Brit Limited Annual Report 2015

SEEING THE DIFFERENCE **MAKES THE DIFFERENCE**

SEEING THE DIFFERENCE

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

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

STRATEGIC REPORT

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

GOVERNANCE

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

FINANCIAL STATEMENTS

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

COMPANY INFORMATION

In this section we summarise other information relating to the Company useful to stakeholders.

GLOSSARY

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

STRATEGIC REPORT

THIS STRATEGIC REPORT CONTAINS INFORMATION ABOUT OUR BUSINESS AND PROVIDES AN INSIGHT INTO HOW WE OPERATE AND OUR APPROACH TO SUSTAINABILITY AND RISK MANAGEMENT.

IT PROVIDES CONTEXT FOR OUR FINANCIAL STATEMENTS, SETS OUT OUR KEY PERFORMANCE INDICATORS AND ANALYSES OUR FINANCIAL PERFORMANCE.

This Strategic Report was approved by the Board on 17 February 2016.

Mark Cloutier
Group Chief Executive Officer

Mark Allan
Chief Financial Officer

OFFICER STATEMENTS

'2015 has been an exciting but challenging time for Brit, with the highlight being the successful completion of the transaction with Fairfax. This partnership provides Brit with a supportive and stable long-term platform from which to continue to deliver on our strategy to become a leading global specialty (re)insurer.

Focused and disciplined underwriting is at the heart of this strategy and in, 2015, we reported a combined ratio of 91.7%, a strong result in what is undoubtedly a challenging environment as we continue to see pressure on pricing and an increasingly complex marketplace in terms of capacity, distribution and regulation.

I am pleased that the growth initiatives implemented over the past few years continued to develop and make an increased contribution to our gross written premium. During 2015, we maintained our approach of building our platform through the addition of specialty underwriting talent in targeted areas. In addition to this, we made a strategic investment in Ambridge, the US and London based MGU specialising in transactional insurance products, and we look forward to supporting this well-established profitable niche business to further expand its offering and platform. I am also pleased that we have further developed our international distribution capabilities with the formation of a Singapore service company, which will start writing business on behalf of our Syndicate in 2016.

A volatile geopolitical backdrop, low interest rate environment and declining growth within global economies resulted in a challenging investment environment in 2015, with few asset classes generating strong returns. Against this backdrop, we rebalanced our investment portfolio, reducing credit exposures, increasing exposure to government debt and extending duration in risk-free assets. This revised strategy takes a long-term view of markets which was reflected in our overall 2015 return of 0.1%. We also transitioned the management of a significant part of our investment portfolio to Hamblin Watsa, a Fairfax subsidiary with an excellent long-term track record, whose sole business is managing investment portfolios of Fairfax group companies.

Looking forward, while we expect trading conditions to remain challenging, we believe we have the right operating model and underwriting approach to continue to drive success and we look forward to our future as a member of the Fairfax family with confidence.'

Mark Cloutier
Group Chief Executive Officer
17 February 2016

'Market conditions have remained difficult during 2015, with the industry experiencing continued pressure on premium rates, influenced by low levels of catastrophe activity and increased competition from both traditional and non-traditional capital sources. Against this backdrop and a higher than average incidence of smaller weather and risk losses, our 91.7% combined ratio is particularly pleasing.

Risk adjusted premium rates decreased in-line with our expectations, strongly influenced by reductions seen across our reinsurance business and direct energy, property, aviation and BGSU specialty portfolios. In these lines in particular, we have been rigorous with our risk selection and, as a result, total gross premiums fell by 3.9% on a constant currency basis. Net earned premium increased by 2.2% on a constant currency basis, primarily reflecting the growth in written premium during 2014, driven by our 2013 and 2014 underwriting initiatives and organic growth in classes experiencing more favourable rating conditions.

We continue to look at new opportunities as they arise and I am pleased to see a number of the underwriting initiatives we have launched in recent years delivering profitable premium growth for the Group. Looking ahead, we believe our disciplined underwriting approach and opportunity driven growth strategy should allow us to navigate the current challenging conditions. I also look forward to exploring the opportunities to leverage the broader global Fairfax network for the Brit Group and our clients.'

Matthew Wilson
Group Deputy CEO and Chief Underwriting Officer
17 February 2016

BRIT AT A GLANCE

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

Overview

We provide highly specialised insurance products to support our clients across a broad range of complex risks, with a strong focus on property, energy and casualty business.

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

Acquisition by the Fairfax Group

After a major transformation programme, which delivered excellent results in 2011, 2012 and 2013, we successfully executed an Initial Public Offering of 25% of Brit PLC on the London Stock Exchange on 28 March 2014. Our 2014 performance produced a combined ratio of 89.5%, a RoNTA of 20.7% and a total value created of US$217.2m.

FFHL Group Limited, a member of the Fairfax Financial Holdings Limited group (Fairfax), completed the acquisition of 97.0% of Brit on 5 June 2015 and acquired the remaining 3.0% on 8 July 2015. Fairfax (www.fairfax.ca) is a Canadian company whose shares are listed on the Toronto Stock Exchange. On 29 June 2015, Fairfax completed the sale of 29.9% of Brit to Ontario Municipal Employees Retirement System (OMERS), the pension plan manager for government employees in the Canadian province of Ontario. Brit's ordinary shares' listing on the London Stock Exchange was cancelled with effect from 23 June 2015 and Brit PLC was renamed Brit Limited.

The recommended cash offer by Fairfax was for 305 pence per share (including Brit's 2014 year end ordinary and special dividends). This price, together with Brit's 2014 interim dividend of 6.25 pence per share, represented a 29.7% return over our IPO price of 240 pence per share.

Brit's ordinary shares' listing on the London Stock Exchange was cancelled with effect from 23 June 2015 and Brit PLC was renamed Brit Limited. A full history of Brit can be found at www.britinsurance.com.

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

Underwriting

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

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

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

Our platform and operations

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

Investment Management

At Brit we have a significant investment portfolio comprising financial investments, investment related derivatives and cash. The value of our invested assets at 31 December 2015 was US$3,973.9m. During 2015 we undertook a portfolio rebalancing exercise which involved reducing credit exposures, increasing exposure to government debt and extending duration in risk-free assets. This revised strategy takes a long-term view of markets. Following this exercise, the portfolio on a look through basis ends the year defensively positioned with a large allocation to cash and cash equivalents (16.0%) and fixed income securities (72.0%), predominantly government bonds. The investment portfolio is managed for the most part by Hamblin Watsa Investment Counsel Limited, a Fairfax subsidiary with an excellent long-term track record, whose sole business is managing investment portfolios of Fairfax group companies.

Our culture and values

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

BRIT AT A GLANCE

OUR CAPABILITIES AND AMBITION ARE UNDERPINNED BY OUR STRONG FINANCIAL POSITION. OUR BUSINESS IS UNDERWRITTEN EXCLUSIVELY THROUGH OUR WHOLLY-ALIGNED LLOYD'S SYNDICATE 2987, WHICH BENEFITS FROM LLOYD'S RATINGS OF A (EXCELLENT) FROM A.M. BEST, AA- (VERY STRONG) FROM FITCH RATINGS AND A+ (STRONG) FROM STANDARD & POOR'S.

Our track record

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

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

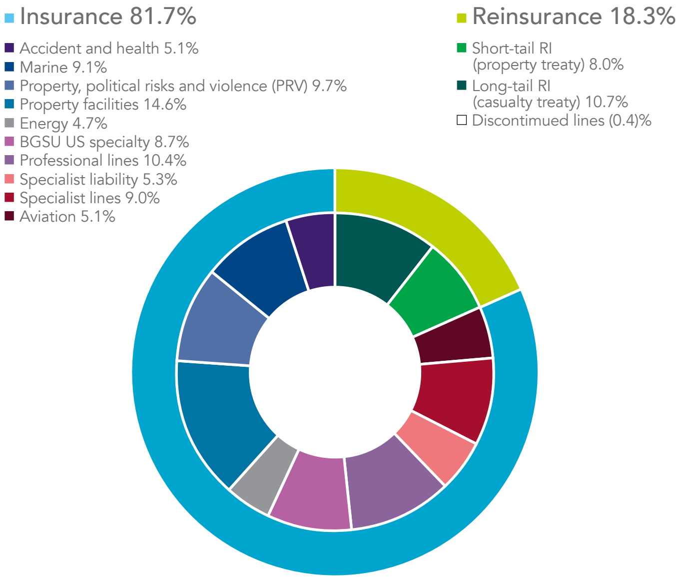
In 2015, we continued to build on our underwriting track record with a combined ratio of 91.7% and an underwriting profit of US$137.0m, bringing our five year average combined ratio to 91.6%. Our overall 2015 result was impacted by volatility in the investment and currency markets, as well as corporate activity costs, with a profit after tax of US$15.6m and return on adjusted net tangible assets before foreign exchange movements and corporate activity costs (RoNTA) of 9.1%.

Our Financial strength

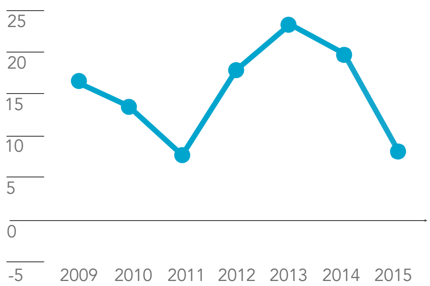
Our capabilities and ambition are underpinned by our strong financial position. Our business is underwritten exclusively through our wholly-aligned Lloyd's Syndicate 2987, which benefits from Lloyd's ratings of A (Excellent) from A.M. Best, AA- (Very Strong) from Fitch and A+ (Strong) from Standard &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

At 31 December 2015 we had capital resources equal to 128.2% of the management capital requirements needed to support our business. Our capital strength provides the flexibility to allow us to cope with major losses while not deviating from our commitment to fund profitable expansion and to provide attractive returns.

Group GWP by line of business (%)

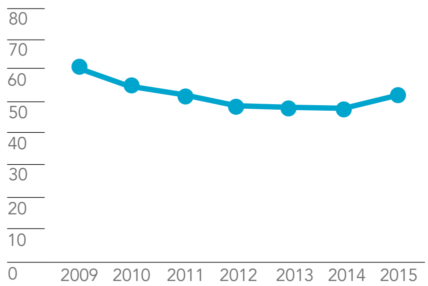


RoNTA (%)[1]

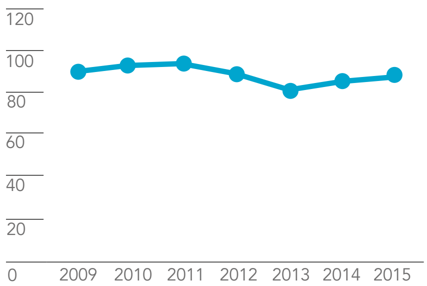


Note 1: Before FX and corporate activity costs

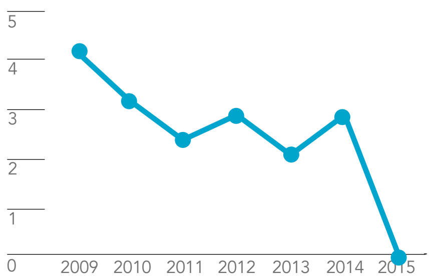
Attritional ratio (%)



Combined ratio (%)



Investment return (net of fees) (%)



Change of functional and presentation currency

The Board has concluded that the functional currency of the principal operating entities of the Group changed from Sterling to US dollars with effect from 1 January 2015. The main reasons for the change were:

- A change in the capital policy from 1 January 2015, which resulted in an increased amount of capital held in US dollars relative to other currencies;
- A change in 2015 from Sterling to US dollars in the denomination of the revolving credit facility, from which the principal operating entities benefit, to reflect the currency in which it would most likely be drawn; and
- A gradual movement towards US dollars, over a number of years, in the geographical concentration of premiums and settlement currency.

