

Best's Rating Report



A

Non-Life Business
Ultimate Parent: Brit Insurance Holdings N.V.

BRIT INSURANCE LIMITED
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AMB#: 086954 AIN#: AA-1120242
Ultimate Parent#: 090821

BEST'S FINANCIAL STRENGTH RATING
Based on our opinion of the company's Financial Strength, it is assigned a Best's Financial Strength Rating of A (Excellent). The company's Financial Size Category is Class X.

RATING RATIONALE

Rating Rationale: The rating of Brit Insurance Limited (BIL) reflects the company's strong risk-adjusted capitalisation, stable operating performance and strong market profile.

Strong risk-adjusted capitalisation — BIL's risk-adjusted capitalisation is expected to remain strong in 2011 despite a decline in shareholders' funds from the GBP 448 million reported in 2010. BIL's financial flexibility is enhanced by its parent, Brit Insurance Holdings N.V. (BIHNV), which maintains strong consolidated risk-adjusted capitalisation and holds a GBP 200 million revolving credit facility to support the group's operations.

Stable operating performance — BIL is expected to report a small pre-tax loss in 2011, taking into account exposure to the large loss events in the first quarter of the year, principally the Australian floods and earthquakes in New Zealand and Japan. A further reduction in premium income is likely as management responds to the weak market conditions affecting its main lines of business. Lower premium income contributed to an increase in BIL's expense ratio in 2010, and A.M. Best will continue to monitor the impact of management initiatives to control costs across the group.

Good market profile — BIL has a good market profile, which benefits from the Brit Insurance brand in the London market. In spite of this, A.M. Best remains concerned that strong competition from insurers that benefit from highly efficient distribution and better economies of scale will constrain the company's ability to operate profitably in the UK market. Business written through the group's UK business unit represents approximately 60% of BIL's gross written premiums and largely comprises small to medium-sized commercial and personal lines risks. The balance of the account is written through the Global Markets and Reinsurance business units.

Best's Financial Strength Rating: A

Outlook: Stable

FIVE YEAR RATING HISTORY

Date	Best's FSR	Date	Best's FSR
04/19/11	A	06/12/08	A
10/26/10	A u	09/05/07	A
06/23/10	A	07/11/06	A
06/24/09	A		

BUSINESS REVIEW

Brit Insurance Limited (BIL) is the UK-domiciled, wholly owned subsidiary of Brit Insurance Holdings N.V. (BIHNV), the ultimate parent company for the Brit Insurance group. BIHNV was established in 2009 and is domiciled in the Netherlands. BIHNV was acquired in March 2011 by Achilles Netherlands Holding B.V. (Achilles), a company which is majority owned by funds managed by Apollo Management VII, L.P., and funds advised by CVC Capital Partners Limited (the "Consortium") with the company delisted from the London Stock Exchange in April 2011. The Brit Insurance group underwrites primary and reinsurance business through its main operating entities: BIL (representing approximately 40% of expected consolidated gross written premiums in 2011) and Lloyd's Syndicate 2987 (approximately 60%), which is managed by Brit Syndicates Limited (BSL). A diversified portfolio of commercial and personal lines risks is underwritten through three strategic business units (SBUs): Global Markets, Reinsurance and UK. The Global Markets business comprises commercial products, provided to clients that range from small to medium-sized

Best's Rating Report

enterprises to large corporate customers. The Reinsurance portfolio largely consists of excess of loss reinsurance business written in the London market, North America, Continental Europe and Australasia. The UK portfolio comprises UK commercial risks with a focus on small to medium-sized enterprises in London and the UK regions, and increasingly, specialist personal insurance business.

The company benefits from the group's strong position in the UK and London market. Despite the implementation of rate increases across its portfolio, the group continues to maintain solid retention rates, with business retention in 2010 between 66% and 86% across the three SBUs. The main classes of business are property (31% of 2010 gross written premiums), reinsurance (19%), casualty (17%), motor (13%), financial and professional risks (15%), marine (4%), accident and health (1%).

