BRIT

BRIT LIMITED
PRESS RELEASE
15 FEBRUARY 2019
FULL YEAR RESULTS FOR THE YEAR ENDED 31 DECEMBER 2018

STRONG GROWTH IN AN IMPROVING ENVIRONMENT

Key points

- Gross written premiums of US$2,239.1m (2017: US$2,057.0m), an increase at constant exchange rates of 8.0%.
- Risk adjusted premium rates on renewal business increased by 3.7% (2017: 1.3% reduction).
- Combined ratio[1] of 103.3% (2017: 112.4%), including 12.0 percentage points of major losses (2017: 16.2pps), against a long term expected annual average of 3.9%.
- Major losses in line with expectations given the nature and scale of the events (the fourth most costly natural catastrophe year on record) and our market share.
- Return on invested assets[2] after fees of -US$82.1 or -2.0% (2017: +US$204.2m or +4.9%).
- Loss after tax of US$166.5m (2017: profit of US$21.5m) and RoNTA[3] before FX movements of -14.4% (2017: +1.1%).
- Strong balance sheet maintained with adjusted net tangible assets[4] of US$992.9m (2017: US$1,043.7m).
- Strong capital ratio of 130.4% (2017: 136.8%).
- Brit managed capacity on new initiatives (Versutus, Sussex Capital and Syndicate 2988) expanded to over US$400m for 2018.
- Continued focus on leadership, innovation and distribution, with continued opportunity-driven considered expansion in a number of areas including US Professional Lines, US Cyber and Technology, US Marine, US Casualty, Kidnap and Ransom and Private Clients.
- Fairfax ownership increased from 72.5% to 88.9%.

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

'Brit generated strong premium growth in 2018, against a backdrop of improving rates, whilst taking decisive action in underperforming areas. Premiums written increased by 8.0% through the expansion of our US operations and growth in classes where we have a strong track record. During 2018 both insurance and investment market conditions remained challenging, with catastrophe events and unrealised losses on equities and funds heavily impacting our results. Despite this, our results reflect our ability to maintain strong underwriting discipline while continuing to deliver selective growth, particularly through our BGSU and third-party capital platforms. We therefore enter 2019 with premium rates trending upwards and believe we are well positioned to benefit from this improving environment.

2018 again demonstrated the value of our products particularly in response to catastrophe losses. 2018 was the fourth most costly natural catastrophe year on record and, with 2017, the most costly back-to-back years ever. While we achieved overall risk adjusted rate increases of 3.7%, those increases were lower than initially anticipated, as available capacity has continued to exceed demand.

Against this backdrop, our business proved resilient with a combined ratio of 103.3%, including 12.0 percentage points in respect of major losses. Our attritional ratio was a solid 57.2% and we continued to demonstrate our conservative reserving approach with a reserve release benefitting the combined ratio by 6.1pps.

In 2018 we again saw increased demand for our products. Our premium written grew to US$2,239.1m, reflecting the favourable development of prior year premiums, the impact of rate increases, our investments in Syndicate 2988 and Sussex Capital, partly offset by reductions in certain classes following the actions outlined below. It was again pleasing to see an increased contribution from our initiatives of recent years as we continue to expand our international presence.

For 2018, Brit's total managed capacity across Versutus, Sussex Capital and Syndicate 2988 exceeded US$400m. We successfully launched Sussex Capital in January 2018, the open-ended fund which writes through Sussex Re, providing collateralised reinsurance direct to third parties and to Brit. In February, we announced the fourth annual expansion of Versutus, which now has invested capital of US$187m, offering access to Brit's strong underwriting franchise. In addition, Syndicate 2988, which was launched in 2017, was expanded by 79% to a stamp capacity of £98.5m (c.US$130m) for 2018 and now offers broad access to Brit's extensive underwriting capabilities. These initiatives represent excellent progress as we continue to develop and enhance our capital markets participation.

In this challenging market, we have continued to take action to protect our balance sheet, with the application of rigorous risk selection criteria in marginal lines of business and the decision to withdraw from certain classes such as International Professional Indemnity, Yacht, Contractors Plant & Equipment and Aviation.

We do however, continue to selectively expand our core underwriting capabilities, predominantly in the US. This ongoing success in attracting high-quality talent is helping us expand our client offering while delivering sustainable, profitable growth.

Our customers are our priority and our products are designed to support those businesses and individuals in difficult times. In 2018, we have continued to focus on providing an outstanding claims service, ensuring our customers' needs are met and our brokers have commended us for our service excellence, including the expediting of claims payments wherever appropriate. I was delighted that our claims team won the Claims Team of the Year at the 2018 Insurance Day Awards, in recognition of their proactive approach and commitment to delivering service excellence, and the Lloyd's Market Association Award for Innovation for their work on loss funds with the InsureTech firm Vitesse.

Being a member of the Fairfax family has presented us with a number of opportunities in 2018. We assumed the renewal rights from Advent of a number of classes accretive to Brit's portfolio, with 21 Advent staff transferring to Brit. We entered into an arms-length loss portfolio reinsurance contract with RiverStone, covering a number of legacy classes. We also received further investment from Fairfax itself, which increased its holding in Brit from 72.5% to 88.9%.

The combination of continued catastrophe events, market conditions and the strict Lloyd's planning process for 2019 has meant the market has seen significant withdrawals from a number of classes of business and some reductions in appetite. However, the underwriting environment in general remains competitive and the 1 January 2019 renewal season saw only modest rate increases. While consistent with our overall expectation, this is disappointing given the market's operating results.

We remain focused on our core fundamentals of leadership, innovation and distribution, and believe our underwriting discipline, risk selection, capital management and the targeted expansion of our global distribution capability remain key. We believe this focus will continue to hold us in good stead in the current economic and regulatory environment, allowing us to operate successfully through the current difficult market conditions, whilst being able to take full advantage of emerging opportunities as they arise.

Finally, Mark Cloutier stepped down from his role as Executive Chairman of Brit on 31 December 2018. Mark played a pivotal role in Brit's recent history having been appointed CEO in 2011 and subsequently Executive Chairman in 2017. We wish him well.'

