Brit Limited
Annual Report 2019

BRIT

writing the future

writing the future

If the future was predictable, there would be no risk and if change was linear, there'd be no need for experts. There'd be no need for the insurance industry.

But the truth is, the world we live in is unpredictable. It's volatile, uncertain, and subject to change.

At Brit, we believe that the uncertainty of the future should never stand in the way of progress.

That's why we exist. To help people and businesses face the future and thrive.

Every day, we channel our entrepreneurial expertise to write the most opaque risk that the future holds, embracing the change faced by our clients by delivering a service that's open, honest, and fair. One that invests in the new products and claims delivery they need in a world of complex risk.

We are dedicated to innovation, developing client solutions, efficient capital vehicles and a technology-led service that not only lead the market, but drive the future.

Investing in distribution so that we can deliver market-leading analytics to further deepen our relationships with key partners, and investing in our people, so we can amplify the integrity, agility and innovation that define our shared future.

So if you're our partner, broker or an employee, we make you this promise: we won't just react to change, we'll create it for the better.

We won't just write risk, we'll write the future.

Let's do it together.

Strategic Report

The Strategic Report contains information about the Group, how we make money and how we run the business. It gives an insight into our markets, approach to governance, sustainability and risk management. It provides context for our financial statements, sets out our key performance indicators (KPIs) and analyses our financial performance. It also sets out how we engage with our people and other stakeholders and includes our Section 172(1) Statement.

Governance

This report sets out other information of interest to our stakeholders. It includes our Directors' responsibility statement and our Directors' statement on going concern. It also explains our governance framework and contains our Modern Slavery and Human Trafficking Statement.

Financial statements

This section presents the financial position, performance and development in accordance with generally accepted accounting practice for both the Group and the Company. It also contains the Auditor's Report.

Additional information

This section explains how we calculate our KPIs with reference to data contained within the financial statements. We also summarise other information relating to the Company useful to stakeholders.

Glossary

In this section we include definitions of the terms used in this Annual Report, focusing on terms specific to the insurance industry and to Brit.

strategic report

This Strategic Report contains information about our business and provides an insight into how we operate and our approach to sustainability and risk management. It provides context for our Financial Statements, sets out our key performance indicators (KPIs) and analyses our financial performance.

This Strategic Report was approved by the Board on 12 February 2020.

Matthew Wilson
Group Chief Executive Officer

Mark Allan
Group Chief Financial Officer

officer statements

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

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

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

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

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

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

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

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

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

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

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

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

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

Matthew Wilson Group Chief Executive Officer
12 February 2020

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

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

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

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

Preserving a strong financial position is critical to the long-term success of an insurance business. Our balance sheet remains strong as we maintain our 'conservative best estimate' reserving policy which provides us with a secure foundation. Our adjusted net tangible assets increased to US$1,150.4m (31 December 2018: US$992.9m), after capital contributions, dividends paid and the impact of the Ambridge acquisition. As a result, we hold surplus management capital of US$348.9m, 28.4% over the Group's management capital requirement. During the period, our capital requirements increased from US$1,081.1m to US$1,227.7m, primarily reflecting movements in interest rates. We also benefit from the financial strength of our parent, Fairfax, and from our relationships with our capital partners supporting Syndicate 2988 and the Sussex vehicles.

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

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

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

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

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

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

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

Mark Allan Group Chief Financial Officer
12 February 2020

Brit at a glance

We are a market-leading global specialty (Re)insurer and the largest business that trades primarily on the Lloyd's of London platform, the world's leading specialist commercial insurance market.

Overview

We provide highly specialised insurance products to support our clients across a broad range of complex risks, with a strong focus on property, energy and casualty business.

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

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

A full history of Brit can be found at www.britinsurance.com.

The Fairfax Group

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

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

Underwriting

Brit has a long and successful track record of leading an extensive range of insurance and reinsurance programmes, based on rigorous risk selection and a disciplined approach to underwriting. We hire the best people and develop their skills. Combining technical expertise with industry knowledge, we listen, we share and we collaborate – to create best-in-class insurance solutions for our clients. We are an influential and respected presence at Lloyd's of London and, in Syndicate 2987, we have one of the largest and most diverse portfolios.

We predominantly underwrite complex, high value insurance and reinsurance risks. Insurance represents 76.6% of our GWP while treaty reinsurance represents the balance. Our largest source of business is the US Excess and Surplus lines market and the majority of our premium income is denominated in US dollars, although the risks underwritten are distributed globally.

We complement our core classes with highly specialised niche lines which provide both diversification and the potential for high returns. We source our business through trading relationships with Lloyd's brokers, wholesale brokers, retail agents and reinsurance intermediaries, including the three largest brokers, and from a wide range of middle tier intermediaries. The majority of reinsurance business is sourced through the global reinsurance brokers.

Through Syndicate 2988, Versutus and Sussex Re, we provide over US$440m of additional underwriting capacity. These underwriting platforms, backed by a diversified source of capital, reflect our desire to increase our flexibility, enhance our relevance to clients and brokers and reinforce the long-term relationships we have in the market.

We underwrite primarily in London, but have developed an extensive network of local offices in the US and have a presence in Bermuda and Japan. This enables us to access business that does not usually reach Lloyd's. We lead or are second agreement party on approximately 70% of the business we write, underlining our underwriting strength and expertise.

Our platform and operations

Our strong and efficient capital model results from our focus on the Lloyd's platform. As part of the Fairfax group we also benefit from the group's financial strength. We believe that our efficient, flexible and scalable operating platform provides a stable foundation that enables us to pursue our strategy of focusing on maximising profitability of the underwriting business and extending our global distribution network.

Investment management

At Brit we have a significant investment portfolio comprising financial investments, investments in associates, investment related derivatives and cash. The value of our invested assets at 31 December 2019 was US$4,182.2m. The portfolio ended the year with an increased holding in fixed income securities (US$2,962.9m), a reduced allocation to cash and cash equivalents (US$525.2m) and a broadly unchanged exposure to equities and funds (US$692.8m). Other invested assets totalled US$1.3m.

The investment portfolio is managed for the most part by Hamblin Watsa Investment Counsel Limited, a Fairfax subsidiary with an excellent long-term track record, whose sole business is managing investment portfolios of Fairfax companies.

Our culture and values

We are passionate about our business, our people and our customers and we have focused on cultivating a franchise that is built on delivering exceptional service. Our culture is centred on achievement and we have established a framework that identifies and rewards strong performance. Each part of our business has objectives aligned with the overall Group strategy, so that all of our employees understand the vital part they play in our success and value our culture which we consider to be collaborative, hardworking, smart, friendly and fun.

Our track record

Since 2009, we have successfully transformed Brit into a more focused, more profitable, more efficient and more dynamic business, driven by some of the industry's best talent. We have been proactive in delivering the best service for our clients and attractive returns to shareholders.

Over this period Brit has demonstrated a strong track record of profitable underwriting, competitive net investment returns, growth in core business lines and disciplined capital management.

In 2019, the market again experienced a significant level of major loss activity, albeit at reduced levels when compared with 2017 and 2018. This activity totalled US$58.4m and contributed 3.6pps to Brit's 2019 combined ratio. The impact of these events was offset by a solid attritional loss ratio of 55.0% and reserve releases of US$47.9m (2.9%), resulting in a combined ratio of 95.8%. Our five year average combined ratio is 99.9%, despite the extreme catastrophe years of 2017 and 2018. This year's net investment gain after fees of US$148.1m or 3.6%, brings our five year average investment return to 1.8%. Brit's profit after tax totalled US$179.9m and return on adjusted net tangible assets before FX and corporate activity costs was 18.1%.

Our financial strength

Our capabilities and ambition are underpinned by our strong financial position. Our business is underwritten primarily through our wholly-aligned Lloyd's Syndicate 2987 and partly-aligned Lloyd's Syndicate 2988, which benefit from Lloyd's

Year	RoNTA[1] %	Combined ratio %	Attritional ratio %	Investment return (net of fees) %
2019	18.1	95.8	55.0	3.6
2018	(14.4)	103.3	57.2	(2.0)
2017	1.1	112.4	56.4	4.9
2016	11.8	96.4	55.5	2.6
2015	9.1	91.7	55.2	0.1
2014	20.7	89.5	51.0	2.9
2013	24.2	85.4	51.3	2.1
2012	18.7	93.2	51.8	2.9
2011	8.5	98.0	55.4	2.4
2010	14.4	97.1	58.1	3.2
2009	17.4	94.0	64.2	4.2

Note 1: Before FX and corporate activity costs

ratings of A (Excellent) from A.M. Best, AA- (Very Strong) from Fitch and A+ (Strong) from Standard & Poor's.

During 2019, A.M. Best assigned a Financial Strength Rating of A (Excellent), with a 'stable' outlook, to Brit Reinsurance (Bermuda) Limited (Brit Re). This rating reflects Brit Re's balance sheet strength, which A.M Best assesses as 'very strong', and the positive impact of having Fairfax as its ultimate parent.

At 31 December 2019, we had capital resources equal to 128.4% of the management capital requirements needed to support our business and Fairfax has supported our continued capital strength allowing us to take advantage of business opportunities as they arise. Our capital strength provides the flexibility to allow us to cope with major losses while not deviating from our commitment to fund profitable expansion and to provide attractive returns.

Outlook

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

However, there are still many challenges facing our market:

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

Brit at a glance

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

- Preserving a strong financial position is critical to the long-term success of an insurance business. Our balance sheet remains strong as we maintain our 'conservative best estimate' reserving policy which provides us with a secure foundation. We also benefit from the financial strength of our parent, Fairfax, and from our relationships with our capital partners supporting Syndicate 2988 and the Sussex vehicles.
- We also continue to take action to improve our performance and maintain our underwriting discipline and rigorous risk selection criteria in all areas of the business.
- Leadership – We strive to provide direction and authority within our business and to our industry. We are supportive of the Future at Lloyd's Blueprint and are proud to have worked with Lloyd's to be the first Lloyd's Syndicate to use ILS capacity to back our capital at Lloyd's, a landmark achievement.
- Innovation – Our purpose is to help our clients and partners thrive in an uncertain world and drive the industry forward in terms of products, services and technology, and innovation is at the heart of our strategy. BritX, our new innovation team led by our newly appointed Head of Innovation, was launched in 2019 to create real change and action. It is aimed at targeting opportunities to disrupt our market and has identified a number of opportunities of real potential.
- Distribution – Our strategy is to deliver our products to our customers in a more efficient manner. This includes increased digital distribution and positioning ourselves closer to our customers. We have an established local distribution platform in the US, our largest market, and now have an established Bermuda operation, which houses Brit Re (our captive reinsurer and A rated reinsurance carrier), Sussex Re (our ILS vehicle) and BGSB (our reinsurance service company).
- In 2019, we successfully launched our e-trading portal, initially focussing on US Cyber business. This initiative presents Brit with the opportunity to access business previously not available to the London Market, the ability to reduce expenses significantly and the potential to grow our most profitable segments, working with our distribution partners.

We are ready to face the future with optimism.

our underwriting

writing the future

The world we live in is unpredictable. It's volatile, uncertain, and subject to change. At Brit, we believe that the uncertainty of the future should never stand in the way of progress. That's why we exist. To provide a risk service and help people and businesses face the future and thrive.

Our vision

A world where uncertainty never stands in the way of progress. Because we believe the uncertainty of tomorrow isn't something to fear, but something to seize.

Our mission

To help people and businesses face the future, and thrive.

At Brit, we start with the customer, and we never forget the value we deliver. A promise that provides confidence in an uncertain world.

A mission that requires us to do things differently.

If we are to help people seize the potential of the future we can't just sell insurance products, we have to provide a risk service.

- A risk service that helps clients not only prepare for, but manage and mitigate the risks they face;
- A risk service that doesn't just react to change, but sees the opportunity to create change for the better; and
- A risk service that helps people not only move on from an event, but helps them to move forward rapidly with confidence.

This forward-thinking approach comes to life in our promise, and that promise lives at the heart of everything we do.

Our promise

We don't react to the future, we write it. It's why we're the proud home of forward-thinkers, pioneers and leaders. And it informs a set of core philosophies:

- We provide a risk service, not sell insurance products;
- We treat people fairly – conducting ourselves with honesty and integrity at all times;
- We think proactively to help us (and our clients) live life on the front foot;
- We always speak with openness, consistency and clarity;
- We take time to make thoughtful and disciplined decisions; and
- We put innovation at the heart of our business.

The Brit difference

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

We are a leading global specialty insurer and reinsurer, focused on underwriting complex risks. We have a keen appetite for leadership; leading – or acting as second lead agreement party – on approximately 70% of the business we write.

The breadth of classes we support, the depth of our experience and commitment to our clients is second to none. We strive for innovation – across our products, processes and people. We have created a stimulating environment where talented original thinkers flourish, and we channel this creativity towards meeting real customer needs: turning smart ideas into cutting-edge insurance solutions.

We are committed to creating lasting relationships with brokers and clients. Hence we are happy to meet face-to-face and make ourselves available when many others do not. Distribution is one of the key strands of Brit's 'LID' strategy – we are focussed on understanding our key customers and tailoring our distribution strategy across four key areas; open market, coverholders, reinsurance and digital.

We also have a longstanding ethos of social responsibility and we have a strong culture of 'doing the right thing'; from volunteering in our local communities to supporting good causes further afield. The projects we choose align with our strategic priorities and each year, ten charities are chosen by our employees for significant support.

Our parent company – Fairfax Financial Holdings Limited – provides us with the best of both worlds: a strong and stable base for long-term growth, combined with the freedom to pursue our own identity, philosophy and ambitions.

our underwriting

Providing a risk service

Choosing to work with Brit means clients are choosing a service, not just buying a product.

Every day, our multidisciplined team bring diverse skills and experience to our clients' businesses, and this deep underwriting expertise helps clients to effectively mitigate their risks.

By working in close collaboration across Underwriting, Claims, Actuarial and Technology, our teams gain and share unparalleled insight into the risks that our clients face.

- Insight that helps us understand our client intimately, and enables us to deliver a global service.
- Insight that helps us not only lead the business we write, but also to be a meaningful and valuable partner to those we work with.
- Insight that helps us select and price risk with industry leading accuracy.
- Insight to respond to events efficiently and effectively.
- Insight that drives us to deliver market-leading innovation across all four phases of the customer experience – pricing, risk management, claims and renewals.

Underwriting and claims excellence

Underscored by comprehensive underwriting, claims and risk services, we operate as a market lead across our full range of services. At Brit we pride ourselves on Underwriting and Claims excellence, deploying the latest tools and a disciplined approach, we have a long record of strong performance.

Underwriting excellence

We have a long and successful track record of leading an extensive range of insurance and reinsurance programmes, based on rigorous risk selection and a disciplined approach to underwriting. We hire the best people and develop their skills and expertise. Combining technical expertise with industry knowledge, we listen, we share and we collaborate – to create best-in-class insurance solutions for our clients.

We are an influential and respected presence at Lloyd's of London. With one of the largest and most diverse portfolios, we underwrite primarily through our Syndicates 2987 and 2988. We are also helping lead Lloyd's market modernisation project and have met the 2019 implementation targets set by Lloyd's. Representatives from Brit have also been heavily involved with 'Future of Lloyd's Blueprint One' and have helped shape key aspects of the document.

Claims excellence

Should the worst happen, our team of claims professionals are committed to helping those affected not only to move on from the incident, but to move forward.

When a customer has a claim, their life or business has been disrupted, or even put in peril. They expect their insurance to deliver – and it is our responsibility to fulfil that commitment. At Brit, we do not treat claims as a process; we see every claim as an opportunity to help customers move forward with their lives.

Our team is highly experienced at both senior and adjuster levels, and has successfully managed claims arising from some of the market's most challenging events. We know when to fast track the simple things – and how best to address more complex issues. Our claims professionals work closely with our underwriters. It is this collaborative approach that gives us real insight into the risks that our clients face, enabling us to tailor our responses appropriately.

For the second successive year, our claims team won the Claims Team of the Year at the 2019 Insurance Day London Market Awards, in recognition of our strong focus on enhancing the end customer experience alongside our ability to use innovation to improve both service levels and efficiency. For the second year in succession they were also recognised at the LMA awards, winning 'Claims Team of the Year', while one member of the team won 'Young Claims Professional of the Year'.

Market-leading innovation

By putting innovation at the heart of our business we are constantly looking for ways to provide the ongoing value that will help our customers thrive in a changing world. Our parent company, Fairfax Financial Holdings Limited, gives us the perfect foundation to do just that, providing a strong and stable base for long-term growth, while allowing us the flexibility to be agile in an ever-evolving industry.

In December 2019, we announced the launch of the Sussex Specialty Insurance Fund. Our collaboration with Lloyd's has enabled Brit Syndicate 2988 to be the first Lloyd's Syndicate to use ILS capacity to back its capital at Lloyd's, a landmark achievement.

Extensive network

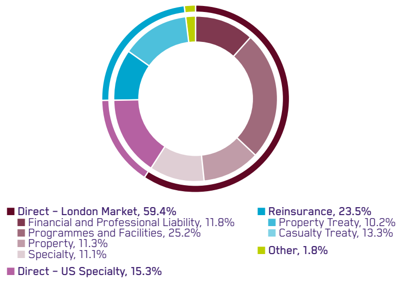
We are proud of our extensive distribution network. We have strong links with local producers, which enable us to efficiently provide long-term capacity for risks that would not otherwise reach the Lloyd's market.

We are absolutely committed to building relationships and working closely with our clients to understand and exceed their needs. With offices in the UK, the US, Bermuda and Japan, our network allows us to reach and serve clients globally.

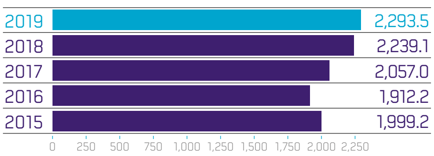
In such a competitive industry, we never forget that it is a privilege to manage someone's insurance business. Hence we value and nurture our relationships with brokers and coverholders; they are integral to our distribution capability.

Our specialist Delegated Underwriting Management team has a reputation for its commitment to excellent customer service.

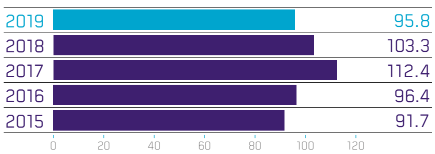
Group GWP by line of business (%)



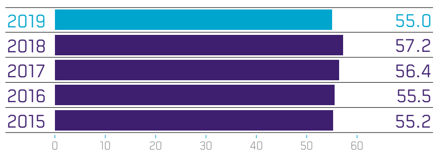
Group GWP (US$m)



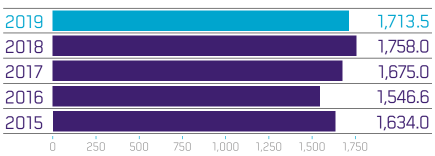
Group combined ratio (%)



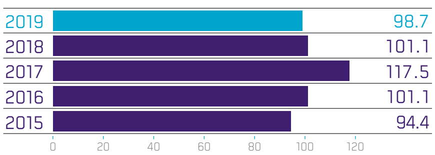
Group attritional ratio (%)



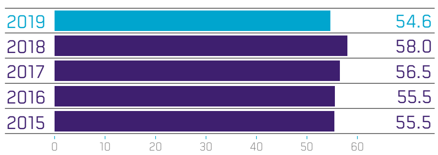
Bit Global Specialty Direct GWP (US$m)



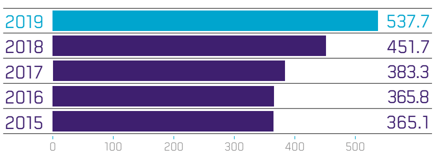
Bit Global Specialty Direct combined ratio (%)



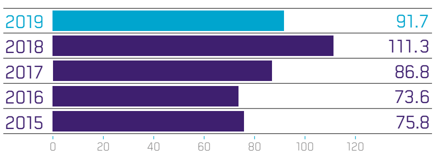
Brit Global Specialty Direct attritional ratio (%)



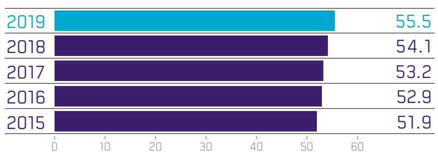
Bit Global Specialty Reinsurance GWP (US$m)



Bit Global Specialty Reinsurance combined ratio (%)



Brit Global Specialty Reinsurance attritional ratio (%)



Writing the future
The breadth of classes we support, the depth of our experience and our commitment to our clients differentiates us.

Direct

Specialty

Marine

Cargo

An experienced and respected team covering cargo on ships, aircraft or in warehouses worldwide – as well as project cargo for construction and inland marine exposures.

Marine Hull and War

An expert team providing market leading Hull insurance across the Lloyd's platform. Brit insures a range of commercial bluewater tonnage as well as specialist operations on a worldwide basis.

Marine Liability

Offering specialist cover including protection and indemnity, charterers' liability and pollution as well as energy liability products for upstream exploration and production.

Energy

Energy

A highly technical class with an experienced and well respected team offering coverage for all aspects of Upstream and Midstream Energy operations, including renewables.

Space

Space

For over twenty years we have led the Brit Space Consortium, offering bespoke wordings for both launch and in-orbit risks to carefully selected clients.

EL and PL

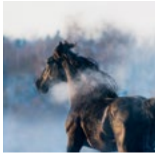
Environmental Liability and Public Liability

An experienced team with a flexible approach to UK and international liability business including Employers, Public, Products and Environmental Liability across a range of territories.

Our expertise encompasses construction, transportation, oil and gas, renewable energy, utilities, infrastructure, manufacturing and local government – on a primary and excess basis.

Facilities

Accident and Health (A&H)



Bloodstock
With over 30 years' experience, we create tailor-made cover for all breeds of horses and some livestock, with broad cover including mortality risks, infertility and veterinary fees.

Contingency
An established lead market offering specialist products for diverse risks including event cancellation, film production, non-appearance and prize indemnity.

Kidnap for Ransom
The world's security environment is constantly changing and our individually tailored kidnap for ransom product has been designed to respond to these evolving threats. Our clients range from private individuals to large multinationals.

Personal Accident and Medical Expenses
A vibrant, performance-orientated team, leading across a wide range of in-demand products. Our focus is innovative solutions and responsiveness in partnerships.

Property Facilities

Commercial Property
Our established portfolio insures owners of commercial property and package risks through selected coverholders and Lloyd's brokers.

Property Financial
Coverage for financial institutions, loan servicers and property investors, including lender-placed hazard and flood protection. We also offer mortgage impairment coverage.

Residential Property Facilities
Coverage for primary, secondary and vacant dwellings plus condominium units in the US and Canada. Flood, Earthquake and Landslide available separately or as a package.

High Value Homes
Solutions for owners or occupiers of high value or unusual residential property, including primary, secondary, rental, vacant and under construction or renovation.

Transport

Transportation
We insure commercial automobile physical damage and motor truck cargo across the US and Canada. We target smaller fleets and source business through a network of Lloyd's brokers and coverholders.

Long Tail Facilities

Legal and Structured Solutions
A leader in Before the Event (BTE) or After the Event (ATE) legal expenses coverage for individuals, companies and affinity groups worldwide, we deliver bespoke structured insurance solutions for financial, contingent and legal risks.

Small North American Liability
We insure small and medium-sized enterprises in the USA and Canada for financial recourse resulting from their professional negligence, errors and omissions.

Fin Pro

D&O

Directors' and Officers' (D&O)
As recognised experts in the D&O market, we are renowned for our underwriting precision, specialising in tailoring products to precisely match individual clients' needs.

FI

Financial Institutions
As acknowledged leaders in the traditional insurance lines, we also offer exclusive, innovative solutions for organisations of all sizes across mature and emerging economies.

Cyber

Global Cyber Privacy and Technology
Providing cutting-edge products that address the multitude of exposures from first and third party perspectives relating to network security, privacy and data protection risk.

Healthcare

Healthcare Liability
With a wealth of industry expertise, our team delivers innovative products backed by exceptional service, focusing on hospitals, allied health and long-term care liability.

US PI

North American Professional Liability
An established leader in this sector, we provide cover on both an open market and binding authority basis. Clients range from small start-ups to the largest multinationals.

Property

Property

Political Risk and Trade Credit
Covers non-payment/performance of counterparties and confiscation, expropriation, nationalisation, deprivation, sequestration or forced abandonment of overseas assets.

Political Violence
Covers physical damage and business interruption losses due to perils including terrorism, strikes, riots, civil commotion, war on land and nuclear, chemical, biological and/or radiological attacks.

Open Market and Worldwide Property
Our technical expertise in the areas of catastrophe modelling, pricing, policy wordings and claims has made us a market of choice for both brokers and clients.

UK Property
We have a proven track record of writing and delivering flexible commercial solutions to address the precise nature of our customers' requirements.

Specie and Private Client
Our team has over 25 years of underwriting experience in the High Net Worth market, specialising in tailoring products to clients' needs.

International

USA (BGSU)

BGSU offers a range of E&S, admitted and reinsurance cover with a focus on property, casualty and marine. Headquartered in Chicago, it has underwriting nationwide offices servicing each US time zone. It underwrites:

Construction Professional
Contractors Professional Liability (E&S)
Cyber & Technology
Excess Casualty (E&S)
General Liability (E&S)
Marine – Cargo (U.S. Admitted)
Miscellaneous Professional Liability (E&S)
Owner Protective Indemnity
Programs (Admitted and E&S)
Property (E&S)
Alternative Risk Package (E&S)
Public Entity – First Dollar (Admitted)
U.S. Casualty Treaty (Reinsurance)
U.S. Political Violence (Terrorism)
U.S. Property Facultative (Reinsurance)

Bermuda

Our Bermuda operations complement our distribution network and are a key step in developing Brit's global offering. They underwrite:

Property Treaty
Casualty Treaty

Reinsurance

Casualty

Casualty Treaty

The Casualty team underwrites a predominantly non-proportional reinsurance (including retrocession) account, covering all the principal casualty classes – as well as Personal Accident and other accident classes. These include Property Terror, Products Recall, Credit/Bond/Surety, Political Risks and Contingency. We underwrite on a worldwide basis and are a recognised quoting market.

Property

Property Treaty

Our team of specialist underwriters provides superior service to brokers and clients utilising a blend of up-to-date technical expertise, embedded modelling capability and real-world market experience. Our client base represents a significant and established cross-section of carriers writing simple homeowners policies through to complex commercial/industrial risks.

underwriting review

2019 underwriting review

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

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

However, while we have seen such positive developments, there are still many challenges facing our market, as discussed on page 7.

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

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

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

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

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

Our overall GWP for 2019 was US$2,293.5m, an increase of 2.4% over 2018 (US$2,239.1m), or 3.4% at constant rates of exchange. Growth areas included BGSU's underwriting initiatives (Casualty RI US, Cyber, Excess Casualty, General Liability and Professional Liability), our Scion MGA and our core classes (Casualty Treaty, Property Treaty, Property Political Risks and Violence, and Financial and Professional Liability). The increase generated by these areas was partially offset by lower levels of prior year premium development, our re-engineering of certain classes (such as Marine) and our withdrawal from a number of other underperforming classes, including International Professional Indemnity, Aviation, Contractors' Plant and Equipment, and Yacht.

Our retention ratio at 78.0% was marginally lower than in 2018 (80.2%), as we non-renewed certain accounts due to unsustainable pricing levels and exited our worst performing classes. Across all lines we have retained our underwriting discipline and are prepared to discontinue accounts that we believe are inadequately priced or outside of our appetite.

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

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

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

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

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

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

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

Our business developments during 2019

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

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

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

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

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

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

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

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

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

- **Continued development of BGSU**

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

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

- **Acquisition of Ambridge Partners LLC**

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

- **Sutton Special Risk Inc.**

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

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

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

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

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

- **BGS Bermuda – Property Reinsurance**

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

- **Kidnap & Ransom**

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

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

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

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

- **Claims team recognition**

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

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

- **Claims App for Cyber clients**

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

- **Llift Space**

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

- **Innovation – The launch of BritX**

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

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

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

- A Head of Innovation, to manage the innovation process at Brit and identify strategies, business opportunities and new technologies;
- An experienced Head of Outwards Reinsurance, who will replace our retiring Head of Outwards Reinsurance; and
- A Head of Strategy, to help develop, manage and implement Brit's strategic initiatives and Brit's engagement with, and response to, the Future at Lloyd's initiative.

- **Continued Portfolio Management**

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

  - **Withdrawal from certain classes written in the US:** We took the decision to place Inland Marine, Yacht, CJSO written in US into runoff and to exit Latin American property facultative reinsurance, casualty and engineering business.
  - **Singapore:** We also took the decision to withdraw from the Lloyd's Singapore Platform, reflecting group appetite and a lack of rate adequacy.
  - **China:** Following the resignation in July 2019 of our representative, we have decided to withdraw from the Lloyd's China Platform.

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

2020 business planning

- **Syndicate 2987**

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

- **Syndicate 2988**

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

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

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

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

financial performance review

Key Performance Indicators

At Brit we monitor and measure our performance by reference to certain key performance indicators (KPIs). These KPIs are used by us to manage our business and allow us to see at a glance how we are performing.

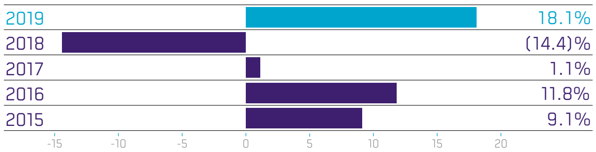
Our six KPIs show the returns that we are generating, the performance of our underwriting activities, our investment portfolio, our financial strength and our efficient, flexible and scalable platform. The development of our KPIs over the five years set out below reflects our successful major transformation programme, together with the challenges presented by the deterioration in underwriting market conditions and the increase in investment market volatility.

A reconciliation of each KPI to the amounts presented in the financial statements, where relevant, is included in the Annual Report and Accounts starting on page 165 and definitions of each of our KPIs are included in the Glossary starting on page 170.

Overall performance

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

18.1%



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. Corporate activity costs were incurred 2015 and related to our acquisition by Fairfax.

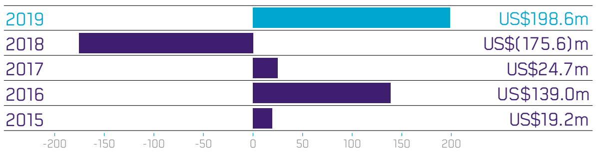
In 2019, our RoNTA was 18.1%, reflecting improving market conditions, a strong attritional performance, reduced major loss activity, solid prior year reserve releases, increased contribution from our MGA interests and a good investment return.

This return resulted in a five year average RoNTA of 5.1%. RoNTA for 2019 after foreign exchange movements was 18.4% (2018: 15.4% negative).

Overall performance

Total value created

US$198.6m



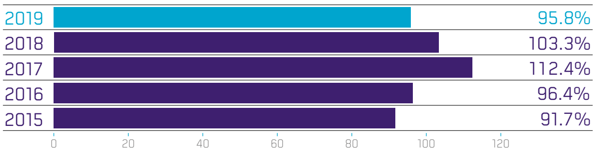
The total value created measures the increase in adjusted NTA (before distributions, capital raisings and intangibles created on acquisitions) in a year. It reflects the after tax result recorded in the income statement and all other value movements.

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

Underwriting

Combined ratio

95.8%



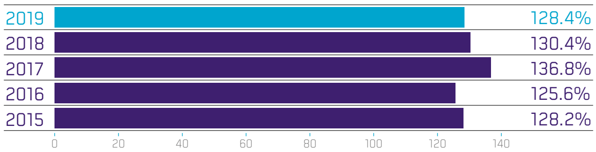
The combined ratio is our key underwriting metric and measures the profitability of our underwriting. It shows how much of every US$1 of premium is spent in the total costs of sourcing and underwriting the business and settling claims. A combined ratio under 100% indicates underwriting profitability.

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

Capital management

Capital ratio

128.4%



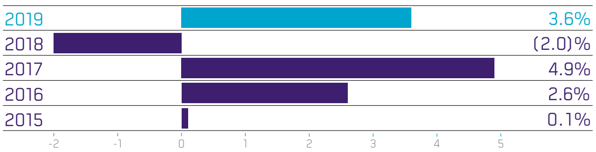
The capital ratio measures the strength of our balance sheet by comparing our available capital resources to the capital we need to hold to meet our management entity capital requirements.

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

Investment management

Investment return

3.6%



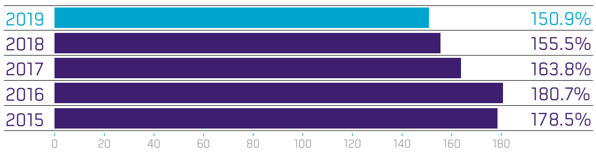
We assess the performance of our investment portfolio by comparing the return generated by our invested assets, net of external investment related expenses, against the average value of those invested assets.

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

Operating platform

Ratio of front office employees to back office employees

150.9%



This measure monitors the efficiency of our business model by comparing the number of front office client-facing revenue generators and service providers to the number of back office employees. An increase in the ratio would suggest that the back office is becoming more efficient in supporting the client-facing activities of the front office.

At 31 December 2019, the ratio was 150.9%, reflecting that we had approximately 1.5 front office employees for every back office employee.

The reduction in the ratio over 2018 primarily reflects the relative increased back office staff to support our overseas growth initiatives, third party capital management and regulatory requirements.

financial performance review

Overview of Results

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

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

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

Group performance and total value created

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

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

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

Performance measures

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

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

Underwriting

Overview

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

Premiums written

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

Premiums by class	2019 US$m	2018 US$m
Brit Global Specialty Direct		
London Market		
Financial and Professional Liability	270.9	270.9
Programmes and Facilities	577.9	525.3
Property	259.1	311.3
Specialty	253.8	357.3
	1,361.7	1,464.8
US Specialty	351.8	293.2
Total Direct	1,713.5	1,758.0
Brit Global Specialty Reinsurance		
Property Treaty	233.2	209.4
Casualty Treaty	304.5	242.3
Total reinsurance	537.7	451.7
Other underwriting (Note 2)	42.3	29.4
Group total	**2,293.5**	**2,239.1**

Note 1: The 2018 analysis has been re-analysed to reflect the underwriting class monitoring structure introduced in 2019.

Note 2: 'Other Underwriting' comprises the Group's special purpose vehicles, Brit's share of Syndicate 2988 and run-off classes.

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

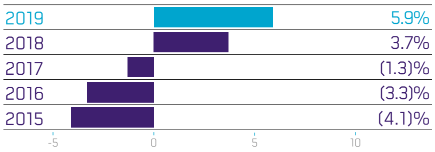
The drivers of the increase in Group GWP, which was in line with expectations, are as follows:

- Underwriting initiatives: The Group's underwriting initiatives of recent years, resulted in a US$115.3m increase in GWP. The largest increases were seen in BGSU (Casualty RI US, Professional Liability, General Liability, Cyber, Excess Casualty and Programmes) and in Scion. Growth was also seen in Kidnap & Ransom and Healthcare Liability.
- Other current year premiums: Other current year premiums decreased by US$10.0m over 2018. This reflects decisive action taken to improve our performance by discontinuing business lines which remained challenging, including certain classes written in the US and Latin America, and our withdrawal from the Lloyd's Singapore Platform and the Lloyd's China Platform. The premium reductions from these actions were partly offset by targeted growth in our treaty portfolio and higher margin direct classes.
- Prior year premium development: The book again experienced favourable development on prior years, but at a lower rate than in 2018. This resulted in a year-on-year reduction of US$30.0m.
- Foreign exchange: The impact of foreign exchange resulted in a US$20.9m year-on-year reduction in premium, which reflects the movement during 2019 of the US dollar against a number of currencies in which the Group writes business.

financial performance review

Premium ratings

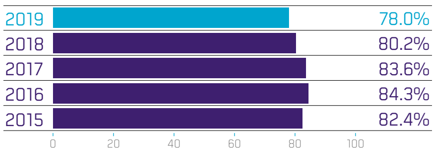
Measure	Commentary	Track record
Risk adjusted rate change	The risk adjusted rate change shows whether premium rates are increasing, reflecting a hardening market, or decreasing, reflecting a softening market. A hardening market indicates increasing profitability.	**Risk adjusted rate change** (%)



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

Retention rates

Measure	Commentary	Track record
Retention rate	The retention rate shows the proportion of our business that renews, on a premium weighted basis, compared to the previous year.	**Retention rate** (%)



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

Outwards reinsurance

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

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

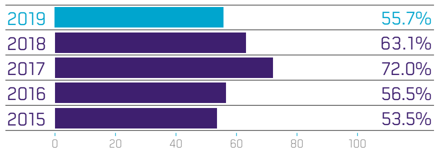
Net earned premium

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

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

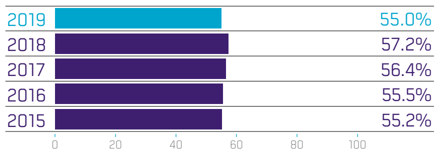
Claims

Measure	Commentary	Track record
Claims ratio	The claims ratio measures the performance of the whole underwriting book, encompassing risks written in the current year and in prior years.	**Claims ratio** (%)

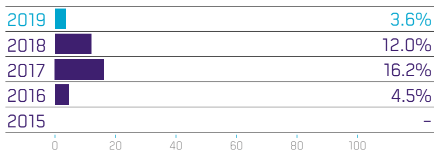


The claims ratio can be further analysed into its underlying components, as follows:

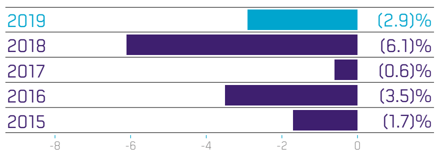
Measure	Commentary	Track record
Attritional loss ratio	The attritional loss ratio measures the performance of the underlying underwriting book by measuring the effect of attritional claims.	**Attritional loss ratio** (%)



Measure	Commentary	Track record
Major claims ratio	The major claims ratio measures the effect of claims arising from major losses on our performance and the 2019 ratio reflects the lower level of major loss activity during the year.	**Major claims ratio** (%)



Measure	Commentary	Track record
Reserve release ratio	The reserve release ratio measures the performance of reserves held on the statement of financial position at the start of the year. A negative ratio indicates an overall net release, which means that prior year claims are performing better than estimated at the start of the year. A positive ratio indicates that over the course of the year the amount required to meet those prior year claims has increased.	**Reserve release ratio** (%)



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

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

Major losses

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

Note 1: 2019 California wildfires did not classify as a major event for Brit .

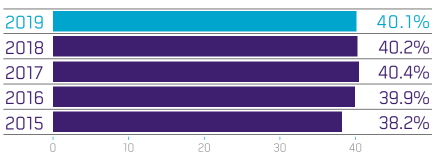
Note 2: Accounting rules require Brit to consolidate Sussex Capital and Versutus II which have third party investors. This adjustment eliminates the third party share of major losses, which is included in the Group's Consolidated Income Statement within 'gains on other financial liabilities'.

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

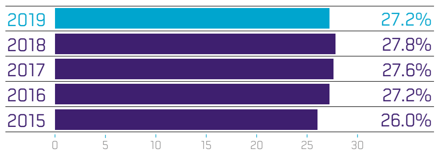
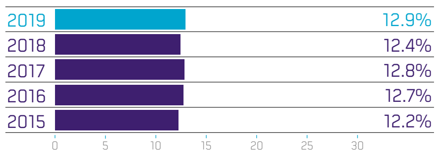
The 2019 release reflected favourable development across most classes. Financial and Professional Lines, Specialty, Property and Programmes and Facilities generated the most significant releases, partly offset by strengthening on US Specialty. There was no material movement in Brit's overall net estimates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

Underwriting expenses

Our underwriting expense ratio was 40.1% (2018: 40.2%).

Measure	Commentary	Track record
Underwriting expense ratio	The underwriting expense ratio measures the cost we incur to acquire every US$1 of premium. There are two key components to this – commission costs and operating expenses.	**Underwriting expense ratio (%)** 

The underwriting expense ratio can be further analysed into its underlying components, as follows:

Measure	Commentary	Track record
Commission ratio	The commission ratio measures our distribution costs and shows how much of every US$1 of premium is paid to acquire our business.	**Commission ratio** (%) 
Operating expense ratio	The operating expense ratio helps us understand how much it costs us to support the underwriting activities. This ratio shows how much of every US$1 of premium we spend supporting our underwriting activities.	**Operating expense ratio** (%) 

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

Our operating expenses are analysed below.