All three SBUs place business into BIL with the majority coming from the UK SBU (61% of gross written premium [GWP] in 2010), Global Markets and Reinsurance contributing 22% and 17%, respectively, in 2010. GWP is expected to fall in 2011 as the group and company continue to take action to reduce their exposure to business that is likely to be impacted by the economic downturn as well as historically underperforming business. Although overall GWP will fall, growth is expected in areas that have experienced positive rating movements such as commercial combined (which offers combined property, liability, D&O and business interruption) and commercial fleet business.

The financial and professional risks portfolio includes financial institutions and directors and officers (D&O) business written on a worldwide basis. Financial institutions insurance protects organisations against crime, professional indemnity and D&O liability exposures, with insureds ranging from small to large commercial and investment banks. BIL's D&O insurance portfolio includes insureds ranging from small organisations to large publically traded entities and non-profit organisations. In recent years, the group has reduced its exposure to these classes of business in anticipation of an increase in claims activity relating to the negative impact of the economic conditions on the financial markets.

The casualty account consists of employers' and public/products' liability insurance and reinsurance of a range of casualty classes, which include London market professional indemnity and financial institutions business. The primary liability account is largely focused on small to mid-sized risks based mainly in the UK, with some exposure to the Republic of Ireland. BIL's commercial motor account is long established, having transferred from Lloyd's Syndicate 2987 in 2004.

The Brit Insurance group continues to strengthen its market profile through the ongoing commitment to its distribution outlets. Distribution is mainly through brokers and other intermediaries, with access to local markets obtained through the use of delegated authorities in the UK and internationally, and through the group's established offices in the UK regions. Going forward, the use of electronic trading for small commercial UK risks is expected to increase as the group expands its e-trading capabilities. BIL's expanding distribution network supports its competitive position in London and the UK regions. However, A.M. Best believes that strong competition from insurers that benefit from highly efficient distribution and better economies of scale will continue to constrain the company's ability to expand profitably within the UK regional market.

FINANCIAL PERFORMANCE

Overall Earnings: BIL's operating performance is expected to deteriorate in 2011. Underwriting results will be affected by large losses sustained in the first quarter of 2011, principally the New Zealand earthquake, floods in Australia and the Japan earthquake and tsunami. Additionally, investment returns are likely to remain weak, reflecting the low interest rate environment and economic uncertainty.

The company's profit after tax reduced from GBP 45.6 million in 2009 to GBP 37.2 million in 2010 due to a deterioration in the combined ratio as well as lower investment returns. BIL achieved a substantial improvement in its loss ratio (from 66% in 2009 to 54% in 2010) supported by management action taken to reduce underperforming business. Despite this, the company's underwriting performance overall deteriorated, driven by a large increase in the expense ratio (from 34% in 2009 to 47% in 2010) as cost cutting was unable to keep pace with the 29% fall in earned premium.

Underwriting Income: BIL's loss ratio is expected to increase in 2011, reflecting losses from the New Zealand earthquake, floods in Australia and the Japan earthquake and tsunami. The operating expense ratio is expected to remain above 40% (2010: 47%). The semi-fixed nature of staff costs means that management will find it difficult to reduce expenses in line with the reduction in earned premiums.

The UK SBU is expected to be one of the key drivers of underwriting performance in 2011 (representing approximately 60% of gross written premiums). The UK regional commercial business market remains highly competitive with little indication that pricing will improve (with the exception of commercial motor) from its current weak level. Despite this the UK SBU has taken actions to improve the attritional loss ratio, which have already had an effect on technical performance and have reduced premium income. However, the level of prior-year reserve releases, which have historically contributed significantly to the technical performance of the UK SBU, is likely to be lower in 2011. Although BIL is achieving rate improvements in certain classes of business (notably housing associations, motor and property and commercial package business), profit margins for UK regional business remain tight.