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

'2018 was another difficult year for the market, with investment conditions compounding losses from major catastrophe activity. Brit's result for the year ended 31 December 2018 reflects significant claims from major loss activity and volatile investment markets resulting in significant unrealised losses on equity holdings, offset by a solid attritional loss ratio performance and strong prior year reserve releases.

Despite these pressures, our business model has proved resilient and we enter 2019 with a very strong capital position, having again demonstrated our ability to meet our commitments to clients in their time of need.

Against this challenging backdrop, the result on ordinary activities for the year before tax and FX was a loss of US$181.2m (2017: loss of US$7.1m) and the loss after tax was US$166.5m (2017: profit of US$21.5m). Return on adjusted net tangible assets (RoNTA), excluding the effects of FX, decreased to (14.4)% (2017: 1.1%).

Our capital position was well placed to deal with the challenging operating environment in 2018 and during the year we received further capital from our main shareholder, Fairfax, to ensure that this position is maintained to support our plans in 2019 and beyond. As a result, our balance sheet remains strong, with adjusted net tangible assets of US$992.9m (2017: US$1,043.7m) at the year end, after capital contributions, dividends paid and share buybacks. This represents a surplus of US$328.7m or 30.4% above the Group's management capital requirement.

Given the severe losses arising from the 2018 US/Japanese Wind and Californian Wildfire events, our underwriting activities returned a loss of US$56.9m, which, while disappointing, was a significant improvement over 2017 (loss of US$172.8m). Claims arising from the major loss activity totalled US$196.8m (2017: US$250.0m), increasing the combined ratio by 12.0pps to 103.3% (2017: 16.2pps/112.4%). Our attritional and expense ratios of 57.2% and 40.2% respectively were relatively stable despite the challenging market conditions, while strong reserve releases of US$99.3m (2017: US$9.6m) continue to demonstrate the benefits of our conservative reserving approach.

Given equity market volatility and increases in yields during the year, our net investment return was a loss of US$82.1m (2017: profit of US$204.2m), representing a return of (2.0)% (2017: 4.9%), driven by unrealised losses on our equity and fund investments.

Syndicate 2988, Versutus and Sussex are key to Brit's strategy of building long term relationships with the capital markets, and through these platforms we now have access to over US$400m of capacity. The support they provide enables us to strengthen our market position and provide Brit capacity to support our clients whilst offering capital market investors attractive, non-correlating returns.

We manage our currency exposures to mitigate their impact on solvency rather than to achieve a short-term impact on earnings. While we reported a total foreign exchange loss of US$9.1m through the income statement in the period, foreign exchange movements reduced our management capital requirements by US$21.0m, favourably impacting our solvency position.

The underwriting outlook has shown modest rate improvement but remains challenging. Lloyd's has expressed its support for innovation and growth in well performing lines, while reinforcing through the 2019 planning process that perennially unprofitable areas must demonstrate a credible plan to return to profit. We welcome these actions and anticipate that they will help drive improvement in market conditions as the market focuses on sustainable underwriting. We believe we are well positioned and have the right strategy to prosper in the market.'

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.

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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 2018, which included the Brit Limited financial result, was published on 14 February 2019.

www.britinsurance.com

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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 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 88.9% 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.

2018 underwriting review

2018 has been another year of significant natural catastrophe activity, with multiple hurricanes, typhoons and wildfires having a devastating impact on people's lives, homes and businesses, and resulting in an estimated economic loss of approximately US$225bn.

Insured losses arising from these events are estimated to be in the region of US$90bn, the fourth largest year on record. Following on from 2017, it has created the most costly back-to-back years on record, with insured losses for all events estimated at US$237bn.

The net impact to Brit of the claims incurred from 2018 catastrophe events, before reinstatements, is US$196.8m, or 12.0pps on the combined ratio (2017: US$250m/16.2pps). These losses were within our expectations, given the scale and nature of the events. While we have once again benefitted from the protection of our extensive reinsurance programme, the reduced size of the events has meant that our higher level protections triggered in 2017 were not triggered in 2018.

Our customers are our priority and our products are designed to support those businesses and individuals in such difficult times. We have focussed on providing an outstanding claims service, ensuring our customers' needs were met. This claims service has included:

- A focus on responding to our customers, managing the expected volume pressures and containment of both indemnity and expense ratios.
- Ongoing monitoring of local resources available to adjust and report claims.
- 24/7 contact with claims third party administrators (TPAs) and coverholders, managing claims on our behalf, to assess impact and resourcing and to gauge activity and potential issues.
- Extended deployment of Brit claims adjusters from London directly into the TPA and coverholder operations in Florida and the Northeast of the United States, providing an 'on the ground' local Brit presence, ensuring claims were handled in accordance with Brit's standards while favourably impacting accessibility and resolution times.
- Swiftly establishing dedicated loss funds for our TPAs and coverholders in order to expedite claims payments, proactively making interim or partial payments whenever possible to support our insureds' recovery efforts.

- Providing via contract endorsement, a number of select TPAs and MGAs with additional claims handling authority, including an increase in the authorised monetary thresholds and a waiver of proofs of loss.

- Utilised Geo Intel technology to capture high resolution images of California wildfire affected Brit insured homes. Total losses were immediately referred to our TPAs for payment.

While 2018 has seen material rate increases over 2017, reversing the trend of rate reductions in the previous four years, market conditions have continued to be challenging. Brit achieved risk adjusted overall increases of 3.7%, with increases experienced across most classes, much improved over the movements experienced in 2017 (a reduction of 1.3%). However, rates remain lower than anticipated following the 2017 major loss events, as capacity has continued to be available as brokers move business to new carriers at current or reduced rates.

Our retention ratio at 80.2% was lower than in 2017 (83.6%), as we non-renewed certain accounts due to unsustainable pricing levels and exited our worst performing classes, namely Yacht, Aviation, Non-US Professional Indemnity and Contractors' Plant & Equipment. 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.

Overall GWP for 2018 was US$2,239.1m, an increase of 8.9% over 2017 (US$2,057.0m), or 8.0% at constant rates of exchange. This increase was mainly driven by growth from BGSU's underwriting initiatives (Programs, Professional Liability, Cyber and Excess Casualty), an increase in prior year premium development (Marine and Property Facilities) and growth in our core classes (Property Treaty, Long Tail Direct and Property, Political Risks and Violence).

