BRIT

BRIT LIMITED
PRESS RELEASE
14 FEBRUARY 2020
FULL YEAR RESULTS FOR THE YEAR ENDED 31 DECEMBER 2019

A RETURN TO PROFIT DRIVEN BY A STRONG UNDERWRITING PERFORMANCE

Key points

- Gross written premiums of US$2,293.5m (2018: US$2,239.1m), a 2.4% increase (3.4% at constant FX rates).
- Risk adjusted premium rates increases on renewal business of 5.9% (2018: 3.7% increase).
- Combined ratio[1] of 95.8% (2018: 103.3%), including 3.6 percentage points of major losses (2018: 12.0pps).
- No material change in overall net major loss estimates for 2017 and 2018 events.
- Return on invested assets[2] after fees of US$148.1m or 3.6% (2018: -US$82.1m or -2.0%).
- Profit on ordinary activities before the impact of FX and tax of US$183.0m (2018: loss of US$181.2m).
- Profit after tax of US$179.9m (2018: loss of US$166.5m) and RoNTA[3] before FX movements of 18.1% (2018: -14.4%).
- Adjusted net tangible assets[4] of US$1,150.4m (2018: US$992.9m).
- Strong capital ratio[5] of 128.4% (2018: 130.4%).
- Continued implementation of our strategy, including:
  - Brit managed third party capacity on Sussex, Versutus II and Syndicate 2988, expanded to over US$440m for 2019 (2018: US$400m);
  - Completed the acquisition of Ambridge Partners LLP, one of the world's leading MGUs of complex risks, based in New York; and
  - Significant strategic investment in Sutton Special Risk Inc., a leading Toronto based MGU specialising in Accident & Health business.

Matthew Wilson, Group Chief Executive Officer of Brit Limited, commented:

'I am pleased to report a return to profit for Brit, with our underwriting performance and investment return delivering a strong 2019 result, with a profit before tax of US$186.3m and a combined ratio of 95.8%. Given the ongoing market environment, I believe this is an encouraging set of results reflecting our clear strategy, which is focused on leadership, innovation and distribution, and the talent and commitment of our people.

2019 has undoubtedly had its challenges for the industry, on the back of the difficult prior two years. Claims experience has again been impacted by significant major loss activity, an increasing impact from small and medium loss events, and continued pressures on attritional loss ratios. The industry has also witnessed the increasing effects of social inflation, climate change and other socio-economic factors. Despite this, we reported an improved underwriting result which reflected the combination of rate increases, a healthy attritional ratio, a reduced level of major losses and an unbroken record of reserve releases since we started disclosing them 16 years ago.

Risk adjusted premium rate increases achieved in 2019 were 5.9%, building on 2018's positive movement of 3.7%. Our premium written grew by 3.4% at constant exchange rates, to US$2,293.5m. We have expanded our core book, reflecting improved market conditions and targeted growth across our treaty portfolio and selected direct classes, partly offset by planned contractions across a number of challenged classes.

Where classes remained challenging, we continued to take decisive action to protect our balance sheet by discontinuing those business lines. During 2019, we withdrew from certain classes written in the US and Latin America, and took the decision to withdraw from the Lloyd's Singapore Platform and the Lloyd's China Platform. This streamlining provides added focus to our core markets and products, where we see the most potential to further develop our leadership positions.

We strive to provide direction and leadership within our business and to our industry. We are supportive of the Future at Lloyd's Blueprint and are proud to have worked with Lloyd's to be the first Lloyd's Syndicate to use ILS capacity to back our capital at Lloyd's, a landmark achievement.

For 2019, Brit's total managed capacity across our third-party capital vehicles, Versutus, Sussex Capital and Syndicate 2988 increased to US$440m. The renewal and expansion of our ILS capacity, alongside the planned growth in gross written premium for Syndicate 2988, continues our successful strategy of managing capital for third parties by offering access to Brit's leading underwriting capabilities, deep client relationships and extensive distribution network.

Following significant research and development, we successfully launched our e-trading portal in 2019, initially focussing on SME Cyber business. This initiative presents Brit with the opportunity to open new distribution channels, and the potential to grow our most profitable segments more efficiently.

We have continued to invest in businesses with a strong track record in both distribution and underwriting. We completed our acquisition of New York headquartered Ambridge Partners LLC (Ambridge), one of the world's leading managing general underwriters of Transactional Insurance, Complex Management Liability Insurance and Intellectual Property Insurance. We also made a significant strategic investment in Sutton Special Risk Inc (Sutton), a leading Toronto based MGU, which specialises in Accident & Health business and underwrites on behalf of a broad panel of Lloyd's syndicates and international carriers.

In claims we have continued to focus on our client service capabilities and development of a best-in-class service. We have entered into a new partnership with the Geospatial Intelligence Center, to provide us with industry-leading aerial images of event-affected areas which will allow us to make rapid and accurate property catastrophe assessments for our clients when they are most in need. This was used to great success after Hurricane Dorian hit the Bahamas, where we were able to expedite several total loss claim settlements without delay. We have also launched a mobile claims app for Android and iPhone for our cyber clients, allowing them to quickly and directly report a cyber breach, facilitating immediate event management.

In October, we launched our new brand purpose, 'writing the future'. It will inform everything we do, from how we communicate, how we develop and deliver our services, to how we work together. It means that in choosing Brit, our clients are choosing a service, not just buying a product, and are choosing a partner who will help them face the future and thrive. Put simply, our purpose places innovation at the heart of our strategy. In October, we launched BritX, our innovation hub, led by our newly appointed Head of Innovation, aimed at creating disruption in the London Insurance Market. It has already identified several areas of opportunity with real potential, which we have begun to execute.

2019 was another year where our client centric, progressive approach was recognised by the wider industry. For the second successive year, our claims team won the Claims Team of the Year at the 2019 Insurance Day London Market Awards. They also won two individual awards at the LMA Claims awards. We were named 'Cyber Underwriting Firm of the Year' by the Insurance Insider for the third year in succession, while we were shortlisted for a total of seven awards at the Insider Honours and Insurance Day London Market Awards.

In our most recent staff survey, 91% of our colleagues took the opportunity to respond. More than 98% said they were 'proud to work for Brit' and over 95% would 'recommend Brit as a great place to work'. The passion and dedication of our people undoubtedly sets us apart, and I'd like to thank each of them for their devotion to our clients, business partners, Brit and our parent company Fairfax, and congratulate them on a strong set of financial results. We constantly look for opportunities to enhance our culture and in 2020 we will look to do so through the formation of an Inclusion and Diversity Forum and an Employee Engagement Forum.

Looking ahead, a number of indicators give us increased cause for optimism, including continuing rate increases, the withdrawal of market capacity from certain business lines and the measures taken by Lloyd's to improve market competitiveness as highlighted in their 'Blueprint One'. Whilst the market is not without its challenges, our clear strategy of embracing data driven underwriting discipline and applying rigorous risk selection, coupled with innovative capital management solutions and continued investment in distribution, uniquely positions us to respond to today's opportunities and challenges.'

Mark Allan, Group Chief Financial Officer of Brit Limited, said:

'During 2019, Brit delivered a profit before tax of US$186.3m and a profit after tax of US$179.9m. After a challenging period, it is pleasing to report a strong result, reflecting the continued commitment of all our staff.

Underwriting contributed US$68.4m to the result, with a combined ratio of 95.8%. This reflected an attritional ratio of 55.0% and a major loss ratio of 3.6%. 2019 saw another year of windstorm events causing damage in the US and Japan. Our balanced underwriting approach meant our losses were contained within expectations for the year.

For Brit and the wider market, 2017 and 2018 have proved to be challenging years, with a number of early large losses and attritional pressure occurring in addition to significant catastrophes in those years. However, we have seen more benign claims activity on older years, with 2016 and prior showing releases, resulting in an overall US$47.9m reserve release, equivalent to a 2.9pps reduction in the combined ratio. It was particularly pleasing that despite major catastrophe loss creep for the market, there was no material change to our overall net 2017 and 2018 major loss position.

Our investment return was US$148.1m (net of fees), a return of 3.6%. This was driven by the strong performance of our equity portfolio, which recovered the losses experienced in late 2018 as markets rebounded, and by the performance of our fixed income portfolio which also generated positive income and capital returns.

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. Our adjusted net tangible assets increased to US$1,150.4m (31 December 2018: US$992.9m), after capital contributions, dividends paid and the impact of the Ambridge acquisition. As a result, we hold surplus management capital of US$348.9m, 28.4% over the Group's management capital requirement. During the period, our capital requirements increased from US$1,081.1m to US$1,227.7m, primarily reflecting movements in interest rates. We also benefit from the financial strength of our parent, Fairfax, and from our relationships with our capital partners supporting Syndicate 2988 and the Sussex vehicles.