The Global Markets business is expected to contribute positively to BIL's performance in 2011, while the Reinsurance business unit is expected to negatively impact the results due to first-quarter 2011 catastrophe losses. Rates are likely to remain stable or moderately increase for business written by both business units as the market responds to the heavy losses in first-quarter 2011 and an increase in US windstorm PMLs for many insurers following revisions to third-party catastrophe models. Additionally, results are likely to benefit from the group's active portfolio management strategy, which has led to a reduction in exposure to certain classes of casualty business affected by economic uncertainty and to weaker-performing business.

Investment Income: Investment earnings in 2011 are likely to be lower than the 3.2% return (including gains and losses) produced in the previous year, owing to the low interest rate environment and the impact of ongoing economic uncertainty on investors' sentiment. The investment performance of 2010 reflected a continued reduction in bond yields partly offset by solid returns from the company's equity and specialised investment fund portfolio.

The Brit Insurance group employs a conservative investment strategy. As at the end of 2010, the group's investment portfolio comprised fixed income securities (66% of total investments), cash and cash equivalents (25%), and specialised investment funds which include equities (9%).

CAPITALIZATION

BIL's capital and surplus at year-end 2011 is expected to be lower than the GBP 409 million reported at year-end 2010, reflecting an anticipated loss after tax as a result of catastrophe loss experience and the payment of dividends. However, risk-adjusted capitalisation is likely to remain strong supported by a reduction in underwriting risk. The company reported a decline in shareholders' funds to GBP 409 million in 2010 (2009: GBP 427 million), reflecting lower retained earnings, due to a dividend payment of GBP 50 million (dividend payout ratio of 135%).

BIL's financial flexibility is enhanced by BIHNV, which is expected to maintain strong risk-adjusted capitalisation in 2011. BIHNV holds a GBP 200 million revolving credit facility, which was put in place following its acquisition by Achilles to replace the group's GBP 175 million credit facility. The group's financial and debt leverage ratios are expected to be maintained within A.M. Best's tolerances.

Reserve Quality: The Brit Insurance reserving panel selects reserves for both BIL and syndicate 2987, based on recommendations provided by internal actuaries and input from underwriters and the claims division. Reserves are set on an actuarial best estimate basis with a load added to allow for uncertainties.

Overall, BIL continues to demonstrate a prudent approach to reserving and has benefited from prior-year reserve releases in each of the last four years. BIL reported an overall net release of GBP 45.7 million, representing 10.0% of net earned premium income at year-end 2010 (2009: GBP 54.0 million; 8.4% of net earned premium income).

Prior-year surpluses in 2010 were generated largely from the UK division, predominantly from the liability classes of business, with smaller releases from the Reinsurance division. A.M. Best expects a downward trend in the level of releases from BIL going forward, caused by the competitive nature of business written in recent years, the potential impact of the economic downturn on claims and potential future inflationary pressure on claims.

Best's Rating Report



LIQUIDITY

A.M. Best believes that BIL maintains a good level of liquidity, demonstrated by a current liquidity ratio of 83.9% at year-end 2010. The company maintains a liquid investment portfolio, with cash and cash equivalents comprising 41% of total liquid assets as at year-end 2010. Fixed income securities have a short average duration and largely consist of UK and US high quality bonds.

BIL holds one letter of credit facility of USD 250 million (supported by Citibank Europe Limited). This facility supports the company's US reinsurance business. As at December 2010, 15% of this facility had been utilised.

