BRIT

BRIT REINSURANCE (BERMUDA) LIMITED
FINANCIAL CONDITION REPORT

YEAR ENDING 31 DECEMBER 2017

SEEING THE DIFFERENCE **MAKES THE DIFFERENCE**

Contents

Executive Summary

Purpose of report

The purpose of the report is to provide additional information, over and above that contained in the annual financial statements, to policyholders and other stakeholders to understand the performance, governance structure, risk profile, solvency and capital position of Brit Reinsurance (Bermuda) Limited ('Brit Re' or 'The Company') as at 31 December 2017.

Basis of preparation

The Financial Condition Report (FCR) has been prepared in accordance with Schedule I of the Insurance (Public Disclosure) Rules 2015, following the structure and guidelines contained therein.

All figures provided in this report are in United States dollars, the functional currency of the Company.

Report overview

In summary, the FCR contains the following information:

Business and Performance

This section contains details of the organisational structure, insurance business activities and financial performance.

Brit Re is domiciled in Bermuda and is a wholly owned subsidiary of Brit Insurance Holdings Limited, which in its turn is a wholly owned subsidiary of Brit Limited ('Brit' or 'The Group'). 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. On that date, the Company discontinued operations in Gibraltar. The Company also ceased to have a cell structure from 28 November 2017.

The result on ordinary activities for the year ended 31 December 2017 before tax was $122.5m (2016: $82.6m). The 2017 combined ratio was 91.4% (2016: 70.6%). The Company's result for 2017 reflects significant major loss activity offset by an outstanding investment return.

Governance Structure

This section contains details of the corporate governance, risk management and solvency self-assessment frameworks.

The Company is committed to high standards of corporate governance and has established and maintained effective systems of governance which provide for sound and prudent management. There is a clear and well-defined organisational structure with clear, consistent and documented lines of responsibility. The board of directors of the Company ('the Board') and staff have the skills, knowledge and expertise to fulfil their allocated responsibilities. The Company's information systems produce sufficient, reliable, consistent, timely and relevant information on all business activities, commitments assumed and risk exposures. Adequate risk management, compliance, internal audit and actuarial functions are established and maintained. The system of governance needs are therefore considered proportionate to the nature, scale and complexity of our business.

Risk profile

This section provides information regarding risk management for each of the principal risks faced by the Company.

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 most material risks relate to underwriting and investment operations.

The risks arising from any of the business activities are managed in line with the Risk Management Framework set by the Board in order to protect policyholders and maximise shareholder value. This established framework covers all the risks surrounding the Company's past, present and, in particular, future activities.

Throughout 2017 the Company remained within all risk tolerance metrics approved by the Board.

Valuation for solvency purposes

The Bermuda Solvency II equivalent regulations require the Company to value assets and liabilities on a different basis to UK Generally Accepted Accounting Practice, which is used in the Company's financial statements, when assessing its solvency requirements. The aggregate valuation difference amounts to $42.1m and primarily relates to the valuation of the technical provisions. This section describes the main methods and assumptions used in the valuation.

Capital management

The Company holds considerable capital in surplus of its regulatory requirements to maintain its ability to pay its policyholders even if extreme events materialise – at 31 December 2017, the Company has a solvency ratio of 203% of its regulatory Enhanced Capital Requirement of $507.6m.

In addition to its regulatory requirements, the Company maintains an Internal Model to allow management to assess its capital requirements specifically for its risk profile. The Company also holds considerable surplus capital over this management capital requirement.

Subsequent event

There are no significant events subsequent to 31 December 2017 at the date of signing of the FCR.

Significant business events

The material event for the Company during 2017 was the change of its domicile from Gibraltar to Bermuda on 28 November 2017, following which the Company was renamed Brit Reinsurance (Bermuda) Limited. The Company, previously a protected cell company and known as Brit Insurance (Gibraltar) PCC Limited, discontinued operations in Gibraltar from 28 November 2017 and also ceased to have a cell structure from that date.

A. Business and Performance

A.1. Name of the insurer

Brit Reinsurance (Bermuda) Limited

A.2. Name and contact details of the insurance supervisor

Bermuda Monetary Authority

BMA House
43 Victoria Street
Hamilton, HM12
Bermuda

Telephone: + 441-295-5278

Email: info@bma.bm

A.3. Name and contact details of the approved auditor

PricewaterhouseCoopers Ltd

Washington House
4th floor, 16 Church Street
Hamilton, HM 11
Bermuda

Telephone: + 441-295-2000

Email: pwc.bermuda@bm.pwc.com

A.4. Ownership details

The Company's immediate shareholder is Brit Insurance Holdings Limited, a company registered in England and Wales. The ultimate holding company within the Group is Brit Limited.

As at 31 December 2017, the shares in the capital of Brit Limited are held by:

(i) Fairfax Financial Holdings Group Limited: 72.51% and

(ii) OMERS Administration Corporation 27.49%.

A.5. Group structure

An abridged corporate structure is shown in Appendix I.

A.6. Insurance business written by business segment and by geographical region during the reporting period

The following table summarises the premiums written by business segment for the year ended 31 December 2017.

$'m	2017				2016		
	Non FAL	FAL	Total		Non FAL	FAL	Total
Gross written premium	230.7	73.2	303.9		211.0	66.6	277.6
Net written premium	227.0	73.2	300.2		205.7	66.6	272.3
Portfolio weighting - % NEP	75.6%	24.4%	100%		75.8%	24.2%	100%

[Source: 2017 Report & Financial Statements]

The Company provides funds at Lloyd's (FAL) on behalf of Brit UW Limited, a Group company. The Company has also written various reinsurance agreements entered into with Brit Syndicates Limited, as managing agent of Lloyd's Syndicate 2987.

The non-FAL contracts written by the Company have worldwide coverage. The FAL contract written by the Company protects Brit Underwriting Limited, domiciled in the United Kingdom.

All business was written in Gibraltar prior to the continuation of the Company in Bermuda.

A.7 Investment performance

The following table shows the fair market value of the Company's investment portfolio:

$'m	2017	2016
Equities	198.8	98.0
Debt securities	826.5	793.0
Specialised investment funds	454.4	343.6
Total	**1,479.7**	**1,234.6**

[Source: 2017 Report & Financial Statements]

Invested assets at 31 December 2017 amounted to $1,479.7m. The portfolio remains defensively positioned with a large allocation to cash and cash equivalents and short dated government bonds. Corporate bonds are predominantly high quality, defensive, short dated fixed income securities.

