BRIT

Brit Limited Interim Report 2018

SEEING THE DIFFERENCE **MAKES THE DIFFERENCE**

Contents

Key points

A STRONG UNDERWRITING RESULT IN A CHALLENGING ENVIRONMENT

- Gross written premiums of US$1,150.8m (2017: US$1,092.5m), a 5.3% increase (3.3% at constant FX rates).
- Premium rate increases of 3.5% (2017: decreases of 2.2%).
- Net earned premium[1] of US$783.5m (2017: US$740.7m), an increase of 3.4% at constant FX rates.
- Strong underwriting result with a combined ratio[1,2] of 95.9% (2017: 94.0%).
- Profit on ordinary activities before the impact of FX and tax of US$17.9m (2017: US$143.8m).
- Profit after tax of US$12.9m (2017: US$139.7m).
- Investment return[3] after fees of US$5.1m, representing a non-annualised return of 0.1% (2017: US$126.3m/3.2%).
- RoNTA[6] (non-annualised) of 2.3% (2017: 12.6%) and total value created of US$2.0m (2017: US$142.2m).
- Adjusted net tangible assets[5] of US$1,045.7m (31 December 2017: US$1,043.7m).
- Brit managed capacity on new initiatives expanded to over US$400m for 2018, generating US$5.8m of fee income in the period, including:
  - Successful 1 January 2018 launch of Sussex Capital, the open-ended fund which writes through Sussex Re, providing direct collateralised reinsurance and collateralised reinsurance to Brit's reinsurance portfolio.
  - Successful completion and expansion of the fourth annual Versutus Ltd Series Notes, offering continued access to Brit's strong underwriting franchise.
  - Syndicate 2988 stamp capacity expanded to £98.5m (c.US$130m) for 2018, now offering broader access to Brit's extensive underwriting capabilities with over 20 lines of business.
- Fairfax ownership of Brit increased from 72.51% to 88.04%.

The footnotes referred to above appear on page 4

Brit at a Glance

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

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

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

Brit is a member of the Fairfax Financial Holdings Limited group of companies (Fairfax). The Fairfax financial result for the six months ended 30 June 2018, published on 2 August 2018, includes the Brit financial result.

www.britinsurance.com

Disclaimer

Interim Management Report

Officer statements

‘Brit has delivered a strong underwriting performance in the first half of 2018, with our combined ratio, our key underwriting metric, a creditable 95.9%. Our overall result, a non-annualised return on adjusted net tangible assets before FX contribution of 2.3%, reflects this underwriting performance and a positive but reduced contribution from our investment portfolio, reflecting challenging investment markets. It is very pleasing to see the increased contribution from our management of third party underwriting capital during the period.

In 2018, we have continued to focus on our core fundamentals of leadership, innovation and distribution and have maintained our strategy of remaining well diversified while adopting a defensive stance to protect our business and preserve capital. Our underwriting result demonstrates that we continue to maintain our pricing and risk selection discipline through continuing challenging market conditions.

Since June 2015 we have benefited from being part of a broader global Fairfax network. I am delighted that during 2018 we have continued to strengthen our relationship with Fairfax, through their ownership of Brit increasing from 72.5% to 88.0%.’

Mark Cloutier
Group Executive Chairman
1 August 2018

‘Following the major losses of 2017, we have achieved overall risk adjusted premium rate increases of 3.5% in the period, primarily driven by the loss affected Property, Treaty and Marine classes, in both our London and US portfolios. While these rate increases are welcomed, they are lower than initially anticipated as capacity continues to exceed demand and brokers move business to new carriers at current or reduced rates. In this challenging environment, we have continued to take action to protect our balance sheet, with the application of rigorous risk selection criteria in marginal classes and the decision to withdraw from certain classes such as International Professional Indemnity and General Aviation.

Against this backdrop, it was encouraging that our strategy delivered a combined ratio for the period of 95.9%. This reflected the combination of a healthy attritional ratio, continued back year reserve releases and an absence of major losses. The net impact of the 2017 major losses has remained unchanged in the period.

Our premium written grew by 3.3% at constant exchange rates over the same period in 2017, to US$1,150.8m. A number of factors contributed to this growth including the favourable development of prior year premiums and the impact of rate increases, partly offset by reductions in certain classes following the actions outlined above. It was again pleasing to see an increased contribution from our initiatives of recent years, including our US and Singapore platforms, as we continue to expand our international distribution capability.

For 2018, Brit’s total managed capacity across Versutus, Sussex Capital and Syndicate 2988 has exceeded US$400m. We successfully launched Sussex Capital in January 2018, the open-ended fund which writes through Sussex Re, providing direct collateralised reinsurance and collateralised reinsurance to Brit’s reinsurance portfolio. 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, has been 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 initiatives represent excellent progress as we continue to develop and enhance our capital markets participation.

We have continued to focus on advancing and resolving the open claims reported as a result of the 2017 catastrophes. In certain circumstances, resources have been recently redeployed to impacted areas to support our coverholders and fast-track claims resolution. Our brokers have commended us for our service excellence, including the expediting of claims payments wherever appropriate.

During the period we have also continued to selectively expand our underwriting and claims 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 and a best-in-class claims service.

While the rating environment in 2018 has been more positive, the outlook for the remainder of 2018 remains challenging. However, we continue to focus on our core fundamentals of underwriting discipline, risk selection and capital management. We have a clear strategy and have established a strong platform with a well-balanced business mix. This, supported by Fairfax as our parent, continues to position us well in the current rating and low yield environment.’

Matthew Wilson
Group Chief Executive Officer
1 August 2018

‘During the first half of 2018, Brit delivered a profit on ordinary activities before FX and tax of US$17.9m and a profit after tax of US$12.9m, against a backdrop of intense competition and volatile equity markets.

Underwriting contributed US$32.0m to the result, with a combined ratio of 95.9%. This reflected an attritional ratio of 56.5%, reserve releases of US$8.9m and an absence of major loss activity.

Our net investment return was US$5.1m. Fixed income provided a positive overall return with increased income on cash and bonds, offset by a limited amount of mark to market losses on the bonds due to our short duration positioning. This positive performance was partly offset by unrealised losses on some of our equity portfolio, reflecting volatile market conditions in the period.

In the period, we have benefited from the growth of our third party capital vehicles, generating US$5.8m of fee income. The generation of such underwriting-related income is an important part of Brit’s strategy and has the benefit of assisting Brit in managing its expense base and enhancing shareholder return.

We manage our currency exposures to mitigate their impact on solvency rather than to achieve a short-term impact on earnings. While we experienced a total foreign exchange loss of US$11.0m in the period, foreign exchange movements reduced our management capital requirements by US$27.4m, favourably impacting our solvency position.

Our balance sheet remains strong, with adjusted net tangible assets largely unchanged at US$1,045.7m (after capital contributions, dividends paid and share buybacks). As a result, we hold a surplus of US$446.5m or 43.7% above the Group’s management capital requirement. During the period, our capital requirements reduced from US$1,073.4m to US$1,021.0m, reflecting movements in interest rates (US$25.0m favourable impact) and foreign exchange rates (US$27.4m favourable impact).

Our investment portfolio remains defensively positioned with a large allocation to cash and cash equivalents (US$842.2m or 20.3%) and fixed income securities (US$2,544.7m or 61.3%). Brit’s equity allocation has decreased during the period and now stands at US$733.9m or 17.7%, partly reflecting the market movements in the period. At 30 June 2018, 78.4% of our invested assets were investment grade and the duration of the portfolio was 0.6 years. As economic growth continues, inflation and interest rates are likely to increase further. We remain short duration relative to our liabilities and defensive in our approach to credit risk.’

Mark Allan
Chief Financial Officer
1 August 2018

Performance summary and Key performance indicators

	6 months ended 30 June 2018 US$m	6 months ended 30 June 2017 US$m	Year ended 31 December 2017 US$m
Performance summary			
Gross written premium	1,150.8	1,092.5	2,057.0
Net earned premium[1]	783.5	740.7	1,540.1
Underwriting profit[1, 2]	32.0	44.1	(173.7)
Investment return[3]	5.1	126.3	204.2
Corporate expenses	(13.2)	(16.6)	(24.0)
Finance costs	(9.4)	(8.3)	(17.1)
Other items	3.4	(1.7)	3.5
Profit on ordinary activities before FX movements and tax	17.9	143.8	(7.1)
FX movements[4]	(11.0)	9.6	12.6
Profit on ordinary activities before tax	6.9	153.4	5.5
Tax	6.0	(13.7)	16.0
Profit for the period (after tax)	12.9	139.7	21.5
Adjusted net tangible assets[5]	1,045.7	1,161.2	1,043.7
Key performance indicators			
Return on net tangible assets before FX movements (RoNTA)[6,7]	2.3%	12.6%	1.1%
Total value created (US$m)	US$2.0m	US$142.2m	US$24.7m
Combined ratio[1,2]	95.9%	94.0%	111.3%
Investment return (net of external investment related expenses)[7]	0.1%	3.2%	4.9%
Capital ratio	143.7.%	144.0%	136.8%

1 Excludes the effect of foreign exchange on non-monetary items.
2 Excludes amount attributable to third party underwriting capital providers. The 2017 figures have been re-presented on this basis.
3 Inclusive of return on investment related derivatives, return on associates and after deducting investment management expenses.
4 Includes the effect of foreign exchange on monetary items (US$13.8m) and foreign exchange on non-monetary items (US$4.8m). It also includes the return on FX related derivatives (US$7.7m), other than that entered into to manage the Group's Sterling expense base.
5 Adjusted net tangible assets are defined as total equity, less intangible assets net of the deferred tax liability on those intangible assets.
6 RoNTA calculation excludes all FX movements (footnote 4). Based on adjusted net tangible assets (footnote 5).
7 The 30 June figures are non-annualised.

Overview of Results

Brit Limited's ('Brit' or 'the Group') result for the six months ended 30 June 2018 reflects a strong underwriting performance, elevated levels of volatility in the global equity markets return and adverse FX movements.

Profit on ordinary activities before FX movements and tax for the six month period totalled US$17.9m (30 June 2017: US$143.8m; 31 December 2017: loss of US$7.1m), profit before tax was US$6.9m (30 June 2017: US$153.4m; 31 December 2017: US$5.5m) and profit after tax was US$12.9m (30 June 2017: US$139.7m; 31 December 2016: US$21.5m).

The combined ratio (CoR), our key underwriting metric, for the six months ended 30 June 2018 was 95.9% (30 June 2017: 94.0%; 31 December 2017: 111.3%), a strong result against a backdrop of intense competition and continued pricing pressures. The attritional loss ratio was 56.5% (30 June 2017: 55.4%; 31 December 2017: 56.2%), reflecting loss experience, changes to mix and the impact of rates on earned premium. There was no major loss activity during the period (30 June 2017: none; 31 December 2017: equivalent to 16.2 percentage points (pps) on the combined ratio), while reserve releases of US$8.9m reduced the ratio by 1.1pps (30 June 2017: US$7.9m/1.1pps; 31 December 2017: US$9.6m/0.6pps). Underwriting related fee income totalled US$5.8m, reducing the ratio by 0.7pps (30 June 2017: US$4.0m/0.6pps; 31 December 2017: US$7.3m/0.5pps). The 2017 ratios have been re-presented to exclude amounts attributable to third party underwriting capital providers.