Expenses

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

Expense analysis

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

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

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

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

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

Disclosure of operating expenses

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

Other income

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

Other income

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

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

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

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

(Losses)/gains on other financial liabilities

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

(Losses)/gains on other financial liabilities

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

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

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

Return on invested assets

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

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

Investment return

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

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

Return on invested assets (net of fees)

Year	%
2019	3.6
2018	(2.0)
2017	4.9
2016	2.6
2015	0.1

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

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

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

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

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

- Camargue Underwriting Managers Proprietary Limited, a leading managing general underwriter of a range of specialised insurance products and specialist liability solutions in South Africa in which Brit holds a 50% share, contributed US$0.6m to this return (2018: US$0.6m).
- Sutton Special Risk Inc., a leading Canada-based managing general underwriter specialising in Accident & Health business in which Brit acquired a 49% share on 8 January 2019, contributed US$0.7m to this return; and
- Ambridge Partners LLC (Ambridge), a leading managing general underwriter of Transactional Insurance, Complex Management Liability Insurance and Intellectual Property Insurance, in which Brit held a 50% share until 18 April 2019, returned US$(1.0)m (2018: +US$5.9m). On 18 April, following Brit's acquisition of the remaining 50% of Ambridge, Ambridge became a 100% subsidiary of the Group and ceased to be an associated undertaking. For the year, Ambridge generated a positive return for the Group.

financial performance review

Foreign exchange

As explained on page 37, we manage our currency exposures to mitigate the impact on solvency rather than to achieve a short-term impact on earnings. We experienced a total foreign exchange gain of US$3.3m in 2019 (2018: loss of US$9.1m), reflecting the movement of the US dollar against other currencies in which we trade and hold assets. This total foreign exchange related gain comprised:

- An unrealised revaluation gain of US$14.0m (2018: loss of US$12.7m), primarily relating to the mark to market of the capital we hold in non-US dollar currencies to match our risk exposures. The gain primarily results from movements in the US dollar which gave rise to a gain on our long Canadian dollar and short Euro positions, partly offset by a loss on our short Sterling position;
- Losses of US$15.2m (2018: gains of US$8.4m) on derivative contracts which were entered into to help manage our monetary FX exposures and therefore should be viewed in conjunction with our monetary FX movements. This excludes the gain on the derivative contract entered into to effectively hedge the Sterling proportion of the Group's expenses, as explained on pages 29 to 30; and
- Gains of US$4.5m (2018: losses of US$4.8m), as a result of the IFRS requirement to recognise non-monetary assets and liabilities at historic exchange rates. This adjustment is essentially a timing difference. The adjustment for the full year 2019 comprises the un-wind of the credit carried on the balance sheet at 31 December 2018 (US$2.5m), plus the debit balance established during 2019 (US$2.0m).

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

Foreign exchange gains and (losses)

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

Note 1: The sum of these two amounts, US$16.8m, is the 'Net foreign exchange gains' figure per the Consolidated Income Statement (2018: US$18.6m 'Net foreign exchange losses').

Note 2: Excludes the gain of US$0.4m (2018: loss of US$2.2m) on the derivative contract entered into to effectively hedge the Sterling proportion of the Group's expenses, as explained on pages 29 to 30.

Tax

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

The Group is liable to taxes on its corporate income in a number of jurisdictions where its companies carry on business, most notably the UK, Australia and the US. Corporate profits and losses in Bermuda are exempt from tax. The tax charge is calculated in each legal entity across the Group and then consolidated. Therefore, the Group effective rate is sensitive to the location of taxable profits and is a composite tax rate reflecting the mix of tax rates in those jurisdictions.

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

financial position and capital strength

Financial position

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

Summary consolidated statement of financial position

	2019 US$m	2018 US$m
Assets		
Intangible assets	**192.6**	104.4
Reinsurance contracts	**1,628.1**	1,699.8
Insurance and other receivables	**1,240.2**	1,008.8
Financial investments, investments in associated undertakings and cash	**4,180.1**	4,006.3
Investment related derivatives	**2.1**	3.6
FX related derivatives	**13.6**	13.8
Other assets	**415.9**	379.0
Total assets	**7,672.6**	7,215.7
Liabilities		
Deferred tax on intangible assets	**23.1**	12.3
Insurance contracts	**5,266.1**	5,274.1
Borrowings	**316.2**	174.9
Investment related derivatives	**–**	0.2
FX related derivatives	**14.2**	13.9
Other liabilities	**733.1**	655.3
Total liabilities	**6,352.7**	6,130.7
Net assets	**1,319.9**	1,085.0
Adjusted net tangible assets	**1,150.4**	992.9

In addition to the profit recognised through the consolidated income statement, the other movements in our net assets related to defined benefit pension scheme related gains and charges (US$1.7m net gain); changes in unrealised foreign currency translation gains on foreign operations (US$3.7m gain); recycling of foreign exchange losses upon acquisition of Ambridge (US$0.4m charge); issuance of share capital (US$70.6m); and dividends paid (US$20.6m).

On 18 April 2019 the Brit Group acquired the remaining 50% of the issued shares of Ambridge Partners LLC (Ambridge). Prior to 18 April, Brit's investment in Ambridge was recorded as an investment in associated undertaking and after that date as a subsidiary. Following the acquisition, an exercise to allocate the purchase price under IFRS 3 was performed, including the identification and valuation of acquired intangible assets. The findings of this exercise included the identification of US$45.2m of acquired intangible assets and US$45.9m of goodwill, which are included within intangible assets at 31 December 2019 in the table above.

Capital strength

Our balance sheet remains strong. At 31 December 2019, Group capital resources totalled US$1,576.6m, giving surplus management capital of US$348.9m (2018: US$328.7m), or 28.4% (2018: 30.4%) over our Group capital requirement of US$1,227.7m.

Share capital

On 30 April 2019, FFHL Group Limited subscribed for 4,800,000 new Brit Limited B class shares for a contribution of US$20.6m. On 24 June 2019, FFHL Group Limited subscribed for a further 11,627,907 new Brit Limited B class shares for a contribution of US$50.0m. As a result of these transactions, FFHL Group Limited's holding in Brit Limited increased to 89.26% (31 December 2018: 88.85%).

Reserving policy

Preserving a strong financial position is critical to the long-term success of an insurance business. The Group maintains appropriate loss reserves to cover its estimated future liabilities. Reserves are estimates that involve actuarial and statistical projections of the expected cost of the ultimate settlement and administration of claims. The reserving process is robust and managed by the Chief Risk Officer and Chief Actuary and under the oversight of the Reserving Committee. Reserving estimates are prepared quarterly and are based on facts and circumstances then known, predictions of future developments, estimates of future trends in claims frequency and severity and other variable factors such as inflation. Movement in these reserves forms an integral element of our operating result.

Our reserving policy is to reserve to a 'conservative best estimate' and carry an explicit risk margin above that 'conservative best estimate'. This policy has led to a track record of modest annual reserve releases. In 2019, this trend, first reported in 2004, continued with net releases of US$47.9m (2018: US$99.3m, including releases on certain legacy classes afforded by the loss portfolio reinsurance with RiverStone Managing Agency Limited (for and on behalf of Lloyd's Syndicate 3500) and favourable development of the 2017 catastrophe events).

Maintaining reserves is critical to safeguard future obligations to policyholders and the 'conservative best estimate' approach provides a secure foundation. It also provides a secure foundation for the pricing of new business which is particularly critical in a soft rating environment.

Asset allocation

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

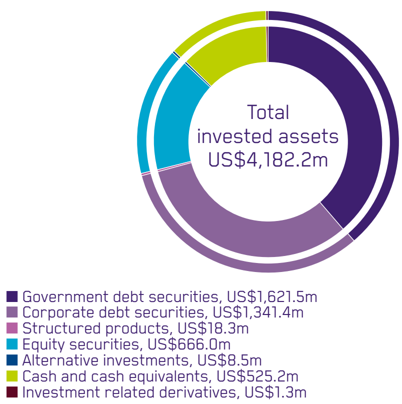
financial position and capital strength

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

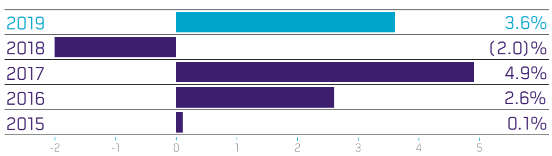
Statutory basis

31 December 2019	Equity securities US$m	Debt securities US$m	Specialised investment funds US$m	Cash and cash equivalents US$m	Associated undertakings US$m	Investment derivatives (net) US$m	Total invested assets (look-through) US$m
Look-through basis							
Government debt securities	**–**	**1,611.8**	**9.7**	**–**	**–**	**–**	**1,621.5**
Corporate debt securities	**–**	**1,339.2**	**2.2**	**–**	**–**	**–**	**1,341.4**
Structured products	**–**	**0.1**	**18.2**	**–**	**–**	**–**	**18.3**
Equity securities	**403.9**	**–**	**242.7**	**–**	**19.4**	**–**	**666.0**
Alternative investments	**–**	**–**	**8.5**	**–**	**–**	**–**	**8.5**
Cash and cash equivalents	**–**	**–**	**5.1**	**520.1**	**–**	**–**	**525.2**
Investment related derivatives	**–**	**–**	**(0.8)**	**–**	**–**	**2.1**	**1.3**
Total invested assets (statutory)	**403.9**	**2,951.1**	**285.6**	**520.1**	**19.4**	**2.1**	**4,182.2**
31 December 2018							
Look-through basis							
Government debt securities	–	1,577.1	0.2	–	–	–	1,577.3
Corporate debt securities	–	935.9	–	–	–	–	935.9
Structured products	–	0.1	16.7	–	–	–	16.8
Equity securities	575.8	–	29.5	–	43.0	–	648.3
Alternative investments	–	–	8.7	–	–	–	8.7
Cash and cash equivalents	–	–	1.1	818.2	–	–	819.3
Investment related derivatives	–	–	–	–	–	3.3	3.3
Total invested assets (statutory)	575.8	2,513.1	56.2	818.2	43.0	3.3	4,009.6

Invested assets – look-through basis (US$m)



Investment return (net of fees) (%)



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

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

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

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

At 31 December 2019, 81.1% of our invested assets were investment grade quality (2018: 82.5%). An analysis of the credit quality of our invested assets is set out below:

Invested assets by rating

	2019 %	2018 %
AAA	**38.8**	49.1
AA	**8.3**	8.6
A	**21.1**	13.0
BBB	**12.2**	8.2
P-1 and P-2	**0.7**	3.6
Other	**18.9**	17.5
Total	**100.0**	100.0

Other includes equities and investment related derivatives

Gearing

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

Brit has in place a US$450m revolving credit facility (RCF), expiring on 31 December 2022. Under our capital policy we have identified a maximum of US$250.0m (2018: US$250.0m) of this facility to form part of our capital resources, with the balance available for liquidity funding.

At 31 December 2019, the cash drawings on the facility were US$140.0m (2018: US$8.0m) and a US$80.0m uncollateralised letter of credit (LoC) was in place (31 December 2018: US$80.0m/uncollateralised) to support our underwriting activities. At the date of this report, cash drawings had reduced to US$65.0m and the US$80.0m uncollateralised LoC remained in place.

In addition, we have in issue £135.0m of 6.625% subordinated debt with a carrying value of £133.0m/US$176.2m (31 December 2018: £131.0m/US$166.9m). 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.

Foreign exchange management

At 31 December 2019, our US-dollar denominated net assets were 85.6% of our total net assets, reflecting the currency denomination of the majority of the business we write. Our net assets, analysed by currency, are as follows:

Net assets/(liabilities) by currency

	2019 %	2018 %
US dollar	**85.6**	83.4
Sterling	**8.4**	7.3
Canadian dollar	**4.1**	4.3
Euro	**1.5**	2.2
Australian dollar	**0.4**	2.8
Total	**100.0**	100.0

The reporting currency for the Group's consolidated Financial Statements is US dollars, as are the functional and reporting currencies of a number of our subsidiaries, including all of our underwriting subsidiaries. A portion of our revenues and expenses, and assets and liabilities, are denominated in currencies other than US dollars, hence we are exposed to fluctuations in the values of those currencies against the US dollar. These fluctuations impact our reported operating results and our assets and liabilities.

We have sought to reduce the impact on our stakeholders of the effects of movements in foreign exchange rates by matching the currencies of our liabilities and capital requirements with the assets we hold. As a consequence of this, because we report our results in US dollars, we import some exchange rate volatility into the income statement through the revaluation of our net tangible assets. The Group's NTA is, however, largely matched against our capital requirement, protecting our shareholders against the risk of additional capital being required as a result of FX volatility. Any excess is held in US dollars.

principal risks and uncertainties

Risk management framework

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

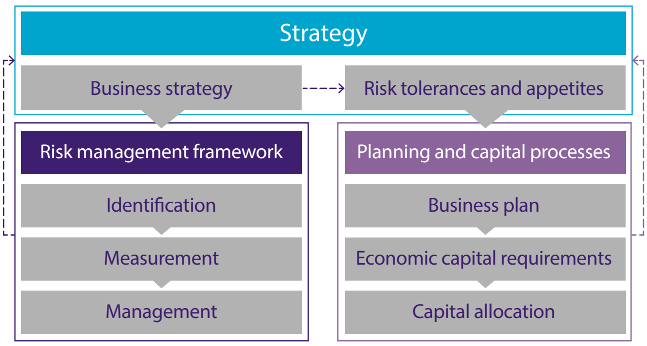
Brit's Risk Management Framework (RMF) applies a consistent methodology and structure to how risks are identified, measured, managed and monitored. This process enables us to protect policyholders and maximise shareholder value by ensuring the risk and capital implications of business strategy are well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

The RMF has the following key elements:

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

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

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



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

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

Risk governance

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

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

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

Key risks

The RMF categorises the risks to Brit as follows:

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

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

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

Risk category	Risk	Description	Principal risks
Overarching	Strategic	Risk that Brit's strategy is not appropriate or is not implemented effectively	
	Earnings	Unexpected earnings volatility leads to unexpected losses.	
	Solvency	Capital ratio falls below the level targeted by management.	
Insurance	Underwriting – pricing	Emerging experience is inconsistent with the assumptions and pricing models used.	✓
	Underwriting – natural catastrophe	Natural catastrophe events impacting Brit's (re)insureds, leading to large volumes of claims.	✓
	Underwriting – man made catastrophe	Extreme man-made events, such as terrorist attacks, impacting Brit's (re)insureds, leading to large volumes of claims.	
	Underwriting – reinsurance	Failure to obtain reinsurance on attractive terms, or failure to recover under reinsurance arrangements.	
	Reserving	Prior year reserves are insufficient to cover claims (net of reinsurance).	✓
Investment	Investment market risk	Invested assets adversely affected by changes in economic variables, such as interest rates, bond yields, equity returns, credit spreads, credit ratings.	✓
	Currency	Exchange rate fluctuations materially impact our financial performance.	
	Liquidity	Insufficient financial resources available to meet liabilities as they fall due.	
Credit	Counterparty risk	Deterioration in the creditworthiness of, defaults by, or reputational issues related to, reinsurers or other third parties with whom we transact business.	
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.	✓
	Systems and processes	Failure of our systems or processes, impacting our ability to conduct business and our ability to provide continuity of service to our clients.	
	Information security	Failure to properly protect information could compromise the confidentiality, integrity or availability of our information and data, potentially resulting in financial loss and legal, regulatory and reputational consequences.	
	Outsourcing arrangements	Failure on the part of any third party to perform agreed outsourced services, on which we are heavily reliant.	
	Reputational	Damage to reputation due to actions taken by Brit or related parties and the impact this has on Brit's business and operations.	
	Regulatory & legal	Legislation or regulation adversely affects Brit's operations.	
	Change management	Major projects or other key changes are not implemented effectively.	

principal risks and uncertainties

Principal risks

The table below provides additional information on the principal risks in the current environment and how we manage them.

Principal risk	Mitigation tools	Metrics	Status
Underwriting – pricing			
Inadequate pricing could have a material adverse effect on our results for underwriting operations and financial condition.	• Strategic focus on underwriting performance rather than on top line growth. • Strong governance processes around strategy and planning. • Pricing discipline is maintained though strict underwriting guidelines, monitoring of the delegated authorities and enforcement of the technical pricing framework. • Efficient use of the outwards reinsurance programme. • Monitoring of risk adjusted rate change.	Risk adjusted rate change (2019: increase of 5.9%; 2018: increase of 3.7%).	We have seen positive rate rises in 2018 and 2019. However, these increases follow four years of rate reductions. Active rebalancing of the portfolio remains a key focus for management.
Underwriting – natural catastrophe			
A catastrophic event or catastrophic events could result in large insured losses that adversely impact our financial results and potentially our capital position.	• Diverse portfolio of risks written between lines of business and geographic location. • Regular modelling and monitoring against the Board catastrophe risk appetite by our exposure management team. • Effective outwards reinsurance programme in place, with particular emphasis on managing accumulation of risks. • Clear limits set for key accumulations and conservative use of line size by our underwriters. • Identification and monitoring of emerging risks such as climate change.	Largest realistic disaster scenarios (1 October 2019 estimated loss in US$m): see table below	An aggregate catastrophe excess of loss cover is in place to protect the Group against combined property claims from multiple policies resulting from catastrophe events. This is supplemented by specific covers for peril regions, catastrophe swaps and industry loss warranties where they are a cost-efficient means to ensure that the Group remains within its catastrophe risk appetite.
Reserving			
Estimating insurance reserves is inherently uncertain and, if insufficient, may have a material adverse effect on our results and financial condition.	• Conservative best estimate reserving philosophy with track record of releases. • Actuarial team recommend reserves independently from underwriting division using established actuarial techniques. • Independent external review of reserving is performed annually.	Reserve release ratio (2019: 2.9%; 2018: 6.1%).	Reserves are held at a 'conservative best estimate' and we also carry an explicit risk margin. No change in approach from prior years.

Largest realistic disaster scenarios (1 October 2019 estimated loss in US$m):

Event	Gross	Net
Gulf of Mexico windstorm	827	151
Florida Miami windstorm	868	128
US North East windstorm	845	149
San Francisco earthquake	1,038	191
Japan earthquake	291	142
Japan windstorm	78	47
European windstorm	96	59

Principal risk	Mitigation tools	Metrics	Status
Investment risk			
Invested assets are susceptible to changes in economic conditions. A decrease in the value of our invested assets may have a material adverse effect on our results, financial condition and liquidity.	• Strong governance processes around investment strategy. • Regular monitoring against the Board investment risk appetite which includes defined limits for solvency, earnings risk and liquidity risk. • Investment guidelines in place for individual asset classes and monitored regularly.	Return on invested assets, net of fees (2019: 3.6%; 2018: (2.0)%). Running yield (2019: 1.5%; 2018: 2.3%).	Markets remain volatile. Our portfolio at the year end remained highly liquid and was primarily invested in cash and fixed income securities.
People			
We could be adversely affected by the loss of key employees or by an inability to attract and retain qualified personnel.	• Our remuneration strategy (including share-based remuneration) is designed to reward talent and success. We have a proven track record in being able to retain high-performing staff. • Succession and contingency plans are in place in the event of the loss of a key employee. • Regular monitoring of employee turnover and morale.	Staff turnover (2019: 10.1%; 2018: 8.9%).	The current environment remains competitive with a number of our peers actively seeking talented staff. We actively manage our remuneration and HR policies to ensure we continue to retain and attract the best staff. Current turnover rates remain well within our appetite.

Emerging risks

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

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

Climate change related financial risks

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

United Kingdom's exit from the EU (Brexit)

We have continued to work to minimise the impact of Brexit on Brit and our clients. While direct European business is not material for Brit, we have continued to monitor and evaluate the associated risks and have implemented the processes and business changes required to write business onto Lloyd's new Brussels-based European insurance company (LBS), of which we are fully supportive.

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

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

our people, culture, social, community and environmental matters

Introduction

In order to generate value, we recognise that our people, culture, social and community strategies must be both sustainable and aligned to the long-term interests of all our stakeholders. We seek to make both a positive contribution to society and to be aware of the long-term consequences of our actions. We also seek to generate new commercial opportunities by developing strong stakeholder relationships and by recruiting and retaining a highly skilled, engaged and motivated workforce.

Our people and culture

Our people are our greatest asset and managing our talent appropriately contributes significantly to our success.

During 2019 we continued to strengthen our highly committed team. Through the attraction and recruitment of new talent and the ongoing development of existing expertise, we continued to embed a culture of achievement in the organisation. This has resulted in employees feeling valued for their contribution as part of a team working towards the same goals.

Our culture is communicated and lived through an established framework that identifies and rewards strong performance. Business plan goals are aligned to our Group vision and used to determine individuals' objectives, ensuring that all employees understand the part they play in the Group's success.

We are committed to developing the technical, behavioural, management and leadership skills required for our teams to outperform – both individually and collectively. We continue to invest in the future of Brit through our leadership, graduate and intern programmes and our bi-annual succession and talent mapping exercise, all of which aim to grow expertise from within and ensure robust succession plans.

Brit Syndicates Limited has Chartered Insurer status through the Chartered Insurance Institute. This prestigious designation signifies to our customers – and the market – that we are committed to the pursuit of the highest standards and demonstrates our adherence to ethical good practice.

Brit's cross-functional Social Committee continued to organise a range of social, community and charitable events for employees during the year.

The 2019 staff turnover rate excluding retirements and redundancies was 10.1% (2018: 8.9%).

At 31 December 2019, 37.1% (2018: 39.9%) of staff had completed at least five years of service and 15.2% (2018: 15.7%) had served at least ten years.

Details of Brit's employment policies are given in the 'Employment' section of the Directors' Report on page 57.

Staff engagement

We want to engage with our employees and invest in their future so that they do not just progress, but thrive – both professionally, and emotionally. By developing and retaining a highly skilled, engaged and motivated workforce, we can generate value for them, the Company and our other stakeholders.

The Board principally engages with its workforce through its executive Directors. Brit believes in two-way communication between directors, managers and all staff. It has a number of initiatives and processes designed to support and encourage this, including:

- An employee engagement survey, which takes place every two years across the Group. This is a key mechanism for assessing the views of our staff and leads to further engagement with them. The most recent engagement survey was held in late 2018. We had an excellent response rate of 91% and feedback was generally very positive.

  The survey results were discussed at the executive level and then presented to all staff by the Chief Executive Officer. The findings were also presented to the Board by the Chief Engagement Officer.

  Following this, an employee engagement group (EEG) was established, representing all areas of the business, to encourage free and open discussion and wider participation on employee engagement matters. Its primary objective is to further develop engagement strategy through the delivery of a number of initiatives, including targeted surveys and focus groups, and to make recommendations to the Executive Committee.

  The survey results for each department were also made available and department heads were encouraged to enter into a two-way dialogue with their teams, with further initiatives encouraged at this level.

- Executive Blogs – These blogs provide a useful medium through which the Executive Committee and other members of senior management can update employees on matters such as the group's performance, initiatives and other developments, charitable activities and market conditions. All employees are encouraged to respond with a question or comment to help facilitate understanding and debate.
- Town Halls – Each month, a member of the executive committee presents on their area of focus. All staff are invited to these presentations, which are followed by questions and discussion. These presentations are recorded and made available to those unable to attend.
- Spotlight series – These in-depth interviews are circulated to all staff and are a way to highlight new initiatives and projects. Recent topics have included the engagement survey and a series highlighting cross functional staff moves.
- Team Meetings – At Brit, team meetings are encouraged both at a macro and micro level.

our people, culture, social, community and environmental matters

- Intranet – The Brit intranet site provides a central point of information, news and announcements to support working lives at Brit and provide access to tools and systems essential to people performing their roles.
- Email announcements – To communicate significant or high profile news to all employees or groups of employees.
- In November 2019, Brit held its third annual 'celebrate the difference week', which provided a focus on individuals making a personal difference both to themselves and others. It concentrated on a variety of topics from working inclusively, understanding the positives that arise from businesses who have diverse and inclusive employee populations, mental, physical and emotional well-being. The various sessions, mainly hosted by external specialists, were well attended and well received.

Engagement with our staff allows us to assess the extent to which they are motivated. Such motivation contributes to the success of our organisation. Engagement also identifies areas we need to focus on to continue to develop staff motivation. High engagement results have a positive impact on our team performance and employee retention, our service quality (both internally and externally), and our overall business performance, ultimately benefitting all stakeholders.

Inclusivity sits at the centre of our culture. Through 2019, we have run training programmes focussed on inclusion and diversity, held focus groups and strengthened our relationship with external organisations and in 2020 we will launch our Inclusion and Diversity Forum. In 2019, we have continued to promote Brit and the London Market to attract a more diverse workforce. We work with the Brokerage to educate and offer work placements to state schools based in Inner London boroughs and we also support the London Insurance Life Campaign. Through these initiatives we have run 'Career Insights days' at our offices, offered internships and taken part in Careers Fairs at Lloyd's. Matthew Wilson was the sponsor of the LMG Talent and Diversity workstream throughout 2019.

Social and community

We are committed to supporting the communities in which we operate and charities that are meaningful to employees. Our objective is to select charitable giving and community projects based on three criteria: projects should be for a good cause and operate in an area relevant to us, financial involvement should be for the benefit of the good cause, and projects should offer alignment with our strategic priorities.

During 2019 we again supported ten charities chosen by employees. The charities selected for 2019 were Crohn's and Colitis UK, Saint Francis Hospice, Cycle for Survival, The Tom Bowdidge Youth Cancer Foundation, Operation Healing Forces, CLAPA – Cleft Lip and Palate Association, Isabel Hospice, Sands Charity, Operation Catnip of Richmond and the Terence Higgins Trust. We donated a sum of money to each charity at the start of the year and continued with fund raising activities through the year. A further ten staff-nominated charities have been selected to receive our support in 2020.

Our Social Committee also organised a number of volunteering days in the local community. We further promote staff involvement in the community by granting every employee two additional days of paid leave a year to volunteer their time to a registered local charity.

The 2019 volunteering activity continued Brit's support for a school that educates boys and girls from the age of five to 18 in Kibera, the largest slum in Africa. The school does not discriminate between religion or tribal allegiance but instead believes in its motto that 'knowledge is power'. The experience was invaluable, not just from the bringing together of staff from across Brit who previously had never met and the team building it generated, but also by making a positive change to the school's environment. It is inspiring to see Brit have such a positive effect on peoples' lives, but equally humbling to know people live in environments many of us could not even imagine. We look forward to continuing our support in 2020.

We have supported Team BRIT, a team of disabled motor racing drivers, since 2017. For 2019, we signed a new two year contract with Team BRIT, as title sponsor, that will allow them to launch a racing academy. Brit is extremely proud to be the sponsor behind the academy. It will offer something never previously available – the chance for any disabled driver to gain access to expert tuition and coaching, plus the technology they need, to allow them to gain a race licence and become competitive against anybody else on the race track.

In July 2019 we announced that we were delighted to be supporting Great Ormond Street Hospital (GOSH) as one of our chosen corporate charities. GOSH is a world leading children's hospital based in London. Brit employees will help raise money for GOSH by attending a number of fundraising events, the first was a 'Race for the Kids' family fun run held in October.

We also run a payroll giving scheme and match any money raised by employees participating in charitable events.

During 2019, Brit donated US$0.6m (2018: US$0.7m) under its charitable initiatives. In addition to this, Brit employees completed 104 volunteering days (2018: 134 days).

Environmental responsibility

At Brit we take our environmental responsibilities very seriously and continually seek to improve the sustainability of our business. In 2019, we launched an initiative to offset all the carbon emissions associated with our air travel by ClimateCare (www.climatecare.org). For every tonne of CO_2 generated we fund the equivalent reduction through ClimateCare's carbon reduction projects – neutralising our flight impact and helping to address climate change.

We strive to reduce the levels of recyclable and non-recyclable waste we generate. During 2019 we recycled 7.6 tonnes of paper waste (2018: 7.4 tonnes) and we sent 16.6 tonnes of general waste to energy recycling (2018: 32.0 tonnes). In 2019, we also recycled 1.4 tonnes of glass (2018: 0.9 tonnes), 5.1 tonnes of cardboard (2018: 5.1 tonnes) and 0.2 tonnes of food waste (2018: 4.3 tonnes). During 2019, in conjunction with our building managers, we continued to work hard to reduce waste sent to landfill. At December 2019 we remained fully ESOS compliant.

We continue to use a business dining and internal hospitality provider that is committed to the principles of sustainable food procurement. It recognises that it is important to the future wellbeing of the UK that farming communities are supported and able to contribute to their supply chains.

We measure and monitor our carbon footprint. In 2019 our carbon emissions per employee before offset were 7.1 tonnes (2018: 7.3 tonnes), which reduced significantly after offset to 0.6 tonnes per employee. The sources of these emissions were as follows:

Emission source

	2019 CO2 (tonnes)	2018 CO2 (tonnes)
Gas	**357**	305
Electricity	**385**	389
Business air travel	**3,862**	3,884
Business travel other	**5**	3
Total carbon footprint before offset	**4,609**	4,581
Offset	**(4,220)**	–
Total carbon footprint after offset	**389**	4,581
Number of employees at 31 December, excluding NEDs	**645**	631
Carbon footprint per employee before offset	**7.1**	7.3
Carbon footprint per employee after offset	**0.6**	7.3

stakeholder engagement

The Board recognises the importance of engaging with its broader stakeholder base. The Company's key stakeholders, as identified by the Board, are set out below, together with why and how we engage with them and the outcomes of that engagement.

Clients and Intermediaries

Why we engage	Form of engagement	Impact of engagement
We care deeply about our clients' needs and work with brokers and partners to share expertise and deliver a seamless service for the end insured. As a specialty insurer, almost 100% of Brit's business is distributed via intermediaries. In London, the majority of this is via Lloyd's brokers and in BGSU via both wholesale and retail intermediaries. Engagement and building strong relationships with our intermediaries is crucial for us to source business and to deliver the best service and products for our insureds. Intermediaries also provide a range of services to Brit, for which we remunerate them via brokerage and commissions.	Intermediary engagement commences before any formal relationship is entered into, with a robust on-boarding governance process. Post on-boarding, Brit underwriters engage with intermediaries in a number of ways, including face to face and via electronic means. To maximise our intermediary relationships, Brit has entered into strategic partnership agreements with six of our largest brokers, covering over 50% of our gross premium. Under these agreements Brit pays an annual fee, which gives access to a range of services including regular engagement and introductions, data provision and consultancy. All new and renewal agreements require full Board approval.	By engaging with clients and intermediaries we provide a risk service that helps clients not only prepare for but manage and mitigate the risks they face. By building stronger and deeper relationships with our intermediaries, we believe we put ourselves in a stronger position to quickly take advantage of new opportunities and understand and satisfy changing customer needs. The data provided to us by brokers allows us to have more informed discussions and make more informed decisions. One of our key areas of focus is the management of acquisition costs. We are working with a number of our major broking partners to explore ways we can work together via digital platforms to reduce overall cost and improve efficiency for our mutual business models.
When a client has a claim, their life or business has been disrupted, or even put in peril, they expect their insurance to deliver. It is our responsibility to fulfil that commitment. At Brit, we do not treat claims as a process; we see every claim as an opportunity to help our clients move forward.	When a client has a claim we adopt a proactive approach. We engage directly with them or their intermediary to ensure their needs are met. Following a major loss event, we instigate additional measures including establishing 24/7 contact with claims administrators, extending deployment of Brit claims adjusters from London and swiftly establishing dedicated loss funds.	Engagement with our clients, intermediaries and other service providers after an event reinforces our provision of a risk service that helps people not only move on from an event but helps them to move forward rapidly with confidence.

Reinsurers

Why we engage	Form of engagement	Impact of engagement
Brit purchases reinsurance to help manage risk, reduce volatility, enhance earnings, control aggregations and create capital efficiency. Brit's risk appetite is defined by its outwards reinsurance strategy and plan, which is approved as part of the annual business planning process. We also engage when we make recoveries under the cover we have purchased.	Brit uses its appointed brokers for the majority of reinsurer interactions, allowing us to benefit from their expertise. Brit also engages directly with reinsurers, such as when there is a need to achieve broader strategic aims which would involve more than one broker. These tend to be with our largest reinsurance counterparties.	This engagement allows Brit to access up to date market information and to access a broad range of reinsurance counterparties and reinsurance products, thereby managing its risk appetite in the most effective way. It also aids the administration of reinsurance products and may give Brit access to a range of advisory functions on contract wordings, financial modelling and ancillary functions. When we make recoveries, such engagement helps to expedite the recovery process.

Investment managers

Why we engage	Form of engagement	Impact of engagement
We are responsible for managing the assets which support our underwriting and ensure that clients' claims can be paid. We manage those assets with a long-term view and aim to maximise return while controlling the level of market risk. We implement our investment strategy using the expertise of investment managers, whose mandates are set out in investment management agreements (IMAs). We engage with our investment managers to monitor their performance and to ensure assets are managed within the restrictions set out in the IMAs. We also gain additional insights and expertise by engaging with investment managers.	We have regular discussions with our managers to monitor performance and assess the outlook for investment markets. We also receive regular written investment reports covering positioning, investment performance and outlook. We have regular and ad-hoc calls and meetings with managers to review new investment opportunities and to assess their suitability for our portfolio. Investment managers regularly present to the Board and Investment Committee Board. We also perform annual due diligence meetings to review the operational aspects of the investment managers' processes.	Engaging with our investment managers allows us to ensure that the assets are managed within our risk tolerances and guidelines and that any changes are implemented in a timely fashion. We receive insights from our investment managers which enhances our investment strategy and performance. Engagement allows us to discuss potential new opportunities with our investment managers, adding diversification and resilience to our portfolio. Discussions also help us to understand their approach to environmental, social and governance issues, including climate risk and stranded assets, validating the sustainability of the portfolio. Our operational reviews confirm assets are managed robustly and controls the risk of fraud within the investment managers and other third parties.

stakeholder engagement

Capital providers

Why we engage	Form of engagement	Impact of engagement
Working with third party capital providers on Syndicate 2988 and Sussex creates the opportunity to increase Brit's leadership footprint and proposition to clients. It also leverages our operational infrastructure resulting in a more expense efficient model for both us and our capital providers. Engagement with third party capital providers also supports our growth strategy for those vehicles.	Brit engages with prospective third party capital providers ahead of an underwriting year, to market the Syndicate 2988 and Sussex propositions and to understand investor appetite and capacity. After an underwriting year incepts, Brit formally meets each provider regularly to discuss performance, outlook and any other relevant matter. Ad-hoc queries and requests for information are also welcomed. Most interaction is via face-to-face discussion or by conference call.	The successful implementation of the Syndicate 2988 and Sussex strategies is dependent on developing strong relationships with third party capital providers. Such engagement helps facilitate this. The insight we gain from our regular interactions and feedback helps Brit to ensure that our propositions can continuously evolve in line with investor appetite.

Regulators

Why we engage	Form of engagement	Impact of engagement
Regulators are key stakeholders for any regulated business and Brit's Board is pro-active in ensuring that Brit meets regulators' expectations around compliance, transparency and aligning the business with regulators' objectives. Brit engages with regulators to ensure that: • We understand their regulatory objectives and how they apply to Brit; • Regulators have a proper understanding of Brit's business model, strategy and risk appetite; and • Regulators understand how Brit's business model, risk appetite and operational processes and controls are aligned to regulatory objectives.	Brit engages with its principal regulators through: • Regular face-to-face meetings between supervisory teams, key decision-makers and authorised persons at Brit, including executive and non-executive Directors; • Sharing of key business updates and internal documents including board and committee papers to ensure regulators have a thorough understanding of Brit's business and the opportunity to ask questions about it; • Responding to thematic reviews and information requests as required; • Engaging with Lloyd's across the business including around business planning and compliance with Minimum Standards; and • Ensuring the Board is kept up-to-date on regulatory matters as communicated by regulators.	Engagement with regulators impacts Brit through: • The Periodic Summary and Close and Continuous supervision approach by the PRA enables Brit to respond promptly to the PRA's regulatory concerns and areas of regulatory focus; • Engagement with regulators on thematic reviews and information requests enables Brit to contribute to regulators' understanding of how the market operates and best practice; • Brit's regular engagement with regulators enables it to pro-actively plan its response to areas of regulatory focus, e.g. operational resilience; • Engagement with regulators assists Brit to meet the prudential and conduct standards required by regulators; and • Directors and employees understand their regulatory responsibilities.

Key suppliers

Why we engage	Form of engagement	Impact of engagement
Supply chain integrity is a critical part of our business, as we rely on a number of key suppliers of goods and services to help us meet the needs of our customers' and those of other stakeholders. Ongoing engagement with such suppliers helps us ensure that those needs are met and ensures that the standards set by those suppliers meet Brit's criteria. Such suppliers include providers of IT systems, claims management, professional services, facilities and travel providers.	Brit determines the risk of the potential engagement by investigating the potential spend value, criticality of the services to be provided and personal information to be shared between parties. Brit has strong partnerships with a number of critical suppliers. These partnerships are fostered by a range of activities including ongoing dialogue and meetings at both executive and function owner level. We also engage with key suppliers in areas such as technical and product roadmaps, integration planning and disaster recovery. Brit also has a rigorous on-boarding process for new suppliers.	Such supplier engagement enables us to: • Provide a better service to and satisfy the needs of our customers and other stakeholders; • Enhance current operational processes, leading to better efficiencies and increased competitive advantage in the market place; • Comply with appropriate laws and regulations, by implementing suitable controls and measures; • Improve the company's technological resilience; and • Ensure the robustness and integrity of our suppliers, such as their compliance with the Modern Slavery Act 2015.

Members

Why we engage	Form of engagement	Impact of engagement
Brit Limited is 89.26% owned by Fairfax Financial Holdings Limited (FFHL) and 10.74% by the Ontario Municipal Employees Retirement System (OMERS). Our aim is to provide long term sustainable value for our shareholders. Engagement ensures that our objectives are aligned and that our strategy, operating environment and performance are clearly understood.	Both of Brit's ultimate shareholders are represented on the Brit Limited board and there is regular contact between Brit executives and senior management and those of our majority shareholder.	This engagement helps ensure that Brit's strategy is aligned to and supported by our shareholders. Such engagement also presents us with underwriting and investment opportunities, and can result in favourable collaboration with other members of the Fairfax Group.

section 172(1) statement

Introduction

As Directors of Brit Limited, our key responsibility is to promote the success of the Company. This principle is embodied in our terms of reference and is the cornerstone of our discussions and our decision making. Each Director is cognisant that in discharging this key responsibility, they must have regard to:

- The likely consequences of any decisions in the long-term;
- The interests of the company's employees;
- The need to foster the Company's business relationships with suppliers, customers and others;
- The impact of the Company's operations on the community and environment;
- The desirability of the Company maintaining a reputation for high standards of business conduct; and
- The need to act fairly as between shareholders of the Company.

The Directors of Brit Limited consider, both individually and collectively, that they have acted in the way they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole (having regard to the stakeholders and matters set out in s172(1)(a-f) of the Act)

The Board's approach to section 172(1) and decision making

The Board's terms of reference, which are reviewed annually, clearly articulate the Board's responsibilities, the role of the Chair and matters reserved for the Board. They also set out which of the Board's powers and responsibilities may be delegated to other committees and the governance mechanisms by which the Board monitors those committees' activities and performance. The Chair ensures that these terms of reference are adhered to and, by doing so, ensures that Directors have due regard for all appropriate factors during the decision-making process.

Our strategy

The Board is responsible for a number of key strategic decisions, including approving the business plans, objectives and strategy of the Company. It is also responsible for conduct risk strategy and appetite, for recommending dividends and for setting dividend policy.

The Company's strategy and business plans are approved annually by the Board. The Board also assesses how the strategy underpins long-term value creation by discussing and approving a three-year plan. Such matters are also discussed at the Group's annual strategy review and planning day, in which the Directors of the Company and its principal subsidiaries participate. On-going performance is discussed and monitored at Board meetings.

The Directors' assessment of long-term value creation also considers the Company's resilience. The Directors determine and monitor underwriting, reserving, business, operational, credit, market and liquidity risk appetites and tolerances. They ensure the Company has an effective risk management framework in place, approve its conduct risk strategy and appetite.

Board information

The Board receives regular information on a range of relevant topics, and receives confirmation on other areas as requested by the Directors from time to time.

The Board receives regular formal reports on the operations and performance of the Company from the Group Chief Executive Officer and the Group Chief Financial Officer. The Board also receives regular reports from the chairs of the committees of the Board such as the Audit Committee, Remuneration Committee and Nomination Committee, and from the chairs of its principal subsidiaries' boards including those of Brit Syndicates Limited and Brit Reinsurance (Bermuda) Limited. It also receives the minutes of meetings of these bodies. Each of these reports provides an update on areas necessary to help the Directors promote the success of Brit Limited.

In addition, the Board receives and considers a number of annual reports, such as the 'Whistleblowing Annual Report'.

From time to time the Board receives detailed reports on specific areas for it to consider. During 2019, such reports included a 'Group Capital Update' and a 'Group Investment Update'.

Our policies and practices

All relevant factors are appropriately addressed by the Board when considering matters reserved for it, as set out in its terms of reference.

The Board also ensures that appropriate consideration is given to relevant factors by the committees to which it delegates responsibilities. The Board reviews the terms of reference of such committees on an annual basis, and receives regular updates and reports from those committees' chairs.

The Board also reviews the Company's key policies on an annual basis, ensuring that all relevant considerations to assist it discharge its responsibilities are embedded in the key operations of the business. These policies help to promote the long-term success of the Company by focusing on areas such as the key operations of the Company.

The Board reviews its key stakeholder map on an annual basis. New key stakeholder relationships are identified through information received and considered by the Board on a regular basis, or through the Board's consideration and approval of substantial contracts and commitments.

Training

To assist the Directors discharge their responsibilities, they are provided with on-going training and development

Section 172(1) Statement

opportunities. They have received a number of in-depth briefing papers on specific relevant issues.

For the wider workforce, there is a comprehensive staff development programme tailored to meet individual needs. Elements of this training are mandatory, with all staff required to successfully complete e-learning modules on key areas such as money laundering, bribery and corruption, data protection, fraud and cyber risk.

