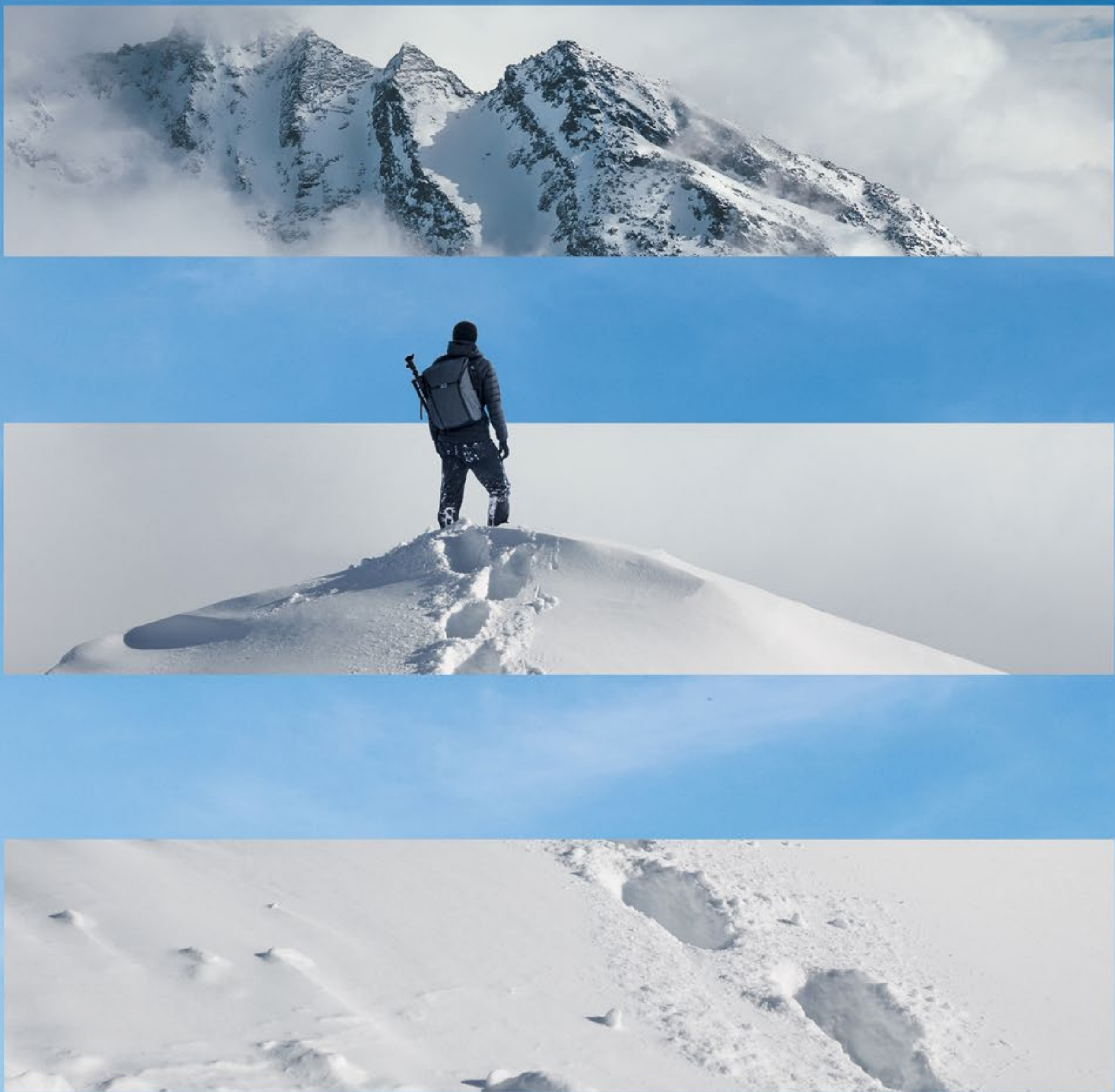
Brit Limited

Interim Report 2020



writing the future

Contents

Key points

STRONG RATE INCREASES AND PREMIUM GROWTH IN AN UNPRECEDENTED PERIOD DEFINED BY COVID-19

- Gross written premiums of US$1,282.5m (H1 2019: US$1,210.5m), a 5.9% increase (6.5% at constant FX rates).
- Premium rate increases of 8.2% (H1 2019: 4.3%). Premium rate increases since 1 January 2018 of 17.8%.
- Net earned premium[1] of US$818.1m (H1 2019: US$804.9m), an increase of 2.2% at constant FX rates.
- Attritional ratio of 52.0%, an improvement of 4.0pps (H1 2019: 56.0%).
- Combined ratio[1,2] of 106.7% (H1 2019: 94.4%), including 15.7pps of COVID-19 related losses.
- Operating loss before the impact of FX and tax of US$193.6m (H1 2019: profit of US$139.6m).
- Loss after tax of US$227.4m (H1 2019: profit of US$120.3m).
- Investment return[3] after fees of US$99.1m in Q2 2020, following losses of US$219.4m in Q1 2020. Investment return[3] after fees of -US$120.3m for H1 2020, representing a non-annualised return of -2.9% (H1 2019: +US$94.7m/+2.4%).
- RoNTA[7] (non-annualised) of -16.4% (H1 2019: +12.6%) and total value created was -US$227.3m (H1 2019: +US$122.2m).
- Balance sheet remains strong: Adjusted net tangible assets[5] of US$1,102.5m (31 December 2019: US$1,150.4m), after capital contribution from Fairfax of US$200.0m and dividend payment of US$20.6m.
- Continued implementation of our strategy, including:
  - Announced plans to launch 'Ki', the first algorithmically driven Lloyd's of London syndicate, in collaboration with Google Cloud;
  - Launched our Private Client offering; and
  - Continued to selectively expand our BSGU operations.

The footnotes referred to above appear on page 4

Brit at a Glance

Brit is a market leader in global specialty insurance and reinsurance. We underwrite across a broad class of commercial insurance with a strong focus on property, casualty and energy business. Brit is a reputable and influential name in the Lloyd's market and we pride ourselves on our specialist underwriting and claims expertise.

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 2020, published on 30 July 2020, includes the Brit financial result.

www.britinsurance.com

Disclaimer

Interim Management Report

Officer statements

The COVID-19 pandemic is a global crisis, the like of which has not been seen for generations. As well as the devastating human cost, it has created an extraordinarily significant amount of global disruption and economic uncertainty, with the impact on the global economy likely to be felt for many years to come.

Our immediate priorities as the crisis emerged were to ensure the safety of our employees and continuity of our service to our clients and brokers. All our offices were quickly and successfully able to move to remote working using our robust IT estate and systems and have maintained a continuity of service to our clients, remaining fully open for business throughout the lockdown period. Our underwriters have been actively engaging with clients and brokers, delivering market-leading responsiveness. Our Claims team continues to service our policyholders in these challenging circumstances, proactively working with our TPAs to ensure claims continue to be handled promptly and to our usual high standards.

The crisis has impacted many of our clients. Our products are designed to support businesses and individuals in such difficult times and we have focussed on responding to claims as they have been notified. We have stood tall with respect to valid COVID-19 claims and the financial impact on Brit has been significant, with claims of US$127.9m related to COVID-19 being reported within Major Losses in the period. COVID-19 has predominantly impacted our Contingency (Event Cancellation) and Casualty Treaty books in the first half of the year. These losses have driven an increase of 15.7 percentage points (pps) in our combined ratio, bringing the overall combined ratio to 106.7%.

The pandemic has also severely impacted investment markets. The first quarter of 2020 saw markets suffer their worst period since the 2008 financial crisis, as investors priced in the short-term impact of the shutdown and potential longer term impact of a global recession, while the second quarter witnessed a partial recovery. Brit's investment return in the period was a negative US$120.3m, driven by the performance of our equity holdings. Our overall operating result before FX movements was a loss of US$193.6m and our result before tax was a loss of US$217.5m.

Despite the backdrop of COVID-19, there were a number of positives in the period. We achieved risk adjusted rate increases of 8.2%, with almost all classes contributing to the increase. This gives a total overall increase since 1 January 2018 of 17.8%. In this positive rate environment, we continued to grow our written premium to US$1,282.5m, an increase of 6.5% at constant exchange rates.

During the period we delivered an attritional claims ratio of 52.0%, an improvement of 4.0pps, reflecting underwriting discipline, rigorous risk selection, and rate increases. We have also maintained our long-standing track record of prior year reserve releases, improving the combined ratio by 4.2pps (US$34.9m).

Brit's brand purpose is 'writing the future'. In May, we were proud to announce plans to launch Ki, a standalone business and the first fully digital and algorithmically-driven Lloyd's of London syndicate, that will be accessible anywhere, at any time, in collaboration with Google Cloud. We believe Ki will redefine the commercial insurance market and places Brit at the forefront of innovation in our sector.

We strive to ensure equal opportunity is part of how we conduct ourselves as a business and as a team. The simple message is that discrimination in all its forms will not be tolerated at Brit. Following the killing of George Floyd, I was contacted by a number of colleagues from all backgrounds wanting to express their feelings. I believe it is a testament to our culture that people from every background have been able to speak up, even if it has felt uncomfortable doing so. Over the last six months we have been working with an independent consultancy to measure our progress towards total inclusion, and to highlight where we need to improve. We continue to work hard on this topic and are committed to proactively addressing its challenges. We have also launched the Brit People Forum, so we can listen to and learn from the personal stories of the widest spectrum of the Brit community and come together to make inclusion and diversity 'business as usual' for Brit.

Looking ahead to the remainder of 2020 and beyond, significant uncertainty exists for the insurance industry. COVID-19 related claims are likely to be incurred over a prolonged period, a situation potentially exacerbated by the risk of a second wave of infections as lockdowns are gradually eased. We also face the consequences of the measures taken by governments driving yields down to record lows and the likely impact on the economy, with recessionary risks heightened.

However, against this challenging backdrop there are a number of indicators to give us cause for optimism, including rate increases, the withdrawal of capacity in the market from certain classes and our improving attritional claims ratio. In this environment, our clear strategy of embracing data driven underwriting discipline, and rigorous risk selection, coupled with innovative capital management solutions and continued investment in distribution, positions us well to respond to the opportunities and challenges ahead.

Matthew Wilson
Group Chief Executive Officer
29 July 2020

For Brit and the wider insurance market, the first half of 2020 has proved to be very challenging, with results heavily impacted by the COVID-19 pandemic and its impact on insurance, investment and currency markets. Brit's operating result before FX movements for the six months ended 30 June 2020 was a loss of US$193.6m (2019: profit of US$139.6m), while the post-tax result was a loss of US$227.4m (2019: profit of US$120.3m).

Our underwriting loss of US$55.0m and combined ratio of 106.7% included major losses of US$156.2m (or 19.2pps of the combined ratio), resulting from COVID-19 related claims (US$127.9m), the Nashville Tornadoes (US$13.3m) and US Civil Unrest (US$15.0m). However, we were pleased with the attritional ratio of 52.0%, an improvement of 4.0pps, and to continue our long-standing track record of prior year reserve releases (US$34.9m), benefiting our combined ratio by 4.2pps.

Our investment return net of fees in Q2 2020 was a strong US$99.1m, following losses in Q1 2020 of US$219.4m, making the return for the six months a loss of US$120.3m or -2.9% (non-annualised). Our equity and fund portfolios suffered losses of US$206.1m, driven by their performance in the first quarter as markets sold off due to fears around the financial impact of the coronavirus pandemic, while our fixed income portfolio generated positive returns of US$98.0m.

Preserving a strong financial position is critical to the long-term success of an insurance business. Our balance sheet remains strong as we maintain our 'conservative best estimate' reserving policy which provides us with a secure foundation. At the end of the period our adjusted net tangible assets totalled US$1,102.5m (31 December 2019: US$1,150.4m), after capital contributions from Fairfax of US$200.0m and the payment of a US$20.6m dividend, ensuring a robust capital position. During the period, our management capital requirement increased from US$1,227.8m to US$1,454.0m, primarily reflecting movements in interest rates. We continue to benefit from the financial strength of our parent, Fairfax, and from our relationships with our capital partners supporting Syndicate 2988 and the Sussex vehicles.

We are very excited about the prospects for our new launch, Ki, that brings together the best of Lloyd's underwriting with the latest technology and data science. This cutting-edge initiative is a first for the market and will launch later this year with a fundamentally different operating model, designed to dramatically improve the broker experience for follow capacity in Lloyd's. We are delighted to be working with World-class partners in Google Cloud and University College London on the launch.

While we have seen some positive market developments in the period, the period has been defined by COVID-19. The outlook for the insurance market is uncertain and challenging, with underwriting returns that are likely to be impacted by COVID-19 over a prolonged period. However, our strategy and discipline position us well against the significant macro-economic challenges that lie ahead.