Non-annualised return on net tangible assets (RoNTA), excluding the effects of FX, was 2.3% (30 June 2017: 12.6%; 31 December 2017: 1.1%).

The aggregated return on invested assets, net of expenses, for the six months ended 30 June 2018 was US$5.1m, representing a non-annualised return of 0.1% (30 June 2017: US$126.3m/3.2%; 31 December 2017: US$204.2m/4.9%). The low interest rate environment has continued during the period. Fixed income provided a positive overall return with increased income on cash and fixed interest securities, partly offset by some mark to market losses on our short duration bonds. This positive performance was partly offset by a number of unrealised capital losses on our equity portfolio, reflecting volatile market conditions in the period and the flat returns on equity markets during the first half of the year. Foreign exchange losses, net of returns on FX related derivatives, totalled US$11.0m (30 June 2017: gains of US$9.6m; 31 December 2017: gains of US$12.6m).

Adjusted net tangible assets totalled US$1,045.7m (30 June 2017: US$1,161.2m; 31 December 2017: US$1,043.7m), an increase of 0.2% in the six months to 30 June 2018. Our group total capital resources at 30 June 2018 totalled US$1,467.5m, giving surplus management capital of US$446.5m or 43.7% (30 June 2017: US$477.2m/44.0%; 31 December 2017: US$395.1m/36.8%) over our Group management capital requirement of US$1,021.0m (30 June 2017: US$1,085.7m; 31 December 2017: US$1,073.4m). During the period, the reduction in capital requirements reflected the movement in interest rates and foreign exchange rates.

Outlook

During H1 2018, premium rate increases of 3.5% have been achieved following the 2017 major loss events, much improved over the rate reductions experienced in 2017. However, the increases are lower than anticipated, as capacity continues to exceed demand and brokers move business to new carriers at current or reduced rates.

As economic growth continues, interest rates are likely to increase further, driven by a tight labour market in the US combined with the gradual unwind of central bank balance sheets. In the Eurozone, growth continues upwards, resulting in improving labour markets, gradual increases in inflation and the potential for rate increases if this trend continues into 2019. Currently, positive growth provides support for credit markets, although should growth falter, this position could begin to reverse quite quickly. We remain short duration relative to our liabilities and defensive in our approach to credit risk, with this positioning likely to continue until the economic cycle plays out.

The outlook for the remainder of 2018 remains challenging. However, we continue to focus on our core fundamentals of underwriting discipline, risk selection and capital management. Our strategy, platform and business mix, backed by the Fairfax Group, continues to position us well in the current rating and low yield environment.

Underwriting

Overview

Our underwriting result for the period amounted to a profit of US$32.0m (30 June 2017: profit of US$44.1m; 31 December 2017: loss of US$173.7m) and our combined ratio, which excludes the effect of foreign exchange on non-monetary items and amounts attributable to third party underwriting capital providers, was 95.9% (30 June 2017: 94.0%; 31 December 2017: 111.3%). The 2017 figures have been re-presented on this basis.

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

Premiums

	6 months ended 30 June 2018 US$m	6 months ended 30 June 2017 US$m	Increase %	Increase at constant FX rates %
Brit Global Specialty Direct	**835.5**	831.4	0.5%	(1.7)%
Brit Global Specialty Reinsurance	**302.8**	261.0	16.0%	14.6%
Other[1]	**12.5**	0.1	-	-
Group	**1,150.8**	1,092.5	5.3%	3.3%

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

Gross written premium (GWP) for the six months ended 30 June 2018 increased by 5.3% to US$1,150.8m (30 June 2017: US$1,092.5m; 31 December 2017: US$2,057.0m). At constant exchange rates the increase was 3.3%. Direct business totalled US$835.5m (30 June 2017: US$831.4m; 31 December 2017: US$1,675.0m), reinsurance US$302.8m (30 June 2017: US$261.0m; 31 December 2017: US$383.3m) and other underwriting US$12.5m (30 June 2017: US$0.1m; 31 December 2017: negative US$1.3m).

The key drivers of the increase between the six months ended 30 June 2018 and 30 June 2017 are explained further below:

- The Group's underwriting initiatives, launched in recent years, resulted in a US$25.4m increase in GWP, primarily driven by the Direct portfolio. The main contributors were BGSU (Brit's US underwriting operation), our Singapore platform and Healthcare Liability, as we continue to expand our overseas distribution capability.
- The favourable movements outline above on the Direct portfolio have been offset by current year contractions, resulting from a combination of positive actions where pricing remains too marginal (e.g. Aviation and Marine), withdrawal from certain classes (e.g. International Professional Indemnity) and the impact of general market conditions;
- The Reinsurance portfolio has achieved an increase of US$41.8m over 2017, primarily reflecting growth due to a number of factors including the positive rating environment following the 2017 major losses, new business opportunities, expanding catastrophe limits and clients purchasing protections at lower levels.
- A US$21.0m increase in the effect of prior year premium development over 2017, benefitting the Direct and Reinsurance portfolios equally;
- A favourable exchange rate movement effect of US$21.7m, reflecting the movements during 2018 of the US dollar against a number of currencies in which the Group writes business.

Brit has experienced risk adjusted premium rate increases of 3.5% (30 June 2017: 2.2% decrease; 31 December 2017: 1.3% decrease), primarily driven by the loss affected Property, Treaty and Marine classes, in both our London and US portfolios. Risk adjusted premium rates for reinsurance business increased by 3.5%, while direct rates also increased by 3.5%. While these rate increases are welcomed, they are lower than initially anticipated and the environment remains challenging.

The Group retention rate for the period was a significant positive, in line with the previous year's experience at 83.5% (30 June 2017: 83.1%; 31 December 2017: 83.6%), reflecting the continued focus on our core accounts and our strong market proposition.

Outwards reinsurance

Reinsurance expenditure in the six months ended 30 June 2018 was US$355.2m or 30.9% of GWP (30 June 2017: US$323.6m/29.6%; 31 December 2017: US$526.2m/25.6%). At constant exchange rates the increase was 7.4%.

Net earned premium

Net earned premium (NEP) excluding the effects of foreign exchange on non-monetary items, increased by 5.8% to US$783.5m (30 June 2017: US$740.7m; 31 December 2017: US$1,540.1m). At constant exchange rates, the movement was an increase of 3.4%.

This movement in NEP reflected the contribution from our underwriting initiatives (predominantly in our US operations) and the favourable development of prior year premium.

Claims

Claims experience in the six months to 30 June 2018 was in line with expectations. The claims ratio excluding the effect of foreign exchange on non-monetary items was 55.4% (30 June 2017: 54.3%; 31 December 2017: 71.8%).

Claims ratio analysis[1]	**6 months ended 30 June 2018 %**	**6 months ended 30 June 2017 %**	**Year ended 31 December 2017 %**
Attritional claims ratio	56.5	55.4	56.2
Major loss ratio	-	-	16.2
Reserve release ratio	(1.1)	(1.1)	(0.6)
Claims ratio	55.4	54.3	71.8

1 Excludes amounts attributable to third party underwriting capital providers. The 2017 figures have been re-presented on this basis.

The attritional claims ratio for the period increased to 56.5% (30 June 2017: 55.4%; 31 December 2017: 56.2%). This increase arose from a combination of factors including the impact of prior year premium rate reductions, loss experience and changes to business mix.

During the first half of 2018, the Group incurred no claims in respect of major losses (30 June 2017: US$nil; 31 December 2017: US$250.0m or 16.2 claims ratio percentage points). The net impact of the 2017 major losses has remained unchanged in the period.

As part of our quarterly reserving process, we released US$8.9m of claims reserves established for prior year claims, the equivalent of a combined ratio reduction of 1.1pps (30 June 2017: US$7.9m/1.1pps; 31 December 2017: US$9.6m/0.6pps). The main drivers of this release were Energy, BGSU Property, Casualty Treaty and Property Treaty, partly offset by strengthening in Marine, Property PRV and Accident and Health. Brit's balance sheet remains strong and Brit continues to operate a robust reserving process.

Underwriting expenses

The expense ratio excluding the effect of foreign exchange on non-monetary items was 40.5% (30 June 2017 restated: 39.7%; 31 December 2017 restated: 39.5%). This comprised commission costs, underwriting related operating expenses, the effect of expense management related FX derivatives and other underwriting income:

- Commission costs: Commission costs for the period, excluding the effect of foreign exchange on non-monetary items, were US$217.0m and the commission expense ratio was 27.8% (30 June 2017: US$202.8m/27.4%; 31 December 2017: US$425.9/27.7%). This increase was largely due changes in business mix.
- Operating expenses: The operating expense ratio was, excluding the effect of foreign exchange on non-monetary items, 12.7% (30 June 2017 restated: 12.3%; 31 December 2017 restated: 11.8%). This comprised the following:
  - Underwriting related operating expenses for the period, excluding the effect of foreign exchange on non-monetary items, were US$106.5m and contributed 13.6pps to the operating expense ratio (30 June 2017 restated: US$99.0m/13.4pps; 31 December 2017 restated: US$196.7m/12.7pps).
  - Expense management related FX derivatives returned gains of US$1.6m, reducing the expense ratio by 0.2pps (30 June 2017: US$3.9m/0.5pps; 31 December 2017: US$6.7m/0.4pps). As the majority of Brit's business is in US dollars and the majority of its operating expenses are in Sterling, Brit again took the decision to purchase a forward contract to increase its exposure to Sterling and thereby hedge the Sterling proportion of the Group's expenses. As this contract was entered into to manage our expense position, the benefit of this contract has been offset against expenses in the table below.
  - Underwriting related fee income totalled US$5.8m, reducing the expense ratio by 0.7pps (30 June 2017: US$4.0m/0.6pps; 31 December 2017: US$7.3m/0.5pps). The generation of such underwriting-related income, derived from the management of third party underwriting capital, is an important part of Brit strategy and has the benefit of assisting Brit in managing its expense base.

Expenses

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

Expense analysis	6 months ended 30 June 2018 US$m	6 months ended 30 June 2017 US$m	Year ended 31 December 2017 US$m
Underlying operating expenses[1]	117.3	116.5	220.0
Project costs, timing differences and other expense adjustments	1.8	(0.4)	0.5
Total operating expenses before FX hedge	119.1	116.1	220.5
FX hedge	(1.6)	(3.9)	(6.7)
Total operating expenses after FX hedge	117.5	112.2	213.8

1 Includes bonus provisions.

Underlying operating expenses during the six months ended 30 June 2018 increased by 0.7% to US$117.3m (30 June 2017: US$116.5m; 31 December 2017: US$220.0m). This small increase primarily reflects the effect of currency movements (as the majority of our expenses are incurred in Sterling), offset by a net reduction in staff costs.

