BERKSHIRE HATHAWAY INTERNATIONAL INSURANCE LIMITED

Company Registration No. 03230337

Report and Financial Statements

31 December 2019

BERKSHIRE HATHAWAY INTERNATIONAL INSURANCE LIMITED

REPORT AND FINANCIAL STATEMENTS
For the year ended 31 DECEMBER 2019

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BERKSHIRE HATHAWAY INTERNATIONAL INSURANCE LIMITED
COMPANY REGISTRATION NUMBER: 03230337

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

Mr C Colahan
Mr A D'Arcy (Non – Executive)
Mr G E Finney
Mr R A Love
Mr S Michael (Non – Executive)
Mr J F Powell (Non – Executive)
Mr M Steel (Resigned as Non – Executive Director on 11th November 2019)
Mr P Whittaker (Appointed as Non – Executive Director on 1st June 2019)

SECRETARY

Mr H Kaye (Resigned on 11th November 2019)
Ms J Howie (Appointed on 26th September 2019)

REGISTERED OFFICES

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Grand Canal Docks
Dublin
D02 HX96

BANKERS

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1 Churchill Place
London
EC14 5HP

Wells Fargo Bank N.A.
733 Marquette Ave South
Minneapolis
Minnesota 55479-0047
UNITED STATES OF AMERICA

Banco Popolare Societa Cooperativa
Piazza Mercanti, 5
20123 Milano MI
ITALY

Lloyds TSB Bank Plc
113 Leadenhall Street
London
EC3A 4AX

Credit Suisse AG
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CH-8070
Zurich
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E14 5HQ

AUDITOR

Deloitte LLP
2 New Square Street
London
EC4A 3BZ

INVESTMENT MANAGERS

National Indemnity Company
1314 Douglas Street
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UNITED STATES OF AMERICA

Berkshire Hathaway Inc.
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Omaha
Nebraska 68131
UNITED STATES OF AMERICA

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year to 31 December 2019. The directors have chosen, in accordance with section 414c(II) of the Companies Act 2006, to include certain matters in the Strategic Report that would otherwise be required to be disclosed in this Directors' Report.

PRINCIPAL ACTIVITIES

Berkshire Hathaway International Insurance Limited commenced trading on January 1 1997 and its principal activity is underwriting general insurance business. The Company's operations are administered by the Company with additional administrative and claims handling services being provided by related group companies. The Company's operations are directed from London but it also operates from branch offices in Switzerland, Italy and Germany.

DIVIDENDS

The directors do not recommend the payment of a dividend (2018: Nil).

DIRECTORS AND THEIR INTERESTS

None of the directors had any beneficial interests in the shares of the Company at any time during the financial year. The Company is a wholly owned subsidiary of an entity incorporated outside of Great Britain. Accordingly, no disclosure is provided of directors' interests in other Group companies, which are incorporated outside of Great Britain.

Directors' indemnities are disclosed in Note 16 of these accounts.

A listing of all Directors holding office during the year and up to the date of signing has been included on Page 1 'Officers and Professional Advisers'.

FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

The Company considers the assets of the Company to comprise two portfolios.

The Capital Surplus Portfolio comprises equity investments and represents large strategic long-term equity holdings. This portfolio is intended to provide long term growth and countenances potential market volatility and lower asset liquidity as well as accepting concentration risk. The Capital Surplus Portfolio was valued at $127.7m (2018: $99.4m).

The Insurance Portfolio represents assets that are for the benefit of policyholders who require capital preservation and liquidity as primary investment objectives. The strategy is therefore to hold assets with high quality, which are highly marketable even if this does not maximise risk reward to support a solvency margin of at least 150% of the Solvency Capital Requirement (SCR).

The investment strategy for the Insurance Portfolio is conservative and investment guidelines require funds to be invested in fixed interest securities with a credit rating of A and above held to maturity. The Insurance Portfolio currently only invests in US and UK Government Bonds. This conservative strategy is designed to protect the Company's capital so that it is available to support the underwriting.

The Company also places short term deposits with its Bankers with durations less than six months. The major financial risk to the Company would be the default of one of these entities. The Company monitors the credit ratings of the banks and adjusts the exposure to these counter-parties accordingly.

The Company has no exposure to derivatives or currency-hedging risks.

DIRECTORS' REPORT (continued)

AUDITORS

Each person who was a Director from 1 January 2019 to the date of approval of this report confirms that:

so far as the director is aware:

- there is no relevant audit information of which the Company's auditors are unaware; and
- the director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant information and to establish that the Company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 (2) of the Companies Act 2006.

Deloitte LLP have expressed their willingness to continue in office as auditors. An elective resolution has been passed dispensing with the requirement to appoint auditors annually. Deloitte LLP are, therefore, deemed to continue as auditors.

Approved by the Board of Directors
and signed on behalf of the Board

Guy E Finney
Director
13th May 2020

STRATEGIC REPORT

REVIEW OF BUSINESS

During the year the Company operated under four distinct divisions to allow the development of multiple brand offerings being BHSI, BHRG, Faraday and Medpro.

As reported last year the Company was actively considering the best way to support EU business in the event the Company is unable to service clients after the UK departs the EU and potentially the single market. The conclusion of these considerations was the formation of a wholly owned subsidiary in Ireland, Berkshire Hathaway European Insurance Designated Activity Company (BHEI), which received regulatory approval from the Central Bank of Ireland on 4th March 2019.

During the year the Company transferred European based staff in Germany to BHEI and European business was transferred to BHEI where this was appropriate.

As noted in the Accounting Policies the Company is not required to prepare consolidated financial statements by virtue of the exemption under section 401 of the Companies Act 2006. The results of the Company are included within the financial statements of National Indemnity Company, a company registered/incorporated in the State of Nebraska, which will prepare consolidated financial statements for the year ended 31 December 2019. The address of the registered office is given on page 1.

BHSI Division
This division writes Casualty, Property, and Executive & Professional Lines under the BHSI (Berkshire Hathaway Specialty Insurance) brand. The BHSI brand began in 2013, when Berkshire Hathaway Inc. CEO Warren Buffett announced that Berkshire Hathaway was moving into commercial insurance in a substantial — and everlasting — way. The BHSI operation within BHIIL was formed in 2016 and is in a growth phase targeting appropriate commercial insurance using the financial strength of Berkshire Hathaway to provide the ability for outsize capacity and creative, flexible solutions customers can count on year after year. A core element in this is building the capability for claims excellence, a key element of the BHSI brand. The division has continued to grow in capability and product offering through the year as planned.

BHRG Division
This division expanded its UK Commercial motor business significantly in the year through two strategic Managing General Agency agreements and Italian Medical Malpractice coverages for hospitals and clinics through in-house underwriting teams based in the Company's Italian Branch. In addition the Company is, on occasion, approached by Brokers to underwrite large one-off risks which are considered on their individual merits.

The division withdrew from writing international reinsurance treaties during the year as US sanctions legislation regulations for US owned subsidiaries tightened making the Company unattractive to European and Japanese cedants.

The division continued to write small amounts of high level US Casualty business.

The BHRG Division also has a long standing participation on the Global Aerospace Underwriting Managers (GAUM) aviation pools. The GAUM participation allows the Company to write general insurance policies for Airline, Products, General Aviation and Space insurance to the aviation and space industries.

The division continued the orderly run-off of its Broker facility and legacy motor accounts.

Faraday Division
Faraday, a member of the Group of companies, manages a Lloyd's Syndicate in the UK as well as an FCA authorised intermediary. This division is focussed on writing managing general agency (MGA) business, targeting low levels of volatility and supported by appropriate reinsurance structures.

The Company successfully underwrote a UK commercial motor and a UK personal lines motor MGA during the year, in addition to a UK accident and health MGA.

STRATEGIC REPORT (continued)

REVIEW OF BUSINESS (continued)

Medpro Division
This division works closely with a US sister company, MedPro Group, to continue to develop business opportunities for the provision of medical malpractice cover for medical practitioners, with associated ancillary lines. The division currently has two MGA arrangements in place operating in the UK and France. The UK MGA, comprising of Harley Street Insurance Group Limited and Premium Medical Protection Limited, was purchased by a Group Company, SLI Holdings Limited, in January 2018. During the first half of the year the French business was transferred on renewal to BHEI.

The Company's credit rating from Standard & Poor's remained at AA+.

As shown in the Company's statement of comprehensive income on page 18, the Company's gross premiums written have increased from $456.687m to $542.389m.

The Company's general business technical account result is a profit of $13.726m, compared to a profit of $4.236m for the previous year. Investment gains and exchange losses resulted in the Company reporting a profit before tax of $52.428m, compared to a loss before tax of $0.771m for the previous year.

The Company's investment income improved in the year as equity holdings in the Capital Surplus Portfolio performed very well reversing losses reported in the prior year and continued improved yields on US and Sterling Government Bonds also made a small contribution to the improved investment performance.

Reported exchange losses in the year of $1.596m compared to profit of $0.640m in the previous year.

The Company reported a tax charge of $14.014m which included a loss of the benefit from the transfer of tax losses in a prior year from Group companies, for no consideration, of $6.227m as disclosed in Note 9 of these accounts, as the Group companies in question were able to utilise these losses and ultimately did not surrender them to the Company.

The Company maintained the Trust Fund Agreement with its parent company, National Indemnity Company (NICO), in respect of the exposure of the Company to NICO as disclosed under Note 4.2.1 Reinsurance credit risk. The revised arrangements continue to satisfy the requirement of the Company to manage its exposure to NICO, under the current regulatory regime.

Berkshire Hathaway Inc. also manages its insurance operations on a divisional basis. For this reason and the materiality of the Company within the Berkshire Group, the Company's directors believe that further key performance indicators for the Company are not necessarily appropriate for an understanding of the development, performance or position of the business. The performance of the Berkshire Hathaway Reinsurance division, which includes the Company, is discussed in the group's Annual Report, which does not form part of this report.

PRINCIPAL RISKS AND UNCERTAINTIES

The Company is exposed to potentially very large gross claims. The Company evaluates the concentration of exposures to individual and cumulative insurance risk and establishes its reinsurance policy to reduce such exposure to levels acceptable to the Company.

The establishment of insurance liabilities is an inherently uncertain process and, as a consequence of this uncertainty, the eventual cost of settlement of outstanding claims and unexpired risks can vary substantially from the initial estimates, particularly for the Company's long tail lines of business. The Company seeks to provide appropriate levels of claims provision and provision for unexpired risks taking the known facts and experience into account. The estimation of insurance liabilities involves the use of judgements and assumptions that are specific to each type of insurance risk covered.

The future return on the Company's investment portfolio is dependent on the movement of interest rates in our key currencies of US Dollars, Euro and Sterling and the performance of equity markets in the US.

STRATEGIC REPORT (continued)

GOING CONCERN

The financial position of the Company continues to be encouraging and though cash flows are expected to be positive in 2020 the Company maintains substantial highly liquid assets to meet unexpected cash outflows as they fall due. The capital structure of the Company has been improved over the last three years through retained profits and financial risk management processes are in place to maintain the Company's liquidity and solvency position.

Having taken into account the risks and uncertainties and the performance of the business and after making enquires, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

S172 STATEMENT

The directors are fully aware of their responsibilities to promote the success of the company in accordance with s172 of the Companies Act and have acted in accordance with these responsibilities during the year. The board is focussed on its responsibilities to stakeholders, corporate culture and diversity as well as contributing to wider society.