Mark Allan
Group Chief Financial Officer
29 July 2020

Performance summary and Key performance indicators

	6 months ended 30 June 2020 US$m	6 months ended 30 June 2019 US$m	Year ended 31 December 2019 US$m
Performance summary			
Gross written premium	1,282.5	1,210.5	2,293.5
Net earned premium[1]	818.1	804.9	1,638.5
Underwriting result[1, 2]	(55.0)	43.5	68.4
Investment return[3]	(120.3)	94.7	148.1
Corporate expenses	(1.4)	(11.7)	(20.3)
Other items	(16.9)	13.1	10.5
Operating (loss)/profit before FX movements	(193.6)	139.6	206.7
Finance costs	(11.7)	(12.5)	(23.7)
(Loss)/profit on ordinary activities before FX movements and tax	(205.3)	127.1	183.0
FX movements[4]	(12.2)	(4.8)	3.3
(Loss)/profit on ordinary activities before tax	(217.5)	122.3	186.3
Tax	(9.9)	(2.0)	(6.4)
(Loss)/profit for the period (after tax)	(227.4)	120.3	179.9
Adjusted net tangible assets[5]	1,102.5	1,083.4	1,150.4
Key performance indicators[6]			
Return on net tangible assets before FX movements (RoNTA)[7,8]	**(16.4)%**	12.6%	18.1%
Total value created (US$m)	**US$(227.3)m**	US$122.2m	US$198.6m
Combined ratio[1,2]	**106.7%**	94.4%	95.8%
Investment return (net of external investment related expenses)[8]	**(2.9)%**	2.4%	3.6%
Capital ratio[9]	**104.4%**	129.1%	128.4%

1 Excludes the effect of foreign exchange on non-monetary items.
2 Excludes amount attributable to third party underwriting capital providers.
3 Inclusive of return on investment related derivatives, return on associates and after deducting investment management expenses and third party share of investment return.
4 Includes the effect of foreign exchange on monetary items (US$(10.0)m) and foreign exchange on non-monetary items (US$(3.2)m). It also includes the return on FX related derivatives (US$1.0m), 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 A reconciliation of Key Performance Indicators to the Financial Statements is set out on page 44.
7 RoNTA calculation excludes all FX movements (footnote 4). Based on adjusted net tangible assets (footnote 5).
8 The 30 June figures are non-annualised.
9 Excess of capital resources over management entity capital requirements, as a percentage of management entity capital requirements (page 47).

Overview of Results

Brit Limited's ('Brit' or 'the Group') result for the six months ended 30 June 2020 was heavily impacted by the COVID-19 pandemic and its effects on investment, currency and insurance markets.

There were however some encouraging underlying trends. We achieved risk adjusted rate increases of 8.2%, with almost all classes contributing to the increase. This gives a total overall increase since 1 January 2018 of 17.8%. In this positive rate environment, we continued to grow our written premium to US$1,282.5m, an increase of 6.5% at constant exchange rates.

The result on ordinary activities before FX movements and tax for the six month period was a loss of US$205.3m (30 June 2019: profit of US$127.1m; 31 December 2019: profit of US$183.0m), loss before tax was US$217.5m (30 June 2019: profit of US$122.3m; 31 December 2019: profit of US$186.3m) and loss after tax was US$227.4m (30 June 2019: profit of US$120.3m; 31 December 2019: profit of US$179.9m).

The combined ratio (CoR), our key underwriting metric, for the six months ended 30 June 2020 was 106.7% (30 June 2019: 94.4%; 31 December 2019: 95.8%). The attritional loss ratio was 52.0% (30 June 2019: 56.0%; 31 December 2019: 55.0%), reflecting underwriting discipline, rigorous risk selection and the impact of rates on earned premium.

Major loss activity during the period totalled US$156.2m or 19.2 percentage points (pps) of the combined ratio (30 June 2019: nil; 31 December 2019: US$61.6m or 3.6pps), while reserve releases of US$34.9m reduced the ratio by 4.2pps (30 June 2019: US$1.9m/0.6pps; 31 December 2019: US$47.9m/2.9pps). Underwriting related fee income totalled US$10.2m, reducing the ratio by 1.3pps (30 June 2019: US$17.7m/2.2pps; 31 December 2019: US$45.6m/2.9pps).

Non-annualised return on net tangible assets (RoNTA), excluding the effects of FX, was (16.4)% (30 June 2019: 12.6%; 31 December 2019: 18.1%).

Our investment return net of fees in Q2 2020 was a strong US$99.1m, following losses in Q1 2020 of US$219.4m, making the return for the six months a loss of US$120.3m or -2.9% (non-annualised) (30 June 2019: gain of US$94.7m/2.4%; 31 December 2019: gain of US$148.1m/3.6%). The key driver of loss has been the performance of the equity portfolio in the first quarter, as markets sold off due to fears around the financial impact of the coronavirus pandemic, partly offset by positive returns generated by our fixed income portfolio.

Foreign exchange losses, net of returns on FX related derivatives, were US$12.2m (30 June 2019: losses of US$4.8m; 31 December 2019: gains of US$3.3m).

Our balance sheet remains strong. Adjusted net tangible assets at 30 June 2020 totalled US$1,102.5m (30 June 2019: US$1,083.4m; 31 December 2019: US$1,150.4m) and our group total capital resources at 30 June 2020 totalled US$1,518.1m (30 June 2019: US$1,501.4m; 31 December 2019: US$1,576.6m). The reduction since 31 December 2019 reflects the result for the period and the payment of a US$20.6m dividend, partly offset by capital contributions from Fairfax of US$200.0m.

At 30 June 2020, we had a management capital surplus of US$64.1m or 4.4% (30 June 2019: US$338.2m/29.1%; 31 December 2019: US$348.9m/28.4%) over our Group management capital requirement of US$1,454.0m (30 June 2019: US$1,163.2m; 31 December 2019: US$1,227.7m). During the period, the increase in requirements primarily reflected the movement in interest rates.

Outlook

The outlook for the insurance market is uncertain and challenging, with underwriting returns likely to be impacted by COVID-19 over a prolonged period. The market also faces the consequences of the measures taken by governments, driving yields down to record lows, and the likely impact on the economy, with heightened recessionary risks, coupled increased political uncertainty.

There are however a number of indicators to give us cause for optimism, including strong rate increases, the withdrawal of some capacity and the measures taken by Lloyd's to improve market performance. In this environment, our clear strategy of embracing data driven underwriting discipline, and rigorous risk selection, coupled with innovative capital management solutions and continued investment in distribution, positions us well to respond to the opportunities and challenges ahead.

Underwriting

Overview

Our underwriting result for the period amounted to a loss of US$55.0m (30 June 2019: profit of US$43.5m; 31 December 2019: profit of US$68.4m) and our combined ratio, which excludes the effect of foreign exchange on non-monetary items and amounts attributable to third party underwriting capital providers, was 106.7% (30 June 2019: 94.4%; 31 December 2019: 95.8%). There were however some encouraging underlying trends including strong rate increases and a significantly improved attritional ratio.

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

Premiums

	6 months ended 30 June 2020 US$m	6 months ended 30 June 2019 US$m	Increase %	Increase at constant FX rates %
Brit Global Specialty Direct	**871.3**	838.9	3.9	4.5
Brit Global Specialty Reinsurance	**366.7**	348.1	5.3	5.8
Other[1]	**44.5**	23.5	89.4	89.4
Group	**1,282.5**	1,210.5	5.9	6.5

1 'Other' comprises premium written by Brit Reinsurance (Bermuda) Limited, the Group's special purpose vehicles (including premium attributable to third party underwriting capital providers) and Brit's share of Syndicate 2988, less adjustments in respect of intra-group trading.

2020 continues to deliver strong rate increases. In the 6 months ended 30 June 2020, we achieved a risk adjusted rate change (RARC) of 8.2% (30 June 2019: 4.3%; 31 December 2019: 5.9%), giving total overall RARC since 1 January 2018 of 17.8%. Almost all classes contributed to the increase, with the most significant increases experienced in Property D&F, Property Treaty and Excess Casualty.

In the period we continued to grow our business in this increasingly favourable rating environment. Gross written premium (GWP) for the six months ended 30 June 2020 increased by 5.9% to US$1,282.5m (30 June 2019: US$1,210.5m; 31 December 2019: US$2,293.5m). At constant exchange rates the increase was 6.5%. Direct business totalled US$871.3m (30 June 2019: US$838.9m; 31 December 2019: US$1,713.5m), reinsurance US$366.7m (30 June 2019: US$348.1m; 31 December 2019: US$537.7m) and other underwriting US$44.5m (30 June 2019: US$23.5m; 31 December 2019: US$42.3m).

The key drivers of the increase between the six months ended 30 June 2019 and 30 June 2020 are explained further below:

- Current year premiums in our core book have increased by US$62.5m, reflecting targeted growth and our increased share of Syndicate 2988, partly offset by planned contractions across a number of non-performing classes.

  We continue to focus on measured growth across our high performing segments, with Property Treaty growing by US$20.6m, Specialty portfolio by US$20.9m and Programs and Facilities by US$26.2m (excluding initiatives). This growth was partially offset by planned reductions in A&H (US$10.4m).

- The Group's underwriting initiatives, launched in recent years, resulted in a US$24.1m increase in GWP. The main contributors were Brit Global Specialty USA (BGSU) and Scion (Brit's US MGA), as we continue to expand our overseas distribution capability.

- Prior year premium development, while still favourable, was US$8.3m lower than in H1 2019.

- An unfavourable exchange rate movement effect of US$6.3m, reflecting the movements during 2020 of the US dollar against a number of currencies in which the Group writes business.

The Group retention rate for the period was 75.2% (30 June 2019: 79.0%; 31 December 2019: 78.0%), reflecting active portfolio management, the continued focus on our core accounts and our strong market proposition.

Outwards reinsurance

Reinsurance expenditure in the six months ended 30 June 2020 was US$416.2m or 32.4% of GWP (30 June 2019: US$385.3m/31.8%; 31 December 2019: US$637.3m/27.8%). At constant exchange rates the increase was 8.6%.

In 2020, we have targeted a reduction in ceded premium, predominately proportional treaties, focusing on retaining a greater portion of our high performing portfolios and those with significant rate increases. As non-proportional covers are expensed at faster rate than proportional covers, the impact of this reduction will be more evident in the second half of 2020.

Net earned premium

Net earned premium (NEP) excluding the effects of foreign exchange on non-monetary items, increased by 1.6% to US$818.1m (30 June 2019: US$804.9m; 31 December 2019: US$1,638.5m). At constant exchange rates, the movement was an increase of 2.2%.

This was predominantly driven by premium growth in both our Direct and Reinsurance portfolios, as we continue to pursue growth in our most profitable segments. This is partially offset by reductions in certain Direct classes, reflecting underwriter action.

Claims

The claims ratio excluding the effect of foreign exchange on non-monetary items was 67.0% (30 June 2019: 55.4%; 31 December 2019: 55.7%).

Claims ratio analysis[1]	**6 months ended 30 June 2020 %**	**6 months ended 30 June 2019 %**	**Year ended 31 December 2019 %**
Attritional claims ratio	**52.0**	56.0	55.0
Major loss ratio	**19.2**	-	3.6
Reserve release ratio	**(4.2)**	(0.6)	(2.9)
Claims ratio	**67.0**	55.4	55.7

1 Excludes amounts attributable to third party underwriting capital providers.

The attritional claims ratio for the period improved by 4.0pps to 52.0% (30 June 2019: 56.0%; 31 December 2019: 55.0%). This improvement arose from a number of factors including underwriting discipline, rigorous risk selection, and rate increases.

Major losses totalled US$156.2m or 19.2 claims ratio pps (30 June 2019: nil; 31 December 2019: US$58.4m or 3.6 claims ratio pps). They consisted of COVID-19 related losses (US$127.9m), the Nashville Tornadoes (US$13.3m) and US Civil Unrest (US$15.0m). COVID-19 related losses predominantly impacted our Contingency (Event Cancellation) and Casualty Treaty books in the period.

We have maintained our long-standing track record of prior year reserve releases. As part of our quarterly reserving process, we released US$34.9m of claims reserves established for prior year claims, the equivalent of a combined ratio reduction of 4.2pps (30 June 2019: US$1.9m/0.6pps; 31 December 2019: US$47.9m/2.9pps). These releases have primarily been driven by reductions in the overall net loss estimates on the 2017 to 2019 catastrophe events (predominantly California Wildfires, Hurricane Dorian and Typhoon Jebi), and by attritional ratio improvements reflecting increased certainty across a number of portfolios as exposure earns out, including Property, Programs and Facilities, Specialty and Property Treaty.

Underwriting expenses

The expense ratio excluding the effect of foreign exchange on non-monetary items was 39.7% (30 June 2019: 39.0%; 31 December 2019: 40.1%). This comprised commission costs, underwriting related operating expenses and the effect of other underwriting income:

- Commission costs: Commission costs for the period, excluding the effect of foreign exchange on non-monetary items, were stable at US$213.3m and the commission expense ratio improved by 0.4pps to 26.2% (30 June 2019: US$213.4m/26.6%; 31 December 2019: US$443.3m/27.2%). This decrease was largely due to changes in business mix.

- Operating expenses: The operating expense ratio was, excluding the effect of foreign exchange on non-monetary items, 13.5% (30 June 2019: 12.5%; 31 December 2019: 12.9%). This comprised the following:

    - Underwriting related operating expenses for the period, excluding the effect of foreign exchange on non-monetary items, were US$124.8m and contributed 15.3pps to the operating expense ratio (30 June 2019: US$119.0m/14.9pps; 31 December 2019: US$255.7m/15.8pps). This increase reflects investment in initiatives in a strengthening underwriting environment.
    - An expense management related FX derivative returned no gain or loss in the period (30 June 2019: gains of US$1.5m and 0.2pps reduction in the expense ratio; 31 December 2019: gains of US$0.4m/nil pps). As the majority of Brit's business is in US dollars and the majority of its operating expenses are in Sterling, Brit again 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.
    - Underwriting related fee income totalled US$10.2m, reducing the expense ratio by 1.3pps (30 June 2019: US$17.7m/2.2pps; 31 December 2019: US$45.6m/2.9pps). The reduction reflects reduced business written by our MGA Ambridge Partners LLC during the lockdown period and reduced third party fee income in respect of Syndicate 2988. The generation of such underwriting-related income, derived from the management of third party underwriting capital and from our MGAs placing business with third parties, remains an important part of Brit strategy and has the benefit of assisting Brit in managing its expense base.

