

BRIT UW LIMITED
ANNUAL FINANCIAL STATEMENTS
31 DECEMBER 2018



Registered No. 03217775

BRIT UW LIMITED

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BRIT UW LIMITED

Company Information

Directors

M A Allan
A E Usher
M D Wilson
S Dawes
C G Denton
Brit Corporate Services Limited

Secretary

Brit Corporate Secretaries Limited

Registered Office

The Leadenhall Building
122 Leadenhall Street
London
EC3V 4AB

Registered Number

03217775

Independent Auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
7 More London, Riverside
London
SE1 2RT

BRIT UW LIMITED

Strategic Report

The Directors present their Strategic Report on Brit UW Limited (the Company) for the year ended 31 December 2018.

Principal activities

The Company is registered in the United Kingdom and is an authorised corporate member of Lloyd's, providing capacity to Brit Syndicates 2987 and 2988.

Result

The Company made a loss after tax for the 2018 calendar year of US\$164.4m (2017 loss: US\$88.5m).

Review of the business

The Company continued to provide 100% of the capacity of Syndicate 2987. The Company also provides 18.46% of the 2018 year of account capacity of Syndicate 2988 (2018 year of account total Syndicate capacity £98.5m). Both syndicates are managed by another Brit Group company, Brit Syndicates Limited (BSL or the Managing Agent). Premium income capacity of Syndicate 2987 for the open years of account was 2016: £1,075m, 2017: £1,200m and 2018: £1,400m.

Summary of the income statement

The Company's key performance indicators (KPIs) during the year were as follows:

| | 2018 US\$m | 2017 US\$m |
|---------------------------------------------------|----------------|----------------|
| Gross premiums written | 2,232.5 | 2,057.0 |
| Net premiums written | 1,189.9 | 1,224.4 |
| Earned premiums, net of reinsurance | 1,172.8 | 1,246.2 |
| Underwriting result ⁽ⁱ⁾ | (151.1) | (233.6) |
| Investment return ⁽ⁱⁱ⁾ | (6.3) | 109.4 |
| Other charges | (16.7) | (11.5) |
| Loss before the effect of foreign exchange | (174.1) | (135.7) |
| Effect of foreign exchange | (16.7) | 30.5 |
| Loss before tax as reported | (190.8) | (105.2) |
| Combined ratio ⁽ⁱⁱⁱ⁾ | 112.9% | 118.7% |

(i) Underwriting Result: Balance on Technical Account less the investment return allocated to the Technical Account.

(ii) Investment Return: Total investment return ignoring split between Technical and Non-Technical Account.

(iii) Combined Ratio: Technical Account expenses (Claims Incurred Net of RI plus Net Operating Expenses over Net Earned Premium)

Financial performance

The Company's financial performance is discussed below:

| Gross written premium | 2018 US\$m | 2017 US\$m | Movement % |
|-------------------------------|----------------|----------------|---------------|
| Global Speciality Direct | 1,776.6 | 1,673.7 | 6.1 |
| Global Speciality Reinsurance | 455.9 | 383.3 | 19.0 |
| Total | 2,232.5 | 2,057.0 | 8.5 |

BRIT UW LIMITED

Strategic Report (continued)

Syndicate 2987

Gross premiums written for 2018 increased by 7.4% to US\$2,209.8m (2017: US\$2,057.0m). This increase was driven by prior year premium development, increased contribution from the Syndicate's recent underwriting initiatives, an expansion of the overseas distribution network and current year premium growth. The impact of foreign exchange resulted in a US\$16.9m year-on-year increase in premium, reflecting the movement during 2018 of the US dollar against core currencies in which the Syndicate writes business.

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

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

The Syndicate reported a combined ratio of 104.1% (2017: 110.8%), principally reflecting US\$148.4m of major losses (2017: US\$187.2m). Major losses incurred by the Syndicate during 2018 include wind-related events in both the United States and Asia as well as wildfires in California.

Net investment return for the 2018 financial year totalled US\$18.1 million, a 70.4% reduction compared to the previous year (2017: US\$61.1 million). Whilst the yield on the Syndicate's fixed income portfolio continued to grow, the overall return was negatively impacted by volatility in the equity markets, particularly towards the end of 2018.

Syndicate 2988

In December 2016, BSL received approval from Lloyd's to set up Syndicate 2988 and underwrite for the 2017 year of account. Capacity for the first year of underwriting was £55 million, increasing to £98.5 million for the 2018 year of account.

The Syndicate participates only on new and renewal business written by Brit's Syndicate 2987 and in excess of Syndicate 2987's appetite. The strategy is to focus on business with a profitable track record and where there are opportunities to underwrite business that Brit leads or where Brit has a strong market presence.

In its second year of underwriting the Syndicate has achieved significant top line growth, with gross premiums increasing by 77.7% to £106.5m, equivalent to US\$142.3m. Brit UW Limited's share of the 2018 year of account amounted to US\$22.8m.

Growth against prior year emanates from both existing and new product lines, highlighting that the Syndicate is starting to achieve market penetration with brokers expecting, and often requesting, a line from Syndicate 2988. Following the major loss events in 2017, the Syndicate experienced positive average rate movements (+6.2%) across most lines of business, with higher rate increases for loss affected classes.

The Syndicate reported an underwriting loss of £22.9m, equivalent to US\$30.6m, and a combined ratio of 127.6%. Brit UW Limited's share of the 2018 year of account represents US\$2.1m of underwriting loss with a corresponding combined ratio of 118.0%. For a second year the Syndicate has been impacted by a high level of major loss activity. This is further exacerbated by it being only the Syndicate's second year of operation and the resultant impact on premium earnings.

Major losses incurred by the Syndicate during 2018 include wind-related events in both the United States and Asia as well as wildfires in California.

BRIT UW LIMITED

Strategic Report (continued)

Brit UW Limited's share of the investment return net of investment management fees was £46.8k, equivalent to US\$62.5k. For most of 2018, the Syndicate's investment portfolio comprised of cash, holdings in collective investment schemes and deposits held in overseas jurisdictions as required by regulation in order to conduct business in those regions. In Q4, the Syndicate's portfolio was extended to include US Treasury bills.

Corporate

During the year, the Company renewed a fully collateralised reinsurance contract with a Group company, Brit Reinsurance (Bermuda) Limited (formerly Brit Insurance (Gibraltar) PCC Limited), the benefit of which is charged in favour of Lloyd's. The outward reinsurance premium on this contract amounted to US\$75.1m (2017: US\$73.2m).

Investment return was a loss of US\$32.0m (2017: profit of US\$48.3m) primarily being driven by equities.

Outlook

Capacity

Stamp capacity for Syndicate 2987 was increased to £1.4bn for the 2018 year of account, anticipating a more positive trading environment following the 2017 major losses. The stamp capacity for the 2019 year of account has reduced to £1.36bn reflecting a more conservative outlook on market conditions.

The stamp capacity of Syndicate 2988 for the 2019 year of account is largely unchanged at £98.0m. However, the level of planned premium being written for the 2019 year of account has increased by over 12% relative to planned premium for the 2018 year of account. Growth in the premium base represents a combination of both the expansion of existing lines of business together with the selective introduction of new classes. Prudent steps have also been taken to reduce exposure to underperforming classes by reducing premium volumes in these areas.

Underwriting

2018 saw movement back towards a more profitable underlying underwriting environment although it still remains challenging.

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

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

Investments

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

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

BRIT UW LIMITED

Strategic Report (continued)

United Kingdom's exit from the European Union (Brexit)

Brit has continued to work to minimise the impact of Brexit on its managed Syndicates and Brit's clients. While direct European business is not material for the Syndicates, Brit's multi-disciplinary working group has continued to evaluate the associated risks and implement the processes and business changes required to write business onto Lloyd's new Brussels-based European insurance company (LBS).

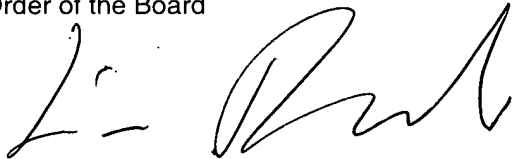
The majority of the known work required is complete and Brit's new processes are now operational. Syndicates 2987 and 2988 commenced writing business via LBS in the fourth quarter of 2018, for risks incepting on or after 1 January 2019. The placement process is more onerous than for non-European business, however, the solution in place is the most effective approach given that the UK will potentially lose its passporting rights.

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

Principal risks and uncertainties

The information on principal risks and uncertainties is disclosed in Note 3 to the Financial Statements.

By Order of the Board



Simon Dartford
On behalf of Brit Corporate Secretaries Limited
Secretary
14 June 2019

BRIT UW LIMITED

Directors' Report

The Directors present their report and the financial statements for the year ended 31 December 2018.

Principal activities

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

Result and Dividend

The Company made a loss after tax for the 2018 calendar year of US\$164.4m (2017 loss: US\$88.5m).

No interim dividend was paid during the year (2017: US\$nil). The Directors do not recommend the payment of a final dividend for the year ended 31 December 2018 (2017: US\$nil).

Going Concern

The Company is the sole provider of capacity to Syndicate 2987, which represents the majority of the business activity of the Brit Group. As such, Directors have a reasonable expectation that, where necessary, appropriate funding would be made available to the Company, through investment, lending or utilisation of the credit facilities of the Brit Group and, therefore, it has access to adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Strategic Report, Directors' Report and Financial Statements.

Directors

The names of the Directors as at the date of this report are listed on page 2.

Employees and environmental matters

All staff in the United Kingdom are employed by the Group's service company, Brit Group Services Limited, and the full staff cost disclosures are included in the notes to those financial statements. Further information on the Group's employment policies can be found in the financial statements of Brit Group Services Limited.

The wider Brit Group is committed to managing and reducing its environmental impact in a cost effective and responsible manner.

Future developments

The Company intends to continue to build on its strong historical performance during 2019 and beyond.

Statement of Directors' responsibilities

The Directors are responsible for preparing the Strategic Report, Directors' Report and the Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). 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 or 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;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgments 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.

BRIT UW LIMITED

Directors' Report (continued)

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Statement of Disclosure of Information to Auditors

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 auditors are 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 auditors are aware of that information.

PricewaterhouseCoopers LLP will remain in office as the Company's auditors.

By Order of the Board

A handwritten signature in black ink, appearing to read 'L. Dartford', written over a horizontal line.

Simon Dartford
On behalf of Brit Corporate Secretaries Limited
Secretary
14 June 2019

BRIT UW LIMITED

Independent Auditors' Report to the Member of Brit UW Limited

Report on the audit of the financial statements

Opinion

In our opinion, Brit UW Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2018 and of its loss for the year then ended;
- 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
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Financial Statements (the "Annual Report"), which comprise: the statement of financial position as at 31 December 2018; the income statement, the statement 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.

