BERKSHIRE HATHAWAY INTERNATIONAL INSURANCE LIMITED

Company Registration No. 03230337

Report and Financial Statements

31 December 2021

BERKSHIRE HATHAWAY INTERNATIONAL INSURANCE LIMITED

REPORT AND FINANCIAL STATEMENTS
For the year ended 31 DECEMBER 2021

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BERKSHIRE HATHAWAY INTERNATIONAL INSURANCE LIMITED
COMPANY REGISTRATION NUMBER: 03230337

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

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Mr A D'Arcy (Non – Executive)
Mr G E Finney
Mr R A Love
Mr S Michael (Non – Executive)
Mr J F Powell (Independent Non – Executive)
Mr P Whittaker (Independent Non – Executive)
Ms Barbara Merry (Independent Non-Executive)

SECRETARY

Ms J Howie

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DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year to 31 December 2021. 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 1 January 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, which is in run-off.

DIVIDENDS

The directors do not recommend the payment of a dividend (2020: 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 17 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 $126.80m (2020: $88.6m).

The Insurance Portfolio represents assets, to support underwriting, that are for the benefit of policyholders and focuses 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 reward, to support a solvency margin of at least 150% of the Solvency Capital Requirement (SCR). The investment strategy of the Insurance Portfolio is therefore conservative and the 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, UK and German Government Bonds.

The Company also places short term deposits with its Bankers with durations of 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.

The Company is required to include Streamlined Energy and Carbon Reporting for the year ended 31 December 2021. This has been included within the Strategic Report, as is Future Developments, Employee Engagement, Post Balance Sheet Events, Engagement with Suppliers and Others and Corporate Governance Arrangements.

EQUAL OPPORTUNITY POLICY

The Directors believe that all persons are entitled to equal employment opportunities and we do not discriminate because of race, colour, religion, national origin, ancestry, citizenship status, age, gender (including pregnancy, childbirth and related medical conditions), gender identity or gender expression (including transgender status), sexual orientation, marital status, military service and veteran status, physical or mental disability, protected medical condition as defined by applicable state or local law, genetic information, or any other characteristic protected by applicable law. In addition, we will provide reasonable accommodation to any qualified applicant or employee with a disability. Equal employment opportunities specifically means the continued employment and provision of learning and development opportunities consistent with that provided to all employees.

AUDITORS

Each person who was a Director from 1 January 2021 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
6 May 2022

BERKSHIRE HATHAWAY INTERNATIONAL INSURANCE LIMITED
COMPANY REGISTRATION NUMBER: 03230337

STRATEGIC REPORT

REVIEW OF BUSINESS

During the year the Company continued to operate under four distinct divisions to allow the development of multiple brand offerings being Berkshire Hathaway Speciality Insurance (BHSI), Berkshire Hathaway Reinsurance Group (BHRG), Faraday and MedPro.

As previously reported last year the Company established a wholly owned subsidiary in Ireland, Berkshire Hathaway European Insurance Designated Activity Company (BHEI) to support EU business post Brexit. Thereafter, significant European business migrated to BHEI and this process accelerated with the establishment by BHEI of a Branch in the UK. During the year discussions were entered into with the sole shareholder, National Indemnity Company (NICO) on how the capital requirements of a growing BHEI could be provided. In conclusion, the Company and NICO agreed a sale of BHEI to NICO on an arm's length basis. In December 2021 the sale of BHEI was completed and the Company has recognised a $0.745m gain on disposal.

<u>BHSI Division</u>
This division writes Casualty, Property, Executive & Professional, Marine and Healthcare Lines under the BHSI 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.

<u>BHRG Division</u>
This division maintained its UK Commercial motor business in the year through two strategic Managing General Agency agreements and its 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 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.

<u>Faraday Division</u>
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 exited the underwriting of UK commercial motor and UK personal lines motor MGAs during the year, but continues to underwrite 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 and associated coverage for the full spectrum of healthcare customers. MedPro expanded its product offering, from its historic healthcare practitioner offering, to include hospitals and other healthcare institutions during 2021. The division currently has two MGA arrangements in place operating in the UK and Switzerland. The UK MGA, comprising Harley Street Insurance Group Limited and Premium Medical Protection Limited, was purchased by a Group Company, SLI Holdings Limited, in January 2018.

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

As shown in the Company's statement of comprehensive income on page 22, the Company's gross premiums written have decreased from $755.098m to $611.243m largely as a result of European business migrating to BHEI.

The Company's general business technical account result is a loss of $4.534m, compared to a loss of $13.008m for the previous year. Investment gains and exchange losses resulted in the Company reporting a profit before tax of $36.349m, compared to a loss before tax of $35.860m for the previous year.

The Company's investment income improved in the year as equity holdings in the Capital Surplus Portfolio performed well reversing losses reported in the prior year and improved yields on US and Sterling Government Bonds also made a small contribution to the improved investment performance. Additionally the Company recognised a realised gain on its investment in its subsidiary of $0.745 on the disposal of BHEI.

Reported exchange gains in the year of $1,606m compared to losses of $3.424m in the previous year.

The Company reported a tax charge of $1,911m as disclosed in Note 9 of these accounts. This is net of a refund of $4,655m tax in respect of prior years.

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 arrangements continue to satisfy the requirement of the Company to manage its exposure to NICO, under the current regulatory regime. The Company also operates a similar Trust Fund Agreement with a fellow group company, Berkshire Hathaway Homestate Company (BHHC), which is also disclosed under Note 4.2.1.

Berkshire Hathaway Inc. also manages its insurance operations on a divisional basis. For this reason and due to the immateriality 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 Insurance operations, which includes this 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.

STRATEGIC REPORT (continued)

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.

The Company has appointed a Climate Change Officer who has responsibility for implementing actions from the climate change readiness plan based on PRA supervisory statement SS3/19. The main exposure for the Company is to natural catastrophes and the Company's monitoring of exposure aggregations is continuously developing and being enhanced, in line with the growth of the business, to allow the Board to consider the potential impacts of climate change. In 2021, the focus was to improve data quality capture from all divisions including MGAs, as well as updating and enhancement of flood modelling. Development work will continue into 2022 with an emphasis on climate change impacted perils.

Cyber risk is increasing for the Company in both respect of its own operations and the insurance risk associated with the provision of insurance products, which provide cover in respect of losses, which can be attributed to a cyber-event. The Company undertook a significant enhancement to the security of its systems in the year and addressed the findings of an independent penetration test, which was commissioned to better understand the vulnerabilities of the Company's IT infrastructure. The Company continues to actively monitor and assess its exposure to insurance losses attributable to cyber events and has enhanced its understanding of the capital required to support these exposures.

The Insurance industry operates in an increasingly complex and interconnected environment, facilitating the provision of services locally and internationally. Firms rely on outsourced service providers, as does the Company, to support their operations. Financial services firms have experienced challenges from various disruptive events including technology failures, cyber incidents, the COVID-19 pandemic and natural disasters. However, recognising that not all potential hazards can be prevented, the Company's ability to respond to and recover from such events is a measure of the Company's operational resilience to provide an appropriate degree of protection for those who are or may become the firm's policyholders. During the last two years of COVID-19 impacted working practices, the Company has continued to provide policyholders with the level of service they should expect either directly or through service providers. However, the Board continues to look at ways in which the operational resilience of the Company can be enhanced with a focus around the management of third party suppliers.