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

Disclosure of operating expenses	6 months ended 30 June 2018 US$m	6 months ended 30 June 2017 US$m	Year ended 31 December 2017 US$m
Acquisition costs	(57.3)	(58.0)	(110.6)
Other insurance related expenses	(48.6)	(41.5)	(85.9)
Total insurance related expenses	(105.9)	(99.5)	(196.5)
Other operating expenses	(13.2)	(16.6)	(24.0)
Total operating expenses	(119.1)	(116.1)	(220.5)
Return on derivative contracts	1.6	3.9	6.7
Total operating expenses after FX hedge	(117.5)	(112.2)	(213.8)

Return on invested assets

The aggregated return on invested assets (cash and cash equivalents, investments, investment related derivatives and associated undertakings), net of expenses, for the six months ended 30 June 2018 was US$5.1m or 0.1% non-annualised (30 June 2017: US$126.3m/3.2%; 31 December 2017: US$204.2m/4.9%). Fixed income provided a positive overall return with increased income on cash and fixed interest securities offset by some mark to market losses on our short duration bonds. However, the interest rate movements driving these mark to market losses had a beneficial impact on our capital requirements (see below). This positive performance was partly offset by a number of unrealised capital losses on our equity portfolio, reflecting volatile market conditions in the period and the flat returns on equity markets during the first half of the year.

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

Investment return	**6 months ended 30 June 2018 US$m**	**6 months ended 30 June 2017 US$m**	**Year ended 31 December 2017 US$m**
Income	31.5	24.1	48.2
Realised gains	53.5	(2.8)	2.9
Unrealised gains/(losses)	(76.3)	114.7	167.5
Investment return before fees	8.7	136.0	218.6
Investment management expenses	(6.3)	(6.8)	(13.1)
Investment return net of fees	2.4	129.2	205.5
Investment related derivative return	(0.1)	(4.1)	(6.4)
Return on associated undertakings	2.8	1.2	5.1
Total return	5.1	126.3	204.2
Total return	0.1%[1]	3.2%[1]	4.9%

1 Non-annualised.

Our two associated undertakings produced a positive return of US$2.8m (30 June 2017: US$1.2m; 31 December 2017: US$5.1m).

- Ambridge Partners LLC, a leading managing general underwriter of transactional insurance products in which Brit holds a 50% share, contributed US$2.5m to this return (30 June 2017: US$0.9m; 31 December 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 in which Brit holds a 50% share, contributed US$0.3m to this return (30 June 2017: US$0.3m; 31 December 2017: US$0.7m).

Invested assets (cash and cash equivalents, investments, investment related derivatives and associated undertakings) at 30 June 2018 totalled US$4,148.4m (30 June 2017: US$4,060.5m; 31 December 2017: US$4,316.1m). The Group's asset allocation, on a look-through basis, is set out in the table below:

Invested assets	**30 June 2018 US$m**	**30 June 2017 US$m**	**31 December 2017 US$m**
Government debt securities	1,882.2	1,419.3	1,259.9
Corporate debt securities	662.5	579.8	631.4
Structured products	16.4	7.6	15.5
Loan instruments	-	-	-
Equity securities	733.9	787.5	820.5
Alternative investments	7.8	15.4	10.6
Cash and cash equivalents	842.2	1,244.0	1,573.5
Derivatives (investment related)	3.4	6.9	4.7
Total invested assets	4,148.4	4,060.5	4,316.1

The portfolio remains defensively positioned with a large allocation to cash and cash equivalents (US$842.2m/20.3%) and fixed income securities (US$2,544.7m/61.3%). Brit's equity allocation has decreased during the period and now stands at US$733.9m/17.7%, partly reflecting the market movements in the period. Brit has in place ten year inflation floors to protect the portfolio.

At 30 June 2018, 78.4% of our invested assets were investment grade quality (30 June 2017: 78.4%; 31 December 2017: 79.9%) and the duration of the portfolio was 0.6 years (30 June 2017: 0.6 years; 31 December 2017: 0.5 years).

Foreign exchange

We manage our currency exposures to mitigate their impact on solvency rather than to achieve a short-term impact on earnings. While we experienced a total foreign exchange loss of US$11.0m in the six months ended 30 June 2018 (30 June 2017: gain of US$9.6m; 31 December 2017: gain of US$12.6m), foreign exchange movements contributed to the reduction to our capital requirements, favourably impacting our solvency position. This total foreign exchange related loss comprised:

- An unrealised revaluation loss of US$13.8m (30 June 2017: loss of US$4.1m; 31 December 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 weakening 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 long Australian dollar position and our short Sterling and Euro positions;
- A gain of US$7.7m (30 June 2017: gain of US$7.8m; 31 December 2017: gain of US$4.9m) on derivative contracts which were entered into to help manage the Group's FX exposures and therefore should be viewed in conjunction with our monetary FX movements; and
- An accounting loss of US$4.8m (30 June 2017: gain of US$5.9m; 31 December 2017: gain 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 six months ended 30 June 2018 comprises the un-wind of the debit carried on the balance sheet at 31 December 2017 (US$2.3m), plus the debit balance established during 2018 (US$2.5m).

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

Foreign exchange gains and (losses)	**6 months ended 30 June 2018 US$m**	**6 months ended 30 June 2017 US$m**	**Year ended 31 December 2017 US$m**
Net change in unearned premium provision - non-monetary FX effect	(4.2)	3.2	(3.3)
Acquisition costs - non-monetary FX effect	2.1	(1.8)	1.3
Net foreign exchange (losses)/gains - non-monetary[1]	(2.7)	4.5	7.9
Non-monetary - Total	(4.8)	5.9	5.9
Net foreign exchange losses - monetary[1]	(13.8)	(4.1)	1.8
Return on derivative contracts - FX related instruments	7.7	7.8	4.9
	(6.1)	3.7	6.7
Total (loss)/gain	(11.0)	9.6	12.6

1 The sum of these two amounts, US$16.5m, is the 'Net foreign exchange losses'/'Net foreign exchange gains' figures per the condensed consolidated income statement.

Tax

Our tax on ordinary activities for 2018 resulted in a tax credit of US$6.0m (30 June 2017: expense of US$13.7m; 31 December 2017: credit of US$16.0m), based on a group profit before tax of US$6.9m (30 June 2017: US$153.4m; 31 December 2017: 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, Bermuda, Singapore, Australia and the US. The tax charge is calculated in each legal entity across the Group and then consolidated. Therefore the Group effective rate is sensitive to the location of taxable profits and is a composite tax rate reflecting the mix of tax rates charged in those jurisdictions.

The 2018 Group rate varies from the weighted average rate in those jurisdictions due to a number of factors, the principal factor being a prior year credit in respect of 2016/2017 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.

Balance sheet and capital strength

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

At 30 June 2018, our adjusted net tangible assets totalled US$1,045.7m (30 June 2017: US$1,161.2m; 31 December 2017: US$1,043.7m), an increase of 0.2% in the period.

Our group total capital resources at 30 June 2018 totalled US$1,467.5m, giving surplus management capital of US$446.5m or 43.7% (30 June 2017: US$477.2m/44.0%; 31 December 2017: US$395.1m/36.8%) over our Group management capital requirement of US$1,021.0m (30 June 2017: US$1,085.7m; 31 December 2017: US$1,073.4m). During the period, the reduction in capital requirements reflected the movement in interest rates and foreign exchange.

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. At 30 June 2018, the only drawing on the facility was an US$80.0m letter of credit (LoC), of which US$45.0m was collateralised, to support Brit's underwriting activities (30 June 2017: US$80.0m LoC of which US$25.0m collateralised; 31 December 2017: US$45.0m cash drawings, and US$80.0m uncollateralised LoC).

In addition, we have in issue £135.0m of 6.625% subordinated debt with a carrying value of £130.1m/ US$171.8m (30 June 2017: £128.3m/ US$166.7m; 31 December 2017: £136.7m/ US$174.8m). This instrument, which is listed on the London Stock Exchange, was issued in December 2005, is callable in whole by Brit on 9 December 2020 and matures in 2030.

At 30 June 2018, Brit's gearing ratio was 17.0% (30 June 2017: 16.7%; 31 December 2017: 24.6%).

Share capital

On 30 April 2018, FFHL Group Limited subscribed for 10,655,052 new Brit Limited B class shares for a contribution of US$45.8m, increasing its holding in Brit Limited to 73.25%. On 5 July 2018, FFHL Group Limited subscribed for a further 61,534,194 new Brit Limited B class shares for a contribution of US$264.6m. On the same date, Brit Limited purchased 58,550,524 A class shares held by OMERS, at a cost of US$251.8m. These repurchased A class shares were subsequently cancelled. As a result of these transactions, FFHL Group Ltd's holding in Brit Limited increased to 88.04%.

Dividends

On 30 April, a dividend of US$45.8m was paid by Brit to OMERS. This was paid in accordance with the shareholders' agreement dated 29 June 2015. On 5 July 2018, a further dividend payment of US$12.8m was made to OMERS, being the accrued dividend on the shares re-purchased on that date.

Business development

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, has been 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.

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.

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 Professional Lines

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 of our continued successful growth strategy for BGSU.

BGSU Casualty

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

Principal risks and risk management

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

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

The key categories of risk include:

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

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

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

The United Kingdom's exit from the EU (Brexit)

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

Brit is supportive of Lloyd's new Brussels-based European insurance company solution, which has now received authorization to trade in Belgium. Brit's project team continues to implement the required operational changes, working internally, with Lloyd's and with brokers to ensure we are operationally ready to use the new Lloyd's vehicle from 1 January 2019.

Board changes

On 14 June 2018, we announced the intention to appoint Andrea Welsch as a non-executive Director of the Company and her appointment is expected to be confirmed shortly. Andrea has held a number of (re)insurance sector leadership roles in Lloyd's, North America and Europe, working internationally across the industry as a broker, reinsurer and attorney. Most recently she was Executive Director, Office of the CEO, at Willis Re. Andrea started her career at Herbert Smith, dual qualifying in the UK and New York.

Dr Richard Ward will step down from the Board on 6 September 2018. We thank Richard for his valuable contributions, initially as non-executive Chairman and more recently as a non-executive Director.

Ownership

Brit Limited's ultimate parent undertaking is Fairfax Financial Holdings Limited, a company registered in Canada. Fairfax Financial Holdings Limited is quoted on the Toronto Stock Exchange. As at the date of this report, the Fairfax Group owned 88.04% of Brit's ordinary shares, with the remaining 11.96% owned by the OMERS Administration Corporation, administrator of the Ontario Municipal Employees Retirement System (OMERS) pension plans and trustee of the OMERS pension fund.