In respect of this disclosure the board has identified that its key stakeholders are its employees, it's shareholder, customers, brokers and regulators. Regarding our responsibilities to our key stakeholders the directors, individually and as a whole have considered and acted in consideration of:

- the likely *consequences of any decision in the long term. The directors* have performed a review of the business and have considered the future outlook of the Company within this strategic report;

- the interests of the employees working for the company. The directors strive to make BHIIL an enjoyable and rewarding place to work, The various committees of the company meet on a regular basis to discuss the company's results, provide updates to the corporate strategy, and opportunities and challenges that are being seen across the market. The key messages from these committee meetings are communicated to the wider employee population through team meetings, discussion with management and email communications. This dialogue with the employees enables them to better informed and aligned to BHIIL's strategy, helping to keep standards and engagement at the expected level;

- the need to foster the Company's business relationships with suppliers, customers and others. BHIIL strives to have a client-centric approach to business, and is constantly reviewing how we engage with our customers to ensure we are able to transact as seamlessly and dynamically as possible. This includes reviewing the products on offer, the distribution channels used and ensuring the claims response time is among best in class within our market;

- furthermore, the company has a robust accounts payable function that ensures suppliers are paid within standard credit terms, with payments made weekly once invoices have been approved for settlement. Recent improvements to the underlying technology means that the approval process is more automated with the ability to approve invoices via mobile/email apps. This means it is very rare for a legitimate invoice, presented in a timely manner, to be overdue for payment and ensures a good working relationship is maintained with our suppliers;

- the desirability of the Company maintaining a reputation for high standards of business conduct. This is a core value of BHIIL and every member of staff is expected to act with professionalism and integrity, which is reiterated within job descriptions, the staff handbook and the annual appraisal process. In order to ensure proper structures are in place to deliver these high standards of business conduct, the directors have put in place relevant committees and sub-committees that report to the board for key areas of the business, including (but not limited to) Underwriting Management Committee, Risk Committee, Operations Committee, Executive Committee;

STRATEGIC REPORT (continued)

S172 STATEMENT (continued)

- the impact of the Company's operations on the community and the environment. The directors continue to consider the impact the Company has on the environment. Staff are encouraged to take appropriate action such as the need to recycle and take advantage of technology to attend meetings by video and reduce the requirement for travel.

FUTURE DEVELOPMENTS

Post Balance Sheet and Subsequent events are reported under Note 17 to the accounts.

On January 15 2019, the Company was selected as the preferred bidder by the liquidator of Faro Assicurazioni where the Company will assume assets and liabilities of approximately €400m and be responsible for the orderly run-off of the bankruptcy estate. The Company has obtained agreement from its direct parent company to reinsure in principle a majority of the exposure to this contract, though the final terms are still to be determined. The next steps will involve regulatory approval from IVASS, the Italian Insurance regulator, and subsequently for final approval by the bankruptcy judge. After a legal challenge from other parties to the tender, which were ultimately unsuccessful, the Directors have revised their anticipated approval from IVASS to be in the third quarter of 2020. The Court process and approval by the bankruptcy judge is now anticipated to be completed by the first half of 2021.

The Company has concluded that the Italian Medical Malpractice business will be best served by third country regulated branch and the intention is to obtain the necessary approvals by the end of 2020.

It continues to be the view of the Directors that the UK and London Market will remain a significant insurance and reinsurance market for the foreseeable future and that the reduction of business volumes will have limited impact on the UK based operations, as though European business, excluding the Italian operation, accounted for approximately 36% of the Company's revenue, with approximately 13% under Freedom of Establishment and 23% under Freedom of Services, it is currently unclear to what degree that Freedom of Services business will migrate to the new subsidiary as this will be dependent on market access in the UK and the future broking of these risks. The Company is also anticipating significant growth in the UK operation primarily in the BHSI and Faraday divisions which will off-set these transfers.

The ability of the Company to continue servicing existing European Policyholders in the event it loses its Passporting permissions is a matter of interpretation of national regulations and any trade agreement negotiated between the UK and Europe. In general the current position of European regulators is that they are indicating their expectation that existing policies (though not new policies) can be serviced to expiry or for agreed periods even in the event of a 'Hard' Brexit. The Company has commenced a transfer process under Part VII of the Financial Services and Markets Act 2000 and continues to monitor the political and regulatory environment.

In addition to regulatory change, the Directors are aware that a 'Hard' Brexit also has potential to increase volatility in the markets with the sudden devaluation of Sterling being a potential market response.

The Director's consider the current investment policy and matching of liabilities and assets in currency to put the Company on a sound basis to deal with any market volatility.

Covid-19

Subsequent to the year end, the Covid-19 pandemic has occurred. The Company's Business Continuity Plan has been successfully implemented and the Board updated. Effectively, all personnel are now operating on a Working From Home basis with all key processes fully-tested and operational. Further, all key outsource and service providers have confirmed their ongoing capability.

STRATEGIC REPORT (continued)

FUTURE DEVELOPMENTS (continued)
The Board have assessed the various risks, including underwriting, reserving, operational and market which have been increased by the pandemic, and are confident that the business is sufficiently robust to withstand all impacts.

Currently the largest impact has been on the Capital Surplus portfolio that is invested in listed US securities. As of 11th May 2020 the portfolio had fallen from a year end valuation of $127.7m to $86.5m. The Company continues to ensure it has adequate resources to service existing and future projected business and to maintain adequate regulatory surplus capital.

On the basis of the above, the Directors have concluded that there is no impact on the going concern status of the Company.

Approved by the Board of Directors
and signed on behalf of the Board

Guy E Finney
Director
13th May 2020

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

The directors are responsible for preparing the Annual Report and the Financial Statements in accordance with applicable law and regulations.

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

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK 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 adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking *reasonable steps for the prevention and detection of fraud and other irregularities.*

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

By order of the Board

Guy E Finney
Director
13th May 2020

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BERKSHIRE HATHAWAY INTERNATIONAL INSURANCE LIMITED

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of Berkshire Hathaway International Insurance Limited ("the company"):

- give a true and fair view of the state of the company's affairs as at 31 December 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the statement of comprehensive income;
- the statement of financial position;
- the statement of changes in equity;
- the statement of cash flows; and
- the related notes 1 to 17.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. 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 are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the company.
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: • Provisions for insurance contract liabilities in respect of International Treaty reinsurance and Italian Medical Malpractice business lines; • Revenue Recognition: accuracy of estimated premium for the Berkshire Hathaway Speciality Insurance UK business; and • Impact of COVID-19 as an event after the reporting period. Within this report, key audit matters are identified as follows:

	Newly identified
	Increased level of risk
	Similar level of risk
	Decreased level of risk
Materiality	The materiality that we used in the current year was $16.6 million which was determined on the basis of shareholders' equity.
Scoping	Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.
Significant changes in our approach	In the current year we do not consider pipeline premium revenue recognition for the International Treaty business as a key audit matter as this line of business is in a run off stage. Instead, the key audit matter over revenue recognition is pinpointed to the Berkshire Hathaway Speciality Insurance (BHSI) UK business due to the significant growth in this revenue stream. Given the rapid spread of COVID-19 and the ongoing uncertainty surrounding its impact after the balance sheet date, and due to the inherent management judgement in determining the appropriateness in the financial statement disclosures, particularly those relating to going concern, and the increased level of audit effort, we considered this to be a key audit matter There are no other significant changes in our approach in the current year.

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where: • the directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or • the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.	We have nothing to report in respect of these matters.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.
These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Provisions for insurance contract liabilities in respect of International Treaty reinsurance and Italian Medical Malpractice business lines

Key audit matter description	The company is exposed to insurance risk and estimates the insurance liabilities resulting from this risk. There is inherent uncertainty in the estimation of liabilities as the ultimate cost of settling outstanding claims and unexpired risks requires management judgement based on past experience and current knowledge of the different types of insurance risk. The risk is greatest where contracts are long tail in nature or are more material to the

	business as a whole. Taking these factors into consideration, we have targeted the key audit matter to the incurred but not reported liabilities arising from the International Treaty reinsurance and the Italian Medical Malpractice business. These two books of business are the largest in terms of loss reserves, and comprise 30% of the total loss reserves as at 31 December 2019. There is inherent judgement in the applied loss-ratios which drive those reserves. The directors disclose the uncertainties in relation to insurance contract liabilities on page 5 in the Strategic Report and page 24 in Note 3.2, Critical Judgements and Key Sources of Estimation Uncertainty. The total net provision for claims incurred but not reported is disclosed in Note 6 to the financial statements as $99m (2018: $92.8m).
How the scope of our audit responded to the key audit matter	We obtained an understanding of relevant controls that address the key audit matter. We have worked with our actuarial specialists to assess managements' key judgements by reviewing key reserving memos prepared by management and holding meetings with the management's actuarial experts. We assessed the methodology used by considering the consistency with recent claims experience and more widely available market data and trends. We have also carried out substantive testing on the underlying policyholder data used in the reserving process to evaluate the completeness and accuracy of the data, and have tested the output of the calculations.
Key observations	As a result of the procedures performed, we consider the resulting provisions calculated by management to be reasonable.

Revenue Recognition: Accuracy of estimated premium for the Berkshire Hathaway Speciality Insurance UK business

Key audit matter description	The Company is organised into four divisions and writes insurance in several different markets. The primary source of revenue is written premiums, which totalled $542m on a gross basis (2018: $457m) and $86.7m net of reinsurance (2018: $74.2m) as disclosed in the Technical Account on page 16. BHSI UK underwrites property and casualty risks. There has been significant growth in underwriting in the year, with $140m written in 2019 (2018: $60m). The pipeline element of premiums requires a degree of estimation and uncertainty from amounts not yet settled. We have therefore identified the key audit matter in revenue to be the accuracy of pipeline premiums in this business, whether due to error or fraud. The directors disclose the volume of premium in relation to the BHSI UK business on page 32 of the notes to the financial statements and the uncertainty in the recognition of pipeline premiums on page 24 in Note 3.2 of the financial statements Critical Judgements and Key Sources of Estimation Uncertainty.
How the scope of our audit responded to the key audit matter	We obtained an understanding and tested the relevant controls over the recognition of estimated pipeline premium on BHSI UK business. We have substantively tested a sample of the policies for BHSI UK business, agreeing premium data used in the pipeline premium estimates to underlying contracts.
Key observations	As a result of our procedures performed, we consider that the accuracy of pipeline premium in relation to the BHSI UK business is reasonable.