Our investment portfolio on a look-through basis remains consistent with our position throughout 2018, with a large allocation to cash and cash equivalents (US$525.2m or 12.6%) and fixed income securities (US$2,962.9m or 70.8%). Brit's equity and fund allocation stands at US$692.8m or 16.6%. At 31 December 2019, 81.1% of our invested assets were investment grade and the duration of the portfolio was 1.1 years. The low yield environment remains challenging and there continues to be much uncertainty in the current market outlook, with strong fundamentals contrasting with many macroeconomic and political risks. We are well positioned to continue to benefit from the positive economic environment in the US.

In the period, we have seen a healthy contribution from our third party capital vehicles and from our investment in MGAs. Working with our capital and distribution partners is an important part of Brit's strategy, enhancing our leadership position and strengthening our client proposition while also generating fee income and assisting us in managing our expense base.

We have seen positive insurance market developments in the year, such as rate increases and capacity withdrawals, which will provide us with further opportunities in 2020. However, the market continues to face significant challenges such as the frequency and magnitude of major and medium loss events, attritional ratio pressures, expense levels and political and economic uncertainty. Our strategy and discipline position us well in this environment.

Syndicate 2988, which was established at the end of 2016 and writes business predominantly on behalf of third party capital, has planned gross written premium of US$223.4m for 2020, an increase of 40.8% over 2019. For 2020, capacity is being provided by an expanded investor base and by Brit and we are delighted to welcome our new investors.

The ILS market is going through a transitional period on the back of 2017 and 2018, with market loss activity highlighting different strategies, risk profiles and performance. Against this, Brit is well positioned, able to offer partners access to our attractive underwriting track record and distribution, alongside clear alignment in all of our third party capital vehicles, which we believe is critical. We remain committed to all our ILS ventures and focused on continuing to build on our track record of outperformance. We were delighted with the result of our fundraising activity in 2019, and welcome a number of new investors into our vehicles.

In December, we announced the launch of Sussex Specialty Insurance Fund. The fund, which is closely aligned to the objectives laid out in Lloyd's recent blueprint, will allow Sussex to offer institutional investors direct access to Lloyd's-underwritten specialty insurance and reinsurance through an ILS fund structure. It will access Lloyd's by providing capital to support Syndicate 2988 and will offer a diversified basket of risks from across the Lloyd's market, underwritten by Brit's global platform.

I believe our plans for 2020, underpinned by our wider strategy and discipline, position us well to maximise opportunities as they arise and allow us face the future with optimism.'

Notes

1. The combined ratio excludes the effect of foreign exchange on non-monetary items.
2. Return on invested assets includes return on investment related derivatives and share of net profit of associates and is after deducting investment management fees.
3. RoNTA is based on adjusted net tangible assets.
4. Adjusted net tangible assets are defined as total equity, less intangible assets net of the deferred tax liability on those intangible assets.
5. The capital ratio is calculated as available resources as a percentage of management entity capital requirements.

For further information, please contact:

Antony E Usher, Group Financial Controller, Brit Limited	+44 (0) 20 3857 0000
Edward Berry, FTI Consulting	+44 (0) 20 3727 1046
Tom Blackwell, FTI Consulting	+44 (0) 20 3727 1051

About Brit Limited

Brit Limited is a market-leading global specialty insurer and reinsurer, focused on underwriting complex risks. It has a major presence in Lloyd's of London, the world's specialist insurance market provider, with significant US and international reach. We underwrite a broad class of commercial specialty insurance with a strong focus on property, casualty and energy business. Our capabilities are underpinned by strong financials.

Brit is a member of the Fairfax Financial Holdings Limited group of companies (Fairfax). The Fairfax financial result for the year ended 31 December 2019, which included the Brit Limited financial result, was published on 13 February 2020.

www.britinsurance.com

Disclaimer

This press release does not constitute or form part of, and should not be construed as, an offer for sale or subscription of, or solicitation of any offer or invitation or advice or recommendation to subscribe for, underwrite or otherwise acquire or dispose of any securities (including share options and debt instruments) of the Company nor any other body corporate nor should it or any part of it form the basis of, or be relied on in connection with, any contract or commitment whatsoever which may at any time be entered into by the recipient or any other person, nor does it constitute an invitation or inducement to engage in investment activity under Section 21 of the Financial Services and Markets Act 2000 (FSMA). This document does not constitute an invitation to effect any transaction with the Company or to make use of any services provided by the Company. Past performance cannot be relied on as a guide to future performance.

Brit at a Glance

We are a market-leading global specialty (re)insurer and the largest business that trades primarily on the Lloyd's of London platform, the world's leading specialist commercial insurance market. We provide highly specialised insurance products to support our clients across a broad range of complex risks, with a strong focus on property, energy and casualty business.

We care deeply about our clients' needs, ensuring that we not only surround them with - and invest in - the best talent in the industry, but also combine the depth of our experience with the latest technology to deliver a relentless innovation agenda. Acting in open, honest partnership, our clients can be sure that with Brit by their side the future isn't something to be feared, it's something to be seized.

We operate globally via a combination of our own international distribution network that benefits from Lloyd's global licences and our broker partners. Our underwriting capabilities are underpinned by a strong financial position and our commitment to deliver superior returns to our shareholders.

At Brit, LEADERSHIP, INNOVATION and enhancing our product DISTRIBUTION are at the heart of our strategy, underpinned by our strong underwriting and claims expertise.

We have a strong track record and are passionate about our business, our people and our customers 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.

The Fairfax Group

Since June 2015, Brit has been a member of the Fairfax Financial Holdings Limited group (Fairfax), a Canadian company whose shares are listed on the Toronto Stock Exchange (www.fairfax.ca). Brit is 89.3% owned by FFHL Group Limited (FFHL), a Fairfax company, while Brit's remaining shares are owned by the Ontario Municipal Employees Retirement System (OMERS), the pension plan manager for government employees in the Canadian province of Ontario. FFHL will have the ability to purchase the shares owned by OMERS over time.

We believe that Fairfax is an excellent partner for Brit, enabling us to enhance our global product offering. It provides us with expanded underwriting opportunities and distribution channels and supports our ability to be a leading global specialty (re)insurer.

2019 underwriting review

The market has continued to benefit from the strengthening of premium rates during 2019. Brit achieved an overall risk adjusted rate increase of 5.9% (2018: 3.7%). All classes, with the exception of Property Political Risks and Violence, experienced an increase, with the main contributors being Property Open Market, Marine, US Specialty, Specialist Liability and Property Facilities. We remain focused on the overall value of our products, ensuring we rate them so they are economically attractive for our business. This has led us to exit a number of classes which, despite significant rate rises, remain unattractive.

These increases were driven by the re-engineering of Brit portfolios to deliver improvements in performance; the tightening of conditions in the US E&S market as participants look to improve performance; the withdrawal of competitors from selected poor performing segments following the 2017 and 2018 major loss events and Lloyd's initiatives; and reduction in available capacity in the London Market as the year progressed.

However, while we have seen such positive developments, there are still many challenges facing our market.

2019 has been a year of reduced but still significant natural catastrophe activity, with hurricanes, typhoons and wildfires having a devastating impact on people's lives, homes and businesses, and resulting in an estimated global economic loss of approximately US$140bn and global insured loss estimates in the region of approximately US$56bn.

In 2019, the market has also experienced deterioration in the insured loss estimates arising from the 2017 and 2018 events, already the most costly back-to-back years on record.

The net impact to Brit of the claims incurred from 2019 catastrophe events, before reinstatements, was US$58.4m, or 3.6pps on the combined ratio (2018: US$196.8m/12.0pps). These losses were within our expectations, given the scale and nature of the events, and we have once again benefitted from the protection of our extensive reinsurance programme. There has been no material movement in Brit's overall net estimates arising from the 2017 and 2018 events.

Our customers are our priority, and our products are designed to support our insureds when faced with difficult and unexpected challenges. It follows that we focus on providing outstanding claims service, to ensure we can support and service our customers when they need us most. This claims service has included:

- A focus on responding to our customers and pursuing opportunities to reduce claims lifecycle and bring claims to resolution at every opportunity;
- On-boarding and monitoring of local third-party resources available to adjust and report claims. Claims is a local business, and oversight and support for our delegated claims TPAs and coverholders, managing claims on our behalf, 24 hours a day, seven days a week;
- Swiftly establishing dedicated loss funds for our TPAs and coverholders in order to expedite claims payments and pursuing new insuretech solutions to modernise claims payments and loss funding;
- Proactively making interim or partial payments whenever possible to support our insureds' recovery efforts;
- Utilising Geospatial Intelligence Centre technology to advance our property claims adjusting capabilities, specifically by capturing high resolution images of Brit insured homes affected by Hurricane Dorian and California Wildfires. Losses were immediately referred to our TPAs for payment, even when affected areas could not be accessed by local field adjusters; and
- Increasing our focus on containment of loss adjusting expense, either through utilising Geospatial Intelligence Centre technology, legal bill review, or other agile service models, designed to reduce the overall cost of handling claims and expedite our claims process.

