BRIT

Brit Limited Interim Report 2019

SEEING THE DIFFERENCE **MAKES THE DIFFERENCE**

Contents

Key points

A STRONG RESULT IN AN IMPROVING ENVIRONMENT

- Gross written premiums of US$1,210.5m (H1 2018: US$1,150.8m), a 5.2% increase (6.5% at constant FX rates).
- Premium rate increases of 4.3% (H1 2018: increases of 3.5%).
- Net earned premium[1] of US$804.9m (H1 2018: US$783.5m), an increase of 4.2% at constant FX rates.
- Positive underwriting result with a combined ratio[1,2] of 94.4% (H1 2018: 95.9%).
- No material change in overall net major loss estimates for 2017 and 2018 events.
- Profit on ordinary activities before the impact of FX and tax of US$127.1m (H1 2018: US$17.9m).
- Profit after tax of US$120.3m (H1 2018: US$12.9m).
- Solid investment return[3] after fees of US$94.7m, representing a non-annualised return of 2.4% (H1 2018: US$5.1m/0.1%).
- RoNTA[7] (non-annualised) of 12.6% (H1 2018: 2.3%) and total value created of US$122.2m (H1 2018: US$2.0m).
- Adjusted net tangible assets[5] of US$1,083.4m (31 December 2018: US$992.9m).
- Continued implementation of our strategy, including:
  - Brit managed third party capacity on Sussex, Versutus II and Syndicate 2988, expanded to over US$440m for 2019 (2018: US$400m);
  - Completed the acquisition of Ambridge Partners LLC, one of the world's leading MGUs of complex risks, based in New York; and
  - Significant strategic investment in Sutton Special Risk Inc., a leading Toronto based MGU specialising in Accident & Health business.

The footnotes referred to above appear on page 4

Brit at a Glance

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

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

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

Brit is a member of the Fairfax Financial Holdings Limited group of companies (Fairfax). The Fairfax financial result for the six months ended 30 June 2019, published on 1 August 2019, includes the Brit financial result.

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Disclaimer

Interim Management Report

Officer statements

'I am pleased to report a positive first half of 2019 for Brit, with underwriting performance and investment return delivering a strong result. We also continued to successfully execute against our clear, progressive, strategy further building on our underwriting discipline, leadership positions and international distribution footprint.

2019 has continued to deliver positive risk adjusted premium rate increases, with the period achieving 4.3%, building on the 2018 positive movement of 3.5%. However, these increases, whilst welcome, are primarily focused on areas impacted by the major losses experienced in 2017 and 2018, and the market in other areas remains challenging. We have continued to take action to protect our balance sheet and maintained our rigorous risk selection criteria in marginal classes.

Against this backdrop, our strategy delivered a respectable combined ratio for the period of 94.4%. This reflected the combination of a healthy attritional ratio, an absence of major losses and increased income from our third party capital management and MGA businesses. It was particularly pleasing that against the backdrop of major catastrophe loss creep for the market, there was no material change to our overall net 2017 and 2018 major loss position.

Our premium written grew by 6.5% at constant exchange rates, to US$1,210.5m. We have continued to see an increased contribution from our strategic initiatives of recent years, especially from our US platform, as we continue to expand our international distribution capability. We have also 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. The growth in our reinsurance book was particularly pleasing, where our highly respected teams have a strong track record.

In the period, we continued to invest in businesses with a strong track record in both distribution and underwriting. We completed our acquisition of Ambridge Partners LLC, one of the world's leading managing general underwriters of complex risks and a key trading partner of Brit for the past thirteen years. Ambridge, which is based in New York, London and Frankfurt, will retain its independence and will continue to underwrite on behalf of its existing broad Brit-led consortium of Lloyd's syndicates and international insurers. 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. Our investment offers attractive exposure to a fast-growing and profitable MGU with a strong presence in Canada and the United States.

For 2019, Brit's total managed capacity across Versutus, Sussex Capital and Syndicate 2988 has increased to US$440m. The renewal and expansion of our ILS capacity, alongside the growth in planned 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.

We continue to expand our underwriting capabilities selectively to position the business for the future. Following significant research and development, 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 have also made a number of important senior appointments, including a Head of Innovation who will manage the innovation process and position Brit as one of the most forward thinking, progressive and innovative businesses, 'writing the future' of the London Market.

In May, Lloyd's launched a vision for its future. Brit is fully supportive of these initiatives and has seconded subject matter experts to the various workstreams and is engaged at an executive level. We have also appointed a Head of Strategy to help develop, manage and implement our engagement with, and response to, the initiatives.

We have continued to focus on our client service capabilities and development of a best-in-class claims 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, allowing us to expedite claim settlements for our clients when they need it most.

Looking ahead, a number of indicators give us cause for optimism, including rate increases, the withdrawal of some capacity and the measures taken by Lloyd's to improve market performance. However, conditions remain challenging in a number of areas, with lower than anticipated rate increases in some sectors and some heightened claims activity on more recent years. In this environment, our clear strategy of embracing data driven underwriting discipline, and rigorous risk selection; coupled with innovative capital management solutions and continued investment in distribution, uniquely positions us to respond to the opportunities and challenges of today's market.'

Matthew Wilson
Group Chief Executive Officer
31 July 2019

‘During the first half of 2019, Brit delivered a profit on ordinary activities before FX and tax of US$127.1m and a profit after tax of US$120.3m. After a challenging period, it is pleasing to report a strong first half result, reflecting the continued commitment of all our staff.

Underwriting contributed US$43.5m to the result, with a combined ratio of 94.4%. This reflected an attritional ratio of 56.0% and an absence of major loss activity. 2017 and 2018 have proved to be challenging years, with a number of early large and attritional losses occurring in addition to the catastrophes in those years. However, we have seen more benign claims activity on older years continue with 2016 and prior showing releases, to result in an overall US$1.9m reserve release. We have again purchased additional catastrophe protections, positioning us well for the remainder of 2019.

Our investment return was US$94.7m (net of fees), a non-annualised return of 2.4%. This was driven by the strong performance of our equity portfolio, which recovered the losses experienced in late 2018, as markets rebounded. Our cash and fixed income portfolio also generated positive income and capital returns, as yields fell substantially.

In the period, we have continued to benefit from the growth of 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, that will enhance our leadership position and assist Brit in managing its expense base and strengthen our client proposition.

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. We believe that alignment is critical, and Brit is well positioned to provide attractive access to our partners with clear alignment in all of our third party capital vehicles.

Our balance sheet remains strong, with adjusted net tangible assets increasing to US$1,083.4m (31 December 2018: US$992.9m), after capital contributions, dividends paid and the impact of the Ambridge acquisition. As a result, we hold a surplus of US$338.2m or 29.1% over the Group’s management capital requirement. During the period, our capital requirements increased from US$1,081.1m to US$1,163.2m, primarily reflecting movements in interest rates.

Our investment portfolio remains consistent with our position throughout 2018, with a large allocation to cash and cash equivalents (US$572.7m or 14.4%) and fixed income securities (US$2,750.8m or 69.3%). Brit’s equity allocation stands at US$616.2m or 15.5%. At 30 June 2018, 81.0% of our invested assets were investment grade and the duration of the portfolio was 0.8 years. There is 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.

While we have seen some positive market developments in the period, conditions remain challenging in a number of areas. We also continue to face political and economic uncertainty and challenges. The second half of 2019 is likely to experience weakening GDP growth, with heightened tension around international trade supported by loose monetary policy. However, our strategy and discipline position us well in this environment.’

Mark Allan
Group Chief Financial Officer
31 July 2019

Performance summary and Key performance indicators

	6 months ended 30 June 2019 US$m	6 months ended 30 June 2018 US$m	Year ended 31 December 2018 US$m
Performance summary			
Gross written premium	**1,210.5**	1,150.8	2,239.1
Net earned premium[1]	**804.9**	783.5	1,466.1
Underwriting profit[1, 2]	**43.5**	32.0	(56.9)
Investment return[3]	**94.7**	5.1	82.1
Corporate expenses	**(11.7)**	(13.2)	(20.0)
Finance costs	**(12.5)**	(9.4)	(18.8)
Other items	**13.1**	3.4	(3.4)
Profit on ordinary activities before FX movements and tax	**127.1**	17.9	(181.2)
FX movements[4]	**(4.8)**	(11.0)	(9.1)
Profit on ordinary activities before tax	**122.3**	6.9	(190.3)
Tax	**(2.0)**	6.0	23.8
Profit for the period (after tax)	**120.3**	12.9	(166.5)
Adjusted net tangible assets[5]	**1,083.4**	1,045.7	992.9
Key performance indicators[6]			
Return on net tangible assets before FX movements (RoNTA)[7,8]	**12.6%**	2.3%	(14.4)%
Total value created (US$m)	**US$122.2m**	US$2.0m	US$(175.6)m
Combined ratio[1,2]	**94.4%**	95.9%	103.3%
Investment return (net of external investment related expenses)[8]	**2.4%**	0.1%	(2.0)%
Capital ratio	**129.1%**	143.7%	130.4%

1 Excludes the effect of foreign exchange on non-monetary items.
2 Excludes amount attributable to third party underwriting capital providers.
3 Inclusive of return on investment related derivatives, return on associates and after deducting investment management expenses and third party share of investment return.
4 Includes the effect of foreign exchange on monetary items (US$13.6m) and foreign exchange on non-monetary items (US$2.3m). It also includes the return on FX related derivatives (US$(20.7)m), other than that entered into to manage the Group's Sterling expense base.
5 Adjusted net tangible assets are defined as total equity, less intangible assets net of the deferred tax liability on those intangible assets.
6 A reconciliation of Key Performance Indicators to the Financial Statements is set out on page 44 .
7 RoNTA calculation excludes all FX movements (footnote 4). Based on adjusted net tangible assets (footnote 5).
8 The 30 June figures are non-annualised.