Impact of COVID-19 as an event after the reporting period

Key audit matter description	Subsequent to the balance sheet date a global pandemic of a new strain of Coronavirus (COVID-19) has emerged. The virus, and responses taken by organisations and governments to manage its spread in markets to which the Company are exposed, have led to increased volatility and economic disruption. The matter is a non-adjusting event since it is indicative of conditions that arose after the reporting period. Management have measured the Company's assets and liabilities to reflect only the conditions that existed at the reporting date. Subsequent to the year end, management have performed procedures to assess the financial and operational impacts of COVID-19 on the Company, including: • an assessment of operational resilience, including an assessment of new risks arising from implementation of the business continuity plan, mitigation of those

	risks, and the impact on third party service providers and Managing General Agents (MGAs); • an assessment of financial impact, through consideration of claims exposure by division, in terms of recorded activity, projected exposure and mitigation strategies; and • a review of the solvency and capital position. Through this review management considered recent performance of the equity portfolio, the current capital position and the sensitivity of the solvency ratio to adverse assumptions. The assessment of the impact of COVID-19 on the Company requires management judgement and consideration of a range of factors. Management have placed a particular focus on the level of capital surplus that has been maintained post year end and its resilience in response to stress testing. Having considered the results of the activities described above, management believe that the Company continues to be a going concern due to having a stable solvency position and appropriate plans to mitigate exposure risks. The Company's business continuity plans have also been initiated and management believe that these will enable them to continue to deliver critical business services. The Company has made disclosures throughout the annual report and financial statements to reflect the results of its assessment, in line with applicable accounting standards. Due to the inherent management judgement, and the increased level of audit effort focused on the appropriateness of, the financial statement disclosures, we considered this to be a key audit matter. Refer to management's disclosure in the Strategic Report and in Note 17 of the financial statements.
How the scope of our audit responded to the key audit matter	We evaluated management's approach to assessing the impact of COVID-19 on the Company, and challenged the financial statement disclosures by performing the following procedures: • evaluated management's stress and scenario testing, and assessed management's key assumptions against our understanding of the company and the market; • considered the actions that came out of the various governance committee meetings which considered COVID-19 in advance of reporting; • evaluated management's assessment of the risks across the company, including: solvency risk, liquidity risk, and operational matters; • assessed the mitigating actions management have put in place, and further plans they have if required, due to further deterioration of the wider UK and Global economy; and • assessed the post balance sheet event and going concern disclosures made by management in the financial statements, based on our knowledge gained throughout the audit.
Key observations	As a result of our procedures performed, we consider that, in relation to the potential impact of COVID-19, the post balance sheet event and going concern disclosures in the financial statements are appropriate.

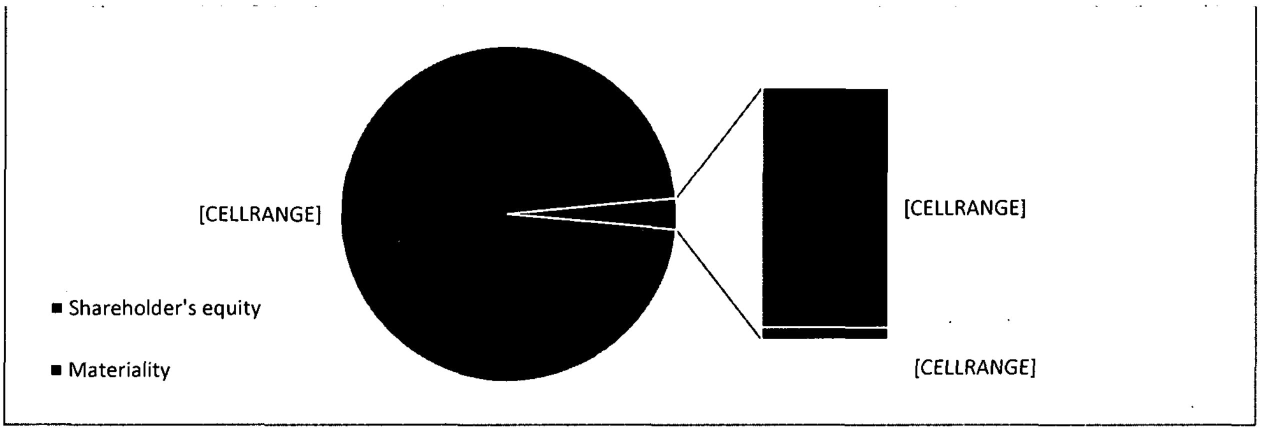
Our application of materiality

Materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.
Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Materiality	$16.6 million (2018: $ 15.4 million)

Basis for determining materiality	The basis of materiality is 3% of shareholders' equity (2018: 3% of shareholder's equity).
Rationale for the benchmark applied	Shareholders' equity of $554m is representative of balance sheet strength, underlying capital, and reflects of the size of the ongoing business.



Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Performance materiality was set at 70% of materiality for the 2019 audit (2018: 70%). In determining performance materiality, we considered the following factors including:

- our risk assessment, including our assessment of the company's overall control environment and that we consider it appropriate to rely on controls over a number of business processes; and
- our past experience of the audit, which has indicated a low number of corrected and uncorrected misstatements identified in prior periods.

Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of $830,000 (2018: $769,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Our audit was scoped by obtaining an understanding of the entity and its environment, including internal control, and assessing the risks of material misstatement. Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, 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 and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

Responsibilities of directors
As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

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 (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
Details of the extent to which the audit was considered capable of detecting irregularities, including fraud and non-compliance with laws and regulations are set out below.
A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Extent to which the audit was considered capable of detecting irregularities, including fraud
We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks, including obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.
Identifying and assessing potential risks related to irregularities
In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the company's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- results of our enquiries of management, internal audit, actuaries and the Audit Committee about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the company's documentation of their policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations;
- the matters discussed among the audit engagement team and involving relevant internal specialists, including IT and Actuarial specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the accuracy of pipeline premiums for BHSI UK. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory frameworks that the company operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act, tax and pension legislation.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the company's ability to operate or to avoid a material penalty. These included the company's regulatory solvency requirements following the Solvency II 2009 Directive.

Audit response to risks identified

As a result of performing the above, we identified the accuracy of estimated premium for the Berkshire Hathaway Speciality Insurance UK business as a key audit matter related to the potential risk of fraud. The key audit matters section of our report explains the matter in more detail and also describes the specific procedures we performed in response to that key audit matter.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the Audit Committee and in-house legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with the Prudential Regulation Authority (the "PRA") and the Financial Conduct Authority (the "FCA"); and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members, including internal specialists, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made.

We have nothing to report in respect of this matter.

Other matters

Auditor tenure

Following the recommendation of the Audit Committee, we were appointed by the Board of Directors to audit the financial statements for the year ending 31 December 1997 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 23 years, covering the years ending 31 December 1997 to 31 December 2019.

Consistency of the audit report with the additional report to the Audit Committee

Our audit opinion is consistent with the additional report to the Audit Committee we are required to provide in accordance with ISAs (UK).

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Adam Ely

Adam Ely (Senior statutory auditor)
for and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
13th May 2020

BERKSHIRE HATHAWAY INTERNATIONAL INSURANCE LIMITED
COMPANY REGISTRATION NUMBER: 03230337

STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2019

	Notes	2019 $'000	2018 $'000
Technical Account			
Gross premiums written	5	542,389	456,687
Less: premiums ceded to reinsurers		(455,724)	(382,450)
Premiums written, net of reinsurance		86,665	74,237
Gross amount of change in provision for unearned premiums		24,778	57,498
Reinsurers' share of change in provision for unearned premiums		(19,162)	(44,248)
Net change in provision for unearned premiums		5,616	13,250
Net Earned premiums, net of reinsurance		**92,281**	**87,487**
Claims paid:			
Gross amount		(274,723)	(189,913)
Reinsurers share		226,527	156,033
Claims paid, net of reinsurance		(48,196)	(33,880)
Change in the provision for claims:			
Gross amount		(118,374)	(209,795)
Reinsurers' share		106,802	181,849
Net change in the provision for claims		(11,572)	(27,946)
Claims incurred, net of reinsurance		**(59,768)**	**(61,826)**
Net change in unexpired risk reserve		**(349)**	**(923)**
Acquisition costs		(4,058)	(10,052)
Other operating costs		(14,380)	(10,450)
Total acquisition and other expenses	5,7	**(18,438)**	**(20,502)**
Total Technical account profit		**13,726**	**4,236**
Non-Technical Account			
Investment return		40,298	(5,647)
Net foreign exchange profit / (loss)		(1,596)	640
Total Non-Technical account (loss) / profit		**38,702**	**(5,007)**
(Loss) / profit on ordinary activities before tax		52,428	(771)
Tax on (loss) / profit	9	(14,014)	5,206
Profit for the year		**38,414**	**4,435**

All operations are continuing.

The accompanying Notes are an integral part of the annual accounts.

BERKSHIRE HATHAWAY INTERNATIONAL INSURANCE LIMITED
COMPANY REGISTRATION NUMBER: 03230337

STATEMENT OF FINANCIAL POSITION
As at 31 December 2019

	Notes	2019 $'000	2018 $'000
Assets			
Financial investments	11	660,219	567,621
Reinsurance contracts			
- Unearned premiums on premiums ceded	6	257,686	275,420
- Reinsurers' share of claims reserves	6	1,313,528	1,210,394
Reinsurers' share of unexpired risk reserve		49,476	46,678
Insurance and other receivables		218,345	269,452
Current taxation		754	5,754
Cash and cash equivalents		205,826	230,587
Deferred acquisition costs		55,122	56,865
Prepayments and accrued income		5,945	5,925
Total Assets		2,766,901	2,668,696
Liabilities and Equity			
Liabilities			
Insurance contracts			
- Unearned premiums	6	307,518	330,587
- Losses and loss adjustment expenses	6	1,542,595	1,428,419
Unexpired risk reserve		79,697	75,734
Insurance and other payables		222,652	263,203
Current and deferred taxation	10	7,869	-
Reinsurers' share of deferred acquisition costs		47,226	48,368
Provisions		5,900	7,355
Total Liabilities		2,213,457	2,153,666
Equity			
Called up share capital	12	432,998	432,998
Retained earnings		120,446	82,032
Total Equity		553,444	515,030
Total Liabilities and Equity		2,766,901	2,668,696

The accompanying Notes are an integral part of the annual accounts.

These Financial Statements were approved by the Board of Directors and were signed on its behalf by:

Guy E. Finney
Director
13th May 2020

STATEMENT OF CASH FLOWS
For the year ended 31 December 2019

	Notes	2019 $'000	2018 $'000
Cash generated from operating activities			
Cash flows from operating activities	15	32,117	60,166
Tax paid		(6,142)	(6,219)
Dividends received		2,760	5,023
Investment Income received		1,470	2,838
Net cash inflows/(outflows) from operating activities		30,205	61,808
Cash flows from investing activities			
Purchase of Investments		(844,093)	(556,088)
Sale of Investments		787,486	559,534
Net cash inflows/(outflows) from investing activities		(56,607)	3,446
Net increase/(decrease) in cash and cash equivalents		(26,402)	65,254
Cash and cash equivalents at beginning of year		230,587	169,052
Effect of exchange rate fluctuations on cash and cash equivalents		1,641	(3,719)
Cash and cash equivalents at the end of the year		205,826	230,587

The accompanying Notes are an integral part of the annual accounts.

STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2019

	Called up share capital $'000	Retained earnings $'000	Total equity $'000
At 1 January 2018	432,998	77,597	510,595
Retained Profit for the year	-	4,435	4,435
At 31 December 2018	432,998	82,032	515,030
At 1 January 2019	432,998	82,032	515,030
Retained Profit for the year	-	38,414	38,414
At 31 December 2019	432,998	120,446	553,444

The accompanying Notes are an integral part of the annual accounts.

NOTES TO THE ACCOUNTS
For the year ended 31 December 2019

1. General information

Berkshire Hathaway International Insurance Limited is a private limited liability company, incorporated in the United Kingdom and registered in England and Wales. The address of the registered office is given on page 1. The Company's principal activity is the underwriting of general insurance and reinsurance business.

