financial position date, including IBNR, less any amounts paid in respect of those claims. Claims outstanding are reduced by anticipated salvage and other recoveries.

The 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.

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 incurred but not reported.

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 profit and loss account for the period in which the adjustments are made.

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

# Brit Reinsurance (Bermuda) Limited

## NOTES TO THE FINANCIAL STATEMENTS

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### 3. Principal Accounting Policies (continued)

#### a) Underwriting activities (continued)

#### 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) Where redeemable preference shares are deemed to have the characteristics of debt, these are recorded as a liability on the statement of financial position. They are carried at amortised cost and are retranslated at each reporting period using the closing rate. Any differences in exchange are taken to the profit and loss account. Where redeemable preference shares are deemed to have the characteristics of equity, these are maintained at historic rates of exchange.
- (iii) Investment return comprises all investment income, realised investment gains and losses and movements in unrealised gains and losses, charges, dividend income and interest. Realised gains and losses on investments carried at market value are calculated as the difference between net sale proceeds and purchase price and are recognised when the sale transaction occurs. Unrealised gains and losses on investments represent the difference between the valuation at the statement of financial position date and their valuation at the previous statement of financial position date, or purchase price, if acquired during the year, together with the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current period.

Investment return is initially recorded in the non-technical account. A transfer is made from the non-technical account to the general business technical account to reflect the investment return on funds supporting underwriting business. All investment return is considered to arise on such funds. Interest income is recognised using the effective interest method. Dividend income is recognised when the shareholder's right to receive payment is established.

- (iv) 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 on a fair value basis.

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.

# Brit Reinsurance (Bermuda) Limited

## NOTES TO THE FINANCIAL STATEMENTS

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### 3. Principal Accounting Policies (continued)

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

- (v) Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the contract.

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

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

All 'regular way purchases and sales' of financial assets are recognised on the trade date, i.e. the date that the Company's 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.

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 profit and loss account. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

- (vi) Derivative financial instruments are initially and subsequently measured at their fair value with movements in the fair value being immediately recognised in the profit and loss account. Fair values are obtained from quoted market prices, discounted cash flow models, risk models and option pricing models as appropriate.

- (vii) Taxation charged is based on the taxable profits for the accounting period.

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

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the statement of financial position date. Deferred tax assets are recognised only to the extent that the Directors consider it more likely than not that there will be suitable taxable profits from which the underlying timing differences can be deducted.

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

- (x) The fair value of equity instruments granted under share-based payment plans are recognised as an expense and spread over the vesting period of the instrument. The total amount to be expensed is determined by reference to the fair value of the awards made at the grant date.

At the date of each statement of financial position, the Company revises its estimate of the number of equity instruments that are expected to become exercisable and it recognises the impact of the revision of original estimates, if any, in the income statement. Where awards have been granted by a parent company and are therefore treated as equity settled a corresponding adjustment is made to equity over the remaining vesting period.

Where the awards have been granted by the Company and are therefore treated as cash-settled, a liability is provided for settlement of the awards. The corresponding adjustment arising on a revision of the original estimate is made to that liability. In addition, the fair value of the award and ultimate expense are adjusted on a change in the market share price of the underlying shares or at the valuation date.

# Brit Reinsurance (Bermuda) Limited

## NOTES TO THE FINANCIAL STATEMENTS

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### 3. Principal Accounting Policies (continued)

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

#### c) Judgements and key sources of estimation uncertainty

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the statement of financial position date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates.

##### **Insurance contract liabilities**

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

##### **Financial Investments**

Financial investments are carried in the statement of financial position at fair value. The carrying amount of financial investments at the date of the statement of financial position was US\$1,479.7m (2016: US\$1,234.6m). Determining the fair value of certain investments requires estimation.

The Company value 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 2017, financial investments amounting to US\$108.8m (2016: US\$33.2m) were classified as level three.

Also included within financial investments are the Company's investments in two Bermuda-based structured vehicles consolidated by the Brit Group, Sussex Capital Limited and Versutus II. The Company has considered whether it is necessary to consolidate these vehicles under the requirements set out in FRS 102 in respect of special purpose entities. In particular, this involves a consideration of whether an investment gives the Company the right to obtain a majority of the benefits of a vehicle or causes it to retain a majority of residual or ownership risks, and also an assessment of whether the activities or decision-making of the vehicle are set up specifically for, or are preferential to, the Company. As the Company is a minority investor in both vehicles, which have been established by the Group for the principal benefit of external investors, neither vehicles is consolidated but are recorded at market value.