Overview of Results

Brit Limited's ('Brit' or 'the Group') result for the six months ended 30 June 2019 reflects a positive underwriting performance and solid investment returns.

Profit on ordinary activities before FX movements and tax for the six month period totalled US$127.1m (30 June 2018: US$17.9m; 31 December 2018: loss of US$181.2m), profit before tax was US$122.3m (30 June 2018: US$6.9m; 31 December 2018: loss of US$190.3m) and profit after tax was US$120.3m (30 June 2018: US$12.9m; 31 December 2018: loss of US$166.5m).

The combined ratio (CoR), our key underwriting metric, for the six months ended 30 June 2019 was 94.4% (30 June 2018: 95.9%; 31 December 2018: 103.3%). The attritional loss ratio was 56.0% (30 June 2018: 56.5%; 31 December 2018: 57.2%), reflecting loss experience, changes to mix and the impact of rates on earned premium. There was no major loss activity during the period (30 June 2018: none; 31 December 2018: equivalent to 12.0 percentage points (pps) on the combined ratio), while reserve releases of US$1.9m reduced the ratio by 0.6pps (30 June 2018: US$8.9m/1.1pps; 31 December 2018: US$99.3m/6.1pps). Underwriting related fee income totalled US$17.7m, reducing the ratio by 2.2pps (30 June 2018: US$5.8m/0.7pps; 31 December 2018: US$14.0m/0.9pps).

Non-annualised return on net tangible assets (RoNTA), excluding the effects of FX, was 12.6% (30 June 2018: 2.3%; 31 December 2018: 14.4% negative).

The aggregated return on invested assets, net of expenses, for the six months ended 30 June 2019 was US$94.7m, representing a non-annualised return of 2.4% (30 June 2018: US$5.1m/0.1%; 31 December 2018: loss of US$82.1m/2.0%). The key driver of return has been the performance of the equity portfolio, as global indices rebounded. Cash and fixed income portfolio also generated positive income and capital returns, as yields fell substantially.

Foreign exchange losses, net of returns on FX related derivatives, totalled US$4.8m (30 June 2018: losses of US$11.0m; 31 December 2018: losses of US$9.1m).

Adjusted net tangible assets totalled US$1,083.4m (30 June 2018: US$1,045.7m; 31 December 2018: US$992.9m), an increase of 9.1% in the six months to 30 June 2019. Our group total capital resources at 30 June 2019 totalled US$1,501.4m, giving surplus management capital of US$338.2m or 29.1% (30 June 2018: US$446.5m/43.7%; 31 December 2018: US$328.7m/30.4%) over our Group management capital requirement of US$1,163.2m (30 June 2018: US$1,021.0m; 31 December 2018: US$1,081.1m). During the period, the increase in capital requirements reflected the movement in interest rates and foreign exchange rates.

Outlook

A number of factors give us encouragement for the remainder of 2019. In particular, 2019's rate increases of 4.3% building on last year's positive movements, the withdrawal of some capacity and the measures taken by Lloyd's to enforce underwriting discipline and improve market performance. However, conditions remain challenging in a number of areas, with lower than anticipated rate increases and some heightened claims activity on recent years.

We also continue to face political and economic uncertainty and challenges. The second half of 2019 is likely to experience weakening GDP growth, with heightened tension around international trade supported by loose monetary policy.

In this environment, we continue to take action to protect our balance sheet and maintain our underwriting discipline and rigorous risk selection criteria in all areas of the business. We believe our ownership model and clear strategy, uniquely positions us to respond to the opportunities and challenges of today's market.

Underwriting

Overview

Our underwriting result for the period amounted to a profit of US$43.5m (30 June 2018: profit of US$32.0m; 31 December 2018: loss of US$56.9m) and our combined ratio, which excludes the effect of foreign exchange on non-monetary items and amounts attributable to third party underwriting capital providers, was 94.4% (30 June 2018: 95.9%; 31 December 2018: 103.3%).

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

Premiums

	6 months ended 30 June 2019 US$m	6 months ended 30 June 2018 US$m	Increase %	Increase at constant FX rates %
Brit Global Specialty Direct	**838.9**	835.5	0.4	1.9
Brit Global Specialty Reinsurance	**348.1**	302.8	15.0	16.0
Other[1]	**23.5**	12.5	88.0	88.0
Group	**1,210.5**	1,150.8	5.2	6.5

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

Gross written premium (GWP) for the six months ended 30 June 2018 increased by 5.2% to US$1,210.5m (30 June 2018: US$1,150.8m; 31 December 2018: US$2,239.1m). At constant exchange rates the increase was 6.5%. Direct business totalled US$838.9m (30 June 2018: US$835.5m; 31 December 2018: US$1,758.0m), reinsurance US$348.1m (30 June 2018: US$302.8m; 31 December 2018: US$451.7m) and other underwriting US$23.5m (30 June 2018: US$12.5m; 31 December 2018: US$29.4m).

The key drivers of the increase between the six months ended 30 June 2019 and 30 June 2018 are explained further below:

- The Group's underwriting initiatives, launched in recent years, resulted in a US$55.4m increase in GWP, primarily driven by the direct portfolio. The main contributors were Scion (Brit's US MGA) and Brit Global Specialty USA (BGSU), as we continue to expand our overseas distribution capability.
- Other current year premiums have increased by US$33.9m. Increases in our core book reflect targeted growth across our treaty portfolio and core direct classes, partly offset by planned contractions across a number of non-performing classes or segments.
- The reinsurance portfolio has achieved growth of US$45.3m over 2018, with the improving market conditions and rate increases leading to new business opportunities and increased lines on existing business in some of our longest standing and best performing classes. In addition, we have also continued to target growth on our core accounts through increased lines, as clients expand their catastrophe limits.
- Prior year premium development, while still favourable, was US$15.1m lower than in H1 2018.
- A unfavourable exchange rate movement effect of US$14.5m, reflecting the movements during 2018 of the US dollar against a number of currencies in which the Group writes business.

Brit achieved risk adjusted premium rate increases of 4.3% (30 June 2018: 3.5% increase; 31 December 2018: 3.7%), primarily driven by the 2017 and 2018 catastrophe event affected Property, Treaty and Marine classes, in both our London and US portfolios.

The Group retention rate for the period was 79.0% (30 June 2018: 83.5%; 31 December 2018: 80.2%), reflecting the continued focus on our core accounts and our strong market proposition as well as active portfolio management.

Outwards reinsurance

Reinsurance expenditure in the six months ended 30 June 2019 was US$385.3m or 31.8% of GWP (30 June 2018: US$355.2m/30.9%; 31 December 2018: US$756.7m/33.8%). At constant exchange rates the increase was 8.7%. The increase reflects Brit's increased use of proportional treaty protections to provide flexibility in the current environment and to manage net exposure on classes where our risk appetite is lower than the efficient operating scale of the class.

Net earned premium

Net earned premium (NEP) excluding the effects of foreign exchange on non-monetary items, increased by 2.7% to US$804.9m (30 June 2018: US$783.5m; 31 December 2018: US$1,466.1m). At constant exchange rates, the movement was an increase of 4.2%.

This was predominantly driven by top line growth in the reinsurance portfolio, as we continue to pursue growth in our most profitable segments. This is partially offset by reductions in the Direct portfolio, reflecting underwriter action and increased reinsurance cover.

Claims

Claims experience in the six months to 30 June 2018 was in line with expectations. The claims ratio excluding the effect of foreign exchange on non-monetary items was 55.4% (30 June 2018: 55.4%; 31 December 2018: 63.1%).

Claims ratio analysis[1]	**6 months ended 30 June 2019 %**	**6 months ended 30 June 2018 %**	**Year ended 31 December 2018 %**
Attritional claims ratio	**56.0**	56.5	57.2
Major loss ratio	**-**	-	12.0
Reserve release ratio	**(0.6)**	(1.1)	(6.1)
Claims ratio	**55.4**	55.4	63.1

1 Excludes amounts attributable to third party underwriting capital providers.

The attritional claims ratio for the period decreased to 56.0% (30 June 2018: 56.5%; 31 December 2018: 57.2%). This decrease arose from a combination of factors including the impact of prior year premium rate increases, loss experience and changes to business mix.

During the first half of 2019, the Group incurred no claims in respect of major losses (30 June 2018: US$nil; 31 December 2018: US$196.8m or 12.0 claims ratio percentage points).

As part of our quarterly reserving process, we released US$1.9m of claims reserves established for prior year claims, the equivalent of a combined ratio reduction of 0.6pps (30 June 2018: US$8.9m/1.1pps; 31 December 2018: US$99.3m/6.1pps). Favourable attritional reserve development of US$3.8m was partially offset by a small overall net increase of US$1.9m in our 2017 and 2018 major loss estimates.