At the same time, the functional currency of the parent company, Brit Limited, also changed its functional currency from Sterling to US dollars as it is deemed to be an extension of its principal operating entities as its primary source of income is dividends from those entities.

On 1 January 2015, the Group also changed its presentation currency from Sterling to US dollars. Therefore, our 2015 result is presented in US dollars and our 2014 full year financial statements have been restated in US dollars accordingly.

Outlook

Despite the challenging rating environment, low global catastrophe activity has driven strong underwriting profit in 2015. However, this benign experience is likely to result in further softening of rates and a continued challenging environment when combined with exceptionally low interest rates, geopolitical uncertainty, global growth concerns and market volatility. Capital availability continues to increase from both traditional and non-traditional sources and we expect this to create further competition and pressure on pricing and terms and conditions during 2016.

We continue to focus on our core fundamentals of underwriting discipline, risk selection and capital management and are making good progress with the selective expansion of our global distribution capability, capitalising on our initiatives of recent years.

Our position as the largest Lloyd's-only insurance business with the right platform and business mix continues to position us well in the depressed rating and low yield environment. Joining the Fairfax group supports the delivery of our strategy, enabling us to enhance our global product offering and providing us with additional opportunities.

KEY PERFORMANCE INDICATORS

AT BRIT WE MONITOR AND MEASURE OUR PERFORMANCE BY REFERENCE TO CERTAIN KEY PERFORMANCE INDICATORS (KPIs). THESE KPIs ARE USED BY US TO MANAGE OUR BUSINESS AND ALLOW US TO SEE AT A GLANCE HOW WE ARE PERFORMING.

Introduction

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

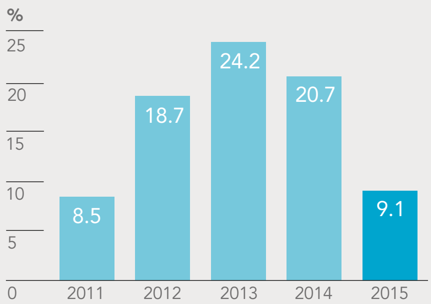
Definitions of each of our KPIs are included in the Glossary starting on page 139.

RETURN ON NET TANGIBLE ASSETS BEFORE FX MOVEMENTS AND CORPORATE ACTIVITY COSTS (RoNTA)

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

Our track record over the past five years has been very strong with significant outperformance of our global peers in both severe and benign catastrophe years. In 2015, we delivered a RoNTA of 9.1% in challenging insurance and investment market conditions driven by a strong underwriting performance.

Track record



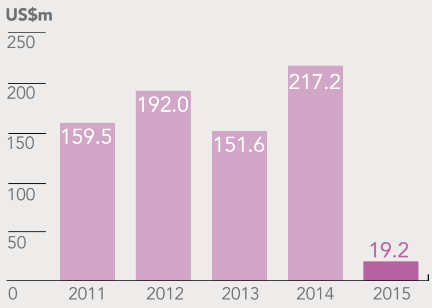
TOTAL VALUE CREATED

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

In 2015 value creation was US$19.2m or 1.6% of opening adjusted NTA. The company has generated a total value of US$739.5m over the past five years, an average of US$147.9m per annum.

Foreign exchange detracted from the result as the US dollar strengthened, reducing the value of capital held in other currencies.

Track record

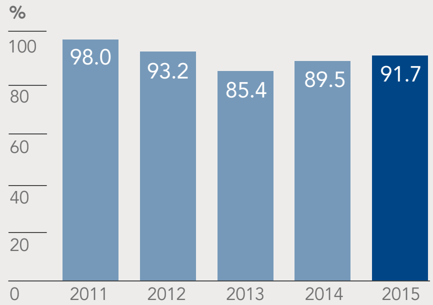


COMBINED RATIO

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

Our combined ratio in 2015, was 91.7%, reflecting excellent underwriting performance in difficult market conditions. Both direct and reinsurance contributed strongly demonstrating the benefits of a balanced portfolio. We have consistently delivered combined ratios below 100% over the past five years and an average ratio of 91.6% over that period.

Track record

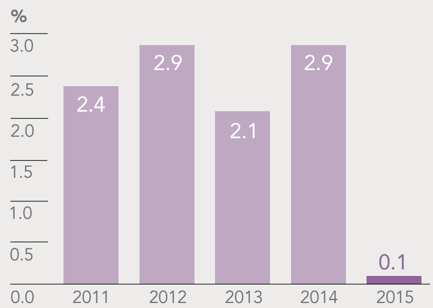


INVESTMENT RETURN

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

The second half of 2015 saw significant market volatility. During 2015, we undertook a portfolio rebalancing exercise which involved reducing credit exposures, increasing exposure to government debt and extending duration in risk-free assets. This revised strategy takes a long-term view of markets which was reflected in our overall 2015 return of 0.1%.

Track record

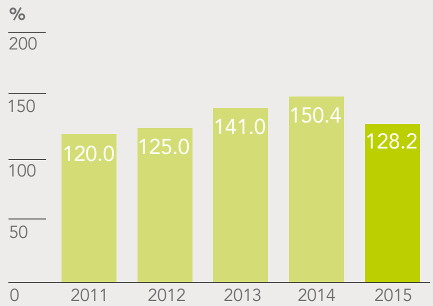


CAPITAL RATIO

The capital ratio measures the strength of our balance sheet by comparing our available capital resources to the capital we need to hold to meet our management entity capital requirements.

Our balance sheet remains strong. At 31 December 2015, after dividends paid during the year of US$154.1m, Group capital resources totalled US$1,495.5m which equated to 128.2% of our Group capital requirement of US$1,166.0m.

Track record

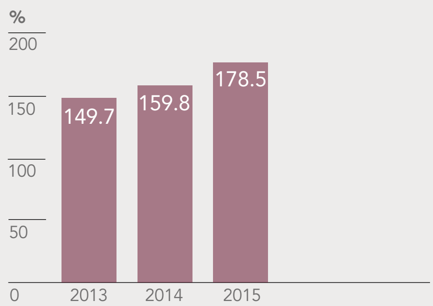


RATIO OF FRONT OFFICE EMPLOYEES TO BACK OFFICE EMPLOYEES

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

We have monitored this ratio since 2013 following the restructuring of the Group. At 31 December 2015, the ratio was 178.5%, reflecting that we had approximately 1.8 front office employees for every back office employee.

Track record



STRATEGIC REPORT

UNDERWRITING REVIEW

UNDERWRITING PHILOSOPHY

Our underwriting philosophy is simple: we have developed a best in class specialty underwriting team wholly focused on writing a broad mix of profitable business. Our Lloyd's platform gives us a significant advantage as the Lloyd's market is a specialist in and leader of complex, short-tail property and energy business. We have also maintained our position in a broad mix of casualty lines and our casualty treaty account has consistently outperformed those of our peers. In addition, we have enhanced our global distribution channel through Lloyd's, launched a number of innovative products and developed our professional, customer focused claims function.

CLAIMS MANAGEMENT

Our claims function is one of the key 'market facing' parts of our business, with its professionalism and complex claims handling experience building a leading reputation.

The way in which claims are handled by an insurer or reinsurer will often determine whether business will be renewed and the reputation of the claims function often assists in the underwriting of new business. A professional claims function will also drive value for the business in its handling of claims which in the specialty business will often be complex.

Business developments

During 2015 we have continued to focus on our underwriting strategy. Key developments have included:

- Singapore office
  In the fourth quarter of 2015, we established a Singapore company to produce business for our Lloyd's syndicate. In February 2016, this service company received local regulatory approval in principle and it is anticipated that it will commence writing business late in the first quarter of 2016.

- Ambridge Partners LLC
  On 9 December 2015, Brit made a strategic investment in Ambridge Partners LLC (Ambridge), with an option to purchase the remaining interests in 2019, subject to satisfactory performance.

  Ambridge is a leading managing general underwriter of transactional insurance products with a team of 29 employees based in New York and London. It has been a key trading partner of Brit for the past nine years. This significant strategic investment offers attractive exposure to a very profitable fast-growing MGU in the US and continues Brit's selective international expansion into niche specialty businesses with a strong track record in distribution and underwriting capabilities. Brit has increased its participation on the Ambridge facility as a result of the transaction and offered participation to sister companies in the Fairfax Group.

- Versutus Ltd
  In 2015, we partnered with a new Bermuda domiciled special purpose reinsurer, Versutus Ltd, to provide support for Brit's property treaty portfolio. Versutus Ltd entered into a US$75.0m fully collateralised quota share agreement under which it reinsured a share of Brit's existing worldwide property catastrophe excess of loss portfolio. For 2016, the facility has been increased to US$82.5m.

- Healthcare
  In the third quarter of 2015, we expanded our global healthcare reach. New appointments have brought an outstanding depth of expertise and underwriting acumen that not only complements our very successful existing healthcare business but will also allow us to expand our US healthcare offerings.

- International inland marine
  In August 2015, we recruited a UK based team to establish a Brit-led construction and contractors' plant and equipment consortium. The focus of the consortium is insuring heavy plant and equipment globally, as well as smaller construction projects outside US catastrophe exposed locations.

- US general liability
  In April 2015, Brit Global Specialty USA launched a new general liability team. This initiative extends Brit Global Specialty USA's property and specialty package offering to include the mono-line casualty market, and is part of the Group's strategy to focus on growing profitably in specialist areas where it has significant expertise and experience. The team will write excess and surplus general liability on a primary and excess basis targeting manufacturing, construction and premises risk through wholesale brokers. This team, which is experienced in underwriting complex casualty business, is based in Hartford, Connecticut.

- Latin America
  In April 2015, we further strengthened our Miami-based Latin American business, with the appointment of an experienced Vice President of Casualty Reinsurance who will focus on creating a casualty treaty and facultative portfolio in the Latin America and Caribbean region. This will help us to continue to diversify our international presence in the Americas using the capital and licensing flexibility of our Lloyd's service company model to access local distribution.

- US inland marine
  In September, Brit appointed a Senior Vice President to launch a new inland marine team for BGSU, based in our New York office. The team will target builder's risk, contractors' equipment and associated property risks through wholesale brokers. This appointment expands BGSU's existing excess and surplus property offering and reflects Brit's strategy of focusing on specialist areas where it can leverage its expertise and service to create a differentiated offering.

- US property facultative
  In November, BGSU appointed a Senior Vice President of Property Facultative to lead its existing Chicago based US property facultative team. This appointment signals our ongoing commitment to the facultative arena where we have built a strong franchise around expertise and service. It also further expands our footprint in North America and continues our strategy of growing profitably in specialist areas where we have significant expertise and experience.

UNDERWRITING REVIEW

MARKET CONDITIONS HAVE REMAINED CHALLENGING DURING 2015. THE INSURANCE INDUSTRY HAS EXPERIENCED CONTINUED PRESSURE ON PREMIUM RATES, INFLUENCED BY LOW LEVELS OF CATASTROPHE ACTIVITY AND INCREASED COMPETITION FROM BOTH TRADITIONAL AND NON-TRADITIONAL CAPITAL SOURCES.

