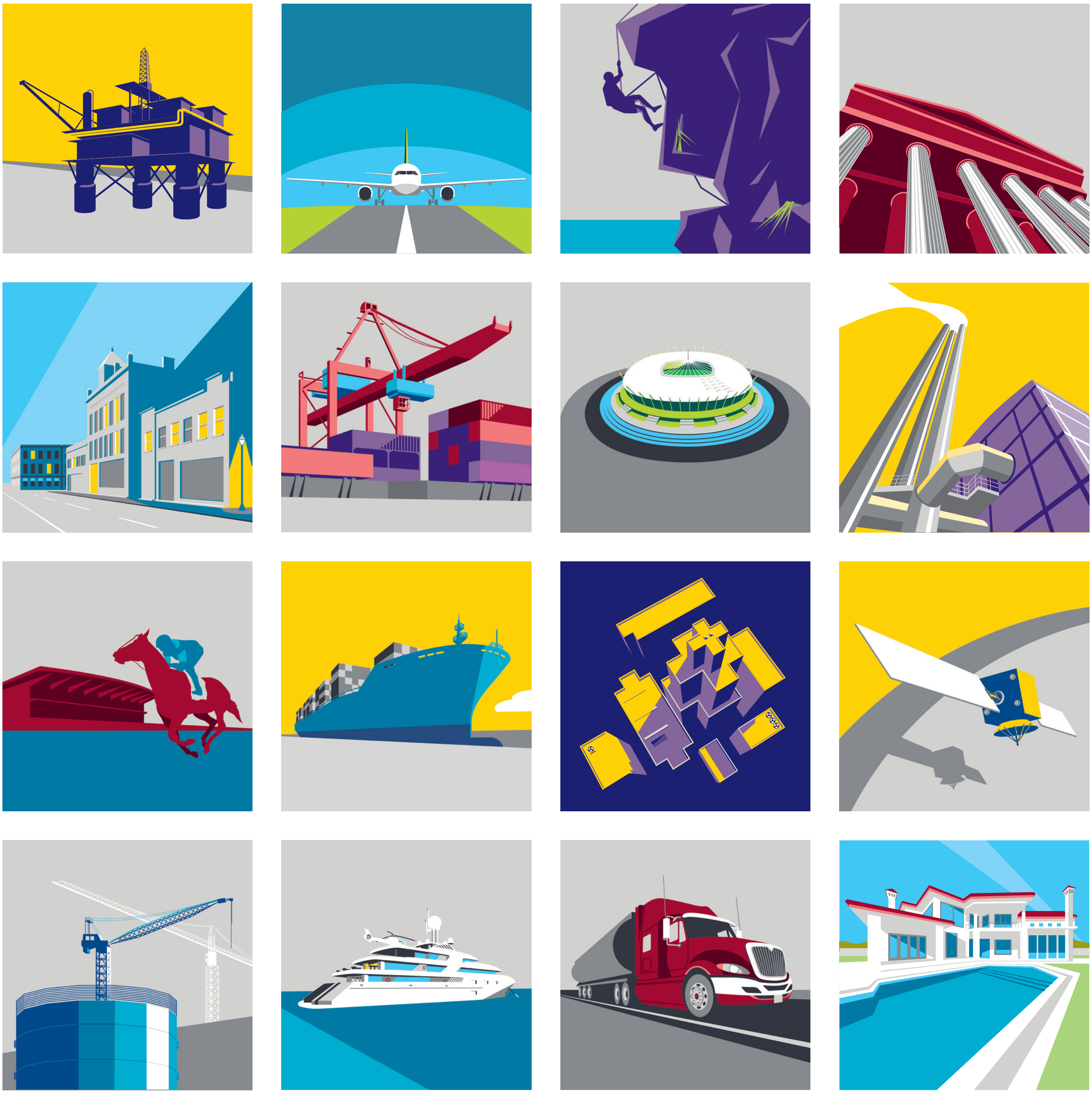
BRIT LIMITED Interim Report 2017



SEEING THE DIFFERENCE **MAKES THE DIFFERENCE**

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Key points

A STRONG RESULT IN A CHALLENGING ENVIRONMENT

- Gross written premiums of US$1,092.5m (2016: US$1,030.6m), an increase of 6.0% (7.9% at constant exchange rates).
- Net earned premium[1] of US$740.7m (2016: US$751.8m), an increase of 0.6% at constant exchange rates.
- Combined ratio[1] of 95.1% (2016: 96.5%), with no major loss activity (2016: 4.0 percentage points of major losses) but with further rate decreases. Combined ratio[1], excluding the impact of Ogden, of 93.3%.
- Profit on ordinary activities before the impact of FX and tax of US$143.8m (2016: US$189.6m) or US$156.9m excluding the impact of Ogden.
- Profit after tax of US$139.7m (2016: US$197.6m).
- Investment return[3] after fees of US$126.3m, representing a non-annualised return of 3.2% (2016: US$182.0m/4.6%).
- RoNTA[6] (non-annualised) of 12.6% (2016: 16.1%) and total value created of US$142.2m (2016: US$192.8m).
- Adjusted net tangible assets[5] increased to US$1,161.2m (31 December 2016: US$1,064.8m), after a dividend payment of US$45.8m in March 2017.
- Continued execution of strategy to deliver opportunity-driven profitable growth, with considered expansion in a number of areas of our book including cyber, US program business and yachts and the launch of a number of initiatives across both underwriting and claims.
- Successful launch of Syndicate 2988, supported by third party capital.

Brit at a Glance

Brit is a market-leading global specialty insurer and reinsurer, focused on underwriting complex risks. We have a major presence in Lloyd's of London, the world's specialist insurance market provider, and a significant US and international reach.

We operate globally via a combination of our own international distribution network that benefits from Lloyd's global licences and our broker partners and underwrite a broad class of commercial specialty insurance. Our underwriting capabilities are underpinned by a strong financial position, our underwriting expertise and discipline and customer service.

We have a strong track record and are passionate about our business, our people and our clients and we have focused on cultivating a franchise that is built on delivering exceptional service. Our culture is centred on achievement and we have established a framework that identifies and rewards strong performance.

Brit is a member of the Fairfax Financial Holdings Limited group of companies (Fairfax). The Fairfax financial result for the six months ended 30 June 2017, which included the Brit financial result, was published on 3 August 2017.

www.britinsurance.com

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Interim Management Report

Officer statements

‘Brit has delivered a strong performance in the first half of 2017. Our non-annualised return on adjusted net tangible assets before FX, which we see as a key indicator of our performance, was 12.6%. This was driven by the combination of a healthy contribution from underwriting results, notwithstanding very challenging market conditions, and an excellent performance from our investment portfolio. It is very pleasing to see the continued profitable growth of the new underwriting initiatives launched in recent years.

Producing strong results in the current environment demands a great deal of concentration and discipline and, in that regard, we have continued to focus on our core fundamentals of leadership, innovation and distribution and have maintained our strategy of remaining well diversified while adopting a defensive stance to protect our business and preserve capital.

We believe that our performance shows that we have the right operating model, underwriting approach and corporate culture, to not only operate successfully through the current difficult market conditions but to also be ready to take full advantage of emerging opportunities when trading conditions begin to improve, as the results of the current lack of market discipline starts to bite hard on sector results.’

Mark Cloutier
Group Executive Chairman
2 August 2017

‘Market conditions have, as expected, remained difficult during the first half of 2017, with Brit experiencing an overall rate reduction of 2.2%, albeit lower than the 3.7% reduction experienced in H1 2016. Against this backdrop, we have maintained our rigorous risk selection in the classes experiencing pressure and continue to focus growth efforts in classes experiencing more favourable rating conditions. This strategy, coupled with a relatively benign period in terms of major losses, resulted in a highly respectable combined ratio of 95.1%, after incorporating the effect of Ogden rate changes. Our underlying CoR, excluding the impact of Ogden, was 93.3%.

Our premium written grew by 7.9% at constant exchange rates over the same period in 2016, to US$1,092.5m. This was driven by positive back year premium development and our initiatives to broaden our distribution base. We continue to add specialty underwriting talent in targeted areas and in 2017 have strengthened our US program capability and launched a new US cyber and technology team.

In the period, it was particularly pleasing to see our US operation, BGSU, reach the milestone of writing over US$1bn of premium since its formation in 2009. BGSU has reached this milestone by delivering strong, profitable organic growth with a focus on niche areas where it has significant expertise and experience. Its average combined ratio since 2014 has been a highly credible 93%.

The successful launch of Brit Syndicate 2988 reinforces our long-term commitment to the Lloyd’s market and ambition to use its infrastructure to expand our current position as the largest Lloyd’s only insurer. It will also help us further position Brit as the specialist underwriter of choice, building on our existing strength across underwriting, claims and capital management and track record of delivering attractive returns for capital providers.

In the current environment, we believe our proactive approach and our emphasis on leadership, innovation and distribution is an important complement to our highly disciplined underwriting. We will continue to look at new opportunities as they arise and we believe our strategy will hold us in good stead during these challenging conditions and beyond.’

Matthew Wilson
Group Chief Executive Officer
2 August 2017

‘During the first half of 2017, Brit delivered a strong profit on ordinary activities before FX and tax of US$143.8m and a profit after tax of US$139.7m, against a backdrop of increasing competition and continued pricing pressures. Total value created during the period was US$142.2m. Both our underwriting and investing activities contributed to this strong performance.

Underwriting contributed US$42.4m to the result, with a combined ratio of 95.1%. This reflected a stable attritional ratio of 55.4%, reserve releases after incorporating the effects of the Ogden rate change of US$7.9m and an absence of major loss activity. Our net investment return was an excellent US$126.3m, representing a non-annualised return of 3.2%, driven by gains on our equity and fund investments. Foreign exchange gains, net of returns on FX related derivatives, totalled US$9.6m.

We have taken advantage of the competitive market conditions and have increased our level of reinsurance protections, with spend increasing from 26.5% to 29.6% of premiums written. We have continued to partner with the Bermuda domiciled special purpose reinsurer, Versutus Limited, which has increased the amount of capital deployed to support Brit to US$150.0m. We have also increased the use of quota shares to manage our net exposure and have purchased a two year catastrophe protection, which largely explains the increase in ceded premium in the period.

Our balance sheet remains strong, with adjusted net tangible assets of US$1,161.2m, an increase of 9.1% in the six months to 30 June 2017, after a dividend payment of US$45.8m in the period. This means that we hold a surplus of US$477.2m or 44.0% above the Group’s management capital requirement.

We continue to see positive development of our reserves, with releases of US$7.9m in the period, after the impact of Ogden.

Our investment portfolio remains defensively positioned, with a large allocation to cash and cash equivalents (30.6%) and fixed income securities (49.4%). The portfolio’s duration has fallen in the period, from 1.1 years to 0.6 years.

While the outlook for the remainder of 2017 remains challenging, we believe we are well positioned to navigate the current climate and take advantage of opportunities as they arise.’