Underwriting expenses

The expense ratio excluding the effect of foreign exchange on non-monetary items was 39.0% (30 June 2018: 40.5%; 31 December 2018: 40.2%). This comprised commission costs, underwriting related operating expenses, the effect of expense management related FX derivatives and other underwriting income:

- Commission costs: Commission costs for the period, excluding the effect of foreign exchange on non-monetary items, were US$213.4m and the commission expense ratio was 26.6% (30 June 2018: US$217.0m/27.8%; 31 December 2018: US$456.1m/27.8%). This decrease was largely due to changes in business mix.
- Operating expenses: The operating expense ratio was, excluding the effect of foreign exchange on non-monetary items, 12.5% (30 June 2018: 12.7%; 31 December 2018: 12.4%). This comprised the following:
    - Underwriting related operating expenses for the period, excluding the effect of foreign exchange on non-monetary items, were US$119.0m and contributed 14.9pps to the operating expense ratio (30 June 2018: US$106.5m/13.6pps; 31 December 2018: US$216.6m/13.3pps).
    - An expense management related FX derivative returned gains of US$1.5m, reducing the expense ratio by 0.2pps (30 June 2018: US$1.6m/0.2pps; 31 December 2018: loss of US$2.2m/0.1pps). As the majority of Brit's business is in US dollars and the majority of its operating expenses are in Sterling, Brit again took the decision to purchase a forward contract to increase its exposure to Sterling and thereby hedge the Sterling proportion of the Group's expenses.
    - Underwriting related fee income totalled US$17.7m, reducing the expense ratio by 2.2pps (30 June 2018: US$5.8m/0.7pps; 31 December 2018: US$14.0m/0.9pps). The generation of such underwriting-related income, derived from the management of third party underwriting capital and from our MGAs placing business with third parties, is an important part of Brit strategy and has the benefit of assisting Brit in managing its expense base.

Expenses

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

Expense analysis[1]	**6 months ended 30 June 2019 US$m**	**6 months ended 30 June 2018 US$m**	**Year ended 31 December 2018 US$m**
Underlying operating expenses[2]	**132.9**	117.3	231.6
Other expenses[3]	**(1.9)**	1.8	5.1
Total operating expenses	**131.0**	119.1	236.7

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

Underlying operating expenses during the six months ended 30 June 2019 increased by 13.3% to US$132.9m (30 June 2018: US$117.3m; 31 December 2018: US$231.6m). US$5.8m (4.9pps) of this increase represents Ambridge operating expenses, consolidated for the first time during the period. The remainder of the increase relates to targeted expansion and investment in growth areas, increased regulatory levies and increased support costs.

At 30 June 2019 headcount was 640 (excluding Ambridge) (31 March 2019: 624; 31 December 2018: 631; 30 June 2018: 571). The acquisition of Ambridge increased headcount by a further 61 in the period.

As mentioned above, Brit again took the decision to purchase a forward contract to hedge the Sterling proportion of the Group's expenses. This derivative returned gains of US$1.5m in the period, (30 June 2018: US$1.6m; 31 December 2018: loss of US$2.2m), which are included within the underwriting result.

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

Disclosure of operating expenses	**6 months ended 30 June 2019 US$m**	**6 months ended 30 June 2018 US$m**	**Year ended 31 December 2018 US$m**
Acquisition costs	**(71.2)**	(57.3)	(116.2)
Other insurance related expenses	**(48.1)**	(48.6)	(100.5)
Total insurance related expenses	**(119.3)**	(105.9)	(216.7)
Other operating expenses	**(11.7)**	(13.2)	(20.0)
Total operating expenses	**(131.0)**	(119.1)	(236.7)

(Losses)/gains on other financial liabilities

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

(Losses)/gains on other financial liabilities	**6 months ended 30 June 2019 US$m**	**6 months ended 30 June 2018 US$m**	**Year ended 31 December 2018 US$m**
Underwriting vehicle related[1]	**1.6**	(2.5)	4.9
Investment vehicle related[2]	**(7.9)**	-	12.5
Total gains on other financial liabilities	**(6.3)**	(2.5)	17.4

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

Return on invested assets

The aggregated return on invested assets (cash and cash equivalents, investments, investment related derivatives and associated undertakings), net of expenses, for the six months ended 30 June 2019 was US$94.7m or 2.4% non-annualised (30 June 2018: US$5.1m/0.1%; 31 December 2018: loss of US$82.1m/(2.0)%).

The key driver of the return has been the performance of the equity portfolio, which returned US$60.6m as global indices rebounded. Cash and fixed income portfolios also generated a positive return of US$49.7m, with an income return of US$39.1m and capital return of US$10.5m, as yields fell substantially.

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

Investment return	**6 months ended 30 June 2019 US$m**	**6 months ended 30 June 2018 US$m**	**Year ended 31 December 2018 US$m**
Income	**42.3**	31.5	75.5
Realised (losses)/gains	**(55.5)**	53.5	39.6
Unrealised gains/(losses)	**123.5**	(76.3)	(203.4)
Investment return before fees	**110.3**	8.7	(88.3)
Investment management expenses	**(5.9)**	(6.3)	(12.9)
Investment return net of fees	**104.4**	2.4	(101.2)
Investment related derivative return	**(1.4)**	(0.1)	0.1
Third party investors share of investment return	**(7.9)**	-	12.5
Return on associated undertakings	**(0.4)**	2.8	6.5
Total return	**94.7**	5.1	(82.1)
Total return	**2.4%**[1]	0.1%[1]	(2.0)%

1 Non-annualised.

Our associated undertakings produced a negative return of US$0.4m (30 June 2018: positive US$2.8m; 31 December 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$0.2m to this return (30 June 2018: US$0.3m; 31 December 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$0.4m to this return; and
- Ambridge Partners LLC, a leading managing general underwriter of transactional insurance products in which Brit held a 50% share until 18 April 2019, returned US$(1.0)m (30 June 2018: US$2.5m; 31 December 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 six month period, Ambridge generated a positive return for the Group.

Invested assets (cash and cash equivalents, investments, investment related derivatives and associated undertakings) at 30 June 2019 totalled US$3,966.9m (30 June 2018: US$4,148.4m; 31 December 2018: US$4,009.6m). The Group's asset allocation, on a look-through basis, is set out in the table below:

Invested assets	**30 June 2019 US$m**	**30 June 2018 US$m**	**31 December 2018 US$m**
Government debt securities	**1,790.4**	1,882.2	1,577.3
Corporate debt securities	**960.4**	662.5	935.9
Structured products	**17.7**	16.4	16.8
Equity securities	**616.2**	733.9	648.3
Alternative investments	**8.3**	7.8	8.7
Cash and cash equivalents	**572.7**	842.2	819.3
Derivatives (investment related)	**1.2**	3.4	3.3
Total invested assets	**3,966.9**	4,148.4	4,009.6

The portfolio remains consistently positioned, with a large allocation to cash and cash equivalents (US$572.7m/14.4%) and fixed income securities (US$2,750.8m/69.3%). Brit's equity allocation at 30 June 2019 was US$616.2m/15.5%.

At 30 June 2019, 81.0% of our invested assets were investment grade quality (30 June 2018: 78.4%; 31 December 2017: 79.9%) and the duration of the portfolio was 0.8 years (30 June 2018: 0.6 years; 31 December 2018: 0.9 years).

Foreign exchange

We manage our currency exposures to mitigate their impact on solvency rather than to achieve a short-term impact on earnings. We experienced a total foreign exchange loss of US$4.8m in the six months ended 30 June 2019 (30 June 2018: loss of US$11.0m; 31 December 2018: loss of US$9.1m), which comprised:

- An unrealised revaluation gain of US$13.6m (30 June 2018: loss of US$13.8m; 31 December 2017: 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 the weakening of the US dollar which gave rise to a significant gain on our short Canadian dollar position;
- A loss of US$20.7m (30 June 2018: gain of US$7.7m; 31 December 2018: gain of US$8.4m) on derivative contracts which were entered into to help manage the Group's FX exposures and therefore should be viewed in conjunction with our monetary FX movements; and
- An accounting gain of US$2.3m (30 June 2018: loss of US$4.8m; 31 December 2018: loss 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 six months ended 30 June 2019 comprises the un-wind of the credit carried on the balance sheet at 31 December 2018 (US$2.5m), plus the credit balance established during 2019 (US$0.2m).

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

Foreign exchange gains and (losses)	**6 months ended 30 June 2019 US$m**	**6 months ended 30 June 2018 US$m**	**Year ended 31 December 2018 US$m**
Net change in unearned premium provision - non-monetary FX effect	**2.0**	(4.2)	1.9
Acquisition costs - non-monetary FX effect	**(1.0)**	2.1	(0.8)
Net foreign exchange (losses)/gains - non-monetary[1]	**1.3**	(2.7)	(5.9)
Non-monetary - Total	**2.3**	(4.8)	(4.8)
Net foreign exchange losses - monetary[1]	**13.6**	(13.8)	(12.7)
Return on derivative contracts - FX related instruments	**(20.7)**	7.7	8.4
	(7.1)	(6.1)	(4.3)
Total (loss)/gain	**(4.8)**	(11.0)	(9.1)

1 The sum of these two amounts, US$14.9m, is the 'Net foreign exchange losses'/'Net foreign exchange gains' figures per the condensed consolidated income statement.

Tax

Our tax on ordinary activities for 2019 resulted in a tax charge of US$2.0m (30 June 2018: credit of US$6.0m; 31 December 2018: credit of US$23.8m), based on a group profit before tax of US$122.3m (30 June 2018: profit of US$6.9m; 31 December 2018: loss 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, Singapore, Australia and the US. The tax charge is calculated in each legal entity across the Group and then consolidated. Therefore, the Group effective rate is sensitive to the location of taxable profits and is a composite tax rate reflecting the mix of tax rates charged in those jurisdictions.

Balance sheet and capital strength

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

At 30 June 2019, our adjusted net tangible assets totalled US$1,083.4m (30 June 2018: US$1,045.7m; 31 December 2018: US$992.9m), an increase of 9.1% in the period. This increase reflects the result for the period, shares issued, dividends paid and the Ambridge acquisition, where intangible assets were acquired for cash.