2015 Review

Overall rates reduced by 4.1% in 2015. Rate pressure has been most severe in our property treaty reinsurance business, with rate reductions in 2015 of 9.4%, and in property and energy direct open market classes. Overall reductions in direct insurance have been much less severe than in reinsurance at around 3.4%, with the pressure in energy, property PRV, aviation and BGSU, partly offset by improved experience in specialist liability, casualty and accident and health. Critically, we are still seeing rate adequacy in many lines.

In response to these conditions, we continue to take a defensive position. We have reduced our reinsurance volumes and have focused on increasing our specialty insurance business; our portfolio continues to re-balance towards short-tail specialty business and we are not afraid to step away from business which does not support our cross-cycle return target.

GWP for 2015 totalled US$1,999.2m, a 3.9% decrease at constant exchange rates over 2014, reflecting market challenges and the discipline displayed by our underwriters in response to the challenging market. Premiums generated from our business initiatives launched in 2013, 2014 and 2015 resulted in a US$70.8m increase in GWP. The main contributors were aviation, Bermuda, UK property and BGSU property Miami. Premium was also lower as a result of reduced levels of favourable ultimate premium development on prior years than in 2014.

A significant factor in our 2015 development was the contribution from our overseas offices, which have delivered business that cannot typically be accessed in London.

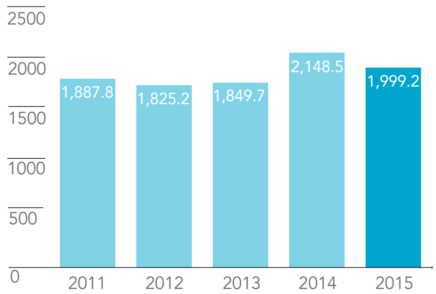
- Brit Global Specialty USA (BGSU) has continued to see both organic growth in its core product lines and growth in new product lines which have been added over the last two years. These new product lines include package policies for public non-profit making organisations, package policies for adjudicated care providers and direct property cover (following the acquisition of renewal rights and underwriting staff from Maiden Holdings Ltd in 2013). BGSU's strong performance included premium growth of 4.0% to US$175.1m.

- Our Bermuda operation, established in late 2013, has selectively written reinsurance business in lines and markets that we believe remain well rated, particularly casualty treaty. Premiums generated by our Bermuda office in 2015 increased by 68.9% to US$61.3m.

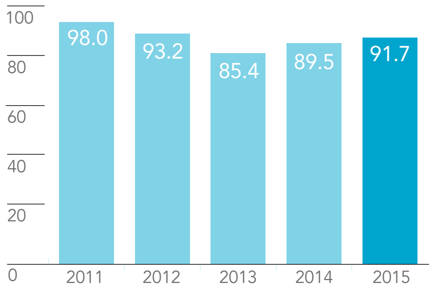
Our business is built on our talented underwriting professionals and our strong relationships with brokers and policyholders. During 2015, we have retained our underwriting talent and have continued to attract new hires. Our ability to lead business, combined with our innovative approach to underwriting, supports our success in building long-term and dependable market relationships. This is reflected in our retention rate, which has increased to 82% from 70% in 2009 and by us leading, or being second agreement party, on approximately 70% of the business we write.

Our underwriting growth has been supported by investment in our claims service. This ensures a strong service to brokers and policyholders, both when underwriting business and when processing claims. During 2015 the number of claims personnel increasing by 5.6%.

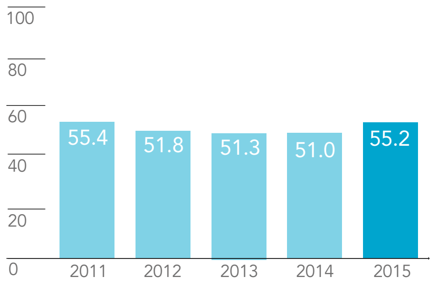
Group GWP (US$m)



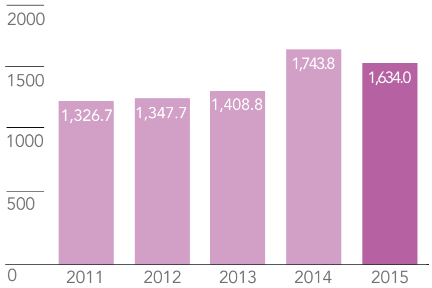
Group combined ratio (%)



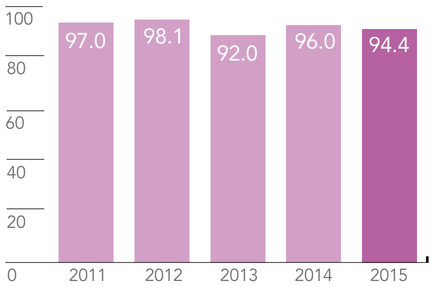
Group attritional ratio (%)



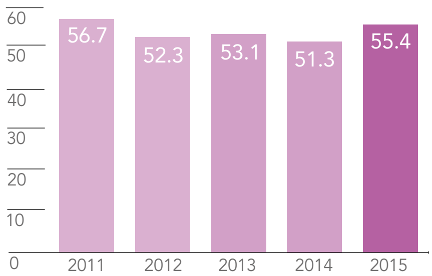
Brit Global Specialty Direct GWP (US$m)



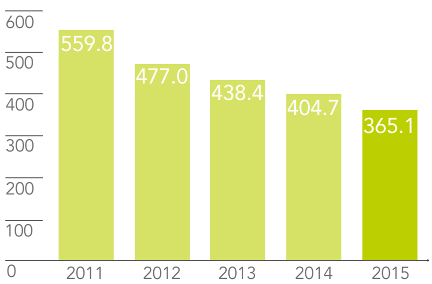
Brit Global Specialty Direct Combined ratio (%)



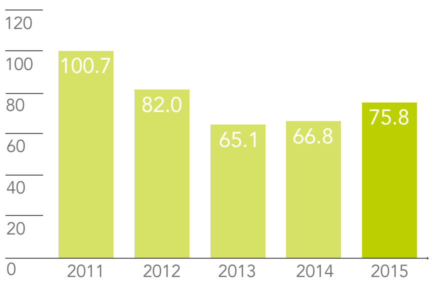
Brit Global Specialty Direct Attritional ratio (%)



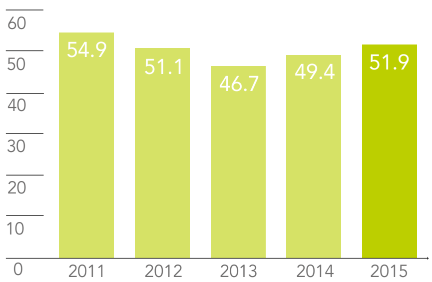
Brit Global Specialty Reinsurance GWP (US$m)



Brit Global Specialty Reinsurance Combined ratio (%)



Brit Global Specialty Reinsurance Attritional ratio (%)



UNDERWRITING REVIEW

We conducted a major overhaul of our outwards reinsurance protections in 2014. For 2015, the structure remained broadly unchanged and renewed on terms in line with expectations, with price reductions of 5% to 10%. One additional protection was in the form of a strategic US$75m fully collateralised quota share placed with Versutus, a Bermuda domiciled special purpose reinsurer. This provided protection to our existing worldwide property catastrophe excess of loss portfolio.

Overall, the combination of strong portfolio management, underwriting discipline and opportunity-driven initiatives has led to us achieving a 91.7% CoR in 2015, a strong performance given the market backdrop and testament to the strength of our underwriting franchise in the face of competitive pressures.

- Brit Global Specialty Direct's CoR was 94.4%. Trends in pricing, competition and terms of business differ significantly between the broad range of classes within our direct book. Excess supply of capital is a common theme in most areas.

- The profitability of our treaty reinsurance book remained strong with a CoR of 75.8%, driven by low catastrophe experience in our property account and another year of good performance from our market leading casualty reinsurance account.

Outlook

Like all (re)insurers, we are impacted by market conditions but we believe our specialty strategy makes our business more resilient to such pressures and enables us to continue to generate attractive returns for our shareholders. Brit has the capital strength and the strong risk management capability to navigate these conditions and, as a result, we are confident that our strategy and business model are well-positioned to create long-term value for our clients and shareholders.

INVESTMENT MANAGEMENT REVIEW

A VOLATILE GEOPOLITICAL BACKDROP, A LOW INTEREST RATE ENVIRONMENT AND DECLINING GROWTH WITHIN GLOBAL ECONOMIES RESULTED IN A CHALLENGING ENVIRONMENT FOR INSURERS IN 2015, WITH FEW ASSET CLASSES GENERATING STRONG RETURNS.

Overview

A volatile geopolitical backdrop, a low interest rate environment and declining growth within global economies resulted in a challenging environment for insurers in 2015, with few asset classes generating strong returns. This macro environment was further challenged by events in Greece, China and the energy sector.

In the first half of 2015, against this backdrop, Brit significantly reduced its exposure to risk assets. Further portfolio changes were made following the acquisition of Brit by Fairfax, when the Brit Board approved a revised investment strategy with a focus on long-term return and capital preservation. This further reduced our credit exposures, increased our exposure to government debt and extended our duration in risk-free assets.

Following this rebalancing, our invested assets ended the year defensively positioned. Both duration and overall credit quality have been increased over the year.

Performance and approach

Return on invested assets (net of fees)

Year	%
2015	0.1
2014	2.9
2013	2.1
2012	2.9
2011	2.4

The challenging investment environment in 2015 has impacted our performance, with the portfolio producing a return of US$5.0m or 0.1% (2014: US$124.8m or 2.9%). This was a combination of 1.6% of investment income, less 1.2% of mark-to-market losses, less fees equivalent to 0.3%.

The low absolute return is driven by the weak performance of most asset classes, with Brit's relative performance over 2015 impacted by the change in investment approach and the rebalancing of assets to a more defensive position taking a long-term view of markets. Specific drivers of our performance were as follows:

- Where we exited higher yielding credit in the first half of the year, we were able to lock in positive returns. As the proceeds from these transactions were invested in longer dated government bonds, the marginal increase in yields over the remainder of 2015 generated mark to market losses on this part of the portfolio.
- The initial allocation to equities as part of the new strategy resulted in certain positions suffering mark to market losses, as risk assets generally sold off in the latter half of the year.
- During 2015 we entered into two types of derivatives. Equity put options were purchased to protect the broader investment portfolio from a material reduction in equity markets and some inflation derivatives were purchased to protect the portfolio from a sustained period of deflation. The total return from these instruments was a loss of US$5.2m although the positions are structured to provide protection over a longer period than 2015.

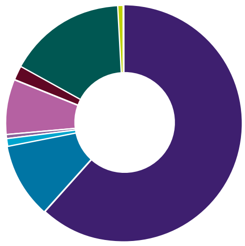
During 2015, we also transitioned the management of the majority of the portfolio. The investment portfolio is now managed for the most part by Hamblin Watsa Investment Counsel Limited, a Fairfax subsidiary with an excellent long-term track record, whose sole business is managing investment portfolios of Fairfax group companies.

At 31 December 2015, the running yield of our portfolio was 1.6%, reflecting the holdings in government securities and the high proportion of our portfolio invested in cash and cash equivalents.