Our culture

Building and maintaining the Company's reputation and its high standards of business conduct are essential to the future success of the Company. This is embedded in our culture.

In October 2019, we launched our new brand purpose (see page 4). Our brand purpose informs everything we do, from how we communicate, to how we develop and deliver our services, to how we work together. Our purpose informs our core philosophies, which are set out on page 9.

The Company also maintains a 'Code of Conduct' setting out the standard we expect from all of our staff. This is regularly reviewed and updated, and compliance is attested to by each employee on an annual basis.

Our people

Our people are key to our success. How we engage with them and how we invest in them is set out on pages 43 to 45.

Our stakeholders

The Board recognises the importance of engaging with its broader stakeholder base. The Company's key stakeholders, as identified by the Board, are set on pages 46 to 49, together with why and how we engage with them and the outcomes of that engagement.

Community and environment

The Board recognises the importance of not only generating value for shareholders but also to contribute to wider society. We do this through a number of initiatives, as set out on page 44. We also monitor and manage our environmental impact, as set out on pages 44 to 45.

Key decisions made by the Directors during the year

Share issues and dividends

On 29 April, the Board agreed the issue of 4,800,000 class B shares, which were acquired by Fairfax for a contribution of US$20.6m, and approved a dividend payment of US$20.6m to Brit's minority shareholder, OMERS. On 26 June, the Board approved the issue of an additional 11,627,907 class B shares, which were acquired by Fairfax for a further contribution of US$50.0m.

In considering these decisions, the Directors assessed Brit's ongoing underwriting strategy and capital requirements, and its obligation to act fairly between members. It was mindful of its agreed obligations to its minority shareholder and to its majority shareholder, Fairfax, whose ownership of Brit increased from 88.9% to 89.3% as a result of these transactions.

2018 financial statements and reserving position

The Executive Directors approved the financial statements for the year ended 31 December 2018, on 13 February 2019. As part of this process, the Directors considered and approved the underwriting reserves held by the Group's underwriting entities.

In considering these key factors and in approving the final reserving position, the Directors were mindful of the importance of maintaining the Group's policy of reserving on a conservative best estimate basis. This policy provides robust security to our policyholders, while ensuring the long-term financial strength of the Group in the long-term, thereby protecting the interests of our key stakeholders including our clients, members and employees.

Acquisition of Ambridge Partners LLC

In April, the Board proceeded with the completion of the acquisition of the remaining 50% of Ambridge Partners LLC (Ambridge). Brit made an initial 50% strategic investment in Ambridge in 2015 and Ambridge has been a key trading partner of Brit for the past thirteen years. Ambridge retains its independence, continuing to underwrite as a managing general underwriter on behalf of its existing broad Brit-led consortium of Lloyd's syndicates and international insurers.

This acquisition continues Brit's strategy of selective international expansion into niche specialty businesses with a strong track record in distribution and underwriting. It will provide added long-term value for our members, increasing revenue channels for the Group while cementing access to profitable underwriting risks. It also provides an integrated solution for our clients and helps foster the Group's business relationships with those clients.

2020 business plan and capital requirements
The Directors selected and approved the 2020 business plan. The plan included the Group's underwriting and investment strategy, together with the capital needed to support the plan.

The Directors considered the Company's immediate and longer-term strategic priorities, together with the risks facing the business. They also considered the needs and expectations of the Company's shareholders, the interest of its clients and employees, and those of the wider stakeholder group. After due discussion, the Directors concluded that the plans and attaching capital requirements positioned the Company well for 2020 and the longer term.

Approval of policies
During 2019, the Directors reviewed and approved the Company's key policies, including the whistleblowing Policy and the Fit and Proper Policy.

In approving these policies, the Directors considered whether they support the strategic aims of the Company, and whether all relevant considerations were satisfactorily embedded in the key operations of the business. Such integration helps ensure the Group's approved operational practices are clearly articulated to and understood by all relevant employees, ensuring our reputation for high standards of business conduct is maintained. Such practices in turn will help ensure our longer-term strategic aims are delivered, in the interests of all our stakeholders.

Governance

Directors' Report
This report sets out other information of interest to shareholders. It includes information on our significant shareholders, the Directors' responsibility statement and Directors' statement on going concern.

Corporate Governance Report
This report explains our governance framework.

Modern Slavery and Human Trafficking Statement
This statement sets out the steps taken by us to ensure that slavery and human trafficking are not taking place in our supply chains or in any part of our business.

directors' report

The Directors present their report together with the audited consolidated financial statements for the year ended 31 December 2019.

Principal activities, review of business and other disclosures

Details of the Company's principal activities and a review of the business, including how the business environment is likely to affect its future development and performance, are included in the Strategic Report.

Directors

The following Directors held office at the date of this report:

Gordon Campbell

Matthew Wilson

Mark Allan

Andrew Barnard

Jeremy Ehrlich

Andrea Welsch

Statement of Directors' responsibilities

The Directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires that the Directors prepare financial statements for each financial year. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit and loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and accounting estimates that are reasonable and prudent; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

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

Dividends

On 29 April 2019, the Company paid a dividend of US$20.6m to the holder of its class A ordinary shares. The Directors do not recommend a final dividend.

Share capital

The Company's ordinary issued share capital at 31 December 2019 comprised two classes of ordinary shares, class A ordinary and class B ordinary, which are fully paid.

Voting rights

The Company's articles of association provide that a resolution put to the vote of a general meeting must be decided on a show of hands unless a poll is duly demanded in accordance with the articles.

Articles of Association

The Company's articles of association may only be amended by the unanimous approval of the Company's shareholders.

Shareholders

The Company's two shareholders at the time of this report are as follows:

Shareholder	Units	Class	% of total A and B ordinary shares
FFHL Group Limited	398,977,185	B Ordinary	89.26
OMERS Administration Corporation	48,000,000	A Ordinary	10.74

On 29 April 2019, FFHL Group Limited subscribed for 4,800,000 new Brit Limited class B ordinary shares for US$20.6m, increasing its holding in Brit Limited to 88.97% of the total. On 26 June 2019, FFHL Group Limited subscribed for a further 11,627,907 new Brit Limited class B ordinary shares for US$50.0m. As a result of these transactions, FFHL Group Limited's holding in Brit Limited increased to 89.26% of the total.

Significant agreements

The following agreement which was in force at 31 December 2019, takes effect, alters or terminates on a change of control of the Company.

Revolving Credit Facility

The Group has a syndicated revolving credit facility (RCF) which provides for US$450.0m of committed multi-currency financing. Amounts under the RCF can be drawn until 30 November 2022, and the RCF terminates on 31 December 2022, on which date all outstanding facilities must be repaid.

The RCF also contains a change of control provision under which, upon the occurrence of a change of control, the lenders may refuse to fund utilisation requests under the RCF, cancel their commitments and demand immediate repayment of all outstanding amounts.

Employment
Brit is an equal opportunities employer. This means we will not unlawfully discriminate against any person on grounds of colour, religion or belief, race or ethnic origin, nationality or national origin, sex or sexual orientation, marital status, disability, age, pregnancy or maternity, or gender reassignment. We have established policies to ensure that there is no discrimination against applicants for a job or whilst in employment.

The Company is committed to ensuring equal opportunities in relation to job advertisements, recruitment and selection, assessment of work performance or conduct, disciplinary and grievance procedures, conditions of service, promotion and training, pay and benefits and termination of employment.

In the event of employees becoming disabled, every effort is made to ensure their employment with the Group continues and appropriate training arranged. So far as possible, the Company ensures that the training, career development and promotion of any disabled person are identical to that of a colleague who does not suffer from such a disability.

The Company maintains procedures by which all employees are systematically encouraged to express matters that may affect them and are provided with information on matters of concern.

The employee share scheme, as well as other means provide an opportunity for staff involvement in the Company's performance.

Political donations
Neither the Company nor any of its subsidiaries made any political donations during the year.

Disclosure of information to the Company's auditor
In accordance with the provisions of section 418 of the Companies Act 2006, each of the persons who are Directors of the Company at the date of approval of this report confirms that:

- So far as the Director is aware, there is no relevant audit information (as defined in the Companies Act 2006) of which the Company's auditor is unaware; and
- The Director has taken all the steps that he/she ought to have taken as a Director to make himself/herself aware of any relevant audit information (as defined) and to establish that the Company's auditor is aware of that information.

Auditor
PricewaterhouseCoopers LLP remain in office as the Company's auditor.

Post Balance Sheet Events
The Company has no post balance sheet events requiring disclosure.

Going concern
A review of the financial performance of the Group is set out on pages 22 to 32. The financial position of the Group, its cash flows and borrowing facilities are set out on pages 35 to 37. After reviewing the Group's budgets and medium-term plans, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements.

Information included in the Strategic Report
The information below is not shown in the Directors' Report because it is shown in the Strategic Report instead under s414C(11).

- **Employee engagement**

Disclosures regarding employee engagement can be found on pages 43 to 45.

- **Stakeholder engagement**

Disclosures regarding stakeholder engagement can be found on pages 46 to 49.

- **Charitable donations**

Disclosures regarding charitable donations can be found on pages 43 to 45.

- **Financial instruments**

Details of the Group's risk management framework are set out on pages 39 to 41.

By order of the Board

Tim Harmer Company Secretary
12 February 2020

Brit Limited – 08821629

corporate governance report

Introduction
The Company has in place a memorandum of Corporate Governance that sets out the Corporate Governance principles of the Group based on the UK Corporate Governance Code (Code).

Board of Directors
The Board currently has six Directors and the full board meets on a regular basis.

Independence of Directors
The Board considers Gordon Campbell to be an independent non-executive Director of the Company, within the meaning of the Code. Gordon Campbell was appointed Chair of the Board on 1 January 2019, chair of the Company's Audit Committee with effect from 1 January 2019, chair of the Company's Nomination Committee with effect from 1 January 2019 and chair
of the Company's Remuneration Committee with effect from 1 January 2019.

Chair
The Chair is responsible for leadership of the Board ensuring its effectiveness on all aspects of its role and setting its agenda. The Chair is responsible for setting the agenda for Board deliberations, with the help of the executive Directors and the Company Secretary, to be primarily focused on strategy, performance, value creation and accountability, and ensure that issues relevant to these areas are reserved for Board decision. The Chair, in conjunction with the Company Secretary, ensures that the Board members receive accurate and timely information.

Group Chief Executive Officer
The Group Chief Executive Officer is responsible for implementing and executing the strategy of the Group and for generally running the Group's business.

Conflicts of Interest
Under the Companies Act 2006, all Directors must seek authorisation before taking up any position with another company that conflicts or may possibly conflict with the Company's interests. The Directors are required to notify the Company of any conflicts so that they can be considered and if appropriate authorised by the Board. The Board carries out an annual review of conflicts of interest and each authorisation is set out in the conflicts register.

Committees of the Board
The Board has delegated specific responsibilities to Board committees, notably the Brit Limited Audit, Nomination and Remuneration Committees.

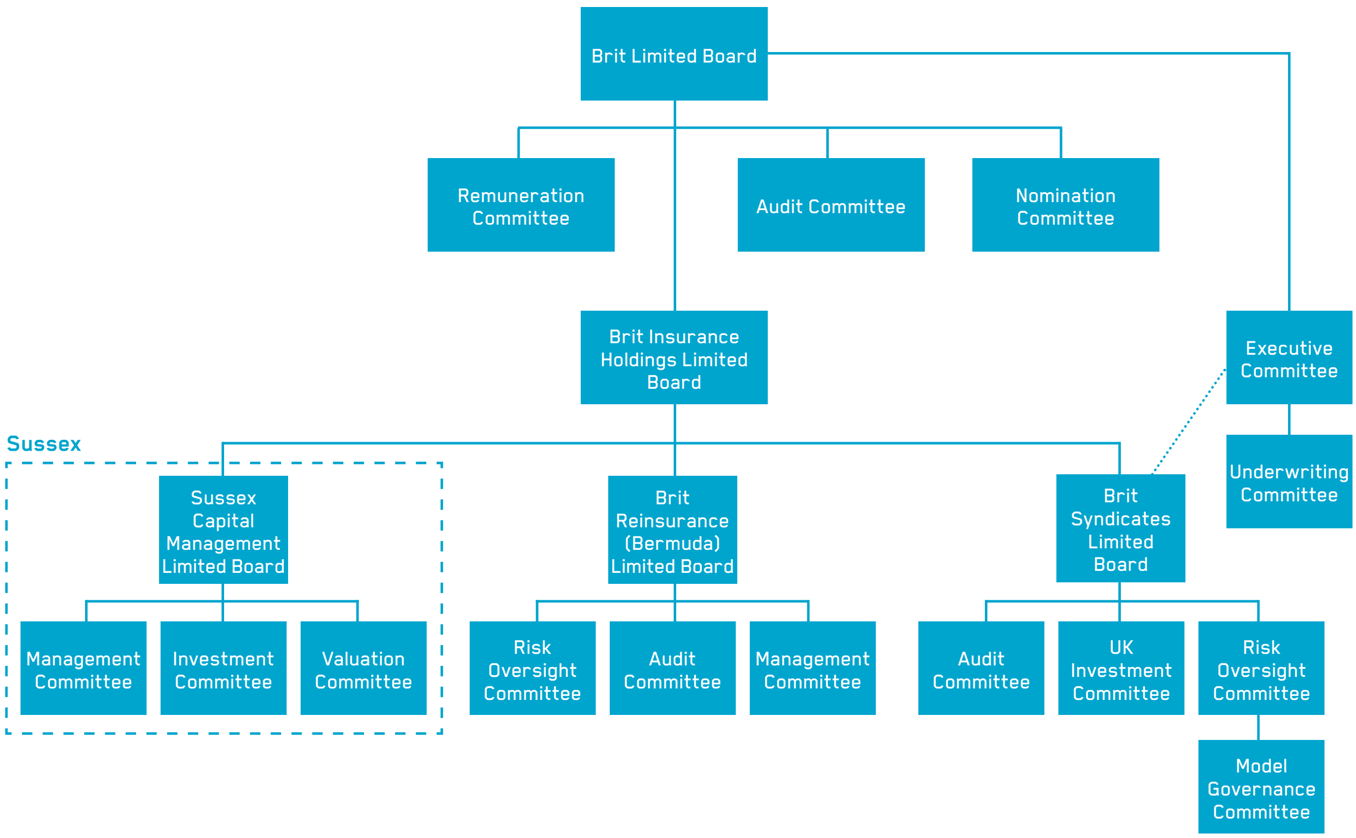
Brit Governance Structure as at 31 December 2019
The Governance structure, shown overleaf, is deeply embedded within the business. The Company's main operating subsidiaries have in place governance principles in accordance with the Group's Memorandum on Corporate Governance.

Audit Committee
The Audit Committee is responsible for overseeing the Group's financial reporting processes, internal control and risk management framework and the work undertaken by the external auditor. Regular updates are provided to the Board by the committee chair.

Remuneration Committee
The Remuneration Committee is responsible for setting the Group's remuneration policy. The company aims to reward employees fairly. The Committee is also responsible for setting the remuneration of all executive Directors. The Committee currently comprises one executive Director, one non-executive shareholder representative Director and one independent non-executive Director who is also the Chair of the Board, whereas the Code indicates that the Chair of the Board should not chair the Committee, and that membership of the Committee should be comprised of three independent non-executive directors.

Nomination Committee
The composition of the Board is reviewed regularly by the Nomination Committee. In considering the Board's composition, the Committee is mindful of the need to maintain a well-balanced Board in terms of skills, knowledge, experience and background. The appointment of all new Directors is led by the Nomination Committee.

Governance structure



By order of the Board

Tim Harmer Company Secretary
12 February 2020

modern slavery and human trafficking statement

Introduction

This statement sets out the steps taken by Brit Limited to ensure that slavery and human trafficking are not taking place in our supply chains or in any part of our business. Slavery and human trafficking can occur in many forms, such as forced labour, child labour, domestic servitude, sex trafficking and workplace abuse. Given the nature of the work that we do, we believe that there is a low risk of slavery or human trafficking having any connection with our business. We must, however, not be complacent, and all staff have a responsibility to be aware of any risks in our business and in our wider supply chains and report any concerns to senior management.

Our business

At Brit, we provide highly specialised insurance products to support our clients across a broad range of complex risks. We have a strong focus on the property, energy and casualty sectors. We have a major presence in Lloyd's of London, the world's specialist insurance market provider, and a significant US and international reach. We have local offices in the US, Bermuda and Japan.

We operate globally via our own international distribution network and broker partners. Insurance represents close to 76.6% of our gross written premium, with the remainder coming from treaty reinsurance.

The average number of employees working at Brit during 2019 was 710 and profit after tax in 2019 was US$179.9m.

Our supply chains

We source our business through trading relationships with Lloyd's brokers, wholesale brokers, retail agents and reinsurance intermediaries. Most of our reinsurance business is sourced through global reinsurance brokers.

We require that all contractual agreements with third party suppliers contain obligations to ensure compliance with the Modern Slavery Act 2015.

As part of any due diligence exercise during supplier on-boarding or at regular intervals, potential slavery concerns must be assessed and addressed.

Our Procurement and Material Outsourcing Policy ensures that information around our requirements is detailed and available to our wider business.

Our policies on slavery and human trafficking

We are committed to ensuring that there is no modern slavery or human trafficking in our supply chains or in any part of our business. We believe in paying people fairly and properly for their work. This policy reflects our commitment to acting ethically and with integrity in all our business relationships and to implementing and enforcing effective systems and controls to ensure slavery and human trafficking is not taking place anywhere in our supply chains.

Due diligence processes for slavery and human trafficking

As part of our initiative to identify and mitigate risk we have in place systems to:

- Identify and assess potential risk areas in our supply chains. We give all suppliers a copy of this statement and request a copy of their statement (if they are required to have one).
- Mitigate the risk of slavery and human trafficking occurring in our supply chains. We set clear expectations for our suppliers by informing them of our Code of Conduct, which states 'Brit does not tolerate modern slavery or any form of human trafficking within its business or supply chains. Brit does not allow harsh or inhumane treatment and we expect our suppliers to share our values'.
- Monitor potential risk areas in our supply chains. Staff are encouraged to report any concerns to senior management and there is a risk register operated by the Operational Risk Manager to record any such concerns.
- Ensure appropriate recruitment practices are carried out, using reputable employment agencies. We verify the practices of any new recruitment agency as part of our terms of business with them and before accepting any workers from that agency. We also request a copy of the agency's modern slavery statement (if it is required to have one). We ask any agency supplying us with staff to conduct verification checks on those staff (including verification of identity, references, evidence of qualifications and criminal and financial checks). We also carry out the same checks on direct hires.
- Protect whistleblowers. At Brit, workers, customers and suppliers are encouraged to report any concerns related to our activities or supply chains. This includes circumstances which may give rise to increased risk of slavery or human trafficking. Our whistleblowing procedure is designed to make it easy for people to make disclosures without fear of retaliation.

Training

To ensure a high level of understanding of the risks of modern slavery and human trafficking in our supply chains and our business, we provide training to appropriate members of staff.

Our commitment

This statement is made pursuant to section 54(1) of the Modern Slavery Act 2015 and constitutes our Group's slavery and human trafficking statement for the financial year ending 2019.

This Modern Slavery and Human Trafficking Statement is reviewed by Brit's Board of Directors at least annually and may be amended from time to time.

By order of the Board

Tim Harmer Company Secretary
12 February 2020

Financial Statements

independent auditor's report to the members of Brit Limited

Report on the audit of the financial statements

Opinion

In our opinion:

- Brit Limited's Group financial statements and company financial statements (the "financial statements") give a true and fair view of the state of the Group's and of the Company's affairs as at 31 December 2019 and of the Group's profit and cash flows for the year then ended;
- The Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; the Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- The financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements, included within the Annual Report, which comprise: the consolidated and Company statements of financial position as at 31 December 2019; the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of cash flows, and the consolidated and Company statements of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Company.

Other than those disclosed in note 13 to the financial statements, we have provided no non-audit services to the Group or the Company in the period from 1 January 2019 to 31 December 2019.

Our audit approach

Overview

- Overall Group materiality: US$16.39m (2018: US$15.39m), based on 1% of combined operating ratio. This represents the total by which net operating expenses and/or net claims incurred would have to fluctuate to move the combined operating ratio ('COR') by 1%.
- Overall Company materiality: US$12.68m (2018: US$12.14m), based on 1% of total assets.

- We performed audit procedures over material balances/transactions in active operations/subsidiaries in the UK for the purpose of the Group audit.
- We have performed the majority of the work for the purpose of the Group audit on Brit Global Specialty Singapore Pte. Ltd. and Brit Reinsurance (Bermuda) Limited, as the Group maintains its accounting records in the UK.
- We have also scoped in certain balances and transactions in Sussex Capital Limited/Sussex Re Limited (Bermuda) which are audited by a component auditor and the results reported to us.
- We have performed the work on certain scoped-in balances recognised at Group level on acquisition of remaining 50% of shares in Ambridge Partners LLC which are audited by another auditor.

- Appropriateness of methodologies and assumptions applied in the valuation of the IBNR component of insurance contracts liabilities.
- Risk of inappropriate revenue recognition (including fraud risk).
- Valuation of investments with valuations modelled using unobservable inputs.

The scope of our audit
As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the Directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

Capability of the audit in detecting irregularities, including fraud
Based on our understanding of the Group and Company/industry, we identified that the principal risks of non compliance with laws and regulations related to breaches of regulatory principles, such as those governed by the Prudential Regulation Authority and the Financial Conduct Authority, and we considered the extent to which non-compliance might have a material effect on the financial statements of the Group and Company. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006, the Council of Lloyd's regulations, the Financial Conduct Authority's and the Prudential Regulation Authority's regulations applicable to insurance companies, the Listing Rules and UK tax legislation. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to increase revenue and management bias in accounting estimates such as valuation of the IBNR component of insurance contract liabilities, accrued pipeline premium and investments with valuations modelled using unobservable inputs. The Group engagement team shared this risk assessment with the PwC Bermuda referred to in the scoping section of our report below, so that they could include appropriate audit procedures in response to such risks in their work. Audit procedures performed by the Group engagement team and/or component auditors included:

- Discussions with the audit committee, management, internal audit and the Group's director of legal and compliance, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Evaluation and testing of the operating effectiveness of management's controls designed to prevent and detect irregularities;
- Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations/narrative in journal description or posted by or on behalf of senior management;
- Assessment of matters reported on the Group's whistleblowing helpline and the results of management's investigation of such matters;
- Reading key correspondence with regulatory authorities which included, the Council of Lloyd's, the Financial Conduct Authority and the Prudential Regulation Authority ("PRA") in relation to compliance with laws and regulations (including meeting with the PRA);
- Reviewing relevant meeting minutes including those of the Risk Committee and the Reserving Committee;
- Reviewing the Group's and Company's list of litigation and claims, internal audit reports, compliance reports in so far as they related to non-compliance with laws and regulations and fraud; and
- Procedures relating to valuation of the IBNR component of insurance contract liabilities, accrued pipeline premium and investments with valuations modelled using unobservable inputs described in the related key audit matter below.

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Key audit matters
Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

Independent auditor's report to the members of Brit Limited

Key audit matter	How our audit addressed the key audit matter
Appropriateness of methodologies and assumptions applied in the valuation of the IBNR component of insurance contracts liabilities. **See notes 2.5, 3.2, 4.1.3 and 20 of the consolidated financial statements for disclosures of related accounting policies, judgements and estimates.** The IBNR component of insurance contract liabilities, net of reinsurance is a material balance within the financial statements (US$1,796.5m as at 31 December 2019) which are judgemental and complex to calculate. These are a best estimate of all claims incurred but not reported at a given date, regardless of whether these have been reported to the Group. There are varying methods which can be adopted in the estimation of IBNR which are underpinned by a series of assumptions selected by the Group. These can rely on a large degree of judgement and relatively small changes in these assumptions can lead to significant movements in IBNR.	Our core team with actuarial specialists have performed the following: • We understood, assessed and tested the design and operational effectiveness of key controls over the Group's estimation of IBNR, which included controls over the extraction of data from the underlying systems and the review and approval of the IBNR. • We tested on a sample basis the underlying source data being claims incurred and claims payments to supporting documentation. • We developed a point estimate of IBNR on both a gross and net basis and we compared our estimate to those booked by management, and in all those cases where significant differences were identified, we obtained satisfactory responses, concluding on the reasonableness of management's estimates. • In relation to catastrophe events, we understood the approach used to set the booked reserves and consistency of its application. For a sample of individual claims balances, we traced the booked reserves back to supporting documentation. Further, we compared booked reserves to PwC's market view for major events and in all those cases where significant differences were identified we obtained satisfactory responses and concluded on the reasonableness of management estimates. Based on the work performed, the recorded IBNR is consistent with the evidence obtained.
Risk of inappropriate revenue recognition (including fraud risk) **See notes 2.5, 3.3 and 5 of the consolidated financial statements for disclosures of related accounting policies, judgements and estimates.** Auditing standards assume a rebuttable presumption, that there is a significant risk of fraud in revenue recognition in all businesses. We have not rebutted the risk of fraud in revenue recognition and we determined the key risks of fraud in this area to be around the judgemental aspects of revenue which include appropriate premium earnings profiles applied to the various contracts/lines of business and accrued pipeline premium. The Group recognises a material amount of pipeline premiums estimates in its financial statements using an actuarial technique applied to historic written premium data in order to derive written premium development factors. For certain lines of business, judgemental adjustments are made to the derived written premium development factors.	Our testing procedures over pipeline premium estimates and non-standard earning patterns included: • We understood, assessed and tested the design and operating effectiveness of the governance and controls over the monitoring of pipeline premiums estimates. In particular we have focused on management's monitoring controls of pipeline premium forecasts and signed premiums to date. • We have reviewed the methodology adopted in the calculation of pipeline premiums estimates including recalculation of development factors. • We have understood a sample of material adjustments made to development factors in the determination of pipeline premiums estimates and considered whether these have been made appropriately. • We have obtained and checked on a sample basis management's calculations for non-standard earning patterns. Based on the above procedures we note that no material exceptions were identified in relation to revenue.

Key audit matter	How our audit addressed the key audit matter
Valuation of investments with valuations modelled using unobservable inputs **See notes 2.5.5, 3.6 and 22 of the consolidated financial statements for disclosures of related accounting policies, judgements and estimates.** The Group investment portfolio contains US$217m of Level 3 investments measured at fair value, whose fair value is determined using unobservable inputs. Fair values for these investments can only be calculated using estimates or risk-adjusted value ranges ('Level 3 portfolio investments') and accordingly these investments require some additional audit focus as they require a greater degree of judgement to value.	We coordinated with our internal valuation specialists based in Toronto who centrally test the valuation of all investments. We have performed the following for a sample of Level 3 portfolio investments: • Reviewed the appropriateness of models and assumptions; • Reviewed and re-performed the fair value calculations; and • Concluded on the reasonableness of the valuation models. Based on the above procedures, no material exceptions were found.

We determined that there were no key audit matters applicable to the Company to communicate in our report.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Group and the Company, the accounting processes and controls, and the industry in which they operate.

Brit is a global specialty insurer and reinsurer, present in Lloyd's of London and has operations in the United States of America, Singapore and Bermuda, and writes insurance business internationally. Further, the Group has invested in Sussex Capital Limited, which is a special purpose vehicle in Bermuda, which through Sussex Re Limited (a Bermuda-domiciled special purpose insurer) writes direct collateralised reinsurance while also providing collateralised reinsurance to Brit's reinsurance portfolio.

We have scoped in the active operations/subsidiaries in the UK for the purpose of the Group audit and performed audit procedures over material balances/transactions. Further, for subsidiaries in Singapore (Brit Global Specialty Singapore Pte. Ltd.) and Bermuda (Brit Reinsurance (Bermuda) Limited), we have performed the majority of the work for the purpose of the Group audit, as the financial records and supporting information are maintained in the Group's London headquarters.

We have also scoped in certain balances and transactions in Sussex Re Limited/Sussex Capital Limited, which are audited by a component auditor and the results reported to us. Further, we have performed the work on certain scoped-in balances recognised at Group level on acquisition of remaining 50% of shares in Ambridge Partners LLC which are audited by another auditor.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Company financial statements
Overall materiality	US$16.39m (2018: US$15.39m)	US$12.68m (2018: US$12.14m)
How we determined it	1% of combined operating ratio. This represents the total by which net operating expenses and/or net claims incurred would have to fluctuate to move the combined operating ratio ('COR') by 1%.	1% of total assets.
Rationale for benchmark applied	Materiality for the consolidated financial statements is based on a 1% change in combined operating ratio. The benchmark to determine materiality for the Group has been chosen as the combined operating ratio which is a primary performance measure for Brit.	We believe that due to the nature of operations of the parent company which is a holding company, total assets is an appropriate and generally accepted auditing benchmark.

Independent auditor's report to the members of Brit Limited

For each component in the scope of our Group audit, we allocated a materiality that is less than our overall Group materiality. The range of materiality allocated across components was between US$6.13m and US$16.39m. Certain components were audited to a local statutory audit materiality that was also less than our overall Group materiality.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above US$0.82m (Group audit) (2018: US$0.77m) and US$0.63m (Company audit) (2018: US$0.61m) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's and Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's and Company's ability to continue as a going concern. For example, the terms of the United Kingdom's withdrawal from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the Group's trade and the wider economy.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the Group and Company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- We have not received all the information and explanations we require for our audit; or
- Adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- Certain disclosures of directors' remuneration specified by law are not made; or
- The Company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Audit Committee, we were appointed by the members on 14 June 2016 to audit the financial statements for the year ended 31 December 2016 and subsequent financial periods. The period of total uninterrupted engagement is 4 years, covering the years ended 31 December 2016 to 31 December 2019.

Mark Bolton (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

12 February 2020

Notes:

1. The maintenance and integrity of the Brit Limited website is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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Introduction to the Primary Statements

Consolidated Income Statement
The income statement shows income earned and expenses incurred by all the companies of Brit. Other items are shown in the statement of comprehensive income. The numbers in brackets are costs or losses incurred.

Consolidated Statement of Comprehensive Income
As well as the profit or loss reported in the income statement, there are a number of other items not reported in the income statement which are instead shown here. These are gains and losses in the Group's pension scheme, any tax associated with these gains or losses and foreign exchange gains and losses on the translation of foreign operations into US dollars. The statement starts from profit or loss reported in the income statement and adjusts for any gains and losses arising as a result of the pension scheme and foreign operations to show the overall result.

Consolidated Statement of Financial Position
The statement of financial position is a summary of assets and how the assets have been funded through liabilities and equity investment by shareholders.

Consolidated Statement of Cash Flows
The cash flow statement shows how we generate cash through our operating activities, how we have spent cash (investing activities) and how we have borrowed or spent cash to fund our business for all the companies in the Group.

Consolidated Statement of Changes in Equity
The statement of changes in equity shows how the various lines in the equity section of the Group's statement of financial position have moved during the year.

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Index to the Consolidated Financial Statements

consolidated income statement

For the year ended 31 December 2019

	Note	Year ended 31 December 2019 US$m	Year ended 31 December 2018 US$m
Revenue			
Gross premiums written	5	**2,293.5**	2,239.1
Less premiums ceded to reinsurers	5	**(637.3)**	(756.7)
Premiums written, net of reinsurance		**1,656.2**	1,482.4
Gross amount of change in provision for unearned premiums		**(43.8)**	(34.4)
Reinsurers' share of change in provision for unearned premiums		**29.5**	20.0
Net change in provision for unearned premiums		**(14.3)**	(14.4)
Earned premiums, net of reinsurance		**1,641.9**	1,468.0
Investment return	6	**158.5**	(101.2)
Return on derivative contracts	7	**(17.6)**	6.3
Gain on business combination		**10.2**	–
Other income	8	**45.9**	10.6
(Losses)/gains on other financial liabilities	8	**(10.5)**	17.4
Net foreign exchange gains	9	**16.8**	–
Total revenue		**1,845.2**	1,401.1
Expenses			
Claims incurred:			
Claims paid:			
Gross amount		**(1,366.6)**	(1,345.5)
Reinsurers' share		**509.1**	407.3
Claims paid, net of reinsurance		**(857.5)**	(938.2)
Change in the provision for claims:			
Gross amount		**83.2**	(290.0)
Reinsurers' share		**(140.2)**	361.2
Net change in the provision for claims		**(57.0)**	71.2
Claims incurred, net of reinsurance	5	**(914.5)**	(867.0)
Acquisition costs	10	**(595.2)**	(573.0)
Other operating expenses	10	**(125.8)**	(120.5)
Net foreign exchange losses	9	**–**	(18.6)
Total expenses excluding finance costs		**(1,635.5)**	(1,579.1)
Operating profit/(loss)		**209.7**	(178.0)
Finance costs	12	**(23.7)**	(18.8)
Share of net profit of associates		**0.3**	6.5
Profit/(loss) on ordinary activities before tax		**186.3**	(190.3)
Tax (charge)/income	15(a)	**(6.4)**	23.8
Profit/(loss) for the year		**179.9**	(166.5)

All profits/(losses) arise from continuing operations.

The accompanying Notes are an integral part of the financial statements.

consolidated statement of comprehensive income

For the year ended 31 December 2019

	Note	Year ended 31 December 2019 US$m	Year ended 31 December 2018 US$m
Profit/(loss) attributable to owners of the parent		**179.9**	(166.5)
Other comprehensive income			
Items not to be reclassified to profit or loss in subsequent periods:			
Actuarial (losses)/gains on defined benefit pension scheme	21	**(4.7)**	3.8
Deferred tax gain/(loss) relating to actuarial (losses)/gains on defined benefit pension scheme	15(b)	**6.4**	(0.6)
Items that may be reclassified to profit or loss in subsequent periods:			
Change in unrealised foreign currency translation losses on foreign operations		**3.7**	(6.1)
Total other comprehensive income		**5.4**	(2.9)
Total comprehensive income recognised for the year		**185.3**	(169.4)

The accompanying Notes are an integral part of the financial statements.

consolidated statement of financial position

At 31 December 2019

	Note	31 December 2019 US$m	31 December 2018 US$m
Assets			
Intangible assets	16	**192.6**	104.4
Property, plant and equipment	17	**67.9**	17.4
Deferred acquisition costs	18	**243.6**	244.1
Investments in associated undertakings	14	**19.4**	43.0
Reinsurance contracts	20	**1,628.1**	1,699.8
Employee benefits	21	**51.9**	53.1
Deferred taxation	19	**41.1**	56.1
Current taxation		**11.4**	8.3
Financial investments	22	**3,640.6**	3,145.1
Derivative contracts	23	**15.7**	17.4
Insurance and other receivables	24	**1,240.2**	1,008.8
Cash and cash equivalents	25	**520.1**	818.2
Total assets		**7,672.6**	7,215.7
Liabilities and Equity			
Liabilities			
Insurance contracts	20	**5,266.1**	5,274.1
Borrowings	26	**316.2**	174.9
Other financial liabilities	27	**75.5**	241.8
Provisions		**3.5**	2.2
Current taxation		**1.2**	1.4
Derivative contracts	23	**14.2**	14.1
Insurance and other payables	28	**676.0**	422.2
Total liabilities		**6,352.7**	6,130.7
Equity			
Called up share capital	29	**7.0**	6.8
Share premium	29	**505.5**	435.1
Capital redemption reserve		**1.0**	1.0
Foreign currency translation reserve		**(86.4)**	(89.7)
Retained earnings		**892.8**	731.8
Total equity attributable to owners of the parent		**1,319.9**	1,085.0
Total liabilities and equity		**7,672.6**	7,215.7

The accompanying Notes are an integral part of the financial statements.

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

Matthew Wilson
Group Chief Executive Officer

Mark Allan
Group Chief Financial Officer

consolidated statement of cash flows

For the year ended 31 December 2019

	Note	Year ended 31 December 2019 US$m	Year ended 31 December 2018 US$m
Cash flows from operating activities			
Cash used in operations	31	**(467.0)**	(822.2)
Tax received/(paid)		**0.6**	(25.6)
Interest received		**70.1**	45.1
Dividends received		**5.3**	11.4
Net cash outflows from operating activities		**(391.0)**	(791.3)
Cash flows from investing activities			
Purchase of intangible assets	16	**(5.2)**	(6.4)
Purchase of property, plant and equipment	17	**(4.9)**	(1.4)
Acquisition of subsidiary undertaking		**(31.1)**	(15.5)
Acquisition of associated undertaking		**(13.0)**	–
Dividends from associated undertaking		**0.5**	3.7
Net cash outflows from investing activities		**(53.7)**	(19.6)
Cash flows from financing activities			
Proceeds from issue of shares		**70.6**	436.3
Drawdown/(repayment) on revolving credit facility		**132.0**	(37.0)
Purchase of class A shares for cancellation		**–**	(252.9)
Purchase of shares for share-based payment schemes		**(25.0)**	(11.2)
Interest paid		**(14.5)**	(12.7)
Dividends paid		**(20.6)**	(58.6)
Net cash inflows from financing activities		**142.5**	63.9
Net decrease in cash and cash equivalents		**(302.2)**	(747.0)
Cash and cash equivalents at beginning of the year		**818.2**	1,571.6
Effect of exchange rate fluctuations on cash and cash equivalents		**4.1**	(6.4)
Cash and cash equivalents at the end of the year	25	**520.1**	818.2

The accompanying Notes are an integral part of the financial statements.

consolidated statement of changes in equity

For the year ended 31 December 2019

	Note	Called up share capital US$m	Share premium US$m	Capital redemption reserve US$m	Foreign currency translation reserve US$m	Retained earnings US$m	Total equity US$m
At 1 January 2019		**6.8**	**435.1**	**1.0**	**(89.7)**	**731.8**	**1,085.0**
Total comprehensive income recognised		–	–	–	3.7	181.6	185.3
Recycling of foreign exchange losses upon acquisition of Ambridge		–	–	–	(0.4)	–	(0.4)
Issuance of share capital	29	0.2	70.4	–	–	–	70.6
Dividend	30	–	–	–	–	(20.6)	(20.6)
At 31 December 2019		**7.0**	**505.5**	**1.0**	**(86.4)**	**892.8**	**1,319.9**

The accompanying Notes are an integral part of the financial statements.

consolidated statement of changes in equity

For the year ended 31 December 2018

	Note	Called up share capital US$m	Share premium US$m	Capital redemption reserve US$m	Foreign currency translation reserve US$m	Retained earnings US$m	Total equity US$m
At 1 January 2018		6.4	–	0.2	(83.6)	1,207.3	1,130.3
Total comprehensive income recognised		–	–	–	(6.1)	(163.3)	(169.4)
Share-based payments	32	–	–	–	–	(0.7)	(0.7)
Issuance of share capital	29	1.2	435.1	–	–	–	436.3
Repurchase of class A shares	29	–	–	–	–	(252.9)	(252.9)
Cancellation of share capital	29	(0.8)	–	0.8	–	–	–
Dividend	30	–	–	–	–	(58.6)	(58.6)
At 31 December 2018		6.8	435.1	1.0	(89.7)	731.8	1,085.0

Nature and Purpose of Group Reserves

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

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

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

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

The accompanying Notes are an integral part of the financial statements.

notes to the consolidated financial statements

The first three Notes provide details of the basis of preparation and accounting policies applied in producing these financial statements and the critical accounting estimates and judgements therein.

1 General information

The consolidated financial statements of Brit Limited and its subsidiaries (collectively, the Group) for the year ended 31 December 2019 were authorised for issue in accordance with a resolution of the Directors on 12 February 2020. The Group's principal activity is the underwriting of general insurance and reinsurance business.

Brit Limited (the Company) is a limited company, incorporated and domiciled in England and Wales. The address of the registered office is: The Leadenhall Building, 122 Leadenhall Street, London, EC3V 4AB.

2 Accounting policies and basis of preparation

2.1 Basis of preparation

The consolidated financial statements for the year ended 31 December 2019 have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations issued by the IFRS Interpretations Committee (IFRS IC) as adopted by the European Union (EU), and those parts of the Companies Act 2006 applicable to reporting under IFRS. The accounting policies of the Group have been applied consistently to all the years presented, unless otherwise stated.

The consolidated financial statements have been compiled on a going concern basis and prepared on a historical cost basis, except for financial investments, derivative contracts and certain other financial liabilities which have been measured at fair value. The consolidated financial statements are presented in US dollars and all values are rounded to the nearest US$0.1m except where otherwise indicated.

Certain amounts recorded in the financial information include estimates and assumptions made by management, particularly about insurance liability reserves, investment valuations, interest rates and other factors. Actual results may differ from the estimates made. Further details on estimates, judgements and assumptions are included within Note 3 to the consolidated financial statements.

The consolidated financial statements include the results of the Company and all its subsidiary undertakings (collectively, the Group) made up to the same accounting date.

The Group has adopted the following standards and amendments with a date of initial application of 1 January 2019 for the first time:

(a) IFRS 16 'Leases'

From 1 January 2019 the Group adopted IFRS 16 'Leases'. IFRS 16 replaces the classification of leases as either operating or finance leases for lessees that was required under IAS 17. Instead, lessees are required to recognise both a right-of-use asset and a lease liability on balance sheet for all leases.

As at 31 December 2018, the Group had non-cancellable operating lease commitments of US$71.7m (undiscounted).