# 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
- Executive Management, 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.

This risk arises due to the possibility 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

### 4. Risk management policies (continued)

#### 4.3 Underwriting risk

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

The Company has developed underwriting guidelines, limits of authority and business plans which are binding upon all staff authorised to underwrite. The Underwriting Authority and Referral Criteria, in conjunction with Authority Letters, establish the guiding general principles and conditions to which the Underwriters must conform. Line size limits are in place with additional restrictions in place on catastrophe exposed business and types of business which may be written.

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

Compliance is checked through both an independent peer review process and, periodically, by the internal audit department which is entirely independent of underwriting.

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

#### Underwriting risk profile

The 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 monthly.

#### Sensitivity to changes in net claims ratio

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

Category	31 December 2017		31 December 2016	
	US\$m	%	US\$m	%
Quota Share	1.9	66%	1.9	68%
Excess of Loss	0.3	10%	0.2	7%
Stop Loss	0.7	24%	0.7	25%
<b>Total</b>	<b>2.9</b>	<b>100%</b>	<b>2.8</b>	<b>100%</b>

#### Reinsurance

The Company purchased excess of loss reinsurance in 2017 to manage exposure to individual risks and aggregation of risks arising from individual large claims and catastrophe events to ensure that it remains within the risk tolerance levels agreed by the Board.

# Brit Reinsurance (Bermuda) Limited

## NOTES TO THE FINANCIAL STATEMENTS

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### 4. Risk management policies (continued)

#### 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 Finance Director is responsible for the management of the reserving risk for the Company.

The Company has a rigorous process for the 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 adjusters, assessors and other 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 Company has an experienced team of actuaries who perform 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 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).

##### Investment governance

Investment risk is managed in line with the elements of the Risk Management Framework (RMF) – identification, measurement and management. 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 Investment Committee has been mandated to review, advise and make recommendations to the Board on investment strategy with a view to optimising 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 Ltd. (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 Group Investment Operations Committee oversees the operational risk that is relevant to the investment management function under the terms of a services agreement.

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

# Brit Reinsurance (Bermuda) Limited

## NOTES TO THE FINANCIAL STATEMENTS

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### 4. Risk management policies (continued)

#### 4.5 Investment risk management (continued)

##### 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 cashflow 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.

##### 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 detail the parameters, roles and responsibilities relating to the management of the investment portfolio.

#### 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.

# Brit Reinsurance (Bermuda) Limited

## NOTES TO THE FINANCIAL STATEMENTS

### 4. Risk management policies (continued)

#### 4.6 Market risk profile (continued)

##### 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 2017		Duration					
Assets	Statement of financial position	Up to a year	1-3 years	3-5 years	Over 5 years	Equities	Total
	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m
Financial investments	1,479.7	1,248.7	10.5	3.7	18.0	198.8	1,479.7
Derivatives	8.9	8.9	-	-	-	-	8.9
Cash at bank and in hand	44.7	44.7	-	-	-	-	44.7
	<b>1,533.3</b>	<b>1,302.3</b>	<b>10.5</b>	<b>3.7</b>	<b>18.0</b>	<b>198.8</b>	<b>1,533.3</b>

As at 31 December 2016		Duration					
Assets	Statement of financial position	Up to a year	1-3 years	3-5 years	Over 5 years	Equities	Total
	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m
Financial investments	1,234.6	1,087.3	12.1	-	37.1	98.1	1,234.6
Derivatives	7.1	7.1	-	-	-	-	7.1
Cash at bank and in hand	91.9	91.9	-	-	-	-	91.9
	<b>1,333.6</b>	<b>1,186.3</b>	<b>12.1</b>	<b>-</b>	<b>37.1</b>	<b>98.1</b>	<b>1,333.6</b>

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

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.

