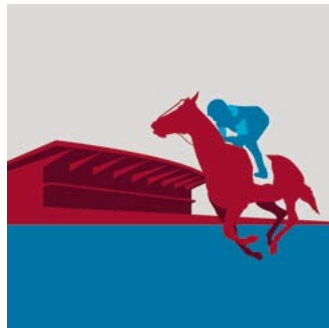




SEEING THE DIFFERENCE

AT BRIT WE BELIEVE THAT SEEING THE DIFFERENCE MAKES THE DIFFERENCE. WE ARE A LLOYD'S INSURER BUILT AROUND DEEP SPECIALISMS THAT WE DEPLOY TO PROVIDE DIFFERENTIATED PRODUCTS AND SOLUTIONS FOR OUR CLIENTS. WE ARE SUCCESSFUL WHEN OUR CLIENTS SEE THE DIFFERENCE WE MAKE TO THEIR COMPLEX CHALLENGES, WHICH IN TURN ALLOWS US TO GENERATE SUSTAINABLE, LONG-TERM VALUE.

AS A BUSINESS OUR CORE VALUES ARE TO DELIVER ON OUR COMMITMENTS AND ACTIVELY MANAGE RISK TO MAXIMISE RESULTS. THESE VALUES UNDERPIN WHAT WE DO, HOW WE OPERATE AND FORM THE BASIS OF OUR KEY OBJECTIVE OF DELIVERING LONG-TERM VALUE CREATION.

STRATEGIC REPORT

The Strategic Report contains information about the Group, how we make money and how we run the business. It gives an insight into our markets, approach to governance, sustainability and risk management. It provides context for our financial statements, sets out our key performance indicators and analyses our financial performance.

GOVERNANCE

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

FINANCIAL STATEMENTS

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

ADDITIONAL INFORMATION

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

GLOSSARY

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

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Disclaimer

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

STRATEGIC REPORT

THIS STRATEGIC REPORT CONTAINS INFORMATION ABOUT OUR BUSINESS AND PROVIDES AN INSIGHT INTO HOW WE OPERATE AND OUR APPROACH TO SUSTAINABILITY AND RISK MANAGEMENT. IT PROVIDES CONTEXT FOR OUR FINANCIAL STATEMENTS, SETS OUT OUR KEY PERFORMANCE INDICATORS AND ANALYSES OUR FINANCIAL PERFORMANCE.

4

OFFICER STATEMENTS

Mark Cloutier, our Group Executive Chairman, Matthew Wilson, our Group CEO, and Mark Allan, our CFO, comment on the Group's performance and business development during 2017 and look ahead to 2018.

8

OUR UNDERWRITING

We discuss our underwriting philosophy and the Brit offering.

22

FINANCIAL PERFORMANCE REVIEW

We set out our key performance indicators (KPIs). We explain how we use them to monitor our business and outline their performance from 2013 to 2017. We then provide an analysis of the performance of our business during 2017.

40

PRINCIPAL RISKS AND UNCERTAINTIES

We set out our risk management framework and explain how we will manage the principal risks facing our business in 2018 to ensure we deliver our strategic priorities.

6

BRIT AT A GLANCE

We introduce the Brit Group, explain who we are and what we do. We examine our track record, financial strength and look ahead to 2018.

17

UNDERWRITING REVIEW

We discuss our 2017 underwriting performance and business development.

37

FINANCIAL POSITION AND CAPITAL STRENGTH

We review our financial position at 31 December 2017 and our balance sheet strength. This section includes a discussion of our investment portfolio.

44

EMPLOYEE, SOCIAL, COMMUNITY AND ENVIRONMENTAL MATTERS

We provide information on our people and on social and community matters, to the extent that it is necessary to understand our business.

This Strategic Report was approved by the Board on 14 February 2018.

Matthew Wilson
Group Chief Executive Officer

Mark Allan
Chief Financial Officer



OFFICER STATEMENTS



Against the backdrop of the second most costly natural catastrophe year on record and challenging market conditions, Brit has delivered a profitable overall performance in 2017. Our return on adjusted net tangible assets before FX, which we see as a key indicator of our

performance, was a positive 1.1% and we created a total value of US\$24.7m. The impact of the major losses was offset by a profits from our other underwriting and an excellent performance from our investment portfolio.

We have continued to focus on our core fundamentals of leadership, innovation and distribution and have maintained our strategy of remaining well diversified while adopting a defensive stance to protect our business and preserve capital. This approach has served us well and, I believe, will continue to do so.

We believe that our underlying performance continues to show that we have the right operating model, underwriting approach and corporate culture, to not only operate successfully through the current difficult market conditions but also to be ready to take full advantage of emerging opportunities as trading conditions begin to improve.'

Mark Cloutier Group Executive Chairman

14 February 2018



2017 was dominated by the scale and multiplicity of natural catastrophes from hurricanes, earthquakes and wildfires, resulting in significant human and economic consequences in the regions affected. Our products have responded to these events, supporting

numerous businesses and individuals to get back on their

feet in these difficult times. Our focus has been on providing an outstanding claims service and we have been pro-active in ensuring our customers' needs have been at the forefront of our actions. The net impact of these events on Brit was US\$250.0m, or 16.2pps of our 112.4% combined ratio. This was in line with our expectations given the nature and scale of the events and our market share.

Market conditions have, as expected, remained difficult during 2017, with Brit experiencing an overall rate reduction of 1.3%, albeit lower than the 3.3% reduction in 2016. Against this backdrop, we have maintained our rigorous risk selection in the classes experiencing pressure and continue to focus growth efforts in classes experiencing more favourable rating conditions. This strategy resulted in a respectable attritional ratio of 56.4%.

Our premium written grew by 8.2% at constant exchange rates over 2016, to US\$2,057.0m. This was driven by positive back year premium development, our initiatives to broaden our distribution base and ongoing development of our core business. We continue to add specialty underwriting talent in targeted areas and in 2017 have strengthened our US program capability, launched a new US cyber and technology team, and expanded our US Yacht and US Professional Lines offerings.

During 2017, it was particularly pleasing to see our US operation, BGSU, reach the milestone of writing over US\$1bn of premium since its formation in 2009. BGSU has reached this milestone by delivering strong, profitable organic growth with a focus on niche areas where it has significant expertise and experience.

The successful launch in 2017 of Brit Syndicate 2988, together with its increased capacity for 2018, reinforces our long-term commitment to the Lloyd's market and ambition to use its infrastructure to expand our current position as the largest Lloyd's only insurer. It will also help us further position Brit as Lloyd's 'underwriting leader of choice', building on our existing strength across underwriting, claims and capital management and track record of delivering attractive returns for capital providers.

In December we launched a new Bermuda-domiciled collateralised reinsurance platform, Sussex Capital, with initial funding of US\$102.5m. From 2018, Sussex Capital will write direct collateralised reinsurance while also providing collateralised reinsurance to Brit's Syndicate 2987. Its launch strengthens Brit's reinsurance capability, provides access to a diversified source of capital and further enhances our client and broker proposition.

While the outlook for 2018 is more positive with some encouraging signs of rate improvements in certain classes, we remain in a fiercely competitive market environment. Notwithstanding, we believe that with highly disciplined underwriting and our strategic focus on market leadership, innovation in product and process, and the broadening of local product distribution, we can look to the future with confidence.'

Matthew Wilson Group Chief Executive Officer
14 February 2018



'During 2017, Brit delivered a profit after tax of US\$21.5m, against a backdrop of significant catastrophe activity, strong competition and continued pricing pressures. Total value created during the period was US\$24.7m.

Claims arising from the major loss activity totalled US\$250.0m, increasing the combined ratio by 16.2pps to 112.4%. Our attritional and expense ratios of 56.4% and 40.4% respectively were relatively stable despite the challenging market conditions, while reserve releases of US\$9.6m after incorporating the effects of the Ogden rate change continue to demonstrate our conservative reserving approach.

Our net investment return was an outstanding US\$204.2m, representing a return of 4.9%, driven by gains on our equity and fund investments. Foreign exchange gains, net of returns on FX related derivatives, totalled US\$12.6m.

The impact of the major losses on market-wide results highlights the thin margins currently available in the specialty market and we remain focused on defending our core business and maintaining a disciplined approach to underwriting.

We increased the level of reinsurance purchased in 2017, with spend increasing from 22.6% to 25.6% of premiums written. Our relationship with the Bermuda domiciled special purpose reinsurer Versutus Limited has continued to grow, with the amount of capital deployed to support Brit increasing to US\$187.0m for 2018. We have also expanded the use of quota shares to manage our net exposure and have purchased a two year catastrophe protection, which largely explains the increase in ceded premium in the period. The events of 2017 have illustrated the benefits of these protections.

Our balance sheet remains strong, with adjusted net tangible assets of US\$1,043.7m, a small decrease of US\$21.1m in the year, after a dividend payment of US\$45.8m. This means that we hold a surplus of US\$395.1m or 36.8% above the Group's management capital requirement.

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

While the outlook remains challenging, there are some positive signs. We believe we are well positioned to navigate the current climate and take advantage of opportunities as they arise.'

Mark Allan Group Financial Officer
14 February 2018

BRIT AT A GLANCE

WE ARE A MARKET-LEADING GLOBAL SPECIALTY (RE)INSURER AND THE LARGEST BUSINESS THAT TRADES SOLELY ON THE LLOYD'S OF LONDON PLATFORM, THE WORLD'S LEADING SPECIALIST COMMERCIAL INSURANCE MARKET.

Overview

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

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

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

The Fairfax Group

Since June 2015, Brit has been a member of the Fairfax Financial Holdings Limited group (Fairfax), a Canadian company whose shares are listed on the Toronto Stock Exchange (www.fairfax.ca). Brit is 72.5% owned by FFHL Group Limited (FFHL), a Fairfax company, while Brit's remaining shares are owned by the Ontario Municipal Employees Retirement System (OMERS), the pension plan manager for government employees in the Canadian province of Ontario. FFHL will have the ability to purchase the shares owned by OMERS over time.

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

Underwriting

Brit predominantly underwrites complex, high value insurance and reinsurance risks. Insurance represents in excess of 80% of our GWP while treaty reinsurance represents the balance. Our largest source of business is the US excess and surplus lines market and the majority of our premium income is denominated in US dollars, although the risks underwritten are distributed globally.

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

tier intermediaries. The majority of reinsurance business is sourced through the global reinsurance brokers.

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

Our platform and operations

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

Investment management

At Brit we have a significant investment portfolio comprising financial investments, investments in associates, investment related derivatives and cash. The value of our invested assets at 31 December 2017 was US\$4,316.1m. The portfolio ended the year defensively positioned with an increased allocation to cash and cash equivalents (US\$1,573.5m), a reduced holding in fixed income securities (US\$1,891.3m) and an equity allocation of US\$820.5m.

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

Our culture and values

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

Our track record

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

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

In 2017, the market experienced a significant level of major loss activity. This activity contributed 16.2pps to Brit's 2017 combined ratio of 112.4%, bringing our five year average combined ratio to 95.1%. However, a 56.4% attritional ratio, reflecting a solid underlying underwriting performance given the market backdrop, and an excellent investment return of 4.9%, enabled us to achieve a profit after tax of US\$21.5m and a return on adjusted net tangible assets before foreign exchange movements (RoNTA) of 1.1%.

Our financial strength

Our capabilities and ambition are underpinned by our strong financial position. Our business is underwritten exclusively through our wholly-aligned Lloyd's Syndicate 2987 and partly-aligned Lloyd's Syndicate 2988, which benefit from Lloyd's ratings of A (Excellent) from A.M. Best, AA- (Very Strong) from Fitch and A+ (Strong) from Standard & Poor's.

At 31 December 2017, we had capital resources equal to 136.8% of the management capital requirements needed to support our business. Our capital strength provides the flexibility to allow us to cope with major losses while not deviating from our commitment to fund profitable expansion and to provide attractive returns.

Outlook

As expected, 2017 saw further softening of rates, albeit at a reduced pace, and a continued challenging underwriting environment, combined with exceptionally low interest rates, geopolitical uncertainty, global growth concerns and market volatility.

There are however some encouraging signs. We have seen a number of our competitors exit underperforming classes where they had been showing a lack of discipline. Furthermore, following the major losses, rates on risks renewed have shown increases across most affected classes, with significant rate rises on impacted risks. However, in certain areas rate increases have been limited by surplus capacity remaining in the market and we have seen continued instances of undisciplined behaviour.

The outlook for investment markets, given the stronger economic growth numbers generated in most economies, is also more promising than in recent times, especially as cash rates start to rise for yield starved investors. However, rich valuations in both equity and credit markets require caution as the economic outlook evolves through the next stage of the business cycle.

While there are some encouraging signs, the outlook remains challenging. However, we maintain focus on our core fundamentals of underwriting discipline, risk selection and capital management and continue to make good progress with the selective expansion of our global distribution capability, capitalising on our initiatives of recent years. We have clear thoughts on our expectations on pricing and appetite post event and remain prepared to walk away from renewals where terms do not meet our appetite and rating criteria.

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

Note 1: Before FX and corporate activity costs

OUR UNDERWRITING

AT BRIT, **LEADERSHIP, INNOVATION AND ENHANCING OUR PRODUCT DISTRIBUTION** ARE AT THE HEART OF OUR STRATEGY; UNDERPINNED BY OUR STRONG CULTURE OF UNDERWRITING AND CLAIMS EXPERTISE.

Enduring relationships based on trust

Running through our company is a commitment to provide a truly exceptional service to our clients, from initial enquiry through to claim payment. In addition to hiring the very best people for the job, this means getting the simple things right: keeping our word, always being accountable and treating clients how we would wish to be treated.

We are a motivated Group – and we love what we do. Mindful of our role and responsibilities as a good corporate citizen, we also direct our energies beyond the everyday business environment and strive to make a difference in our wider society. From our sponsorship of Team BRIT, who aspire to be the first all-disabled motor racing team in the Le Mans 24 hour endurance race, to our support for the Kibera Girls Education Fund in Kenya, we are enhancing lives around the world.

Our vision is to be the leading, most trusted global specialty insurer – and everything we do is geared toward earning that trust. The way we approach insurance challenges sets us apart. We are genuinely proud of the Brit difference.

The Brit difference

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

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

We are committed to creating lasting relationships with brokers and clients. Hence we are happy to meet face-to-face and make ourselves available when others do not.

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

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

Market leading expertise

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

We are an influential and respected presence at Lloyd’s of London. With one of the largest and most diverse portfolios, we underwrite exclusively through our Syndicates 2987 and 2988. We are also helping lead Lloyd’s market modernisation through the Target Operating Model project.

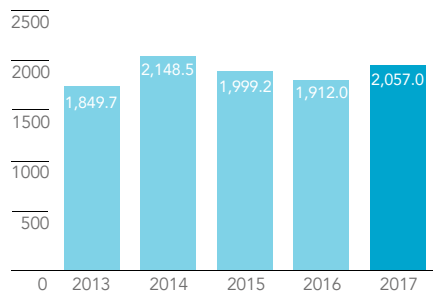
Writing a broad mix of business, and with an initial stamp capacity of £55m, Syndicate 2988 provides access to an alternative source of capital. It reflects our desire to increase our flexibility, improve our relevance to clients and brokers and reinforce the long-term relationships we have in the market.

Group GWP by line of business (%)

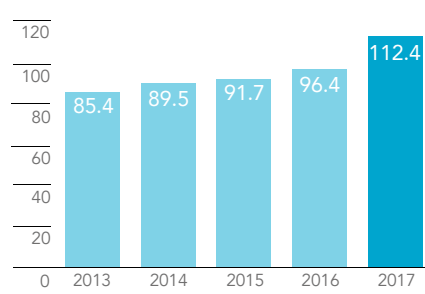


Direct		Professional Lines 11.0%
Accident and Health 6.4%	Specialist Liability 5.5%	
Marine 8.2%	Speciality Lines 7.9%	
Property, political risks and Violence 10.0%	Aviation 3.1%	
Property Facilities 13.8%	Reinsurance	
Energy 4.1%	Casualty Treaty 7.4%	
BGSU US Speciality 11.4%	Property Treaty 11.2%	

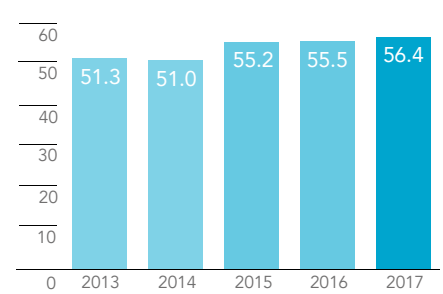
Group GWP (US\$m)



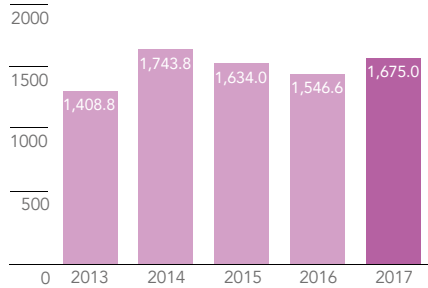
Group combined ratio (%)



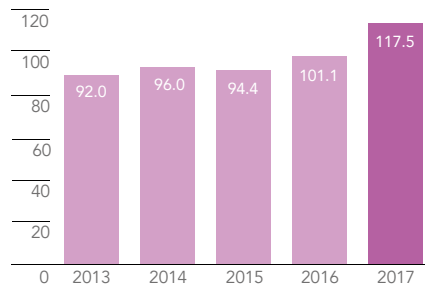
Group attritional ratio (%)



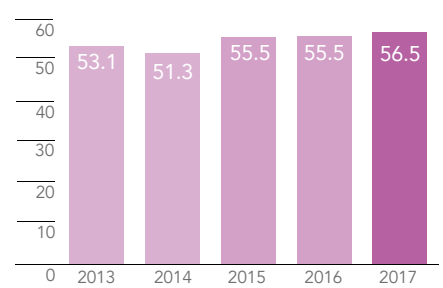
Brit Global Specialty Direct GWP (US\$m)



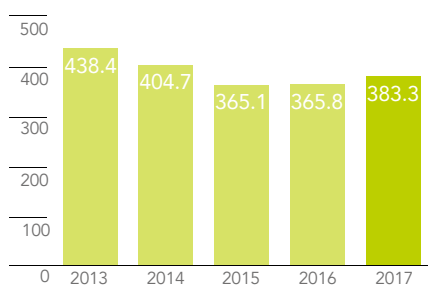
Brit Global Specialty Direct Combined ratio (%)



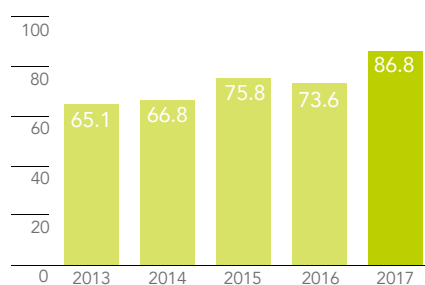
Brit Global Specialty Direct Attritional ratio (%)



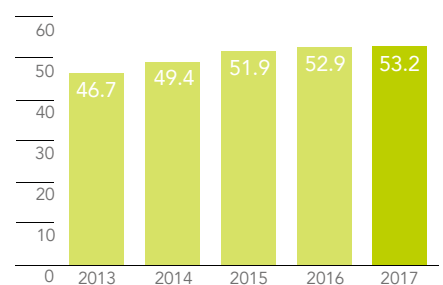
Brit Global Specialty Reinsurance GWP (US\$m)



Brit Global Specialty Reinsurance Combined ratio (%)



Brit Global Specialty Reinsurance Attritional ratio (%)



OUR UNDERWRITING

Claims excellence

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

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

Global reach, local presence

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

Our cohesive global team takes a unified approach. This means clients can work with us wherever they are in the world and receive the same outstanding levels of attention and service. With headquarters in London, our regional hubs to manage our business across North and South America, Bermuda and Asia, providing local knowledge but the same outstanding service.

In such a competitive industry, we never forget that it is a privilege to manage someone's insurance business. Hence we value and nurture our relationships with brokers and coverholders; they are integral to our distribution capability. As the third largest writer of coverholder business at Lloyd's, we work with over 700 organisations utilising 1,200 binding authorities – with Brit leading over 500.

Our specialist delegated underwriting management team has a reputation for its commitment to excellent customer service, processing applications in less than a third of the market average time.

See the difference

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

INTERNATIONAL

USA (BGSU)

Public and Non Profit SIR Package (Excess and Surplus (E&S))
Public Entity – First Dollar (Admitted)
Criminal Justice Service Operations (E&S)
General Liability (E&S)
Property (E&S)
Inland Marine (E&S)
Marine (US Admitted)
Cyber and Technology
Excess Casualty (E&S)
Miscellaneous Professional Liability (E&S)
Contractors Professional Liability (E&S)
US Property Facultative (Reinsurance)
Programs (Admitted and E&S)
Property Facultative

LATIN AMERICA AND CARIBBEAN

Casualty Treaty and Facultative Reinsurance
Property Facultative Reinsurance
Engineering Reinsurance

BERMUDA

Property Treaty
Casualty Treaty

CHINA

Construction Risks

SINGAPORE

Construction & Engineering
Terrorism & Political Violence
Political & Credit Risk
Marine (Cargo, Hull & War, Fine Art & Specie, Marine Liability, Yachts)

REINSURANCE

CASUALTY



Casualty Treaty

The Casualty team underwrites a predominantly non-proportional reinsurance (including retrocession) account, covering all the principal casualty classes – as well as Personal Accident and other accident classes. These include Property Terror, Products Recall, Credit/Bond/Surety, Political Risks and Contingency. We underwrite on a worldwide basis and are a recognised quoting market. We lead or co-lead more than 75% of our business by premium.

Capacity: Casualty/Accident – Cat US\$35.0m, Risk US\$25.0m, PA/WCA – Cat US\$25.0m, Risk US\$15.0m

PROPERTY



Property Treaty

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

Capacity: Cat US\$110.0m, Risk US\$25.0m

OUR UNDERWRITING

SHORT-TAIL

AVIATION



Aerospace

Writing from a lead or support position, we cover airframe, engine and component manufacture, refuelling operations, airport and related servicing risks and air traffic control.

Capacity: US\$125.0m



Airlines

We are a key player in the international subscription market, where we write on a co-insurance basis. We are able to both lead and support airline placements.

Capacity: Liability US\$100.0m, Hull US\$15.0m, Spares US\$20.0m



General Aviation

Providing cover for private and corporate clients as well as commercial operators of fixed wing aircraft and helicopters.

Capacity: Liability US\$75.0m, Hull US\$6.0m; Consortium Capacity: Liability US\$150.0m, Hull US\$10.0m



Space

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

Capacity: US\$60.0m

ENERGY



Energy

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

Capacity: US\$100.0m

MARINE



Cargo

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

Capacity: US\$45.0m



Marine Hull and War

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

Capacity: Hull US\$85.0m, War US\$50.0m



Marine Liability

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

Capacity: US\$50.0m



Yachts

Committed to delivering a truly outstanding service, our highly experienced team writes coverage for most types of craft including mega-yachts and their associated liabilities.

Capacity: US\$60.0m; Consortium Capacity: US\$250.0m



Fine Art and Specie

Broad flexible coverage on an all risks of physical loss or damage basis for clients ranging from local jewellers to world famous museums and the vaults of multinational banks.

Capacity: US\$60.0m

PROPERTY AND TERRORISM



Political Risk and Trade Credit

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

Capacity: US\$30.0m out to 10 years



Political Violence

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

Capacity: US\$110.0m



Worldwide Property

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

Capacity: US\$35.0m



Brit Cyber Attack Plus

A single solution for cyber exposures, with coverage encompassing physical damage, business interruption, incident response, mitigation and legal liability.

Capacity: US\$200.0m

ACCIDENT AND HEALTH (A&H)



Bloodstock

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

Capacity: US\$5.0m



Contingency

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

Capacity: US\$62.5m



Personal Accident and Medical Expenses

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

Capacity: US\$47.5m (US\$11.0m any one person)

OUR UNDERWRITING

SHORT-TAIL (CONTINUED)

PROPERTY FACILITIES



Commercial Property

Our established portfolio insures homeowners and a range of commercial property and package risks through selected coverholders and Lloyd's

brokers.

Capacity: US\$10.0m Property, US\$2.0m Liability



Commercial General Liability

A primary focus on premises exposures and niche classes. Specific contracts for artisan contractors, truckers' general liability and non-trucking liability also

considered.

Capacity: US\$1.0m per occurrence, US\$2.0m aggregate



High Value Homes

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

or renovation.

Capacity: US\$35.0m



Residential Property Facilities

Coverage for primary, secondary and vacant dwellings plus condominium units in US and Canada. Flood, Earthquake and Landslide available

separately or as a package.

Capacity: US\$10.0m



Property Financial

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

mortgage impairment coverage.

Capacity: US\$10.0m



Transportation

We insure commercial automobile physical damage and motor truck cargo across the US and Canada.

We target smaller fleets and source business through a network of Lloyd's brokers and coverholders.

Capacity: APD US\$2.5m, MTC US\$0.5m



UK Property

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

requirements.

Capacity: £50.0m



Engineering

We manage the Brit Engineering Consortium, incorporating worldwide risks such as contractors' plant and equipment, machinery breakdown and

construction.

Capacity: US\$40.0m Single Project CAR/EAR US\$50.0m PML

LONG-TAIL

PROFESSIONAL LINES



North American Professional Liability

An established leader in this sector, we provide cover on both an open market and binding authority basis.

Clients range from small start-ups to the largest multinationals.

Capacity: US\$10.0m



Healthcare Liability

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

Capacity: US\$15.0m, £10.0m, EUR10.0m



Global Cyber Privacy and Technology

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

Capacity: US\$25.0m, £18.0m, EUR24.0m

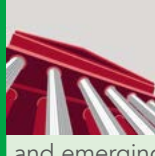
SPECIALTY LINES



Directors' and Officers' (D&O)

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

Capacity: US\$35.0m, £23.0m, EUR34.0m



Financial Institutions

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

Capacity: US\$40.0m, £28.0m, EUR39.0m



Legal and Structured Solutions

A leader in BTE and ATE legal expenses coverage for individuals, companies and affinity groups worldwide, we deliver bespoke structured insurance solutions for financial, contingent and legal risks.

Capacity: £7.0m, US\$10.0m, CAN\$10.0m, EUR10.0m

SPECIALIST LIABILITY



Specialist Liability

An experienced team with a flexible approach to UK and international liability business including Employers, Public and Products and Environmental Liability across a range of territories. Our expertise encompasses construction, transportation, oil and gas, renewable energy, utilities, infrastructure, manufacturing and local government – on a primary and excess basis.

Capacity: UK EL £10.0m, UK & International PL & Products Liability up to £33.0m or currency equivalent (US\$47.5m, CA\$50.5m, AU\$45.0m). Environmental Liability £15.0m or currency equivalent (US\$22.5m, CAN\$22.5m, AU\$27.0m)



UNDERWRITING REVIEW

2017 underwriting review

2017 has been dominated by the extent and scale of natural catastrophes, with multiple hurricanes, earthquakes and wildfires, resulting in terrible human impact and significant economic consequences in the regions affected. The economic loss estimate from these events is in the region of US\$353bn, while the insured loss is estimated at between US\$134bn and US\$140bn, making it the second most costly year on record after 2011.

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

- A focus on responding to our customers, managing the expected volume pressures and containment of both indemnity and expense ratios.
- Ongoing monitoring of local resources available to adjust and report claims, given the severity and the number of events hitting the US and Caribbean in sequence.
- 24/7 contact with claims third party administrators (TPAs) and coverholders, managing claims on our behalf, to assess impact and resourcing and to gauge activity and potential issues.
- Extended deployment of Brit claims adjusters from London directly into the TPA and coverholder operations in Texas and Florida, providing an 'on the ground' local Brit presence, ensuring claims were handled in accordance with Brit's standards while favourably impacting accessibility and resolution times.
- Ensuring claims payments were made swiftly by establishing robustly funded claims loss funds, proactively making interim or partial payments whenever possible to support our insureds' recovery efforts.
- Providing via contract endorsement, a number of select TPAs and MGAs with additional claims handling authority, including an increase in the authorised monetary thresholds and a waiver of proofs of loss.

- Successful adoption of satellite technology to capture high resolution images of Northern California wildfire affected Brit insured homes, enabling us to remotely adjust, settle and pay a number of high severity total losses within days.

The net claims incurred by Brit from these events totalled US\$250.0m (Hurricane Harvey: US\$51.5m; Hurricane Irma: US\$110.1m; Hurricane Maria: US\$46.4m; Mexico earthquakes: US\$6.8m; California wildfires: US\$35.2m), or 16.2pps on the combined ratio (2016: US\$68.4m/4.5pps). This was in line with our expectations given the nature and scale of the events and our market share.

Our net exposure has been limited by our extensive reinsurance programme, purchased specifically with such extreme events in mind. We continually review our reinsurance protections to ensure effectiveness and have ceded more premiums to reinsurers in recent years as the market has softened. We have increased our use of proportional reinsurance to manage net appetite in a period of very challenging market conditions, while maintaining gross scale and relevance.

Market conditions have, as expected, remained challenging during 2017. Premium rates continued to experience reductions, albeit at a lower rate than in 2016, influenced by low instances of catastrophe losses in recent years, competition from new entrants and additional capacity from existing competitors with an appetite to grow despite rating pressure.

However, during the year the market did show some encouraging signs. A number of our competitors exited underperforming classes, where they had been showing a lack of discipline. This gave us the opportunity to hold the line in those areas and outperform our planned premium. In particular, we were able to retain more premium than planned in the Casualty Treaty and Commercial Worldwide Property accounts. In Cyber, one of our key growth classes, we have continued to support this growth market but increasing competition has lead us to be cautious on a number of new and existing accounts.

UNDERWRITING REVIEW

Following the major losses in the second half of 2017, rates on risks renewed increased across most affected classes, with significant rate rises on impacted risks. Yachts, Cargo, Property Treaty, Commercial North America Open Market, Commercial Worldwide, BGSU E&S and BGSU Property Facultative have benefited from such increases. However, in certain areas (e.g. Property Treaty, BGSU E&S) rate increases have been limited by surplus capacity remaining in the market. We have also seen continued instances of undisciplined behaviour. We have clear thoughts on our expectations on pricing and appetite post event and remain prepared to walk away from renewals where terms do not meet our appetite and rating criteria.

Overall risk adjusted premium rates reduced by 1.3% (2016: 3.3%), with reductions in our direct business of 1.2% (2016: 2.9%) and reductions in our reinsurance portfolio of 1.7% (2016: 6.9%). Rating pressure was most severe in our direct energy (4.7% reduction), BGSU Casualty (3.5%), Property Facultative (2.1%), BGSU Property (2.0%), Property Treaty (2.0%) and Casualty Treaty (2.0%). These reductions were partly offset by rate increases of 3.1% in Specialist Liability and marginal improvements in A&H and Specialty Lines.

Our retention rate for the year was 83.6% (2016: 84.3%) which reflects our focus on retaining core accounts and pro-active management of broker relationships. During 2017, we have continued to take a defensive position. We have looked to balance the portfolio by actively defending our core business and modestly expanding in areas where profitable opportunities exist, while contracting in areas where it is felt that profit margins are thinner.

GWP for 2017 totalled US\$2,057.0m, an 8.2% increase at constant exchange rates over 2016. This increase was driven by prior year premium development (Property Facilities, Energy, Marine and BGSU), increased contribution from our recent underwriting initiatives (BGSU Cyber, BGSU Programs, BGSU Latin America, Engineering and CPE, China/Singapore and Healthcare) and current year premium growth (A&H, Cyber, D&O WW, Cargo and Specie, BGSU and BGSB). Current year premiums also saw reductions in a number of

classes, resulting from active portfolio management (Marine Liability, PI Non US and Aviation) and from market conditions (principally Property Financial).

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

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

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

- Brit Global Specialty USA (BGSU) has written US\$234.7m of premium, 25.0% of growth over 2016 reflecting the continued development of our US distribution network. This increase has arisen from both recently launched classes and from organic growth as we capitalise on market opportunities.
- Our Bermuda operation, established in late 2013, has selectively written reinsurance business in lines and markets that we believe remain well rated, particularly Casualty Treaty. Premiums generated by our Bermuda office equated to US\$83.3m (2016: US\$60.5m).
- China and Singapore continue to develop and provide opportunity and we have seen stable levels of premiums (2017: US\$15.6m; 2016: US\$15.5m).

Overall, the combination of strong portfolio management and underwriting discipline has led to us achieving a 56.4% attritional ratio in 2017 (2016: 55.5%), a solid underwriting performance given the market backdrop and testimony to the strength of our underwriting in such a competitive environment.

Our business developments during 2017

During 2017 we have continued to focus on our underwriting strategy. Key developments have included:

• **Syndicate 2988**

Brit's new syndicate, Syndicate 2988, commenced underwriting in late 2016, for the 2017 underwriting year. The new syndicate is managed by Brit's existing Lloyd's managing agent, Brit Syndicates Limited (BSL). Underwriting is undertaken by Brit's existing teams and the syndicate will write a well-balanced global portfolio of both insurance and reinsurance across a broad range of specialty lines in which Brit already has well established product offerings.

The first year capacity for Syndicate 2988 was provided solely by external Names and was £55.0m (US\$67.0m). For the 2018 year of account, this has increased to £98.5m (US\$133.3m), of which £18.2m (US\$24.6m) is provided by Brit's corporate member, Brit UW Limited.

Syndicate 2988 reinforces Brit's long-term commitment to the Lloyd's market and ambition to use its infrastructure to expand our current position as the largest Lloyd's only insurer. It will also help us further position Brit as the specialist underwriter of choice, building on our existing strength across underwriting, claims and capital management and track record of delivering attractive returns for capital providers.

• **Sussex Capital**

We announced a new Bermuda-domiciled collateralised reinsurance platform, Sussex Capital. Sussex Capital was launched on 1 January 2018 with initial capital of US\$102.5m. Sussex Capital, through Sussex Re, a newly established Bermuda-domiciled special purpose reinsurer, writes direct collateralised reinsurance while also providing collateralised reinsurance to Brit's Syndicate 2987.

The launch of Sussex Capital is the next step in Brit's strategy to build long term relationships with the capital markets. It strengthens Brit's reinsurance capability, provides access to a diversified source of capital to support property catastrophe risk and further enhances our client and broker proposition.

• **Continued development of BGSU**

BGSU milestone – US\$1bn written by our US office:

Since it was established in 2009, BGSU has now written over US\$1bn in premium. BGSU has reached this milestone by delivering strong, profitable organic growth with a focus on niche areas where it has significant expertise and experience. A significant strategic investment has also been made by adding market leading teams and developing its distribution network and spread of reach. It now offers insurance and reinsurance, backed by the financial strength of Brit Syndicate 2987, with a focus on Specialty Package and Property. Specialties include Public and Non-Profit, Property Direct and Facultative, and Criminal Justice Service Operations.

BGSU Cyber and Technology: We announced the launch of a new Cyber and Technology team, with the appointment of an experienced Chicago based Senior Vice President to lead the offering. In October we further strengthened this team with the appointment of a New York based Vice President. The launch of a US based Cyber Team complements and enhances Brit's current London based platform by offering local expertise and service to meet the growing demand for cyber and technology products in the US SME sector.