2. Accounting Policies and Basis of Preparation

2.1 Basis of preparation
The Financial Statements have been prepared in accordance with Financial Reporting Standards 102 & 103 (FRS 102 & 103) applicable in the United Kingdom and Republic of Ireland and provisions of Section 396 of the Companies Act 2006.

The functional currency of the Company is considered to be the US Dollar because that is the currency of the primary economic environment in which the Company operates. The Financial Statements are also presented in US Dollars. All values are rounded to the nearest thousand US dollars unless otherwise stated.

The Company is exempt from the requirement to prepare group accounts by virtue of section 401 of the Companies Act 2006. These financial statements therefore present information about the company as an individual undertaking and not about its group.

The company and its subsidiary undertaking are included in the consolidated financial statements of National Indemnity Company, a company incorporated in the State of Nebraska, USA.

2.2 Going concern
The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the strategic report. The directors' report further describes the financial position of the Company; its cash flows and liquidity position; the Company's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments; and its exposure to credit risk and liquidity risk.

The directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

2.3 Insurance Contracts
In accordance with FRS 103, the Company has applied existing accounting policies for insurance contracts.

(a) Classification
Insurance contracts are those contracts that transfer significant insurance risk at the inception of the contract. Insurance risk is transferred when an insurer agrees to compensate a policyholder if a specified uncertain future event adversely affects the policyholder.
The underwriting activities of all classes of business are accounted for on an annual basis.

(b) Premiums
Written premiums comprise the premiums on contracts incepting in the financial year. Estimates are included for premiums not yet notified by the financial year end. Written premiums are stated gross of commissions payable to intermediaries and exclusive of taxes and duties levied on premiums.
Outwards reinsurance premiums are accounted for in the same accounting period as the premiums for the related direct or inwards reinsurance business.

2. Accounting Policies and Basis of Preparation (continued)

2.3 Insurance Contracts (continued)

(c) Unearned Premiums
A provision for unearned premiums is made which represents that part of gross, and reinsurers' share of, premiums written which is estimated will be earned in the following or subsequent financial years. It is calculated separately for each insurance contract usually on the 365ths basis depending on the estimated incidence of risk throughout the period of the contract.

(d) Deferred Acquisition Costs
Acquisition costs represent the expenses, both direct and indirect, of acquiring insurance policies written during the financial year. Acquisition costs are accrued over an equivalent period to that over which the underlying business is written and are charged to the accounting periods in which the related premiums are earned. Deferred acquisition costs represent the proportion of acquisition costs incurred in respect of unearned premiums at the reporting date.

(e) Claims Incurred
Claims incurred comprise all claims payments and internal and external settlement expense payments made in the financial year and the movement in the provisions for outstanding claims and settlement expenses, including claims incurred but not reported, net of salvage and subrogation recoveries.

Outwards reinsurance recoveries are accounted for in the same accounting period as the claims for the related direct or inwards reinsurance business being reinsured.

(f) Outstanding claims provisions
Provision is made for outstanding claims and settlement expenses incurred at the reporting date including an estimate for the cost of claims incurred but not reported at that date. Included in the provision is an estimate of the internal and external costs of handling the outstanding claims. Material salvage and other recoveries are deducted from outstanding claims.

General insurance outstanding claims provisions are based on the estimated ultimate cost of all claims incurred, but not settled, at the date of the statement of financial position, whether reported or not, together with related claims handling costs. Significant delays are experienced in the notification and settlement of certain types of general insurance claims, particularly in respect of liability business, the ultimate cost of which cannot be known with certainty at the reporting date. As such, booked claims provisions for general insurance are based on an estimate of future claim payments plus an allowance for uncertainty. Any estimate represents a determination within a range of possible outcomes. Outstanding claims provisions are valued net of an allowance for expected future recoveries. Recoveries include non-insurance assets that have been acquired by exercising rights to salvage and subrogation under the terms of insurance contracts.

(g) Other technical provisions - unexpired risks
Provision is made for unexpired risks when, after taking account of investment income, it is anticipated, on the basis of information available at the year end, that unearned premiums will be insufficient to meet future claims and related expenses of business in force at the end of the year.

(h) Liability adequacy
At each reporting date the Company performs a liability adequacy test on its insurance liabilities less related deferred acquisition costs to ensure that the carrying value is adequate, using current estimates of future cash flows. If that assessment shows that the carrying amount of the liabilities is inadequate, any deficiency is recognised as an expense to the statement of comprehensive income. The provision is assessed in aggregate for business classes which are managed together.

2. Accounting Policies and Basis of Preparation (continued)

2.3 Insurance Contracts (continued)

(i) Reinsurance
The Company enters into reinsurance contracts in the normal course of business in order to limit the potential for losses arising from certain exposures. Outwards reinsurance premiums are accounted for in the same period as the related premiums for the direct or inwards reinsurance business being reinsured. Reinsurance liabilities comprise premiums payable for outwards reinsurance contracts and are recognised as an expense when due.

Reinsurance assets include balances from reinsurance companies for paid and unpaid losses. Reinsurance assets are measured consistently with the amounts associated with the underlying insurance contract and in accordance with the terms of the reinsurance contract.

2.4 Revenue recognition

(a) Investment Income
Investment income consists of dividends, interest, realised gains and losses and unrealised gains and losses on the fair value of assets.

(b) Interest Income
Interest income is recognised on an accruals basis, as are any investment expenses.

(c) Realised gains and losses
Realised gains or losses represent the difference between the net sale proceeds and purchase price.

(d) Unrealised gains and losses
Unrealised gains or losses represent the difference between the valuation of investments at the reporting date and their purchase price. The movement in unrealised investment gains and losses therefore comprises the increase or decrease in the year in the value of investments held at the reporting date together with the reversal of previously recognised unrealised gains and losses on investments disposed of in the current year.

2.5 Foreign Currencies

Transactions by the Company and all its branches in foreign currencies other than US Dollars are converted at the rate of exchange prevailing on the dates of the transactions, or at the average rate where this is a reasonable approximation. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into US Dollars at the rates of exchange prevailing at that date. Exchange differences are recognised in the statement of comprehensive income in the period in which they arise.

Non-monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into US Dollars at the historic rate pertaining on the date of the transaction.

2.6 Taxation

(a) Current Tax
Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the reporting date.

(b) Deferred Tax
Deferred taxation is provided for using the liability method on all timing differences, arising from the different treatment of items for accounting and taxation purposes, calculated at the rates at which it is expected that tax will arise. Deferred tax balances are not discounted.

2. Accounting Policies and Basis of Preparation (continued)

2.7 Financial Assets and Liabilities

(a) Recognition
Financial assets and liabilities are recognised when the Company becomes a party to the contractual provisions of the instrument.

Financial liabilities are classified according to the substance of the contractual arrangements entered into.

(b) Derecognition
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 de-recognition under a combination of risk and controls tests.

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

(c) Impairment
There was no impairment of assets at the year end. Assets due greater than three months old but not yet impaired are provided for by the establishment of a bad debt provision, in case of future impairment.

2.8 Investments
The Company has designated on initial recognition its financial assets held for investment purposes (investments) at fair value through profit or loss (FVTPL).

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

Gains and losses on investments designated as FVTPL are recognised through the statement of comprehensive income. Interest income from investments in bonds and short-term investments is recognised at the effective interest rate. Interest receivable is shown separately in the statement of financial position based on the debt instruments' stated rates of interest.

2.9 Cash and cash equivalents
Cash and cash equivalents in the statement of financial position include cash in hand, deposits held at call with banks and other short-term highly liquid investments with a maturity of three months or less at the date of acquisition.

2.10 Receivables
Receivables, including inter-company loans, are recognised initially at their fair value and are subsequently assessed for indicators of impairment at each reporting date. If there is objective evidence of impairment, an impairment loss is recognised through the statement of comprehensive income, in the period.

2.11 Payables and other financial liabilities
Payables, including inter-company amounts payable, are recognised at their fair value.

2.12 Provisions
Provisions are liabilities with uncertainties in the amount or timing of payments. Provisions are recognised if there is a present obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made at the reporting date.

NOTES TO THE ACCOUNTS

For the year ended 31 December 2019

3. Critical accounting judgements and key sources of estimation uncertainty

3.1 Introduction

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

3.2 The ultimate liability arising from claims made under insurance contracts

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

- Estimates of the amount of any liability in respect of claims notified but not settled and 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.

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

- Quarterly statistical data is produced in respect of gross and net premiums and claims (paid and incurred);
- Projections of ultimate premiums, reinstatement premiums and claims are produced by the internal actuarial department using standard actuarial projection techniques (e.g. Basic Chain Ladder, Bornhuetter-Ferguson, Initial Expected Loss Ratio).

The Basic Chain Ladder and Bornhuetter-Ferguson projection methods are based on the key assumption that historical development of premiums and claims is representative of future development. Claims inflation is taken into account in the initial expected loss ratio selections but is otherwise assumed to be in line with historical inflation trends, unless explicit adjustments for other drivers of inflation such as legislative developments are deemed appropriate.

- Some classes of business have characteristics which do not necessarily lend themselves easily to statistical estimation techniques, e.g. due to low data volumes. In such cases, for example, a policy-by-policy review may also be carried out to supplement statistical estimates;
- In the event of catastrophe losses, and prior to detailed claims information becoming available, claims provision estimates are compiled using a combination of output from specific recognised exposure data and detailed reviews of contracts exposed to the event in question;
- The initial ultimate selections along with the underlying key assumptions and methodology are proposed by the actuarial department after discussions with the underwriters;
- Following the completion of the actuarial review, the ultimate selections (actuarial estimate), assumptions, methodology and uncertainties are presented to the Reserving Committee, chaired by the Chief Actuary and reporting to the Board, for discussion and debate;
- Following review of the actuarial estimate, the Reserving Committee recommends the actuarial estimate to be adopted in the Financial Statements; and
- Claims provisions are subject to independent external actuarial audit review at least annually.

The carrying value at the date of the statement of financial position of gross claims reported and loss adjustment expenses and claims incurred but not reported were $1,542.6m (2018: $1,428.4m) as set out in Note 6 to the accounts. The amount of reinsurance recoveries estimated at that date is $1,313.5m (2018: $1,210.4m).

3. Critical accounting judgements and key sources of estimation uncertainty (continued)

3.3 Pipeline premiums

Written premiums include pipeline premiums of $174.5m (2018: $183.8m) which represent future premiums receivable in respect of in-force insurance contracts. Pipeline premium estimates are typically based on standard actuarial projection techniques on the key assumption that historical development of premiums is representative of future development.

3.4 Valuation of investment in subsidiary

BHIIL values its investment in its subsidiary, Berkshire Hathaway European Insurance DAC, at cost less impairment.

The Company determines, at each reporting date, whether there is evidence that the value of the investment is impaired. A financial asset is impaired if there is objective evidence that indicates an event has occurred after the initial recognition of the asset that may have resulted in a loss of value as a result of having a negative effect on the estimated future cash flows generated by that asset.

As at 31 December 2019 the Company does not consider that there are any indicators that the cost of the investment should be impaired.

4. Risk Management

The Company has an established risk management framework and operates within this framework. This framework has the following key elements:

- A clear organisational structure with defined authorities and responsibilities;
- Defined terms of reference for the Board of the Company and management committees; and
- Adoption of the Company risk management framework that defines risk appetite measures and sets out risk management and control standards for the Company's operations.

The risk management framework also sets out the roles and responsibilities of businesses, policy owners and risk oversight committees.