GOING CONCERN

The financial position of the Company continues to be strong and though cash flows are expected to be positive in 2023 the Company maintains substantial highly liquid assets to meet unexpected cash outflows as they fall due.

Having taken into account the risks and uncertainties and the performance of the business and after making enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. In making this assessment, the directors have considered the actuarial valuation and solvency reporting made to the Board on a regular basis, including the Own Risk and Solvency Assessment (ORSA). The ORSA requires the Company to consider the risks arising from the agreed strategic priorities, how much capital is needed to protect the business against those risks over the three year business planning period in the context of the agreed risk appetite, and how resilient the Company's business model is under stressed conditions. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

STRATEGIC REPORT (continued)

CORPORATE GOVERNANCE STATEMENT

The Company is firmly committed to high standards of corporate governance and maintaining a sound framework for the control and management of the business. The Board recognises that effective governance is key to the implementation of strategy for our shareholder and wider stakeholders.

The Company has adopted the Wates Corporate Governance Principles for Large Private Companies ('Wates Principles') published by the Financial Reporting Council ('FRC'). As a regulated Public Interest Entity (PIE) the Company has also continued to comply with regulatory requirements including the European Insurance and Occupational Pensions Authority (EIOPA) Guidelines on System of Governance.

Each of the six Wates Principles has been carefully considered and a statement on how they have been applied is set out below.

Purpose and Leadership: *An effective board develops and promotes the purpose of a company, and ensures that its values, strategy and culture align with that purpose.*

The Board is responsible for leading and controlling the Company and has overall authority for the management and conduct of the Company's business, strategy and development. The Board is also responsible for ensuring the maintenance of a sound system of internal control and risk management (including financial, operational and compliance controls, and for reviewing the overall effectiveness of systems in place), and for the approval of any changes to the capital, corporate and management structure of the Company. The Board is well placed to help formulate strategy, challenge constructively and make a valuable contribution to achieving the Company's objectives.

Board Composition: *Effective board composition requires an effective chair and a balance of skills, backgrounds, experience and knowledge, with individual directors having sufficient capacity to make a valuable contribution. The size of a board should be guided by the scale and complexity of the company*

The Company has a separate Chair, who is an independent Non executive, and Chief Executive to ensure that the balance of responsibilities, accountabilities and decision making across the Company is effectively maintained.

The Board comprises a Chair, two Independent Non-Executive Directors, two Group Non-Executive Directors and three Executive Directors. The size and composition of the Board is appropriate to the size, nature and complexity of the business.

Directors Responsibilities: *The Board and individual Directors should have a clear understanding of their accountability and responsibilities. The Board's policies and procedures should support effective decision-making and independent challenge.*

Each Board member has a clear understanding of their accountability and responsibilities. There is an induction programme for all new Directors which is tailored to their specific experience and knowledge and which provides access to all parts of the business.

The Board holds regular scheduled meetings throughout the year, as well as ad hoc meetings when required. There is open debate and constructive challenge at meetings, with Board members demonstrating good engagement with the business and a sound understanding of the Company's strategy and associated risks and challenges.

The Board assesses its effectiveness and composition through an annual evaluation exercise. The Board also continues to set direction and ensure appropriate resources were in place through the annual planning and three year ORSA.

STRATEGIC REPORT (continued)

Corporate Governance Statement (continued)

Opportunity and Risk: *A board should promote the long-term sustainable success of the company by identifying opportunities to create and preserve value, and establishing oversight for the identification and mitigation of risks.*

Central to the management of Opportunity and Risk is the effective operation of the Risk Committee which is chaired by an Independent Non-Executive Director. This committee continued to assess all material new business opportunities and the risks associated with the Company's objectives as well as monitoring the Company's risk management framework.

Remuneration: *A board should promote executive remuneration structures aligned to the long-term sustainable success of a company, taking into account pay and conditions elsewhere in the company.*

Remuneration policy oversight is performed by the Nominations and Remuneration Committee which is chaired by the Chair of the Board and ensures executive remuneration structures are aligned to the long-term sustainable success of the Company.

Stakeholder Relationships and Engagement: *Directors should foster effective stakeholder relationships aligned to the company's purpose. The board is responsible for overseeing meaningful engagement with stakeholders, including the workforce, and having regard to their views when taking decisions.*

The Board has strong relationships with its sole shareholder. In addition, the Board has actively sought Stakeholder Relationships and Engagement and has promoted the development of cultural awareness in the Company and communication to staff of the Company's strong ethical and behavioural standards that are expected. During a very difficult year for the Company's work force the Board has focused on staff welfare and the safety of our employees has been an overriding consideration in how the Company operates and how employees can be supported. Additionally the Board supervised premium relief measures offered to policyholders adversely impacted by Covid-19 specifically in the Medical Malpractice, Aviation and Accident and Health segments of Company's activities.

Additional information on the Company's governance structure is contained in the Solvency and Financial Conditions Report (SFCR) published annually and available at www.Bhiil.com.

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 the Wates Corporate Governance Principles have acted in accordance with these responsibilities. 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, its 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;

STRATEGIC REPORT (continued)
S172 Statement (continued)

- 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 be 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;

- 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.

Decision-making and Section 172

The success of the Company depends on its ability to engage effectively with its stakeholders and take their views into account. Section 172 of the Companies Act 2006 requires directors, in making their decisions and choices, to have regard to a non-exhaustive list of factors to ensure that, in promoting the success of the Company for the benefit of its shareholders, broader implications of decisions are considered.

Information on the issues, factors and stakeholders taken into account by the Board when complying with the provisions of section 172 of the Companies Act 2006, the methods used to engage with stakeholders, and the effect of this engagement on the Board's decision-making during 2021 are detailed above.

The following principal decisions and activities demonstrate how the Board has assessed and addressed different stakeholder interests and impacts in making decisions that support the implementation of the Company's strategy.

Decisions in response to Covid-19

The Company's response to the Covid-19 pandemic has formed a critical part of the Board's decision-making in 2021.

STRATEGIC REPORT (continued)

Decisions relating to our employees

The Board remained committed to protecting the health, safety and well-being of our employees. However, the Board also understands that the needs of our customers are best met by a workforce that is easily accessible, and that the requirements of our regulators cannot always be met outside of the office environment. Taking into account these competing priorities, the Board endorsed the actions and precautions taken by management to support our employees and facilitate working from home wherever possible in accordance with government guidelines. At the same time, the Board actively monitored the increased operational risk and responses to challenges such as ensuring a robust IT infrastructure. The Board commissioned a review of corporate risk culture in 2021 and the results were very positive. However, financial and non-financial benefits and diversity and inclusion initiatives didn't score as well and will be a focus in 2022.

Decisions relating to our customers

During the year, various relief measures were implemented by the Company in response to the pandemic such as premium deferrals, premium rebates and the development of consumer rate relief implementation plans for underwriters to deploy on a case-by-case basis.

FUTURE DEVELOPMENTS

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 exposures attaching 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 initially revised their anticipated completion date to the first half of 2021. In the course of 2020 there were additional delays in the regulatory process and completion is now expected to be in the second half of 2022.