SOURCE OF INFORMATION: Company Annual Report

Summarized Accounts as of December 31, 2010

US \$ per Local Currency Unit 1.54679 = 1 British Pound (GBP)

STATEMENT OF INCOME

	12/31/2010 GBP(000)	12/31/2010 USD(000)
Technical account:		
Direct premiums	510,076	788,980
Reinsurance premiums assumed	123,629	191,228
Gross premiums written	633,705	980,209
Reinsurance ceded	235,670	364,532
Net premiums written	398,035	615,677
Increase/(decrease) in gross unearned premiums	-47,889	-74,074
Reinsurers share unearned premiums	12,427	19,222
Net premiums earned	458,351	708,973
Total underwriting income	458,351	708,973
Net claims paid	329,155	509,134
Net increase/(decrease) in claims provision	-83,119	-128,568
Net claims incurred	246,036	380,566
Management expenses	79,882	123,561
Acquisition expenses	135,080	208,940
Net operating expenses	214,962	332,501
Total underwriting expenses	460,998	713,067
Balance on technical account	-2,647	-4,094
Non-technical account:		
Net investment income	44,948	69,525
Realised capital gains/(losses)	-14,544	-22,497
Unrealised capital gains/(losses)	19,461	30,102
Exchange gains/(losses)	56	87
Profit/(loss) before tax	47,274	73,123
Taxation	10,121	15,655
Profit/(loss) after tax	37,153	57,468
Dividend to shareholders	50,000	77,340
Increase/(decrease) in the equalisation provision	5,729	8,862
Retained profit/(loss) for the financial year	-18,576	-28,733
Retained profit/(loss) brought forward	149,454	231,174
Retained profit/(loss) carried forward	130,878	202,441

MOVEMENT IN CAPITAL & SURPLUS

	12/31/2010 GBP(000)	12/31/2010 USD(000)
Capital & surplus brought forward	427,454	661,182
Profit or loss for the year	31,424	48,606
Dividend to shareholders	-50,000	-77,340
Total change in capital & surplus	-18,576	-28,733
Capital & surplus carried forward	408,878	632,448

ASSETS

	12/31/2010 GBP(000)	12/31/2010 % of total	12/31/2010 USD(000)
Cash & deposits with credit institutions	626,561	27.4	969,158
Bonds & other fixed interest securities	775,745	33.9	1,199,915
Shares & other variable interest instruments	142,374	6.2	220,223
Liquid assets	1,544,680	67.5	2,389,296
Total investments	1,544,680	67.5	2,389,296
Reins. sh. of tech. reserves - unearned premiums	86,613	3.8	133,972
Reinsurers' share of technical reserves - claims	330,102	14.4	510,598
Total reinsurers share of technical reserves	416,715	18.2	644,571
Insurance/reinsurance debtors	239,364	10.5	370,246
Other debtors	1,165	0.1	1,802
Total debtors	240,529	10.5	372,048
Prepayments & accrued income	87,673	3.8	135,612
Total assets	2,289,597	100.0	3,541,526

LIABILITIES

	12/31/2010 GBP(000)	12/31/2010 % of total	12/31/2010 USD(000)
Capital	278,000	12.1	430,008
Paid-up capital	278,000	12.1	430,008
Claims equalisation reserve	39,258	1.7	60,724
Retained earnings	130,878	5.7	202,441
Capital & surplus	448,136	19.6	693,172
Gross provision for unearned premiums	288,974	12.6	446,982
Gross provision for outstanding claims	1,336,377	58.4	2,067,095
Total gross technical reserves	1,625,351	71.0	2,514,077
Insurance/reinsurance creditors	181,707	7.9	281,063
Inter-company creditors	30,202	1.3	46,716
Total creditors	211,909	9.3	327,779
Accruals & deferred income	4,201	0.2	6,498
Total liabilities & surplus	2,289,597	100.0	3,541,526

MANAGEMENT

In December 2009, the Brit Insurance group undertook a corporate restructure which led to the establishment of a new, Netherlands-domiciled, ultimate holding company, BIHNV. The restructure is expected to provide a more favourable operating environment to support the group's international expansion. Additionally, the group's presence in Continental Europe is expected to improve Brit Insurance's competitive position and align its corporate tax rate with those of its global peer group.

Since the acquisition of BIHNV by Achilles the senior management team is unchanged. A new independent chairman, Nick Prettejohn, and non-executive director, Hans-Peter Gerhardt, have been appointed to the board, both of whom have extensive insurance experience. Scott Egan took up the post of CFO in early January 2011 following the retirement of Matthew Scales.