Our overall GWP for 2019 was US$2,293.5m, an increase of 2.4% over 2018 (US$2,239.1m), or 3.4% at constant rates of exchange. Growth areas included BGSU's underwriting initiatives (Casualty RI US, Cyber, Excess Casualty, General Liability and Professional Liability), our Scion MGA and our core classes (Casualty Treaty, Property Treaty, Property Political Risks and Violence, and Financial and Professional Liability). The increase generated by these areas was partially offset by lower levels of prior year premium development, our re-engineering of certain classes (such as Marine) and our withdrawal from a number of other underperforming classes, including International Professional Indemnity, Aviation, Contractors' Plant and Equipment, and Yacht.
Our retention ratio at 78.0% was marginally lower than in 2018 (80.2%), as we non-renewed certain accounts due to unsustainable pricing levels and exited our worst performing classes. Across all lines we have retained our underwriting discipline and are prepared to discontinue accounts that we believe are inadequately priced or outside of our appetite.

Our ability to lead business, combined with our innovative approach to underwriting, supports our success in building long-term and dependable market relationships.

Our distribution strategy remains key, especially during a period of intense market competition, and we continue to build and leverage our network. Continued improvement in relationships with the broker and coverholder community, with a clear articulation of our strategy and risk appetite, is a key area of focus.

This continues to be evidenced by the increasing contribution from our overseas offices, allowing us to see business not generally accessed in London.

- Brit Global Specialty USA (BGSU) has written US$305.8m of premium, 6.3% of growth over 2018. This increase is after the exit from certain underperforming classes and reflects the continued development of our US distribution network. It has arisen from both recently launched initiatives and from organic growth, as we capitalise on market opportunities.
- Scion Underwriting Services Inc., our US MGA headed by Scott Brock, generated US$46.0m of premium for Brit in 2019, its second year of operations (2018: US$5.4m).
- Ambridge Partners LLC, our New York based MGA of which we acquired the remaining 50% during 2019, generated US$46.7m of premium for Brit.
- Our Bermuda operation, established in late 2013, has selectively written reinsurance business in lines and markets that we believe remain well rated. Premiums generated by our Bermuda office in 2019 equated to US$110.1m (2018: US$91.5m).

Our combined ratio in 2019 was 95.8%, including 3.6pps in respect of major losses and (2.9)pps of reserve releases. Over the past five years, we have delivered an average combined ratio of 99.9%, despite the extreme catastrophe years of 2017 and 2018.

Overall, the combination of strong portfolio management and underwriting discipline has led to us achieving a 55.0% attritional ratio in 2019 (2018: 57.2%), a solid underwriting performance given the market backdrop and testament to the strength of our underwriting in such an ongoing competitive environment.

As part of our standard reserving process, we released US$47.9m of net reserves established for prior year claims, the equivalent of a combined ratio reduction of 2.9pps (2018: US$99.3m/6.1pps), reflecting favourable development across most classes, with Financial and Professional Lines, Specialty, Property and Programmes and Facilities being the most significant. There has been no material movement in Brit's overall net estimates arising from the 2017 and 2018 events. The releases in 2018 included the favourable impact on certain legacy classes afforded by a loss portfolio reinsurance with RiverStone Managing Agency Limited (for and on behalf of Lloyd's Syndicate 3500) and favourable development of the 2017 catastrophe events.

Business developments during 2019

During 2019 we have continued to focus on our underwriting strategy. Developments have included:

- **Brit managed capacity on new initiatives expanded to over US$440m for 2019**

  In February 2019, Brit announced the completion of the Versutus 2019 Series. This was the fifth annual renewal and continued the development of the Versutus Ltd (Versutus) vehicle.

  2019 also saw the continued development of Sussex Capital, which writes through Sussex Re in Bermuda, providing direct collateralised reinsurance as well as collateralised reinsurance to Brit's reinsurance portfolio. Sussex has an open-ended fund offering investors a balanced portfolio of reinsurance risks and continued to expand in 2019.

  In addition, Syndicate 2988 had a planned gross written premium of US$158.7m for the 2019 year of account, an increase of 12% over 2018.

  Brit's total managed capacity across Versutus, Sussex Capital and Syndicate 2988 for 2019 was approximately US$440m.

- **Brit Re rated A (Excellent) by A.M. Best**

  A.M. Best assigned a Financial Strength Rating of A (Excellent), with a 'stable' outlook, to Brit Reinsurance (Bermuda) Limited (Brit Re). This rating reflected Brit Re's balance sheet strength, which A.M Best assessed as 'very strong', and the positive impact of having Fairfax as its ultimate parent.

  Following the assignment of this rating, Brit Re plans to expand its reinsurance portfolio in 2020 by selectively writing a modest amount of Casualty Treaty business.

- **Continued development of BGSU**

  BGSU Cyber and Technology

  In July 2019, we appointed two experienced VPs, Cyber & Technology, based in San Francisco and New York. They are responsible for underwriting and supporting the continued growth of BGSU's successful Cyber & Technology offering, which launched in 2017.

  BGSU Casualty

  In July 2019, we appointed a VP, Primary General Liability and a VP, Excess Casualty, based in California in Walnut Creek and Los Angeles respectively. The two appointments represented a strengthening of BGSU's Casualty portfolio and follow a period of sustained growth for BGSU's Casualty and Professional Lines offering.

- **Acquisition of Ambridge Partners LLC**

  On 18 April, Brit completed its acquisition of the remaining 50% of Ambridge Partners LLC (Ambridge). Brit made an initial 50% strategic investment in Ambridge in 2015 and Ambridge has been a key trading partner of Brit for the past thirteen years. This acquisition continues Brit's selective international expansion into niche specialty businesses with a strong track record in distribution and underwriting. Ambridge is one of the world's leading managing general underwriters of complex risks, focusing on Transactional Insurance, Complex Management Liability Insurance and Intellectual Property Insurance. It was established in 2000 and now has a team of over 50 employees based in New York, London and Frankfurt. Ambridge retains its independence, continuing to underwrite as a managing general underwriter on behalf of its existing broad Brit-led consortium of Lloyd's syndicates and international insurers.

- **Sutton Special Risk Inc.**

  On 2 January 2019, Brit made a significant strategic investment in Sutton Special Risk Inc (Sutton). Sutton is a leading MGU, specializing in Accident & Health business, with over 40 years of experience as a Lloyd's coverholder. Sutton has been an important trading partner for Brit for the last 16 years. Founded in 1978 by William J. Sutton, it underwrites Accident, Health and Special Risk products with a team of 40 employees based in Toronto, New York and London, and wrote approximately CAD$54m of premium in 2019. Brit's 49% investment offers attractive exposure to a fast-growing MGU with a strong presence in Canada and the United States and continues Brit's selective international expansion through niche specialty businesses with excellent distribution and underwriting capabilities, alongside highly skilled and experienced professionals. Sutton will retain its independence, continuing to underwrite as an MGU on behalf of its existing broad panel of Lloyd's syndicates and international carriers.

- **Launch of Brit's e-trading Portal**

  Following significant research and development, Brit's e-trading portal started binding US Cyber policies on 1 May. The portal gives brokers an agile, user-friendly outlet for Brit's leading cyber underwriting capabilities, allowing them to quote and bind in minutes, entirely online, with a maximum of four question responses. The portal is underpinned by preventative risk management and breach response service with clients having access to extensive training modules, security trend updates and downloadable content aimed at helping businesses and their employees protect against an event. This key strategic initiative presents Brit with the opportunity to access business previously not available to the London Market, the ability to reduce acquisition and administrative expenses and the potential to grow our most profitable segments.

- **Adoption of aerial imagery for high tech claims service**

  In June, Brit announced a new partnership with the Geospatial Intelligence Center (GIC), which was created by the National Insurance Crime Bureau (NICB), a US not-for profit organisation. After an event, GIC aircraft have special access to affected areas to capture high-resolution images and assess property damage. Access to these industry-leading aerial images allows Brit to make rapid and accurate property catastrophe assessments without any ground presence to expedite claim settlements for our clients when they need it most.

- **BGS Bermuda - Property Reinsurance**

  In April, we appointed a Vice President of Property Reinsurance. This role will manage our BGSB Property team, which has grown to over US$30m gross premium through a mix of US Cat and Retro business since it launched in 2013. It will also work closely with Sussex Re and Brit Re as we continue to build our Bermuda based reinsurance platform.

- **Kidnap & Ransom**

  In February, we appointed an experienced Kidnap & Ransom underwriter. This role complements the existing Brit businesses as well as introducing product diversity. Following our Kidnap & Ransom product's 'soft launch' in early 2019, brokers have reacted positively to how we have articulated the difference in our product offering from that of our competitors, reflecting our exclusive partnership with Schillings and the experience of our underwriting and claims teams.

- **Cyber underwriting firm of the year award**

  In September, Brit received the 'Cyber underwriting firm of the year award' at the Insurance Insider Rankings Cyber awards. The winners for this category were selected following an Insurance Insider survey of brokers who were asked to rate the nominees based on six key areas: knowledge and experience; negotiation skills; response times; communication; creativity; and consistency in the treatment of risks and relationships.