The Company concluded that the Italian Medical Malpractice business would be best served by a third country regulated branch and the necessary approvals were obtained by the middle of 2021 as anticipated in last year's Strategic Report.

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. In 2020 the Company noted that many risks presented in London continue to co-mingle European, UK and rest of the world risks. In response to this BHEI established a UK Branch in London which had the necessary regulatory approvals to service these risks. With the ending of the Transition phase of Brexit the Company saw significant amounts of business that would have been written by the Company being more appropriately served by the UK Branch of BHEI based in London. Though a reduction of business volumes for the Company, this had a limited impact on the UK based operations as resources and costs were re-distributed to the BHEI UK Branch The Company anticipates growth in the remaining UK operation, primarily in the BHSI division, which will mitigate these transfers in the next couple of years.

As reported last year it remains unclear the exact relationship between the UK and EU in respect of insurance contracts and the local legislation that will be enacted in EEA States in respect of the run-off of historic claims after Brexit. In response to this uncertainty the Company and BHEI entered into a contingency policy executed by Deed Poll which extended the rights of the Company's European policyholders so that in the event the Company is unable to settle valid claims due to regulatory intervention or prohibition the policyholder can bring their claim contingent on this condition being met on BHEI. The policy also gives BHEI the full right of contribution from the Company in the event a successful claim is made by a Company policyholder against the contingency policy and for reimbursement of expenses associated with handling the claim.

STRATEGIC REPORT (continued)
FUTURE DEVELOPMENTS (continued)

The respective home regulators of the Company and BHEI, being the PRA, FCA and CBI respectively, have been fully advised of the purpose and workings of the contingency policy and have all indicated no objection to the utilization of the policy as described. The premium paid reflected the credit risk assumed by BHEI with a commercial risk margin. The contingency policy is designed to mitigate the need for BHIIL to enter into a Part VII transfer of liabilities. The current estimated value of contributions that will be made under the contingency policy is USD39m as disclosed in Note 6.3 to the accounts. The contingency policy has not been triggered to date.

War in Ukraine

Since the Russian invasion of Ukraine on 24th February 2022 the Company has been actively assessing its potential exposure to insurance losses as a result of the conflict. The Company is also monitoring the rapidly changing sanctions regimes of the US, the EU and the UK to ensure our processes and controls maintain compliance.

The Company provides very limited war coverage but is potentially exposed to secondary effects through the policies it writes. The main areas of focus have been the aviation, marine, directors and officers and cyber portfolios. Management's current assessment is that the Company's exposure, net of reinsurance, and the changes in the sanctions regime are manageable and do not significantly impact the Company's ability to continue as a going concern.

In respect of the enhanced risk of cyber-attacks on the Company's IT infrastructure the Company continues to take advice from our external cyber risk monitoring supplier to ensure we have effective threat monitoring and practices and processes to manage this risk.

Post Balance Sheet and Subsequent events are reported under Note 18 to the accounts.

The Company is not aware of any further other events which materially impact the financial information disclosed.

STRATEGIC REPORT (continued)

Streamlined Energy and Carbon Reporting

BHIIL's energy consumption and greenhouse gas (GHG) emissions during 2021 were as follows, shown in kilowatt hours (kWh) and kilograms of carbon dioxide equivalent (kgCO2e). All of the emissions are assumed to pertain to BHIIL.

	kWh	kgCO2e
Electricity	118,491	25,159
Natural gas	-	-
Transport fuel (excluding air travel)	-	-
GHG emissions total	118,491	25,159
Intensity (kgCO2e / full time equivalent employees (FTE))		259

Electricity consumption is based on actual usage and allocated based on the number of FTEs in each office location. No gas is consumed by BHIIL.

BHIIL does not directly own or control any vehicles. Employees use of own private vehicles is negligible and is not recorded.

GHG emissions are calculated using the following conversion factors, as issued by the UK Government for reporting in 2021:

Electricity 0.21233

The directors believe GHG emissions per FTE is an appropriate intensity metric for the company, as this will provide a steadier ratio over time than using turnover or profit. The FTE used for the 2021 calculation was 97.

The Company is continually looking for ways to reduce its impact on the environment, such as reducing paper usage from printing and customer communications, and using eco-friendly cleaning products and recycling.

Covid-19 has had a significant impact on the way the business operates, in particular where employees are now working from home. Although this may, in some cases, increase energy consumption at home, it has led to a number of environmental benefits for the Company.

STRATEGIC REPORT (continued)

Covid-19

During 2021 the Covid-19 pandemic continued to have an impact on the way in which the Company operated. The Company's Business Continuity Plan was successfully implemented and the Board updated. The Company continues to follow Government advice in the various jurisdictions it operates in and personnel are now generally returning to the office environment with an element of working from home. All key processes are fully-tested and operational. Further, all key outsource and service providers have confirmed their ongoing capability. The Company's operations have stood up well in the pandemic and there has been little impact on the ability of the business to trade and operate.

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.

As reported last year as of 6 May 2022 the largest impact was on the Capital Surplus portfolio that is invested in listed US securities. Though the Company disposed of one of the three strategic holdings in the summer of 2020 the remaining securities have largely recovered to valuation levels pre-pandemic.

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
6 May 2022

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
6 May 2022

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

Report on the audit of the financial statements

1. 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 2021 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 Financial Reporting Standard 103 "Insurance Contracts"; 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 18.

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) and Financial Reporting Standard 103 "Insurance Contracts".

2. 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 we have not provided any non audit services prohibited by the FRC's Ethical Standard to the company..

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

3. Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: • Valuation of net Incurred But Not Reported ("IBNR") insurance contract liabilities in respect of significant classes of business; and • Revenue Recognition: valuation of pipeline premium for the BHSI UK business. 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 $15.5 million which was determined on the basis of net assets.
Scoping	Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.

4. Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.
Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included:

- evaluating management's stress and scenario testing and challenging management's key assumptions. With involvement of internal actuarial specialists, we assessed the governance over, and the production of, solvency monitoring information, and considered its consistency with other available information and our understanding of the business;
- assessing the actions that came out of the various governance committee meetings in advance of signing the financial statements;
- evaluating management's assessment of the risks across the company through specific reference to the Own Risk and Solvency ("ORSA"), including: solvency risk, liquidity risk, and operational matters;
- assessing the mitigating actions management have put in place, and further plans they have if required, in anticipation of any further deterioration of the wider UK and Global economy as a result of COVID-19, climate change and the emerging conflict between Russia and Ukraine; and
- assessing the going concern disclosures made by management in the financial statements, based on our knowledge gained throughout the audit.

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

5. 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.