US Yacht Portfolio: Brit announced that BGSU has reached an agreement with XL Catlin for the exclusive renewal rights for part of its directly written yacht portfolio. BGSU's Yacht team will service existing legacy Catlin policies through to expiration, after which BGSU will provide renewal quotes to eligible customers. The agreement relates to legacy policies written by Catlin, prior to its acquisition by XL.

This followed the appointments in 2016 of a Senior Vice President, Marine and a Vice President, Yacht to expand BGSU's marine footprint in the US.

UNDERWRITING REVIEW

BGSU Professional Lines: We appointed an Executive Vice President, Professional Lines, for BGSU, with responsibility for establishing and developing Brit's Professional Lines portfolio in the US, with a focus on SME business.

BGSU Excess Casualty: BGSU also appointed a Senior Vice President, Excess Casualty, to focus on writing excess casualty through wholesale intermediaries.

Strengthened Program Capability: BGSU appointed a Senior Vice President, Programs, based in Alpharetta, GA, to focus on writing Property, Casualty, Package and miscellaneous lines to specialised US based agencies. With a focus on niche Program Managers, written 100% on E&S and admitted paper, the approach differs from, and is complimentary to, Brit's current London based MGA capabilities.

- **Brit Reinsurance (Bermuda) Limited**

Brit completed the relocation of its Gibraltar based captive reinsurer, Brit Insurance (Gibraltar) PCC Limited, to Bermuda, following which the company was renamed Brit Reinsurance (Bermuda) Limited (Brit Re).

This is a natural move as we continue to expand our Bermuda platform and highly complementary to our continued focus on the US market. Bermuda is an important hub for Brit, and its combination of a mature regulatory environment, including Solvency II equivalence, and access to highly qualified and experienced people makes it the right home for Brit Re to support the Group's longer term strategy.

- **Scion Underwriting Services Inc**

The highly experienced US insurance industry veteran Scott Brock joined Brit as President of Scion Underwriting Services Inc (Scion). Scion will partner with Brit and other markets, including third party capital, to support the insurance needs of several targeted industries, both in the US and internationally. It will develop new products that match the needs of those targeted sectors, while leveraging Brit's distribution reach and Scott's proven ability to effectively build-out new businesses.

- **Lutine Yacht Consortium**

We further strengthened our leading marine offering by announcing the launch of a new Brit-led Lloyd's consortium for Yachts. The consortium has capacity of US\$250.0m, offering 100% Lloyd's security to insure motor and sailing vessels valued at over US\$10.0m. The consortium also offers worldwide coverage, has global reach through Lloyd's brokers and their agents and clients will be supported by a 24/7 claims service.

- **The Brit 'app'**

We launched the new Brit 'app', which allows brokers to see the location and availability of our underwriters (particularly when at the Lloyd's 'box') as well as product information for each class of business. Feedback so far has been excellent.



FINANCIAL PERFORMANCE REVIEW

Key Performance Indicators

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

Our six KPIs show the returns that we are generating, the performance of our underwriting activities, the performance of our investment portfolio, our financial strength and our efficient, flexible and scalable platform. The development of our KPIs over the five years set out below reflects our successful major transformation programme and the repositioning of our business focusing on a simpler and more efficient model.

A reconciliation of each KPI to the amounts presented in the financial statements, where relevant, is included in the Annual Report and Accounts starting on page 154 and definitions of each of our KPIs are included in the Glossary starting on page 159.

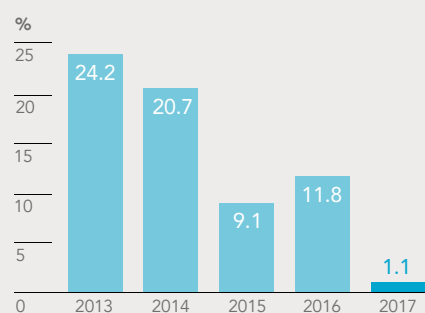
Overall performance

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.

In 2017, we delivered a RoNTA of 1.1% in a year with significant major loss events and challenging insurance and investment market conditions. This performance, driven by a strong investment return, resulted in a five year average RoNTA of 13.4%. RoNTA for 2017 after foreign exchange movements was 2.5% (2016: 15.8%).

Track record



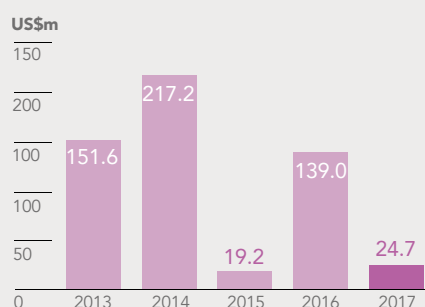
Overall performance

TOTAL VALUE CREATED

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

In 2017, value creation was US\$24.7m or 2.3% of opening adjusted NTA. The company has generated a total value of US\$551.7m over the past five years, an average of US\$110.3m per annum.

Track record

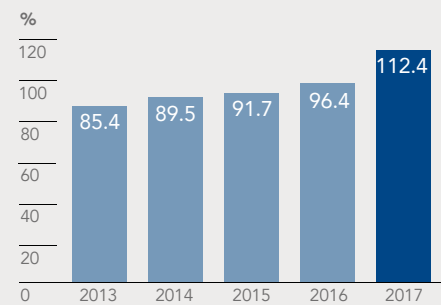


Underwriting COMBINED RATIO

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

Our combined ratio in 2017 was 112.4%, including 16.2pps in respect of major losses and 0.6pps of reserve releases. Over the past five years, we have delivered an average combined ratio of 95.1%.

Track record

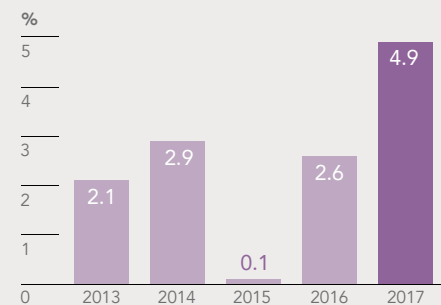


Investment management INVESTMENT RETURN

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.

Our investment strategy takes a long-term view of markets, which can lead to significant variations in our year-on-year return figures. Over the past five years, we have delivered an average investment return of 2.5%.

Track record

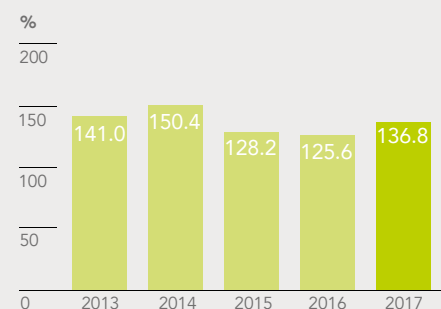


Capital management CAPITAL RATIO

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.

Our balance sheet remains strong. At 31 December 2017, after dividends paid during the year of US\$45.8m, Group capital resources totalled US\$1,468.5m which equated to 136.8% of our Group capital requirement of US\$1,073.4m.

Track record

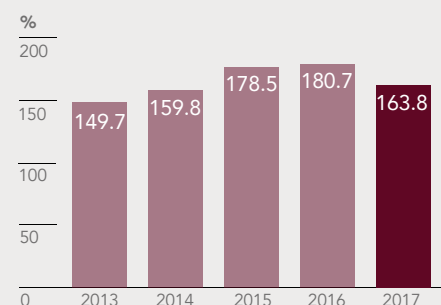


Operating platform RATIO OF FRONT OFFICE EMPLOYEES TO BACK OFFICE EMPLOYEES

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

At 31 December 2017, the ratio was 163.8%, reflecting that we had approximately 1.6 front office employees for every back office employee.

Track record



FINANCIAL PERFORMANCE REVIEW

Overview of Results

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

	2017 US\$m	2016 US\$m	2015 US\$m	2014 US\$m	2013 US\$m
Gross written premium	2,057.0	1,912.2	1,999.2	2,148.5	1,849.7
Net earned premium (Note 1)	1,540.1	1,515.1	1,649.6	1,601.1	1,478.4
Underwriting result (Note 1)	(172.8)	54.6	137.0	168.3	215.9
Underwriting result	(172.8)	54.6	137.0	168.3	215.9
Return on invested assets, net of fees	204.2	102.9	5.0	124.8	85.3
Corporate expenses	(24.0)	(21.3)	(30.0)	(38.8)	(23.2)
Finance costs	(17.1)	(18.8)	(20.6)	(22.3)	(23.4)
Other items	2.6	1.1	0.3	0.8	6.9
(Loss)/profit on ordinary activities before tax, FX and corporate activity costs	(7.1)	118.5	91.7	232.8	261.5
FX movements	12.6	41.3	(60.2)	35.8	(90.8)
Corporate activity costs (Note 2)	–	–	(23.8)	(22.6)	(3.1)
Profit on ordinary activities before tax	5.5	159.8	7.7	246.0	167.5
Tax	16.0	(2.2)	7.9	(16.7)	(10.1)
Discontinued operations	–	–	–	–	(2.2)
Profit for the year after tax	21.5	157.6	15.6	229.3	155.2

Note 1: Excluding the effects of foreign exchange on non-monetary items.

Note 2: Corporate activity costs during 2015 relate to costs incurred as a result of the acquisition of Brit by Fairfax. The 2014 corporate activity costs relate to Brit's IPO in April 2014.

Group performance and total value added

Brit's result for the year ended 31 December 2017 reflects significant major loss activity, a solid attritional performance, a very strong investment return and favourable FX movements.

The result on ordinary activities for the year before tax, FX and corporate activity costs was a loss of US\$7.1m (2016: profit of US\$118.5m), profit before tax was US\$5.5m (2016: US\$159.8m) and profit after tax was US\$21.5m (2016: US\$157.6m). Return on adjusted net tangible assets (RoNTA), excluding the effects of FX on non-monetary items and corporate activity costs, decreased to 1.1% (2016: 11.8%). RoNTA for 2017 after including foreign exchange movements was 2.5% (2016: 15.8%) and total value created for the year was US\$24.7m (2016: US\$139.0m).

Our adjusted net tangible assets at 31 December 2017 totalled US\$1,043.7m (2016: US\$1,064.8m), after 2017 dividend payments of US\$45.8m.

Performance measures

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

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

Underwriting

Overview

Our underwriting result for the year amounted to a loss of US\$172.8m (2016: profit of US\$54.6m) and our combined ratio, which excludes the effect of foreign exchange on non-monetary items, was 112.4% (2016: 96.4%). The premiums, claims and expenses components of this result are examined below.

Premiums written

Premium growth	2017 US\$m	2016 US\$m	Growth %	Growth at constant FX rates %
Brit Global Specialty Direct	1,675.0	1,546.6	8.3	9.0
Brit Global Specialty Reinsurance	383.3	365.8	4.8	4.6
Other underwriting	(1.3)	(0.2)	—	—
Group	2,057.0	1,912.2	7.6	8.2

Premiums by class	2017 US\$m	2016 US\$m
Brit Global Specialty Direct		
Accident and Health	132.8	114.2
Marine	168.5	167.6
Property, Political Risks and Violence (PRV)	206.8	195.4
Property Facilities	283.7	277.3
Energy	83.9	63.1
BGSU US Specialty	234.7	187.8
Professional Lines	226.1	229.8
Specialist Liability	113.3	87.9
Specialty Lines	162.1	152.6
Aviation	64.2	70.6
Discontinued	(1.1)	0.3
Total Direct	1,675.0	1,546.6
Brit Global Specialty Reinsurance		
Short-Tail RI (Property Treaty)	152.1	153.5
Long-tail RI (Casualty Treaty)	231.2	212.6
Discontinued lines	—	(0.3)
Total Reinsurance	383.3	365.8
Other underwriting	(1.3)	(0.2)
Group total	2,057.0	1,912.2

FINANCIAL PERFORMANCE REVIEW

Gross written premium (GWP) increased by 7.6% to US\$2,057.0m (2016: US\$1,912.2m). At constant exchange rates the increase was 8.2%. Direct business increased by 8.3% to US\$1,675.0m (2016: US\$1,546.6m), while reinsurance increased by 4.8% to US\$383.3m (2016: US\$365.8m).

The drivers of the 7.6% increase in Group GWP, which was in line with expectations, are as follows:

- Prior year premium development: The book again experienced favourable development on prior years, resulting in an increase of US\$71.2m over 2016. The main contributors were our Property Facilities, Energy, Marine and BGSU divisions.
- Underwriting initiatives: The Group's underwriting initiatives, launched from 2013 onwards, resulted in a US\$42.8m increase in GWP. The largest increases were seen in BGSU (Cyber, Programs and Latin America business), Engineering and CPE, China/Singapore and Healthcare.
- Current year premiums: Current year premiums, excluding those derived from the underwriting initiatives highlighted above, increased by US\$41.8m over 2016. Growth was primarily experienced in A&H, Cyber, D&O WW, Cargo and Specie, BGSU and BGSB. Contraction was seen in a number of classes, resulting from active portfolio management (Marine Liability, PI Non US and Aviation) and from market conditions (principally Property Financial).
- Foreign exchange: The impact of foreign exchange resulted in a US\$11.0m year on year reduction in premium, which reflects the movement during 2017 of the US dollar against a number of currencies in which the Group writes business.

Premium ratings

Measure	Commentary	Track record												
Risk adjusted rate change	The risk adjusted rate change shows whether premium rates are increasing, reflecting a hardening market, or decreasing, reflecting a softening market. A hardening market indicates increasing profitability.	Risk adjusted rate change (%) <table><thead><tr><th>Year</th><th>Risk adjusted rate change (%)</th></tr></thead><tbody><tr><td>2013</td><td>0.3</td></tr><tr><td>2014</td><td>(2.9)</td></tr><tr><td>2015</td><td>(4.1)</td></tr><tr><td>2016</td><td>(3.3)</td></tr><tr><td>2017</td><td>(1.3)</td></tr></tbody></table>	Year	Risk adjusted rate change (%)	2013	0.3	2014	(2.9)	2015	(4.1)	2016	(3.3)	2017	(1.3)
Year	Risk adjusted rate change (%)													
2013	0.3													
2014	(2.9)													
2015	(4.1)													
2016	(3.3)													
2017	(1.3)													

Although we continue to see rate decreases, the overall risk adjusted premium rate decrease for renewal business during 2017 slowed to 1.3% (2016: 3.3%). Direct business decreased by 1.2% (2016: 2.9%) and reinsurance by 1.7% (2016: 4.8%). The reduction in the rate of decrease was influenced by rate improvements in Q4 2017 across the major loss affected classes, including Commercial North America Open Market, Commercial Worldwide, BGSU Property Facilities, Cargo, Hull and Treaty Catastrophe North America.

Retention rates

Measure	Commentary	Track record												
Retention rate	The retention rate shows the proportion of our business that renews, on a premium weighted basis, compared to the previous year.	Retention rate (%) <table><tr><th>Year</th><th>Retention rate (%)</th></tr><tr><td>2013</td><td>83.0</td></tr><tr><td>2014</td><td>83.0</td></tr><tr><td>2015</td><td>82.4</td></tr><tr><td>2016</td><td>84.3</td></tr><tr><td>2017</td><td>83.6</td></tr></table>	Year	Retention rate (%)	2013	83.0	2014	83.0	2015	82.4	2016	84.3	2017	83.6
Year	Retention rate (%)													
2013	83.0													
2014	83.0													
2015	82.4													
2016	84.3													
2017	83.6													

Our retention rate for the period was 83.6% (2016: 84.3%). The retention rates we achieved in 2016 and 2017 reflect the successful renewal of a profitable book of business, following the re-underwriting of the book that occurred between 2008 and 2012, through which we rebalanced our book and non-renewed around half of our underwriting portfolio. The slight reduction in 2017 results from active decisions not to renew underperforming accounts in certain divisions, such as Aviation.

Outwards reinsurance

Our reinsurance expenditure in 2017 was US\$526.2m or 25.6% of GWP (2016: US\$432.0m/22.6%), an increase of US\$94.2m.

This additional expenditure is driven by the increased use of quota shares, increased collateralised reinsurance cessions and the recognition of the full premium relating to a two year reinsurance contract. These additional protections were purchased to effectively manage our net exposures in the current soft market conditions and provide additional protection to our capital base.

Net earned premium

Net earned premium (NEP) in 2017, excluding the effects of foreign exchange on non-monetary items, increased by 1.7% to US\$1,540.1m (2016: US\$1,515.1m, decrease of 8.2%). At constant exchange rates the increase was 2.2% (2016: decrease of 6.1%). Direct business increased by 0.5% to US\$1,214.9m (2016: US\$1,208.6m, decrease of 8.9%), while reinsurance increased by 4.3% to US\$297.8m (2016: US\$285.5m, decrease of 3.0%).

Growth in the direct portfolio is largely driven by BGSU, partially offset by contractions in the other portfolios, reflecting a reduction in premiums written over preceding financial years, and by the decision to cede a greater proportion of business. The increase in the reinsurance portfolio is principally related to BGSB, reflecting year on year premium increases.

FINANCIAL PERFORMANCE REVIEW

Claims

Measure	Commentary	Track record												
Claims ratio	The claims ratio measures the performance of the whole underwriting book, encompassing risks written in the current year and in prior years.	Claims ratio (%) <table><tr><th>Year</th><th>Claims ratio (%)</th></tr><tr><td>2013</td><td>48.5</td></tr><tr><td>2014</td><td>50.0</td></tr><tr><td>2015</td><td>53.5</td></tr><tr><td>2016</td><td>56.5</td></tr><tr><td>2017</td><td>72.0</td></tr></table>	Year	Claims ratio (%)	2013	48.5	2014	50.0	2015	53.5	2016	56.5	2017	72.0
Year	Claims ratio (%)													
2013	48.5													
2014	50.0													
2015	53.5													
2016	56.5													
2017	72.0													

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

Measure	Commentary	Track record												
Attritional loss ratio	The attritional loss ratio measures the performance of the underlying underwriting book by measuring the effect of attritional claims.	Attritional loss ratio (%) <table><thead><tr><th>Year</th><th>Attritional loss ratio (%)</th></tr></thead><tbody><tr><td>2013</td><td>51.3</td></tr><tr><td>2014</td><td>51.0</td></tr><tr><td>2015</td><td>55.2</td></tr><tr><td>2016</td><td>55.5</td></tr><tr><td>2017</td><td>56.4</td></tr></tbody></table>	Year	Attritional loss ratio (%)	2013	51.3	2014	51.0	2015	55.2	2016	55.5	2017	56.4
Year	Attritional loss ratio (%)													
2013	51.3													
2014	51.0													
2015	55.2													
2016	55.5													
2017	56.4													
Major claims ratio	The major claims ratio measures the effect of claims arising from major losses on our performance and the 2017 ratio reflects the significant level of major loss activity during the year.	Major claims ratio (%) <table><thead><tr><th>Year</th><th>Major claims ratio (%)</th></tr></thead><tbody><tr><td>2013</td><td>3.2</td></tr><tr><td>2014</td><td>2.3</td></tr><tr><td>2015</td><td>nil</td></tr><tr><td>2016</td><td>4.5</td></tr><tr><td>2017</td><td>16.2</td></tr></tbody></table>	Year	Major claims ratio (%)	2013	3.2	2014	2.3	2015	nil	2016	4.5	2017	16.2
Year	Major claims ratio (%)													
2013	3.2													
2014	2.3													
2015	nil													
2016	4.5													
2017	16.2													

Measure	Commentary	Track record												
Reserve release ratio	The reserve release ratio measures the performance of reserves held on the statement of financial position at the start of the year. A negative ratio indicates an overall net release, which means that prior year claims are performing better than estimated at the start of the year. A positive ratio indicates that over the course of the year the amount required to meet those prior year claims has increased.	Reserve release ratio (%) <table><tr><th>Year</th><th>Reserve release ratio (%)</th></tr><tr><td>2013</td><td>(6.0)</td></tr><tr><td>2014</td><td>(3.3)</td></tr><tr><td>2015</td><td>(1.7)</td></tr><tr><td>2016</td><td>(3.5)</td></tr><tr><td>2017</td><td>(0.6)</td></tr></table>	Year	Reserve release ratio (%)	2013	(6.0)	2014	(3.3)	2015	(1.7)	2016	(3.5)	2017	(0.6)
Year	Reserve release ratio (%)													
2013	(6.0)													
2014	(3.3)													
2015	(1.7)													
2016	(3.5)													
2017	(0.6)													

Our underlying claims experience in 2017 was in line with expectations, with a small increase in our attritional loss ratio to 56.4% (2016: 55.5%).

2017 saw a significant increase in catastrophe activity and the Group incurred major claims of US\$250.0m (2016: US\$68.4m), as set out below. Major claims are defined as claims in excess of US\$15.0m, incurred from natural or man-made catastrophes, or from large single risk loss events (net of reinsurance and allowing for reinstatements).

Major losses	2017 US\$m	2017 CoR%	2016 US\$m	2016 CoR%
Hurricane Harvey	51.5	3.3	—	—
Hurricane Irma	110.1	7.2	—	—
Hurricane Maria	46.4	3.0	—	—
Mexican earthquake	6.8	0.4	—	—
California wildfires	35.2	2.3	—	—
Alberta wildfires	—	—	19.2	1.3
Louisiana floods	—	—	10.9	0.7
Hurricane Matthew	—	—	26.3	1.7
Other (Note 1)	—	—	12.0	0.8
Group	250.0	16.2	68.4	4.5

Note 1: 'Other' includes Japan earthquake, Houston floods and Gatlinburg wildfire.

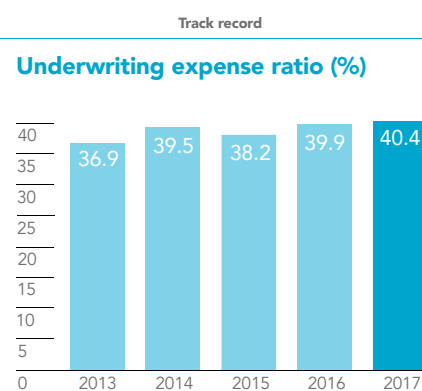
As part of our standard reserving process, we released US\$9.6m of claims reserves established for prior year claims, the equivalent of a combined ratio reduction of 0.6pps (2016: US\$53.5m/3.5pps). Releases were most significant in Casualty Treaty and Energy, with releases also seen in Property (Direct and Treaty). These releases were partially offset by a strengthening in Long Tail Direct and a US\$13.1m strengthening as a result of the Ogden rate change, which impacted Specialist Liability and Professional Lines. Our statement of financial position remains strong and we continue to operate a robust reserving process.

FINANCIAL PERFORMANCE REVIEW

Underwriting expenses

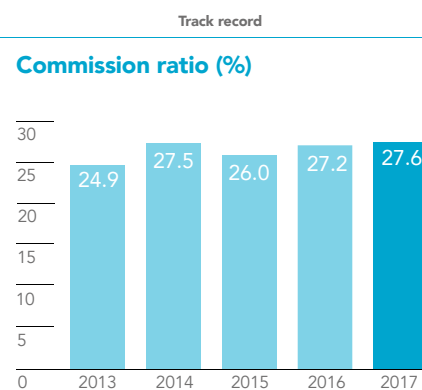
Our underwriting expense ratio was 40.4% (2016: 39.9%).

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

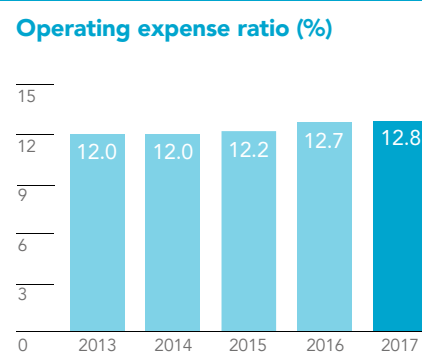


The underwriting expense ratio can be further analysed into its underlying components, as follows:

Measure	Commentary
Commission ratio	The commission ratio measures our distribution costs and shows how much of every US\$1 of premium is paid to acquire our business.



Operating expense ratio	The operating expense ratio helps us understand how much it costs us to support the underwriting activities. This ratio shows how much of every US\$1 of premium we spend supporting our underwriting activities.
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Commission costs were US\$425.9m and the commission expense ratio was 27.6% (2016: US\$411.6m/27.2%). The small increase in the ratio principally reflects changes in business mix and an increase in NEP.

Our operating expenses are analysed below.

Expenses

Our operating expense ratio was stable at 12.8% (2016: 12.7%). Operating expenses for the period were as follows:

Expense analysis	2017 US\$m	2016 US\$m
Underlying operating expenses including bonus provisions	220.0	217.1
Project costs, timing differences and other expense adjustments	0.5	–
Total operating expenses	220.5	217.1

Underlying operating expenses during 2017 increased by 1.3% to US\$220.0m (2016: US\$217.1m). The movement at constant exchange rates was an increase of 7.3%, reflecting our predominantly Sterling expense base. This increase relates to targeted expansion and investment in growth areas, increased regulatory levies, depreciation charges and IT costs.

As the majority of Brit's business is in US dollars and the majority of the operating expenses are in Sterling, Brit made the decision to effectively hedge the Sterling proportion of the Group's expenses. This decision was driven by the weakness in Sterling against the US dollar. To effect this, Brit purchased Sterling in the spot and forward market. The benefit of this derivative contract, US\$6.7m, is recognised within the underwriting result, but excluded from the combined ratio.

The allocation of operating expenses within the consolidated income statement and the segmental information is as follows:

Disclosure of operating expenses	2017 US\$m	2016 US\$m
Acquisition costs	110.6	112.3
Other insurance related expenses	85.9	83.5
Total insurance related expenses	196.5	195.8
Other operating expenses	24.0	21.3
Total operating expenses	220.5	217.1

FINANCIAL PERFORMANCE REVIEW

Return on invested assets

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

The return on our invested assets was US\$204.2m or 4.9% (2016: US\$102.9m/2.6%). This was a combination of US\$48.2m (2016: US\$73.7m) of investment income, US\$170.4m of mark-to-market gains (2016: gains of US\$72.3m) and return on associated undertakings of US\$5.1m (2016: US\$3.6m), less losses on investment related derivatives of US\$6.4m (2016: US\$32.9m) and fees of US\$13.1m (2016: US\$13.8m).

	2017 \$m	2016 \$m
Investment return		
Income	48.2	73.7
Released gains	2.9	62.3
Unrealised gains	167.5	10.0
Investment return before fees	218.6	146.0
Investment management fees	(13.1)	(13.8)
Investment return net of fees	205.5	132.2
Investment related derivative return	(6.4)	(32.9)
Return on associated undertakings	5.1	3.6
Total return	204.2	102.9
Total return	4.9%	2.6%

A key driver of return has been the strong growth in equity markets. Over the year, Brit has increased its allocation to equities which now represents 16.1% of our total portfolio. Holdings within funds, which represent 3.0% of the portfolio, also produced a very significant return (US\$47.3m or 59.6%). The Group's fixed income investments (governments and corporates), which represent 44.0% of the portfolio, contributed US\$38.7m to the result.

At the start of 2017, markets and investors balanced improving economic conditions with increased focus on political risk. Scepticism around the US Presidency and the potential longer term impact of the US policies on global trade, growth and monetary policy resulted in declines in government bond yields combined with equity markets grinding higher as core economic data improved.

In the second half of the year, greater confidence in the ability to drive US economic policy through the legislative system resulted in political risks receding and greater focus on the positive data coming through in jobs, consumer confidence and output across the US and most developed economies, albeit with the UK lagging behind as Brexit anxieties prevailed.

At 31 December 2017, the running yield (expressed as yield as a % of invested assets) of our total portfolio was 1.3% (2016: 0.9%), reflecting the high proportion of our portfolio invested in cash and cash equivalents. This increased over the year as the US Federal reserve increased the Fed Funds rate for the third time, responding to positive growth data, a fall in unemployment and the prospect of these factors feeding through to higher levels of inflation, despite the conundrum of lower levels of productivity.

The income on our portfolio was lower in 2017, reflecting the decision to move to a short duration, lower yielding allocation in Q4 2016 to avoid the risk associated with interest rates moving higher as economic growth returned. As a result, our portfolio generated income of US\$48.2m during the year, lower than the previous year where the fixed income portfolio was invested at the longer part of the curve (2016: US\$73.7m).

Our two associated undertakings produced a positive return of US\$5.1m (2016: US\$3.6m).

- Ambridge Partners LLC, a leading managing general underwriter of transactional insurance products of which Brit has a 50% share, contributed US\$4.4m to this return (2016: US\$3.4m); and
- Camargue Underwriting Managers Proprietary Limited, a leading managing general underwriter of a range of specialised insurance products and specialist liability solutions in South Africa of which a 50% share was acquired on 30 August 2016, contributed US\$0.7m to this return (2016: US\$0.2m).

Foreign exchange

As explained on page 39, we manage our currency exposures to mitigate the impact on solvency rather than to achieve a short-term impact on earnings. We experienced a total foreign exchange gain of US\$12.6m in 2017 (2016: gain of US\$41.3m), reflecting the movement of the US dollar against other currencies in which we trade and hold assets. This total foreign exchange related gain comprised:

- An unrealised revaluation gain of US\$1.8m (2016: gain of US\$61.2m), 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 against the core currencies of Sterling, Euro and Canadian dollar, where the gain on our long Canadian dollar position has largely been offset by losses on short Sterling and Euro positions. In addition, a small gain on revaluation of non-core currency positions, including Australian dollar, has been recorded;
- Gains of US\$4.9m (2016: losses of US\$19.9m) on derivative contracts which were entered into to help manage our monetary FX exposures and therefore should be viewed in conjunction with our monetary FX movements. This excludes the gain on the derivative contract entered into to effectively hedge the Sterling proportion of the Group's expenses, as explained on page 31; and
- Gain of US\$5.9m (2016: no overall gain or loss), as a result of the IFRS requirement to recognise non-monetary assets and liabilities at historic exchange rates. This adjustment is essentially a timing difference. The adjustment for the full year 2017 comprises the un-wind of the credit carried on the balance sheet at 31 December 2016 (US\$3.6m), plus the debit balance established during 2017 (US\$2.3m).

FINANCIAL PERFORMANCE REVIEW

The allocation of the foreign exchange result within the consolidated income statement is as follows:

Foreign exchange gains and (losses)	2017 US\$m	2016 US\$m
Net change in unearned premium provision – non-monetary FX effect	(3.3)	19.0
Acquisition costs – non-monetary FX effect	1.3	(10.0)
Net foreign exchange losses – non-monetary (Note 1)	7.9	(9.0)
	5.9	–
Net foreign exchange gains – monetary (Note 1)	1.8	61.2
Return on derivative contracts – FX related instruments (Note 2)	4.9	(19.9)
	6.7	41.3
Total gain/(loss)	12.6	41.3

Note 1: The sum of these two amounts, US\$9.7m (2016: US\$52.2m), is the 'Net foreign exchange gains' figure per the consolidated income statement.

Note 2: Excludes the gain on the derivative contract entered into to effectively hedge the Sterling proportion of the Group's expenses, as explained on page 31.

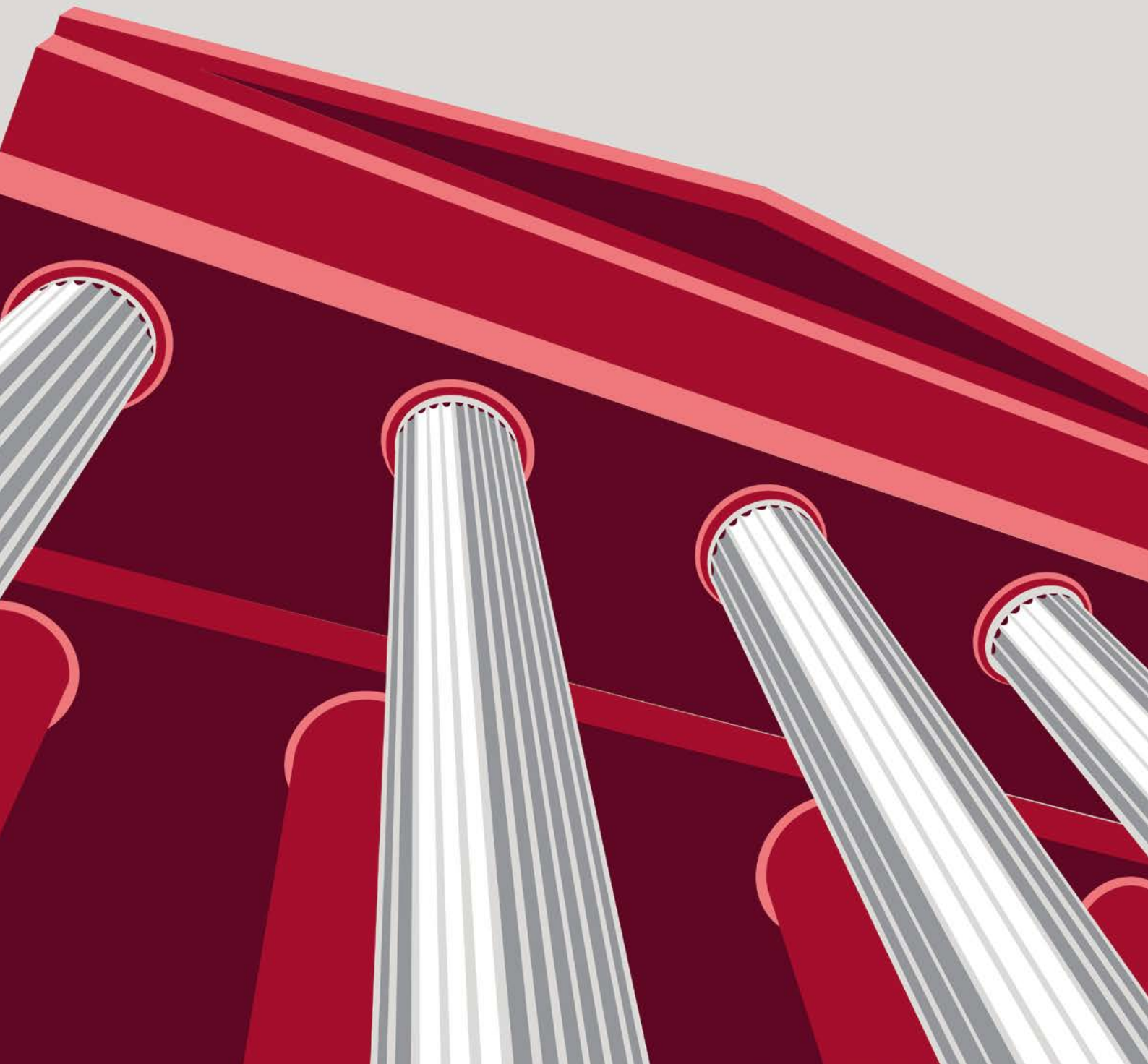
Tax

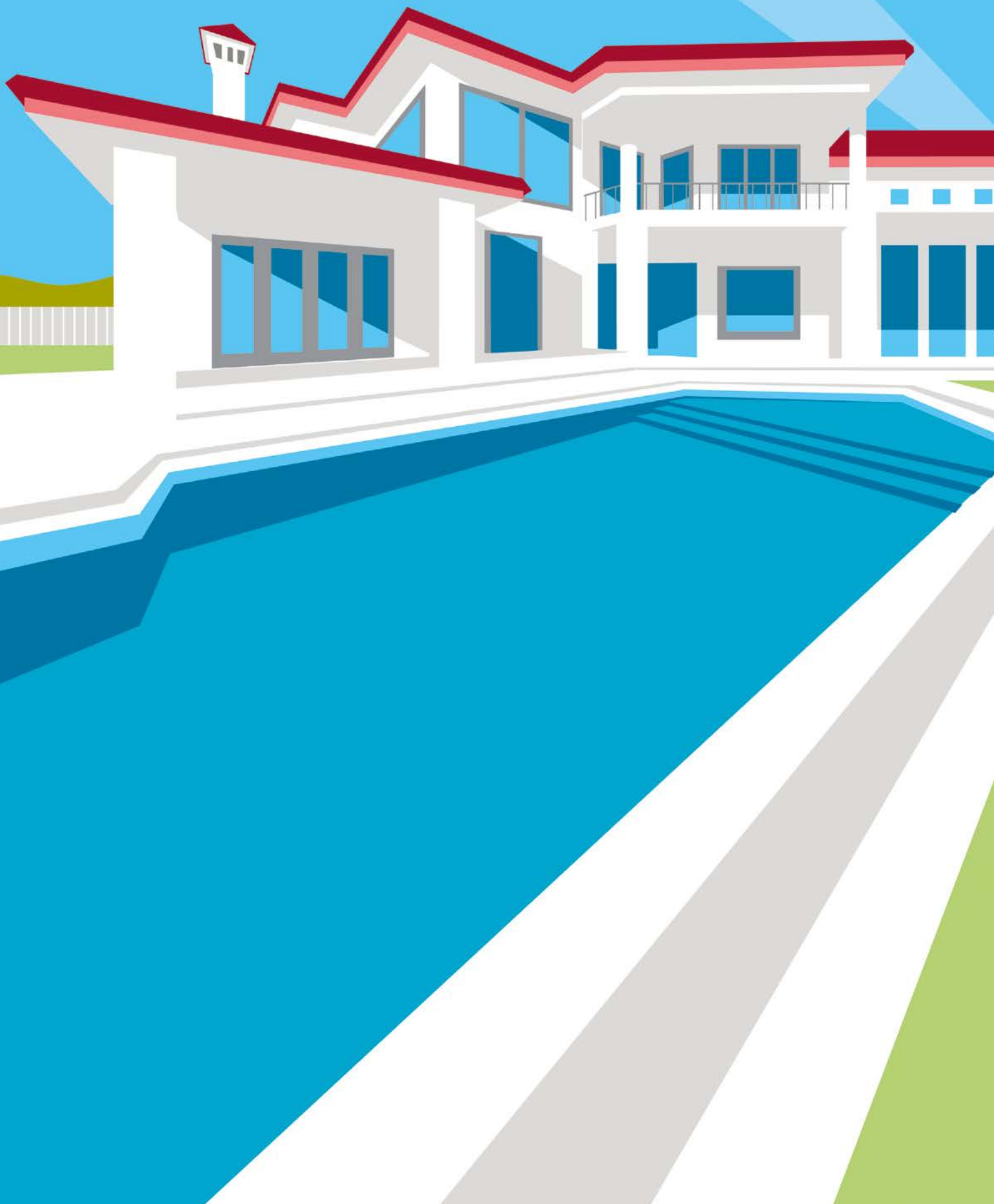
Our tax on ordinary activities for 2017 resulted in a tax credit of US\$16.0m (2016: tax expense US\$2.2m), based on a group profit before tax of US\$5.5m (2016: US\$159.8m).