The following table shows the performance of those investments:

$'m	2017	2016
Equity securities	26.9	(12.7)
Debt securities	8.8	50.1
Specialised investment funds	39.5	13.1
Derivatives	15.6	(50.3)
Cash and cash equivalents	2.8	0.7
Total return before expenses	**93.6**	**0.9**
Investment management fees	**(4.2)**	**(5.1)**
Total return net of fees	**89.4**	**(4.2)**

[Source: 2017 Report & Financial Statements]

The net investment return, net of fees, was US$89.4m or 5.2% (2016: loss of US$4.2m), driven by gains on equity and fund investments.

A.8 Material income and expenses during the reporting period

The Company's main sources of income are premiums from reinsuring other companies of the Group and investment income. The more significant expenses in 2017 were claims, acquisition costs and operating expenses:

Expense $'m	2017	2016
Incurred claims	249.3	174.8
Acquisition costs	12.4	14.9
Operating expenses	4.4	4.6
Total	**266.1**	**194.3**

[Source: 2017 Report & Financial Statements]

The Company's combined ratio increased in 2017 to 91.4% from 70.6% in 2016. The increase was largely due to natural catastrophe and weather-related incurred losses.

A.9. Other material information

The Company re-domiciled from Gibraltar to Bermuda on 28 November 2017 as a Class 3B insurer, registering as a non-cellular company. The Company on that date discontinued all underwriting operations in Gibraltar.

B. Governance Structure

Introduction

The Company is committed to high standards of Corporate Governance and has established and maintained effective systems of governance which provide for sound and prudent management. There is a clear and well-defined organisational structure with clear, consistent and documented lines of responsibility. The Board and the Company’s staff have the skills, knowledge and expertise to fulfil their allocated responsibilities. The Company’s information systems produce sufficient, reliable, consistent, timely and relevant information on all business activities, commitments assumed and risk exposures. Adequate risk management, compliance, internal audit and actuarial functions are established and maintained. The system of governance needs are therefore considered proportionate to the nature, scale and complexity of our business.

B.1 Board and Senior Executive

i. Structure of the board and senior executive, the roles, responsibilities and segregation of these responsibilities

The Board has two committees being the Audit Committee and the Risk Oversight Committee:

- The Board is responsible for the overall leadership of the Company and setting the Company's values and standards;
- The Audit Committee regularly reviews the Company’s financial reports, financial reporting process, regulatory and compliance matters.
- The Risk Oversight Committee regularly reviews the effectiveness of the Company’s risk-management system.

In addition, there is a Management Committee which is responsible for the day-to-day management of business including monitoring all outsource agreements.

The Board of Directors currently comprises six Directors: a Chairman, two executive Directors, two independent non–executive Directors and one Brit-nominated non–executive Director. Under the Board’s terms of reference, the Board is required to meet at least four times a year.

The independent non-executive Directors do not have any executive or other role or relationship with the Company or management that would affect their independence. They bring a wide range of experience and expertise both in the insurance and financial services industries and are encouraged to challenge management.

The non-executive Chairman is responsible for leadership of the Board, ensuring its effectiveness on all aspects of its role and setting its agenda. The Chairman is responsible for setting the agenda for Board deliberations, with the help of the executive Directors, to be primarily focussed on strategy, performance, value creation and accountability, and ensuring that issues relevant to these areas are reserved for Board decision.

The Board is responsible for ensuring the maintenance of a sound system of internal control and risk management (including financial, operational and compliance controls, and for reviewing the overall effectiveness of systems in place) and for the approval of any changes to the capital, corporate and/or management structure of the Company.

The Board periodically receives reports and recommendations from its committees.

There have been no material changes in the system of governance over the reporting period.

Directors

Director		
Mark Cloutier	Chairman	*Appointed 7 December 2017*
Karl Grieves	Executive Director	
Joseph Bonanno	Executive Director	
Mark Allan	Non-executive Director	
Chris Garrod	Independent non-executive Director	*Appointed 7 December 2017*
John D. Nichols, Jr	Independent non-executive Director	*Appointed 7 December 2017*

Senior officers

Name	Position
Karl Grieves	Finance Director and Principal Representative
Joseph Bonanno	Underwriting Director

ii. Remuneration Policy and Practices

Non-Executive Directors

Independent non-executive directors receive a fee in respect of their role. Fees are set at appropriate levels to reflect the individual responsibility and time commitment. Independent non-executive directors do not participate in either the Group's incentive arrangements or pension/early retirement schemes.

Senior Executives

The Company has a Total Compensation Philosophy, whereby salaries, bonuses and benefits are managed together in the context of employee and business performance taking into consideration the risks inherent in the activities performed by employees and with reference to external market compensation practices. This applies to all employees and executives consistently across the Brit group. Levels of compensation are benchmarked against our key competitors.

In order to support the above strategy, the approach to remuneration is to provide overall pay packages that:

- Reward employees for delivering Brit's business plan and key strategic goals.
- Include incentive plans that reward superior performance in line with strategic ambitions and in a manner which is consistent with Brit's risk appetite.
- Recognise the strong link between variable compensation and performance at Group, business unit and individual levels.
- Appropriately reflect the risk appetite incorporated into the business strategy, as well as taking into account the Group's regulatory and compliance obligations.
- Align employees' interests with the interests of shareholders and other external stakeholders.

The remuneration policy is reviewed annually and a key feature is that remuneration should not adversely impact the Group's ability to maintain an adequate capital base proportionate to the results and remuneration arrangements do not encourage risk-taking in excess of the risk management strategy.

Individuals do not take part in discussions regarding their own remuneration.

Where appropriate separate role-specific bonus arrangements may be implemented. For more significant bonuses, the Company may require an element of the bonus to be deferred.

iii. Pension or early retirement schemes

The Company does not provide a Pension Plan to employees but contributes to employee personal plans or pays an equivalent cash allowance to the individual.

iv. Transactions with shareholders, the Board and persons who exercise a significant influence

Other members of the Brit Limited Group

The Company paid $3.0m to other members of the Brit Limited Group in respect of the outsourcing agreement for provision of services to the Company in 2017 (2016: $3.4m).

Conyers Corporate Services (Bermuda) Limited (Conyers)

The Company incurred professional fees of $100,504 for services performed by Conyers Dill & Pearman in respect of the change in domicile of the Company and $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.