Our group capital resources at 30 June 2019 totalled US$1,501.4m, giving surplus management capital of US$338.2m or 29.1% (30 June 2018: US$446.5m/43.7%; 31 December 2018: US$328.7m/30.4%) over our Group management capital requirement of US$1,163.2m (30 June 2018: US$1,021.0m; 31 December 2018: US$1,081.1m). During the period, the increase in capital requirements reflected the movement in interest rates and foreign exchange rates.

Brit has in place a US$450m revolving credit facility (RCF). During the period, the term of the RCF was extended by one year to 31 December 2023. At 30 June 2019, drawings on the RCF were US$127.0m of cash and a US$80.0m uncollateralised letter of credit (LoC) (30 June 2018: US$80.0m LoC of which US$45.0m collateralised; 31 December 2018: US$8.0m cash drawings and US$80.0m uncollateralised LoC). At the date of this report, drawings on the RCF were US$97.0m of cash and the US$80.0m uncollateralised LoC.

In addition, we have in issue £135.0m of 6.625% subordinated debt with a carrying value of £132.0m/ US$168.0m (30 June 2018: £130.1m/ US$171.8m; 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.

At 30 June 2019, Brit's gearing ratio was 30.0% (30 June 2018: 17.0%; 31 December 2018: 22.0%), reflecting the increased drawings on the RCF.

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: 88.04%).

Dividends

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

Business development

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

Brit managed capacity on new initiatives expanded to over US$440m

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

In February, Brit announced the completion of the Versutus 2019 Series. This is the fifth annual renewal and continues the development of the Versutus Ltd (Versutus) vehicle. Versutus offers access to Brit's strong underwriting franchise through two sub series, one covering Worldwide Property Catastrophe Reinsurance business and the other North American Property Binders.

This follows the authorisation of Sussex Capital UK PCC Limited in November 2018, enhancing the Sussex Capital platform originally launched in Bermuda at 1 January 2018. Sussex Capital writes through Sussex Re in Bermuda and will soon start to write through Sussex Capital UK PCC in London, 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 is expected to grow in 2019.

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

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 will retain its independence, continuing to underwrite as a managing general underwriter on behalf of its existing broad Brit-led consortium of Lloyd's syndicates and international insurers.

Sutton Special Risk Inc.

On 2 January 2019, Brit made a significant strategic investment in Sutton Special Risk Inc (Sutton). Sutton is a leading MGU, specializing in Accident & Health business, with over 40 years of experience as a Lloyd's coverholder. Sutton has been an important trading partner for Brit for the last 16 years. Founded in 1978 by William J. Sutton, it underwrites Accident, Health and Special Risk products with a team of 40 employees based in Toronto, New York and London. It has projected premiums for 2019 of over CAD$60m. 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. 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. To facilitate this growth, a comprehensive programme structure is in place to ensure that the strong pipeline of potential growth opportunities can be serviced by sustainable and robust products and processes.

Adoption of aerial imagery for high tech claims service

On 26 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 will allow 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.

Key corporate appointments

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

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

- 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; and

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

Principal risks and risk management

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

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

The key categories of risk include:

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

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

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

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

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.

With significant uncertainties still surrounding Brexit and with potentially unknown economic and political implications for the UK, we continue to monitor developments closely.

Board changes

On 1 January 2019, Mr Gordon Campbell, a non-executive Director since 1 January 2018, was appointed Chairman. He succeeded Mr Mark Cloutier, who stepped down from his role as executive Chairman and from his position on the Board on 31 December 2018.

Ownership

Brit Limited's ultimate parent undertaking is Fairfax Financial Holdings Limited, a company registered in Canada. Fairfax Financial Holdings Limited is quoted on the Toronto Stock Exchange. As at the date of this report, the Fairfax Group owned 89.26% of Brit's ordinary shares, with the remaining 10.74% owned by the OMERS Administration Corporation, administrator of the Ontario Municipal Employees Retirement System (OMERS) pension plans and trustee of the OMERS pension fund.

Auditor review

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

Responsibility statement of the Directors in respect of the Interim Report

We confirm that to the best of our knowledge:

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

Matthew Wilson
Group Chief Executive Officer
31 July 2019

Condensed Consolidated Income Statement

For 6 months ended 30 June 2019

	Note	**Unaudited 6 months ended 30 June 2019 US$m**	Unaudited 6 months ended 30 June 2018 US$m	Audited Year ended 31 December 2018 US$m
Revenue				
Gross premiums written	5	**1,210.5**	1,150.8	2,239.1
Less premiums ceded to reinsurers	5	**(385.3)**	(355.2)	(756.7)
Premiums written, net of reinsurance		**825.2**	795.6	1,482.4
Gross amount of change in provision for unearned premiums		**(159.1)**	(136.2)	(34.4)
Reinsurers' share of change in provision for unearned premiums		**140.8**	119.9	20.0
Net change in provision for unearned premiums		**(18.3)**	(16.3)	(14.4)
Earned premiums, net of reinsurance	5	**806.9**	779.3	1,468.0
Investment return	6	**104.4**	2.4	(101.2)
Return on derivative contracts	7	**(20.6)**	9.2	6.3
Gain on business combination	15	**10.4**	-	-
Other income		**20.4**	8.7	10.6
(Losses)/gains on other financial liabilities		**(6.3)**	(2.5)	17.4
Net foreign exchange gains	9	**14.9**	-	-
Total revenue		**930.1**	797.1	1,401.1
Expenses				
Claims incurred:				
Claims paid:				
Gross amount		**(714.8)**	(663.6)	(1,345.5)
Reinsurers' share		**273.3**	187.0	407.3
Claims paid, net of reinsurance		**(441.5)**	(476.6)	(938.2)
Change in the provision for claims:				
Gross amount		**95.0**	16.7	(290.0)
Reinsurers' share		**(103.3)**	27.4	361.2
Net change in the provision for claims		**(8.3)**	44.1	71.2
Claims incurred, net of reinsurance	5	**(449.8)**	(432.5)	(867.0)
Acquisition costs	10	**(285.3)**	(272.8)	(573.0)
Other operating expenses	10	**(59.8)**	(61.8)	(120.5)
Net foreign exchange losses		**-**	(16.5)	(18.6)
Total expenses excluding finance costs		**(794.9)**	(783.6)	(1,579.1)
Operating profit/(loss)		**135.2**	13.5	(178.0)
Finance costs		**(12.5)**	(9.4)	(18.8)
Share of (loss)/profit after tax of associated undertakings		**(0.4)**	2.8	6.5
Profit/(loss) on ordinary activities before tax		**122.3**	6.9	(190.3)
Tax (expense)/income	11(a)	**(2.0)**	6.0	23.8
Profit/(loss) for the period		**120.3**	12.9	(166.5)

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

Condensed Consolidated Statement of Comprehensive Income

For 6 months ended 30 June 2019

	Note	**Unaudited 6 months ended 30 June 2019 US$m**	Unaudited 6 months ended 30 June 2018 US$m	Audited Year ended 31 December 2018 US$m
Profit/(loss) attributable to owners of the parent		**120.3**	12.9	(166.5)
Other comprehensive income				
Items not to be reclassified to profit or loss in subsequent periods:				
Actuarial gains on defined benefit pension scheme		**-**	-	3.8
Deferred tax charge on actuarial gains on defined benefit pension scheme	11(b)	**-**	-	(0.6)
Items that may be reclassified to profit or loss in subsequent periods:				
Change in unrealised foreign currency translation gains/(losses) on foreign operations		**0.2**	(2.6)	(6.1)
Total other comprehensive income		**0.2**	(2.6)	(2.9)
Total comprehensive income recognised		**120.5**	10.3	(169.4)

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

Condensed Consolidated Statement of Financial Position

As at 30 June 2019

	Note	**Unaudited 30 June 2019 US$m**	Unaudited 30 June 2018 US$m	Audited 31 December 2018 US$m
Assets				
Intangible assets	15	**195.5**	105.9	104.4
Property, plant and equipment	15	**66.7**	18.8	17.4
Deferred acquisition costs		**262.7**	256.3	244.1
Investment in associated undertakings	15	**19.3**	40.4	43.0
Reinsurance contracts	12	**1,739.3**	1,487.6	1,699.8
Employee benefits		**53.8**	48.2	53.1
Deferred taxation		**42.2**	36.2	56.1
Current taxation		**10.2**	9.1	8.3
Financial investments	13	**3,381.9**	3,263.0	3,145.1
Derivative contracts	14	**4.9**	22.0	17.4
Insurance and other receivables		**1,381.2**	1,069.2	1,008.8
Cash and cash equivalents		**563.9**	841.6	818.2
Total assets		**7,721.6**	7,198.3	7,215.7
Liabilities and Equity				
Liabilities				
Insurance contracts	12	**5,347.2**	5,111.8	5,274.1
Borrowings		**295.0**	171.8	174.9
Other financial liabilities		**74.9**	84.0	241.8
Provisions		**3.4**	2.3	2.2
Current taxation		**3.5**	23.7	1.4
Derivative contracts	14	**14.4**	21.3	14.1
Insurance and other payables		**727.7**	643.6	422.2
Total liabilities		**6,466.1**	6,058.5	6,130.7
Equity				
Called up share capital	16	**7.0**	6.5	6.8
Share premium	16	**505.5**	45.7	435.1
Capital redemption reserve		**1.0**	0.2	1.0
Foreign currency translation reserve		**(89.5)**	(86.3)	(89.7)
Retained earnings		**831.5**	1,173.7	731.8
Total equity		**1,255.5**	1,139.8	1,085.0
Total liabilities and equity		**7,721.6**	7,198.3	7,215.7