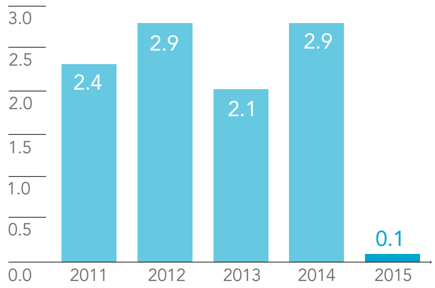
Asset allocation

Following the rebalancing exercise of 2015, our invested assets of US$3,973.9m ended the year defensively positioned. The exposure to financials, asset-backed securities and corporate sectors likely to be impacted by an economic downturn have been significantly reduced. The portfolio remains highly liquid with, on a look through basis, a 77.9% allocation to cash and cash equivalents and government securities (2014: 39.7%).

Invested assets – look through basis (US$m)



Investment return (net of fees) (%)



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

		Statutory basis							
31 December 2015	Equity securities US$m	Debt securities US$m	Loan instruments US$m	Specialised investment funds US$m	Cash and cash equivalents US$m	Associated undertaking US$m	Derivative assets US$m	Derivative liabilities US$m	Total invested assets (look through) US$m
Look through basis									
Government debt securities	–	**1,792.0**	–	**664.8**	–	–	–	–	**2,456.8**
Corporate debt securities	–	**144.3**	–	**259.7**	–	–	–	–	**404.0**
Structured products	–	**19.7**	–	**24.9**	–	–	–	–	**44.6**
Loan instruments	–	–	**23.4**	–	–	–	–	–	**23.4**
Equity securities	**265.5**	–	–	**39.9**	–	–	–	–	**305.4**
Alternative investments	–	–	–	**48.4**	–	**28.6**	–	–	**77.0**
Cash and cash equivalents	–	–	–	**56.1**	**581.0**	–	–	–	**637.1**
Derivatives	–	–	–	**(7.9)**	–	–	**33.5**	–	**25.6**
Total invested assets (statutory)	**265.5**	**1,956.0**	**23.4**	**1,085.9**	**581.0**	**28.6**	**33.5**	–	**3,973.9**
31 December 2014									
Look through basis									
Government debt securities	–	491.4	–	296.4	–	–	–	–	787.8
Corporate debt securities	–	676.6	–	487.8	–	–	–	–	1,164.4
Structured products	–	369.5	–	151.5	–	–	–	–	521.0
Loan instruments	–	–	264.1	5.2	–	–	–	–	269.3
Equity securities	42.4	–	–	113.0	–	–	–	–	155.4
Alternative investments	–	–	–	309.7	–	–	–	–	309.7
Cash and cash equivalents	–	–	–	310.4	501.4	–	–	–	811.8
Derivatives	–	–	–	7.3	–	–	3.7	(2.0)	9.0
Total invested assets (statutory)	42.4	1,537.5	264.1	1,681.3	501.4	–	3.7	(2.0)	4,028.4

INVESTMENT MANAGEMENT REVIEW

Our investments in specialised investment funds account for 27.2% (2014: 41.7%) of our invested assets and the investments within these funds are analysed in the tables above. We use these fund structures as we believe they deliver a number of strategic and operational advantages.

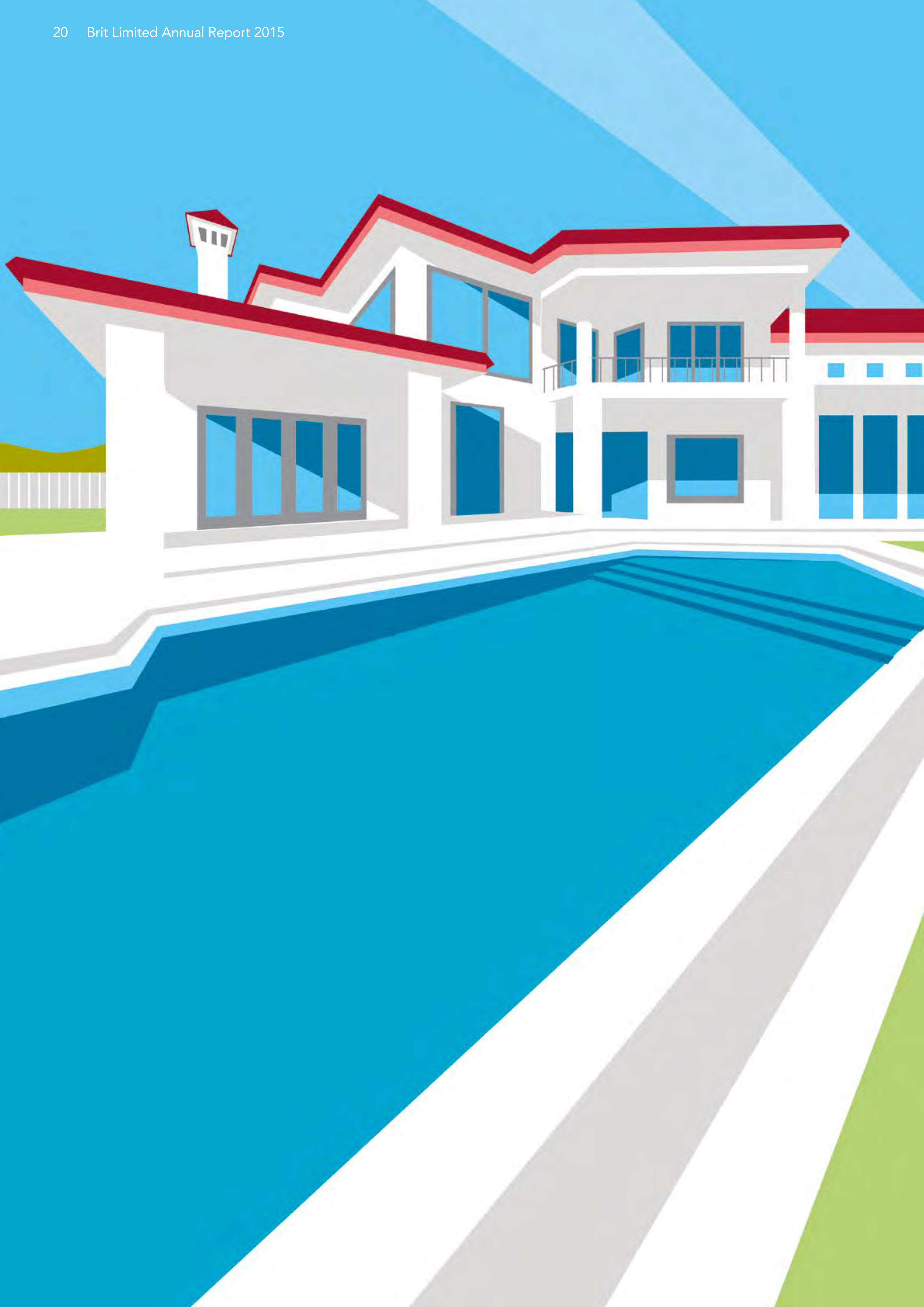
From an interest rate perspective the duration of our portfolio at 31 December 2015 was 6.3 years (2014: 1.1 years), longer than the duration of our liabilities. This positioning again reflects the defensive outlook and the expectation of lower growth in 2016.

We continue to monitor actively our duration position and seek to manage this to optimise our investment return. We retain a strong liquidity position and a healthy cash and cash equivalents allocation. We are comfortable that our liquidity requirements are more than adequately met by the assets held, even in severe insurance and investment stressed scenarios.

At 31 December 2015, 87.8% of our invested assets were investment grade quality (2014: 72.9%). An analysis of the credit quality of our invested assets is set out below:

Invested assets by rating

	2015 %	2014 %
AAA	**18.3**	13.6
AA	**40.6**	9.3
A	**7.2**	41.2
BBB	**0.5**	1.6
P-1 and P-2	**21.2**	7.2
Other	**12.2**	27.1
Total	**100.0**	100.0



FINANCIAL POSITION AND CAPITAL STRENGTH

BRIT'S CAPITAL STRENGTH, PROACTIVE CAPITAL AND RISK MANAGEMENT AND OPERATIONAL EFFICIENCY ARE KEY DIFFERENTIATORS.

Financial position

At 31 December 2015 our adjusted net tangible assets totalled US$1,074.7m (2014: US$1,209.6m).

Summary consolidated statement of financial position

	2015 US$m	2014 US$m
Assets		
Intangible assets	**95.1**	97.0
Reinsurance contracts	**818.9**	821.2
Insurance and other receivables	**691.7**	706.2
Financial investments, investment in associate and cash	**3,940.4**	4,026.7
Investment related derivatives	**33.5**	3.7
Other assets	**341.2**	285.1
Total assets	**5,920.8**	5,939.9
Liabilities		
Deferred tax on intangible assets	**13.3**	15.4
Insurance contracts	**4,182.3**	4,062.7
Borrowings	**185.6**	194.2
Investment related derivatives	**–**	2.0
Other liabilities	**383.1**	374.4
Total liabilities	**4,764.3**	4,648.7
Net assets	**1,156.5**	1,291.2
Adjusted net tangible assets	**1,074.7**	1,209.6

In addition to the profit recognised through the consolidated income statement, the other movements in our net assets related to defined benefit pension scheme related gains (US$2.5m); changes in unrealised foreign currency translation losses on foreign operations (US$4.9m charge); a transfer to profit on liquidation of subsidiaries (US$5.2m); share-based payment related amounts (US$1.0m net credit); and dividends paid during 2015 of US$154.1m.

Further analysis of our financial investments, cash and investment related derivatives are set out in the Investment Management Review on page 17.

Reserving policy

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

Our reserving policy is to reserve to a 'conservative best estimate' and carry an explicit risk margin above that 'conservative best estimate'. This policy has led to a track record of modest annual reserve releases. In 2015 this trend continued with net releases of US$28.6m (2014: US$53.0m). Maintaining reserves is critical to safeguard future obligations to policyholders and the 'conservative best estimate' approach provides a secure foundation. It also provides a secure foundation for the pricing of new business which is particularly critical in a softening rating environment.

Gearing

At 31 December 2015, our gearing ratio was 21.1% (2014: 13.8%).

During 2015, we agreed the conversion of our revolving credit facility (RCF) into US dollars. This change was primarily presentational within the facility document with all Sterling terms being converted into US dollars at a rate of 1.60 unless otherwise specified. The facility limit is now US$360.0m rather than £225.0m.

Under our capital policy we have identified a maximum of US$235.0m (2014: US$235.0m) of the facility to form part of our capital resources, with the balance available for liquidity funding. At 31 December 2015 a US$80.0m uncollateralised letter of credit was in place (31 December 2014: US$80.0m collateralised) to support our underwriting activities. At 17 February 2016, US$65.0m of this letter of credit was collateralised, reducing our gearing ratio to 15.9%. At 31 December 2015 and at 31 December 2014 no other drawings were outstanding on the facility.

In addition, we have in issue £135.0m of 6.625% subordinated debt with a carrying value of £125.9m/US$185.6m (31 December 2014: £124.5m/US$194.2m). This instrument, which is listed on the London Stock Exchange, was issued in December 2005, is callable in whole by Brit on 9 December 2020 and matures in 2030.

Foreign exchange management

Of our net assets, 60.7% are held in US dollars, reflecting the currency denomination of the majority of the business we write. Our net assets, analysed by currency, are as follows:

Net assets/(liabilities) by currency

	2015 %	2014 %
Sterling	**6.6**	9.4
US dollar	**60.7**	48.6
Euro	**13.0**	18.3
Canadian dollar	**22.2**	19.6
Australian dollar	**(2.5)**	4.1
Total	**100.0**	100.0

With effect from 1 January 2015, the presentation currency for the Group's consolidated financial statements changed from Sterling to US dollars. On the same date, the functional and presentation currencies of a number of our subsidiaries, including all of our underwriting subsidiaries, also changed from Sterling to US dollars. A portion of our revenues and expenses, and assets and liabilities, are denominated in currencies other than US dollars, hence we are exposed to fluctuations in the values of those currencies against the US dollar. These fluctuations impact our reported operating results and our assets and liabilities.