# Brit Reinsurance (Bermuda) Limited

## NOTES TO THE FINANCIAL STATEMENTS

### 4. Risk management policies (continued)

#### 4.6 Market risk profile (continued)

##### 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 2017.

(US\$m)	Impact on profit before tax	
	2017	2016
<b>Increase</b>		
25 basis points	(0.5)	(1.2)
50 basis points	(1.1)	(2.4)
100 basis points	(2.1)	(4.8)
<b>Decrease</b>		
25 basis points	0.5	1.2
50 basis points	1.1	2.4
100 basis points	2.1	4.8

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 US\$ millions	GBP £	US \$	CAD \$	EUR €	Total
<b>As at 31 December 2017</b>					
Total assets	304.0	1,334.2	54.5	65.7	1,758.4
Total liabilities	(516.7)	(230.6)	(11.4)	(10.5)	(769.2)
<b>Net assets excluding the effect of derivatives</b>	<b>(212.7)</b>	<b>1,103.6</b>	<b>43.1</b>	<b>55.2</b>	<b>989.2</b>
Adjustment for foreign exchange derivatives	424.7	(336.1)	(38.2)	(50.4)	-
<b>Adjusted net assets</b>	<b>212.0</b>	<b>767.5</b>	<b>4.9</b>	<b>4.8</b>	<b>989.2</b>

<b>As at 31 December 2016</b>					
Total assets	121.3	1,359.8	0.5	0.6	1,482.2
Total liabilities	(554.1)	(35.1)	(5.3)	(5.7)	(600.2)
Net assets excluding the effect of derivatives	(432.8)	1,324.7	(4.8)	(5.1)	882.0
Adjustment for foreign exchange derivatives	289.5	(228.5)	(11.2)	(49.8)	-
Adjusted net assets	(143.3)	1,096.2	(16.0)	(54.9)	882.0

# Brit Reinsurance (Bermuda) Limited

## NOTES TO THE FINANCIAL STATEMENTS

### 4. Risk management policies (continued)

#### 4.7 Currency risk (continued)

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 against these currencies.

The Company matches 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 are 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 2017.

(US\$m)	Impact on profit before tax	
	2017	2016
<b>US dollar weakens</b>		
10% against other currencies	<b>22.2</b>	(13.3)
20% against other currencies	<b>44.3</b>	(26.5)
<b>US dollar strengthens</b>		
10% against other currencies	<b>(22.2)</b>	13.3
20% against other currencies	<b>(44.3)</b>	26.5

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 UCITS.

#### 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 2017.

(US\$m)	Impact on profit before tax	
	2017	2016
<b>Increase in fair value</b>		
	10%	65.3
	20%	130.6
	30%	196.0
<b>Decrease in fair value</b>		
	10%	(65.3)
	20%	(130.6)
	30%	(196.0)

The assets within this sensitivity analysis include the exposure to the Henderson and PIMCO investment grade fixed income funds, for which the level of price sensitivity is expected to be significantly lower. These funds are captured within this metric as a result of the fund structure through which the underlying securities are held.

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)

#### 4.9 Investment 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.

#### Investment credit risk management process

The Management Committee chaired by the 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.

#### 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 2017	AAA	AA	A	BBB and below	Equities	P1	P2	Not rated	Total
	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m
Financial investments	411.5	548.0	43.0	19.5	198.8	-	-	258.9	1,479.7
Derivatives	-	-	-	-	-	-	-	8.9	8.9
Cash at bank and in hand	3.9	-	1.9	6.4	-	32.5	-	-	44.7
<b>Total</b>	<b>415.4</b>	<b>548.0</b>	<b>44.9</b>	<b>25.9</b>	<b>198.8</b>	<b>32.5</b>	<b>-</b>	<b>267.8</b>	<b>1,533.3</b>

As at 31 December 2016	AAA	AA	A	BBB and below	Equities	P1	P2	Not rated	Total
	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m
Financial investments	665.9	252.2	179.9	12.2	98.1	-	-	26.3	1,234.6
Derivatives	-	-	-	-	-	-	-	7.1	7.1
Cash at bank and in hand	5.3	-	-	-	-	83.0	3.6	-	91.9
<b>Total</b>	<b>671.2</b>	<b>252.2</b>	<b>179.9</b>	<b>12.2</b>	<b>98.1</b>	<b>83.0</b>	<b>3.6</b>	<b>33.4</b>	<b>1,333.6</b>

# 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 modelled Realistic Disaster Scenarios. Contingent liquidity also exists in the form of a revolving credit facility.