Hassans International Law Firm (Hassans)

The Company incurred legal fees of £25,000 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.

Fairfax Financial Holdings Limited (Fairfax)

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 $3.7m (2016: $4.2m).

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

B.2 Fit and proper requirements

The Company is committed to ensuring that persons appointed to the Board and senior management roles are fit and proper to hold office. Our Directors and senior managers must meet the following criteria to be deemed fit and proper:

- Possess appropriate skills, experience, educational or professional qualifications and reputation
- Display a high degree of competency and professionalism in current and previous roles
- Demonstrate at all times good integrity, honesty, diligence, solvency, judgement and sound ethical character and has not been reprimanded, disqualified or removed by a professional or regulatory body in relation to questions of honesty, integrity or business conduct
- Understand and reinforce a strict compliance, risk awareness and governance environment

- Have not been involved in the management of a company that has failed as a result of deficiencies in the management of that company
- Have not been the subject of civil or criminal proceedings in relation to the management of a company
- Have not been the subject of a serious criminal conviction
- Have no conflict of interest in performing their duties; or if the person has a conflict of interest, it would be prudent to conclude that the conflict will not create a material risk that the person will fail to properly perform the duties of the position.
- Compliance with individual conduct standards as described by the United Kingdom's Financial Conduct Authority and Prudential Regulation Authority, which includes being open and co-operative with regulators.

Fitness and propriety is assessed for any prospective directors joining the Company's Board. The directors appointed during 2017 were all deemed to be fit and proper to hold office.

The ongoing assurance of fitness and propriety of the Company's executives is re-assessed annually or more frequently should we become aware of any issue which may adversely impact upon the fit and proper assessment of those concerned. A register of all persons falling within the Fit and Proper regime is maintained by the Compliance function of the Group.

Professional qualifications, skills and expertise of the board and senior executives

Mark Cloutier has served as Chairman since December 2017. Mark was appointed Executive Chairman of the Group in January 2017 following his role as Chief Executive Officer since 2011. With over 35 years' experience working in the international insurance and reinsurance sector he holds a number of non-executive positions and has held a number of CEO and senior executive positions, including CEO of the Alea Group, CEO of Overseas Partners Re and President of E.W. Blanch Insurance Services Inc. He has worked with a variety of private equity investors including Kohlberg Kravis Roberts (KKR) and Fortress. He serves on the board of Brit Limited and is a member of the Lloyd's Franchise Board and Brit Limited Audit Committee.

Mark Allan serves as Group Chief Financial Officer of Brit Limited. Mark joined Brit in April 2010 and led the Group's strategic review and corporate restructuring as the Director of Strategic Planning and Business Improvement. Prior to his appointment to Chief Financial Officer he held the role of Chief Risk Officer and Director of Strategy. Mark joined Brit from McKinsey & Company where he led high-profile strategic projects for a range of large clients, predominantly in financial services. Mark is also a Fellow of the Institute of Actuaries, and originally worked as an actuarial consultant at Mercer. He holds an MA (Hons) degree in Mathematics from the University of Cambridge.

Joseph V. (Joe) Bonanno, Jr. serves as Underwriting Director. Joe is also Senior Vice President of Casualty Reinsurance for Brit Global Specialty. Prior to joining Brit, from 2003 to 2013 Joe served as Senior Vice President at Max Bermuda Ltd. (Max subsequently became Alterra and then Markel). From 1991 to 2002, Joe served as an actuarial analyst and consultant at Tillinghast where he was involved with a wide range of pricing and reserving actuarial projects. Joe received his Bachelor of Science Degree in Mathematics in 1991 from Bridgewater State University.

Karl Grieves serves as Finance Director. Prior to joining Brit in 2013 Karl was Managing Director of Flagstone Syndicate Management Limited (a Lloyd's managing agency) and Group Deputy Chief Operating Officer Flagstone Re. Previous roles included Finance Director at Aon Insurance Managers in the Isle of Man. Karl is a Fellow of the Institute of Chartered Accountants in England and Wales, qualifying with KPMG London. BA (Hons) Economics from the University of Leeds and MSc Business Administration from the University of Bath.

John D. Nichols, Jr ("Jay") has served as a director since December 2017. He served as the CEO of the reinsurance operations of Axis Capital Ltd. from April 2012 until April 2017. Mr. Nichols also was instrumental in creating a team to launch Harrington Reinsurance Ltd., a joint venture of Blackstone and Axis Capital Ltd. Mr. Nichols served on the Board of Harrington until his retirement from Axis.

Mr. Nichols is the former President of RenaissanceRe Ventures Ltd., where he and his team were responsible for business development and management of RenaissanceRe's Joint Ventures and Venture Capital businesses. In his role at RenaissanceRe, Mr. Nichols was responsible for the formation of DaVinci Reinsurance and Top Layer Reinsurance, as well as several sidecars and other ventures.

Prior to joining RenaissanceRe in 1995, Mr. Nichols held various positions at Hartford Steam Boiler, Monarch Capital and the accounting firm of Matson, Driscoll and D'Amico.

Mr. Nichols serves on the Board of Directors and as Chairman of the Audit Committee of Delaware North Companies, a global leader in hospitality management and food service management. Mr. Nichols also serves on the Board of Directors of Baldwin & Lyons, Inc., a leading specialist in the transportation insurance industry.

Mr. Nichols graduated from Babson College in 1982 with a BS in Business Administration with a concentration in Accounting. Mr. Nichols earned his CPA accreditation in 1985.

Chris Garrod has served as a director since December 2017. He is a Director in the Corporate department of Conyers Dill & Pearman. He joined Conyers in 1997 and is a member of the Firm's insurance practice.

With over 15 years of experience working in Bermuda's reinsurance market, Chris specialises in advising on reinsurance and ILS structures, including large commercial insurers, life reinsurers, special purpose insurers, cat bonds, sidecars and segregated account vehicles. In addition to his insurance practice, he also advises on all aspects of Bermuda corporate law, including mergers and acquisitions, takeovers, reorganisations and re-domestications.