BIL's operations are overseen at group level by a number of committees created for the oversight of functions, such as underwriting, finance and risk management. The group centrally manages the underwriting of both BIL and the group's Lloyd's syndicate, with common systems and controls in place for both entities.

Best's Rating Report



A.M. Best believes BIL maintains a good risk management framework. Board members and senior management are responsible for defining the corporate risk profile and setting risk appetite and tolerance targets in line with the corporate goals. The board appointed a chief risk officer in November 2010 to further embed the enterprise risk management framework. The risk framework also consists of committees which are responsible for monitoring, reviewing and controlling risks associated with their corresponding mandate. Internal and external audits provide independent assurance.

Officers: Chief Executive Officer, Dane J. Douetil, CBE; Secretary, Michael D. Jackson.

Directors: Malcolm Beane, Ray Cox, Kenneth Culley (Chairman), Dane J. Douetil, CBE (Chief Executive Officer), Scott Egan, Peter Hazell, Cees Schrauwers, Jonathan Turner, Peter Webster, Matthew Wilson.

ANALYSIS OF GROSS PREMIUMS WRITTEN

	GBP (000) 2010	GBP (000) 2009	GBP (000) 2008	GBP (000) 2007	2006
Accident & health	8,019	13,106	14,041	34,188	...
Automobile - accident	81,638	115,187	88,439	58,986	...
Credit	-3,079	5,273	20,067	16,792	...
Fire	197,121	179,205	111,678	65,829	...
Legal expense	91,849	70,560	55,468	64,037	...
Liability	108,178	165,203	147,275	125,033	...
Marine, aviation & trans	26,350	40,088	32,825	29,596	...
Reinsurance	123,629	209,272	204,398	221,870	...
Total non-life	633,705	797,894	674,191	616,331	...

REINSURANCE

BIL benefits from the Brit Insurance group's comprehensive reinsurance programme, which is placed with a panel of highly rated reinsurers. At year-end 2010, 64% of the company's anticipated recoveries on outstanding claims were rated "A" or higher. Additionally, 32% of the remaining outstanding recoveries were collateralised. If a reinsurer's credit rating does not meet Brit Insurance's criteria, these exposures are fully collateralised. As at year-end 2010, 39% of overall outstanding recoveries related to the quota share reinsurance arrangement with Brit Insurance (Gibraltar) PCC Limited (BIG).

BIG was formed in 2007 and is a wholly owned protected cell company, based in Gibraltar. The company began trading in 2008 and provides BIL with excess of loss protection on selected lines of non-catastrophe-exposed business in addition to a whole account quota share. In 2010, the quota share increased to 30% (2009: 20%, 2008: 5%).

GEOGRAPHICAL DISTRIBUTION OF PREMIUMS WRITTEN

	GBP (000) 12/31/2010 Gross	12/31/2010 % of total	GBP (000) 12/31/2009 Gross
European Community	36,244	5.7	82,415
United Kingdom	483,095	76.2	453,488
Total Europe	519,339	82.0	535,903
United States	3,330	0.5	14,653
Total North America	3,330	0.5	14,653
Other World-Wide	111,036	17.5	247,338
Total	633,705	100.0	797,894

BALANCE SHEET ITEMS

	GBP (000) 2010	GBP (000) 2009	GBP (000) 2008	GBP (000) 2007	GBP (000) 2006
Liquid assets	1,544,680	1,619,239	1,574,849	1,407,520	1,052,539
Total investments	1,544,680	1,619,239	1,581,091	1,569,443	1,207,401
Total assets	2,289,597	2,328,363	2,223,640	2,116,195	1,730,891
Gross technical reserves	1,625,351	1,721,662	1,631,389	1,423,645	1,169,269
Net technical reserves	1,208,636	1,353,284	1,338,812	1,201,213	995,660
Total liabilities	1,841,461	1,867,380	1,743,235	1,642,000	1,296,528
Capital & surplus	448,136	460,983	480,405	474,195	434,363