Expenses

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

Expense analysis[1]	**6 months ended 30 June 2020 US$m**	**6 months ended 30 June 2019 US$m**	**Year ended 31 December 2019 US$m**
Underlying operating expenses[2]	**126.0**	132.9	275.3
Other expenses[3]	**0.4**	(1.9)	1.1
Total operating expenses	**126.4**	131.0	276.4

1 Excludes the impact of the expense derivative.
2 Includes bonus provisions. 2019 includes Ambridge operating expenses from 18 April.
3 Includes project costs, timing differences and other expense adjustments.

Underlying operating expenses during the six months ended 30 June 2020 decreased by 5.2% to US$126.0m (30 June 2019: US$132.9m; 31 December 2019: US$275.3m). This decrease reflects savings generated by the withdrawal from under-performing business lines, a reduction in the bonus provision and savings associated with COVID-19, such as reduced travel costs.

At 30 June 2020, group headcount was 727 (30 June 2019: 701; 31 December 2019: 699). The increase in the period is primarily due to the development of underwriting initiatives in favourable market conditions and related support functions, partly offset by reductions from the withdrawal from certain classes of business.

As mentioned above, Brit again took the decision to purchase a forward contract to hedge the Sterling proportion of the Group's expenses. This derivative returned no gains no loss in the period, (30 June 2019: gains of US$1.5m; 31 December 2019: gains of US$0.4m).

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

Disclosure of operating expenses	**6 months ended 30 June 2020 US$m**	**6 months ended 30 June 2019 US$m**	**Year ended 31 December 2019 US$m**
Acquisition costs	**(65.1)**	(71.2)	(150.6)
Other insurance related expenses	**(59.9)**	(48.1)	(105.5)
Total insurance related expenses	**(125.0)**	(119.3)	(256.1)
Other operating expenses	**(1.4)**	(11.7)	(20.3)
Total operating expenses	**(126.4)**	(131.0)	(276.4)

(Losses)/gains on other financial liabilities

The statement of financial position of the Group includes liabilities representing third party investors' share in structured undertakings consolidated by the Group. These structured undertakings are Sussex Capital, Versutus II and, until March 2019, an equity UCITS. Changes in the value of these liabilities during the year are recorded in the Group's consolidated income statement as 'gains on other financial liabilities', as follows:

(Losses)/gains on other financial liabilities	**6 months ended 30 June 2020 US$m**	**6 months ended 30 June 2019 US$m**	**Year ended 31 December 2019 US$m**
Underwriting vehicle related[1]	**0.7**	1.6	(2.6)
Investment vehicle related[2]	**-**	(7.9)	(7.9)
Total gains on other financial liabilities	**0.7**	(6.3)	(10.5)

1 Allocated to the Group's underwriting result as it represents the third party share of the underwriting result.
2 Allocated to the Group's investment result as it represents the third party share of the investment result.

Return on invested assets

The aggregated return on invested assets (cash and cash equivalents, investments, investment related derivatives and associated undertakings), net of expenses, in Q2 2020 was a strong US$99.1m, following losses in Q1 2020 of US$219.4m. The return for the six months ended 30 June 2020 was a negative US$120.3m or 2.9% non-annualised (30 June 2019: positive return of US$94.7m/2.4%; 31 December 2019: positive return of US$148.1m/3.6%).

The key driver of loss has been the performance of the equity portfolio in the first quarter, as markets sold off due to fears around the financial impact of the coronavirus pandemic, partly offset by positive returns generated by our fixed income portfolio. Losses on equities totalled US$116.9m and losses on funds totalled U$86.5m. The fixed income portfolio and cash generated US$100.7m of return, with an income return of US$37.4m and capital return of US$63.3m.

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

Investment return	**6 months ended 30 June 2020 US$m**	**6 months ended 30 June 2019 US$m**	**Year ended 31 December 2019 US$m**
Income	**40.1**	42.3	87.3
Realised (losses)/gains	**18.0**	(55.5)	(51.9)
Unrealised gains/(losses)	**(160.8)**	123.5	134.8
Investment return before fees	**(102.7)**	110.3	170.2
Investment management expenses	**(5.8)**	(5.9)	(11.7)
Investment return net of fees	**(108.5)**	104.4	158.5
Investment related derivative return	**(13.0)**	(1.4)	(2.8)
Third party investors share of investment return	**-**	(7.9)	(7.9)
Return on associated undertakings	**1.2**	(0.4)	0.3
Total return	**(120.3)**	94.7	148.1
Total return[1]	**(2.9)%**	2.4%[1]	3.6%

1 30 June figures are non-annualised.

Our associated undertakings produced a return of US$1.2m (30 June 2019: negative US$0.4m; 31 December 2019: US$0.3m).

- 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 (30 June 2019: US$0.2m; 31 December 2019: US$0.6m); and
- Sutton Special Risk Inc., a leading Canada-based managing general underwriter specialising in Accident & Health business in which Brit holds a 49% share, contributed US$0.9m to this return (30 June 2019: US$0.4m; 31 December 2019: US$0.7m).

Ambridge Partners LLC (Ambridge), a leading managing general underwriter of Transactional Insurance, Complex Management Liability Insurance and Intellectual Property Insurance, in which Brit held a 50% share until 18 April 2019, returned US$(1.0)m in the six months ended 30 June 2019 and in the year ended 31 December 2019. On 18 April, following Brit's acquisition of the remaining 50% of Ambridge, Ambridge became a 100% subsidiary of the Group and ceased to be an associated undertaking.

Invested assets (cash and cash equivalents, investments, investment related derivatives and associated undertakings) at 30 June 2020 totalled US$4,226.2m (30 June 2019: US$3,966.9m; 31 December 2019: US$4,182.2m). The Group's asset allocation, on a look-through basis, is set out in the table below:

Invested assets	**30 June 2020 US$m**	**30 June 2019 US$m**	**31 December 2019 US$m**
Government debt securities	**1,486.8**	1,790.4	1,621.5
Corporate debt securities	**1,678.6**	960.4	1,341.4
Structured products	**14.6**	17.7	18.3
Equity securities	**454.5**	616.2	666.0
Alternative investments	**-**	8.3	8.5
Cash and cash equivalents	**589.1**	572.7	525.2
Derivatives (net) (investment related)	**2.6**	1.2	1.3
Total invested assets	**4,226.2**	3,966.9	4,182.2

The portfolio remains consistently positioned, with a large allocation to cash and cash equivalents (US$589.1m/13.9%) and fixed income securities (US$3,165.4/74.9%). Brit's equity allocation at 30 June 2020 was US$454.5m/10.8%.

At 30 June 2020, 84.4% of our invested assets were investment grade quality (30 June 2019: 81.0%; 31 December 2019: 81.1%) and the duration of the portfolio has been increased to 1.7 years (30 June 2019: 0.8 years; 31 December 2019: 1.1 years).

Foreign exchange

We experienced a total foreign exchange loss of US$12.2m in the six months ended 30 June 2020 (30 June 2019: loss of US$4.8m; 31 December 2019: gain of US$3.3m), which comprised:

- An unrealised revaluation loss of US$10.0m (30 June 2019: gain of US$13.6m; 31 December 2019: gain of US$14.0m). This primarily related to losses arising from the mark to market of the capital we hold in non-US dollar currencies to match our risk exposures, partly offset by gains on currency trades;
- A gain of US$1.0m (30 June 2019: loss of US$20.7m; 31 December 2019: loss of US$15.2m) 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 loss of US$3.2m (30 June 2019: gain of US$2.3m; 31 December 2019: gain of US$4.5m), 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 2019 comprises the un-wind of the debit carried on the balance sheet at 31 December 2019 (US$2.0m), plus the credit balance established during 2020 (US$1.2m).

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

Foreign exchange gains and (losses)	**6 months ended 30 June 2020 US$m**	**6 months ended 30 June 2019 US$m**	**Year ended 31 December 2019 US$m**
Net change in unearned premium provision - non-monetary FX effect	**1.8**	2.0	3.4
Acquisition costs - non-monetary FX effect	**(0.9)**	(1.0)	(1.7)
Net foreign exchange (losses)/gains - non-monetary[1]	**(4.1)**	1.3	2.8
Non-monetary - Total	**(3.2)**	2.3	4.5
Net foreign exchange losses - monetary[1]	**(10.0)**	13.6	14.0
Return on derivative contracts - FX related instruments	**1.0**	(20.7)	(15.2)
	(9.0)	(7.1)	(1.2)
Total (loss)/gain	**(12.2)**	(4.8)	3.3

1 The sum of these two amounts, US$(14.1)m, is the 'Net foreign exchange losses' figures per the condensed consolidated income statement.

Tax

Our tax on ordinary activities for the six months to 30 June 2020 resulted in a tax charge of US$9.9m (30 June 2019: charge of US$0.2m; 31 December 2019: charge of US$6.4m), based on a group loss before tax of US$217.5m (30 June 2019: profit of US$122.3m; 31 December 2019: profit of US$186.3m). This charge comprised a current tax charge of US$1.5m and a deferred tax charge of US$8.3m. The deferred tax charge reflects a reduction in the deferred tax asset carried at the start of the period, reflecting the impact of COVID-19 on forecast results.

The Group is liable to taxes on its corporate income in a number of jurisdictions where its companies carry on business, most notably the UK, Singapore, Australia and the US. The tax charge is calculated in each legal entity across the Group and then consolidated. Therefore, the Group 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.

Balance sheet and capital strength

Brit Syndicates 2987 and 2988'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.

We continue to maintain a strong financial position, a factor critical to the long-term success of an insurance business.

Our balance sheet remains strong. Adjusted net tangible assets at 30 June 2020 totalled US$1,102.5m (30 June 2019: US$1,083.4m; 31 December 2019: US$1,150.4m) and our group total capital resources at 30 June 2020 totalled US$1,518.1m (30 June 2019: US$1,501.4m; 31 December 2019: US$1,576.6m). The reduction reflects the result for the period and the payment of a US$20.6m dividend, partly offset by capital contributions from Fairfax of US$200.0m.

At 30 June 2020, we had a management capital surplus of US$64.1m or 4.4% (30 June 2019: US$338.2m/29.1%; 31 December 2019: US$348.9m/28.4%) over our Group management capital requirement of US$1,454.0m (30 June 2019: US$1,163.2m; 31 December 2019: US$1,227.7m). During the period, the increase in requirements primarily reflected the movement in interest rates.

Brit has in place a US$450m revolving credit facility (RCF) available until 31 December 2023. At 30 June 2020, drawings on the RCF were US$140m of cash and a US$80.0m uncollateralised letter of credit (LoC) (30 June 2019: US$127.0m cash drawings and US$80.0m uncollateralised LoC; 31 December 2019: US$140.0m cash drawings and US$80.0m uncollateralised LoC). At the date of this report, drawings on the RCF were US$155.0m of cash and the US$80.0m uncollateralised LoC.

In addition, we have in issue £135.0m of 6.625% subordinated debt with a carrying value of £134.0m/ US$165.6m (30 June 2019: £132.0m/ US$168.0m; 31 December 2019: £133.0m/ US$176.2m). 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 otherwise matures in 2030.

At 30 June 2020, Brit's gearing ratio was 30.4% (30 June 2019: 30.0%; 31 December 2019: 29.9%).

Share capital

On 7 April 2020, FFHL Group Limited subscribed for 46,511,628 new Brit Limited B class shares for a contribution of US$200.0m. As a result of this transaction, FFHL Group Limited's holding in Brit Limited increased to 90.27% (31 December 2019: 89.26%).

Dividends

On 9 April 2020, a dividend of US$20.6m was paid by Brit to its minority shareholder, OMERS. This was paid in accordance with the shareholders' agreement dated 29 June 2015.

Business development

During 2020 we have continued to focus on our underwriting strategy. Key developments have included:

Ki, the first algorithmically driven Lloyd's of London syndicate

In May, Brit announced Ki, a standalone business and the first fully digital and algorithmically-driven Lloyd's of London syndicate that will be accessible anywhere, at any time. In collaboration with Google Cloud, we believe Ki will redefine the commercial insurance market as a 'follow-only' syndicate launching in 2021.

The launch of Ki marks a step change for an industry that is yet to face the disruption seen across the rest of financial services and other industries. Ki will aim to significantly reduce the amount of time and effort taken for brokers to place their follow capacity, creating greater efficiency, responsiveness and competitiveness. Google Cloud will bring to Ki enterprise-grade cloud solutions powered by innovative technologies that enable rapid transformation at scale.

Ki's algorithm will be able to evaluate Lloyd's policies and will automatically quote for business through a digital platform which brokers can access directly. The selection process is performed using a proprietary algorithm developed with support from University College London and their Computer Science department. Ki will follow several 'nominated' lead syndicates across the Lloyd's market, including Brit. Ki offers brokers a line on every risk in the selected classes led by these markets.

Over time, Ki will look to play a central role in the transformation of the specialist insurance market in London, creating a whole new and fully digital segment which operates seamlessly alongside the traditional marketplace. With recent events demonstrating the importance of electronic trading, we expect the transition in how the Lloyd's market transacts business to be accelerated.