Auditor review

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

Responsibility statement of the Directors in respect of the Interim Report

We confirm that to the best of our knowledge:

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

Matthew Wilson
Group Chief Executive Officer
1 August 2018

Condensed Consolidated Income Statement

For 6 months ended 30 June 2018

	Note	**Unaudited 6 months ended 30 June 2018 US$m**	Unaudited 6 months ended 30 June 2017 US$m	Audited Year ended 31 December 2017 US$m
Revenue				
Gross premiums written	5	**1,150.8**	1,092.5	2,057.0
Less premiums ceded to reinsurers	5	**(355.2)**	(323.6)	(526.2)
Premiums written, net of reinsurance		**795.6**	768.9	1,530.8
Gross amount of change in provision for unearned premiums		**(136.2)**	(135.2)	(54.3)
Reinsurers' share of change in provision for unearned premiums		**119.9**	110.2	60.3
Net change in provision for unearned premiums		**(16.3)**	(25.0)	6.0
Earned premiums, net of reinsurance	5	**779.3**	743.9	1,536.8
Investment return	6	**2.4**	129.2	205.5
Return on derivative contracts	7	**9.2**	7.6	5.2
Other income		**8.7**	2.3	9.9
(Losses)/gains on other financial liabilities		**(2.5)**	-	4.0
Net foreign exchange gains	8	**-**	0.4	9.7
Total revenue		**797.1**	883.4	1,771.1
Expenses				
Claims incurred:				
Claims paid:				
Gross amount		**(663.6)**	(490.2)	(1,068.4)
Reinsurers' share		**187.0**	116.2	206.7
Claims paid, net of reinsurance		**(476.6)**	(374.0)	(861.7)
Change in the provision for claims:				
Gross amount		**16.7**	(50.9)	(619.0)
Reinsurers' share		**27.4**	22.2	372.4
Net change in the provision for claims		**44.1**	(28.7)	(246.6)
Claims incurred, net of reinsurance	5	**(432.5)**	(402.7)	(1,108.3)
Acquisition costs	9	**(272.8)**	(262.1)	(535.4)
Other operating expenses	9	**(61.8)**	(58.1)	(109.9)
Net foreign exchange losses		**(16.5)**	-	-
Total expenses excluding finance costs		**(783.6)**	(722.9)	(1,753.6)
Operating profit		**13.5**	160.5	17.5
Finance costs		**(9.4)**	(8.3)	(17.1)
Share of profit after tax of associated undertakings		**2.8**	1.2	5.1
Profit on ordinary activities before tax		**6.9**	153.4	5.5
Tax income/(expense)	10(a)	**6.0**	(13.7)	16.0
Profit for the period		**12.9**	139.7	21.5

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

Condensed Consolidated Statement of Comprehensive Income

For 6 months ended 30 June 2018

	Note	**Unaudited 6 months ended 30 June 2018 US$m**	Unaudited 6 months ended 30 June 2017 US$m	Audited Year ended 31 December 2017 US$m
Profit for the period		**12.9**	139.7	21.5
Other comprehensive income				
Items not to be reclassified to profit or loss in subsequent periods:				
Actuarial losses on defined benefit pension scheme		**-**	-	(1.9)
Deferred tax charge on actuarial gains on defined benefit pension scheme	10(b)	**-**	-	0.3
Items that may be reclassified to profit or loss in subsequent periods:				
Change in unrealised foreign currency translation (losses)/gains on foreign operations		**(2.6)**	4.1	7.4
Total other comprehensive income		**10.3**	4.1	5.8
Total comprehensive income recognised		**10.3**	143.8	27.3

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

Condensed Consolidated Statement of Financial Position

As at 30 June 2018

	Note	**Unaudited 30 June 2018 US$m**	Unaudited 30 June 2017 US$m	Audited 31 December 2017 US$m
Assets				
Intangible assets		**105.9**	96.3	97.8
Property, plant and equipment		**18.8**	22.5	21.3
Deferred acquisition costs		**256.3**	246.1	235.7
Investment in associated undertakings		**40.4**	37.4	40.4
Reinsurance contracts	11	**1,487.6**	1,032.7	1,349.5
Employee benefits		**48.2**	45.3	48.6
Deferred taxation		**36.2**	56.5	20.4
Current taxation		**9.1**	11.3	13.7
Financial investments	12	**3,263.0**	2,773.6	2,699.4
Derivative contracts	13	**22.0**	15.5	18.3
Insurance and other receivables		**1,069.2**	978.5	908.3
Cash and cash equivalents		**841.6**	1,244.0	1,571.6
Total assets		**7,198.3**	6,559.7	7,025.0
Liabilities and Equity				
Liabilities				
Insurance contracts	11	**5,111.8**	4,491.3	5,027.3
Borrowings		**171.8**	166.7	219.8
Other financial liabilities		**84.0**	13.0	82.1
Deferred taxation		**-**	83.9	-
Provisions		**2.3**	2.3	2.4
Current taxation		**23.7**	10.3	21.1
Derivative contracts	13	**21.3**	15.3	12.5
Insurance and other payables		**643.6**	530.5	529.5
Total liabilities		**6,058.5**	5,313.3	5,894.7
Equity				
Called up share capital	15	**6.5**	6.4	6.4
Share premium	15	**45.7**	-	-
Capital redemption reserve		**0.2**	0.2	0.2
Foreign currency translation reserve		**(86.3)**	(86.9)	(83.6)
Retained earnings		**1,173.7**	1,326.7	1,207.3
Total equity		**1,139.8**	1,246.4	1,130.3
Total liabilities and equity		**7,198.3**	6,559.7	7,025.0

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

These financial statements were approved by the Board of Directors on 1 August 2018 and were signed on its behalf by:

Matthew Wilson
Group Chief Executive Officer

Mark Allan
Chief Financial Officer

Condensed Consolidated Statement of Cash Flows

For 6 months ended 30 June 2018

	Note	**Unaudited 6 months ended 30 June 2018 US$m**	Unaudited 6 months ended 30 June 2017 US$m	Audited Year ended 31 December 2017 US$m
Cash generated from operations				
Cash flows provided by operating activities	17	**(677.5)**	253.3	532.3
Tax paid		**(3.2)**	(2.3)	(12.0)
Interest received		**14.7**	15.3	42.3
Dividends received		**3.7**	4.0	6.4
Net cash (outflows)/inflows from operating activities		**(662.3)**	270.3	569.0
Cash flows from investing activities				
Purchase of intangible assets		**(4.0)**	(3.8)	(7.4)
Purchase of property, plant and equipment		**(0.5)**	(0.7)	(0.9)
Acquisition of subsidiary undertaking		**(15.5)**	-	-
Dividends from associated undertakings		**2.5**	0.6	1.6
Net cash outflows from investing activities		**(17.5)**	(3.9)	(6.7)
Cash flows from financing activities				
Proceeds from issue of shares		**45.8**	-	-
(Repayment)/drawdown on revolving credit facility		**(45.0)**	-	45.0
Purchase of shares for share-based payment schemes		**(0.2)**	(6.6)	(11.6)
Interest paid		**(2.0)**	(1.1)	(13.6)
Dividend paid		**(45.8)**	(45.8)	(45.8)
Net cash outflows from financing activities		**(47.2)**	(53.5)	(26.0)
Net increase/(decrease) in cash and cash equivalents		**(727.0)**	212.9	536.3
Cash and cash equivalents at beginning of the period		**1,571.6**	1,025.5	1,025.5
Effect of exchange rate fluctuations on cash and cash equivalents		**(3.0)**	5.6	9.8
Cash and cash equivalents at the end of the period		**841.6**	1,244.0	1,571.6

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

Condensed Consolidated Statement of Changes in Equity

For 6 months ended 30 June 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	**-**	**-**	**-**	**(2.7)**	**13.0**	**10.3**
Issuance of share capital	**0.1**	**45.7**	**-**	**-**	**-**	**45.8**
Share-based payments	**-**	**-**	**-**	**-**	**(0.8)**	**(0.8)**
Dividend	**-**	**-**	**-**	**-**	**(45.8)**	**(45.8)**
At 30 June 2018	**6.5**	**45.7**	**0.2**	**(86.3)**	**1,173.7**	**1,139.8**

For 6 months ended 30 June 2017

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

Condensed Consolidated Statement of Changes in Equity (continued)

For year ended 31 December 2017

	Called up share capital US$m	Capital redemption reserve US$m	Foreign currency translation reserve US$m	Retained earnings US$m	Total Equity US$m
At 1 January 2017	6.4	0.2	(91.0)	1,232.4	1,148.0
Total comprehensive income recognised	-	-	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

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

Notes to the Condensed Consolidated Interim Financial Statements

1 General information

The condensed consolidated interim financial statements of Brit Limited and its subsidiaries (collectively, the Group) for the six months ended 30 June 2018 were authorised for issue in accordance with a resolution of the Directors on 1 August 2018.

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

2 Accounting policies and basis of preparation

(a) Basis of preparation

The condensed consolidated interim financial statements for the six months ended 30 June 2018 have been prepared in accordance with IAS 34 'Interim Financial Reporting'. The accounting policies applied in these condensed consolidated interim financial statements are consistent with those applied by the Brit Limited Group in its consolidated financial statements as at the year ended 31 December 2017. The consolidated financial statements as at, and for the year ended 31 December 2017 were compliant with International Financial Reporting Standards as adopted by the European Union.

This 2018 condensed consolidated interim financial information does not comprise statutory accounts within the meaning of Section 434 of the Companies Act 2006. Statutory accounts for Brit Limited, for the year ended 31 December 2017 were prepared in accordance with IFRS and UK company law. IFRS comprises standards issued by the International Accounting Standards Board (IASB) and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and as endorsed by the EU. The consolidated financial statements of the Brit Limited Group for the year ended 31 December 2017 were authorised for issue in accordance with a resolution of the Directors on 14 February 2018.

These condensed consolidated interim financial statements have been prepared in accordance with the Disclosure and Transparency Rules issued by the Financial Conduct Authority. The information presented herein does not include all the disclosures typically required for full consolidated financial statements. Consequently these financial statements should be read in conjunction with the full consolidated financial statements of the Brit Limited Group as at, and for the year ended 31 December 2017 available from the Company's registered office or from www.britinsurance.com.

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

(b) Basis of consolidation

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

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

2 Accounting policies and basis of preparation (continued)

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

3 Risk management policies

The Group's financial, insurance and other risk management objectives and policies are consistent with those disclosed in Note 4 to the Group's consolidated financial statements as at and for the year ended 31 December 2017. The principal risks and uncertainties are unchanged and may be summarised as insurance risk, investment risk, market risk, credit risk, liquidity risk, capital risk and operational risk.

4 Seasonality of operations

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

5 Segmental information

As at 30 June 2018, the reportable segments identified were as follows:

- 'Brit Global Specialty Direct', which underwrites the Group's international and US business other than reinsurance. In the main, Global Specialty Direct deals with wholesale buyers of insurance, rather than individuals. Risks are large and usually syndicated by several underwriters by means of the subscription market.
- 'Brit Global Specialty Reinsurance', which underwrites reinsurance business (essentially the insurance of insurance and reinsurance companies) and includes writing non-proportional cover for major events such as earthquakes or hurricanes. These insurance and reinsurance companies calculate how much risk they want to retain and then pass on their remaining exposure to reinsurers in return for a premium.
- 'Other underwriting', comprises of excess of loss reinsurance ceded from the strategic business units to Brit Reinsurance (Bermuda) Limited, the Group's special purpose vehicles and Brit's share of Syndicate 2988. The share of the Group's special purpose vehicles which is attributable to third party underwriting capital providers is represented by the '(Losses)/gains on other financial liabilities'.
- 'Other Corporate', which is made up of residual income and expenditure not allocated to other segments.

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

The Group investment return is managed centrally and an allocation is made to each of the strategic business units based on the average risk-free interest rate applied to the opening insurance funds of each strategic business unit. The annualised average risk-free rate applied to insurance funds was 1.5% for the six months ended 30 June 2018 (30 June 2017: 1.5%; 31 December 2017: 1.5%).

The ratios set out in the segmental analysis are calculated on page 42 (Reconciliation of key performance indicators to the financial statements). The combined ratios for the period ended 30 June 2017 and year ended 31 December 2017 have been restated to take into account the impact of FX forward derivative contracts entered into to hedge the Sterling proportion of the Group's expense base, and to take into account underwriting-related fee income which management uses to assisting in managing its expense base. Management believes that this provides a fairer representation of the Group's expense ratio.