  This is an outstanding achievement which has culminated from investment in Cyber and Tech E&O for over ten years, allowing Brit to develop both coverage and claims offerings as the risks and legislations continue to evolve.

- **Claims team recognition**

  The Brit Claims Team won Claims Team of the Year for the second year running at the Insurance Day London Market Awards. The award reflected Brit's 'strong focus on enhancing the end customer experience' alongside its ability to use innovation to improve both service levels and efficiency. Examples include the use of Geo Imaging during wildfires and the rollout of technology leveraging mobile phone cameras to adjust claims.

  The claims team also received two awards at the LMA Claims awards. These awards are testament to the claims team relentless client service and genuine commitment to innovation, and also reflect Brit's market leadership in claims.

- **Claims App for Cyber clients**

  An app for Brit's Cyber clients, allowing them to access important information and direct contact numbers in the event of a cyber breach, was launched in November. With the hours immediately after a breach critical, the app provides a simple, effective and informative reporting service to our clients.

- **Llift Space**

  Brit announced the launch of a new space product, Llift Space, in December. The product is backed by a consortium of 18 syndicates, led by Brit and Hiscox MGA, and is targeted at the 'NewSpace' sector. The product is designed to cater to the distinct needs of the rapidly growing 'new space' sector. Llift Space is designed for satellites that weigh less than 300kg.

- **Innovation – The launch of BritX**

  Brit's purpose is to help our clients and partners thrive in an uncertain world and drive the industry forward in terms of products, services and technology; innovation is at the heart of this strategy.

  BritX, our new innovation team led by our newly appointed Head of Innovation, James Birch, was launched in November 2019 to create real change and action. It is an innovation-led cross functional business unit, whose remit is to identify opportunities to disrupt our market, identify significant growth opportunities and explore how we can capitalise on these.

- **Key corporate appointments**

  We have made a number of key corporate appointments during the period, including:

  - A **Head of Innovation**, to manage the innovation process at Brit and identify strategies, business opportunities and new technologies. ;

  - An experienced **Head of Outwards Reinsurance**, who will replace our existing Head of Outwards Reinsurance who will be retiring towards the end of 2019; and

  - A **Head of Strategy**, to help develop, manage and implement Brit's strategic initiatives and Brit's engagement with, and response to, the Future at Lloyd's initiative.

- **Continued Portfolio Management**

  Where classes remain challenging, we have continued to take action to improve our performance and maintained our rigorous risk selection criteria. During 2019, we examined the classes we write in BGSU as well as our broader international operations, and took the following decisions:

  - **Withdrawal from certain classes written in the US:** We took the decision to place Inland Marine, Yacht, CJSO written in US into runoff and to exit Latin American property facultative reinsurance, casualty and engineering business.

  - **Singapore:** We also took the decision to withdraw from the Lloyd's Singapore Platform, reflecting group appetite and a lack of rate adequacy.

  - **China:** Following the resignation in July 2019 of our representative, we have decided to withdraw from the Lloyd's China Platform.

  This streamlining provides added focus on our core markets, where we see the most potential to further build meaningful scale and generate sustainable underwriting profit.

- **2020 business planning**

  - **Syndicate 2987**

    Syndicate 2987, Brit's wholly aligned Syndicate, has planned gross net written premium growth of 5.5% for 2020, reflecting both premium rate increases and organic growth. This growth is targeted primarily in the Syndicate's top performing classes, such as Property Treaty, Casualty Treaty and Cyber Privacy & Tech, through growth from existing business and new opportunities. This growth will be partially offset by contraction in a small number of classes facing more challenging conditions.

  - **Syndicate 2988**

    Syndicate 2988 was established at the end of 2016 and writes business predominantly on behalf of third party capital. The 2020 year of account has a planned gross written premium of US$223.4m, an increase of 40.8% over 2019's plan. For 2020, capacity is being provided by an expanded investor base and by Brit, thereby demonstrating alignment to the strategy of the Syndicate.

  - **Sussex Lloyd's Specialty Insurance Fund**

    In December, we announced the launch of the Sussex Specialty Insurance Fund ('SIF' or 'the Fund'). Our collaboration with Lloyd's has enabled us to be the first Lloyd's Syndicate to use ILS capacity to back its capital at Lloyd's, a ground-breaking achievement.

    The Fund will sit as part of Brit's Sussex Capital platform and will allow Sussex to offer institutional investors direct access to Lloyd's-underwritten specialty insurance and reinsurance through an ILS fund structure. The Fund will access Lloyd's by providing capital to support Syndicate 2988.

Financial Performance Review

Overview of Results

The Group's income statement, re-analysed to show the key components of our result, is set out below:

	2019 US$m	2018 US$m	2017 US$m	2016 US$m	2015 US$m
Gross written premium	2,293.5	2,239.1	2,057.0	1,912.2	1,999.2
Net earned premium (Note 1)	1,638.5	1,466.1	1,540.1	1,515.1	1,649.6
Underwriting result (Note 1)	68.4	(56.9)	(172.8)	54.6	137.0
Underwriting result	68.4	(56.9)	(172.8)	54.6	137.0
Return on invested assets, net of fees	148.1	(82.1)	204.2	102.9	5.0
Corporate expenses	(20.3)	(20.0)	(24.0)	(21.3)	(30.0)
Finance costs	(23.7)	(18.8)	(17.1)	(18.8)	(20.6)
Other items	10.5	(3.4)	2.6	1.1	0.3
Profit/(loss) on ordinary activities before tax, FX and corporate activity costs	183.0	(181.2)	(7.1)	118.5	91.7
FX movements	3.3	(9.1)	12.6	41.3	(60.2)
Corporate activity costs (note 2)	-	-	-	-	(23.8)
Profit/(loss) on ordinary activities before tax	186.3	(190.3)	5.5	159.8	7.7
Tax	(6.4)	23.8	16.0	(2.2)	7.9
Profit/(loss) for the year after tax	179.9	(166.5)	21.5	157.6	15.6

Note 1: Excluding the effects of foreign exchange on non-monetary items.
Note 2: Corporate activity costs during 2015 relate to costs incurred as a result of the acquisition of Brit by Fairfax.

Group performance and total value created

Brit's result for the year ended 31 December 2019 reflects improving market conditions, a strong attritional performance, reduced major loss activity, solid prior year reserve releases, increased contribution from our MGA interests and a good investment return.

The result on ordinary activities for the year before tax, FX and corporate activity costs was a profit of US$183.0m (2018: loss of US$181.2m), profit before tax was US$186.3m (2018: loss before tax of US$190.3m) and profit after tax was US$179.9m (2018: loss after tax was US$166.5m). Return on adjusted net tangible assets (RoNTA), excluding the effects of FX and corporate activity costs, increased to 18.1% (2018: decrease of 14.4%). RoNTA for 2019 after including foreign exchange movements was 18.4% (2018: 15.4% negative) and total value created for the year was US$198.6m (2018: US$175.6m negative).

Our adjusted net tangible assets at 31 December 2019 totalled US$1,150.4m (2018: US$992.9m).

We measure our performance using our key performance indicators (KPIs).

	2019	2018
Return on net tangible assets before FX movements (RoNTA)	18.1%	(14.4)%
Total value created	US$198.6m	US$(175.6)m
Combined ratio	95.8%	103.3%
Investment return (net of external investment related expenses)	3.6%	(2.0)%
Capital ratio	128.4%	130.4%
Ratio of front office employees to back office employees	150.9%	155.5%

In 2019, our RoNTA was 18.1% (2018: 14.4% negative), reflecting improving market conditions, a strong attritional performance, reduced major loss activity, solid prior year reserve releases, increased contribution from our MGA interests and a good investment return. This return resulted in a five year average RoNTA of 5.1%.

In 2019, value creation was US$198.6m, or 20.0% of opening adjusted NTA (2018: negative US$175.6m). The company has generated a total value of US$205.9m over the past five years, an average of US$41.2m per annum.

The combined ratio is our key underwriting metric. Our combined ratio in 2019 was 95.8% (2018: 103.3%), including 3.6pps (2018: 12.0pps) in respect of major losses and -2.9pps (2018: -6.1pps) of reserve releases. Over the past five years, we have delivered an average combined ratio of 99.9% despite the extreme catastrophe years of 2017 and 2018.

The return on our invested assets was US$148.1m or 3.6% (2018: negative US$82.1m/2.0%). This was a combination of US$87.3m (2018: US$75.5m) of investment income, US$51.9m of realised losses (2018: gains of US$39.6m), US$134.8m of mark-to-market unrealised gains (2018: losses of US$203.4m), return on associated undertakings of US$0.3m (2018: US$6.5m) and losses on investment related derivatives of US$2.8m (2018: gains of US$0.1m), less fees of US$11.7m (2018: US$12.9m). Our 2019 return also includes a negative adjustment of US$7.9m (2018: positive adjustment of US$12.5m), which represents the share of our consolidated investment vehicles owned by third parties.