The Group is liable to taxes on its corporate income in a number of jurisdictions, in particular the UK, Gibraltar and the US, where its companies carry on business. A tax charge is calculated in each legal entity across the Group and then consolidated. Therefore, the Group's effective rate is sensitive to the location of profits and is a composite tax rate reflecting the mix of tax rates charged in those jurisdictions.

The 2017 Group rate varies from the weighted average rate in those jurisdictions for a number of factors. The principal factor is the impact of income not subject to tax such as underwriting results and investment income arising in Bermuda. An additional factor is the future reduction in the UK corporation tax rate to 17% in 2020 and its effect on deferred tax liabilities and prior year adjustments, relating primarily to the syndicate's underwriting results which are taxed in later years.

In 2017 the effective rate was further distorted by major underwriting losses arising in the UK which are subject to tax on a declaration basis and so will be tax effected in 2020. This gives rise to a tax credit in the year and a deferred tax asset carried forward.





FINANCIAL POSITION AND CAPITAL STRENGTH

Financial position

At 31 December 2017 our adjusted net tangible assets totalled US\$1,043.7m (2016: US\$1,064.8m).

Summary consolidated statement of financial position

	2017 US\$m	2016 US\$m
Assets		
Intangible assets	97.8	93.9
Reinsurance contracts	1,349.5	884.1
Insurance and other receivables	908.3	718.3
Financial investments, investment in associated undertakings and cash	4,311.4	3,966.0
Investment related derivatives	4.7	5.5
FX related derivatives	13.7	7.1
Other assets	339.6	300.7
Total assets	7,025.0	5,975.6
Liabilities		
Deferred tax on intangible assets	11.2	10.7
Insurance contracts	5,027.3	4,243.5
Borrowings	219.8	157.5
FX related derivatives	12.5	11.8
Other liabilities	623.9	404.1
Total liabilities	5,894.7	4,827.6
Net assets	1,130.3	1,148.0
Adjusted net tangible assets	1,043.7	1,064.8

In addition to the profit recognised through the consolidated income statement, the other movements in our net assets related to defined benefit pension scheme related losses and charges (US\$1.6m); changes in unrealised foreign currency translation losses on foreign operations (US\$7.4m gain); share based payment related amounts (US\$0.8m net credit); and dividends paid during 2017 of US\$45.8m.

Capital strength

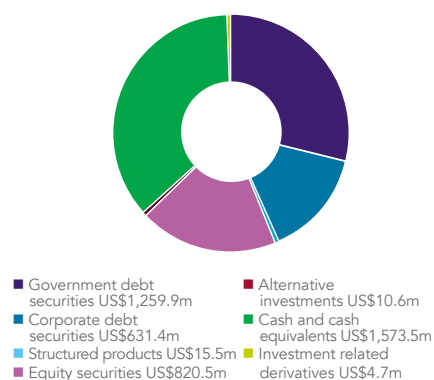
Our balance sheet remains strong. At 31 December 2017, Group capital resources totalled US\$1,468.5m, giving surplus management capital of US\$395.1m or 36.8% (2016: US\$297.1m/25.6%) over our Group capital requirement of US\$1,073.4m. The position at 31 December is after dividends paid during the year of US\$45.8m.

Reserving policy

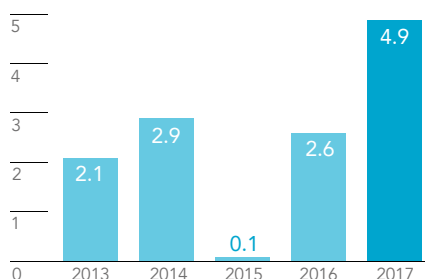
Preserving a strong statement of financial position is critical to the long-term success of an insurance business. The Group maintains appropriate loss reserves to cover its estimated future liabilities. Reserves are estimates that involve actuarial and statistical projections of the expected cost of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

Our reserving policy is to reserve to a 'conservative best estimate' and carry an explicit risk margin above that 'conservative best estimate'. This policy has led to a track record of modest annual reserve releases. In 2017 this trend continued with net releases of US\$9.6m (2016: US\$53.5m), after allowing for US\$13.1m reserve strengthening as a result of the Ogden rate change. Maintaining reserves is critical to safeguard future obligations to policyholders and the 'conservative best estimate' approach provides a secure foundation. It also provides a secure foundation for the pricing of new business which is particularly critical in a softening rating environment.

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



Investment return (net of fees) (%)



Asset allocation

Brit's invested assets (financial investments, investment in associates, cash and cash equivalents and derivative contracts) at 31 December 2017 were US\$4,316.1m (31 December 2016: US\$3,971.5m). This increase reflects favourable exchange rates, increased premium and the high level of return during 2017.

The Brit portfolio saw limited change in its fixed income holdings in 2017. The portfolio remained defensively positioned from both an interest rate and credit perspective, being short duration to protect against rising rates combined with low exposure to corporate credit with a focus on high quality issuers. The year-end allocation reflected cash and cash equivalents (2017: US\$1,573.5m/36.5%; 2016: US\$1,027.3m/25.9%) with a reduced holding in fixed income securities (2017: US\$1,891.3m/43.8%; 2016: US\$2,425.4m/61.1%). Brit's equity allocation increased to US\$820.5m/19.0% (2016: US\$492.0m/12.4%) through a combination of new purchases and strong investment return.

Our investments in specialised investment funds account for US\$126.6m or 2.9% (2016: US\$79.4m/2.0%) of our invested assets on a statutory reporting basis. The increase in 2017 is driven by increased allocation to specialist funds and strong growth on these positions over the year as equity markets rallied. The remaining specialised funds in this category cover small allocations to US and European credit.

The duration of our portfolio at 31 December 2017 was 0.5 years (2016: 1.1 years), which is shorter than the duration of our liabilities. This positioning is driven by the positive macro-economic environment and the risk that government spending plans and fiscal policy in the US could result in significant increases in yields over the short to medium term.

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

	Statutory basis						Total invested assets (look through) US\$m
	Equity securities US\$m	Debt securities US\$m	Specialised investment funds US\$m	Cash and cash equivalents US\$m	Associated undertaking US\$m	Derivative assets US\$m	
31 December 2017							
Look through basis							
Government debt securities	–	1,254.6	5.3	–	–	–	1,259.9
Corporate debt securities	–	631.3	0.1	–	–	–	631.4
Structured products	–	0.2	15.3	–	–	–	15.5
Equity securities	686.7	–	93.4	–	40.4	–	820.5
Alternative investments	–	–	10.6	–	–	–	10.6
Cash and cash equivalents	–	–	1.9	1,571.6	–	–	1,573.5
Investment related derivatives	–	–	–	–	–	4.7	4.7
Total invested assets (statutory)	686.7	1,886.1	126.6	1,571.6	40.4	4.7	4,316.1
31 December 2016							
Look through basis							
Government debt securities	–	1,829.3	1.6	–	–	–	1,830.9
Corporate debt securities	–	594.4	0.1	–	–	–	594.5
Structured products	–	1.0	13.0	–	–	–	14.0
Equity securities	399.8	–	55.6	–	36.6	–	492.0
Alternative investments	–	–	7.3	–	–	–	7.3
Cash and cash equivalents	–	–	1.8	1,025.5	–	–	1,027.3
Investment related derivatives	–	–	–	–	–	5.5	5.5
Total invested assets (statutory)	399.8	2,424.7	79.4	1,025.5	36.6	5.5	3,971.5

At 31 December 2017, 79.9% of our invested assets were investment grade quality (2016: 82.7%) with the reduction reflecting the increased allocation to equity and funds. An analysis of the credit quality of our invested assets is set out below:

Invested assets by rating

	2017 %	2016 %
AAA	40.7	9.9
AA	20.3	56.9
A	10.5	5.3
BBB	4.4	3.4
P-1 and P-2	4.0	7.2
Other	20.1	17.3
Total	100.0	100.0

Other includes equities and investment related derivatives

Gearing

At 31 December 2017, our gearing ratio was 24.6% (2016: 18.9%).

Our revolving credit facility (RCF) remains at US\$360.0m with an expiry date of 31 December 2020.

Under our capital policy we have identified a maximum of US\$250.0m (2016: US\$235.0m) of this facility to form part of our capital resources, with the balance available for liquidity funding. At 31 December 2017, the cash drawings on the facility were US\$45.0m (2016: undrawn) and a US\$80.0m uncollateralised letter of credit (LoC) was in place (31 December 2016: US\$80.0m/uncollateralised) to support our underwriting activities. At the date of this report, 14 February 2018, there were no cash drawings on the facility and the US\$80.0m uncollateralised LoC remained in place.

In addition, we have in issue £135.0m of 6.625% subordinated debt with a carrying value of 136.7m/US\$174.8m (31 December 2016: £127.5m/US\$157.5m). This instrument, which is listed on the London Stock Exchange, was issued in December 2005, is callable in whole by Brit on 9 December 2020 and matures in 2030.

Foreign exchange management

At 31 December 2017, our US dollar denominated net assets were 79.3% of our total net assets, reflecting the currency denomination of the majority of the business we write. Our net assets, analysed by currency, are as follows:

Net assets/(liabilities) by currency

	2017 %	2016 %
US dollar	79.3	118.3
Sterling	16.2	(5.9)
Euro	2.7	(8.0)
Canadian dollar	1.5	(0.4)
Australian dollar	0.3	(4.0)
Total	100.0	100.0

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

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

PRINCIPAL RISKS AND UNCERTAINTIES

Overview

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, operational and group.

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

Risk category	Risk	Description	Principal risk
Overarching	Earnings	Unexpected earnings volatility leads to unexpected losses.	
	Solvency	Capital ratio falls below the level targeted by management.	
	Liquidity	Insufficient financial resources available to meet liabilities as they fall due.	
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.	✓
	Underwriting – reinsurance	Failure to obtain reinsurance on attractive terms, or failure to recover under reinsurance arrangements.	
	Reserving	Prior year reserves are insufficient to cover claims (net of reinsurance).	✓
Investment	Investment market risk	Invested assets adversely affected by changes in economic variables, such as interest rates, bond yields, equity returns, credit spreads, credit ratings.	✓
	Currency	Exchange rate fluctuations materially impact our financial performance.	
Credit	Counterparty risk	Deterioration in the creditworthiness of, defaults by, or reputational issues related to, reinsurers or other third parties with whom we transact business.	
Operational and Group	People	Failure to attract, motivate and retain key Directors, senior underwriters, senior management and other key personnel, on whom our future success is substantially dependent.	✓
	Outsourcing arrangements	Failure on the part of any third party to perform agreed outsourced services, on which we are heavily reliant.	

Principal risks

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

Principal risk	Mitigation tools	Metrics	Status
Underwriting – pricing			
Inadequate pricing could have a material adverse effect on our results for underwriting operations and financial condition.	• Strategic focus on underwriting performance rather than on top line growth. • Strong governance processes around strategy and planning. • Pricing discipline is maintained through strict underwriting guidelines, monitoring of the delegated authorities and enforcement of the technical pricing framework. • Efficient use of the outwards reinsurance programme.	Risk adjusted rate change (2017: decrease of 1.3%; 2016: decrease of 3.3%).	This risk is particularly relevant in the current rating environment. Active rebalancing of the portfolio is a key focus for management.

PRINCIPAL RISKS AND UNCERTAINTIES

Principal risk	Mitigation tools	Metrics	Status																								
Underwriting – catastrophe																											
A catastrophic event or catastrophic events could result in large insured losses that adversely impact our financial results and potentially our capital position.	• Diverse portfolio of risks written between lines of business and geographic location. • Regular monitoring against the Board catastrophe risk appetite by our exposure management team. • Effective outwards reinsurance programme in place, with particular emphasis on managing accumulation of risks. • Clear limits set for key accumulations and conservative use of line size by our underwriters.	Largest realistic disaster scenarios (1 October 2017 estimated loss in US\$m): <table><tr><th>Event</th><th>Gross</th><th>Net</th></tr><tr><td>Gulf of Mexico windstorm</td><td>850</td><td>100</td></tr><tr><td>Florida Miami windstorm</td><td>736</td><td>86</td></tr><tr><td>US North East windstorm</td><td>755</td><td>68</td></tr><tr><td>San Francisco earthquake</td><td>737</td><td>294</td></tr><tr><td>Japan earthquake</td><td>230</td><td>145</td></tr><tr><td>Japan windstorm</td><td>95</td><td>53</td></tr><tr><td>European windstorm</td><td>233</td><td>144</td></tr></table>	Event	Gross	Net	Gulf of Mexico windstorm	850	100	Florida Miami windstorm	736	86	US North East windstorm	755	68	San Francisco earthquake	737	294	Japan earthquake	230	145	Japan windstorm	95	53	European windstorm	233	144	An aggregate catastrophe excess of loss cover is in place to protect the Group against combined property claims from multiple policies resulting from catastrophe events. This is supplemented by specific covers for peril regions, catastrophe swaps and industry loss warranties where they are a cost-efficient means to ensure that the Group remains within its catastrophe risk appetite. The impact of the major loss events of 2017 was in line with our expectations given the nature and scale of the events and our market share.
Event	Gross	Net																									
Gulf of Mexico windstorm	850	100																									
Florida Miami windstorm	736	86																									
US North East windstorm	755	68																									
San Francisco earthquake	737	294																									
Japan earthquake	230	145																									
Japan windstorm	95	53																									
European windstorm	233	144																									
Reserving																											
Estimating insurance reserves is inherently uncertain and, if insufficient, may have a material adverse effect on our results and financial condition.	• Conservative best estimate reserving philosophy with track record of releases. • Actuarial team recommend reserves independently from underwriting division using established actuarial techniques. • Independent external review of reserving is performed annually.	Reserve release ratio (2017: 0.6%; 2016: 3.5%).	Reserves are held at a ‘conservative best estimate’ and we also carry an explicit risk margin. No change in approach from prior years.																								

Principal risk	Mitigation tools	Metrics	Status
Investment risk			
Invested assets are susceptible to changes in economic conditions. A decrease in the value of our invested assets may have a material adverse effect on our results, financial condition and liquidity.	• Strong governance processes around investment strategy. • Regular monitoring against the Board investment risk appetite which includes defined limits for solvency, earnings risk and liquidity risk. • Investment guidelines in place for individual asset classes and monitored regularly.	Return on invested assets, net of fees (2017: 4.9%; 2016: 2.6%). Running yield (2017: 1.3%; 2016: 0.9%).	Our portfolio at the year end was highly liquid and defensively positioned.
People			
We could be adversely affected by the loss of one or more key employees or by an inability to attract and retain qualified personnel.	• Our remuneration strategy (including share-based remuneration) is designed to reward talent and success. We have a proven track record in being able to retain high-performing staff. • Succession and contingency plans are in place in the event of the loss of a key employee. • Regular monitoring of employee turnover and morale.	Staff turnover (2017: 6.9%; 2016: 8.8%).	The current environment remains competitive with a number of our peers actively seeking talented staff. We actively manage our remuneration and HR policies to ensure we continue to retain and attract the best staff.

United Kingdom's exit from the EU (Brexit)

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

Lloyd's implementation plan for its new Brussels-based European insurer is progressing. It has commenced an on-boarding programme for managing agents to ensure the necessary operational changes are implemented to allow business to be written through its Brussels subsidiary from 1 January 2019. Brit is supportive of Lloyd's proposals and looks forward to participating on the new platform.

OUR PEOPLE, CULTURE, SOCIAL, COMMUNITY AND ENVIRONMENTAL MATTERS

Introduction

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

Our people and culture

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

During 2017 we continued to strengthen our highly committed team. Through the attraction and recruitment of new talent and the ongoing development of existing expertise, we continued to embed a culture of achievement in the organisation. This has resulted in employees feeling valued for their contribution as part of a team working towards the same goals.

Brit is focused on the FCA's six consumer outcomes and the fair treatment of customers is at the heart of our business model. We believe our retention rate of 83.6% (2016: 84.3%) demonstrates a high level of customer satisfaction.

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

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

Brit Syndicates Limited has Chartered Insurer status through the Chartered Insurance Institute. This prestigious designation

signifies to our customers – and the market – that we are committed to the pursuit of the highest standards and demonstrates our adherence to ethical good practice.

Brit's cross-functional Social Committee continued to organise a range of social, community and charitable events for employees during the year. In addition to the social committee events, employees were also invited to participate in sailing events in the Solent during which more than 60 employees from around the world learned how to sail and race against each other. This developed their team and communication skills and was a fantastic opportunity for employees to mix together and meet people from other offices.

In October 2017, Brit held a 'celebrate the difference week', which provided a focus on individuals making a personal difference both to themselves and others. It concentrated on a variety of topics from working inclusively, understanding the positives that arise from businesses who have diverse and inclusive employee populations, mental, physical and emotional well-being, mentoring and a new volunteering opportunity in Africa. The various sessions, mainly hosted by external specialists, were well attended and well received.

The 2017 staff turnover rate excluding retirements and redundancies was 6.9% (2016: 8.8%).

At 31 December 2017, 42.8% (2016: 31.7%) of staff had completed at least five years of service and 17.2% (2016: 14.7%) had served at least ten years.

Social and community

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

During 2017 we again supported ten charities chosen by employees. The charities selected for 2017 were the Motor Neurone Disease Association (UK), Blossom Trust

(India), Autistica (UK), Action Duchenne (UK), The Disability Foundation (UK), Ordinary 2 Extraordinary (UK), Horatio's Garden (UK), Rockinghorse (UK), Bountiful Blessings (US) and Philabundance (US). We donated a sum of money to each charity at the start of the year and continued with fund raising activities through the year, including a well-attended quiz night.

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

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

During 2017, Brit donated US\$0.7m (2016: US\$0.7m) under its charitable initiatives. In addition to this, Brit employees completed 67.0 volunteering days (2016: 77.5 days).

Environmental responsibility

During 2017 we recycled 8.5 tonnes of paper waste (2016: 7.2 tonnes) and we sent 48.1 tonnes of general waste to energy recycling (2016: 63 tonnes). In 2017, we also recycled 1.4 tonnes of glass (2016: 10.2 tonnes), 5.2 tonnes of cardboard (2016: 32.5 tonnes) and 6.1 tonnes of food waste (2016: 8.2 tonnes). During 2017, in conjunction with our building managers, we continued to work hard to reduce waste sent to landfill. At December 2017 we were fully ESOS compliant.

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

We measure and monitor our carbon footprint. In 2017 our carbon emissions per employee were 4.8 tonnes (2016: 2.7 tonnes), primarily reflecting increased air travel driven by our expanding international office network and improved

carbon emissions data. The sources of these emissions were as follows:

Emission source	2017 CO2 (tonnes)	2016 CO2 (tonnes)
Gas	154	97
Electricity	460	537
Business air travel	2,062	863
Business travel other	3	3
Total carbon footprint	2,679	1,500
Number of employees at 31 December excluding NEDs	558	550
Carbon footprint per employee	4.8	2.7



GOVERNANCE

Directors' Report

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

Corporate Governance Report

This report explains our governance framework.

Modern Slavery and Human Trafficking Statement

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

GOVERNANCE

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DIRECTORS' REPORT

The Directors present their report together with the audited consolidated financial statements for the year ended 31 December 2017.

Principal activities, review of business and other disclosure

Details of the Company's principal activities and a review of the business are included in the strategic report.

Directors

On 1 January 2017, Richard Ward stepped down from his role as Chairman, but remains on the Board as Senior Independent Director. On the same date, Mark Cloutier, formerly Group Chief Executive Officer, became Group Executive Chairman, with Matthew Wilson replacing him as Group Chief Executive Officer, and Gordon Campbell joined the Board as a non-executive Director.

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

Mark Cloutier
Matthew Wilson
Mark Allan
Richard Ward
Andrew Barnard
Gordon Campbell
Jeremy Ehrlich

Statement of directors' responsibilities

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

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

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

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

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

Dividends

On 3 March 2017, the Company paid a dividend of US\$45.8m to the holder of its Class A ordinary shares. The Directors do not recommend a final dividend.

Share capital

The Company's ordinary issued share capital at 31 December 2017 comprised two classes of ordinary shares, Class A Ordinary and Class B Ordinary, which are fully paid.

Voting rights

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

Articles of Association

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

Shareholders

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

Shareholder	Units	Class	% of total A and B ordinary shares
FFHL Group Limited	281,057,706	B Ordinary	72.51
OMERS Administration Corporation	106,550,524	A Ordinary	27.49

Significant agreements

The following agreement which was in force at 31 December 2017, takes effect, alters or terminates on a change of control of the Company.

Revolving Credit Facility

The Group has a syndicated revolving credit facility (RCF) which provides for US\$360.0m of committed multi-currency financing. Amounts under the RCF can be drawn until 30 November 2020, and the RCF terminates on 31 December 2020, on which date all outstanding facilities must be repaid.

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

Employment

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

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

In the event of employees becoming disabled, every effort is made to ensure their employment with the Group continues and appropriate training arranged. So far as possible, the Company ensures that the training, career development and promotion of any disabled person is identical to that of a colleague who does not suffer from such a disability. The Company maintains procedures by which all employees are systematically encouraged to express matters that may affect them and are provided with information on matters of concern.

The Employee Share Scheme, as well as other means provide an opportunity for staff involvement in the Company's performance.

Political donations

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

Disclosure of information to the Company's auditor

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

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

Auditor

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

Post Balance Sheet Events

The Company has no post balance sheet events requiring disclosure.

Going concern

A review of the financial performance of the Group is set out on pages 22 to 34. The financial position of the Group, its cash flows and borrowing facilities are set out on pages 37 to 39. After reviewing the Group's budgets and medium term plans, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the accounts.

Information included in the Strategic Report

The below information is not shown in the directors' report because it is shown in the strategic report instead under s414C(11).

- **Charitable donations**
Disclosures regarding charitable donations can be found on pages 44 to 45.
- **Financial instruments**
Details of the Group's risk management framework are set out on pages 40 to 43.

By order of the Board

Tim Harmer
Company Secretary
14 February 2018

Brit Limited: 8821629

CORPORATE GOVERNANCE REPORT

Introduction

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

Board of Directors

The Board currently has seven directors and the full board meets on a regular basis.

Independence of Directors

The Board considers Richard Ward to be an independent non-executive Director of the Company, within the meaning of the Code. Richard Ward also serves as chair of the board of Brit Syndicates Limited and was appointed chair of the Company's audit committee with effect from 1 January 2017. Mr Ward is also chair of the Company's Nomination and Remuneration committees.

Gordon Campbell, non-executive Director, was independent on his appointment as a Director of the Company in January 2017 and remains independent.

Group Executive Chairman

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

Group Chief Executive Officer

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

Senior independent non-executive Director

The Board has appointed Richard Ward as the senior independent non-executive Director of the Company. The senior independent Director was also responsible for carrying out the evaluation of the role of the Chairman during the year.

Conflicts of Interest

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

Committees of the Board

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

Brit Governance Structure as at 31 December 2017

The Governance structure, shown overleaf, is deeply embedded within the business. The Company's main operating subsidiaries have in place governance principles in accordance with the Group's Memorandum of Corporate Governance.

Audit Committee

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

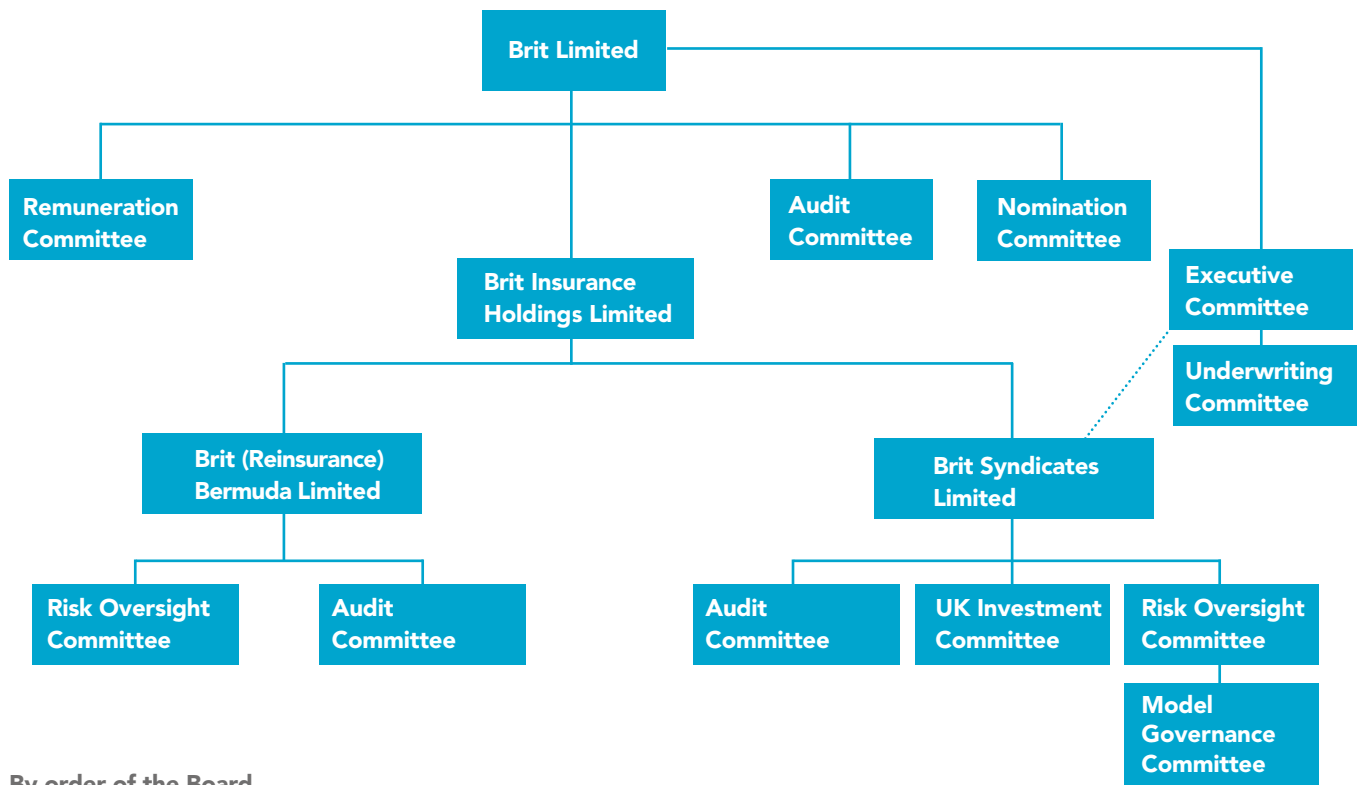
Remuneration Committee

The Remuneration Committee is responsible for setting the Group's remuneration policy. The company aims to reward employees fairly. The Committee is also responsible for setting the remuneration of all executive directors.

Nomination Committee

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

Governance Structure



By order of the Board

Tim Harmer
 Company Secretary
 14 February 2018

MODERN SLAVERY AND HUMAN TRAFFICKING STATEMENT

Introduction

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

Our business

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

We operate globally via our own international distribution network and broker partners. Insurance represents over 80% of our gross written premium, with the remainder coming from treaty reinsurance.

The average number of employees working at Brit during 2017 was 562 and profit after tax in 2017 was US\$21.5m

Our supply chains

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

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

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

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

Our policies on slavery and human trafficking

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

Due diligence processes for slavery and human trafficking

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

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

Training

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

Our commitment

This statement is made pursuant to section 54(1) of the Modern Slavery Act 2015 and constitutes our Group's slavery and human trafficking statement for the financial year ending 2017.

Following its initial adoption, this Modern Slavery and Human Trafficking Statement will be reviewed by Brit's Board of Directors at least annually and may be amended from time to time.

By order of the Board**Tim Harmer****Company Secretary**

14 February 2018



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INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BRIT LIMITED



Report on the audit of the financial statements

Opinion

In our opinion:

Brit Limited's Group financial statements and Company financial statements (the financial statements) give a true and fair view of the state of the Group's and of the Company's affairs as at 31 December 2017 and of the Group's profit and cash flows for the year then ended;

- The Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- The Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland', and applicable law); and
- The financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements, included within the Annual Report, which comprise: the Group and Company statements of financial position as at 31 December 2017; the Group income statement, the Group statement of comprehensive income, the Group statement of cash flows, and the Group and Company statements of changes in

equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

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

Basis for opinion

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

Independence

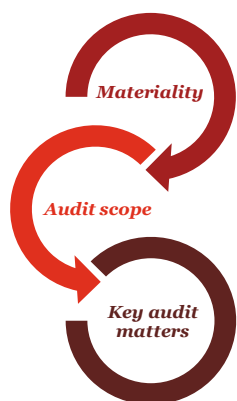
We remained independent of the group and company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities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

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

Other than those disclosed in note 13 to the financial statements, we have provided no non-audit services to the Group or the Company in the period from 1 January 2017 to 31 December 2017.

Our audit approach

Overview



- Overall Group materiality: US\$15.35m, based on the total change in net operating expenses and net claims incurred that would drive a change in the combined operating ratio ('COR') by 1%.
- Overall Company materiality: US\$11.9m, based on 1% of total assets.
- We performed audit procedures over material balances/transactions in active operations/subsidiaries in the UK for the purpose of the Group audit.
- We have performed the majority of the work for the purpose of the Group audit on Brit Global Specialty Singapore Pte. Ltd. and Brit Reinsurance (Bermuda) Limited (formerly Brit Insurance (Gibraltar) PCC Limited), as the Group maintains its accounting records in the UK.
- Appropriateness of methodologies and assumptions applied in the valuation of claims incurred but not reported (IBNR) component of insurance contracts liabilities.
- Risk of inappropriate revenue recognition (including fraud risk).
- Valuation of investments with valuations modelled using unobservable inputs.



Scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the Directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
Appropriateness of methodologies and assumptions applied in the valuation of the IBNR component of insurance contracts liabilities See notes 2.4, 3.2, 4.1.3 and 20 of the consolidated financial statements for disclosures of related accounting policies, judgments and estimates. The IBNR component of insurance contract liabilities are a material balance within the financial statements (US\$1,693.8m as at 31 December 2017) which are also highly judgemental and complex to calculate. These are a best estimate of all claims incurred but not settled at a given date, regardless of whether these have been reported to the Group. There are varying methods which can be adopted in the estimation of IBNR which are underpinned by a series of assumptions selected by the Group. These can rely on a large degree of judgement and relatively small changes in these assumptions can lead to significant movements in IBNR.	Our core team with actuarial specialists have performed the following: • We understood, assessed and tested the design and operational effectiveness of key controls over the Group's estimation of IBNR, which included controls over the extraction of data from the underlying systems and the review and approval of the IBNR. • We tested on a sample basis the underlying source data being claims incurred and claims payments to supporting documentation; no material exceptions were found. • We developed a point estimate of IBNR on both a gross and net basis and we compared our estimate to those booked by management, and in all those cases where significant differences were identified, we obtained satisfactory responses, concluding on the reasonableness of management's estimates. • In relation to catastrophe events, we understood the approach used to set the booked reserves and consistency of its application. For a sample of individual claims balances, we traced the booked reserves back to supporting documentation. Further, we compared booked reserves to PwC's market view for each event and in all those cases where significant differences were identified we obtained satisfactory responses and concluded on the reasonableness of management estimates; no material exceptions were found. Based on the work performed, the recorded IBNR is consistent with the evidence obtained.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BRIT LIMITED



Key audit matter	How our audit addressed the key audit matter
Risk of inappropriate revenue recognition (including fraud risk) See notes 2.4, 3.3, and 5 of the consolidated financial statements for disclosures of related accounting policies, judgments and estimates. Auditing standards assume a rebuttable presumption, that there is a significant risk of fraud in revenue recognition in all businesses. We have not rebutted the risk of fraud in revenue recognition and we determined the key risks of fraud in this area to be around the judgmental aspects of revenue which include appropriate premium earnings profiles applied to the various contracts/lines of business and accrued pipeline premium. The Group recognises a material amount of pipeline premiums estimates in its financial statements using an actuarial technique to historic written premium data in order to derive written premium development factors. For certain lines of business, judgemental adjustments are made to the derived written premium development factors. The Group is recognising revenue mainly on straight line basis over the term of the policies as they are of the view that this approximate to incidence of the risk.	Our testing procedures over pipeline premiums estimates and non-standard earning patterns included: • We understood, assessed and tested the design and operating effectiveness of the governance and controls over the monitoring of pipeline premiums estimates. In particular we have focused on management's monitoring controls of pipeline premium forecasts and signed premiums to date. No material exceptions were found. • We have reviewed the methodology adopted in the calculation of pipeline premiums estimates including recalculation of development factors; no material issues were found. • We have understood a sample of material adjustments made to development factors in the determination of pipeline premiums estimates and considered whether these have been made appropriately. No material exceptions were noted. • We have obtained and reviewed management accounting paper, which concluded that the straight line basis of earning premium revenue is a materially appropriate approximation of incidence of risk and we concur with the management assessment. Based on the above procedures we note that no material exceptions were identified in relation to revenue.