B.3 Risk management and solvency assessment

i. Risk Management Framework

Risk management within the Company is a continuous process that links directly to the organisation's business and risk management strategies and the associated Board risk appetites. The Company's Risk Management Framework (RMF) sets out how risks are identified, measured, managed and monitored. It also serves as one of the foundations for the Commercial Insurer Solvency Self-Assessment (CISSA). The Brit Group's Chief Risk Officer (CRO) is the owner responsible for design, production, implementation of the RMF, as well as monitoring and maintaining its content in line with Brit Re's objectives and market conditions. The CRO ensures ongoing compliance with the framework and its processes supported by management information. The framework is reviewed by the CRO at least annually, or as soon as possible following any material change in the Company's risk profile.

The RMF process has been in place for a number of years with no material changes made.

The key elements of the RMF are:

- **Identification:** Risk events, risks and relevant controls are identified, classified and recorded in the Company's 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. Key risk management techniques include implementing controls to mitigate risks and transferring or avoiding risks outside of the Company's risk tolerances.

These elements of the framework are supported by appropriate governance, reporting management information, policies, culture, and systems. In particular, the RMF applies to all employees in the Brit group, who are expected to operate within its guidelines at all times.

In line with the RMF, the Board sets the risk tolerance at an overall level and each of the key categories of risk. The risk tolerance is reviewed on an annual basis to ensure that it continues to appropriately capture the risks faced by the Company, and that it aligns to the Company's business and strategic objectives. Throughout 2017 the Company remained within all risk tolerances approved by the Board.

The ownership of many of the day-to-day activities is delegated to the Group's Risk Management function. The key categories of risk include: insurance, market, credit, liquidity and operational risks. The Risk Management function includes experienced risk specialists within each of the key categories of risk.

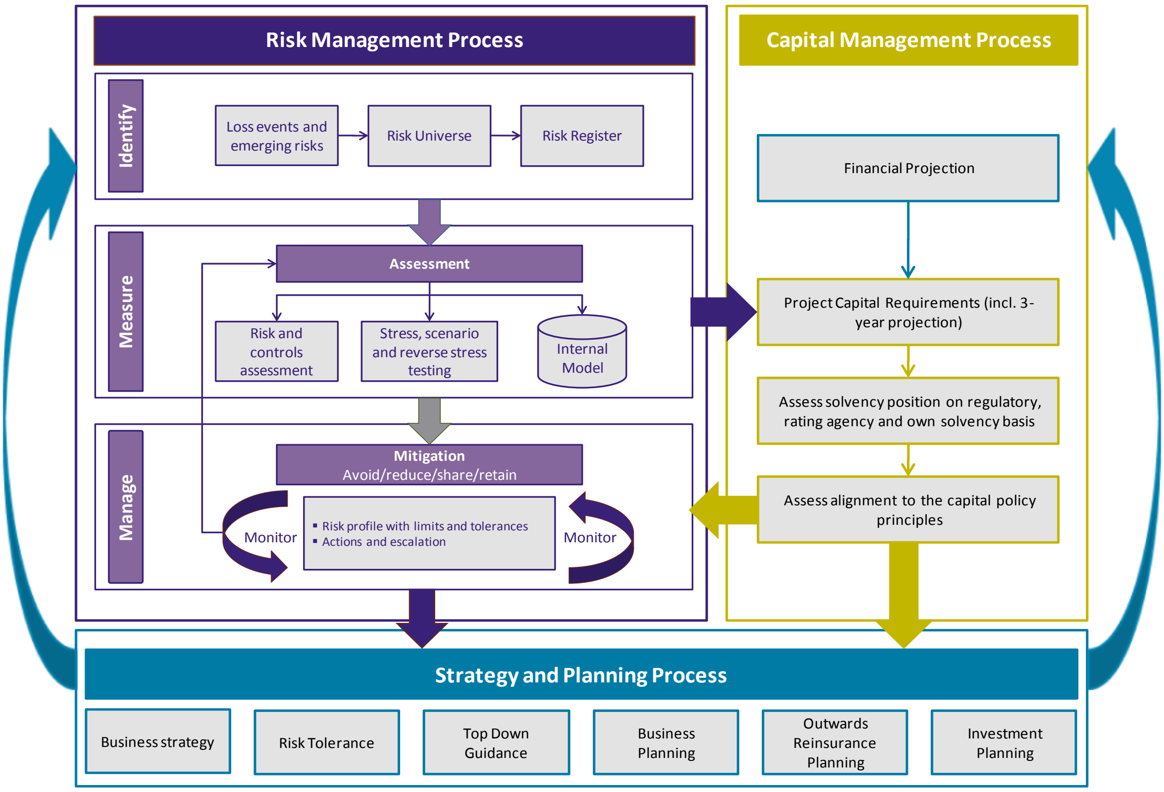
The key governance bodies in the risk management process in the Company are set out below:

- **The Board:** responsible for setting business and risk strategy and ensuring the principal risks and uncertainties facing the Company are managed;
- **Risk Oversight Committee:** responsible for the oversight of the Company's RMF and ensuring the Company is operating within the Board approved risk appetite;
- **Management Committee**: responsible for the oversight and review of key deliverables and updates from the Group's Risk Management function.

Section C discusses the risk profiles and any significant risks the Company is exposed to by individual risk category in further detail.

ii. Description of how the risk management and solvency self-assessment systems are implemented

The diagram below sets out the three processes which make up the overall CISSA process and how the solvency assessment is performed and the capital management and risk management processes interact:



The CISSA process operates continuously, with CISSA outcomes presented to each Risk Oversight Committee and Board. The CISSA outcomes are used to facilitate strategic decision making. The capital management process is a key part of the overall CISSA process as capital considerations are critical in making key strategic decisions. The results of the capital management process are also used as the basis for some of the risk metrics which are regularly monitored as part of the risk management process to ensure adherence to the Board approved risk appetite limits.

iii. Relationship between the solvency self-assessment, solvency needs, and capital and risk management systems

See section ii above.

iv. Description of the solvency self-assessment approval process

An annual CISSA report is produced which summarises the outcomes of the above process, both for the preceding year and over a forward-looking planning-horizon. This report is reviewed and approved by the Board, who have ultimate responsibility of the CISSA process.

B.4 Internal control system

i. Overview

The Company's controls framework is made up of:

- The control environment - the culture and organisational structures that support sound internal control;

- Control governance activity - the roles and responsibilities that provide oversight of internal control;
- Control assessment, monitoring and reporting activities - supporting the oversight and governance of internal control; and
- Control design and operation - outlining the elements of effective control design and operation.