Basis for opinion

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

Independence

We remained independent of the 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, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

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

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

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

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

Reporting on other information

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

Independent Auditors' Report to the Member of Brit UW Limited (continued)

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 2018 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 company and its 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 7, 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 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 company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

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

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

Use of this report

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

BRIT UW LIMITED

Independent Auditors' Report to the Member of Brit UW Limited (continued)

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 financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.



Mark Bolton (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
14 June 2019

BRIT UW LIMITED

Income Statement

Technical Account – General Business
for the year ended 31 December 2018

| | Note | 2018 US\$m | 2017 US\$m |
|------------------------------------------------------------------------|------|------------------|------------------|
| Gross premiums written | 4 | 2,232.5 | 2,057.0 |
| Outward reinsurance premiums | | (1,042.6) | (832.6) |
| Net premiums written | | 1,189.9 | 1,224.4 |
| Change in the gross provision for unearned premiums | 16 | (36.3) | (49.8) |
| Change in the provision for unearned premiums, reinsurers' share | 16 | 19.2 | 71.6 |
| Net change in the provision for unearned premiums | | (17.1) | 21.8 |
| Earned premiums, net of reinsurance | | 1,172.8 | 1,246.2 |
| Allocated investment return transferred from the Non-Technical Account | | 50.4 | 60.8 |
| Total technical income | | 1,223.2 | 1,307.0 |
| Claims paid: | | | |
| Gross amount | 17 | (1,344.7) | (1,066.2) |
| Reinsurers' share | 17 | 618.5 | 344.5 |
| Net claims paid | | (726.2) | (721.7) |
| Change in the provision for claims: | | | |
| Gross amount | | (277.5) | (619.2) |
| Reinsurers' share | | 346.7 | 487.5 |
| Net change in the provision for claims | | 69.2 | (131.7) |
| Claims incurred, net of reinsurance | | (657.0) | (853.4) |
| Net operating expenses | 6 | (666.9) | (626.4) |
| Total technical charges | | (1,323.9) | (1,479.8) |
| Balance on the Technical Account for general business | | (100.7) | (172.8) |

BRIT UW LIMITED

Income Statement (continued)

Non-Technical Account
for the year ended 31 December 2018

| | Note | 2018 US\$m | 2017 US\$m |
|------------------------------------------------------------------------------------------|------|----------------|----------------|
| Balance on the Technical Account – general business | | (100.7) | (172.8) |
| Investment income | | 44.6 | 31.2 |
| Realised gains on investments | | 9.3 | 5.2 |
| Unrealised (loss) / gain on investments | | (80.0) | 107.2 |
| Profit / (loss) on derivatives | | 19.8 | (34.2) |
| Net investment return | | (6.3) | 109.4 |
| Allocated investment return transferred to the general business Technical Account | | (50.4) | (60.8) |
| Interest receivable and similar income | 7 | - | 0.2 |
| Other (charges) / income | 8 | (33.4) | 18.8 |
| Loss on ordinary activities before tax | | (190.8) | (105.2) |
| Tax on loss on ordinary activities | 10 | 26.4 | 16.7 |
| Loss on ordinary activities after tax | | (164.4) | (88.5) |

There were no amounts recognised in other comprehensive income in the current or preceding year other than those included in the Income Statement. Therefore no Statement of Other Comprehensive Income has been presented.

The Notes on pages 17 to 48 form part of these financial statements.

BRIT UW LIMITED

Statement of Changes in Equity for the year ended 31 December 2018

| | Called up share capital | Share premium account | Retained earnings | Total equity |
|--------------------------------------------|----------------------------|-----------------------------|----------------------|---------------|
| | US\$m | US\$m | US\$m | US\$m |
| At 1 January 2018 | - | 146.2 | (23.8) | 122.4 |
| Total comprehensive income for the year | - | - | (164.4) | (164.4) |
| At 31 December 2018 | - | 146.2 | (188.2) | (42.0) |

| | Called up share capital | Share premium account | Retained earnings | Total equity |
|--------------------------------------------|----------------------------|-----------------------------|----------------------|--------------|
| | US\$m | US\$m | US\$m | US\$m |
| At 1 January 2017 | - | 146.2 | 64.7 | 210.9 |
| Total comprehensive income for the year | - | - | (88.5) | (88.5) |
| At 31 December 2017 | - | 146.2 | (23.8) | 122.4 |

The Notes on pages 17 to 48 form part of these financial statements.

BRIT UW LIMITED

Statement of Financial Position as at 31 December 2018

| | | 2018 | | | 2017 | | |
|--------------------------------------------------|---------|--------------------|---------------------|----------------|--------------------|--------------------|----------------|
| | Note | Corporate US\$m | Syndicates US\$m | Total US\$m | Corporate US\$m | Syndicate US\$m | Total US\$m |
| Investments | | | | | | | |
| Financial Investments | 14 & 15 | 152.7 | 1,672.2 | 1,824.9 | 264.0 | 1,961.8 | 2,225.8 |
| | | 152.7 | 1,672.2 | 1,824.9 | 264.0 | 1,961.8 | 2,225.8 |
| Reinsurers' Share of Technical Provisions | | | | | | | |
| Provision for unearned premiums | 16 | - | 352.4 | 352.4 | - | 338.4 | 338.4 |
| Claims outstanding | 17 | - | 2,068.4 | 2,068.4 | - | 1,779.7 | 1,779.7 |
| | | - | 2,420.8 | 2,420.8 | - | 2,118.1 | 2,118.1 |
| Debtors | | | | | | | |
| Arising out of direct insurance operations | | - | 580.4 | 580.4 | - | 494.5 | 494.5 |
| Arising out of reinsurance operations | | - | 388.5 | 388.5 | - | 393.6 | 393.6 |
| Deferred Taxation | 13 | 73.9 | - | 73.9 | 37.3 | - | 37.3 |
| Other | 20 | 0.7 | 357.7 | 358.4 | - | 128.2 | 128.2 |
| | | 74.6 | 1,326.6 | 1,401.2 | 37.3 | 1,016.3 | 1,053.6 |
| Other Assets | | | | | | | |
| Cash at bank and in hand | | 2.6 | 25.4 | 28.0 | 15.2 | 138.1 | 153.3 |
| FIS | 27 | 233.8 | (233.8) | - | 71.8 | (71.8) | - |
| Other | 18 | - | 268.3 | 268.3 | - | 227.5 | 227.5 |
| | | 236.4 | 59.9 | 296.3 | 87.0 | 293.8 | 380.8 |
| Prepayments and Accrued Income | | | | | | | |
| Deferred acquisition costs | 19 | - | 245.4 | 245.4 | - | 241.6 | 241.6 |
| Other | | 0.4 | 6.0 | 6.4 | 0.5 | 1.6 | 2.1 |
| | | 0.4 | 251.4 | 251.8 | 0.5 | 243.2 | 243.7 |
| Total Assets | | 464.1 | 5,730.9 | 6,195.0 | 388.8 | 5,633.2 | 6,022.0 |

BRIT UW LIMITED

Statement of Financial Position (continued) as at 31 December 2018

| | | 2018 | | | 2017 | | |
|--------------------------------------------|------|--------------------|---------------------|----------------|--------------------|--------------------|----------------|
| | Note | Corporate US\$m | Syndicates US\$m | Total US\$m | Corporate US\$m | Syndicate US\$m | Total US\$m |
| Capital and reserves | | | | | | | |
| Called up share capital | 22 | - | - | - | - | - | - |
| Share premium account | | 146.2 | - | 146.2 | 146.2 | - | 146.2 |
| Retained earnings | | (188.2) | - | (188.2) | (23.8) | - | (23.8) |
| Shareholders' funds | | (42.0) | - | (42.0) | 122.4 | - | 122.4 |
| Derivative contracts | 15 | - | 2.8 | 2.8 | - | 9.7 | 9.7 |
| Technical Provisions | | | | | | | |
| Provision for unearned premiums | 16 | - | 919.1 | 919.1 | - | 897.1 | 897.1 |
| Claims outstanding | 17 | - | 4,331.8 | 4,331.8 | - | 4,132.9 | 4,132.9 |
| | | - | 5,250.9 | 5,250.9 | - | 5,030.0 | 5,030.0 |
| Creditors | | | | | | | |
| Arising out of direct insurance operations | | - | 13.1 | 13.1 | - | 14.8 | 14.8 |
| Arising out of reinsurance operations | | - | 429.4 | 429.4 | 18.4 | 542.8 | 561.2 |
| Other | 21 | 506.1 | 34.7 | 540.8 | 248.0 | 35.9 | 283.9 |
| | | 506.1 | 477.2 | 983.3 | 266.4 | 593.5 | 859.9 |
| Total liabilities | | 464.1 | 5,730.9 | 6,195.0 | 388.8 | 5,633.2 | 6,022.0 |

The financial statements on pages 12 to 48 were approved by the Board of Directors on 14 June 2019 and were signed on its behalf by:



S Dawes
Director



A E Usher
Director

BRIT UW LIMITED

Notes to the Financial Statements for the year ended 31 December 2018

1. Accounting policies, statement of compliance and basis of preparation

1.1 Statement of compliance and basis of preparation

The financial statements have been prepared in compliance with FRS 102 and FRS 103, being the applicable UK GAAP accounting standards, and in accordance with The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 (The Regulations 2008), and where appropriate the provisions of Schedule 3 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (The Regulations) relating to insurance companies.

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

The financial statements are prepared under the historical cost convention, as modified by the recognition of certain financial assets and liabilities measured at fair value. The annual basis of accounting has been applied to all classes of business written by Brit Syndicates. All amounts are presented in rounded US\$m to one decimal place, unless otherwise stated.

1.2 Product classification

Insurance contracts are those contracts that transfer significant insurance risk at the inception of the contract. Insurance risk is transferred when an insurer agrees to compensate a policyholder if a specified uncertain future event adversely affects the policyholder. 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.

1.3 Principal accounting policies

a) Underwriting Activities – Brit Syndicates

i) 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 received or notified, less an allowance for cancellations. Premiums are accreted to the Technical Account 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 Technical Account on a pro rata basis over the term of the original policy to which it relates. Premiums are stated gross of commissions but net of premium taxes and other duties levied on premiums.

ii) Profit commissions

Income arising from whole account quota share contracts is recognised when the economic benefits are highly probable.

iii) 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 earnings pattern of that policy.

BRIT UW LIMITED

Notes to the Financial Statements (continued)

Note 1.3 (continued)

iv) **Claims incurred**

Claims incurred comprise claims and claims handling costs paid in the year and changes in the provisions for outstanding claims, including provisions for claims incurred but not reported ("IBNR") 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.

v) **Outstanding claims provisions**

Claims outstanding 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 statement of financial position date, including provision for claims incurred but not reported, less any amounts paid in respect of those claims. Claims outstanding are reduced by anticipated salvage and other recoveries. The Company does not discount its liabilities for unpaid claims, the ultimate cost of which cannot be known with certainty at the balance sheet date.