Our investment strategy takes a long-term view of markets, which can lead to significant variations in our year-on-year return figures. Over the past five years, we have delivered an average investment return of 1.8%.

Our statement of financial position remains strong. At 31 December 2019, following a capital injections from Fairfax of US$70.6m, Group capital resources totalled US$1,576.6m (2018: US$1,409.8m) which equated to 128.4% (2018: 130.4%) of our Group capital requirement. During the period, our capital requirements increased from US$1,081.1m to US$1,227.7m, primarily reflecting movements in interest rates.

At 31 December 2019, the ratio of front office employees to back office employees was 150.9% (2018: 155.5%), reflecting that we had approximately 1.5 front office employees for every back office employee. The reduction in the ratio over 2018 primarily reflects the relative increased back office staff to support our overseas growth initiatives, third party capital management and regulatory requirements.

In addition to our KPIs, we have other measures that offer further insight into the detail of our performance. These measures include:

- Premium related: Risk adjusted rate change; Retention rate;
- Claims related: Claims ratio; Attritional loss ratio; Major claims ratio; Reserve release ratio; and
- Underwriting expense related: Underwriting expense ratio; Commission ratio; Operating expense ratio.

Underwriting

Our underwriting result for the year was a profit of US$68.4m (2018: loss of US$56.9m) and our combined ratio, which excludes the effect of foreign exchange on non-monetary items, was 95.8% (2018: 103.3%). The premiums, claims and expenses components of this result are examined below.

Premiums written

Premium growth	**2019**	**2018**	**Growth**	**Growth at constant FX rates**
	US$m	**US$m**	**%**	**%**
Brit Global Specialty Direct	1,713.5	1,758.0	(2.5)	(1.5)
Brit Global Specialty Reinsurance	537.7	451.7	19.0	19.6
Other underwriting	42.3	29.4	43.9	45.4
Group	2,293.5	2,239.1	2.4	3.4

Gross written premium (GWP) increased by 2.4% to US$2,293.5m (2018: US$2,239.1m). At constant exchange rates the increase was 3.4%. Direct business decreased by 2.5% to US$1,713.5m (2018: US$1,758.0m), while reinsurance increased by 19.0% to US$537.7m (2018: US$451.7m) and other underwriting increased by 43.9% to US$42.3m (2018: US$29.4m).

The drivers of the increase in Group GWP, which was in line with expectations, are as follows:

- Underwriting initiatives: The Group's underwriting initiatives of recent years resulted in a US$115.3m increase in GWP. The largest increases were seen in BGSU (Casualty RI US, Professional Liability, General Liability, Cyber, Excess Casualty and Programmes) and in Scion. Growth was also seen in Kidnap & Ransom and Healthcare Liability.
- Other current year premiums: Other current year premiums decreased by US$10.0m over 2018. This reflects decisive action taken to improve our performance by discontinuing business lines which remained challenging, including certain classes written in the US and Latin America, and our withdrawal from the Lloyd's Singapore Platform and the Lloyd's China Platform. The premium reductions from these actions were partly offset by targeted growth in our treaty portfolio and higher margin direct classes.
- Prior year premium development: The book again experienced favourable development on prior years, but at a lower rate than in 2018. This resulted in a year-on-year reduction of US$30.0m.

- Foreign exchange: The impact of foreign exchange resulted in a US$20.9m year-on-year reduction in premium, which reflects the movement during 2019 of the US dollar against a number of currencies in which the Group writes business.

Measure	Commentary	Track record
Risk adjusted rate change	The risk adjusted rate change shows whether premium rates are increasing, reflecting a hardening market, or decreasing, reflecting a softening market. A hardening market indicates increasing profitability.	2019 5.9% 2018 3.7% 2017 (1.3)% 2016 (3.3)% 2015 (4.1)%

2019 saw a continued positive rate environment, building on that of 2018, with an overall risk adjusted premium rate increase of 5.9% across the portfolio (2018: 3.7%). Direct business premium rates increased by 7.7% (2018: 3.8%) and reinsurance by 2.2% (2018: 3.0%). All classes with the exception of Property Political Risks and Violence experienced an increase, with the main contributors being Property Open Market, Marine, US Specialty, Specialist Liability and Property Facilities.

Retention rates

Measure	Commentary	Track record
Retention rate	The retention rate shows the proportion of our business that renews, on a premium weighted basis, compared to the previous year.	2019 78.0% 2018 80.2% 2017 83.6% 2016 84.3% 2015 82.4%

Our retention rate for the period was 78.0% (2018: 80.2%). The retention rates we achieved in 2018 and 2019 reflect the successful renewal of a profitable book of business. The reduction in 2019 results from the action taken to improve our performance by discontinuing business lines which remained challenging.

Outwards reinsurance

Our reinsurance expenditure in 2019 was US$637.3m or 27.8% of GWP (2018: US$756.7m/33.8%), a reduction of US$119.4m. This reduction reflects:

- The loss portfolio reinsurance contract entered into in 2018 with RiverStone Managing Agency Limited (for and on behalf of Lloyd’s Syndicate 3500), a Fairfax sister company. Under the terms of this reinsurance Brit ceded its Non-US PI, 2014 and prior EL UK/PL UK and legacy books of business for a premium of US$186.3m. Excluding this transaction, the 2018 reinsurance expenditure was US$570.4m or 25.4% of GWP; and
- The increased use of proportional treaty in 2019, to provide flexibility in the challenging market conditions and to manage net exposure on classes where our risk appetite is lower than the efficient operating scale.

Net earned premium

Net earned premium (NEP) in 2019, excluding the effects of foreign exchange on non-monetary items, increased by 11.8% to US$1,638.5m (2018: US$1,466.1m, decrease of 4.8%). Direct business increased by 6.4% to US$1,159.6m (2018: US$1,089.5m, decrease of 10.3%), reinsurance increased by 15.8% to US$385.7m (2018: US$333.2m, increase of 11.9%) and other underwriting increased by 114.7% to US$93.2m (2018: US$43.4m, increase of 58.4%).

Excluding the impact of the 2018 loss portfolio reinsurance contract, 2019 NEP decreased by 0.8%.

Claims

The claims ratio and its components are set out below:

Year	Attritional loss ratio	Major claims ratio	Reserve release ratio	Claims ratio
2019	55.0%	3.6%	(2.9)%	55.7%
2018	57.2%	12.0%	(6.1)%	63.1%
2017	56.4%	16.2%	(0.6)%	72.0%
2016	55.5%	4.5%	(3.5)%	56.5%
2015	55.2%	-	(1.7)%	53.5%

Our underlying claims experience in 2019 was in line with expectations, with a reduction in our attritional loss ratio to 55.0% (2018: 57.2%). This reflects favourable claims experience across our Direct portfolio (principally Programmes and Facilities and Property). Compound rate increases over 2018 (+3.7%) and 2019 (+5.9%), combined with a change in mix as we target growth on our high performing segments while taking remedial action on more marginal business, has also contributed to the improvement.

Catastrophe activity was again significant in 2019, albeit reduced from 2018 and 2017 levels. The Group incurred major claims, before reinstatement premiums, of US$58.4m (2018: US$196.8m), as set out below. Major losses are defined as claims which are initially assessed as having the potential to exceed US$15.0m (net of reinsurance and allowing for reinstatements), incurred from natural or man-made catastrophes, or from large single risk loss events.

Major losses	**2019 US$m**	**2018 US$m**
Hurricane Dorian	24.3	-
Typhoon Faxai	12.5	-
Typhoon Hagibis	24.8	-
Typhoon Jebi	-	26.0
Hurricane Florence	-	27.1
Typhoon Mangkhut	-	7.0
Hurricane Michael	-	56.3
California wildfires (Note 1)	-	98.1
Total before third party share	61.6	214.5
Third party investors share of major losses (Note 2)	(3.2)	(17.7)
Total	58.4	196.8
CoR	3.6%	12.0%

Note 1: 2019 California Wildfires did not classify as a major event for Brit .
Note 2: Accounting rules require Brit to consolidate Sussex Capital and Versutus II which have third party investors. This adjustment eliminates the third party share of major losses, which is included in the Group's consolidated income statement within 'gains on other financial liabilities'.

As part of our standard reserving process, we released US$47.9m of net reserves established for prior year claims, the equivalent of a combined ratio reduction of 2.9pps (2018: US$99.3m/6.1pps), maintaining our unbroken record of reserve releases since we started disclosing them in 2004.

The 2019 release reflected favourable development across most classes. Financial and Professional Lines, Specialty, Property and Programmes and Facilities generated the most significant releases, partly offset by strengthening on US Specialty. There was no material movement in Brit's overall net estimates arising from the 2017 and 2018 events. The releases in 2018 included the favourable impact on certain legacy classes afforded by the loss portfolio reinsurance with RiverStone Managing Agency Limited (for and on behalf of Lloyd's Syndicate 3500) and favourable development of the 2017 catastrophe events.