Mark Allan
Chief Financial Officer
2 August 2017

Performance summary and Key performance indicators

	6 months ended 30 June 2017 US$m	6 months ended 30 June 2016 US$m	Year ended 31 December 2016 US$m
Performance summary			
Gross written premium	1,092.5	1,030.6	1,912.2
Net earned premium[1]	740.7	751.8	1,515.1
Underwriting profit[1] (excluding the impact of Ogden[2])	55.5	26.5	54.6
Ogden impact	(13.1)	-	-
Underwriting profit[1] (including the impact of Ogden[2])	42.4	26.5	54.6
Investment return[3]	126.3	182.0	102.9
Other income	-	1.9	1.1
Corporate expenses	(16.6)	(10.7)	(21.3)
Finance costs	(8.3)	(10.1)	(18.8)
Profit on ordinary activities before FX movements and tax	143.8	189.6	118.5
FX movements[4]	9.6	29.7	41.3
Profit on ordinary activities before tax	153.4	219.3	159.8
Tax	(13.7)	(21.7)	(2.2)
Profit for the period (after tax)	139.7	197.6	157.6
Adjusted net tangible assets[5]	1,161.2	1,241.4[8]	1,064.8
Key performance indicators			
Return on net tangible assets before FX movements (RoNTA)[6,7]	12.6%	16.1%	11.8%
Total value created (US$m)	US$142.2m	US$192.8m	US$139.0m
Combined ratio[1] (excluding the impact of Ogden[2])	93.3%	96.5%	96.4%
Combined ratio[1] (including the impact of Ogden[2])	95.1%	96.5%	96.4%
Investment return (net of external investment related expenses)[7]	3.2%	4.6%	2.6%
Capital ratio	144.0%	149.5%[8]	125.6%

1 Excludes the effect of foreign exchange on non-monetary items.
2 With effect from 20 March 2017, the Ogden discount rate was reduced from 2.5% to minus 0.75%. The Ogden discount rate is used in the calculation insurance compensation awards in the UK.
3 Inclusive of return on investment related derivatives and return on associated undertakings, and after deducting investment management expenses.
4 Includes the effect of foreign exchange on monetary items (US$1.8m) and foreign exchange on non-monetary items (US$nil). It also includes the return on FX related derivatives (US$7.8m), other than that entered into to manage the Group's Sterling expense base.
5 Adjusted net tangible assets are defined as total equity, less intangible assets net of the deferred tax liability on those intangible assets.
6 RoNTA calculation excludes all FX movements (footnote 4). Based on adjusted net tangible assets (footnote 5).
7 The 30 June figures are non-annualised.
8 Before a US$61.5m share buy-back in August 2016.

Overview of Results

Brit Limited's ('Brit' or 'the Group') strong result for the six months ended 30 June 2017 reflects a solid underwriting performance, excellent investment return and positive FX movements.

Profit on ordinary activities before FX movements and tax for the six month period totalled US$143.8m (30 June 2016: US$189.6m; 31 December 2016: US$118.5m), profit before tax was US$153.4m (30 June 2016: US$219.3m; 31 December 2016: US$159.8m) and profit after tax was US$139.7m (30 June 2016: US$197.6m; 31 December 2016: US$157.6m). Excluding the impact of using the new Ogden discount rate, profit on ordinary activities before FX movements and tax was US$156.9m and profit before tax was US$166.5m.

The combined ratio (CoR), our key underwriting metric, for the six months ended 30 June 2017 was 95.1% (30 June 2016: 96.5%; 31 December 2016: 96.4%), a strong result against a backdrop of increasing competition and continued pricing pressures. The attritional loss ratio was stable at 55.4% (30 June 2016: 55.1%; 31 December 2016: 55.5%), reflecting loss experience, rating pressure and changes to mix. There was no major loss activity during the period (30 June 2016: equivalent to 4.0 percentage points (pps) on the combined ratio; 31 December 2016: 4.5 pps), while reserve releases of US$7.9m reduced the ratio by 1.0pps (30 June 2016: US$22.2m/3.0pps; 31 December 2016: US$53.5m/3.5pps). Excluding the impact of Ogden, reserve releases totalled US$21.0m/2.8pps and the CoR for the six months ended 30 June 2017 was 93.3%.

Non-annualised return on net tangible assets (RoNTA), excluding the effects of FX and transaction expenses, was 12.6% (30 June 2016: 16.1%; 31 December 2016: 11.8%).

The aggregated return on invested assets, net of expenses, for the six months ended 30 June 2017 was an excellent US$126.3m, representing a non-annualised return of 3.2% (30 June 2016: US$182.0m/4.6%; 31 December 2016: US$102.9m/2.6%), driven by gains on our equity and fund investments. Foreign exchange gains, net of returns on FX related derivatives, totalled US$9.6m (30 June 2016: US$29.7m; 31 December 2016: US$41.3m).

Adjusted net tangible assets totalled US$1,161.2m (30 June 2016: US$1,241.4m; 31 December 2016: US$1,064.8m), an increase of 9.1% in the six months to 30 June 2017. The 30 June 2017 figure is after a dividend payment of US$45.8m in March 2017.

Outlook

Despite the current rating environment, we have returned both a strong underwriting result and excellent investment performance in the first six months of 2017. However, as expected, the period has seen further softening of rates, albeit at a reduced pace, and a continued challenging underwriting environment, combined with exceptionally low interest rates, geopolitical uncertainty, global growth concerns and market volatility.

The outlook for the remainder of 2017 remains challenging, with an absence of major losses in H1 and the continued influx of capital from both traditional and non-traditional sources. We have seen the benefit of these capital inflows on our reinsurance protections and the development of our strategic partnership with Versutus, the Bermuda domiciled special purpose vehicle, but continue to see pressure on our inwards business.

We maintain focus on our core fundamentals of underwriting discipline, risk selection and capital management and continue to make good progress with the selective expansion of our global distribution capability, capitalising on our initiatives of recent years.

Our position as the largest Lloyd's-only insurance business, with the right platform and business mix and backed by the Fairfax group, continues to position us well in the depressed rating and low yield environment.

Underwriting

Overview

Our underwriting profit for the period amounted to US$42.4m (30 June 2016: US$26.5m; 31 December 2016: US$54.6m) and our combined ratio, which excludes the effect of foreign exchange on non-monetary items, was 95.1% (30 June 2016: 96.5%; 31 December 2016: 96.4%). Excluding the impact of Ogden, underwriting profit for the period was US$55.5m and the CoR was 93.3%.

The premiums, claims and expenses components of this result are examined below.

Premiums

	6 months ended 30 June 2017 US$m	6 months ended 30 June 2016 US$m	Increase %	Increase at constant FX rates %
Brit Global Specialty Direct	**831.4**	779.9	6.6	9.0
Brit Global Specialty Reinsurance	**261.0**	250.9	4.0	5.3
Other	**0.1**	(0.2)	-	
Group	**1,092.5**	1,030.6	6.0	7.9

Gross written premium (GWP) for the six months ended 30 June 2017 increased by 6.0% to US$1,092.5m (30 June 2016: US$1,030.6m; 31 December 2016: US$1,912.2m). At constant exchange rates the increase was 7.9%. Direct business totalled US$831.4m (30 June 2016: US$779.9m; 31 December 2016: US$1,546.6m) and reinsurance US$261.0m (30 June 2016: US$250.9m; 31 December 2016: US$365.8m).

The drivers of the increase between the six months ended 30 June 2017 and 30 June 2016 are explained further below:

- An increase in the effect of prior year premium development; the favourable development was US$32.7m higher in 2017 than in 2016;
- The Group's underwriting initiatives, launched in the last three years, resulted in a US$34.9m increase in GWP. The main contributors were BGSU (Brit's US underwriting operation), Engineering and CPE, China/Singapore and Healthcare;
- Other current year premiums increased by US$14.3m, reflecting modest growth across a number of classes including SIR, A&H and Cyber, partly offset by contraction in several classes resulting from active portfolio management and from market conditions; and
- A negative exchange rate movement effect of US$20.0m, reflecting the movements during 2017 of the US dollar against a number of currencies in which the Group writes business.

Like the rest of the sector, Brit was impacted by the rating environment which remains challenging, with overall risk adjusted premium rates decreasing in line with expectations by 2.2% (30 June 2016: 3.7% decrease; 31 December 2016: 4.4% decrease). Risk adjusted premium rates for reinsurance business declined by 2.3%, while direct rates fell by 2.1%.

We remain focussed on retaining well performing accounts within our core book which have provided long term performance whilst declining more marginal accounts during this challenging environment.

The Group retention rate for the period was a significant positive, in line with the previous year's experience at 83.1% (30 June 2016: 82.9%; 31 December 2016: 84.3%), reflecting the continued focus on our core accounts and our strong market proposition.

Outwards reinsurance

Reinsurance expenditure in the six months ended 30 June 2017 was US$323.6m or 29.6% of GWP (30 June 2016: US$272.9m/26.5%; 31 December 2016: US$432.0m/22.6%). At constant exchange rates the increase was 21.1%.

The increase in expenditure is principally driven by the increased use of quota shares to manage our net exposure, together with recognition of the full premium of a two year group catastrophe aggregate protection. The premium for the second year of this cover was US$38.8m, or 3.6% of GWP.

Net earned premium

Net earned premium (NEP) excluding the effects of foreign exchange on non-monetary items, decreased by 1.5% to US$740.7m (30 June 2016: US$751.8m; 31 December 2016: US$1,515.1m). At constant exchange rates, the movement was an increase of 0.6%.

This movement in NEP arose from a combination of factors including contraction of premium written over the preceding financial years, additional reinsurance placements and growth in our international business.

Claims

Claims experience in the six months to 30 June 2017 was in line with expectations. The claims ratio excluding the effect of foreign exchange on non-monetary items and excluding the impact of Ogden was 52.6% (30 June 2016: 56.1%; 31 December 2016: 56.5%). Including the impact of Ogden, the claims ratio for the six months ended 30 June 2017 was 54.4%.

Claims ratio analysis	**6 months ended 30 June 2017 %**	**6 months ended 30 June 2016 %**	**Year ended 31 December 2016 %**
Attritional claims ratio	**55.4**	55.1	55.5
Major loss ratio	**-**	4.0	4.5
Reserve release ratio	**(2.8)**	(3.0)	(3.5)
Claims ratio before Ogden impact	**52.6**	56.1	56.5
Ogden rate change impact	**1.8**	-	-
Claims ratio	**54.4**	56.1	56.5

The attritional claims ratio for the period increased to 55.4% (30 June 2016: 55.1%; 31 December 2016: 55.5%). This increase arose from a combination of factors including rate change (most notably on energy, property PRV, aviation and treaty classes) and some pressure from attritional claims experience principally on the energy, accident and health and aviation divisions.

The first half of 2017 saw reduced catastrophe activity and the Group incurred no claims in respect of major losses (30 June 2016: US$30.0m or 4.0 claims ratio percentage points; 31 December 2016: US$68.4m or 4.5 claims ratio percentage points).

As part of our quarterly reserving process, we released US$21.0m of claims reserves established for prior year claims, the equivalent of a combined ratio reduction of 2.8 percentage points (30 June 2016: US$22.2m/3.0%; 31 December 2016: US$53.5m/3.5%), before the impact of Ogden. The main drivers of this release were the reinsurance classes, energy, professional lines, property facultative and property PRV. Brit's balance sheet remains strong and Brit continues to operate a robust reserving process.

With effect from 20 March 2017, the Ogden discount rate was reduced from 2.5% to minus 0.75%. The Ogden discount rate is used in the calculation of insurance compensation awards. In response to this rate change, Brit has established US$13.1m of additional claims reserves in respect of prior underwriting years, the equivalent of a claims ratio increase of 1.8 percentage points.

Including the impact of Ogden, our overall reserve releases totalled US$7.9m, the equivalent of a combined ratio reduction of 1.0 percentage points.

Underwriting expenses

The expense ratio excluding the effect of foreign exchange on non-monetary items was 40.7% (30 June 2016: 40.4%; 31 December 2016: 39.9%). This comprised commission costs and underwriting related operating expenses:

- Commission costs for the period, excluding the effect of foreign exchange on non-monetary items, were US$202.8m and the commission expense ratio was 27.4% (30 June 2016: US$209.0m/27.8%; 31 December 2016: US$411.6m/27.2%). This decrease was largely due to lower NEP and changes in business mix; and
- Underwriting related operating expenses for the period, excluding the effect of foreign exchange on non-monetary items, were US$99.0m and the operating expense ratio was 13.3% (30 June 2016: US$94.3m/12.5%; 31 December 2016: US$192.8m/12.7%).

Expenses

The Group's full operating expense base for the period was as follows:

Expense analysis	6 months ended 30 June 2017 US$m	6 months ended 30 June 2016 US$m	Year ended 31 December 2016 US$m
Underlying operating expenses[1]	**116.5**	105.9	217.1
Project costs, timing differences and other expense adjustments	**(0.4)**	0.2	-
Total operating expenses before FX hedge	**116.1**	106.1	217.1
FX hedge	**(3.9)**	-	-
Total operating expenses after FX hedge	**112.2**	106.1	217.1

1 Includes bonus provisions.

Underlying operating expenses during the six months ended 30 June 2017 increased 10.0% to US$116.5m (30 June 2016: US$105.9m; 31 December 2016: US$217.1m). The increase primarily reflects increases in staff related costs (resulting from investment in the Group's underwriting initiatives and compliance related resources), accommodation costs and regulatory levies, and the effect of currency movements (as the majority of our expenses are incurred in Sterling).