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$287.8m of premium, 22.6% of growth over 2017 reflecting the continued development of our US distribution network. This increase has arisen from both recently launched classes and from organic growth as we capitalise on market opportunities.

- In addition, US$5.4m of premium was generated for BGSU by Scion Underwriting Services Inc., our US MGA with a team of nine, headed by Scott Brock, in its first year of operations.

- Our Bermuda operation, established in late 2013, has selectively written reinsurance business in lines and markets that we believe remain well rated, particularly Casualty Treaty. Premiums generated by our Bermuda office in 2018 equated to US$91.5m (2017: US$83.3m).

Our combined ratio in 2018 was 103.3%, including 12.0pps in respect of major losses and 6.1pps of reserve releases. Over the past five years, we have delivered an average combined ratio of 98.7%.

Overall, the combination of strong portfolio management and underwriting discipline has led to us achieving a 57.2% attritional ratio in 2018 (2017: 56.4%), a solid underwriting performance given the market backdrop and testimony to the strength of our underwriting in such an ongoing competitive environment.

As part of our standard reserving process, we released US$99.3m of net reserves established for prior year claims, the equivalent of a combined ratio reduction of 6.1pps (2017: US$9.6m/0.6pps). These releases reflected the additional reinsurance protection on the Non-US Professional Indemnity (2014 and prior), Employers' Liability UK / Professional Liability UK and legacy classes afforded by the loss portfolio reinsurance with RiverStone Managing Agency Limited (for and on behalf of Lloyd's syndicate 3500), together with better than anticipated loss experience on Energy, Property and Casualty Treaty including favourable movements on the 2017 major losses.

Business developments during 2018

During 2018 we have continued to focus on our underwriting strategy. Key developments have included:

- **Brit managed capacity on new initiatives expanded to over US$400m for 2018**

  Brit's total managed capacity across Versutus, Sussex Capital and Syndicate 2988 is now over US$400m.

  In February, Brit announced the completion and expansion of the Versutus 2018 Series Notes, the fourth annual renewal and continued expansion of this vehicle. Versutus Ltd (Versutus) now has invested capital of US$187m, offering access to Brit's strong underwriting franchise.

  This transaction followed the launch of Sussex Capital at 1 January 2018, the open-ended fund which writes through Sussex Re, providing direct collateralised reinsurance and collateralised reinsurance to Brit's reinsurance portfolio.

  In addition, Syndicate 2988, which was launched in 2017, was expanded to a stamp capacity of £98.5m (c.US$130m) for 2018 and now offers broader access to Brit's extensive underwriting capabilities with over 20 lines of business for 2018.

  These developments continue 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. Taken together, these initiatives represent excellent progress as we continue to develop and enhance our capital markets participation.

- **Loss portfolio reinsurance**

  On 30 November 2018, the Group entered into a loss portfolio reinsurance contract with RiverStone Managing Agency Limited (for and on behalf of Lloyd's syndicate 3500), another subsidiary of the Fairfax group. The agreement covered the Group's Non-US Professional Indemnity (2014 and prior), Employers' Liability UK / Professional Liability UK and legacy books of business, for a premium of US$186.3m.

- **Continued development of BGSU**

  BGSU Professional Lines

  In January, BGSU appointed a SVP, Construction Professional. This role, based in BGSU's New York office, has responsibility for building and developing a Construction Professional book and builds strongly on the progress we have been making in developing and growing our US Professional Lines offering.

  In May, BGSU appointed a Glastonbury, Connecticut based SVP, Miscellaneous Professional Liability and a New York based AVP, Construction Professional. We are pleased by the rapid progress being made by BGSU's Professional Lines team since it was established in 2017, with these appointments further strengthening our depth of talent as well as demonstrating our continued successful growth strategy for BGSU.

  BGSU Marine

  In February, BGSU further expanded its Marine offering with two new hires. First, an AVP based in our Hartford, Connecticut office, responsible for the underwriting of BGSU's growing Yacht portfolio, and secondly, a VP, Cargo, based in our Newport Beach, California office to focus on developing BGSU's Cargo book on the West Coast. These appointments follow the launch of BGSU's Marine business in 2016 and are part of Brit's strategy to expand its regional footprint in the Americas with a focus on specialty products that deliver sustainable and profitable growth.

  BGSU Cyber and Technology

  In October 2018, we appointed a SVP, Cyber and Technology to grow the BGSU Cyber book of business, team and outward brand recognition in the SME marketplace.

  BGSU Casualty

  In July, we announced the appointment of a SVP, General Liability for BGSU. This hire follows the appointment of a SVP, Excess Casualty in August 2017 and the development of BGSU's Professional Lines offering.

BGSU Chief Underwriting Officer

In October, we announced the appointment of a Chief Underwriting Officer for BGSU. Our US business has seen continued development over the last year and this appointment will further complement the significant progress being made on the ambitious strategy we have for our US platform.

- **Advent Capital Holdings Limited - Syndicate 780**

On 11 July, Advent Capital Holdings Limited, a fellow Fairfax company, and Brit Limited announced a potential combination of some of their Lloyd's business. As a result, 21 Advent staff transferred to Brit and Brit assumed the renewal rights to Advent's business in Property Facilities, Casualty Treaty and Terrorism, amounting to approximately US$100m of GWP. We believe these classes will be accretive to Brit's portfolio.

- **Kidnap and Ransom**

In July, we appointed a senior Kidnap and Ransom underwriter, strengthening our well-regarded A&H team.

In the fourth quarter of 2018, we announced an exclusive partnership with Schillings Critical Risk, part of Schillings (the international issues and crisis law firm), to create a comprehensive kidnap for ransom offering. Brit and Schillings' joint vision is to help clients navigate an ever changing environment and to protect people, assets and reputations from the risks they may face.

- **Private Clients**

In July, we also announced the appointment of an experienced Head of Private Clients to establish a high net worth offering at Brit. This market continues to see strong demand and the appointment will help us expand our capabilities and capitalise on the opportunities in this area.