On 1 January 2019, the transition date, the Group had a lease liability of US$61.9m of which US$5.4m was a current liability, and a right-of-use asset opening balance of US$50.4m. A reconciliation between the operating lease commitments under IAS 17 at 31 December 2018 and the lease liability at 1 January 2019 is shown below:

	US$m
Operating lease commitments under IAS 17 as at 31 December 2018	71.7
Effect of discounting on payments included in the calculation of the lease liability	(9.8)
Lease liability opening balance reported as at 1 January 2019	61.9

The standard has been adopted retrospectively from 1 January 2019; however, as permitted under the transition requirements set out in IFRS 16, the Group has not restated comparatives for the 2018 reporting period. Reclassifications and adjustments arising from applying the new standard are therefore recognised in the opening statement of financial position as at 1 January 2019.

The change in accounting policy affected the following items in the balance sheet on 1 January 2019:

- Property, plant and equipment – Increased by US$50.4m
- Insurance and other payables – Decreased by US$11.5m
- Lease liability – Increased by US$61.9m

This change did not have an impact on retained earnings or deferred tax balances as at 1 January 2019.

The Group has applied several practical expedients as permitted by the standard. The Group has not reassessed whether an existing contract was, or contained, a lease on transition. The Group has applied the standard to all contracts previously identified as leases in accordance with IAS 17 and applied the IFRS 16 definition of a lease to all contracts entered into after the date of transition. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 2.99%. The Group's incremental borrowing rate has been used as the discount rate, which is calculated as the average of each operating lease's applicable discount rate weighted by the remaining aggregate payments on that lease. The applicable discount rates are estimated by using the Group's unsecured borrowing rates and making adjustments to the rate to determine a secured borrowing rate. Any leases that are low value or short term have been expensed on a straight-line basis to the income statement in accordance with IFRS 16. On the Statement of Financial Position, the lease liability is included within Insurance and other payables and the right-of-use asset is included in Property, plant and equipment.

(b) Other improvements and amendments

The Group has also applied the following standards and amendments for the first time for the reporting period commencing 1 January 2019:

- Long-term Interests in Associates and Joint Ventures – Amendments to IAS 28
- Annual Improvements to IFRS Standards 2015 – 2017 Cycle
- Plan Amendment, Curtailment or Settlement – Amendments to IAS 19
- Uncertainty over Income Tax Treatments – IFRIC 23

The amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

(c) New standards and interpretations not yet adopted

At the date of authorisation of these financial statements, the following standards which have not been applied in these financial statements were in issue but not yet effective:

Standard	Effective
IFRS 9 Financial Instruments (2014)	Periods commencing on or after 1 January 2018
IFRS 17 Insurance Contracts (2017)	Periods commencing on or after 1 January 2022

IFRS 9 'Financial Instruments'

In July 2014, the IASB issued the final version of IFRS 9 that replaces IAS 39 'Financial Instruments: Recognition and Measurement' and all previous versions of IFRS 9. IFRS 9 (2014) addresses all three aspects of the IASB's accounting for financial instruments project, including classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Currently, the Group's investment and derivatives portfolios are recorded at fair value through profit or loss under IAS 39. Brit expects to continue to record these items at fair value through profit or loss under IFRS 9.

2 Accounting policies and basis of preparation (continued)

In September 2016 the IASB issued amendments to IFRS 4 that provided two approaches for insurers applying the requirements of IFRS 9, including an optional temporary exemption from applying IFRS 9 until 2021 for those companies whose activities are predominantly connected with insurance. In line with the deferral of the effective date of IFRS 17 to 1 January 2022 the IASB has tentatively agreed to extend the IFRS 9 exemption for insurers to the same date. Brit has taken advantage of this temporary exemption and, subject to confirmation of the IASB's tentative decision, will apply IFRS 9 for the period beginning 1 January 2022.

IFRS 17 'Insurance Contracts'

In May 2017, the IASB issued IFRS 17 which will have the effect of introducing fundamental changes to the statutory reporting of insurance entities. IFRS 17 replaces the existing insurance contracts accounting standard, IFRS 4, and is effective for annual periods beginning on or after 1 January 2022, with early application permitted. This standard has not yet been endorsed by the EU.

Brit has initiated an implementation project which is currently assessing the impact of adopting IFRS 17 on its financial statements and which will determine both the operational and reporting effects upon the business. The project will ensure that Brit Limited can meet all of its reporting requirements in 2022.

2.2 Basis of consolidation

The consolidated financial statements include the financial statements of the Company, its subsidiaries and associates and the Group's participation in Lloyd's syndicates' assets, liabilities, revenues and expenses. Subsidiaries are those entities (including structured entities) that an investor controls, when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

The financial statements of the subsidiaries are prepared up to 31 December each year. Consolidation adjustments are made to convert subsidiary financial statements from local GAAP into IFRS 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. The acquisition method of accounting is used to account for business combinations by the Group.

Included within the financial statements of the Group are structured entities where under the requirements of IFRS 10 Consolidated Financial Statements it has been determined that control exists. The third-party investment in these entities is recognised as a financial liability in accordance with IAS 32.

Underwriting members at Lloyd's have several but not joint liability for the transactions of the syndicates in which they participate. Therefore, for each managed syndicate on which the Group participates, only the relevant proportion of the transactions, assets and liabilities of those syndicates are reflected in the consolidated financial statements. Syndicate assets are held subject to trust deeds for the benefit of the syndicate's insurance creditors. As at 31 December 2019 Brit UW Limited, a subsidiary of the Group, provided 100% of the capital for Syndicate 2987 and therefore all transactions, assets and liabilities of Syndicate 2987 have been included in the Group's financial statements. The Group managed the underwriting of, and participated as a member with an 18.46% share of the 2018 year of account of, Syndicate 2988 at Lloyd's. Consequently, 18.46% of the 2018 year of account has been consolidated into the financial position and performance in the Group's financial statements. The Group did not participate on Syndicate 2988's 2019 year of account.

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 associate, less any impairment in value. 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.

2.3 Product classification

Insurance contracts are those contracts that transfer significant insurance risk. The significance of insurance risk is dependent on both the probability of an insured event and the magnitude of its potential effect to the policyholder. Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period. Where the Group has issued financial guarantee contracts these have been regarded as insurance contracts and have been accounted for in accordance with IFRS 4 'Insurance Contracts'.

2.4 Business combinations

The acquisition method of accounting is used for business combinations. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest (NCI) in the acquiree, where relevant. Acquisition-related costs are expensed as incurred. Where goodwill or a bargain purchase arises, this is accounted for in accordance with the policy set out in note 2.5.7(a).

When the Group acquires a business, it assesses the identifiable assets acquired and liabilities assumed, measured initially at their fair values at the acquisition date, for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree. No reclassification of insurance contracts is required as part of the accounting for the business combination. Thus, insurance contracts are classified on the basis of the contractual terms and other factors at the inception of the contract or modification date.

If the business combination is achieved in stages, any previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration will be recognised at fair value at the acquisition date. Contingent consideration that is classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or liability within or outside the scope of IAS 39 is measured at fair value through profit or loss (FVTPL).

2.5 Other accounting policies

2.5.1 Insurance contracts

(a) Premiums

Premiums written relate to business incepted during the year, together with any differences between booked premiums for prior years and those previously accrued, and include estimates of premiums due but not yet receivable or notified, less an allowance for cancellations. Premiums are accreted to the income statement on a *pro-rata* basis over the term of the related policy, except for those contracts where the period of risk differs significantly from the contract period. In these circumstances, premiums are recognised over the period of risk in proportion to the amount of insurance protection provided. Reinstatement premiums are accreted to the income statement on a *pro-rata* basis over the term of the original policy to which it relates. Premiums are shown net of premium taxes and other levies on premiums. Pipeline premium estimates are typically based on standard actuarial projection techniques (e.g. basic chain ladder) on the key assumption that historical development of premiums is representative of future development.

(b) Profit commissions

Profit commission income arising from whole account quota share contracts is recognised when the economic benefits are highly probable. They are netted off against commission costs which are included within the 'acquisition costs' line in the income statement.

(c) Deferred acquisition costs

Commission and other acquisition costs incurred during the financial period that are related to securing new insurance contracts and/or renewing existing insurance contracts, but which relate to subsequent financial periods, are deferred to the extent that they are recoverable out of future revenue margins. Deferred acquisition costs are capitalised and amortised over the life of the policy to which they relate on a basis consistent with the earnings pattern of that policy.

2 Accounting policies and basis of preparation (continued)

(d) Claims incurred

Claims incurred comprise claims and claims handling costs paid in the year and changes in the outstanding claims provisions, including provisions for claims incurred but not reported and related expenses, together with any adjustments to claims from prior years. Claims handling costs are mainly external costs related to the negotiation and settlement of claims.

(e) Outstanding claims provisions

Outstanding claims represent the estimated ultimate cost of settling all claims (including direct and indirect claims settlement costs) arising from events which have occurred up to the date of the statement of financial position, including provision for claims incurred but not reported, less any amounts paid in respect of those claims. The Group does not discount its liabilities for unpaid claims, the ultimate cost of which cannot be known with certainty at the date of the statement of financial position.

(f) Provision for unearned premiums

The proportion of written premiums that relate to unexpired terms of policies in force at the date of the statement of financial position is deferred as a provision for unearned premiums, generally calculated on a time apportioned basis. The movement in the provision is taken to the income statement in order that revenue is recognised over the period of the risk.

(g) Liability adequacy tests

At the date of each statement of financial position, liability adequacy tests are performed, to ensure the adequacy of unearned premiums net of related deferred acquisition costs, employing the current estimates of future cash flows under its insurance contracts. If as a result of these tests, the carrying amount of the Group's insurance liabilities is found to be inadequate in comparison to the value of these future cash flows, the deficiency is charged to the income statement for the period by establishing an unexpired risk provision. The tests are performed at a whole account and portfolio level at the statement of financial position date to ensure the estimated costs of future claims and related deferred acquisition costs do not exceed the unearned premium provision.

(h) Reinsurance

The Group assumes and cedes reinsurance in the normal course of business. Premiums and claims on reinsurance assumed are recognised in the income statement along the same basis as direct business, taking into account the product classification. Reinsurance premiums ceded and reinsurance recoveries on claims incurred are included in the respective expense and income accounts. Reinsurance outwards premiums are earned according to the nature of the cover. Losses occurring during policies are earned evenly over the policy period. 'Risks attaching' policies are expensed on the same basis as the inwards business being protected. Reinstatement premiums on both inwards and outwards business are accreted to the income statement on a *pro-rata* basis over the term of the original policy to which they relate.

Reinsurance assets include amounts recoverable from reinsurance companies for paid and unpaid losses and loss adjustment expenses, and ceded unearned premiums. Amounts recoverable from reinsurers are calculated with reference to the claims liability associated with the reinsured risks. Revenues and expenses arising from reinsurance agreements are therefore recognised in accordance with the underlying risk of the business reinsured.

Gains or losses on buying reinsurance are recognised immediately in the income statement.

If a reinsurance asset is impaired, the Group reduces its carrying amount accordingly and will immediately recognise the impairment loss in the income statement. A reinsurance asset will be deemed to be impaired if there is objective evidence, as a result of an event that occurred after initial recognition of the asset, that the Group may not receive all amounts due to it under the terms of the contract and that the event has a reliably measurable impact on the amounts that the Group will receive from the reinsurer.

Gains or losses on buying retroactive reinsurance are recognised immediately in the income statement and are not deferred and amortised. Premiums ceded and claims reimbursed are presented on a gross basis in the consolidated income statement and statement of financial position as appropriate.

2.5.2 Revenue recognition

Revenue is measured by the Group based on the consideration to which it expects to be entitled through contracts with customers (net of refunds). Amounts collected on behalf of third parties are excluded from revenue. When control of a service is transferred to a customer, the related revenue is then recognised.

(a) Management fee income

The Group receives administration and broking fees from non-aligned syndicates, in accordance with management agreements that are agreed on an annual basis and specify the services to be provided. These services are in relation to 'effectively managing and operating' the syndicate and are therefore provided continuously throughout the year. As a result, these services are treated as a single performance obligation. The price is fixed with no variable element and is matched against the single performance obligation. Consequently, the passage of time is used to measure the amount of fees and commission to be recognised.

(b) Underwriting agency fee income

The Group also receives commissions for the placement or underwriting of policies on behalf of other insurers. Such commissions, which are measured as a portion of the policy premium, are recognised at the later of the policy inception date or when the policy placement has been completed.

Brit also receives fees in respect of the costs and expenses of establishing and administering Lloyd's consortia and conducting the underwriting on their behalf. The services provided are classed as 'establishing and administering' the consortium and are provided continuously throughout the year. As a result, this is treated as a single performance obligation and measured in accordance with the measurement bases set out in the relevant consortium agreement.

2.5.3 Investment return

Investment income comprises all interest and dividend income and realised and unrealised gains and losses less investment management fees. Interest income is recognised using the effective interest method. Dividend income is recognised when the shareholders' right to receive the payment is established.

Realised gains and losses on investments are calculated as the difference between net sales proceeds and cost and are recognised when the sale transaction occurs.

Unrealised gains and losses on investments are calculated as the difference between the valuation at the date of the statement of financial position and the valuation at the last statement of financial position or purchase price, if acquired during the year. Unrealised investment gains and losses include adjustments in respect of unrealised gains and losses recorded in prior years which have been realised during the year and are reported as realised gains and losses in the current year's income statement.

2.5.4 Recognition and derecognition of financial assets and financial liabilities

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the contract. A financial asset is derecognised when either the contractual rights to the asset's cash flows expire, or the asset is transferred, and the transfer qualifies for derecognition under a combination of risks and rewards and control tests. A financial liability is derecognised when it is extinguished which is when the obligation in the contract is discharged, cancelled or expired.

All 'regular way purchases and sales' of financial assets are recognised on the trade date, i.e. the date that the Group commits to purchase or sell the asset. Regular way purchases and sales are purchases and sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the marketplace.

2 Accounting policies and basis of preparation (continued)

2.5.5 Investments

The Group has designated on initial recognition its financial assets held for investment purposes (investments) at fair value through profit or loss (FVTPL). This is in accordance with the Group's documented investment strategy and consistent with investment risk being assessed on a portfolio basis. Information relating to investments is provided internally to the Group's Directors and key managers on a fair value basis.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of financial assets and liabilities traded in active markets (which are the principal markets or the most advantageous markets that maximise the amount that would be received to sell the asset or minimise the amount that would be paid to transfer the liability) are based on quoted market bid and ask price for both financial assets and financial liabilities respectively.

The fair value of financial assets and liabilities that are not traded in an active market, including over-the-counter derivatives, is determined using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each reporting date. Valuation techniques include the use of comparable recent arm's-length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, option pricing models and others commonly used by market participants and which make the maximum use of observable inputs.

Gains and losses on investments designated as FVTPL are recognised through the income statement. Interest income from investments in bonds and short-term investments is recognised at the effective interest rate. Interest receivable is shown separately in the statement of financial position based on the instruments' stated rates of interest.

2.5.6 Derivatives

Derivative financial instruments include foreign exchange contracts, forward rate agreements, interest rate futures, currency and interest rate swaps and other financial instruments that derive their value mainly from underlying interest rates, foreign exchange rates, credit indices, commodity values or equity instruments. All derivatives are initially recognised in the statement of financial position at their fair value, which represents their cost. They are subsequently remeasured at their fair value, with movements in this value recognised in the income statement. Fair values are obtained from quoted market prices or, if these are not available, by using valuation techniques such as discounted cash flow models or option pricing models.

All derivatives are carried as assets when the fair values are positive and as liabilities when the fair values are negative. Derivative contracts may be traded on an exchange or over-the-counter (OTC). Exchange-traded derivatives are standardised and include certain futures and option contracts. OTC derivative contracts are individually negotiated between contracting parties and include forwards and swaps.

Derivatives are subject to various risks including market, liquidity and credit risk, similar to those related to the underlying financial instruments. Many OTC transactions are contracted and documented under International Swaps and Derivatives Association (ISDA) master agreements or their equivalent, which are designed to provide legally enforceable set-off in the event of default, reducing the Group's exposure to credit risk. The notional or contractual amounts associated with derivative financial instruments are not recorded as assets or liabilities on the statement of financial position as they do not represent the fair value of these transactions.

2.5.7 Intangible assets

(a) Goodwill

Goodwill is initially measured at cost, being the excess of the fair value of the consideration transferred and the amount recognised for non-controlling interests and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognised directly in profit or loss as a bargain purchase.

After initial recognition, goodwill is not amortised but is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or circumstances indicate that it might be impaired. For the purposes of impairment testing, goodwill acquired in a business combination is allocated to an appropriate cash generating unit (CGU) that is expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a CGU and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

(b) Syndicate participation rights

Lloyd's syndicate participation rights that have been acquired on acquisition of a subsidiary are initially recognised at fair value. They are considered to have an indefinite useful life as they will provide benefits over an indefinite future period and are therefore not subject to an annual amortisation charge. The continuing value of the underwriting capacity is reviewed for impairment annually by reference to the expected future profit streams to be earned from the respective syndicate, with any impairment in value being charged to the income statement.

(c) Trade names

Trade names that have been acquired on acquisition of a subsidiary are initially recognised at fair value. They are considered to have an indefinite useful life as they will provide benefits over an indefinite future period and are therefore not subject to an annual amortisation charge. The carrying value of the trade names is reviewed for impairment annually by reference to the expected future profit streams to be earned from the CGUs to which the trade names relate, with any impairment in value being charged to the income statement.

(d) Computer software

Acquired computer software licences are capitalised based on the costs incurred to acquire and bring into use the specific software. Internal development costs that are directly associated with the production of identifiable and unique software products controlled by the Group are also capitalised where the cost can be measured reliably, the Group intends to and has adequate resources to complete development and the computer software will generate future economic benefits. All computer software costs are finite life assets and amortised on a straight-line basis over their expected useful lives, not exceeding a period of five years.

(e) Distribution channels

Distribution channels that have been acquired on acquisition of a subsidiary are initially recognised at fair value. They are deemed to be finite life assets and amortised on a straight-line basis over their expected useful economic lives, not exceeding a period of 15 years.

(f) Employee-related intangibles

A non-compete agreement in favour of the Group, signed upon acquisition of a subsidiary, and non-compete clauses in certain employee contracts acquired in business combinations have been recognised at fair value. These are considered to be finite life assets and, as such, are amortised on a straight-line basis over their expected useful economic lives, not exceeding a period of 3 years.

(g) Regulatory licences

Regulatory licences that have been acquired on acquisition of a subsidiary are initially recognised at fair value. They are considered to have an indefinite useful life as they do not expire and will provide benefits over an indefinite future period and are therefore not subject to an annual amortisation charge. The carrying value of the licences is reviewed for impairment annually by reference to the expected future profit streams to be earned from the respective licences, with any impairment in value being charged to the income statement.

2 Accounting policies and basis of preparation (continued)

2.5.8 Property, plant and equipment

Property, plant and equipment are carried at cost, less accumulated depreciation and any impairment in value. Depreciation is calculated so as to write-off the cost over their estimated useful economic lives on a straight-line basis having regard to the residual value of each asset, as follows:

Office refurbishment costs, office machinery, furniture and equipment	5-15 years
Computers, servers, data storage devices, networks and other IT infrastructure	3-5 years

The assets' residual values and useful lives are reviewed at the date of each statement of financial position and adjusted if appropriate.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Gains and losses on the disposal of property, plant and equipment are determined by comparing proceeds with the carrying amount of the asset and are included in the income statement. Costs for repairs and maintenance are expensed as incurred.

2.5.9 Impairment

Goodwill, syndicate participation rights, trade names and regulatory licenses are not subjected to amortisation but are tested annually for impairment as they are assets with an indefinite useful life. Other assets, except for assets arising from insurance contracts, are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

If the carrying value of an asset is impaired, it is reduced to the recoverable amount by an immediate charge to the income statement. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

Value in use is based on discounting cash flows at the Group's weighted average cost of capital which is loaded where significant uncertainties exist. Assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

Impairment reviews are made by comparing carrying value to recoverable amount.

2.5.10 Cash and cash equivalents

Cash and cash equivalents in the statement of financial position include cash in hand, deposits held at call with banks and other short-term, highly liquid investments with a maturity of three months or less at the date of acquisition.

2.5.11 Income taxes

Income tax comprises current and deferred tax. Income tax is recognised in the income statement except where it relates to an item which is recognised in equity.

(a) Current income tax

Current income tax is the expected tax payable on the taxable profit for the period using tax rates (and laws) enacted or substantively enacted at the date of the statement of financial position and any adjustment to the tax payable in respect of previous periods. The Group calculates current income tax using current income tax rates.

(b) Deferred income tax

Where relevant deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. If the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not recognised.

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the date of the statement of financial position and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax relating to items recognised in other comprehensive income is also recognised in other comprehensive income.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the Group controls the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

Deferred tax assets and liabilities are not discounted.

2.5.12 Employee benefits

The Group operates a number of defined contribution schemes. It also makes payments into a number of personal money purchase pension plans. Contributions in respect of these schemes are charged to the income statement in the period to which they relate.

The Group also operates a defined benefit pension scheme. The asset recognised in the statement of financial position in respect of the defined benefit scheme is the fair value of the scheme assets less the present value of the defined benefit obligation which is determined by discounting the estimated future cash outflows. The discount rate is based on market yields at the reporting date of high-quality corporate bonds that have terms to maturity which approximate to those of the related pension liability. An asset is recognised only to the extent that it is considered available in the form of future refunds from the plan, in particular taking into consideration any minimum funding requirements that apply to the plan.

Actuarial gains and losses are recognised immediately through other comprehensive income.

The Group determines the net interest expense/income on the net defined benefit liability/asset for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit liability/asset.

Past service costs arising in the period are recognised as an expense at the earlier of the date when the plan amendment or curtailment occurs and the date when the Group recognises related restructuring costs or termination benefits.

The Group recognises an accrual in respect of profit-sharing, bonus plans and long service cash awards where a contractual obligation to employees exists or where there is a past practice that has created a constructive obligation.

2.5.13 Share-based payments

The fair value of equity instruments granted under share-based payment plans are recognised as an expense and spread over the vesting period of the instrument. The total amount to be expensed is determined by reference to the fair value of the awards made at the grant date.

At the date of each statement of financial position, the Group revises its estimate of the number of equity instruments that are expected to become exercisable and it recognises the impact of the revision of original estimates, if any, in the income statement. Where the awards have been granted by a parent company and are therefore treated as equity-settled a corresponding adjustment is made to equity over the remaining vesting period.

2 Accounting policies and basis of preparation (continued)

Where the awards have been granted by the Company and are therefore treated as cash-settled, a liability is provided for settlement of the awards. The corresponding adjustment arising on a revision of the original estimate is made to that liability. In addition, the fair value of the award and ultimate expense are adjusted upon a change in the market share price of the underlying shares or at the valuation date.

2.5.14 Provisions and contingencies

Provisions are liabilities with uncertainties in the amount or timing of payments. Provisions are recognised if there is a present obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made at the date of the statement of financial position.

A contingent liability is a possible obligation that arises from past events or a present obligation that is not recognised as it is not probable that an outflow of resources will be required to settle the obligation or the amount of obligation cannot be measured with sufficient reliability. A contingent liability is disclosed but not recognised.

2.5.15 Leases

As indicated in Note 2.1(a), the Group has adopted IFRS 16 retrospectively from 1 January 2019. The Group leases various offices under rental contracts that are typically from 1 to 15 years but may have extension options. Lease terms are negotiated on an individual basis and contain a wide range of terms and conditions.

Until 31 December 2018, all the Group's leases of property were classified as operating leases. From 1 January 2019, leased assets are recognised as right-of-use assets and corresponding liabilities are recorded at the date at which the leased assets are available for use by the Group.

Assets and liabilities arising from a lease are initially measured on a present value basis.

Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that are based on an index or a rate, initially measured using the index or rate as at the commencement date; and
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions. To determine this, the Group uses recent third-party financing received by the individual lessee (where available) and, if necessary, makes adjustments to reflect subsequent changes in financing conditions and other adjustments specific to the lease (for example, to reflect lease term, country of leased asset, contract currency and security).

The Group is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs, and
- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a term of 12 months or less.

Extension and termination options are included in a number of leases across the Group. These are used to maximise operational flexibility in terms of managing the assets used in the Group's operations. Most of the extension and termination options held are exercisable only by the Group and not by the respective lessor.

2.5.16 Foreign currency translation

Items included in the financial statements of the parent and subsidiaries are measured using the functional currency which is the primary economic environment in which the entity operates. The Group presents its consolidated financial statements in US dollars which is the functional currency of the parent.

Foreign currency transactions are recorded in the functional currency for each entity using the exchange rates prevailing at the dates of the transactions or at the average rate for the period when this is a reasonable approximation. Substantially all of the Group's operations have US dollars as their functional currency. Monetary assets and liabilities denominated in foreign currencies are translated at period end exchange rates. The resulting exchange differences on translation are recorded in the income statement. Non-monetary assets and liabilities that are measured at historical cost denominated in a foreign currency are not retranslated.

The functional currencies of some of the Company's subsidiaries differ from the consolidated Group US dollar presentation currency. As a result, the assets and liabilities of these subsidiaries are translated on consolidation at the rates of exchange prevailing at the balance sheet date. Revenue and expenses are translated at the average rate of exchange for the period. The unrealised gain or loss resulting from this translation is recognised in other comprehensive income and transferred to a foreign currency translation reserve.

2.5.17 Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred and subsequently stated at amortised cost. Fair value is normally determined by reference to the fair value of the proceeds received. Any difference between the initial carrying amount and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest rate method.

2.5.18 Other financial liabilities

The Group has designated its financial liabilities in respect of third-party investments in consolidated structured entities and investment funds at fair value through profit or loss (FVTPL). The fair value of the investments by independent third parties is determined by reference to the net assets of those entities, which may also require reference to the underlying net assets of other vehicles or investment funds in which those entities have invested. Gains or losses in respect to change in fair value is recognised through the income statement.

2.5.19 Segmental reporting

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses, whose operating results are regularly reviewed by the entity's chief operating decision maker and for which discrete financial information is available.

2 Accounting policies and basis of preparation (continued)

2.5.20 Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments. Loans and receivables are measured at amortised cost, using the effective interest rate method, less provision for impairment. Individual receivables known to be uncollectible are written off by reducing the carrying amount directly. Other receivables are assessed collectively to determine whether there is objective evidence that an impairment has occurred but not yet been identified and, where necessary, the estimated impairment losses are recognised in a separate provision for impairment.

2.5.21 Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously.

2.5.22 Dividend and capital distributions

Dividend and capital distributions to the Company's shareholders are recognised in the Group's financial statements in the period in which they are declared and appropriately approved.

2.5.23 Collateral

The Group receives collateral from certain reinsurers and pledges collateral where required for regulatory purposes and other funding arrangements. Collateral received in the form of cash is recognised as an asset on the statement of financial position with a corresponding liability for the repayment. Non-cash collateral received is not recognised on the statement of financial position. Collateral pledged is not derecognised from the statement of financial position unless the Group defaults on its obligations under the relevant agreement.

3 Critical accounting estimates and judgements in applying accounting policies

3.1 Introduction

The Group makes various assumptions that affect the reported amounts of assets and liabilities. Estimates and judgements are regularly re-evaluated and are based on a combination of historical experience and other factors, including exposure analysis, expectations of future experience and expert judgement.

3.2 The ultimate liability arising from claims made under insurance contracts

The estimation of the ultimate liability arising from claims made under insurance contracts is the Group's most critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimate of the amounts that the Group will ultimately pay to settle such claims. Significant areas requiring estimation and judgement include:

- Estimates of the amount of any liability in respect of claims notified but not settled and incurred but not reported claims (IBNR) to be included within provisions for inwards insurance and reinsurance contracts;
- The corresponding estimate of the amount of outwards reinsurance recoveries which will become due as a result of the estimated claims on inwards business;
- The recoverability of amounts due from reinsurers; and
- Estimates of the proportion of exposure which has expired in the period as represented by the earned proportion of premiums written.

The assumptions used and the manner in which these estimates and judgements are made are set out below, including the reserving process for the estimation of gross, and net of reinsurance, ultimate premiums and claims:

- Quarterly statistical data is produced in respect of gross and net premiums and claims (paid and incurred);
- Projections of ultimate premiums, reinstatement premiums and claims are produced by the internal actuarial department using standard actuarial projection techniques (e.g. Basic Chain Ladder, Bornhuetter-Ferguson, Initial Expected Loss Ratio). The Basic Chain Ladder and Bornhuetter-Ferguson projection methods are based on the key assumption that historical development of premiums and claims is representative of future development. Claims inflation is taken into account in the Initial Expected Loss Ratio selections but is otherwise assumed to be in line with historical inflation trends, unless explicit adjustments for other drivers of inflation such as legislative developments are deemed appropriate;
- Some classes of business have characteristics which do not necessarily lend themselves easily to statistical estimation techniques, e.g. due to low data volumes. In such cases, for example, a policy-by-policy review may also be carried out to supplement statistical estimates;
- In the event of catastrophe losses, prior to detailed claims information becoming available, claims provision estimates are compiled using a combination of output from specific recognised modelling software and detailed reviews of contracts exposed to the event in question;
- The initial ultimate selections derived by the actuarial department, along with the underlying key assumptions and methodology, are discussed with class underwriters, divisional underwriting directors and the claims team at 'pre-committee' meetings. The actuarial department may make adjustments to the initial ultimates following these meetings;
- Following the completion of the 'pre-committee' meetings and peer review process within the actuarial department, the ultimate selections (actuarial estimate), assumptions, methodology and uncertainties are presented to the Reserving Committee for discussion and debate;
- Following review of the actuarial estimate, the Reserving Committee recommends the committee estimate to be adopted in the financial statements; and
- As part of their audit engagement, claims provisions are subject to external actuarial review by Brit's auditor.

The results of the external actuarial review by Brit's auditor is presented to both the Reserving Committee and the Audit Committee with key assumptions, methodologies and uncertainties also highlighted. The purpose of the external review is to provide both committees with an independent actuarial view of reserve requirements compared to the recommendations of the internal actuarial department.

The estimates and judgements are applied in line with the overall reserving philosophy and seek to state the claims provisions on a best estimate, undiscounted basis. A management risk margin is also applied over and above the actuarial best estimate to allow for the inherent uncertainty within the best estimate reserve position.

In addition to claims provisions, the reserve for future loss adjustment expenses is also subject to estimation with consideration being given to the level of internal and third-party loss adjustment expenses incurred annually. The estimated loss adjustment expenses are expressed as a percentage of gross claims reserves and the reasonableness of the estimate is assessed through benchmarking. Further judgements are made as to the recoverability of amounts due from reinsurers. Provisions for bad debts are made specifically, based on the solvency of reinsurers, internal and external ratings, payment experience with them and any disputes of which the Group is aware.

The carrying value at the date of the statement of financial position of gross claims reported and loss adjustment expenses and claims incurred but not reported were US$4,296.7m (2018: US$4,348.5m) as set out in Note 20 to the financial statements. The amount of reinsurance recoveries estimated at that date is US$1,345.3m (2018: US$1,446.5m).

3 Critical accounting estimates and judgements in applying accounting policies (continued)

3.3 Pipeline premiums

Written premiums include pipeline premiums of US$735.6m (2018: US$626.9m) which represent future premiums receivable on in-force insurance contracts. Pipeline premium estimates are typically based on standard actuarial projection techniques (e.g. Basic Chain Ladder) on the key assumption that historical development of premiums is representative of future development.

3.4 Intangible assets

Intangible assets with indefinite useful lives are tested for impairment on an annual basis in accordance with IAS 36 'Impairment of Assets'. Determining the assumptions used in the test requires estimation. The calculations use projected profit streams based on cash flow forecasts and are approved by management. The indefinite useful life intangible assets of the Group consist of goodwill, syndicate participation rights, trade names and US state authorisation regulatory licenses. The carrying amount at the date of the statement of financial position was goodwill: US$45.9m (2018: nil), trade names: US$0.5m (2018: nil), syndicate participation rights: US$70.8m (2018: US$70.8m) and regulatory licences: US$7.5m (2018: US$7.5m). For further information, refer to Note 16.

3.5 Leases

The accounting for leases under the newly adopted IFRS 16 (see Note 2.1(a)) requires an incremental borrowing rate to use as the discount rate for the leases. Brit has taken advantage of the practical expedient in IFRS 16 to apply a single discount rate to its portfolio of leases. The property leases do not explicitly or implicitly state interest rates, therefore unsecured borrowing rates for individual leases have been estimated by using the borrowing rate for the group in the jurisdictions that the leases are held.

Extension and termination options are included in a number of leases across the Group. These are used to maximise operational flexibility in terms of managing the assets used in the group's operations. Most of the extension and termination options held are exercisable only by the group and not by the respective lessor. Management have exercised judgement in determining whether there is a significant expectation that these options would be exercised.

3.6 Financial investments

Financial investments are carried in the statement of financial position at fair value. The carrying amount of financial investments at the date of the statement of financial position was US$3,640.6m (2018: US$3,145.1m). Determining the fair value of certain investments requires estimation.

The Group value investments using designated methodologies, estimations and assumptions. These securities, which are reported at fair value on the consolidated statement of financial position, represent the majority of the invested assets. The measurement basis for assets carried at fair value is categorised into a 'fair value hierarchy' in accordance with the valuation inputs and consistent with IFRS 13 'Fair Value Measurement'. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (level one); the middle priority to fair values other than quoted prices based on observable market information (level two); and the lowest priority to unobservable inputs that reflect the assumptions that we consider market participants would normally use (level three). To the extent that valuation is based on models or inputs that are unobservable in the market, the determination of fair value requires more judgement and, accordingly, those instruments included in level three will require a greater degree of judgement to be exercised during valuation than for those included in level two or level one. At 31 December 2019, financial investments amounting to US$215.2m (2018: US$199.0m) were classified as level three.

The classification within the fair value hierarchy is based on the lowest level of significant input to its valuation. Any change to investment valuations may affect our results of operations and reported financial condition. For further information, refer to Note 22.

3.7 Defined benefit plans

The amounts recognised in the consolidated financial statements in respect of the Group's defined benefit pension plan are determined using actuarial valuations, which involves making assumptions that may differ from actual developments in the future. These include the determination of the discount rate, inflation, mortality rates and future pension increases. Due to the complexities involved in the valuation and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

The carrying amount of the pension asset at the date of the statement of financial position was US$51.9m (2018: US$53.1m). For further information, refer to Note 21.

3.8 Consolidation of structured entities

The Group holds investments in two Bermuda-domiciled special purpose vehicles, Versutus Limited and Sussex Capital Limited (which is the sole investor in another special purpose vehicle, Sussex Re Limited). The Group is therefore required to determine whether these entities (or segregated accounts thereof) meet the criteria for consolidation as defined in IFRS 10, for which the exercise of judgement is required. In particular, the Group considered the following factors to determine whether it is acting as an agent or a principal for these entities: (i) the power the Group has over them and the ability to direct relevant activities; (ii) the rights of the Group to variable returns from the Group's involvement with the entities; and (iii) the ability to use that power to affect the amount of the Group's returns.

The Group is exposed to variability of returns from the activities of these entities both through its direct investments in the vehicles and through the receipt of fee income from services provided to those entities. As at 31 December 2019, that exposure was of a significance that it indicates that the Group is acting as a principal when considered alongside additional factors including the design of the structures in which those entities have been established, their business models, and a range of other qualitative factors in determining whether the criteria for consolidation are met. Consequently, the Group has continued to consolidate these entities (or relevant segregated accounts thereof) during the financial year.

3.9 Deferred tax asset in respect of carried forward losses

The deferred tax asset includes an amount of US$80.3m (2018: US$73.8m) which relates to carried forward tax losses in respect of Lloyd's undeclared year of account losses for 2017 and 2018 which will be taxed under the Lloyd's declaration basis in the years 2020 and 2021 respectively. The Group has concluded that the deferred tax asset is recoverable based on the Lloyd's approved plan for the year of account 2020 and forecast results for the Brit group UK entities and other UK subsidiaries of the Fairfax group which are available for group or consortium relief. The losses can be carried forward indefinitely and have no expiry date, however a further deferred tax asset of US$2.4m (2018:US$8.7m) has not been recognised on the basis that it is not yet possible to measure the asset reliably due to the difficulty of forecasting results beyond 2025 and the year of account 2022.

4 Risk management policies

This Note provides details of key risks that the Group is exposed to and explains the Group's strategies and the role of management in mitigating these risks.

4.1 Insurance risk

Insurance risk arises from the possibility of an adverse financial result due to actual experience being different from that expected when an insurance product was designed and priced. The actual performance of insurance contracts is subject to the inherent uncertainty in the occurrence, timing and amount of the final insurance liabilities. This is the principal risk the Group is exposed to as the Group's primary function is to underwrite insurance contracts. The risk arises due to the possibility of insurance contracts being under-priced, under-reserved or subject to unforeseen catastrophe claims.

The areas of insurance risk discussed below include underwriting (including aggregate exposure management), reinsurance and reserving.

4.1.1 Underwriting risk

(a) Introduction

Underwriting risk is the risk that insurance premiums will not be sufficient to cover the future losses and associated expenses. It arises from the fluctuations in the frequency and severity of financial losses incurred through the underwriting process by the Group as a result of unpredictable events.

4 Risk management policies (continued)

The Group is also exposed to the risks resulting from its underwriters accepting risks for premiums which are insufficient to cover the ultimate claims which result from such policies. The underwriting environment and the associated impact on premium rates, including trends due to the underwriting cycle, are factored into the Group's pricing models and risk management tools, and is continually monitored to assess whether any corrective action is required. Additional controls over the underwriting strategy are described in the section below.

The Group primarily writes its business through Lloyd's and therefore can take advantage of Lloyd's centralised infrastructure and service support. Lloyd's also has an established global distribution framework, with extensive licensing agreements providing the Group access to over 200 territories. Primarily using the Lloyd's platform to underwrite, subjects the Group to a number of underwriting risks. The Group relies on the efficient functioning of the Lloyd's market. If for any reason Brit Syndicates Limited (BSL) was restricted or otherwise unable to write insurance through the Lloyd's market, there would be a potentially material adverse effect on the Group's business. In particular, any damage to the brand or reputation of Lloyd's, increase in tax levies imposed on Lloyd's participants or deterioration in Lloyd's asset base when compared with its liabilities may have a material adverse effect on the Group's ability to write new business.

BSL also benefits from the ability to write business based on the Lloyd's financial rating, which allows the Group to write more business as part of the Lloyd's platform. A downgrade in Lloyd's financial strength ratings may have an adverse effect on the Group.

The Group also writes business through the Sussex Capital collateralised reinsurance platform. Through Sussex Re Limited the platform writes direct collateralised property catastrophe reinsurance in addition to providing collateralised reinsurance to Brit's Property Treaty portfolio. Please refer to section 4.9 for details on the governance structure relevant to the Sussex platform.

(b) Controls over underwriting strategy

The Board sets the Group's underwriting strategy for accepting and managing underwriting risk. The Underwriting Committee meets regularly to drive the underwriting strategy and to monitor performance against the plans. The assessment of underwriting performance is all-encompassing applying underwriting key performance indicators (KPIs), technical pricing management information (MI), premium monitoring, delegated underwriting operations and claims. The risks are managed by the committee in line with the underwriting risk policy and within the risk tolerance set by the Board. The underwriting risk policy also sets out a number of controls, which are summarised below.

The Group carries out a detailed annual business planning process for each of its underwriting units. The resulting plans set out premium, territorial and aggregate limits and reinsurance protection thresholds for all classes of business and represent a key tool in managing concentration risk. Performance against the plans is monitored on a regular basis by the Underwriting Committee as well as by the Boards of the regulated entities. A dedicated Risk Aggregation Team also performs Realistic Disaster Scenario (RDS) analysis on a regular basis to ensure that the Group's net losses remain within its risk appetite.

The Group has developed underwriting guidelines, limits of authority and business plans which are binding upon all staff authorised to underwrite. These are detailed and specific to underwriters and classes of business. Gross and net line size limits are in place for each class of business with additional restrictions in place on catastrophe exposed business.

A proportion of the Group's insurance risks are written by third parties under delegated underwriting authorities, with the remaining being written through individual risk acceptances or through reinsurance treaties. The third parties are closely vetted in advance and are subject to tight reporting requirements. In addition, the performance of these contracts is closely monitored by underwriters and regular audits are carried out.

The technical pricing framework ensures that the pricing process in the Group is appropriate. It ensures pricing methodologies are demonstrable and transparent and that technical (or benchmark) prices are assessed for each risk. The underwriting and actuarial functions work together to maintain the pricing models and assess the difference between technical price and actual price. The framework also ensures that sufficient data is recorded and checked by underwriters to enable the Group to maintain an effective rate monitoring process.

Compliance is checked through both a peer review process and, periodically, by the Group's internal audit department which is entirely independent of the underwriting units.

In order to limit risk, the number of reinstatements per policy is limited, deductibles are imposed, policy exclusions are applied and whenever allowed by statute, maximum indemnity limits are put in place per insured event.