As the majority of Brit's business is in US dollars and the majority of its operating expenses are in Sterling, Brit took the decision to purchase a forward contract to increase its exposure to Sterling and thereby hedge the Sterling proportion of the Group's expenses. As this contract was entered into to manage our expense position, the benefit of this contract (US$3.9m) has been offset against expenses in the table above.

The disclosure of operating expenses within the consolidated income statement is as follows:

Disclosure of operating expenses	6 months ended 30 June 2017 US$m	6 months ended 30 June 2016 US$m	Year ended 31 December 2016 US$m
Acquisition costs	**(58.0)**	(50.2)	(112.3)
Other operating expenses	**(58.1)**	(55.9)	(104.8)
Total operating expenses	**(116.1)**	(106.1)	(217.1)
Return on derivative contracts	**3.9**	-	-
Total operating expenses after FX hedge	**(112.2)**	(106.1)	(217.1)

Investments

The aggregated return on invested assets (cash and cash equivalents, investments, investment related derivatives and associated undertakings), net of expenses, for the six months ended 30 June 2017 was US$126.3m or 3.2% non-annualised (30 June 2016: US$182.0m/4.6%; 31 December 2016: US$102.9m/2.6%). The key driver of the return was strong growth in our equity and fund investments, as equity markets continued to rally. These gains were partly offset by losses on investment related derivatives.

The Group's return on investments is analysed in the table below:

Investment return	6 months ended 30 June 2017 US$m	6 months ended 30 June 2016 US$m	Year ended 31 December 2016 US$m
Income	**24.1**	39.6	73.7
Released gains	**(2.8)**	10.1	62.3
Unrealised gains/(losses)	**114.7**	151.6	10.0
Investment return before fees	**136.0**	201.3	146.0
Investment management expenses	**(6.8)**	(6.5)	(13.8)
Investment return net of fees	**129.2**	194.8	132.2
Investment related derivative return	**(4.1)**	(14.0)	(32.9)
Return on associated undertakings	**1.2**	1.2	3.6
Total return	**126.3**	182.0	102.9
Total return	**3.2%**[1]	4.6%[1]	2.6%

1 Non-annualised.

Our two associated undertakings produced a positive return of US$1.2m.

- Ambridge Partners LLC, a leading managing general underwriter of transactional insurance products in which Brit holds a 50% share, contributed US$0.9m to this return; and
- Camargue Underwriting Managers Proprietary Limited, a leading managing general underwriter of a range of specialised insurance products and specialist liability solutions in South Africa in which Brit holds a 50% share, contributed US$0.3m to this return.

Invested assets (cash and cash equivalents, investments, investment related derivatives and associated undertakings) at 30 June 2017 totalled US$4,060.5m (30 June 2016: US$4,067.0m; 31 December 2016: US$3,971.5m). The Group's asset allocation, on a look-through basis, is set out in the table below:

Invested assets	**30 June 2017 US$m**	**30 June 2016 US$m**	**31 December 2016 US$m**
Government debt securities	**1,419.3**	2,605.2	1,830.9
Corporate debt securities	**579.8**	541.5	594.5
Structured products	**7.6**	22.3	14.0
Loan instruments	**-**	57.7	-
Equity securities	**787.5**	316.1	492.0
Alternative investments	**15.4**	1.0	7.3
Cash and cash equivalents	**1,244.0**	498.7	1,027.3
Derivatives (investment related)	**6.9**	24.5	5.5
Total invested assets	**4,060.5**	4,067.0	3,971.5

The portfolio remains defensively positioned with a large allocation to cash and cash equivalents (US$1,244.0m/30.6%) and fixed income securities (US$2,006.7m/49.4%). Brit's equity allocation has increased during the period and now stands at US$787.5m/19.4%, partly reflecting the strong performance in the period. Brit has in place ten year inflation floors to protect the portfolio.

At 30 June 2017, 78.4% of our invested assets were investment grade quality (31 December 2016: 82.7%) and the duration of the portfolio was 0.6 years (31 December 2016: 1.1 years).

Foreign exchange

We manage our currency exposures to mitigate their impact on solvency rather than to achieve a short-term impact on earnings. We experienced a total foreign exchange gain of US$9.6m in the six months ended 30 June 2017 (30 June 2016: gain of US$29.7m; 31 December 2016: gain of US$41.3m). This total foreign exchange related gain comprised:

- An unrealised revaluation loss of US$4.1m (30 June 2016: gain of US$61.8m; 31 December 2016: gain of US$61.2m), primarily relating to the mark to market of the capital we hold in non-US dollar currencies to match our risk exposures. The loss primarily results from the weakening of the US dollar against Sterling and the Euro (where we had a short position during the period), partly offset by gains resulting from the weakening of the US dollar against the Canadian dollar and the Australian dollar (where we had a long position during the period);
- A gain of US$7.8m (30 June 2016: loss of US$32.6m; 31 December 2016: loss of US$19.9m) on derivative contracts which were entered into to help manage the Group's FX exposures and therefore should be viewed in conjunction with our monetary FX movements; and
- An accounting gain of US$5.9m (30 June 2016: gain of US$0.5m; 31 December 2016: no overall gain or loss), as a result of the IFRS requirement to recognise non-monetary assets and liabilities at historic exchange rates. This adjustment is essentially a timing difference. The adjustment for the six months ended 30 June 2017 comprises the un-wind of the credit carried on the balance sheet at 31 December 2016 (US$3.6m), plus the debit balance established during 2017 (US$2.3m).

The allocation of the FX result within the income statement is as follows:

Foreign exchange gains and (losses)	6 months ended 30 June 2017 US$m	6 months ended 30 June 2016 US$m	Year ended 31 December 2016 US$m
Net change in unearned premium provision - non-monetary FX effect	**3.2**	7.2	19.0
Acquisition costs - non-monetary FX effect	**(1.8)**	(3.7)	(10.0)
Net foreign exchange (losses)/gains - non-monetary[1]	**4.5**	(3.0)	(9.0)
	5.9	0.5	-
Net foreign exchange losses - monetary[1]	**(4.1)**	61.8	61.2
Return on derivative contracts - FX related instruments	**7.8**	(32.6)	(19.9)
	3.7	29.2	41.3
Total (loss)/gain	**9.6**	29.7	41.3

1 The sum of these two amounts, US$0.4m, is the 'Net foreign exchange gains' figure per the condensed consolidated income statement.

Tax

Our tax on ordinary activities for 2017 resulted in a tax expense of US$13.7m (30 June 2016: US$21.7m; 31 December 2016: US$2.2m), based on a group profit before tax of US$153.4m (30 June 2016: US$219.3m; 31 December 2016: US$159.8m).

The Group is liable to taxes on its corporate income in a number of jurisdictions, in particular the UK, Gibraltar and the US, where its companies carry on business. A tax charge is calculated in each legal entity across the Group and then consolidated. Therefore, the Group's effective rate is sensitive to the location of taxable profits and is a composite tax rate reflecting the mix of tax rates charged in those jurisdictions.

The 2017 Group rate varies from the weighted average rate in those jurisdictions for a number of factors. The principal factor is the impact of the exempt income, such as dividend income. The rate is further influenced by non-UK taxes arising in our Lloyd's syndicate.

Balance sheet and capital strength

Brit's balance sheet remains strong. Brit Syndicate 2987's effective rating from trading through Lloyd's is A+ (Strong) from Standard and Poor's, AA- (Very Strong) from Fitch Ratings and A (Excellent) from AM Best.

At 30 June 2017, our adjusted net tangible assets totalled US$1,161.2m (30 June 2016: US$1,241.4m; 31 December 2016: US$1,064.8m), an increase of 9.1% in the period. During the six months ended 30 June 2017, we paid a dividend of US$45.8m.

Our group capital resources at 30 June 2017 totalled US$1,562.9m, giving surplus management capital of US$477.2m or 44.0% (30 June 2016: US$545.1m/49.5%; 31 December 2016: US$297.1m/25.6%) over our Group management capital requirement of US$1,085.7m.

Brit has in place a US$360.0m revolving credit facility which expires on 31 December 2020. At 30 June 2017 the only drawing on the facility was a US$80.0m letter of credit, of which US$25.0m was collateralised, to support Brit's underwriting activities (30 June 2016: US$80.0m/US$4.0m collateralised; 31 December 2016: US$80.0m/US$4.0m collateralised). At the date of this report, 2 August 2017, the LoC was fully collateralised.

In addition, we have in issue £135.0m of 6.625% subordinated debt with a carrying value of £128.3m/ US$166.7m (30 June 2016: £126.7m/ US$169.4m; 31 December 2016: £127.5m/ US$157.5m). This instrument, which is listed on the London Stock Exchange, was issued in December 2005, is callable in whole by Brit on 9 December 2020 and matures in 2030.

At 30 June 2017, Brit's gearing ratio was 16.7% (30 June 2016: 17.4%; 31 December 2016: 18.9%).

Business development

During 2017 we have continued to focus on our underwriting strategy. Key developments have included:

Syndicate 2988

Brit's new syndicate, Syndicate 2988, commenced underwriting in late 2016, for the 2017 underwriting year. The new syndicate is managed by Brit's existing Lloyd's managing agent, Brit Syndicates Limited (BSL). The capital for Syndicate 2988 has been provided by external Names and its first year capacity is US$67.0m.

The successful launch of Syndicate 2988 reinforces Brit's long-term commitment to the Lloyd's market and ambition to use its infrastructure to expand our current position as the largest Lloyd's only insurer. It will also help us further position Brit as the specialist underwriter of choice, building on our existing strength across underwriting, claims and capital management and track record of delivering attractive returns for capital providers.

Lutine Yacht Consortium

In January, we further strengthened our leading marine offering by announcing the launch of a new Brit-led Lloyd's consortium for Yachts. The consortium has a capacity of US$250.0 million, offering 100% Lloyd's security to insure motor and sailing vessels valued at over US$10.0 million. The consortium also offers worldwide coverage, has global reach through Lloyd's brokers and their agents and clients will be supported by a 24/7 claims service.

Strengthened Program Capability

In January, we appointed an experienced Senior Vice President, Programs, for BGSU, to focus on writing Property, Casualty, Package and miscellaneous lines to specialised US based agencies. With a focus on niche Program Managers written 100% on E&S and admitted paper, this initiative differs from, and is complimentary to, Brit's current London based MGA capabilities.

US based Cyber Insurance Team

In March, we announced the launch of a new cyber and technology team for BGSU. The launch of this Chicago-based team complements and enhances Brit's current London based platform by offering local expertise and service to meet the growing demand for cyber and technology products in the US SME sector.

BGSU milestone – US$1bn written by our US office

Since it was established in 2009, BGSU has now written over US$1bn in premium. BGSU has reached this milestone by delivering strong, profitable organic growth with a focus on niche areas where it has significant expertise and experience. A significant strategic investment has also been made by adding market leading teams and developing its distribution network and spread of reach. It now offers insurance and reinsurance, backed by the financial strength of Brit Syndicate 2987, with a focus on Specialty Package and Property. Specialties include Public & Non-Profit, Property Direct and Facultative, and Criminal Justice Service Operations. BGSU's average combined ratio over the last three and a half calendar years is 93%.

Britain's exit from the EU (Brexit)

Following the triggering of Article 50 of the Treaty of Lisbon on 29 March 2017, Brit continues to monitor the ensuing negotiations, which will be lengthy and complex, and other developments. Brit's focus remains on putting our clients first and we will continue to work to minimise the impact on Brit and our clients and to take advantage of opportunities as they arise.

Brit notes Lloyd's proposals for setting up a new European insurance company to be located in Brussels. We are supportive of these proposals.

Principal risks and risk management

There are a number of risks and uncertainties which could impact the Group's future performance.