Claims provisions have been established on an individual class of business basis. The underwriting and management teams conduct a quarterly review of each class of business. Claims are projected to the ultimate position and provision is made for known claims and claims incurred but not reported.

Whilst the Directors consider that the estimate of claims outstanding is fairly calculated on the basis of the information currently available to them, there is inherent uncertainty in relation to the ultimate liability which will vary as a result of subsequent information and events. Adjustments to the amounts of the claims provisions established in prior years are reflected in the financial statements for the period in which the adjustments are made.

vi) **Provision for unearned premiums**

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

vii) **Unexpired risks provision**

Provision is made for any deficiencies arising when unearned premiums, net of related deferred acquisition costs, are insufficient to meet expected claims and expenses after taking into account future investment return on the investments supporting the unearned premiums provision and unexpired risks provision. The expected claims are calculated having regard to events that have occurred up to the statement of financial position date.

Unexpired risk surpluses and deficits are offset where business classes are managed together and a provision is made if an aggregate deficit arises. At 31 December 2018 and 31 December 2017 Brit Syndicates and the Company did not have an unexpired risks provision.

viii) **Reinsurance**

Brit syndicates assume and cede reinsurance in the normal course of business. Premiums and claims on reinsurance assumed are recognised in the Technical Account 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 Technical Account 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 Technical Account and are not subject to amortisation

BRIT UW LIMITED

Notes to the Financial Statements (continued)

Note 1.3 (continued)

If a reinsurance asset is impaired, the Company reduces its carrying amount accordingly, and will immediately recognise the impairment loss in the Technical Account. 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 Company 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 Company will receive from the reinsurer.

ix) **Expenses**

BSL has charged Brit Syndicates a fixed fee and has borne all the management expenses of Brit Syndicates, other than those related to the direct cost of underwriting and investment management charges. Investment management charges are netted off against investment return. Any internal or external claims adjustment or settlement costs are included within gross claims paid.

x) **Syndicate assets and liabilities**

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 Company participates, only the relevant proportion of the transactions, assets and liabilities of those syndicates are reflected in the financial statements. Syndicate assets are held subject to trust deeds for the benefit of the syndicate's insurance creditors.

—As at 31 December 2018 the Company, provided 100% of the capital for Syndicate 2987 and therefore all transactions, assets and liabilities of Syndicate 2987 have been included in the Company's financial statements. The Company managed the underwriting of, and participated as a member with an 18.46% share of the 2018 year of account of, Syndicate 2988 at Lloyd's. Consequently, 18.46% of the 2018 year of account has been reflected into the financial position and performance in the Company's financial statements.

(b) Investments

The Company 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 Company's documented investment strategy and consistent with investment risk being assessed on a portfolio basis. Information relating to investments is provided internally to the Directors of BSL and management personnel 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 Company 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.

(c) Recognition and derecognition of financial assets and financial liabilities

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the contract and are initially recognised at transaction price and subsequently measured at either fair value or at amortised cost using the effective interest rate method.

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.

BRIT UW LIMITED

Notes to the Financial Statements (continued)

Note 1.3 (continued)

All 'regular way purchases and sales' of financial assets are recognised on the trade date, i.e. the date that the Company 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.

If the carrying value of such 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.

(d) Derivatives

Derivative financial instruments typically include currency forward contracts, equity options and inflation options. Derivatives are initially and subsequently measured at their fair value with movements in the fair value being immediately recognised in the income statement. Fair values are obtained from quoted market prices, discounted cash flow models, risk models and option pricing models as appropriate. All derivatives are carried as assets when the fair values are positive and as liabilities when the fair values are negative.

(e) Investment return

Investment return comprises all investment income, realised investment gains and losses, movements in unrealised gains and losses and interest and dividend income.

Realised gains and losses on investments carried at market value are calculated as the difference between sale proceeds and purchase price and are recognised when the sale transaction occurs. Unrealised gains and losses on investments represent the difference between the valuation at the statement of financial position date and their valuation at the previous statement of financial position date, or purchase price, if acquired during the year, together with the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current period.

Investment return is initially recorded in the Non-Technical Account. A transfer is made from the Non-Technical Account to the general business Technical Account to reflect the investment return on funds supporting underwriting activities.

(f) Investment expenses and charges

Investment expenses and charges comprise investment management expenses.

(g) Net operating expenses

Operating expenses have been charged to the underwriting year for which they were incurred. These include the Company's share of the Syndicate operating expenses, the remuneration payable to BSL and the direct costs of membership of Lloyd's.

(h) Pension costs

Brit Group Services Limited operates a defined contribution pension scheme on behalf of the BSL. Contributions are charged to the Syndicate within the fixed fee.

(i) Foreign currencies

The financial statements are presented in US dollars which is the Company's functional currency. Items included in the financial statements are measured using the functional currency which is the primary economic environment in which the Company operates.

Transactions in foreign currencies other than Sterling, United States dollars, Canadian dollars and Euros are translated at the rate of exchange ruling at the date the transaction is processed. Unless otherwise stated, transactions in Sterling, Canadian dollars and Euros are translated at the average rates of exchange for the period. Monetary assets and liabilities in currencies other than United States dollars are translated at the rate of exchange ruling at 31 December of each year. Exchange profits or losses arising on the translation of foreign currency amounts relating to underwriting activities are included within the Non-Technical Account as prescribed by FRS 103.

BRIT UW LIMITED

Notes to the Financial Statements (continued)

Note 1.3 (continued)

(j) Current taxation

The Syndicate's results included in these financial statements relate to the annually accounted result for the 2018 calendar year. Syndicate income is subject to corporation tax in the year following closure of the relevant year of account.

(k) Deferred taxation

Deferred tax is recognised in respect of all temporary differences that have originated but not reversed at the statement of financial position date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more tax.

Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying temporary differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which temporary differences reverse, based on tax rates and laws enacted or substantively enacted at the statement of financial position date.

(l) 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 Critical accounting judgements and key sources of estimation uncertainty

Various assumptions are made 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.

a) Insurance contract liabilities

The estimation of the ultimate liability arising from claims made under insurance contracts is Brit Syndicates' most critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimate of the amounts that each Syndicate 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 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.

BRIT UW LIMITED

Notes to the Financial Statements (continued)

Note 2 (continued)

- 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, and 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 Syndicate is aware.

b) Estimation of future premiums (pipeline premiums)

Written premiums include pipeline premium of US\$632.4m (2017: US\$540.5m) 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.

c) Fair value of financial assets determined using valuation techniques

Financial investments are carried in the statement of financial position at fair value. Determining the fair value of certain investments requires estimation techniques.

The Company values investments using designated methodologies, estimations and assumptions. These securities, which are reported at fair value on the 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 UK GAAP.

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 the Company considers 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.

BRIT UW LIMITED

Notes to the Financial Statements (continued)

Note 2 (continued)

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 the Company's results of operations and reported financial condition.

For further information refer to note 14.

d) Deferred tax asset in respect of carried forward losses

The deferred tax asset includes an amount of US\$73.9 m which relates to carried forward tax losses in respect of Lloyd's undeclared year of account losses for 2017 and 2018 which will be taxed under the Lloyd's declaration basis in the years 2020 and 2021 respectively. The Company has concluded that the deferred tax asset is recoverable based on the Lloyd's approved plan for the year of account 2019 and forecast results for the Brit Group UK entities and Riverstone, a subsidiary of the Fairfax Group.

The losses can be carried forward indefinitely and have no expiry date, however a further deferred tax asset of US\$8.7m has not been recognised on the basis that it is not yet possible to measure the asset reliably due to further work required to forecast results beyond 2023 and the year of account 2020.

3. Principal Risks and Uncertainties

Risk management overview

Brit UW Limited is the sole corporate member of Syndicate 2987 and has a participating share of 18.46% of the 2018 year of account of Syndicate 2988.

Syndicate 2987's and Syndicate 2988's activities expose the Company to a number of key risks which have the potential to affect its ability to achieve its business objectives. The following describes these Syndicates' financial and insurance risk management from a quantitative and qualitative perspective.

The risks arising from any of the business activities are managed in line with the Group Risk Management Framework (RMF) in order to protect policyholders and maximise shareholder value. This established framework addresses all the risks surrounding the organisation's activities past, present and, in particular, future. It sets out risk management standards, risk appetite and provides a consistent methodology and structure to the way in which the risks are identified, measured and managed.

The key elements of the RMF are set out below:

Identification: Risk events, risks and relevant controls are identified, classified and recorded in the risk register. This is a continuous process which considers any emerging and existing risks.

Measurement: Risks are assessed and quantified and controls are evaluated. This is done through a combination of stochastic modelling techniques, stress and scenario analysis, reverse stress testing and qualitative assessment using relevant internal and external data.

Management: The information resulting from risk identification and measurement is used to improve how the business is managed.

These elements of the framework are supported by appropriate governance, reporting management information, policies, culture, and systems.

The framework applies across all risk categories and is managed by the Chief Risk Officer (CRO). The ownership of many of the day-to-day activities is delegated to the relevant risk committee and members of the risk management team. The key categories of risk include: insurance, market, credit, liquidity and operational risks defined in line with UK GAAP requirements.

The RMF operates at the Group and at Syndicate level. The key governance bodies in the risk management process of Brit Syndicates are set out below:

- The BSL Board, which is responsible for setting business and risk strategy and ensuring the principal risks and uncertainties facing each Syndicate are managed;
- Executive Committee which is responsible for the management of the overall risk profile within the agreed limits; and

BRIT UW LIMITED

Notes to the Financial Statements (continued)

Note 3 (continued)

- The individual risk committees, which reflect the risk categories and are responsible for the management and monitoring of each risk against appetite. These committees include the Underwriting Committee, the Reserving Committee, the Investment Committee, the Credit Committee and the Operational Committee.

The key risk exposures for the individual categories and how these are managed are discussed in the sections below.

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 Syndicates are exposed to as their primary function is to underwrite insurance contracts. The risk arises due to the possibility of insurance contracts being underpriced, under-reserved or subject to unforeseen catastrophe claims.

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

(i) Underwriting risk

This is the risk that the 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 Syndicates as a result of unpredictable events.

The Syndicates are 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. Although premium rates are starting to rise, this follows a number of years of downwards pressure on premium rates and therefore this risk is considered to be high in the current underwriting environment. This trend in premium rates has been factored into Brit Syndicates' 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 Syndicates write all of their 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 Syndicates access to over 200 territories. Exclusively using the Lloyd's platform subjects the Syndicates to a number of resulting underwriting risks.

Controls over underwriting strategy

The BSL Board sets the Syndicates' 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 KPIs, technical pricing 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 BSL Board. The underwriting risk policy also sets out a number of controls, which are summarised below.

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

The Managing Agent 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.

BRIT UW LIMITED

Notes to the Financial Statements (continued)

Note 3 (continued)

A proportion of the Syndicates' 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 other departments with regular audits being carried out.