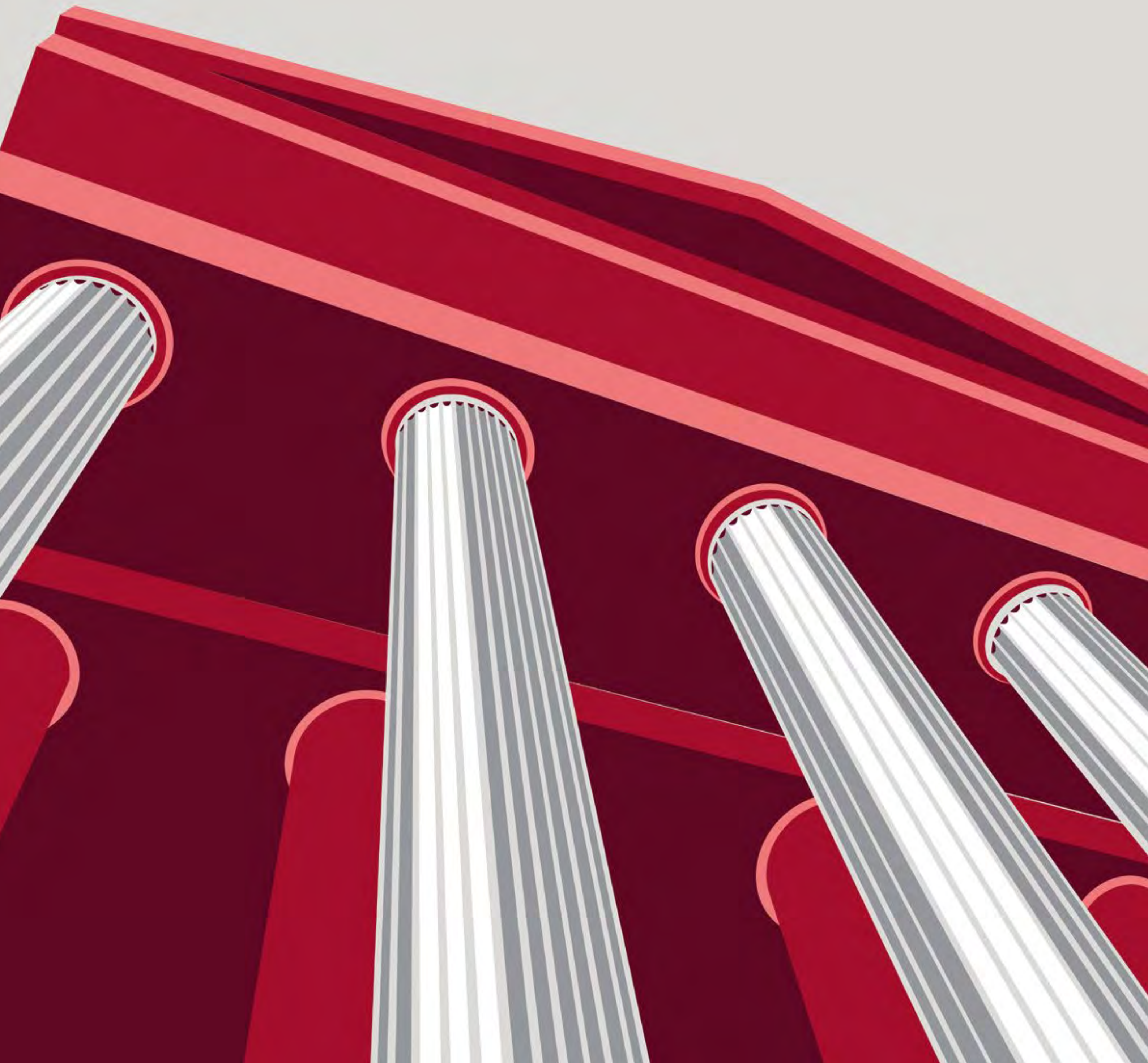
We have sought to reduce the impact on our stakeholders of the effects of movements in foreign exchange rates by matching the currencies of our liabilities and capital requirements with the assets we hold. As a consequence of this, because we report our results in US dollars, we import some exchange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

Capital strength

Our balance sheet remains strong. At 31 December 2015, Group capital resources totalled US$1,495.5m, giving surplus management capital of US$329.5m or 28.2% (2014: US$393.0m/36.0%) over our Group capital requirement of US$1,166.0m. The position at 31 December is after dividends paid during the year of US$154.1m.

Solvency II

In early December, Lloyd's received PRA approval for its internal model and Brit Insurance (Gibraltar) PCC Limited received approval from the Gibraltar FSC for its own internal model. We are in compliance with our regulatory obligations under Solvency II, which came into force on 1 January 2016, with the only ongoing project area being the preparation for pillar three reporting. The pillar three project will remain in place for 2016 to ensure the Group delivers its reporting obligations at 31 December 2016.



FINANCIAL PERFORMANCE REVIEW

Overview of results

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

	2015 US$m	2014 US$m	2013 US$m	2012 US$m	2011 US$m
Gross written premium	**1,999.2**	2,148.5	1,849.7	1,852.2	1,887.8
Net earned premium (Note 1)	**1,649.6**	1,601.1	1,478.4	1,499.1	1,605.8
Underwriting profit (Note 1)	**137.0**	168.3	215.9	101.3	32.0
Underwriting profit	**137.0**	168.3	215.9	101.3	32.0
Return on invested assets, net of fees	**5.0**	124.8	85.3	139.8	103.0
Corporate expenses	**(30.0)**	(38.8)	(23.2)	(22.6)	(30.2)
Finance costs	**(20.6)**	22.3)	(23.4)	(23.2)	(26.7)
Other items	**0.3**	0.8	6.9	0.8	(0.5)
Profit on ordinary activities before tax, FX, negative goodwill write-off and corporate activity costs	**91.7**	232.8	261.5	196.0	77.6
FX movements	**(60.2)**	35.8	(90.8)	(43.6)	27.0
Write off of negative goodwill	**–**	–	–	–	83.0
Corporate activity costs (Note 2)	**(23.8)**	(22.6)	(3.1)	–	(56.8)
Profit on ordinary activities before tax	**7.7**	246.0	167.5	152.5	130.9
Tax	**7.9**	(16.7)	(10.1)	(8.3)	(0.5)
Discontinued operations		–	(2.2)	37.8	30.7
Profit for the year (after tax)	**15.6**	229.3	155.2	182.1	161.1

Note 1: Excluding the effects of foreign exchange on non-monetary items.
Note 2: Corporate activity costs during 2015 relate to costs incurred as a result of the acquisition of Brit by Fairfax. The 2014 corporate activity costs relate to Brit's IPO in April 2014.

Group performance and total value added

We have delivered a strong underwriting return, benefitting from a low attritional loss ratio, an absence of large losses and favourable reserve development. This was partly offset by a reduced investment return and FX related losses, driven by a challenging economic back drop. Our result for the year also included costs incurred in relation to the acquisition by Fairfax.

Profit on ordinary activities for the year before tax, FX and corporate activity costs was US$91.7m (2014: US$232.8m), profit before tax was US$7.7m (2014: US$246.0m) and profit after tax was US$15.6m (2014: US$229.3m). Return on adjusted net tangible assets (RoNTA), excluding the effects of FX on non-monetary items and corporate activity costs, decreased to 9.1% (2014: 20.7%). Total value created for the year was US$19.2m (2014: US$217.2m).

Our adjusted net tangible assets at 31 December 2015 totalled US$1,074.7m (2014: US$1,209.6m), after 2014 final and special dividend payments on 30 April 2015 of US$154.1m.

Performance measures

Our KPIs are set out on page 8. In addition to these KPIs, we have other measures that offer further insight into the detail of our performance. These measures are:

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

Underwriting

Overview

Our underwriting profit for the year amounted to US$137.0m (2014: US$168.3m) and our combined ratio, which excludes the effect of foreign exchange on non-monetary items, was 91.7% (2014: 89.5%). Both our direct and reinsurance segments contributed strongly to this result demonstrating the benefits of a balanced portfolio. The premiums, claims and expenses components of this result are examined below.

Premiums written

Premium growth	2015 US$m	2014 US$m	Growth %	Growth at constant FX rates %
Brit Global Specialty Direct	**1,634.0**	1,743.8	(6.3)	(3.1)
Brit Global Specialty Reinsurance	**365.1**	404.7	(9.8)	(7.4)
Other underwriting	**0.1**	–	–	–
Group	**1,999.2**	2,148.5	(6.9)	(3.9)

FINANCIAL PERFORMANCE REVIEW

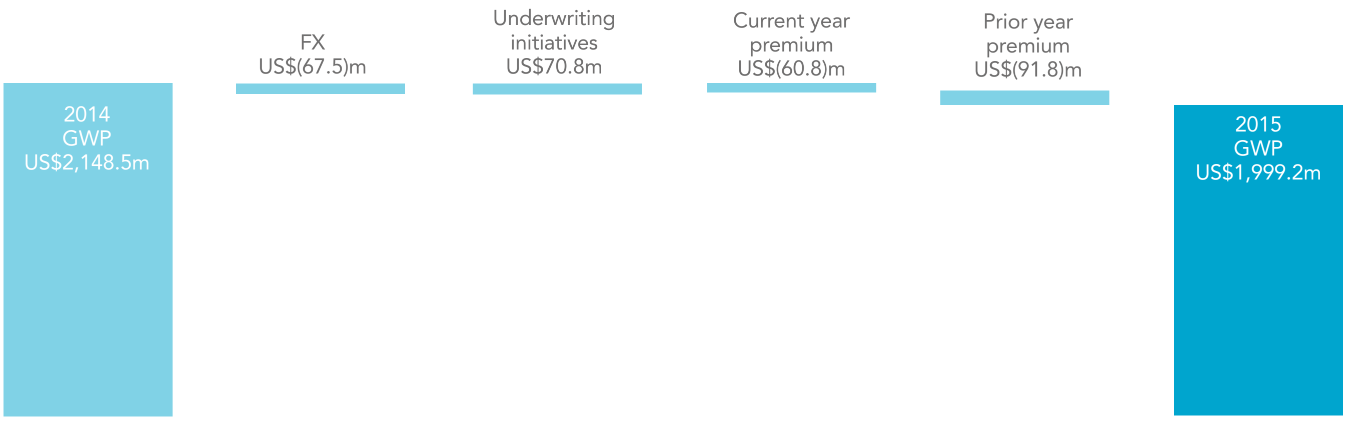
Premiums by class	2015 US$m	2014 US$m
Brit Global Specialty Direct		
Accident & health	**102.0**	101.6
Marine	**182.7**	197.4
Property, political risks & violence (PRV)	**194.6**	228.9
Property facilities	**292.9**	290.5
Energy	**93.5**	135.9
BGSU US specialty	**175.1**	168.3
Professional lines	**207.4**	196.4
Specialist liability	**105.5**	165.4
Specialty lines	**179.1**	198.0
Aviation	**101.1**	60.8
Discontinued	**0.1**	0.6
Total direct	**1,634.0**	1,743.8
Brit Global Specialty Reinsurance		
Short-tail RI (property treaty)	**159.1**	180.0
Long-tail RI (casualty treaty)	**213.6**	223.9
Discontinued lines	**(7.5)**	0.8
Total reinsurance	**365.1**	404.7
Other underwriting	**0.1**	–
Group total	**1,999.2**	2,148.5

Gross written premium (GWP) decreased by 6.9% over the same period in 2014 to US$1,999.2m (2014: US$2,148.5m). At constant exchange rates the overall decrease was 3.9%. Direct business decreased by 3.1% to US$1,634.0m (2014: US$1,743.8m), while reinsurance decreased by 7.4% to US$365.1m (2014: US$404.7m). We have continued to rebalance our underwriting portfolio in favour of insurance.