2019 business planning

- **Syndicate 2987**

Syndicate 2987, Brit's wholly aligned Syndicate, has planned gross net written premium growth of 8.8% for 2019, despite Brit withdrawing from Aviation and Yacht business during 2018. We have added new lines of business from Private Client and Kidnap and Ransom, and expect growth in Cyber and from our US MGA, Scion Underwriting Services Inc., together with the renewal of certain profitable lines transferred from Advent Syndicate 780.

- **Syndicate 2988**

Syndicate 2988, was established at the end of 2016, writes business predominantly on behalf of third party capital. The 2019 year of account has a planned gross written premium of US$158.7m, an increase of 11.9% over 2018. The syndicate is fully third-party capitalised for 2019, with three new capital partners introduced. We have continued to build out our infrastructure and operations to support the continued growth of the Syndicate, which helps position Brit as the specialist underwriter of choice and largest Lloyd's only insurer.

- **Sussex and Versutus**

The fundraising for our ILS platforms took place in a markedly more difficult environment than previous years. Against this backdrop, we were pleased that we were able to grow the capital base and secure two new US institutional investors for 2019, which we hope to develop into deeper relations in the future. Our track record has continued to be enhanced by our relative performance in 2017 and 2018 which has continued to underpin investor demand for our vehicles.

Financial Review

Overview of Results

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

	2018 US$m	2017 US$m	2016 US$m	2015 US$m	2014 US$m
Gross written premium	**2,239.1**	2,057.0	1,912.2	1,999.2	2,148.5
Net earned premium (Note 1)	**1,466.1**	1,540.1	1,515.1	1,649.6	1,601.1
Underwriting result (Note 1)	**(56.9)**	(172.8)	54.6	137.0	168.3
Underwriting result	**(56.9)**	(172.8)	54.6	137.0	168.3
Return on invested assets, net of fees	**(82.1)**	204.2	102.9	5.0	124.8
Corporate expenses	**(20.0)**	(24.0)	(21.3)	(30.0)	(38.8)
Finance costs	**(18.8)**	(17.1)	(18.8)	(20.6)	(22.3)
Other items	**(3.4)**	2.6	1.1	0.3	0.8
(Loss)/profit on ordinary activities before tax, FX and corporate activity costs	**(181.2)**	(7.1)	118.5	91.7	232.8
FX movements	**(9.1)**	12.6	41.3	(60.2)	35.8
Corporate activity costs (Note 2)	**-**	-	-	(23.8)	(22.6)
(Loss)/profit on ordinary activities before tax	**(190.3)**	5.5	159.8	7.7	246.0
Tax	**23.8**	16.0	(2.2)	7.9	(16.7)
(Loss)/profit for the year after tax	**(166.5)**	21.5	157.6	15.6	229.3

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. The 2014 corporate activity costs relate to Brit's IPO in April 2014.

Group performance and total value added

Brit's result for the year ended 31 December 2018 reflects considerable major loss activity, volatile investment markets resulting in significant negative returns on equity holdings, a solid attritional loss ratio performance and strong prior year reserve releases.

The result on ordinary activities for the year before tax, FX and corporate activity costs was a loss of US$181.2m (2017: loss of US$7.1m), loss before tax was US$190.3m (2017: profit before tax of US$5.5m) and loss after tax was US$166.5m (2017: profit after tax of US$21.5m). Return on adjusted net tangible assets (RoNTA), excluding the effects of FX and corporate activity costs, decreased to (14.4)% (2017: 1.1%). RoNTA for 2018 after including foreign exchange movements was (15.4)% (2017: 2.5%) and total value created for the year was a negative US$175.6m (2017: US$24.7m positive).

Our adjusted net tangible assets at 31 December 2018 totalled US$992.9m (2017: US$1,043.7m).

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

	2018	2017
Return on net tangible assets before FX movements (RoNTA)	(14.4)%	1.1%
Total value created	US$(175.6)m	US$24.7m
Combined ratio	103.3%	112.4%
Investment return (net of external investment related expenses)	(2.0)%	4.9%
Capital ratio	130.4%	136.8%
Ratio of front office employees to back office employees	155.5%	163.8%

In 2018, our RoNTA was (14.4)% (2017: 1.1% positive), reflecting significant major loss events and challenging insurance and investment market conditions. This return resulted in a five year average RoNTA of 5.7%. RoNTA for 2018 after foreign exchange movements was (15.4)% (2017: 2.5% positive).

The combined ratio is our key underwriting metric. Our combined ratio in 2018 was 103.3% (2017: 112.4%), including 12.0pps (2017: 16.2pps) in respect of major losses and 6.1pps (2017: 0.6pps) of reserve releases. Over the past five years, we have delivered an average combined ratio of 98.7%.

The return on our invested assets was a negative US$82.1m or (2.0)% (2017: positive US$204.2m / 4.9%). This was a combination of US$75.5m (2017: US$48.2m) of investment income, US$39.6m of realised gains (2017: US$2.9m), US$203.4m of mark-to-market unrealised losses (2017: gains of US$167.5m), return on associated undertakings of US$6.5m (2017: US$5.1m) and gains on investment related derivatives of US$0.1m (2017: losses of US$6.4m), less fees of US$12.9m (2017: US$13.1m). Our 2018 return also includes a 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 1.7%, against a backdrop of some very challenging market conditions.

Our statement of financial position remains strong. At 31 December 2018, following a capital injection from Fairfax of US$126.0m, Group capital resources totalled US$1,409.8m which equated to 130.4% of our Group capital requirement of US$1,081.1m.

At 31 December 2018, the ratio of front office employees to back office employees was 155.5% (2017: 163.8%), reflecting that we had approximately 1.6 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 loss of US$56.9m (2017: loss of US$172.8m) and our combined ratio, which excludes the effect of foreign exchange on non-monetary items, was 103.3% (2017: 112.4%). The premiums, claims and expenses components of this result are examined below.

Premiums written

Premium growth	**2018 US$m**	**2017 US$m**	**Growth %**	**Growth at constant FX rates %**
Brit Global Specialty Direct	1,758.0	1,675.0	5.0%	4.1%
Brit Global Specialty Reinsurance	451.7	383.3	17.8%	17.7%
Other underwriting	29.4	(1.3)	-	-
Group	2,239.1	2,057.0	8.9%	8.0%

Gross written premium (GWP) increased by 8.9% to US$2,239.1m (2017: US$2,057.0m). At constant exchange rates the increase was 8.0%. Direct business increased by 5.0% to US$1,758.0m (2017: US$1,675.0m), while reinsurance increased by 17.8% to US$451.7m (2017: US$383.3m).