The technical pricing framework ensures that the pricing process for each Syndicate 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 Syndicates 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.

Underwriting risk profile

The core insurance portfolio of property, marine and casualty (including liability) 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 BSL Board and is monitored monthly.

Geographical concentration of premium

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

| Premiums written | Gross US\$m | Net US\$m |
|-----------------------------|----------------|----------------|
| 2018 | | |
| United States | 1,012.0 | 588.1 |
| United Kingdom | 139.4 | 24.3 |
| Europe (excluding UK) | 93.8 | 43.1 |
| Other (including worldwide) | 987.3 | 534.4 |
| Total | 2,232.5 | 1,189.9 |
| 2017 | | |
| United States | 896.0 | 519.4 |
| United Kingdom | 107.2 | 61.9 |
| Europe (excluding UK) | 103.3 | 59.0 |
| Other (including worldwide) | 950.5 | 584.1 |
| Total | 2,057.0 | 1,224.4 |

BRIT UW LIMITED

Notes to the Financial Statements (continued)

Note 3 (continued)

Portfolio mix

The Syndicates' breakdown of premium before reinsurance by principal categories is summarised below:

| Gross Premiums Written | | 2017 | | 2017 | |
|------------------------------------|------------------------------------------------------------------------------------------------------|----------------|-------------|---------|------|
| | | US\$m | % | US\$m | % |
| Short-Tail Direct insurance | Property, Marine, Energy, Accident & Health, BGSU ⁽ⁱ⁾ , Aviation, Terrorism and Political | 1,266.6 | 57% | 1,172.2 | 57% |
| Long-Tail Direct insurance | Professional Lines, Specialty Lines, Specialist Liability | 510.0 | 22% | 501.5 | 25% |
| Short-Tail Reinsurance | Property Treaty | 212.9 | 10% | 151.5 | 7% |
| Long-Tail Reinsurance | Casualty Treaty | 243.0 | 11% | 231.8 | 11% |
| Total | | 2,232.5 | 100% | 2,057.0 | 100% |

(i) Brit Global Specialty USA (BGSU)

Each Syndicate underwrites a business mix of both insurance and reinsurance, long and short tailed business across a number of geographic areas which results in a diversification of the Syndicates' portfolios. 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 is currently 34% of the portfolio as at 31 December 2018 (2017: 36%) and delegated underwriting represents approximately 41% (2017: 42%).

Aggregate exposure management

Each Syndicate is exposed to potential large claims from natural catastrophe events. The catastrophe risk tolerances are defined for each Syndicate's risk appetite framework. These are reviewed and set by the Board on an annual basis.

Syndicate 2987 has a tolerance of 20% of Brit Limited Group Net Tangible Assets for major catastrophe events (as defined by World Wide All Perils 1-in-30 Aggregate Exceedance Probability (AEP)). This tolerance is set annually based on the Net Tangible Assets at the beginning of the year and equates to a maximum acceptable 1-in-30 AEP modelled loss (after all reinsurance) of US\$208.7m as at 31 December 2018. This is in addition to other tolerances set within the catastrophe risk appetite framework.

Syndicate 2988 has a tolerance of 55% of Syndicate 2988's Economic Capital Assessment for major catastrophe events (as defined by World Wide All Perils 1-in-30 AEP). This equates to a maximum acceptable 1-in-30 AEP modelled loss (after all reinsurance) of £55.3m as at 31 December 2018. This is in addition to other tolerances set within the catastrophe risk appetite framework.

The Syndicates closely monitor 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 Syndicate's reinsurance programmes. Stress and scenario tests are also run, such as Lloyd's and internally developed Realistic Disaster Scenarios (RDS).

BRIT UW LIMITED

Notes to the Financial Statements (continued)

Note 3 (continued)

Below are the key RDS losses to the Syndicates for all classes combined (in US\$ millions) (unaudited):

| Lloyd's prescribed RDS event | Estimated industry loss | Modelled 2987 Syndicate Loss ⁽ⁱ⁾ | | | |
|------------------------------|-------------------------|---------------------------------------------|----------|------------|----------|
| | | 2018 Gross | 2018 Net | 2017 Gross | 2017 Net |
| Gulf of Mexico Windstorm | 111,000 | 811 | 141 | 850 | 80 |
| Florida Miami Windstorm | 131,000 | 986 | 101 | 736 | 62 |
| US North East Windstorm | 81,000 | 788 | 116 | 755 | 54 |
| San Francisco Earthquake | 80,000 | 1,071 | 210 | 737 | 232 |
| Japan Earthquake | 72,665 | 246 | 103 | 219 | 105 |
| Japan Windstorm | 15,441 | 62 | 24 | 96 | 43 |
| European Windstorm | 27,459 | 165 | 85 | 223 | 109 |

The Modelled 2988 Syndicate loss is presented below. Brit UW Limited is only exposed to 18.46% of the 2018 year of account related losses of Syndicate 2988.

| Lloyd's prescribed RDS event | Estimated industry loss | 2018 Gross | 2018 Net |
|------------------------------|-------------------------|------------|----------|
| Gulf of Mexico Windstorm | 111,000 | 87 | 35 |
| Florida Miami Windstorm | 131,000 | 128 | 35 |
| US North East Windstorm | 81,000 | 81 | 36 |
| San Francisco Earthquake | 80,000 | 100 | 33 |
| Japan Earthquake | 72,665 | 12 | 12 |
| Japan Windstorm | 15,441 | 1 | 1 |
| European Windstorm | 27,459 | 7 | 7 |

(i) At 31 December 2018 exchange rates

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

Sensitivity to changes in net claims ratio

The Syndicates' result for the financial year is sensitive to an independent 1% change in the net claims ratio for each principal category as follows:

| Change in reported profit Category | 2018 | | 2017 | |
|------------------------------------|-------------|------------|-------------|------------|
| | US\$m | % | US\$m | % |
| Short-Tail Direct insurance | 8.4 | 67 | 8.0 | 61 |
| Long-Tail Direct insurance | 1.2 | 10 | 2.7 | 20 |
| Short-Tail Reinsurance | 0.9 | 7 | 0.7 | 5 |
| Long-Tail Reinsurance | 2.0 | 16 | 1.8 | 14 |
| Total | 12.5 | 100 | 13.2 | 100 |

BRIT UW LIMITED

Notes to the Financial Statements (continued)

Note 3 (continued)

(ii) Reinsurance risk

Each Syndicate purchases reinsurance to manage its exposure to individual risks and aggregation of risks arising from individual large claims and catastrophe events. This allows the Syndicates to mitigate their exposure to insurance losses against their 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 net exposure to classes of business where the Syndicates' 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 Syndicates may use the following types of reinsurance to protect themselves from severe size or frequency of losses:

- (i) Facultative reinsurance may be 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.
- (ii) Risk excess of loss reinsurance may be 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 Syndicate's risk appetite during the business planning exercise.
- (iii) Aggregate catastrophe excess of loss cover to protect the Syndicate against combined property claims from multiple policies resulting from catastrophe events.

Syndicate 2987 has in place a comprehensive programme of excess of loss reinsurance to protect itself from severe size or frequency losses, whereas Syndicate 2988 has a selective reinsurance programme.

Given the fundamental importance of reinsurance protection to the Syndicates' risk management, Brit Syndicates have in place internal controls and processes to ensure that the reinsurance arrangements provide appropriate protection of capital and maintain Brit's ability to meet policyholder obligations. The Head of Outwards Reinsurance, the Chief Underwriting Officer, Chief Risk Officer and Chief Actuary propose external reinsurance arrangements with input from class underwriters for class level reinsurance. The Chief Underwriting Officer proposes reinsurance arrangements with Brit Reinsurance (Bermuda) Ltd, (formerly known as Brit Insurance (Gibraltar) PCC Ltd (BIG), see note 26 for further information). All reinsurance purchases are reviewed by the Outwards Reinsurance Committee. The Head of Outwards Reinsurance monitors and reports on the placement of reinsurance protections

The Syndicates remain 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 Syndicates.
- Some parts of the programme have limited reinstatements which limit the amount that may be recovered from second or subsequent claims. If the entirety of the cover is exhausted, it may not be possible to purchase additional reinsurance at a reasonable price.
- A dispute may arise with a reinsurer which may mean the recoveries received are lower than anticipated.

These risks are managed through a combination of techniques and controls including risk aggregation, 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.

(iii) Reserving risk

Reserving risk arises as the actual cost of losses for policyholder obligations incurred before 31 December 2018 may differ from the established reserves due to inaccurate assumptions or unforeseen circumstances. This is a key risk for the Syndicates as the reserves for unpaid losses represent the largest component of the Syndicates' liabilities and are inherently uncertain. The BSL Reserving Committee is responsible for the management of each Syndicate's reserving risk.

BRIT UW LIMITED

Notes to the Financial Statements (continued)

Note 3 (continued)

The Syndicates have 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 adjustors validate policy terms and conditions, adjust claims and investigate suspicious or disputed claims in accordance with the Syndicates' claims policy. Case reserves are set for notified claims using the experience of specialist claims adjustors, 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 projection techniques are employed by the Syndicates' experienced actuaries to establish the IBNR reserve. These techniques project IBNR reserves based on historical development of paid and incurred claims by underwriting year. For the most uncertain claims, the triangulation techniques are supplemented by additional methods to ensure the established reserve is appropriate. The actuarial team work closely with other business functions such as underwriting, claims and risk aggregation to ensure that they have a full understanding of the emerging claims experience across each Syndicate.

Brit Syndicates' 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 sign-off by the Reserving Committee, as part of the formal governance arrangements for the Syndicates. The estimate agreed by the committee is used as a basis for the Syndicates' 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. This margin increases the reserves reflected in the Syndicates' financial statements above the mean expectation. Finally, the reserves in the financial statements are presented to the Audit Committee for recommendation to the BSL Board who are responsible for the final sign-off. As part of their audit engagement, reserves are subject to external actuarial review by the Syndicates' auditors.

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 Syndicates 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 Syndicates' reserves are considered to be claims from the long tail direct and reinsurance classes. The issues contributing to this heightened uncertainty are common to all entities which write such business.

Liquidity risk

This is the risk that Syndicates 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 Syndicates face is the daily calls on its available cash resources in respect of claims arising from insurance contracts.

The Syndicates monitor 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 Syndicates also limit the amount of investment in illiquid securities in line with the liquidity policy set by the BSL Board. This involves ensuring sufficient liquidity to withstand claim scenarios at the extreme end of business plan projections by reference to modelled RDS. Contingent liquidity also exists in the form of the Group's revolving credit facility.

The tables below present the fair value of monetary assets and the undiscounted value of monetary liabilities of Brit UW Limited (including Syndicate 2987 and the Company's share of Syndicate 2988) into their relevant maturing groups based on the remaining period at the end of the year to their contractual maturities or expected repayment dates.