#### As at 31 December 2017

Assets	Statement of financial position US\$m	Fair values					Equities US\$m	Total US\$m
		Up to a year	1-3 years	3-5 years	Over 5 years			
		US\$m	US\$m	US\$m	US\$m	US\$m		
Financial investments	1,479.7	1,248.7	10.5	3.7	18.0	198.8	1,479.7	
Derivatives	8.9	8.9	-	-	-	-	8.9	
Debtors arising out of reinsurance operations	122.5	122.5	-	-	-	-	122.5	
Amounts due from group Undertakings	89.5	89.5	-	-	-	-	89.5	
Cash at bank and in hand	44.7	44.7	-	-	-	-	44.7	
	1,745.3	1,514.3	10.5	3.7	18.0	198.8	1,745.3	

Liabilities	Statement of financial position US\$m	Undiscounted values					Equities US\$m	Total US\$m
		Up to a year	1-3 years	3-5 years	Over 5 years			
		US\$m	US\$m	US\$m	US\$m	US\$m		
Claims outstanding	664.0	125.5	247.6	203.5	87.4	-	664.0	
Derivatives	1.0	1.0	-	-	-	-	1.0	
Amounts owed to group undertakings	1.1	1.1	-	-	-	-	1.1	
Other creditors	1.2	1.2	-	-	-	-	1.2	
	667.3	128.8	247.6	203.5	87.4	-	667.3	

# Brit Reinsurance (Bermuda) Limited

## NOTES TO THE FINANCIAL STATEMENTS

### 4. Risk management policies (continued)

#### 4.10 Liquidity risk (continued)

As at 31 December 2016

Assets	Statement of financial position US\$m	Fair values					Equities US\$m	Total US\$m
		Up to a year	1-3 years	3-5 years	Over 5 years			
		US\$m	US\$m	US\$m	US\$m	US\$m		
Financial investments	1,234.6	1,087.3	12.1	-	37.1	98.1	1,234.6	
Derivatives	7.1	7.1	-	-	-	-	7.1	
Debtors arising out of reinsurance operations	77.1	77.1	-	-	-	-	77.1	
Amounts due from group Undertakings	60.2	60.2	-	-	-	-	60.2	
Cash at bank and in hand	91.9	91.9	-	-	-	-	91.9	
	1,470.9	1,323.6	-	12.1	37.2	98.0	1,470.9	

Liabilities	Statement of financial position US\$m	Undiscounted values					Equities US\$m	Total US\$m
		Up to a year	1-3 years	3-5 years	Over 5 years			
		US\$m	US\$m	US\$m	US\$m	US\$m		
Claims outstanding	510.0	72.3	220.3	147.1	70.3	-	510.0	
Derivatives	0.4	0.4	-	-	-	-	0.4	
Amounts owed to group undertakings	0.5	0.5	-	-	-	-	0.5	
Other creditors	0.4	0.4	-	-	-	-	0.4	
	511.3	73.6	220.3	147.1	70.3	-	511.3	

# Brit Reinsurance (Bermuda) Limited

## NOTES TO THE FINANCIAL STATEMENTS

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### 4. Risk management policies (continued)

#### 4.11 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 2016.

The capital policy is set by the Board and is based on the output of the regulatory approved 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 statement of financial position strength. The policy ensures the capital adequacy of the Company through an efficient capital structure. 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 of capital for the business and provides 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 our core business; and
- The support to provide continuity in regular dividend payments to shareholders.

The Company is subject to the solvency and capital adequacy requirements of the Bermuda Monetary Association. 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 capital consists of ordinary share capital and retained earnings, which amounted to US\$989.2m as at 31 December 2017. This represented a surplus of US\$455.0m over regulatory requirements, being the enhanced capital requirement. The Company is also required to maintain a 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 2017

	Investment income US\$m	Net realised gains/(losses) US\$m	Net unrealised gains/(losses) US\$m	Total investment return US\$m
Equity securities	1.7	2.3	22.9	26.9
Debt securities	6.7	(0.2)	2.3	8.8
Specialised investment funds	5.2	5.3	29.0	39.5
Derivatives	-	16.0	(0.4)	15.6
Cash and cash equivalents	2.8	-	-	2.8
Total investment return before expenses	16.4	23.4	53.8	93.6
Investment management expenses	-	-	-	(4.2)
Net investment return	16.4	23.4	53.8	89.4

#### Year ended 31 December 2016

	Investment income US\$m	Net realised gains/(losses) US\$m	Net unrealised gains/(losses) US\$m	Total investment return US\$m
Equity securities	0.6	-	(13.3)	(12.7)
Debt securities	19.3	25.9	4.9	50.1
Specialised investment funds	8.1	(0.6)	5.6	13.1
Derivatives	-	-	(50.3)	(50.3)
Cash and cash equivalents	0.7	-	-	0.7
Total investment return before expenses	28.7	25.3	(53.1)	0.9
Investment management expenses	-	-	-	(5.1)
Net investment return	28.7	25.3	(53.1)	(4.2)