The Board monitors the key risks that the Company is exposed to against its tolerance level through the quarterly 'own risk and solvency assessment' (ORSA) process. This includes both the qualitative assessment of the risk control environment and capital assessment using a stochastic model.

The key categories of risk include:

- Overarching risk: earnings, solvency and liquidity; and
- Individual risk categories: insurance, market, credit and operational and group.

The key risks and uncertainties are set out in the following table and the principal risks in the current environment are set out below.

Risk category	**Risk**	**Description**
Insurance	Underwriting – pricing	Emerging experience is inconsistent with the assumptions and pricing models used.
	Underwriting – catastrophe	Premiums are insufficient to meet the long-term profitability expected.
	Reserving	Prior year reserves are insufficient to cover claims (net of reinsurance).
Investment	Investment market risk	Invested assets adversely affected by changes in economic variables, such as interest rates, bond yields, equity returns, credit spreads and credit ratings.
Operational and group	People	Failure to attract, motivate and retain key Directors, senior underwriters, senior management and other key personnel, on whom our future success is substantially dependent.

Additional risks to the Group potentially arise following the UK's decision to exit from the EU (Brexit) and subsequent triggering of Article 50 of the Treaty of Lisbon, with the medium and long-term ramifications taking some time to become clear. As stated above, Brit continues to monitor developments to work to minimise the impact on Brit and our clients and to take advantage of opportunities as they arise.

Ownership

Brit Limited's ultimate parent undertaking is Fairfax Financial Holdings Limited, a company registered in Canada. Fairfax Financial Holdings Limited is quoted on the Toronto stock exchange. As at 30 June 2017, the Fairfax Group owned 72.51% of Brit's ordinary shares, with the remaining 27.49% owned by the OMERS Administration Corporation, administrator of the Ontario Municipal Employees Retirement System (OMERS) pension plans and trustee of the OMERS pension fund.

Auditor review

This half-yearly financial report has not been audited or reviewed by the Company's independent auditor.

Responsibility statement of the Directors in respect of the Interim Report

We confirm that to the best of our knowledge:

- The condensed consolidated interim financial statements have been prepared in accordance with IAS 34 'Interim Financial Reporting' as adopted by the EU; and
- The interim management report includes a fair review of the information required by DTR 4.2.7R of the Disclosure and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed consolidated interim financial statements, and a description of the principal risks and uncertainties for the remaining six months of the year.

Matthew Wilson
Group Chief Executive Officer
2 August 2017

Condensed Consolidated Income Statement

for 6 months ended 30 June 2017

	Note	**Unaudited 6 months ended 30 June 2017 US$m**	Unaudited 6 months ended 30 June 2016 US$m	Audited Year ended 31 December 2016 US$m
Revenue				
Gross premiums written	5	**1,092.5**	1,030.6	1,912.2
Less premiums ceded to reinsurers	5	**(323.6)**	(272.9)	(432.0)
Premiums written, net of reinsurance		**768.9**	757.7	1,480.2
Gross amount of change in provision for unearned premiums		**(135.2)**	(77.1)	21.4
Reinsurers' share of change in provision for unearned premiums		**110.2**	78.5	32.5
Net change in provision for unearned premiums		**(25.0)**	1.4	53.9
Earned premiums, net of reinsurance	5	**743.9**	759.1	1,534.1
Investment return	6	**129.2**	194.8	132.2
Return on derivative contracts	7	**7.6**	(46.6)	(52.8)
Other income		**2.3**	1.9	1.1
Net foreign exchange gains	8	**0.4**	58.8	52.2
Total revenue		**883.4**	968.0	1,666.8
Expenses				
Claims incurred:				
Claims paid:				
Gross amount		**(490.2)**	(418.9)	(874.9)
Reinsurers' share		**116.2**	73.7	140.7
Claims paid, net of reinsurance		**(374.0)**	(345.2)	(734.2)
Change in the provision for claims:				
Gross amount		**(50.9)**	(104.3)	(183.9)
Reinsurers' share		**22.2**	27.4	62.0
Net change in the provision for claims		**(28.7)**	(76.9)	(121.9)
Claims incurred, net of reinsurance	5	**(402.7)**	(422.1)	(856.1)
Acquisition costs	9	**(262.1)**	(261.8)	(530.9)
Other operating expenses	9	**(58.1)**	(55.9)	(104.8)
Total expenses excluding finance costs		**(722.9)**	(739.8)	(1,491.8)
Operating profit		**160.5**	228.2	175.0
Finance costs		**(8.3)**	(10.1)	(18.8)
Share of profit after tax of associated undertakings		**1.2**	1.2	3.6
Profit on ordinary activities before tax		**153.4**	219.3	159.8
Tax expense	10(a)	**(13.7)**	(21.7)	(2.2)
Profit attributable to owners of the parent		**139.7**	197.6	157.6

The accompanying notes are an integral part of the condensed consolidated interim financial statements.

Condensed Consolidated Statement of Comprehensive Income

for 6 months ended 30 June 2017

	Note	**Unaudited 6 months ended 30 June 2017 US$m**	Unaudited 6 months ended 30 June 2016 US$m	Audited Year ended 31 December 2016 US$m
Profit attributable to owners of the parent		**139.7**	197.6	157.6
Other comprehensive income				
Items not to be reclassified to profit or loss in subsequent periods:				
Actuarial losses on defined benefit pension scheme		**-**	-	(5.4)
Deferred tax charge on actuarial gains on defined benefit pension scheme	10(b)	**-**	-	0.9
Items that may be reclassified to profit or loss in subsequent periods:				
Change in unrealised foreign currency translation gain/(losses) on foreign operations		**4.1**	(7.2)	(13.7)
Total other comprehensive income		**4.1**	(7.2)	(18.2)
Total comprehensive income recognised		**143.8**	190.4	139.4

The accompanying notes are an integral part of the condensed consolidated interim financial statements.

Condensed Consolidated Statement of Financial Position

30 June 2017

	Note	**Unaudited 30 June 2017 US$m**	Unaudited 30 June 2016 US$m	Audited 31 December 2016 US$m
Assets				
Intangible assets		**96.3**	93.5	93.9
Property, plant and equipment		**22.5**	25.1	22.9
Deferred acquisition costs		**246.1**	238.1	219.6
Investment in associated undertaking		**37.4**	29.5	36.6
Reinsurance contracts	11	**1,032.7**	913.4	884.1
Employee benefits		**45.3**	48.2	42.5
Deferred taxation		**56.5**	-	0.4
Current taxation		**11.3**	-	15.3
Financial investments	12	**2,773.6**	3,517.2	2,903.9
Derivative contracts	13	**15.5**	64.5	12.6
Insurance and other receivables		**978.5**	823.4	718.3
Cash and cash equivalents		**1,244.0**	492.8	1,025.5
Total assets		**6,559.7**	6,245.7	5,975.6
Liabilities and Equity				
Liabilities				
Insurance contracts	11	**4,491.3**	4,327.8	4,243.5
Borrowings		**166.7**	169.4	157.5
Deferred taxation		**83.9**	37.7	25.8
Provisions		**2.3**	4.3	2.4
Current taxation		**10.3**	2.5	4.6
Derivative contracts	13	**15.3**	23.8	11.8
Insurance and other payables		**543.5**	358.5	382.0
Total liabilities		**5,313.3**	4,924.0	4,827.6
Equity				
Called up share capital	14	**6.4**	6.6	6.4
Capital redemption reserve		**0.2**	-	0.2
Foreign currency translation reserve		**(86.9)**	(84.5)	(91.0)
Retained earnings		**1,326.7**	1,399.6	1,232.4
Total equity		**1,246.4**	1,321.7	1,148.0
Total liabilities and equity		**6,559.7**	6,245.7	5,975.6

The accompanying notes are an integral part of the condensed consolidated interim financial statements.

These financial statements were approved by the Board of Directors on 2 August 2017 and were signed on its behalf by:

Matthew Wilson
Group Chief Executive Officer

Mark Allan
Chief Financial Officer

Condensed Consolidated Statement of Cash Flows

for 6 months ended 30 June 2017

	Note	**Unaudited 6 months ended 30 June 2017 US$m**	Unaudited 6 months ended 30 June 2016 US$m	Audited Year ended 31 December 2016 US$m
Cash generated from operations				
Cash flows provided by operating activities	15	**253.3**	(56.8)	579.4
Tax (paid)/received		**(2.3)**	6.6	(3.4)
Interest received		**15.3**	15.4	57.8
Dividends received		**4.0**	9.3	17.5
Net cash inflows/(outflows) from operating activities		**270.3**	(25.5)	651.3
Cash flows from investing activities				
Purchase of intangible assets		**(3.8)**	(4.4)	(6.3)
Purchase of property, plant and equipment		**(0.7)**	(8.0)	(8.3)
Movement in investment in associated undertakings		**0.6**	0.1	-
Investment in associated undertaking		**-**	-	(4.9)
Net cash outflows from investing activities		**(3.9)**	(12.3)	(19.5)
Cash flows from financing activities				
Purchase of class A shares for cancellation		**-**	-	(58.1)
Purchase of shares for share-based payment schemes		**(6.6)**	(3.3)	(3.4)
Interest paid		**(1.1)**	(1.9)	(15.4)
Dividend paid		**(45.8)**	(26.1)	(90.8)
Net cash outflows from financing activities		**(53.5)**	(31.3)	(167.7)
Net increase/(decrease) in cash and cash equivalents		**212.9**	(69.1)	464.1
Cash and cash equivalents at beginning of the period		**1,025.5**	581.0	581.0
Effect of exchange rate fluctuations on cash and cash equivalents		**5.6**	(19.1)	(19.6)
Cash and cash equivalents at the end of the period		**1,244.0**	492.8	1,025.5

The accompanying notes are an integral part of the condensed consolidated interim financial statements.

Condensed Consolidated Statement of Changes in Equity

for 6 months ended 30 June 2017

	Called up share capital US$m	Capital redemption reserve US$m	Foreign currency translation reserve US$m	Retained earnings US$m	Total Equity US$m
At 1 January 2017	**6.4**	**0.2**	**(91.0)**	**1,232.4**	**1,148.0**
Total comprehensive income recognised	**-**	**-**	**4.1**	**139.7**	**143.8**
Share-based payments	**-**	**-**	**-**	**0.4**	**0.4**
Dividend	**-**	**-**	**-**	**(45.8)**	**(45.8)**
At 30 June 2017	**6.4**	**0.2**	**(86.9)**	**1,326.7**	**1,246.4**

for 6 months ended 30 June 2016

	Called up share capital US$m	Capital redemption reserve US$m	Foreign currency translation reserve US$m	Retained earnings US$m	Total Equity US$m
At 1 January 2016	6.6	-	(77.3)	1,227.2	1,156.5
Total comprehensive income recognised	-	-	(7.2)	197.6	190.4
Share-based payments	-	-	-	0.9	0.9
Dividend	-	-	-	(26.1)	(26.1)
At 30 June 2016	6.6	-	(84.5)	1,399.6	1,321.7

Condensed Consolidated Statement of Changes in Equity (continued)

for year ended 31 December 2016

	Called up share capital US$m	Capital redemption reserve US$m	Foreign currency translation reserve US$m	Retained earnings US$m	Total Equity US$m
At 1 January 2016	6.6	-	(77.3)	1,227.2	1,156.5
Total comprehensive income recognised	-	-	(13.7)	153.1	139.4
Repurchase of class A shares	-	-	-	(58.1)	(58.1)
Cancellation of share capital	(0.2)	0.2	-	-	-
Share-based payments	-	-	-	1.0	1.0
Dividend	-	-	-	(90.8)	(90.8)
At 31 December 2016	6.4	0.2	(91.0)	1,232.4	1,148.0

The accompanying notes are an integral part of the condensed consolidated interim financial statements.

Notes to the Condensed Consolidated Interim Financial Statements

1 General information

The condensed consolidated interim financial statements of Brit Limited and its subsidiaries (collectively, the Group) for the six months ended 30 June 2017 were authorised for issue in accordance with a resolution of the Directors on 2 August 2017.