The ratios have also been calculated after eliminating the underwriting result attributable to third party underwriting capital providers. This change has been made to remain consistent with how management reviews information relating to operating segments within the business.

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

a) Statement of profit or loss by segment

6 months ended 30 June 2018

	Brit Global Specialty Direct US$m	Brit Global Specialty Reinsurance US$m	Other Underwriting US$m	Intra Group US$m	Total underwriting excluding the effect of foreign exchange on non-monetary items US$m	Effect of foreign exchange on non-monetary items US$m	Total underwriting after the effect of foreign exchange on non-monetary items US$m	Other corporate US$m	Total US$m
Gross premiums written	835.5	302.8	14.3	(1.8)	**1,150.8**	-	**1,150.8**	-	**1,150.8**
Less premiums ceded to reinsurers	(287.8)	(77.8)	8.6	1.8	**(355.2)**	-	**(355.2)**	-	**(355.2)**
Premiums written, net of reinsurance	547.7	225.0	22.9	-	**795.6**	-	**795.6**	-	**795.6**
Gross earned premiums	829.3	187.9	10.7	(7.8)	**1,020.1**	(6.3)	**1,013.8**	-	**1,013.8**
Reinsurers' share	(213.3)	(38.4)	7.3	7.8	**(236.6)**	2.1	**(234.5)**	-	**(234.5)**
Earned premiums, net of reinsurance	616.0	149.5	18.0	-	**783.5**	(4.2)	**779.3**	-	**779.3**
Investment return	15.9	5.6	0.3	-	**21.8**	-	**21.8**	(19.4)	**2.4**
Return on derivative contracts	1.3	0.3	-	-	**1.6**	-	**1.6**	7.6	**9.2**
Other income	4.9	0.9	-	-	**5.8**	-	**5.8**	2.9	**8.7**
(Losses)/gains on other financial liabilities	-	-	(2.5)	-	**(2.5)**	-	**(2.5)**	-	**(2.5)**
Total revenue	638.1	156.3	15.8	-	**810.2**	(4.2)	**806.0**	(8.9)	**797.1**
Gross claims incurred	(542.8)	(103.4)	(13.1)	12.3	**(647.0)**	-	**(647.0)**	-	**(647.0)**
Reinsurers' share	202.2	21.0	3.6	(12.3)	**214.5**	-	**214.5**	-	**214.5**
Claims incurred, net of reinsurance	(340.6)	(82.4)	(9.5)	-	**(432.5)**	-	**(432.5)**	-	**(432.5)**
Acquisition costs - commission	(186.7)	(28.9)	(1.4)	-	**(217.0)**	1.5	**(215.5)**	-	**(215.5)**
Acquisition costs - other	(48.0)	(9.0)	(0.9)	-	**(57.9)**	0.6	**(57.3)**	-	**(57.3)**
Other insurance related expenses	(36.5)	(10.7)	(1.4)	-	**(48.6)**	-	**(48.6)**	-	**(48.6)**
Other expenses	-	-	-	-	**-**	-	-	(13.2)	**(13.2)**
Net foreign exchange losses	-	-	-	-	**-**	(2.7)	**(2.7)**	(13.8)	**(16.5)**
Total expenses excluding finance costs	(611.8)	(131.0)	(13.2)	-	**(756.0)**	(0.6)	**(756.6)**	(27.0)	**(783.6)**
Operating profit	26.3	25.3	2.6	-	**54.2**	(4.8)	**49.4**	(35.9)	**13.5**
Finance costs									(9.4)
Share of profit after tax of associates									2.8
Profit on ordinary activities before tax									**6.9**
Tax income									6.0
Profit for the period									**12.9**
Claims ratio	55.2%	55.1%	52.8%		**55.4%**		**55.7%**		
Expense ratio	43.0%	31.7%	20.6%		**40.5%**		**40.5%**		
Combined ratio	98.2%	86.8%	73.3%		**95.9%**		**96.2%**		

6 months ended 30 June 2017

	Brit Global Specialty Direct US$m	Brit Global Specialty Reinsurance US$m	Other Underwriting US$m	Intra Group US$m	Total underwriting excluding the effect of foreign exchange on non-monetary items US$m	Effect of foreign exchange on non-monetary items US$m	Total underwriting after the effect of foreign exchange on non-monetary items US$m	Other corporate US$m	Total US$m
Gross premiums written	831.4	261.0	22.9	(22.8)	1,092.5	-	1,092.5	-	1,092.5
Less premiums ceded to reinsurers	(273.0)	(73.4)	-	22.8	(323.6)	-	(323.6)	-	(323.6)
Premiums written, net of reinsurance	558.4	187.6	22.9	-	768.9	-	768.9	-	768.9
Gross earned premiums	778.9	174.3	16.2	(16.2)	953.2	6.8	960.0	-	960.0
Reinsurers' share	(190.2)	(37.2)	(1.3)	16.2	(212.5)	(3.6)	(216.1)	-	(216.1)
Earned premiums, net of reinsurance	588.7	137.1	14.9	-	740.7	3.2	743.9	-	743.9
Investment return	14.4	5.5	-	-	19.9	-	19.9	109.3	129.2
Return on derivative contracts	3.2	0.7	-	-	3.9	-	3.9	3.7	7.6
Other income	4.0	-	-	-	4.0	-	4.0	(1.7)	2.3
(Losses)/gains on other financial liabilities	-	-	-	-	-	-	-	-	-
Net foreign exchange (losses)/gains	-	-	-	-	-	4.5	4.5	(4.1)	0.4
Total revenue	610.3	143.3	14.9	-	768.5	7.7	776.2	107.2	883.4
Gross claims incurred	(493.0)	(48.4)	(16.4)	16.7	(541.1)	-	(541.1)	-	(541.1)
Reinsurers' share	146.8	4.1	4.2	(16.7)	138.4	-	138.4	-	138.4
Claims incurred, net of reinsurance	(346.2)	(44.3)	(12.2	-	(402.7)		(402.7)	-	(402.7)
Acquisition costs - commission	(174.9)	(27.7)	(0.2)	-	(202.8)	(1.3)	(204.1)	-	(204.1)
Acquisition costs - other	(47.8)	(9.2)	(0.5)	-	(57.5)	(0.5)	(58.0)	-	(58.0)
Other insurance related expenses	(32.3)	(8.0)	(1.2)	-	(41.5)	-	(41.5)	-	(41.5)
Other expenses	-	-	-	-	-	-	-	(16.6)	(16.6)
Total expenses excluding finance costs	(601.2)	(89.2)	(14.1)	-	(704.5)	(1.8)	(706.3)	(16.6)	(722.9)
Operating profit	9.1	54.1	0.8	-	64.0	5.9	69.9	90.6	160.5
Finance costs									(8.3)
Share of profit after tax of associates									1.2
Profit on ordinary activities before tax									153.4
Tax expense									(13.7)
Profit for the period									139.7
Claims ratio	58.8%	32.3%	81.9%		54.3%		54.1%		
Expense ratio	42.1%	32.2%	12.8%		39.7%		39.7%		
Combined ratio	100.9%	64.6%	94.6%		94.0%		93.8%		

12 months ended 31 December 2017

	Brit Global Specialty Direct US$m	Brit Global Specialty Reinsurance US$m	Other Underwriting US$m	Intra Group US$m	Total underwriting excluding the effect of foreign exchange on non-monetary items US$m	Effect of foreign exchange on non-onetary items US$m	Total underwriting after the effect of foreign exchange on non-monetary items US$m	Other corporate US$m	Total US$m
Gross premiums written	1,675.0	383.3	25.1	(26.4)	2,057.0	-	2,057.0	-	2,057.0
Less premiums ceded to reinsurers	(462.6)	(92.3)	2.3	26.4	(526.2)	-	(526.2)	-	(526.2)
Premiums written, net of reinsurance	1,212.4	291.0	27.4	-	1,530.8	-	1,530.8	-	1,530.8
Gross earned premiums	1,633.6	375.0	29.2	(30.6)	2,007.2	(4.6)	2,002.6	-	2,002.6
Reinsurers' share	(418.7)	(77.2)	(1.8)	30.6	(467.1)	1.3	(465.8)	-	(465.8)
Earned premiums, net of reinsurance	1,214.9	297.8	27.4	-	1,540.1	(3.3)	1,536.8	-	1,536.8
Investment return	28.6	10.5	0.6	-	39.7	-	39.7	165.8	205.5
Return on derivative contracts	5.5	1.2	-	-	6.7	-	6.7	(1.5)	5.2
Other income	6.3	1.0	-	-	7.3	-	7.3	2.6	9.9
(Losses)/gains on other financial liabilities	-	-	4.0	-	4.0	-	4.0	-	4.0
Net foreign exchange losses/gains	-	-	-	-	-	7.9	7.9	1.8	9.7
Total revenue	1,255.3	310.5	32.0	-	1,597.8	4.6	1,602.4	168.7	1,771.1
Gross claims incurred	(1,466.8)	(226.9)	(38.9)	45.2	(1,687.4)	-	(1,687.4)	-	(1,687.4)
Reinsurers' share	564.6	62.1	(2.4)	(45.2)	579.1	-	579.1	-	579.1
Claims incurred, net of reinsurance	(902.2)	(164.8)	41.3	-	(1,108.3)	-	(1,108.3)	-	(1,108.3)
Acquisition costs - commission	(366.0)	(59.5)	(0.4)	-	(425.9)	1.1	(424.8)	-	(424.8)
Acquisition costs - other	(91.5)	(18.3)	(1.0)	-	(110.8)	0.2	(110.6)	-	(110.6)
Other insurance related expenses	(67.4)	(16.1)	(2.4)	-	(85.9)	-	(85.9)	-	(85.9)
Other expenses	-	-	-	-	-	-	-	(24.0)	(24.0)
Total expenses excluding finance costs	(1,427.1)	(258.7)	(45.1)	-	(1,730.9)	1.3	(1,729.6)	(24.0)	(1,753.6)
Operating profit/(loss)	(171.8)	51.8	(13.1)	-	(133.1)	5.9	(127.2)	144.7	17.5
Finance costs									(17.1)
Share of net profit of associates									5.1
Profit on ordinary activities before tax									5.5
Tax income									16.0
Profit for the period									21.5
Claims ratio	74.3%	55.3%	150.7%		71.8%		71.9%		
Expense ratio	42.2%	30.8%	13.9%		39.5%		39.5%		
Combined ratio	116.5%	86.1%	164.6%		111.3%		111.4%		

6 Investment return

6 Months ended 30 June 2018

	Investment income US$m	**Net realised gains/(losses) US$m**	**Net unrealised gains/(losses) US$m**	**Total investment return US$m**
Equity securities	**3.6**	**36.6**	**(46.0)**	**(5.8)**
Debt securities	**24.5**	**(1.1)**	**(11.6)**	**11.8**
Specialised investment funds	**-**	**18.0**	**(18.7)**	**(0.7)**
Cash and cash equivalents	**3.4**	**-**	**-**	**3.4**
Total investment return before expenses	**31.5**	**53.5**	**(76.3)**	**8.7**
Investment management expenses	**(6.3)**	**-**	**-**	**(6.3)**
Total investment return	**25.2**	**53.5**	**(76.3)**	**2.4**

6 Months ended 30 June 2017

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

Year ended 31 December 2017

	Investment income US$m	Net realised gains/(losses) US$m	Net unrealised gains/(losses) US$m	Total investment return US$m
Equity securities	6.5	13.1	105.6	125.2
Debt securities	34.3	(10.1)	14.5	38.7
Specialised investment funds	-	(0.1)	47.4	47.3
Cash and cash equivalents	7.4	-	-	7.4
Total investment return before expenses	48.2	2.9	167.5	218.6
Investment management expenses	(13.1)	-	-	(13.1)
Total investment return	35.1	2.9	167.5	205.5

7 Return on derivative contracts

	6 months ended 30 June 2018 US$m	6 months ended 30 June 2017 US$m	Year ended 31 December 2017 US$m
Treasury locks	**0.3**	-	-
Non-currency options	**(0.4)**	(4.1)	(6.4)
Investment related derivatives	**(0.1)**	(4.1)	(6.4)
Currency forwards	**7.7**	7.8	4.9
Expense management derivatives (currency forward)	**1.6**	3.9	6.7
Total derivatives	**9.2**	7.6	5.2

8 Net foreign exchange (losses)/gains

The Group recognised foreign exchange losses of US$16.5m (30 June 2017: gains of US$0.4m; 31 December 2017: gains of US$9.7m) in the income statement in the period.