Key audit matter	How our audit addressed the key audit matter
Valuation of investments with valuations modelled using unobservable inputs See notes 2.4, 3.5 and 22 of the consolidated financial statements for disclosures of related accounting policies, judgments and estimates. The Group investment portfolio contain some investments measured at fair value, whose fair value is determined using unobservable inputs. Fair values for these investments can only be calculated using estimates or risk-adjusted value ranges (Level 3 portfolio investments) and accordingly these investments require some additional audit focus as they require a greater degree of judgement to value.	We coordinated with our internal valuation specialists based in Toronto who centrally test the valuation of all investments. We have performed the following for a sample of Level 3 portfolio investments: • Reviewed appropriateness of models and assumptions. • Reviewed and re-performed the fair value calculations. • Concluded on the reasonableness of the valuation models. Based on the above procedures, no material exceptions were found.

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

How we tailored the audit scope

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the Directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. We gained an understanding of the legal and regulatory framework applicable to the Group and Company and the industry in which it operates, and considered the risk of acts by the Group and Company which were contrary to applicable laws and regulations, including fraud. We designed audit procedures to respond to the risk, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. We designed audit procedures that focused on the risk of non-compliance with the Companies Act 2006, the Council of Lloyd's regulations, the Financial Conduct Authority's and the Prudential Regulation Authority's regulations applicable to insurance companies and UK tax legislation that could give rise to a material misstatement in the financial statements. For compliance with laws and regulations our tests included review of the financial statements disclosures to underlying supporting documentation and for consistency with our review of correspondence with the regulators, enquiries with

management, enquiries of the Group Director of Legal and Compliance, and review of all internal audit reports in so far as they relate to the financial statements.

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it.

We did not identify any key audit matters relating to irregularities, including fraud. As in all of our audits, we also addressed the risk of management override of internal controls, including testing journals and evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

Brit is a global specialty insurer and reinsurer, present in Lloyd's of London and has operations in the United States of America, Singapore, and Bermuda, and writes insurance business internationally. We have scoped in active operations/ subsidiaries in the UK for the purpose of the Group audit and performed audit procedures over material balances/ transactions. Further, for subsidiaries in Singapore (Brit Global Specialty Singapore Pte. Ltd.) and Bermuda (Brit Reinsurance (Bermuda) Limited), we have performed the majority of the work for the purpose of the Group audit, as the financial records and supporting information is maintained in the Group's London headquarters.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BRIT LIMITED

**Materiality**

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the

individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

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

	Group financial statements	Company financial statements
Overall materiality	US\$15.35m	US\$11.90m
How we determined it	This represents the total by which net operating expenses and net claims incurred would have to fluctuate to move the COR by 1%.	1% of total assets.
Rationale for benchmark applied	Materiality for the consolidated financial statements is based on 1% change in combined operating ratio. The benchmark to determine materiality for the Group has been chosen as the combined operating ratio which is a primary performance measure for Brit.	We believe that due to nature of operations of parent Company which is a holding company, total assets is an appropriate and generally accepted auditing benchmark.

For each component in the scope of our Group audit, we allocated a materiality that is less than our overall Group materiality. The range of materiality allocated across components was between US\$5.82m and US\$15.35m. All significant components were audited to a local statutory audit materiality that was also less than our overall Group materiality.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above US\$0.76m (Group audit) and US\$0.60m (Company audit) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

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

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's and Company's ability to continue as a going concern.



Reporting on other information

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

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

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

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

Strategic Report And Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2017 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibilities of the Directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities set out on page 48, the Directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

Use of this report

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BRIT LIMITED



Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Audit Committee, we were appointed by the members on 14 June 2016 to audit the financial statements for the year ended 31 December 2016 and subsequent financial periods. The period of total uninterrupted engagement is two years, covering the years ended 31 December 2016 to 31 December 2017.

Mark Bolton (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
15 February 2018

Notes:

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

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



CONTENTS



INTRODUCTION TO THE PRIMARY STATEMENTS

Consolidated income statement

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

Consolidated statement of comprehensive income

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

Consolidated statement of financial position

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

Consolidated statement of cash flows

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

Consolidated statement of changes in equity

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

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CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2017



	Note	Year ended 31 December 2017 US\$m	Year ended 31 December 2016 US\$m
Revenue			
Gross premiums written	5	2,057.0	1,912.2
Less premiums ceded to reinsurers	5	(526.2)	(432.0)
Premiums written, net of reinsurance		1,530.8	1,480.2
Gross amount of change in provision for unearned premiums		(54.3)	21.4
Reinsurers' share of change in provision for unearned premiums		60.3	32.5
Net change in provision for unearned premiums		6.0	53.9
Earned premiums, net of reinsurance		1,536.8	1,534.1
Investment return	6	205.5	132.2
Return on derivative contracts	7	5.2	(52.8)
Other income	8	13.9	1.1
Net foreign exchange gains	9	9.7	52.2
Total revenue		1,771.1	1,666.8
Expenses			
Claims incurred:			
Claims paid:			
Gross amount		(1,068.4)	(874.9)
Reinsurers' share		206.7	140.7
Claims paid, net of reinsurance		(861.7)	(734.2)
Change in the provision for claims:			
Gross amount		(619.0)	(183.9)
Reinsurers' share		372.4	62.0
Net change in the provision for claims		(246.6)	(121.9)
Claims incurred, net of reinsurance	5	(1,108.3)	(856.1)
Acquisition costs	10	(535.4)	(530.9)
Other operating expenses	10	(109.9)	(104.8)
Total expenses excluding finance costs		(1,753.6)	(1,491.8)
Operating profit		17.5	175.0
Finance costs	12	(17.1)	(18.8)
Share of net profit of associates		5.1	3.6
Profit on ordinary activities before tax		5.5	159.8
Tax income/(expense)	15(a)	16.0	(2.2)
Profit for the year		21.5	157.6

All profits arise from continuing operations.

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2017



	Note	Year ended 31 December 2017 US\$m	Year ended 31 December 2016 US\$m
Profit attributable to owners of the parent		21.5	157.6
Other comprehensive income			
Items not to be reclassified to profit or loss in subsequent periods:			
Actuarial losses on defined benefit pension scheme	21	(1.9)	(5.4)
Deferred tax gain relating to actuarial gains on defined benefit pension scheme	15(b)	0.3	0.9
Items that may be reclassified to profit or loss in subsequent periods:			
Change in unrealised foreign currency translation losses on foreign operations		7.4	(13.7)
Total other comprehensive income		5.8	(18.2)
Total comprehensive income recognised for the year		27.3	139.4

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2017



	Note	31 December 2017 US\$m	31 December 2016 US\$m
Assets			
Intangible assets	16	97.8	93.9
Property, plant and equipment	17	21.3	22.9
Deferred acquisition costs	18	235.7	219.6
Investments in associated undertakings	14	40.4	36.6
Reinsurance contracts	20	1,349.5	884.1
Employee benefits	21	48.6	42.5
Deferred taxation	19	20.4	0.4
Current taxation		13.7	15.3
Financial investments	22	2,699.4	2,903.9
Derivative contracts	23	18.3	12.6
Insurance and other receivables	24	908.3	718.3
Cash and cash equivalents	25	1,571.6	1,025.5
Total assets		7,025.0	5,975.6
Liabilities and Equity			
Liabilities			
Insurance contracts	20	5,027.3	4,243.5
Borrowings	26	219.8	157.5
Other financial liabilities	27	82.1	–
Deferred taxation	19	–	25.8
Provisions		2.4	2.4
Current taxation		21.1	4.6
Derivative contracts	23	12.5	11.8
Insurance and other payables	28	529.5	382.0
Total liabilities		5,894.7	4,827.6
Equity			
Called up share capital	29	6.4	6.4
Capital redemption reserve		0.2	0.2
Foreign currency translation reserve		(83.6)	(91.0)
Retained earnings		1,207.3	1,232.4
Total equity attributable to owners of the parent		1,130.3	1,148.0
Total liabilities and equity		7,025.0	5,975.6

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

These financial statements were approved by the Board of Directors on 14 February 2018 and were signed on its behalf by:

Matthew Wilson
Group Chief Executive Officer

Mark Allan
Chief Financial Officer

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017



	Note	Year ended 31 December 2017 US\$m	Year ended 31 December 2016 US\$m
Cash flows from operating activities			
Cash generated from operations	32	532.3	579.4
Tax paid		(12.0)	(3.4)
Interest received		42.3	57.8
Dividend received		6.4	17.5
Net cash inflows from operating activities		569.0	651.3
Cash flows from investing activities			
Purchase of intangible assets	16	(7.4)	(6.3)
Purchase of property, plant and equipment	17	(0.9)	(8.3)
Investment in associated undertaking		1.6	(4.9)
Net cash outflows from investing activities		(6.7)	(19.5)
Cash flows from financing activities			
Drawdown on revolving credit facility		45.0	–
Purchase of class A shares for cancellation		–	(58.1)
Purchase of shares for share-based payment schemes		(11.6)	(3.4)
Interest paid		(13.6)	(15.4)
Dividend paid		(45.8)	(90.8)
Net cash outflows from financing activities		(26.0)	(167.7)
Net increase in cash and cash equivalents		536.3	464.1
Cash and cash equivalents at beginning of the year		1,025.5	581.0
Effect of exchange rate fluctuations on cash and cash equivalents		9.8	(19.6)
Cash and cash equivalents at the end of the year	25	1,571.6	1,025.5

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017



	Note	Called up share capital US\$m	Capital redemption reserve US\$m	Foreign currency translation reserve US\$m	Retained earnings US\$m	Total equity US\$m
At 1 January 2017		6.4	0.2	(91.0)	1,232.4	1,148.0
Total comprehensive income recognised		–	–	7.4	19.9	27.3
Share-based payments	33	–	–	–	0.8	0.8
Dividend	30	–	–	–	(45.8)	(45.8)
At 31 December 2017		6.4	0.2	(83.6)	1,207.3	1,130.3

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016



	Note	Called up share capital US\$m	Capital redemption reserve US\$m	Foreign currency translation reserve US\$m	Retained earnings US\$m	Total equity US\$m
At 1 January 2016		6.6	–	(77.3)	1,227.2	1,156.5
Total comprehensive income recognised		–	–	(13.7)	153.1	139.4
Repurchase of class A shares		–	–	–	(58.1)	(58.1)
Cancellation of share capital		(0.2)	0.2	–	–	–
Share-based payments	33	–	–	–	1.0	1.0
Dividend	30	–	–	–	(90.8)	(90.8)
At 31 December 2016		6.4	0.2	(91.0)	1,232.4	1,148.0

Nature and Purpose of Group Reserves

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS



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

1 GENERAL INFORMATION

The consolidated financial statements of Brit Limited and its subsidiaries (collectively, the Group) for the year ended 31 December 2017 were authorised for issue in accordance with a resolution of the Directors on 14 February 2018. The Group's principal activity is the underwriting of general insurance and reinsurance business.

Brit Limited (the Company) is a limited company, incorporated and domiciled in England and Wales. Brit Limited was acquired by FFHL Group Limited, a subsidiary of Fairfax Financial Holdings Limited (FFHL), on 5 June 2015. The shares of the Company were delisted from the official list of the London Stock Exchange on 23 June 2015. The Company was re-registered from a public limited company to a private limited company on 29 June 2015 and the name of the Company changed accordingly.

2 ACCOUNTING POLICIES AND BASIS OF PREPARATION

2.1 Basis of preparation

The consolidated financial statements for the year ended 31 December 2017 have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU). The accounting policies of the Group have been applied consistently to all the years presented, unless otherwise stated.

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

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

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

The Group has adopted the following amendments to standards with a date of initial application of 1 January 2017:

(a) Statement of Cash Flows – Amendments to IAS 7

These amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities. These amendments include:

- providing a reconciliation about changes in liabilities arising from financing activities;
- providing a specific policy on which instruments meet the definition of cash and cash equivalents; and
- disclosing any cash and cash equivalents that are not available for use by the Group.

These amendments have resulted in enhanced disclosures but have had no impact on the Group's financial position or performance.

(b) Recognition of deferred tax assets for unrealised losses – Amendments to IAS 12

These amendments have no impact on the Group.



(c) IFRS annual improvements cycle 2014-2016

Various minor amendments to IFRS. These amendments have no impact on the Group.

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

Standard		Effective
IFRS 2	Classification and measurement of share-based payment transactions (amendments to IFRS 2 Share-based Payment)	Periods commencing on or after 1 January 2018
IFRS 4	Applying IFRS 9 with IFRS 4 (amendments)	Periods commencing on or after 1 January 2018
IFRS 9	Financial Instruments (2014)	Periods commencing on or after 1 January 2018
IFRS 15	Revenue from Contracts with Customers (2014)	Periods commencing on or after 1 January 2018
IFRS 16	Leases (2016)	Periods commencing on or after 1 January 2019
IFRS 17	Insurance Contracts (2017)	Periods commencing on or after 1 January 2021

IFRS 17 'Insurance Contracts'

In May 2017, the IASB issued IFRS 17 which will have the effect of introducing fundamental changes to the statutory reporting of insurance entities. IFRS 17 replaces the existing insurance contracts accounting standard, IFRS 4, and is effective for annual periods beginning on or after 1 January 2021, with early application permitted. This standard has not yet been endorsed by the EU.

Brit has initiated an implementation project which is currently assessing the impact of adopting IFRS 17 on its financial statements and which will determine both the operational and reporting effects upon the business. The project aims to ensure that the standard is fully embedded within the business before it becomes effective on 1 January 2021.

IFRS 9 'Financial Instruments'

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

In September 2016 the IASB issued amendments to IFRS 4 that provided two approaches for insurers to applying the requirements of IFRS 9, including an optional temporary exemption from applying IFRS 9 until 2021 for those companies whose activities are predominantly connected with insurance. Brit will be taking advantage of this temporary exemption and will adopt IFRS 9 from 1 January 2021.

IFRS 15 'Revenue from Contracts with Customers'

IFRS 15 was issued in 2014, replacing IAS 18, IAS 11 and a number of revenue related interpretations. IFRS 15 applies to annual reporting periods beginning on or after 1 January 2018. The standard introduced a simple, five step principles-based model to be applied to the accounting of contracts with customers that fall within the scope of the standard. Revenue from insurance contracts and financial instruments is outside the scope of IFRS 15.

Brit has completed an initial assessment of the potential impact of adopting IFRS 15, focussing on fees and commission income, and has concluded that there will not be a significant impact for the Group, which intends to apply the requirements of the new standard retrospectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS



2 ACCOUNTING POLICIES AND BASIS OF PREPARATION (continued)

IFRS 16 'Leases'

In January 2016, the IASB issued IFRS 16 which replaces the current lease accounting standard, IAS 17. IFRS 16 eliminates the classification of leases as either operating or finance leases for lessees. Instead, lessees will be required to recognise both a right of use asset and a lease liability on balance sheet for all leases. The standard will apply to reporting periods beginning on or after 1 January 2019. The Group's preliminary assessment of the impact of this standard is that it is not expected to have a significant impact on the Group's financial statements.

The Directors anticipate that the adoption of the other standards in future periods will not have a material impact on the financial statements of the Group.

2.2 Basis of consolidation

The consolidated accounts include the accounts of the Company, its subsidiaries and associates and the Group's participation in Lloyd's syndicates' assets, liabilities, revenues and expenses. Subsidiaries are those entities (including structured entities) that an investor controls, when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The financial statements of the subsidiaries are prepared up to 31 December each year. Consolidation adjustments are made to convert subsidiary accounts 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.

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

Underwriting members at Lloyd's have several but not joint liability for the transactions of the syndicates in which they participate. Therefore, for each managed syndicate on which the Group participates, only the relevant proportion of the transactions, assets and liabilities of those syndicates are reflected in the consolidated financial statements. Syndicate assets are held subject to trust deeds for the benefit of the syndicate's insurance creditors. As at 31 December 2017 Brit UW Limited, a subsidiary of the Group, provided 100% of the capital for Syndicate 2987 and therefore all transactions, assets and liabilities of Syndicate 2987 have been included in the Group's financial statements. The Group managed the underwriting of, but did not participate as a member of, Syndicate 2988 at Lloyd's and consequently, the financial position and performance (or proportions thereof) of that syndicate are not included in the Group's financial statements.

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

2.3 Product classification

Insurance contracts are those contracts that transfer significant insurance risk. The significance of insurance risk is dependent on both the probability of an insured event and the magnitude of its potential effect to the policyholder.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period.

Where the Group has issued financial guarantee contracts these have been regarded as insurance contracts and have been accounted for in accordance with IFRS 4 'Insurance Contracts'.



2.4 Other accounting policies

2.4.1 Insurance contracts

(a) Premiums

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

(b) Profit commissions

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

(c) Deferred acquisition costs

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

(d) Claims incurred

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

(e) Outstanding claims provisions

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

(f) Provision for unearned premiums

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

(g) Liability adequacy tests

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS



2 ACCOUNTING POLICIES AND BASIS OF PREPARATION (continued)

(h) Reinsurance

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

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

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

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

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

2.4.2 Revenue recognition

(a) Fee and commission income

Fee and commission income consists mainly of administration and broking fees charged to non-aligned syndicates. It is recognised in the accounting period in which the service is rendered by reference to completion of the specific transaction, assessed on the basis of the actual service provided as a proportion of the total services to be provided.

(b) Investment return

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

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

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



2.4.3 Recognition and derecognition of financial assets and financial liabilities

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

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

2.4.4 Investments

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

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

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

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

2.4.5 Derivatives

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS



2 ACCOUNTING POLICIES AND BASIS OF PREPARATION (continued)

2.4.6 Intangible assets

(a) Syndicate participation rights

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

(b) Computer software

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

(c) Trade names and distribution channels

Trade names and distribution channels that have been acquired on acquisition of a subsidiary are initially recognised at fair value. They are deemed to be finite life assets and amortised on a straight-line basis over their expected useful economic lives, as follows:

Trade names	5 years
Distribution channels	15 years

(d) Renewal rights

Renewal rights are recognised at fair value upon acquisition and amortised straight-line over their expected useful lives which varies between two and four years.

2.4.7 Property, plant and equipment

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

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

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

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

Following a change in head office premises during 2016, useful lives were revised to reflect the useful economic lives of new assets acquired.



2.4.8 Impairment

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

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

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

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

2.4.9 Cash and cash equivalents

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

2.4.10 Income taxes

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

(a) Current income tax

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

(b) Deferred income tax

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

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

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

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

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

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

Deferred tax assets and liabilities are not discounted.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS



2 ACCOUNTING POLICIES AND BASIS OF PREPARATION (continued)

2.4.11 Employee benefits

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

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

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

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

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

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

2.4.12 Share-based payments

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

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

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

2.4.13 Own shares

Where the Company purchases its own share capital, the consideration paid is shown as a deduction from total shareholders' equity. No gain or loss is recognised in the income statement on the purchase, sale, issue or cancellation of own shares and any consideration paid or received is recognised directly in equity.

2.4.14 Provisions and contingencies

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



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

2.4.15 Leased assets

Where the Group enters into an operating lease, the payments (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the lease term. An operating lease is one in which the risks and rewards remain with the lessor.

2.4.16 Foreign currency translation

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

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

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

2.4.17 Borrowings

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

2.4.18 Other financial liabilities

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

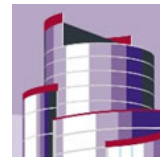
2.4.19 Segmental reporting

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

2.4.20 Loans and receivables

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS



2 ACCOUNTING POLICIES AND BASIS OF PREPARATION (continued)

2.4.21 Offsetting of financial instruments

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

2.4.22 Dividend and capital distributions

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

2.4.23 Collateral

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

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

3.1 Introduction

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

3.2 The ultimate liability arising from claims made under insurance contracts

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

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

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

- Quarterly statistical data is produced in respect of gross and net premiums and claims (paid and incurred);
- Projections of ultimate premiums, reinstatement premiums and claims are produced by the internal actuarial department using standard actuarial projection techniques (e.g. Basic Chain Ladder, Bornhuetter-Ferguson, Initial Expected Loss Ratio). The Basic Chain Ladder and Bornhuetter-Ferguson projection methods are based on the key assumption that historical development of premiums and claims is representative of future development. Claims inflation is taken into account in the Initial Expected Loss Ratio selections but is otherwise assumed to be in line with historical inflation trends, unless explicit adjustments for other drivers of inflation such as legislative developments are deemed appropriate.



- Some classes of business have characteristics which do not necessarily lend themselves easily to statistical estimation techniques, e.g. due to low data volumes. In such cases, for example, a policy-by-policy review may also be carried out to supplement statistical estimates;
- In the event of catastrophe losses, prior to detailed claims information becoming available, claims provision estimates are compiled using a combination of output from specific recognised modelling software and detailed reviews of contracts exposed to the event in question;
- The initial ultimate selections derived by the actuarial department, along with the underlying key assumptions and methodology, are discussed with class underwriters, divisional underwriting directors and the claims team at 'pre-committee' meetings. The actuarial department may make adjustments to the initial ultimates following these meetings;
- Following the completion of the 'pre-committee' meetings and peer review process within the actuarial department, the ultimate selections (actuarial estimate), assumptions, methodology and uncertainties are presented to the Reserving Committee for discussion and debate;
- Following review of the actuarial estimate, the Reserving Committee recommends the committee estimate to be adopted in the financial statements; and
- As part of their audit engagement, claims provisions are subject to external actuarial review by Brit's auditor.

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

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

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

The carrying value at the date of the statement of financial position of gross claims reported and loss adjustment expenses and claims incurred but not reported were US\$4,136.1m (2016: US\$3,406.7m) as set out in Note 20 to the accounts. The amount of reinsurance recoveries estimated at that date is US\$1,116.2m (2016: US\$711.1m).

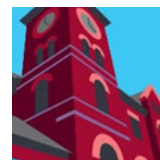
3.3 Pipeline premiums

Written premiums include pipeline premiums of US\$540.5m (2016: US\$459.4m) which represent future premiums receivable on in-force insurance contracts. Pipeline premium estimates are typically based on standard actuarial projection techniques (e.g. Basic Chain Ladder) on the key assumption that historical development of premiums is representative of future development.

3.4 Intangible assets

Intangible assets with indefinite useful lives are tested for impairment on an annual basis in accordance with IAS 36 'Impairment of Assets'. Determining the assumptions used in the test requires estimation. The indefinite useful life intangible assets of the Group consist of syndicate participation rights and their carrying amount at the date of the statement of financial position was US\$70.8m (2016: US\$70.8m). For further information, refer to Note 16.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS



3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (continued)

3.5 Financial investments

Financial investments are carried in the statement of financial position at fair value. The carrying amount of financial investments at the date of the statement of financial position was US\$2,699.4m (2016: US\$2,903.9m). Determining the fair value of certain investments requires estimation.

The Group value investments using designated methodologies, estimations and assumptions. These securities, which are reported at fair value on the consolidated statement of financial position, represent the majority of the invested assets. The measurement basis for assets carried at fair value is categorised into a 'fair value hierarchy' in accordance with the valuation inputs and consistent with IFRS 13 'Fair Value Measurement'. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (level one); the middle priority to fair values other than quoted prices based on observable market information (level two); and the lowest priority to unobservable inputs that reflect the assumptions that we consider market participants would normally use (level three). To the extent that valuation is based on models or inputs that are unobservable in the market, the determination of fair value requires more judgement and accordingly, those instruments included in level three will require a greater degree of judgement to be exercised during valuation than for those included in level two or level one. At 31 December 2017, financial investments amounting to US\$282.7m (2016: US\$164.2m) were classified as level three.

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

3.6 Defined benefit plans

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

The carrying amount of the pension asset at the date of the statement of financial position was US\$48.6m (2016: US\$42.5m). For further information, refer to Note 21.

3.7 Consolidation of structured entities

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

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



4 RISK MANAGEMENT POLICIES

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

4.1 Insurance risk

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

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

4.1.1 Underwriting risk

(a) Introduction

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

The Group is also exposed to the risks resulting from its underwriters accepting risks for premiums which are insufficient to cover the ultimate claims which result from such policies. This risk is considered to be heightened in the current competitive underwriting environment which is resulting in significant downwards pressure on premium rates. This trend in premium rates has been factored into the Group's pricing models and risk management tools and is continually monitored to assess whether any corrective action is required. Additional controls over the underwriting strategy are described in the section below.

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

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

(b) Controls over underwriting strategy

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS



4 RISK MANAGEMENT POLICIES (continued)

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

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

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

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

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

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

(c) Underwriting risk profile

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

The Group underwrites a well-diversified portfolio across multiple regions and classes. While underlying risk and the policyholder may be situated anywhere in the world, more than 84% of the GWP of the Group in 2017 was sourced in London. The other business written by the syndicate is sourced through a wholly-owned service company in the United States, the business of which accounted for 11.4% of the Group's annual GWP in 2017. The Group also writes business from its office in Bermuda, with BGSB accounting for 4.0% of the Group's annual GWP in 2017, its Singapore office and through the Lloyd's China Platform. In 2017, 33.8% of the Group's GWP was reinsured to third parties.

**(d) Geographical concentration of premium**

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

	Gross premiums written US\$m	Net premiums written US\$m
2017		
United States	896.0	642.0
United Kingdom	107.2	76.8
Europe (excluding UK)	103.3	68.7
Other (including worldwide)	950.5	743.3
	2,057.0	1,530.8
2016		
United States	843.1	656.4
United Kingdom	106.7	100.4
Europe (excluding UK)	110.8	73.8
Other (including worldwide)	851.6	649.6
	1,912.2	1,480.2

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

(e) Portfolio mix

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

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

		2017 Gross premiums written	2016 Gross premiums written
		US\$m	US\$m
Short-tail direct insurance	Property, Marine, Energy, Accident and Health, BGSU		
	US Speciality, Aviation, Terrorism and Political	1,172.2	57%
Long-tail direct insurance	Professional Lines, Specialty Lines, Specialist Liability	501.5	25%
Short-tail reinsurance	Property Treaty	151.5	7%
Long-tail reinsurance	Casualty Treaty	231.8	11%
		2,057.0	100%

The Group underwrites a business mix of both insurance and reinsurance, long and short-tail business across a number of geographic areas which results in a diversification of the Group's portfolio. The business mix is monitored on an ongoing basis with particular focus on the short-tail vs. long-tail split and the proportion of delegated underwriting business. Long-tail business makes up 35.6% of the portfolio at 31 December 2017 (2016: 35.7%) and delegated underwriting represents 42.1% (2016: 41.5%). Underwriting risk is mainly driven by the syndicate's US catastrophe exposure. Casualty Treaty is also a driver due to its long-tail exposure.

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4 RISK MANAGEMENT POLICIES (continued)

i) Short-tail direct insurance

Short-tail insurance generally refers to lines of business where the claims are typically settled within a short time of the claim being made; therefore, they are typically classes where a large element of the claims is property damage.

The Group's short-tail business consists of seven principal lines of business:

Property	Property coverage including business interruption on a worldwide basis and delegated underwriting business predominantly in North America.
Marine	Coverage for Cargo (including Specie and Fine Art), hull (including Yacht) and Marine Liability.
Energy	Coverage for upstream (offshore) and midstream activities related to oil and gas production.
BGSU US Specialty	Public and non-profit package on both a self-insured retention (SIR) and first dollar basis; Property and Liability package business for US criminal justice service operations; Property Direct and facultative reinsurance.
Accident and Health	Coverage for Personal Accident (including Kidnap and Ransom), Bloodstock and Contingency
Terrorism and Political	Coverage for Terrorism, Political and Credit Risks, and Cyber Terrorism.
Aviation	Coverage for Aviation risks, including Airlines, General Aviation and Satellites at both launch and in orbit

The key risks on short-tail business are exposures to catastrophe claims, particularly US windstorms, earthquakes, floods and terrorist events.

The Property lines are also exposed to an increased frequency of fire and weather related events. Coverage on Energy is provided in respect of physical damage and business interruption/loss of income and would be exposed to large individual claims and extreme catastrophe losses. Within US Specialty, the syndicate writes business in property direct and facultative reinsurance exposed to wind, earthquake and flood catastrophe claims as well as expanding in a number of niche casualty lines. Accident and Health offers further diversification due to low correlation with other business lines. Personal Accident has the potential to suffer from large losses due to a high concentration of multiple deaths from a catastrophe or large claims from highly valued insured individuals. Medical Expense claims are subject to high inflationary costs and may experience a high claim frequency. Both Bloodstock and Contingency classes have exposure to multiple claims from a single event/location. Terrorism, Aerospace and Political classes have key exposures to single catastrophe events and terrorist events or a series of losses.

ii) Long-tail direct insurance

Long-tail insurance refers to insurance where on average the claims are not settled for several years after the expiry of the policy. The long-tail direct insurance business can be categorised into two principal lines of business:

Casualty	Includes cover for Financial Institutions, Legal Expenses, Directors' and Officers', and Professional Lines as well as Cyber, Privacy and Technology.
Specialist liability	Cover for Employers' Liability and Public Liability both in the UK and internationally but excluding the US.

Key exposures on casualty lines lie with increasing claim frequency due to global recessionary events or international systemic malpractice, as well as an increasing prevalence of Cyber risk. The Specialist Liability portfolio is subject to large losses resulting in bodily injury claims. This portfolio is also exposed to the risk of latent claims arising from risks that were not envisaged at the time of writing the policy.



iii) Short-tail reinsurance

The Group's short-tail reinsurance business centres around Property Treaty written in both London and Bermuda. This typically covers catastrophic loss accumulation or individual large loss ceded by insurance and reinsurance company clients. The key exposures which property treaty is exposed to are US windstorms and Californian earthquakes. Property Treaty also has exposures to Japanese earthquakes and European windstorms.

Property treaty Catastrophe excess of loss, risk excess of loss reinsurance and retrocession.

iv) Long-tail reinsurance

The Group's long-tail reinsurance business centres around Casualty Treaty. Core lines of business include Officers', Workers' Compensation, Medical Malpractice, Accident and Health, and other accident classes including Property Terror.

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

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

v) Aggregate exposure management

The Group is exposed to potential large claims from natural catastrophe events. The Group's catastrophe risk tolerance is defined in the Syndicate 2987 and Brit Reinsurance (Bermuda) Limited catastrophe risk appetite framework. These are reviewed and set by the boards on an annual basis. The last review of catastrophe risk tolerances was in March 2017.

Overall, the Group, for major catastrophe events (as defined by World Wide All Perils 1-in-30 Aggregate Exceedance Probability (AEP)) has a tolerance of 25% of Brit Limited Group net tangible assets. This equates to a maximum acceptable 1-in-30 AEP loss (after all reinsurance) of US\$266.2m at 31 December 2017. This is in addition to other tolerances set within the catastrophe risk appetite framework.

The Group closely monitors aggregation of exposure to natural catastrophe events against agreed risk appetites using stochastic catastrophe modelling tools, along with knowledge of the business, historical loss information, and geographical accumulations. Analysis and monitoring also measures the effectiveness of the Group's reinsurance programmes. Stress and scenario tests are also run, such as Lloyd's and internally developed Realistic Disaster Scenarios (RDS). Below are the key RDS losses to the Group for all classes combined (unaudited):

	Estimated industry loss US\$m	Modelled Group loss at 1 October 2017 (Note 1)		Modelled Group loss at 1 October 2016 (Note 1)	
		Gross US\$m	Net US\$m	Gross US\$m	Net US\$m
Gulf of Mexico windstorm	113,500	850	100	829	191
Florida Miami windstorm	128,250	736	86	654	168
US North East windstorm	80,500	755	68	748	156
San Francisco earthquake	87,750	737	294	716	282
Japan earthquake	46,066	230	145	244	160
Japan windstorm	13,731	95	53	95	60
European windstorm	28,852	233	144	257	183

Note 1: At 31 December 2017 foreign exchange rates.

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4 RISK MANAGEMENT POLICIES (continued)

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

vi) *Sensitivity to changes in net claims ratio*

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

	Movement in profit year ended 31 December 2017		Movement in profit year ended 31 December 2016	
	US\$m	%	US\$m	%
Short-tail direct insurance	9.1	59%	9.0	59%
Long-tail direct insurance	3.0	20%	3.1	20%
Short-tail reinsurance	0.8	5%	0.8	5%
Long-tail reinsurance	2.2	14%	2.1	14%
Other	0.3	2%	0.2	2%
	15.4	100%	15.2	100%

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

4.1.2 Reinsurance

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

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

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

- Facultative reinsurance is used to reduce risk relating to individual contracts. The amount of cover bought varies by class of business. Facultative reinsurance is also used as a tool to manage the net line size on individual risks to within tolerance.
- Risk excess of loss reinsurance is used to protect a range of individual inwards contracts which could give rise to individual large claims. The optimal net retention per risk is assessed for each class of business given the Group's risk appetite during the business planning exercise.
- An aggregate catastrophe excess of loss cover is in place to protect the Group against combined property claims from multiple policies resulting from catastrophe events. This is supplemented by specific covers for peril regions, catastrophe swaps and industry loss warranties where they are a cost-efficient means to ensure that the Group remains within its catastrophe risk appetite.

Given the fundamental importance of reinsurance protection to the Group's risk management, the Group has in place internal controls and processes to ensure that the reinsurance arrangements provide appropriate protection of capital and maintain our ability to meet policyholder obligations. The Head of Outwards Reinsurance, the Group CEO, Chief Underwriting Officer and Chief Risk Officer propose external reinsurance arrangements with input from class underwriters for class level reinsurance. The



Group CEO, Chief Financial Officer and Chief Underwriting Officer propose reinsurance arrangements with Brit Reinsurance (Bermuda) Limited. All reinsurance purchases must be signed off by the Group's Underwriting Committee. The Head of Outwards Reinsurance monitors and reports on the placement of reinsurance protections.

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

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

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

4.1.3 Reserving risk

Reserving risk arises as the actual cost of losses for policyholder obligations incurred before 31 December 2017 from the established reserves due to inaccurate assumptions or unforeseen circumstances. This is a key risk for the Group as the reserves for unpaid losses represent the largest component of the Group's liabilities and are inherently uncertain. The BSL Reserving Committee is responsible for the management of Syndicate 2987's reserving risk, and the Brit Reinsurance (Bermuda) Limited Management Committee performs a similar function for Brit Reinsurance (Bermuda) Limited.

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS



4 RISK MANAGEMENT POLICIES (continued)

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

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

4.2 Investment risk management

4.2.1 Introduction

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

4.2.2 Investment governance framework

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

The entity Investment Committees have been mandated to review, advise and make recommendations to the respective boards on investment strategy with a view to optimising investment performance. The investment strategy is executed through outsourced investment management agreements, which is in line with prevailing regulations, with Hamblin Watsa Investment Counsel Ltd (HWIC) and a range of third party investment managers.