The Company operates a risk management framework, which is a collection of processes and tools that have been put in place to ensure that the risks to which it is exposed are identified, measured, managed, monitored and reported on a continuous basis. The key instruments of this framework include the risk management policies, risk reports, the governance and oversight infrastructure and the risk appetite framework.

The Company has a set of formal risk policies that facilitate a consistent approach to the management of all the Company's risks across all business streams and locations in which the company operates. These risk policies define the Company's appetite for different, specific risk types and set out risk management and control standards for the Company's operations. The Company sets limits to manage material risks to ensure the risks stay within risk appetite. Where risks are outside of appetite, actions are agreed to mitigate the exposure.

In addition to monitoring Regulatory Solvency under applicable UK Prudential Regulatory Authority (PRA) Solvency II regulations, the PRA also requires the Company to assess its economic capital requirements to ensure that it adequately reflects the risks facing the business. The main risks being faced by the Company are as follows:

4.1 Insurance Risk

The Company accepts insurance risk through its insurance contracts where it assumes the risk of loss from persons or organisations that are directly subject to the underlying loss. The Company is exposed to the uncertainty surrounding the timing, frequency and severity of claims under these contracts and thus is exposed to insurance risk via underwriting and reserving activities.

NOTES TO THE ACCOUNTS
For the year ended 31 December 2019

4. Risk Management (continued)

4.1 Insurance Risk (continued)

The Company manages its risk via its underwriting and reinsurance strategy within the overall risk management framework. Pricing is based on assumptions which have regard to trends and past experience. Exposures are managed by having documented underwriting limits and criteria. Reinsurance is purchased to mitigate the effect of potential loss to the Company from individual large or catastrophic events. Reinsurance policies are written with approved reinsurers on a quota share, excess of loss and stop loss basis.

4.1.1 Underwriting Risk
Underwriting is organised into divisions.

<u>**BHRG Division**</u>
Casualty Underwriting
Risks are written with a reasonable expectation of gross and net profit after related expenses. The Company employs a specialist underwriting team and the underwriters who consider all the facts placed before them when forming a view of the appropriate rate to quote.

The business plan is estimated based on the underwriter view of market position. There is no premium target and all business is quoted / underwritten on its merits.

Medical Malpractice Underwriting (Italian branch business)
Risks are written with a reasonable expectation of gross and net profit after related expenses.

Motor Market facility
Commenced during 2016 the Company writes Fleet Motor business through a Managing General Agent. The past performance of the MGA was assessed by underwriter and actuary for pricing discipline, and regular review is in place with a view to maintaining profitability.

Reinsurance Treaty
Treaty reinsurance business is predominantly property and natural catastrophe exposures. Risks are written with a reasonable expectation of gross and net profit after related expenses; this entails individual pricing of risk by an actuary or underwriter, based on an analysis of past experience.

Global Aerospace Underwriting Managers (GAUM) Facility
The Company participates in the GAUM UK and Swiss pools. GAUM performance is monitored with Group resources and profits are expected over the longer term. The Company has a willingness to reduce lines in the face of reduced profitability. GAUM employ specialist underwriters to negotiate risks and set rates. GAUM fronting is fully reinsured with NICO.

<u>**Medpro Division**</u>
Medical Malpractice market facilities (UK and French business)
Medical malpractice and public liability insurance for health professionals are written with different partners in the UK and France. The UK program commenced in 2014 and remains on a "prior submit" basis. The French program commenced in 2015 and is on a full delegated authority basis. An analysis of past performance was undertaken, and support and expert advice is being provided by a Berkshire Hathaway business, Medical Protective, experienced in this class of business.

<u>**BHSI Division**</u>
Berkshire Hathaway Speciality Insurance (BHSI) Underwriting
BHSI is a group related business unit in the United States of America and represents a multi-national insurance brand. These units write property and casualty risks to the Company and the Company also on occasion writes similar risks introduced by other locations under the BHSI brand. Risks are written with a reasonable expectation of gross and net profit; the early years of this initiative are expected to have additional expense cost as the divisions are established.

4. Risk Management (continued)

4.1 Insurance Risk (continued)

Faraday Division
Faraday, a member of the Berkshire Hathaway Group of companies, manages a Lloyds Syndicate in the UK as well as an FCA authorised intermediary. The division writes business across a number of product lines and the agreement operates as a wholesale MGA.

4.1.2 Reserving Risk
Reserving risk refers to the uncertainty in the adequacy of technical provisions held for earned business due to potential inaccurate assumptions or unforeseen circumstances. 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 Reserving Committee is responsible for recommending the appropriate reserves to the Board which manages the reserving risk with regard to the financial statements. Risk capital is required to be held to cover the potential for adverse development.

Further details on the reserve profile and claims development tables can be found in Note 6.

4.1.3 Reinsurance Risk
Reinsurance risk arises mainly in the form of reinsurance credit risk (covered in 4.2.1), however there is also the risk that a reinsurer may not be able to respond. For example this may occur due to the implementation of a sanction regime which applies to an overseas reinsurer. This may have a retrospective effect as regimes typically apply based on payment date rather than at the date the loss is incurred.

The Company recognise this risk and consider it as one example of an "Event Not In Data" (ENID) for reserving and reinsurance recovery purposes.

4.1.4 Assumptions and sensitivities reserving
The risks associated with the non-life insurance contracts are complex and subject to a number of variables which complicate quantitative sensitivity analysis. The Company uses several statistical and actuarial techniques based on past claims development experience. This includes indications such as average claims cost, ultimate claims numbers and expected loss ratios. The key methods used by the Company for estimating liabilities are Basic Chain Ladder, Bornhuetter-Ferguson and initial expected loss ratio.

A key sensitivity to reserving methodologies is the potential for "Events Not In Data" (ENIDs). A generally conservative approach to reserving is adopted with a view that the liability for net non-life insurance claims recognised in the balance sheet is adequate. However, actual experience will differ from the expected outcome. As a defensive strategy the Company maintains surplus capital to cover ENIDs.

The profit on ordinary activities before tax is sensitive to the actual outcome being different from the expected outcome. The table below gives an indication of the impact on profit of a percentage movement in the losses and loss adjustment expenses net of the reinsurers share of those liabilities (excluding the effect of foreign exchange).

	2019	2018
Impact on profit before tax	$000	$000
Insurance losses deteriorate against expected outcome:		
5% deterioration	(12,964)	(12,354)
10% deterioration	(25,929)	(24,708)
Insurance losses improve against expected outcome:		
5% improvement	12,965	12,354
10% improvement	25,929	24,708

Subject to taxation, the effect on shareholders' equity would be the same as the effect on profit.

4. Risk Management (continued)

4.1 Insurance Risk (continued)

4.1.5 Sensitivity analysis

The Company uses a number of sensitivity or stress-test based risk management tools to understand the impact of the above risks on earnings and capital in both normal and stressed conditions. These stress tests are extreme but plausible scenarios, or a combination of extreme scenarios, which are used to examine the impact of catastrophic events, changes to business plans and shock changes in business cycles.

Scenario testing is undertaken based on a number of management defined scenarios. They are quantified based on the industry loss amounts, historical losses to BHIIL and knowledge of the current risk profile and exposure. As such, the gross and net underwriting loss amounts are calculated based on the most recent aggregate reporting including live exposures. Consideration is also given to the correlation of inter-related events and indirect impacts..

Reverse Stress Testing is designed to identify events that would potentially lead to either the business model becoming unviable, or business failure. A reverse stress testing exercise is carried out annually.

The results of the sensitivity, scenario and stress testing undertaken are regularly produced to inform the Company's decision-making and planning processes, and as part of the framework for identifying the risks to which the Company is exposed. A key sensitivity is reinsurance credit risk, a significant change of which could materially affect the amount, timing and uncertainty of the Company's future cash flows and profit. The details of the current reinsurer exposures are disclosed in note 4.2.1.

4.2 Credit Risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. The key areas of exposure to credit risk for the Company are in relation to its reinsurance programme, investment portfolio and to a lesser extent amounts due from policyholders and intermediaries.

The objective of the Company in managing its credit risk is to ensure risk is managed in line with the Company's risk appetite. The Company has established policies and procedures in order to manage credit risk and methods to measure it.

4. Risk Management (continued)

4.2 Credit Risk (continued)

4.2.1 Reinsurance credit risk

Reinsurance credit risk represents the risk that the reinsurer will default. As the reinsurance with National Indemnity Company (NICO) is a fundamental part of the business model this is an important element of the risk profile.

In general the reinsurance program consists of: quota share cover; followed by a per event excess of loss cover; followed by whole account stop loss cover. For a small proportion of the total gross reserves there is additional reinsurance in place. The Reinsurance Working Group is responsible for approving the reinsurance and the Risk Committee is responsible for monitoring the associated credit risk. A Trust Fund Agreement in place with NICO manages any concentrated credit risk.

Based on year end available figures, NICO reported surplus assets of US$168bn and total assets of US$286bn and is rated AA+ by S&P rating agency.

Based on 2019 year-end, the exposures to Reinsurers were as follows:

Reinsurer	External Credit Rating	Exposure	Reinsurer Creditor	Trust fund protection	Net exposure
NICO	AA+	US$1,346.1m	US$83.2m	US$937.5m	US$325.4m
BH Homestate	AA+	US$201.8m	-	-	US$201.8m
Others	A and above	US$25.6m	-	-	US$25.6m
Total		US$1,573.5m	US$83.2m	US$937.5m	US$552.8m

Based on 2018 year-end, the exposures to Reinsurers were as follows:

Reinsurer	External Credit Rating	Exposure	Reinsurer Creditor	Trust fund protection	Net exposure
NICO	AA+	US$1,365.4m	US$62.1m	US$716.8m	US$586.5m
BH Homestate	AA+	US$101.3m	-	-	US$101.3m
Others	A and above	US$17.4m	-	-	US$17.4m
Total		US$1,484.1m	US$62.1m	US$716.8m	US$705.2m

The results of the sensitivity for reinsurance credit risk by substituting the current Reinsurer credit rating with a Credit rating of A has a significant effect on the ORSA ultimate capital requirement, but a relatively low effect on the Solvency II requirements to the 99.5% probability of meeting liabilities over a one year timeframe. This is because the potential for default in the following year remains small. In both cases BHIIL continue to hold greater than the Board's target surplus over and above the ORSA capital requirements.

Such a change to the current Reinsurer rating would represent a substantial re-rating of NICO by the rating agencies.

4.2.2 Investment credit risk

The Company considers the assets of the Company to comprise two portfolios. The first portfolio, the Insurance Portfolio is designed to protect the Company's capital so that it is available to support the underwriting. The investment strategy is conservative and investment guidelines require funds to be invested in fixed income investments with a credit rating of A and above held to maturity. The Investment Committee are responsible for the management of investment credit risk.

The second portfolio, the Capital Surplus Portfolio, comprises assets in excess of the first portfolio which have been invested outside of the Insurance Portfolio Investment Guidelines. These assets are in excess of the requirements of policyholders and can include large strategic long-term equity holdings consistent with holdings by Berkshire Hathaway Inc. These assets will only be invested in Equities quoted on the New York Stock Exchange, NASDAQ or the London Stock Exchange. This portfolio therefore is intended to provide long term growth and countenances potential market volatility and lower asset liquidity as well as accepting potential concentration. The Capital Surplus Portfolio consists of the entire equity holdings and is covered in Market Risk below.