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

These financial statements were approved by the Board of Directors on 31 July 2019 and were signed on its behalf by:

Matthew Wilson
Group Chief Executive Officer

Mark Allan
Group Chief Financial Officer

Condensed Consolidated Statement of Cash Flows

For 6 months ended 30 June 2019

	Note	**Unaudited 6 months ended 30 June 2019 US$m**	Unaudited 6 months ended 30 June 2018 US$m	Audited Year ended 31 December 2018 US$m
Cash generated from operations				
Cash flows provided by operating activities	18	**(385.5)**	(677.5)	(822.2)
Tax paid		**(2.2)**	(3.2)	(25.6)
Interest received		**28.3**	14.7	45.1
Dividends received		**4.8**	3.7	11.4
Net cash outflows from operating activities		**(354.6)**	(662.3)	(791.3)
Cash flows from investing activities				
Purchase of intangible assets		**(1.7)**	(4.0)	(6.4)
Purchase of property, plant and equipment		**(2.4)**	(0.5)	(1.4)
Acquisition of subsidiary undertaking		**(31.1)**	(15.5)	(15.5)
Acquisition of associated undertaking		**(12.6)**	-	-
Dividends from associated undertakings		**-**	2.5	3.7
Net cash outflows from investing activities		**(47.8)**	(17.5)	(19.6)
Cash flows from financing activities				
Proceeds from issue of shares		**70.6**	45.8	436.3
Drawdown/(repayment) on revolving credit facility		**119.0**	(45.0)	(37.0)
Purchase of class A shares for cancellation		**-**	-	(252.9)
Purchase of shares for share-based payment schemes		**(20.0)**	(0.2)	(11.2)
Interest paid		**(1.9)**	(2.0)	(12.7)
Dividend paid		**(20.6)**	(45.8)	(58.6)
Net cash inflows/(outflows) from financing activities		**147.1**	(47.2)	63.9
Net decrease in cash and cash equivalents		**(255.3)**	(727.0)	(747.0)
Cash and cash equivalents at beginning of the period		**818.2**	1,571.6	1,571.6
Effect of exchange rate fluctuations on cash and cash equivalents		**1.0**	(3.0)	(6.4)
Cash and cash equivalents at the end of the period		**563.9**	841.6	818.2

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

Condensed Consolidated Statement of Changes in Equity

For 6 months ended 30 June 2019

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

For 6 months ended 30 June 2018

	Called up share capital US$m	Share premium US$m	Capital redemption reserve US$m	Foreign currency translation reserve US$m	Retained earnings US$m	Total Equity US$m
At 1 January 2018	6.4	-	0.2	(83.6)	1,207.3	1,130.3
Total comprehensive income recognised	-	-	-	(2.7)	13.0	10.3
Issuance of share capital	0.1	45.7	-	-	-	45.8
Share-based payments	-	-	-	-	(0.8)	(0.8)
Dividend	-	-	-	-	(45.8)	(45.8)
At 30 June 2018	6.5	45.7	0.2	(86.3)	1,173.7	1,139.8

Condensed Consolidated Statement of Changes in Equity (continued)

For year ended 31 December 2018

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

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

Notes to the Condensed Consolidated Interim Financial Statements

1 General information

The condensed consolidated interim financial statements of Brit Limited and its subsidiaries (collectively, the Group) for the six months ended 30 June 2019 were authorised for issue in accordance with a resolution of the Directors on 31 July 2019.

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

2 Accounting policies and basis of preparation

(a) Basis of preparation

The condensed consolidated interim financial statements for the six months ended 30 June 2019 have been prepared in accordance with IAS 34 'Interim Financial Reporting'. The accounting policies applied in these condensed consolidated interim financial statements are consistent with those applied by the Brit Limited Group in its consolidated financial statements as at the year ended 31 December 2018 except for the adoption of IFRS 16 'Leases' described below. The consolidated financial statements as at, and for the year ended 31 December 2018 were compliant with International Financial Reporting Standards as adopted by the European Union.

This 2019 condensed consolidated interim financial information does not comprise statutory accounts within the meaning of Section 434 of the Companies Act 2006. Statutory accounts for Brit Limited, for the year ended 31 December 2018 were prepared in accordance with IFRS and UK company law. IFRS comprises standards issued by the International Accounting Standards Board (IASB) and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and as endorsed by the EU. The consolidated financial statements of the Brit Limited Group for the year ended 31 December 2018 were authorised for issue in accordance with a resolution of the Directors on 13 February 2019.

These condensed consolidated interim financial statements have been prepared in accordance with the Disclosure and Transparency Rules issued by the Financial Conduct Authority. The information presented herein does not include all the disclosures typically required for full consolidated financial statements. Consequently these financial statements should be read in conjunction with the full consolidated financial statements of the Brit Limited Group as at, and for the year ended 31 December 2018 available from the Company's registered office or from www.britinsurance.com.

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

(b) Basis of consolidation

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

Associates are those entities over which the Group has the power to exercise significant influence but not control. The Group's investments in associated undertakings are accounted for under the equity method of accounting whereby associated undertakings are carried in the statement of financial position at cost plus post-acquisition changes in the Group's share of net assets of the associates, less any impairment in value. The Group's investment in associated undertakings also includes goodwill identified on acquisition less any accumulated impairment loss. The income statement reflects the Group's share of the post-acquisition results of operations of the associated undertaking and the statement of comprehensive income reflects the Group's share of the comprehensive income of the associated undertaking. The financial statements of associated undertakings are prepared up to 31 December each year, except for Sutton Special Risk Inc., which has retained its pre-acquisition year end date of 30 September.

2 Accounting policies and basis of preparation (continued)

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

(c) New accounting standards adopted in the period

During the period ended 30 June 2019 the Group adopted IFRS 16 'Leases'. IFRS 16 eliminates the classification of leases as either operating or finance leases for lessees. 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 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 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 3.0%. 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. The lease liability is included within insurance and other payables, and the right-of-use asset is included in Property, plant and equipment.

3 Risk management policies

The Group's financial, insurance and other risk management objectives and policies are consistent with those disclosed in Note 4 to the Group's consolidated financial statements as at and for the year ended 31 December 2018. The principal risks and uncertainties are unchanged and may be summarised as insurance risk, investment risk, market risk, credit risk, liquidity risk, political risk, capital risk and operational risk.

4 Seasonality of operations

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

5 Segmental information

As at 30 June 2019, the reportable segments identified were as follows:

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

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

The Group investment return is managed centrally, and an allocation is made to each of the strategic business units based on the average risk-free interest rate applied to the opening insurance funds of each strategic business unit. The annualised average risk-free rate applied to insurance funds was 1.5% for the six months ended 30 June 2019 (30 June 2018: 1.5%; 31 December 2018: 1.5%).

The ratios set out in the segmental analysis are calculated on page 44 (Reconciliation of key performance indicators to the financial statements). The ratios have also been calculated after eliminating the underwriting result attributable to third party underwriting capital providers.

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

a) Statement of profit or loss by segment

6 months ended 30 June 2019

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

6 months ended 30 June 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	835.4	302.8	12.6	1,150.8	-	1,150.8	-	1,150.8
Less premiums ceded to reinsurers	(287.4)	(77.8)	10.0	(355.2)	-	(355.2)	-	(355.2)
Premiums written, net of reinsurance	548.0	225.0	22.6	795.6	-	795.6	-	795.6
Gross earned premiums	829.3	187.9	2.9	1,020.1	(6.3)	1,013.8	-	1,013.8
Reinsurers' share	(212.9)	(38.4)	14.7	(236.6)	2.1	(234.5)	-	(234.5)
Earned premiums, net of reinsurance	616.4	149.5	17.6	783.5	(4.2)	779.3	-	779.3
Investment return	15.7	5.6	0.5	21.8	-	21.8	(19.4)	2.4
Return on derivative contracts	1.3	0.3	-	1.6	-	1.6	7.6	9.2
Other income	4.9	0.9	-	5.8	-	5.8	2.9	8.7
Losses on other financial liabilities	-	-	(2.5)	(2.5)	-	(2.5)	-	(2.5)
Total revenue	638.3	156.3	15.6	810.2	(4.2)	806.0	(8.9)	797.1
Gross claims incurred	(543.5)	(103.4)	(0.1)	(647.0)	-	(647.0)	-	(647.0)
Reinsurers' share	201.6	21.0	(8.1)	214.5	-	214.5	-	214.5
Claims incurred, net of reinsurance	(341.9)	(82.4)	(8.2)	(432.5)	-	(432.5)	-	(432.5)
Acquisition costs - commission	(186.7)	(28.9)	(1.4)	(217.0)	1.5	(215.5)	-	(215.5)
Acquisition costs - other	(48.0)	(9.0)	(0.9)	(57.9)	0.6	(57.3)	-	(57.3)
Other insurance related expenses	(36.5)	(10.7)	(1.4)	(48.6)	-	(48.6)	-	(48.6)
Other expenses	-	-	-	-	-	-	(13.2)	(13.2)
Net foreign exchange losses	-	-	-	-	(2.7)	(2.7)	(13.8)	(16.5)
Total expenses excluding finance costs	(613.1)	(131.0)	(11.9)	(756.0)	(0.6)	(756.6)	(27.0)	(783.6)
Operating profit/(loss)	25.2	25.3	3.7	54.2	(4.8)	49.4	(35.9)	13.5
Finance costs								(9.4)
Share of profit after tax of associates								2.8
Profit on ordinary activities before tax								6.9
Tax income								6.0
Profit for the period								12.9
Claims ratio	55.2%	55.1%		55.4%				
Expense ratio	43.0%	31.7%		40.5%				
Combined ratio	98.2%	86.8%		95.9%				