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

	6 months ended 30 June 2018 US$m	6 months ended 30 June 2017 US$m	Year ended 31 December 2017 US$m
(Losses)/gains on foreign exchange arising from:			
Translation of the statement of financial position and income statement	**(13.8)**	(4.1)	1.8
Maintaining UPR/DAC items in the statement of financial position at historic rates	**(4.7)**	5.9	-
Maintaining UPR/DAC items in the income statement at historic rates	**2.0**	(1.4)	7.9
Net foreign exchange (losses)/gains	**(16.5)**	0.4	9.7

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

	6 months ended 30 June 2018		6 months ended 30 June 2017		Year ended 31 December 2017	
	Average	**Closing**	Average	Closing	Average	Closing
Sterling	**0.727**	**0.757**	0.793	0.770	0.776	0.739
Canadian dollar	**1.278**	**1.315**	1.334	1.299	1.297	1.253
Euro	**0.826**	**0.856**	0.923	0.877	0.885	0.833
Australian dollar	**1.297**	**1.353**	1.325	1.304	1.304	1.279

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

9 Acquisition costs and other operating expenses

	6 months ended 30 June 2018			6 months ended 30 June 2017			Year ended 31 December 2017		
	Acquisition Costs US$m	**Other operating expenses US$m**	**Total US$m**	Acquisition costs US$m	Other operating expenses US$m	Total US$m	Acquisition costs US$m	Other operating expenses US$m	Total US$m
Salary, pension and social security costs	**29.5**	**27.9**	**57.4**	30.3	29.7	60.0	53.7	51.1	104.8
Other staff related costs	**1.5**	**5.8**	**7.3**	1.2	5.0	6.2	2.8	10.5	13.3
Accommodation costs	**3.5**	**3.4**	**6.9**	3.2	2.9	6.1	6.5	6.5	13.0
Legal and professional charges	**1.0**	**2.7**	**3.7**	1.0	1.6	2.6	1.7	4.9	6.6
IT costs	**0.7**	**9.6**	**10.3**	0.5	9.7	10.2	1.1	19.3	20.4
Travel and entertaining	**2.1**	**1.6**	**3.7**	2.3	1.7	4.0	4.1	3.1	7.2
Marketing and communications	**0.2**	**0.5**	**0.7**	0.2	0.6	0.8	0.4	1.6	2.0
Amortisation and impairment of intangible assets	**0.0**	**3.2**	**3.2**	-	2.2	2.2	0.1	4.8	4.9
Depreciation and impairment of property, plant and equipment	**0.2**	**2.2**	**2.4**	0.2	1.9	2.1	0.4	3.9	4.3
Regulatory levies and charges	**20.6**	**-**	**20.6**	20.2	0.1	20.3	40.1	-	40.1
Other	**(2.0)**	**4.9**	**2.9**	(1.1)	2.7	1.6	(0.3)	4.2	3.9
Expenses before commissions	**57.3**	**61.8**	**119.1**	58.0	58.1	116.1	110.6	109.9	220.5
Commission costs	**215.5**	**-**	**215.5**	204.1	-	204.1	424.8	-	424.8
Total acquisition costs and other operating expenses	**272.8**	**61.8**	**334.6**	262.1	58.1	320.2	535.4	109.9	645.3

10 Tax income/(expense)

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

	6 months ended 30 June 2018 US$m	6 months ended 30 June 2017 US$m	Year ended 31 December 2017 US$m
Current tax:			
Current taxes on income for the period	**(12.4)**	(10.8)	(28.4)
Overseas tax on income for the period	**(1.4)**	(1.3)	(3.5)
	(13.8)	(12.1)	(31.9)
Double tax relief	**0.5**	0.7	0.7
Adjustments in respect of prior years	**3.9**	(0.6)	1.0
Total current tax	**(9.4)**	(12.0)	(30.2)
Deferred tax:			
Relating to the origination and reversal of temporary differences	**15.3**	(1.9)	44.8
Adjustments in respect of prior years	**0.1**	0.2	1.4
Total deferred tax	**15.4**	(1.7)	46.2
Total tax credited/(charged) to income statement	**6.0**	(13.7)	16.0

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

(b) Tax charged to other comprehensive income

	6 months ended 30 June 2018 US$m	6 months ended 30 June 2017 US$m	Year ended 31 December 2017 US$m
Deferred tax charge on actuarial gains/losses on defined benefit pension scheme	**-**	-	0.3

11 Insurance and reinsurance contracts

Balances on insurance and reinsurance contracts

	30 June 2018 US$m	30 June 2017 US$m	31 December 2017 US$m
Gross:			
Insurance contracts			
Claims reported and loss adjustment expenses	**1,728.5**	1,477.5	1,706.4
Claims incurred but not reported	**2,355.9**	2,041.8	2,429.7
	4,084.4	3,519.3	4,136.1
Unearned premiums	**1,027.4**	972.0	891.2
Total gross liabilities	**5,111.8**	4,491.3	5,027.3
Recoverable from reinsurers:			
Reinsurance contracts			
Claims reported and loss adjustment expenses	**512.8**	330.5	381.0
Claims incurred but not reported	**622.4**	419.7	735.9
Impairment provision	**(0.8)**	(0.6)	(0.7)
	1,134.4	749.6	1,116.2
Unearned premiums	**353.2**	283.1	233.3
Total reinsurers' share of liabilities	**1,487.6**	1,032.7	1,349.5
Net:			
Claims reported and loss adjustment expenses	**1,215.7**	1,147.0	1,325.4
Claims incurred but not reported	**1,733.5**	1,622.1	1,693.8
Impairment provision	**(0.8)**	0.6	0.7
	2,948.4	2,769.7	3,019.9
Unearned premiums	**674.2**	688.9	657.9
Total net insurance liabilities	**3,622.6**	3,458.6	3,677.8

The net aggregate reserve releases from prior years amounted to US$8.9m (June 2017: US$7.9m; December 2017: US$9.6m). In part this arises from the Group's reserving philosophy which reflects a conservative best estimate, reserving prudently for the most recent years where the outcome is most uncertain, leaving a potential for subsequent release.

12 Financial investments

	30 June 2018 US$m	30 June 2017 US$m	31 December 2017 US$m
Equity securities	**623.9**	671.3	686.7
Debt securities	**2,544.5**	1,985.7	1,886.1
Specialised investment funds	**94.6**	116.6	126.6
	3,263.0	2,773.6	2,699.4

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

12 Financial investments (continued)

Basis for determining the fair value hierarchy of financial instruments

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

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

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

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

Fair values for level two and level three assets include:

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

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

Valuation techniques

Level one

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

Level two

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

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

12 Financial investments (continued)

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

Level three

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

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

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

Disclosures of fair values in accordance with the fair value hierarchy

		30 June 2018		
	Level 1 US$m	**Level 2 US$m**	**Level 3 US$m**	**Total US$m**
Equity securities	**397.2**	**78**	**148.7**	**623.9**
Debt securities	**974.3**	**1,497.8**	**72.4**	**2,544.5**
Specialised investment funds	**-**	**79.6**	**15.0**	**94.6**
	1,371.5	**1,655.4**	**236.1**	**3,263.0**

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

		31 December 2017		
	Level 1 US$m	Level 2 US$m	Level 3 US$m	Total US$m
Equity securities	359.8	135.8	191.1	686.7
Debt securities	1,126.3	684.2	75.6	1,886.1
Specialised investment funds	-	110.6	16.0	126.6
	1,486.1	930.6	282.7	2,699.4

12 Financial investments (continued)

All unrealised losses of US$76.3m (30 June 2017: gains of US$114.7m; 31 December 2017: gains of US$167.5m) and realised gains of US$53.5m (30 June 2017: losses of US$2.8m; 31 December 2017: gains of US$2.9m) on financial investments held during the period, are presented in investment return in the consolidated income statement.

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

Transfer from level one to level two
There were US$10.2m transfers from fair value hierarchy level one to level two (30 June 2017: none; 31 December 2017: none).

Transfer from level one to level three
There were US$17.2m transfers from fair value hierarchy level one to level three (30 June 2017: none; 31 December 2017: none).

Transfer from level two to level one
There were US$104.0m transfers from fair value hierarchy level two to level one (30 June 2017: none; 31 December 2017: none).

Transfer from level two to level three
There were no transfers from level two to level three (30 June 2017: US$21.9m; 31 December 2017: US$49.8m).

Transfer from level three to level two
There were US$70.7m transfers from fair value hierarchy level three to level two (30 June 2017: none; 31 December 2017: none).

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

	Equity securities US$m	Debt securities US$m	Specialised investment funds US$m	Total US$m
At 1 January 2017	**123.2**	**26.2**	**14.8**	**164.2**
Transfers from level two to level three	-	49.8	-	49.8
Total gains recognised in the income statement	23.8	2.7	1.2	27.7
Purchases	120.2	24.8	-	145.0
Sales proceeds	(78.8)	(30.8)	-	(109.6)
Foreign exchange gains	2.8	2.9	-	5.7
At 31 December 2017	**191.2**	**75.6**	**16.0**	**282.8**
Transfers from Level one to level three	**17.2**	**-**	**-**	**17.2**
Transfer from level three to level two	**(70.7)**	**-**	**-**	**(70.7)**
Total gains recognised in the income statement	**3.1**	**(2.5)**	**(1.0)**	**(0.4)**
Purchases	**9.7**	**-**	**-**	**9.7**
Sale Proceeds	**-**	**-**	**-**	**-**
Foreign exchange losses	**(1.9)**	**(0.6)**	**-**	**(2.4)**
At 30 June 2018	**148.6**	**72.5**	**15.0**	**236.1**

Total net gains recognised in the income statement under 'investment return' in respect of level three financial investments for the period amounted to US$(0.4)m (30 June 2017: US$6.5m; 31 December 2017: US$27.7m). Included in this balance are US$(0.4)m unrealised gains (30 June 2017: gains of US$6.4m; 31 December 2017: gains of US$37.9m) attributable to assets still held at the end of the period.