Brit Limited is a limited company, incorporated and domiciled in England and Wales. The Group's principal activity is the underwriting of general insurance and reinsurance business.

2 Accounting policies and basis of preparation

(a) Basis of preparation

The condensed consolidated interim financial statements for the six months ended 30 June 2017 have been prepared in accordance with IAS 34 'Interim Financial Reporting'. The accounting policies applied in these condensed consolidated interim financial statements are consistent with those applied by the Brit Limited Group in its consolidated financial statements as at the year ended 31 December 2016. The consolidated financial statements as at, and for the year ended 31 December 2016 were compliant with International Financial Reporting Standards as adopted by the European Union.

This 2017 condensed consolidated interim financial information does not comprise statutory accounts within the meaning of Section 434 of the Companies Act 2006. Statutory accounts for Brit Limited, for the year ended 31 December 2016 were prepared in accordance with IFRS and UK company law. IFRS comprises standards issued by the International Accounting Standards Board (IASB) and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and as endorsed by the EU. The consolidated financial statements of the Brit Limited Group for the year ended 31 December 2016 were authorised for issue in accordance with a resolution of the Directors on 15 February 2017.

These condensed consolidated interim financial statements have been prepared in accordance with the Disclosure and Transparency Rules issued by the Financial Conduct Authority. The information presented herein does not include all the disclosures typically required for full consolidated financial statements. Consequently these financial statements should be read in conjunction with the full consolidated financial statements of the Brit Limited Group as at, and for the year ended 31 December 2016 available from the Company's registered office or from www.britinsurance.com.

After making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Therefore the Group continues to adopt the going concern basis in preparing its condensed consolidated interim financial statements.

(b) Basis of consolidation

The consolidated financial statements include the financial statements of the Company, its subsidiaries and associates and the Group's participation in the Lloyd's syndicate's assets, liabilities, revenues and expenses. Subsidiaries are those entities (including structured entities) that an investor controls, when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The financial statements of subsidiaries are prepared up to 31 December each year. Consolidation adjustments are made to convert subsidiary financial statements from local GAAP into IFRS so as to remove any dissimilar accounting policies that may exist. Subsidiaries are consolidated from the date control is transferred to the Group and cease to be consolidated from the date control is transferred from the Group. All inter-company balances, profits and transactions are eliminated.

Associates are those entities over which the Group has the power to exercise significant influence but not control. The Group's investment in associated undertakings is accounted for under the equity method of accounting whereby associated undertakings are carried in the statement of financial position at cost plus post-acquisition changes in the Group's share of net assets of the associates, less any impairment in value. The Group's investment in associated undertakings also includes goodwill identified on acquisition less any accumulated impairment loss. The income statement reflects the Group's share of the post-acquisition results of operations of the associated undertaking and the statement of comprehensive income reflects the Group's share of the comprehensive income of the associated undertaking. The financial statements of associated undertakings are prepared up to 31 December each year.

3 Risk management policies

The Group's financial, insurance and other risk management objectives and policies are consistent with those disclosed in Note 4 to the Group's consolidated financial statements as at and for the year ended 31 December 2016. The principal risks and uncertainties are unchanged and may be summarised as insurance risk, investment risk, market risk, credit risk, liquidity risk, capital risk and operational risk.

4 Seasonality of operations

The Group underwrites a wide range of risks, some of which are subject to potential seasonal variation. The most material of these is the Group's exposure to North Atlantic hurricanes which are largely concentrated into the second half of a calendar year. The Group actively participates in many regions and if any catastrophe events do occur, it is likely that the Group will share some of the market's losses. Consequently the potential for significantly greater volatility in expected returns remains during the second half of the year.

5 Segmental information

As at 30 June 2017, the reportable segments identified were as follows:

- 'Brit Global Specialty Direct', which underwrites the Group's international and US business other than reinsurance. In the main, Global Specialty Direct deals with wholesale buyers of insurance, rather than individuals. Risks are large and usually syndicated by several underwriters by means of the subscription market.
- 'Brit Global Specialty Reinsurance', which underwrites reinsurance business (essentially the insurance of insurance and reinsurance companies) and includes writing non-proportional cover for major events such as earthquakes or hurricanes. These insurance and reinsurance companies calculate how much risk they want to retain and then pass on their remaining exposure to reinsurers in return for a premium.
- 'Other underwriting', which comprises excess of loss reinsurance ceded from the strategic business units to a cell of Brit Insurance (Gibraltar) PCC Limited.
- 'Other Corporate', which is made up of residual income and expenditure not allocated to other segments.

Foreign exchange differences on non-monetary items are separately disclosed. This provides a fairer representation of the claims ratios and financial performance of the Strategic Business Units (SBUs) which would otherwise be distorted by the mismatch arising from IFRSs whereby unearned premium, reinsurer's share of unearned premium and deferred acquisition costs are treated as non-monetary items and the majority of other assets and liabilities are treated as monetary items. Non-monetary items are carried at historic exchange rates, while monetary items are translated at closing rates.

The Group investment return is managed centrally and an allocation is made to each of the strategic business units based on the average risk-free interest rate applied to the opening insurance funds of each strategic business unit. The annualised average risk-free rate applied to insurance funds was 1.5% for the six months ended 30 June 2017 (30 June 2016: 1.5%; 31 December 2016: 1.5%).

The ratios set out in the segmental analysis are calculated as follows:

- The claims ratio is calculated as claims incurred, net of reinsurance divided by earned premiums, net of reinsurance.
- The expense ratio is calculated as acquisition costs and other insurance-related expenses divided by earned premiums, net of reinsurance.
- The combined ratio is the sum of the claims and expense ratios.

Information regarding the Group's reportable segments is presented below.

a) Statement of profit or loss by segment

6 months ended 30 June 2017

	Brit Global Specialty Direct US$m	Brit Global Specialty Reinsurance US$m	Other Underwriting US$m	Intra Group US$m	Total underwriting excluding the effect of foreign exchange on non-monetary items US$m	Effect of foreign exchange on non-monetary items US$m	Total underwriting after the effect of foreign exchange on non-monetary items US$m	Other corporate US$m	Total US$m
Gross premiums written	831.4	261.0	22.9	(22.8)	**1,092.5**	-	**1,092.5**	-	**1,092.5**
Less premiums ceded to reinsurers	(273.0)	(73.4)	-	22.8	**(323.6)**	-	**(323.6)**	-	**(323.6)**
Premiums written, net of reinsurance	558.4	187.6	22.9	-	**768.9**	-	**768.9**	-	**768.9**
Gross earned premiums	778.9	174.3	16.2	(16.2)	**953.2**	6.8	**960.0**	-	**960.0**
Reinsurers' share	(190.2)	(37.2)	(1.3)	16.2	**(212.5)**	(3.6)	**(216.1)**	-	**(216.1)**
Earned premiums, net of reinsurance	588.7	137.1	14.9	-	**740.7**	3.2	**743.9**	-	**743.9**
Investment return	14.4	5.5	-	-	**19.9**	-	**19.9**	109.3	**129.2**
Return on derivative contracts	3.2	0.7	-	-	**3.9**	-	**3.9**	3.7	**7.6**
Other income	2.3	-	-	-	**2.3**	-	2.3	-	**2.3**
Net foreign exchange gains/losses	-	-	-	-	**-**	4.5	**4.5**	(4.1)	**0.4**
Total revenue	608.6	143.3	14.9	-	**766.8**	7.7	**774.5**	111.2	**883.4**
Gross claims incurred	(493.0)	(48.4)	(16.4)	16.7	**(541.1)**	-	**(541.1)**	-	**(541.1)**
Reinsurers' share	146.8	4.1	4.2	(16.7)	**138.4**	-	**138.4**	-	**138.4**
Claims incurred, net of reinsurance	(346.2)	(44.3)	(12.2)	-	**(402.7)**		**(402.7)**	-	**(402.7)**
Acquisition costs - commission	(174.9)	(27.7)	(0.2)	-	**(202.8)**	(1.3)	**(204.1)**	-	**(204.1)**
Acquisition costs - other	(47.8)	(9.2)	(0.5)	-	**(57.5)**	(0.5)	**(58.0)**	-	**(58.0)**
Other insurance related expenses	(32.3)	(8.0)	(1.2)	-	**(41.5)**	-	**(41.5)**	-	**(41.5)**
Other expenses	-	-	-	-	**-**	-	-	(16.6)	**(16.6)**
Total expenses excluding finance costs	(601.2)	(89.2)	(14.1)	-	**(704.5)**	(1.8)	**(706.3)**	(16.6)	**(722.9)**
Operating profit	7.4	54.1	0.8	-	**62.3**	5.9	**68.2**	94.6	**160.5**
Finance costs									**(8.3)**
Share of profit after tax of associated undertakings									**1.2**
Profit on ordinary activities before tax									**153.4**
Tax expense									**(13.7)**
Profit attributable to owners of the parent									**139.7**
Claims ratio	58.8%	32.3%	82.5%		**54.4%**		**54.1%**		
Expense ratio	43.3%	32.7%	12.1%		**40.7%**		**40.7%**		
Combined ratio	102.1%	65.0%	94.7%		**95.1%**		**94.8%**		

6 months ended 30 June 2016

	Brit Global Specialty Direct US$m	Brit Global Specialty Reinsurance US$m	Other Underwriting US$m	Intra Group US$m	Total underwriting excluding the effect of foreign exchange on non-monetary items US$m	Effect of foreign exchange on non-monetary items US$m	Total underwriting after the effect of foreign exchange on non-monetary items US$m	Other corporate US$m	Total US$m
Gross premiums written	779.9	250.9	25.7	(25.9)	1,030.6	-	1,030.6	-	1,030.6
Less premiums ceded to reinsurers	(233.7)	(59.1)	(6.0)	25.9	(272.9)	-	(272.9)	-	(272.9)
Premiums written, net of reinsurance	546.2	191.8	19.7	-	757.7	-	757.7	-	757.7
Gross earned premiums	778.3	166.5	12.1	(12.1)	944.8	8.8	953.6	-	953.6
Reinsurers' share	(166.3)	(36.4)	(2.3)	12.1	(192.9)	(1.6)	(194.5)	-	(194.5)
Earned premiums, net of reinsurance	612.0	130.1	9.8	-	751.9	7.2	759.1	-	759.1
Investment return	13.9	5.3	-	-	19.2	-	19.2	175.6	194.8
Return on derivative contracts	-	-	-	-	-	-	-	(46.6)	(46.6)
Other income	-	-	-	-	-	-	-	1.9	1.9
Net foreign exchange (losses)/gains	-	-	-	-	-	(3.0)	(3.0)	61.8	58.8
Total revenue	625.9	135.4	9.8	-	771.1	4.2	775.3	192.7	968.0
Gross claims incurred	(426.8)	(95.6)	(8.5)	7.7	(523.2)	-	(523.2)	-	(523.2)
Reinsurers' share	91.6	16.1	1.1	(7.7)	101.1	-	101.1	-	101.1
Claims incurred, net of reinsurance	(335.2)	(79.5)	(7.4)	-	(422.1)	-	(422.1)	-	(422.1)
Acquisition costs - commission	(183.3)	(25.5)	(0.2)	-	(209.0)	(2.6)	(211.6)	-	(211.6)
Acquisition costs - other	(41.8)	(7.2)	(0.1)	-	(49.1)	(1.1)	(50.2)	-	(50.2)
Other insurance related expenses	(35.2)	(8.8)	(1.2)	-	(45.2)	-	(45.2)	-	(45.2)
Other expenses	-	-	-	-	-	-	-	(10.7)	(10.7)
Total expenses excluding finance costs	(595.5)	(121.0)	(8.9)	-	(725.4)	(3.7)	(729.1)	(10.7)	(739.8)
Operating profit	30.4	14.4	0.9	-	45.7	0.5	46.2	182.0	228.2
Finance costs									(10.1)
Share of profit after tax of associated undertakings									1.2
Profit on ordinary activities before tax									219.3
Tax expense									(21.7)
Profit attributable to owners of the parent									197.6
Claims ratio	54.8%	61.1%	75.5%		56.1%		55.6%		
Expense ratio	42.5%	31.9%	15.3%		40.4%		40.4%		
Combined ratio	97.3%	93.0%	90.8%		96.5%		96.0%		