INCOME STATEMENT ITEMS

	GBP (000) 2010	GBP (000) 2009	GBP (000) 2008	GBP (000) 2007	GBP (000) 2006
Gross premiums written	633,705	797,894	674,191	616,331	610,895
Net premiums written	398,035	591,972	523,051	533,282	495,515
Balance on technical account(s)	-2,647	2,763	2,991	-16,193	19,118
Profit/(loss) before tax	47,274	60,677	10,690	38,957	68,056
Profit/(loss) after tax	37,153	45,578	11,425	31,274	51,214

LIQUIDITY RATIOS (%)

	2010	2009	2008	2007	2006
Total debtors to total assets	10.5	10.6	10.9	11.2	15.7
Liquid assets to net technical reserves	127.8	119.7	117.6	117.2	105.7
Liquid assets to total liabilities	83.9	86.7	90.3	85.7	81.2
Total investments to total liabilities	83.9	86.7	90.7	95.6	93.1

LEVERAGE RATIOS (%)

	2010	2009	2008	2007	2006
Net premiums written to capital & surplus	88.8	128.4	108.9	112.5	114.1
Net technical reserves to capital & surplus	269.7	293.6	278.7	253.3	229.2
Gross premiums written to capital & surplus	141.4	173.1	140.3	130.0	140.6
Gross technical reserves to capital & surplus	362.7	373.5	339.6	300.2	269.2
Total debtors to capital & surplus	53.7	53.3	50.6	49.9	62.4
Total liabilities to capital & surplus	410.9	405.1	362.9	346.3	298.5

PROFITABILITY RATIOS (%)

	2010	2009	2008	2007	2006
Loss ratio	53.7	65.5	65.9	71.2	64.9
Operating expense ratio	54.0	37.1	32.6	31.5	31.0
Combined ratio	107.7	102.5	98.5	102.7	95.9
Net investment income ratio	9.8	7.4	17.1	8.1	8.8
Operating ratio	97.9	95.1	81.3	94.7	87.1
Return on net premiums written	9.3	7.7	2.2	5.9	10.3
Return on total assets	1.6	2.0	0.5	1.6	3.0
Return on capital & surplus	8.2	9.7	2.4	6.9	12.6

Best's Rating Report



Why is this *Best's*[®] Rating Report important to you?

A Rating Report from the A.M. Best Company represents an independent opinion from the leading provider of insurer ratings of a company's financial strength and ability to meet its obligations to policyholders.

The A.M. Best Company is the oldest, most experienced rating agency in the world and has been reporting on the financial condition of insurance companies since 1899. The Best's Financial Strength Rating **opinion** addresses the relative ability of an insurer to meet its ongoing insurance obligations. The rating is not assigned to specific insurance policies or contracts and does not address any other risk, including, but not limited to, an insurer's claims-payment policies or procedures; the ability of an insurer to dispute or deny claims payment on grounds of misrepresentation or fraud; or any specific liability contractually borne by the policy or contract holder. A Best's Financial Strength Rating is **not a recommendation** to purchase, hold or terminate any insurance policy, contract or any other financial obligation issued by an insurer, nor does it address the suitability of any particular policy or contract for a specific purpose or purchaser.

The company information appearing in this pamphlet is an extract from the complete company report prepared by A.M. Best Europe - Rating Services Limited.

A Best's Financial Strength Rating is assigned after a comprehensive quantitative and qualitative evaluation of a company's balance sheet strength, operating performance and business profile.

Best's Financial Strength Ratings are assigned according to the following scale:

Secure Best's Financial Strength Ratings

A++ and A+	Superior
A and A-	Excellent
B++ and B+	Good

Vulnerable Best's Financial Strength Ratings

B and B-	Fair
C++ and C+	Marginal
C and C-	Weak
D	Poor
E	Under Regulatory Supervision
F	In Liquidation
S	Rating Suspended

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