Private Client

In May we announced the launch of our new Private Client offering. Brit Private Client offers brokers operating in the high and ultra-high net worth market, and their clients, a credible new alternative. It combines Brit's brand and reputation in claims and service with a team of highly regarded market practitioners.

Brit Private Client differentiates itself through its bespoke approach, able to offer clients personalised solutions through a single policy that will include significant limits, worldwide coverage and additions such as personal cyber. Coverage will include homes, rare and valuable possessions, annual travel and cars all in one policy. The focus of the book is the UK and Ireland.

Continued BGSU expansion

During the period, we have continued to selectively expand our BSGU operations:

- **BGSU Cyber and Technology expansion:** On 7 January BGSU announced the appointment of an Assistant Vice President (AVP), Cyber for BGSU, to support the underwriting and growth of Brit's US Cyber portfolio. In April, BGSU appointed a further AVP, Cyber.

- **BGSU Programs:** In April, BGSU also appointed a VP, Programs, to help develop BGSU's Specialty Program offering and identifying future opportunities for growth.

Appointment of Michael Wade OBE as Independent Consultant

In June, Brit engaged the services of Michael Wade OBE as Independent Consultant. Michael will act as an adviser to Brit's management team across a number of areas, while also acting as an external ambassador for the Group. Michael is a highly regarded figure in the insurance market and brings over 40 years of experience in the insurance market, during which time he has held a series of high-profile positions.

Risk management and principal risks

Risk Management Framework

Brit delivers shareholder value by actively seeking and accepting risk within agreed limits. Risk management within Brit is a continuous process that links directly to the organisation's business and risk management strategies and the associated Board risk tolerances.

Brit's Risk Management Framework (RMF) applies a consistent methodology and structure to how risks are identified, measured, managed and monitored. This process enables us to protect policyholders and maximise shareholder value by ensuring the risk and capital implications of business strategy are well understood.

The RMF has the following key elements:

- **Identification:** Risk events, risks and relevant controls are identified and classified. This is a continuous process which considers any emerging and existing risks.
- **Measurement:** Risks are assessed and quantified and controls are evaluated. This is done through a combination of stochastic modelling techniques, stress and scenario analysis, reverse stress testing and qualitative assessment using relevant internal and external data.
- **Management:** The information resulting from risk identification and measurement is used to improve how the business is managed.

A key part of the RMF is the setting of risk tolerances and risk appetite. Risk tolerances are set by the Board and represent the maximum amount of risk Brit is willing to accept to meet its strategic objectives. Risk appetite is set by management and reflect the maximum amount of risk that Brit wishes to take in the current market environment. The actual amount of risk taken is monitored against the tolerances and appetites on an ongoing basis.

The RMF, including the risk tolerances and appetite, reflects Brit's strategy and seeks to ensure that risk is accepted in the areas which are expected to maximise shareholder value whilst continuing to protect policyholders against extreme events. The process applies to both the Brit Group and to the individual underwriting entities.

The risk management team, led by the Chief Risk Officer (CRO), ensures that Brit operates within the risk tolerance level approved by the Board. This includes the assessment of the new strategic initiatives and principal risks and uncertainties faced by the business as detailed below. All Brit staff are involved in ensuring there is an appropriate culture which promotes the identification and management of risk.

The sections below set out the approach to risk governance, and the principal risks identified, measured and managed under the RMF.

Risk Governance

The Board is responsible for overseeing our risk management and internal control systems, which management is responsible for implementing.

Brit maintains a strong risk governance framework using Risk Oversight Committees and Audit Committees whose membership consists of independent non-executive Directors. The Risk Oversight Committees monitor and review the risk profile and the effectiveness of all risk management activities and, in particular, monitor adherence to agreed risk limits. Our Internal Audit function provides assurance to the Risk Oversight Committees, Audit Committees and Boards, while external experts are regularly used for independent assessments.

Brit operates a three lines of defence model for governing risk. Within the first line of defence individual risk committees monitor day-to-day risk control activities. The risk management function, as a second line of defence, provides oversight over business processes and sets out policies and procedures. Internal Audit, as a third line of defence, provides independent assurance and monitors the effectiveness of the risk management processes.

Principal risks

The RMF categorises the risks to Brit as follows:

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

Insurance risk is the key driver of our Group capital requirements.

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

Risk category	Risk	Description of risk
Insurance	Underwriting – pricing	Emerging experience is inconsistent with the assumptions and pricing models used.
	Underwriting – natural catastrophe	Natural catastrophe events impacting Brit's (re)insureds, leading to large volumes of claims.
	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.

COVID-19 risk management

The Brit Group has managed the risks associated with COVID-19 in line with the requirements of its risk management policies. Further details are provided below.

- **Operational risk**

The Group's operational risks are consistent with those disclosed within the 2019 Annual Report. COVID-19 has caused a temporary shift from an office-based working environment to a remote working environment for all staff on 18 March. This tested Brit's operational capabilities and could have potentially disrupted the operations of Brit or its outsourced service providers. However, Brit and its service providers have adapted well. All business processes have been carried out and operational performance has remained strong.

We have put in place support mechanisms for employees and we continue to communicate regularly to ensure that people feel engaged and supported through these uncertain times. From an operational and IT perspective, the business continues to operate effectively. The investment in 2019 in Microsoft's Office 365, Teams and the decision to rollout laptops to all full-time employees has made working remotely relatively seamless. Underwriting can be managed through PPL, Whitespace and reinsurance trading platforms, and underwriting and claims staff contact details are available online or via the Brit App. The Claims team continues to service our policyholders in these challenging circumstances. We regularly monitor and report on the performance of controls and operational effectiveness. The ongoing monitoring of the operational risk profile has not identified any material concerns or failings.

- **Insurance risk**

The Group's insurance risks are consistent with those disclosed within its 2019 Annual Report. COVID-19 has resulted in material net insurance losses to the Group however these are in line with potential catastrophe losses the Group monitors using catastrophe modelling tools and realistic disaster scenarios (RDS). The Group has a rigorous process for establishing reserves for insurance claim liabilities, including those associated with COVID-19. We continue to monitor and assess the impact of COVID-19 and significant uncertainties remain around loss estimates given the complexities of the pandemic and its evolving nature. We also continue to monitor our wider business, which may be impacted by claims arising directly or indirectly from the events unfolding, and we continue to consider the potential impact on medium-term claims from a global recession, which typically brings increased moral hazard, fraud and a more litigious environment generally.

- **Investment and market risks**

The Group's investment and market risks are consistent with those disclosed within the 2019 Annual Report. Whilst financial markets have experienced volatility in H1 2020, the volatility is experienced is within the range of stress and scenario tests carried out by the Group.

- **Credit risk**

The Group's credit risks are consistent with those disclosed within the 2019 Annual Report. COVID-19 has caused economic disruption around the world with many businesses and individuals forced to cease business activity in light of government lockdowns. As at 30 June 2020, the Group has not seen a material increase in defaults but continues to monitor this closely.

- **Solvency and Liquidity risk**

The Group's solvency and liquidity risks are consistent with those disclosed within the 2019 Annual Report. As at 30 June 2020, the Group held a surplus of US$64m over its management capital requirements. All regulatory capital requirements have been complied with by the Group's individual insurance subsidiaries.

Brit continues to benefit from the support of the wider Fairfax Group, with a capital contribution of US$200m provided in April 2020 to strengthen the resilience of the balance sheet to further shocks.

Following the COVID-19 outbreak, the Group conducted stress testing of its underwriting subsidiaries' liquidity resources, in order to assess their ability to continue making claims payments as they fell due. This stress testing demonstrates the Group's underwriting entities will continue to have access to sufficient liquidity, even in severe stress scenarios.

At 30 June 2020, the Group held US$1,351.3m of cash and short-dated US Treasury bonds, and US$230.0m undrawn on its revolving credit facility.

- **Impairment testing of intangible assets**

Impairment testing of intangible assets with indefinite lives, including goodwill, is based on value in use or fair value less costs to sell, and is carried out annually or whenever events or circumstances indicate that the carrying amount may not be recoverable. As at 30 June 2020, while no specific circumstance indicates that carrying amounts may not be recoverable, considering the impact of COVID-19 on insurance market and economies more widely, the Group has updated impairment testing performed at 31 December 2019 in order to consider whether impairment of goodwill in respect of acquisitions in prior years is required. In particular, value in use numbers were derived from updated forecast cash flows and an amended discount rate. As a result of this assessment, the Group confirmed that no impairment was required as 30 June 2020.

Emerging risks

Brit undertakes a formal emerging risk review annually with the results reported to the Risk Oversight Committee and included in the ORSA report. The review is an important part of the risk identification aspect of the RMF and includes horizon scanning of the internal and external risk environment to identify potential new or developing risks to Brit. These risks can then be included in the risk register and managed appropriately as required.

Climate change related financial risks

Climate change is a key example of a developing risk identified as part of Brit's emerging risk review, and the potential impact to the insurance industry is an area of focus for the market and the regulators. The risks to insurers may include the potential increase in the frequency and severity of weather-related natural catastrophes, for example, hurricanes and wildfires. Brit is managing the risks associated with climate change in line with the RMF and is responding to the latest regulatory guidance in this area. This will continue to be an area of management and risk committee focus.

United Kingdom's exit from the EU (Brexit)

We have continued to work to minimise the impact of Brexit on Brit and our clients. While direct European business is not material for Brit, we have continued to monitor and evaluate the associated risks. The known work required is complete and our new processes are operational and we commenced writing business via Lloyd's Brussels in the fourth quarter of 2018, for risks incepting on or after 1 January 2019.

Following the UK's exit from the EU on 31 January 2020, significant uncertainties remain surrounding the UK's future relationship with the EU, with potentially unknown economic and political implications for the UK. We continue to monitor developments closely ahead of the end of the transition period on 31 December 2020.

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 the date of this report, the Fairfax Group owned 90.3% of Brit's ordinary shares, with the remaining 9.7% 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 interim 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
29 July 2020

Condensed Consolidated Income Statement

For 6 months ended 30 June 2020

	Note	**Unaudited 6 months ended 30 June 2020 US$m**	Unaudited 6 months ended 30 June 2019 US$m	Audited Year ended 31 December 2019 US$m
Revenue				
Gross premiums written	5	**1,282.5**	1,210.5	2,293.5
Less premiums ceded to reinsurers	5	**(416.2)**	(385.3)	(637.3)
Premiums written, net of reinsurance		**866.3**	825.2	1,656.2
Gross amount of change in provision for unearned premiums		**(188.5)**	(159.1)	(43.8)
Reinsurers' share of change in provision for unearned premiums		**142.1**	140.8	29.5
Net change in provision for unearned premiums		**(46.4)**	(18.3)	(14.3)
Earned premiums, net of reinsurance	5	**819.9**	806.9	1,641.9
Investment return	6	**(108.5)**	104.4	158.5
Return on derivative contracts	7	**(12.0)**	(20.6)	(17.6)
Gain on business combination		**-**	10.4	10.2
Other income		**(6.7)**	20.4	45.9
Gains/(losses) on other financial liabilities		**0.7**	(6.3)	(10.5)
Net foreign exchange gains	9	**-**	14.9	16.8
Total revenue		**693.4**	930.1	1,845.2
Expenses				
Claims incurred:				
Claims paid:				
Gross amount		**(660.1)**	(714.8)	(1,366.6)
Reinsurers' share		**187.6**	273.3	509.1
Claims paid, net of reinsurance		**(472.5)**	(441.5)	(857.5)
Change in the provision for claims:				
Gross amount		**(146.6)**	95.0	83.2
Reinsurers' share		**73.2**	(103.3)	(140.2)
Net change in the provision for claims		**(73.4)**	(8.3)	(57.0)
Claims incurred, net of reinsurance	5	**(545.9)**	(449.8)	(914.5)
Acquisition costs	10	**(279.1)**	(285.3)	(595.2)
Other operating expenses	10	**(61.3)**	(59.8)	(125.8)
Net foreign exchange losses	9	**(14.1)**	-	-
Total expenses excluding finance costs		**(900.4)**	(794.9)	(1,635.5)
Operating (loss)/profit		**(207.0)**	135.2	209.7
Finance costs		**(11.7)**	(12.5)	(23.7)
Share of profit/(loss) after tax of associated undertakings		**1.2**	(0.4)	0.3
(Loss)/profit on ordinary activities before tax		**(217.5)**	122.3	186.3
Tax expense	11(a)	**(9.9)**	(2.0)	(6.4)
(Loss)/profit for the period		**(227.4)**	120.3	179.9

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 2020

	Note	**Unaudited 6 months ended 30 June 2020 US$m**	Unaudited 6 months ended 30 June 2019 US$m	Audited Year ended 31 December 2019 US$m
(Loss)/profit attributable to owners of the parent		**(227.4)**	120.3	179.9
Other comprehensive income				
Items not to be reclassified to profit or loss in subsequent periods:				
Actuarial loss on defined benefit pension scheme		**-**	-	(4.7)
Deferred tax credit on actuarial gains on defined benefit pension scheme	11(b)	**-**	-	6.4
Retained earnings of liquidated subsidiaries		**0.1**	-	-
Items that may be reclassified to profit or loss in subsequent periods:				
Change in unrealised foreign currency translation (losses)/gains on foreign operations		**(6.3)**	0.2	3.7
Total other comprehensive income		**(6.2)**	0.2	5.4
Total comprehensive income recognised		**(233.6)**	120.5	185.3