(c) Underwriting risk profile

The core insurance portfolio of property, marine, energy and casualty covers a variety of largely uncorrelated events and also provides some protection against the underwriting cycle as different classes are at different points in the underwriting cycle. The underwriting portfolio is managed to target top quartile underwriting performance and the mix of business is continually adjusted based on the current environment (including the current pricing strength of each class). This assessment is conducted as part of the business planning and strategy process which operates annually and uses inputs from the technical pricing framework. The business plan is approved by the Board and is monitored monthly.

The Group underwrites a well-diversified portfolio across multiple regions and classes. While underlying risk and the policyholder may be situated anywhere in the world, more than 80% of the GWP of the Group in 2019 was sourced in London. Other business written by the syndicate includes that sourced through a wholly-owned service company in the United States, the business of which accounted for 13.3% of the Group's annual GWP in 2019. The Group also writes business from its office in Bermuda, with Brit Global Specialty Bermuda (BGSB) accounting for 4.8% of the Group's annual GWP in 2019. In 2019, 36.5% of the Group's GWP was reinsured to third parties.

(d) Geographical concentration of premium

The Group enters into policies with policyholders from all over the world, with the underlying risk relating to premiums spread worldwide. This allows the Group to benefit from a wide geographic diversification of risk. The four principal locations of the Group's policyholders are the United States, UK, Europe and Canada. The concentration of insurance premium before and after reinsurance by the location of the underlying risk is summarised below:

	Gross premiums written US$m	Net premiums written US$m
2019		
United States	**1,207.3**	**863.5**
United Kingdom	**141.0**	**97.1**
Canada	**103.8**	**70.4**
Europe (excluding UK)	**69.5**	**44.7**
Other (including worldwide)	**771.9**	**580.5**
	2,293.5	**1,656.2**
2018		
United States	1,016.4	743.4
United Kingdom	139.4	28.5
Canada	83.7	49.1
Europe (excluding UK)	94.0	50.2
Other (including worldwide)	905.6	611.2
	2,239.1	1,482.4

The nature of the London Market business is such that the insureds and reinsureds are often operating on a multi-territory or worldwide basis and hence coverage is often provided on a worldwide basis. Premiums written on a multi-territory or worldwide basis are included in 'Other' in the table above.

4 Risk management policies (continued)

(e) Portfolio mix

The Group's third-party underwriting takes place through the syndicate underwriting business in a wide variety of business lines. The business lines can be broken down into five principal categories: (i) short-tail direct insurance; (ii) long-tail direct insurance; (iii) short-tail reinsurance; (iv) long-tail reinsurance; and (v) other.

The breakdown of premium before reinsurance by principal lines of business is summarised below:

		2019 US$m	2019 Gross premiums written %	2018 US$m	2018 Gross premiums written %
Brit Global Specialty Direct	Financial and Professional Liability	**270.9**	**11.8**	270.9	12.1
	Programmes and Facilities	**577.9**	**25.2**	525.3	23.5
	Property	**259.1**	**11.3**	311.3	13.9
	Specialty	**253.8**	**11.1**	357.3	16.0
	US Specialty	**351.8**	**15.3**	293.2	13.1
Brit Global Specialty Reinsurance	Casualty Treaty	**233.2**	**10.2**	209.4	9.3
	Property Treaty	**304.5**	**13.3**	242.3	10.8
Other		**42.3**	**1.8**	29.4	1.3
		2,293.5	**100%**	2,239.1	100%

The Group underwrites a business mix of both insurance and reinsurance, long and short-tail business across a number of geographic areas which results in a diversification of the Group's portfolio. The business mix is monitored on an ongoing basis.

Underwriting risk is mainly driven by the syndicate's US catastrophe exposure. Casualty treaty is also a driver due to its long-tail exposure. The risk profile of Brit's underwriting portfolio is set out in more detail in the sections below.

(i) Specialty

Marine Coverage for cargo, hull, marine war and marine liability.

Energy Coverage for upstream (offshore) and midstream activities related to oil and gas production.

EL and PL Cover for employers' liability and public liability both in the UK and internationally but excluding the US.

Space Coverage for satellites at both launch and in orbit.

The Specialty portfolio includes a diverse range of business lines. However, the portfolio is exposed to large losses on individual risks, for example due to the loss of marine vessels or offshore oil platforms. The EL and PL portfolio is exposed to large losses resulting from bodily injury claims, and the risk of latent claims arising from risks that were not envisaged at the time of writing the policy.

(ii) Facilities

Property Facilities Coverage of commercial and residential properties underwriting business predominantly in North America.

Accident and Health Coverage for personal accident (including kidnap and ransom), bloodstock and contingency.

Transport Coverage of commercial automobile physical damage and motor truck cargo across the US and Canada.

Long Tail Facilities Coverage of legal expenses, and of professional negligence, errors and omissions for small and medium-sized enterprises.

The Facilities portfolio consists of business written on a delegated authority basis. Property Facilities is exposed to catastrophe claims, particularly US windstorms, earthquakes, floods and terrorist events, and also to an increased frequency of fire and weather-related events.

Accident and Health offers diversification due to low correlation with other business lines. Personal accident has the potential to suffer from large losses due to a high concentration of multiple deaths from a catastrophe or large claims from highly valued insured individuals. Medical expense claims are subject to high inflationary costs and may experience a high claim frequency. Both bloodstock and contingency classes have exposure to multiple claims from a single event.

The key risks relating to Long Tail Facilities lie with increasing claim frequency due to global recessionary events or systemic malpractice.

(iii) Financial & Professional

Directors & Officers	Coverage provided to both directors and officers and companies for personal liability or securities-related lawsuits.
Financial Institutions	Coverage of financial institutions for risks including internal and external fraud, and liability to customers, shareholders and regulators.
Cyber	Coverage of first- and third-party risks relating to network security, privacy and data protection risks.
Healthcare	Coverage of hospitals, allied health and long-term care liability, predominantly in the US.
US Professional Indemnity	Coverage for professional negligence, errors and omissions, provided on both an open market and a binding authority basis.

Financial and professional lines are typically long-tailed, meaning that on average the claims are not settled for several years after the expiry of the policy, which increases exposure to claims inflation. Other key risks relate to increasing claim frequency due to global recessionary events or systemic malpractice, as well as an increasing prevalence of cyber risk. This portfolio is also exposed to the risk of latent claims arising from risks that were not envisaged at the time of writing the policy.

(iv) Property

Political Risk and Trade Credit	Covers non-payment/performance of counterparties and confiscation, expropriation, nationalisation, deprivation, sequestration or forced abandonment of overseas assets.
Political Violence	Covers physical damage and business interruption losses due to perils including terrorism, riots, war, chemical, biological and/or radiological attacks.
Open Market and Worldwide Property	Coverage of commercial property in the US and internationally.
UK Property	UK property package covers for individuals and small or medium sized enterprises.
Specie and Private Client	Coverage of fine art, specie and private client risks.

Brit provides property cover on a worldwide basis, with the largest exposures in the US. The open market, UK and worldwide property lines are exposed to catastrophe claims, particularly windstorms, earthquakes, floods and terrorist events, and also to an increased frequency of fire and weather-related events. The Political Risk and Political Violence classes are exposed to individual large losses arising from terrorist attacks or state action.

4 Risk management policies (continued)

(v) International

USA	Brit Global Specialty USA underwrites a variety of lines, including casualty, professional liability, property, reinsurance and commercial packages.
Bermuda	Property and casualty treaty reinsurance and retrocession business.

The US portfolio is well-diversified but is exposed to the risk of US catastrophe claims and individual large losses. A downturn in the US economy could also lead to increased claims activity.

The Bermuda property treaty business is exposed to natural catastrophe events, particularly US windstorms and earthquakes. The Bermuda casualty treaty business is exposed to man-made catastrophe claims such as terrorism, increased claims activity in the event of an economic downturn and the potential for latent claims which were not foreseen at the time the policies were underwritten.

(vi) Reinsurance

Property Treaty	Catastrophe excess of loss, risk excess of loss reinsurance and retrocession.
Casualty Treaty	Casualty and accident treaty reinsurance. Worldwide portfolio, written on an excess of loss basis. The largest regional block is the US and Canada. The account is a mix of risk, catastrophe and clash business.

The key exposures for Property Treaty are US windstorms and Californian earthquakes. Property Treaty also has exposures to Japanese earthquakes and European windstorms.

The Casualty Treaty business is exposed to man-made catastrophe claims such as terrorism, increased claim activity in the event of an economic downturn and the potential for latent claims which were not foreseen at the time the policies were underwritten. This division contains the longest tailed liabilities the Group holds, i.e. there can be a significant delay between the notification and final settlement of a claim. This delay can result in the final settlement being subject to significant claims inflation.

(vii) Aggregate exposure management

The Group closely monitors aggregation of exposure to natural catastrophe events against agreed risk appetites using stochastic catastrophe modelling tools, along with knowledge of the business, historical loss information, and geographical accumulations. Analysis and monitoring also measures the effectiveness of the Group's reinsurance programmes.

The Group's catastrophe risk tolerance is reviewed and set by the boards on an annual basis. The last review of catastrophe risk tolerances was in March 2019.

Overall, the Group, for major catastrophe events (as measured by World Wide All Perils net, 1-in-5, 1-in-30 and 1-in-250 Aggregate Exceedance Probability (AEP)) has tolerances for each return period expressed as a percentage of the Brit Limited Group net tangible assets.

Stress and scenario tests are also run, such as Lloyd's and internally developed realistic disaster scenarios (RDSs). Below are the key RDS losses to the Group for all classes combined (unaudited):

	Estimated industry loss US$m	Modelled Group loss at 1 October 2019 (Note 1) Gross US$m	Net US$m	Modelled Group loss at 1 October 2018 (Note 1) Gross US$m	Net US$m
Gulf of Mexico windstorm	111,000	**827**	**151**	818	197
Florida Miami windstorm	131,000	**868**	**128**	993	142
US North East windstorm	81,000	**845**	**149**	795	168
San Francisco earthquake	80,000	**1,038**	**191**	1,078	284
Japan earthquake	73,369	**291**	**142**	254	143
Japan windstorm	15,591	**78**	**47**	70	40
European windstorm	26,847	**96**	**59**	172	117

Note 1: At 31 December 2019 foreign exchange rates.

Actual results may differ materially from the losses above given the significant uncertainties within model assumptions, techniques and simulations applied to calculate these event loss estimates. There could also be non-modelled losses which result in actual losses exceeding these figures. Moreover, the portfolio of insured risks changes dynamically over time.

(viii) Sensitivity to changes in net claims ratio

The Group profit/loss on ordinary activities before taxation is sensitive to an independent 1% change in the net claims ratio (excluding the effect of foreign exchange on non-monetary items) for each class of business as follows:

		Movement in profit year ended 31 December 2019 US$m	%	Movement in profit year ended 31 December 2018 US$m	%
Brit Global Specialty Direct	Financial and Professional Liability	**1.5**	**9.1**	1.3	8.8
	Programmes and Facilities	**4.2**	**25.7**	4.1	27.9
	Property	**1.7**	**10.4**	1.6	10.9
	Specialty	**1.8**	**11.0**	2.2	15.0
	US Specialty	**2.3**	**14.0**	2.2	15.0
	Discontinued	**0.4**	**2.4**	(0.5)	(3.4)
Brit Global Specialty Reinsurance	Casualty Treaty	**2.2**	**13.4**	1.8	12.2
	Property Treaty	**0.9**	**5.4**	0.8	5.4
	US Specialty Reinsurance	**0.8**	**4.9**	0.7	4.8
Other		**0.6**	**3.7**	0.5	3.4
		16.4	**100.0%**	14.7	100.0%

Subject to taxation, the impact on shareholders' equity would be the same as that on profit following a change in the net claims ratio.

4.1.2 Reinsurance

The Group purchases reinsurance to manage its exposure to individual risks and aggregation of risks arising from individual large claims and catastrophe events. This allows the Group to mitigate exposure to insurance losses against the risk appetite, reduce volatility of reported results and protect capital.

Proportional quota share reinsurance is purchased to provide protection against claims arising either from individual large claims or aggregation of losses. Quota share reinsurance is also used to manage the Group's net exposure to classes of business where the Group's risk appetite is lower than the efficient operating scale of the class of business on a gross of reinsurance basis. These placements are reviewed on the basis of market conditions.

4 Risk management policies (continued)

The Group also has in place a comprehensive programme of excess of loss reinsurances to protect itself from severe size or frequency of losses:

- Facultative reinsurance is used to reduce risk relating to individual contracts. The amount of cover bought varies by class of business. Facultative reinsurance is also used as a tool to manage the net line size on individual risks to within tolerance.
- Risk excess of loss reinsurance is used to protect a range of individual inwards contracts which could give rise to individual large claims. The optimal net retention per risk is assessed for each class of business given the Group's risk appetite during the business planning exercise.
- An aggregate catastrophe excess of loss cover is in place to protect the Group against combined property claims from multiple policies resulting from catastrophe events. This is supplemented by specific covers for peril regions, catastrophe swaps and industry loss warranties where they are a cost-efficient means to ensure that the Group remains within its catastrophe risk appetite.
- Given the fundamental importance of reinsurance protection to the Group's risk management, the Group has in place internal controls and processes to ensure that the reinsurance arrangements provide appropriate protection of capital and maintain our ability to meet policyholder obligations. The Outwards Reinsurance Committee oversees the purchase of reinsurance.

The Group remains exposed to a number of risks relating to its reinsurance programme:

- It is possible for extremely severe catastrophe losses to exhaust the reinsurance purchased. Any losses exceeding the reinsurance protection would be borne by the Group.
- Some parts of the programme have limited reinstatements which limit the amount that may be recovered from second or subsequent claims. If the entirety of the cover is exhausted, it may not be possible to purchase additional reinsurance at a reasonable price.
- A dispute may arise with a reinsurer which may mean the recoveries received are lower than anticipated.

These risks are managed through a combination of techniques and controls including risk aggregation management, capital modelling and internal actuarial review of outward reinsurance costs. The counterparty risk in relation to reinsurance purchased is managed by the Credit Committee. This is further discussed in the Credit risk section below.

4.1.3 Reserving risk

Reserving risk arises as the actual cost of losses for policyholder obligations incurred before 31 December 2019 from the established reserves due to inaccurate assumptions or unforeseen circumstances. This is a key risk for the Group as the reserves for unpaid losses represent the largest component of the Group's liabilities and are inherently uncertain. The BSL Reserving Committee is responsible for the management of Syndicate 2987's reserving risk, and the Brit Reinsurance (Bermuda) Limited Management Committee performs a similar function for Brit Reinsurance (Bermuda) Limited.

The Group has a rigorous process for establishing reserves for insurance claim liabilities and a number of controls are used to mitigate reserving risk. The reserving process starts with controls over claims data which ensure complete and accurate recording of all paid and notified claims. Claims adjusters validate policy terms and conditions, adjust claims and investigate suspicious or disputed claims in accordance with the Group's claims policy. Case reserves are set for notified claims using the experience of specialist claims adjusters, underwriters and external experts where necessary.

Whilst the case reserve is expected to be sufficient to meet the claims amount when it is settled, incurred but not reported (IBNR) claims require additional reserves. This is particularly the case for the longest tailed classes of business where the final settlement can occur several years after the claim occurred. Actuarial triangulation techniques are employed by the Group's experienced actuaries to establish the IBNR reserve. These techniques project IBNR reserves based on historical development of paid and incurred claims by underwriting year. For the most uncertain claims, the triangulation techniques are supplemented by additional methods to ensure the established reserve is appropriate. The actuarial team work closely with other business functions such as underwriting, claims and risk aggregation management to ensure that they have a full understanding of the emerging claims experience across the Group. Further details on the actuarial methods used can be found in Note 20.

The Group's reserving policy sets out the approach to estimating claims provisions and is designed to produce accurate and reliable estimates that are consistent over time and across classes of business. The actuarial best estimate set out in the policy is subject to Reserving Committee and Brit Reinsurance (Bermuda) Limited Management Committee sign-off as part of the formal governance arrangements for the Group. The estimate agreed by the committees is used as a basis for the consolidated financial statements. A management risk margin is also applied over and above the actuarial best estimate to allow for the inherent uncertainty within the best estimate reserve position and wider inherent uncertainty across the economic and insurance environment. Finally, the reserves in the financial statements are presented to the Audit Committee for recommendation to the Board who are responsible for the final sign-off. As part of their audit engagement, reserves are subject to external actuarial review by Brit's auditor.

The reserves can be more or less than is required to meet the claims arising from earned business. The level of uncertainty varies significantly between the classes written by the Group but typically is highest for those classes where there are significant delays in the settlement of the final claim amount. More specifically, the key areas of uncertainty within the Group's reserves are considered to be claims from the long-tailed direct and long-tailed reinsurance classes. The issues contributing to this heightened uncertainty are common to all entities which write such business.

Further details on the reserve profile and claims development tables can be found in Note 20.

4.2 Investment risk management

4.2.1 Introduction

This section describes the Group's approach to managing its investment risk, from both a quantitative and a qualitative perspective. Investment risk includes market risk (which is covered in section 4.3), investment credit risk (which is covered in section 4.4) and liquidity risk (which is covered in section 4.5).

4.2.2 Investment governance framework

Investment risk is managed in line with the elements of the Risk Management Framework (RMF) – identification, measurement and management. The Board has overall responsibility for determining the investment strategy, including defining the risk tolerance. This is achieved through investment policies and guidelines, which reflect the risk appetite and the business strategy of the Group and individual entities within the Group.

The BSL Investment Committee and the Brit Reinsurance (Bermuda) Limited Management Committee have been mandated to review, advise and make recommendations to the respective boards on investment strategy with a view to optimising investment performance. The investment strategy is executed through outsourced investment management agreements, which is in line with prevailing regulations, with Hamblin Watsa Investment Counsel Limited (HWIC) and a range of other third-party investment managers.

The Risk Oversight Committee ensures that the investment risk is managed within the framework and also reports to the Board. An Investment Operations Committee oversees the operational risk that is relevant to the investment management function.

Information is provided at least quarterly covering portfolio composition, performance, forecasting and the results of stress and scenario tests. Any operational issues and breaches to the risk appetite framework are reported to the Risk Oversight Committee and the Board.

4 Risk management policies (continued)

4.2.3 Risk tolerance

Investment risk tolerances are set by the Board, defining the appetite to investments, solvency risk, concentration risk, credit quality, currency risk and liquidity risk. The appetite to these elements of investment risk is derived from the overall risk appetite and business strategy and reflects a number of factors, including the current and expected economic climate, capital management strategy, liquidity needs and asset liability matching (ALM) policy. The investment risk tolerance helps determine the strategic asset allocation.

Risk metrics are monitored and reported on regularly, to ensure that performance is within the Board-approved levels and limits continue to remain appropriate, within the governance framework highlighted above.

4.2.4 Solvency matching

Assets are considered by both currency and duration profile in relation to the liabilities thereby managing the impact of foreign exchange and interest rate risk on the solvency position.

Under this strategy, the total assets of each Group underwriting entity are sought to be held in proportion to the currencies of that entity's technical provisions. For each Group underwriting entity, a solvency matched benchmark is calculated. This benchmark is the cash flow profile for investments which would minimise the sensitivity of the Group's solvency position to changes in interest and exchange rates. The Group seeks to implement this through the use of cash, investments and foreign exchange forward contracts in the respective currencies. The investment guidelines for each entity stipulate duration limits and the positioning and sensitivity for both the asset and solvency position is reported quarterly.

4.2.5 Investment management

The investment management strategy is delivered, at the entity level, through outsourced Investment Management Agreements (IMAs) with HWIC and a range of other third-party investment managers. The IMAs prescribe the investment parameters within which HWIC are permitted to make asset allocation decisions on behalf of the respective entities.

Each of the Group's investing entities is governed by separate investment policies; these detail the parameters, roles and responsibilities relating to the management of each entity's investment portfolio.

4.3 Market risk

4.3.1 Introduction

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: interest rate risk, currency risk and other price risk. Credit risk on financial investments and cash is covered in the credit risk section.

4.3.2 Interest rate risk

Introduction

Interest rate risk is the risk that the fair value and/or future cash flows of a financial instrument will fluctuate because of changes in interest rates. The Group is exposed to interest rate risk through its investment portfolio, borrowings and cash and cash equivalents. The sensitivity of the price of these financial exposures is indicated by their respective durations. This is defined as the modified duration which is the change in the price of the security subject to a 100 basis points parallel shift in interest rates. The greater the duration of a security, the greater the possible price volatility.

The banded durations of the Group's financial investments and cash and cash equivalents sensitive to interest rate risk are shown in the table below:

Duration	1 year or less US$m	1 to 3 years US$m	3 to 5 years US$m	Over 5 years US$m	Equities US$m	Total US$m
At 31 December 2019						
Cash and cash equivalents	**520.1**	**–**	**–**	**–**	**–**	**520.1**
Financial investments	**2,367.5**	**455.3**	**232.2**	**181.7**	**403.9**	**3,640.6**
	2,887.6	**455.3**	**232.2**	**181.7**	**403.9**	**4,160.7**
At 31 December 2018						
Cash and cash equivalents	818.2	–	–	–	–	818.2
Financial investments	1,059.6	1,193.5	272.7	43.5	575.8	3,145.1
	1,877.8	1,193.5	272.7	43.5	575.8	3,963.3

The duration of the investment portfolio is set within an allowable range relative to the targeted duration and monitored on a quarterly basis.

As the claims liabilities are measured on an undiscounted basis, the reported liabilities are not sensitive to changes in interest rates. Therefore there is a balance to be struck between targeting a longer duration to protect the solvency position against movements in interest rates, and targeting a shorter duration that will reduce the possible volatility around the income statement.

Sensitivity to changes in investment yields

The sensitivity of the profit to the changes in investment yields is set out in the table below. The analysis is based on the information at 31 December 2019.

Impact on profit before tax	2019 US$m	2018 US$m
Increase		
25 basis points	**(11.6)**	(8.7)
50 basis points	**(23.2)**	(17.4)
100 basis points	**(46.5)**	(34.8)
Decrease		
25 basis points	**11.5**	8.6
50 basis points	**22.9**	17.2
100 basis points	**45.9**	34.4

Subject to taxation, the effect on shareholders' equity would be the same as the effect on profit.

4.3.3 Currency risk

Introduction

Currency risk is the risk that movements in exchange rates impact the financial performance or solvency position of the Group.

4 Risk management policies (continued)

The Group matches assets to liabilities for each of the main currencies. Group capital is held in proportion to the liabilities, to minimise the impact on solvency and distributable earnings from movements in exchange rates. The split of assets and liabilities for each of the Group's main currencies, converted to US dollars, is set out in the tables below:

	USD US$m	GBP conv. US$m	CAD $ conv. US$m	EUR € conv. US$m	AUS $ conv. US$m	Total conv. US$m
At 31 December 2019						
Total assets	**5,490.8**	**1,081.0**	**700.2**	**330.7**	**69.9**	**7,672.6**
Total liabilities	**4,442.5**	**1,196.7**	**324.3**	**306.3**	**82.9**	**6,352.7**
Net assets/(liabilities) excluding the effect of currency derivatives	**1,048.3**	**(115.7)**	**375.9**	**24.4**	**(13.0)**	**1,319.9**
Adjustment for foreign exchange derivatives	**81.2**	**226.2**	**(321.3)**	**(4.4)**	**18.3**	**–**
Adjusted net assets	**1,129.5**	**110.5**	**54.6**	**20.0**	**5.3**	**1,319.9**
At 31 December 2018						
Total assets	5,181.1	1,072.4	584.0	309.9	68.3	7,215.7
Total liabilities	4,335.5	1,120.9	271.4	316.8	86.1	6,130.7
Net assets/(liabilities) excluding the effect of currency derivatives	845.6	(48.5)	312.6	(6.9)	(17.8)	1,085.0
Adjusted for foreign exchange derivatives	59.2	127.2	(266.3)	31.3	48.6	–
Adjusted net assets	904.8	78.7	46.3	24.4	30.8	1,085.0

The non-US dollar denominated net assets of the Group may lead to profits or losses (depending on the mix relative to the liabilities), should the US dollar vary relative to these currencies.

Foreign currency forward contracts may be used to achieve the desired exposure to each currency. From time to time the Group may also choose to utilise foreign currency derivatives to manage the risk of reported losses due to changes in foreign exchange rates. The details of all foreign currency derivative contracts entered into are given in Note 23.

As a result of the accounting treatment for non-monetary items, the Group may also experience volatility in its income statement due to fluctuations in exchange rates. The degree to which derivatives are used is dependent on the prevailing costs versus the perceived benefit to shareholder value from reducing the chance of a reported loss due to changes in foreign exchange rates.

In accordance with IFRS, non-monetary items are recorded at original transaction rates and are not revalued at the reporting date. These items include unearned premiums, deferred acquisition costs and reinsurers' share of unearned premiums. This means these amounts in the statement of financial position are carried at a different exchange rate to the remaining assets and liabilities, with the resulting exchange differences that are created being recognised in the income statement. The Group considers this to be a timing issue which can cause volatility in the income statement.

Sensitivity to changes in foreign exchange rates

The table below gives an indication of the impact on profit of a percentage movement in the relative strength of the US dollar against the value of Sterling, Canadian dollar, Australian dollar and Euro simultaneously, after taking into consideration the effect of hedged positions and items recorded as non-monetary assets and liabilities under IFRS. The analysis is based on the information at 31 December 2019.

Impact on profit before tax	2019 US$m	2018 US$m
US dollar weakens		
10% against other currencies	**26.6**	26.1
20% against other currencies	**53.3**	52.3
US dollar strengthens		
10% against other currencies	**(26.6)**	(26.1)
20% against other currencies	**(53.3)**	(52.3)

Subject to taxation, the effect on shareholders' equity would be the same as the effect on profit.

4.3.4 Other price risk

Introduction

This is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

Financial assets and derivatives that are recognised at their fair value are susceptible to losses due to adverse changes in their prices. This is known as price risk.

Listed investments are recognised in the financial statements at quoted bid price. If the market for the investment is not considered to be active, then the Group establishes fair valuation techniques. This includes using recent arm's-length transactions, reference to current fair value of other similar investments, discounted cash flow models and other valuation techniques that are commonly used by market participants.

The prices of fixed and floating rate income securities are predominantly impacted by currency, interest rate and credit risks. Credit risk on investments is discussed in the following section of this Note.

Sensitivity to changes in other price risk

The sensitivity of the profit to the changes in the prices of equity is set out in the table below. The analysis is based on the information at 31 December 2019.

Impact on profit before tax	2019 US$m	2018 US$m
Increase in fair value		
10%	**69.0**	63.2
20%	**137.9**	126.4
30%	**206.9**	189.6
Decrease in fair value		
10%	**(69.0)**	(63.2)
20%	**(137.9)**	(126.4)
30%	**(206.9)**	(189.6)

Subject to taxation, the effect on shareholders' equity would be the same as the effect on profit.

4 Risk management policies (continued)

4.4 Credit risk

This is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation in a timely manner. The main sources of credit risk relate to:

- Reinsurers: through the failure to pay valid claims against a reinsurance contract held by the Group;
- Brokers and coverholders: where counterparties fail to pass on premiums or claims collected or paid on behalf of the Group;
- Investments: through the issuer default of all or part of the value of a financial instrument or the market value of that instrument; and
- Cash and cash equivalents: through the default of the banks holding the cash and cash equivalents.

The insurance and non-insurance related counterparty credit risks are managed separately by the Group.

4.4.1 Investment credit risk

Investment credit risk management process

The Group Board has overall responsibility for investment credit risk. The investment guidelines and investment policy set out clear limits and controls around the level of investment credit risk. The Group has established concentration guidelines that restrict the exposure to any individual counterparty. The investment guidelines further limit the type, credit quality and maturity profile of both the Group's cash and investments. In addition, the investment risk framework further limits potential exposure to credit risk through aggregate investment risk limits. The Investment Committee chaired by Simon Lee, a non-executive Director of Brit Syndicates Limited, is responsible for the immediate oversight of the Group's UK investments and the Brit Reinsurance (Bermuda) Limited board is responsible for the immediate oversight of the Group's Bermuda investments.

Investment credit risk profile

The summary of the investment credit risk exposures for the Group is set out in the tables below:

	AAA US$m	AA US$m	A US$m	P-1 US$m	P-2 US$m	BBB and below US$m	Equities US$m	Not rated US$m	Total US$m
At 31 December 2019									
Financial investments	**1,469.4**	**347.6**	**577.7**	**–**	**–**	**478.4**	**403.9**	**363.6**	**3,640.6**
Derivative contracts	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**15.7**	**15.7**
Cash and cash equivalents	**150.1**	**0.8**	**303.8**	**7.8**	**19.0**	**31.7**	**–**	**6.9**	**520.1**
	1,619.5	**348.4**	**881.5**	**7.8**	**19.0**	**510.1**	**403.9**	**386.2**	**4,176.4**
At 31 December 2018									
Financial investments	1,507.0	303.5	288.8	–	–	329.0	575.8	141.0	3,145.1
Derivative contracts	–	–	–	–	–	–	–	17.4	17.4
Cash and cash equivalents	457.8	54.3	217.1	69.2	6.3	13.5	–	–	818.2
	1,964.8	357.8	505.9	69.2	6.3	342.5	575.8	158.4	3,980.7

The table above gives an indication of the level of credit worthiness of assets that are most exposed to credit risk. The ratings are mainly sourced from Standard & Poor's and where these are not available an equivalent rating agency.

4.4.2 Insurance credit risk

Insurance credit risk management process

The Credit Committee chaired by the Group Chief Financial Officer is responsible for the management of credit risk arising from insurance activities.

Reinsurer credit risk is managed by transacting only with reinsurance counterparties that satisfy a minimum level of financial strength or provide appropriate levels of collateral, and have been approved for use by the Credit Committee. The reinsurer security list, which sets out the list of approved reinsurance counterparties, is reviewed at least annually and following any significant change in risk profile, which includes any changes to reinsurers' financial ratings. Credit risk appetite limits are set for reinsurance entities and groups to limit accumulations of risk. These positions are monitored quarterly against current balance sheet exposures and in relation to a number of extreme loss scenarios.

Reinsurance aged debt is monitored and managed against the management risk appetite limits set by the Credit Committee. A bad debt provision is held against all non-rated reinsurers or any reinsurer where there is deemed to be a specific risk of non-payment.

Any breaches of credit risk tolerance and/or appetite are reported to the Risk Oversight Committee and the Board at least quarterly.

Insurance credit risk profile

The summary of the insurance credit risk exposures for the Group is set out in the tables below:

	AAA US$m	AA US$m	A US$m	Collateral US$m	Not rated US$m	Total US$m
At 31 December 2019						
Reinsurance assets	**3.4**	**785.8**	**327.4**	**174.0**	**54.7**	**1,345.3**
Insurance receivables	–	**–**	**–**	**–**	**1,091.3**	**1,091.3**
	3.4	**785.8**	**327.4**	**174.0**	**1,146.0**	**2,436.6**
At 31 December 2018						
Reinsurance assets	2.6	781.4	397.1	224.4	41.0	1,446.5
Insurance receivables	–	–	–	–	941.3	941.3
	2.6	781.4	397.1	224.4	982.3	2,387.8

Insurance credit risk arises primarily from reinsurers (whereby reinsurers fail to pay recoveries due to the Group in a timely manner) and brokers and coverholders (whereby intermediaries fail to pass on premiums due to the Group in a timely manner).

As at 31 December 2019, collateral of US$727.3m (2018: US$734.4m) is held in third-party trust accounts or as a letter of credit (LOC) to guarantee Syndicate 2987 against reinsurance counterparties and is available for immediate drawdown in the event of a default. Of this amount, US$174.0m (2018: US$224.4m) had been drawn against reinsurance assets at 31 December 2019.

The following table shows movements in impairment provisions during the year:

	Impairment provision against reinsurance assets US$m	Impairment provision against insurance receivables US$m
2019		
Opening provision at 1 January	**–**	**11.7**
Strengthening for the year	**–**	**0.3**
Net foreign exchange differences	**–**	**(1.0)**
Closing provision at 31 December	**–**	**11.0**
2018		
Opening provision at 1 January	0.7	11.3
(Release)/strengthening for the year	(0.7)	0.5
Net foreign exchange differences	–	(0.1)
Closing provision at 31 December	–	11.7

4 Risk management policies (continued)

The following table shows the amount of insurance receivables past due but not impaired at the end of the year:

	2019 US$m	2018 US$m
0-3 months past due	**16.2**	41.5
4-6 months past due	**29.7**	11.2
7-9 months past due	**0.6**	3.8
10-12 months past due	**0.4**	1.1
More than 12 months past due	**2.5**	8.3
	49.4	65.9

4.5 Liquidity risk

Liquidity risk is the risk that the Group may encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. The predominant liquidity risk the Group faces is the daily calls on its available cash resources in respect of claims arising from insurance contracts.

The Group monitors the levels of cash and cash equivalents on a daily basis, ensuring adequate liquidity to meet the expected cash flow requirements due over the short-term.

The Group also limits the amount of investment in illiquid securities in line with the liquidity policy set by the Board. This involves ensuring sufficient liquidity to withstand claim scenarios at the extreme end of business plan projections, by reference to modelled realistic disaster scenarios. Contingent liquidity also exists in the form of a Group revolving credit facility.

The tables below present the fair value of monetary assets and the undiscounted value of monetary liabilities of the Group into their relevant maturing groups based on the remaining period at the end of the year to their contractual maturities or expected repayment dates. Borrowings are stated at their nominal value at maturity.

31 December 2019	Statement of financial position US$m	Fair values <1 year US$m	1 to 3 years US$m	3 to 5 years US$m	>5 years US$m	Equities US$m	Total US$m
Assets							
Reinsurance assets	**1,345.3**	**404.9**	**435.4**	**233.9**	**271.1**	**–**	**1,345.3**
Financial investments	**3,640.6**	**2,367.5**	**455.3**	**232.2**	**181.7**	**403.9**	**3,640.6**
Derivative contracts	**15.7**	**15.3**	**–**	**–**	**0.4**	**–**	**15.7**
Insurance receivables	**1,091.3**	**1,091.3**	**–**	**–**	**–**	**–**	**1,091.3**
Cash and cash equivalents	**520.1**	**520.1**	**–**	**–**	**–**	**–**	**520.1**
	6,613.0	**4,399.1**	**890.7**	**466.1**	**453.2**	**403.9**	**6,613.0**

31 December 2019	Statement of financial position US$m	Undiscounted values <1 year US$m	1 to 3 years US$m	3 to 5 years US$m	>5 years US$m	Equities US$m	Total US$m
Liabilities							
Insurance contract liabilities	**4,296.7**	**1,190.6**	**1,321.0**	**749.7**	**1,035.4**	**–**	**4,296.7**
Derivative contracts	**14.2**	**14.2**	**–**	**–**	**–**	**–**	**14.2**
Borrowings	**316.2**	**140.0**	**–**	**–**	**182.9**	**–**	**322.9**
Other financial liabilities	**75.5**	**–**	**–**	**–**	**–**	**75.5**	**75.5**
Insurance and other payables	**676.0**	**676.0**	**–**	**–**	**–**	**–**	**676.0**
	5,378.6	**2,020.8**	**1,321.0**	**749.7**	**1,218.3**	**75.5**	**5,385.3**

31 December 2018	Statement of financial position US$m	Fair values <1 year US$m	1 to 3 years US$m	3 to 5 years US$m	>5 years US$m	Equities US$m	Total US$m
Assets							
Reinsurance assets	1,446.5	461.8	433.0	244.7	307.0	–	1,446.5
Financial investments	3,145.1	1,059.6	1,193.5	272.7	43.5	575.8	3,145.1
Derivative contracts	17.4	16.4	–	–	1.0	–	17.4
Insurance receivables	941.3	941.3	–	–	–	–	941.3
Cash and cash equivalents	818.2	818.2	–	–	–	–	818.2
	6,368.5	3,297.3	1,626.5	517.4	351.5	575.8	6,368.5

31 December 2018	Statement of financial position US$m	Undiscounted values <1 year US$m	1 to 3 years US$m	3 to 5 years US$m	>5 years US$m	Equities US$m	Total US$m
Liabilities							
Insurance contract liabilities	4,348.5	1,220.1	1,331.1	741.5	1,055.8	–	4,348.5
Derivative contracts	14.1	14.1	–	–	–	–	14.1
Borrowings	174.9	8.0	–	–	173.3	–	181.3
Other financial liabilities	241.8	–	–	–	–	241.8	241.8
Insurance and other payables	422.2	422.2	–	–	–	–	422.2
	5,201.5	1,664.4	1,331.1	741.5	1,229.1	241.8	5,207.9

4.6 Operational risk

Operational risk is the potential for loss arising from the failure of people, process or technology or the impact of external events. The nature of operational risk means that it is dispersed across all functional areas of Brit. Operational risk exposures are managed through a consistent set of management processes that drive risk identification, assessment, control and monitoring.

The Operations Committee, chaired by the Group Chief Operating Officer, is a key governance committee reporting to the Executive Committee. The Operations Committee is responsible for managing operational risk in line with the operational risk policy and the risk tolerance and management appetite limits set by the Board and management respectively. Each individual risk committee is provided with relevant operational risk updates and these committees include operational risk owners within executive management who actively manage operational risk within their respective areas (such as Underwriting, Claims, Investments and Finance).

An operational risk management framework is in place to ensure an appropriate standard approach is taken to managing operational risk across the Group. The key elements of this framework are:

- Allocation of responsibility for the identification and assessment of operational risk. Standard tools are used to facilitate these assessments;
- Definition of standard elements of sound operating controls that are expected to be in place to address all identified operational risks;
- A process that integrates with Brit's internal model to support the setting and monitoring of operational risk appetite and tolerances;
- Governance, reporting and escalation for operational risk;
- Infrastructure supporting the operational risk management framework; and
- Operational risk management training and awareness.

4 Risk management policies (continued)

4.7 Political risk – The United Kingdom's exit from the EU (Brexit)

We have continued to work to minimise the impact of Brexit on Brit and our clients. While direct European business is not material for Brit, we have continued to monitor and evaluate the associated risks and have implemented the processes and business changes required to write business onto Lloyd's new Brussels-based European insurance company (LBS), of which we are fully supportive.

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

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

4.8 Emerging risks

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

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

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

4.9 Capital management

Brit defines management entity capital as the amount of capital that the board of each underwriting entity determines that it should hold, taking into account the requirements of shareholders, regulators, policyholders, and the boards' solvency risk appetite. The capital policy is set by the entity and Group boards. Management entity capital requirements are in excess of capital requirements under the Solvency II capital regime, which became effective on 1 January 2016.

The capital requirements are based on the output of the internal model which reflects the risk profile of the business. The capital policy requires capital to be held well in excess of regulatory minimum requirements, underpinning Brit's financial strength. The policy ensures the capital adequacy of the Group as a whole, and each entity, through an efficient capital structure. Brit proactively responds to developments in the financial environment to ensure its capital strength is maintained while optimising risk adjusted returns.

In addition to the management capital requirements, the Brit Limited Board has determined that the Brit Limited Group should maintain a minimum surplus, in excess of the entity management capital requirements, to withstand short-term shocks without requiring a capital injection. The minimum surplus is calibrated to a 1-in-20 one-year VaR (i.e. it is sufficient to protect against losses over a one-year period in 19 out of 20 years whilst maintaining management capital). The Group minimum surplus is set with reference to the internal model.

The Group's available capital consists of net tangible assets, subordinated debt, letters of credit and contingent funding. This amounted to US$1,576.6m as at 31 December 2019. This represented a surplus of US$348.9m over the management capital requirements, compared to the Group's minimum surplus of US$210.0m.

All regulatory capital requirements have been complied with during the year by the Group's individual insurance subsidiaries.

The Lloyd's market is subject to the solvency and capital adequacy requirements of the Prudential Regulation Authority (PRA). Any regulatory intervention by the PRA in respect of Lloyd's may adversely affect the Group. The PRA may impose more stringent requirements on Lloyd's which may result in higher capital requirements or a restriction on trading activities for entities within the Group. If Lloyd's fails to satisfy its solvency test in any year, the PRA may require Lloyd's to cease trading and/or its members to cease or reduce their underwriting exposure, which may result in a material adverse effect to the Group's reputation, financial condition and results of operations.

During 2019, Brit primarily underwrote through the Group's wholly-aligned Lloyd's Syndicate 2987 which benefits from the Lloyd's credit ratings of A (Excellent) from A.M. Best, AA – (Very Strong) from Fitch and A+ (Strong) from Standard & Poor's. Any downgrade in Lloyd's financial strength ratings may have an adverse effect on the Group.

The Group's business plan and underwriting capacity for the Syndicate may be affected by a decrease in the value of the Group's Funds at Lloyd's or by recommendations from the Lloyd's Franchise Board. The Group is also reliant upon the compliance of Lloyd's with US regulations, including the maintenance by Lloyd's of its trading licences and approvals in the US.

4.10 Sussex: Governance Structure

Sussex Capital is Brit's collateralised reinsurance platform based in Bermuda which was launched on 1 January 2018. Sussex Capital Limited has two segregated accounts operating as funds available for capital investment, referred to as The Diversified Fund and Specialty Insurance Fund (the Funds). Through Sussex Re, it writes direct collateralised property catastrophe reinsurance and also provides collateralised reinsurance to Brit's Property Treaty portfolio.