12 months ended 31 December 2016

	Brit Global Specialty Direct US$m	Brit Global Specialty Reinsurance US$m	Other Underwriting US$m	Intra Group US$m	Total underwriting excluding the effect of foreign exchange on non-monetary items US$m	Effect of foreign exchange on non-onetary items US$m	Total underwriting after the effect of foreign exchange on non-monetary items US$m	Other corporate US$m	Total US$m
Gross premiums written	1,546.6	365.8	27.3	(27.5)	1,912.2	-	1,912.2	-	1,912.2
Less premiums ceded to reinsurers	(377.9)	(76.3)	(5.3)	27.5	(432.0)	-	(432.0)	-	(432.0)
Premiums written, net of reinsurance	1,168.7	289.5	22.0	-	1,480.2	-	1,480.2	-	1,480.2
Gross earned premiums	1,548.4	361.6	25.2	(25.4)	1,909.8	23.8	1,933.6	-	1,933.6
Reinsurers' share	(339.8)	(76.1)	(4.2)	25.4	(394.7)	(4.8)	(399.5)	-	(399.5)
Earned premiums, net of reinsurance	1,208.6	285.5	21.0	-	1,515.1	19.0	1,534.1	-	1,534.1
Investment return	27.5	10.5	-	-	38.0	-	38.0	94.2	132.2
Return on derivative contracts	-	-	-	-	-	-	-	(52.8)	(52.8)
Other income	-	-	-	-	-	-	-	1.1	1.1
Net foreign exchange losses/gains	-	-	-	-	-	(9.0)	(9.0)	61.2	52.2
Total revenue	1,236.1	296.0	21.0	-	1,553.1	10.0	1,563.1	103.7	1,666.8
Gross claims incurred	(918.9)	(138.0)	(24.1)	22.2	(1,058.8)	-	(1,058.8)	-	(1,058.8)
Reinsurers' share	210.7	14.5	(0.3)	(22.2)	202.7	-	202.7	-	202.7
Claims incurred, net of reinsurance	(708.2)	(123.5)	(24.4)	-	(856.1)	-	(856.1)	-	(856.1)
Acquisition costs - commission	(360.3)	(51.1)	(0.2)	-	(411.6)	(7.0)	(418.6)	-	(418.6)
Acquisition costs - other	(88.9)	(19.4)	(1.0)	-	(109.3)	(3.0)	(112.3)	-	(112.3)
Other insurance related expenses	(64.9)	(16.1)	(2.5)	-	(83.5)	-	(83.5)	-	(83.5)
Other expenses	-	-	-	-	-	-	-	(21.3)	(21.3)
Total expenses excluding finance costs	(1,222.3)	(210.1)	(28.1)	-	(1,460.5)	(10.0)	(1,470.5)	(21.3)	(1,491.8)
Operating profit/(loss)	13.8	85.9	(7.1)	-	92.6	-	92.6	82.4	175.0
Finance costs									(18.8)
Share of net profit of associates									3.6
Profit on ordinary activities before tax									159.8
Tax income									(2.2)
Profit attributable to owners of the parent									157.6
Claims ratio	58.6%	43.3%	116.2%		56.5%		55.8%		
Expense ratio	42.5%	30.3%	17.6%		39.9%		39.9%		
Combined ratio	101.1%	73.6%	133.8%		96.4%		95.7%		

6 Investment return

6 Months ended 30 June 2017

	Investment income US$m	**Net realised gains/(losses) US$m**	**Net unrealised gains/(losses) US$m**	**Total investment return US$m**
Equity securities	**4.3**	**7.9**	**59.9**	**72.1**
Debt securities	**18.0**	**(10.7)**	**17.4**	**24.7**
Loan instruments	**-**	**-**	**-**	**-**
Specialised investment funds	**-**	**-**	**37.4**	**37.4**
Cash and cash equivalents	**1.8**	**-**	**-**	**1.8**
Total investment return before expenses	**24.1**	**(2.8)**	**114.7**	**136.0**
Investment management expenses	**(6.8)**	**-**	**-**	**(6.8)**
Total investment return	**17.3**	**(2.8)**	**114.7**	**129.2**

6 Months ended 30 June 2016

	Investment income US$m	Net realised (losses)/gains US$m	Net unrealised (losses)/ gains US$m	Total investment return US$m
Equity securities	1.8	(0.3)	(58.2)	(56.7)
Debt securities	33.5	8.7	204.7	246.9
Loan instruments	3.6	0.1	5.4	9.1
Specialised investment funds	0.2	1.6	(0.3)	1.5
Cash and cash equivalents	0.5	-	-	0.5
Total investment return before expenses	39.6	10.1	151.6	201.3
Investment management expenses	(6.5)	-	-	(6.5)
Total investment return	33.1	10.1	151.6	194.8

Year ended 31 December 2016

	Investment income US$m	Net realised (losses)/gains US$m	Net unrealised (losses)/gains US$m	Total investment return US$m
Equity securities	5.1	(4.9)	(39.7)	(39.5)
Debt securities	66.8	64.1	45.8	176.7
Loan instruments	-	-	-	-
Specialised investment funds	1.1	3.1	3.9	8.1
Cash and cash equivalents	0.7	-	-	0.7
Total investment return before expenses	73.7	62.3	10.0	146.0
Investment management expenses	(13.8)	-	-	(13.8)
Total investment return	59.9	62.3	10.0	132.2

7 Return on derivative contracts

	6 months ended 30 June 2017 US$m	6 months ended 30 June 2016 US$m	Year ended 31 December 2016 US$m
Interest rate swaps		-	0.8
Futures		-	-
Non-currency options	**(4.1)**	(14.0)	(33.7)
Investment related derivatives	**(4.1)**	(14.0)	(32.9)
Currency forwards	**7.8**	(32.6)	(19.9)
Currency related derivatives	**7.8**	(32.6)	(19.9)
Expense management derivatives	**3.9**	-	-
Expense related derivatives	**3.9**	-	-
Total derivatives	**7.6**	(46.6)	(52.8)

8 Net foreign exchange gains/(losses)

The Group recognised foreign exchange gains of US$0.4m (30 June 2016: US$58.8m; 31 December 2016: US$52.2m) in the income statement in the period.

Foreign exchange gains and losses result from the translation of the balance sheet to closing exchange rates and the income statement to average exchange rates. However, as an exception to this, IAS 21 'The Effects of Changes in Foreign Exchange Rates' requires that net unearned premiums and deferred acquisition costs (UPR/DAC), being non-monetary items, remain at historic exchange rates. This creates a foreign exchange mismatch, the financial effects of which are shown in the table below.

	6 months ended 30 June 2017 US$m	6 months ended 30 June 2016 US$m	Year ended 31 December 2016 US$m
Gains/(losses) on foreign exchange arising from:			
Translation of the statement of financial position and income statement	**(4.1)**	61.9	61.1
Maintaining UPR/DAC items in the statement of financial position at historic rates	**5.9**	0.5	-
Maintaining UPR/DAC items in the income statement at historic rates	**(1.4)**	(3.6)	(8.9)
Net foreign exchange gains	**0.4**	58.8	52.2

Principal exchange rates applied are set out in the table below.

	6 months ended 30 June 2017		6 months ended 30 June 2016		Year ended 31 December 2016	
	Average	**Closing**	Average	Closing	Average	Closing
Sterling	**0.793**	**0.770**	0.698	0.748	0.738	0.809
Canadian dollar	**1.334**	**1.299**	1.328	1.299	1.323	1.341
Euro	**0.923**	**0.877**	0.896	0.900	0.903	0.948
Australian dollar	**1.325**	**1.304**	1.361	1.343	1.343	1.381

In accordance with IAS 1 ‘Presentation of Financial Statement’, exchange gains and losses are presented on a net basis. They are reported within revenue where they result in a net gain and within expenses where they result in a net loss.

9 Acquisition costs and other operating expenses

	6 months ended 30 June 2017			6 months ended 30 June 2016			Year ended 31 December 2016		
	Acquisition Costs US$m	**Other operating expenses US$m**	**Total US$m**	Acquisition costs US$m	Other operating expenses US$m	Total US$m	Acquisition costs US$m	Other operating expenses US$m	Total US$m
Salary, pension and social security costs	**30.3**	**29.7**	**60.0**	25.8	24.6	50.4	56.0	47.3	103.3
Other staff related costs	**1.2**	**5.0**	**6.2**	1.0	4.5	5.5	2.0	8.9	10.9
Accommodation costs	**3.2**	**2.9**	**6.1**	3.6	3.7	7.3	6.8	6.9	13.7
Legal and professional charges	**1.0**	**1.6**	**2.6**	0.4	3.3	3.7	1.5	5.7	7.2
IT costs	**0.5**	**9.7**	**10.2**	0.5	10.6	11.1	1.1	19.3	20.4
Travel and entertaining	**2.3**	**1.7**	**4.0**	1.9	1.0	2.9	4.2	2.8	7.0
Marketing and communications	**0.2**	**0.6**	**0.8**	0.1	0.7	0.8	0.3	1.2	1.5
Amortisation and impairment of intangible assets	**-**	**2.2**	**2.2**	-	3.0	3.0	0.1	4.9	5.0
Depreciation and impairment of property, plant and equipment	**0.2**	**1.9**	**2.1**	0.2	0.9	1.1	0.4	3.2	3.6
Regulatory levies and charges	**20.2**	**0.1**	**20.3**	18.8	0.1	18.9	38.1	-	38.1
Other	**(1.1)**	**2.7**	**1.6**	(2.1)	3.5	1.4	1.8	4.6	6.4
Expenses before commissions	**58.0**	**58.1**	**116.1**	50.2	55.9	106.1	112.3	104.8	217.1
Commission costs	**204.1**	**-**	**204.1**	211.6	-	211.6	418.6	-	418.6
Total acquisition costs and other operating expenses	**262.1**	**58.1**	**320.2**	261.8	55.9	317.7	530.9	104.8	635.7

10 Tax (expense)/income

(a) Tax (charged)/credited to income statement

	6 months ended 30 June 2017 US$m	6 months ended 30 June 2016 US$m	Year ended 31 December 2016 US$m
Current tax:			
Current taxes on income for the period	**(10.8)**	(10.2)	(4.0)
Overseas tax on income for the period	**(1.3)**	(3.1)	(4.0)
	(12.1)	(13.3)	(8.0)
Double tax relief	**0.7**	2.5	3.1
Adjustments in respect of prior years	**(0.6)**	-	2.0
Total current tax	**(12.0)**	(10.8)	(2.9)
Deferred tax:			
Relating to the origination and reversal of temporary differences	**(1.9)**	(10.9)	(5.3)
Adjustments in respect of prior years	**0.2**	-	6.0
Total deferred tax	**(1.7)**	(10.9)	0.7
Total tax charged to income statement	**(13.7)**	(21.7)	(2.2)

Overseas tax and the double tax relief principally arise from taxes suffered as a result of the Group's operations at Lloyd's. Double tax relief is effectively limited to an amount equal to the tax due at the UK tax rate on the same source of income.