The drivers of the 8.9% increase in Group GWP, which was in line with expectations, are as follows:

- Current year premiums: Current year premiums, excluding those derived from the underwriting initiatives referred to below, increased by US$67.2m over 2017. Growth was primarily driven by Brit's share of Syndicate 2988 and Sussex Re. Growth from the Core book was driven by the Reinsurance, Long Tail Direct, and Property, Political Risks and Violence portfolios, offset by reductions in the Short Tail Direct portfolio, mainly from the Marine and Aviation classes.
- Underwriting initiatives: The Group's underwriting initiatives, launched over the last five years, resulted in a US$66.9m increase in GWP. The largest increases were seen in BGSU (Cyber, Programs and Professional Liability and Excess Casualty), China/Singapore and Healthcare.

- Prior year premium development: The book again experienced favourable development on prior years, resulting in an increase of US$31.1m over 2017. The main contributors were our Property Facilities, Energy, Marine and BGSU divisions.
- Foreign exchange: The impact of foreign exchange resulted in a US$16.9m year on year gain in premium, which reflects the movement during 2018 of the US dollar against a number of currencies in which the Group writes business.

Premium ratings

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.	2018 3.7% 2017 (1.3)% 2016 (3.3)% 2015 (4.1)% 2014 (2.9)%

2018 was the first year for five years where we have experienced overall rate increases, with an increase of 3.7% across the portfolio (2017: 1.3% decrease). Direct business increased by 3.8% (2017: 1.2% decrease) and reinsurance by 3.0% (2017: 1.7% decrease). The drivers of the rate increases were Property, Political Risks and Violence, BGSU Property, Marine, Property Treaty, Energy, Aviation, Specialist Liability, BGSB, Property Facilities, Specialty Lines and BGSU Casualty.

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.	2018 80.2% 2017 83.6% 2016 84.3% 2015 82.4% 2014 83.0%

Our retention rate for the period was 80.2% (2017: 83.6%). The retention rates we achieved in 2017 and 2018 reflect the successful renewal of a profitable book of business, following the re-underwriting of the book that occurred between 2008 and 2012, through which we rebalanced our book and non-renewed around half of our underwriting portfolio. The slight reduction in 2018 results arises from active decisions not to renew certain underperforming or unsustainably priced accounts and the exit from certain classes such as Aviation.

Outwards reinsurance

Our reinsurance expenditure in 2018 was US$756.7m or 33.8% of GWP (2017: US$526.2m/25.6%), an increase of US$230.5m.

This increase primarily reflects a loss portfolio reinsurance contract with RiverStone Managing Agency Limited (for and on behalf of Lloyd's syndicate 3500), a Fairfax sister company. Under the terms of this reinsurance the Group 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, reinsurance expenditure was US$570.4m or 25.4% of GWP, representing an increase of US$44.2m over 2017. This increase was driven by additional Risk XL premium ceded to third parties rather than being retained within the Group, together with our increased purchase of proportional treaty reinsurance.

Net earned premium

Net earned premium (NEP) in 2018, excluding the effects of foreign exchange on non-monetary items, decreased by 4.8% to US$1,466.1m (2017: US$1,540.1m, increase of 1.7%). Direct business decreased by 10.3% to US$1,089.5m (2017: US$1,214.9m, increase of 0.5%), while reinsurance increased by 11.9% to US$333.2m (2017: US$297.8m, increase of 4.3%).

Excluding the impact of the loss portfolio reinsurance contract, NEP increased by 7.3%, to US$1,652.4m, with the direct portfolio NEP increasing by 5.0% to US$1,275.8m, driven by BGSU and the short-tail direct classes. The increase in the reinsurance portfolio is principally related to short-tail RI, reflecting year on year premium increases.

Claims

The claims ratio and its components are set out below:

Year	Attritional loss ratio	Major claims ratio	Reserve release ratio	Claims ratio
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%
2014	51.0%	2.3%	(3.3)%	50.0%

Our underlying claims experience in 2018 was in line with expectations, with a small increase in our attritional loss ratio to 57.2% (2017: 56.4%).

Catastrophe activity was again significant in 2018, albeit reduced from 2017 levels. The Group incurred major claims, before reinstatements, of US$196.8m (2017: US$250.0m), as set out below. Major claims are defined as claims in excess of US$15.0m, incurred from natural or man-made catastrophes, or from large single risk loss events (net of reinsurance and allowing for reinstatements).

Major losses	2018 US$m	2017 US$m
Typhoon Jebi	26.0	-
Hurricane Florence	27.1	-
Typhoon Mangkhut	7.0	-
Hurricane Michael	56.3	-
Hurricane Harvey	-	51.5
Hurricane Irma	-	110.1
Hurricane Maria	-	46.4
Mexican earthquake	-	6.8
California wildfires	98.1	35.2
Total before third party share	214.5	250.0
Third party investors share of major losses (Note 1)	(17.7)	-
Total	196.8	250.0
CoR	12.0%	16.2%

Note 1: 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$99.3m of net reserves established for prior year claims, the equivalent of a combined ratio reduction of 6.1pps (2017: US$9.6m/0.6pps). These releases reflected the additional reinsurance protection on the Non-US Professional Indemnity and Employers' Liability UK / Professional Liability UK classes afforded by the loss portfolio reinsurance with RiverStone Managing Agency Limited, together with better than anticipated loss experience on Energy, Property and Casualty Treaty. These releases were partially offset by a strengthening in Short Tail Direct from the Marine class of business. Our statement of financial position remains strong and we continue to operate a robust reserving process.

Underwriting expenses

Our underwriting expense ratio was 40.2% (2017: 40.4%). Its components are set out below:

Year	Commission ratio	Operating expense ratio	Underwriting expense ratio
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%
2014	27.5%	12.0%	39.5%

Commission costs were US$456.1m and the commission expense ratio was 27.8% (2017: US$425.9m/27.6%). The increase in the ratio principally reflects changes in business mix.

Our operating expenses are analysed below.