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

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

4.2.3 Risk tolerance

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

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

4.2.4 Solvency matching

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

Under this strategy, the total assets of each Group underwriting entity are sought to be held in proportion to the currencies of that entity's technical provisions. For each Group underwriting entity, a solvency matched benchmark is calculated. This benchmark is the cashflow profile for investments which would minimise the sensitivity of the Group's solvency position to



changes in interest and exchange rates. The Group seeks to implement this through the use of cash, investments and foreign exchange forward contracts in the respective currencies. The investment guidelines for each entity stipulate duration limits and the positioning and sensitivity for both the asset and solvency position is reported quarterly.

4.2.5 Investment management

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

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

4.3 Market risk

4.3.1 Introduction

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

4.3.2 Interest Rate Risk

Introduction

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

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

Duration	1 year or less US\$m	1 to 3 years US\$m	3 to 5 years US\$m	Over 5 years US\$m	Equities US\$m	Total US\$m
At 31 December 2017						
Cash and cash equivalents	1,571.6	–	–	–	–	1,571.6
Financial investments	1,432.5	281.9	162.9	135.4	686.7	2,699.4
	3,004.1	281.9	162.9	135.4	686.7	4,271.0
At 31 December 2016						
Cash and cash equivalents	1,025.5	–	–	–	–	1,025.5
Financial investments	1,888.8	181.7	132.7	300.9	399.8	2,903.9
	2,914.3	181.7	132.7	300.9	399.8	3,929.4

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

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

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4 RISK MANAGEMENT POLICIES (continued)

Sensitivity to changes in investment yields

The sensitivity of the profit to the changes in investment yields is set out in the table below. The analysis is based on the information at 31 December 2017.

Impact on profit before tax	2017 US\$m	2016 US\$m
Increase		
25 basis points	(5.1)	(10.0)
50 basis points	(10.1)	(20.0)
100 basis points	(20.2)	(40.0)
Decrease		
25 basis points	5.1	10.0
50 basis points	10.1	20.0
100 basis points	20.2	40.0

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

4.3.3 Currency risk

Introduction

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

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

	USD US\$m	GBP conv. US\$m	CAD \$ conv. US\$m	EUR € conv. US\$m	AUS \$ conv. US\$m	Total conv. US\$m
At 31 December 2017						
Total assets	4,871.7	1,150.9	615.8	316.1	70.5	7,025.0
Total liabilities	3,982.4	1,162.0	289.7	339.4	121.2	5,894.7
Net assets/(liabilities) excluding the effect of currency derivatives	889.3	(11.1)	326.1	(23.3)	(50.7)	1,130.3
Adjustment for foreign exchange derivatives	6.9	194.8	(309.3)	53.6	54.0	–
Adjusted net assets/(liabilities)	896.2	183.7	16.8	30.3	3.3	1,130.3
At 31 December 2016						
Total assets	4,298.9	830.3	522.1	259.7	64.6	5,975.6
Total liabilities	3,195.3	950.6	269.1	301.6	111.0	4,827.6
Net assets/(liabilities) excluding the effect of currency derivatives	1,103.6	(120.3)	253.0	(41.9)	(46.4)	1,148.0
Adjusted for foreign exchange derivatives	254.3	52.8	(257.3)	(49.8)	–	–
Adjusted net assets/(liabilities)	1,357.9	(67.5)	(4.3)	(91.7)	(46.4)	1,148.0

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

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



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

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

Sensitivity to changes in foreign exchange rates

The table below gives an indication of the impact on profit of a percentage movement in the relative strength of the US dollar against the value of Sterling, Canadian dollar, Australian dollar and Euro simultaneously, after taking into consideration the effect of hedged positions. The analysis is based on the information at 31 December 2017.

Impact on profit before tax	2017 US\$m	2016 US\$m
US dollar weakens		
10% against other currencies	(23.4)	(38.6)
20% against other currencies	(46.8)	(77.3)
US dollar strengthens		
10% against other currencies	23.4	38.6
20% against other currencies	46.8	77.3

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

4.3.4 Other price risk

Introduction

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS



4 RISK MANAGEMENT POLICIES (continued)

Sensitivity to changes in other price risk

The sensitivity of the profit to the changes in the prices of equity is set out in the table below. The analysis is based on the information at 31 December 2017.

Impact on profit before tax	2017 US\$m	2016 US\$m
Increase in fair value		
10%	81.3	47.9
20%	162.7	95.8
30%	244.0	143.7
Decrease in fair value		
10%	(81.3)	(47.9)
20%	(162.7)	(95.8)
30%	(244.0)	(143.7)

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

4.4 Credit risk

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

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

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

4.4.1 Investment credit risk

Investment credit risk management process

The investment guidelines and investment policy set out clear limits and controls around the level of investment credit risk. The Group has established concentration guidelines that restrict the exposure to any individual counterparty. The investment guidelines further limit the type, credit quality and maturity profile of both the Group's cash and investments. In addition, the investment risk framework further limits potential exposure to credit risk through aggregate investment risk limits.



Investment credit risk profile

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

	AAA US\$m	AA US\$m	A US\$m	P-1 US\$m	P-2 US\$m	BBB and below US\$m	Equities US\$m	Not rated US\$m	Total US\$m
At 31 December 2017									
Financial investments	1,163.1	286.0	216.4	–	–	188.6	686.7	158.6	2,699.4
Derivative contracts	–	–	–	–	–	–	–	18.3	18.3
Cash and cash equivalents	581.0	583.8	233.4	135.2	38.2	–	–	–	1,571.6
	1,744.1	869.8	449.8	135.2	38.2	188.6	686.7	176.9	4,289.3
At 31 December 2016									
Financial investments	206.2	1,706.2	212.4	–	–	191.9	399.8	187.4	2,903.9
Derivative contracts	–	–	–	–	–	–	–	12.6	12.6
Cash and cash equivalents	187.5	552.8	–	236.8	48.4	–	–	–	1,025.5
	393.7	2,259.0	212.4	236.8	48.4	191.9	399.8	200.0	3,942.0

The table above gives an indication of the level of credit worthiness of assets that are most exposed to credit risk. The ratings are mainly sourced from Standard & Poor's and where these are not available an equivalent rating agency.

4.4.2 Insurance credit risk

Insurance credit risk management process

The Credit Committee chaired by the Chief Financial Officer is responsible for the management of credit risk arising from insurance activities. Some responsibilities for reinsurance related credit decisions have been delegated to the Reinsurance Security Panel chaired by the Head of Treasury and Investments.

Reinsurer credit risk is managed by transacting only with reinsurance counterparties that satisfy a minimum level of financial strength or provide appropriate levels of collateral, and have been approved for use by the Reinsurance Security Panel. The reinsurer security list, which sets out the list of approved reinsurance counterparties, is reviewed at least annually and following any significant change in risk profile, which includes any changes to reinsurers' financial ratings. Credit risk appetite limits are set for reinsurance entities and groups to limit accumulations of risk. These positions are monitored quarterly against current balance sheet exposures and in relation to a number of extreme loss scenarios.

Reinsurance aged debt is monitored and managed against the management risk appetite limits set by the Credit Committee. A bad debt provision is held against all non-rated reinsurers or any reinsurer where there is deemed to be a specific risk of non-payment.

Any breaches of credit risk tolerance and/or appetite are reported to the Risk Oversight Committee and the Board at least quarterly.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS



4 RISK MANAGEMENT POLICIES (continued)

Insurance credit risk profile

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

	AAA US\$m	AA US\$m	A US\$m	Collateral US\$m	Not rated US\$m	Total US\$m
At 31 December 2017						
Reinsurance assets	1.5	681.9	222.2	160.8	49.8	1,116.2
Insurance receivables	–	–	–	–	862.1	862.1
	1.5	681.9	222.2	160.8	911.9	1,978.3
At 31 December 2016						
Reinsurance assets	1.9	406.2	166.7	102.4	33.9	711.1
Insurance receivables	–	–	–	–	678.7	678.7
	1.9	406.2	166.7	102.4	712.6	1,389.8

Insurance credit risk arises primarily from reinsurers (whereby reinsurers fail to pay recoveries due to the Group in a timely manner) and brokers and coverholders (whereby intermediaries fail to pass on premiums due to the Group in a timely manner).

As at 31 December 2017, collateral of US\$563.3m (2016: US\$382.9m) is held in third party trust accounts or as a letter of credit (LOC) to guarantee Syndicate 2987 against reinsurance counterparties and is available for immediate drawdown in the event of a default. Of this amount, US\$160.8m (2016: US\$102.4m) had been drawn against reinsurance assets at 31 December 2017.

The following table shows movements in impairment provisions during the year:

	Impairment provision against reinsurance assets US\$m	Impairment provision against insurance receivables US\$m
2017		
Opening provision at 1 January	0.7	11.6
Release for the year	–	(0.5)
Net foreign exchange differences	–	0.2
Closing provision at 31 December	0.7	11.3
2016		
Opening provision at 1 January	1.0	12.9
Release for the year	–	(1.2)
Net foreign exchange differences	(0.3)	(0.1)
Closing provision at 31 December	0.7	11.6



The following table shows the amount of insurance receivables past due but not impaired at the end of the year.

	2017 US\$m	2016 US\$m
0-3 months past due	15.4	14.7
4-6 months past due	8.0	1.9
7-9 months past due	0.1	1.6
10-12 months past due	–	1.7
More than 12 months past due	0.8	1.9
	24.3	21.8

4.5 Liquidity risk

Liquidity risk is the risk that the Group may encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. The predominant liquidity risk the Group faces is the daily calls on its available cash resources in respect of claims arising from insurance contracts.

The Group monitors the levels of cash and cash equivalents on a daily basis, ensuring adequate liquidity to meet the expected cash flow requirements due over the short-term.

The Group also limits the amount of investment in illiquid securities in line with the liquidity policy set by the Board. This involves ensuring sufficient liquidity to withstand claim scenarios at the extreme end of business plan projections, by reference to modelled realistic disaster scenarios. Contingent liquidity also exists in the form of a Group revolving credit facility.

The tables below present the fair value of monetary assets and the undiscounted value of monetary liabilities of the Group into their relevant maturing groups based on the remaining period at the end of the year to their contractual maturities or expected repayment dates. Borrowings are stated at their nominal value at maturity.

31 December 2017	Statement of financial position US\$m	<1 year US\$m	1 to 3 years US\$m	Fair values			Equities US\$m	Total US\$m
				3 to 5 years US\$m	>5 years US\$m			
Assets								
Reinsurance assets	1,116.2	331.7	376.4	178.2	229.9	–	–	1,116.2
Financial investments	2,699.4	1,432.5	281.9	162.9	135.4	686.7	–	2,699.4
Derivative contracts	18.3	18.3	–	–	–	–	–	18.3
Insurance receivables	862.1	862.1	–	–	–	–	–	862.1
Cash and cash equivalents	1,571.6	1,571.6	–	–	–	–	–	1,571.6
	6,267.6	4,216.2	658.3	341.1	365.3	686.7		6,267.6

31 December 2017	Statement of financial position US\$m	<1 year US\$m	1 to 3 years US\$m	Undiscounted values			Equities US\$m	Total US\$m
				3 to 5 years US\$m	>5 years US\$m			
Liabilities								
Insurance contract liabilities	4,136.1	1,097.5	1,287.4	712.1	1,039.1	–	–	4,136.1
Derivative contracts	12.5	12.5	–	–	–	–	–	12.5
Borrowings	219.8	45.0	–	–	197.6	–	–	242.6
Other financial liabilities	82.1	–	–	–	–	82.1	–	82.1
Insurance and other payables	529.5	529.5	–	–	–	–	–	529.5
	4,980.0	1,684.5	1,287.4	712.1	1,236.7	82.1		5,002.8

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS



4 RISK MANAGEMENT POLICIES (continued)

31 December 2016	Statement of financial position US\$m	<1 year US\$m	1 to 3 years US\$m	Fair values		Equities US\$m	Total US\$m
				3 to 5 years US\$m	>5 years US\$m		
Assets							
Reinsurance assets	711.1	199.0	233.3	117.4	161.4	–	711.1
Financial investments	2,903.9	1,888.8	181.7	132.7	300.9	399.8	2,903.9
Derivative contracts	12.6	12.6	–	–	–	–	12.6
Insurance receivables	678.7	678.7	–	–	–	–	678.7
Cash and cash equivalents	1,025.5	1,025.5	–	–	–	–	1,025.5
	5,331.8	3,804.6	415.0	250.1	462.3	399.8	5,331.8

31 December 2016	Statement of financial position US\$m	<1 year US\$m	1 to 3 years US\$m	Undiscounted values		Equities US\$m	Total US\$m
				3 to 5 years US\$m	>5 years US\$m		
Liabilities							
Insurance contract liabilities	3,406.7	857.4	1,023.7	597.8	927.8	–	3,406.7
Derivative contracts	11.8	11.8	–	–	–	–	11.8
Borrowings	157.5	–	–	–	166.8	–	166.8
Insurance and other payables	382.0	382.0	–	–	–	–	382.0
	3,958.0	1,251.2	1,023.7	597.8	1,094.6	–	3,967.3

4.6 Operational risk

Operational risk is the potential for loss arising from the failure of people, process or technology or the impact of external events. The nature of operational risk means that it is dispersed across all functional areas of Brit. Operational risk exposures are managed through a consistent set of management processes that drive risk identification, assessment, control and monitoring.

The Operations Committee, chaired by the Chief Operating Officer, is a key governance committee reporting to the Executive Committee. The Operations Committee is responsible for providing oversight and direction to the Operational Risk Working Group (ORWG) and together they provide dedicated forums for managing operational risk in line with the operational risk policy and the risk tolerance and management appetite limits set by the Board and management respectively. The ORWG reports to the Operations Committee and each individual risk committee where it is augmented by operational risk owners within executive management who actively manage operational risk within their respective areas (such as Underwriting, Claims, Investments and Finance).

An operational risk management framework is in place to ensure an appropriate standard approach is taken to managing operational risk across the Group. The key elements of this framework are:

- Allocation of responsibility for the identification and assessment of operational risk. Standard tools are used to facilitate these assessments;
- Definition of standard elements of sound operating controls that are expected to be in place to address all identified operational risks;
- A process that integrates with Brit's internal model to support the setting and monitoring of operational risk appetite and tolerances;
- Governance, reporting and escalation for operational risk;
- Infrastructure supporting the operational risk management framework; and
- Operational risk management training and awareness.



4.7 Political risk

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

Following the triggering of article 50 of the Treaty of Lisbon on 29 March 2017, Brit continues to monitor the ensuing negotiations and other developments. Brit will continue to work to minimise the impact on itself and its clients and to take advantage of opportunities as they arise.

Lloyd's implementation plan for its new Brussels-based European insurer is progressing. It has commenced an on-boarding programme for managing agents to ensure the necessary operational changes are implemented to allow business to be written through its Brussels subsidiary from 1 January 2019. Brit is supportive of Lloyd's proposals and looks forward to participating on the new platform.

4.8 Capital management

Brit defines management entity capital as the amount of capital that the board of each underwriting entity determines that it should hold, taking into account the requirements of shareholders, regulators, policyholders, and the Boards' solvency risk appetite. The capital policy is set by the entity and Group boards. Management entity capital requirements are in excess of capital requirements under the Solvency II capital regime, which became effective on 1 January 2016.

The capital requirements are based on the output of the internal model which reflects the risk profile of the business. The capital policy requires capital to be held well in excess of regulatory minimum requirements, underpinning Brit's financial strength. The policy ensures the capital adequacy of the Group as a whole, and each entity, through an efficient capital structure. Brit proactively responds to developments in the financial environment to ensure its capital strength is maintained while optimising risk adjusted returns.

In addition to the management capital requirements, the Group Board has determined that the Group should maintain a minimum surplus, in excess of the entity management capital requirements, to withstand short-term shocks without requiring a capital injection. The minimum surplus is calibrated to a 1-in-20 one-year VaR (i.e. it is sufficient to protect against losses over a one-year period in 19 out of 20 years whilst maintaining management capital). The Group minimum surplus is set with reference to the internal model.

The Group's available capital consists of net tangible assets, subordinated debt, letters of credit and contingent funding. This amounted to US\$1,468.5m as at 31 December 2017. This represented a surplus of US\$395.1m over the management capital requirements, compared to the Group's minimum surplus of US\$200.0m.

All regulatory capital requirements have been complied with during the year by the Group's individual insurance subsidiaries.

The Lloyd's market is subject to the solvency and capital adequacy requirements of the Prudential Regulation Authority (PRA). Any regulatory intervention by the PRA in respect of Lloyd's may adversely affect the Group. The PRA may impose more stringent requirements on Lloyd's which may result in higher capital requirements or a restriction on trading activities for entities within the Group. If Lloyd's fails to satisfy its solvency test in any year, the PRA may require Lloyd's to cease trading and/or its members to cease or reduce their underwriting exposure, which may result in a material adverse effect to the Group's reputation, financial condition and results of operations.

During 2017, Brit Global Specialty solely underwrote through the Group's wholly-aligned Lloyd's Syndicate 2987 which benefits from the Lloyd's credit ratings of A (Excellent) from A.M. Best, AA- (Very Strong) from Fitch and A+ (Strong) from Standard & Poor's. Any downgrade in Lloyd's financial strength ratings may have an adverse effect on the Group.

The Group's business plan and underwriting capacity for the Syndicate may be affected by a decrease in the value of the Group's Funds at Lloyd's or by recommendations from the Lloyd's Franchise Board. The Group is also reliant upon the compliance of Lloyd's with US regulations, including the maintenance by Lloyd's of its trading licences and approvals in the US.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS



5 SEGMENTAL INFORMATION

This Note breaks down the operating results summarised in the income statement into the main business areas of the Group. It also shows how our revenue is split globally. This analysis is designed to help you understand how each segment of our business has performed and how we have allocated our shareholders' capital.

As at 31 December 2017, the reportable segments identified were as follows:

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

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

The Group investment return is managed centrally and an allocation is made to each of the strategic business units based on the average risk free interest rate for the period being applied to the opening insurance funds of each strategic business unit. The annualised average risk free rate applied to insurance funds was 1.5% for the year ended 31 December 2017 (31 December 2016: 1.5%).

The ratios set out in the segmental analysis are calculated as follows:

- The claims ratio is calculated as claims incurred, net of reinsurance divided by earned premiums, net of reinsurance.
- The expense ratio is calculated as acquisition costs and other insurance related expenses divided by earned premiums, net of reinsurance.
- The combined ratio is the sum of the claims and expense ratios.



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

(a) Statement of profit or loss by segment

Year ended 31 December 2017

	Brit Global Specialty Direct US\$m	Brit Global Specialty Reinsurance US\$m	Other Underwriting US\$m	Intra Group US\$m	Total underwriting excluding the effect of foreign exchange on non-monetary items US\$m	Effect of foreign exchange on non-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	1,675.0	383.3	25.1	(26.4)	2,057.0	–	2,057.0	–	2,057.0
Less premiums ceded to reinsurers	(462.6)	(92.3)	2.3	26.4	(526.2)	–	(526.2)	–	(526.2)
Premiums written, net of reinsurance	1,212.4	291.0	27.4	–	1,530.8	–	1,530.8	–	1,530.8
Gross earned premiums	1,633.6	375.0	29.2	(30.6)	2,007.2	(4.0)	2,003.2	–	2,003.2
Reinsurers' share	(418.7)	(77.2)	(1.8)	30.6	(467.1)	0.7	(466.4)	–	(466.4)
Earned premiums, net of reinsurance	1,214.9	297.8	27.4	–	1,540.1	(3.3)	1,536.8	–	1,536.8
Investment return	28.6	10.5	0.6	–	39.7	–	39.7	165.8	205.5
Return on derivative contracts	5.5	1.2	–	–	6.7	–	6.7	(1.5)	5.2
Other income	6.3	1.0	4.0	–	11.3	–	11.3	2.6	13.9
Net foreign exchange gains	–	–	–	–	–	7.9	7.9	1.8	9.7
Total revenue	1,255.3	310.5	32.0	–	1,597.8	4.6	1,602.4	168.7	1,771.1
Gross claims incurred	(1,466.8)	(226.9)	(38.9)	45.2	(1,687.4)	–	(1,687.4)	–	(1,687.4)
Reinsurers' share	564.6	62.1	(2.4)	(45.2)	579.1	–	579.1	–	579.1
Claims incurred, net of reinsurance	(902.2)	(164.8)	(41.3)	–	(1,108.3)	–	(1,108.3)	–	(1,108.3)
Acquisition costs – commission	(366.0)	(59.5)	(0.4)	–	(425.9)	1.1	(424.8)	–	(424.8)
Acquisition costs – other	(91.5)	(18.3)	(1.0)	–	(110.8)	0.2	(110.6)	–	(110.6)
Other insurance related expenses	(67.4)	(16.1)	(2.4)	–	(85.9)	–	(85.9)	–	(85.9)
Other expenses	–	–	–	–	–	–	–	(24.0)	(24.0)
Total expenses excluding finance costs	(1,427.1)	(258.7)	(45.1)	–	(1,730.9)	1.3	(1,729.6)	(24.0)	(1,753.6)
Operating (loss)/profit	(171.8)	51.8	(13.1)	–	(133.1)	5.9	(127.2)	144.7	17.5
Finance costs									(17.1)
Share of net profit of associates									5.1
Profit on ordinary activities before tax									5.5
Tax income									16.0
Profit for the year									21.5
Claims ratio	74.3%	55.3%	150.7%		72.0%		72.1%		
Expense ratio	43.2%	31.5%	13.9%		40.4%		40.4%		
Combined ratio	117.5%	86.8%	164.6%		112.4%		112.5%		

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS



5 SEGMENTAL INFORMATION (continued)

Year ended 31 December 2016

	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	1,546.6	365.8	27.3	(27.5)	1,912.2	–	1,912.2	–	1,912.2
Less premiums ceded to reinsurers	(377.9)	(76.3)	(5.3)	27.5	(432.0)	–	(432.0)	–	(432.0)
Premiums written, net of reinsurance	1,168.7	289.5	22.0	–	1,480.2	–	1,480.2	–	1,480.2
Gross earned premiums	1,548.4	361.6	25.2	(25.4)	1,909.8	23.8	1,933.6	–	1,933.6
Reinsurers' share	(339.8)	(76.1)	(4.2)	25.4	(394.7)	(4.8)	(399.5)	–	(399.5)
Earned premiums, net of reinsurance	1,208.6	285.5	21.0	–	1,515.1	19.0	1,534.1	–	1,534.1
Investment return	27.5	10.5	–	–	38.0	–	38.0	94.2	132.2
Return on derivative contracts	–	–	–	–	–	–	–	(52.8)	(52.8)
Other income	–	–	–	–	–	–	–	1.1	1.1
Net foreign exchange (losses)/gains	–	–	–	–	–	(9.0)	(9.0)	61.2	52.2
Total revenue	1,236.1	296.0	21.0	–	1,553.1	10.0	1,563.1	103.7	1,666.8
Gross claims incurred	(918.9)	(138.0)	(24.1)	22.2	(1,058.8)	–	(1,058.8)	–	(1,058.8)
Reinsurers' share	210.7	14.5	(0.3)	(22.2)	202.7	–	202.7	–	202.7
Claims incurred, net of reinsurance	(708.2)	(123.5)	(24.4)	–	(856.1)	–	(856.1)	–	(856.1)
Acquisition costs – commission	(360.3)	(51.1)	(0.2)	–	(411.6)	(7.0)	(418.6)	–	(418.6)
Acquisition costs – other	(88.9)	(19.4)	(1.0)	–	(109.3)	(3.0)	(112.3)	–	(112.3)
Other insurance related expenses	(64.9)	(16.1)	(2.5)	–	(83.5)	–	(83.5)	–	(83.5)
Other expenses	–	–	–	–	–	–	–	(21.3)	(21.3)
Total expenses excluding finance costs	(1,222.3)	(210.1)	(28.1)	–	(1,460.5)	(10.0)	(1,470.5)	(21.3)	(1,491.8)
Operating profit/(loss)	13.8	85.9	(7.1)	–	92.6	–	92.6	82.4	175.0
Finance costs									(18.8)
Share of net profit of associates									3.6
Profit on ordinary activities before tax									159.8
Tax expense									(2.2)
Profit for the year									157.6
Claims ratio	58.6%	43.3%	116.2%		56.5%		55.8%		
Expense ratio	42.5%	30.3%	17.6%		39.9%		39.9%		
Combined ratio	101.1%	73.6%	133.8%		96.4%		95.7%		



b) Depreciation, amortisation, impairment and capital expenditure by segment

	Brit Global Specialty Direct US\$m	Brit Global Specialty Reinsurance US\$m	Total US\$m
Year ended 31 December 2017			
Depreciation of property, plant and equipment	3.7	0.7	4.4
Amortisation of intangibles	3.9	1.0	4.9
Capital expenditure	6.6	1.7	8.3
Year ended 31 December 2016			
Depreciation of property, plant and equipment	3.0	0.6	3.6
Amortisation of intangibles	4.2	1.0	5.2
Capital expenditure	11.8	2.8	14.6

Capital expenditure consists of additions of property, plant and equipment and intangible assets but excludes assets recognised on business combinations.

c) Geographical information

The Group's strategic business units operate mainly in four geographical areas, though the business is managed on a worldwide basis.

The segmental split shown below is based on the location of the underlying risk.

Gross premiums written

	Year ended 31 December 2017 US\$m	Year ended 31 December 2016 US\$m
United States	896.0	843.1
United Kingdom	107.2	106.7
Europe (excluding UK)	103.3	110.8
Other (including worldwide)	950.5	851.6
	2,057.0	1,912.2

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS



6 INVESTMENT RETURN

This Note shows the income we have generated through investing our funds. It also shows the gains and losses that we have generated on various types of investment assets as a result of the movement in their market values.

Year ended 31 December 2017	Investment income US\$m	Net realised gains/(losses) US\$m	Net unrealised gains US\$m	Total investment return US\$m
Equity securities	6.5	13.1	105.6	125.2
Debt securities	34.3	(10.1)	14.5	38.7
Specialised investment funds	–	(0.1)	47.4	47.3
Cash and cash equivalents	7.4	–	–	7.4
Total investment return before expenses	48.2	2.9	167.5	218.6
Investment management expenses	(13.1)	–	–	(13.1)
Total investment return	35.1	2.9	167.5	205.5

Year ended 31 December 2016	Investment income US\$m	Net realised (losses)/gains US\$m	Net unrealised (losses)/gains US\$m	Total investment return US\$m
Equity securities	5.1	(4.9)	(39.7)	(39.5)
Debt securities	66.8	64.1	45.8	176.7
Specialised investment funds	1.1	3.1	3.9	8.1
Cash and cash equivalents	0.7	–	–	0.7
Total investment return before expenses	73.7	62.3	10.0	146.0
Investment management expenses	(13.8)	–	–	(13.8)
Total investment return	59.9	62.3	10.0	132.2

7 RETURN ON DERIVATIVE CONTRACTS

This Note shows the effect on the income statement of derivative contracts we were party to during the year. The main reason we entered into these derivative contracts was to help manage our exposure to fluctuations in interest rates and foreign exchange rates. Derivatives are shown analysed between investment related derivatives and currency related derivatives, reflecting the way we manage our business.

	Year ended 31 December 2017 US\$m	Year ended 31 December 2016 US\$m
Interest rate swaps	–	0.8
Non-currency options	(6.4)	(33.7)
Investment related derivatives	(6.4)	(32.9)
Currency forwards	11.6	(19.9)
Currency related derivatives	11.6	(19.9)
Return on derivative contracts	5.2	(52.8)



8 OTHER INCOME

This Note shows the analysis of other income generated in the year ended 31 December 2017

	Year ended 31 December 2017 US\$m	Year ended 31 December 2016 US\$m
Fees and commission from non-aligned syndicate	7.0	—
Change in value of other financial liabilities*	4.0	—
Change in value of parent company shares held by Brit	1.6	(0.3)
Other	1.3	1.4
Total	13.9	1.1

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

9 NET FOREIGN EXCHANGE GAINS

The Group operates in multiple countries and currencies and is exposed to gains and losses arising as a result of movement in various foreign currency exchange rates. This Note explains the foreign exchange gains or losses as a result of converting the income, expenses, assets and liabilities from foreign currencies to US dollars.

The Group recognised foreign exchange gains of US\$9.7m (2016: US\$52.2m) in the income statement in the year.

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

	Year ended 31 December 2017 US\$m	Year ended 31 December 2016 US\$m
Gains/(losses) on foreign exchange arising from:		
Translation of the statement of financial position and income statement	1.8	61.1
Maintaining UPR/DAC items in the income statement at historic rates	7.9	(8.9)
Net foreign exchange gains	9.7	52.2

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

	Year ended 31 December 2017 US\$m		Year ended 31 December 2016 US\$m	
	Average	Closing	Average	Closing
Sterling	0.776	0.739	0.738	0.809
Canadian dollar	1.297	1.253	1.323	1.341
Euro	0.885	0.833	0.903	0.948
Australian dollar	1.304	1.279	1.343	1.381

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS



10 ACQUISITION COSTS AND OTHER OPERATING EXPENSES

This Note shows the analysis of costs incurred in acquiring and underwriting insurance contracts and the running costs of our business during the year. We have separated out the more material costs in order to provide a more detailed insight into our cost base.

	Year ended 31 December 2017			Year ended 31 December 2016		
	Acquisition costs US\$m	Other operating expenses US\$m	Total US\$m	Acquisition costs US\$m	Other operating expenses US\$m	Total US\$m
Salary, pension and social security costs (Note 11)	53.7	51.1	104.8	56.0	47.3	103.3
Other staff related costs	2.8	10.5	13.3	2.0	8.9	10.9
Accommodation costs	6.5	6.5	13.0	6.8	6.9	13.7
Legal and professional charges	1.7	4.9	6.6	1.5	5.7	7.2
IT costs	1.1	19.3	20.4	1.1	19.3	20.4
Travel and entertaining	4.1	3.1	7.2	4.2	2.8	7.0
Marketing and communications	0.4	1.6	2.0	0.3	1.2	1.5
Amortisation and impairment of intangible assets	0.1	4.8	4.9	0.1	4.9	5.0
Depreciation and impairment of property, plant and equipment	0.4	3.9	4.3	0.4	3.2	3.6
Regulatory levies and charges	40.1	–	40.1	38.1	–	38.1
Other	(0.3)	4.2	3.9	1.8	4.6	6.4
Expenses before commissions	110.6	109.9	220.5	112.3	104.8	217.1
Commission costs	424.8	–	424.8	418.6	–	418.6
Total acquisition costs and other operating expenses	535.4	109.9	645.3	530.9	104.8	635.7

11 STAFF COSTS

This Note gives a breakdown of the total cost of employing our staff (including executive and non-executive Directors) and gives the average number of people employed by the Group during the year.

	Year ended 31 December 2017 US\$m	Year ended 31 December 2016 US\$m
Wages and salaries	89.5	88.3
Social security costs	10.7	10.1
Pension costs	4.6	4.9
Total staff costs	104.8	103.3



The average number of employees during the year, including executive and non-executive Directors, was as follows:

	Year ended 31 December 2017 Number	Year ended 31 December 2016 Number
Front office staff		
Underwriters	180	175
Claims staff	54	56
Other underwriting and direct support staff	115	116
Total front office staff	349	347
Back office staff		
Management	82	75
Administration	131	117
Total back office staff	213	192
Total employees	562	539

'Management' includes non-executive Directors and employees who have other members of staff reporting to them.

12 FINANCE COSTS

Finance costs arise from interest due on moneys borrowed by the Group and any other amounts payable in respect of those borrowings or borrowing facilities. The Group's borrowings consist of a revolving credit facility and listed unsecured subordinated debt, details of which are set out in Note 26.

	Year ended 31 December 2017 US\$m	Year ended 31 December 2016 US\$m
Revolving credit facility and other bank borrowings	3.4	4.6
Subordinated debt	13.7	14.2
Total finance costs	17.1	18.8

13 AUDITOR'S REMUNERATION

The Group engages PricewaterhouseCoopers LLP to perform the audit of the Group.

The remuneration of the auditor or its associates is analysed as follows:

	Year ended 31 December 2017 US\$m	Year ended 31 December 2016 US\$m
Audit of the Group and company financial statements	0.4	0.5
Fees payable for the audit of subsidiaries	0.9	0.9
Total audit	1.3	1.4
Other services	0.1	—
Total non-audit services	0.1	—
Total audit and non-audit services	1.4	1.4

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS



14 INVESTMENTS IN ASSOCIATED UNDERTAKINGS

This Note describes the investments made in associated undertakings and provides summarised income statements and statements of financial position of those associates.

Camargue Underwriting Managers Proprietary Limited

On 30 August 2016, the Group acquired 50% of the share capital of the South African company, Camargue Underwriting Managers Proprietary Limited (Camargue) for ZAR65.5m plus £0.3m (US\$4.9m) and entered into a call and a put option to purchase the remaining 50% in 2021. The investment in Camargue is measured using the equity accounting method. The principal place of business of Camargue is South Africa. Camargue is a leading managing general underwriter of a range of specialised insurance products and specialist liability solutions in South Africa and is an important trading partner for Brit. The summarised statement of financial position of Camargue and reconciliation to the carrying amount is as follows:

	Year ended 31 December 2017 US\$m	Year ended 31 December 2016 US\$m
Statement of financial position		
Current assets	2.8	2.1
Non-current assets	1.7	1.4
Total assets	4.5	3.5
Current liabilities	(2.2)	(2.0)
Non-current liabilities	–	(0.1)
Total liabilities	(2.2)	(2.1)
Net assets	2.3	1.4
50% not owned by Brit	(1.2)	(0.7)
Acquisition fair value, result since acquisition and other adjustments	4.4	4.5
Carrying value	5.5	5.2

	Year ended 31 December 2017 US\$m	Year ended 31 December 2016 US\$m
Income statement		
Commission revenue	5.4	3.9
Operating expenses	(4.0)	(3.2)
Net profit	1.4	0.7
50% not owned by Brit	(0.7)	(0.4)
Share of net profit of associate	0.7	0.3

Ambridge Partners LLC

On 8 December 2015, the Group acquired 50% of the members' interests of Ambridge Partners LLC for US\$28.6m and entered into a call and a put option to purchase the remaining 50% in 2019. The investment in Ambridge Partners LLC is measured using the equity accounting method. The principal place of business of Ambridge Partners LLC is the United States. Ambridge Partners LLC is a leading managing general underwriter of transactional insurance products, writing business on behalf of a broad consortium of Lloyd's of London syndicates and international insurers including Brit. The summarised statement of financial position of Ambridge Partners LLC and reconciliation to the carrying amount is as follows:



	31 December 2017 US\$m	31 December 2016 US\$m
Statement of financial position		
Current assets	54.5	40.9
Non-current assets	1.4	1.3
Total assets	55.9	42.2
Current liabilities	(38.4)	(31.9)
Total liabilities	(38.4)	(31.9)
Net assets	17.5	10.3
50% not owned by Brit	(8.8)	(5.2)
Acquisition fair value, result since acquisition and other adjustments	26.2	26.3
Carrying value	34.9	31.4
Income statement		
	Year ended 31 December 2017 US\$m	Year ended 31 December 2016 US\$m
Commission revenue	26.2	21.2
Operating expenses	(17.5)	(14.5)
Net profit	8.7	6.7
50% not owned by Brit	(4.3)	(3.4)
Share of net profit of associate	4.4	3.3

15 TAX EXPENSE

Income tax is tax charged on our trading activities during the year. This Note shows the breakdown of tax payable in the current period (current tax) and also tax that may become payable sometime in the future (deferred tax).