BRIT UW LIMITED

Notes to the Financial Statements (continued)

Note 3 (continued)

| At 31 December 2018 | Up to a year | 1-3 years | 3-5 years | Over 5 years | Equities | Total |
|------------------------------------------|---------------------|------------------|------------------|---------------------|-----------------|----------------|
| Assets (Fair values) | US\$m | US\$m | US\$m | US\$m | US\$m | US\$m |
| Reinsurance assets | 612.6 | 633.6 | 351.4 | 470.8 | - | 2,068.4 |
| Financial investments | 734.1 | 585.9 | 76.1 | 18.0 | 397.3 | 1,811.4 |
| Derivative contracts | 12.8 | - | - | 0.7 | - | 13.5 |
| Insurance receivables | 968.1 | 0.8 | - | - | - | 968.9 |
| Cash at bank and in hand | 28.0 | - | - | - | - | 28.0 |
| Other | 92.0 | 138.0 | 35.3 | 3.0 | - | 268.3 |
| | 2,447.6 | 1,368.3 | 462.8 | 492.5 | 397.3 | 5,158.5 |
| Liabilities (Undiscounted values) | US\$m | US\$m | US\$m | US\$m | US\$m | US\$m |
| Insurance contract liabilities | 1,215.3 | 1,321.2 | 740.5 | 1,054.8 | - | 4,331.8 |
| Derivative contracts | 2.8 | - | - | - | - | 2.8 |
| Insurance & other payables | 983.3 | - | - | - | - | 983.3 |
| | 2,201.4 | 1,321.2 | 740.5 | 1,054.8 | - | 5,317.9 |
| At 31 December 2017 | Up to a year | 1-3 years | 3-5 years | Over 5 years | Equities | Total |
| Assets (Fair values) | US\$m | US\$m | US\$m | US\$m | US\$m | US\$m |
| Reinsurance assets | 491.4 | 573.4 | 298.9 | 416.0 | - | 1,779.7 |
| Financial investments | 1,345.4 | 43.6 | 23.0 | 20.7 | 790.8 | 2,223.5 |
| Derivative contracts | 2.3 | - | - | - | - | 2.3 |
| Insurance receivables | 887.7 | 0.4 | - | - | - | 888.1 |
| Cash at bank and in hand | 153.3 | - | - | - | - | 153.3 |
| Other | 117.5 | 91.1 | 16.3 | 2.6 | - | 227.5 |
| | 2,997.6 | 708.5 | 338.2 | 439.3 | 790.8 | 5,274.4 |
| Liabilities (Undiscounted values) | US\$m | US\$m | US\$m | US\$m | US\$m | US\$m |
| Insurance contract liabilities | 1,097.5 | 1,284.2 | 712.1 | 1,039.1 | - | 4,132.9 |
| Derivative contracts | 9.7 | - | - | - | - | 9.7 |
| Insurance & other payables | 859.6 | 0.3 | - | - | - | 859.9 |
| | 1,966.8 | 1,284.5 | 712.1 | 1,039.1 | - | 5,002.5 |

*Note: the tables above exclude provisions for unearned premiums and deferred acquisition costs as, although monetary assets and monetary liabilities under FRS103, these are not considered to be sensitive to liquidity risk.

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. The main sources of credit risk relate to:

- Reinsurers: through the failure to pay valid claims against a reinsurance contract held by a Syndicate.
- Brokers and coverholders: where counterparties fail to pass on premiums or claims collected or paid on behalf of a Syndicate.
- Investments: through the issuer default of all or part of the value of a financial instrument or derivative financial 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 Company.

BRIT UW LIMITED

Notes to the Financial Statements (continued)

Note 3 (continued)

(i) Investments credit risk

Investment credit risk management process

The Investment Committee is responsible for the management of investment credit risk. The Investment Guidelines and Investment Policy set out clear limits and controls around the level of investment credit risk. The Syndicates have 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 Syndicates' and Company's cash and investments. In addition, the investment risk framework further limits potential exposure to credit risk through monitoring of the aggregate investment risk limits.

Investment credit risk profile

The summary of the investment credit risk exposures for Brit UW Limited (including Syndicate 2987 and the Company's share of Syndicate 2988) is set out in the tables below:

| US\$ millions | AAA | AA | A | P-1 | P-2 | BBB and below | Equities | Not Rated | Total |
|----------------------------|----------------|--------------|--------------|--------------|----------|---------------|--------------|--------------|----------------|
| At 31 December 2018 | | | | | | | | | |
| Financial Investments | 1,070.7 | 104.2 | 95.4 | - | - | 89.4 | 400.0 | 51.7 | 1,811.4 |
| Derivative contracts | - | - | - | - | - | - | - | 13.5 | 13.5 |
| Cash at bank | - | 7.1 | 8.1 | - | - | 12.8 | - | - | 28.0 |
| Other | 141.9 | 28.9 | 25.7 | 1.1 | - | 19.6 | - | 51.1 | 268.3 |
| Total | 1,212.6 | 140.2 | 129.2 | 1.1 | - | 121.8 | 400.0 | 116.3 | 2,121.2 |
| At 31 December 2017 | | | | | | | | | |
| Financial Investments | 924.4 | 289.3 | 14.2 | 39.8 | - | 32.1 | 790.8 | 132.9 | 2,223.5 |
| Derivative contracts | - | - | - | - | - | - | - | 2.3 | 2.3 |
| Cash at bank | 0.2 | 16.1 | 58.6 | 62.7 | - | 15.7 | - | - | 153.3 |
| Other | 115.9 | 22.6 | 70.8 | - | - | 18.2 | - | - | 227.5 |
| Total | 1,040.5 | 328.0 | 143.6 | 102.5 | - | 66.0 | 790.8 | 135.2 | 2,606.6 |

(ii) Insurance Credit Risk

Insurance Credit Risk Management Process

The Credit Committee, chaired by the Group Chief Financial Officer, is responsible for the management of credit risk arising from insurance activities.

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

Reinsurance aged debt is monitored and managed against 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 appetite are reported to the Risk Oversight Committee and the BSL Board on at least a quarterly basis.

BRIT UW LIMITED

Notes to the Financial Statements (continued)

Note 3 Insurance Credit Risk (continued)

Insurance Credit Risk Profile

The summary of the insurance credit risk exposures for Brit UW Limited (including Syndicate 2987 and the Company's share of Syndicate 2988) is set out in the tables below:

| US\$ millions | AAA | AA | A | Collateral | Not rated | Total |
|---------------------------------------|------------|--------------|--------------|----------------|----------------|----------------|
| As at 31 December 2018 | | | | | | |
| Reinsurance on claims outstanding | 2.7 | 424.8 | 374.6 | 1,186.4 | 79.9 | 2,068.4 |
| Insurance and reinsurance receivables | - | - | - | - | 968.9 | 968.9 |
| Total | 2.7 | 424.8 | 374.6 | 1,186.4 | 1,048.8 | 3,037.3 |
| As at 31 December 2017 | | | | | | |
| Reinsurance on claims outstanding | 1.5 | 347.4 | 191.6 | 1,190.3 | 48.9 | 1,779.7 |
| Insurance and reinsurance receivables | - | - | - | - | 888.1 | 888.1 |
| Total | 1.5 | 347.4 | 191.6 | 1,190.3 | 937.0 | 2,667.8 |

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

Total collateral of US\$1,398.9m (2017: US\$1,268.5m) and US\$53.9m / £42.3m (2017: US\$19.3m / £14.3m), is held in third party trust accounts or as a letter of credit (LOC) to guarantee Syndicate 2987 and Syndicate 2988 respectively against reinsurance counterparties. This is available for immediate drawdown in the event of a default. As at 31 December 2018, US\$1,186.4m (2017: US\$1,190.3m) and US\$13.2m / £10.4m (2017: US\$12.2m / £9.0m) of amounts recoverable from reinsurers were protected by cash and cash equivalents held in third party trust accounts or by LOC's for Syndicate 2987 and Syndicate 2988 respectively.

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

| US\$ millions | Provision against Reinsurance Assets | Provision against Insurance Receivables |
|----------------------------------|--------------------------------------|-----------------------------------------|
| 2018 | | |
| At 1 January 2018 | 0.7 | 10.5 |
| Release for the year | (0.7) | 0.5 |
| Net foreign exchange differences | - | (0.1) |
| At 31 December 2018 | - | 10.9 |
| 2017 | | |
| At 1 January 2017 | 0.7 | 11.6 |
| Release for the year | - | (3.5) |
| Net foreign exchange differences | - | 2.4 |
| At 31 December 2017 | 0.7 | 10.5 |

BRIT UW LIMITED

Notes to the Financial Statements (continued)

Note 3 Insurance Credit Risk Profile (continued)

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

| | 2018 US\$m | 2017 US\$m |
|------------------------------|---------------|---------------|
| 0-3 months past due | 50.4 | 15.4 |
| 4-6 months past due | 11.2 | 8.0 |
| 7-9 months past due | 3.8 | 0.1 |
| 10-12 months past due | 1.4 | - |
| More than 12 months past due | 1.8 | 0.8 |
| Total | 68.6 | 24.3 |

Market risk

This 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: currency risk, interest rate risk and other price risk. Credit risk on financial investments and cash is covered in the credit risk section.

(i) Currency risk

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

The split of assets and liabilities for Brit UW Limited's (including Syndicate 2987 and the Company's share of Syndicate 2988) main currencies is set out in the tables below:

| Converted US\$ millions | UK £ | US \$ | CAD \$ | EUR € | Total |
|-------------------------------------------------------|----------------|----------------|--------------|---------------|---------------|
| As at 31 December 2018 | | | | | |
| Total assets | 1,182.0 | 4,195.1 | 558.5 | 259.4 | 6,195.0 |
| Total liabilities | (1,051.6) | (4,581.5) | (278.2) | (325.7) | (6,237.0) |
| Net assets excluding the effect of derivatives | 130.4 | (386.4) | 280.3 | (66.3) | (42.0) |
| Adjustment for foreign exchange derivatives | (235.4) | 389.8 | (235.7) | 81.3 | - |
| Adjusted net assets | (105.0) | 3.4 | 44.6 | 15.0 | (42.0) |
| As at 31 December 2017 | | | | | |
| Total assets | 1,247.6 | 3,809.6 | 576.8 | 388.0 | 6,022.0 |
| Total liabilities | (1,211.4) | (4,041.9) | (304.3) | (342.0) | (5,899.6) |
| Net assets excluding the effect of derivatives | 36.2 | (232.3) | 272.5 | 46.0 | 122.4 |
| Adjustment for foreign exchange derivatives | (175.9) | 343.1 | (271.1) | 104.0 | - |
| Adjusted net assets | (139.7) | 110.8 | 1.4 | 150.0 | 122.4 |

BRIT UW LIMITED

Notes to the Financial Statements (continued)

Note 3 Market Risk (continued)

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

The Company manages its exposure in each of the main four currencies and the net asset position is rebalanced periodically. Where mismatches occur these may lead to FX gains and losses reported through the income statement.