Sussex Capital has an independent governance structure to manage its operations. This consists of a Board and three sub-committees. The Board has overall responsibility for oversight of the business. The Valuation Committee is responsible for fund valuation, settling claims and setting reserves, the Investment Committee ensures investments are made in line with the Funds objectives, and the Management Committee oversees the day-to-day operations of the Funds.

The risks to Brit from Sussex Capital arise from two main sources: First, a direct investment risk due to the Group's investment in the Funds. Secondly, operational, reputational, and strategic risks relating to managing the Funds on behalf of external investors. The direct investment risk is managed in the same way as the Group's other investment risks, through oversight by the relevant committees. The operational, reputational, and strategic risks are managed through the governance structure in place at Sussex as described above. In particular, the Sussex Board has independent non-executive Directors with significant industry experience. The Brit Group provides support (for example, catastrophe modelling) to assist Sussex's operations and risk management.

5 Segmental information

This Note breaks down the operating results summarised in the income statement into the main business areas of the Group. It also shows how our revenue is split globally. This analysis is designed to help you understand how each segment of our business has performed and how we have allocated our shareholders' capital.

As at 31 December 2019, the reportable segments identified were as follows:

- 'Brit Global Specialty Direct', which underwrites the Group's international and US business, other than treaty reinsurance. In the main, Brit Global Specialty Direct deals with wholesale buyers of insurance, rather than individuals. Risks are large and usually syndicated by several underwriters by means of the subscription market.
- 'Brit Global Specialty Reinsurance', which underwrites reinsurance business (essentially the insurance of insurance and reinsurance companies) and includes writing non-proportional cover for major events such as earthquakes or hurricanes. These insurance and reinsurance companies calculate how much risk they want to retain and then pass on their remaining exposure to reinsurers in return for a premium.
- 'Other Underwriting', which comprises the Group's special purpose vehicles, Brit's share of Syndicate 2988 and run-off classes. The share of the Group's special purpose vehicles attributable to third-party underwriting capital providers is represented by the '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 IFRSs whereby unearned premium, reinsurer's share of unearned premium and deferred acquisition costs are treated as non-monetary items and the majority of other assets and liabilities are treated as monetary items. Non-monetary items are carried at historic exchange rates, while monetary items are translated at closing rates.

The Group investment return is managed centrally and an allocation is made to each of the strategic business units based on the average risk-free interest rate for the period being 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 year ended 31 December 2019 (31 December 2018: 1.5%).

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

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

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

(a) Income statement by segment

Year ended 31 December 2019

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

Claims ratio	53.9%	62.5%		55.7%				
Expense ratio	44.8%	29.2%		40.1%				
Combined ratio	98.7%	91.7%		95.8%				

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5 Segmental information (continued)

Year ended 31 December 2018

	Brit Global Specialty Direct US$m	Brit Global Specialty Reinsurance US$m	Other Underwriting US$m	Total underwriting excluding the effect of foreign exchange on non-monetary items US$m	Effect of foreign exchange on non-monetary items US$m	Total underwriting after the effect of foreign exchange on non-monetary items US$m	Other corporate US$m	Total US$m
Gross premiums written	1,758.0	452.1	29.0	2,239.1	–	2,239.1	–	2,239.1
Less premiums ceded to reinsurers	(665.9)	(108.9)	18.1	(756.7)	–	(756.7)	–	(756.7)
Premiums written, net of reinsurance	1,092.1	343.2	47.1	1,482.4	–	1,482.4	–	1,482.4
Gross earned premiums	1,738.6	444.9	18.6	2,202.1	2.6	2,204.7	–	2,204.7
Reinsurers' share	(649.1)	(111.3)	24.4	(736.0)	(0.7)	(736.7)	–	(736.7)
Earned premiums, net of reinsurance	1,089.5	333.6	43.0	1,466.1	1.9	1,468.0	–	1,468.0
Investment return	(15.4)	(4.0)	(0.2)	(19.6)	–	(19.6)	(81.6)	(101.2)
Return on derivative contracts	(1.7)	(0.4)	(0.1)	(2.2)	–	(2.2)	8.5	6.3
Other income	12.2	1.8	–	14.0	–	14.0	(3.4)	10.6
Gains on other financial liabilities	–	–	4.9	4.9	–	4.9	12.5	17.4
Total revenue	1,084.6	331.0	47.6	1,463.2	1.9	1,465.1	(64.0)	1,401.1
Gross claims incurred	(1,234.7)	(381.8)	(19.0)	(1,635.5)	–	(1,635.5)	–	(1,635.5)
Reinsurers' share	675.4	113.4	(20.3)	768.5	–	768.5	–	768.5
Claims incurred, net of reinsurance	(559.3)	(268.4)	(39.3)	(867.0)	–	(867.0)	–	(867.0)
Acquisition costs – commission	(385.5)	(64.8)	(5.8)	(456.1)	(0.7)	(456.8)	–	(456.8)
Acquisition costs – other	(95.6)	(18.5)	(2.0)	(116.1)	(0.1)	(116.2)	–	(116.2)
Other insurance related expenses	(75.3)	(22.1)	(3.1)	(100.5)	–	(100.5)	–	(100.5)
Other expenses	–	–	–	–	–	–	(20.0)	(20.0)
Net foreign exchange losses	–	–	–	–	(5.9)	(5.9)	(12.7)	(18.6)
Total expenses excluding finance costs	(1,115.7)	(373.8)	(50.2)	(1,539.7)	(6.7)	(1,546.4)	(32.7)	(1,579.1)
Operating loss	(31.1)	(42.8)	(2.6)	(76.5)	(4.8)	(81.3)	(96.7)	(178.0)
Finance costs								(18.8)
Share of net profit of associates								6.5
Loss on ordinary activities before tax								(190.3)
Tax income								23.8
Loss for the year								(166.5)
Claims ratio	58.2%	80.1%		63.1%				
Expense ratio	42.9%	31.2%		40.2%				
Combined ratio	101.1%	111.3%		103.3%				

(b) Depreciation, amortisation and capital expenditure by segment

Year ended 31 December 2019	Brit Global Specialty Direct US$m	Brit Global Specialty Reinsurance US$m	Other Underwriting US$m	Total US$m
Depreciation and impairment of property, plant and equipment	**6.4**	**2.1**	**0.8**	**9.3**
Amortisation of intangibles	**4.3**	**1.7**	**2.7**	**8.7**
Capital expenditure	**7.8**	**2.1**	**0.2**	**10.1**

Year ended 31 December 2018	Brit Global Specialty Direct US$m	Brit Global Specialty Reinsurance US$m	Other Underwriting US$m	Total US$m
Depreciation of property, plant and equipment	3.1	1.2	–	4.3
Amortisation of intangibles	4.5	1.8	–	6.3
Capital expenditure	13.1	2.2	–	15.3

Capital expenditure consists of additions of property, plant and equipment and intangible assets but excludes assets recognised on business combinations.

(c) Geographical information

The Group's strategic business units operate mainly in five geographical areas, though the business is managed on a worldwide basis. The segmental split shown below is based on the location of the underlying risk.

Gross premiums written	Year ended 31 December 2019 US$m	Year ended 31 December 2018 US$m
United States	**1,207.3**	1,016.4
United Kingdom	**141.0**	139.4
Canada	**103.8**	83.7
Europe (excluding UK)	**69.5**	94.0
Other (including worldwide)	**771.9**	905.6
	2,293.5	2,239.1

The nature of the London Market business is such that the insureds and reinsureds are often operating on a multi-territory or worldwide basis and hence coverage is often provided on a worldwide basis. Premiums written on a multi-territory or worldwide basis are included in 'Other' in the table above.

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6 Investment return

This Note shows the income generated through investing funds. It also shows the gains and losses generated on various types of investment assets as a result of the movement in their market values.

Year ended 31 December 2019	Investment income US$m	Net realised (losses)/gains US$m	Net unrealised gains/(losses) US$m	Total investment return US$m
Equity securities	5.7	(39.2)	129.7	96.2
Debt securities	71.8	(12.2)	22.4	82.0
Specialised investment funds	–	(0.5)	(17.3)	(17.8)
Cash and cash equivalents	9.8	–	–	9.8
Total investment return before expenses	87.3	(51.9)	134.8	170.2
Investment management expenses	(11.7)	–	–	(11.7)
Total investment return	75.6	(51.9)	134.8	158.5

Year ended 31 December 2018	Investment income US$m	Net realised (losses)/gains US$m	Net unrealised gains/(losses) US$m	Total investment return US$m
Equity securities	11.5	32.3	(169.9)	(126.1)
Debt securities	54.0	1.5	(12.5)	43.0
Specialised investment funds	–	5.8	(21.0)	(15.2)
Cash and cash equivalents	10.0	–	–	10.0
Total investment return before expenses	75.5	39.6	(203.4)	(88.3)
Investment management expenses	(12.9)	–	–	(12.9)
Total investment return	62.6	39.6	(203.4)	(101.2)

7 Return on derivative contracts

This Note shows the effect on the income statement of derivative contracts held during the year, and which help manage exposure to fluctuations in interest rates and foreign exchange rates. Derivatives are shown analysed between investment and currency related derivatives, reflecting the way the business is managed.

	Year ended 31 December 2019 US$m	Year ended 31 December 2018 US$m
Investment-related non-currency options	(2.8)	0.1
Currency forwards	(14.8)	6.2
Return on derivative contracts	(17.6)	6.3

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

This Note shows the analysis of other income generated in the year, including gains/(losses) on other financial liabilities.

	Year ended 31 December 2019 US$m	Year ended 31 December 2018 US$m
Fees and commission from non-aligned syndicate	**12.7**	13.6
Change in value of other financial liabilities*	**(10.5)**	17.4
Change in value of parent company shares held by Brit	**0.3**	(3.4)
Net commission fee income from intermediary activities	**28.0**	–
Consortium income	**3.2**	–
Other	**1.7**	0.4
Total	**35.4**	28.0

*Other financial liabilities are investments by third parties in structured insurance and investment entities consolidated by the Group.

9 Net foreign exchange gains/(losses)

The Group operates in multiple countries and currencies and is exposed to gains and losses arising as a result of movement in various foreign currency exchange rates. This Note explains the foreign exchange gains or losses as a result of converting the income, expenses, assets and liabilities from foreign currencies to US dollars.

The Group recognised foreign exchange gains of US$16.8m (2018: losses of US$18.6m) in the income statement in the year.

Foreign exchange gains and losses result from the translation of the statement of financial position 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.

	Year ended 31 December 2019 US$m	Year ended 31 December 2018 US$m
Gains/(losses) on foreign exchange arising from:		
Translation of the statement of financial position and income statement	**14.0**	(12.9)
Maintaining UPR/DAC items in the income statement at historic rates	**2.8**	(5.7)
Net foreign exchange gains/(losses)	**16.8**	(18.6)

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

	Year ended 31 December 2019 Average	Year ended 31 December 2019 Closing	Year ended 31 December 2018 Average	Year ended 31 December 2018 Closing
Sterling	**0.783**	**0.755**	0.749	0.785
Canadian dollar	**1.327**	**1.297**	1.296	1.366
Euro	**0.893**	**0.891**	0.847	0.875
Australian dollar	**1.438**	**1.423**	1.338	1.420

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

10 Acquisition costs and other operating expenses

This Note shows the analysis of costs incurred in acquiring and underwriting insurance contracts and the running costs of our business during the year. We have separated out the more material costs in order to provide a more detailed insight into our cost base.

	Year ended 31 December 2019			Year ended 31 December 2018		
	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 (Note 11)	**73.5**	**56.9**	**130.4**	57.2	53.1	110.3
Other staff related costs	**4.6**	**12.3**	**16.9**	2.8	9.0	11.8
Accommodation costs	**6.1**	**2.2**	**8.3**	7.1	7.2	14.3
Legal and professional charges	**8.0**	**7.7**	**15.7**	1.9	7.6	9.5
IT costs	**2.2**	**20.0**	**22.2**	1.4	19.2	20.6
Travel and entertaining	**4.7**	**2.6**	**7.3**	4.2	3.3	7.5
Marketing and communications	**0.5**	**1.9**	**2.4**	0.7	1.2	1.9
Amortisation and impairment of intangible assets	**0.4**	**8.3**	**8.7**	0.1	6.2	6.3
Depreciation and impairment of property, plant and equipment	**2.4**	**6.9**	**9.3**	0.3	4.0	4.3
Regulatory levies and charges	**43.7**	**–**	**43.7**	39.2	–	39.2
Other	**4.5**	**7.0**	**11.5**	1.3	9.7	11.0
Expenses before commissions	**150.6**	**125.8**	**276.4**	116.2	120.5	236.7
Commission costs	**444.6**	**–**	**444.6**	456.8	–	456.8
Total acquisition costs and other operating expenses	**595.2**	**125.8**	**721.0**	573.0	120.5	693.5

11 Staff costs

This Note gives a breakdown of the total cost of employing staff (including executive and non-executive Directors) and gives the average number of people employed by the Group during the year.

	Year ended 31 December 2019 US$m	Year ended 31 December 2018 US$m
Wages and salaries	**112.0**	94.6
Social security costs	**13.3**	10.8
Pension costs	**5.1**	4.9
Total staff costs	**130.4**	110.3

The average number of employees during the year, including executive and non-executive Directors, was as follows:

	Year ended 31 December 2019 Number	Year ended 31 December 2018 Number
Front office staff		
Underwriters	**213**	184
Claims staff	**58**	57
Other underwriting and direct support staff	**156**	126
Total front office staff	**427**	367
Back office staff		
Management	**107**	84
Administration	**176**	152
Total back office staff	**283**	236
Total employees	**710**	603

'Management' includes non-executive Directors and employees who have other members of staff reporting to them.

12 Finance costs

Finance costs arise from interest due on moneys borrowed by the Group and any other amounts payable in respect of those borrowings or borrowing facilities. Finance costs also includes interest payable on lease liabilities. The Group's borrowings consist of a revolving credit facility and listed unsecured subordinated debt, details of which are set out in Note 26.

	Year ended 31 December 2019 US$m	Year ended 31 December 2018 US$m
Revolving credit facility and other bank borrowings	**7.9**	4.4
Interest payable on lease liabilities	**1.8**	–
Subordinated debt	**14.0**	14.4
Total finance costs	**23.7**	18.8

13 Auditor's remuneration

The Group engages PricewaterhouseCoopers LLP to perform the audit of the Group and all subsidiaries except for the Ambridge companies.

The remuneration of the auditors or their associates is analysed as follows:

	Year ended 31 December 2019 US$m	Year ended 31 December 2018 US$m
Audit of the Group and Company financial statements	**0.6**	0.4
Audit of subsidiaries	**1.2**	1.0
Audit related assurance services	**0.1**	0.1
Total audit and audit related assurance services	**1.9**	1.5
Total non-audit services	**–**	–
Total audit and non-audit services	**1.9**	1.5

14 Investments in associated undertakings

This Note describes the investments made in associated undertakings and provides summarised income statements and statements of financial position of those associates.

Camargue Underwriting Managers Proprietary Limited ('Camargue')

On 30 August 2016, the Group acquired 50% of the share capital of Camargue for ZAR65.5m plus £0.3m (US$4.9m) and entered into a call and a put option to purchase the remaining 50% in 2021. The investment in Camargue is measured using the equity accounting method. The principal place of business of Camargue is South Africa. 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. The summarised statement of financial position of Camargue and reconciliation to the carrying amount is as follows:

Statement of financial position	31 December 2019 US$m	31 December 2018 US$m
Current assets	5.6	2.8
Non-current assets	1.6	1.5
Total assets	7.2	4.3
Current liabilities	(4.8)	(2.2)
Non-current liabilities	(0.1)	–
Total liabilities	(4.9)	(2.2)
Net assets	2.3	2.1
50% not owned by Brit	(1.2)	(1.1)
Acquisition fair value, result since acquisition and other adjustments	5.0	4.7
Carrying value	6.1	5.7

Income statement	31 December 2019 US$m	31 December 2018 US$m
Commission revenue	5.4	5.5
Operating expenses	(4.2)	(4.3)
Net profit	1.2	1.2
50% not owned by Brit	(0.6)	(0.6)
Share of net profit of associate	0.6	0.6

Sutton Special Risk Inc. ('Sutton')

On 2 January 2019, Brit Insurance Holdings Limited, acquired 49% of the issued shares of Sutton for a total purchase consideration of CAD$17.2m and entered into a forward contract to purchase the remaining 51% in 2024. Sutton is a Canadian managing general underwriter of a range of specialised insurance products, including Accident and Health. The summarised statement of financial position of Sutton and reconciliation to the carrying amount is as follows:

Statement of financial position	31 December 2019 US$m
Current assets	16.2
Non-current assets	3.0
Total assets	19.2
Current liabilities	(16.4)
Total liabilities	(16.4)
Net assets	2.8
51% not owned by Brit	(1.4)
Acquisition fair value, result since acquisition and other adjustments	11.9
Carrying value	13.3

Income statement	31 December 2019 US$m
Commission revenue	8.0
Operating expenses	(6.6)
Net profit	1.4
51% not owned by Brit	(0.7)
Share of net profit of associate	0.7

15 Tax expense

Income tax is tax charged on trading activities during the year. This Note shows the breakdown of tax payable in the current period (current tax) and also tax that may become payable sometime in the future (deferred tax).

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

	Year ended 31 December 2019 US$m	Year ended 31 December 2018 US$m
Current tax:		
Current taxes on income for the year	2.0	(12.9)
Overseas tax on income for the year	(1.6)	(4.5)
	0.4	(17.4)
Double tax relief	1.2	1.1
Adjustments in respect of prior years	1.8	4.9
Total current tax	3.4	(11.4)
Deferred tax:		
Relating to the origination and reversal of temporary differences	(10.6)	34.9
Adjustments in respect of prior years	0.8	0.3
Total deferred tax	(9.8)	35.2
Total tax (charged)/credited to the income statement	(6.4)	23.8

15 Tax expense (continued)

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

(b) Tax credited/(charged) to other comprehensive income

	Year ended 31 December 2019 US$m	Year ended 31 December 2018 US$m
Deferred tax credit/(charge) on actuarial (losses)/gains on defined benefit pension scheme	**6.4**	(0.6)

(c) Tax reconciliation

The tax on the Group's profit/(loss) before tax differs from the theoretical amount that would arise based on the weighted average rate of tax as follows:

	Year ended 31 December 2019 US$m	Year ended 31 December 2018 US$m
Profit/(loss) on ordinary activities before tax	**186.3**	(190.3)
Tax calculated at weighted average rate of tax on income	**(3.2)**	34.3
Non-deductible and non-taxable items	**1.8**	2.3
Taxes on income at rates in excess of the domestic rate and where credit is unavailable	**1.2**	(2.4)
Effect of temporary differences not recognised	**7.2**	(10.8)
Effect of revaluation of deferred tax following change in rate of tax	**(15.8)**	(4.7)
Other items	**(0.2)**	(0.1)
Adjustments to tax charge in respect of prior years	**2.6**	5.2
Total tax (charged)/credited to income statement	**(6.4)**	23.8

The weighted average rate of tax is based on the geographic split of profit across Group entities in jurisdictions with differing tax rates. As the mix of taxable profits changes, so will the weighted average rate of tax.

(d) Effect of post balance sheet rate changes

UK legislation was substantively enacted on 9 September 2016 to reduce the main rate of UK corporation tax from 19% to 17% from 1 April 2020.

The reduction in rate from 19% to 17% has been used in the calculation of the UK's deferred tax assets and liabilities as at 31 December 2019.

During 2019 it was announced that further legislation is expected that will instead maintain the main rate of UK corporation tax at 19%. If such legislation is introduced and the rate is maintained at 19% from April 2020, the impact would be to increase the total deferred tax asset to US$48.7m with an additional US$2.7m unrecognised deferred tax asset in respect of undeclared year of account losses.

16 Intangible assets

An intangible asset is an asset without any physical substance but which has long-term value to the business. With the exception of goodwill, syndicate participation rights at Lloyd's, trade names and the regulatory licences, which are classified as indefinite life assets, the value of these assets are reduced according to their useful life by way of amortisation. Amortisation is included as an expense in the income statement.

	Goodwill US$m	Trade names US$m	Distribution channels US$m	Syndicate Participations US$m	Regulatory licenses US$m	Employee related US$m	Software US$m	Total US$m
Cost:								
At 1 January 2018	–	–	9.8	70.8	–	–	38.5	119.1
Additions	–	–	–	–	7.5	–	6.4	13.9
Disposals	–	–	–	–	–	–	(6.0)	(6.0)
Foreign exchange effect	–	–	–	–	–	–	(2.2)	(2.2)
At 31 December 2018	–	–	9.8	70.8	7.5	–	36.7	124.8
At 1 January 2019	**–**	–	**9.8**	**70.8**	**7.5**	–	**36.7**	**124.8**
Additions	**–**	**–**	**–**	**–**	**–**	**–**	**5.2**	**5.2**
Additions through acquisitions	**45.9**	**0.5**	**42.6**	**–**	**–**	**1.2**	**0.9**	**91.1**
Foreign exchange effect	**–**	**–**	**–**	**–**	**–**	**–**	**1.4**	**1.4**
At 31 December 2019	**45.9**	**0.5**	**52.4**	**70.8**	**7.5**	**1.2**	**44.2**	**222.5**
Amortisation:								
At 1 January 2018	–	–	4.5	–	–	–	16.8	21.3
Charge for the year	–	–	0.6	–	–	–	5.7	6.3
Disposals	–	–	–	–	–	–	(6.0)	(6.0)
Foreign exchange effect	–	–	–	–	–	–	(1.2)	(1.2)
At 31 December 2018	–	–	5.1	–	–	–	15.3	20.4
At 1 January 2019	**–**	**–**	**5.1**	**–**	**–**	**–**	**15.3**	**20.4**
Charge for the year	**–**	**–**	**2.7**	**–**	**–**	**0.3**	**5.7**	**8.7**
Foreign exchange effect	**–**	**–**	**–**	**–**	**–**	**–**	**0.8**	**0.8**
At 31 December 2019	**–**	**–**	**7.8**	**–**	**–**	**0.3**	**21.8**	**29.9**
Carrying amount:								
At 31 December 2018	–	–	4.7	70.8	7.5	–	21.4	104.4
At 31 December 2019	**45.9**	**0.5**	**44.6**	**70.8**	**7.5**	**0.9**	**22.4**	**192.6**

Additional information

On 30 April 2018, as part of Brit's acquisition of Commonwealth Insurance Company of America from TIG Insurance Company, an intangible asset was recognised in respect of the US$7.5m paid for its operating licences in 48 US states.

The gross cost of software fully amortised but still in use is US$8.1m (2018: US$7.2m). All software additions in 2019 and 2018 were internally developed. The software amortisation charge for the year of US$5.7m (2018: US$5.7m) is included in the 'other operating expenses' line in the income statement. There were no impairments to software in 2019 (2018: nil). Assets not yet in use with a total cost of US$0.6m (2018: US$1.5m) are included in software. Further information is given in Note 5(b).

16 Intangible assets (continued)

Impairment testing

Goodwill

Goodwill is reviewed annually for impairment and has been allocated to the Ambridge cash-generating unit (CGU):

	31 December 2019 US$m
Ambridge Group	**45.9**

The goodwill arising in 2019 relates to the Ambridge acquisition and the recoverable amounts have been determined using a value in use calculation.

The value in use calculation uses cash flow projections based on business plans approved by senior management covering a three-year period and subsequent cash flows which assume a nil growth rate. These cash flows have been discounted using a risk adjusted discount rate of 9.2%. In the goodwill impairment review, the recoverable amount significantly exceeds the carrying value of the CGU including its associated goodwill and it is considered that a reasonably possible change in key assumptions will not cause the carrying value of the CGU to exceed its recoverable amount.

The key assumptions used for the impairment calculations were that cash flows and profit levels will mainly depend on the level of commissions earned by Ambridge. The business plan reflects senior management's best estimates based on historical experience, growth rates for the respective insurance industry sector, the insurance pricing cycle and expected results from ongoing and future strategic business unit product and distribution strategies.

Syndicate participations

Syndicate participations are indefinite life intangible assets and are therefore reviewed annually for impairment. They have been allocated to cash-generating units (CGUs) as follows:

	31 December 2019 US$m	31 December 2018 US$m
Global Specialty Direct	**52.7**	52.7
Global Specialty Reinsurance	**18.1**	18.1
Total	**70.8**	70.8

These CGUs are based upon operating segments which earn revenues and incur expenses and whose results are regularly reviewed by management.

The recoverable amounts of the CGUs have been determined using a value in use calculation.

Each value in use calculation uses pre-tax cash flow projections based on business plans approved by senior management covering a three-year period and subsequent cash flows which assume a nil growth rate. These cash flows have been discounted using a risk adjusted pre-tax discount rate of 9.2% (2018: 9.2%). In each syndicate participation impairment review, the recoverable amount significantly exceeds the carrying value of the CGU including its associated syndicate participations and it is considered that a reasonably possible change in key assumptions will not cause the carrying value of the CGU to exceed its recoverable amount.

The key assumptions used for the impairment calculations were that cash flows and profit levels will mainly depend on the level of premiums written by each strategic business unit, the rates at which these premiums are written and the claims activity on both prior and future underwriting years. The business plans reflect senior management's best estimates based on historical experience, growth rates for the respective insurance industry sector, the insurance pricing cycle and expected results from ongoing and future strategic business unit product and distribution strategies.

Commissions and other insurance related expenses are assumed to remain materially in line with current amounts relative to premium levels.

Trade names

Trade names are indefinite life intangible assets and are therefore reviewed annually for impairment. They have been allocated to cash-generating units (CGUs) as follows:

	31 December 2019 US$m
Ambridge Group	**0.5**

The trade names were acquired in 2019 as part of the Ambridge acquisition and the recoverable amounts have been determined using a relief from royalty approach to estimate the fair value.

Each calculation of the current fair value of the trade names uses revenue projections based on business plans approved by senior management. A royalty rate is applied as a percentage of the revenue stream and these cash flows have been discounted using a risk adjusted discount rate of c.13%.

The key assumptions used for the impairment calculations are the level of projected revenue cash flows and the estimated royalty rate. The revenue estimates reflect senior management's best estimates based on historical experience, growth rates for the respective industry sector and expected results from the product and distribution strategies of the CGUs. The royalty rate used of 0.25% was determined post-acquisition following consideration of comparable market royalty rates.

Regulatory licenses

This asset is not yet in use as the business to which it relates has not yet started trading. As the licenses remain valid and available to the related business when it commences trading, the licenses remain unimpaired.

17 Property, plant and equipment

This Note gives a breakdown of the type of assets in use such as computer equipment, office fixtures and fittings and furniture. The value of these assets are reduced according to their useful life by way of depreciation. Depreciation is included as an expense in the income statement. An annual assessment of the carrying value of these assets is carried out and, if necessary, an impairment charge to the income statement is made.

	Office refurbishment US$m	Computers and office machinery, furniture and equipment US$m	Right of use assets US$m	Total US$m
Cost:				
At 1 January 2018	21.1	12.0	–	33.1
Additions	0.4	1.0	–	1.4
Disposals	–	(0.8)	–	(0.8)
Foreign exchange effect	(1.1)	(0.5)	–	(1.6)
At 31 December 2018	20.4	11.7	–	32.1
At 1 January 2019	**20.4**	**11.7**	**50.4**	**82.5**
Additions	**3.1**	**0.9**	**0.9**	**4.9**
Additions through acquisitions	**0.2**	**0.3**	**1.5**	**2.0**
Disposals	**–**	**–**	**(0.1)**	**(0.1)**
Foreign exchange effect	**0.8**	**0.4**	**2.0**	**3.2**
At 31 December 2019	**24.5**	**13.3**	**54.7**	**92.5**
Depreciation:				
At 1 January 2018	4.5	7.3	–	11.8
Charge for the year	1.7	2.6	–	4.3
Disposals	–	(0.8)	–	(0.8)
Foreign exchange effect	(0.2)	(0.4)	–	(0.6)
At 31 December 2018	6.0	8.7	–	14.7
At 1 January 2019	**6.0**	**8.7**	**–**	**14.7**
Charge for the year	**1.7**	**1.7**	**5.7**	**9.1**
Impairments	**–**	**–**	**0.2**	**0.2**
Disposals	**–**	**–**	**(0.1)**	**(0.1)**
Foreign exchange effect	**0.3**	**0.3**	**0.1**	**0.7**
At 31 December 2019	**8.0**	**10.7**	**5.9**	**24.6**
Carrying amount:				
At 31 December 2018	14.4	3.0	–	17.4
At 31 December 2019	**16.5**	**2.6**	**48.8**	**67.9**

Right of use assets have been recognised for the first time in 2019 as a result of the adoption of IFRS 16. For further details please see Note 2.1(a).

The gross cost of property, plant and equipment fully depreciated but still in use is US$8.7m (2018: US$3.4m). The depreciation charge for the year of US$9.1m (2018: US$4.3m) is included in the 'other operating expenses' line in the income statement. An impairment charge of US$0.2m (2018: nil) was recognised in respect of an onerous property lease and is included in the 'other operating expenses' line in the income statement. A dilapidations provision of US$3.5m (2018: US$2.2m) has been set up in respect of the refurbishment of rented property.

Further information on depreciation and capital expenditure by segment is given in Note 5(b).

18 Deferred acquisition costs

Acquisition costs are costs incurred in underwriting insurance risks and include commissions paid to third parties and some internally generated costs such as underwriter salaries. These costs are deferred and are charged to the income statement over the duration of the contract. The movement in these deferred costs and releases to the income statement is shown in this Note.

	2019 US$m	2018 US$m
At 1 January	**244.1**	235.7
Costs deferred during the year	**594.7**	581.4
Amortisation charge for the year	**(595.2)**	(573.0)
At 31 December	**243.6**	244.1

19 Deferred taxation

This Note describes the tax that may have to be paid in the future. Deferred tax arises from differences in the way that tax is calculated for accounting purposes and tax purposes.

The deferred tax asset is attributable to temporary differences arising on the following:

	Intangible assets US$m	Underwriting US$m	Other US$m	Total US$m
At 1 January 2018	2.3	61.1	4.2	67.6
Movements in the year:				
(Charged)/credited to income statement	(0.7)	31.7	(0.2)	30.8
Foreign exchange effect	(0.1)	–	(0.1)	(0.2)
At 31 December 2018	1.5	92.8	3.9	98.2
Set-off of deferred tax liabilities pursuant to set-off provisions				(42.1)
Net deferred tax asset at 31 December 2018				56.1
At 1 January 2019	**1.5**	**92.8**	**3.9**	**98.2**
Movements in the year:				
(Charged)/credited to income statement	**(0.6)**	**0.2**	**1.0**	**0.6**
Foreign exchange effect	**–**	**–**	**(0.1)**	**(0.1)**
At 31 December 2019	**0.9**	**93.0**	**4.8**	**98.7**
Set-off of deferred tax liabilities pursuant to set-off provisions				**(57.6)**
Net deferred tax asset at 31 December 2019				**41.1**

19 Deferred taxation (continued)

Deferred tax assets, all of which arise in the United Kingdom, are considered recoverable where it is expected that there will be future taxable income based on the approved business plans and budgets of the Group. The net deferred tax asset recorded in the year arises from significant catastrophe-related activity, which is not expected to recur. The losses can be carried forward indefinitely and have no expiry date. Please see Note 3.9 for further detail on the estimation of deferred tax assets.

Deferred tax assets arising on decelerated capital allowances of US$0.6m (2018: US$0.7m) have not been provided for due to uncertainty over the timing of their utilisation.

Deferred tax has not been set up in respect of certain losses carried forward of US$18.8m (2018: US$96.9m) and in respect of undeclared year of account losses of US$14.1m (2018: US$51.2m) as it is not considered probable that they can be utilised in the foreseeable future.

Deferred tax has not been provided in respect of the profits of subsidiaries in the Group as certain tax exemptions are not expected to apply.

The deferred tax liability is attributable to temporary differences arising on the following:

	Pensions US$m	Intangible assets US$m	Underwriting US$m	Other US$m	Total US$m
At 1 January 2018	(8.3)	(13.5)	(23.1)	(2.3)	(47.2)
Movements in the year:					
(Charged)/credited to income statement	(0.7)	(0.3)	4.8	0.6	4.4
Tax relating to components of other comprehensive income (Note 15(b))	(0.6)	–	–	–	(0.6)
Foreign exchange effect	0.5	–	0.8	–	1.3
At 31 December 2018	(9.1)	(13.8)	(17.5)	(1.7)	(42.1)
Set-off of deferred tax assets pursuant to set-off provisions					42.1
Net deferred tax liability at 31 December 2018					–
At 1 January 2019	**(9.1)**	**(13.8)**	**(17.5)**	**(1.7)**	**(42.1)**
Movements in the year:					
(Charged)/credited to income statement	**(14.9)**	**0.3**	**4.2**	**–**	**(10.4)**
Acquisition of Ambridge	**–**	**(10.5)**	**–**	**–**	**(10.5)**
Tax relating to components of other comprehensive income (Note 15(b))	**6.4**	**–**	**–**	**–**	**6.4**
Foreign exchange effect	**(0.6)**	**–**	**0.4**	**(0.8)**	**(1.0)**
At 31 December 2019	**(18.2)**	**(24.0)**	**(12.9)**	**(2.5)**	**(57.6)**
Set-off of deferred tax assets pursuant to set-off provisions					**57.6**
Net deferred tax liability at 31 December 2019					**–**

20 Insurance and reinsurance contracts

This Note deals with balances carried in respect of insurance contracts (liabilities) and reinsurance contracts (assets). It examines the statement of financial position, splitting both insurance and reinsurance balances into their component parts, and explains the assumptions applied in arriving at these figures. The Note also shows how claims have developed over a period (before and after the effects of reinsurance) of time by setting out the cumulative development at the end of each calendar year in respect of claims arising from business written in a particular underwriting year. It ends by analysing the movements in insurance and reinsurance contracts during the year.

(a) Balances on insurance and reinsurance contracts

	31 December 2019 US$m	31 December 2018 US$m
Gross		
Claims reported and loss adjustment expenses	**1,705.1**	1,719.4
Claims incurred but not reported	**2,591.6**	2,629.1
	4,296.7	4,348.5
Unearned premiums	**969.4**	925.6
Total gross liabilities	**5,266.1**	5,274.1
Recoverable from reinsurers		
Claims reported and loss adjustment expenses	**550.2**	639.0
Claims incurred but not reported	**795.1**	807.5
	1,345.3	1,446.5
Unearned premiums	**282.8**	253.3
Total reinsurers' share of liabilities	**1,628.1**	1,699.8
Net		
Claims reported and loss adjustment expenses	**1,154.9**	1,080.4
Claims incurred but not reported	**1,796.5**	1,821.6
	2,951.4	2,902.0
Unearned premiums	**686.6**	672.3
Total net insurance liabilities	**3,638.0**	3,574.3

Insurance contracts – assumptions and changes in assumptions

Process used to decide on assumptions required

The risks associated with these insurance liabilities and in particular with casualty insurance liabilities are complex and subject to a number of variables that complicate quantitative analysis.

The Group uses several statistical methods to incorporate the various assumptions made in order to estimate the ultimate costs of claims. The two methods more commonly used are the chain-ladder and the Bornhuetter-Ferguson methods.

Chain-ladder methods may be applied to premiums, paid claims or incurred claims (i.e. paid claims plus case estimates). The basic technique involves the analysis of historical claims development factors and the selection of estimated development factors based on these historical patterns. The selected development factors are then applied to cumulative claims data for each underwriting year that is not yet fully developed to produce an estimated ultimate claims cost for each underwriting year.

20 Insurance and reinsurance contracts (continued)

Chain-ladder techniques are most appropriate for mature classes of business that have a relatively stable development pattern. Chain-ladder techniques are less suitable in cases in which the insurer does not have a developed claims history for a particular class of business or for underwriting years at early stages of development where the outcome is still highly uncertain.

The Bornhuetter-Ferguson method uses a combination of a benchmark or market-based estimate and an estimate based on claims experience. The former is based on a measure of exposure such as premiums; the latter is based on the paid or incurred claims to date. The two estimates are combined using a formula that gives more weight to the experience-based estimate as time passes. This technique is used in situations in which developed claims experience is not available for the projection (recent underwriting years or new classes of business).

The choice of selected results for each year of each class of business depends on an assessment of the technique that has been most appropriate to observed historical developments. In certain instances, this has meant that different techniques or combination of techniques have been selected for the individual underwriting year or groups of underwriting years within the same class of business.

Standard statistical techniques may not be solely appropriate for assessing ultimate claims for a number of classes of business (e.g. casualty treaty) and particular events (e.g. natural catastrophes), therefore alternative methodologies may be employed to add additional rigour to the process. Examples include reviewing potential exposure on a policy by policy basis and taking account of market intelligence to determine Brit's share of the loss.

In addition to the estimation of claims reserves certain estimates are produced for unearned premiums. For open market business, earned premium is calculated at policy level. However, premium derived from delegated underwriting authorities is calculated by applying the 144ths method to estimated premiums applied to the master policy. This assumes that attachments to master policies arise evenly throughout the period of that master policy.

Reinsurance outwards premiums are earned according to the nature of the cover. 'Losses occurring during' policies are earned evenly over the policy period. 'Risks attaching' policies are earned on the same basis as the inwards business being protected.

Changes in assumptions
The Group did not change its estimation techniques for the insurance contracts disclosed in this Note during the year.

Claims development tables
The tables below show the development of claims over a period of time on a gross and net of reinsurance basis.

The claims development tables have been presented on an underwriting year basis.

The tables show the cumulative incurred claims, including both notified and IBNR claims, for each successive underwriting year at the end of each year, together with cumulative paid claims at the end of the current year.

The claims have been adjusted to make them comparable on a year by year basis.

They have been grossed up to include 100% of the managed syndicate claims rather than the claims that reflects the Group percentage ownership of each syndicate's underwriting capacity during the respective underwriting years. In addition, claims in currencies other than US dollars have been retranslated at 31 December 2019 exchange rates.

Ultimate gross claims

Underwriting year	2010 and prior years	2011	2012	2013	2014	2015	2016	2017	2018	2019	Intra Group and other underwriting adjustments	Total
Claims ratio:												
At end of underwriting year	75.9%	80.8%	76.1%	69.9%	70.2%	70.5%	76.6%	101.4%	89.3%	75.7%		
One year later	86.5%	78.3%	71.6%	70.0%	73.6%	71.4%	85.5%	109.1%	96.4%			
Two years later	90.5%	78.6%	72.4%	70.1%	73.3%	73.5%	89.4%	109.1%				
Three years later	90.9%	78.3%	70.5%	69.8%	74.6%	72.4%	88.1%					
Four years later	89.8%	78.9%	73.1%	71.2%	74.1%	70.4%						
Five years later	87.6%	77.4%	74.0%	70.6%	73.0%							
Six years later	87.3%	76.5%	73.4%	69.6%								
Seven years later	85.7%	76.4%	72.3%									
Eight years later	84.4%	76.5%										
Nine years later	84.7%											
	US$m	US$m	US$m	US$m	US$m	US$m	US$m	US$m	US$m	US$m	US$m	US$m
Total ultimate gross claims at 31 December 2019	**9,230.2**	**848.3**	**953.7**	**977.5**	**1,118.4**	**1,027.5**	**1,343.4**	**1,707.5**	**1,551.1**	**1,284.1**	**20.3**	**20,062.0**
Less accumulated gross paid claims	(8,914.5)	(770.2)	(794.8)	(778.7)	(858.1)	(677.7)	(840.4)	(926.7)	(518.0)	(43.7)	(7.4)	(15,130.2)
Unearned premium portion of gross ultimate claims	–	–	–	–	–	–	–	–	(54.2)	(647.0)	(0.7)	(701.9)
Claims handling provision and other corporate adjustments	4.4	1.2	2.3	3.0	3.9	5.3	7.1	10.0	12.6	7.6	9.4	66.8
Total outstanding gross claims at 31 December 2019	**320.1**	**79.3**	**161.2**	**201.8**	**264.2**	**355.1**	**510.1**	**790.8**	**991.5**	**601.0**	**21.6**	**4,296.7**

notes to the consolidated financial statements

20 Insurance and reinsurance contracts (continued)

Ultimate net claims

Underwriting year	2010 and prior years	2011	2012	2013	2014	2015	2016	2017	2018	2019	Intra Group and other underwriting adjustments	Total
Claims ratio:												
At end of underwriting year	79.5%	86.6%	82.5%	75.4%	76.1%	77.7%	83.1%	100.2%	95.7%	82.2%		
One year later	87.7%	84.0%	78.1%	76.7%	79.3%	80.5%	90.3%	101.4%	102.4%			
Two years later	89.7%	83.2%	77.8%	76.4%	78.4%	81.2%	92.2%	101.3%				
Three years later	89.8%	81.4%	75.6%	76.4%	79.1%	79.7%	91.5%					
Four years later	87.7%	81.4%	76.6%	77.0%	79.0%	77.2%						
Five years later	86.5%	79.9%	76.7%	75.4%	78.2%							
Six years later	86.4%	78.7%	76.0%	74.0%								
Seven years later	84.3%	78.4%	74.5%									
Eight years later	83.2%	79.0%										
Nine years later	83.5%											
	US$m	US$m	US$m	US$m	US$m	US$m	US$m	US$m	US$m	US$m	US$m	US$m
Total ultimate net claims at 31 December 2019	**6,777.2**	**691.3**	**743.1**	**750.5**	**856.6**	**805.9**	**934.9**	**1,053.3**	**1,079.1**	**877.0**	**20.1**	**14,589.0**
Less accumulated gross paid claims	(6,603.7)	(629.6)	(636.9)	(618.4)	(675.7)	(545.4)	(610.7)	(579.3)	(375.2)	(39.3)	(7.4)	(11,321.6)
Unearned premium portion of gross ultimate claims	–	–	–	–	–	(0.1)	–	–	(36.8)	(432.0)	(0.7)	(469.6)
Claims handling provision, bad debt provision and other corporate adjustments	3.3	1.2	2.3	3.0	3.9	5.3	7.1	10.0	12.6	7.6	97.3	153.6
Total outstanding net claims at 31 December 2019	**176.8**	**62.9**	**108.5**	**135.1**	**184.8**	**265.7**	**331.3**	**484.0**	**679.7**	**413.3**	**109.3**	**2,951.4**

The percentages in the gross and net triangles are shown on an ultimate loss basis inclusive of catastrophe losses by year of account.