NOTES TO THE ACCOUNTS

For the year ended 31 December 2019

4. Risk Management (continued)

4.2 Credit Risk (continued)

4.2.2 Investment credit risk (continued)

The credit risk on liquid funds is limited because the main counterparties are banks with high credit-ratings assigned by international credit-rating agencies although some exposure to lower rated banks exist related to operations in Continental Europe.

The Company has a policy of not investing in derivative contracts.

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

At 31 December 2019	AAA $'000	AA $'000	A $'000	BBB $'000	BB $'000	B $'000	Total $'000
Financial investments	345,145	57,226	-	-	-	-	402,371
Cash and cash equivalents	4,253	82,605	114,656	909	-	3,404	205,827
Total	349,398	139,831	114,656	909	-	3,404	608,198

At 31 December 2018	AAA $,000	AA $,000	A $,000	BBB $,000	BB $,000	B $'000	Total $,000
Financial investments	437,941	30,270	-	-	-	-	468,211
Cash and cash equivalents	31,576	79,142	109,575	3,085	-	7,209	230,587
Total	469,517	109,412	109,575	3,085	-	7,209	698,798

The table above, which excludes Equities, gives an indication of the level of credit worthiness of assets that are most exposed to credit risk. The ratings are mainly sourced from Standard & Poor's and where these are not available an equivalent rating agency.

The Company's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the Risk Committee annually.

Receivables consist of a large number of policyholders, spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of accounts receivable.

NOTES TO THE ACCOUNTS
For the year ended 31 December 2019

4. Risk Management (continued)

4.3 Liquidity Risk

Liquidity risk is the risk that the Company cannot meet its obligations associated with financial liabilities as they fall due. This risk is largely mitigated by the investment guideline requirements which ensure compliance with the risk appetite statements. The company retains significant liquid balances, the investment portfolio is such that it may be converted to liquid assets at short notice, and the company also has the ability to make cash calls on its reinsurer.

The tables below present the fair value of monetary assets and the undiscounted value of monetary liabilities of the Company into their relevant maturing groups based on the remaining period at the end of the year to their contractual maturities or expected repayment dates.

31 December 2019	< 1 year $'000	1 to 3 years $'000	3 to 5 years $'000	> 5 years $'000	Total $'000
Assets:					
Reinsurance contracts - assets	459,777	416,535	269,860	425,042	1,571,214
Insurance and other receivables	218,345	-	-	-	218,345
Total	678,122	416,535	269,860	425,042	1,789,559
Liabilities:					
Insurance contracts liabilities	530,165	479,693	318,683	521,572	1,850,113
Insurance and other payables	222,652	-	-	-	222,652
Total	752,817	479,693	318,683	521,572	2,072,765

31 December 2018	< 1 year $'000	1 to 3 years $'000	3 to 5 years $'000	> 5 years $'000	Total $'000
Assets:					
Reinsurance contracts - assets	405,681	421,792	242,493	415,848	1,485,814
Insurance and other receivables	269,452	-	-	-	269,452
Total	675,133	421,792	242,493	415,848	1,755,266
Liabilities:					
Insurance contracts liabilities	469,245	493,907	286,983	508,871	1,759,006
Insurance and other payables	263,203	-	-	-	263,203
Total	732,448	493,907	286,983	508,871	2,022,209

Given that liquidity is not a material risk for the Company no specific risk sensitivity is provided.

4.4 Market Risk

Market risk is the risk of adverse financial impact due to market movements such as currency exchange rates, interest rates and other price changes. Market risk arises due to fluctuations in both the value of assets held and the value of liabilities. The objective of the Company in managing its market risk is to ensure risk is managed in line with the Company's risk appetite.

The Company has established policies and procedures in order to manage market risk and methods to measure it.

NOTES TO THE ACCOUNTS
For the year ended 31 December 2019

4. Risk Management (continued)

4.4 Market Risk (continued)

4.4.1 Equity market risk

The Capital Surplus Portfolio consists of the entire equities holdings. The equity valuation is volatile and marked to market at year end. The investment valued in the range from US$98.9m to US$128.6m during the year.

	2019	2018
Impact on profit before tax	$'000	$'000
Equity value decreases:		
10% against year- end values	(12,770)	(9,941)
20% against year- end values	(25,540)	(19,882)
Equity value increases:		
10% against year-end values	12,770	9,941
20% against year-end values	25,540	19,882

Subject to taxation, the effect on shareholders' equity would be the same as the effect on profit.

4.4.2 Foreign currency risk management

The Company undertakes certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise.

The Company accounts for business in US Dollars, Canadian Dollars, Euro, Sterling and Japanese Yen. The Company has minimal exposure to currency risk as the Company's financial assets are primarily matched to the same currencies as its insurance contract liabilities. As a result, foreign exchange risk arises from other recognised assets and liabilities denominated in other currencies.

Sensitivity to changes in foreign exchange rates
The table below gives an indication of the impact on profit of a percentage movement in the relative strength of the US Dollar against the value of Sterling, Euro, Canadian Dollar and Japanese Yen simultaneously. The analysis is based on the information at 31 December 2019.

	2019	2018
Impact on profit before tax	$'000	$'000
US Dollar weakens:		
10% against other currencies	(8,313)	(3,313)
20% against other currencies	(16,626)	(6,626)
US Dollar strengthens:		
10% against other currencies	8,313	3,313
20% against other currencies	16,626	6,626

Subject to taxation, the effect on shareholders' equity would be the same as the effect on profit.

4.4.3 Interest rate risk management

Interest rate risk is the risk that the value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

For the Company the investment assets subject to interest rate risk are short term fixed interest assets held to maturity. The net insurance liabilities are longer term. As the policy is not to match investments with the liability durations the duration mismatch is significant.

Given the short term nature of the investments held and the current interest rate environment, interest rate risk is not a material risk for the Company so no specific risk sensitivity is provided.

NOTES TO THE ACCOUNTS
For the year ended 31 December 2019

4. Risk Management (continued)

4.5 Operational Risk

Operational Risk is the risk of loss resulting from inadequate or failed internal processes, people, systems or external events. These risks are aligned with the Board's risk appetite and managed through controls and are monitored via a warning indicator system based on key risk indicators that are reported quarterly to the Risk Committee. There is a framework to review the documentation and structure of the key Risks, controls and indicators on a regular basis. All major operational risks are reviewed at least annually.

4.6 Climate Change

BHIIL considers climate change in the ORSA process, stress and scenario testing and during risk and control assessments as part of the overall Risk Management Framework to understand and assess the risks from climate change and to be able to address and oversee these risks within the firm's overall business strategy and risk appetite. Climate change risk is also included in BHIIL's and the Group's emerging risk inventory and monitored/ owned by the Risk Committee and ERM Committee respectively. The direct operations within the Group typically review their underwriting and customer base for loss control issues, which include potential climate change influenced events.

5. Segmental Information

Analysis of gross premiums written and gross premiums earned by class of business:

Gross premiums written	2019 $'000	2018 $'000
Direct insurance and facultative reinsurance		
Motor Vehicle Liability	147,433	110,420
Marine, Aviation and Transportation	65,603	62,737
Fire & Other Damage to Property	85,586	37,863
Reinsurance	(1,257)	22,810
General Liability	245,023	222,857
	542,388	456,687

Gross premiums earned	2019 $'000	2018 $'000
Direct insurance and facultative reinsurance		
Motor Vehicle Liability	126,981	77,055
Marine, Aviation and Transportation	62,618	57,378
Fire & Other Damage to Property	122,172	43,528
Reinsurance	40,355	136,782
General Liability	215,040	199,442
	567,166	514,185

Analysis of gross premiums written:	2019 $'000	2018 $'000
Contracts written by the Company in:		
Europe – EEA	541,912	456,207
Europe – Non EEA	476	480
Rest of the World	-	-
	542,388	456,687

Geographical analysis of profit before tax and net assets has not been included as the majority of risks either originate or are procured in the United Kingdom in both 2019 and 2018.

Class of business analysis for net assets and profit before taxation have not been disclosed as a meaningful split of the business cannot be obtained.

NOTES TO THE ACCOUNTS
For the year ended 31 December 2019

5. Segmental Information (continued)

Analysis of gross claims incurred, gross operating expenses and the reinsurance balance by class of business:

Gross incurred claims	2019 $'000	2018 $'000
Direct insurance and facultative reinsurance		
Motor Vehicle Liability	148,504	72,369
Marine, Aviation and Transportation	44,235	31,041
Fire & Other Damage to Property (Note a)	14,234	(20,222)
Reinsurance	64,566	171,692
General Liability	121,558	144,828
	393,097	399,708

Operating expenses	2019 $'000	2018 $'000
Direct insurance and facultative reinsurance		
Motor Vehicle Liability	4,324	2,195
Marine, Aviation and Transportation	956	1,239
Fire & Other Damage to Property	2,968	4,440
Reinsurance	1,756	5,590
General Liability	8,434	7,038
	18,438	20,502

Reinsurers' balance	2019 $'000	2018 $'000
Direct insurance and facultative reinsurance		
Motor Vehicle Liability	(20,744)	4,509
Marine, Aviation and Transportation	16,825	23,352
Fire & Other Damage to Property (Note a)	89,445	51,318
Reinsurance	(26,576)	(37,837)
General Liability	82,606	47,474
	141,556	88,816

Note a – The Company released reserves in the previous year with the expiry of a significant exposure, which was reinsured.

NOTES TO THE ACCOUNTS
For the year ended 31 December 2019

6. Insurance and Reinsurance Contracts

This Note deals with balances carried in respect of insurance contracts (liabilities) and reinsurance contracts (assets). It examines the statement of financial position, splitting both insurance and reinsurance balances into their component parts, and explains the assumptions applied in arriving at these figures. The Note also shows how the Company's claims have developed (before and after the effects of reinsurance) over a period of time by setting out the cumulative development at the end of each calendar year in respect of claims arising from business written in a particular underwriting year. It ends by analysing the movements in insurance and reinsurance contracts during the year.

6.1 Balances on insurance and reinsurance contracts

	2019 $'000	2018 $'000
Gross:		
Claims reported (case estimates)	701,882	673,795
Claims incurred but not reported	829,143	743,474
Provision for claims handling	11,570	11,150
Total Gross Claims Reserve	1,542,595	1,428,419
Unearned premiums	307,518	330,587
Total Gross Liabilities	1,850,113	1,759,006
Recoverable from reinsurers:		
Claims reported (case estimates)	573,782	550,357
Claims incurred but not reported	730,172	650,746
Provision for claims handling	9,574	9,291
Total Reinsurers' share of claim reserves	1,313,528	1,210,394
Unearned premiums	257,686	275,420
Total Reinsurers' share of liabilities	1,571,214	1,485,814
Net:		
Claims reported	128,100	123,438
Claims incurred but not reported	98,971	92,728
Provision for claims handling	1,996	1,859
Total Net Claims Reserve	229,067	218,025
Unearned premiums	49,832	55,167
Total Net Insurance Liabilities	278,899	273,192

The Claims Reserves reported are based on undiscounted estimates of the future claim payments, except in one personal motor case where a structured settlement, or periodic payment order (PPO), has been agreed. In this case a discounted reserve has been provided based on a discount rate of 2% with a mean term of exposure of 14 years. The discounted reserves held amounted to $4.4m (2018: $4.5m) at the reporting date, and the effect of the discounting is a reduction in the reported reserves of $1.221m (2018: $1.330m).