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

Condensed Consolidated Statement of Financial Position

As at 30 June 2020

	Note	**Unaudited 30 June 2020 US$m**	Unaudited 30 June 2019 US$m	Audited 31 December 2019 US$m
Assets				
Intangible assets		**188.0**	195.5	192.6
Property, plant and equipment		**59.0**	66.7	67.9
Deferred acquisition costs		**270.8**	262.7	243.6
Investment in associated undertakings		**20.4**	19.3	19.4
Reinsurance contracts	12	**1,810.1**	1,739.3	1,628.1
Employee benefits		**48.9**	53.8	51.9
Deferred taxation		**34.0**	42.2	41.1
Current taxation		**8.8**	10.2	11.4
Financial investments	13	**3,620.8**	3,381.9	3,640.6
Derivative contracts	14	**18.9**	4.9	15.7
Insurance and other receivables		**1,361.2**	1,381.2	1,240.2
Cash and cash equivalents		**581.7**	563.9	520.1
Total assets		**8,022.6**	7,721.6	7,672.6
Liabilities and Equity				
Liabilities				
Insurance contracts	12	**5,561.5**	5,347.2	5,266.1
Borrowings		**305.6**	295.0	316.2
Other financial liabilities		**60.1**	74.9	75.5
Provisions		**2.1**	3.4	3.5
Current taxation		**2.9**	3.5	1.2
Derivative contracts	14	**21.1**	14.4	14.2
Insurance and other payables		**803.6**	727.7	676.0
Total liabilities		**6,756.9**	6,466.1	6,352.7
Equity				
Called up share capital	15	**7.6**	7.0	7.0
Share premium	15	**704.9**	505.5	505.5
Capital redemption reserve		**1.0**	1.0	1.0
Foreign currency translation reserve		**(92.7)**	(89.5)	(86.4)
Retained earnings		**644.9**	831.5	892.8
Total equity		**1,265.7**	1,255.5	1,319.9
Total liabilities and equity		**8,022.6**	7,721.6	7,672.6

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 29 July 2020 and were signed on its behalf by:

Matthew Wilson
Group Chief Executive Officer

Mark Allan
Group Chief Financial Officer

Condensed Consolidated Statement of Cash Flows

For 6 months ended 30 June 2020

	Note	**Unaudited 6 months ended 30 June 2020 US$m**	Unaudited 6 months ended 30 June 2019 US$m	Audited Year ended 31 December 2019 US$m
Cash generated from operations				
Cash flows used in operating activities	17	**(138.5)**	(385.5)	(467.0)
Tax paid		**(1.9)**	(2.2)	0.6
Interest received		**33.1**	28.3	70.1
Dividends received		**2.5**	4.8	5.3
Net cash outflows from operating activities		**(104.8)**	(354.6)	(391.0)
Cash flows from investing activities				
Purchase of intangible assets		**(1.9)**	(1.7)	(5.2)
Purchase of property, plant and equipment		**(0.7)**	(2.4)	(4.9)
Acquisition of subsidiary undertaking		**-**	(31.1)	(31.1)
Acquisition of associated undertaking		**-**	(12.6)	(13.0)
Dividends from associated undertakings		**0.3**	-	0.5
Net cash outflows from investing activities		**(2.3)**	(47.8)	(53.7)
Cash flows from financing activities				
Proceeds from issue of shares		**200.0**	70.6	70.6
Drawdown on revolving credit facility		**-**	119.0	132.0
Purchase of shares for share-based payment schemes		**(3.0)**	(20.0)	(25.0)
Interest paid		**(1.9)**	(1.9)	(14.5)
Dividend paid		**(20.6)**	(20.6)	(20.6)
Net cash inflows from financing activities		**174.5**	147.1	142.5
Net decrease in cash and cash equivalents		**67.4**	(255.3)	(302.2)
Cash and cash equivalents at beginning of the period		**520.1**	818.2	818.2
Effect of exchange rate fluctuations on cash and cash equivalents		**(5.8)**	1.0	4.1
Cash and cash equivalents at the end of the period		**581.7**	563.9	520.1

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 2020

	Called up share capital US$m	**Share premium US$m**	**Capital redemption reserve US$m**	**Foreign currency translation reserve US$m**	**Retained earnings US$m**	**Total Equity US$m**
At 1 January 2020	7.0	505.5	1.0	(86.4)	892.8	1,319.9
Total comprehensive income recognised	**-**	**-**	**-**	**(6.3)**	**(227.3)**	**(233.6)**
Issuance of share capital	**0.6**	**199.4**	**-**	**-**	**-**	**200.0**
Dividend	**-**	**-**	**-**	**-**	**(20.6)**	**(20.6)**
At 30 June 2020	**7.6**	**704.9**	**1.0**	**(92.7)**	**644.9**	**1,265.7**

For 6 months ended 30 June 2019

	Called up share capital US$m	**Share premium US$m**	**Capital redemption reserve US$m**	**Foreign currency translation reserve US$m**	**Retained earnings US$m**	**Total Equity US$m**
At 1 January 2019	6.8	435.1	1.0	(89.7)	731.8	1,085.0
Total comprehensive income recognised	-	-	-	0.2	120.3	120.5
Issuance of share capital	0.2	70.4	-	-	-	70.6
Dividend	-	-	-	-	(20.6)	(20.6)
At 30 June 2019	7.0	505.5	1.0	(89.5)	831.5	1,255.5

Condensed Consolidated Statement of Changes in Equity (continued)

For year ended 31 December 2019

	Called up share capital US$m	Share premium US$m	Capital redemption reserve US$m	Foreign currency translation reserve US$m	Retained earnings US$m	Total Equity US$m
At 1 January 2019	6.8	435.1	1.0	(89.7)	731.8	1,085.0
Total comprehensive income recognised	-	-	-	3.7	181.6	185.3
Recycling of foreign exchange losses upon acquisition of Ambridge	-	-	-	(0.4)	-	(0.4)
Issuance of share capital	0.2	70.4	-	-	-	70.6
Dividend	-	-	-	-	(20.6)	(20.6)
At 31 December 2019	7.0	505.5	1.0	(86.4)	892.8	1,319.9

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 2020 were authorised for issue in accordance with a resolution of the Directors on 29 July 2020.

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 2020 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 2019. The consolidated financial statements as at, and for the year ended 31 December 2019 were compliant with International Financial Reporting Standards as adopted by the European Union.

This 2020 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 2019 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 2019 were authorised for issue in accordance with a resolution of the Directors on 12 February 2020.

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 2019 available from the Company's registered office or from www.britinsurance.com.

COVID-19 has added additional complexity and uncertainty to the Group's principal risks. The Directors have reviewed the principal risks and uncertainties faced by the Group as summarised on pages 13 and 14 of the Interim Management Report. These principal risks and uncertainties are largely unchanged from those disclosed on pages 38 to 41 of the Group's 2019 Annual Report and accounts. The Directors have also reviewed the key risks and uncertainties relating to COVID-19 as summarised on pages 14 and 15 of the Interim Management Report.

Additionally, the capital position of the Group has been bolstered by capital injection of US$200.0m from the parent company, Fairfax Financial Holdings Limited. A review of the financial performance of the Group is summarised on pages 4 and 5. The financial position of the Group and borrowing facilities are summarised on page 11.

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, they consider it appropriate to continue to adopt the going concern basis for the preparation of 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 Lloyd's syndicates' 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.

2 Accounting policies and basis of preparation (continued)

Associates are those entities over which the Group has the power to exercise significant influence but not control. The Group's investments in associated undertakings are 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.

Business acquisitions are accounted for by applying the acquisition method of accounting, which adjusts the net assets of the acquired company to fair value at the date of purchase. The excess of the acquisition consideration over the fair value of the assets and liabilities of the acquired entity is recorded as goodwill. Expenses related to acquiring new subsidiaries are expensed in the period in which they are incurred. Income and expenses of acquired entities are included in the income statement from the date of acquisition.

(c) Critical accounting estimates and judgements in applying accounting policies

Management is required to make various judgements, estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses.

Estimates

Estimates are regularly re-evaluated and are based on a combination of historical experience and other factors, including exposure analysis, expectations of future experience and expert judgement. The areas of critical accounting estimates and the key sources of estimation uncertainty are unchanged from those applied to the Group's 2019 Annual Report and accounts. In addition, the potential impact of COVID-19 on the Group has been considered in the preparation of the interim financial statements, including in our application of critical accounting estimates. Actual results may differ from these estimates.

Judgements

The areas of critical accounting judgement the Group makes in applying accounting policies and the key sources of estimation uncertainty are unchanged from those applied to the Group's 2019 Annual Report. The potential impact of COVID-19 on the Group has been considered in management's evaluation of critical accounting judgements.

(d) New accounting standards adopted in the period

A number of new or amended standards became applicable for the current reporting period. The Group did not have to change its accounting policies or make retrospective adjustments as a result of adopting these standards.

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 2019. The principal risks and uncertainties are unchanged and may be summarised as insurance risk, investment risk, market risk, credit risk, liquidity risk, political risk, capital risk and operational risk.

The Brit Group has managed the risks associated with COVID-19 in line with its risk management policies. Further details are provided on pages 14 and 15 of the Interim Management Report.

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 2020, 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' comprises premium written by Brit Reinsurance (Bermuda) Limited, the Group's special purpose vehicles (including premium attributable to third party underwriting capital providers) and Brit's share of Syndicate 2988, less adjustments in respect of intra-group trading. The share of the Group's special purpose vehicles which is attributable to third party underwriting capital providers is represented by the 'Gains/(losses) on other financial liabilities'. 'Other Underwriting' also includes other income and expenses generated by Ambridge Partners LLC.
- '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 IFRS 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 2020 (30 June 2019: 1.5%; 31 December 2019: 1.5%).

The ratios set out in the segmental analysis are calculated on page 45 (Reconciliation of key performance indicators to the financial statements). The ratios have also been calculated after eliminating the underwriting result attributable to third party underwriting capital providers.

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

a) Statement of profit or loss by segment

6 months ended 30 June 2020

	Brit Global Specialty Direct US$m	Brit Global Specialty Reinsurance US$m	Other Underwriting 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	871.3	366.7	44.5	**1,282.5**	-	**1,282.5**	-	**1,282.5**
Less premiums ceded to reinsurers	(288.6)	(113.1)	(14.5)	**(416.2)**	-	**(416.2)**	-	**(416.2)**
Premiums written, net of reinsurance	582.7	253.6	30.0	**866.3**	-	**866.3**	-	**866.3**
Gross earned premiums	830.4	231.7	29.3	**1,091.4**	2.7	**1,094.1**	-	**1,094.1**
Reinsurers' share	(237.7)	(37.7)	2.1	**(273.3)**	(0.9)	**(274.2)**	-	**(274.2)**
Earned premiums, net of reinsurance	592.7	194.0	31.4	**818.1**	1.8	**819.9**	-	**819.9**
Investment return	12.6	7.5	4.9	**25.0**	-	**25.0**	(133.5)	**(108.5)**
Return on derivative contracts	-	-	-	**-**	-	**-**	(12.0)	**(12.0)**
Other income	4.4	0.9	4.9	**10.2**	-	**10.2**	(16.9)	**(6.7)**
Gains on other financial liabilities	-	-	0.7	**0.7**	-	**0.7**	-	**0.7**
Total revenue	609.7	202.4	41.9	**854.0**	1.8	**855.8**	(162.4)	**693.4**
Gross claims incurred	(642.2)	(130.7)	(33.8)	**(806.7)**	-	**(806.7)**	-	**(806.7)**
Reinsurers' share	243.8	1.3	15.7	**260.8**	-	**260.8**	-	**260.8**
Claims incurred, net of reinsurance	(398.4)	(129.4)	(18.1)	**(545.9)**	-	**(545.9)**	-	**(545.9)**
Acquisition costs - commission	(173.2)	(35.3)	(4.8)	**(213.3)**	(0.7)	**(214.0)**	-	**(214.0)**
Acquisition costs - other	(46.1)	(8.2)	(10.6)	**(64.9)**	(0.2)	**(65.1)**	-	**(65.1)**
Other insurance related expenses	(39.3)	(13.8)	(6.8)	**(59.9)**	-	**(59.9)**	-	**(59.9)**
Other expenses	-	-	-	**-**	-	**-**	(1.4)	**(1.4)**
Net foreign exchange losses	-	-	-	**-**	(4.1)	**(4.1)**	(10.0)	**(14.1)**
Total expenses excluding finance costs	(657.0)	(186.7)	(40.3)	**(884.0)**	(5.0)	**(889.0)**	(11.4)	**(900.4)**
Operating loss	(47.3)	15.7	1.6	**(30.0)**	(3.2)	**(33.2)**	(173.8)	**(207.0)**
Finance costs								**(11.7)**
Share of profit after tax of associates								**1.2**
Loss on ordinary activities before tax								**(217.5)**
Tax charge								**(9.9)**
Loss for the period								**(227.4)**
Claims ratio	**67.2%**	**66.7%**		**67.0%**				
Expense ratio	**42.8%**	**29.4%**		**39.7%**				
Combined ratio	**110.8%**	**96.1%**		**106.7%**				