Expenses

Our underwriting expense ratio was 40.1% (2018: 40.2%). Its components are set out below:

Year	Commission ratio	Operating expense ratio	Underwriting expense ratio
2019	27.2%	12.9%	40.1%
2018	27.8%	12.4%	40.2%
2017	27.6%	12.8%	40.4%
2016	27.2%	12.7%	39.9%
2015	26.0%	12.2%	38.2%

Commission costs were US$443.3m and the commission expense ratio was 27.2% (2018: US$456.1m/27.8%). The decrease in the ratio principally reflects changes in business mix and additional quota share overriders.

Our operating expense ratio increased to 12.9% (2018: 12.4%). Operating expenses for the period were as follows:

Expense analysis	**2019 US$m**	**2018 US$m**
Underlying operating expenses including bonus provisions	275.3	231.6
Project costs, timing differences and other expense adjustments (Note 1)	1.1	5.1
Total operating expenses	276.4	236.7

Note 1: Includes minority share of expenses incurred by consolidated vehicles

Underlying operating expenses during 2019 increased by 18.9% to US$275.3m (2018: US$231.6m). US$23.2m (10.0pps) of the increase represents Ambridge operating expenses consolidated for the first time during 2019 and amortisation of intangible assets arising on the acquisition of Ambridge. The remainder of the increase relates to targeted expansion and investment in growth areas, increased regulatory levies and increased support costs.

As the majority of Brit's business is in US dollars and the majority of the operating expenses are in Sterling, Brit made the decision to effectively hedge the Sterling proportion of the Group's expenses. This decision was driven by the weakness in Sterling against the US dollar. To effect this, Brit purchased Sterling in the spot and forward market. The effect of this derivative contract, US$0.4m gain (2018: US$2.2m loss), is recognised within the underwriting result, but excluded from the combined ratio.

The allocation of operating expenses within the Consolidated Income Statement and the Segmental Information is as follows:

Disclosure of operating expenses	**2019 US$m**	**2018 US$m**
Acquisition costs	150.6	116.2
Other insurance related expenses	105.5	100.5
Total insurance related expenses	256.1	216.7
Other operating expenses	20.3	20.0
Total operating expenses	276.4	236.7

Other income

Other income totalled US$45.9m (2018: US$10.6m), as set out below.

Other income	**2019 US$m**	**2018 US$m**
Fee and commission income (Note 1)	45.6	14.0
Change in value of parent company shares (Note 2)	0.3	(3.4)
Total other income	45.9	10.6

Note 1: Total fee and commission income is included within our underwriting result and our combined and expense ratios.

Note 2: Change in value of parent company shares is included within our corporate result.

Fees and commissions generated by the Group's underwriting management activities have continued to increase in 2019, totalling US$45.6m, an increase of 225.7% (2018: US$14.0m/68.7%). Of the increase, US$28.0m was generated by Ambridge, consolidated for the first time during 2019

(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 an equity UCITS. Changes in the value of these liabilities during a year are recorded in the Group's consolidated income statement as 'gains on other financial liabilities', as follows:

(Losses)/gains on other financial liabilities	**2019 US$m**	**2018 US$m**
Underwriting vehicle related (Note 1)	(2.6)	4.9
Investment vehicle related (Note 2)	(7.9)	12.5
Total gains on other financial liabilities	(10.5)	17.4

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

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

Return on invested assets

The investment portfolio is managed for the most part by Hamblin Watsa Investment Counsel Limited, a Fairfax subsidiary with an excellent long-term track record, whose sole business is managing investment portfolios of Fairfax group companies. They are supported by a number of external managers across core fixed income and a small allocation to specialised credit.

The return on our invested assets was US$148.1m or 3.6% (2018: negative US$82.1m/2.0%). This result is analysed below:

Investment return	**2019 US$m**	**2018 US$m**
Income	87.3	75.5
Realised (losses)/gains	(51.9)	39.6
Unrealised gains/(losses)	134.8	(203.4)
Investment return before fees	170.2	(88.3)
Investment management fees	(11.7)	(12.9)
Investment return net of fees	158.5	(101.2)
Investment related derivative return	(2.8)	0.1
Third party investors share of investment return (Note 1)	(7.9)	12.5
Return on associated undertakings	0.3	6.5
Total return	148.1	(82.1)
Total return	3.6%	(2.0)%

Note 1: Accounting rules require Brit to consolidate the return on a UCITS which has third party investors. This adjustment eliminates the third party share of that return included in 'Investment return net of fees'. This amount is included in the Group's consolidated income statement within 'Gains on other financial liabilities'.

Return on invested assets (net of fees)	
Year	**%**
2019	3.6
2018	(2.0)
2017	4.9
2016	2.6
2015	0.1

The higher yields as we entered 2019 benefited fixed income returns, giving a total portfolio income return for the year of US$87.3m. The fall in yields over 2019, as the US Federal Reserve cut rates three times, also boosted our unrealised gains from fixed income to US$22.4m (2018: unrealised loss $12.5m). We continue to seek out opportunities to increase the yield on the portfolio where appropriate opportunities arise, including diversifying into securities with a yield component, such as property funds.

The equity portfolio also performed strongly in 2019, despite bouts of volatility during the year, as global indices responded to each downturn with a more sustained upswing and along the way kept setting record highs. Unrealised gains from equity for the year totalled US$129.7m (2018: loss of $169.9m), with most of our holdings seeing a reversal of the losses recorded in 2018. However, the return on funds was negative for the year, with a loss of US$17.8m, the majority of which is unrealised.

The return on cash has also been solid over the year. Our approach to management of cash during the year has (and continues to be) to limit the amount of operational cash held within bank accounts and to maximise the amounts held within short term government bills and money market instruments such as commercial paper, avoiding where possible exposure to European paper where the yield is negative.

At 31 December 2019, the running yield (expressed as yield as a percentage of invested assets) of our total portfolio was 1.5% (2018: 2.3%). This has decreased over 2019 in line with the decrease in base rates in the US and continues to represent a challenging environment for insurance groups.

Our share of our associated undertakings' net profit was US$0.3m (2018: US$6.5m).

- 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$0.6m to this return (2018: US$0.6m).
- Sutton Special Risk Inc., a leading Canada-based managing general underwriter specialising in Accident & Health business in which Brit acquired a 49% share on 8 January 2019, contributed US$0.7m to this return; and
- Ambridge Partners LLC, a leading managing general underwriter of Transactional Insurance, Complex Management Liability Insurance and Intellectual Property Insurance, in which Brit held a 50% share until 18 April 2019, returned US$(1.0)m (2018: +US$5.9m). On 18 April 2019, 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. For the year, Ambridge generated a positive return for the Group.

Foreign exchange

We manage our currency exposures to mitigate the impact on solvency rather than to achieve a short-term impact on earnings. We experienced a total foreign exchange gain of US$3.3m in 2019 (2018: loss of US$9.1m), reflecting the movement of the US dollar against other currencies in which we trade and hold assets. This total foreign exchange related gain comprised:

- An unrealised revaluation gain of US$14.0m (2018: loss of US$12.7m), primarily relating to the mark to market of the capital we hold in non-US dollar currencies to match our risk exposures. The gain primarily results from movements in the US dollar which gave rise to a gain on our long Canadian dollar and short Euro positions, partly offset by a loss on our short Sterling position;
- Losses of US$15.2m (2018: gains of US$8.4m) on derivative contracts which were entered into to help manage our monetary FX exposures and therefore should be viewed in conjunction with our monetary FX movements. This excludes the gain on the derivative contract entered into to effectively hedge the Sterling proportion of the Group's expenses; and
- Gains of US$4.5m (2018: losses of US$4.8m), 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 full year 2019 comprises the un-wind of the credit carried on the balance sheet at 31 December 2018 (US$2.5m), plus the debit balance established during 2019 (US$2.0m).

The allocation of the FX result within the Consolidated Income Statement is as follows:

Foreign exchange gains and (losses)	**2019 US$m**	**2018 US$m**
Net change in unearned premium provision - non-monetary FX effect	3.4	1.9
Acquisition costs - non-monetary FX effect	(1.7)	(0.8)
Net foreign exchange gains/(losses) - non-monetary (Note 1)	2.8	(5.9)
	4.5	(4.8)
Net foreign exchange gains/(losses) – monetary (Note 1)	14.0	(12.7)
Return on derivative contracts - FX related instruments (Note 2)	(15.2)	8.4
	(1.2)	(4.3)
Total gain/(loss)	3.3	(9.1)

Note 1: The sum of these two amounts, US$16.8m, is the 'Net foreign exchange gains' figure per the Consolidated Income Statement (2018: US$18.6m 'Net foreign exchange losses').
Note 2: Excludes the gain of US$0.4m (2018: loss of US$2.2m) on the derivative contract entered into to effectively hedge the Sterling proportion of the Group's expenses.