The impact of this discounting in the reporting is as follows:-

	2019			2018		
	Gross $'000	Reinsurance $'000	Net	Gross $'000	Reinsurance $'000	Net
Claims reserves at 31 December	1,542.595	(1,313,528)	229,067	1,428,419	(1,210,394)	218,025
Effect of Discounting	1,221	(1,221)	-	1,330	(1,330)	-
Undiscounted claims reserves at 31 December	1,543,816	(1,314,749)	229,067	1,429,749	(1,211,724)	218,025

NOTES TO THE ACCOUNTS
For the year ended 31 December 2019

6. Insurance and Reinsurance Contracts (continued)

Insurance contracts – assumptions and changes in assumptions
Process used to decide on assumptions required

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

The Company uses several statistical methods to incorporate the various assumptions made in order to estimate the ultimate costs of claims. The three methods more commonly used are the chain-ladder, the Bornhuetter-Ferguson method and target loss ratio.

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 years or new classes of business).

Target loss ratio is used when there is very little claims experience.

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) and 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.

In addition to the estimation of claims reserves, certain estimates are produced for unearned premiums. Earned premium is calculated for each insurance contract, usually on the 365ths method depending on the estimated incidence of risk throughout the period of the contract.

Reinsurance outwards premiums 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.

NOTES TO THE ACCOUNTS
For the year ended 31 December 2019

6. Insurance and Reinsurance Contracts (continued)

Claims development tables

The tables below show the development of claims over a period of time on a gross and net of reinsurance basis.

The claims development tables have been presented on an underwriting year basis.

The tables show the cumulative incurred claims, including both notified and IBNR claims, for each successive underwriting year at the end of each year, together with cumulative paid claims at the end of the current year.

Ultimate Gross Claims Liabilities $'000

Gross	2011 & Prior	2012	2013	2014	2015	2016	2017	2018	2019	Total
At end of underwriting year	1,158,622	148,121	327,939	351,942	180,834	142,223	208,686	211,159	245,178	
One year later	1,144,885	237,560	315,417	411,169	177,984	287,911	386,386	426,370		
Two years later	1,107,612	221,693	300,774	452,307	190,854	378,292	388,325			
Three years later	1,081,869	245,177	395,067	348,983	204,247	475,345				
Four years later	1,060,998	260,679	417,328	332,180	169,339					
Five years later	992,987	238,965	393,545	315,932						
Six years later	955,012	212,754	337,063							
Seven years later	899,331	193,876								
Eight years later	855,369									
Current Estimate of cumulative claim liability	855,369	193,876	337,063	315,932	169,339	475,345	388,325	426,370	245,178	3,406,797
Cumulative paid to date	746,733	155,131	178,421	211,774	64,765	200,460	148,304	125,963	32,651	1,864,202
Total Gross Claims Liability as at 31 December 2019	108,636	38,745	158,642	104,158	104,574	274,885	240,021	300,407	212,527	1,542,595

Ultimate Reinsurance Recoveries $'000

Reinsurance	2011 & Prior	2012	2013	2014	2015	2016	2017	2018	2019	Total
At end of underwriting year	841,630	120,615	296,101	317,408	166,405	117,389	176,716	181,177	207,103	
One year later	832,077	199,215	256,488	349,489	150,529	237,915	320,494	360,871		
Two years later	801,370	186,077	245,388	383,947	160,480	315,367	318,186			
Three years later	779,179	204,209	338,745	301,551	171,296	405,128				
Four years later	760,993	216,617	364,101	287,075	141,422					
Five years later	706,747	196,699	343,702	272,176						
Six years later	667,566	173,943	293,058							
Seven years later	625,003	157,803								
Eight years later	591,970									
Current Estimate of reinsurers share of claim liability	591,970	157,803	293,058	272,176	141,422	405,128	318,186	360,871	207,103	2,747,717
Cumulative recovered to date	517,484	124,019	147,784	178,488	55,071	161,206	118,746	104,765	26,626	1,434,189
Reinsurers Share as at 31 December 2019	74,486	33,784	145,274	93,688	86,351	243,922	199,440	256,106	180,477	1,313,528

Ultimate Net Claims Liabilities $'000

Net	2011 & Prior	2012	2013	2014	2015	2016	2017	2018	2019	Total
At end of underwriting year	316,992	27,506	31,838	34,534	14,429	24,834	31,970	29,982	38,075	
One year later	312,808	38,345	58,931	61,680	27,455	49,996	65,892	65,499		
Two years later	306,242	35,616	55,386	68,360	30,374	62,925	70,139			
Three years later	302,690	40,968	56,322	47,432	32,951	70,217				
Four years later	300,005	44,062	53,227	45,105	27,917					
Five years later	286,240	42,266	49,843	43,756						
Six years later	287,446	38,811	44,005							
Seven years later	274,328	36,073								
Eight years later	263,399									
Current Estimate of cumulative claim liability	263,399	36,073	44,005	43,756	27,917	70,217	70,139	65,499	38,075	659,080
Cumulative paid to date	229,249	31,112	30,637	33,286	9,694	39,254	29,558	21,198	6,025	430,013
Total Net Claim Liability as at 31 December 2019	34,150	4,961	13,368	10,470	18,223	30,963	40,581	44,301	32,050	229,067

6. *Insurance and Reinsurance Contracts (continued)*

Claims development tables (continued)

As required by FRS 103 the amounts presented in the above triangles are claims liabilities consisting of case reserves, incurred but not reported reserves, and claims handling expense reserves. Importantly they do not include unearned premium reserve or unexpired risk provisions and as such do not present the total exposure. The amounts are shown on an ultimate loss basis inclusive of catastrophe losses by year of account. The claims development pattern reflects our conservative reserving philosophy where positive development is slowly recognised as premiums are earned and experience begins to emerge.

6.2 Movements in insurance and reinsurance contracts

	$'000			$'000		
	Year ended 31 December 2019			Year ended 31 December 2018		
(I) Claims and loss adjustment expenses	Gross	Reins	Net	Gross	Reins	Net
As at 1 January	1,428,419	(1,210,394)	218,025	1,248,175	(1,053,400)	194,775
Claims paid/recoveries in the year	(274,723)	226,527	(48,196)	(189,913)	156,033	(33,880)
Change in liabilities/recoveries	393,097	(333,329)	59,768	399,707	(337,882)	61,825
Net foreign exchange differences	(4,198)	3,668	(530)	(29,550)	24,855	(4,695)
As at 31 December	1,542,595	(1,313,528)	229,067	1,428,419	(1,210,394)	218,025

	Year ended 31 December 2019			Year ended 31 December 2018		
(II) Unearned Premiums	Gross	Reins	Net	Gross	Reins	Net
As at 1 January	330,587	(275,420)	55,167	395,395	(325,640)	69,755
Premiums written in the year	542,388	(455,724)	86,664	456,688	(382,451)	74,237
Premiums earned in the year	(567,166)	474,886	(92,280)	(514,186)	426,698	(87,488)
Net foreign exchange differences	1,709	(1,428)	281	(7,310)	5,973	(1,337)
As at 31 December	307,518	(257,686)	49,832	330,587	(275,420)	55,167

BERKSHIRE HATHAWAY INTERNATIONAL INSURANCE LIMITED

NOTES TO THE ACCOUNTS
For the year ended 31 December 2019

7. Acquisition Costs and Other Operating Expenses

This note shows the analysis of costs incurred in acquiring and underwriting insurance contracts and the running costs of our business during the year. More material costs have been separated out in order to provide a more detailed insight into the Company's cost base.

	Year ended 31 December 2019			Year ended 31 December 2018		
	Acquisition costs	Other Operating Expenses	Total	Acquisition costs	Other Operating Expenses	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Salary, pension, social security and other related costs (Note 14)	21,643	3,869	25,512	22,102	2,205	24,307
Accommodation costs	-	3,079	3,079	-	1,647	1,647
Legal and professional charges	-	2,124	2,124	-	1,641	1,641
IT costs	-	1,202	1,202	-	1,250	1,250
Travel and entertaining	-	853	853	-	781	781
Third Party Administration Fees	7,782	-	4,745	3,969	-	3,969
Regulatory levies and charges	-	1,597	4,634		1,531	1,531
Other	-	1,656	1,656	-	1,395	1,395
Expenses before commissions	29,425	14,380	43,805	26,071	10,450	36,521
Commission on Direct Business (Gross)	73,899	-	73,899	63,127	-	63,127
Changes in deferred acquisition costs and other operating expenses on Direct Business (Gross)	2,062	-	2,062	19,295	-	19,295
Acquisition costs and other operating expenses on Direct Business	105,386	14,380	119,766	108,493	10,450	118,943
Reinsurance commissions and profit commission	(103,692)	-	(103,692)	(101,715)	-	(101,715)
Changes in deferred acquisition costs on Ceded Business	2,364	-	2,364	3,274	-	3,274
Net total acquisition costs and other operating expenses	4,058	14,380	18,438	10,052	10,450	20,502

NOTES TO THE ACCOUNTS
For the year ended 31 December 2019

8. Auditor's remuneration

	2019 $'000	2018 $'000
Fees for the audit of the accounts	195	185
Fees for the audit of the regulatory returns	97	77
Total	292	262

9. Taxation

The standard rate of current tax for the year is 19%. (2018: 19%)

	2019 $'000	2018 $'000
Profit / (Loss) on ordinary activities before tax	52,428	(771)
Tax on profit on ordinary activities at standard rate	9,961	(146)
Factors affecting tax charge:		
Capital allowances in excess of depreciation	(1)	(1)
Release of deferred tax	336	336
Additional UK tax on foreign dividends	(524)	(34)
Group Relief on Prior Years	6,227	(6,227)
Foreign tax paid on dividends	414	890
Disallowable Expenditure	76	(24)
Foreign Tax Received	(692)	-
Prior Year Refund due	1,783	
Total	14,014	(5,206)

The Company's Tax Strategy Statement is available at www.bhiil.com.

10. Deferred Tax

	2019 $'000	2018 $'000
At 1 January	954	1,290
Additions	-	-
Releases	(336)	(336)
At 31 December	618	954

Deferred tax assets are recognised to the extent that it is probable that the losses will be capable of being offset against taxable profits and gains in future periods.

Deferred tax liabilities have been provided in respect of the release of the equalisation reserve to the income statement during 2016.

Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the date of the statement of financial position and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

NOTES TO THE ACCOUNTS
For the year ended 31 December 2019

11. Investments in Other Financial Investments

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

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

(a) Level (i) – fair values measured using quoted prices (unadjusted) in active markets for identical assets. An active market exists where transactions take place with sufficient frequency and volume to provide pricing information on an on-going basis.

	Year to 31 December 2019			Year to 31 December 2018		
	Cost	Unrealised Gain/(loss)	Market Value	Cost	Unrealised Gain/(loss)	Market Value
	$'000	$'000	$'000	$'000	$'000	$'000
UK Treasury Gilts	26,269	(112)	26,157	0	0	0
US Treasury Notes	31,246	(177)	31,069	30,602	(332)	30,270
US Treasury Bills	344,651	494	345,145	436,954	987	437,941
Equities	119,134	8,566	127,700	119,134	(19,724)	99,410
Total	521,300	8,771	530,071	586,690	(19,069)	567,621

(b) Level (ii) – fair values measured using 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).

The Company has no Level (ii) investments.