The drivers of the 6.9% decrease in Group GWP, which was in line with expectations, are as follows:

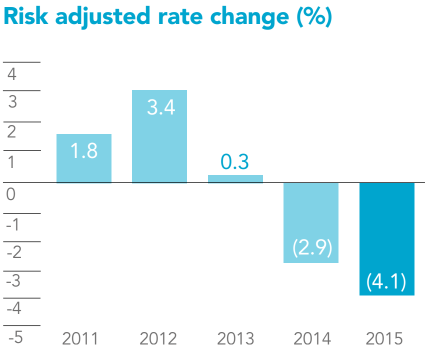
- **Underwriting initiatives:** The Group's underwriting initiatives, launched in 2013, 2014 and 2015 resulted in a US$70.8m increase in GWP. The main contributors were aviation, Bermuda, UK property and BGSU property Miami.

- **Prior year premium development:** The book again experienced favourable development on prior years. However, 2015 saw lower levels of favourable development, resulting in a reduction of US$91.8m over 2014.
- **Current year premiums:** Current year premiums, excluding those derived from the underwriting initiatives highlighted above, reduced by US$60.8m over 2014. This was driven by the challenging rating environment (primarily in energy, property PRV, specialist liability and reinsurance) and strong discipline from underwriters offset by growth in new teams and areas where rates remain attractive. These reductions were partly offset by growth in specialty lines, professional lines and BGSU.
- **Foreign exchange:** The impact of foreign exchange resulted in a US$67.5m year on year reduction, which reflects the strengthening during 2015 of the US dollar against a number of currencies in which the Group writes business.



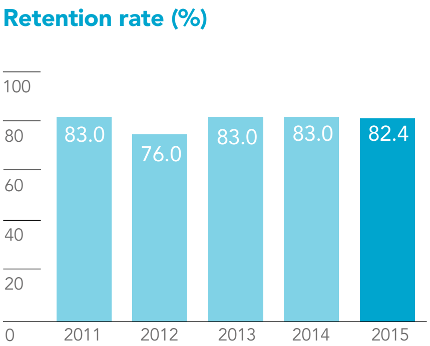
FINANCIAL PERFORMANCE REVIEW

Premium ratings

Measure	Commentary	Track record
Risk adjusted rate change	The risk adjusted rate change shows whether premium rates are increasing, reflecting a hardening market, or decreasing, reflecting a softening market. A hardening market indicates increasing profitability.	

Overall risk adjusted premium rates for renewal business decreased by 4.1% during 2015 (2014: 2.9%). This reduction was strongly influenced by reinsurance business which experienced rate reductions of 6.9%, driven by a 9.4% rate reduction in property treaty. Rates for direct business fell by 3.4% in the year, with the principal movements being decreases in energy, property, aviation and BGSU specialty. These were partly offset by increases in specialist liability and accident and health.

Retention rates

Measure	Commentary	Track record
Retention rate	The retention rate shows the proportion of our business that renews, on a risk adjusted basis, compared to the previous year.	

Our retention rate for the period was 82.4% (2014: 83.0%). The retention rates we achieved in 2014 and 2015 reflect the successful renewal of a profitable book of business, following the re-underwriting of the book that occurred between 2008 and 2012, through which we rebalanced our book and non-renewed around half of our underwriting portfolio.

Outwards reinsurance

Our reinsurance expenditure in 2015 was US$369.4m or 18.5% of GWP (2014: US$457.4m/21.3%), a decrease of US$88.0m.

Included within our 2014 reinsurance expenditure was US$70.8m in respect of a specific one-off reinsurance contract, entered into to provide adverse development cover for a discontinued professional lines account with exposure to Italian medical malpractice. An effect of this contract was to reduce our 2014 attritional ratio by 1.9 percentage points and increase our 2014 underwriting expense ratio by 1.7 percentage points. It did not materially impact our combined ratio.

We have also experienced premium reductions in 2015 across a number of classes that do not have quota share arrangements, such as open market property and casualty treaty.

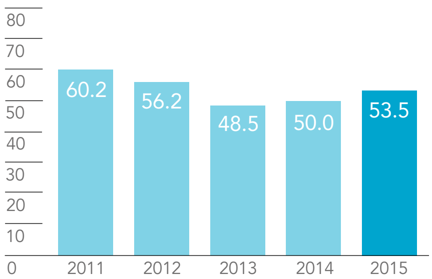
During 2015, there were no significant changes to the core reinsurance programme. The structure remained broadly unchanged and renewed on terms in line with expectations, with price reductions of 5% to 10%. One additional protection was in the form of a strategic US$75.0m fully collateralised quota share placed with Versutus, a Bermuda domiciled special purpose reinsurer. This provided protection to our existing worldwide property treaty portfolio.

Net earned premium

Net earned premium (NEP) in 2015, excluding the effects of foreign exchange on non-monetary items, increased by 3.0% to US$1,649.6m (2014: US$1,601.1m/2.4%). At constant exchange rates the increase was 2.2% (2014: increase of 7.4%). The 2015 growth was impacted by the US$70.8m reinsurance premium paid in respect of the specific one-off reinsurance contract referred to in the outwards reinsurance section.

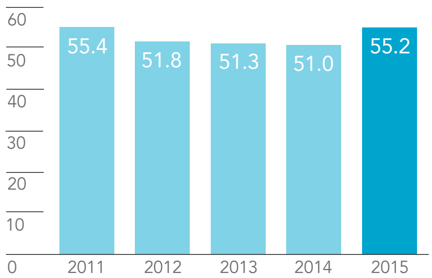
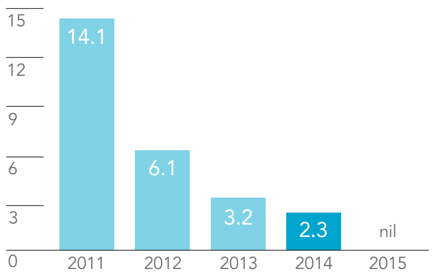
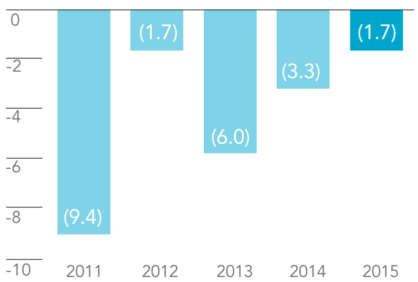
Direct business increased by 6.4% to US$1,327.4m (2014: US$1,248.0m/7.2%), while reinsurance decreased by 11.4% to US$294.2m (2014: US$332.0m/15.5%).

Claims

Measure	Commentary	Track record
Claims ratio	The claims ratio measures the performance of the whole underwriting book, encompassing risks written in the current year and in prior years.	**Claims ratio (%)** 

FINANCIAL PERFORMANCE REVIEW

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

Measure	Commentary	Track record
Attritional loss ratio	The attritional loss ratio measures the performance of the underlying underwriting book by measuring the effect of attritional claims.	**Attritional loss ratio (%)** 
Major claims ratio	The major claims ratio measures the effect of claims arising from major losses on our performance and the 2015 ratio reflects the low level of major loss activity during the year.	**Major claims ratio (%)** 
Reserve release ratio	The reserve release ratio measures the performance of reserves held on the statement of financial position at the start of the year. A negative ratio indicates an overall net release, which means that prior year claims are performing better than estimated at the start of the year. A positive ratio indicates that over the course of the year the amount required to meet those prior year claims has increased.	**Reserve release ratio (%)** 

Our claims experience in 2015 was in line with expectations.

The 2015 attritional loss ratio increased to 55.2% (2014: 51.0%). The 2014 ratio benefitted 1.9 percentage points from the one-off reinsurance contract as described above. The increase also arose partly from rating pressures and a change in business mix as we continued to reduce exposure to short-tail reinsurance which carries a lower attritional loss ratio. The Group also experienced a number of smaller risk and weather losses which negatively affected the ratio.

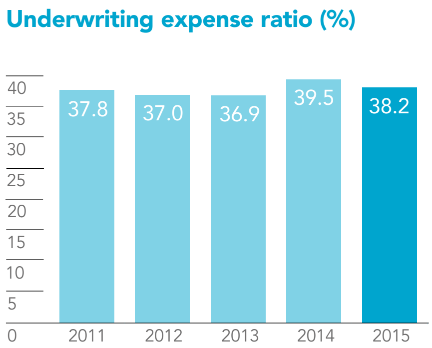
2015 saw limited catastrophe activity and the Group incurred no major claims in the period (31 December 2014: US$35.8m). Major claims are defined as claims in excess of US$10.0m (net of reinsurance and allowing for reinstatement), incurred from natural or man-made catastrophes, or from large single risk loss events.

We had immaterial exposure to the losses of Port of Tianjin explosions, Hurricane Joaquin, the Carolina floods, the US tornadoes and the UK floods.

As part of our standard reserving process, we released US$28.6m of claims reserves established for prior year claims, the equivalent of a combined ratio reduction of 1.7% (2014: US$53.0m/3.3%). The main drivers of this release were marine, property treaty, specialty lines and casualty treaty, partly offset by strengthening in our professional lines and specialist liability divisions. Our statement of financial position remains strong and we continue to operate a robust reserving process.

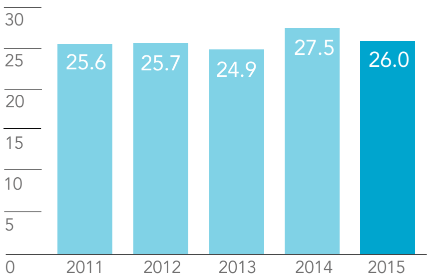
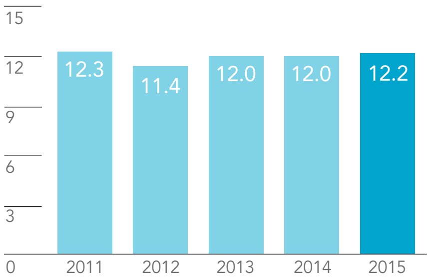
Underwriting expenses

Our underwriting expense ratio was 38.2% (2014: 39.5%).

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

FINANCIAL PERFORMANCE REVIEW

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

Measure	Commentary	Track record
Commission ratio	The commission ratio measures our distribution costs and shows how much of every US$1 of premium is paid to acquire our business.	**Commission ratio (%)** 
Operating expense ratio	The operating expense ratio helps us understand how much it costs us to support the underwriting activities. This ratio shows how much of every US$1 of premium we spend supporting our underwriting activities.	**Operating expense ratio (%)** 

As noted above, a one-off reinsurance contract added 1.7 percentage points to the 2014 underwriting expense ratio, increasing the commission ratio by 1.1 percentage points and the operating expense ratio by 0.6 percentage points.