5.1. Valuation of net IBNR insurance contract liabilities in respect of significant classes of business

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 depends on inputs, methodology and assumptions used by management in establishing the reserves. Judgements are 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, in the current year we have targeted the key audit matter to the net IBNR insurance contract liabilities arising from the Italian Medical Malpractice, US Casualty and BHSI UK Executive and Professional ("E&P") lines of business. Provisions for insurance contract liabilities in respect of US Casualty and BHSI UK E&P lines of business is a new area of focus for this key audit matter given the share they now hold within the company's insurance portfolio and the underlying judgements involved in determining them. There is inherent judgement in the applied loss-ratios which drive those reserves. The total net IBNR is disclosed in Note 6 to the financial statements as \$189m (2020: \$164m). The directors disclose the uncertainties in relation to insurance contract liabilities on page 5 and 6 in the Strategic Report and page 30 in Note 3.2, Critical Judgements and Key Sources of Estimation Uncertainty.
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 assessed the appropriateness of the key inputs, methodology and assumptions used by management in establishing the reserves. In doing so, we have involved our own internal actuarial specialists to challenge the reserving process and methodology adopted by management by assessing the loss ratios set on different classes and evaluating actual versus estimate analyses performed by management. We have performed substantive testing on the valuation of case reserves, and other data inputs including premiums and claims paid, and we have compared the level of reserves set to that documented in independent evidence. **We performed a 'stand back' assessment to consider all the evidence received from audit procedures performed and conclude if there is any evidence of overall management bias.**

Key observations	As a result of the procedures performed, we consider the resulting provisions calculated by management to be reasonable.

5.2. Revenue Recognition: Valuation of pipeline 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. There is a degree of estimation in pipeline revenue recognised. The primary source of revenue is gross written premiums. BHSI UK, which underwrites property and casualty risks, had premiums which accounted for \$211m, 44% of the total gross written premiums balance (2020: \$327m and 45% of total gross written premium). This is net of a \$52m closing pipeline movement (2020: \$62m). 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 valuation 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 31 in Note 3.3 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 the procedures performed, we consider that the valuation of pipeline premium in relation to the BHSI UK business is reasonable.

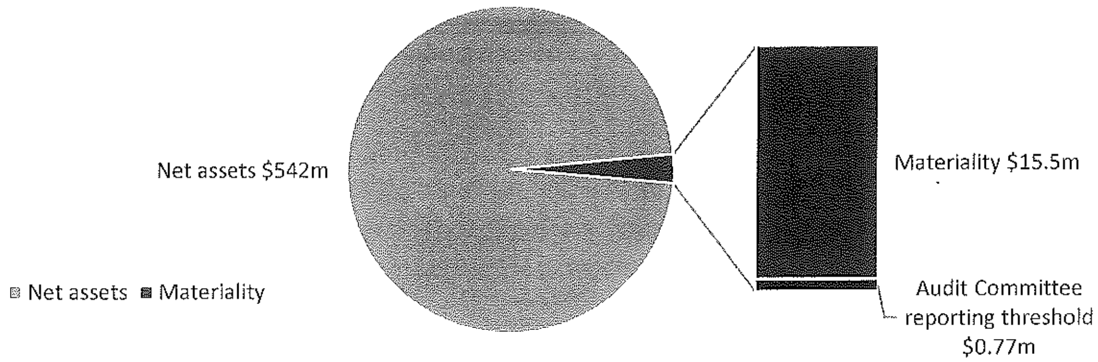
6. Our application of materiality

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	\$15.5 million (2020: \$ 13.8 million)
Basis for determining materiality	The basis of materiality is 3% of net assets (2020: 2.8% of net assets). Materiality is capped to reflect the allocation of component materiality for the purpose of the Berkshire Hathaway International Insurance Limited group Solvency and Financial Condition Report (SFCR) audit.
Rationale for the benchmark applied	Shareholders' equity of \$542m 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 2021 audit (2020: 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 $774,500 (2020: $736,000), 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.

7. 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.

8. Other information

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

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.

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 course of 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 this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

9. 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.

10. 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.
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.

11. Extent to which the audit was considered capable of detecting irregularities, including fraud

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

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 net IBNR insurance contract liabilities in respect of significant classes of business and the valuation of pipeline premium for the BHSI UK business. 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 revenue recognition valuation of pipeline premium for BHSI UK 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.

12. 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.

13. 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.

14. Other matters which we are required to address

Auditor tenure

Following the recommendation of the Audit Committee, we were appointed by the Board of Directors in 1997 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 25 years, covering the years ending 31 December 1997 to 31 December 2021.

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).

15. 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 FCA (Senior statutory auditor)
for and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
6 May 2022

BERKSHIRE HATHAWAY INTERNATIONAL INSURANCE LIMITED
COMPANY REGISTRATION NUMBER: 03230337

STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2021

	Notes	2021 $'000	2020 $'000
Technical Account			
Gross premiums written	5	611,243	755,098
Less: premiums ceded to reinsurers		(510,583)	(636,682)
Premiums written, net of reinsurance		100,660	118,416
Gross amount of change in provision for unearned premiums		44,977	(147,197)
Reinsurers' share of change in provision for unearned premiums		(40,927)	126,516
Net change in provision for unearned premiums		4,050	(20,681)
Net Earned premiums, net of reinsurance		**104,710**	**97,735**
Claims paid:			
Gross amount		(227,636)	(239,638)
Reinsurers share		187,433	195,480
Claims paid, net of reinsurance		(40,203)	(44,158)
Change in the provision for claims:			
Gross amount		(373,072)	(183,951)
Reinsurers' share		319,163	138,298
Net change in the provision for claims		(53,909)	(45,653)
Claims incurred, net of reinsurance		**(94,112)**	**(89,811)**
Net change in unexpired risk reserve		**3,625**	**(927)**
Acquisition costs		(4,126)	(5,464)
Other operating costs		(14,631)	(14,541)
Total acquisition and other expenses	**5,7**	**(18,757)**	**(20,005)**
Total Technical account losses		**(4,534)**	**(13,008)**
Non-Technical Account			
Investment return		5,506	4,229
Realised gains/(losses) on Investments		(1,435)	(945)
Unrealised gains/(losses) on Investments		35,950	(17,179)
Movement on Impairment on Investment in Subsidiary		-	(5,533)
Realised gain on Investment in Subsidiary		745	-
Net foreign exchange profit / (loss)		117	(3,424)
Total Non-Technical account (loss) / profit		**40,883**	**(22,852)**
Profit / (Loss) on ordinary activities before tax		36,349	(35,860)
Tax on (profit) / loss	9	(1,911)	(1,223)
Profit / (Loss) for the year		**34,438**	**(37,083)**

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

STATEMENT OF FINANCIAL POSITION
As at 31 December 2021

	Notes	2021 $'000	2020 $'000
Assets			
Investments			
- Investments in group undertakings	12	-	148,066
- Other financial investments	11	760,423	543,354
Reinsurance contracts			
- Unearned premiums on premiums ceded	6	344,627	392,868
- Reinsurers' share of claims reserves	6	1,781,679	1,518,620
- Reinsurers' share of unexpired risk reserve		43,491	46,302
Insurance and other receivables		265,795	331,663
Current taxation		991	754
Cash at bank		218,083	243,445
Deferred acquisition costs		73,283	72,529
Prepayments and accrued income		2,311	8,524
Total Assets		**3,490,683**	**3,306,125**
Liabilities and Equity			
Liabilities			
Insurance contracts			
- Unearned premiums	6	411,772	465,167
- Losses and loss adjustment expenses	6	2,112,283	1,805,648
- Unexpired risk reserve		71,633	78,437
Insurance and other payables		274,809	371,827
Current and deferred taxation	10	-	-
Reinsurers' share of deferred acquisition costs		62,454	62,558
Accruals		6,933	6,127
Total Liabilities		**2,939,884**	**2,789,764**
Equity			
Called up share capital	13	432,998	432,998
Retained earnings		117,801	83,363
Total Equity		**550,799**	**516,361**
Total Liabilities and Equity		**3,490,683**	**3,306,125**