12 months ended 31 December 2018

	Brit Global Specialty Direct US$m	Brit Global Specialty Reinsurance US$m	Other Underwriting US$m	Intra Group US$m	Total underwriting excluding the effect of foreign exchange on non-monetary items US$m	Effect of foreign exchange on non-monetary items US$m	Total underwriting after the effect of foreign exchange on non-monetary items US$m	Other corporate US$m	Total US$m
Gross premiums written	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)	(1,564.4)	(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 period									(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%				

6 Investment return

6 Months ended 30 June 2019

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

6 Months ended 30 June 2018

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

Year ended 31 December 2018

	Investment income US$m	Net realised gains US$m	Net unrealised 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

	6 months ended 30 June 2019 US$m	6 months ended 30 June 2018 US$m	Year ended 31 December 2018 US$m
Treasury locks	**-**	0.3	-
Non-currency options	**(1.4)**	(0.4)	0.1
Investment related derivatives	**(1.4)**	(0.1)	0.1
Currency forwards	**(20.7)**	7.7	6.2
Expense management derivatives (currency forward)	**1.5**	1.6	-
Total derivatives	**(20.6)**	9.2	6.3

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

	6 months ended 30 June 2019 US$m	6 months ended 30 June 2018 US$m	Year ended 31 December 2018 US$m
Fees and commission from non-aligned syndicate	**6.4**	**6.9**	13.6
Change in value of other financial liabilities*	**(6.3)**	**(2.5)**	17.4
Change in value of parent company shares held by Brit	**2.7**	**2.8**	(3.4)
Net commission fee income	**8.7**	**-**	-
Other	**2.6**	**(1.0)**	0.4
Total	**14.1**	**6.2**	28.0

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

9 Net foreign exchange gains/(losses)

The Group recognised foreign exchange gains of US$14.9m (30 June 2018: losses of US$16.5m; 31 December 2018: losses of US$18.6m) in the income statement in the period.

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

	6 months ended 30 June 2019 US$m	6 months ended 30 June 2018 US$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	**13.6**	(13.8)	(12.9)
Maintaining UPR/DAC items in the statement of financial position at historic rates	**2.3**	(4.7)	(4.7)
Maintaining UPR/DAC items in the income statement at historic rates	**(1.0)**	2.0	(1.0)
Net foreign exchange gains/(losses)	**14.9**	(16.5)	(18.6)

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

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

	6 months ended 30 June 2019		6 months ended 30 June 2018		Year ended 31 December 2018	
	Average	**Closing**	Average	Closing	Average	Closing
Sterling	**0.773**	**0.786**	0.727	0.757	0.749	0.785
Canadian dollar	**1.333**	**1.307**	1.278	1.315	1.296	1.366
Euro	**0.885**	**0.878**	0.826	0.856	0.847	0.875
Australian dollar	**1.416**	**1.425**	1.297	1.353	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

	6 months ended 30 June 2019			6 months ended 30 June 2018			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	Acquisition costs US$m	Other operating expenses US$m	Total US$m
Salary, pension and social security costs	**34.4**	**30.0**	**64.4**	29.5	27.9	57.4	57.2	53.1	110.3
Other staff related costs	**2.3**	**6.0**	**8.3**	1.5	5.8	7.3	2.8	9.0	11.8
Accommodation costs	**3.4**	**0.7**	**4.1**	3.5	3.4	6.9	7.1	7.2	14.3
Legal and professional charges	**2.8**	**3.0**	**5.8**	1.0	2.7	3.7	1.9	7.6	9.5
IT costs	**0.9**	**9.9**	**10.8**	0.7	9.6	10.3	1.4	19.2	20.6
Travel and entertaining	**2.2**	**1.1**	**3.3**	2.1	1.6	3.7	4.2	3.3	7.5
Marketing and communications	**0.3**	**0.8**	**1.1**	0.2	0.5	0.7	0.7	1.2	1.9
Amortisation and impairment of intangible assets	**0.2**	**3.6**	**3.8**	-	3.2	3.2	0.1	6.2	6.3
Depreciation and impairment of property, plant and equipment	**0.7**	**3.6**	**4.3**	0.2	2.2	2.4	0.3	4.0	4.3
Regulatory levies and charges	**22.9**	**-**	**22.9**	20.6	-	20.6	39.2	-	39.2
Other	**1.1**	**1.1**	**2.2**	(2.0)	4.9	2.9	1.3	9.7	11.0
Expenses before commissions	**71.2**	**59.8**	**131.0**	57.3	61.8	119.1	116.2	120.5	236.7
Commission costs	**214.1**	**-**	**214.1**	215.5	-	215.5	456.8	-	456.8
Total acquisition costs and other operating expenses	**285.3**	**59.8**	**345.1**	272.8	61.8	334.6	573.0	120.5	693.5

11 Tax (expense)/income

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

	6 months ended 30 June 2019 US$m	6 months ended 30 June 2018 US$m	Year ended 31 December 2018 US$m
Current tax:			
Current tax on income for the period	**1.0**	(12.4)	(12.9)
Overseas tax on income for the period	**(1.1)**	(1.4)	(4.5)
	(0.1)	(13.8)	(17.4)
Double tax relief	**0.6**	0.5	1.1
Adjustments in respect of prior years	**0.5**	3.9	4.9
Total current tax	**1.0**	(9.4)	(11.4)
Deferred tax:			
Relating to the origination and reversal of temporary differences	**(4.0)**	15.3	34.9
Adjustments in respect of prior years	**1.0**	0.1	0.3
Total deferred tax	**(3.0)**	15.4	35.2
Total tax (charged) / credited to income statement	**(2.0)**	6.0	23.8

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

(b) Tax charged to other comprehensive income

	6 months ended 30 June 2019 US$m	6 months ended 30 June 2018 US$m	Year ended 31 December 2018 US$m
Deferred tax charge on actuarial gains on defined benefit pension scheme	**-**	-	(0.6)

12 Insurance and reinsurance contracts

Balances on insurance and reinsurance contracts

	30 June 2019 US$m	30 June 2018 US$m	31 December 2018 US$m
Gross:			
Insurance contracts			
Claims reported and loss adjustment expenses	**1,735.1**	1,728.5	1,719.4
Claims incurred but not reported	**2,527.3**	2,355.9	2,629.1
	4,262.4	4,084.4	4,348.5
Unearned premiums	**1,084.8**	1,027.4	925.6
Total gross liabilities	**5,347.2**	5,111.8	5,274.1
Recoverable from reinsurers:			
Reinsurance contracts			
Claims reported and loss adjustment expenses	**593.2**	512.8	639.0
Claims incurred but not reported	**752.0**	622.4	807.5
Impairment provision	**-**	(0.8)	-
	1,345.2	1,134.4	1,446.5
Unearned premiums	**394.1**	353.2	253.3
Total reinsurers' share of liabilities	**1,739.3**	1,487.6	1,699.8
Net:			
Claims reported and loss adjustment expenses	**1,141.9**	1,215.7	1,080.4
Claims incurred but not reported	**1,775.3**	1,733.5	1,821.6
Impairment provision	**-**	(0.8)	-
	2,917.2	2,948.4	2,902.0
Unearned premiums	**690.7**	674.2	672.3
Total net insurance liabilities	**3,607.9**	3,622.6	3,574.3

The net aggregate reserve releases from prior years amounted to US$1.9m (June 2018: US$8.9m; December 2018: US$99.3m). In part this arises from the Group's reserving philosophy which reflects a conservative best estimate, reserving prudently for the most recent years where the outcome is most uncertain, leaving a potential for subsequent release.

13 Financial investments

	30 June 2019 US$m	30 June 2018 US$m	31 December 2018 US$m
Equity securities	**369.1**	623.9	575.8
Debt securities	**2,740.7**	2,544.5	2,513.1
Specialised investment funds	**272.1**	94.6	56.2
	3,381.9	3,263.0	3,145.1

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

13 Financial investments (continued)

Basis for determining the fair value hierarchy of financial instruments

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

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

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

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

Fair values for level two and level three assets include:

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

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

Valuation techniques

Level one

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

Level two

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

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

13 Financial investments (continued)

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

Level three

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

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

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

Disclosures of fair values in accordance with the fair value hierarchy

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

	30 June 2018			
	Level 1 US$m	Level 2 US$m	Level 3 US$m	Total US$m
Equity securities	397.2	78.0	148.7	623.9
Debt securities	974.3	1,497.8	72.4	2,544.5
Specialised investment funds	-	79.6	15.0	94.6
	1,371.5	1,655.4	236.1	3,263.0

	31 December 2018			
	Level 1 US$m	Level 2 US$m	Level 3 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

13 Financial investments (continued)

All unrealised gains of US$123.5m (30 June 2018: losses of US$76.3m; 31 December 2018: losses of US$203.4m) and realised losses of US$55.5m (30 June 2018: gains of US$53.5m; 31 December 2018: gains of US$39.6m) on financial investments held during the period, are presented in investment return in the consolidated income statement.

Transfers between fair value levels

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

Transfer from level one to level two

There were no transfers from fair value hierarchy level one to level two (30 June 2018: US$10.2m; 31 December 2018: none).

Transfer from level one to level three

There were no transfers from fair value hierarchy level one to level three (30 June 2018: US$17.2m; 31 December 2018: US$17.2m).

Transfer from level two to level one

There were no transfers from fair value hierarchy level two to level one (30 June 2018: US$104.0m; 31 December 2018: US$62.0m).