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

	Year ended 31 December 2017 US\$m	Year ended 31 December 2016 US\$m
Current tax:		
Current taxes on income for the year	(28.4)	(4.0)
Overseas tax on income for the year	(3.5)	(4.0)
	(31.9)	(8.0)
Double tax relief	0.7	3.1
Adjustments in respect of prior years	1.0	2.0
Total current tax	(30.2)	(2.9)
Deferred tax:		
Relating to the origination and reversal of temporary differences	44.8	(5.2)
Adjustments in respect of prior years	1.4	5.9
Total deferred tax	46.2	0.7
Total tax credited/(charged) to income statement	16.0	(2.2)

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS



15 TAX EXPENSE (continued)

(b) Tax charged to other comprehensive income

	Year ended 31 December 2017 US\$m	Year ended 31 December 2016 US\$m
Deferred tax charge on actuarial gains on defined benefit pension scheme	0.3	0.9

(c) Tax reconciliation

The tax on the Group's profit before tax differs from the theoretical amount that would arise based on the weighted average rate of tax as follows:

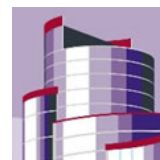
	Year ended 31 December 2017 US\$m	Year ended 31 December 2016 US\$m
Profit on continuing ordinary activities before tax	5.5	159.8
Tax calculated at weighted average rate of tax on income	10.6	(24.0)
Non-deductible and non-taxable items	10.2	6.6
Taxes on income at rates in excess of the domestic rate and where credit is unavailable	(1.6)	(0.1)
Effect of temporary differences not recognised	–	4.7
Effect of revaluation of deferred tax following change in rate of tax	(5.3)	3.0
Other items	(0.3)	(0.3)
Adjustments to tax charge in respect of prior years	2.4	7.9
Total tax credited/(charged) to income statement	16.0	(2.2)

The weighted average rate of tax is based on the geographic split of profit across Group entities in jurisdictions with differing tax rates. As the mix of taxable profits changes, so will the weighted average rate of tax.

(d) Effect of post balance sheet rate changes

UK legislation was substantively enacted on 9 September 2016 to reduce the main rate of UK corporation tax from 20% to 19% from 1 April 2017 and to 17% from 1 April 2020.

The reductions in rate from 20% to 19% and then to 17% have been used in the calculation of the UK's deferred tax assets and liabilities as at 31 December 2017.



16 INTANGIBLE ASSETS

An intangible asset is an asset without any physical substance but which has long-term value to our business. Brit's intangible assets relate to contracts to sell our products through independent brokers and agents (distribution channels) our brand names (trade names), our relationship with our customer base (renewal rights), our rights to underwrite policies at Lloyd's (syndicate participations) and our internally developed software.

With the exception of our syndicate participation rights at Lloyd's, which we classify as an indefinite life asset, we reduce the value of these assets according to their useful life by way of amortisation. Amortisation is included as an expense in the income statement.

	Distribution channels US\$m	Trade names US\$m	Syndicate participations US\$m	Renewal rights US\$m	Software US\$m	Total US\$m
Cost:						
At 1 January 2016	9.8	18.9	70.8	5.8	28.8	134.1
Additions	–	–	–	–	6.3	6.3
Disposals	–	–	–	–	(2.1)	(2.1)
Foreign exchange effect	–	–	–	–	(4.4)	(4.4)
At 31 December 2016	9.8	18.9	70.8	5.8	28.6	133.9
At 1 January 2017	9.8	18.9	70.8	5.8	28.6	133.9
Additions	–	–	–	–	7.4	7.4
Disposals	–	–	–	–	(0.2)	(0.2)
Foreign exchange effect	–	–	–	–	2.7	2.7
At 31 December 2017	9.8	18.9	70.8	5.8	38.5	143.8
Amortisation:						
At 1 January 2016	3.1	18.4	–	4.9	12.6	39.0
Charge for the year	0.7	0.5	–	0.9	3.1	5.2
Disposals	–	–	–	–	(2.1)	(2.1)
Foreign exchange effect	–	–	–	–	(2.1)	(2.1)
At 31 December 2016	3.8	18.9	–	5.8	11.5	40.0
At 1 January 2017	3.8	18.9	–	5.8	11.5	40.0
Charge for the year	0.7	–	–	–	4.2	4.9
Disposals	–	–	–	–	(0.2)	(0.2)
Foreign exchange effect	–	–	–	–	1.3	1.3
At 31 December 2017	4.5	18.9	–	5.8	16.8	46.0
Carrying amount:						
At 31 December 2016	6.0	–	70.8	–	17.1	93.9
At 31 December 2017	5.3	–	70.8	–	21.7	97.8

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS



16 INTANGIBLE ASSETS (continued)

Additional information

The gross cost of software fully amortised but still in use is US\$6.9m (2016: US\$5.1m).

All software additions in 2017 and 2016 were internally developed.

The software amortisation charge for the year of US\$4.2m (2016: US\$3.1m) is included in the 'other operating expenses' line in the income statement.

There were no impairments to software in 2017 (2016: nil)

Assets not yet in use with a total cost of US\$3.7m (2016: US\$4.8m) are included in software.

Further information is given in Note 5(b).

Impairment tests for syndicate participations

Syndicate participations are indefinite life intangible assets and are therefore reviewed annually for impairment. They have been allocated to cash-generating units (CGUs) as follows:

	31 December 2017 US\$m	31 December 2016 US\$m
Global Specialty Direct	52.7	52.7
Global Specialty Reinsurance	18.1	18.1
	70.8	70.8

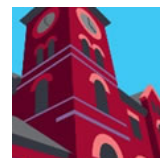
These CGU's are based upon operating segments which earn revenues and incur expenses and whose results are regularly reviewed by management.

The recoverable amounts of the CGUs have been determined using a value in use calculation.

Each value in use calculation uses pre-tax cash flow projections based on business plans approved by senior management covering a three year period and subsequent cash flows which assume a nil growth rate. These cash flows have been discounted using a risk adjusted pre-tax discount rate of 8.9% (2016: 8.9%). In each syndicate participation impairment review, the recoverable amount significantly exceeds the carrying value of the CGU including its associated syndicate participations and it is considered that a reasonably possible change in key assumptions will not cause the carrying value of the CGU to exceed its recoverable amount.

The key assumptions used for the impairment calculations were that cash flows and profit levels will mainly depend on the level of premiums written by each strategic business unit, the rates at which these premiums are written and the claims activity on both prior and future underwriting years. The business plans reflect senior management's best estimates based on historical experience, growth rates for the respective insurance industry sector, the insurance pricing cycle and expected results from ongoing and future strategic business unit product and distribution strategies.

Commissions and other insurance related expenses are assumed to remain materially in line with current amounts relative to premium levels.



17 PROPERTY, PLANT AND EQUIPMENT

This Note gives a breakdown of the type of assets in use in our offices such as computer equipment, office fixtures and fittings and furniture. We reduce the value of these assets according to their useful life by way of depreciation. Depreciation is included as an expense in the income statement. We also carry out an annual assessment of the carrying value of these assets and, if necessary, make an impairment charge to the income statement.

	Office refurbishment US\$m	Computers and office machinery, furniture and equipment US\$m	Total US\$m
Cost:			
At 1 January 2016	23.2	12.4	35.6
Additions	5.3	3.0	8.3
Disposals	(7.0)	(2.9)	(9.9)
Foreign exchange effect	(2.5)	(1.2)	(3.7)
At 31 December 2016	19.0	11.3	30.3
At 1 January 2017	19.0	11.3	30.3
Additions	0.4	0.5	0.9
Disposals	–	(0.7)	(0.7)
Foreign exchange effect	1.7	0.9	2.6
At 31 December 2017	21.1	12.0	33.1
Depreciation:			
At 1 January 2016	8.3	6.2	14.5
Charge for the year	1.6	2.0	3.6
Disposals	(7.0)	(2.9)	(9.9)
Foreign exchange effect	(0.3)	(0.5)	(0.8)
At 31 December 2016	2.6	4.8	7.4
At 1 January 2017	2.6	4.8	7.4
Charge for the year	1.7	2.7	4.4
Disposals	–	(0.7)	(0.7)
Foreign exchange effect	0.2	0.5	0.7
At 31 December 2017	4.5	7.3	11.8
Carrying amount:			
At 31 December 2016	16.4	6.5	22.9
At 31 December 2017	16.6	4.7	21.3

The gross cost of property, plant and equipment fully depreciated but still in use is US\$2.0m (2016: US\$1.7m).

The depreciation charge for the year of US\$4.4m (2016: US\$3.6m) is included in the 'other operating expenses' line in the income statement.

There were no impairments to property, plant and equipment in the year (2016: nil)

Further information is given in Note 5(b).

A dilapidations provision of US\$2.3m (2016: US\$2.3m) has been set up in respect of the refurbishment of rented property.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS



18 DEFERRED ACQUISITION COSTS

Acquisition costs are costs incurred in underwriting insurance risks and include commissions paid to third parties and some internally generated costs such as underwriter salaries. These costs are deferred and are charged to the income statement over the duration of the contract. We show the movement in these deferred costs and releases to the income statement in this Note.

	2017 US\$m	2016 US\$m
At 1 January	219.6	222.6
Costs deferred during the year	551.5	527.9
Amortisation charge for the year	(535.4)	(530.9)
At 31 December	235.7	219.6

19 DEFERRED TAXATION

This Note describes the tax that we may have to pay/recover in the future. Deferred tax arises from differences in the way that tax is calculated for accounting purposes and tax purposes.

The deferred tax asset is attributable to temporary differences arising on the following:

	Intangible assets US\$m	Underwriting US\$m	Other US\$m	Total US\$m
At 1 January 2016	2.9	46.1	9.3	58.3
Movements in the year:				
Charged to income statement	(0.1)	(1.8)	(2.5)	(4.4)
Foreign exchange effect	(0.5)	–	(1.0)	(1.5)
At 31 December 2016	2.3	44.3	5.8	52.4
Set-off of deferred tax liabilities pursuant to set-off provisions				(52.0)
Net deferred tax asset at 31 December 2016				0.4
At 1 January 2017	2.3	44.3	5.8	52.4
Movements in the year:				
(Charged)/credited to income statement	(0.2)	16.8	(2.2)	14.4
Foreign exchange effect	0.2	–	0.6	0.8
At 31 December 2017	2.3	61.1	4.2	67.6
Set-off of deferred tax liabilities pursuant to set-off provisions				(47.2)
Net deferred tax asset at 31 December 2017				20.4

Deferred tax assets, all of which arise in the United Kingdom, are considered recoverable where it is expected that there will be future taxable income based on the approved business plans and budgets of the Group. The net deferred tax asset recorded in the year arises from significant catastrophe-related activity, which is not expected to recur. The losses can be carried forward indefinitely and have no expiry date.

Deferred tax assets arising on decelerated capital allowances of US\$0.5m (2016: US\$0.5m) have not been provided for due to uncertainty over the timing of their utilisation.



Deferred tax has not been set up in respect of certain losses carried forward of US\$92.0m (2016: US\$87.0m) as it is not considered probable that they can be utilised in the foreseeable future.

Deferred tax has not been provided in respect of the profits of subsidiaries in the Group as tax exemptions, for example the participation exemption, are expected to apply.

The deferred tax liability is attributable to temporary differences arising on the following:

	Pensions US\$m	Intangible assets US\$m	Underwriting US\$m	Other US\$m	Total US\$m
At 1 January 2016	(9.4)	(16.1)	(56.8)	(3.4)	(85.7)
Movements in the year:					
(Charged)/credited to income statement	(0.2)	3.0	1.1	1.2	5.1
Tax relating to components of other comprehensive income (Note 15(b))	0.9	–	–	–	0.9
Foreign exchange effect	1.5	0.1	–	0.3	1.9
At 31 December 2016	(7.2)	(13.0)	(55.7)	(1.9)	(77.8)
Set-off of deferred tax assets pursuant to set-off provisions					52.0
Net deferred tax liability at 31 December 2016					(25.8)
At 1 January 2017	(7.2)	(13.0)	(55.7)	(1.9)	(77.8)
Movements in the year:					
(Charged)/credited to income statement	(0.7)	(0.5)	33.4	(0.4)	31.8
Tax relating to components of other comprehensive income (Note 15(b))	0.3	–	–	–	0.3
Foreign exchange effect	(0.7)	–	(0.8)	–	(1.5)
At 31 December 2017	(8.3)	(13.5)	(23.1)	(2.3)	(47.2)
Set-off of deferred tax assets pursuant to set-off provisions					47.2
Net deferred tax liability at 31 December 2017					–

Deferred tax has not been set up in respect of losses carried forward of US\$92.0m (2016: US\$87.0m) as it is not considered probable that they can be utilised in the foreseeable future.

Deferred tax has not been provided in respect of the profits of subsidiaries in the Group as tax exemptions, for example the participation exemption, are expected to apply.

Deferred tax assets arising on decelerated capital allowances of US\$0.5m (2016: US\$0.5m) have not been provided for due to uncertainty over the timing of their utilisation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS



20 INSURANCE AND REINSURANCE CONTRACTS

This Note deals with balances carried in respect of insurance contracts (liabilities) and reinsurance contracts (assets). It examines the statement of financial position, splitting both insurance and reinsurance balances into their component parts, and explains the assumptions applied in arriving at these figures. The Note also shows how our claims have developed over a period (before and after the effects of reinsurance) of time by setting out the cumulative development at the end of each calendar year in respect of claims arising from business written in a particular underwriting year. It ends by analysing the movements in insurance and reinsurance contracts during the year.

(a) Balances on insurance and reinsurance contracts

	31 December 2017 US\$m	31 December 2016 US\$m
Gross		
Claims reported and loss adjustment expenses	1,706.4	1,377.7
Claims incurred but not reported	2,429.7	2,029.0
	4,136.1	3,406.7
Unearned premiums	891.2	836.8
Total gross liabilities	5,027.3	4,243.5
Recoverable from reinsurers		
Claims reported and loss adjustment expenses	381.0	318.6
Claims incurred but not reported	735.9	393.2
Impairment provision	(0.7)	(0.7)
	1,116.2	711.1
Unearned premiums	233.3	173.0
Total reinsurers' share of liabilities	1,349.5	884.1
Net		
Claims reported and loss adjustment expenses	1,325.4	1,059.1
Claims incurred but not reported	1,693.8	1,635.8
Impairment provision	0.7	0.7
	3,019.9	2,695.6
Unearned premiums	657.9	663.8
Total net insurance liabilities	3,677.8	3,359.4

Insurance contracts – assumptions and changes in assumptions

Process used to decide on assumptions required

The risks associated with these insurance liabilities and in particular with casualty insurance liabilities are complex and subject to a number of variables that complicate quantitative analysis.

The Group uses several statistical methods to incorporate the various assumptions made in order to estimate the ultimate costs of claims. The two methods more commonly used are the chain-ladder and the Bornhuetter-Ferguson methods.

Chain-ladder methods may be applied to premiums, paid claims or incurred claims (i.e. paid claims plus case estimates).

The basic technique involves the analysis of historical claims development factors and the selection of estimated development factors based on these historical patterns. The selected development factors are then applied to cumulative claims data for each underwriting year that is not yet fully developed to produce an estimated ultimate claims cost for each underwriting year.



Chain-ladder techniques are most appropriate for mature classes of business that have a relatively stable development pattern. Chain-ladder techniques are less suitable in cases in which the insurer does not have a developed claims history for a particular class of business or for underwriting years at early stages of development where the outcome is still highly uncertain.

The Bornhuetter-Ferguson method uses a combination of a benchmark or market-based estimate and an estimate based on claims experience. The former is based on a measure of exposure such as premiums; the latter is based on the paid or incurred claims to date. The two estimates are combined using a formula that gives more weight to the experience-based estimate as time passes. This technique is used in situations in which developed claims experience are not available for the projection (recent underwriting years or new classes of business).

The choice of selected results for each year of each class of business depends on an assessment of the technique that has been most appropriate to observed historical developments. In certain instances, this has meant that different techniques or combination of techniques have been selected for the individual underwriting year or groups of underwriting years within the same class of business.

Standard statistical techniques may not be solely appropriate for assessing ultimate claims for a number of classes of business (e.g. casualty treaty) and particular events (e.g. natural catastrophes), therefore alternative methodologies may be employed to add additional rigour to the process. Examples include reviewing potential exposure on a policy by policy basis and taking account of market intelligence to determine Brit's share of the loss.

In addition to the estimation of claims reserves certain estimates are produced for unearned premiums. For open market business earned premium is calculated at policy level. However, premium derived from delegated underwriting authorities is calculated by applying the 144ths method to estimated premiums applied to the master policy. This assumes that attachments to master policies arise evenly throughout the period of that master policy.

Reinsurance outwards premiums are earned according to the nature of the cover. 'Losses occurring during' policies are earned evenly over the policy period. 'Risks attaching' policies are earned on the same basis as the inwards business being protected.

Changes in assumptions

The Group did not change its estimation techniques for the insurance contracts disclosed in this Note during the year.

Claims development tables

The tables below show the development of claims over a period of time on a gross and net of reinsurance basis.

The claims development tables have been presented on an underwriting year basis.

The tables show the cumulative incurred claims, including both notified and IBNR claims, for each successive underwriting year at the end of each year, together with cumulative paid claims at the end of the current year.

The claims have been adjusted to make them comparable on a year by year basis.

They have been grossed up to include 100% of the managed syndicate claims rather than the claims that reflects the Group percentage ownership of each syndicate's underwriting capacity during the respective underwriting years. In addition, claims in currencies other than US dollars have been retranslated at 31 December 2017 exchange rates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS



20 INSURANCE AND REINSURANCE CONTRACTS (continued)

Ultimate gross claims

Underwriting year	2008 and prior years	2009	2010	2011	2012	2013	2014	2015	2016	2017	Intra Group and other underwriting adjustments	Total
At end of												
underwriting year	90.5%	73.7%	75.9%	80.9%	76.1%	70.0%	70.2%	70.6%	76.7%	100.7%		
One year later	90.2%	75.8%	86.6%	78.3%	71.7%	70.1%	73.6%	71.4%	85.5%			
Two years later	92.9%	72.7%	90.6%	78.6%	72.4%	70.2%	73.3%	73.5%				
Three years later	96.7%	74.4%	91.0%	78.3%	70.5%	69.9%	74.6%					
Four years later	97.9%	75.0%	89.9%	78.9%	73.2%	71.3%						
Five years later	97.7%	75.9%	87.7%	77.4%	74.1%							
Six years later	99.5%	75.2%	87.4%	76.5%								
Seven years later	99.8%	76.4%	85.8%									
Eight years later	100.4%	77.0%										
Nine years later	99.7%											
	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m
Total ultimate												
gross claims at												
31 December 2017	7,715.3	770.3	898.5	854.5	987.8	1,013.9	1,156.3	1,079.2	1,288.3	1,527.9	–	17,292.0
Less accumulated												
gross paid claims	(7,404.6)	(658.1)	(807.0)	(708.2)	(694.2)	(652.0)	(662.4)	(460.5)	(350.5)	(140.4)	–	(12,537.9)
Unearned premium												
portion of gross												
ultimate claims	–	–	–	–	–	–	–	–	(51.4)	(624.2)	–	(675.6)
Claims handling												
provision and other												
corporate adjustments	4.3	1.7	1.2	2.2	4.2	5.4	7.4	9.3	11.8	6.9	3.2	57.6
Total outstanding												
gross claims at												
31 December 2017	315.0	113.9	92.7	148.5	297.8	367.3	501.3	628.0	898.2	770.2	3.2	4,136.1



Ultimate net claims

Underwriting year	2008 and prior years	2009	2010	2011	2012	2013	2014	2015	2016	2017	Intra Group and other underwriting adjustments	Total
At end of												
underwriting year	96.2%	79.5%	79.5%	86.6%	82.4%	75.4%	76.1%	77.6%	83.1%	99.3%		
One year later	96.3%	78.8%	87.8%	84.0%	78.1%	76.8%	79.3%	80.4%	90.3%			
Two years later	96.8%	75.9%	89.8%	83.2%	77.8%	76.4%	78.3%	81.1%				
Three years later	100.1%	74.4%	89.9%	81.3%	75.6%	76.4%	79.1%					
Four years later	102.0%	74.7%	87.8%	81.4%	76.6%	77.1%						
Five years later	101.0%	76.2%	86.7%	79.9%	76.7%							
Six years later	101.5%	76.2%	86.5%	78.7%								
Seven years later	99.1%	76.8%	84.4%									
Eight years later	99.1%	76.5%										
Nine years later	98.6%											
	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m
Total ultimate net claims at 31 December 2017	5,603.0	618.4	707.1	705.3	796.8	820.5	924.0	875.1	923.3	1,012.8	–	12,986.3
Less accumulated gross paid claims	(5,429.1)	(538.2)	(634.6)	(588.9)	(581.6)	(537.6)	(551.7)	(380.3)	(297.1)	(134.5)	–	(9,673.6)
Unearned premium portion of gross ultimate claims	–	–	–	–	–	–	–	–	(37.1)	(441.4)	–	(478.5)
Claims handling provision, bad debt provision and other corporate adjustments	4.3	1.7	1.2	2.2	4.2	5.4	7.4	9.3	11.8	6.9	131.3	185.7
Total outstanding net claims at 31 December 2017	178.2	81.9	73.7	118.6	219.4	288.3	379.7	504.1	600.9	443.8	131.3	3,019.9

The percentages in the gross and net triangles are shown on an ultimate loss basis inclusive of catastrophe losses by year of account.

The development of the 2008 year of account was impacted by exposure to the financial crisis which resulted in reserving action which has subsequently led to stability in the ratios for a number of years. The 2010 year of account includes the impact of natural catastrophes occurring in 2011 which attached back to policies incepting in the 2010 year of account. Likewise, the 2016 year of account includes the impact of natural catastrophes occurring in 2017 which attached to policies incepting in the 2016 year of account.

During 2017, the net aggregate reserve releases from prior years amounted to US\$9.5m, which included a strengthening of US\$21.1m in respect of 2016 and a reserve release of US\$30.6m (322.1% of the net aggregate reserve release) derived from the 2015 and prior underwriting years (2016: US\$75.0m/140.2% from the 2014 and prior underwriting years). Reserves in Brit Global Specialty Direct experienced a strengthening of US\$29.0m (2016: releases of US\$11.4m) and Brit Global Specialty Reinsurance experienced releases of US\$39.4m (2016: US\$47.5m) with a strengthening of US\$0.9m (2016: US\$5.4m) within Other Underwriting.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS



20 INSURANCE AND REINSURANCE CONTRACTS (continued)

(b) Movements in insurance and reinsurance contracts

(i) Claims and loss adjustment expenses

	31 December 2017			31 December 2016		
	Gross US\$m	Reinsurance US\$m	Net US\$m	Gross US\$m	Reinsurance US\$m	Net US\$m
As at 1 January	3,406.7	(711.1)	2,695.6	3,324.1	(678.4)	2,645.7
Cash paid for claims settled in the year	(1,068.4)	206.7	(861.7)	(875.0)	140.6	(734.4)
Increase in liabilities	1,687.4	(579.1)	1,108.3	1,058.8	(202.7)	856.1
Net foreign exchange differences	110.4	(32.7)	77.7	(101.2)	29.4	(71.8)
As at 31 December	4,136.1	(1,116.2)	3,019.9	3,406.7	(711.1)	2,695.6

(ii) Unearned premiums

	31 December 2017			31 December 2016		
	Gross US\$m	Reinsurance US\$m	Net US\$m	Gross US\$m	Reinsurance US\$m	Net US\$m
As at 1 January	836.8	(173.0)	663.8	858.2	(140.5)	717.7
Premiums written in the year	2,057.0	(526.2)	1,530.8	1,912.2	(432.0)	1,480.2
Premiums earned during the year	(2,002.6)	465.9	(1,536.7)	(1,933.6)	399.5	(1,534.1)
As at 31 December	891.2	(233.3)	657.9	836.8	(173.0)	663.8

21 EMPLOYEE BENEFITS

This Note explains the pension schemes operated by the Group for its employees. For the Group's defined benefit scheme (in which no further benefits are being accrued), it sets out the amount carried on the Group statement of financial position, gains and losses incurred during the year, amounts paid into the scheme, together with further information about the scheme. For the Group's two defined contribution schemes, it sets out the costs incurred during the year.

(a) Brit Group Services Limited – Defined Benefit Pension Scheme

Through Brit Group Services Limited, the Group operates a funded defined benefit pension scheme providing pensions benefits to its members. The scheme closed to new entrants on 4 October 2001 and closed to future accrual of benefits on 31 December 2011. All active members of the defined benefit scheme joined the defined contribution plan for future service. Following closure to future accrual, benefits now increase broadly in line with inflation. The weighted average duration to payment of the scheme's expected cash flows is 17 years (2016: 18 years).

The scheme is approved by HMRC for tax purposes, and is operated separately from the Group and managed by an independent Trustee. The Trustee is responsible for payment of the benefits and management of the scheme's assets. The scheme is subject to UK regulations overseen by the Pensions Regulator, which require the Group and Trustee to agree a funding strategy and contribution schedule for the scheme every three years. The most recent triennial review of the scheme was undertaken as at 31 July 2015 and identified a funding surplus of £7.1m. The Group agreed to continue to pay the remainder of the recovery plan agreed following the previous actuarial valuation, namely a contribution of £1.6m on 31 July 2016.

The Group has also committed to pay further contributions to the scheme of at least £2.0m a year on each 31 July from 2017 to 2024. These contributions are payable by Brit Group Services Limited and backed-up by a cross-company guarantee from Brit Insurance Holdings Limited.

If there is a shortfall against the funding target, then the Company and Trustee will agree on deficit contributions to meet this deficit over a period. There is a risk to the Company that adverse experience could lead to a requirement for the Company to make additional contributions in excess of those above to recover any deficit that arises.

**Net amount recognised in the statement of financial position for the scheme:**

	31 December 2017 US\$m	31 December 2016 US\$m
Present value of defined benefit obligation	(211.1)	(193.0)
Fair value of scheme assets	259.7	235.5
Net pension asset	48.6	42.5

Changes in the net pension asset recognised in the statement of financial position:

	31 December 2017 US\$m	31 December 2016 US\$m
Opening statement of financial position	42.5	52.1
Credit to income statement	1.3	1.9
Foreign exchange effect	4.1	(8.3)
Amount recognised outside income statement	(1.9)	(5.4)
Contributions paid	2.6	2.2
Closing statement of financial position	48.6	42.5

A net pension asset is recognised on the statement of financial position as there is an unconditional right of the Group to be refunded the surplus in the scheme. The measurement of the net pension asset is impacted by a number of factors, including the actuarial assumptions used, the effects of changes in foreign exchange rates, and the contributions paid to the scheme by the Group. The Group expects to realise the economic benefit of the net pension asset as the obligations and funding requirements change over the life of the scheme. Deferred tax related to the net pension asset is measured using the tax rates expected to apply to the periods during which the asset is recovered, and is presented within the deferred tax line of the statement of financial position.

Net credit recognised in the income statement comprised:

	Year ended 31 December 2017 US\$m	Year ended 31 December 2016 US\$m
Net interest on net defined benefit asset	(1.3)	(1.9)

This credit has been recognised in the 'other operating expenses' line in the income statement. Contributions to the Group's defined contribution pension arrangements are in addition to those set out in this note and are charged directly to the income statement.

The allocation of the scheme's assets was as follows:

	31 December 2017 US\$m	31 December 2016 US\$m
Equities	46.7	56.4
Index-linked UK government bonds	135.8	130.0
Other debt securities	67.3	8.4
UK fixed interest government bonds	–	11.6
Cash and net current assets	7.4	24.6
Gold and gold mining equities	1.6	2.6
Other scheme assets	0.9	1.9
Fair value of scheme assets	259.7	235.5

All scheme assets have quoted prices in active markets. The scheme does not invest directly in property occupied by the Group or in financial securities issued by the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS



21 EMPLOYEE BENEFITS (continued)

Investment strategy

The Trustee determines the scheme's investment strategy after taking appropriate advice from their investment consultants. The management of the assets is delegated to State Street Global Advisors Limited, Ruffer LLP and Insight Investment Management (Globe) Limited. The Trustee's investment objective are to ensure that the scheme has adequate resources to meet the members' entitlements under the Trust Deed and Rules as they fall due, and thereafter to minimise long-term costs of the scheme by maximising the return on the assets. Investment risk is managed by diversifying the assets across asset classes whose return patterns are not highly correlated, and by periodically rebalancing asset classes. The assets include a portfolio of UK index-linked government bonds which aim to match a significant part of the scheme's inflation-linked benefits and therefore help to reduce the Group's exposure to investment and inflation risks.

Movements in the present value of the defined benefit obligation were as follows:

	31 December 2017 US\$m	31 December 2016 US\$m
Opening defined benefit obligation	193.0	190.9
Interest on defined benefit obligation	5.5	6.5
Remeasurements due to:		
Changes in financial assumptions	5.6	39.3
Changes in demographic assumptions	2.7	—
Experience on benefit obligations	(0.6)	(0.5)
Foreign exchange effect	18.2	(34.0)
Benefits paid	(13.3)	(9.2)
Closing defined benefit obligation	211.1	193.0

Movements in the fair value of the scheme assets were as follows:

	31 December 2017 US\$m	31 December 2016 US\$m
Opening fair value of scheme assets	235.5	243.0
Interest income	6.7	8.4
Actual return excluding interest income	5.8	33.4
Foreign exchange effect	22.4	(42.3)
Contributions by the employer	2.6	2.2
Benefits paid	(13.3)	(9.2)
Closing fair value of scheme assets	259.7	235.5

The principal actuarial assumptions at the year-end were:

	31 December 2017	31 December 2016
Discount rate	2.55%	2.80%
Retail Prices Index (RPI) inflation	3.30%	3.40%
Consumer Prices Index (CPI) inflation	2.30%	2.40%
Pension increases in payment	3.10%	3.20%
Mortality assumptions:		
Life expectancy of male aged 60 at statement of financial position date	28.0 years	27.9 years
Life expectancy of female aged 60 at statement of financial position date	30.3 years	30.2 years
Life expectancy of male age 60 retiring in 20 years' time	29.9 years	29.7 years
Life expectancy of female age 60 retiring in 20 years' time	32.2 years	32.1 years



The assumptions used to determine end-of-year benefit obligations are also used to calculate the following year's cost.

Sensitivity analysis:

Assumption	Change in assumption	Change in defined benefit obligation at end of the year
Discount rate	Decrease by 0.5%	Increase by US\$19.8m
Future RPI inflation increases	Increase by 0.5%	Increase by US\$15.1m
Future CPI inflation increases	Increase by 0.5%	Increase by US\$3.7m
Assumed life expectancy at age 60	Increase by 1 year	Increase by US\$8.3m

The calculations in this section have been carried out using the same method and data as the Group's pensions and accounting figures with each assumption adjusted as shown above. Each assumption has been varied individually and a combination of changes in assumptions could produce a different result.

Risks:

The Group is exposed to a number of risks in relation to its defined benefit scheme, the most significant of which are detailed below:

Risk	
Investment strategy	Changes in asset values are not matched by changes in the scheme's defined benefit obligations. For example, if equity values fall with no changes in corporate bond yields, the net pension asset would reduce.
Investment returns	Future investment returns are lower than anticipated and so additional contributions are required from the Group to pay all the benefits promised.
Improvements in life expectancy	Scheme members live longer and so benefits are payable for longer than anticipated.
Inflation	Actual inflation is higher and so benefit payments are higher than anticipated.
Regulatory	In future the scheme may have backdated claims or liabilities arising from future legislation, emerging practice or court judgments.

(b) Brit Group Services Limited – Defined Contribution Personal Pension Plan

Brit Group Services Limited operates a defined contribution group personal pension plan. The assets of the scheme are held separately from those of the Group in an independently administered fund.

The pension cost charge represents contributions payable by Brit Group Services Limited to the fund and amounted to US\$5.2m (2016: US\$6.1m).

At 31 December 2017 no contributions were payable to the fund (2016: US\$nil).

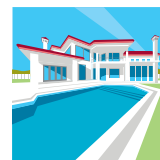
(c) Brit Insurance Services USA Inc. – 401(k) Safe Harbor Plan

Brit Insurance Services USA Inc. operates a '401(k) Safe Harbor Plan'. The assets of the scheme are held separately from those of the Group in an independently administered fund.

The pension cost charge represents contributions payable by Brit Insurance Services USA Inc. to the fund and amounted to US\$0.5m (2016: US\$0.5m).

At 31 December 2017 no contributions were payable to the fund (2016: US\$nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS



22 FINANCIAL INVESTMENTS

This Note summarises the total value of the financial assets of the Group and shows how much we have invested in each class of asset. It also explains how each asset is categorised under three different levels of hierarchy, the methods used to value assets within each level and assets transferred between levels.

	31 December 2017 US\$m	31 December 2016 US\$m
Equity securities	686.7	399.8
Debt securities	1,886.1	2,424.7
Specialised investment funds	126.6	79.4
Total	2,699.4	2,903.9

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

Basis for determining the fair value hierarchy of financial instruments

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

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

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

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

Fair values for level two and level three assets include:

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



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

Valuation techniques

Level one

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

Level two

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

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

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

Level three

Level three equities include investments in limited partnerships where the fund's underlying investments are not traded/quoted in an active market. In some instances, limited partnerships are classified as level three because they may require at least three months 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS



22 FINANCIAL INVESTMENTS (continued)

Disclosures of fair values in accordance with the fair value hierarchy

31 December 2017	Level one US\$m	Level two US\$m	Level three US\$m	Total US\$m
Equity securities	359.8	135.8	191.1	686.7
Debt securities	1,126.3	684.2	75.6	1,886.1
Specialised investment funds	–	110.6	16.0	126.6
Total	1,486.1	930.6	282.7	2,699.4
31 December 2016	Level one US\$m	Level two US\$m	Level three US\$m	Total US\$m
Equity securities	201.3	75.3	123.2	399.8
Debt securities	1,462.9	935.6	26.2	2,424.7
Specialised investment funds	–	64.6	14.8	79.4
Total	1,664.2	1,075.5	164.2	2,903.9

All unrealised gains of US\$167.5m (2016: gains of US\$10.0m) and realised gains of US\$2.9m (2016: gains of US\$62.3m) on financial investments held during the year, 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 actively traded, it is immediately transferred out of level one. In such cases, instruments are classified into level two, unless the measurement of its fair value requires the use of significant unobservable inputs, in which case it is classified as level three. All fair value measurements above are recurring as they are required to be measured and recognised at the end of each reporting period.

Transfers from level one to level two

No fixed income investments (2016: nil) and no equities (2016: nil) were transferred from level one to level two during 2017.

Transfers from level two to level one

No fixed income investments, equities or funds (2016: nil) were transferred from level two to level one during 2017.

Transfers from level two to level three

US\$49.8m worth of fixed income investments (2016: nil) were transferred from level two to level three during 2017 due to their inputs becoming unobservable during 2017.

Transfers from level three to level two

No fixed income investments, equities or funds (2016: nil) were transferred from level three to level two during 2017.