The 2010, 2016, 2017 and 2018 years of account include the impact of natural catastrophes which occurred in the following calendar year and which attached back to policies incepting in those respective years of account. The 2017 and prior years of account will also be impacted by the loss portfolio reinsurance contract entered into in 2018 with RiverStone Managing Agency Limited (for and on behalf of Lloyd's syndicate 3500).

During 2019, the net aggregate reserve releases from prior years amounted to US$46.5m, which included reserve strengthening of US$29.6m in respect of 2018 more than offset by a reserve release of US$76.1m (164% of the net aggregate reserve release) derived from the 2018 and prior underwriting years (2018: US$89.5m/90.0% from the 2017 and prior underwriting years). Reserves in Brit Global Specialty Direct experienced releases of US$33.0m (2018: releases of US$52.3m) and Brit Global Specialty Reinsurance experienced releases of US$4.4m (2018: US$8.7m) with releases of US$9.1m (2018: US$38.3m) within Other Underwriting.

(b) Movements in insurance and reinsurance contracts

(i) Claims and loss adjustment expenses

	31 December 2019 Gross US$m	Reinsurance US$m	Net US$m	31 December 2018 Gross US$m	Reinsurance US$m	Net US$m
As at 1 January	**4,348.5**	**(1,446.5)**	**2,902.0**	4,136.1	(1,116.2)	3,019.9
Cash paid for claims settled in the year	**(1,366.6)**	**509.1**	**(857.5)**	(1,345.5)	407.3	(938.2)
Increase in liabilities	**1,283.4**	**(368.9)**	**914.5**	1,635.5	(768.5)	867.0
Net foreign exchange differences	**31.4**	**(39.0)**	**(7.6)**	(77.6)	30.9	(46.7)
As at 31 December	**4,296.7**	**(1,345.3)**	**2,951.4**	4,348.5	(1,446.5)	2,902.0

(ii) Unearned premiums

	31 December 2019 Gross US$m	Reinsurance US$m	Net US$m	31 December 2018 Gross US$m	Reinsurance US$m	Net US$m
As at 1 January	**925.6**	**(253.3)**	**672.3**	891.2	(233.3)	657.9
Premiums written in the year	**2,293.5**	**(637.3)**	**1,656.2**	2,239.1	(756.7)	1,482.4
Premiums earned during the year	**(2,249.7)**	**607.8**	**(1,641.9)**	(2,204.7)	736.7	(1,468.0)
As at 31 December	**969.4**	**(282.8)**	**686.6**	925.6	(253.3)	672.3

21 Employee benefits

This Note explains the pension schemes operated by the Group for its employees. For the Group's defined benefit scheme (in which no further benefits are being accrued), it sets out the amount carried on the Group statement of financial position, gains and losses incurred during the year, amounts paid into the scheme, together with further information about the scheme. For the Group's defined contribution schemes, it sets out the costs incurred during the year.

(a) Brit Group Services Limited – Defined Benefit Pension Scheme

Through Brit Group Services Limited, the Group operates a funded defined benefit pension scheme providing pensions benefits to its members. The scheme closed to new entrants on 4 October 2001 and closed to future accrual of benefits on 31 December 2011. Following closure to future accrual, benefits now increase broadly in line with inflation. The weighted average duration to payment of the scheme's expected cash flows is 16 years (2018: 15 years).

The scheme is approved by HMRC for tax purposes. The scheme is operated from a trust, which has assets which are held separately from the Group. The trust is managed by an independent Trustee. The Trustee is responsible for payment of the benefits and management of the scheme's assets. The scheme is subject to UK regulations overseen by the Pensions Regulator, which require the Group and Trustee to agree a funding strategy and contribution schedule for the scheme every three years. The most recent triennial review of the scheme was undertaken as at 31 July 2018 and identified a funding surplus of £9.5m.

Following the 2018 valuation, the Group agreed to continue to pay contributions of £2.0m a year until 31 July 2024. These contributions are now paid into a designated Brit Group Services Limited bank account over which the scheme has a charge. These contributions are payable by Brit Group Services Limited and backed-up by cross-company guarantees from Brit Insurance Holdings Limited.

If there is a shortfall against the funding target, then the Company and Trustee will agree on deficit contributions to meet this deficit over a period. There is a risk to the Company that adverse experience could lead to a requirement for the Company to make additional contributions in excess of those above to recover any deficit that arises.

21 Employee benefits (continued)

Net amount recognised in the statement of financial position for the scheme:

	31 December 2019 US$m	31 December 2018 US$m
Present value of defined benefit obligation	(193.3)	(174.5)
Fair value of scheme assets	245.2	227.6
Net pension asset	51.9	53.1

Changes in the net pension asset recognised in the statement of financial position:

	31 December 2019 US$m	31 December 2018 US$m
Opening statement of financial position	53.1	48.6
Credit to income statement	1.5	1.2
Foreign exchange effect	2.0	(3.2)
Amount recognised outside income statement	(4.7)	3.8
Contributions paid	–	2.7
Closing statement of financial position	51.9	53.1

A net pension asset is recognised on the statement of financial position as there is an unconditional right of the Group to be refunded the surplus in the scheme. The measurement of the net pension asset is impacted by a number of factors, including the actuarial assumptions used, the effects of changes in foreign exchange rates, and the contributions paid to the scheme by the Group. The Group expects this asset to be available as a refund to the sponsoring employer. Under UK legislation, surplus payments made from a UK pension scheme to the sponsoring employer are received net of an income tax deduction of 35%.

Net credit recognised in the income statement comprised:

	Year ended 31 December 2019 US$m	Year ended 31 December 2018 US$m
Net interest on net defined benefit asset	1.5	1.2

This credit has been recognised in the 'other operating expenses' line in the income statement. Contributions to the Group's defined contribution pension arrangements are in addition to those set out in this Note and are charged directly to the income statement.

The allocation of the scheme's assets was as follows:

	31 December 2019 US$m	31 December 2018 US$m
Equities	12.6	35.4
Index-linked UK government bonds	154.0	118.0
Other debt securities	66.9	64.2
Cash and net current assets	7.4	6.1
Gold and gold mining equities	2.1	2.4
Other scheme assets	2.2	1.5
Fair value of scheme assets	245.2	227.6

All scheme assets have quoted prices in active markets. The scheme does not invest directly in property occupied by the Group or in financial securities issued by the Group.

Investment strategy

The Trustee determines the scheme's investment strategy after taking appropriate advice from their investment consultants. The management of the assets is delegated to State Street Global Advisors Limited, Ruffer LLP and Insight Investment Management (Global) Limited. The Trustee's investment objectives are to ensure that the scheme has adequate resources to meet the members' entitlements under the Trust Deed and Rules as they fall due, and thereafter to minimise long-term costs of the scheme by maximising the return on the assets. Investment risk is managed by diversifying the assets across asset classes whose return patterns are not highly correlated, and by periodically rebalancing asset classes. The assets include a portfolio of UK index-linked government bonds which aim to match a significant part of the scheme's inflation-linked benefits and therefore help to reduce the Group's exposure to investment and inflation risks.

Movements in the present value of the defined benefit obligation were as follows:

	31 December 2019 US$m	31 December 2018 US$m
Opening defined benefit obligation	**174.5**	211.1
Interest on defined benefit obligation	**4.8**	5.1
Remeasurements due to:		
Changes in financial assumptions	**19.2**	(9.4)
Changes in demographic assumptions	**–**	(5.9)
Experience on benefit obligations	**0.5**	(2.4)
Foreign exchange effect	**7.5**	(11.2)
Benefits paid	**(13.2)**	(12.8)
Closing defined benefit obligation	**193.3**	174.5

Movements in the fair value of the scheme assets were as follows:

	31 December 2019 US$m	31 December 2018 US$m
Opening fair value of scheme assets	**227.6**	259.7
Interest income	**6.4**	6.4
Actual return excluding interest income	**15.0**	(13.8)
Foreign exchange effect	**9.4**	(14.4)
Contributions by the employer	**–**	2.6
Benefits paid	**(13.2)**	(12.9)
Closing fair value of scheme assets	**245.2**	227.6

The principal actuarial assumptions at the year-end were:

	31 December 2019	31 December 2018
Discount rate	**2.11%**	2.88%
Retail Prices Index (RPI) inflation	**3.10%**	3.30%
Consumer Prices Index (CPI) inflation	**2.30%**	2.30%
Pension increases in payment	**2.98%**	3.14%
Mortality assumptions:		
Life expectancy of male aged 60 at statement of financial position date	**27.8 years**	27.7 years
Life expectancy of female aged 60 at statement of financial position date	**29.9 years**	29.8 years
Life expectancy of male retiring in 20 years' time aged 60	**29.3 years**	29.2 years
Life expectancy of female retiring in 20 years' time aged 60	**31.4 years**	31.4 years

21 Employee benefits (continued)

The assumptions used to determine end-of-year benefit obligations are also used to calculate the following year's cost.

Sensitivity analysis:

Assumption	Change in assumption	Change in defined benefit obligation at end of the year
Discount rate	Decrease by 0.5%	Increase by US$16.4m
Future RPI inflation increases	Increase by 0.5%	Increase by US$12.5m
Future CPI inflation increases	Increase by 0.5%	Increase by US$2.6m
Assumed life expectancy at age 60	Increase by 1 year	Increase by US$8.1m

The calculations in this section have been carried out using the same method and data as the Group's pensions and accounting figures with each assumption adjusted as shown above. Each assumption has been varied individually and a combination of changes in assumptions could produce a different result.

Risks:
The Group is exposed to a number of risks in relation to its defined benefit scheme, the most significant of which are detailed below:

Risk	
Investment strategy	Changes in asset values are not matched by changes in the scheme's defined benefit obligations. For example, if equity values fall with no changes in corporate bond yields, the net pension asset would reduce.
Investment returns	Future investment returns are lower than anticipated and so additional contributions are required from the Group to pay all the benefits promised.
Improvements in life expectancy	Scheme members live longer and so benefits are payable for longer than anticipated.
Inflation	Actual inflation is higher and so benefit payments are higher than anticipated.
Regulatory	In future the scheme may have backdated claims or liabilities arising from future legislation, emerging practice or court judgements.

(b) Brit Group Services Limited – Defined Contribution Personal Pension Plan
Brit Group Services Limited operates a defined contribution group personal pension plan. The assets of the scheme are held separately from those of the Group in an independently administered fund.

The pension cost charge represents contributions payable by Brit Group Services Limited to the fund and amounted to US$5.5m (2018: US$5.2m).

At 31 December 2019 no contributions were payable to the fund (2018: nil).

(c) Brit Insurance Services USA Inc. – 401(k) Safe Harbor Plan
Brit Insurance Services USA Inc. operates a '401(k) Safe Harbor Plan'. The assets of the scheme are held separately from those of the Group in an independently administered fund.

The pension cost charge represents contributions payable by Brit Insurance Services USA Inc. to the fund and amounted to US$0.9m (2018: US$0.7m).

At 31 December 2019 no contributions were payable to the fund (2018: nil).

(d) Brit Insurance Services USA Inc. – Nonqualified deferred compensation plan
Brit Insurance Services USA Inc. operates a '409(a) Nonqualified deferred compensation plan'. The assets of the scheme are not held separately from those of the Group.

No pension payments were made by Brit Insurance Services USA Inc. to the fund in 2019 (2018: nil).

(e) BGS Services (Bermuda) Limited – Registered plan
BGS Services (Bermuda) Limited operates a registered plan for Bermudan employees. The assets of the scheme are held separately from those of the Group in an independently administered fund.

The pension cost charge represents contributions payable by BGS Services (Bermuda) Limited to the fund and amounted to US$28k (2018: US$54k).

At 31 December 2019 no contributions were payable to the fund (2018: nil).

(f) BGS Services (Bermuda) Limited – Unregistered plan
BGS Services (Bermuda) Limited operates an unregistered plan for non-Bermudan employees. The assets of the scheme are held separately from those of the Group in an independently administered fund.

The pension cost charge represents contributions payable by BGS Services (Bermuda) Limited to the fund and amounted to US$37k (2018: US$36k).

At 31 December 2019 no contributions were payable to the fund (2018: nil).

(g) Sussex Capital Management Limited – Unregistered plan
Sussex Capital Management Limited operates an unregistered plan for non-Bermudan employees. The assets of the scheme are held separately from those of the Group in an independently administered fund.

The pension cost charge represents contributions payable by Sussex Capital Management Limited to the fund and amounted to US$56k (2018: US$20k).

At 31 December 2019 no contributions were payable to the fund (2018: nil).

(h) Ambridge Partners LLC – 401(k) Safe Harbor Plan, Profit sharing plan and trust
Ambridge Partners LLC. operates a '401(k) Safe Harbor Plan'. The assets of the scheme are held separately from those of the Group in an independently administered fund. Employees may elect to contribute a percentage of their compensation. Ambridge Partners LLC does not match employee contributions.

(i) Ambridge Europe Limited – Defined Contribution Personal Pension Plan
Ambridge Europe Limited operates a defined contribution group personal pension plan. The assets of the scheme are held separately from those of the Group in an independently administered fund.

The pension cost charge represents contributions payable by Ambridge Europe Limited to the fund and amounted to US$65k (2018: nil).

At 31 December 2019 no contributions were payable to the fund (2018: nil).

(j) Brit Reinsurance (Bermuda) Limited – Registered plan
Brit Reinsurance (Bermuda) Limited operates an unregistered plan for Bermudan employees. The assets of the scheme are held separately from those of the Group in an independently administered fund.

The pension cost charge represents contributions payable by Brit Reinsurance (Bermuda) Limited to the fund and amounted to US$30k (2018: nil).

22 Financial investments

This Note summarises the total value of the financial assets of the Group and shows how much has been invested in each class of asset. It also explains how each asset is categorised under three different levels of hierarchy, the methods used to value assets within each level and assets transferred between levels.

	31 December 2019 US$m	31 December 2018 US$m
Equity securities	**403.9**	575.8
Debt securities	**2,951.1**	2,513.1
Specialised investment funds	**285.6**	56.2
Total	**3,640.6**	3,145.1

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

Basis for determining the fair value hierarchy of financial instruments

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

(a) Level one – quoted prices (unadjusted) in active markets for identical assets;

(b) 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

(c) 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 determined in whole directly by reference to an active market 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 more 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.

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

Level three
Level three equities include investments in limited partnerships where the fund's underlying investments 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' 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

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

31 December 2018	Level one US$m	Level two US$m	Level three US$m	Total US$m
Equity securities	382.5	52.8	140.5	575.8
Debt securities	1,248.0	1,221.4	43.7	2,513.1
Specialised investment funds	–	41.4	14.8	56.2
	1,630.5	1,315.6	199.0	3,145.1

All unrealised gains of US$134.8m (2018: losses of US$203.4m) and realised losses of US$51.9m (2018: gains of US$39.6m) on financial investments held during the year, are presented in investment return in the consolidated income statement.

22 Financial investments (continued)

Transfers between fair value levels

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

Transfers from level one to level three

There were no equity transfers from level one to level three. In 2018 US$14.6m of equity transfers took place due to the investments no longer being listed (at 1 January 2018 the transferred items had a value of US$17.2m).

Transfers from level two to level one

There were no equity transfers from level two to level one during 2019 (2018: US$62.0m).

Transfers from level three to level two

There were no equity transfers (2018: US$29.8m) from level three to level two during 2019.

Reconciliation of movements in level three 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 2018	191.1	75.6	16.0	282.7
Transfers from level one to level three	17.2	–	–	17.2
Transfers from level three to level two	(29.8)	–	–	(29.8)
Total losses recognised in the income statement	(35.8)	(2.7)	(1.2)	(39.7)
Purchases	36.1	–	–	36.1
Sales	(35.3)	(28.3)	–	(63.6)
Foreign exchange gains	(3.0)	(0.9)	–	(3.9)
At 31 December 2018	140.5	43.7	14.8	199.0
Total gains/(losses) recognised in the income statement	**17.5**	**(15.3)**	**2.0**	**4.2**
Purchases	**35.4**	**14.3**	**–**	**49.7**
Sales	**(11.0)**	**(27.9)**	**–**	**(38.9)**
Foreign exchange gains	**0.8**	**0.4**	**–**	**1.2**
At 31 December 2019	**183.2**	**15.2**	**16.8**	**215.2**

Total net gains recognised in the income statement under 'investment return' in respect of level three financial investments for the period amounted to US$4.2m (2018: losses of US$39.7m). Included in this balance are US$19.1m of unrealised gains (2018: losses of US$7.3m) attributable to assets still held at the end of the year.

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.

	31 December 2019		31 December 2018	
	Carrying amount US$m	Effect of possible alternative assumptions (+/–) US$m	Carrying amount US$m	Effect of possible alternative assumptions (+/–) US$m
Equity securities	**183.2**	**1.4**	140.5	6.1
Debt securities	**15.2**	**0.5**	43.7	4.4
Specialised investment funds	**16.8**	**0.7**	14.8	0.3
	215.2		199.0	

In order to determine reasonably possible alternative assumptions, the Group has monitored the price movements of the securities invested on a month by month basis during 2019, or since acquisition if acquired during the year. This has resulted in an average expected percentage change due to the change in assumptions, which forms the basis of this analysis.

23 Derivative contracts

This Note summarises the total value of the derivative contracts of the Group. It also explains how each derivative contract is categorised under three different levels of hierarchy, the valuation methods used to value derivative contracts and amounts transferred between levels. At 31 December 2019 and 31 December 2018, the options formed part of the investment management strategy, while the currency forwards formed part of the foreign exchange management strategy.

The disclosure provided in the tables below include derivatives recorded in the Group's statement of financial position.

Derivative contract assets

31 December 2019	Gross amounts of receivables on derivative contract assets US$m	Gross amounts of payables on derivative contract assets US$m	Derivative contract assets presented in the statement of financial position US$m
Currency forwards	**561.6**	**(548.0)**	**13.6**
Options	**0.4**	**–**	**0.4**
Industry loss warranty contracts	**0.1**	**–**	**0.1**
Call and put option over Camargue	**10.4**	**(9.6)**	**0.8**
Sutton forward contract	**9.3**	**(8.5)**	**0.8**
Total	**581.8**	**(566.1)**	**15.7**

31 December 2018	Gross amounts of receivables on derivative contract assets US$m	Gross amounts of payables on derivative contract assets US$m	Derivative contract assets presented in the statement of financial position US$m
Currency forwards	647.5	(633.7)	13.8
Options	1.1	–	1.1
Call and put option over Ambridge	49.5	(47.0)	2.5
Total	698.1	(680.7)	17.4

23 Derivative contracts (continued)

Derivative contract liabilities

31 December 2019	Gross amounts of payables on derivative contract liabilities US$m	Gross amounts of receivables on derivative contract liabilities US$m	Derivative contract liabilities presented in the statement of financial position US$m
Currency forwards	**(668.4)**	**654.2**	**(14.2)**
Total	**(668.4)**	**654.2**	**(14.2)**

31 December 2018	Gross amounts of payables on derivative contract liabilities US$m	Gross amounts of receivables on derivative contract liabilities US$m	Derivative contract liabilities presented in the statement of financial position US$m
Currency forwards	(707.0)	693.1	(13.9)
Call and put option over Camargue	(9.3)	9.1	(0.2)
Total	(716.3)	702.2	(14.1)

Disclosures of fair values in accordance with the fair value hierarchy

31 December 2019	Level two US$m	Level three US$m	Total US$m
Derivative contract assets	**13.6**	**2.1**	**15.7**
Derivative contract liabilities	**(14.2)**	**–**	**(14.2)**

31 December 2018	Level two US$m	Level three US$m	Total US$m
Derivative contract assets	13.8	3.6	17.4
Derivative contract liabilities	(13.8)	(0.3)	(14.1)

Valuation techniques

Level two

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

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

Level three

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

The put and call options 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.

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

	Put options US$m
At 1 January 2018	4.7
Total gains recognised in the income statement	0.1
Sales	(3.5)
Foreign exchange gains	2.0
At 31 December 2018	3.3
Total losses recognised in the income statement	**(0.9)**
Foreign exchange losses	**(0.3)**
At 31 December 2019	**2.1**

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

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

	31 December 2019		31 December 2018	
	Carrying amount US$m	**Effect of possible alternatives assumptions (+/-) US$m**	Carrying amount US$m	Effect of possible alternatives assumptions (+/-) US$m
Put options	**2.0**	**0.6**	3.3	1.0

In order to determine reasonably possible alternative assumptions, the Group adjusted key unobservable model inputs, including inflation volatility inputs and credit risk inputs.

24 Insurance and other receivables

This Note sets out the various categories of amounts which are owed to the Group.

	31 December 2019 US$m	31 December 2018 US$m
Arising out of direct insurance operations	**601.7**	554.6
Arising out of reinsurance operations	**470.0**	378.0
Receivables from contracts with customers	**19.6**	8.7
Prepayments	**14.2**	9.4
Accrued income	**14.3**	10.9
Outstanding settlements on investments	**6.1**	5.8
Other assets	**58.6**	32.0
Other debtors	**55.7**	9.4
Total	**1,240.2**	1,008.8

Other assets relate to shares purchased to settle share-based payment awards. For further information, refer to Note 32.

25 Cash and cash equivalents

This Note analyses the amounts of cash and cash equivalents. Cash equivalents are investment instruments with less than 90 days left to maturity when purchased by the Group. Additional analysis which explains where cash and cash equivalents are held and why they are being held is also provided.

	31 December 2019 US$m	31 December 2018 US$m
Cash at bank and on deposit	**229.9**	235.3
Cash equivalents	**290.2**	582.9
Total	**520.1**	818.2

The carrying amounts disclosed above, reasonably approximate fair values.

The source of these amounts can be further analysed as follows:

Classification	Definition	31 December 2019 US$m	31 December 2018 US$m
Cash within segregated fund mandates	Short-term investment funds, money market funds, treasury bills or cash held within segregated mandates.	**77.0**	453.0
Lloyd's trust funds	Cash within the Lloyd's Overseas Deposits trust funds held to meet regulatory requirements.	**41.6**	51.4
Self-managed cash	Highly liquid instruments held to meet ongoing working capital requirements.	**401.5**	313.8
Total		**520.1**	818.2

26 Borrowings

This Note describes the main sources of borrowing available to the Group and the amounts currently borrowed from each of those sources.

				31 December 2019		31 December 2018	
	Maturity	Call	Effective interest rate	**Amortised cost US$m**	**Fair value US$m**	Amortised cost US$m	Fair value US$m
Non-current							
Subordinated debt	2030	2020	8.3%	**176.2**	**182.9**	166.9	173.3
Revolving credit facility	2022	–	LIBOR +1.5%	**140.0**	**140.0**	8.0	8.0
				316.2	**322.9**	174.9	181.3

As at 31 December 2019 and 31 December 2018, the fair value of the subordinated debt was determined by reference to trading market values on recognised exchanges and was therefore categorised as a level one measurement in the fair value hierarchy. For further information relating to the fair value hierarchy, refer to Note 22.

Subordinated debt

The subordinated debt is listed and callable in whole by the Group on 9 December 2020. Following this date, the interest rate resets to the higher of:

i) 3.4% above the gross redemption yield of the 4.75% Treasury Gilt due 2030 quoted on the reset date; or

ii) 3.4% above the gross redemption yield of the 8% Treasury Stock due 2021 quoted on the reset date.

The effective interest rate method of accounting has been applied over the term up to the call date.

Revolving credit facility
The Group has a US$450.0m (2018: US$450.0m) revolving credit facility which expires on 31 December 2023.

At 31 December 2019, a US$80.0m (2018: US$80.0m) letter of credit had been utilised. In addition, there was a cash drawing of US$140.0m.

27 Other financial liabilities

This Note sets out the amount of financial liabilities owing to external investors in respect of structured entities that are consolidated by the Group.

The statement of financial position of the Group includes financial liabilities arising from third-party investments in structured entities that are consolidated by the Group.

These financial liabilities have been designated as held at fair value through profit or loss. As at 31 December 2019, the fair value of the investments by independent third parties was US$75.5m (2018: US$241.8m), of which US$75.5m (2018: US$78.9m) related to other financial liabilities owing to investors in collateralised reinsurance arrangements. As at 31 December 2018 US$162.9m was recorded in respect of amounts owing to an investor in the Group's consolidated UCITS fund. This liability was repaid in March 2019 and the UCITS fund unwound.

The fair value of these liabilities was determined by reference to the underlying net assets of the vehicles and was therefore categorised as level three in the fair value hierarchy. Further information relating to the Group's approach to fair value measurement is available in Note 22.

28 Insurance and other payables

This Note sets out the various categories of amounts which are owed by the Group.

	31 December 2019 US$m	31 December 2018 US$m
Arising out of direct insurance operations	**62.2**	17.5
Arising out of reinsurance operations	**437.0**	322.5
Other taxes and social security costs	**2.8**	2.8
Accruals and deferred income	**68.7**	66.6
Lease liabilities	**60.5**	–
Outstanding settlements on investments	**6.8**	2.6
Other creditors	**38.0**	10.2
Total	**676.0**	422.2

The carrying amounts disclosed above reasonably approximate fair values as all amounts are payable within one year of the date of the statement of financial position.

Of the total lease liabilities recognised above, US$6.5m is a current liability (2018: nil).

29 Called up share capital

This Note sets out the number of shares the Company has in issue and their nominal value.

	31 December 2019 US$m	31 December 2018 US$m	31 December 2019 1p each Number	31 December 2018 1p each Number
Ordinary shares:				
Allotted, issued and fully paid	**7.0**	6.8	**446,977,185**	430,549,278

	Share premium US$m	Share capital US$m	Share capital Number
At 1 January 2018	–	6.4	387,608,230
Issue of class B shares	435.1	1.2	101,491,572
Purchase and cancellation of class A shares	–	(0.8)	(58,550,524)
At 31 December 2018	435.1	6.8	430,549,278
At 1 January 2019	**435.1**	**6.8**	**430,549,278**
Issue of class B shares	70.4	0.2	16,427,907
At 31 December 2019	**505.5**	**7.0**	**446,977,185**

48,000,000 shares are class A shares and the remainder are class B shares. The class A and B shares rank *pari pass*u except that on a distribution of profits by the Company, the class A shareholders are entitled to a cumulative annual dividend which must be settled ahead of any equivalent distribution to class B shareholders.

The number of shares reported is for Brit Limited, the parent of the Group.

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

On 24 June 2019, 11,627,907 class B Ordinary Shares were issued by Brit Limited, each with a nominal value of 1p, for US$50.0m. Following this share issuance, US$49.9m was recorded in the share premium accounts and Fairfax increased its percentage shareholding to 89.26%.

30 Dividends

This Note gives details of the amounts paid to shareholders during 2019 and 2018 by way of dividends.

	2019 US$	2018 US$	2019 US$m	2018 US$m
Dividend paid in respect of prior year	**0.43**	0.43	**20.6**	45.8
Dividend paid in respect of shares repurchased	**–**	0.43	**–**	12.8
			20.6	58.6

A US$20.6m dividend in respect of the year-ended 31 December 2018 was paid to the class A shareholders on 29 April 2019 in accordance with the shareholders' agreement at an amount equal to US$0.43 per share (2018: US$45.8m/US$0.43 per share).

On 5 July 2018, a US$12.8m dividend was paid to the class A shareholders, being the pro-rata accrued dividend outstanding on shares re-purchased in respect of the 2018 accounting period and based on a dividend entitlement for the full year equal to US$0.43 per share.

31 Cash flows provided by operating activities

The tables below show how the profit for the year translates into cash flows generated from operating activities and provide a reconciliation of the liabilities arising from financing activities.

	Year ended 31 December 2019 US$m	Year ended 31 December 2018 US$m
Profit/(loss) on ordinary activities before tax	**186.3**	(190.3)
Adjustments for non-cash movements:		
Realised and unrealised (gains)/losses on investments	**(82.9)**	163.8
Realised and unrealised losses/(gains) on derivatives	**17.6**	(6.3)
Amortisation of intangible assets	**8.7**	6.3
Depreciation and impairment of property, plant and equipment	**9.3**	4.3
Foreign exchange (gains)/losses on cash and cash equivalents	**(3.8)**	6.1
Share of gains after tax of associated undertakings	**(0.3)**	(6.5)
Profit on disposal of associated undertaking	**(10.2)**	–
Unrealised (gains)/losses on shares held for share based payments	**(0.3)**	3.4
Charges in respect of share-based payment schemes	**7.0**	1.7
Interest income	**(81.6)**	(64.1)
Dividend income	**(5.7)**	(11.4)
Finance costs on borrowing	**23.7**	18.8
Changes in working capital:		
Deferred acquisition costs	**0.5**	(8.4)
Insurance and other receivables excluding accrued income	**(138.9)**	(95.7)
Insurance and reinsurance contracts	**63.7**	(103.5)
Financial investments	**(404.1)**	(587.2)
Derivative contracts	**(15.8)**	8.8
Other financial liabilities	**(166.3)**	159.7
Insurance and other payables	**123.6**	(117.4)
Employee benefits	**1.2**	(4.5)
Provisions	**1.3**	0.2
Cash flows used in operating activities	**(467.0)**	(822.2)

31 Cash flows provided by operating activities (continued)

Reconciliation of liabilities arising from financing activities

31 December 2019	Year ended 31 December 2018 US$m	Cash flows US$m	Non-cash changes Foreign exchange movement US$m	Non-cash changes Other changes US$m	Year ended 31 December 2019 US$m
Long-term borrowings					
Subordinated debt	**166.9**	**(11.9)**	**6.8**	**14.4**	**176.2**
Short-term borrowings					
Revolving credit facility	**8.0**	**129.4**	**–**	**2.6**	**140.0**
Total liabilities from financing activities	**174.9**	**117.5**	**6.8**	**17.0**	**316.2**

31 December 2018	Year ended 31 December 2016 US$m	Cash flows US$m	Non-cash changes Foreign exchange movement US$m	Non-cash changes Other changes US$m	Year ended 31 December 2018 US$m
Long-term borrowings					
Subordinated debt	174.8	(11.9)	(10.3)	14.3	166.9
Short-term borrowings					
Revolving credit facility	45.0	(37.0)	–	–	8.0
Total liabilities from financing activities	219.8	(48.9)	(10.3)	14.3	174.9

32 Share-based payments

The Group rewards its employees through various share-based incentive schemes. This Note explains the different schemes used to facilitate those share-based payments and the charge recognised in the consolidated income statement in respect of these schemes.

The compensation cost recognised in the income statement under IFRS 2 'Share-based Payments' for the Group's share-based payments arrangements are shown below:

	Year ended 31 December 2019 US$m	Year ended 31 December 2018 US$m
Equity-settled plans		
Long-Term Incentive Plan (Performance Share Plan replacement)	**–**	0.3
Employee Share Ownership Plan	**0.8**	0.9
Cash-settled plans		
Long-Term Incentive Plan	**6.2**	0.5
Total	**7.0**	1.7

The total liability in respect of cash-settled plans at 31 December 2019 was US$11.4m (2018: US$5.9m). In regard to the Long-Term Incentive Plan, no gain or loss (2018: US$0.2m gain) is included in the consolidated statement of changes in equity in respect of equity settled plans and US$1.4m (2018: US$0.8m) is included within other creditors in respect of national insurance contributions on these shares. A further US$0.8m (2018: US$0.9m) of charges relating to the Employee Share Ownership Plan are equity-settled in nature but physically-settled in cash and so were not recorded in the consolidated statement of changes in equity.

(a) Long-Term Incentive Plan (Performance Share Plan replacement)

On the Fairfax acquisition of Brit Limited, the 65% of PSP awards that did not immediately vest were converted by Fairfax into awards under this scheme. The conversion terms allowed for 60% of the 280p Brit Limited acquisition share price to be converted into the equivalent value of options to acquire shares in Fairfax at a nil exercise price. The options vested in November 2018 and there are a further seven years to exercise the options.

Reconciliation of movement in the number of awards

	Year ended 31 December 2019 Number of awards	Year ended 31 December 2018 Number of awards
Outstanding at 1 January	**1,271**	7,400
Exercised	**(406)**	(5,403)
Forfeited	**–**	(726)
Outstanding at 31 December	**865**	1,271

In order to settle share-based payment awards, in 2015 the Group purchased US$10.7m of preference shares in FFHL Share Option 1 Corp and that company has purchased shares in Fairfax. Of the purchase, US$3.9m related to this scheme and was recorded within equity so as to offset the share-based payment charges recorded in equity on exercise of the awards. There were no additional shares purchased for this scheme in 2018 and 2019. The remaining 865 shares were exercisable at the year end.

(b) Long Term Incentive Plan

The Company awards selected employees options to acquire shares in Fairfax at a nil exercise price. Subject to continued service, the options vest between two and ten years after the grant date and there are a further five years to exercise the options.

The fair value of the awards are determined by the market price of the underlying shares at the valuation date. The calculation of the compensation cost recognised in the income statement in respect of these awards assumes forfeitures due to employee turnover of 10% per annum prior to vesting, with subsequent adjustments to reflect actual experience.

Reconciliation of movement in the number of awards

	Year ended 31 December 2019 Number of awards	Year ended 31 December 2018 Number of awards
Outstanding at 1 January	**55,981**	35,161
Granted	**61,309**	30,855
Net transfers in	**–**	2,769
Forfeited	**(2,839)**	(12,804)
Outstanding at 31 December	**114,451**	55,981

There were no options exercisable at the end of the year (2018: nil). The weighted average fair value at date of grant for awards granted during 2019 was US$459.56 (2018: US$463.88).

In order to settle share-based payment awards, in 2019 the Group purchased US$25.0m (2018: US$11.2m) of preference shares in FFHL Share Option 1 Corp and that company has purchased shares in Fairfax. This has been recorded within Other Assets so as to offset the share-based payment recorded as a liability within Other Creditors that accrues over the vesting period of the awards.

32 Share-based payments (continued)

(c) Employee Share Ownership Plan

Under the terms of the ESOP which was established in 2015, eligible employees are given the election to purchase common shares in Fairfax in an amount up to 10% of their annual base salary. The Company purchases, on the employee's behalf, a number of Fairfax's common shares equal in value to 30% of the employee's contribution. In the event that the Company achieves certain performance targets, additional shares are purchased by the Company for the employee's benefit, to an amount equal in value to 20% of the employee's contribution during that year. In respect of both shares purchased by employees and matched by the Company, during the year ended 31 December 2019, the Company purchased a total of 7,001 common shares in Fairfax (2018: 6,676) at an average price of US$464.93 (2018: US$518.44) in respect of this plan.

33 Consolidated entities

This Note sets out all the entities which are members of the Brit Limited Group and whose results and financial positions are consolidated to produce the Group result and financial position.

All subsidiaries of the Company are 100% owned apart from the Group's special purpose vehicles. For these vehicles, funding is provided through preference share capital or other unitised issuances. The Group holds 54% of the capital of the Versutus segregated account consolidated by Brit. The Group also holds 38% and 100% investments in The Diversified Fund and the Specialty Insurance Fund respectively, which are segregated accounts within Sussex Capital Limited. The issued preference share capital of Sussex Re Limited is owned 100% by Sussex Capital Limited.

On 16 October 2018 Advent Capital (Holdings) Limited, another subsidiary of the Fairfax group, invested US$165.5m in the HWIC Long-Term Value Strategies UCITS CCF resulting in a reduction of Brit's ownership in the fund from 100% to 64.2%. This investment was divested in Q1 2019 and the UCITS vehicle was subsequently liquidated.

As mentioned in Note 2.2, only 18.46% of the 2018 year of account result and assets of syndicate 2988 is included in these consolidated financial statements.

On 11 July 2018 and 26 July 2018, the Henderson Horizon Core Credit Fund and the Pimco Dynamic Global Investment Grade Credit Fund respectively were unwound and the assets consolidated within a segregated mandate. Therefore, these structured entities are no longer consolidated in the Group financial statements.

The subsidiaries of the company at 31 December 2019, together with their main function, are listed below by country of incorporation. The registered address and principal place of business of each entity is The Leadenhall Building, 122 Leadenhall Street, London, EC3V 4AB unless otherwise stated.

Subsidiary	Principal activity	Registered address and principal place of business
United Kingdom		
Brit Insurance Holdings Limited	Intermediate holding company	The Leadenhall Building
Brit Syndicates Limited	Lloyd's managing agent	The Leadenhall Building
Brit UW Limited	Lloyd's corporate member	The Leadenhall Building
Brit Insurance Services Limited	Service company	The Leadenhall Building
Brit Investment Holdings Limited	Service company	The Leadenhall Building
Brit Group Services Limited	Group services company	The Leadenhall Building
Brit Group Finance Limited	Group services company	The Leadenhall Building
BGS Services (Bermuda) Limited	Service company	The Leadenhall Building
Brit Pension Trustee Limited	Service company (Dormant)	The Leadenhall Building
Brit Corporate Services Limited	Service company (Dormant)	The Leadenhall Building
Brit Corporate Secretaries Limited	Service company (Dormant)	The Leadenhall Building
Sussex Capital UK PCC Limited	Special purpose vehicle	The Leadenhall Building
Ambridge Europe Limited	Insurance intermediary	c/o PKF Littlejohn 15 Westferry Circus, Canary Wharf, London, E14 4HD
Ambridge European Holdings Limited	Service company	c/o PKF Littlejohn 15 Westferry Circus, Canary Wharf, London, E14 4HD
United States of America		
Brit Insurance Services USA Inc.	Service company	161 N. Clark Street, Suite 3200, Chicago, IL, 60601
Brit Insurance USA Holdings Inc.	Intermediate holding company	161 N. Clark Street, Suite 3200, Chicago, IL, 60601
Scion Underwriting Services Inc.	Service company	3,333 Lee Parkway, Suite 627, Dallas, TX, 75219
Commonwealth Insurance Company of America	Insurance company	250 Commercial Street, Suite 5000, Manchester, NH, 03101
Ambridge Partners LLC	Insurance intermediary	251 Little Falls Drive, Wilmington, DE 19808
Ambridge Due Diligence Services LLC	Service company (Dormant)	251 Little Falls Drive, Wilmington, DE 19808
Bermuda		
North America Property Insurance Series 2017 Account A-3 (a segregated account within Versutus Limited)	Special purpose vehicle	Clarendon House, 2 Church Street, Hamilton HM 11
Sussex Capital Management Limited	Service company	Ground Floor Chesney House, The Waterfront, 96 Pitts Bay Road, Pembroke, HM 08
Sussex Capital Limited	Special purpose vehicle	Wessex House, 3rd Floor, 45 Reid Street, Hamilton HM 12
Sussex Re Limited	Special purpose vehicle	Wessex House, 3rd Floor, 45 Reid Street, Hamilton HM 12
Brit Reinsurance (Bermuda) Limited	Insurance company	Ground Floor Chesney House, The Waterfront, 96 Pitts Bay Road, Pembroke, HM 08

33 Consolidated entities (continued)

Subsidiary	Principal activity	Registered address and principal place of business
Singapore		
Brit Global Specialty Singapore Pte. Ltd.	Service company	138 Market St., #04-03 CapitaGreen, 048946
The Netherlands		
Brit Insurance Holdings B.V.	Former holding company	The Leadenhall Building
Germany		
Ambridge Europe GmbH & Co. KG	Insurance intermediary	Grüneburgweg 58 – 62, 60322 Frankfurt am Main, Germany
Ambridge German Holdings GmbH	Service company	Grüneburgweg 58 – 62, 60322 Frankfurt am Main, Germany

On 21 August 2019 the 100% owned subsidiary, Brit Overseas Holdings S.à R.L, was liquidated. Its results up to the date of liquidation have been consolidated.

On 2 September 2019 the 100% owned subsidiary, Brit Group Finance (Gibraltar) Limited was put into liquidation. Its results up to the date of liquidation have been consolidated.

34 Related party transactions and Ultimate Parent Company

The Group has a number of related parties which includes its principal investors and its Directors. Sometimes it transacts business with these related parties. This Note sets out those transactions.

The Group carries out a number of transactions with related parties which include, paying management fees, carrying out insurance and reinsurance activities with affiliates of the ultimate parent company, Fairfax Financial Holdings Limited, and trading with its associates. All the transactions with related parties are undertaken on an arm's-length basis.