# Brit Reinsurance (Bermuda) Limited

## NOTES TO THE FINANCIAL STATEMENTS

### 6. Provision for unearned premium

	Gross US\$m	Reinsurers' share US\$m	Net US\$m
Balance at 1 January 2017	88.5	(2.2)	86.3
Premiums written in the year	303.9	(3.7)	300.2
Premiums earned in the year	(295.6)	4.6	(291.0)
Change in provision for unearned premium	8.3	0.9	9.2
Effect of movement in exchange rates	4.8	-	4.8
<b>Balance at 31 December 2017</b>	<b>101.6</b>	<b>(1.3)</b>	<b>100.3</b>

	Gross US\$m	Reinsurers' share US\$m	Net US\$m
Balance at 1 January 2016	106.7	(1.3)	105.4
Premiums written in the year	277.6	(5.3)	272.3
Premiums earned in the year	(279.8)	4.2	(275.6)
Change in provision for unearned premium	(2.2)	(1.1)	(3.3)
Effect of movement in exchange rates	(16.0)	0.2	(15.8)
Balance at 31 December 2016	88.5	(2.2)	86.3

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

### 7. Claims outstanding

	Gross US\$m	Reinsurers' share US\$m	Net US\$m
Balance at 1 January 2017	510.0	-	510.0
Claims incurred in current underwriting year	133.3	-	133.3
Claims incurred in prior underwriting years	116.0	-	116.0
Claims paid in the year	(140.1)	-	(140.1)
Change in provisions for claims	109.2	-	109.2
Effect of movement in exchange rates	44.8	-	44.8
<b>Balance at 31 December 2017</b>	<b>664.0</b>	<b>-</b>	<b>664.0</b>

# Brit Reinsurance (Bermuda) Limited

## NOTES TO THE FINANCIAL STATEMENTS

### 7. Claims outstanding (continued)

	Gross US\$m	Reinsurers' share US\$m	Net US\$m
Balance at 1 January 2016	540.7	-	540.7
Claims incurred in current underwriting year	83.4	-	83.4
Claims incurred in prior underwriting years	91.4	-	91.4
Claims paid in the year	(119.6)	-	(119.6)
Change in provisions for claims	55.2	-	55.2
Effect of movement in exchange rates	(85.9)	-	(85.9)
Balance at 31 December 2016	510.0	-	510.0

### 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 Company 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 are 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

### 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 insurance 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 have been adjusted to make them comparable on a year-by-year basis. Claims in currencies other than US\$ have been retranslated at 31 December 2017 exchange rates.

The claims development information disclosed is being increased from five years to ten years over the period 2016 - 2020.

#### Estimate of cumulative gross and net incurred claims:

US\$m Underwriting year	2010 & prior	2011	2012	2013	2014	2015	2016	2017
At end of underwriting year		79.4	76.1	67.6	81.2	77.7	83.3	134.2
One year later		136.6	141.8	142.5	177.0	161.4	185.3	
Two years later		141.3	149.2	149.5	178.3	171.0		
Three years later		138.9	145.9	146.9	185.9			
Four years later		141.0	149.9	151.3				
Five years later		137.3	152.4					
Six years later		135.2						
Current estimate of cumulative claims incurred		135.2	152.4	151.3	185.9	171.0	185.3	134.2
Cumulative payments to date		110.3	104.1	92.3	89.7	65.5	43.2	8.7
Gross and net outstanding claims provision at 31 Dec 2017	62.5	24.9	48.3	59.0	96.2	105.5	142.1	125.5

During 2012, the Company entered into a loss portfolio reinsurance contract agreement with the RiverStone Group whereby the Company reinsured certain lines of business underwritten by Brit Insurance Limited prior to its sale by the Brit Group to the RiverStone Group. During 2014, the loss portfolio reinsurance contract was commuted. Incurred claims relating to this contract have been excluded from the claims development table in order to make the claims comparable on a year by year basis.