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
6 May 2022

STATEMENT OF CASH FLOWS
For the year ended 31 December 2021

	Notes	2021 $'000	2020 $'000
Cash generated from operating activities			
Cash flows from operating activities	16	8,597	89,811
Tax refunded/(paid)		773	(9,366)
Dividends received		2,443	2,631
Investment Income received		2,999	1,448
Net cash inflows/(outflows) from operating activities		**14,812**	**84,524**
Cash flows from investing activities			
Disposals / (Acquisitions) of subsidiary		148,811	(23,451)
Purchase of Investments		(930,026)	(1,488,673)
Sale of Investments		747,350	1,455,800
Net cash inflows/(outflows) from investing activities		**(33,865)**	**(56,324)**
Net increase/(decrease) in cash at bank		**(19,053)**	**28,200**
Cash at bank at beginning of year		243,445	205,826
Effect of exchange rate fluctuations on cash at bank		(6,308)	9,419
Cash at bank at the end of the year		**218,083**	**243,445**

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

BERKSHIRE HATHAWAY INTERNATIONAL INSURANCE LIMITED
COMPANY REGISTRATION NUMBER: 03230337

STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2021

	Called up share capital $'000	Retained earnings $'000	Total equity $'000
At 1 January 2020	432,998	120,446	553,444
Total Comprehensive Income and Retained Loss for the year	-	(37,083)	(37,083)
At 31 December 2020	432,998	83,363	516,361
At 1 January 2021	432,998	83,363	516,361
Total Comprehensive Income and Retained Profit for the year	-	34,438	34,438
At 31 December 2021	432,998	117,801	550,799

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

NOTES TO THE ACCOUNTS
For the year ended 31 December 2021

1. General information

Berkshire Hathaway International Insurance Limited is a private limited liability company, limited by shares, 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 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, contributions from other insurers 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, contributions from other insurers 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 at bank

Cash at bank 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. Accounting Policies and Basis of Preparation (continued)

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.

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. There are key sources of estimation uncertainty outlined below but there are no accounting judgements that have a significant effect on amounts recognised in the financial statements.

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;

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

- 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 $2,112.3m (2020: $1,805.6m) as set out in Note 6 to the accounts. The amount of reinsurance recoveries estimated at that date is $1,781.7m (2020: $1,518.6m).

3.3 Pipeline premiums

Written premiums include pipeline premiums of $182.1m (2020: $205.6m) which represent future premiums receivable in respect of in-force insurance contracts. Pipeline premium estimates are typically based on the key assumption that historical development of premiums is representative of future development.

3.4 Impairment of investment in subsidiary

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.

BHIIL valued its investment in its subsidiary, Berkshire Hathaway European Insurance DAC, at cost less provision for impairment. As at 31 December 2020 the Company made an accounting judgement that there was evidence that the value of the investment should be impaired. This impairment was based on the Solvency II valuation, as an approximation of the fair value less costs to sell, of BHEI at 31 December 2020 (being the fair value of BHEI as at 31 December 2020) compared to the cost of the investment. The impairment loss was recognised through the 2020 statement of comprehensive income.

As at 15 December 2021, the Investment in BHEI was disposed of such that the Company recognised a realised gain during the year on its investment in its subsidiary of $0.745M. Accordingly, the prior year impairment had been recovered during 2021.The realised gain was a recognition that the Euro holding value of the investment in BHEI had reduced in value when reported in USD, the functional currency of the company.

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.

4. Risk Management (continued)

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.

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 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)
The competitive landscape remains challenging with significant rate reductions having been observed in many regions in the last two years, lower volume are planned to maintain profitability levels. 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 the underwriter and actuary for pricing discipline, and regular review is in place with a view to maintaining profitability.

4. Risk Management (continued)

4.1 Insurance Risk (continued)

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. BHIIL also fronts for other third party insurers who cannot participate directly for various reasons. The Company expects modest rate increases within select number of accounts, however, rates in general aviation are expected to move towards flat as this segment moves to overcapacity. GAUM employ specialist underwriters to negotiate risks and set rates. GAUM fronting is fully reinsured with NICO.

Specialty
BHRG will also enter lines of business or take on risks in areas of the market which is constrained by capital or where market inefficiencies exist. These are one off opportunistic risk therefore are high risk and higher reward with low internal expenses.

<u>Medpro Division</u>
Medical Malpractice market facilities
The MedPro Division has appetite to underwrite healthcare professional liability insurance across the full spectrum customers; physicians, allied healthcare professionals, hospitals, and allied healthcare. The Division leverages underwriting expertise available from the MedPro Group, an associated company within the parent company group. Medical malpractice and public liability insurance are written with different partners in the UK, Switzerland and US (prior to Brexit included France).

The UK program commenced in 2014 and remains on a "prior submit" basis. The French program commenced in 2015 and is now in Run-Off following Brexit, with the risks ~~are~~ now written through BHEI. In 2020, the Risk Committee approved a USA book of global medical malpractice business and MedPro fronting policies including punitive damage risks. The Swiss programme commenced in 2021 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. The BHSI operation within BHIIL was formed in 2016 and has been targeting commercial insurance. The Company writes property, Executive & Professional (E&P), casualty, healthcare, punitive damages and marine risks. 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 division is established.

<u>Faraday Managing General Agency (FMGAL) Division</u>
Faraday, a member of the Berkshire Hathaway Group of companies, manages a Lloyds Syndicate in the UK as well as an FCA authorised intermediary, Faraday Managing General Agency Ltd. (FMGAL). The division writes business across a number of product lines and the agreement operates as a wholesale MGA. FMGAL considers opportunities in various lines including Motor, Accident & Health, Property (D&F, Treaty and Commercial) and Liability.

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. Risk Management (continued)

4.1 Insurance Risk (continued)

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).

	2021	2020
Impact on profit before tax	$000	$000
Insurance losses deteriorate against expected outcome:		
5% deterioration	(17,937)	(15,958)
10% deterioration	(35,875)	(31,916)
Insurance losses improve against expected outcome:		
5% improvement	17,937	15,958
10% improvement	35,875	31,916

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) and Berkshire Hathaway Homestate Insurance Company ('BHHIC'), both related parties, are fundamental parts of the business model these are an important element of the risk profile.

In general the reinsurance programs 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. Trust Fund Agreements in place with NICO and BHHIC manages any concentrated credit risk.

Based on year end available figures, NICO reported surplus assets of US$239bn and total assets of US$383bn and is rated AA+ by S&P rating agency.