12 Financial investments (continued)

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

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

	30 June 2018		30 June 2017		31 December 2017	
	Carrying amount US$m	**Effect of possible alternative assumptions (+/-) US$m**	Carrying amount US$m	Effect of possible alternative assumptions (+/-) US$m	Carrying amount US$m	Effect of possible alternative assumption s (+/-) US$m
Equities	**148.7**	**0.5**	146.0	1.4	191.1	3.4
Debt securities	**72.4**	**0.6**	71.4	1.6	75.7	0.8
Specialised investment funds	**15.0**	**0.3**	15.3	1.2	16.0	0.4
	236.1		232.7		282.8	

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

- For equities, the Group monitored the changes monthly in the price of the security invested since acquisition.
- For debt securities, the Group adjusted, dependent on the type and valuation methodology of the investment, key variables including the probability of spread movements, leverage ratio changes and changes in mortgage default rates used in the models.
- For specialised investment funds, the assumptions have been adjusted where necessary by historic movements in volatility of valuations or price changes in the underlying investments.

13 Derivative contracts

Derivative contract assets	**30 June 2018 US$m**	30 June 2017 US$m	31 December 2017 US$m
Currency forwards	**18.4**	10.1	13.7
Options	**0.5**	5.4	1.2
Treasury Lock	**-**	-	(0.1)
Call and put option over Ambridge Partners LLC	**2.9**	-	(3.5)
Call and put option over Camargue	**0.2**	-	-
	22.0	15.5	18.3

Derivative contract liabilities	**30 June 2018 US$m**	30 June 2017 US$m	31 December 2017 US$m
Currency forwards	**(21.3)**	(15.3)	(12.5)

13 Derivative contracts (continued)

Disclosures of fair values in accordance with the fair value hierarchy

	30 June 2018		
	Level 2 US$m	**Level 3 US$m**	**Total US$m**
Derivative contract assets	**18.4**	**3.6**	**22.0**
Derivative contract liabilities	**(21.3)**	**-**	**(21.3)**

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

	31 December 2017		
	Level 2 US$m	Level 3 US$m	Total US$m
Derivative contract assets	13.6	4.7	18.3
Derivative contract liabilities	(12.5)	-	(12.5)

Valuation techniques

Level two

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

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

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

Level three

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

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

13 Derivative contracts (continued)

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

	Options US$m
At 1 January 2017	**5.5**
Purchases	2.6
Total losses recognised in the income statement	(6.5)
Sale proceeds	(3.6)
Foreign exchange gains	6.7
At 31 December 2017	**4.7**
Purchases	**-**
Total losses recognised in the income statement	**(0.4)**
Sale proceeds	**-**
Foreign exchange losses	**(0.7)**
At 30 June 2018	**3.6**

14 Business combinations

On 30 April Brit Insurance USA Holdings Inc acquired 100% of the issued shares of Commonwealth Insurance Company of America (CICA) from TIG Insurance Company, a member of the Fairfax group, for a total purchase consideration of US$16.4m. CICA is a US admitted carrier that will enable Brit to access a wider range of US underwriting opportunities in the future.

The fair value of assets and liabilities recognised as a result of the acquisition are as follows:

	As at 30 April 2018 US$m
Assets	
Acquired intangible assets	**7.5**
Cash and cash equivalents	**0.9**
Financial instruments	**8.2**
Reinsurance recoverables	**2.7**
	19.3
Liabilities	
Insurance liabilities	**2.7**
Other payables	**0.2**
	2.9
Net assets acquired	**16.4**

Intangible Assets

CICA holds a number of licenses required to operate as an insurance company in various States across the US. As part of the acquisition, the fair value of these licenses was considered. Accordingly, this value has been presented as acquired intangible assets in the table above. No goodwill arose on the acquisition.

Financial Instruments

The fair value of the financial instruments are determined by reference to an active market.

14 Business combinations (continued)

Reinsurance recoverables

The fair value is determined through the contractual amount receivable less any amounts uncollectible.

Insurance liabilities

The fair value is based on the best estimate of the ultimate cost of settling all claims arising from events which have occurred up to 30 April 2018, including provision for claims incurred but not yet reported, less any amounts paid in respect of those claims.

Revenue and profit contribution

The amount of revenue and profit contributed by the acquired business for the period from 30 April 2018 to 30 June 2018 was not material.

15 Share Capital

	30 June 2018 US$m	**30 June 2017 US$m**	**31 December 2017 US$m**	**30 June 2018 1p each Number**	**30 June 2017 1p each Number**	**31 December 2017 1p each Number**
Ordinary shares:						
Allotted, Issued and fully paid	**6.5**	6.4	6.4	**398,263,282**	387,608,230	387,608,230

On 30 April 2018 10,655,052 Class B Ordinary Shares were issued by Brit Limited, each with a nominal value of 1p, for US$45.8m. Following this share issuance, a Share Premium account of US$45.7m has been recorded.

As at 30 June 2018 106,550,524 ordinary shares were classified as Class A Ordinary Shares and the remainder classified as Class B Ordinary Shares. The class A and B ordinary shares rank *pari passu* except that on a distribution of profits by the Company, the class A shareholder is entitled to a cumulative annual dividend which must be settled ahead of any equivalent distribution to the class B shareholder.

16 Dividends

A US$45.8m dividend in respect of the year-ended 31 December 2017 was paid to the class A shareholders on 30 April 2018 in accordance with the shareholders' agreement at an amount equal to US$0.43 per share. (30 June 2017: US$45.8m/0.43 per share).

17 Cash flows provided by operating activities

	6 months ended 30 June 2018 US$m	6 months ended 30 June 2017 US$	Year ended 31 December 2017 US$
Profit on ordinary activities before tax	**6.9**	153.4	5.5
Adjustments for non-cash movements:			
Realised and unrealised losses/(gains) on investments	**23.0**	(107.6)	(170.4)
Realised and unrealised gains on derivatives	**(9.2)**	(7.5)	(5.2)
Amortisation of intangible assets	**3.2**	2.3	4.4
Depreciation of property, plant and equipment	**2.3**	2.2	4.9
Foreign exchange losses/(gains) on cash and cash equivalents	**2.7**	(4.9)	(9.1)
Share of profit after tax of associated undertakings	**(2.8)**	(1.2)	(5.1)
Unrealised (gains)/losses on shares held for share based payments	**(2.5)**	1.7	(1.4)
Charges in respect of share-based payment schemes	**2.6**	0.4	0.8
Interest income	**(28.2)**	(19.8)	(41.7)
Dividend income	**(3.4)**	(4.3)	(6.4)
Finance costs on borrowing	**9.4**	8.3	17.1
Movement in operating assets and liabilities:			
Deferred acquisition costs	**(20.6)**	(26.5)	(16.1)
Insurance and other receivables excluding accrued income	**(158.0)**	(253.0)	(174.1)
Insurance and reinsurance contracts	**(53.6)**	99.2	318.4
Financial investments	**(567.3)**	242.1	374.9
Derivative contracts	**14.4**	8.1	0.2
Insurance and other payables	**104.1**	161.4	239.7
Employee benefits	**(0.6)**	(0.8)	(3.9)
Provisions	**0.1**	(0.2)	(0.2)
Cash flows provided by operating activities	**(677.5)**	253.3	532.3

18 Related party transactions

(a) Ultimate Parent Company

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

(b) Fairfax Financial Holdings Limited

In June 2015, Hamblin Watsa Investment Counsel Limited (HWIC), an affiliate of FFHL, was appointed as an investment manager to a number of Group companies. The Group incurred and paid investment management fees to HWIC of US$4.6m (30 June 2017: US$5.5m; 31 December 2017: US$10.3m).

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

18 Related party transactions (continued)

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

	6 months to 30 June 2018 US$m	6 months to 30 June 2017 US$m	Year to 31 December 2017 US$m
Gross premiums written	**7.2**	2.1	8.9
Less premiums ceded to reinsurers	**(6.0)**	0.2	(11.8)
Premiums written, net of reinsurance	**1.2**	2.3	(2.9)
Gross amount of change in provision for unearned premiums	**(1.3)**	3.2	3.2
Reinsurers' share of change in provision for unearned premiums	**(0.2)**	(0.6)	(0.7)
Net change in provision for unearned premiums	**(1.5)**	2.6	2.5
Earned premiums, net of reinsurance	**(0.3)**	4.9	(0.4)
Gross claims paid	**(2.5)**	(9.2)	(14.5)
Reinsurers' share of claims paid	**4.0**	9.8	20.2
Claims paid, net of reinsurance	**1.5**	0.6	5.7
Gross change in the provision for claims	**(14.9)**	5.3	6.9
Reinsurers' share of change in the provision for claims	**(3.8)**	(6.4)	(9.6)
Net change in the provision for claims	**(18.7)**	(1.1)	(2.7)
Commission income	**0.6**	(1.0)	(0.8)
Commission expense	**(1.9)**	(0.5)	(2.4)

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

	30 June 2018 US$m	30 June 2017 US$m	31 December 2017 US$m
Debtors arising out of reinsurance operations			
Insurance premium receivable	**7.2**	2.3	7.0
Recoverable from reinsurers	**42.7**	49.5	47.5
Creditors arising out of reinsurance operations			
Payable to reinsurers	**(2.1)**	(2.1)	(1.6)
Unpaid claims liabilities	**(56.3)**	(40.2)	(43.4)
Deferred acquisition costs	**2.3**	0.4	2.0
Gross unearned premiums	**(8.2)**	2.4	(7.3)
Unearned premium recoverable from reinsurers	**0.4**	0.4	0.6

18 Related party transactions (continued)

(c) Associated undertakings

Ambridge Partners LLC

On 8 December 2015, the Group acquired 50% of the members' interests of Ambridge Partners LLC and also entered into a call and a put option to purchase the remaining 50% in 2019. Ambridge Partners LLC is a managing general underwriter of transactional insurance products, writing business on behalf of a range of insurers including Brit.

Trading with Ambridge Partners LLC is undertaken on an arms-length basis and is settled in cash. The amounts in the income statement relating to trading with Ambridge Partners LLC for the period to 30 June 2018 included commission for introducing insurance business of US$3.5m (30 June 2017: US$2.5m; 31 December 2017: US$5.5m).

The amount of premiums net of commission in the statement of financial position outstanding from Ambridge Partners LLC as at 30 June 2018 was US$7.6m (30 June 2017: US$6.6m; 31 December 2017: US$8.3m).

The amount of fees in the statement of financial position payable to Ambridge Partners LLC as at 30 June 2018 was US$0.2m (30 June 2017: US$0.1m; 31 December 2017: US$0.1m).

Camargue Underwriting Managers Proprietary Limited

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

Trading with Camargue is undertaken on an arm's-length basis and is settled in cash. The amounts in the income statement relating to trading with Camargue for the period ended 30 June included commission for introducing insurance business of US$1.5m (30 June 2017: US$0.3m; 31 December 2017: US$1.1m).

Amounts recorded in the statement of financial position in respect of premium net of commissions due from, and fees payable to, Camargue as at 30 June 2018, 30 June 2017 and 31 December 2016 were not material.