# Brit Reinsurance (Bermuda) Limited

## NOTES TO THE FINANCIAL STATEMENTS

### 9. Net operating expenses

	2017 US\$m	2016 US\$m
Acquisition costs	14.1	11.9
Change in deferred acquisition costs	(1.2)	0.2
Reinsurance commissions and profit participation	(0.5)	2.8
Administrative expenses	4.4	4.6
Foreign exchange gains	(8.2)	(5.7)
	<b>8.6</b>	<b>13.8</b>

Administrative expenses include:

	2017 US\$m	2016 US\$m
Audit of the Company annual accounts	0.1	0.1

### 10. Staff costs

Staff Costs comprise:

	2017 US\$m	2016 US\$m
Wages and salaries	0.8	0.6
Pension contributions	0.1	0.1
	<b>0.9</b>	<b>0.7</b>

Included in wages and salaries are charges relating to share-based payment schemes of US\$3,116 (2016: US\$3,935). Pension contributions are in respect of a defined contribution pension scheme.

	2017 No.	2016 No.
Headcount of staff were as follows:		
Management	2	2
Underwriting	1	1
Administration	1	1
Average Headcount	4	4

	2017 US\$m	2016 US\$m
Staff costs include Directors' remuneration as follows:		
Aggregate remuneration	0.5	0.5

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

# Brit Reinsurance (Bermuda) Limited

## NOTES TO THE FINANCIAL STATEMENTS

### 10. Staff costs (continued)

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

	2017 US\$m	2016 US\$m
Aggregate remuneration	0.3	0.3

### 11. Tax on ordinary activities

Under current Bermuda law, the Company is not required to pay any taxes 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.

The Company is liable to corporation tax in Gibraltar in accordance with the Income Tax Act 2010 on income accruing in or derived from a source within Gibraltar, until the date activities ceased in Gibraltar.

	2017 US\$m	2016 US\$m
<b>Tax charge in the income statement:</b>		
Gibraltar corporation tax at 10% (2016: 10%)	0.3	3.8
	<b>0.3</b>	<b>3.8</b>

Tax charge all relates to the period the company was resident in Gibraltar. There is no tax in Bermuda following redomiciliation.

#### Factors affecting tax charge for the year

The tax assessed for the year is lower than the standard rate of corporate tax in Gibraltar of 10% (2016: 10%).

The differences are explained below:

	2017 US\$m	2016 US\$m
Profit on ordinary activities before tax	122.2	82.4
Profit on ordinary activities before tax multiplied by standard rate of corporation tax in Gibraltar of 10% (2016: 10%)	12.2	8.2
Effects of:		
Income not taxable	(5.1)	3.1
Branch income not taxable	(11.8)	(7.5)
Withholding tax suffered	0.5	-
Prior year adjustment	(0.2)	-
Deferred tax not provided on tax losses	4.7	-
<b>Total tax charge on profit on ordinary activities</b>	<b>0.3</b>	<b>3.8</b>

The income not taxable relates to investment income in Cell Re not taxable in Gibraltar. The Branch income not taxable relates to the underwriting profits in Cell FAL which was treated as a branch of the company in Bermuda and so free of tax in Bermuda and branch profits exempt from tax in Gibraltar.

# Brit Reinsurance (Bermuda) Limited

## NOTES TO THE FINANCIAL STATEMENTS

### 12. Financial investments

	<b>Market value 2017 US\$m</b>	Market value 2016 US\$m	<b>Cost 2017 US\$m</b>	Cost 2016 US\$m
Shares and other variable yield securities and units in unit trusts	<b>653.2</b>	441.6	<b>641.0</b>	501.8
Debt securities and other fixed income securities	<b>826.5</b>	793.0	<b>805.5</b>	795.5
	<b>1,479.7</b>	1,234.6	<b>1,446.5</b>	1,297.3

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

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.

# Brit Reinsurance (Bermuda) Limited

## NOTES TO THE FINANCIAL STATEMENTS

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### 12. Financial investments (continued)

#### 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 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 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.

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 certain investments in asset backed securities (ABS) and residential mortgage backed securities (RMBS). Level three ABS include mostly investment-grade debt securities backed by pools of loans with a variety of underlying collateral. Level three RMBS include non-agency RMBS backed by non-conforming residential mortgages. 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.

# Brit Reinsurance (Bermuda) Limited

## NOTES TO THE FINANCIAL STATEMENTS

### 12. Financial investments (continued)

#### Valuation techniques (continued)

##### Level one (continued)

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 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 (NAV) adjusted and issued by fund managers based on their knowledge of underlying investments and credit spreads of counterparties.