6 months ended 30 June 2019

	Brit Global Specialty Direct US$m	Brit Global Specialty Reinsurance US$m	Other Underwriting 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	838.9	348.1	23.5	**1,210.5**	-	**1,210.5**	-	**1,210.5**
Less premiums ceded to reinsurers	(310.7)	(76.5)	1.9	**(385.3)**	-	**(385.3)**	-	**(385.3)**
Premiums written, net of reinsurance	528.2	271.6	25.4	**825.2**	-	**825.2**	-	**825.2**
Gross earned premiums	829.8	199.9	18.8	**1,048.5**	2.9	**1,051.4**	-	**1,051.4**
Reinsurers' share	(221.6)	(29.1)	7.1	**(243.6)**	(0.9)	**(244.5)**	-	**(244.5)**
Earned premiums, net of reinsurance	608.2	170.8	25.9	**804.9**	2.0	**806.9**	-	**806.9**
Investment return	13.9	6.7	2.7	**23.3**	-	**23.3**	81.1	**104.4**
Return on derivative contracts	1.0	0.5	-	**1.5**	-	**1.5**	(22.1)	**(20.6)**
Gain on business combination	-	-	-	**-**	-	**-**	10.4	**10.4**
Other income	7.2	1.8	8.7	**17.7**	-	**17.7**	2.7	**20.4**
Losses on other financial liabilities	-	-	1.6	**1.6**	-	**1.6**	(7.9)	**(6.3)**
Net foreign exchange gains	-	-	-	**-**	1.3	**1.3**	13.6	**14.9**
Total revenue	630.3	179.8	38.9	**849.0**	3.3	**852.3**	77.8	**930.1**
Gross claims incurred	(488.4)	(118.4)	(13.0)	**(619.8)**	-	**(619.8)**	-	**(619.8)**
Reinsurers' share	155.7	22.5	(8.2)	**170.0**	-	**170.0**	-	**170.0**
Claims incurred, net of reinsurance	(332.7)	(95.9)	(21.2)	**(449.8)**	-	**(449.8)**	-	**(449.8)**
Acquisition costs - commission	(180.5)	(30.1)	(2.8)	**(213.4)**	(0.7)	**(214.1)**	-	**(214.1)**
Acquisition costs - other	(51.8)	(11.8)	(7.3)	**(70.9)**	(0.3)	**(71.2)**	-	**(71.2)**
Other insurance related expenses	(36.8)	(10.3)	(1.0)	**(48.1)**	-	**(48.1)**	-	**(48.1)**
Other expenses	-	-	-	**-**	-	**-**	(11.7)	**(11.7)**
Total expenses excluding finance costs	(601.8)	(148.1)	(32.3)	**(782.2)**	(1.0)	**(783.2)**	(11.7)	**(794.9)**
Operating profit	28.5	31.7	6.6	**66.8**	2.3	**69.1**	66.1	**135.2**
Finance costs								(12.5)
Share of loss after tax of associates								(0.4)
Profit on ordinary activities before tax								**122.3**
Tax charge								(2.0)
Profit for the period								**120.3**
Claims ratio	54.7%	56.0%		**55.4%**				
Expense ratio	43.1%	29.4%		**39.0%**				
Combined ratio	97.8%	85.4%		**94.4%**				

Year ended 31 December 2019

	Brit Global Specialty Direct US$m	Brit Global Specialty Reinsurance US$m	Other Underwriting 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	1,713.5	537.7	42.3	2,293.5	-	2,293.5	-	2,293.5
Less premiums ceded to reinsurers	(530.2)	(118.7)	11.6	(637.3)	-	(637.3)	-	(637.3)
Premiums written, net of reinsurance	1,183.3	419.0	53.9	1,656.2	-	1,656.2	-	1,656.2
Gross earned premiums	1,649.3	503.4	92.0	2,244.7	5.0	2,249.7	-	2,249.7
Reinsurers' share	(489.7)	(117.7)	1.2	(606.2)	(1.6)	(607.8)	-	(607.8)
Earned premiums, net of reinsurance	1,159.6	385.7	93.2	1,638.5	3.4	1,641.9	-	1,641.9
Investment return	24.6	13.4	6.9	44.9	-	44.9	113.6	158.5
Return on derivative contracts	0.2	0.1	0.1	0.4	-	0.4	(18.0)	(17.6)
Gain on business combination	-	-	-	-	-	-	10.2	10.2
Other income	14.1	3.0	28.5	45.6	-	45.6	0.3	45.9
Losses on other financial liabilities	-	-	(2.6)	(2.6)	-	(2.6)	(7.9)	(10.5)
Net foreign exchange gains	-	-	-	-	2.8	2.8	14.0	16.8
Total revenue	1,198.5	402.2	126.1	1,726.8	6.2	1,733.0	112.2	1,845.2
Gross claims incurred	(951.8)	(303.6)	(28.0)	(1,283.4)	-	(1,283.4)	-	(1,283.4)
Reinsurers' share	331.4	62.5	(25.0)	368.9	-	368.9	-	368.9
Claims incurred, net of reinsurance	(620.4)	(241.1)	(53.0)	(914.5)	-	(914.5)	-	(914.5)
Acquisition costs – commission	(351.5)	(69.9)	(21.9)	(443.3)	(1.3)	(444.6)	-	(444.6)
Acquisition costs – other	(92.5)	(17.4)	(40.3)	(150.2)	(0.4)	(150.6)	-	(150.6)
Other insurance related expenses	(74.5)	(25.8)	(5.2)	(105.5)	-	(105.5)	-	(105.5)
Other expenses	-	-	-	-	-	-	(20.3)	(20.3)
Total expenses excluding finance costs	(1,138.9)	(354.2)	(120.4)	(1,613.5)	(1.7)	(1,615.2)	(20.3)	(1,635.5)
Operating profit	59.6	48.0	5.7	113.3	4.5	117.8	91.9	209.7
Finance costs								(23.7)
Share of net profit of associates								0.3
Profit on ordinary activities before tax								186.3
Tax charge								(6.4)
Profit for the year								179.9
Claims ratio	53.9%	62.5%		55.7%				
Expense ratio	44.8%	29.2%		40.1%				
Combined ratio	98.7%	91.7%		95.8%				

6 Investment return

6 months ended 30 June 2020

	Investment income US$m	**Net realised gains US$m**	**Net unrealised (losses)/gains US$m**	**Total investment return US$m**
Equity securities	**2.7**	**8.7**	**(128.3)**	**(116.9)**
Debt securities	**34.7**	**7.7**	**55.6**	**98.0**
Specialised investment funds	**-**	**1.6**	**(88.1)**	**(86.5)**
Cash and cash equivalents	**2.7**	**-**	**-**	**2.7**
Total investment return before expenses	**40.1**	**18.0**	**(160.8)**	**(102.7)**
Investment management expenses	**(5.8)**	**-**	**-**	**(5.8)**
Total investment return	**34.3**	**18.0**	**(160.8)**	**(108.5)**

6 months ended 30 June 2019

	Investment income US$m	**Net realised losses US$m**	**Net unrealised gains US$m**	**Total investment return US$m**
Equity securities	3.2	(41.5)	99.0	60.7
Debt securities	34.0	(13.4)	23.9	44.5
Specialised investment funds	-	(0.6)	0.6	-
Cash and cash equivalents	5.1	-	-	5.1
Total investment return before expenses	42.3	(55.5)	123.5	110.3
Investment management expenses	(5.9)	-	-	(5.9)
Total investment return	36.4	(55.5)	123.5	104.4

Year ended 31 December 2019

	Investment income US$m	Net realised losses US$m	Net unrealised gains/(losses) US$m	Total investment return US$m
Equity securities	5.7	(39.2)	129.7	96.2
Debt securities	71.8	(12.2)	22.4	82.0
Specialised investment funds	-	(0.5)	(17.3)	(17.8)
Cash and cash equivalents	9.8	-	-	9.8
Total investment return before expenses	87.3	(51.9)	134.8	170.2
Investment management expenses	(11.7)	-	-	(11.7)
Total investment return	75.6	(51.9)	134.8	158.5

7 Return on derivative contracts

	6 months ended 30 June 2020 US$m	6 months ended 30 June 2019 US$m	Year ended 31 December 2019 US$m
Investment-related non-currency options	**(13.0)**	(1.4)	(2.8)
Currency forwards	**1.0**	(19.2)	(14.8)
Total return on derivative contracts	**(12.0)**	(20.6)	(17.6)

8 Other income (including gains/(losses) on other financial liabilities)

	6 months ended 30 June 2020 US$m	6 months ended 30 June 2019 US$m	Year ended 31 December 2019 US$m
Fees and commission from non-aligned syndicate	**2.9**	**6.4**	12.7
Change in value of other financial liabilities*	**0.7**	**(6.3)**	(10.5)
Change in value of parent company shares held by Brit	**(16.9)**	**2.7**	0.3
Net commission fee income from intermediary activities	**4.5**	**8.7**	28.0
Consortium income	**1.4**	**-**	3.2
Other	**1.4**	**2.6**	1.7
Total	**(6.0)**	**14.1**	35.4

*Other financial liabilities includes the investments made by external investors in structured insurance and investment entities consolidated by the Group.

9 Net foreign exchange (losses)/gains

The Group recognised foreign exchange losses of US$14.1m (30 June 2019: gains of US$14.9m; 31 December 2019: gains of US$16.8m) 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 2020 US$m	6 months ended 30 June 2019 US$m	Year ended 31 December 2019 US$m
(Losses)/gains on foreign exchange arising from:			
Translation of the statement of financial position and income statement	**(10.0)**	13.6	14.0
Maintaining UPR/DAC items in the statement of financial position at historic rates	**(3.2)**	2.3	4.5
Maintaining UPR/DAC items in the income statement at historic rates	**(0.9)**	(1.0)	(1.7)
Net foreign exchange (losses)/gains	**(14.1)**	14.9	16.8

9 Net foreign exchange (losses)/gains (continued)

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

	6 months ended 30 June 2020		6 months ended 30 June 2019		Year ended 31 December 2019	
	Average	**Closing**	Average	Closing	Average	Closing
Sterling	**0.794**	**0.809**	0.773	0.786	0.783	0.755
Canadian dollar	**1.365**	**1.362**	1.333	1.307	1.327	1.297
Euro	**0.908**	**0.890**	0.885	0.878	0.893	0.891
Australian dollar	**1.521**	**1.452**	1.416	1.425	1.438	1.423

In accordance with IAS 1 ‘Presentation of Financial Statements’, 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.

10 Acquisition costs and other operating expenses

	6 months ended 30 June 2020			6 months ended 30 June 2019			Year ended 31 December 2019		
	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	**28.1**	**27.5**	**55.6**	34.4	30.0	64.4	73.5	56.9	130.4
Other staff related costs	**1.7**	**3.0**	**4.7**	2.3	6.0	8.3	4.6	12.3	16.9
Accommodation costs	**2.7**	**1.1**	**3.8**	3.4	0.7	4.1	6.1	2.2	8.3
Legal and professional charges	**3.7**	**4.9**	**8.6**	2.8	3.0	5.8	8.0	7.7	15.7
IT costs	**1.2**	**11.5**	**12.7**	0.9	9.9	10.8	2.2	20.0	22.2
Travel and entertaining	**1.0**	**0.6**	**1.6**	2.2	1.1	3.3	4.7	2.6	7.3
Marketing and communications	**0.1**	**0.5**	**0.6**	0.3	0.8	1.1	0.5	1.9	2.4
Amortisation and impairment of intangible assets	**0.2**	**5.0**	**5.2**	0.2	3.6	3.8	0.4	8.3	8.7
Depreciation and impairment of property, plant and equipment	**1.3**	**3.0**	**4.3**	0.7	3.6	4.3	2.4	6.9	9.3
Regulatory levies and charges	**23.0**	**0.3**	**23.3**	22.9	-	22.9	43.7	-	43.7
Other	**2.1**	**3.9**	**6.0**	1.1	1.1	2.2	4.5	7.0	11.5
Expenses before commissions	**65.1**	**61.3**	**126.4**	71.2	59.8	131.0	150.6	125.8	276.4
Commission costs	**214.0**	**-**	**214.0**	214.1	-	214.1	444.6	-	444.6
Total acquisition costs and other operating expenses	**279.1**	**61.3**	**340.4**	285.3	59.8	345.1	595.2	125.8	721.0

11 Tax expense

(a) Tax charged to income statement

	6 months ended 30 June 2020 US$m	6 months ended 30 June 2019 US$m	Year ended 31 December 2019 US$m
Current tax:			
Current tax on income for the period	**(4.2)**	1.0	2.0
Overseas tax on income for the period	**0.1**	(1.1)	(1.6)
	(4.1)	(0.1)	0.4
Double tax relief	**0.6**	0.6	1.2
Adjustments in respect of prior years	**2.0**	0.5	1.8
Total current tax	**(1.5)**	1.0	3.4
Deferred tax:			
Relating to the origination and reversal of temporary differences	**(8.4)**	(4.0)	(10.6)
Adjustments in respect of prior years	**-**	1.0	0.8
Total deferred tax	**(8.4)**	(3.0)	(9.8)
Total tax charged to income statement	**(9.9)**	(2.0)	(6.4)

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 charged to other comprehensive income

	6 months ended 30 June 2020 US$m	6 months ended 30 June 2019 US$m	Year ended 31 December 2019 US$m
Deferred tax charge on actuarial gains on defined benefit pension scheme	**-**	-	6.4

12 Insurance and reinsurance contracts

Balances on insurance and reinsurance contracts

	30 June 2020 US$m	30 June 2019 US$m	31 December 2019 US$m
Gross:			
Insurance contracts			
Claims reported and loss adjustment expenses	**1,692.6**	1,735.1	1,705.1
Claims incurred but not reported	**2,720.0**	2,527.3	2,591.6
	4,412.6	4,262.4	4,296.7
Unearned premiums	**1,148.9**	1,084.8	969.4
Total gross liabilities	**5,561.5**	5,347.2	5,266.1
Recoverable from reinsurers:			
Reinsurance contracts			
Claims reported and loss adjustment expenses	**522.6**	593.2	550.2
Claims incurred but not reported	**871.8**	752.0	795.1
	1,394.4	1,345.2	1,345.3
Unearned premiums	**415.7**	394.1	282.8
Total reinsurers' share of liabilities	**1,810.1**	1,739.3	1,628.1
Net:			
Claims reported and loss adjustment expenses	**1,170.0**	1,141.9	1,154.9
Claims incurred but not reported	**1,848.2**	1,775.3	1,796.5
	3,018.2	2,917.2	2,951.4
Unearned premiums	**733.2**	690.7	686.6
Total net insurance liabilities	**3,751.4**	3,607.9	3,638.0

The net aggregate reserve releases from prior years amounted to US$34.9m (June 2019: US$1.9m; December 2019: US$47.9m). 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.