Tax

Our tax on ordinary activities for 2019 resulted in a tax charge of US$6.4m (2018: tax credit US$23.8m), based on a group profit before tax of US$186.3m (2018: loss before tax of US$190.3m).

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, Australia and the US. Corporate profits and losses in Bermuda are exempt from tax. 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 in those jurisdictions.

The 2019 Group rate varies from the weighted average rate in those jurisdictions due to a number of factors, the principal factors being unrecognised deferred tax assets of US$2.4m in respect of undeclared Lloyd's syndicate year of account losses and a prior year credit of US$1.2m in respect of 2018 US tax. The rate is further influenced by the impact of exempt income, such as dividend income, and by non-UK taxes arising in our Lloyd's syndicates.

Financial position and capital strength

Overview

Our business is underwritten principally through our wholly-aligned Lloyd's Syndicate 2987, which benefits from Lloyd's ratings of A (Excellent) from A.M. Best, AA- (Very Strong) from Fitch and A+ (Strong) from Standard & Poor's.

Our capabilities and ambition are underpinned by our strong financial position. At 31 December 2019 our adjusted net tangible assets totalled US$1,150.4m (2018: US$992.9m). At 31 December 2019, following a capital injections from Fairfax in 2019 of US$70.6m, Group capital resources totalled US$1,576.6m which equated to 128.4% of our Group capital requirement. During the period, our capital requirements increased from US$1,081.1m to US$1,227.7m, primarily reflecting movements in interest rates.

Brit has in place a US$450m revolving credit facility (RCF), expiring on 31 December 2022. Under our capital policy we have identified a maximum of US$250.0m (2018: US$250.0m) of this facility to form part of our capital resources, with the balance available for liquidity funding. At 31 December 2019, the cash drawings on the facility were US$140.0m (2018: US$8.0m) and a US$80.0m uncollateralised letter of credit (LoC) was in place (31 December 2018: US$80.0m/uncollateralised) to support our underwriting activities. At the date of this report, cash drawings had reduced to US$65.0m and the US$80.0m uncollateralised LoC remained in place.

At 31 December 2019, our gearing ratio was 29.9% (2018: 22.0%).

Asset allocation

Brit's invested assets (financial investments, investments in associates, cash and cash equivalents and derivative contracts) at 31 December 2019 were US$4,182.2m (31 December 2018: US$4,009.6m).

Our asset allocation, on both a look-through basis and statutory disclosure basis, is set out in the tables below:

31 December 2019		**Statutory basis**						**Total invested assets** (look-through)
		Equity securities	**Debt securities**	**Specialised investment funds**	**Cash and cash equivalents**	**Associated undertakings**	**Investment Derivatives (net)**	
		US$m	**US$m**	**US$m**	**US$m**	**US$m**	**US$m**	**US$m**
Look-through	Government debt securities	-	1,611.8	9.7	-	-	-	1,621.5
	Corporate debt securities	-	1,339.2	2.2	-	-	-	1,341.4
	Structured products	-	0.1	18.2	-	-	-	18.3
	Equity securities	403.9	-	242.7	-	19.4	-	666.0
	Alternative investments	-	-	8.5	-	-	-	8.5
	Cash and cash equivalents	-	-	5.1	520.1	-	-	525.2
	Investment related derivatives	-	-	(0.8)	-	-	2.1	1.3
Total invested assets (statutory)		403.9	2,951.1	285.6	520.1	19.4	2.1	4,182.2

31 December 2018		**Statutory basis**						**Total invested assets** (look through)
		Equity securities	**Debt securities**	**Specialised investment funds**	**Cash and cash equivalents**	**Associated undertakings**	**Investment Derivatives (net)**	
		US$m	**US$m**	**US$m**	**US$m**	**US$m**	**US$m**	**US$m**
Look-through	Government debt securities	-	1,577.1	0.2	-	-	-	1,577.3
	Corporate debt securities	-	935.9	-	-	-	-	935.9
	Structured products	-	0.1	16.7	-	-	-	16.8
	Equity securities	575.8	-	29.5	-	43.0	-	648.3
	Alternative investments	-	-	8.7	-	-	-	8.7
	Cash and cash equivalents	-	-	1.1	818.2	-	-	819.3
	Investment related derivatives	-	-	-	-	-	3.3	3.3
Total invested assets (statutory)		575.8	2,513.1	56.2	818.2	43.0	3.3	4,009.6

The portfolio's tactical positioning remained broadly consistent in 2019, with a short duration position to protect against the impact of rising rates. For the allocation to credit risk, the exposure is primarily defensive, focused on short duration, high quality, investment grade non-cyclical companies. Equity allocations are invested in a portfolio of both listed and private (non-listed) equities and funds.

The assets remain primarily invested in cash and fixed income securities (2019: US$3,488.1m or 83.4% of the portfolio; 2018: US$3,332.5m or 83.1% of the portfolio). The fixed income portfolio is short dated, with a majority allocation to government bills. Corporate bonds represent 32.1% (2018: 23.3%) of the total portfolio with 1.9pps (2018: 2.2pps) of this figure being below investment grade.

The exposure to equities and funds has remained broadly consistent over 2019 (2019: US$692.8m or 16.6% of the portfolio; 2018: US$675.0m/16.8%).

The duration of our portfolio at 31 December 2019 was 1.1 years (2018: 0.9 years), which is shorter than the duration of our liabilities. US rates fell significantly across the curve over 2019, although some relief was felt towards the end of the year as the US Federal Reserve messaged the last of three rate cuts in the final quarter of the year.

At 31 December 2019, 81.1% of our invested assets were investment grade quality (2018: 82.5%).

Outlook

Looking ahead, a number of indicators give us increased cause for optimism. The market continues to harden and 2020 is expected to mark the third consecutive year of rate increases after years of decline. This presents a real opportunity for profitable growth.

However, there are still many challenges facing our market:

- The frequency of major events and magnitude of the resulting claims, with 2019's experience following on from those of 2017 and 2018, the most costly back-to-back years on record;
- The impact of medium loss events, with commentators attributing an increase in the frequency and severity of such events to climate change and other factors such as population growth and increasing insured values;
- Further pressures on attritional ratios continue, largely driven by the soft market years of 2017 and 2018 and by social inflation in the US Casualty market;
- The cost of doing business in the London market remains elevated. The market needs to become more efficient in processing and work with distribution partners to become more competitive in local markets;
- Despite the welcome withdrawal of some capacity, available capacity continues to exceed demand;
- In a number of markets where we operate, we see increasing competition from local carriers; and
- We continue to face political and economic uncertainty and challenges. 2019 saw continued volatility in financial markets and experienced weakening growth, recession fears, falling yields, heightened tension around international trade and loose monetary policy. These trends show no signs of abating as we go into 2020 and the resulting outlook for the investment market continues to be challenging.

We believe our financial strength, ownership model, underwriting discipline and our clear strategy focused on leadership, innovation and distribution, uniquely position us to respond to the challenges of today's market and to benefit from opportunities as they arise.

- 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. We also 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 also continue to take action to improve our performance and maintain our underwriting discipline and rigorous risk selection criteria in all areas of the business.
- Leadership – We strive to provide direction and authority within our business and to our industry. We are supportive of the Future at Lloyd's Blueprint and are proud to have worked with Lloyd's to be the first Lloyd's Syndicate to use ILS capacity to back our capital at Lloyd's, a landmark achievement.
- Innovation – Our purpose is to help our clients and partners thrive in an uncertain world and drive the industry forward in terms of products, services and technology, and innovation is at the heart of our strategy. BritX, our new innovation team led by our newly appointed Head of Innovation, was launched in 2019 to create real change and action. It is aimed at targeting opportunities to disrupt our market and has identified a number of opportunities of real potential.
- Distribution – Our strategy is to deliver our products to our customers in a more efficient manner. This includes increased digital distribution and positioning ourselves closer to our customers. We have an established local distribution platform in the US, our largest market, and now have an established Bermuda operation, which houses Brit Re (our captive reinsurer and A rated reinsurance carrier), Sussex Re (our ILS vehicle) and BGSB (our reinsurance service company).

  In 2019, we successfully launched our e-trading portal, initially focussing on US Cyber business. This initiative presents Brit with the opportunity to access business previously not available to the London Market, the ability to reduce expenses significantly and the potential to grow our most profitable segments, working with our distribution partners.

We are ready to face the future with optimism.

Principal risks and uncertainties

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 (such as Lloyd's syndicates).

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.

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.

Key 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.

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

Risk category	Risk	Description
Insurance	Underwriting – pricing	Emerging experience is inconsistent with the assumptions and pricing models used.
	Underwriting – catastrophe	Premiums are insufficient to meet the long-term profitability expected.
	Reserving	Prior year reserves are insufficient to cover claims (net of reinsurance).
Investment	Investment market risk	Invested assets adversely affected by changes in economic variables, such as interest rates, bond yields, equity returns, credit spreads, 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.

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.

The emerging risk review has previously identified risks such as the United Kingdom's exit from the EU (Brexit) and cyber risk. These risks have been managed throughout their development and are now monitored as part of the business as usual risk management process.