Expenses

Our operating expense ratio was slightly reduced to 12.4% (2017: 12.8%). Operating expenses for the period were as follows:

Expense analysis	2018 US$m	2017 US$m
Underlying operating expenses including bonus provisions	231.6	220.0
Project costs, timing differences and other expense adjustments (Note 1)	5.1	0.5
Total operating expenses	236.7	220.5

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

Underlying operating expenses during 2018 increased by 5.3% to US$231.6m (2017: US$220.0m). The movement at constant exchange rates was an increase of 1.2%, reflecting our predominantly Sterling expense base. This increase relates to targeted expansion and investment in growth areas, increased regulatory levies, depreciation charges and IT 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$2.2m loss (2017: US$6.7m gain), 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	2018 US$m	2017 US$m
Acquisition costs	116.2	110.6
Other insurance related expenses	100.5	85.9
Total insurance related expenses	216.7	196.5
Other operating expenses	20.0	24.0
Total operating expenses	236.7	220.5

Other income

Other income totalled US$10.6m (2017: US$9.9m), as set out below.

Other income	2018 US$m	2017 US$m
Fee and commission income (Note 1)	14.0	8.3
Change in value of parent company shares (Note 2)	(3.4)	1.6
Total other income	10.6	9.9

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 2018, totalling US$14.0m, an increase of 68.7% (2017: US$8.3m/492.9%).

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 liabilites', as follows:

Gains on other financial liabilities	**2018 US$m**	**2017 US$m**
Underwriting vehicle related (Note 1)	4.9	4.0
Investment vehicle related (Note 2)	12.5	-
Total gains on other financial liabilities	17.4	4.0

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 a negative US$82.1m or (2.0)% (2017: positive US$204.2m/4.9%). This result is analysed below:

Investment return	**2018 US$m**	**2017 US$m**
Income	75.5	48.2
Realised gains	39.6	2.9
Unrealised (losses)/gains	(203.4)	167.5
Investment return before fees	(88.3)	218.6
Investment management fees	(12.9)	(13.1)
Investment return net of fees	(101.2)	205.5
Investment related derivative return	0.1	(6.4)
Third party investors share of investment return (Note 1)	12.5	-
Return on associated undertakings	6.5	5.1
Total return	(82.1)	204.2
Total return	(2.0)%	4.9%

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	**%**
2018	(2.0)
2017	4.9
2016	2.6
2015	0.1
2014	2.9

The yield on our fixed income portfolio has continued to increase, giving a total portfolio income return for the year of US$75.5m or 1.9%. Given the active management within the corporate bond portfolio and the selected opportunities to add duration in the government bonds, this represented a meaningful source of return for 2018 and a balance to the portfolio going forward into 2019.

The return on cash has also continued to increase. 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, avoiding where possible exposure to European paper where the yield is negative. However, the positive return on cash and fixed income was outweighed by the performance of equities and funds:

- The key driver of our equity return has been the volatility in equity markets and the negative performance across most major markets in 2018, with the year end position representing a low point for many indices. Unrealised losses in our equity portfolio arising from the broader market sell-off over the year totalled US$169.9m (2017: gain of US$105.6m), with a number of our holdings seeing a reversal of the strong gains they recorded in 2017. This outweighed the income (US$11.5m) and realised gains (US$32.3m) we received from equities.
- The return on funds was also negative for the year, with a loss of US$15.2m. We reduced our exposure to funds in the first quarter of 2018, which did result in some realised gains. However, these were offset by unrealised losses on a number of our positions in the second half of 2018.

At 31 December 2018, Brit's allocation to equities and investment funds totalled 16.8% of the portfolio (2017: 19.8%).

At 31 December 2018, the running yield (expressed as yield as a percentage of invested assets) of our total portfolio was 2.3% (2017: 1.3%). This has increased over 2018 in line with the rise in base rates in the US as well as an increase in our allocation to corporate bonds from 14.6% to 23.3% primarily in investment grade US credit.

Our two associated undertakings produced a positive return of US$6.5m (2017: US$5.1m).

- Ambridge Partners LLC, a leading managing general underwriter of transactional insurance products of which Brit has a 50% share, contributed US$5.9m to this return (2017: US$4.4m); and
- Camargue Underwriting Managers Proprietary Limited, a leading managing general underwriter of a range of specialised insurance products and specialist liability solutions in South Africa of which a 50% share was acquired on 30 August 2016, contributed US$0.6m to this return (2017: US$0.7m).

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 loss of US$9.1m in 2018 (2017: gain of US$12.6m), 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 loss of US$12.7m (2017: gain of US$1.8m), primarily relating to the mark to market of the capital we hold in non-US dollar currencies to match our risk exposures. The loss primarily results from the strengthening of the US dollar which gave rise to a significant loss on our long Canadian dollar position, which was only partly offset by gains on our short Sterling and Euro positions;
- Gains of US$8.4m (2017: gains of US$4.9m) 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
- Losses of US$4.8m (2017: gains of US$5.9m), 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 2018 comprises the un-wind of the debit carried on the statement of financial position at 31 December 2017 (US$2.3m), plus the credit balance established during 2018 (US$2.5m).

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

Foreign exchange gains and (losses)	**2018 US$m**	**2017 US$m**
Net change in unearned premium provision - non-monetary FX effect	1.9	(3.3)
Acquisition costs - non-monetary FX effect	(0.8)	1.3
Net foreign exchange (losses)/gains - non-monetary (Note 1)	(5.9)	7.9
	(4.8)	5.9
Net foreign exchange (losses)/gains – monetary (Note 1)	(12.7)	1.8
Return on derivative contracts - FX related instruments (Note 2)	8.4	4.9
	(4.3)	6.7
Total (loss)/gain	(9.1)	12.6

Note 1: The sum of these two amounts, US$18.6m, is the 'Net foreign exchange losses' figure per the Consolidated Income Statement (2017: US$9.7m 'Net foreign exchange gains').
Note 2: Excludes the loss of US$2.2m (2017: gain of US$6.7m) on the derivative contract entered into to effectively hedge the Sterling proportion of the Group's expenses.

Tax

Our tax on ordinary activities for 2018 resulted in a tax credit of US$23.8m (2017: tax credit US$16.0m), based on a group loss before tax of US$190.3m (2017: profit before tax of US$5.5m).