Foreign currency forward contracts may be used to achieve the desired exposure to each currency. From time to time the Company may also choose to utilise foreign currency derivatives to manage the risk of reported losses due to changes in foreign exchange rates. The degree to which derivatives are used is dependent on the prevailing cost versus the perceived benefit to shareholder value from reducing the chance of a reported loss due to changes in foreign exchange rates. The details of foreign currency derivatives contracts entered into are given in Note 15.

Sensitivity to changes in foreign exchange rates

The table below gives an indication of the impact on result of a percentage movement in the relative strength of the US dollar against the value of the Sterling, Canadian dollar, Euro and Australian dollar simultaneously, after taking into consideration the effect of hedged positions. The analysis is based on the information at 31 December 2018.

| US\$ millions | Impact on result before tax and net assets | |
|------------------------------|--------------------------------------------|-------|
| | 2018 | 2017 |
| US dollar weakens | | |
| 10% against other currencies | (4.5) | 1.2 |
| 20% against other currencies | (9.0) | 2.3 |
| US dollar strengthens | | |
| 10% against other currencies | 4.5 | (1.2) |
| 20% against other currencies | 9.0 | (2.3) |

(ii) Interest rate risk and price risk

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 Company 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.

BRIT UW LIMITED

Notes to the Financial Statements (continued)

Note 3 Market Risk (continued)

The banded durations of the Company (including Syndicate 2987 and the Company's share of Syndicate 2988) financial instruments and cash and cash equivalents sensitive to interest-rate risk are shown in the table below:

| US\$ millions at 31 December 2018 | 1 year or less | 1 to 3 years | 3 to 5 years | Over 5 years | Equities | Total |
|--------------------------------------|-------------------|-----------------|-----------------|-----------------|--------------|----------------|
| Cash at bank and in hand | 28.0 | - | - | - | - | 28.0 |
| Financial Investments | 734.1 | 585.9 | 76.1 | 18.0 | 397.3 | 1,811.4 |
| Derivatives | 12.8 | - | - | 0.7 | - | 13.5 |
| Other | 92.0 | 138.0 | 35.3 | 3.0 | - | 268.3 |
| Total | 866.9 | 723.9 | 111.4 | 21.7 | 397.3 | 2,121.2 |
| As at 31 December 2017 | | | | | | |
| Cash at bank and in hand | 153.3 | - | - | - | - | 153.3 |
| Financial Investments | 1,345.4 | 43.6 | 23.0 | 20.7 | 790.8 | 2,223.5 |
| Derivatives | 2.3 | - | - | - | - | 2.3 |
| Other | 117.5 | 91.1 | 16.3 | 2.6 | - | 227.5 |
| Total | 1,618.5 | 134.7 | 39.3 | 23.3 | 790.8 | 2,606.6 |

The Company takes into account the duration of its required capital, targeting an investment portfolio duration that, under a variation in interest rates, preserves the solvency ratio of the Syndicates. The duration of the investment portfolio is then set within an allowable range relative to the targeted duration. This is achieved by the use of interest rate derivatives.

Insurance liabilities are measured on an undiscounted basis and therefore the reported liabilities are not sensitive to changes in interest rates.

Sensitivity to changes in investment yields

The sensitivity of the result and net assets to the changes in the investment yields is set out in the table below.

| US\$ millions | Impact on result before tax | |
|------------------|-----------------------------|-------|
| | 2018 | 2017 |
| Increase | | |
| 25 basis points | (4.2) | (0.5) |
| 50 basis points | (8.5) | (1.0) |
| 100 basis points | (17.1) | (2.0) |
| Decrease | | |
| 25 basis points | 4.2 | 0.5 |
| 50 basis points | 8.5 | 1.0 |
| 100 basis points | 17.1 | 2.0 |

BRIT UW LIMITED

Notes to the Financial Statements (continued)

Note 3 (continued)

Capital risk management

Capital framework at Lloyd's

The Society of Lloyd's (Lloyd's) is a regulated undertaking and subject to the supervision of the Prudential Regulatory Authority (PRA) under the Financial Services and Markets Act 2000, and in accordance with the Solvency II framework.

Within this supervisory framework, Lloyd's applies capital requirements at member level and centrally to ensure that Lloyd's complies with Solvency II, and beyond that to meet its own financial strength, licence and ratings objectives.

Although, as described below, Lloyd's capital setting processes use a capital requirement set at syndicate level as a starting point, the requirement to meet Solvency II and Lloyd's capital requirements apply at overall and member level respectively, not at syndicate level. Accordingly the capital requirements in respect of Syndicate 2987 and Syndicate 2988 are not disclosed in these financial statements.

Lloyd's capital setting process

In order to meet Lloyd's requirements, each syndicate is required to calculate its Solvency Capital Requirement (SCR) for the prospective underwriting year. This amount must be sufficient to cover a 1 in 200 year loss, reflecting uncertainty in the ultimate run-off of underwriting liabilities (SCR to ultimate). The syndicate must also calculate its SCR at the same confidence level but reflecting uncertainty over a one year time horizon (one year SCR) for Lloyd's to use in meeting Solvency II requirements. The SCRs of each syndicate are subject to review by Lloyd's and approval by the Lloyd's Capital and Planning Group.

A syndicate may be comprised of one or more underwriting members of Lloyd's. Each member is liable for its own share of underwriting liabilities on the syndicate(s) on which it participates but not other members' shares. Accordingly, the capital requirement that Lloyd's sets for each member operates on a similar basis. Each member's SCR shall thus be determined by the sum of the member's share of the syndicate SCR to ultimate. Where a member participates on more than one syndicate, a credit for diversification is provided to reflect the spread of risk, but consistent with determining an SCR which reflects the capital requirement to cover a 1 in 200 year loss to ultimate for that member. Over and above this, Lloyd's applies a capital uplift to the member's capital requirement, known as the Economic Capital Assessment (ECA). The purpose of this uplift, which is a Lloyd's not a Solvency II requirement, is to meet Lloyd's financial strength, licence and rating objectives. The capital uplift applied for 2018 was 35% of the member's SCR to ultimate.

Capital Calculation

The SCR to Ultimate is calculated using a stochastic risk-based capital model developed by the Brit Group which allows the BSL Board to identify an appropriate level of capital required. This capital requirement is specific to the actual reserving history, reinsurance programme and business profile of Syndicate 2987 and Syndicate 2988 rather than being based on company market averages. The BSL Board reviews and approves all capital modelling submissions to Lloyd's.

The FAL provided by the corporate member takes account of any estimated surpluses or expected losses in respect of open years. Any consequential deficit must be funded as part of the coming into line exercise. Consequently the actual FAL provided may be higher or lower than the ECA.

BRIT UW LIMITED

Notes to the Financial Statements (continued)

4. Segmental information

| | Brit Global Speciality Direct US\$m | Brit Global Speciality Reinsurance US\$m | Corporate US\$m | Total US\$m |
|-------------------------------------|----------------------------------------------|------------------------------------------------|--------------------|----------------|
| Year ended 31 December 2018 | | | | |
| Gross premiums written | 1,776.6 | 455.9 | - | 2,232.5 |
| Net premiums written | 971.7 | 293.3 | (75.1) | 1,189.9 |
| Net premiums earned | 962.8 | 285.1 | (75.1) | 1,172.8 |
| Claims incurred net of reinsurance | (437.3) | (219.7) | - | (657.0) |
| Net operating expenses | (546.6) | (105.7) | (14.6) | (666.9) |
| Underwriting result | (21.1) | (40.3) | (89.7) | (151.1) |
| Investment return | 38.1 | 13.1 | (0.8) | 50.4 |
| Balance on Technical Account | 17.0 | (27.2) | (90.5) | (100.7) |
| Year ended 31 December 2017 | | | | |
| Gross premiums written | 1,673.7 | 383.3 | - | 2,057.0 |
| Net premiums written | 1,053.9 | 243.7 | (73.2) | 1,224.4 |
| Net premiums earned | 1,065.6 | 253.8 | (73.2) | 1,246.2 |
| Claims incurred net of reinsurance | (721.1) | (132.3) | - | (853.4) |
| Net operating expenses | (511.2) | (97.5) | (17.7) | (626.4) |
| Underwriting result | (166.7) | 24.0 | (90.9) | (233.6) |
| Investment return | 44.7 | 16.1 | - | 60.8 |
| Balance on Technical Account | (122.0) | 40.1 | (90.9) | (172.8) |

The geographical analysis of premiums by the location of the underlying risk is as follows:

| | 2018 US\$m | 2017 US\$m |
|-----------------------------|----------------|---------------|
| United States | 1,012.0 | 896.0 |
| United Kingdom | 139.4 | 107.2 |
| Europe (excluding UK) | 93.8 | 103.3 |
| Other (including worldwide) | 987.3 | 950.5 |
| Total | 2,232.5 | 2,057.0 |

All premiums were concluded in the UK.

Commissions on direct insurance gross premiums written during 2018 were US\$359.1m (2017: US\$337.0m).

BRIT UW LIMITED

Notes to the Financial Statements (continued)

5. Analysis of underwriting result

An analysis of the underwriting result before investment return is set out below:

| Year ended 31 December 2018 | Gross Written Premiums US\$m | Gross premiums Earned US\$m | Gross claims incurred US\$m | Gross operating expenses US\$m | Reinsurance balance US\$m | Total US\$m |
|-----------------------------------|---------------------------------------|--------------------------------------|--------------------------------------|-----------------------------------------|---------------------------------|----------------|
| Direct Insurance: | | | | | | |
| Accident and health | 41.7 | 42.6 | (26.4) | (14.3) | (4.6) | (2.7) |
| Motor (other classes) | - | - | 1.2 | - | (0.8) | 0.4 |
| Marine aviation and transport | 213.9 | 225.9 | (185.1) | (68.8) | 7.7 | (20.3) |
| Fire and other damage to property | 490.1 | 463.7 | (335.3) | (156.5) | 14.0 | (14.1) |
| Third party liability | 463.8 | 452.0 | (289.3) | (120.4) | (10.6) | 31.7 |
| Miscellaneous | 137.6 | 127.6 | (72.3) | (55.4) | 1.2 | 1.1 |
| Other | - | - | - | - | - | - |
| Total Direct Insurance | 1,347.1 | 1,311.8 | (907.2) | (415.4) | 6.9 | (3.9) |
| Reinsurance | 885.4 | 884.4 | (715.0) | (304.0) | 77.0 | (57.6) |
| Corporate | - | - | - | (14.5) | (75.1) | (89.6) |
| Total | 2,232.5 | 2,196.2 | (1,622.2) | (733.9) | 8.8 | (151.1) |

| Year ended 31 December 2017 | Gross Written Premiums US\$m | Gross premiums Earned US\$m | Gross claims incurred US\$m | Gross operating expenses US\$m | Reinsurance balance US\$m | Total US\$m |
|-----------------------------------|---------------------------------------|--------------------------------------|--------------------------------------|-----------------------------------------|---------------------------------|----------------|
| Direct Insurance: | | | | | | |
| Accident and health | 44.3 | 38.6 | (23.6) | (13.7) | (2.0) | (0.7) |
| Motor (other classes) | - | - | (0.7) | - | 0.2 | (0.5) |
| Marine aviation and transport | 216.6 | 221.1 | (187.6) | (68.8) | 19.9 | (15.4) |
| Fire and other damage to property | 434.2 | 422.0 | (397.9) | (138.6) | 54.3 | (60.2) |
| Third party liability | 446.4 | 434.0 | (403.6) | (118.4) | 48.4 | (39.6) |
| Miscellaneous | 115.1 | 115.8 | (64.0) | (50.9) | (2.9) | (2.0) |
| Other | - | - | - | - | - | - |
| | 1,256.6 | 1,231.5 | (1,077.4) | (390.4) | 117.9 | (118.4) |
| Reinsurance | 800.4 | 775.7 | (608.0) | (274.0) | 82.0 | (24.3) |
| Corporate | - | - | - | (17.8) | (73.1) | (90.9) |
| Total | 2,057.0 | 2,007.2 | (1,685.4) | (682.2) | 126.8 | (233.6) |