13 Financial investments

	30 June 2020 US$m	30 June 2019 US$m	31 December 2019 US$m
Equity securities	**277.2**	369.1	403.9
Debt securities	**3,155.2**	2,740.7	2,951.1
Specialised investment funds	**188.4**	272.1	285.6
	3,620.8	3,381.9	3,640.6

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

13 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 the US and in the UK.

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.

13 Financial investments (continued)

Level two common stocks are priced using a combination of independent pricing service providers and internal valuation models that rely on directly or indirectly observable inputs.

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 2020			
	Level 1 US$m	**Level 2 US$m**	**Level 3 US$m**	**Total US$m**
Equity securities	**165.8**	**-**	**111.4**	**277.2**
Debt securities	**1,311.4**	**1,829.4**	**14.4**	**3,155.2**
Specialised investment funds	**-**	**173.5**	**14.9**	**188.4**
	1,477.2	**2,002.9**	**140.7**	**3,620.8**

	30 June 2019			
	Level 1 US$m	Level 2 US$m	Level 3 US$m	Total US$m
Equity securities	196.8	-	172.3	369.1
Debt securities	1,442.8	1,283.2	14.7	2,740.7
Specialised investment funds	-	254.9	17.2	272.1
	1,639.6	1,538.1	204.2	3,381.9

	31 December 2019			
	Level 1 US$m	Level 2 US$m	Level 3 US$m	Total US$m
Equity securities	220.7	-	183.2	403.9
Debt securities	1,443.2	1,492.7	15.2	2,951.1
Specialised investment funds	-	268.8	16.8	285.6
	1,663.9	1,761.5	215.2	3,640.6

13 Financial investments (continued)

All unrealised losses of US$160.8m (30 June 2019: gains of US$123.5m; 31 December 2019: gains of US$134.8m) and realised gains of US$18.0m (30 June 2019: losses of US$55.5m; 31 December 2019: losses of US$51.9m) on financial investments held during the period, are presented in investment return in the consolidated income statement.

Transfers between fair value levels

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 actively traded, 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 2019: none; 31 December 2019: none).

Transfer from level one to level three

There were no transfers from fair value hierarchy level one to level three (30 June 2019: none; 31 December 2019: none).

Transfer from level two to level one

There were no transfers from fair value hierarchy level two to level one (30 June 2019: none; 31 December 2019: none).

Transfer from level three to level two

There were no transfers from fair value hierarchy level three to level two (30 June 2019: none; 31 December 2019: none).

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

	Equity securities US$m	Debt securities US$m	Specialised investment funds US$m	Total US$m
At 1 January 2019	**140.5**	**43.7**	**14.8**	**199.0**
Total gains/(losses) recognised in the income statement	17.5	(15.3)	2.0	4.2
Purchases	35.4	14.3	-	49.7
Sales	(11.0)	(27.9)	-	(38.9)
Foreign exchange gains	0.8	0.4	-	1.2
At 31 December 2019	**183.2**	**15.2**	**16.8**	**215.2**
Total losses recognised in the income statement	**(24.1)**	**(0.1)**	**(1.9)**	**(26.1)**
Purchases	**1.1**	**-**	**-**	**1.1**
Sales	**(47.8)**	**-**	**-**	**(47.8)**
Foreign exchange losses	**(1.0)**	**(0.7)**	**-**	**(1.7)**
At 30 June 2020	**111.4**	**14.4**	**14.9**	**140.7**

Total net losses recognised in the income statement under 'investment return' in respect of level three financial investments for the period amounted to US$26.1m (30 June 2019: losses of US$11.8m; 31 December 2019: gains of US$4.2m). Included in this balance are US$26.1m of unrealised losses (30 June 2019: gains of US$4.0m; 31 December 2019: gains of US$19.1m) attributable to assets still held at the end of the period.

13 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 2020		30 June 2019		31 December 2019	
	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
Equity securities	**111.4**	**6.7**	172.3	3.4	183.2	1.4
Debt securities	**14.4**	**0.8**	14.7	1.5	15.2	0.5
Specialised investment funds	**14.9**	**0.1**	17.2	0.6	16.8	0.7
	140.7		204.2		215.2	

In order to determine reasonably possible alternative assumptions, the Group has monitored the price movements of the securities invested on a month by month basis during 2020, or since acquisition if acquired during the period. This has resulted in an average expected percentage change due to the change in assumptions, which forms the basis of this analysis.

14 Derivative contracts

Derivative contract assets	**30 June 2020 US$m**	30 June 2019 US$m	31 December 2019 US$m
Currency forwards	**11.7**	3.1	13.6
Options	**3.6**	1.5	0.4
Industry loss warranty contracts	**1.4**	-	0.1
Call and put option over Camargue	**-**	0.3	0.8
Sutton forward contract	**1.1**	-	0.8
Total return swap	**1.1**	-	-
	18.9	4.9	15.7

Derivative contract liabilities	**30 June 2020 US$m**	30 June 2019 US$m	31 December 2019 US$m
Currency forwards	**(17.2)**	(14.4)	(14.2)
Call and put option over Camargue	**(0.7)**	-	-
Treasury lock	**(3.2)**	-	-
	(21.1)	(14.4)	(14.2)

14 Derivative contracts (continued)

Disclosures of fair values in accordance with the fair value hierarchy

	30 June 2020 Level 2 US$m	 Level 3 US$m	 Total US$m
Derivative contract assets	**12.8**	**6.1**	**18.9**
Derivative contract liabilities	**(20.4)**	**(0.7)**	**(21.1)**

	30 June 2019 Level 2 US$m	 Level 3 US$m	 Total US$m
Derivative contract assets	3.1	1.8	4.9
Derivative contract liabilities	(14.4)	-	(14.4)

	31 December 2019 Level 2 US$m	 Level 3 US$m	 Total US$m
Derivative contract assets	13.6	2.1	15.7
Derivative contract liabilities	(14.2)	-	(14.2)

Valuation techniques

Level two

The fair value of the vast 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.

Level three

CPI-linked derivatives are classified as Level three and valued using broker-dealer quotes which management has determined utilise 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.

The put and call options and forward contract the Group has in respect of its associated undertaking have been classified as level three as the valuation of the options and forward contract is derived from unobservable inputs which are linked to EBITDA calculations.

14 Derivative contracts (continued)

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

	Options US$m
At 1 January 2019	3.3
Total losses recognised in the income statement	(0.9)
Foreign exchange losses	(0.3)
At 31 December 2019	**2.1**
Purchases	**6.9**
Total losses recognised in the income statement	**(3.6)**
At 30 June 2020	**5.4**

15 Share Capital

	30 June 2020 US$m	30 June 2019 US$m	31 December 2019 US$m	**30 June 2020 1p each Number**	30 June 2019 1p each Number	31 December 2019 1p each Number
Ordinary shares:						
Allotted, Issued and fully paid	**7.6**	7.0	7.0	**493,488,813**	446,977,185	446,977,185

On 7 April 2020, 46,511,628 Class B Ordinary Shares were issued by Brit Limited, each with a nominal value of 1p, for US$200.0m. Following this share issuance, US$199.4m was recorded in the share premium accounts and Fairfax increased its percentage shareholding to 90.3%.

As at 30 June 2020, 48,000,000 ordinary shares were classified as Class A Ordinary Shares and the remainder classified 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.

On 29 April 2019, 4,800,000 class B Ordinary Shares were issued by Brit Limited, each with a nominal value of 1p, for US$20.6m. Following this share issuance, US$20.5m was recorded in the share premium accounts.

On 24 June 2019, 11,627,907 class B Ordinary Shares were issued by Brit Limited, each with a nominal value of 1p, for US$50.0m. Following this share issuance, US$49.9m was recorded in the share premium accounts.

16 Dividends

A US$20.6m dividend in respect of the year-ended 31 December 2019 was paid to the class A shareholders on 9 April 2020 in accordance with the shareholders' agreement at an amount equal to US$0.43 per share (30 June 2019: US$20.6m/0.43 per share).

17 Cash flows provided by operating activities

	6 months ended 30 June 2020 US$m	6 months ended 30 June 2019 US$	Year ended 31 December 2019 US$
(Loss)/profit on ordinary activities before tax	**(217.5)**	122.3	186.3
Adjustments for non-cash movements:			
Realised and unrealised losses/(gains) on investments	**142.8**	(68.0)	(82.9)
Realised and unrealised losses on derivatives	**12.0**	20.6	17.6
Amortisation of intangible assets	**5.2**	3.8	8.7
Depreciation of property, plant and equipment	**5.5**	4.7	9.3
Foreign exchange losses/(gains) on cash and cash equivalents	**5.3**	(1.0)	(3.8)
Share of (profit)/loss after tax of associated undertakings	**(1.2)**	0.4	(0.3)
Profit on disposal of associated undertaking	**-**	-	(10.2)
Unrealised losses/(gains) on shares held for share based payments	**20.1**	(2.7)	(0.3)
Charges in respect of share-based payment schemes	**0.7**	4.0	7.0
Interest income	**(37.4)**	(39.1)	(81.6)
Dividend income	**(2.7)**	(3.2)	(5.7)
Finance costs on borrowing	**11.7**	12.5	23.7
Movement in operating assets and liabilities:			
Deferred acquisition costs	**(27.2)**	(18.6)	0.5
Insurance and other receivables excluding accrued income	**(140.7)**	(291.4)	(138.9)
Insurance and reinsurance contracts	**113.4**	33.6	63.7
Financial investments	**(118.9)**	(165.1)	(404.1)
Derivative contracts	**(8.3)**	(7.8)	(15.8)
Other financial liabilities	**(15.4)**	(166.9)	(166.3)
Insurance and other payables	**112.5**	174.5	123.6
Employee benefits	**3.0**	0.7	1.2
Provisions	**(1.4)**	1.2	1.3
Cash flows used in operating activities	**(138.5)**	(385.5)	(467.0)

18 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$4.9m (30 June 2019: US$4.4m; 31 December 2019: US$9.8m).

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:

18 Related party transactions (continued)

	6 months to 30 June 2020 US$m	6 months to 30 June 2019 US$m	Year to 31 December 2019 US$m
Gross premiums written	**8.3**	34.8	48.0
Less premiums ceded to reinsurers	**(8.5)**	(9.7)	(18.6)
Premiums written, net of reinsurance	**(0.2)**	25.1	29.4
Gross amount of change in provision for unearned premiums	**3.7**	(13.5)	(2.4)
Reinsurers' share of change in provision for unearned premiums	**(1.0)**	5.2	5.7
Net change in provision for unearned premiums	**2.7**	(8.3)	3.3
Earned premiums, net of reinsurance	**2.5**	16.8	32.7
Gross claims paid	**(4.5)**	(7.5)	(12.9)
Reinsurers' share of claims paid	**14.3**	22.4	43.6
Claims paid, net of reinsurance	**9.8**	14.9	30.7
Gross change in the provision for claims	**(3.7)**	(2.6)	(0.3)
Reinsurers' share of change in the provision for claims	**(6.3)**	(19.8)	(39.3)
Net change in the provision for claims	**(10.0)**	(22.4)	(39.6)
Commission income	**0.2**	(0.1)	-
Commission expense	**(2.8)**	(4.2)	(10.7)

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 2020 US$m	30 June 2019 US$m	31 December 2019 US$m
Debtors arising out of reinsurance operations			
Insurance premium receivable	**7.3**	28.0	7.9
Recoverable from reinsurers	**13.9**	177.7	157.9
Creditors arising out of reinsurance operations			
Payable to reinsurers	**(10.1)**	(7.2)	(8.1)
Unpaid claims liabilities	**(46.8)**	(53.9)	(50.7)
Deferred acquisition costs	**1.5**	5.0	1.9
Gross unearned premiums	**(5.8)**	(19.9)	(9.9)
Unearned premium recoverable from reinsurers	**5.0**	5.7	6.2

(c) Associated undertakings

Sutton Special Risk Inc.

On 2 January 2019, Brit Insurance Holdings Limited acquired 49% of the issued shares of Sutton Special Risk Inc (Sutton) for a total purchase consideration of CAD$17.2m and entered into a forward contract to purchase the remaining 51% in 2024. Sutton is a US MGU, specialising in Accident and Health business.

Trading with Sutton is undertaken on an arm's-length basis and is settled in cash. The amounts in the income statement relating to trading with Sutton for the period ended 30 June 2020 were US$0.6m (30 June 2019: not material; 31 December 2019: US$1.1m). Amounts recorded in the statement of financial position in respect of premium net of commissions due from, and fees payable to Sutton as at 30 June 2020, 30 June 2019 and 31 December 2019 were not material.

18 Related party transactions (continued)

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 ended 30 June 2020 included commission for introducing insurance business of US$1.3m (30 June 2019: US$1.5m; 31 December 2019: US$2.9m).