(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 (Fairfax) 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 Fairfax, was appointed as an investment manager to a number of Group companies. During the year ended 31 December 2019, the Group incurred and paid investment management fees to HWIC of US$9.8m (2018: US$10.3m).

The Group has historically entered into various reinsurance arrangements with affiliates of Fairfax.

In respect of insurance and ceded outwards reinsurance activity, the amounts included in the income statement relating to trading with affiliates of Fairfax were as follows:

	Year ended 31 December 2019 US$m	Year ended 31 December 2018 US$m
Gross premiums written	**48.0**	17.8
Less premiums ceded to reinsurers	**(18.6)**	(182.2)
Premiums written, net of reinsurance	**29.4**	(164.4)
Gross amount of change in provision for unearned premiums	**(2.4)**	(1.5)
Reinsurers' share of change in provision for unearned premiums	**5.7**	(0.1)
Net change in provision for unearned premiums	**3.3**	(1.6)
Earned premiums, net of reinsurance	**32.7**	(166.0)
Gross claims paid	**(12.9)**	(3.1)
Reinsurers' share of claims paid	**43.6**	9.7
Claims paid, net of reinsurance	**30.7**	6.6
Gross change in the provision for claims	**(0.3)**	(10.1)
Reinsurers' share of change in the provision for claims	**(39.3)**	151.7
Net change in the provision for claims	**(39.6)**	141.6
Commission income	**–**	0.5
Commission expense	**(10.7)**	(4.7)

The amounts included in the statement of financial position outstanding with Fairfax and its affiliates as at 31 December 2019 were as follows:

	Year ended 31 December 2019 US$m	Year ended 31 December 2018 US$m
Debtors arising out of direct insurance and reinsurance operations:		
Insurance premium receivable	**7.9**	22.8
Recoverable from reinsurers	**157.9**	197.7
Creditors arising out of direct insurance and reinsurance operations:		
Payable to reinsurers	**(8.1)**	(0.9)
Unpaid claims liabilities	**(50.7)**	(51.3)
Deferred acquisition costs	**1.9**	1.9
Gross unearned premiums	**(9.9)**	(8.4)
Unearned premium recoverable from reinsurers	**6.2**	0.5

34 Related party transactions and Ultimate Parent Company (continued)

(c) Business combinations – Ambridge Partners LLC

Ambridge

On 11 April 2019 the Brit Group exercised a call option to acquire the remaining 50% of the issued shares of Ambridge Partners LLC (Ambridge), following the initial acquisition of 50% in December 2015. The acquisition was completed on 18 April 2019 for a total purchase consideration of US$46.6m. Ambridge is a leading MGU focusing on Transactional Insurance, Complex Management Liability Insurance and Intellectual Property Insurance products, writing business on behalf of a broad consortium of Lloyd's of London syndicates and international insurers including Brit.

Prior to 18 April, Brit's investment in Ambridge was recorded as an investment in associated undertaking and valued under equity method accounting requirements. As a result, the Brit Group's share of pre-acquisition year-to-date losses of US$1.0m have been reported within the 'Share of (loss)/profit after tax of associated undertakings' line of the Income Statement.

In addition, at the acquisition date the investment in associate was derecognised from the balance sheet of the Group and remeasured at fair value for the purposes of acquisition accounting under IFRS 3 and subsequent consolidation of Ambridge. This process resulted in the recognition of a gain of US$10.2m being recorded in the Income Statement ('Gain on business combination') for the year ending 31 December 2019. Accordingly, Brit's investment in associated undertakings decreased.

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

	As at 18 April 2019 US$m
Assets	
Acquired intangible assets	**45.2**
Property, plant and equipment	**2.0**
Cash and cash equivalents	**15.5**
Trade receivables	**59.8**
Other receivables	**0.8**
	123.3
Liabilities	
Deferred tax liability	**10.5**
Trade payables	**61.9**
Other payables	**3.6**
	76.0
Net identifiable assets acquired	**47.3**
Add: goodwill	**45.9**
Net assets acquired	**93.2**

Acquired intangible assets and goodwill

Ambridge is a specialised managing general underwriter of complex risks, with core products in transactional insurance, complex management liability insurance and intellectual property insurance. Established in 2000, Ambridge has built a strong brand and relationships in these core product areas. Following the acquisition, an exercise to allocate the purchase price under IFRS 3 was performed, including the identification and valuation of acquired intangible assets. The findings of this exercise identified US$45.2m of acquired intangible assets and US$45.9m of goodwill.

Trade receivables

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

Trade payables
The fair value is based on the contractual amount required to be settled with insurers in respect of business underwritten on their behalf, less any commissions due thereon that are deductible at source.

Revenue and profit contribution
The acquired business contributed US$30.4m to revenue and US$8.2m to profit for the period from 18 April 2019 to 31 December 2019.

(d) Associated undertakings

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 year ended 31 December 2019 included commission for introducing insurance business of US$2.9m (2018: US$3.2m).

Amounts recorded in the statement of financial position in respect of premium net of commissions due from, and fees payable to, Camargue as at 31 December 2019 and 2018 were not material.

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

Trading with Sutton is undertaken on an arm's-length basis and is settled in cash. The amounts in the income statement relating to trading with Sutton for the period from 8 January 2019 to 31 December 2019 included commission for introducing insurance business of US$1.1m.

Amounts recorded in the statement of financial position in respect of premium net of commissions due from, and fees payable to, Sutton as at 31 December 2019 were not material.

(e) Advent Capital (Holdings) Limited
On 30 August 2018, the Group entered into a service agreement with Advent Capital (Holdings) Limited, another subsidiary of the Fairfax group, whereby in exchange for consideration of US$0.8m the Group would provide Advent with agreed services for up to two years.

In 2018 Brit was the majority investor in the HWIC Long-Term Value Strategies UCITS CCF, which was consolidated by the Group. On 16 October 2018 Advent Capital (Holdings) Limited invested US$175.5m in this UCITS, resulting in an ownership of 35.8% of the fund. However, in early 2019, work was completed by HWIC and FFS Management Services to open two new fund structures (the Global Equity QIAIF and the Value Opportunities QIAIF) to investors within the Fairfax group of companies and, as a consequence of this, the HWIC Long-Term Value Strategies UCITS CCF ceased operation in March 2019, resulting in Advent's disinvestment from the vehicle.

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

34 Related party transactions and Ultimate Parent Company (continued)

(g) Crum and Forster commission agreement

On 1 May 2018, Brit Insurance Services USA, Inc. (BISI) entered into a binding authority agreement with Crum & Forster Specialty (C&F), another subsidiary of the Fairfax group. C&F has authorized BISI to bind certain commercial insurance contracts on their behalf. BISI earns a commission of up to 25.5% for this business including external broker commission. The agreement will continue in perpetuity until BISI or C&F provide written notice of cancellation. In 2019, C&F paid BISI US$0.8m (2018: US$0.3m) commission. US$0.1m was outstanding at the year-end (2018: nil).

(h) Key management compensation

The amount of the emoluments granted in respect of the financial year to the members of the administrative, managerial and supervisory bodies by reason of their responsibilities, and any commitments arising or entered into in respect of retirement pension for former members of those bodies, are broken down as follows:

	Year ended 31 December 2019 US$m	Year ended 31 December 2018 US$m
Salaries and other short-term employee benefits	**6.5**	7.3
Post-employment benefits	**0.7**	0.9
Share-based payments	**3.9**	0.3
Total compensation	**11.1**	8.5

For the purposes of IAS 24, 'Related Party Disclosures', key managers are defined as the Board of Directors and members of the Executive Committee which is the primary vehicle for implementing Board decisions in respect of UK-managed operations.

35 Guarantees and contingent liabilities

This Note explains guarantees issued by Group companies and any contingent liabilities they may be exposed to.

(a) Lloyd's

Assets have been pledged, as Funds at Lloyd's, by way of deposits and fixed and floating charges for Brit UW Limited, the corporate member of the Group. As at 31 December 2019 the Funds at Lloyd's requirement amounted to US$1,285.5m (2018: US$1,184.8m).

(b) Revolving credit facility

The Group has a US$450.0m (2018: US$450.0m) revolving credit facility which expires on 31 December 2023.

At 31 December 2019, a US$80.0m (2018: US$80.0m) letter of credit had been utilised. In addition, there was a cash drawing of US$140.0m (2018: US$8.0m).

(c) Taxation

The Group operates in a wide variety of jurisdictions around the world through its Lloyd's syndicate and uncertainties therefore exist with respect to the interpretation of complex tax laws and practices of those territories. The Group establishes provisions for taxes other than current and deferred income taxes, based upon various factors which are continually evaluated, if there is a present obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made.

Income taxes are provided for as set out in accounting policy Note 2.5.11.

contents

Introduction to the Parent Company Financial Statements

Statement of Financial Position

The statement of financial position is a summary of assets and how the assets have been funded through liabilities and equity investment by shareholders.

Statement of Changes in Equity

The statement of changes in equity shows how the various lines in the equity section of the Company's statement of financial position have moved during the year.

Index to the Parent Company Financial Statements

statement of financial position

At 31 December 2019

	Note	31 December 2019 US$m	31 December 2018 US$m
Fixed assets			
Investments:			
Shares in Group undertakings	3	**1,050.5**	1,050.5
Loans to Group undertakings	4	**136.6**	131.3
		1,187.1	1,181.8
Current assets			
Debtors: Amounts falling due within one year	5	**78.7**	33.1
Cash at bank and in hand		**0.3**	0.1
		79.0	33.2
Current liabilities			
Creditors: Amounts falling due within one year	6	**(0.7)**	(0.7)
Net current assets		**78.3**	32.5
Total assets less current liabilities		**1,265.4**	1,214.3
Creditors: Amounts falling due after more than one year	7	**(179.4)**	(173.0)
Net assets		**1,086.0**	1,041.3
Capital and reserves			
Called up share capital	8	**7.0**	6.8
Share premium		**505.5**	435.1
Capital redemption reserve		**1.0**	1.0
Retained earnings		**572.5**	598.4
Total equity		**1,086.0**	1,041.3

The accompanying Notes are an integral part of these financial statements.

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

Matthew Wilson
Group Chief Executive Officer

Mark Allan
Group Chief Financial Officer

statement of changes in equity

For the year ended 31 December 2019

	Note	Called up share capital US$m	Share premium US$m	Capital redemption reserve US$m	Retained earnings US$m	Total equity US$m
1 January 2019		**6.8**	**435.1**	**1.0**	**598.4**	**1,041.3**
Total comprehensive income for the year		–	–	–	(5.3)	(5.3)
Issuance of share capital	8	0.2	70.4	–	–	70.6
Dividend	11	–	–	–	(20.6)	(20.6)
At 31 December 2019		**7.0**	**505.5**	**1.0**	**572.5**	**1,086.0**

For the year ended 31 December 2018

	Note		Called up share capital US$m	Capital redemption reserve US$m	Retained earnings US$m	Total equity US$m
1 January 2018		6.4	–	0.2	908.4	915.0
Total comprehensive income for the year		–	–	–	1.5	1.5
Issuance of share capital	8	1.2	435.1	–	–	436.3
Repurchase of class A shares	8	–	–	–	(252.9)	(252.9)
Cancellation of share capital	8	(0.8)	–	0.8	–	–
Dividend	11	–	–	–	(58.6)	(58.6)
At 31 December 2018		6.8	435.1	1.0	598.4	1,041.3

notes to the financial statements

1 Accounting policies and basis of preparation

This Note provides details of the basis of preparation and accounting policies applied in producing these parent company financial statements.

1.1 Basis of preparation

The Company financial statements present the information about the company as a separate entity. The Company is incorporated and registered in England and Wales with registration number 08821629. The registered office of the company at the date of this report is The Leadenhall Building, 122 Leadenhall Street, London EC3V 4AB.

The Company has prepared its financial statements in accordance with Financial Reporting Standard 'FRS 102', the Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland and provisions of Section 396 of the Companies Act 2006.

No individual income statement is presented for the Company, as permitted by Section 408 of the Act. The comprehensive income dealt with in the financial statements of the parent company was a US$5.3m loss (2018: US$1.5m profit).

The Company financial statements are presented in US dollars and all values are rounded to the nearest US$0.1m except where otherwise indicated.

1.2 Accounting policies

(a) Investments

Investments in subsidiary undertakings are stated at cost less provisions for any impairment.

(b) Income from fixed asset investments

Dividend income is recognised when the shareholders' right to receive the payment is established.

(c) Long-term debt

Long-term debt is recognised initially at transaction price which is the fair value. It is subsequently measured at amortised cost using the effective interest rate method, in accordance with section 11 of FRS 102 (Basic Financial Instruments).

Interest payable is recognised using the effective interest rate method.

(d) Loans to Group undertakings

Loans to Group undertakings are recognised initially at transaction price which is the fair value, (including transaction costs incurred except in the initial measurement of financial liabilities that are measured at fair value through profit or loss) and subsequently measured at amortised cost using effective interest rate method, in accordance with section 11 of FRS 102 (Basic Financial Instruments).

Interest receivable is recognised using the effective interest rate method.

(e) Expenses

All expenses are accounted for on an accruals basis.

(f) Foreign currencies

Transactions in foreign currencies other than US dollars are converted at the rate of exchange ruling at the date the transaction is processed. Unless otherwise stated, transactions are converted at the average rates of the exchange for the period. Assets and liabilities in currencies other than Sterling are converted at the rate of exchange ruling at 31 December of each year. Exchange differences arising on conversion are dealt with in the income statement.

(g) Deferred taxation

Deferred tax is recognised in respect of all timing differences which are differences between taxable profits and total comprehensive income that arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements, except that:

- provision is made for deferred tax that would arise on remittance of the retained earnings of overseas subsidiaries, associates and joint ventures only to the extent that, at the statement of financial position date, dividends have been accrued as receivable;
- where there are differences between amounts that can be deducted for tax for assets (other than goodwill) and liabilities compared with the amounts that are recognised for those assets and liabilities in a business combination a deferred tax asset/liability shall be recognised. The amount attributed to goodwill is adjusted by the amount of the deferred tax recognised; and
- unrelieved tax losses and other deferred tax assets are recognised only to the extent that the Directors consider that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the statement of financial position date.

2 Auditor's remuneration

This Note sets out the fees paid in respect of the annual audit performed on the Company.

Audit fees borne by the Company amounted to US$15,525 (2018: US$15,000).

3 Shares in Group undertakings

This Note explains the direct shareholdings of the Company in other Group entities.

	31 December 2019 US$m	31 December 2018 US$m
Investment in Brit Insurance Holdings Limited	**1,050.5**	1,050.5

There was no movement in shares in Group undertakings in the year.

The subsidiaries of the Company at 31 December 2019, and their principal activities, are disclosed in the Brit Limited consolidated financial statements.

4 Loans to Group undertakings

This Note sets out moneys lent by the Company to other Group companies.

	31 December 2019 US$m	31 December 2018 US$m
Loans to Group undertakings	**136.6**	131.3

On 8 September 2014, a long-term loan to another Group company was novated to Brit Limited at fair value. The agreement expires on 9 December 2020 and carries interest at an annual interest rate of 7.05%.

5 Debtors: Amounts falling due within one year

This Note sets out moneys owed to the Company that are due before 31 December 2020.

	31 December 2019 US$m	31 December 2018 US$m
Interest receivable on loans to Group undertakings	**12.2**	2.5
Amounts owed by Group undertakings	**65.9**	29.9
Prepayments	**0.6**	0.7
Total	**78.7**	33.1

6 Creditors: Amounts falling due within one year

This Note sets out moneys owed by the Company that are due before 31 December 2020.

	31 December 2019 US$m	31 December 2018 US$m
Accruals and deferred income	**0.7**	0.7
Total	**0.7**	0.7

7 Creditors: Amounts falling due after more than one year

This Note sets out moneys owed by the Company that are due after 31 December 2020.

				31 December 2019		31 December 2018	
	Maturity	Call	Effective interest rate	**Amortised cost US$m**	**Fair value US$m**	Amortised cost US$m	Fair value US$m
Subordinated debt	2030	2020	8.3%	**179.4**	**182.9**	173.0	173.3

The fair value of the subordinated debt has been determined by reference to trading market values on recognised exchanges and is categorised as level one in the fair value hierarchy.

The subordinated debt was novated to the Company from another Group company on 8 September 2014 at fair value.

The subordinated debt is listed and callable in whole by the Company on 9 December 2020. Following this date the interest rate resets to the higher of:

(i) 3.4% above the gross redemption yield of the 4.75% Treasury Gilt due 2030 quoted on the reset date; or

(ii) 3.4% above the gross redemption yield of the 8% Treasury Stock due 2021 quoted on the reset date.

The effective interest rate method of accounting has been applied over the term up to the call date.

8 Called up share capital

This Note sets out the number of shares in issue and their nominal value.

	31 December 2019 US$m	31 December 2018 US$m	**31 December 2019 1p each Number**	31 December 2018 1p each Number
Ordinary shares:				
Allotted, issued and fully paid	**7.0**	6.8	**446,977,185**	430,549,278

48,000,000 shares are class A shares and the remainder are class B shares. The class A and B shares rank *pari passu* except that on a distribution of profits by the Company, the class A shareholders are entitled to a cumulative annual dividend which must be settled ahead of any equivalent distribution to class B shareholders.

	Share premium US$m	Share capital US$m	Share capital Number
At 1 January 2018	–	6.4	387,608,230
Issue of new class B shares	435.1	1.2	101,491,572
Purchase and cancellation of own shares	–	(0.8)	(58,550,524)
At 31 December 2018	435.1	6.8	430,549,278
At 1 January 2019	**435.1**	**6.8**	**430,549,278**
Issue of new class B shares	70.4	0.2	16,427,907
At 31 December 2019	**505.5**	**7.0**	**446,977,185**

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

On 24 June 2019, 11,627,907 class B Ordinary Shares were issued by Brit Limited, each with a nominal value of 1p, for US$50.0m. Following this share issuance, US$49.9m was recorded in the share premium accounts and Fairfax increased its percentage shareholding to 89.26%.

9 Directors' emoluments

This Note gives a breakdown of emoluments paid to Directors both in total and in respect of the highest paid Director.

	31 December 2019 US$m	31 December 2018 US$m
Aggregate remuneration	**4.7**	3.9
Aggregate contributions to money purchase pension schemes	**0.1**	0.1
Total	**4.8**	4.0

The Directors' remuneration disclosed above includes the following amounts paid to the highest paid Director:

Aggregate remuneration	**2.7**	1.4

	Number	Number
Number of Directors with benefits accruing under money purchase pension schemes	**1**	1
Number of Directors in respect of whose qualifying services, shares were received or receivable under long-term incentive schemes	**2**	3

Shares were received or receivable by the highest paid Director in respect of qualifying services under a long-term incentive scheme during 2019 and 2018.

10 Guarantees and contingent liabilities

This Note explains guarantees issued by the Company. The Company has no contingent liabilities.

The Company has access to a US$450.0m (2018: US$450.0m) revolving credit facility which expires on 31 December 2023. Guarantees have been made by Brit Limited and a subsidiary company to the syndicated banks providing the facility.

notes to the financial statements

11 Dividends

This Note gives details of the amounts paid to shareholders during 2019 and 2018 by way of dividends.

	2019 US$	2018 US$	2019 US$m	2018 US$m
Dividend paid in respect of prior year	**0.43**	0.43	**20.6**	45.8
Dividend paid in respect of shares repurchased	**–**	0.43	**–**	12.8
			20.6	58.6

A US$20.6m dividend in respect of the year ended 31 December 2018 was paid to the class A shareholders on 29 April 2019 in accordance with the shareholders' agreement at an amount equal to US$0.43 per share (2018: US$45.8m/US$0.43 per share).

On 5 July 2018, a US$12.8m dividend was paid to the class A shareholders, being the pro-rata accrued dividend outstanding on shares re-purchased in respect of the 2018 accounting period and based on a dividend entitlement for the full year equal to US$0.43 per share.

12 Share-based payments

The Company rewards its employees through various share-based incentive schemes. This Note explains the different schemes used to facilitate those share-based payments.

Further detail in respect of the Group's share-based incentive schemes can be found in Note 32 of the notes accompanying the Brit Limited Group consolidated Financial Statements.

13 Disclosure exemptions

This Note explains the Company's approach to qualifying exemptions available in FRS 102.

The Company has taken advantage of the disclosure exemptions provided by paragraph 1.12 of FRS 102. Accordingly, these financial statements do not include the following:

- Statement of cash flows;
- A reconciliation of shares outstanding at the beginning and end of the period;
- Specific information relating to financial instruments that is included within equivalent disclosures for the Group;
- Specific information relating to share-based payments that is included within equivalent disclosures for the Group; and
- Disclosure of key management personnel compensation.

The Brit Limited consolidated financial statements and accompanying notes provide further detail in respect of these areas.

14 Ultimate Parent Company

The ultimate parent company and controlling entity, and the largest group of which the Company is a member, is Fairfax Financial Holdings Limited (Fairfax) 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.

reconciliation of key performance indicators to the financial statements

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	2019 US$m	2018 US$m
PAT	Consolidated income statement	**179.9**	(166.5)
Add back: Tax adjusted amortisation	Amortisation of intangibles, adjusted by the tax rate	**7.1**	5.2
Add back: Tax adjusted FX	FX effect for the year, adjusted by the tax rate	**(2.8)**	10.2
PAT, adjusted for RoNTA calculation		**184.2**	(151.1)
Adjusted NTA at start of year	See 'Total Value Created' section below.	**992.9**	1,043.7
External distributions and share issuances	Weighted adjustment to reflect distributions and shares issued during the year.	**25.8**	5.5
NTA, adjusted for RoNTA calculation		**1,018.7**	1,049.2
RoNTA		**18.1%**	(14.4%)

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	2019 US$m	2018 US$m
Total equity attributable to owners of the parent	Consolidated statement of financial position	**1,319.9**	1,085.0
Less: Intangible assets	Consolidated statement of financial position	**(192.6)**	(104.4)
Net tangible assets		**1,127.3**	980.6
Add back deferred tax liability on intangible assets	Note 19: Deferred taxation	**23.1**	12.3
Adjusted net tangible assets		**1,150.4**	992.9
Adjusted NTA at end of year		**1,150.4**	992.9
Less: Adjusted NTA at start of year		**(992.9)**	(1,043.7)
Movement in adjusted NTA		**157.5**	(50.8)
Add: Intangibles and goodwill acquired on acquisition of Ambridge	Note 34(c): Related Party Transactions - Business Combinations	**91.1**	–
Less: Issuance of share capital, repurchase of shares and dividend paid	Consolidated statement of changes in equity	**50.0**	(124.8)
Total value created		**198.6**	(175.6)

Combined ratio

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.

reconciliation of key performance indicators to the financial statements

	Comment / financial statements reference	2019 US$m	2018 US$m
Earned premium, net of reinsurance	Note 5: Segmental information	**1,638.5**	1,466.1
Adjustments for share of third-party vehicles	See Note (i) below	**(14.8)**	(18.8)
Adjustment for loss portfolio reinsurance	See Note (ii) below	**–**	186.3
Adjusted earned premium, net of reinsurance		**1,623.7**	1,633.6
Attritional losses		**(899.4)**	(751.8)
Major claims		**(61.6)**	(214.5)
Reserve releases		**46.5**	99.3
Claims incurred, net of reinsurance	Note 5: Segmental information	**(914.5)**	(867.0)
Attritional losses – Adjustments for share of third-party vehicles	See Note (i) below	**5.7**	3.1
Attritional losses – Adjustment for loss portfolio reinsurance	See Note (ii) below	**–**	(186.3)
Major losses – Adjustments for share of third-party vehicles	See Note (i) below	**3.2**	17.7
Reserve releases – Adjustments for share of third-party vehicles	See Note (i) below	**1.4**	0.8
Adjusted claims incurred, net of reinsurance		**(904.2)**	(1,031.7)
Acquisition costs – commissions	Note 5: Segmental information	**(443.3)**	(456.1)
Acquisition costs – other and Other insurance related expenses	Note 5: Segmental information	**(255.7)**	(216.6)
Other income		**45.6**	14.0
Acquisition costs – commissions – Adjustments for share of third-party vehicles	See Note (i) below	**1.7**	1.9
Acquisition costs – other and Other insurance related expenses – Adjustments for share of third-party vehicles	See Note (i) below	**0.2**	0.2
Adjusted underwriting expenses		**(651.5)**	(656.6)
Derivative contracts		**0.4**	(2.2)
Underwriting profit/(loss)		**68.4**	(56.9)
Attritional loss ratio	Attritional losses / Earned premium, net of reinsurance	**55.0%**	57.2%
Major claims ratio	Major claims / Earned premium, net of reinsurance	**3.6%**	12.0%
Reserve release ratio	Reserve releases / Earned premium, net of reinsurance	**(2.9%)**	(6.1%)
Claims ratio	Note 5: Segmental information	**55.7%**	63.1%
Commission ratio	Acquisition costs – commissions / Earned premium, net of reinsurance	**27.2%**	27.8%
Operating expense ratio	Acquisition costs – other and Other insurance related expenses / Earned premium, net of reinsurance	**12.9%**	12.4%
Underwriting expense ratio	Note 5: Segmental information	**40.1%**	40.2%
Combined ratio	Claims ratio + Underwriting expense ratio; Note 5: Segmental information	**95.8%**	103.3%

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

Note (ii): We have adjusted for the impact of the loss portfolio reinsurance in 'Earned premium, net of reinsurance' with an equal and opposite adjustment in 'Claims incurred, net of reinsurance'. This adjustment eliminates the distorting effect this contract would have on the ratios.

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	2019 US$m	2018 US$m
Share of net profit of associates	Note 14: Investment in associated undertakings	**0.3**	6.5
Return on financial investments and cash and cash equivalents (Note 1)	Note 6: Investment return	**150.6**	(88.7)
Return on investment related derivatives	Note 7: Return on derivative contracts	**(2.8)**	0.1
Return on invested assets		**148.1**	(82.1)
Investment in associated undertakings	Note 14: Investment in associated undertakings	**19.4**	43.0
Financial investments	Note 22: Financial investments	**3,640.6**	3,145.1
Derivative contracts (investment related)	Note 23: Derivative contracts	**2.1**	3.3
Cash and cash equivalents	Note 25: Cash and cash equivalents	**520.1**	818.2
Invested assets		**4,182.2**	4,009.6
Opening invested assets		**3,846.7**	4,316.1
Closing invested assets (Note 1)		**4,182.2**	3,846.7
Average invested assets		**4,014.5**	4,081.4
Return (%)	Return on invested assets / Average invested assets	**3.6%**	(2.0%)

Note 1 – Adjusted for third-party share of UCITS

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	2019 US$m	2018 US$m
Total equity attributable to owners of the parent	Consolidated statement of financial position	**1,319.9**	1,085.0
Less: Intangible assets	Consolidated statement of financial position	**(192.6)**	(104.4)
Net tangible assets		**1,127.3**	980.6
Add: Deferred tax liability on intangible assets	Note 19: Deferred taxation	**23.2**	12.3
Adjusted net tangible assets		**1,150.5**	992.9
Subordinated debt	Note 26: Borrowings	**176.2**	166.9
Letters of credit / contingent funding	Under our capital policy we have identified a maximum of US$250.0m of our revolving credit facility to form part of our capital resources.	**250.0**	250.0
Total available capital resources		**1,576.6**	1,409.8
Management entity capital requirements	The capital required by an entity for business strategy and regulatory requirements.	**(1,227.7)**	(1,081.1)
Excess of resources over management entity capital requirements		**348.9**	328.7
Capital ratio		**128.4%**	130.4%

reconciliation of key performance indicators to the financial statements

Ratio of front office employees to back office employees

This measure monitors the efficiency of our business model by comparing the number of front office client-facing revenue generators and service providers to the number of back office employees. An increase in the ratio would suggest that the back office is becoming more efficient in supporting the client-facing activities of the front office.

	Comment / financial statements reference	2019 Number	2018 Number
Total front office staff	Note 11: Staff costs	**427**	367
Total back office staff	Note 11: Staff costs	**283**	236
Total employees	Note 11: Staff costs	**710**	603
Ratio of front office employees to back office employees	Total front office staff / Total back office staff	**150.9%**	155.5%

company information

Directors

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

*Mr Campbell was appointed a non-executive Director on 1 January 2018. On 1 January 2019, he was appointed Chair.

Company Secretary

Mr Tim Harmer

Registered Office

The Leadenhall Building
122 Leadenhall Street
London EC3V 4AB
UK

Telephone: +44 (0) 20 3857 0000

Website

www.britinsurance.com

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

Registered Number

08821629

Auditor

PricewaterhouseCoopers LLP
7 More London Riverside
London
SE1 2RT

glossary

A

Acquisition costs: Costs incurred in the course of writing business and issuing policies including commissions paid to intermediaries and related internal expenses such as underwriter related costs.

Adjusted net tangible assets or **adjusted NTA**: Total equity, less intangible assets net of the deferred tax liability on those intangible assets.

Adjusted net tangible assets per share: Calculated as closing adjusted net tangible assets divided by the number of shares in issue at the balance sheet date, less own shares.

Aggregate exposure: The expected maximum total of claims that could be incurred by an insurer in respect of any event or series of similar events. Also see 'realistic disaster scenarios'.

Asset allocation: The allocation of our investments across different kinds of asset classes, such as equities, bonds, and cash, in order to achieve a balance between return and risk.

Attritional losses: Common losses, as opposed to major or catastrophe losses, incurred from ordinary insurance and/or reinsurance operations.

Available capital resources: Adjusted net tangible assets, subordinated debt and letters of credit / contingent funding.

B

BGSB: Brit Global Specialty Bermuda, the business of the Group operating in Bermuda.

BGSU: Brit Global Specialty USA, the business of the Group operating in the United States, of which BISI is the managing general agent.

Binder business: Business conducted by a coverholder acting under a binding authority.

Binding authority: See 'delegated underwriting authority'.

BISI: Brit Insurance Services USA, Inc., a company incorporated in Illinois, USA.

Brit Re: Brit Reinsurance (Bermuda) Limited.

BMA: Bermuda Monetary Authority, the integrated regulator of financial services in Bermuda, established under the Bermuda Monetary Authority Act 1969.

Broker: An intermediary who negotiates contracts of insurance or reinsurance, receiving a commission for placement and other services rendered.

C

Captive: An entity that provides risk-mitigation services for other entities within the same Group only.

Catastrophe or **Cat:** Perils including earthquakes, hurricanes, hailstorms, severe winter weather, floods, fires, tornadoes, explosions and other natural or man-made disasters. Catastrophe losses may also arise from acts of war, acts of terrorism and political instability.

Claims: Moneys demanded by an insured for indemnity under an insurance contract.

Claims development triangles: Tabulations of claims development data, set out with underwriting years along one axis and calendar years of development along the other.

Claims incurred: Claims arising from events that have occurred, regardless of whether or not they have been reported to the insurer.

Constant FX rates: An increase or decrease in figures between two years after eliminating the effect of foreign exchange rate movements.

Corporate member: A company providing the capital to support the underwriting activity of a syndicate at Lloyd's. Brit's corporate member is Brit UW Limited.

Coverholder: An entity authorised by an insurer to enter into a contract of insurance on its behalf.

D

Deferred acquisition costs or **DAC:** Costs incurred for the acquisition or renewal of insurance policies which are capitalised and amortised over the term of those policies.

Delegated underwriting authority: An authority granted by an underwriter to an agent (known as a coverholder) whereby that agent is entitled to accept, within certain limits, insurance business on behalf of the underwriter. The coverholder has full power to commit the underwriter within the terms of the authority.

E

Earned premium: That proportion of a premium which relates to the portion of a risk which has expired during a given period.

ESOS: The energy savings opportunity scheme, or ESOS, is a mandatory government initiative to promote energy efficiency in large businesses.

Excess and Surplus or **E&S:** A generic US regulatory classification referring to insurance coverage not ordinarily written by insurers fully admitted in various states. The E&S lines business is largely unregulated as to rate and form but insurers must be authorised to write such business in a state by the local regulator.

Excess of loss or **XL:** A type of reinsurance that covers specified losses incurred by the reinsured party in excess of a stated amount (the excess) up to a higher amount of limit, for example US$5m excess of US$1m. Such coverage can operate on a per loss basis or an aggregate basis.
Executive Committee or **EC:** A committee at Brit consisting of the senior management and the Group CEO.

F

FCA: The UK Financial Conduct Authority, established pursuant to the Financial Services Act 2012 and responsible for, among other things, the conduct regulation of all firms authorised and regulated under FSMA and the prudential regulation of firms which are not regulated by the PRA.
First Dollar: An insurance policy written with low excess and deductible, and written in the admitted market.
Funds at Lloyd's or **FAL:** Funds held in trust at Lloyd's to support a Lloyd's underwriter's underwriting activities.

G

Gearing ratio: Calculated as total borrowings (subordinated debt, revolving credit facility cash drawdowns and uncollateralised drawn letters of credit) divided by adjusted net tangible assets and subordinated debt.
Gross written premium or **gross premiums written** or **GWP:** Amounts payable by the insured, including any brokerage or commission deducted by intermediaries but excluding any taxes or duties levied on the premium.

H

Hardening or **hard market:** An insurance market where prevalent prices are high, with more restrictive terms and conditions offered by insurers.
HMRC: Her Majesty's Revenue and Customs.

I

ILS or Insurance-linked securities: ILSs are essentially financial instruments which are sold to investors whose value is affected by an insured loss event.
Incurred but not reported or **IBNR:** Claims incurred but not reported, including claims which are incurred but not enough reported (i.e. where the amount of the notification is insufficient).
International Accounting Standards or **IAS:** See 'International Financial Reporting Standards'.
International Financial Reporting Standards or **IFRS:** Accounting and reporting Standards established by the International Accounting Standards Board, as adopted by the European Commission for use in the European Union. UK listed entities have reported on an IFRS basis since 2005.
Invested assets: Financial investments, investment in associated undertakings, cash and cash equivalents and investment related derivatives.
Investment related derivatives: Includes options and interest rate swaps. Excludes currency forwards.
Investment return percentage: Investment return expressed as a percentage of average invested assets, calculated on a month by month basis.

L

Lead underwriter or **lead:** A lead underwriter (usually a specialist in the field of the insurance concerned) is the first underwriter to take a portion of a risk, quote an appropriate rate of premium and set terms and conditions.
Letter of credit or **LoC:** A written undertaking by a financial institution to provide funding if required.
LIBOR: The daily London Interbank Offered Rate set by the British Banking Association.
Line size: The proportion of an insurance or reinsurance risk that is accepted by an underwriter or which an underwriter is willing to accept.
Lloyd's Brussels (LBS): The insurance company of Lloyd's located in Brussels, authorised and regulated by the National Bank of Belgium, which writes all non-life risks from the European Economic Area.
Lloyd's China Platform: The branch of Lloyd's in Shanghai in the People's Republic of China operated through Lloyd's Insurance Company (China) Limited, on which certain Lloyd's syndicates have representation.
Lloyd's of London: The Society of Lloyd's and Corporation of Lloyd's created and governed by the Lloyd's Acts 1871-1982, including the Council of Lloyd's (and its delegates and other persons through whom the Council may act), as the context may require.
London Market: The London insurance market, which includes the Lloyd's market.
Long-tail: The term used to describe business where the difference between the timing of the average premium receipt and the timing of the average claim payment is over three years.

M

Major claims or **Major losses:** Major claims are defined as claims which are initially assessed as having the potential to exceed US$15.0m (net of reinsurance and allowing for reinstatements), incurred from natural or man-made catastrophes, or from large single risk loss events.
Management entity capital requirement: The capital required by an entity for business strategy and regulatory requirements.

glossary

N

Net earned premium or **NEP:** The net written premium adjusted by the change in net unearned premium (i.e. the premium for which insurance exposure has yet to be incurred) for a year.

Net tangible assets or **NTA:** The total assets of a company, minus any intangible assets, less all liabilities.

Net written premiums or **NWP:** Gross premiums written during a specified period less outwards reinsurance premiums ceded.

O

Outstanding claims: Claims which have been notified at the balance sheet date but not settled.

Own risk and solvency assessment or **ORSA:** The name given to the entirety of the processes and procedures employed by an insurer to identify, assess, monitor, manage and report the short and long term risks it faces or may face and to determine the capital necessary to ensure that the insurer's overall solvency needs are met at all times.

P

PRA: The UK Prudential Regulation Authority established pursuant to the Financial Services Act 2012 and responsible for the prudential regulation and supervision of banks, building societies, credit unions, insurers and major investment firms.

Protected cell company or **PCC:** A company that has been separated into legally distinct portions or cells. The revenue streams, assets and liabilities of each cell are kept separate from all other cells. Each cell has its own separate portion of the PCC's overall share capital, allowing shareholders to maintain sole ownership of an entire cell.

Q

Quota share or **QS:** A type of reinsurance which provides that the reassured shall cede to the reinsurer a specified percentage of all the premiums that it receives in respect of a given section or of all of its underwriting account for a given period in return for which the reinsurer is obliged to pay the same percentage of any claims and specified expenses arising on the reinsured business.

R

Ratio of front office employees to back office employees: Calculated as the average number of front office staff divided by the average number of back office staff employed during the year. Front office employees are defined as underwriters, other underwriting staff, claims staff and direct support staff. The balance of employees are classified as back office.

Realistic Disaster Scenarios or **RDS:** Specific scenarios which the Group uses to test its ability to settle claims arising from certain types of disaster.

Reinsurance: The transfer of some or all of an insurance risk to another insurer. The company transferring the risk is called the 'ceding company' and the company assuming the risk is called the 'assuming company' or the 'reinsurer'.

Representative office: An office established by Brit to conduct marketing and other non-transactional operations overseas.

Reserves: Outstanding claims and claims incurred but not reported.

Reserve releases: The amount of the reserves at the end of the previous period determined as being excess to requirements at the end of the current period.

Retention rate: The ratio, in percent, of the value of premiums relating to risks written in one year renewed in the following year. The data used is risk adjusted (i.e. it allows for changes to terms and conditions).

Risk adjusted rate change: Change in premium rates during the year expressed as a percentage of opening premium rates. The data reflects internal estimates by Brit's underwriters, based on available year-on-year underlying renewal data after allowing for changes to terms and conditions.

Risk management framework or **RMF:** The Group's own internal framework for risk management.

Running yield: The income return, expressed either as a percentage or a monetary amount, on invested assets.

S

Service companies: Subsidiary companies set up to operate a binding authority on behalf of the Syndicate to write business from non-Lloyd's brokers or direct from policymakers.

Short-tail: The term used to describe business where the difference between the timing of the average premium receipt and the timing of the average claim payment is under three years.

Softening or **soft market:** An insurance market where prevalent prices are low, and terms and conditions offered by insurers are less restrictive.

Solvency capital requirement or **SCR:** The higher of the two capital levels required by Solvency II. The SCR is the prudent amount of assets to be held in excess of liabilities and functions as an early warning mechanism if it is breached. The SCR is calculated using either the standard formula or an approved internal model.

Solvency matched: The matching of the currencies of the Group's liabilities and management entity capital requirements with the currencies of the assets held by the Group.
Solvency II: A combination of several EU Directives that codify and harmonise EU insurance regulation, primarily concerning the amount of capital that EU insurance companies must hold to reduce the risk of insolvency. Principal components are Directive 2009/138/EC on the taking-up and pursuit of the business of insurance and reinsurance and Directive 2012/23/EU on the financial position of insurance undertakings. Solvency II came into force in all EU member states on 1 January 2016.
Strategic asset allocation or **SAA:** The Group's strategic asset allocation defines the overall Group investment strategy and reflects entity-level considerations and governance matters. See 'asset allocation'.
Syndicate: A group of underwriting members of Lloyd's or a single corporate member managed as a unit to underwrite insurance business at Lloyd's to which a particular syndicate number is assigned by or with the authority of Lloyd's of London.

T

Tail: See 'short-tail' and 'long-tail'.
Technical price: The price for the risk which is expected to produce the long-term required return on capital for the Group.
The Company: Brit Limited.
The Group: Brit Limited and its subsidiaries.
The Syndicate: Brit Syndicate 2987.
Total available resources: Sum of the closing adjusted net tangible assets, subordinated debt and letters of credit / contingent funding.
Total invested assets: See 'invested assets'.
Total operating expenses: These represent all expenses incurred by the Group, excluding commission costs.
Treaty: A reinsurance contract pursuant to which the reinsurer is obliged to accept, within agreed limits, all risks underwritten by the reinsured within specified classes of business in a given time period.

U

Ultimate claims: The total forecast claims expected to arise from a policy or class of business. Ultimate claims include those losses paid, those notified and IBNR.
Underlying operating expenses: Calculated as Total operating expenses less project costs and other timing differences. Underlying operating expenses include bonus costs.
Underwriting capacity: The maximum premium income which a Lloyd's syndicate is permitted to underwrite. A capacity figure is assigned to each underwriting year and the relevant premium income is defined as gross written premiums less commission payable.
Underwriting profit: Operating profit generated by our underwriting segments less investment return.
Unearned premium reserve or **UPR:** The portion of premium income written in the calendar year that is attributable to periods after the balance sheet date. It is accounted for as unearned premiums in the underwriting provisions.
Unrealised gains or **Unrealised losses:**
Gains or losses that are yet to be crystallised in the form of a cash movement from disposals of invested assets.

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

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