

FITCH AFFIRMS BRIT INSURANCE'S IFS AT 'A'; OUTLOOK STABLE

Fitch Ratings-London-28 September 2011: Fitch Ratings has affirmed Brit Insurance Limited's (BIL) Insurer Financial Strength (IFS) rating at 'A' with a Stable Outlook. The agency has also affirmed Brit Insurance Holdings N.V.'s (BIHNV) Long-term Issuer Default Rating (IDR) at 'BBB+' with a Stable Outlook and its subordinated notes at 'BB+'.

The affirmations and Stable Outlook reflect the group's solid financial profile, which is supported by a strong level of risk-adjusted capitalisation and strong underlying earnings.

The group reported an overall profit before tax for H111 of GBP6.8m (H110: GBP77.5m), despite incurring substantial catastrophe-related losses. The reported combined ratio, excluding FX effects, was 104.8% (H110: 96.5%) with a 15.5 percentage point impact from catastrophe claims (H110: 7.1 percentage points). Fitch views as positive the fact that the group reported an improvement in the attritional claims ratio of 3.5 percentage points to 58.6% over the same period.

Brit Insurance was acquired on 9 March 2011 by Achilles Netherlands Holdings B.V, a holding company majority owned by funds managed by Apollo Management VII, L.P. and funds advised by CVC Capital Partners Ltd. Fitch continues to monitor the post acquisition profile of the group, specifically that the consolidated group adjusted leverage is maintained below 30% and that Fitch risk-adjusted capitalisation remains at a level at least commensurate with the current ratings.

Fitch views positively actions taken by management to streamline its operations and reduce costs following the change in ownership, with underlying management expenses falling by 11.8% to GBP75.4m in H111. In addition, Fitch understands that Brit intends to outsource a number of its non-core back and middle office functions. The agency currently has a credit-neutral view on this, although it could develop into a positive rating driver if it successfully improves the group's profitability.

Key rating triggers for a downgrade include failure to maintain consolidated group leverage and capitalisation at levels at least commensurate with the current ratings. A change to a more aggressive strategy resulting in a significant loss of insurance business arising from the change in ownership would also be viewed negatively.

Fitch views a rating upgrade as unlikely in the near term given the expected weakening in the insurer's underwriting performance in 2011 and low interest rate environment. In a longer-term perspective, key rating triggers for an upgrade would be a marked and sustained improvement in earnings, coupled with capitalisation in excess of the current rating level.

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Applicable criteria, 'Insurance Rating Methodology', dated 22 September 2011, are available at
www.fitchratings.com.

Applicable Criteria and Related Research:

Insurance Rating Methodology

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=651018

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