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 2020, 30 June 2019 and 31 December 2019 were not material.

Reconciliation of Key Performance Indicators to the Financial Statements

(i) Return on net tangible assets before FX movements and corporate activity costs (RoNTA)

Return on net tangible assets before foreign exchange movements and corporate activity costs (RoNTA) shows the return being generated by our operations compared to the adjusted net tangible assets deployed in our business.

	Comment / financial statements reference	**30 June 2020 US$m**	**30 June 2019 US$m**	**31 December 2019 US$m**
PAT	Consolidated income statement	**(227.4)**	120.3	179.9
Add back: Tax adjusted amortisation	Amortisation of intangibles, adjusted by the tax rate	**4.3**	3.7	7.1
Add back: Tax adjusted FX	FX effect for the period, adjusted by the tax rate	**11.9**	4.8	(2.8)
PAT, adjusted for RoNTA calculation		**(211.2)**	128.8	184.2
Adjusted NTA at start of period	See 'Total Value Created' section below.	**1,150.4**	992.9	992.9
External distributions and share issuances	Weighted adjustment to reflect distributions during the period.	**135.1**	25.9	25.8
NTA, adjusted for RoNTA calculation		**1,285.5**	1,018.8	1,018.7
RoNTA		**(16.4)%**	12.6%	18.1%

(ii) Total value created

The total value created measures the movement in adjusted NTA in a period, adjusted for capital raisings, dividends paid and the increase in intangibles arising from business combinations.

	Comment / financial statements reference	**30 June 2020 US$m**	**30 June 2019 US$m**	**31 December 2019 US$m**
Total equity	Consolidated statement of financial position	**1,265.7**	1,255.5	1,319.9
Less: Intangible assets	Consolidated statement of financial position	**(188.0)**	(195.5)	(192.6)
Net tangible assets		**1,077.7**	1,060.0	1,127.3
Add back deferred tax liability on intangible assets		**24.8**	23.4	23.1
Adjusted net tangible assets		**1,102.5**	1,083.4	1,150.4
Adjusted NTA at end of period		**1,102.5**	1,083.4	1,150.4
Less: Adjusted NTA at start of period		**(1,150.4)**	(992.9)	(992.9)
Movement in adjusted NTA		**(47.9)**	90.5	157.5
Less: Issuance of share capital, repurchase of share capital and dividend paid	Consolidated statement of changes in equity	**(179.4)**	(50.0)	(50.0)
Add: Intangibles created on the acquisition of Ambridge	Note 15 (Business combinations) of the 2019 Brit Limited Annual Report	**-**	92.4	91.1
Less: Deferred tax on intangibles created on the acquisition of Ambridge		**-**	(10.7)	-
Total value created		**(227.3)**	122.2	198.6

Reconciliation of Key Performance Indicators to the Financial Statements (continued)

(iii) Underwriting ratios

The combined ratio is our key underwriting metric and measures the profitability of our underwriting. It shows how much of every US$1 of premium is spent in the total costs of sourcing and underwriting the business and settling claims. A combined ratio under 100% indicates underwriting profitability.

	Comment / financial statements reference	30 June 2020 US$m	30 June 2019 US$m	31 December 2019 US$m
Earned premium, net of reinsurance	Note 5: Segmental information	**818.1**	804.9	1,638.5
Adjustments for third party share of vehicles	See note (i) below	**(3.0)**	(5.6)	(14.8)
Adjusted earned premium, net of reinsurance		**815.1**	799.3	1,623.7
Attritional losses		**(424.6)**	(451.7)	(899.4)
Major claims		**(156.2)**	-	(61.6)
Reserve releases		**34.9**	1.9	46.5
Claims incurred, net of reinsurance	Note 5: Segmental information	**(545.9)**	(449.8)	(914.5)
Attritional losses - Adjustments for third party share of vehicles	See note (i) below	**0.6**	3.8	5.7
Major losses - Adjustments for third party share of vehicles	See note (i) below	**-**	-	3.2
Reserve releases - Adjustments for third party share of vehicles	See note (i) below	**(0.9)**	3.5	1.4
Adjusted claims incurred, net of RI		**(546.2)**	(442.5)	(904.2)
Acquisition costs - commissions	Note 5: Segmental information	**(213.3)**	(213.4)	(443.3)
Acquisition costs - other and Other insurance related expenses	Note 5: Segmental information	**(124.8)**	(119.0)	(255.7)
Other income		**10.2**	17.7	45.6
Acquisition costs – commissions - Adjustments for third party share of vehicles	See note (i) below	**0.3**	0.5	1.7
Acquisition costs – other and Other insurance related expenses - Adjustments for third party share of vehicles	See note (i) below	**-**	0.2	0.2
Adjusted underwriting expenses		**(327.6)**	(314.0)	(651.5)
Derivative contracts		**-**	1.5	0.4
Adjusted Underwriting (loss)/profit		**(58.7)**	44.3	68.4
Attritional loss ratio	Attritional losses / Earned premium, net of reinsurance	**52.0%**	56.0%	55.0%
Major claims ratio	Major claims / Earned premium, net of reinsurance	**19.2%**	-	3.6%
Reserve release ratio	Reserve releases / Earned premium, net of reinsurance	**(4.2)%**	(0.6)%	(2.9)%
Claims ratio	Note 5: Segmental information	**67.0%**	55.4%	55.7%
Commission ratio	Acquisition costs - commissions	**26.2%**	26.5%	27.2%
Operating expense ratio	Acquisition costs - other and Other insurance related expenses	**13.5%**	12.5%	12.9%
Underwriting expense ratio	Note 5: Segmental information	**39.7%**	39.0%	40.1%
Combined ratio	Claims ratio + Underwriting expense ratio; Note 5: Segmental information	**106.7%**	94.4%	95.8%

Note (i): On the face of the consolidated income statement, the third party share of our underwriting is consolidated, with the net impact eliminated through 'gains on other financial liabilities'. These adjustments reallocate this elimination on a line by lines basis, thereby giving a fairer view of Brit's underwriting performance as attributable to its shareholders.

(iv) Investment return

We assess the performance of our investment portfolio by comparing the return generated by our invested assets, net of external investment related expenses, against the value of those invested assets.

	Comment / financial statements reference	**30 June 2020 US$m**	**30 June 2019 US$m**	**31 December 2019 US$m**
Share of net profit/(loss) of associates	Note 5: Segmental information	**1.2**	(0.4)	0.3
Return on financial investments and cash and cash equivalents	Note 6: Investment return	**(108.5)**	104.4	150.6
Return on investment related derivatives	Note 7: Return on derivative contracts	**(13.0)**	(1.4)	(2.8)
Third party share of investment return	Note 5: Segmental information (Losses)/gains on other financial liabilities)	**-**	(7.9)	-
Return on invested assets		**(120.3)**	94.7	148.1
Investment in associated undertakings	Consolidated statement of financial position	**20.4**	19.3	19.4
Financial investments	Note 13: Financial investments	**3,620.8**	3,381.9	3,640.6
Derivative contracts (investment related)	Note 14: Derivative contracts	**3.3**	1.8	2.1
Cash and cash equivalents	Consolidated statement of financial position	**581.7**	563.9	520.1
Invested assets		**4,226.2**	3,966.9	4,182.2
Opening invested assets		**4,182.2**	4,009.6	3,846.7
Closing invested assets		**4,226.2**	3,966.9	4,182.2
Average invested assets		**4,204.2**	3,988.3	4,014.5
Return (%)	Return on invested assets / Average invested assets	**(2.9)%**	2.4%	3.6%

Reconciliation of Key Performance Indicators to the Financial Statements (continued)

(v) Capital ratio

The capital ratio measures the strength of our balance sheet by comparing our available capital resources to the capital we need to hold to meet our management entity capital requirements. It is calculated as follows:

	Comment / financial statements reference	30 June 2020 US$m	30 June 2019 US$m	31 December 2019 US$m
Total equity	Consolidated statement of financial position	**1,265.7**	1,255.5	1,319.9
Less: Intangible assets	Consolidated statement of financial position	**(188.0)**	(195.5)	(192.6)
Net tangible assets		**1,077.7**	1,060.0	1,127.3
Add: Deferred tax liability on intangible assets		**24.8**	23.4	23.2
Adjusted net tangible assets		**1,102.5**	1,083.4	1,150.4
Subordinated debt		**165.6**	168.0	176.2
Letters of credit / contingent funding	Under our capital policy we have identified a maximum of US$250.0m of our revolving credit facility to form part of our capital resources.	**250.0**	250.0	250.0
Total available capital resources		**1,518.1**	1,501.4	1,576.6
Management entity capital requirements	The capital required by an entity for business strategy and regulatory requirements.	**(1,454.0)**	(1,163.2)	(1,227.7)
Excess of capital resources over management entity capital requirements		**64.1**	338.2	348.9
Capital ratio		**104.4%**	129.1%	128.4%

Company information

Directors

Mr Matthew Wilson	- Group Chief Executive Officer
Mr Mark Allan	- Group Chief Financial Officer
Mr Gordon Campbell	- Chairman
Mr Andrew Barnard	- Non-executive Director
Mr Jeremy Ehrlich	- Non-executive Director
Ms Andrea Welsch	- Non-executive Director

Group Company Secretary

Mr Tim Harmer

Registered Office

The Leadenhall Building
122 Leadenhall Street
London EC3V 4AB
UK

Telephone: +44 (0) 20 3857 0000

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.

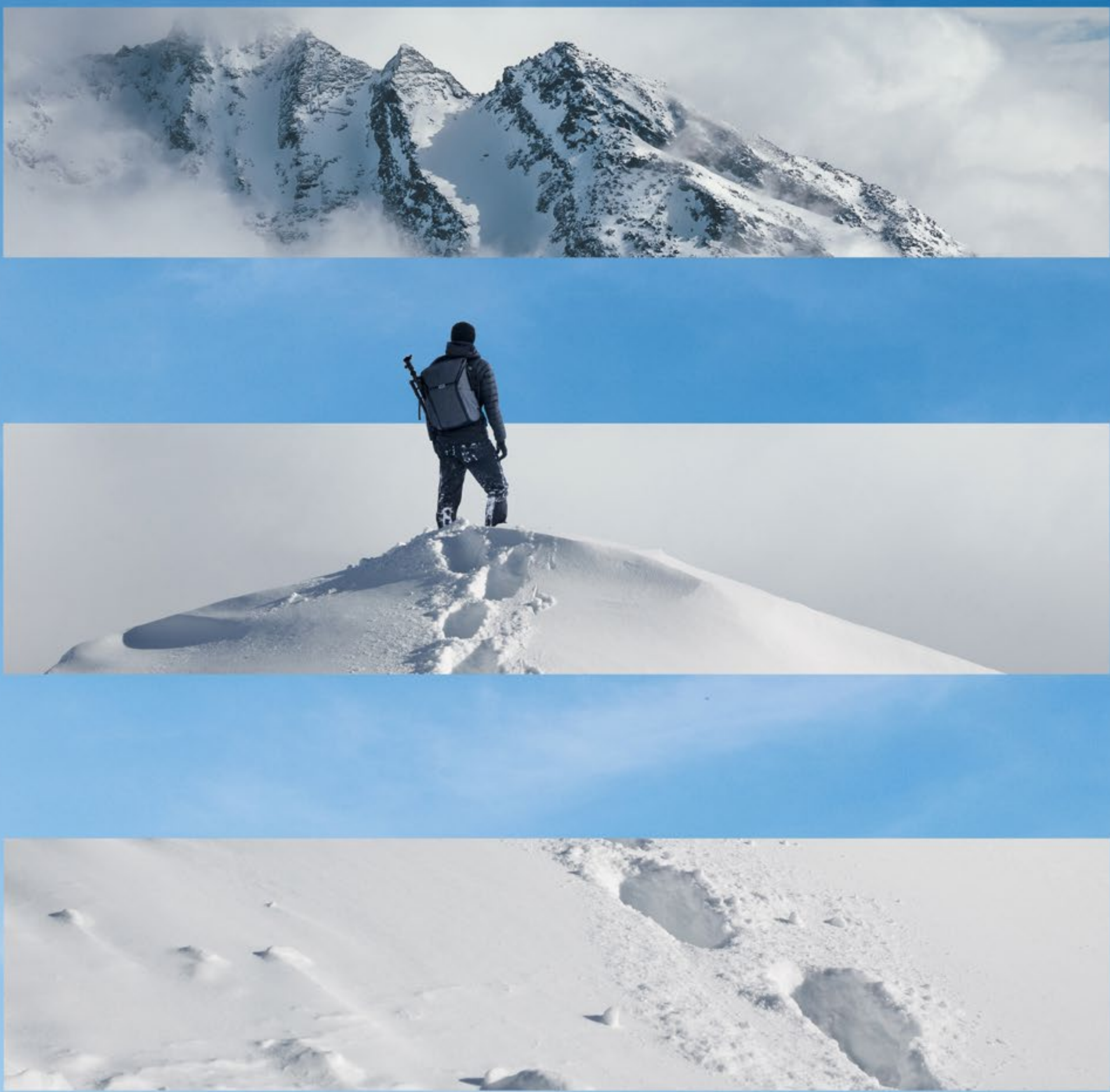
Registered Number

08821629

Auditor

PricewaterhouseCoopers LLP
7 More London Riverside
London
SE1 2RT

Brit Limited
The Leadenhall Building, 122 Leadenhall Street, London, EC3V 4AB, UK
www.britinsurance.com



BRIT

writing the future