Commission costs were US$429.2m and the commission expense ratio was 26.0% (2014: US$441.5m/27.5%). In addition to the effects of the one-off reinsurance, the ratio was affected by changes in business mix, including increased binder business. We wrote more business through coverholders as, in the current softening conditions, the rating of this business tends to be better than open market business.

Our operating expenses are analysed opposite.

Expenses

Our operating expense ratio increased to 12.2% (2014: 12.0%). 2014 includes 0.6 percentage points resulting from the one-off reinsurance contract mentioned above. Operating expenses for the period were as follows:

Expense analysis	2015 US$m	2014 US$m
Underlying operating expenses including bonus provisions	**231.8**	227.7
Project costs, timing differences and other expense adjustments	**0.1**	2.5
Expenses before corporate activity related costs	**231.9**	230.2
Corporate activity related costs (note 1)	**23.8**	22.6
Total operating expenses	**255.7**	252.8

Note 1: Corporate activity costs during 2015 relate to costs incurred as a result of the acquisition of Brit by Fairfax. The 2014 corporate activity costs relate to Brit's IPO in April 2014.

Underlying operating expenses during 2015 increased by 0.7% to US$231.9m (2014: US$230.2m). The increase at constant exchange rates was 9.7%. This increase related to targeted expansion and investment in growth areas such as our US specialty business (BGSU) and aviation, accommodation costs, depreciation and regulatory levies, offset by a decrease in the bonus provision.

The allocation of operating expenses within the Consolidated Income Statement and the Segmental Information is as follows:

Disclosure of operating expenses	2015 US$m	2014 US$m
Acquisition costs	**100.1**	96.9
Other insurance related expenses	**101.8**	94.5
Total insurance related expenses	**201.9**	191.4
Other operating expenses	**53.8**	61.4
Total operating expenses	**255.7**	252.8

FINANCIAL PERFORMANCE REVIEW

Investment return

The return on our invested assets after deducting external fees was US$5.0m or 0.1% (2014: US$124.9m/2.9%). Our invested assets at 31 December 2015 amounted to US$3,973.9m (2014: US$4,028.4m).

Investment return	2015 £m	2014 £m
Income	**72.7**	95.6
Released gains	**58.0**	21.0
Unrealised (losses)/gains	**(108.5)**	9.2
Investment return before fees	**22.2**	125.8
Investment management fees	**(11.9)**	(10.1)
Investment return net of fees	**10.3**	115.7
Investment related derivative return	**(5.3)**	9.1
Total return	**5.0**	124.8
Total return	**0.1%**	2.9%

Our income producing assets performed well and we generated income of US$72.7m during the year, representing a running yield of 1.6% (2014: US$95.6m/2.2%). Our total return in 2015 of US$5.0m (2014: US$124.8m) was influenced by the challenging investment environment and the rebalancing of our portfolio to a more defensive position taking a long-term view of markets.

Further discussion of our investment performance and portfolio is included in the Investment Management Review section of this Strategic Report, commencing on page 17.

Foreign exchange

As explained on page 22, we manage our currency exposures to mitigate the impact on solvency rather than to achieve a short-term impact on earnings. We experienced a total foreign exchange loss of US$60.2m in 2015 (2014: gain of US$35.8m), reflecting the strength of the US dollar against other currencies in which we trade and hold assets. This total foreign exchange related loss comprised:

- An unrealised revaluation loss of US$85.4m (2014: loss of US$0.7m), primarily relating to the mark to market of the capital we hold in non-US dollar currencies to match our risk exposures. The loss primarily results from the strengthening of the US dollar against Sterling, the Euro, the Australian dollar and the Canadian dollar;

- Gains of US$45.0m (2014: gain of US$2.9m) on derivative contracts which were entered into to help manage our monetary FX exposures and therefore should be viewed in conjunction with our monetary FX movements; and

- An accounting loss of US$19.8m (2014: gain of US$33.6m), as a result of the IFRS requirement to recognise non-monetary assets and liabilities at historic exchange rates. This adjustment is essentially a timing difference. The adjustment for the full year 2015 comprises the un-wind of the debit carried on the balance sheet at 31 December 2014 (US$16.2m), plus the credit balance established during 2015 (US$3.6m).

The allocation of the FX result within the Consolidated Income Statement is as follows:

Foreign exchange gains and (losses)	**2015 US$m**	2014 US$m
Net change in unearned premium provision – non-monetary FX effect	**(11.5)**	15.4
Acquisition costs – non-monetary FX effect	**2.2**	(3.8)
Net foreign exchange (losses)/gains – non-monetary (Note 1)	**(10.5)**	22.0
	(19.8)	33.6
Net foreign exchange losses – monetary (Note 1)	**(85.4)**	(0.7)
Return on derivative contracts – FX related instruments	**45.0**	2.9
	(40.4)	2.2
Total (loss)/gain	**(60.2)**	35.8

Note 1: The sum of these two amounts, US$95.9m, is the 'Net foreign exchange losses' figure per the Consolidated Income Statement (2014: US$21.3m 'Net foreign exchange gains').

Tax

Our tax on ordinary activities for 2015 resulted in tax income of US$7.9m (2014: expense of US$16.7m), based on a group profit before tax of US$7.7m (2014: US$246.0m).

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

The 2015 Group rate varies from the weighted average rate in those jurisdictions for a number of factors. The principal factor is the impact of the proposed reduction in the UK corporation tax rate and its effect on deferred tax liabilities and prior year adjustments, relating primarily to non-taxable dividends in prior year income. The rate is further influenced by non-UK taxes arising in our Lloyd's syndicate.

PRINCIPAL RISKS AND UNCERTAINTIES

Overview

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

The key categories of risk include:

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

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

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

Principal risks

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

Principal risk	Mitigation tools	Metrics	Status
Underwriting – pricing			
Inadequate pricing could have a material adverse effect on our results for underwriting operations and financial condition.	• Strategic focus on underwriting performance rather than on top line growth. • Strong governance processes around strategy and planning. • Pricing discipline is maintained through strict underwriting guidelines, monitoring of the delegated authorities and enforcement of the technical pricing framework. • Efficient use of the outwards reinsurance programme.	Risk adjusted rate change (2015: decrease of 4.1%; 2014: decrease of 2.9%).	This risk is particularly relevant in the current softening rating environment. Active rebalancing of the portfolio is a key focus for management.

PRINCIPAL RISKS AND UNCERTAINTIES

Principal risk | Mitigation tools | Metrics | Status

Underwriting – catastrophe

Principal risk

A catastrophic event or catastrophic events could result in large insured losses that adversely impact our financial results and potentially our capital position.

Mitigation tools

- Diverse portfolio of risks written between lines of business and geographic location.
- Regular monitoring against the Board catastrophe risk appetite by our exposure management team.
- Effective outwards reinsurance programme in place, with particular emphasis on managing accumulation of risks.
- Clear limits are set for key accumulations and conservative use of line size by our underwriters.

Metrics

Largest realistic disaster scenarios (1 October 2015 estimated loss in US$m):

Event	Gross	Net
Gulf of Mexico windstorm	813	174
Florida Miami windstorm	601	149
US North East windstorm	737	155
San Francisco earthquake	716	222
Japan earthquake	207	150
Japan windstorm	79	52
European windstorm	190	127

Status

Our outwards reinsurance programme was revised in 2014 to enhance protection using aggregate worldwide cover for property. This level of cover was renewed in 2015. One additional protection was in the form of a strategic US$75m fully collateralised quota share placed with Versutus, a Bermuda domiciled special purpose reinsurer. This provided protection to our existing worldwide property catastrophe excess of loss portfolio.

Reserving

Principal risk

Estimating insurance reserves is inherently uncertain and, if insufficient, may have a material adverse effect on our results and financial condition.

Mitigation tools

- Conservative best estimate reserving philosophy with track record of releases.
- Actuarial team recommend reserves independently from underwriting division using established actuarial techniques.
- Independent external review of reserving is performed annually.

Metrics

Reserve release ratio (2015: 1.7%; 2014: 3.3%).

Status

Reserves are held at a 'conservative best estimate' and we also carry an explicit risk margin.

No change in approach from prior years.

Principal risk	Mitigation tools	Metrics	Status
Investment risk			
Invested assets are susceptible to changes in economic conditions. A decrease in the value of our invested assets may have a material adverse effect on our results, financial condition and liquidity.	• Strong governance processes around investment strategy. • Regular monitoring against the Board investment risk appetite which includes defined limits for solvency, earnings risk and liquidity risk. • Investment guidelines in place for individual asset classes and monitored regularly.	Investment return net of fees (2015: 0.1%; 2014: 2.9%). Running yield (2015: 1.6%; 2014: 2.2%).	During 2015 we undertook a portfolio rebalancing exercise which involved reducing credit exposures, increasing exposure to government debt and extending duration in risk-free assets. This revised strategy takes a long-term view of markets.
People			
We could be adversely affected by the loss of one or more key employees or by an inability to attract and retain qualified personnel.	• Our remuneration strategy (including share-based remuneration) is designed to reward talent and success. We have a proven track record in being able to retain high-performing staff. • Succession and contingency plans are in place in the event of the loss of a key employee. • Regular monitoring of employee turnover and morale.	Staff turnover (2015: 7.0%; 2014: 6.8%).	The current environment is competitive with a number of our peers actively seeking talented staff. We actively manage our remuneration and HR policies to ensure we continue to retain and attract the best staff.

OUR PEOPLE, CULTURE, SOCIAL, COMMUNITY AND ENVIRONMENTAL MATTERS

Introduction

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

Our people and culture

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

During 2015 we continued to strengthen our highly committed team. Through the attraction and recruitment of new talent and the ongoing development of existing expertise, we continued to embed a culture of achievement in the organisation. This has resulted in employees feeling valued for their contribution as part of a team working towards the same goals.

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

We are committed to developing the technical, behavioural, management and leadership skills required for our teams to outperform – both individually and collectively. During 2015 we have introduced a new leadership programme. We are also investing in the future of Brit through our graduate and intern programmes and our bi-annual succession and talent mapping exercise, all of which aim to grow expertise from within and ensure robust succession plans.

Brit Syndicates Limited has Chartered Insurer status through the Chartered Insurance Institute. This prestigious designation signifies to our customers – and the market – that we are committed to the pursuit of the highest standards and demonstrates our adherence to ethical good practice.

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

The 2015 staff turnover rate excluding retirements and redundancies was 7.0% (2014: 6.8%).

At 31 December 2015, 33.7% (2014: 33.9%) of staff had completed at least five years of service and 14.2% (2014: 11.6%) had served at least ten years.

Social and community

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

During 2015 we supported ten charities (nine UK-based and one US-based) chosen by employees. We donated a sum of money to each charity at the start of the year and continued with fund raising activities through the year, including a well-attended quiz night. Our Social Committee also organised a number of volunteering days in the local community. We further promote staff involvement in the community by granting every employee two additional days of paid leave a year to volunteer their time to a registered local charity.

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

During 2015, Brit donated US$0.3m under its charitable initiatives. In addition to this, 66 employee volunteering days were used.

Environmental responsibility

During 2015 we recycled 28.5 tonnes of paper waste (2014: 26.0 tonnes). We sent 144.7 tonnes of general waste to energy recycling (2014: 158.3 tonnes), recycled 8.4 tonnes of glass (2014: 8.2 tonnes), 28.4 tonnes of cardboard (2014: 25.8 tonnes) and 2.7 tonnes of food waste (2014: 3.3 tonnes). During 2015, in conjunction with our building managers, we continued to work hard to reduce waste sent to landfill and this work culminated in the building being awarded ISO14001. At December 2015, in line with government legislation, we were fully ESOS compliant after undertaking a stringent audit.