Based on 2021 year-end, the exposures to Reinsurers were as follows:

Reinsurer	External Credit Rating	Exposure	Reinsurer Creditor	Trust fund protection	Net exposure
NICO	AA+	US$1,790m	US$110m	US$1,095m	US$585m
BH Homestate	AA+	US$275m	-	US$190m	US$85m
Others	A and above	US$42m	-		US$42m
Total		US$2,107m	US$110m	US$1,285m	US$712m

Based on 2020 year-end, the exposures to Reinsurers were as follows:

Reinsurer	External Credit Rating	Exposure	Reinsurer Creditor	Trust fund protection	Net exposure
NICO	AA+	US$1,617m	US$152m	US$1,030m	US$435m
BH Homestate	AA+	US$244m	-	US$147m	US$97m
Others	A and above	US$35m	-	-	US$35m
Total		US$1,896m	US$152m	US$1,177m	US$567m

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 and BHHIC 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 2021

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 2021	AAA $'000	AA $'000	A $'000	BBB $'000	BB $'000	B $'000	Total $'000
Financial investments	574,227	59,436	-	-	-	-	633,663
Cash at bank	36,280	107,278	69,699	1,518		3,308	218,083
Total	610,507	166,714	69,699	1,518	-	3,308	851,746

At 31 December 2020	AAA $,000	AA $,000	A $,000	BBB $,000	BB $,000	B $'000	Total $,000
Financial investments	396,855	57,893	-	-	-	-	454,748
Cash at bank	3,640	106,882	124,143	1,612	-	7,168	243,445
Total	400,495	164,775	124,143	1,612	-	7,168	698,193

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 2021

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 2021	< 1 year $'000	1 to 3 years $'000	3 to 5 years $'000	> 5 years $'000	Total $'000
Assets:					
Reinsurance contracts - assets	574,325	683,144	375,056	493,781	2,126,306
Insurance and other receivables	265,795	-	-	-	265,795
Total	840,120	683,144	375,056	493,781	2,392,101
Liabilities:					
Insurance contracts liabilities	659,084	806,398	446,208	612,365	2,524,055
Insurance and other payables	274,809	-	-	-	274,809
Total	933,893	806,398	446,208	612,365	2,798,864

31 December 2020	< 1 year $'000	1 to 3 years $'000	3 to 5 years $'000	> 5 years $'000	Total $'000
Assets:					
Reinsurance contracts - assets	480,181	608,550	348,336	474,421	1,911,488
Insurance and other receivables	331,663	-	-	-	331,663
Total	811,844	608,550	348,336	474,421	2,243,151
Liabilities:					
Insurance contracts liabilities	554,998	714,853	412,774	588,189	2,270,814
Insurance and other payables	371,827	-	-	-	371,827
Total	926,825	714,853	412,774	588,189	2,642,641

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 the 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.

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$89m to US$127m during the year.

Impact on profit before tax	2021 $'000	2020 $'000
Equity value decreases:		
10% against year- end values	(12,676)	(8,861)
20% against year- end values	(25,352)	(17,721)
Equity value increases:		
10% against year-end values	12,676	8,861
20% against year-end values	25,352	17,721

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 2021.

Impact on profit before tax	2021 $'000	2020 $'000
US Dollar weakens:		
10% against other currencies	657	(4,848)
20% against other currencies	1,314	(9,696)
US Dollar strengthens:		
10% against other currencies	(657)	4,848
20% against other currencies	(1,314)	9,696

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.

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 risk appetite statements that are reported quarterly to the Risk Committee. There is a framework to review the documentation and structure of the key Risks, controls and risk appetite statements 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 Group 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	2021 $'000	2020 $'000
Direct insurance and facultative reinsurance		
Motor Vehicle Liability	153,358	188,509
Marine, Aviation and Transportation	56,936	67,770
Fire & Other Damage to Property	85,457	142,988
Reinsurance	1,083	9,340
General Liability	314,409	346,491
	611,243	755,098

Gross premiums earned	2021 $'000	2020 $'000
Direct insurance and facultative reinsurance		
Motor Vehicle Liability	185,483	162,120
Marine, Aviation and Transportation	61,522	65,614
Fire & Other Damage to Property	106,829	91,466
Reinsurance	1,083	10,384
General Liability	301,303	278,318
	656,220	607,902

Analysis of gross premiums written:	2021 $'000	2020 $'000
Contracts written by the Company in:		
Europe – EEA	29,086	28,889
Europe – UK	581,281	752,284
Europe – Non EEA	876	925
Rest of the World	-	-
	611,243	755,098

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 2021 and 2020.

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 2021

5. Segmental Information (continued)

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

Gross incurred claims	2021 $'000	2020 $'000
Direct insurance and facultative reinsurance		
Motor Vehicle Liability	146,129	101,208
Marine, Aviation and Transportation	45,055	34,480
Fire & Other Damage to Property	75,353	47,804
Reinsurance	5,375	(21,494)
General Liability	328,798	261,592
	600,710	423,590

Operating expenses	2021 $'000	2020 $'000
Direct insurance and facultative reinsurance		
Motor Vehicle Liability	7,280	7,234
Marine, Aviation and Transportation	970	592
Fire & Other Damage to Property	2,282	3,103
Reinsurance	1	415
General Liability	8,223	8,661
	18,757	20,005

Net Technical Result (before URR & Expenses)	2021 $'000	2020 $'000
Direct insurance and facultative reinsurance		
Motor Vehicle Liability	2,817	1,920
Marine, Aviation and Transportation	2,625	3,820
Fire & Other Damage to Property	9,264	6,332
Reinsurance	(74)	262
General Liability	(4,035)	(4,412)
	10,598	7,922

Reinsurers' balance	2021 $'000	2020 $'000
Direct insurance and facultative reinsurance		
Motor Vehicle Liability	36,537	58,992
Marine, Aviation and Transportation	13,842	27,314
Fire & Other Damage to Property	22,212	37,330
Reinsurance	(4,219)	31,616
General Liability	(23,459)	21,138
	44,913	176,390

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

	2021 $'000	2020 $'000
Gross:		
Claims reported (case estimates)	771,084	682,174
Claims incurred but not reported	1,326,163	1,110,923
Provision for claims handling	15,036	12,551
Total Gross Claims Reserve	2,112,283	1,805,648
Unearned premiums	411,772	465,167
Total Gross Liabilities	2,524,055	2,270,815
Recoverable from reinsurers:		
Claims reported (case estimates)	632,401	560,852
Claims incurred but not reported	1,136,959	947,316
Provision for claims handling	12,319	10,452
Total Reinsurers' share of claim reserves	1,781,679	1,518,620
Unearned premiums	344,627	392,868
Total Reinsurers' share of liabilities	2,126,306	1,911,488
Net:		
Claims reported	138,683	121,322
Claims incurred but not reported	189,204	163,607
Provision for claims handling	2,717	2,099
Total Net Claims Reserve	330,604	287,028
Unearned premiums	67,145	72,299
Total Net Insurance Liabilities	397,749	359,327

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 (2020: $4.4m) at the reporting date, and the effect of the discounting is a reduction in the reported reserves of $1.21m (2020: $1.23m).

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

	2021			2020		
	Gross $'000	Reinsurance $'000	Net	Gross $'000	Reinsurance $'000	Net
Claims reserves 31 December	2,112,283	(1,781,679)	330,604	1,805,648	(1,518,620)	287,028
Effect of Discounting	1,207	(1,207)	-	1,230	(1,230)	-
Undiscounted claims reserves at 31 December	2,111,076	(1,780,472)	330,604	1,806,878	(1,519,850)	287,028

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.