In order to ensure the ongoing effectiveness and efficiency of the control framework, the Company operates a “three lines of defence model”.

Controls are first and foremost the responsibility of the business and relevant line management, i.e. the ‘first line of defence’. As the first line of defence, line management is responsible for monitoring day to day adherence to this Framework within its area of jurisdiction.

Assurance functions including Risk Management, Data Management, Compliance and Financial Control, provide a ‘second line of defence’. These functions provide additional assessments, challenge and advice to ensure risks managed appropriately. The functions report to the Board and the Risk Oversight and/or Audit Committee as appropriate.

The third line of defence is provided by Internal Audit. The primary role of the Internal Audit department is an independent, objective assurance activity designed to add value and improve the operations. It helps accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. All persons in the second and third line of defence, as described in the diagram above, are independent of the business.

Ultimate responsibility for implementing and monitoring the Internal Control Framework resides with the Board.

ii. Compliance

The compliance function is responsible for:

- Identifying, documenting and assessing compliance risks of the business and identifying processes and controls to be implemented to mitigate these risks;
- Ensuring adherence with policies and procedures and with the highest ethical standards in all business activities;
- Understanding and advocating rules, regulations and laws and the effective management of compliance risk; and
- Proactively working with and advising the business to manage compliance risk.

The responsibilities of the Compliance officer are carried out under a compliance programme that sets out its planned activities, such as the implementation and review of specific policies and procedures, and educating staff on compliance matters. The compliance programme is risk-based and subject to oversight by the Audit Committee to ensure appropriate coverage and co-ordination among risk management functions.

The Compliance officer reports on a regular basis to the Board and Audit and Management Committees on compliance matters including applicable laws, regulations and internal policies and procedures. If any compliance breaches or deficiencies were to be identified, the Compliance officer would report on the corrective measures recommended to address them, and on corrective measures already taken.

Compliance policy

The Company’s policy is reviewed on an annual basis and, subject to Board approval, will be amended (as appropriate) to reflect current best practice in corporate governance and the duties and responsibilities of the Compliance role. Review is undertaken by the Compliance Officer and by the Group Director of Legal and Compliance and any recommended changes reviewed by the Risk

Oversight Committee, and apart from minor changes, recommended to the Board for approval. The policy and related compliance programme is reviewed annually in March.

B.5 Internal audit function

The primary role of the Group's Internal Audit department is to help the Board of Brit Limited and Executive Management to protect the assets, reputation and sustainability of the organisation.

Internal Audit activity is driven by a three year Internal Audit plan which covers all key areas of the Group. A three year Internal Audit plan is produced specifically for the Company and is approved by the Audit Committee annually. This utilises a risk based approach to ensure that the internal audit plan provides adequate coverage of business activities with a particular focus on the higher risk areas of the business.

For each audit the Internal Audit team identifies the key risks associated with the area subject to review and tests the adequacy and effectiveness of the controls which mitigate those risks. The Internal Audit report is provided to each member of the Management Committee and the Audit Committee upon completion of the audit. Where findings have been identified these will be included in the report along with documented management actions to address the findings.

Internal Audit tracks the progress and completion of audit actions.

Independence & Objectivity

The Internal Audit department derives its ultimate authority from the various boards within the Group via delegation to the respective audit committees. The Head of Internal Audit reports functionally to the Chair of the Brit Limited Audit Committee to maintain independence and administratively (and for the purpose of executive communication) to the Group Chief Executive Officer. The Head of Internal Audit at all times has direct access to the Chair of the Audit Committee should such communication be deemed necessary by either party.

To ensure independence, the Group's Internal Audit policy requires that Internal Audit:

- Remain free from interference over audit selection, scope, procedures, frequency, timing, or report content.
- Have no direct operational responsibility or authority over any of the activities audited.
- Exhibit professional objectivity in gathering, evaluating, and communicating information.
- Staff rotate between audits of business units and / or processes as necessary, where this is required to preserve independence.
- Will confirm to the audit committees, at least annually, the organisational independence of Internal Audit.
- Hold regular sessions with the audit committee where executive management is not present.

B.6 Actuarial function

Brit Group Services Limited provide Actuarial services to the Company. This Actuarial Function is led by the Chief Risk Officer & Chief Actuary and the Deputy Chief Actuary. The team structure is generally aligned to the Group's underwriting structure. Notwithstanding this alignment, the work conducted and opinions expressed by the Actuarial Function are wholly independent from other business functions.

The Chief Actuary and Deputy Chief Actuary are responsible for the overall management of all activities within the Actuarial Function i.e. Group wide approach to pricing, reserving, business planning and input to the internal model and risk management.

The principal activities carried out by the Group's Actuarial Function are:

- **Technical Pricing Basis** – annual review of the Company's technical pricing.
- **Pricing Models** - Working with the Company's underwriting team, the Actuarial team develop and refine the suite of rating models in place in the Company and ensure the models adhere to the Group's minimum pricing standards.
- **Technical Provisions** – the Actuarial Function is responsible for coordinating and overseeing the reserving process (for calculating ultimate premiums and claims) and overseeing the calculation of technical provisions on a BMA Solvency II equivalent basis; ensuring appropriateness of methodologies, models and assumptions used.
- **Business Planning** - The role of the Actuarial Function in the annual business planning process is one of independent review and challenge of the underwriters' business plans and planning assumptions. The review focuses on, but is not limited to, the key assumptions within the business plan for each class of business.
- **Reinsurance Strategy** - The role of the Actuarial Function in the Company's outwards reinsurance strategy is one of independent review and challenge of the proposed reinsurance programmes for the following year (based on the work conducted as part of the annual business planning process) in conjunction with the Risk Management Function.

Please note that in the above activities, the Actuarial Function interacts with other business functions across the Group; namely Underwriting, Finance, Risk Management, Claims and Operations (which includes the Outwards Reinsurance Processing, IT and Data Management teams).

B.7 Outsourcing

The Company only approves proposals to outsource where the proposal is supported by a clear and achievable business case, and the due diligence requirements set out in the Procurement and Material Outsourcing policy have been met.

Any proposals to outsource must include:

- A legally binding agreement which sets out terms and conditions relating to compliance, confidentiality, and disclosure of circumstances likely to prejudice delivery, information sharing, access and suitable cancellation rights. A detailed list of required contract provisions is set out in the Group's Procurement and Material Outsourcing policy.
- Adequate risk mitigation practices are in place for the effective oversight and management of outsourcing arrangements and to identify potential problems at an early stage.