19 Subsequent events

On 5 July 2018, FFHL Group Limited subscribed for a further 61,534,194 new Brit Limited A class shares for a contribution of US$264.6m. On the same date, Brit Limited purchased 58,550,524 B class shares held by OMERS, at a cost of US$251.8m. These repurchased B class shares were subsequently cancelled. As a result of these transactions, FFHL Group Ltd's holding in Brit Limited increased to 88.04%.

As part of the share buy-back transaction a US$12.8m dividend was paid to the class A shareholders on the 5th of July 2018 representing the pro-rata accrued dividend outstanding on the shares repurchased in respect of the 2018 accounting period and based on a dividend entitlement for the full year equal to US$0.43 per share.

On 11 July 2018, Advent Capital Holdings Limited and Brit Limited announced a potential combination of some of their Lloyd's business. We are working closely with Advent's management team to design what we believe will be an optimum portfolio for our business. As at the date of the interim report, these developments have not had any impact on Brit's performance for the period ending 30 June 2018.

Reconciliation of Key Performance Indicators to the Financial Statements

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

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

	Comment / financial statements reference	**30 June 2018 US$m**	**30 June 2017 US$m**	**31 December 2017 US$m**
PAT	Consolidated income statement	**12.9**	139.7	21.5
Add back: Tax adjusted amortisation	Amortisation of intangibles, adjusted by the tax rate	**2.6**	1.8	3.9
Add back: Tax adjusted FX	FX effect for the year, adjusted by the tax rate	**9.0**	(12.2)	(14.1)
PAT, adjusted for RoNTA calculation		**24.5**	129.3	11.3
Adjusted NTA at start of year	See 'Total Value Created' section below.	**1,043.7**	1,064.8	1,064.8
Shares Issued		**45.8**	-	-
External distribution	Weighted adjustment to reflect distributions during the year.	**(45.8)**	(38.2)	(38.2)
NTA, adjusted for RoNTA calculation		**1,043.7**	1,026.6	1,026.6
RoNTA		**2.3%**	12.6%	1.1%

(ii) Total value created

The total value created measures the increase in adjusted NTA (including distributions) in a year. It reflects the after tax result recorded in the income statement and all other value movements.

	Comment / financial statements reference	**30 June 2018 US$m**	**30 June 2017 US$m**	**31 December 2017 US$m**
Total equity	Consolidated statement of financial position	**1,139.8**	1,246.4	1,130.3
Less: Intangible assets	Consolidated statement of financial position	**(105.9)**	(96.3)	(97.8)
Net tangible assets		**1,033.9**	1,150.1	1,032.5
Add back deferred tax liability on intangible assets		**11.8**	11.1	11.2
Adjusted net tangible assets		**1,045.7**	1,161.2	1,043.7
Adjusted NTA at end of year		**1,045.7**	1,161.2	1,043.7
Less: Adjusted NTA at start of year		**1,043.7**	1,064.8	1,064.8
Movement in adjusted NTA		**2.0**	96.4	(21.1)
Add: Distributions (dividends and share purchases)	Consolidated statement of changes in equity	**-**	45.8	45.8
Total value created		**2.0**	142.2	24.7

(iii) Underwriting ratios

Overview

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

The combined ratios for the period ended 30 June 2017 and year ended 31 December 2017 have been restated to take into account the impact of FX forward derivative contracts entered into to hedge the Sterling proportion of the Group's expense base, and to take into account underwriting-related fee income which management uses to assisting in managing its expense base. Management believes that this provides a fairer representation of the Group's expense ratio.

The ratios have also been calculated after eliminating the underwriting result attributable to third party underwriting capital providers. This change has been made to remain consistent with how management reviews information relating to operating segments within the business.

Underwriting ratios - Excluding the effect of foreign exchange on non-monetary items

	Comment / financial statements reference	**30 June 2018 US$m**	**30 June 2017 US$m**	**31 December 2017 US$m**
Earned premium, net of reinsurance	Note 5: Segmental information	**783.5**	740.7	1,540.1
Remove third party share		**(5.6)**	(1.0)	(1.5)
Net earned premium attributable to Brit		**777.9**	739.7	1,538.6
Attritional losses		**(441.4)**	(410.6)	(867.9)
Major claims		**-**	-	(250.0)
Reserve releases		**8.9**	7.9	9.6
Claims incurred, net of reinsurance	Note 5: Segmental information	**(432.5)**	(402.7)	(1,108.3)
Remove third party share		**1.9**	0.8	3.7
Net claims incurred attributable to Brit		**(430.6)**	(401.9)	(1,104.6)
Acquisition costs - commissions	Note 5: Segmental information	**(217.0)**	(202.8)	(425.9)
Remove third party share		**0.6**	0.2	0.1
Net commissions attributable to Brit		**(216.4)**	(202.6)	(425.8)
Acquisition costs - other and Other insurance related expenses	Note 5: Segmental information	**(106.5)**	(99.0)	(196.7)
Other income and Return on derivative contracts	Note 5: Segmental information	**7.4**	7.9	14.0
Underwriting expenses		**(99.1)**	(91.1)	(182.7)
Remove third party share		**0.2**	-	0.8
Net Underwriting expenses attributable to Brit		**(98.9)**	(91.1)	(181.9)
Underwriting profit		**32.0**	44.1	(173.7)

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

Underwriting ratios - Excluding the effect of foreign exchange on non-monetary items (continued)

	Comment / financial statements reference	30 June 2018	30 June 2017	31 December 2017
Attritional loss ratio	Attritional losses / Earned premium, net of reinsurance	**56.5%**	55.4%	56.2%
Major claims ratio	Major claims / Earned premium, net of reinsurance	**-**	-	16.2%
Reserve release ratio	Reserve releases / Earned premium, net of reinsurance	**(1.1)%**	(1.1)%	(0.6)%
Claims ratio	Note 5: Segmental information	**55.4%**	54.3%	71.8%
Commission ratio	Acquisition costs - commissions	**27.8%**	27.4%	27.7%
Operating expense ratio	Acquisition costs – other, Other insurance related expenses, Other income and Return on derivative contracts	**12.7%**	12.3%	11.8%
Underwriting expense ratio	Note 5: Segmental information	**40.5%**	39.7%	39.5%
Combined ratio	Claims ratio + Underwriting expense ratio; Note 5: Segmental information	**95.9%**	94.0%	111.3%

Underwriting ratios - Including the effect of foreign exchange on non-monetary items

	Comment / financial statements reference	30 June 2018 US$m	30 June 2017 US$m	31 December 2017 US$m
Earned premium, net of reinsurance	Note 5: Segmental information	**779.3**	743.9	1,536.8
Remove third party share		**(5.6)**	(1.0)	(1.5)
Net earned premium attributable to Brit		**773.7**	742.9	1,535.3
Claims incurred, net of reinsurance	Note 5: Segmental information	**(432.5)**	(402.7)	(1,108.3)
Remove third party share		**1.9**	0.8	3.7
Net claims incurred attributable to Brit		**(430.6)**	(401.9)	(1,104.6)
Acquisition costs - commissions	Note 5: Segmental information	**(215.5)**	(204.1)	(424.8)
Remove third party share		**0.6**	0.2	0.1
Net commissions attributable to Brit		**(214.9)**	(203.9)	(424.7)
Acquisition costs - other and Other insurance related expenses	Note 5: Segmental information	**(105.9)**	(99.5)	(196.5)
Other income and Return on derivative contracts	Note 5: Segmental information	**7.4**	7.9	14.0
Underwriting expenses		**(98.5)**	(91.6)	(182.5)
Remove third party share		**0.2**	-	0.8
Net Underwriting expenses attributable to Brit		**(98.3)**	(91.6)	(181.7)
Underwriting profit		**29.9**	45.5	(175.7)

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

Underwriting ratios - Including the effect of foreign exchange on non-monetary items (continued)

	Comment / financial statements reference	30 June 2018	30 June 2017	31 December 2017
Claims ratio	Note 5: Segmental information	**55.7%**	54.1%	71.9%
Commission ratio	Acquisition costs - commissions	**27.8%**	27.4%	27.7%
Operating expense ratio	Acquisition costs – other, Other insurance related expenses, Other income and Return on derivative contracts	**12.7%**	12.3%	11.8%
Underwriting expense ratio	Note 5: Segmental information	**40.5%**	39.7%	39.5%
Combined ratio	Claims ratio + Underwriting expense ratio; Note 5: Segmental information	**96.2%**	93.8%	111.4%

(iv) Investment return

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

	Comment / financial statements reference	30 June 2018 US$m	30 June 2017 US$m	31 December 2017 US$m
Share of net profit of associates	Note 5: Segmental information	**2.8**	1.2	5.1
Return on financial investments and cash and cash equivalents	Note 6: Investment return	**2.4**	129.2	205.5
Return on investment related derivatives	Note 7: Return on derivative contracts	**(0.1)**	(4.1)	(6.4)
Return on invested assets		**5.1**	126.3	204.2
Investment in associated undertakings	Consolidated statement of financial position	**40.4**	37.4	40.4
Financial investments	Note 12: Financial investments	**3,263.0**	2,773.6	2,699.4
Derivative contracts (investment related)	Note 13: Derivative contracts	**3.6**	5.5	4.7
Cash and cash equivalents	Consolidated statement of financial position	**841.6**	1,244.0	1,571.6
Invested assets		**4,108.2**	4,060.5	4,316.1
Opening invested assets		**4,316.1**	3,971.5	3,972.7
Closing invested assets		**4,108.2**	4,023.0	4,316.1
Average invested assets		**4,212.2**	3,997.3	4,144.4
Return (%)	Return on invested assets / Average invested assets	**0.1%**	3.2%	4.9%

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

(v) Capital ratio

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

	Comment / financial statements reference	30 June 2018 US$m	30 June 2017 US$m	31 December 2017 US$m
Total equity	Consolidated statement of financial position	**1,139.8**	1,246.4	1,130.3
Less: Intangible assets	Consolidated statement of financial position	**(105.9)**	(96.3)	(97.8)
Net tangible assets		**1,033.9**	1,150.1	1,032.5
Add: Deferred tax liability on intangible assets		**11.8**	11.1	11.2
Adjusted net tangible assets		**1,045.7**	1,161.2	1,043.7
Subordinated debt		**171.8**	166.7	174.8
Letters of credit / contingent funding	Under our capital policy we have identified a maximum of US$250.0m of our revolving credit facility to form part of our capital resources.	**250.0**	235.0	250.0
Total available capital resources		**1,467.5**	1,562.9	1,468.5
Management entity capital requirements	The capital required by an entity for business strategy and regulatory requirements.	**(1,021.0)**	(1,085.7)	(1,073.4)
Excess of resources over management entity capital requirements		**446.5**	477.2	395.1
Capital ratio		**143.7%**	144.0%	136.8%

Company information

Directors

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

Group Company Secretary

Mr Tim Harmer

Registered Office

The Leadenhall Building
122 Leadenhall Street
London EC3V 4AB
UK

Telephone: +44 (0) 20 3857 0000

Website

www.britinsurance.com

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

Registered Number

8821629

Auditor

PricewaterhouseCoopers LLP
7 More London Riverside
London
SE1 2RT

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

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