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For the year ended 31 December 2021

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	2020	2021	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	279,516	231,454	
One year later	1,144,885	237,560	315,417	411,169	177,984	287,911	386,386	426,370	519,194	582,907		
Two years later	1,107,612	221,693	300,774	452,307	190,854	378,292	388,325	440,100	505,733			
Three years later	1,081,869	245,177	395,067	348,983	204,247	475,345	439,643	483,325				
Four years later	1,060,998	260,679	417,328	332,180	169,339	446,924	433,901					
Five years later	992,967	238,965	393,545	315,932	193,018	454,131						
Six years later	955,012	212,754	337,063	296,653	168,780							
Seven years later	899,331	193,876	329,882	306,407								
Eight years later	855,369	184,392	324,959									
Nine years later	780,166	177,018										
Ten years later	775,073											
Current Estimate of cumulative claim liability	775,073	177,018	324,959	306,407	168,780	454,131	433,901	483,325	505,733	582,907	231,454	4,443,688
Cumulative paid to date	729,203	152,773	185,445	218,779	73,895	254,811	237,202	201,957	153,386	99,369	24,585	2,331,405
Total Gross Claims Liability as at 31 December 2021	**45,870**	**24,245**	**139,514**	**87,628**	**94,885**	**199,320**	**196,699**	**281,368**	**352,347**	**483,538**	**206,869**	**2,112,283**

Ultimate Reinsurance Recoveries — $'000

Reinsurance	2011 & Prior	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Total
At end of underwriting year	841,630	120,615	296,101	317,408	166,405	117,389	176,716	181,177	207,103	229,244	189,251	
One year later	832,077	199,215	256,486	349,489	150,529	237,915	320,494	360,871	430,696	482,963		
Two years later	801,370	186,077	245,388	383,947	160,480	315,367	318,186	363,232	416,361			
Three years later	779,179	204,209	338,745	301,551	171,296	405,128	359,891	404,680				
Four years later	760,993	216,617	364,101	287,075	141,422	371,882	357,097					
Five years later	706,747	196,699	343,702	272,176	158,979	377,574						
Six years later	667,566	173,943	293,058	254,285	139,442							
Seven years later	625,003	157,803	284,907	264,485								
Eight years later	591,970	149,337	281,808									
Nine years later	545,837	143,239										
Ten years later	541,822											
Current Estimate of reinsurers share of claim liability	541,822	143,239	281,808	264,485	139,442	377,574	357,097	404,680	416,361	482,963	189,251	3,598,722
Cumulative recovered to date	505,880	122,141	154,197	183,958	62,347	204,669	189,840	167,837	125,183	81,273	19,718	1,817,043
Reinsurers Share as at 31 December 2021	**35,942**	**21,098**	**127,611**	**80,527**	**77,095**	**172,905**	**167,257**	**236,843**	**291,176**	**401,690**	**169,533**	**1,781,679**

Ultimate Net Claims Liabilities — $'000

Net	2011 & Prior	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Total
At end of underwriting year	316,992	27,506	31,838	34,534	14,429	24,834	31,970	29,982	38,075	50,272	42,203	
One year later	312,808	38,345	58,931	61,680	27,455	49,996	65,892	65,499	88,498	99,944		
Two years later	306,242	35,616	55,386	68,360	30,374	62,925	70,139	76,868	89,372			
Three years later	302,690	40,968	56,322	47,432	32,951	70,217	79,752	78,645				
Four years later	300,005	44,062	53,227	45,105	27,917	75,042	76,804					
Five years later	286,240	42,266	49,843	43,756	34,039	76,557						
Six years later	287,446	38,811	44,005	42,368	29,338							
Seven years later	274,328	36,073	44,975	41,922								
Eight years later	263,399	35,055	43,151									
Nine years later	234,329	33,779										
Ten years later	233,251											
Current Estimate of cumulative claim liability	233,251	33,779	43,151	41,922	29,338	76,557	76,804	78,645	89,372	99,944	42,203	844,966
Cumulative paid to date	223,323	30,632	31,248	34,821	11,548	50,142	47,362	34,120	28,203	18,096	4,867	514,362
Total Net Claim Liability as at 31 December 2021	**9,928**	**3,147**	**11,903**	**7,101**	**17,790**	**26,415**	**29,442**	**44,525**	**61,169**	**81,848**	**37,336**	**330,604**

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 2021			Year ended 31 December 2020		
(I) Claims and loss adjustment expenses	Gross	Reins	Net	Gross	Reins	Net
As at 1 January	1,805,648	(1,518,620)	287,028	1,542,595	(1,313,528)	229,067
Claims paid/recoveries in the year	(227,636)	187,433	(40,203)	(239,638)	195,480	(44,158)
Change in liabilities/recoveries	600,709	(506,596)	94,113	423,589	(333,778)	89,811
Net foreign exchange differences	(66,438)	56,104	(10,334)	79,102	(66,794)	12,308
As at 31 December	2,112,283	(1,781,679)	330,604	1,805,648	(1,518,620)	287,028

	Year ended 31 December 2021			Year ended 31 December 2020		
(II) Unearned Premiums	Gross	Reins	Net	Gross	Reins	Net
As at 1 January	465,167	(392,868)	72,299	307,518	(257,686)	49,832
Premiums written in the year	611,243	(510,583)	100,660	755,098	(636,682)	118,416
Premiums earned in the year	(656,220)	551,510	(104,710)	(607,901)	510,166	(97,735)
Net foreign exchange differences	(8,418)	7,314	(1,104)	10,452	(8,666)	1,786
As at 31 December	411,772	(344,627)	67,145	465,167	(392,868)	72,299

6.3 Contingency policy on insurance and reinsurance contracts

Included in the total gross claims reserve is an amount of $39m (€35m) in respect of estimated contributions that the Company will be required to make under a contingency policy with another Group company Berkshire Hathaway European Insurance DAC in respect of claims impacted by the UK's exit from the EU.

BERKSHIRE HATHAWAY INTERNATIONAL INSURANCE LIMITED

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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 2021			Year ended 31 December 2020		
	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 15)	23,864	3,807	27,671	24,838	3,495	28,333
Accommodation costs	-	1,856	1,856	-	1,952	1,952
Legal and professional charges	-	2,461	2,461	-	2,303	2,303
IT costs	-	2,266	2,266	-	1,571	1,571
Travel and entertaining	-	279	279	-	229	229
Third Party Administration Fees	5,009	-	5,009	6,633	-	6,633
Regulatory levies and charges	-	2,629	2,629	-	1,470	1,470
Other		1,333	1,333	-	3,521	3,521
Expenses before commissions	28,872	14,631	43,503	31,471	14,541	46,012
Commission on Direct Business (Gross)	81,871	-	81,871	96,043	-	96,043
Changes in deferred acquisition costs and other operating expenses on Direct Business (Gross)	(1,814)	-	(1,814)	(15,104)	-	(15,104)
Acquisition costs and other operating expenses on Direct Business	108,930	14,631	123,560	112,410	14,541	126,951
Reinsurance commissions and profit commission	(105,626)	-	(105,626)	(120,337)	-	(120,337)
Changes in deferred acquisition costs on Ceded Business	823	-	823	13,391	-	13,391
Net total acquisition costs and other operating expenses	4,126	14,631	18,757	5,464	14,541	20,005