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, the US, Australia and Singapore. 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 charged in those jurisdictions.

The 2018 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$8.7m in respect of undeclared Lloyd's syndicate year of account losses and a prior year credit of US$3.8m in respect of 2016 and 2017 US tax losses. 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 2018 our adjusted net tangible assets totalled US$992.9m (2017: US$1,043.7m). At 31 December 2018, Group capital resources totalled US$1,409.8m, giving surplus management capital of US$328.7m or 30.4% (2017: US$395.1m/36.8%) over our Group capital requirement of US$1,081.1m.

Brit has in place a revolving credit facility (RCF). During the period, the RCF was renegotiated, increasing from US$360m to US$450m, with the term extending by two years to 31 December 2022. Under our capital policy we have identified a maximum of US$250.0m (2017: US$250.0m) of this facility to form part of our capital resources, with the balance available for liquidity funding. At 31 December 2018, the cash drawings on the facility were US$8.0m (2017: US$45.0m) and a US$80.0m uncollateralised letter of credit (LoC) was in place (31 December 2017: US$80.0m/uncollateralised) to support our underwriting activities. At the date of this report, there were no cash drawings on the facility and the US$80.0m uncollateralised LoC remained in place.

At 31 December 2018, our gearing ratio was 22.0% (2017: 24.6%).

Asset allocation

Brit's invested assets (financial investments, investments in associates, cash and cash equivalents and derivative contracts) at 31 December 2018 were US$4,009.6m (31 December 2017: US$4,316.1m). This decrease reflects a higher level of claims settlements in 2018 arising from the 2017 major losses, the settlement of the premium in respect of the loss portfolio reinsurance and the losses on the investment portfolio.

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

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

31 December 2017		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	-	1,254.6	5.3	-	-	-	1,259.9
	Corporate debt securities	-	631.3	0.1	-	-	-	631.4
	Structured products	-	0.2	15.3	-	-	-	15.5
	Equity securities	686.7	-	93.4	-	40.4	-	820.5
	Alternative investments	-	-	10.6	-	-	-	10.6
	Cash and cash equivalents	-	-	1.9	1,571.6	-	-	1,573.5
	Investment related derivatives	-	-	-	-	-	4.7	4.7
Total invested assets (statutory)		686.7	1,886.1	126.6	1,571.6	40.4	4.7	4,316.1

The portfolio's tactical positioning remains broadly consistent with 2017, with a short duration position to protect against the impact of rising rates. For the limited allocation to credit risk, the exposure is primarily defensive, focused on 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 (31 December 2018: US$3,331.2m or 83.1% of the portfolio). The fixed income portfolio is short dated, with a majority allocation to government bills. Corporate bonds represent 23.3% of the total portfolio with 2.2pps of this figure being below investment grade.

The exposure to equities and funds has decreased over 2018 (2018: US$675.0m or 16.8% of the portfolio; 2017: US$853.7m/19.8%). This reduction primarily reflects the settlement of the loss portfolio reinsurance premium which was part funded with equities and funds and the unrealised losses on equities.

The duration of our portfolio at 31 December 2018 was 0.9 years (2017: 0.5 years), which is shorter than the duration of our liabilities. This positioning is driven by the positive macro-economic environment and the potential that strong growth in the US combined with low capacity could result in increases in yields over the short to medium term.

At 31 December 2018, 82.5% of our invested assets were investment grade quality (2017: 79.9%) with the increase reflecting the decreased allocation to equity and funds.

Outlook

2018 has seen some movement back towards a more profitable underlying underwriting environment. However, both the underwriting and investment markets remain challenging.

The combination of continued catastrophe events, market conditions and the strict Lloyd's planning process for 2019 has meant the market has seen significant withdrawals from a number of classes of business and some reductions in appetite. However, the underwriting environment in general remains competitive and the 1 January 2019 renewal season saw only modest rate increases. This is consistent with our overall expectation but is disappointing given the market's operating results.

Lloyd's has expressed its support for innovation and good business growth within the market, while reinforcing through the 2019 approval process that perennially unprofitable areas must demonstrate a return to profit. We anticipate that these actions will help drive improvement in market conditions as the market focuses on sustainable underwriting.

The outlook for the investment market continues to be challenging. 2018 saw increased volatility in financial markets as investors responded to the start of a programme of gradual withdrawal of central bank stimuli, combined with heightened sensitivity to trade relations between the US and China. This was balanced against a robust outlook for global growth, especially in the US. These trends show no signs of abating as we go into 2019.

We maintain focus on our core fundamentals of underwriting discipline, risk selection, capital management and targeted expansion of our global distribution capability. We believe this focus will continue to hold us in good stead in the current economic and regulatory environment.

Directorate Changes

On 31 August 2018, Andrea Welsch was appointed a non-executive Director.

On 31 December 2018, Mark Cloutier stepped down from his role as Group Executive Chairman and from his position on the Board. On the same date, Gordon Campbell, an existing non-executive Director, became Chairman of the Board pending regulatory approval.

Principal risks

Overview

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

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

The key categories of risk include:

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

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

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

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, our multi-disciplinary working group has continued to evaluate the associated risks and implement the process and business changes required to write business onto Lloyd's new Brussels-based European insurance company (LBS), of which we are fully supportive.

The majority of the known work required is complete and our new processes are now 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.

With significant uncertainties still surrounding Brexit and 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 2018 or 2017, but is derived from those accounts. Statutory accounts for 2017 have been delivered to the Registrar of Companies and the statutory accounts for 2018 will be delivered following the Company's annual general meeting. The auditor has reported on those accounts; their 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 2018 are expected to be available on the Company's website no later than 15 March 2019. An announcement will be made when they are available.

The preliminary results were approved by the Board on 13 February 2019.