Reconciliation of movements in level three financial investments measured at fair value

	Equity securities US\$m	Debt securities US\$m	Specialised investment funds US\$m	Total US\$m
At 1 January 2016	17.6	43.9	–	61.5
Transfers to level one and level two	–	(1.9)	–	(1.9)
Total gains/(losses) recognised in the income statement	4.6	0.8	(0.2)	5.2
Purchases	102.3	4.3	15.0	121.6
Sales proceeds	–	(20.1)	–	(20.1)
Foreign exchange losses	(1.3)	(0.8)	–	(2.1)
At 31 December 2016	123.2	26.2	14.8	164.2
Transfers from level two to level three	–	49.8	–	49.8
Total gains recognised in the income statement	23.8	2.7	1.2	27.7
Purchases	120.2	24.8	–	145.0
Sales proceeds	(78.8)	(30.8)	–	(109.6)
Foreign exchange gains	2.8	2.9	–	5.7
At 31 December 2017	191.2	75.6	16.0	282.8

Total net gains recognised in the income statement under 'investment return' in respect of level three financial investments for the period amounted to US\$27.7m (2016: US\$5.2m). Included in this balance are US\$37.9m of unrealised gains (2016: US\$5.2m) attributable to assets still held at the end of the year.

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

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

	31 December 2017		31 December 2016	
	Carrying amount US\$m	Effect of possible alternative assumptions (+/-) US\$m	Carrying amount US\$m	Effect of possible alternative assumptions (+/-) US\$m
Equity securities	191.1	3.4	123.2	4.6
Debt securities	75.7	0.8	26.2	0.9
Specialised investment funds	16.0	0.4	14.8	0.1
Total	282.8		164.2	

In order to determine reasonably possible alternative assumptions, the Group monitored the price of the securities invested to changes on a month by month basis since acquisition or during 2017.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS



23 DERIVATIVE CONTRACTS

This Note summarises the total value of the derivative contracts of the Group. It also explains how each derivative contract is categorised under three different levels of hierarchy, the valuation methods used to value derivative contracts and amounts transferred between levels. At 31 December 2017 and 31 December 2016, the options formed part of our investment management strategy, while the currency forwards formed part of our foreign exchange management strategy.

The disclosure provided in the tables below include derivatives recorded in the Group's statement of financial position.

Derivative contract assets

	Gross amounts of receivables on derivative contract assets US\$m	Gross amounts of payables on derivative contract assets US\$m	Derivatives contract assets presented in the statement of financial position US\$m
31 December 2017			
Currency forwards	677.7	(664.0)	13.7
Options	1.2	–	1.2
Treasury lock	–	(0.1)	(0.1)
Call and put option over Ambridge Partners LLC	31.0	(27.5)	3.5
Call and put option over Camargue	10.2	(10.2)	–
Total	720.1	(701.8)	18.3
	Gross amounts of receivables on derivative contract assets US\$m	Gross amounts of payables on derivative contract assets US\$m	Derivatives contract assets presented in the statement of financial position US\$m
31 December 2016			
Currency forwards	686.9	(679.8)	7.1
Options	5.5	–	5.5
Call and put option over Ambridge Partners LLC	51.3	(51.3)	–
Call and put option over Camargue	4.8	(4.8)	–
Total	748.5	(735.9)	12.6

Derivative contract liabilities

	Gross amounts of payables on derivative contract liabilities US\$m	Gross amounts of receivables on derivative contract liabilities US\$m	Derivatives contract liabilities presented in the statement of financial position US\$m
31 December 2017			
Currency forwards	(686.0)	673.5	(12.5)
	Gross amounts of payables on derivative contract liabilities US\$m	Gross amounts of receivables on derivative contract liabilities US\$m	Derivatives contract liabilities presented in the statement of financial position US\$m
31 December 2016			
Currency forwards	(623.5)	611.7	(11.8)

Disclosures of fair values in accordance with the fair value hierarchy

	Level two US\$m	Level three US\$m	Total US\$m
31 December 2017			
Derivative contract assets	13.6	4.7	18.3
Derivative contract liabilities	(12.5)	–	(12.5)
	Level two US\$m	Level three US\$m	Total US\$m
31 December 2016			
Derivative contract assets	7.1	5.5	12.6
Derivative contract liabilities	(11.8)	–	(11.8)



Valuation techniques

Level two

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

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

Level three

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

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

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

	Put options US\$m
At 1 January 2016	20.4
Purchases	11.3
Total losses recognised in the income statement	(32.9)
Sale proceeds	–
Foreign exchange gains	6.7
At 31 December 2016	5.5
Purchases	2.6
Total losses recognised in the income statement	(6.5)
Sale proceeds	(3.6)
Foreign exchange gains	6.7
At 31 December 2017	4.7

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

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

	31 December 2017		31 December 2016	
	Carrying amount US\$m	Effect of possible alternatives assumptions (+/-) US\$m	Carrying amount US\$m	Effect of possible alternatives assumptions (+/-) US\$m
Put options	4.7	1.4	5.5	1.7

In order to determine reasonably possible alternative assumptions, the Group adjusted key unobservable model inputs, including inflation volatility inputs (used to measure inflation-related put options recorded in 2017) and credit risk inputs (used to measure put options over an unlisted investment held by the Group in 2017 and 2016).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS



24 INSURANCE AND OTHER RECEIVABLES

This Note sets out the various categories of amounts which are owed to the Group.

	31 December 2017 US\$m	31 December 2016 US\$m
Arising out of direct insurance operations	473.1	373.8
Arising out of reinsurance operations	389.0	304.9
Prepayments	9.7	9.1
Accrued income	6.2	6.8
Outstanding settlements on investments	0.8	1.5
Other assets	22.9	9.9
Other debtors	6.6	12.3
Total	908.3	718.3

Other assets relates to shares purchased to settle share-based payment awards. For further information, refer to Note 33.

25 CASH AND CASH EQUIVALENTS

This Note analyses the amounts of cash and cash equivalents. Cash equivalents are investment instruments with less than 90 days left to maturity when purchased by the Group. We have also provided some additional analysis which explains where our cash and cash equivalents are held and why we are holding them.

	31 December 2017 US\$m	31 December 2016 US\$m
Cash at bank and on deposit	376.9	469.3
Cash equivalents	1,194.7	556.2
Total	1,571.6	1,025.5

The carrying amounts disclosed above, reasonably approximate fair values.

The source of these amounts can be further analysed as follows:

Classification	Definition	31 December 2017 US\$m	31 December 2016 US\$m
Cash within segregated fund mandates	Short-term investment funds, money market funds, treasury bills or cash held within segregated mandates.	1,248.1	737.5
Lloyd's trust funds	Cash within the Lloyd's Overseas Deposits trust funds held to meet regulatory requirements.	41.2	31.5
Self-managed cash	Highly liquid instruments held to meet on-going working capital requirements.	282.3	238.1
Letter of credit cash collateral	Cash held as collateral for letters of credit.	–	18.4
Total		1,571.6	1,025.5



26 BORROWINGS

This Note describes the main sources of borrowing available to the Group and the amounts currently borrowed from each of those sources.

	Maturity	Call	Effective interest rate	31 December 2017			31 December 2016		
				Initial capitalised borrowing costs US\$m	Amortised cost US\$m	Fair value US\$m	Initial capitalised borrowing costs US\$m	Amortised cost US\$m	Fair value US\$m
Non-current									
Subordinated debt	2030	2020	8.3%	2.8	174.8	197.6	2.8	157.5	167.9
Revolving credit facility	2020	–	LIBOR +1.5%	14.7	45.0	45.0	14.7	–	–
				17.5	219.8	242.6	17.5	157.5	167.9

As at 31 December 2017 and 31 December 2016, the fair value of the subordinated debt was determined by reference to trading market values on recognised exchanges and was therefore categorised as a level one measurement in the fair value hierarchy. For further information relating to the fair value hierarchy, refer to Note 22.

Subordinated debt

The subordinated debt is callable in whole by the Group on 9 December 2020. Following this date the interest rate resets to the higher of:

- i) 3.4% above the gross redemption yield of the 4.75% Treasury Gilt due 2030 quoted on the reset date; or
- ii) 3.4% above the gross redemption yield of the 8% Treasury Stock due 2021 quoted on the reset date.

The effective interest rate method of accounting has been applied over the term up to the call date.

Revolving credit facility

The Group has a US\$360.0m (2016: US\$360.0m) revolving credit facility which expires on 31 December 2020.

At 31 December 2017, a US\$80.0m (2016: US\$80.0m) letter of credit had been utilised. In addition, there was a cash drawing of US\$45.0m.

27 OTHER FINANCIAL LIABILITIES

This Note sets out the amount of financial liabilities owing to external investors in respect of structured entities consolidated by the Group.

During 2017, the Group entered into a new reinsurance arrangement, effective 1 January 2017, with a segregated account of Versutus Limited, a Bermuda-domiciled special purpose reinsurer with which the Group has an established relationship. As at 31 December 2017, Brit has a 48% investment in this segregated account, which has been consolidated within the financial statements of the Group.

In December 2017, the Group announced a new Bermuda-domiciled collateralised reinsurance platform, Sussex Capital Limited. Sussex Capital Limited was launched on 1 January 2018 with initial capital of US\$102.5m. Sussex Capital Limited, through Sussex Re, a newly established Bermuda-domiciled special purpose reinsurer, writes direct collateralised reinsurance while also providing collateralised reinsurance to the Group's Syndicate 2987. The Group has a 29.3% investment in Sussex Capital Limited, which was funded on 29 December 2017. Both Sussex vehicles have been consolidated by the Group as at 31 December 2017.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS



27 OTHER FINANCIAL LIABILITIES (continued)

Investments by independent third parties in the consolidated Versutus and Sussex vehicles have been presented in the Group's statement of financial position as 'Other financial liabilities'. The value of those investments includes both the initial contributions by the investors and any returns accruing thereto. As at 31 December 2017, the Group has recorded other financial liabilities of US\$82.1m.

Other financial liabilities have been designated as held at fair value through the consolidated income statement. As at 31 December 2017, the fair value of the investments by independent third parties was determined by reference to the underlying net assets of the reinsurance vehicles and was therefore categorised as level three in the fair value hierarchy. Further information relating to the Group's approach to fair value measurement is available in Note 22.

28 INSURANCE AND OTHER PAYABLES

This Note sets out the various categories of amounts which are owed by the Group.

	31 December 2017 US\$m	31 December 2016 US\$m
Arising out of direct insurance operations	17.7	10.8
Arising out of reinsurance operations	432.4	291.5
Other taxes and social security costs	2.2	2.2
Accruals and deferred income	68.1	50.6
Outstanding settlements on investments	0.3	12.7
Other creditors	8.8	14.2
Total	529.5	382.0

The carrying amounts disclosed above reasonably approximate fair values as all amounts are payable within one year of the date of the statement of financial position.

29 CALLED UP SHARE CAPITAL

This Note sets out the number of shares we have in issue and their nominal value.

	31 December 2017 US\$m	31 December 2016 US\$m	31 December 2017 1p each Number	31 December 2016 1p each Number
Ordinary shares:				
Allotted, issued and fully paid	6.4	6.4	387,608,230	387,608,230
			US\$m	Number
At 1 January 2016	6.6		401,057,706	
Purchase and cancellation of own shares	(0.2)		(13,449,476)	
At 31 December 2016	6.4		387,608,230	
At 1 January 2017	6.4		387,608,230	
Purchase and cancellation of own shares	—		—	
At 31 December 2017	6.4		387,608,230	

106,550,524 shares are class A shares and the remainder are class B shares. The class A and B shares rank *pari passu* except that on a distribution of profits by the Company, the class A shareholders are entitled to a cumulative annual dividend which must be settled ahead of any equivalent distribution to class B shareholders.

The number of shares reported is for Brit Limited, the parent of the Group.



The Group's ultimate parent, Fairfax Financial Holdings Limited (Fairfax), is permitted on an annual basis to purchase a set number of shares from OMERS Administration Corporation (OMERS), the minority shareholder of class A shares in Brit Limited. There were no share purchases or cancellations during 2017.

In August 2016, instead of a B class share dividend being made by Brit Limited to Fairfax, Fairfax assigned the purchase of 13,449,476 A class shares to Brit Limited. A distribution of US\$61.5m from reserves for the purchase of 13,449,476 shares from OMERS for cancellation was made on 3 August 2016. The distribution of US\$61.5m included the repurchase cost of the shares of US\$57.8m, a US\$3.4m payment in respect of the pro-rata accrued dividend on the shares, and stamp duty charges of US\$0.3m.

A reduction in share capital of £134,495 was made, following the repurchase of shares from OMERS, being the nominal value of 13.4m shares at 1p each, and a capital redemption reserve of the same amount was created. The distribution of US\$61.5m was set against distributable reserves ('cost of share buy-back') in accordance with UK Company Law. As a result, Fairfax increased its percentage shareholding from 69.99% to 72.51%.

30 DIVIDENDS

This Note gives details of the amount we have paid to our shareholders during 2017 and 2016 by way of dividends.

	2017 US\$	2016 US\$	2017 US\$m	2016 US\$m
Dividend paid in respect of prior year	0.43	0.43	45.8	26.2
Dividend paid in respect of share buy back	–	0.43	–	3.4
Interim dividend paid on 21 December	–	0.43	–	61.3
Total			45.8	90.8

A dividend to class A shareholders for 2016 of US\$0.43 per share amounting to US\$45.8m was paid on 3 March 2017 in accordance with the shareholders' agreement.

A US\$26.2m dividend in respect of the year-ended 31 December 2015 was paid to the class A shareholders on 29 April 2016 in accordance with the shareholders' agreement at an amount equal to US\$0.43 per share

As part of the share buy-back transaction a US\$3.4m dividend was paid to the class A shareholders on 3 August 2016, representing the pro-rata accrued dividend outstanding on the shares repurchased in respect of the 2016 accounting period, and based on a dividend entitlement for the full year equal to US\$0.43 per share.

A US\$61.3m dividend was paid to the class B shareholders on 21 December 2016 in accordance with the shareholders' agreement at an amount equal to US\$0.43 per share.

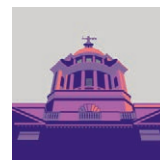
31 COMMITMENTS

The Group has various financial commitments resulting from various contracts it has entered into. These amounts, which are not provided for on the consolidated statement of financial position, are set out in this Note.

Operating lease commitments

The Group has entered into a number of operating lease arrangements to lease properties and office equipment. Property leases typically have rent reviews every five years where the lease payments could be increased to reflect market rates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS



31 COMMITMENTS (continued)

Operating lease payments recognised in the consolidated income statement during 2017 were US\$6.5m (2016: US\$7.3m).

The future minimum lease payments under non-cancellable operating leases were as follows:

	31 December 2017 US\$m	31 December 2016 US\$m
Not later than one year	7.4	6.9
Later than one year and not later than five years	28.5	26.2
Later than five years	47.7	46.7
Total	83.6	79.8

Other commitments

On 26 October 2017, a stock purchase agreement was entered into to acquire 100% of the share capital of a dormant insurance entity, for cash consideration of approximately US\$18.0m. This acquisition, which is subject to regulatory approval, is expected to complete in the first quarter of 2018.

32 CASH FLOWS PROVIDED BY OPERATING ACTIVITIES

The table below shows how our profit for the year translates into cash flows generated from our operating activities.

	Year ended 31 December 2017 US\$m	Year ended 31 December 2016 US\$m
Profit on ordinary activities before tax	5.5	159.8
Adjustments for non-cash movements:		
Realised and unrealised gains on investments	(170.4)	(72.3)
Realised and unrealised (gains)/losses on derivatives	(5.2)	52.8
Unrealised (gains)/losses on shares held for share based payment	(1.4)	0.3
Amortisation of intangible assets	4.4	5.2
Depreciation of property, plant and equipment	4.9	3.6
Foreign exchange (gains)/losses on cash and cash equivalents	(9.1)	17.8
Share of profit after tax of associated undertakings	(5.1)	(3.1)
Charges in respect of share-based payment schemes	0.8	0.9
Interest income	(41.7)	(56.4)
Dividend income	(6.4)	(17.5)
Finance costs on borrowing	17.1	18.8
Changes in working capital:		
Deferred acquisition costs	(16.1)	3.0
Insurance and other receivables excluding accrued income	(174.1)	(28.0)
Insurance and reinsurance contracts	318.4	(4.0)
Financial investments	374.9	499.3
Derivative contracts	0.2	(2.5)
Insurance and other payables	239.7	6.1
Employee benefits	(3.9)	(4.0)
Provisions	(0.2)	(0.4)
Cash flows provided by operating activities	532.3	579.4



Reconciliation of liabilities arising from financing activities

The table below shows a reconciliation of our liabilities arising from financing activities.

	Year ended 31 December 2016 US\$m	Cashflows US\$m	Foreign exchange movement US\$m	Non-cash changes Other changes US\$m	Year ended 31 December 2017 US\$m
31 December 2017					
Long-term borrowings					
Subordinated debt	157.5	(11.6)	15.1	13.8	174.8
Short-term borrowings					
Revolving credit facility	–	42.9	–	2.1	45.0
Total liabilities from financing activities	157.5	31.3	15.1	15.9	219.8

	Year ended 31 December 2015 US\$m	Cashflows US\$m	Foreign exchange movement US\$m	Non-cash changes Other changes US\$m	Year ended 31 December 2016 US\$m
31 December 2016					
Long-term borrowings					
Subordinated debt	185.6	(12.1)	(30.2)	14.2	157.5
Short-term borrowings					
Revolving credit facility	–	(3.3)	–	3.3	–
Total liabilities from financing activities	185.6	(15.4)	(30.2)	17.5	157.5

33 SHARE-BASED PAYMENTS

The Group rewards its employees through various share-based incentive schemes. This Note explains the different schemes used to facilitate those share-based payments and the charge recognised in the consolidated income statement in respect of these schemes.

The compensation cost recognised in the income statement under IFRS 'Share-based Payments' for the Group's share-based payments arrangements are shown below:

	Year ended 31 December 2017 US\$m	Year ended 31 December 2016 US\$m
Equity-settled plans		
Long-Term Incentive Plan (Performance Share Plan replacement)	1.0	1.0
Employee Share Ownership Plan	1.3	1.0
Cash-settled plans		
Long-Term Incentive Plan	3.0	1.7
Total	5.3	3.7

The total liability in respect of cash-settled plans at 31 December 2017 was US\$3.0m (2016: US\$1.7m). In regard to the Long-Term Incentive Plan, US\$0.8m (2016: US\$1.0m) is included in the consolidated statement of changes in Equity in respect of equity settled plans and US\$0.2m is included within other creditors in respect of national insurance contributions on these shares. A further US\$1.3m (2016: US\$1.0m) of charges relating to the Employee Share Ownership Plan are equity settled in nature but physically settled in cash and so were not recorded in the consolidated statement of changes in equity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS



33 SHARE-BASED PAYMENTS (continued)

(a) Long-Term Incentive Plan (Performance Share Plan replacement)

On the Fairfax acquisition of Brit Limited, the 65% of PSP awards that did not immediately vest were converted by Fairfax into awards under this scheme. The conversion terms allowed for 60% of the 280p Brit Limited acquisition share price to be converted into the equivalent value of options to acquire shares in Fairfax at a nil exercise price. Subject to continued service, the options vest in November 2018 and there are a further seven years to exercise the options.

The fair value of the awards are determined by the market price of the underlying shares at the valuation date. The calculation of the compensation cost recognised in the income statement in respect of these awards assumes forfeitures due to employee turnover of 5% per annum prior to vesting, with subsequent adjustments to reflect actual experience.

Reconciliation of movement in the number of awards

	Year ended 31 December 2017 Number of awards	Year ended 31 December 2016 Number of awards
Outstanding at 1 January	7,712	7,865
Forfeited	(312)	(153)
Outstanding at 31 December	7,400	7,712

In order to settle share-based payment awards, in 2015 the Group purchased US\$10.7m of preference shares in FFHL Share Option 1 Corp and that company has purchased shares in Fairfax. Of the purchase, US\$3.9m related to this scheme and was recorded within equity so as to offset the share-based payment charges recorded in equity on exercise of the awards. There were no additional shares purchased for this scheme in 2016 and 2017.

(b) Long Term Incentive Plan

The Company awards selected employees' options to acquire shares in Fairfax at a nil exercise price. Subject to continued service, the options vest five years after the grant date and there are a further five years to exercise the options.

The fair value of the awards are determined by the market price of the underlying shares at the valuation date. The calculation of the compensation cost recognised in the income statement in respect of these awards assumes forfeitures due to employee turnover of 5% per annum prior to vesting, with subsequent adjustments to reflect actual experience.

Reconciliation of movement in the number of awards

	Year ended 31 December 2017 Number of awards	Year ended 31 December 2016 Number of awards
Outstanding at 1 January	20,306	13,503
Granted	9,697	7,119
Forfeited	(407)	(316)
Outstanding at 31 December	29,596	20,306

There were no options exercisable at the end of the year.

The weighted average fair value at date of grant for awards granted during 2017 was US\$516.13 (2016: US\$490.17).

In order to settle share-based payment awards, in 2016 the Group purchased US\$11.6m (2016: US\$3.4m) of preference shares in FFHL Share Option 1 Corp and that company has purchased shares in Fairfax. This has been recorded within Other Assets so as to offset the share-based payment recorded as a liability within Other Creditors on exercise of the awards.



(c) Employee Share Ownership Plan

Under the terms of the ESOP which was established in 2015, eligible employees are given the election to purchase common shares in Fairfax in an amount up to 10% of their annual base salary. The Company purchases, on the employee's behalf, a number of Fairfax's common shares equal in value to 30% of the employee's contribution. In the event that the Company achieves certain performance targets, additional shares are purchased by the Company for the employee's benefit, to an amount equal in value to 20% of the employee's contribution during that year. In respect of both shares purchased by employees and matched by the Company, during the year ended 31 December 2017, the Company purchased a total of 7,754 common shares in Fairfax (2016: 6,428) at an average price of US\$487.28 (2016: US\$528.80) in respect of this plan.

34 CONSOLIDATED ENTITIES

This Note set out all the entities which are members of the Brit Limited Group and whose results and financial positions are consolidated to produce the Group result and financial position.

All subsidiaries of the Company are 100% owned apart from the Group's special purpose vehicles. For these vehicles, funding is provided through preference share capital issuances. The Group holds 48% of the preference share capital issued by the Versutus segregated account consolidated by Brit, and 29% of Sussex Capital Limited. The issued preference share capital of Sussex Re Limited is owned 100% by Sussex Capital Limited.

The subsidiaries of the company at 31 December 2017, together with their main function, are listed below by country of incorporation. The registered address and principal place of business of each entity is The Leadenhall Building, 122 Leadenhall Street, London, EC3V 4AB unless otherwise stated.

Subsidiary	Principal activity	Registered address and principal place of business
United Kingdom		
Brit Insurance Holdings Limited	Intermediate holding company	The Leadenhall Building
Brit Syndicates Limited	Lloyd's managing agent	The Leadenhall Building
Brit UW Limited	Lloyd's corporate member	The Leadenhall Building
Brit Insurance Services Limited	Service company	The Leadenhall Building
Brit Investment Holdings Limited	Service company	The Leadenhall Building
Brit Group Services Limited	Group services company	The Leadenhall Building
Brit Group Finance Limited	Group services company	The Leadenhall Building
BGS Services (Bermuda) Limited	Service company	The Leadenhall Building
Brit Pension Trustee Limited	Group services company (Dormant)	The Leadenhall Building
Brit Corporate Services Limited	Group services company (Dormant)	The Leadenhall Building
Brit Corporate Secretaries Limited	Group services company (Dormant)	The Leadenhall Building
Republic of Ireland		
Pimco Dynamic Global Investment Grade Credit Fund	Investment management	PIMCO Select Funds Plc, Styne House, Upper Hatch Street, Dublin
United States of America		
Brit Insurance Services USA Inc.	Service company	161 N. Clark Street, Suite 3200, Chicago, IL, 60601
Brit Insurance USA Holdings Inc.	Intermediate holding company	161 N. Clark Street, Suite 3200, Chicago, IL, 60601
Scion Underwriting Services Inc.	Service company	161 N. Clark Street, Suite 3200, Chicago, IL, 60601

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS



34 CONSOLIDATED ENTITIES (continued)

Bermuda

North America Property Insurance Series 2017 Account A-3 (a segregated account within Versutus Limited)	Special purpose vehicle	Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda
Sussex Capital Management Limited	Service company	Ground Floor Chesney House, The Waterfront, 96 Pitts Bay Road, Pembroke, HM 08, Bermuda
Sussex Capital Limited	Special purpose vehicle	Wessex House, 3rd Floor, 45 Reid Street, Hamilton HM 12, Bermuda
Sussex Re Limited	Special purpose vehicle	Wessex House, 3rd Floor, 45 Reid Street, Hamilton HM 12, Bermuda
Brit Reinsurance (Bermuda) Limited	Insurance company	Ground Floor Chesney House, The Waterfront, 96 Pitts Bay Road, Pembroke, HM 08, Bermuda

Gibraltar

Brit Group Finance (Gibraltar) Limited	Service company	Unit 2A, Leisure Island Business Centre, 23 Ocean Village Promenade, Ocean Village
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Singapore

Brit Global Specialty Singapore Pte. Ltd.	Service company	138 Market St., #04-03 CapitaGreen, 048946
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The Netherlands

Brit Insurance Holdings B.V.	Former holding company	The Leadenhall Building
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Luxembourg

Brit Overseas Holdings S.à R.L.	Former holding company	6 Rue Eugene Ruppert, L-2453
Henderson Horizon Core Credit Fund	Investment management	Henderson Horizon Core Credit Fund, 2 Rue de Bitbourg L-1273

35 RELATED PARTY TRANSACTIONS AND ULTIMATE PARENT COMPANY

The Group has a number of related parties which includes its principal investors and its Directors. Sometimes it transacts business with these related parties. This Note sets out those transactions.

The Group carries out a number of transactions with related parties which include, paying management fees, carrying out insurance and reinsurance activities with affiliates of the ultimate parent company, Fairfax Financial Holdings Limited, and trading with its associates. All the transactions with related parties are undertaken at an arm's-length basis.

(a) Ultimate Parent Company

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



(b) Fairfax Financial Holdings Limited

In June 2015, Hamblin Watsa Investment Counsel Limited (HWIC), an affiliate of Fairfax, was appointed as an investment manager to a number of Group companies. During the year ended 31 December 2017, the Group incurred and paid investment management fees to HWIC of US\$10.3m (2016: US\$11.2m).

The Group has historically entered into various reinsurance arrangements with affiliates of Fairfax.

In respect of insurance and ceded outwards reinsurance activity, the amounts included in the income statement relating to trading with affiliates of Fairfax were as follows:

	Year ended 31 December 2017 US\$m	Year ended 31 December 2016 US\$m
Gross premiums written	8.9	7.9
Less premiums ceded to reinsurers	(11.8)	(2.1)
Premiums written, net of reinsurance	(2.9)	5.8
Gross amount of change in provision for unearned premiums	3.2	(0.5)
Reinsurers' share of change in provision for unearned premiums	(0.7)	(2.5)
Net change in provision for unearned premiums	2.5	(3.0)
Earned premiums, net of reinsurance	(0.4)	2.8
Gross claims paid	(14.5)	(5.0)
Reinsurers' share of claims paid	20.2	5.1
Claims paid, net of reinsurance	5.7	0.1
Gross change in the provision for claims	6.9	–
Reinsurers' share of change in the provision for claims	(9.6)	(8.2)
Net change in the provision for claims	(2.7)	(8.2)
Commission income	(0.8)	1.8
Commission expense	(2.4)	(1.2)

The amounts included in the statement of financial position outstanding with affiliates of Fairfax and its affiliates as at 31 December 2017 were as follows:

	Year ended 31 December 2017 US\$m	Year ended 31 December 2016 US\$m
Debtors arising out of direct insurance and reinsurance operations:		
Insurance premium receivable	7.0	3.6
Recoverable from reinsurers	47.5	50.7
Creditors arising out of direct insurance and reinsurance operations:		
Payable to reinsurers	(1.6)	(2.4)
Unpaid claims liabilities	(43.4)	(44.8)
Deferred acquisition costs	2.0	0.9
Gross unearned premiums	(7.3)	(5.6)
Unearned premium recoverable from reinsurers	0.6	1.0

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS



35 RELATED PARTY TRANSACTIONS AND ULTIMATE PARENT COMPANY (continued)

(c) Associated undertakings

Ambridge Partners LLC

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

Trading with Ambridge Partners LLC is undertaken on an arm's-length basis and is settled in cash. The amounts in the income statement relating to trading with Ambridge Partners LLC for the year to 31 December 2017 included commission for introducing insurance business of US\$5.5m (2016: US\$4.3m).

The amount of premiums net of commission in the statement of financial position outstanding from Ambridge Partners LLC as at 31 December 2017 was US\$8.3m (2016: US\$7.4m).

The amount of fees in the statement of financial position payable to Ambridge Partners LLC as at 31 December 2017 was US\$0.1m (2016: US\$0.2m).

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 entered into a call and a put option to purchase the remaining 50% in 2021. Camargue is a leading managing general underwriter of a range of specialised insurance products and specialist liability solutions in South Africa and is an important trading partner for Brit.

Trading with Camargue is undertaken on an arm's-length basis and is settled in cash. The amounts in the income statement relating to trading with Camargue for the year ended 31 December 2017 included commission for introducing insurance business of US\$1.1m (period from 30 August to 31 December 2016: US\$0.2m).

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

(d) Key management compensation

The amount of the emoluments granted in respect of the financial year to the members of the administrative, managerial and supervisory bodies by reason of their responsibilities, and any commitments arising or entered into in respect of retirement pension for former members of those bodies, are broken down as follows:

	Year ended 31 December 2017 US\$m	Year ended 31 December 2016 US\$m
Salaries and other short-term employee benefits	6.4	7.3
Post-employment benefits	–	0.2
Share-based payments	1.3	1.2
Termination benefits	0.6	0.7
Total compensation	8.3	9.4

For the purposes of IAS 24, 'Related Party Disclosures', key managers are defined as the Board of Directors and members of the Executive Committee which is the primary vehicle for implementing Board decisions in respect of UK-managed operations.



36 GUARANTEES AND CONTINGENT LIABILITIES

This Note explains guarantees issued by Group companies and any contingent liabilities they may be exposed to.

(a) Lloyd's

Assets have been pledged, as Funds at Lloyd's, by way of deposits and fixed and floating charges for Brit UW Limited, the corporate member of the Group. As at 31 December 2017 the Funds at Lloyd's requirement amounted to US\$896.8m (2016: US\$794.6m).

(b) Revolving credit facility

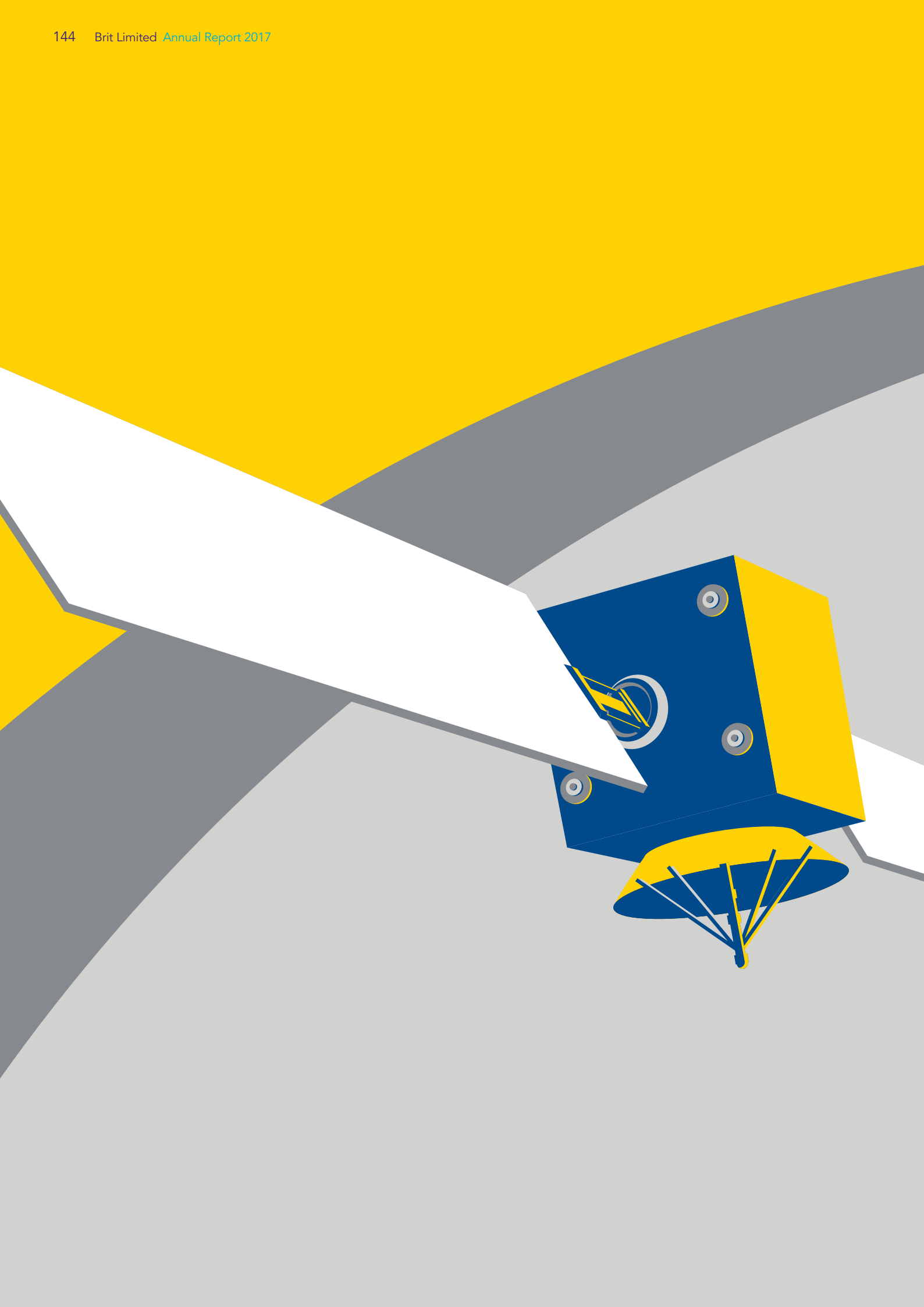
The Group has a US\$360.0m (2016: US\$360.0m) revolving credit facility which expires on 31 December 2020.

At 31 December 2017, a US\$80.0m (2016: US\$80.0m) letter of credit had been utilised. In addition, there was a cash drawing of US\$45.0m.

(c) Taxation

The Group operates in a wide variety of jurisdictions around the world through its Lloyd's syndicate and uncertainties therefore exist with respect to the interpretation of complex tax laws and practices of those territories. The Group establishes provisions for taxes other than current and deferred income taxes, based upon various factors which are continually evaluated, if there is a present obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made.

Income taxes are provided for as set out in accounting policy Note 2.4.10.



CONTENTS



INTRODUCTION TO THE PARENT COMPANY FINANCIAL STATEMENTS

Statement of financial position

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

Statement of changes in equity

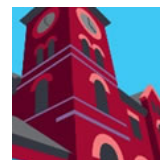
The statement of changes in equity shows how the various lines in the equity section of the Company's statement of financial position have moved during the year.