BRIT UW LIMITED

Notes to the Financial Statements (continued)

6. Net operating expenses

| | 2018 US\$m | 2017 US\$m |
|------------------------------------------------|---------------|---------------|
| Acquisition costs | 546.7 | 508.0 |
| Movement in deferred acquisition costs | (9.0) | (15.1) |
| Operating expenses | 211.6 | 206.9 |
| Names' personal expenses on Lloyd's Syndicates | (15.4) | (17.6) |
| | 733.9 | 682.2 |
| Reinsurance commissions receivable | (67.0) | (55.8) |
| Total | 666.9 | 626.4 |

7. Interest receivable and similar income

| | 2018 US\$m | 2017 US\$m |
|--------------------------------|---------------|---------------|
| Intragroup interest receivable | - | 0.2 |
| Total | - | 0.2 |

8. Other income/(charges)

| | 2018 US\$m | 2017 US\$m |
|---------------------------------|---------------|---------------|
| Lloyd's market service expenses | (0.1) | (0.1) |
| Investment management fees | (7.6) | (6.5) |
| Foreign exchange (loss)/gain | (16.7) | 30.5 |
| Intragroup interest payable | (9.0) | (5.1) |
| Total | (33.4) | 18.8 |

The audit fee for the current year has been borne by a fellow Group company and amounts to US\$20.0k (2017: US\$19.9k).

9. Claims development

The following tables illustrate the development of the estimates of earned ultimate cumulative claims incurred, including claims notified and IBNR, for each successive underwriting year, illustrating how amounts estimated have changed from the first estimates made. Non US dollar cumulative claims estimates and cumulative payments are translated into US dollars at the period end rate as at 31 December 2018.

As these tables are on an underwriting year basis, there is an apparent large increase from amounts reported for the end of the underwriting year to one year later as a large proportion of premiums are earned in the year of account's second year of development.

Advantage has been taken of the transitional rules of FRS 103 that permit the stepped increase in disclosure of claims development information. The claims development information disclosed will be increased from seven to ten years over the period 2018 to 2020.

BRIT UW LIMITED

Notes to the Financial Statements (continued)

Note 9 Claims development (continued)

Estimate of cumulative gross incurred claims

| US\$m | 2010 & Prior | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|----------------------------------------------------------|--------------|--------------|--------------|--------------|----------------|----------------|----------------|----------------|--------------|
| Underwriting year | | | | | | | | | |
| At end of underwriting year | | 436.5 | 471.1 | 437.5 | 471.8 | 449.2 | 527.4 | 903.1 | 824.9 |
| One year later | | 824.2 | 886.9 | 939.0 | 1,080.8 | 996.6 | 1,229.5 | 1,635.6 | |
| Two years later | | 869.8 | 951.4 | 986.2 | 1,130.1 | 1,071.9 | 1,354.3 | | |
| Three years later | | 867.9 | 928.7 | 979.7 | 1,143.1 | 1,056.1 | | | |
| Four years later | | 872.8 | 963.2 | 998.2 | 1,132.4 | | | | |
| Five years later | | 853.5 | 972.7 | 984.0 | | | | | |
| Six years later | | 840.5 | 961.7 | | | | | | |
| Seven years later | | 838.8 | | | | | | | |
| Current estimate of cumulative claims incurred | | 838.8 | 961.7 | 984.0 | 1,132.4 | 1,056.1 | 1,354.3 | 1,635.6 | 824.9 |
| Cumulative payments to date | | 738.3 | 740.8 | 727.5 | 758.8 | 586.1 | 652.1 | 593.3 | 73.5 |
| Gross outstanding claims provision at 31 Dec 2018 | 414.4 | 100.5 | 220.9 | 256.5 | 373.6 | 470.0 | 702.2 | 1,042.3 | 751.4 |

Estimate of cumulative net incurred claims

| US\$m | 2010 & Prior | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|--------------------------------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Underwriting year | | | | | | | | | |
| At end of underwriting year | | 308.7 | 327.0 | 296.8 | 331.0 | 307.5 | 336.6 | 462.3 | 481.3 |
| One year later | | 588.0 | 621.5 | 640.8 | 730.7 | 690.4 | 734.6 | 813.7 | |
| Two years later | | 613.0 | 656.8 | 672.5 | 765.3 | 726.0 | 775.9 | | |
| Three years later | | 600.4 | 642.5 | 670.8 | 766.9 | 695.7 | | | |
| Four years later | | 600.5 | 650.6 | 675.9 | 722.5 | | | | |
| Five years later | | 587.0 | 649.6 | 634.5 | | | | | |
| Six years later | | 575.0 | 620.3 | | | | | | |
| Seven years later | | 568.6 | | | | | | | |
| Current estimate of cumulative claims incurred | | 568.6 | 620.3 | 634.5 | 722.5 | 695.7 | 775.9 | 813.7 | 481.3 |
| Cumulative payments to date | | 512.4 | 504.1 | 487.3 | 524.7 | 396.9 | 414.2 | 330.2 | 64.2 |
| Net outstanding claims provision at 31 Dec 2018 | 184.9 | 56.2 | 116.2 | 147.2 | 197.8 | 298.8 | 361.7 | 483.5 | 417.1 |

BRIT UW LIMITED

Notes to the Financial Statements (continued)

10. Tax on loss on ordinary activities

(a) Tax on loss on ordinary activities:

| | 2018 US\$m | 2017 US\$m |
|---------------------------------------------------|---------------|---------------|
| Current tax: | | |
| UK corporation tax at 19% (2017: 19.25%) | (12.3) | (34.0) |
| Overseas tax | (1.7) | (2.0) |
| Double tax relief | 1.1 | 0.7 |
| | (12.9) | (35.3) |
| Adjustments in respect of prior years | 3.5 | 1.7 |
| Total current tax charge | (9.4) | (33.6) |
| Deferred tax: | | |
| Origination and reversal of temporary differences | 40.7 | 55.4 |
| Effect of future tax rate changes | (4.9) | (5.4) |
| Adjustments in respect of prior years | 0.0 | 0.3 |
| Total deferred tax credit | 35.8 | 50.3 |
| Tax credit on loss on ordinary activities | 26.4 | 16.7 |

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

(b) Factors affecting tax (credit)/charge for the year:

The tax on the entity's profits before tax differs from the theoretical amount that would arise based on the standard rate of tax as follows:

| | 2018 US\$m | 2017 US\$m |
|-----------------------------------------------------------------------------------------------------|---------------|---------------|
| Loss on ordinary activities before tax | (190.8) | (105.2) |
| Loss on ordinary activities multiplied by standard rate of UK corporation tax at 19% (2017: 19.25%) | 36.2 | 20.3 |
| Effect of tax rate change | (4.9) | (5.4) |
| Effect of temporary differences not recognised | (9.7) | - |
| Non-taxable items | 1.9 | 1.0 |
| Foreign tax | (0.6) | (1.2) |
| Adjustments to tax in respect of prior years | 3.5 | 2.0 |
| Total tax credited to income statement (Note 10(a) above) | 26.4 | 16.7 |

(c) Effect of post balance sheet rate changes

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

The reduction in rate from 19% to 17% has been used in the calculation of the UK's deferred tax assets and liabilities as at 31 December 2018.

BRIT UW LIMITED

Notes to the Financial Statements (continued)

11. Staff numbers and costs

All staff in the United Kingdom are employed by the Group's services company, Brit Group Services Limited, and the full staff cost disclosures are included in the notes to those financial statements. The Company is recharged an appropriate amount by Brit Group Services Limited for the services it receives from those staff.

12. Directors' remuneration

None of the Directors received any remuneration for their services to the Company during the year ended 31 December 2018 (2017: US\$nil).

13. Deferred tax

| | 2017 US\$m | 2017 US\$m |
|---------------------------------------------------|---------------|---------------|
| Undeclared year of account losses | 73.9 | 37.3 |
| | 73.9 | 37.3 |
| Provision at the start of the year | 37.3 | (12.2) |
| Other adjustments in respect of prior years | - | 0.3 |
| Effect of rate change | (4.9) | (5.4) |
| Origination and reversal of temporary differences | 40.7 | 55.4 |
| Effect of Foreign Exchange | 0.8 | (0.8) |
| Deferred tax asset | 73.9 | 37.3 |

Deferred 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 Brit Group. The net deferred tax asset recorded in the year arises from significant catastrophe-related activity, which is not expected to recur. The losses can be carried forward indefinitely and have no expiry date. Please see note 2 d) for further detail on the estimation of deferred tax assets.

Deferred tax assets have not been recognized in respect of undeclared year of account losses of US\$51.2m (2017: US\$nil) as it is not considered probable that they can be utilised in the foreseeable future.

14. Financial Investments

| | Market value 2018 US\$m | Market value 2017 US\$m | Cost 2018 US\$m | Cost 2017 US\$m |
|-----------------------------------------------------|-------------------------------|-------------------------------|-----------------------|-----------------------|
| Shares and other variable yield securities | 400.0 | 904.4 | 422.6 | 810.6 |
| Debt securities and other fixed interest securities | 1,381.9 | 1,289.6 | 1,458.2 | 1,277.1 |
| Derivative contracts | 13.5 | 2.3 | 16.8 | 18.9 |
| Other investments | 29.5 | 29.5 | 27.1 | 26.6 |
| | 1,824.9 | 2,225.8 | 1,924.7 | 2,133.2 |

"Other investments" relates to loan instrument securities including senior secured and second lien debt.