Management of the outsource provider includes definition and subsequent regular monitoring of a suitable range of service level agreements during the monthly Management Committee meetings. These cover the key contractual commitments and specify minimum levels of performance and, where appropriate, penalties. Any issues are escalated to the Board.

Intra Group outsourcing agreements are subject to the same level of diligence and monitoring as third party service providers. The terms are negotiated and agreed on an arm's length basis.

A Group company, Brit Group Services Limited, located in the UK, provides the following critical services to the Company comprising Risk Management, internal control, Actuarial, Claims handling and Internal Audit.

B.8 Other information

All relevant information regarding the Company’s system of governance is considered to be included in sections B.1- B.7 above.

C. Risk profile

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. This section provides information regarding our risk management, for each of the principal risks faced by the Company.

As described in section B3, the risks arising from any of the business activities are managed in line with the RMF in order to protect policyholders and maximise shareholder value. This established framework addresses all the risks surrounding the Company's past, present and, in particular, future activities.

The risks that the Company is exposed to have remained materially consistent year on year with no significant changes made to the overall risk profile and business written.

C.1 Material risks the Company is exposed to

i. Insurance risk

Insurance risk arises from the possibility of an adverse financial result due to actual experience being different from that expected when an insurance product was designed and priced. The actual performance of insurance contracts is subject to the inherent uncertainty in the occurrence, timing and amount of the final insurance liabilities. This is the principal risk the Company is exposed to, as its primary function is to underwrite reinsurance contracts.

This risk is further broken down into the following risks:

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 is exposed to natural catastrophe losses. Losses arising from natural catastrophes are one of the most material risks that the Company is exposed to.

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.

ii. Market risk

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

Interest rate Risk

Interest rate risk is the risk that the fair value and/or future cash flows of a financial instrument will fluctuate because of changes in interest rates. Changes in interest rates are the key risk to the Company given the current portfolio composition. 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 subject to a 100 basis points shift in interest rates. Therefore, the greater the duration of a security, the greater the possible price volatility.

Currency Risk

Currency risk is the risk that movements in exchange rates impact the financial performance or solvency position of the Company. Fluctuations in exchange rates against the US Dollar may lead to profit or losses depending on the relative mix of non-US dollar denominated net assets and liabilities of the Company.

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. Adverse fluctuations in equity values is Brit Re's key investment risk given the current composition of its asset portfolio.

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

iii. Credit risk

This is the risk that one party to a financial arrangement will fail to discharge an obligation and cause the other party to incur a financial loss. The main sources of credit risk relate to:

- **Reinsurers:** through the failure to pay valid claims against a reinsurance contract held by the Company.
- **Premium debtors**: where the Group fails to pass on premiums or claims collected or paid on behalf of the Company.
- **Investments:** through the issuer default of all or part of the value of a financial instrument or the market value of that instrument.

Insurance credit risk (reinsurers and premium debtors)

Reinsurance credit risk

The Company is exposed to reinsurer credit risk through the aggregate retrocession cover purchased to reduce its large loss exposures in respect of the risk Excess of Loss portfolio. This risk is considered to be marginal because:

- The reinsurers participating in the aggregate retrocession cover are highly rated by A.M. Best and therefore the probability of becoming financially impaired over a one-year time horizon is negligible; and

- The underlying exposure is low as there are currently no reinsurance recoveries expected from the cover.

Premium debtors credit risk

The Company's premium debtors are Brit Syndicates Limited and Brit UW Limited. As both policyholders are part of the Group, the premium debtor credit risk associated with these transactions is considered negligible.

iv. 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 calls on its available cash resources in respect of claims arising from insurance contracts.

v. Operational risk

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

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

vi. Other material risks

The Company's RMF categorises all identified risks in the above categories and therefore it does not consider itself to be subject to any material risks which are not identified above.

C.2 How Risks are mitigated

i. Insurance risk

Underwriting Risk

The Company has developed underwriting guidelines, limits of authority and business plans which are binding upon all staff authorised to underwrite. In addition, an independent pricing assessment is carried out by an external third party to assess pricing adequacy.

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.

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.

Reserving Risk

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 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 Group 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.

ii. Market risk

Introduction

The Company's market risk is managed by specific risk appetite thresholds in reference to asset allocation and liquidity and is monitored with regards to earnings and solvency. The Asset Liability Management position is monitored with regards to interest rates and foreign exchange on both an asset and a solvency basis.

The majority of the portfolio is held in cash and short-term government bonds. The portfolio is actively managed and changes to the global macroeconomic environment may trigger a review or changes to the investment positioning. Any investment must comply with Board approved tolerances for asset allocation, duration and foreign exchange matching.

Interest rate Risk

The Company takes into account the duration of its required capital, targeting an interest rate range for the investment portfolio duration that, under a variation in interest rates, preserves the solvency position of the Company. The duration of the investment portfolio is then set within an allowable range relative to target duration.

Currency Risk

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.

Concentration Risk

The Board risk tolerance sets limits on concentration of assets. The metrics are monitored by the Risk Oversight Committee and Board at least quarterly.

Other price Risk

The Company invests in accordance with the “prudent person principle” (See section C.4) within the Investment guidelines which also establish maximum allocations to different asset classes.

iii. Credit risk

Insurance credit risk (reinsurers and premium debtors)

Reinsurance credit risk

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

Any reinsurance aged debt are monitored by the Management Committee. Any material aged debts are reported to the Risk Oversight Committees and the Board at least quarterly. At present there is no reinsurance aged debt.

Concentration risk

Reinsurance cover is placed with multiple markets to diversify exposure and limit concentrations of credit risk – the Group has exposure appetite limits to each of its approved counterparties.

Investment credit risk

Investment Credit Risk Management Process

Credit risk relating to financial investments and cash and cash equivalents is monitored by the Management Committee, chaired by the Finance Director, which 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.