(b) Tax credited to other comprehensive income

	6 months ended 30 June 2017 US$m	6 months ended 30 June 2016 US$m	Year ended 31 December 2016 US$m
Deferred tax charge on actuarial gains/losses on defined benefit pension scheme	**-**	-	0.9

11 Insurance and reinsurance contracts

Balances on insurance and reinsurance contracts

	30 June 2017 US$m	30 June 2016 US$m	31 December 2016 US$m
Gross:			
Insurance contracts			
Claims reported and loss adjustment expenses	**1,477.5**	1,399.0	1,377.7
Claims incurred but not reported	**2,041.8**	1,993.4	2,029.0
	3,519.3	3,392.4	3,406.7
Unearned premiums	**972.0**	935.4	836.8
Total gross liabilities	**4,491.3**	4,327.8	4,243.5
Recoverable from reinsurers:			
Reinsurance contracts			
Claims reported and loss adjustment expenses	**330.5**	316.3	318.6
Claims incurred but not reported	**419.7**	379.4	393.2
Impairment provision	**(0.6)**	(1.1)	(0.7)
	749.6	694.6	711.1
Unearned premiums	**283.1**	218.8	173.0
Total reinsurers' share of liabilities	**1,032.7**	913.4	884.1
Net:			
Claims reported and loss adjustment expenses	**1,147.0**	1,082.7	1,059.1
Claims incurred but not reported	**1,622.1**	1,614.0	1,635.8
Impairment provision	**0.6**	1.1	0.7
	2,769.7	2,697.8	2,695.6
Unearned premiums	**688.9**	716.6	663.8
Total net insurance liabilities	**3,458.6**	3,414.4	3,359.4

The net aggregate reserve releases from prior years amounted to US$7.9m (June 2016: US$22.2m; December 2016: US$53.5m). In part this arises from the Group's reserving philosophy which reflects a conservative best estimate, reserving prudently for the most recent years where the outcome is most uncertain, leaving a potential for subsequent release.

12 Financial investments

	30 June 2017 US$m	30 June 2016 US$m	31 December 2016 US$m
Equity securities	**671.3**	286.6	399.8
Debt securities	**1,985.7**	3,124.7	2,424.7
Loan instruments	**-**	39.7	-
Specialised investment funds	**116.6**	66.2	79.4
	2,773.6	3,517.2	2,903.9

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

12 Financial investments (continued)

Basis for determining the fair value hierarchy of financial instruments

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

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

Assets are categorised as level one where fair values are determined in whole directly by reference to an active market. These relate to prices which are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis, i.e. the market is still active.

For assets and liabilities that are recognised at fair value on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level of input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Fair values for level two and level three assets include:

- Values provided at the request of the Group by pricing services and which are not publicly available or values provided by external parties which are readily available but relate to assets for which the market is not always active; and
- Assets measured on the basis of valuation techniques including a varying degree of assumptions supported by market transactions and observable data.

For all assets not quoted in an active market or for which there is no active market, the availability of financial data can vary and is affected by a wide variety of factors, including the type of financial instrument, whether it is new and not yet established in the marketplace, and other characteristics specific to each transaction. To the extent that valuation is based on the models or inputs that are unobservable in the market, the determination of fair value requires additional judgement. Accordingly, the degree of judgement exercised is higher for instruments classified in Level three and the classification between Level two and Level three depends highly on the proportion of assumptions used, supported by market transactions and observable data.

Valuation techniques

Level one

Inputs represent unadjusted quoted prices for identical instruments exchanged in active markets (where transactions occur with sufficient frequency and volume). The fair values of securities sold short and the majority of the company's equities are based on published quotes in active markets. These also include government bonds and treasury bills issued in Canada and in the US.

Level two

Inputs include directly or indirectly observable inputs (other than Level one inputs) such as quoted prices for similar financial instruments exchanged in active markets, quoted prices for identical or similar financial instruments exchanged in inactive markets and other market observable inputs.

Level two securities contain certain investments in US and non-US government agency securities, US and non-US Corporate debt securities and specialised investment funds. US government agency securities are priced using valuations from independent pricing vendors who use discounted cash flow models supplemented with market and credit research to gather specific information. Market observable inputs for these investments may include broker-dealer quotes, reported trades, issuer spreads and available bids. Non US government agency securities are priced with OTC quotes or broker-dealer quotes. Other market observable inputs include benchmark yields and reported trades. Issuer spreads are also available for these types of investments.

12 Financial investments (continued)

Preferred stocks are priced using a combination of independent pricing service providers and internal valuation models that rely on directly or indirectly observable inputs. The fair values of investments in certain limited partnerships classified as equities on the consolidated balance sheet are based on the net asset values received from the general partner, adjusted for liquidity as required and are classified as Level two when they may be liquidated or redeemed within three months or less of providing notice to the general partner. Otherwise, such investments in limited partnerships are classified as Level three.

Level three

Level three equities include investments in limited partnerships and common stock which are not traded/quoted in an active market. In some instances, limited partnerships are classified as level three because they may require at least three months of notice to liquidate.

Level three debt instruments include corporate loans with unobservable inputs used in the measurement of financial instruments. Management is required to use its own assumptions regarding unobservable inputs as there is little, if any, market activity in these instruments or related observable inputs that can be corroborated at the measurement date.

Level three specialised investment funds include securities that are valued using techniques appropriate to each specific investment. The valuation techniques include fair value by reference to net asset values (NAVs) adjusted and issued by fund managers based on their knowledge of underlying investments and credit spreads of counterparties. In some instances, certain investment funds are classified as Level three because they may require at least three months' notice to liquidate.

Disclosures of fair values in accordance with the fair value hierarchy

	30 June 2017			
	Level 1 US$m	**Level 2 US$m**	**Level 3 US$m**	**Total US$m**
Equity securities	**388.8**	**136.5**	**146.0**	**671.3**
Debt securities	**1,190.2**	**724.1**	**71.4**	**1,985.7**
Loan instruments	**-**	**-**	**-**	**-**
Specialised investment funds	**-**	**101.3**	**15.3**	**116.6**
	1,579.0	**961.9**	**232.7**	**2,773.6**

	30 June 2016			
	Level 1 US$m	Level 2 US$m	Level 3 US$m	Total US$m
Equity securities	146.6	78.2	61.8	286.6
Debt securities	484.0	2,600.3	40.4	3,124.7
Loan instruments	-	39.7	-	39.7
Specialised investment funds	-	66.2	-	66.2
	630.6	2,784.4	102.2	3,517.2

	31 December 2016			
	Level 1 US$m	Level 2 US$m	Level 3 US$m	Total US$m
Equity securities	201.3	75.3	123.2	399.8
Debt securities	1,462.9	935.6	26.2	2,424.7
Specialised investment funds	-	64.6	14.8	79.4
	1,664.2	1,075.5	164.2	2,903.9

12 Financial investments (continued)

All unrealised gains of US$114.7m (30 June 2016: gains of US$151.6m; 31 December 2016: gains of US$10.0m) and realised losses of US$2.8m (30 June 2016: gains of US$10.1m; 31 December 2016: gains of US$62.3m) on financial investments held during the period, are presented in investment return in the consolidated income statement.

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

Transfer from level one to level two
There were no transfers from fair value hierarchy level one to level two (30 June 2016: none; 31 December 2016: none).

Transfer from level two to level one
There were no transfers from fair value hierarchy level two to level one (30 June 2016: none; 31 December 2016: none).

Transfer from level two to level three
A total of US$21.9m of fixed income investments were transferred from level two to level three as specific investments were restructured introducing unobservable inputs and assumptions to the pricing technique. (30 June 2016: none; 31 December 2015: none).

Transfer from level three to level two
There were no transfers from level three to level two (30 June 2016: none; 31 December 2016: US$1.9m).

Reconciliation of movements in Level 3 financial investments measured at fair value

	Equity securities US$m	Debt securities US$m	Loan instruments US$m	Specialised investment funds US$m	Total US$m
At 1 January 2016	17.6	43.9	-	-	61.5
Transfers to Level 2	-	(1.9)	-	-	(1.9)
Total gains recognised in the income statement	4.6	0.8	-	(0.2)	5.2
Purchases	102.3	4.3	-	15.0	121.6
Sales proceeds	-	(20.1)	-	-	(20.1)
Foreign exchange losses	(1.3)	(0.8)	-	-	(2.1)
At 31 December 2016	**123.2**	**26.2**	**-**	**14.8**	**164.2**
Transfers from Level 3	**-**	**21.9**	**-**	**-**	**21.9**
Total gains recognised in the income statement	**0.5**	**5.5**	**-**	**0.5**	**6.5**
Purchases	**74.3**	**23.0**	**-**	**-**	**97.3**
Sale Proceeds	**(54.3)**	**(6.9)**	**-**	**-**	**(61.2)**
Foreign exchange gains	**2.3**	**1.7**	**-**	**-**	**4.0**
At 30 June 2017	**146.0**	**71.4**	**-**	**15.3**	**232.7**

Total net gains recognised in the income statement under 'investment return' in respect of level three financial investments for the period amounted to US$6.5m (30 June 2016: nil; 31 December 2016: US$5.2m). Included in this balance are US$6.4m unrealised gains (30 June 2016: losses of US$1.0m; 31 December 2016: gains of US$5.2m) attributable to assets still held at the end of the period.

12 Financial investments (continued)

Sensitivity of level three financial investments measured at fair value to changes in key assumptions

The following table shows the sensitivity of the fair value of level three financial investments to changes in key assumptions.

	30 June 2017		30 June 2016		31 December 2016	
	Carrying amount US$m	**Effect of possible alternative assumptions (+/-) US$m**	Carrying amount US$m	Effect of possible alternative assumptions (+/-) US$m	Carrying amount US$m	Effect of possible alternative assumptions (+/-) US$m
Debt securities and loan instruments	**71.4**	**1.4**	40.4	1.6	26.2	0.9
Equities	**146.0**	**1.6**	61.8	1.4	123.2	4.6
Specialised investment funds	**15.3**	**1.2**	-	-	14.8	0.1
	232.7		102.2		164.2	

In order to determine reasonably possible alternative assumptions, the Group adjusted key unobservable model inputs as follows:

- For equities, the Group monitored the changes monthly in the price of the security invested since acquisition.

- For debt securities, the Group adjusted, dependent on the type and valuation methodology of the investment, key variables including the probability of spread movements, leverage ratio changes and changes in mortgage default rates used in the models.

- For specialised investment funds, the assumptions have been adjusted where necessary by historic movements in volatility of valuations or price changes in the underlying investments.

13 Derivative contracts

Derivative contract assets	**30 June 2017 US$m**	30 June 2016 US$m	31 December 2016 US$m
Currency forwards	**10.1**	37.0	7.1
Options	**5.4**	27.5	5.5
Call and put option over Ambridge Partners LLC	**-**	-	-
Call and put option over Camargue	**-**	-	-
	15.5	64.5	12.6

Derivative contract liabilities	**30 June 2017 US$m**	30 June 2016 US$m	31 December 2016 US$m
Currency forwards	**(15.3)**	(23.8)	(11.8)

13 Derivative contracts (continued)

Disclosures of fair values in accordance with the fair value hierarchy

	30 June 2017 Level 2 US$m	Level 3 US$m	Total US$m
Derivative contract assets	**10.1**	**5.4**	**15.5**
Derivative contract liabilities	**(15.3)**	**-**	**(15.3)**

	30 June 2016 Level 2 US$m	Level 3 US$m	Total US$m
Derivative contract assets	41.9	22.6	64.5
Derivative contract liabilities	(23.8)	-	(23.8)

	31 December 2016 Level 2 US$m	Level 3 US$m	Total US$m
Derivative contract assets	7.1	5.5	12.6
Derivative contract liabilities	(11.8)	-	(11.8)

Valuation techniques

Level two

The fair value of the majority of the company's derivative contracts are based primarily on non-binding third party broker-dealer quotes that are prepared using Level two inputs. Where third party broker-dealer quotes are used, typically one quote is obtained from a broker-dealer with particular expertise in the instrument being priced.

The valuation technique used to determine the fair value of currency forwards is derived from observable inputs such as active foreign-exchange and interest-rate markets that may require adjustments for certain unobservable inputs.

The fair values of treasury forwards are determined with the use of option pricing models based on observable inputs including traded price, volatility and dividend yield of the underlying security.

Level three

CPI-linked derivatives are classified as Level three and valued using broker-dealer quotes which management has determined utilize market observable inputs except for the inflation volatility input which is not market observable. The reasonableness of the fair values of CPI-linked derivative contracts are assessed by comparing the fair values received from third party broker-dealers to recent market transactions where available and values determined using third party pricing software based on the Black-Scholes option pricing model for European-style options that incorporates market observable and unobservable inputs such as the current value of the relevant CPI underlying the derivative, the inflation swap rate, nominal swap rate and inflation volatility. The fair values of CPI-linked derivative contracts are sensitive to assumptions such as market expectations of future rates of inflation and related inflation volatilities.