US\$167.2m (2017: US\$424.7m) of "Shares and other variable yield securities" and "Debt securities and other fixed interest securities" are listed. These comprise 9.2% (2017: 19.4%) of the total market value of investments. All financial investments have been designated as held at fair value through profit or loss.

BRIT UW LIMITED

Notes to the Financial Statements (continued)

Note 14 Financial Investments (continued)

(i) Disclosures of fair values in accordance with the fair value hierarchy

| 2018 | Level 1 US\$m | Level 2 US\$m | Level 3 US\$m | Total US\$m |
|------------------------------|------------------|------------------|------------------|----------------|
| Equity securities | 125.5 | 17.6 | 100.9 | 244.0 |
| Debt securities | 848.3 | 533.6 | - | 1,381.9 |
| Loan instrument securities | - | - | 29.5 | 29.5 |
| Derivatives | - | 12.7 | 0.8 | 13.5 |
| Specialised investment funds | 116.4 | 25.6 | 14.0 | 156.0 |
| | 1,090.2 | 589.5 | 145.2 | 1,824.9 |
| 2017 | Level 1 US\$m | Level 2 US\$m | Level 3 US\$m | Total US\$m |
| Equity securities | 158.6 | 51.3 | 103.3 | 313.2 |
| Debt securities | 1,209.7 | 60.7 | 19.2 | 1,289.6 |
| Loan instrument securities | - | - | 29.5 | 29.5 |
| Derivatives | - | 1.5 | 0.8 | 2.3 |
| Specialised investment funds | 21.3 | 554.6 | 15.3 | 591.2 |
| | 1,389.6 | 668.1 | 168.1 | 2,225.8 |

The Company 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.

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 Company 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 Company 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.

BRIT UW LIMITED

Notes to the Financial Statements (continued)

Note 14 Financial Investments (continued)

Valuation techniques

Level one financial assets

Inputs represent unadjusted quoted prices for identical instruments exchanged in active markets (where transactions occur with sufficient frequency and volume). The fair value 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 Canada and in the US.

Level two financial assets

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, loan instruments and certain 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 ("over-the-counter") 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.

US and non-US corporate debt securities are investment grade and the information collected during pricing of these instruments includes credit data as well as other observations from the market and the particular sector. Prices for all these securities are based on a limited number of transactions (OTC prices/broker-dealer quotes) so they are derived indirectly using inputs that can be corroborated by observable market data. These also include certain private placement corporate debt securities which are valued with the use of discounted cash flow models.

Level two specialised investment funds contain credit opportunities funds that are valued based on the underlying assets in the fund on a security by security basis. A number of direct and indirect inputs such as benchmark yield curves, credit spreads, estimated default rates, anticipated market interest rate volatility, coupon rates and anticipated of principal repayments are considered during their valuation.

Level three financial assets

Level three securities contain investments in private equity/limited partnerships where the fund's underlying investments, which include both equity and debt investments, are not traded/quoted in an active market. Pricing models for these underlying investments factor in interest rates, bond or credit swap spreads and volatility.

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.

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.

BRIT UW LIMITED

Notes to the Financial Statements (continued)

15. Derivative contracts

The Company purchases derivative financial instruments:

- i) to hedge its foreign currency exposure on future commitments;
- ii) as part of its investment management strategy.

| | 2018 US\$m | 2017 US\$m |
|------------------------------------------------|---------------|---------------|
| Foreign exchange forward contract assets | 12.7 | 1.4 |
| Equity options | - | 0.1 |
| Non-currency based inflation options | 0.8 | 0.8 |
| Other financial investments – derivatives | 13.5 | 2.3 |
| Foreign exchange forward contracts liabilities | (2.8) | (9.7) |
| Net value of derivatives at 31 December | 10.7 | (7.4) |

The hierarchy of fair values of derivative contracts is included within the Fair Value Hierarchy in Note 14 above.

16. Provision for unearned premium

| | Gross US\$m | Reinsurers' share US\$m | Net US\$m |
|--------------------------------------|----------------|----------------------------|--------------|
| Balance at 1 January 2018 | 897.1 | (338.4) | 558.7 |
| Premiums written in the year | 2,232.5 | (1,042.6) | 1,189.9 |
| Premiums earned in the year | (2,196.2) | 1,023.4 | (1,172.8) |
| Effect of movement in exchange rates | (14.3) | 5.2 | (9.1) |
| Balance at 31 December 2018 | 919.1 | (352.4) | 566.7 |

| | Gross US\$m | Reinsurers' share US\$m | Net US\$m |
|--------------------------------------|----------------|----------------------------|--------------|
| Balance at 1 January 2017 | 827.2 | (256.8) | 570.4 |
| Premiums written in the year | 2,057.0 | (832.6) | 1,224.4 |
| Premiums earned in the year | (2,007.2) | 761.0 | (1,246.2) |
| Effect of movement in exchange rates | 20.1 | (10.0) | 10.1 |
| Balance at 31 December 2017 | 897.1 | (338.4) | 558.7 |

BRIT UW LIMITED

Notes to the Financial Statements (continued)

17. Claims Outstanding

| | Gross US\$m | Reinsurers' share US\$m | Net US\$m |
|----------------------------------------------|----------------|----------------------------|----------------|
| Balance at 1 January 2018 | 4,132.9 | (1,779.7) | 2,353.2 |
| Claims incurred in current underwriting year | 832.5 | (347.4) | 485.1 |
| Claims incurred in prior underwriting years | 789.7 | (617.8) | 171.9 |
| Claims paid in the year | (1,344.7) | 618.5 | (726.2) |
| Effect of movement in exchange rates | (78.6) | 58.0 | (20.6) |
| Balance at 31 December 2018 | 4,331.8 | (2,068.4) | 2,263.4 |

| | Gross US\$m | Reinsurers' share US\$m | Net US\$m |
|----------------------------------------------|----------------|----------------------------|--------------|
| Balance at 1 January 2017 | 3,400.3 | (1,214.8) | 2,185.5 |
| Claims incurred in current underwriting year | 1,628.5 | (758.6) | 869.9 |
| Claims incurred in prior underwriting years | 56.9 | (73.4) | (16.5) |
| Claims paid in the year | (1,066.2) | 344.5 | (721.7) |
| Effect of movement in exchange rates | 113.4 | (77.4) | 36.0 |
| Balance at 31 December 2017 | 4,132.9 | (1,779.7) | 2,353.2 |

18. Other assets

Other assets comprise overseas deposits which are lodged as a condition of conducting underwriting business in certain countries.

19. Deferred acquisition costs

| | 2018 US\$m | 2017 US\$m |
|--------------------------------------|---------------|---------------|
| Balance at 1 January | 241.6 | 219.1 |
| Change in deferred acquisition costs | 9.0 | 15.1 |
| Effect of movement in exchange rates | (5.2) | 7.4 |
| Balance at 31 December | 245.4 | 241.6 |

20. Other debtors

| | 2018 US\$m | 2017 US\$m |
|---------------------------------------------------------|---------------|---------------|
| Amounts due from the Corporate Member | 352.3 | 122.2 |
| Balances owed to the Syndicates by the Corporate Member | 0.1 | 3.8 |
| Outstanding settlements on investments | 1.4 | 0.3 |
| Other debtors | 4.6 | 1.9 |
| Total | 358.4 | 128.2 |

Balances between the Corporate Member and the Syndicates have been reported gross on the Statement of Financial Position.

BRIT UW LIMITED

Notes to the Financial Statements (continued)

21. Other creditors

| | 2018 US\$m | 2017 US\$m |
|---------------------------------------------------------|---------------|---------------|
| Amounts due to the Syndicates | 352.3 | 122.2 |
| Balances owed by the Corporate Member to the Syndicates | 0.1 | 3.8 |
| Balances owed by the Syndicates to Group undertakings | 0.2 | 3.3 |
| Current taxation | 10.4 | 19.0 |
| Amounts due to Group Companies | 141.0 | 98.7 |
| Outstanding settlements on investments | 2.3 | - |
| Accruals and deferred income | 32.5 | 33.2 |
| Other creditors | 2.0 | 3.7 |
| Total | 540.8 | 283.9 |

22. Called up share capital

| | 31 December 2018 £ | 31 December 2017 £ |
|-------------------------------------|--------------------------|--------------------------|
| Allotted, called up and fully paid: | | |
| 82 (2017: 82) Ordinary shares of £1 | 82 | 82 |

23. Controlling parties

The Company is a private company, limited by shares and is incorporated in England and Wales. The Company is a wholly owned subsidiary of Brit Insurance Holdings Limited, a company registered in the United Kingdom.

The intermediate holding company, in which Brit UW Limited's result is consolidated, is Brit Limited, a company registered in the United Kingdom. Copies of Brit Limited's consolidated financial statements can be obtained by writing to The Leadenhall Building, 122 Leadenhall street, London EC3V 4AB or from the website www.britinsurance.com.

The ultimate parent undertaking at the year-end is Fairfax Financial Holdings Limited, a company registered in Canada and listed on the Toronto Stock Exchange. Copies of Fairfax consolidated financial statements can be obtained by writing to 95 Wellington Street West, Suite 800, Toronto, Ontario, Canada, M5J 2N7 or from the website at www.fairfax.ca.

24. Disclosure exemptions

The Company has taken advantage of the disclosure exemptions provided by paragraph 1.12 of Financial reporting Standard 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;
- Disclosure of key management personnel compensation.

The Company has been consolidated into the consolidated financial statements of Brit Limited, copies of whose financial statements can be obtained from The Leadenhall Building, 122 Leadenhall Street, London EC3V 4AB or from the website www.britinsurance.com.

BRIT UW LIMITED

Notes to the Financial Statements (continued)

25. Related party transactions

The Company has taken advantage of the exemption in FRS 102 not to disclose transactions with other wholly owned subsidiaries within the Group. This is by virtue of the entity being wholly owned within a group whose consolidated financial statements are publicly available (see Note 24 above).

26. Guarantees

The Funds at Lloyd's requirement of US\$1,184.8m (2017: US\$918.6m) for Brit UW Limited in respect of Syndicate 2987 is provided in part through the fully collateralised reinsurance contract between Brit UW Limited and Brit Reinsurance (Bermuda) Limited, (formerly known as Brit Insurance (Gibraltar) PCC Limited (BIG)). The maximum claim under the reinsurance contract is US\$650m. The balance is provided by way of cash, investments and a letter of credit in Brit UW Limited amounting in aggregate to US\$534.8m (2017: US\$268.3m) which are charged in favour of Lloyd's.

27. Funds in Syndicate

As at 31 December 2018, Syndicate 2987 held US\$233.8m (2017: US\$71.8m) of undistributed profit relating to closed years of account. The investment return for the calendar year was a loss of US\$(32.3)m (2017 profit: US\$0.3m). The undistributed profits are included in the Statement of Financial Position under 'Financial Investments' (with a corresponding consolidation adjustment in other assets), and associated investment return reported in the Income Statement: Non-Technical Account.