(c) Level (iii) – inputs for the assets that are not based on observable market data (unobservable inputs).

	Year to 31 December 2019			Year to 31 December 2018		
	Cost	Unrealised Gain/(loss)	Market Value	Cost	Unrealised Gain/(loss)	Market Value
	$'000	$'000	$'000	$'000	$'000	$'000
Investment in Sub	130,148	0	130,148	0	0	0

The investment in subsidiary has been valued at cost. The Directors do not consider that there has been a permanent diminution in the value of the subsidiary during the year.

12. Called Up Share Capital

	2019	2018
	$'000	$'000
Authorised:		
281,716,169 ordinary shares of $1.537 each	432,998	432,998
	432,998	432,998
Called up, allotted and fully paid:		
281,716,169 ordinary shares of $1.537 each	432,998	432,998
	432,998	432,998

13. Capital Management

The objective of the Company in managing its capital is to ensure that it will be able to continue as a going concern and comply with the regulators' capital requirements of the markets in which the Company operates, while maximising the return to stakeholders through the optimisation of the debt and equity balance. The level of the surplus capital held by the Company is based on its risk appetite and provides flexibility, allowing the Company to deal with shock events and to take advantage of opportunities as they arise.

The capital structure of the Company consists of equity attributable to shareholders, comprising ordinary shares and retained earnings as disclosed above and in the Statement of Changes in Equity. Reinsurance is also used as part of capital management. Other capital such as subordinated debt, preference shares and borrowings are also considered by the Company but are not currently used.

The Company was in compliance with capital requirements imposed by regulators throughout the financial year.

The capital requirement of the Company is determined by its exposure to risk and the solvency criteria established by management and statutory regulations. The parent company intends to keep the Company's capitalisation at a level in excess of capital requirements under the Solvency II capital regime.

The Solvency II capital surplus is the amount of capital resources (referred to as Own funds) that the Company holds in excess of its capital requirement. The calculation of the capital resources and requirement is governed by the Solvency II regulatory regime. Under Solvency II, every insurer is required to identify its key risks – e.g. that equity markets fall – and hold sufficient capital to withstand adverse outcomes from those risks. The capital required to withstand these outcomes is the Solvency capital requirement (SCR). The SCR is calibrated so that the likelihood of a loss being greater than the SCR in one year is less than 1 in 200.

The table below sets out the Solvency II capital surplus position of the Company:

	2019	2018
	$'000 (Unaudited)	$'000 (Audited)
Own Funds	554,496	527,598
Solvency capital requirement	191,487	143,025
Solvency II capital surplus	363,009	384,573
Solvency Cover %	290%	369%

The Company fully complied with all externally imposed capital requirements throughout the financial year.

NOTES TO THE ACCOUNTS
For the year ended 31 December 2019

14. Related Party Transactions

(a) All related party transactions are carried out on arms-length commercial terms.

(i) Balances for services provided to and from related parties.
The Company had the following amounts due from and payable to the following related parties:

	2019		2018	
	Receivable at year end $'000	Payable at year end $'000	Receivable at year end $'000	Payable at year end $'000
Controlling category				
Parent – National Indemnity Company	-	21,737	1,157	-
Key management personnel and services				
Resolute Management Limited	-	1,273	-	1,458
Resolute Management Services Limited	-	-	-	49
Other related parties				
Berkshire Hathaway European Insurance DAC	872	-	-	-
Berkshire Hathaway Speciality Insurance	-	135	-	262
Berkshire Hathaway Homestate Insurance	-	12,108	-	14,626
GRF Services	155		127	
Total	1,027	35,253	1,284	16,395

The related parties' receivables are not secured and no guarantees were received in respect thereof. Receivables are expected to be recovered in less than one year and payables are expected to be settled in less than one year.

The Company has taken advantage under Section 33.1A, FRS 102, not to disclose transactional details as all related parties are members of a group that is wholly owned by one such member of that group.

(ii) Services provided by related parties

Reinsurance agreements are in place with the parent National Indemnity Company along with Columbia Insurance Company and Berkshire Hathaway Homestate Insurance Company. Resolute Management Ltd and Resolute Management Services Ltd provide key management, underwriting, claims and administrative services.

14. Related Party Transactions (continued)

(iii) Key management compensation

The key management of the Company are considered to be the statutory directors of the Company.

Key management - Directors' emoluments

	2019 $'000	2018 $'000
Emoluments recharged from another Group Company	2,561	1,421
Emoluments directly incurred	-	398
Total Emoluments	2,561	1,819

In total there were 8 directors during the year (2018: 8). The emoluments stated above are in respect of the services of four non-executive directors and three executive directors during the year. The other director did not receive any remuneration specifically for activity as a director of the Company, this cost was borne by another group company and not recharged. The Company did not make any contribution to any pension scheme and no director is entitled to any other benefits.

The emoluments of the highest paid director charged into the Company were $1,400,015 (2018: $398,165).

Other management and employee costs

The average number of employees of the Company during the year was 22 (2018: 22), the details are presented below. Generally, most services continue to be provided by other group companies and during the year an amount of $17,186,574 (2018: $15,412,858) has been charged to the Company for the provision of these services.

Total directly incurred staff costs, including those for Directors (2018 only), comprised the following:

	2019 $'000	2018 $'000
Wages and salaries	2,576	3,331
Social security costs	2,247	2,846
Pension Costs	529	365
Total directly incurred by the Company	5,352	6,542

(b) Parent companies

The Company's ultimate parent company, controlling party, company which heads the largest group of undertakings for which group accounts were drawn up and of which the Company was a member of, is Berkshire Hathaway Inc., a Company incorporated in the US state of Nebraska.

The Company's immediate parent undertaking which heads the smallest group of undertakings for which group accounts were drawn up and of which the Company was a member of, is National Indemnity Company, a company incorporated in the US state of Nebraska.

The consolidated financial statements of both of these companies are available to the public and may be obtained from 1440 Kiewit Plaza, Omaha, Nebraska 68131, USA.

NOTES TO THE ACCOUNTS
For the year ended 31 December 2019

15. Cash Flows Provided by Operating Activities

The reconciliation of the result before tax to the net cash inflow from operating activities is:

	2019 $'000	2018 $'000
Cash generated from operations		
Profit / (Loss) before tax	52,428	(771)
Adjusted for :		
Net unearned premiums	(5,616)	(13,250)
Net claims reserves, including expenses	11,571	27,946
Net unexpired risk reserve	349	923
Gross deferred acquisition costs	2,062	19,296
Realised & unrealised (gains) / losses on investments	(28,499)	18,571
Net foreign exchange losses	(613)	(1,756)
Insurance and other receivables	55,809	99,131
Insurance and other payables	(40,636)	(65,466)
Prepayments and accrued income	(116)	(5,261)
Reinsurance element of DAC	(1,403)	(15,607)
Provisions	(1,493)	3,224
Dividends received	(2,760)	(5,023)
Investment Income received	(8,966)	(1,791)
Cash flow provided by operating activities	32,117	60,166

The restricted cash flows of the Company are disclosed in note 16.

16. Guarantees and Financial Commitments

The Company had a co-ordinating role for a defined contribution pension plan, the Resolute Pension Plan, and has indemnified the Trustees to the extent that no Trustee shall (as a Trustee for the Plan or in the exercise of any rights or powers under the Plan Rules) incur any personal liability except in respect of fraud or wilful and knowing breach of trust actually committed by the Trustee. No provision is considered necessary in the Company's accounts for any amounts due or potentially due under this indemnity.

During the year the Company provided indemnities to the Non-Executive Directors for their activities with the Company. Indemnities were also provided on a similar basis to the Executive Directors and to a number of Executive Directors of related Companies. These indemnities are intended to indemnify the indemnitees in the event of proceedings being brought against the individuals where the individual has reasonably believed they have acted in the best interests of the relevant related Company and have acted consistently within the related Company's rules, instructions and guidelines. These indemnities remained in place at the date of the approval of this report. No provision is considered necessary in the Company's accounts for any amounts due, or potentially due, under these indemnities.

Except as noted above, the Company has no charges, potential capital gains tax liabilities, contingent liabilities, guarantees, indemnities or other contractual commitments, or other fundamental uncertainties to report.

In order for the Company to transact business in the United States of America, the Company holds restricted investments of US$31.069m (2018: US$30.270m). To transact business in Switzerland, the Company holds restricted investments of US$4.279m and CHF3.702m (2018: US$3.234m and CHF2.750m). The Company has no other restricted investments.

NOTES TO THE ACCOUNTS
For the year ended 31 December 2019

17. Subsequent Events

On January 15 2019, the Company was selected as the preferred bidder by the liquidator of Faro Assicurazioni where the Company will assume assets and liabilities of approximately €400m and be responsible for the orderly run-off of the bankruptcy estate. The Company has obtained agreement from its direct parent company to reinsure in principle a majority of the exposure to this contract, though the final terms are still to be determined. The next steps will involve regulatory approval from IVASS, the Italian Insurance regulator, and subsequently for final approval by the bankruptcy judge. After a legal challenge from other parties to the tender, which were ultimately unsuccessful, the Directors have revised their anticipated approval from IVASS to be in the third quarter of 2020. The Court process and approval by the bankruptcy judge is now anticipated to be completed by the first half of 2021.

The Company has concluded that the Italian Medical Malpractice business will be best served by third country regulated branch and the intention is to obtain the necessary approvals by the end of 2020.

It continues to be the view of the Directors that the UK and London Market will remain a significant insurance and reinsurance market for the foreseeable future and that the reduction of business volumes will have limited impact on the UK based operations, as though European business, excluding the Italian operation, accounted for approximately 36% of the Company's revenue, with approximately 13% under Freedom of Establishment and 23% under Freedom of Services, it is currently unclear to what degree that Freedom of Services business will migrate to the new subsidiary as this will be dependent on market access in the UK and the future broking of these risks. The Company is also anticipating significant growth in the UK operation primarily in the BHSI and Faraday divisions which will off-set these transfers.

The ability of the Company to continue servicing existing European Policyholders in the event it loses its Passporting permissions is a matter of interpretation of national regulations and any trade agreement negotiated between the UK and Europe. In general the current position of European regulators is that they are indicating their expectation that existing policies (though not new policies) can be serviced to expiry or for agreed periods even in the event of a 'Hard' Brexit. The Company has commenced a transfer process under Part VII of the Financial Services and Markets Act 2000 and continues to monitor the political and regulatory environment.

In addition to regulatory change, the Directors are aware that a 'Hard' Brexit also has potential to increase volatility in the markets with the sudden devaluation of Sterling being a potential market response.

The Director's consider the current investment policy and matching of liabilities and assets in currency to put the Company on a sound basis to deal with any market volatility.

Covid-19

Subsequent to the year end, the Covid-19 pandemic has occurred. The Company's Business Continuity Plan has been successfully implemented and the Board updated. Effectively, all personnel are now operating on a Working From Home basis with all key processes fully-tested and operational. Further, all key outsource and service providers have confirmed their ongoing capability.

The Board have assessed the various risks, including underwriting, reserving, operational and market which have been increased by the pandemic, and are confident that the business is sufficiently robust to withstand all impacts.

Currently the largest impact has been on the Capital Surplus portfolio that is invested in listed US securities. As of 11th May 2020 the portfolio had fallen from a year end valuation of $127.7m to $86.5m.
The Company continues to ensure it has adequate resources to service existing and future projected business and to maintain adequate regulatory surplus capital.