Risk mitigation

The Company uses derivatives from time to time. The four main derivative classes are credit derivatives, foreign exchange forwards and options, interest rate derivatives and equity index options. Derivatives are only used for the purposes of efficient portfolio management and reduction in investment risk. Credit risk with respect to derivatives, where deemed necessary, is controlled with the implementation of collateral agreements with derivative counterparties that put a finite limit on the credit risk of each transaction.

iv. Liquidity risk

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 internally developed and modelled Realistic Disaster Scenarios (RDS). Contingent liquidity also exists in the form of a revolving credit facility.

v. Operational risk

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

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

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

The Company has a number of controls in place that mitigate the operational risk from outsourcing functions to the Group. One of these controls is performance monitoring against contractual Key Performance Indicators (KPIs), which involves agreement with the Group at the start of the contract of the KPIs that will be monitored, the required level of performance in respect of these KPIs, details in respect of review meetings, the process for rectifying underperformance, and the next steps if the situation is not resolved. This control would be expected to mitigate both the likelihood of loss and the severity of the loss if it occurs. The KPI's are reviewed at every monthly Management Committee meeting. See section B7 for further details of the Company's outsourcing arrangements with the Group.

C.3 Material risk concentrations

The Company is exposed to the potential of large claims from natural catastrophe events. The Company's catastrophe risk appetite is set by the Board who may adjust limits to reflect market conditions. Overall, the Company sets its catastrophe risk tolerances on an aggregate basis varying for different scales of event.

The Company closely monitors aggregation of exposure to natural catastrophe events against agreed risk appetites using stochastic catastrophe modelling tools, along with knowledge of the business, historical loss information, and geographical accumulations. Stress and scenario tests are also run, such as Lloyd's and internally developed RDS's.

The Company also limits concentrations in investments to avoid market concentration risks (see section C.2.iii).

C.4 Investments in accordance with the prudent person principle

Under the Company's Investment Policy, the Company may only invest in those assets in accordance with the "prudent person principle" requirements. The Company only invests in assets and instruments, the risks of which it can properly identify, measure, monitor, manage, control and report, taking into account the Company's capital and solvency needs.

C.5 Stress and scenario testing

Stress and scenario testing is an important risk management tool to increase the Company's understanding of its risk profile and its ability to withstand severe events. The stress and scenario testing is performed as part of the Company's overall CISSA processes (see section B3), and considers events considerably more severe than the Company's historical experience. The results of the testing are summarised in the annual CISSA report reviewed by the Board.

The latest exercise confirms that the Company has sufficient capital and liquidity to absorb the losses under each scenario considered and continue to remain viable.

C.6 Other information

All relevant information regarding the Company's risk profile is considered to be included above.

D. Valuation for solvency purposes

This section provides particulars of the valuation bases, methods and assumptions on the inputs used to determine solvency.

The Company prepares its financial statements in accordance with Financial Reporting Standards (FRS) 102 and FRS103, being the applicable accounting principles generally accepted in the UK relating to (re)insurance companies (UK GAAP). The Company has used the valuation principles outlined by the BMA's "Guidance Note for Statutory Reporting Regime". There are no material differences between the shareholder's equity as stated in the financial statements versus the available statutory capital and surplus.

The Bermuda Monetary Authority (BMA) regulatory regime requires the compilation of an economic balance sheet (EBS) in order to determine the solvency position of an entity. The key principles the Company has employed to produce the EBS are:

I. Assets should be valued at the amount for which they could be exchanged between knowledgeable willing parties in an arm's length transaction;

II. Liabilities should be valued at the amount for which they could be transferred, or settled, between knowledgeable willing parties in an arm's length transaction; and

III. There have been no changes in valuation techniques during 2017.

D.1 Valuation bases, assumptions and methods used to derive the value of assets under the EBS framework

The BMA's guidance and key principles outlined above are used to derive the value of assets for the Company's EBS. The key differences in the Company's asset values between the Company's financial statements relates to the following:

- Non-overdue reinsurance receivables are not classified as assets separately under the EBS, as they are included in the technical provisions; and
- Deferred acquisition costs in the GAAP balance sheet are removed from the EBS as they do not meet the asset valuation requirements under the EBS framework.

Reinsurance recoveries are detailed within section D3.

D.2 Valuation bases, assumptions and methods used to derive the value of Net Technical Provisions under the EBS framework

The following table summarises the Company's net technical provisions under UK GAAP and EBS bases:

Balance sheet as at 31 December 2017 ($'m)	GAAP	EBS	Difference
Net Technical Provisions			
Best Estimate	765.6	569.6	(196.0)
Risk margin	-	37.8	37.8
Total Net Technical Provisions	**765.6**	**607.4**	**(158.2)**

The value ascribed to the EBS technical provisions represents the amount the Company would have to pay for an immediate transfer of its obligations to another insurer and is calculated as the sum of a best estimate and a risk margin.

The best estimate is calculated as a probability-weighted average of future cash flows, discounted at a risk-free rate. Cash flows belonging to all legally-obligated contracts are included in the valuation of the EBS technical provisions and risk-free rates are derived from yield curves supplied by EIOPA as equivalent to the BMA EBS framework. The key adjustments made between the UK GAAP and EBS bases for the best estimate technical provisions are:

- Allowance for the impact of discounting cash flows at a risk-free rate;
- Incorporation of expected reinsurance counterparty defaults;
- Incorporation of events not in data;
- Adjustments related to differences in contract boundaries between the GAAP and EBS frameworks, most notably allowance for bound but not incepted business for the EBS; and
- Adjustments related to the consideration of investment expenses.

Similar to reserves reported under a GAAP basis, it should be noted that there is inherent uncertainty in reserve estimation. The Company explicitly quantifies and monitors the volatility in the reserves as part of its management capital, derived using an Internal Model.

The risk margin is calculated as the cost of providing an amount of capital equal to the Bermuda Solvency Capital Requirement necessary to support the insurance obligations over the lifetime thereof. This risk margin is also referred to as the Market Value Margin.

D.3 Description of recoverables from reinsurance contracts

Under the EBS framework, reinsurance recoverables are calculated as a probability weighted average of discounted future cash flows relating to reinsurance contracts, adjusted for the expected losses due to counterparty default. The recoverables allow for reinstatement premiums required to be paid to the reinsurer, and expenses in relation to the management and administration of reinsurance claims.

As no reinsurance recoveries are assumed as at 31 December 2017 and all reinsurance related premiums have been paid for the 2017 YOA and prior, the impact of reinsurance is not material on the technical provisions.

D.4 Valuation bases, assumptions and methods used to derive the value of other liabilities under the EBS framework

There are no differences between the valuation basis for other liabilities between the GAAP and EBS frameworks.

D.5 Other information

All relevant information regarding the Company's valuation methodologies are considered to be included in the sections above.