13 Derivative contracts (continued)

Reconciliation of movements in Level three derivative contracts measured at fair value

	Options US$m
At 1 January 2016	20.4
Purchases	11.3
Total losses recognised in the income statement	(32.9)
Foreign exchange gains	6.7
At 31 December 2016	**5.5**
Purchases	**2.6**
Total losses recognised in the income statement	**(4.6)**
Foreign Exchange gains	**1.9**
At 30 June 2017	**5.4**

14 Share Capital

	30 June 2017 US$m	30 June 2016 US$m	31 December 2016 US$m	30 June 2017 1p each Number	30 June 2016 1p each Number	31 December 2016 1p each Number
Ordinary shares:						
Allotted, Issued and fully paid	**6.4**	6.6	6.4	**387,608,230**	401,057,706	387,608,230

106,550,524 ordinary shares were classified as Class A Ordinary Shares and the remainder reclassified as Class B Ordinary Shares. The class A and B ordinary shares rank *pari passu* except that on a distribution of profits by the Company, the class A shareholder is entitled to a cumulative annual dividend which must be settled ahead of any equivalent distribution to the class B shareholder.

15 Cash flows provided by operating activities

	6 months ended 30 June 2017 US$m	6 months ended 30 June 2016 US$	Year ended 31 December 2016 US$
Profit on ordinary activities before tax	**153.4**	219.3	159.8
Adjustments for non-cash movements:			
Realised and unrealised gains on investments	**(107.6)**	(161.6)	(72.3)
Realised and unrealised (gains)/losses on derivatives	**(7.5)**	46.6	52.8
Amortisation of intangible assets	**2.3**	4.5	5.2
Depreciation of property, plant and equipment	**2.2**	2.8	3.6
Foreign exchange (gains)/losses on cash and cash equivalents	**(4.9)**	17.8	17.8
Share of profit after tax of associated undertakings	**(1.2)**	(1.0)	(3.1)
Unrealised losses/(gains) on shares held for share based payments	**1.7**	(0.5)	0.3
Charges in respect of share-based payment schemes	**0.4**	0.5	0.9
Interest income	**(19.8)**	(24.0)	(56.4)
Dividend income	**(4.3)**	(9.3)	(17.5)
Finance costs on borrowing	**8.3**	10.1	18.8
Movement in operating assets and liabilities:			
Deferred acquisition costs	**(26.5)**	(15.5)	3.0
Insurance and other receivables excluding accrued income	**(253.0)**	(120.7)	(28.0)
Insurance and reinsurance contracts	**99.2**	51.0	(4.0)
Financial investments	**242.1**	(24.8)	499.3
Derivative contracts	**8.1**	(36.2)	(2.5)
Insurance and other payables	**161.4**	(14.3)	6.1
Employee benefits	**(0.8)**	(1.0)	(4.0)
Provisions	**(0.2)**	(0.5)	(0.4)
Cash flows provided by operating activities	**253.3**	(56.8)	579.4

16 Related party transactions

(a) Ultimate Parent Company

The ultimate parent company and controlling entity, and the largest group of which the Group is a member, is Fairfax Financial Holdings Limited (FFHL) which is registered in Canada and listed on the Toronto Stock Exchange. The consolidated financial statements for Fairfax are publicly available and can be obtained from the Corporate Secretary, 95 Wellington Street West, Suite 800, Toronto, Ontario, Canada, M5J 2N7 or from the website at www.fairfax.ca.

(b) Fairfax Financial Holdings Limited

In June 2015, Hamblin Watsa Investment Counsel Limited (HWIC), an affiliate of FFHL, was appointed as an investment manager to a number of Group companies. The Group incurred and paid investment management fees to HWIC of US$5.5m (30 June 2016: US$5.5m; 31 December 2016: US$11.2m).

The Brit Group has historically entered into various reinsurance arrangements with FFHL and its affiliates.

The amounts included in the income statement relating to trading with Fairfax Financial Holdings Limited and its affiliates for the period were as follows:

	6 months to 30 June 2017 US$m	6 months to 30 June 2016 US$m	Year to 31 December 2016 US$m
Gross premiums written	**2.1**	7.1	7.9
Less premiums ceded to reinsurers	**0.2**	(1.0)	(2.1)
Premiums written, net of reinsurance	**2.3**	6.1	5.8
Gross amount of change in provision for unearned premiums	**3.2**	(1.6)	(0.5)
Reinsurers' share of change in provision for unearned premiums	**(0.6)**	(2.1)	(2.5)
Net change in provision for unearned premiums	**2.6**	(3.7)	(3.0)
Earned premiums, net of reinsurance	**4.9**	2.4	2.8
Gross claims paid	**(9.2)**	(2.4)	(5.0)
Reinsurers' share of claims paid	**9.8**	2.3	5.1
Claims paid, net of reinsurance	**0.6**	(0.1)	0.1
Gross change in the provision for claims	**5.3**	2.6	-
Reinsurers' share of change in the provision for claims	**(6.4)**	(1.3)	(8.2)
Net change in the provision for claims	**(1.1)**	1.3	(8.2)
Commission income	**(1.0)**	1.3	1.8
Commission expense	**(0.5)**	(1.3)	(1.2)

16 Related party transactions (continued)

The amounts included in the statement of financial position outstanding with Fairfax Financial holdings Limited and its affiliates as at the period end were as follows:

	30 June 2017 US$m	30 June 2016 US$m	31 December 2016 US$m
Debtors arising out of reinsurance operations			
Insurance premium receivable	**2.3**	8.6	3.6
Recoverable from reinsurers	**49.5**	60.0	50.7
Creditors arising out of reinsurance operations			
Payable to reinsurers	**(2.1)**	(2.7)	(2.4)
Unpaid claims liabilities	**(40.2)**	(42.9)	(44.8)
Deferred acquisition costs	**0.4**	0.4	0.9
Gross unearned premiums	**2.4**	6.7	(5.6)
Unearned premium recoverable from reinsurers	**0.4**	1.4	1.0

(b) Associated undertakings

Ambridge Partners LLC
On 8 December 2015, the Group acquired 50% of the members' interests of Ambridge Partners LLC and also entered into a call and a put option to purchase the remaining 50% in 2019.

Trading with Ambridge Partners LLC is undertaken on an arms-length basis and is settled in cash. Acquisition costs included in the income statement relating to trading with Ambridge Partners LLC for the period to 30 June 2017 amounted to US$2.5m for introducing insurance business.

The amount of premiums net of commission in the statement of financial position outstanding from Ambridge Partners LLC as at 30 June 2017 was US$6.6m (31 December 2016: US$7.4m).

Camargue Underwriting Managers Proprietary Limited
On 30 August 2016, the Group acquired 50% of the share capital of the South African company, Camargue Underwriting Managers Proprietary Limited (Camargue) and also entered into a call and a put option to purchase the remaining 50% in 2021. Camargue is a leading managing general underwriter of a range of specialised insurance products and specialist liability solutions in South Africa and is an important trading partner for Brit.

Trading with Camargue is undertaken on an arm's-length basis and is settled in cash. The amounts in the income statement relating to trading with Camargue for the period to 30 June 2017 included commission for introducing insurance business of US$0.3m.

Amounts recorded in the statement of financial position in respect of premium net of commissions due from, and fees payable to Camargue as at 30 June 2017 and 31 December 2016 were not material.

Company information

Directors

Mr Mark Cloutier	- Group Executive Chairman
Mr Matthew Wilson	- Group Chief Executive Officer
Mr Mark Allan	- Chief Financial Officer
Dr Richard Ward	- Senior independent non-executive Director
Mr Andrew Barnard	- Non-executive Director
Mr Jeremy Ehrlich	- Non-executive Director
Mr Gordon Campbell	- Non-executive Director (appointed 1 January 2017)

Group Company Secretary

Mr Tim Harmer

Registered Office

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Website

www.britinsurance.com

The Company website provides information about Brit Limited including information on the business, annual reports, half yearly reports and announcements to the London Stock Exchange.

Registered Number

8821629

Auditor

PricewaterhouseCoopers LLP
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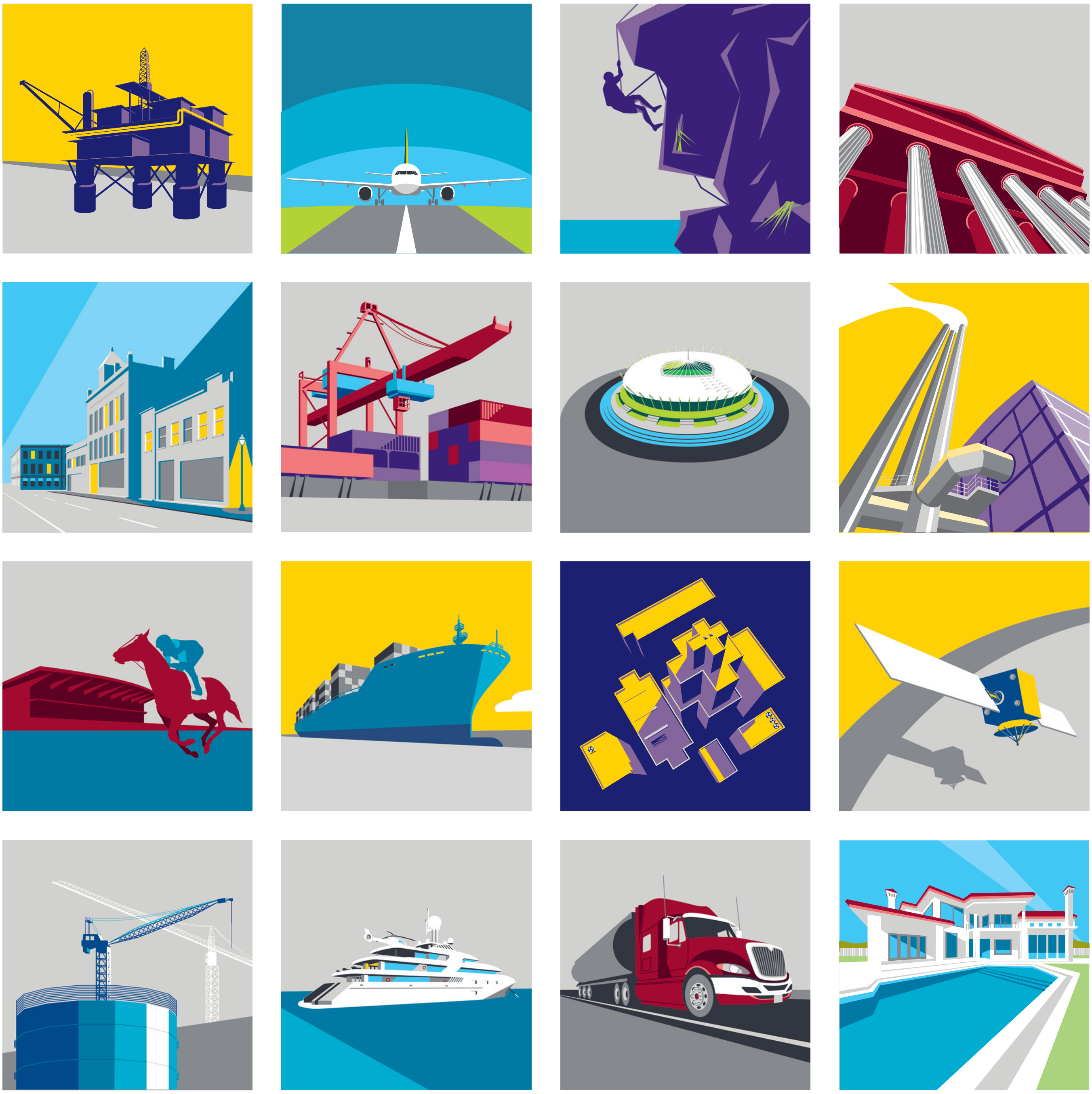
London
SE1 2RT



SEEING THE DIFFERENCE **MAKES THE DIFFERENCE**