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 and have implemented the processes and business changes required to write business onto Lloyd's new Brussels-based European insurance company (LBS), of which we are fully supportive.

The known work required is complete and our new processes are operational. We commenced writing business via LBS in the fourth quarter of 2018, for risks incepting on or after 1 January 2019. The placement process is more onerous than for non-European business, however, the solution in place is the most effective approach given that the UK will potentially lose its passporting rights.

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.

Financial information and availability of accounts

The financial information set out above does not constitute the Company's statutory accounts for the year ended 31 December 2019 or 2018, but is derived from those accounts. Statutory accounts for 2018 have been delivered to the Registrar of Companies and the statutory accounts for 2019 will be delivered following the Company's annual general meeting. The auditor has reported on those accounts; its reports were unqualified and did not contain statements under Section 498(2) or (3) of the Companies Act 2006.

The audited Annual Report and Accounts for 2019 are expected to be available on the Company's website no later than 12 March 2020. An announcement will be made when they are available.

The preliminary results were approved by the Board on 12 February 2020.

Responsibility statement of the Directors

The Directors confirm that, to the best of their knowledge:

- The consolidated financial statements, contained within the 2019 Company's statutory accounts, which have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position, and profit or loss of the Group; and
- The Strategic Report, contained within the 2019 Company's statutory accounts, includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

Matthew Wilson
Group Chief Executive Officer
12 February 2020

Mark Allan
Group Chief Financial Officer
12 February 2020

Consolidated Income Statement
For the year ended 31 December 2019

	Year ended 31 December 2019 US$m	Year ended 31 December 2018 US$m
Gross premiums written		
Less premiums ceded to reinsurers	**2,293.5**	2,239.1
Premiums written, net of reinsurance	**(637.3)**	(756.7)
	1,656.2	1,482.4
Gross amount of change in provision for unearned premiums		
Reinsurers' share of change in provision for unearned premiums	**(43.8)**	(34.4)
Net change in provision for unearned premiums	**29.5**	20.0
Earned premiums, net of reinsurance	**(14.3)**	(14.4)
	1,641.9	1,468.0
Investment return		
Return on derivative contracts	**158.5**	(101.2)
Gain on business combination	**(17.6)**	6.3
Other income	**10.2**	-
(Losses)/gains on other financial liabilities	**45.9**	10.6
Net foreign exchange gains	**(10.5)**	17.4
Total revenue	**16.8**	-
	1,845.2	1,401.1
Expenses		
Claims incurred:		
Claims paid:		
Gross amount		
Reinsurers' share	**(1,366.6)**	(1,345.5)
Claims paid, net of reinsurance	**509.1**	407.3
	(857.5)	(938.2)
Change in the provision for claims:		
Gross amount		
Reinsurers' share	**83.2**	(290.0)
Net change in the provision for claims	**(140.2)**	361.2
	(57.0)	71.2
Claims incurred, net of reinsurance		
Acquisition costs	**(914.5)**	(867.0)
Other operating expenses	**(595.2)**	(573.0)
Net foreign exchange losses	**(125.8)**	(120.5)
Total expenses excluding finance costs	**-**	(18.6)
	(1,635.5)	(1,579.1)
Operating profit/(loss)		
	209.7	(178.0)
Finance costs		
Share of net profit of associates	**(23.7)**	(18.8)
Profit/(loss) on ordinary activities before tax	**0.3**	6.5
Tax (charge)/income	**186.3**	(190.3)
Profit/(loss) for the year	**(6.4)**	23.8
Gross premiums written	**179.9**	(166.5)

All profits/(losses) arise from continuing operations.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2019

	Year ended 31 December 2019 US$m	Year ended 31 December 2018 US$m
Profit/(loss) attributable to owners of the parent	**179.9**	(166.5)
Other comprehensive income		
Items not to be reclassified to profit or loss in subsequent periods:		
Actuarial (losses)/gains on defined benefit pension scheme	**(4.7)**	3.8
Deferred tax gain/(loss) relating to actuarial (losses)/gains on defined benefit pension scheme	**6.4**	(0.6)
Items that may be reclassified to profit or loss in subsequent periods:		
Change in unrealised foreign currency translation losses on foreign operations	**3.7**	(6.1)
Total other comprehensive income	**5.4**	(2.9)
Total comprehensive income recognised for the year	**185.3**	(169.4)

Consolidated Statement of Financial Position

At 31 December 2019

	31 December 2019 US$m	31 December 2018 US$m
Assets		
Intangible assets	**192.6**	104.4
Property, plant and equipment	**67.9**	17.4
Deferred acquisition costs	**243.6**	244.1
Investments in associated undertakings	**19.4**	43.0
Reinsurance contracts	**1,628.1**	1,699.8
Employee benefits	**51.9**	53.1
Deferred taxation	**41.1**	56.1
Current taxation	**11.4**	8.3
Financial investments	**3,640.6**	3,145.1
Derivative contracts	**15.7**	17.4
Insurance and other receivables	**1,240.2**	1,008.8
Cash and cash equivalents	**520.1**	818.2
Total assets	**7,672.6**	7,215.7
Liabilities and Equity		
Liabilities		
Insurance contracts	**5,266.1**	5,274.1
Borrowings	**316.2**	174.9
Other financial liabilities	**75.5**	241.8
Provisions	**3.5**	2.2
Current taxation	**1.2**	1.4
Derivative contracts	**14.2**	14.1
Insurance and other payables	**676.0**	422.2
Total liabilities	**6,352.7**	6,130.7
Equity		
Called up share capital	**7.0**	6.8
Share premium	**505.5**	435.1
Capital redemption reserve	**1.0**	1.0
Foreign currency translation reserve	**(86.4)**	(89.7)
Retained earnings	**892.8**	731.8
Total equity attributable to owners of the parent	**1,319.9**	1,085.0
Total liabilities and equity	**7,672.6**	7,215.7

These financial statements were approved by the Board of Directors on 12 February 2020 and were signed on its behalf by:

Matthew Wilson
Group Chief Executive Officer

Mark Allan
Group Chief Financial Officer

Consolidated Statement of Cash Flows

For the year ended 31 December 2019

	Year ended 31 December 2019 US$m	Year ended 31 December 2018 US$m
Cash flows from operating activities		
Cash used in operations	**(467.0)**	(822.2)
Tax received/(paid)	**0.6**	(25.6)
Interest received	**70.1**	45.1
Dividends received	**5.3**	11.4
Net cash outflows from operating activities	**(391.0)**	(791.3)
Cash flows from investing activities		
Purchase of intangible assets	**(5.2)**	(6.4)
Purchase of property, plant and equipment	**(4.9)**	(1.4)
Acquisition of subsidiary undertaking	**(31.1)**	(15.5)
Acquisition of associated undertaking	**(13.0)**	-
Dividends from associated undertaking	**0.5**	3.7
Net cash outflows from investing activities	**(53.7)**	(19.6)
Cash flows from financing activities		
Proceeds from issue of shares	**70.6**	436.3
Drawdown/(repayment) on revolving credit facility	**132.0**	(37.0)
Purchase of class A shares for cancellation	**-**	(252.9)
Purchase of shares for share-based payment schemes	**(25.0)**	(11.2)
Interest paid	**(14.5)**	(12.7)
Dividends paid	**(20.6)**	(58.6)
Net cash inflows from financing activities	**142.5**	63.9
Net decrease in cash and cash equivalents	**(302.2)**	(747.0)
Cash and cash equivalents at beginning of the year	**818.2**	1,571.6
Effect of exchange rate fluctuations on cash and cash equivalents	**4.1**	(6.4)
Cash and cash equivalents at the end of the year	**520.1**	818.2

Consolidated Statement of Changes in Equity

For the 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**

	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 2018	6.4	-	0.2	(83.6)	1,207.3	1,130.3
Total comprehensive income recognised	-	-	-	(6.1)	(163.3)	(169.4)
Share-based payments	-	-	-	-	(0.7)	(0.7)
Issuance of share capital	1.2	435.1	-	-	-	436.3
Repurchase of class A shares	-	-	-	-	(252.9)	(252.9)
Cancellation of share capital	(0.8)	-	0.8	-	-	-
Dividend	-	-	-	-	(58.6)	(58.6)
At 31 December 2018	6.8	435.1	1.0	(89.7)	731.8	1,085.0

Nature and Purpose of Group Reserves

Share premium: The balance represents the difference between the price at which shares are issued and their nominal value, less any distributions made from this account.

Capital redemption reserve: The balance represents the amount by which share capital is diminished in the event of a share cancellation and is required to be recognised in a legal reserve to maintain the Group's capital.

Foreign currency translation reserve: The balance on this reserve represents the foreign exchange differences arising from the translation of financial statement information of entities within the Group from functional currencies to the presentational currency of the Group.

Retained earnings: Retained earnings represents the cumulative comprehensive income retained by the Group after taxation and after any distributions made from this account.