8. Auditor's remuneration

	2021 $'000	2020 $'000
Fees for the audit of the accounts - UK	245	216
Fees for the audit of the accounts - Italy	73	-
Fees for the audit of the regulatory returns - UK	92	95
Fees for the audit of the regulatory returns - Italy	54	-
Total	464	311

9. Taxation

The standard rate of current tax for the year is 19%. (2020: 19%)

	2021 $'000	2020 $'000
Profit/(loss) on ordinary activities before tax	36,349	(35,861)
Tax on profit on ordinary activities at standard rate	6,906	-
Factors affecting tax charge:		
Capital allowances in excess of depreciation	-	-
Release of deferred tax	336	-
Additional UK tax on foreign dividends	97	-
Group Relief on Prior Years	-	-
Foreign tax paid on dividends	(464)	359
Disallowable Expenditure	(308)	-
Foreign Tax Received	-	(763)
Tax paid on account for current year	-	500
Prior Year Adjustments	(4,656)	1,127
Total	1,911	1,223

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

10. Deferred Tax

	2021 $'000	2020 $'000
At 1 January	282	618
Additions	-	-
Releases	(282)	(336)
At 31 December	-	282

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 had been provided in respect of the release of the equalisation reserve to the income statement during 2016, and have now been fully-utilised.

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.

11. 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. Changes in the carrying amounts of Level (i) assets are reported through profit or loss at the reporting date.

	Year to 31 December 2021			Year to 31 December 2020		
	Cost	Unrealised Gain/(loss)	Market Value	Cost	Unrealised Gain/(loss)	Market Value
	$'000	$'000	$'000	$'000	$'000	$'000
UK Treasury Gilts	60,452	(1,016)	59,436	27,304	(194)	27,110
US Treasury Notes	99,331	(1,594)	97,737	31,246	(463)	30,783
US Treasury Bills	389,837	18	389,855	396,820	35	396,855
German Bunds	86,730	(95)	86,635	-	-	-
Equities	97,685	29,075	126,760	97,685	(9,078)	88,607
Total	734,035	26,387	760,423	553,055	(9,700)	543,355

(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) or (iii) other financial investments.

12. Investments in group undertakings

	2021 $'000	2020 $'000
Subsidiary undertakings	-	148,066

The Company had investments in the following subsidiary undertaking.

Subsidiary undertaking	Registered office address	Principal activity	Holding	%
Berkshire Hathaway European Insurance Designated Activity Company	7 Grand Canal Street Lower, Dublin, Ireland, D02 KW81	The Company's principal activity is underwriting general insurance business and its operations are administered by the Company, with additional administrative services being provided by related group companies. The Company's operations are directed from Dublin, but it also operates from branch offices in the UK, Germany, Spain, France and Italy.	Ordinary	Nil

As above, the Investment in Subsidiary was disposed of in December 2021.

12. Investments in group undertakings (continued)

	2021 $'000	2020 $'000
Cost		
At 1 January	148,066	130,148
Additions	118,189	23,451
	266,255	153,599
Impairment	-	(5,533)
	266,255	148,066
Disposals	(266,255)	-
At 31 December	-	148,066

As at 31 December 2020 the Directors considered that there was evidence that the value of the investment should be impaired. This impairment was based on the Solvency II valuation of the subsidiary at 31 December 2020 (being the fair value of the subsidiary as at 31 December 2020) compared to the cost of the investment. The impairment loss was duly recognised through the 2020 statement of comprehensive income. In December 2021 the subsidiary was sold to the Company's parent. The realised gain on disposal was $745,000 (Proceeds $267,000,000 less Carrying value $266,255,000).

13. Called Up Share Capital

	2021 $'000	2020 $'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

NOTES TO THE ACCOUNTS
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14. 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:

	2021	2020
	$'000 (Unaudited)	$'000 (Audited)
Own Funds	574,450	530,800
Solvency capital requirement	196,780	201,279
Solvency II capital surplus	377,670	329,521
Solvency Cover %	292%	264%

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

NOTES TO THE ACCOUNTS
For the year ended 31 December 2021

15. 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:

	2021		2020	
	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	-	45,130	-	78,117
Key management personnel and services				
Resolute Management Limited		641	941	-
Other related parties				
Berkshire Hathaway European Insurance DAC	7,918		-	4,143
Berkshire Hathaway Speciality Insurance		335	-	259
Berkshire Hathaway Homestate Insurance		19,973		15,949
GRF Services	167		299	-
Total	8,085	66,079	1,240	98,468

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) Reinsurance provided by related parties

Note 4.2.1 discloses related party balances in respect of reinsurance and the associated collateral arrangements.

(iii) 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.

15. Related Party Transactions (continued)

(iv) Key management compensation

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

Key management - Directors' emoluments

	2021 $'000	2020 $'000
Emoluments recharged from another Group Company	1,390	2,394
Emoluments directly incurred		-
Total Emoluments	1,390	2,394

In total there were 8 directors during the year (2020: 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 $617,283 (2020: $1,443,466).

Other management and employee costs

The average number of employees of the Company during the year was 25 (2020: 21), the details are presented below. Generally, most services continue to be provided by other group companies and during the year an amount of $23,855,652 (2020: $23,266,385) has been charged to the Company for the provision of these services.

Total directly incurred staff costs, comprised the following

	2021 $'000	2020 $'000
Wages and salaries	1,793	1,240
Social security costs	1,331	1,231
Pension Costs	10	24
Total directly incurred by the Company	3,134	2,495

(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
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16. Cash Flows Provided by Operating Activities

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

	2021 $'000	2020 $'000
Cash generated from operations		
Profit / (Loss) before tax	36,349	(35,860)
Adjusted for :		
Net unearned premiums	(4,050)	20,680
Net claims reserves, including expenses	53,909	45,653
Net unexpired risk reserve	(3,625)	927
Gross deferred acquisition costs	(1,814)	(15,104)
Realised (gains) / losses on investments	67	3,825
Unrealised (gains) / losses on investments	(35,443)	33,069
Net foreign exchange losses	(3,309)	(8,062)
Insurance and other receivables	53,281	(105,211)
Insurance and other payables	(88,597)	142,496
Prepayments and accrued income	5,613	(2,061)
Reinsurance element of DAC	823	13,391
Accruals	834	147
Dividends received	(2,443)	(2,631)
Investment Income received	(2,999)	(1,448)
Cash flow provided by operating activities	8,597	89,811

The restricted cash flows of the Company are disclosed in note 17.

17. 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.

The Company continued to provide 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 Directors 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$31.845m (2020: US$30.783m). To transact business in Switzerland, the Company holds restricted investments of US$37.168m (2020: US$20.907m). To transact business in Italy, the Company holds restricted investments of US$86.635m (2020: US$nil).The Company has no other restricted investments.

18. Subsequent Events

War in Ukraine

As reported under the Strategic Report – Future Events the War in Ukraine does have implications for the Company though these are not considered to materially impact the financial information disclosed and no adjustments have been made.

The Company is not aware of any further subsequent events which materially impact the financial information disclosed and no post balance sheet adjustment has been made.