Responsibility statement of the Directors

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

- The consolidated financial statements, contained within the 2018 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 2018 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
13 February 2019

Mark Allan
Group Chief Financial Officer
13 February 2019

Consolidated Income Statement
For the year ended 31 December 2018

	Year ended 31 December 2018 US$m	Year ended 31 December 2017 US$m
Revenue		
Gross premiums written	**2,239.1**	2,057.0
Less premiums ceded to reinsurers	**(756.7)**	(526.2)
Premiums written, net of reinsurance	**1,482.4**	1,530.8
Gross amount of change in provision for unearned premiums	**(34.4)**	(54.3)
Reinsurers' share of change in provision for unearned premiums	**20.0**	60.3
Net change in provision for unearned premiums	**(14.4)**	6.0
Earned premiums, net of reinsurance	**1,468.0**	1,536.8
Investment return	**(101.2)**	205.5
Return on derivative contracts	**6.3**	5.2
Other income	**10.6**	9.9
Gains on other financial liabilities	**17.4**	4.0
Net foreign exchange gains	**-**	9.7
Total revenue	**1,401.1**	1,771.1
Expenses		
Claims incurred:		
Claims paid:		
Gross amount	**(1,345.5)**	(1,068.4)
Reinsurers' share	**407.3**	206.7
Claims paid, net of reinsurance	**(938.2)**	(861.7)
Change in the provision for claims:		
Gross amount	**(290.0)**	(619.0)
Reinsurers' share	**361.2**	372.4
Net change in the provision for claims	**71.2**	(246.6)
Claims incurred, net of reinsurance	**(867.0)**	(1,108.3)
Acquisition costs	**(573.0)**	(535.4)
Other operating expenses	**(120.5)**	(109.9)
Net foreign exchange losses	**(18.6)**	-
Total expenses excluding finance costs	**(1,579.1)**	(1,753.6)
Operating (loss)/profit	**(178.0)**	17.5
Finance costs	**(18.8)**	(17.1)
Share of net profit of associates	**6.5**	5.1
(Loss)/profit on ordinary activities before tax	**(190.3)**	5.5
Tax income	**23.8**	16.0
(Loss)/profit for the year	**(166.5)**	21.5

All (losses)/profits arise from continuing operations.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2018

	Year ended 31 December 2018 US$m	Year ended 31 December 2017 US$m
(Loss)/profit attributable to owners of the parent	**(166.5)**	**21.5**
Other comprehensive income		
Items not to be reclassified to profit or loss in subsequent periods:		
Actuarial gains/(losses) on defined benefit pension scheme	**3.8**	(1.9)
Deferred tax (loss)/gain relating to actuarial gains/(losses) on defined benefit pension scheme	**(0.6)**	0.3
Items that may be reclassified to profit or loss in subsequent periods:		
Change in unrealised foreign currency translation losses on foreign operations	**(6.1)**	7.4
Total other comprehensive income	**(2.9)**	5.8
Total comprehensive income recognised for the year	**(169.4)**	27.3

Consolidated Statement of Financial Position

At 31 December 2018

	31 December 2018 US$m	31 December 2017 US$m
Assets		
Intangible assets	**104.4**	97.8
Property, plant and equipment	**17.4**	21.3
Deferred acquisition costs	**244.1**	235.7
Investments in associated undertakings	**43.0**	40.4
Reinsurance contracts	**1,699.8**	1,349.5
Employee benefits	**53.1**	48.6
Deferred taxation	**56.1**	20.4
Current taxation	**8.3**	13.7
Financial investments	**3,145.1**	2,699.4
Derivative contracts	**17.4**	18.3
Insurance and other receivables	**1,008.8**	908.3
Cash and cash equivalents	**818.2**	1,571.6
Total assets	**7,215.7**	7,025.0
Liabilities and Equity		
Liabilities		
Insurance contracts	**5,274.1**	5,027.3
Borrowings	**174.9**	219.8
Other financial liabilities	**241.8**	82.1
Provisions	**2.2**	2.4
Current taxation	**1.4**	21.1
Derivative contracts	**14.1**	12.5
Insurance and other payables	**422.2**	529.5
Total liabilities	**6,130.7**	5,894.7
Equity		
Called up share capital	**6.8**	6.4
Share premium	**435.1**	-
Capital redemption reserve	**1.0**	0.2
Foreign currency translation reserve	**(89.7)**	(83.6)
Retained earnings	**731.8**	1,207.3
Total equity attributable to owners of the parent	**1,085.0**	1,130.3
Total liabilities and equity	**7,215.7**	7,025.0

Approved by the Board of Directors on 13 February 2019 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 2018

	Year ended 31 December 2018 US$m	Year ended 31 December 2017 US$m
Cash flows from operating activities		
Cash (used in)/provided from operations	**(822.2)**	532.3
Tax paid	**(25.6)**	(12.0)
Interest received	**45.1**	42.3
Dividend received	**11.4**	6.4
Net cash (outflows)/inflows from operating activities	**(791.3)**	569.0
Cash flows from investing activities		
Purchase of intangible assets	**(6.4)**	(7.4)
Purchase of property, plant and equipment	**(1.4)**	(0.9)
Acquisition of subsidiary undertaking	**(15.5)**	-
Dividends from associated undertaking	**3.7**	1.6
Net cash outflows from investing activities	**(19.6)**	(6.7)
Cash flows from financing activities		
Proceeds from issue of shares	**436.3**	-
(Repayment)/drawdown on revolving credit facility	**(37.0)**	45.0
Purchase of class A shares for cancellation	**(252.9)**	-
Purchase of shares for share-based payment schemes	**(11.2)**	(11.6)
Interest paid	**(12.7)**	(13.6)
Dividends paid	**(58.6)**	(45.8)
Net cash inflows/(outflows) from financing activities	**63.9**	(26.0)
Net (decrease)/increase in cash and cash equivalents	**(747.0)**	536.3
Cash and cash equivalents at beginning of the year	**1,571.6**	1,025.5
Effect of exchange rate fluctuations on cash and cash equivalents	**(6.4)**	9.8
Cash and cash equivalents at the end of the year	**818.2**	1,571.6

Consolidated Statement of Changes in Equity

For the year ended 31 December 2018

	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**

	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 2017	6.4	-	0.2	(91.0)	1,232.4	1,148.0
Total comprehensive income recognised	-	-	-	7.4	19.9	27.3
Share-based payments	-	-	-	-	0.8	0.8
Dividend	-	-	-	-	(45.8)	(45.8)
At 31 December 2017	6.4	-	0.2	(83.6)	1,207.3	1,130.3

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 so as 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.