Transfer from level three to level two

There were no transfers from fair value hierarchy level three to level two (30 June 2018: US$70.7m; 31 December 2018: US$29.8m).

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

	Equity securities US$m	Debt securities US$m	Specialised investment funds US$m	Total US$m
At 1 January 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 losses	(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	**1.5**	**(15.7)**	**2.4**	**(11.8)**
Purchases	**31.9**	**14.2**	**-**	**46.1**
Sale	**(2.4)**	**(27.9)**	**-**	**(30.3)**
Foreign exchange gains	**0.8**	**0.4**	**-**	**1.2**
At 30 June 2019	**172.3**	**14.7**	**17.2**	**204.2**

Total net losses recognised in the income statement under 'investment return' in respect of level three financial investments for the period amounted to US$11.8m (30 June 2018: US$0.4m; 31 December 2018: US$39.7m). Included in this balance are US$4.0m unrealised gains (30 June 2018: gains of US$0.4m; 31 December 2018: losses of US$7.3m) attributable to assets still held at the end of the period.

13 Financial investments (continued)

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

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

	30 June 2019		30 June 2018		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	Carrying amount US$m	Effect of possible alternative assumptions (+/-) US$m
Equity securities	**172.3**	**3.4**	148.7	0.5	140.5	6.1
Debt securities	**14.7**	**1.5**	72.4	0.6	43.7	4.4
Specialised investment funds	**17.2**	**0.6**	15.0	0.3	14.8	0.3
	204.2		236.1		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 period. This has resulted in an average expected percentage change due to the change in assumptions, which forms the basis of this analysis.

14 Derivative contracts

Derivative contract assets	**30 June 2019 US$m**	30 June 2018 US$m	31 December 2018 US$m
Currency forwards	**3.1**	18.4	13.8
Options	**1.5**	0.5	1.1
Call and put option over Ambridge Partners LLC	**-**	2.9	2.5
Call and put option over Camargue Underwriting Managers Proprietary Limited	**0.3**	0.2	-
	4.9	22.0	17.4

Derivative contract liabilities	**30 June 2019 US$m**	30 June 2018 US$m	31 December 2018 US$m
Currency forwards	**(14.4)**	(21.3)	(13.9)
Call and put option over Camargue Underwriting Managers Proprietary Limited	**-**	-	(0.2)
	(14.4)	(21.3)	(14.1)

14 Derivative contracts (continued)

Disclosures of fair values in accordance with the fair value hierarchy

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

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

	31 December 2018		
	Level 2 US$m	Level 3 US$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 company's derivative contracts are based primarily on non-binding third party broker-dealer quotes that are prepared using Level two inputs. Where third party broker-dealer quotes are used, typically one quote is obtained from a broker-dealer with particular expertise in the instrument being priced.

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

Level three

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

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

14 Derivative contracts (continued)

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

	Options US$m
At 1 January 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	**(1.4)**
Foreign exchange losses	**(0.1)**
At 30 June 2019	**1.8**

15 Business combinations

Sutton Special Risk Inc

On 8 January 2019 Brit Insurance Holdings Limited acquired 49% of the issued shares of Sutton Special Risk Inc (Sutton) for a total purchase consideration of CAD$17.2m and entered into a forward contract to purchase the remaining 51% in 2024. Sutton is a Toronto--based MGU, specialising in Accident and Health business.

The summarised statement of financial position of Sutton and reconciliation to the carrying amount is as follows:

Statement of financial position	**30 June 2019 US$m**
Current assets	**18.3**
Non-current assets	**1.5**
Total assets	**19.8**
Current liabilities	**15.4**
Non-current liabilities	**2.2**
Total liabilities	**17.6**
Net assets	**2.2**
51% not owned by Brit	**(1.1)**
Acquisition fair value, result since acquisition and other adjustments	**11.9**
Carrying value	**13.0**

Income statement	**30 June 2019 US$m**
Commission revenue	**4.5**
Operating expenses	**(3.7)**
Net profit	**0.8**
51% not owned by Brit	**0.4**
Share of net profit of associate	**0.4**

15 Business combinations (continued)

Ambridge Partners LLC

On 18 April 2019 the Brit Group exercised a call option to acquire the remaining 50% of the issued shares of Ambridge Partners LLC (Ambridge) for a total purchase consideration of US$46.6m, following the initial acquisition of 50% in December 2015. Ambridge is a leading MGU of transactional 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 profits 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$10.4m being recorded in the Income Statement ('Gain on business combination') for the six months ending 30 June 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	**46.0**
Property, plant and equipment	**0.5**
Cash and cash equivalents	**15.5**
Trade receivables	**59.8**
Other receivables	**0.8**
	122.6
Liabilities	
Deferred tax liability	**10.2**
Trade payables	**61.9**
Other payables	**3.7**
	75.8
Net identifiable assets acquired	**46.8**
Add: goodwill	**46.4**
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 is underway to determine the allocation of the purchase price, including the identification and valuation of acquired intangible assets. The provisional findings of this exercise, which are the subject of ongoing analysis and therefore subject to change under the provisions of IFRS 3, have identified US$46.0m of acquired intangible assets and US$46.4m 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 amount of revenue and profit contributed by the acquired business for the period from 18 April 2019 to 30 June 2019 was not material to the Brit Group.

16 Share Capital

	30 June 2019 US$m	30 June 2018 US$m	31 December 2018 US$m	30 June 2019 1p each Number	30 June 2018 1p each Number	31 December 2018 1p each Number
Ordinary shares:						
Allotted, Issued and fully paid	**7.0**	6.5	6.8	**446,977,185**	398,263,282	430,549,278

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 has been recorded in the share premium account.

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 has been recorded in the share premium account.

As at 30 June 2019 48,000,000 ordinary shares were classified as Class A Ordinary Shares and the remainder classified as Class B Ordinary Shares. The class A and B ordinary shares rank *pari passu* except that on a distribution of profits by the Company, the class A shareholder is entitled to a cumulative annual dividend which must be settled ahead of any equivalent distribution to the class B shareholder.

17 Dividends

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. (30 June 2018: US$45.8m/0.43 per share).

18 Cash flows provided by operating activities

	6 months ended 30 June 2019 US$m	6 months ended 30 June 2018 US$	Year ended 31 December 2018 US$
Profit/(loss) on ordinary activities before tax	**122.3**	6.9	(190.3)
Adjustments for non-cash movements:			
Realised and unrealised (gains)/losses on investments	**(68.0)**	23.0	163.8
Realised and unrealised losses/(gains) on derivatives	**20.6**	(9.2)	(6.3)
Amortisation of intangible assets	**3.8**	3.2	6.3
Depreciation of property, plant and equipment	**4.7**	2.3	4.3
Foreign exchange (gains)/losses on cash and cash equivalents	**(1.0)**	2.7	6.1
Share of loss/(profit) after tax of associated undertakings	**0.4**	(2.8)	(6.5)
Unrealised (gains)/losses on shares held for share based payments	**(2.7)**	(2.5)	3.4
Charges in respect of share-based payment schemes	**4.0**	2.6	1.7
Interest income	**(39.1)**	(28.2)	(64.1)
Dividend income	**(3.2)**	(3.4)	(11.4)
Finance costs on borrowing	**12.5**	9.4	18.8
Movement in operating assets and liabilities:			
Deferred acquisition costs	**(18.6)**	(20.6)	(8.4)
Insurance and other receivables excluding accrued income	**(291.4)**	(158.0)	(95.7)
Insurance and reinsurance contracts	**33.6**	(53.6)	(103.5)
Financial investments	**(165.1)**	(567.3)	(587.2)
Derivative contracts	**(7.8)**	14.4	8.8
Other financial liabilities	**(166.9)**	20.1	159.7
Insurance and other payables	**174.5**	84.0	(117.4)
Employee benefits	**0.7**	(0.6)	(4.5)
Provisions	**1.2**	0.1	0.2
Cash flows provided by operating activities	**(385.5)**	(677.5)	(822.2)

19 Related party transactions

(a) Ultimate Parent Company

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

(b) Fairfax Financial Holdings Limited

In June 2015, Hamblin Watsa Investment Counsel Limited (HWIC), an affiliate of FFHL, was appointed as an investment manager to a number of Group companies. The Group incurred and paid investment management fees to HWIC of US$4.4m (30 June 2018: US$4.6m; 31 December 2018: US$10.3m).

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

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

19 Related party transactions (continued)

	6 months to 30 June 2019 US$m	6 months to 30 June 2018 US$m	Year to 31 December 2018 US$m
Gross premiums written	**34.8**	7.2	17.8
Less premiums ceded to reinsurers	**(9.7)**	(6.0)	(182.2)
Premiums written, net of reinsurance	**25.1**	1.2	(164.4)
Gross amount of change in provision for unearned premiums	**(13.5)**	(1.3)	(1.5)
Reinsurers' share of change in provision for unearned premiums	**5.2**	(0.2)	(0.1)
Net change in provision for unearned premiums	**(8.3)**	(1.5)	(1.6)
Earned premiums, net of reinsurance	**16.8**	(0.3)	(166.0)
Gross claims paid	**(7.5)**	(2.5)	(3.1)
Reinsurers' share of claims paid	**22.4**	4.0	9.7
Claims paid, net of reinsurance	**14.9**	1.5	6.6
Gross change in the provision for claims	**(2.6)**	(14.9)	(10.1)
Reinsurers' share of change in the provision for claims	**(19.8)**	(3.8)	151.7
Net change in the provision for claims	**(22.4)**	(18.7)	141.6
Commission income	**(0.1)**	0.6	0.5
Commission expense	**(4.2)**	(1.9)	(4.7)

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

	30 June 2019 US$m	30 June 2018 US$m	31 December 2018 US$m
Debtors arising out of reinsurance operations			
Insurance premium receivable	**28.0**	7.2	22.8
Recoverable from reinsurers	**177.7**	42.7	197.7
Creditors arising out of reinsurance operations			
Payable to reinsurers	**(7.2)**	(2.1)	(0.9)
Unpaid claims liabilities	**(53.9)**	(56.3)	(51.3)
Deferred acquisition costs	**5.0**	2.3	1.9
Gross unearned premiums	**(19.9)**	(8.2)	(8.4)
Unearned premium recoverable from reinsurers	**5.7**	0.4	0.5

(c) Associated undertakings

Sutton Special Risk Inc.