As at 31 December 2017	Level 1 2017 US\$m	Level 2 2017 US\$m	Level 3 2017 US\$m	Total 2017 US\$m
Equities	92.1	30.2	76.5	198.8
Debt securities	794.2	5.3	27.0	826.5
Specialised investment funds	-	449.1	5.3	454.4
	886.3	484.6	108.8	1,479.7

As at 31 December 2016	Level 1 2016 US\$m	Level 2 2016 US\$m	Level 3 2016 US\$m	Total 2016 US\$m
Equities	58.4	20.1	19.6	98.1
Debt securities	743.7	40.5	8.8	793.0
Specialised investment funds	-	338.7	4.8	343.5
	802.1	399.3	33.2	1,234.6

### 13. Derivatives

	2017 US\$m	2016 US\$m
Derivative assets	8.9	7.1
Derivative liabilities	(1.0)	(0.4)
	7.9	6.7

Derivatives are used to manage the foreign exchange and interest rate exposure for the Company. During the year the instruments used were currency forwards, currency put options and interest rate swaps.

# Brit Reinsurance (Bermuda) Limited

## NOTES TO THE FINANCIAL STATEMENTS

### 14. Amounts due from Group undertakings

	2017 US\$m	2016 US\$m
Deposits with Brit Insurance Holdings Limited	89.5	60.2
	89.5	60.2

The balance with Brit Insurance Holdings Limited relates to cash deposited in the Group where interest is earned at above market rates.

### 15. Other debtors

	2017 US\$m	2016 US\$m
Advance corporation tax	4.1	3.5
Other debtors	0.6	-
	4.7	3.5

### 16. Called up share capital

2017 Authorised share capital	GBP £'000	USD \$'000	CAD \$'000	EUR €'000	AUD \$'000
<u>Authorised Core Shares</u> 1,000,000,000 ordinary shares of \$1 each	-	1,000,000	-	-	-

2016 Authorised share capital	GBP £'000	USD \$'000	CAD \$'000	EUR €'000	AUD \$'000
<u>Authorised Core Shares</u> 50,000,000 ordinary shares of £1 each	50,000	-	-	-	-
<u>Unclassified Shares</u> 5,000,000 "Unclassified Shares" at 0.01 each	50	50	50	50	50

On 7 December 2017, (i) the entirety of the Company's existing authorised and issued share capital was converted into shares of US\$1 each, (ii) the Company's authorised share capital was increased to US\$1,000,000,000 divided into 1,000,000,000 ordinary shares of US\$1 each. Such changes were made with the consent of the Company's sole shareholder and in accordance with Bermuda law.

# Brit Reinsurance (Bermuda) Limited

## NOTES TO THE FINANCIAL STATEMENTS

### 16. Called up share capital (continued)

During 2017, the Company issued ordinary shares such that the issued share capital of the Company at 31 December 2017 was US\$609,244,210 (2016: US\$ 204,110) divided into 609,244,210 ordinary shares of US\$ 1 each, fully paid up.

2017 Allotted, called up and fully paid	GBP £	USD \$	CAD \$	EUR €	AUD \$	Called up US\$m	Share Premium US\$m
609,244,210 ordinary shares of \$1 each	-	609,244,210	-	-	-	609.2	-
Perpetual Redeemable Shares	-	-	-	-	-	-	-
						609.2	-

2016 Allotted, called up and fully paid	GBP £	USD \$	CAD \$	EUR €	AUD \$	Called up US\$m	Share Premium US\$m
Core - 100,000 ordinary shares of £1 each	100,000	-	-	-	-	0.2	-
Cell Re - 1 GBP Perpetual Redeemable Share of £0.01p each	0.01	-	-	-	-	-	20.2
<u>Cell FAL - Perpetual Redeemable Shares</u>							
388 USD Perpetual Redeemable Shares at 0.01 each	-	3.88	-	-	-	-	388.6
71 CAD Perpetual Redeemable Shares at 0.01 each	-	-	0.71	-	-	-	59.0
83 EUR Perpetual Redeemable Shares at 0.01 each	-	-	-	0.83	-	-	93.4
60 AUD Perpetual Redeemable Shares at 0.01 each	-	-	-	-	0.60	-	47.8
						0.2	609.0

# Brit Reinsurance (Bermuda) Limited

## NOTES TO THE FINANCIAL STATEMENTS

### 17. Deferred acquisition costs

	2017 US\$m	2016 US\$m
At 1 January	5.0	6.2
Costs deferred during the year	14.1	11.9
Amortisation charge for the year	(12.9)	(12.1)
Foreign exchange movements	0.3	(1.0)
<b>At 31 December</b>	<b>6.5</b>	<b>5.0</b>

### 18. Other creditors

	2017 US\$m	2016 US\$m
Amounts owed to Group undertakings	1.1	0.5
Other creditors	1.2	0.4
	<b>2.3</b>	<b>0.9</b>

### 19. Operating lease commitments

The Company entered into an operating lease arrangement on 1 August 2016 to lease an office property in Gibraltar. The lease is for a period of 12 years with a three yearly rent review. There are break clauses at five and eight years, with six months' and three months' notice in advance respectively.