INDEX TO THE PARENT COMPANY FINANCIAL STATEMENTS

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STATEMENT OF FINANCIAL POSITION

At 31 December 2017



	Note	31 December 2017 US\$m	31 December 2016 US\$m
Fixed assets			
Investments:			
Shares in Group undertakings	3	1,050.5	1,050.5
Loans to Group undertakings	4	139.5	127.4
		1,190.0	1,177.9
Current assets			
Debtors: Amounts falling due within one year	5	9.5	18.6
Cash at bank and in hand		1.2	0.1
		10.7	18.7
Current liabilities:			
Creditors: Amounts falling due within one year	6	(101.5)	(107.5)
Net current liabilities		(90.8)	(88.8)
Total assets less current liabilities		1,099.2	1,089.1
Creditors: Amounts falling due after more than one year	7	(184.2)	(168.7)
Net assets		915.0	920.4
Capital and reserves			
Called up share capital	8	6.4	6.4
Capital redemption reserve		0.2	0.2
Retained earnings		908.4	913.8
Total equity		915.0	920.4

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

These financial statements were approved by the Board of Directors on 14 February 2018 and were signed on its behalf by:

Matthew Wilson
Group Chief Executive Officer

Mark Allan
Chief Financial Officer

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017



	Note	Called up Share capital US\$m	Capital redemption reserve US\$m	Retained earnings US\$m	Total equity US\$m
1 January 2017		6.4	0.2	913.8	920.4
Total comprehensive income for the year		–	–	40.4	40.4
Dividend	11	–	–	(45.8)	(45.8)
At 31 December 2017		6.4	0.2	908.4	915.0

For the year ended 31 December 2016

	Note	Called up Share capital US\$m	Retained earnings US\$m	Total equity US\$m
1 January 2016		6.6	–	1,003.5
Total comprehensive income for the year		–	59.2	59.2
Repurchase of class A shares		–	(58.1)	(58.1)
Cancellation of share capital		(0.2)	–	–
Dividend	11	–	(90.8)	(90.8)
At 31 December 2016		6.4	0.2	913.8

NOTES TO THE FINANCIAL STATEMENTS



1 ACCOUNTING POLICIES AND BASIS OF PREPARATION

This Note provides details of the basis of preparation and accounting policies applied in producing these parent company financial statements.

1.1 Basis of preparation

The Company financial statements present the information about the company as a separate entity. The Company is incorporated and registered in England and Wales with registration number 8821629. The registered office of the company at the date of this report is The Leadenhall Building, 122 Leadenhall Street, London EC3V 4AB.

The Company has prepared its financial statements in accordance with Financial Reporting Standard 'FRS 102', the Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland and provisions of Section 396 of the Companies Act 2006.

No individual income statement is presented for the Company, as permitted by Section 408 of the Act. The comprehensive income dealt with in the accounts of the parent company was US\$40.4m (2016: US\$59.2m).

The Company financial statements are presented in US dollars and all values are rounded to the nearest US\$0.1m except where otherwise indicated.

1.2 Accounting policies

(a) Investments

Investments in subsidiary undertakings are stated at cost less provisions for any impairment.

(b) Income from fixed asset investments

Dividend income is recognised when the shareholders' right to receive the payment is established.

(c) Long-term debt

Long-term debt is recognised initially at transaction price which is the fair value. It is subsequently measured at amortised cost using the effective interest rate method, in accordance with section 11 of FRS 102 (Basic Financial Instruments).

Interest payable is recognised using the effective interest rate method.

(d) Loans to Group undertakings

Loans to Group undertakings are recognised initially at transaction price which is the fair value, (including transaction costs incurred except in the initial measurement of financial liabilities that are measured at fair value through profit or loss) and subsequently measured at amortised cost using effective interest rate method, in accordance with section 11 of FRS 102 (Basic Financial Instruments).

Interest receivable is recognised using the effective interest rate method.

(e) Expenses

All expenses are accounted for on an accruals basis.

(f) Foreign currencies

Transactions in foreign currencies other than US dollars are converted at the rate of exchange ruling at the date the transaction is processed. Unless otherwise stated, transactions are converted at the average rates of the exchange for the period. Assets and liabilities in currencies other than Sterling are converted at the rate of exchange ruling at 31 December of each year. Exchange differences arising on conversion are dealt with in the income statement.



(g) Deferred taxation

Deferred tax is recognised in respect of all timing differences which are differences between taxable profits and total comprehensive income that arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements, except that:

- Provision is made for deferred tax that would arise on remittance of the retained earnings of overseas subsidiaries, associates and joint ventures only to the extent that, at the statement of financial position date, dividends have been accrued as receivable;
- Where there are differences between amounts that can be deducted for tax for assets (other than goodwill) and liabilities compared with the amounts that are recognised for those assets and liabilities in a business combination a deferred tax asset/(liability) shall be recognised. The amount attributed to goodwill is adjusted by the amount of the deferred tax asset recognised; and
- Unrelieved tax losses and other deferred tax assets are recognised only to the extent that the directors consider that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the statement of financial position date.

2 AUDITOR'S REMUNERATION

This Note sets out the fees paid in respect of the annual audit performed on the Company.

Audit fees borne by the Company amounted to US\$15,000 (2016: US\$15,000).

3 SHARES IN GROUP UNDERTAKINGS

This Note explains the direct shareholdings of the Company in other Group entities.

	31 December 2017 US\$m	31 December 2016 US\$m
Investment in Brit Insurance Holdings Limited	1,050.5	1,050.5

There was no movement in shares in Group undertakings in the period.

The subsidiaries of the Company at 31 December 2017, and their principal activities, are disclosed in the Brit Limited consolidated financial statements.

4 LOANS TO GROUP UNDERTAKINGS

This Note sets out moneys lent by the Company to other Group companies.

	31 December 2017 US\$m	31 December 2016 US\$m
Loans to Group undertakings	139.5	127.4

On 8 September 2014, a long-term loan to another Group Company was novated to Brit Limited at fair value. The agreement expires on 9 December 2020 and carries interest at an annual interest rate of 7.05%.

NOTES TO THE FINANCIAL STATEMENTS



5 DEBTORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

This Note sets out moneys owed to the Company that are due before 31 December 2018.

	31 December 2017 US\$m	31 December 2016 US\$m
Interest receivable on loans to Group undertakings	–	17.8
Amounts owed by Group undertakings	8.6	–
Prepayments	0.8	0.8
Tax receivable	0.1	–
Total	9.5	18.6

6 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

This Note sets out moneys owed by the Company that are due before 31 December 2018.

	31 December 2017 US\$m	31 December 2016 US\$m
Amounts owed to Group undertakings	100.8	106.8
Accruals and deferred income	0.7	0.7
Total	101.5	107.5

7 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

This Note sets out moneys owed by the Company that are due after 31 December 2018.

				31 December 2017		31 December 2016	
	Maturity	Call	Effective interest rate	Amortised cost US\$m	Fair value US\$m	Amortised cost US\$m	Fair value US\$m
Subordinated debt	2030	2020	6.29%	184.2	197.6	168.7	167.9

The fair value of the subordinated debt has been determined by reference to trading market values on recognised exchanges and is categorised as level one in the fair value hierarchy.

The subordinated debt was novated to the Company from another Group company on 8 September 2014 at fair value.

The subordinated debt is listed and callable in whole by the Company on 9 December 2020. Following this date the interest rate resets to the higher of:

- 3.4% above the gross redemption yield of the 4.75% Treasury Gilt due 2030 quoted on the reset date; or
- 3.4% above the gross redemption yield of the 8% Treasury Stock due 2021 quoted on the reset date.

The effective interest rate method of accounting has been applied over the term up to the call date.



8 CALLED UP SHARE CAPITAL

This Note sets out the number of shares we have in issue and their nominal value.

	31 December 2017 US\$m	31 December 2016 US\$m	31 December 2017 1p each Number	31 December 2016 1p each Number
Ordinary shares:				
Allotted, issued and fully paid	6.4	6.4	387,608,230	387,608,230
			US\$m	Number
At 1 January 2016			6.6	401,057,706
Purchase and cancellation of own shares			(0.2)	(13,449,476)
At 31 December 2016			6.4	387,608,230
At 1 January 2017			6.4	387,608,230
Purchase and cancellation of own shares			—	—
At 31 December 2017			6.4	387,608,230

106,550,524 shares are class A shares and the remainder are class B shares. The class A and B shares rank *pari passu* except that on a distribution of profits by the Company, the class A shareholders are entitled to a cumulative annual dividend which must be settled ahead of any equivalent distribution to class B shareholders.

The number of shares reported is for Brit Limited, the parent of the Group.

The Group's ultimate parent, Fairfax, is permitted on an annual basis to purchase a set number of shares from OMERS, the minority shareholder of class A shares in Brit Limited.

There were no share purchases or cancellations during 2017.

In August 2016, instead of a B class share dividend being made by Brit Limited to Fairfax, Fairfax assigned the purchase of 13,449,476 A class shares to Brit Limited. A distribution of US\$61.5m from reserves for the purchase of 13,449,476 shares from OMERS for cancellation was made on 3 August 2016. The distribution of US\$61.5m included the repurchase cost of the shares of US\$57.8m, a US\$3.4m payment in respect of the pro-rata accrued dividend on the shares, and stamp duty charges of US\$0.3m.

A reduction in share capital of £134,495 was made, being the nominal value of 13.4m shares at 1p each, and a capital redemption reserve of the same amount has been created. The distribution of US\$61.5m was set against distributable reserves ('cost of share buy-back') in accordance with UK Company Law. As a result, Fairfax increased its percentage shareholding from 69.99% to 72.51%.

NOTES TO THE FINANCIAL STATEMENTS



9 DIRECTORS' EMOLUMENTS

This Note gives a breakdown of emoluments paid to directors both in total and in respect of the highest paid director.

	31 December 2017 US\$m	31 December 2016 US\$m
Aggregate remuneration	6.2	5.8
Aggregate contributions to money purchase pension schemes	0.1	0.1
Total	6.3	5.9

The Directors' remuneration disclosed above includes the following amounts paid to the highest paid director:

Aggregate remuneration	2.0	2.0
	Number	Number
Number of Directors with benefits accruing under money purchase pension schemes	1	2
Number of Directors in respect of whose qualifying services, shares were received or receivable under long term incentive schemes	3	3

Shares were received or receivable by the highest paid director in respect of qualifying services under a long-term incentive scheme during 2015, 2016 and 2017.

10 GUARANTEES AND CONTINGENT LIABILITIES

This Note explains guarantees issued by the company. The company has no contingent liabilities.

The Company has access to a US\$360.0m (2016: US\$360.0m) revolving credit facility. Guarantees have been made by Brit Limited and a subsidiary Company to the syndicated banks providing the facility.

11 DIVIDENDS

This Note gives details of the amount we have paid to our shareholders during 2017 and 2016 by way of dividends

	2017 US\$	2016 US\$	2017 US\$m	2016 US\$m
Dividend paid in respect of prior year	0.43	0.43	45.8	26.2
Dividend paid in respect of share buy back	–	0.43	–	3.4
Interim dividend paid on 21 December	–	0.43	–	61.3
Total			45.8	90.8

A dividend to class A shareholders for 2016 of US\$0.43 per share amounting to US\$45.8m was paid on 3 March 2017 in accordance with the shareholders' agreement.

A US\$26.2m dividend in respect of the year-ended 31 December 2015 was paid to the class A shareholders on 29 April 2016 in accordance with the shareholders' agreement at an amount equal to US\$0.43 per share.

As part of the share-buy back transaction a US\$3.4m dividend was paid to the class A shareholders on 3 August 2016, representing the *pro-rata* accrued dividend outstanding on the shares repurchased in respect of the 2016 accounting period, and based on a dividend entitlement for the full year equal to US\$0.43 per share.

A US\$61.3m dividend was paid to the class B shareholders on 21 December 2016 in accordance with the shareholders' agreement at an amount equal to US\$0.43 per share.



12 SHARE-BASED PAYMENTS

The Company rewards its employees through various share-based incentive schemes. This Note explains the different schemes used to facilitate those share-based payments.

Further detail in respect of the Group's share-based schemes can be found in Note 33 of the notes accompanying the Brit Limited Group consolidated financial statements.

13 DISCLOSURE EXEMPTIONS

This Note explains the Company's approach to qualifying exemptions available in FRS 102.

The Company has taken advantage of the disclosure exemptions provided by paragraph 1.12 of FRS 102. Accordingly, these financial statements do not include the following:

- Statement of cash flows;
- A reconciliation of shares outstanding at the beginning and end of the period;
- Specific information relating to financial instruments that is included within equivalent disclosures for the Group;
- Specific information relating to share-based payments that is included within equivalent disclosures for the Group; and
- Disclosure of key management personnel compensation.

The Brit Limited consolidated financial statements and accompanying notes provide further detail in respect of these areas.

14 ULTIMATE PARENT COMPANY

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

RECONCILIATION OF KEY PERFORMANCE INDICATORS TO THE FINANCIAL STATEMENTS



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

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

	Comment / financial statements reference	2017 US\$m	2016 US\$m
PAT	Consolidated income statement	21.5	157.6
Add back: Tax adjusted amortisation	Amortisation of intangibles, adjusted by the tax rate	3.9	5.0
Add back: Tax adjusted FX	FX effect for the year, adjusted by the tax rate	(14.1)	(40.6)
Add back: Tax adjusted deal costs	Corporate activity costs, adjusted by the tax rate	0.0	0.0
PAT, adjusted for RoNTA calculation		11.3	122.0
Adjusted NTA at start of year	See 'Total Value Created' section below.	1,064.8	1,074.6
External distribution	Weighted adjustment to reflect distributions during the year.	(38.2)	(44.4)
NTA, adjusted for RoNTA calculation		1,026.6	1,030.2
RoNTA		1.1%	11.8%

Total value created

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

	Comment / financial statements reference	2017 US\$m	2016 US\$m
Total equity attributable to owners of the parent	Consolidated statement of financial position	1,130.3	1,148.0
Less: Intangible assets	Consolidated statement of financial position	(97.8)	(93.9)
Net tangible assets		1,032.5	1,054.1
Add back deferred tax liability on intangible assets	Note 19: Deferred tax	11.2	10.7
Adjusted net tangible assets		1,043.7	1,064.8
Adjusted NTA at end of year		1,043.7	1,064.8
Less: Adjusted NTA at start of year		(1,064.8)	(1,074.7)
Movement in adjusted NTA		(21.1)	(9.9)
Add: Distributions (dividends and share purchases)	Consolidated statement of changes in equity	45.8	148.9
Total value created		24.7	139.0



Combined ratio

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

	Comment / financial statements reference	2017 US\$m	2016 US\$m
Earned premium, net of reinsurance	Note 5: Segmental information	1,540.1	1,515.1
Attritional losses		(867.9)	(841.2)
Major claims		(250.0)	(68.4)
Reserve releases		9.6	53.5
Claims incurred, net of reinsurance	Note 5: Segmental information	(1,108.3)	(856.1)
Acquisition costs – commissions	Note 5: Segmental information	(425.9)	(411.6)
Acquisition costs – other and Other insurance related expenses	Note 5: Segmental information	(196.7)	(192.8)
Underwriting expenses		(622.6)	(604.4)
Underwriting (loss)/profit		(190.8)	54.6
Attritional loss ratio	Attritional losses / Earned premium, net of reinsurance	56.4%	55.5%
Major claims ratio	Major claims / Earned premium, net of reinsurance	16.2%	4.5%
Reserve release ratio	Reserve releases / Earned premium, net of reinsurance	(0.6%)	(3.5)%
Claims ratio	Note 5: Segmental information	72.0%	56.5%
Commission ratio	Acquisition costs – commissions	27.6%	27.2%
Operating expense ratio	Acquisition costs – other and Other insurance related expenses	12.8%	12.7%
Underwriting expense ratio	Note 5: Segmental information	40.4%	39.9%
Combined ratio	Claims ratio + Underwriting expense ratio; Note 5: Segmental information	112.4%	96.4%

RECONCILIATION OF KEY PERFORMANCE INDICATORS TO THE FINANCIAL STATEMENTS



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	2017 US\$m	2016 US\$m
Share of net profit of associates	Note 14: Investment in associated undertakings	5.1	3.6
Return on financial investments and cash and cash equivalents	Note 6: Investment return	205.5	132.2
Return on investment related derivatives	Note 7: Return on derivative contracts	(6.4)	(32.9)
Return on invested assets		204.2	102.9
Investment in associated undertakings	Note 14: Investment in associated undertakings	40.4	36.6
Financial investments	Note 22: Financial investments	2,699.4	2,903.9
Derivative contracts (investment related)	Note 23: Derivative contracts	4.7	5.5
Cash and cash equivalents	Note 25: Cash and cash equivalents	1,571.6	1,025.5
Invested assets		4,316.1	3,971.5
Opening invested assets		3,972.7	3,973.9
Closing invested assets		4,316.1	3,971.5
Average invested assets		4,144.4	3,972.7
Return (%)	Return on invested assets / Average invested assets	4.9%	2.6%

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	2017 US\$m	2016 US\$m
Total equity attributable to owners of the parent	Consolidated statement of financial position	1,130.3	1,148.0
Less: Intangible assets	Consolidated statement of financial position	(97.8)	(93.9)
Net tangible assets		1,032.5	1,054.1
Add: Deferred tax liability on intangible assets	Note 19: Deferred tax	11.2	10.7
Adjusted net tangible assets		1,043.7	1,064.8
Subordinated debt	Note 26: Borrowings	174.8	157.5
Letters of credit / contingent funding	Under our capital policy we have identified a maximum of US\$250.0m of our revolving credit facility to form part of our capital resources.	250.0	235.0
Total available capital resources		1,468.5	1,457.3
Management entity capital requirements	The capital required by an entity for business strategy and regulatory requirements.	(1,073.4)	(1,160.2)
Excess of resources over management entity capital requirements		395.1	297.1
Capital ratio		136.8%	125.6%



Ratio of front office employees to back office employees

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

	Comment / financial statements reference	2017 US\$m	2016 US\$m
Total front office staff	Note 11: Staff costs	349	347
Total back office staff	Note 11: Staff costs	213	192
Total employees	Note 11: Staff costs	562	539
Ratio of front office employees to back office employees	Total front office staff / Total back office staff	163.8%	180.7%

COMPANY INFORMATION



Directors

Mr Mark Cloutier – Group Executive Chairman
Mr Matthew Wilson – Group Chief Executive Officer
Mr Mark Allan – Chief Financial Officer
Dr Richard Ward – Senior independent non-executive Director
Mr Andrew Barnard – Non-executive Director
Mr Jeremy Ehrlich – Non-executive Director
Mr Gordon Campbell – Non-executive Director (appointed 1 January 2017)

Company Secretary

Mr Tim Harmer

Registered Office

The Leadenhall Building
122 Leadenhall Street
London EC3V 4AB
UK
Telephone: +44 (0) 20 3857 0000

Website

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

Registered Number

8821629

Auditor

PricewaterhouseCoopers LLP
7 More London Riverside
London
SE1 2RT

GLOSSARY



A

Acquisition costs: Costs incurred in the course of writing business and issuing policies including commissions paid to intermediaries and related internal expenses such as underwriter related costs.

Adjusted net tangible assets or **adjusted NTA:** Total equity, less intangible assets net of the deferred tax liability on those intangible assets.

Adjusted net tangible assets per share: Calculated as closing adjusted net tangible assets divided by the number of shares in issue at the balance sheet date less own shares.

Aggregate exposure: The expected maximum total of claims that could be incurred by an insurer in respect of any event or series of similar events. Also see 'realistic disaster scenarios'.

Asset allocation: The allocation of our investments across different kinds of asset classes, such as equities, bonds, and cash, in order to achieve a balance between return and risk.

Attritional losses: Common losses, as opposed to major or catastrophe losses, incurred from ordinary insurance and/or reinsurance operations.

Attritional loss ratio: Attritional losses incurred expressed as a percentage of net earned premiums (excluding the effect of foreign exchange movements on non-monetary items).

Available capital resources: Adjusted net tangible assets, subordinated debt and letters of credit / contingent funding.

B

BGSB: Brit Global Specialty Bermuda, the business of the Group operating in Bermuda.

BGSS: Brit Global Specialty Singapore Pte. Ltd., the business of the Group operating in Singapore.

BGSU: Brit Global Specialty USA, the business of the Group operating in the United States, of which BISI is the managing general agent.

BIG: Brit Insurance (Gibraltar) PCC Limited, the Group's captive reinsurer incorporated in Gibraltar.

Binder business: Business conducted by a coverholder acting under a binding authority.

Binding authority: See 'delegated underwriting authority'.

BISI: Brit Insurance Services USA, Inc., a company incorporated in Illinois, USA.

Brit Re: Brit Reinsurance (Bermuda) Limited.

BMA: Bermuda Monetary Authority, the integrated regulator of financial services in Bermuda, established under the Bermuda Monetary Authority Act 1969.

Broker: An intermediary who negotiates contracts of insurance or reinsurance, receiving a commission for placement and other services rendered.

C

Capital ratio: Available capital resources expressed as a percentage of management entity capital requirement.

Captive: An entity that provides risk-mitigation services for other entities within the same Group only.

Catastrophe or **Cat:** Perils including earthquakes, hurricanes, hailstorms, severe winter weather, floods, fires, tornadoes, explosions and other natural or man-made disasters. Catastrophe losses may also arise from acts of war, acts of terrorism and political instability.

Claims: Moneys demanded by an insured for indemnity under an insurance contract.

Claims development triangles: Tabulations of claims development data, set out with underwriting years along one axis and calendar years of development along the other.

Claims incurred: Claims arising from events that have occurred, regardless of whether or not they have been reported to the insurer.

Claims ratio: Calculated as total claims incurred expressed as a percentage of net earned premiums (excluding the effect of foreign exchange movements on non-monetary items). The claims ratio is the aggregate of the reserve release ratio, major claims ratio and the attritional loss ratio.

Combined ratio or **CoR:** Calculated as total claims incurred and total expenses incurred by the underwriting divisions, expressed as a percentage of net earned premiums (excluding the effect of foreign exchange movements on non-monetary items). The combined ratio is the aggregate of the claims ratio and the expense ratio.

Commission ratio: Commission expense incurred by the underwriting division expressed as a percentage of net earned premiums (excluding the effect of foreign exchange movements on non-monetary items).

Constant FX rates: An increase or decrease in figures between two years after eliminating the effect of foreign exchange rate movements.

Corporate member: A company providing the capital to support the underwriting activity of a syndicate at Lloyd's. Brit's corporate member is Brit UW Limited.

Coverholder: An entity authorised by an insurer to enter into a contract of insurance on its behalf.

D

Deferred acquisition costs or **DAC:** Costs incurred for the acquisition or renewal of insurance policies which are capitalised and amortised over the term of those policies.

Delegated underwriting authority: An authority granted by an underwriter to an agent (known as a coverholder) whereby that agent is entitled to accept, within certain limits, insurance business on behalf of the underwriter. The coverholder has full power to commit the underwriter within the terms of the authority.

GLOSSARY



E

Earned premium: That proportion of a premium which relates to the portion of a risk which has expired during a given period.

Excess and Surplus or **E&S:** A generic US regulatory classification referring to insurance coverage not ordinarily written by insurers fully admitted in various states. The E&S lines business is largely unregulated as to rate and form but insurers must be authorised to write such business in a state by the local regulator.

Excess of loss or **XL:** A type of reinsurance that covers specified losses incurred by the reinsured party in excess of a stated amount (the excess) up to a higher amount of limit, for example US\$5m excess of US\$1m. Such coverage can operate on a per loss basis or an aggregate basis.

Executive Committee or **EC:** A committee at Brit consisting of the senior management and the CEO.

Expense ratio: Calculated as total expenses incurred by the underwriting divisions expressed as a percentage of net earned premiums (excluding the effect of foreign exchange movements on non-monetary items). The expense ratio is the aggregate of the commission ratio and the operating expense ratio.

F

FCA: The UK Financial Conduct Authority, established pursuant to the Financial Services Act 2012 and responsible for, among other things, the conduct regulation of all firms authorised and regulated under FSMA and the prudential regulation of firms which are not regulated by the PRA.

First Dollar: An insurance policy written with low excess and deductible, and written in the admitted market.

FSC: The Financial Services Commission of Gibraltar, a statutory corporate body established by the 1989 Financial Services Commission Ordinance (since replaced by the Financial Services Commission Act 2007), responsible for regulating the financial services industry in Gibraltar.

Funds at Lloyd's or **FAL:** Funds held in trust at Lloyd's to support a Lloyd's underwriter's underwriting activities.

G

Gearing ratio: Calculated as total borrowings (subordinated debt, revolving credit facility cash drawdowns and uncollateralised drawn letters of credit) divided by adjusted net tangible assets and subordinated debt.

Gross written premium or **gross premiums written** or

GWP: Amounts payable by the insured, including any brokerage or commission deducted by intermediaries but excluding any taxes or duties levied on the premium.

H

Hardening or **hard market:** An insurance market where prevalent prices are high, with more restrictive terms and conditions offered by insurers.

HMRC: Her Majesty's Revenue and Customs.

I

Incurred but not reported or **IBNR:** Claims incurred but not reported, including claims which are incurred but not enough reported (i.e. where the amount of the notification is insufficient).

International Accounting Standards or **IAS:** See 'International Financial Reporting Standards'.

International Financial Reporting Standards or **IFRS:**

Accounting and reporting Standards established by the International Accounting Standards Board, as adopted by the European Commission for use in the European Union. UK listed entities have reported on an IFRS basis since 2005.

Invested assets: Financial investments, investment in associated undertakings, cash and cash equivalents and investment related derivatives.

Investment related derivatives: Includes options and interest rate swaps. Excludes currency forwards.

Investment return: Income, net realised and unrealised gains and losses on financial investments, cash and cash equivalents and investment related derivatives (net of investment management fees).

Investment return percentage: Investment return expressed as a percentage of average invested assets, calculated on a month by month basis.



L

Lead underwriter or **lead**: A lead underwriter (usually a specialist in the field of the insurance concerned) is the first underwriter to take a portion of a risk, quote an appropriate rate of premium and set terms and conditions.

Letter of credit or **LoC**: A written undertaking by a financial institution to provide funding if required.

LIBOR: The daily London Interbank Offered Rate set by the British Banking Association.

Line size: The proportion of an insurance or reinsurance risk that is accepted by an underwriter or which an underwriter is willing to accept.

Lloyd's China Platform: The branch of Lloyd's in Shanghai in the People's Republic of China operated through Lloyd's Insurance Company (China) Limited, on which certain Lloyd's syndicates have representation.

Lloyd's of London: The Society of Lloyd's and Corporation of Lloyd's created and governed by the Lloyd's Acts 1871-1982, including the Council of Lloyd's (and its delegates and other persons through whom the Council may act), as the context may require.

London Market: The London insurance market, which includes the Lloyd's market.

Long-tail: The term used to describe business where the difference between the timing of the average premium receipt and the timing of the average claim payment is over three years.

M

Major claims/Major losses: Claims in excess of US\$15.0m (net of reinsurance and allowing for reinstatement), incurred from natural or man-made catastrophes, or from large single risk loss events.

Major claims ratio: Major claims incurred expressed as a percentage of net earned premiums (excluding the effect of foreign exchange movements on non-monetary items).

Management entity capital requirement: The capital required by an entity for business strategy and regulatory requirements.

N

Net earned premium or **NEP**: The net written premium adjusted by the change in net unearned premium (i.e. the premium for which insurance exposure has yet to be incurred) for a year.

Net tangible assets or **NTA**: The total assets of a company, minus any intangible assets, less all liabilities.

Net written premiums or **NWP**: Gross premiums written during a specified period less outwards reinsurance premiums ceded.

O

Operating expense ratio: Calculated as operating expenses incurred by the underwriting divisions expressed as a percentage of net earned premiums (excluding the effect of foreign exchange movements on non-monetary items).

Outstanding claims: Claims which have been notified at the balance sheet date but not settled.

Own risk and solvency assessment or **ORSA**: The name given to the entirety of the processes and procedures employed by an insurer to identify, assess, monitor, manage and report the short and long term risks it faces or may face and to determine the capital necessary to ensure that the insurer's overall solvency needs are met at all times.

P

PRA: The UK Prudential Regulation Authority established pursuant to the Financial Services Act 2012 and responsible for the prudential regulation and supervision of banks, building societies, credit unions, insurers and major investment firms.

Protected cell company or **PCC**: A company that has been separated into legally distinct portions or cells. The revenue streams, assets and liabilities of each cell are kept separate from all other cells. Each cell has its own separate portion of the PCC's overall share capital, allowing shareholders to maintain sole ownership of an entire cell.

Q

Quota share or **QS**: A type of reinsurance which provides that the reassured shall cede to the reinsurer a specified percentage of all the premiums that it receives in respect of a given section or of all of its underwriting account for a given period in return for which the reinsurer is obliged to pay the same percentage of any claims and specified expenses arising on the reinsured business.

GLOSSARY



R

Ratio of front office employees to back office employees:

Calculated as the average number of front office staff divided by the average number of back office staff employed during the year. Front office employees are defined as underwriters, other underwriting staff, claims staff and direct support staff. The balance of employees are classified as back office.

Realistic Disaster Scenarios or **RDS:** Specific scenarios which the Group uses to test its ability to settle claims arising from certain types of disaster.

Reinsurance: The transfer of some or all of an insurance risk to another insurer. The company transferring the risk is called the 'ceding company' and the company assuming the risk is called the 'assuming company' or the 'reinsurer'.

Representative office: An office established by Brit to conduct marketing and other non-transactional operations overseas.

Reserves: Outstanding claims and claims incurred but not reported.

Reserve releases: The amount of the reserves at the end of the previous period determined as being excess to requirements at the end of the current period.

Reserve release ratio: The amount of reserve releases expressed as a percentage of net earned premiums (excluding the effect of foreign exchange movements on non-monetary items).

Retention rate: The ratio, in percent, of the value of premiums relating to risks written in one year renewed in the following year. The data used is risk adjusted (i.e. it allows for changes to terms and conditions).

Return on equity or **RoE:** See 'Return on net tangible assets or RoNTA'.

Return on net tangible assets before foreign exchange movements and corporate activity costs or **RoNTA:** Profit after tax before the effects of foreign exchange movements on monetary and non-monetary items, before the return on currency related derivative contracts, before charges in respect of intangible assets and before costs incurred in respect of corporate activity, expressed as a percentage of adjusted opening net tangible assets. The adjusted opening net tangible assets are also modified on a weighted average basis for capital distributions, share buybacks or share issues during the period.

Risk adjusted rate change: Change in premium rates during the year expressed as a percentage of opening premium rates. The data reflects internal estimates by Brit's underwriters, based on available year-on-year underlying renewal data after allowing for changes to terms and conditions.

Risk management framework or **RMF:** The Group's own internal framework for risk management.

Running yield: The income return, expressed either as a percentage or a monetary amount, on invested assets.

S

Service companies: Subsidiary companies set up to operate a binding authority on behalf of the Syndicate to write business from non-Lloyd's brokers or direct from policymakers.

Short-tail: The term used to describe business where the difference between the timing of the average premium receipt and the timing of the average claim payment is under three years.

Softening or **soft market:** An insurance market where prevalent prices are low, and terms and conditions offered by insurers are less restrictive.

Solvency capital requirement or **SCR:** The higher of the two capital levels required by Solvency II. The SCR is the prudent amount of assets to be held in excess of liabilities and functions as an early warning mechanism if it is breached. The SCR is calculated using either the standard formula or an approved internal model.

Solvency matched: The matching of the currencies of the Group's liabilities and management entity capital requirements with the currencies of the assets held by the Group.

Solvency II: A combination of several EU Directives that codify and harmonise EU insurance regulation, primarily concerning the amount of capital that EU insurance companies must hold to reduce the risk of insolvency. Principal components are Directive 2009/138/EC on the taking-up and pursuit of the business of insurance and reinsurance and Directive 2012/23/EU on the financial position of insurance undertakings. Solvency II came into force in all EU member states on 1 January 2016.

Strategic asset allocation or **SAA:** The Group's strategic asset allocation defines the overall Group investment strategy and reflects entity-level considerations and governance matters. See 'asset allocation'.

Syndicate: a group of underwriting members of Lloyd's or a single corporate member managed as a unit to underwrite insurance business at Lloyd's to which a particular syndicate number is assigned by or with the authority of Lloyd's of London. Brit operates through Lloyd's Syndicate 2987.



T

Tail: See 'short-tail' and 'long-tail'.

Technical price: The price for the risk which is expected to produce the long-term required return on capital for the Group.

The Company: Brit Limited.

The Group: Brit Limited and its subsidiaries.

The Syndicate: Brit Syndicate 2987.

Total available resources: Sum of the closing adjusted net tangible assets, subordinated debt and letters of credit / contingent funding.

Total invested assets: See 'invested assets'.

Total operating expenses: These represent all expenses incurred by the Group, excluding commission costs.

Total value created: Calculated as closing adjusted net tangible assets plus dividends paid during the year, less opening adjusted net tangible assets.

Treaty: A reinsurance contract pursuant to which the reinsurer is obliged to accept, within agreed limits, all risks underwritten by the reinsured within specified classes of business in a given time period.

U

Ultimate claims: The total forecast claims expected to arise from a policy or class of business. Ultimate claims include those losses paid, those notified and IBNR.

Underlying operating expenses: Calculated as Total operating expenses less project costs and other timing differences. Underlying operating expenses include bonus costs.

Underwriting capacity: The maximum premium income which a Lloyd's syndicate is permitted to underwrite. A capacity figure is assigned to each underwriting year and the relevant premium income is defined as gross written premiums less commissions payable.

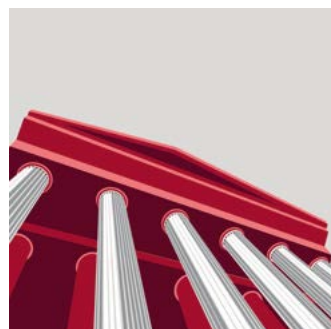
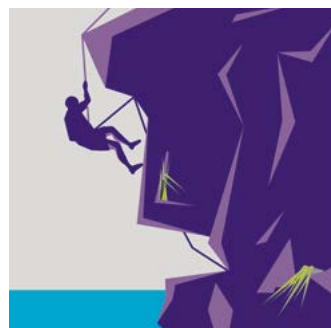
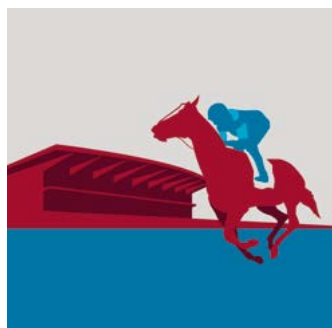
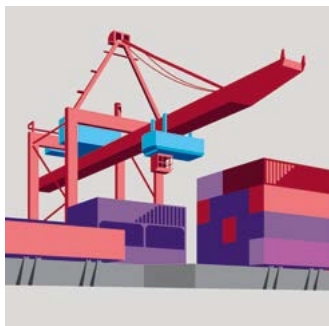
Underwriting profit: Operating profit generated by our underwriting segments less investment return.

Unearned premium reserve or UPR: The portion of premium income written in the calendar year that is attributable to periods after the balance sheet date. It is accounted for as unearned premiums in the underwriting provisions.

Unrealised gains or Unrealised losses: Gains or losses that are yet to be crystallised in the form of a cash movement from disposals of invested assets.

Brit Limited

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SEEING THE DIFFERENCE **MAKES THE DIFFERENCE**