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

Trading with Sutton is undertaken on an arm's-length basis and is settled in cash. The amounts in the income statement relating to trading with Sutton for the period ended 30 June 2019 were not material.

Amounts recorded in the statement of financial position in respect of premium net of commissions due from, and fees payable to Sutton as at 30 June 2019 were not material.

19 Related party transactions (continued)

Camargue Underwriting Managers Proprietary Limited

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

Trading with Camargue is undertaken on an arm's-length basis and is settled in cash. The amounts in the income statement relating to trading with Camargue for the period ended 30 June 2019 included commission for introducing insurance business of US$1.5m (30 June 2018: US$1.5m; 31 December 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 30 June 2019, 30 June 2018 and 31 December 2018 were not material.

(d) Subsidiary undertakings

On 30 April 2018 Brit Insurance USA Holdings Inc acquired 100% of the issued shares of Commonwealth Insurance Company of America (CICA) from TIG Insurance Company, a member of the Fairfax group, for a total purchase consideration of US$16.4m. CICA is a US admitted carrier that enables Brit to access a wider range of US underwriting opportunities in the future.

Reconciliation of Key Performance Indicators to the Financial Statements

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

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

	Comment / financial statements reference	**30 June 2019 US$m**	**30 June 2018 US$m**	**31 December 2018 US$m**
PAT	Consolidated income statement	**120.3**	12.9	(166.5)
Add back: Tax adjusted amortisation	Amortisation of intangibles, adjusted by the tax rate	**3.7**	2.6	5.2
Add back: Tax adjusted FX	FX effect for the period, adjusted by the tax rate	**4.8**	9.0	10.2
PAT, adjusted for RoNTA calculation		**128.8**	24.5	(151.1)
Adjusted NTA at start of period	See 'Total Value Created' section below.	**992.9**	1,043.7	1,043.7
External distributions and share issuances	Weighted adjustment to reflect distributions during the period.	**25.9**	-	5.5
NTA, adjusted for RoNTA calculation		**1,018.8**	1,043.7	1,049.2
RoNTA		**12.6%**	2.3%	(14.4)%

(ii) Total value created

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

	Comment / financial statements reference	**30 June 2019 US$m**	**30 June 2018 US$m**	**31 December 2018 US$m**
Total equity	Consolidated statement of financial position	**1,255.5**	1,139.8	1,085.0
Less: Intangible assets	Consolidated statement of financial position	**(195.5)**	(105.9)	(104.4)
Net tangible assets		**1,060.0**	1,033.9	980.6
Add back deferred tax liability on intangible assets		**23.4**	11.8	12.3
Adjusted net tangible assets		**1,083.4**	1,045.7	992.9
Adjusted NTA at end of period		**1,083.4**	1,045.7	992.9
Less: Adjusted NTA at start of period		**(992.9)**	(1,043.7)	(1,043.7)
Movement in adjusted NTA		**90.5**	2.0	(50.8)
Less: Issuance of share capital, repurchase of share capital and dividend paid	Consolidated statement of changes in equity	**(50.0)**	-	(124.8)
Add: Intangibles created on the acquisition of Ambridge	Note 15 (Business combinations)	**92.4**	-	-
Less: Deferred tax on intangibles created on the acquisition of Ambridge		**(10.7)**	-	-
Total value created		**122.2**	2.0	(175.6)

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

(iii) Underwriting ratios

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

	Comment / financial statements reference	**30 June 2019 US$m**	**30 June 2018 US$m**	**31 December 2018 US$m**
Earned premium, net of reinsurance	Note 5: Segmental information	**804.9**	783.5	1,466.1
Adjustments for third party share of vehicles	See note (i) below	**(5.6)**	(5.6)	(18.8)
Adjustment for loss portfolio reinsurance	See note (ii) below	**-**	-	186.3
Adjusted earned premium, net of reinsurance		**799.3**	777.9	1,633.6
Attritional losses		**(451.7)**	(441.4)	(751.8)
Major claims		**-**	-	(214.5)
Reserve releases		**1.9**	8.9	99.3
Claims incurred, net of reinsurance	Note 5: Segmental information	**(449.8)**	(432.5)	(867.0)
Attritional losses - Adjustments for third party share of vehicles	See note (i) below	**3.8**	1.9	3.1
Attritional losses - Adjustment for loss portfolio reinsurance	See note (ii) below	**-**	-	(186.3)
Major losses - Adjustments for third party share of vehicles	See note (i) below	**-**	-	17.7
Reserve releases - Adjustments for third party share of vehicles	See note (i) below	**3.5**	-	0.8
Adjusted claims incurred, net of RI		**(442.5)**	(430.6)	(1,031.7)
Acquisition costs - commissions	Note 5: Segmental information	**(213.4)**	(217.0)	(456.1)
Acquisition costs - other and Other insurance related expenses	Note 5: Segmental information	**(119.0)**	(107.5)	(216.6)
Other income		**17.7**	8.7	14.0
Acquisition costs – commissions - Adjustments for third party share of vehicles	See note (i) below	**0.5**	-	1.9
Acquisition costs - other and Other insurance related expenses Adjustments for third party share of vehicles	See note (i) below	**0.2**	0.5	0.2
Adjusted underwriting expenses		**(314.0)**	(315.3)	(656.6)
Derivative contracts		**1.5**	-	(2.2)
Adjusted Underwriting profit/(loss)		**44.3**	32.0	(56.9)
Attritional loss ratio	Attritional losses / Earned premium, net of reinsurance	**56.0%**	56.5%	57.2%
Major claims ratio	Major claims / Earned premium, net of reinsurance	**-**	-	12.0%
Reserve release ratio	Reserve releases / Earned premium, net of reinsurance	**(0.6)%**	(1.1)%	(6.1)%
Claims ratio	Note 5: Segmental information	**55.4%**	55.4%	63.1%
Commission ratio	Acquisition costs - commissions	**26.5%**	27.8%	27.8%
Operating expense ratio	Acquisition costs - other and Other insurance related expenses	**12.5%**	12.7%	12.4%
Underwriting expense ratio	Note 5: Segmental information	**39.0%**	40.5%	40.2%
Combined ratio	Claims ratio + Underwriting expense ratio; Note 5: Segmental information	**94.4%**	95.9%	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 lines 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.

(iv) Investment return

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

	Comment / financial statements reference	30 June 2019 US$m	30 June 2018 US$m	31 December 2018 US$m
Share of net (loss)/profit of associates	Note 5: Segmental information	**(0.4)**	2.8	6.5
Return on financial investments and cash and cash equivalents	Note 6: Investment return	**104.4**	2.4	(101.2)
Return on investment related derivatives	Note 7: Return on derivative contracts	**(1.4)**	(0.1)	0.1
Third part share of investment return	Note 5: Segmental information (Losses)/gains on other financial liabilities)	**(7.9)**	-	12.5
Return on invested assets		**94.7**	5.1	(82.1)
Investment in associated undertakings	Consolidated statement of financial position	**19.3**	40.4	43.0
Financial investments	Note 13: Financial investments	**3,381.9**	3,263.0	3,145.1
Derivative contracts (investment related)	Note 14: Derivative contracts	**1.8**	3.6	3.3
Cash and cash equivalents	Consolidated statement of financial position	**563.9**	841.6	818.2
Invested assets		**3,966.9**	4,148.6	4,009.6
Opening invested assets		**4,009.6**	4,316.1	4,316.1
Closing invested assets		**3,966.9**	4,148.6	4,009.6
Average invested assets		**3,988.3**	4,232.4	4,162.9
Return (%)	Return on invested assets / Average invested assets	**2.4%**	0.1%	(2.0)%

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

(v) Capital ratio

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

	Comment / financial statements reference	30 June 2019 US$m	30 June 2018 US$m	31 December 2018 US$m
Total equity	Consolidated statement of financial position	**1,255.5**	1,139.8	1,085.0
Less: Intangible assets	Consolidated statement of financial position	**(195.5)**	(105.9)	(104.4)
Net tangible assets		**1,060.0**	1,033.9	980.6
Add: Deferred tax liability on intangible assets		**23.4**	11.8	12.3
Adjusted net tangible assets		**1,083.4**	1,045.7	992.9
Subordinated debt		**168.0**	171.8	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	250.0
Total available capital resources		**1,501.4**	1,467.5	1,409.8
Management entity capital requirements	The capital required by an entity for business strategy and regulatory requirements.	**(1,163.2)**	(1,021.0)	(1,081.1)
Excess of resources over management entity capital requirements		**338.2**	446.5	328.7
Capital ratio		**129.1%**	143.7%	130.4%

Company information

Directors

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

* Mr Campbell was appointed a non-executive Director on 1 January 2018. On 1 January 2019, he was appointed Chairman.

Group Company Secretary

Mr Tim Harmer

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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

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