The future minimum lease payments under non-cancellable operating leases were as follows:

	2017 US\$m	2016 US\$m
Not later than one year	0.1	0.1
Later than one year and not later than five years	0.2	0.3
Later than five year	-	0.4
<b>Total</b>	<b>0.3</b>	<b>0.8</b>

# Brit Reinsurance (Bermuda) Limited

## NOTES TO THE FINANCIAL STATEMENTS

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### 20. 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 US\$650.0m 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. 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 2017, funds held in the collateral accounts were in the sum of US\$698.3m (2016 US\$690.4m).

### 21. Share-based payments

Until 5 June 2015, the ultimate parent of the Company, Brit Limited, operated an equity settled performance share plan (PSP) and an equity settled all-employee share plan (SIP). Following control of Brit Limited passing on that date to FFHL Group Limited, a subsidiary of Fairfax Financial Holdings Limited (Fairfax), the awards under these Brit schemes either vested or were replaced with awards under a Fairfax long-term incentive plan (LTIP) (treated as equity-settled). Subsequent to 5 June 2015, a further LTIP (treated as cash-settled) and an employee share ownership plan (ESOP) (treated as equity-settled) denominated in Fairfax shares were made available to the employees of the Company. All of these schemes are deemed to fall within the scope of Section 26 'Share-based payments' of FRS 102.

The Brit PSP had various performance conditions relating to return on net tangible assets, total shareholder return and continued service and a vesting period of three to five years whilst the Brit SIP only had performance conditions relating to continued service and a vesting period of three years. The Fairfax LTIP schemes have no performance conditions and a vesting period of three to five years. The Fairfax ESOP has no performance conditions and no vesting period.

The compensation cost relating to employees of the Company recognised in the income statement under FRS 102 for the share-based payment arrangements was US\$17,774 (2016: US\$14,250) of which US\$3,116 (2016: US\$3,935) was recognised in equity.

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).

### 22. Dividends

Interim dividends amounting to US\$15.0m were paid in the year (2016: US\$115m). The Directors do not recommend the payment of a final dividend.

### 23. 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

# Brit Reinsurance (Bermuda) Limited

## NOTES TO THE FINANCIAL STATEMENTS

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### 23. Disclosure exemptions (continued)

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).

### 24. Related party transactions

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) Conyers Corporate Services (Bermuda) Limited (Conyers)

The Company incurred professional fees of US\$100,504 for services performed by Conyers Dill & Pearman in respect of the change in domicile of the Company and US\$20,000 for company secretarial services provided by an affiliated company, Conyers Corporate Services (Bermuda) Limited. Mr Garrod, a Director of Conyers Dill & Pearman was appointed to the Board on 7 December 2017.

#### b) Hassans International Law Firm (Hassans)

The Company incurred legal fees of US\$25,080 from work performed by Hassans in Gibraltar in respect of the change in domicile of the Company. Nigel Feetham, a Director of the Company until 7 December 2017, is a partner at Hassans.

#### c) Fairfax Financial Holdings Limited

Hamblin Watsa Investment Counsel Limited (HWIC), an affiliate of Fairfax, is an investment manager to the Company. The Company incurred and paid investment management fees to HWIC of US\$3.7m (2016: US\$4.2m).

The Company has written historic excess of loss insurance with the RiverStone Group, an affiliate of Fairfax. The amount due to RiverStone as at 31 December 2017 was US\$0.1m (2016: US\$2.7m).

#### d) The MPLC Limited

The MPLC Limited was considered a related party until 17 June 2016, when a Director in common resigned from the Board of the Company. During 2016, gross written premium of US\$1.3m was placed with Syndicate 2987, a member of the Brit Limited Group. Syndicate 2987 reinsured this business with the Company under an agreement where the Company received reinsurance premiums equal to 20% of the gross written premium placed.

### 25. 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).