E. Capital management

E.1 Eligible Capital and Regulatory Capital Requirements

i. Capital management policy and process to determine capital needs for business planning, how capital is managed and any material changes during the reporting period

The Company has a Capital Policy which sets out the capital requirements and principles on funding, the approach to distribution of surplus capital and the level of liquidity required and states the importance of ensuring that the Company is:

- Sufficiently capitalised at all times, and
- Complies with BMA regulatory requirements and all other applicable legislation.

Responsibility for managing compliance with this policy rests with the Board.

ii. Eligible capital categorised by tiers in accordance with the Eligible Capital Rules used to meet the Enhanced Capital Requirement ("ECR") and the Minimum Margin of Solvency ("MSM")

As at 31 December 2017 the Company's regulatory capital requirements were as follows:

- Minimum solvency margin $126.9m
- Enhanced capital requirement $507.6m

The capital and surplus held to meet these requirements as at 31 December 2017 was $1,031.3m on an EBS basis. All of the Company's capital and surplus, as determined under the BMA's EBS framework, is comprised of Tier 1 capital, the highest quality of capital. Tier 1 capital is comprised of fully paid ordinary shares and non-distributed retained earnings.

There are no ancillary capital instruments.

There are no planned distributions.

iii. Confirmation that eligible capital is subject to transitional arrangements as required under the Eligible Capital Rules

Not applicable.

iv. Factors affecting encumbrances on the availability and transferability of capital to meet the ECR

None, the capital to meet the ECR is available and fully transferable.

v. Identification of differences in shareholder's equity as stated in the Financial Statements versus available statutory capital and surplus.

The Company prepares its financial statements in accordance with applicable accounting principles generally accepted in the UK relating to reinsurance companies (UK GAAP). The EBS balance sheet is derived from the UK GAAP balance sheet by making appropriate adjustments to the assets and liabilities. These are discussed in section D. The EBS balance sheet determines the shareholder's equity.

vi. Compliance with the MSM and the ECR

The Company was compliant with the MSM and ECR requirements at the end of the reporting period and is expected to remain compliant going forward.

vii. Approved Internal Capital Model

Not applicable – we have not applied to have our internal capital model approved to determine regulatory capital requirements.

F. Subsequent Event

There are no significant events subsequent to 31 December 2017 as at the date of signing of the FCR.

Declaration Statement

To the best of our knowledge and belief, the financial condition report fairly represents the financial condition of Brit Reinsurance (Bermuda) Limited in all material respects.

Mark Cloutier

Chairman

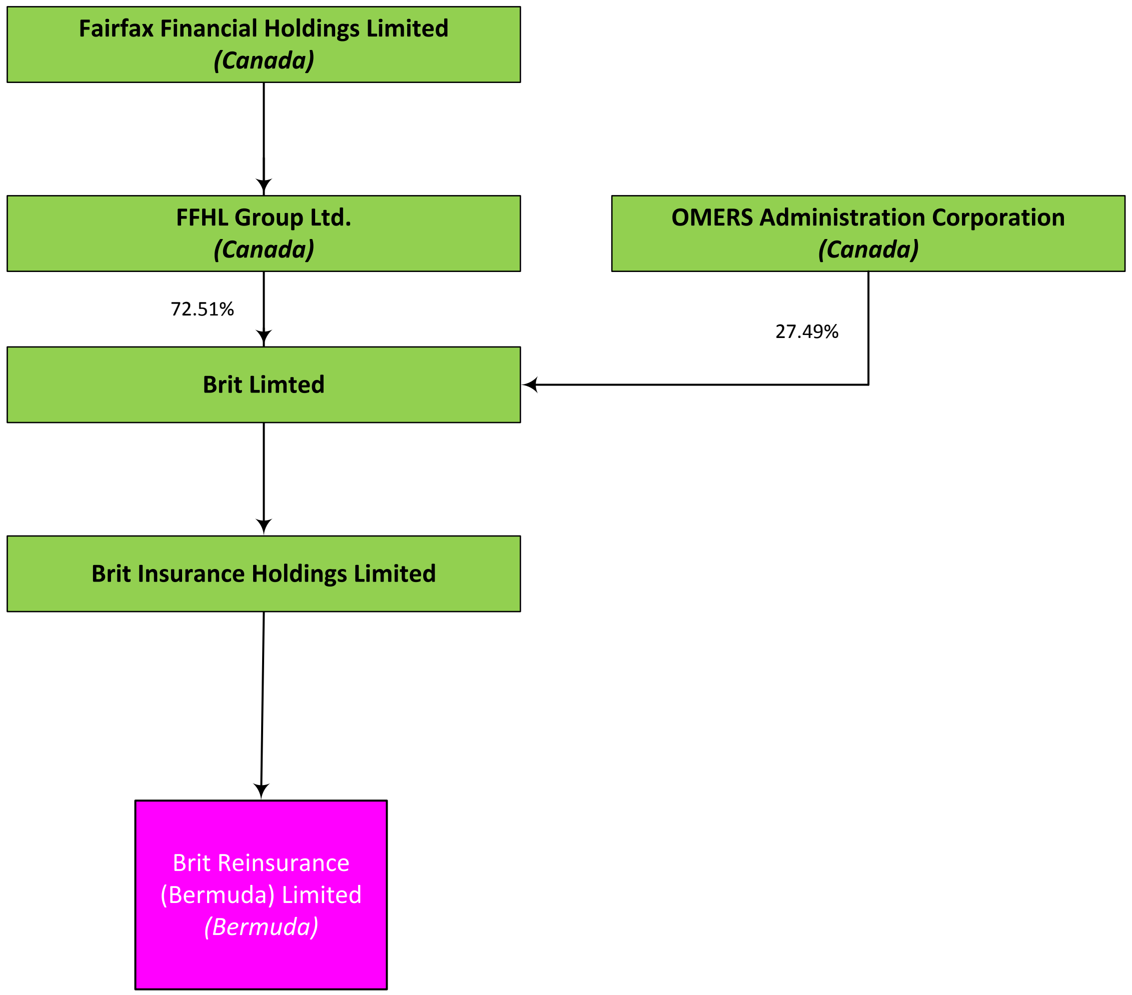
23 April 2018

Karl Grieves

Finance Director (and the senior executive responsible for the compliance function)

23 April 2018

APPENDIX I – Abbreviated Group Structure



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