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

We measure and monitor our carbon footprint. In 2015 our carbon emissions per employee reduced by 14.6% to 3.5 tonnes (2014: 4.1 tonnes). The sources of these emissions were as follows:

Emission source	2015 CO2 (tonnes)	2014 CO2 (tonnes)
Gas	**5**	5
Electricity	**890**	994
Business air travel	**874**	887
Business travel other	**7**	4
Total carbon footprint	**1,776**	1,890
Number of employees at 31 December excluding all non-executive directors	**507**	466
Carbon footprint per employee	**3.5**	4.1

GOVERNANCE

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

Corporate Governance Report
This report explains our governance framework.

GOVERNANCE

DIRECTORS' REPORT

The Directors present their report together with the audited consolidated financial statements for the year ended 31 December 2015.

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

Significant changes and events
FFHL Group Limited, a member of the Fairfax Financial Holdings Limited group (Fairfax), completed the acquisition of 97.0% of Brit on 5 June 2015 and acquired the remaining 3.0% on 8 July 2015. Fairfax (www.fairfax.ca) is a Canadian company whose shares are listed on the Toronto Stock Exchange. On 29 June 2015, Fairfax completed the sale of 29.9% of Brit to Ontario Municipal Employees Retirement System (OMERS), the pension plan manager for government employees in the Canadian province of Ontario.

On 29 June 2015, the Company was re-registered as a private company from a public limited company and changed its name from Brit PLC to Brit Limited.

On 29 June 2015, the Company entered into a Shareholders' Agreement with FFHL Group Limited, OMERS Administration Corporation, Fairfax Financial Holdings Limited and Brit Limited. Following this agreement, the Company's share capital was redesignated into A and B Ordinary shares where OMERS Administration Corporation would hold 120,000,000 (A Ordinary) of the Company's share capital and FFHL Group Limited would hold 281,057,706 (B Ordinary).

Directors
Following the successful offer made by Fairfax for Brit, Jonathan Feuer, Sachin Khajuria, Kamil Salame, Gernot Lohr, Maarten Hulshoff, Hans-Peter Gerhardt and Willem Stevens resigned as non-executive Directors of the Brit Limited Board. On 29 June 2015, Matthew Wilson (Group Deputy CEO and Chief Underwriting Officer) was appointed to the Board. On 3 December 2015, Mark Allan (Chief Financial Officer) was appointed to the Board. Additionally, Andrew Barnard and Bijan Khosrowshahi were appointed to the Board as representatives of Fairfax. Jeremy Ehrlich was appointed as the OMERS representative.

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

Richard Ward
Mark Cloutier
Ipe Jacob
Matthew Wilson
Mark Allan
Andrew Barnard
Bijan Khosrowshahi
Jeremy Ehrlich

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

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

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

DIRECTORS' REPORT

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

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

Appointment and retirement of Directors
Any person who is willing to act as a Director may be appointed by a unanimous resolution of the shareholders.

Dividend
The Directors do not recommend a final dividend.

Share capital
The Company's ordinary issued share capital at 31 December 2015 comprised two classes of ordinary shares, Ordinary A and Ordinary B which are fully paid and rank equally in all respects.

Voting rights
The Company's articles of association provide that, subject to any rights or restrictions attached to any shares, on a show of hands every member present in person or by proxy shall have one vote, and on a poll every member shall have one vote for every share of which he is a holder. On a poll, votes may be given either personally or by proxy or (in the case of a corporate member) by a duly authorised representative.

A shareholder entitled to attend and vote at a general meeting may appoint one or more proxies to attend and vote instead of him. If a member appoints more than one proxy he must specify the number of shares which each proxy is entitled to exercise rights over. A proxy need not be a shareholder of the Company.

Articles of Association
The Company's articles of association may only be amended by special resolution at a general meeting of shareholders.

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

Shareholder	Units	Class	% of total A and B ordinary shares
FFHL Group Limited	281,057,706	B ordinary	70.1
OMERS Administration Corporation	120,000,000	A ordinary	29.9

Significant agreements
The following agreement was in force at 31 December 2015.

Revolving credit facility
The Group has a syndicated revolving credit facility (RCF) which provides for US$360.0m of committed multi-currency financing. Amounts under the RCF can be drawn until 30 November 2018, and the RCF terminates on 31 December 2018, on which date all outstanding facilities must be repaid.

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

Employees

The Company gives full and fair consideration to applications for employment made by disabled persons, acknowledging their aptitude and abilities. The Company continues the employment of and arranges appropriate training for any employee who has become disabled during the period of their employment.

The Company maintains procedures by which all employees are systematically encouraged to express matters that may affect them and are provided with information on matters of concern.

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

Greenhouse gas emissions

Disclosures concerning greenhouse gas emissions are now compulsory and details of this and our environmental responsibility can be found on page 41.

Going concern

A review of the financial performance of the Group is set out on pages 24 to 35. The financial position of the Group, its cash flows and borrowing facilities are set out on pages 17 to 22. After reviewing the Group's budgets and medium term plans, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the accounts.

Political donations

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

Disclosure of information to the Company's auditor

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

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

Auditor

Ernst & Young LLP (EY) remain in office as the Company's auditor.

By order of the Board

David Gormley
Group Company Secretary
17 February 2016

Brit Limited: 8821629

CORPORATE GOVERNANCE REPORT

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

Board of Directors
The Board currently has eight directors and the full board meets on a regular basis.

Independence of Directors
The Board considers Ipe Jacob to be an independent non-executive Director of the Company, within the meaning of the Code. Ipe Jacob also serves as an independent non-executive director on the board of Brit Syndicates Limited and as chair of the BIG and UK audit committees. Mr Jacob is also chair of the BIG Risk Oversight Committee and a member of the UK Risk Oversight Committee.

Dr Richard Ward, non-executive Chairman, was independent on his appointment as a Director of the Company in March 2014 and he remains non-executive. The Chairman is also the non-executive chair of BSL. The contributions of both the Chairman and Ipe Jacob are of significant benefit to the Group.

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

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

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

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

Board evaluation and induction
During the year, an evaluation was carried out, of the Board, its Committees and individual Directors.

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

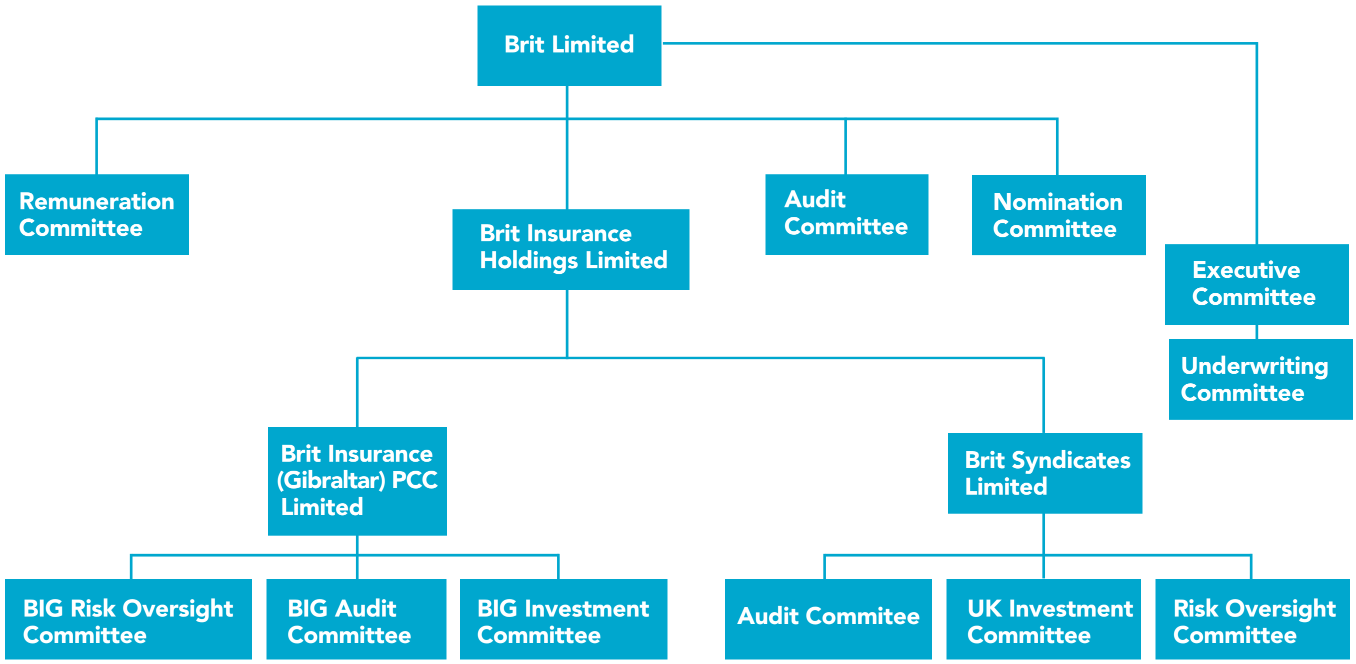
Brit Governance Structure as at 31 December 2015
The Governance structure, shown overleaf, is deeply embedded within the business. The Company's main operating subsidiaries have in place governance principles in accordance with the Group's Memorandum of Corporate Governance.

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

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

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

Goverance Structure



By order of the Board

David Gormley
Group Company Secretary
17 February 2016

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INDEX TO THE FINANCIAL STATEMENTS

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BRIT LIMITED

We have audited the financial statements of Brit Limited for the year ended 31 December 2015 which comprise:

- the consolidated income statement;
- the consolidated statement of comprehensive income;
- the consolidated statement of financial position;
- the consolidated statement of cash flows;
- the consolidated statement of changes in equity;
- the related notes 1 to 37 to the consolidated financial statements;
- the parent company statement of financial position;
- the parent company statement of changes in equity; and
- the related notes 1 to 14 to the parent company financial statements.

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 43, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 December 2015 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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

Angus Millar (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
17 February 2016

Notes:

1. The maintenance and integrity of the Brit Limited web site is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.
2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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INTRODUCTION TO THE PRIMARY STATEMENTS

Consolidated income statement

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

Consolidated statement of comprehensive income

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

Consolidated statement of financial position

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

Consolidated statement of cash flows

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

Consolidated statement of changes in equity

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

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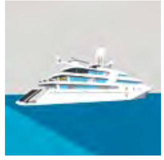


INDEX TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2015

	Note	Year ended 31 December 2015 US$m	Restated Year ended 31 December 2014 US$m
Revenue			
Gross premiums written	5	**1,999.2**	2,148.5
Less premiums ceded to reinsurers	5	**(369.4)**	(457.4)
Premiums written, net of reinsurance		**1,629.8**	1,691.1
Gross amount of change in provision for unearned premiums		**(5.8)**	(82.9)
Reinsurers' share of change in provision for unearned premiums		**14.1**	8.3
Net change in provision for unearned premiums		**8.3**	(74.6)
Earned premiums, net of reinsurance		**1,638.1**	1,616.5
Investment return	6	**10.3**	115.7
Return on derivative contracts	7	**39.7**	12.0
Other income		**0.3**	0.8
Net foreign exchange gains	8	**–**	21.3
Total revenue		**1,688.4**	1,766.3
Expenses			
Claims incurred:			
Claims paid:			
Gross amount		**(871.5)**	(1,251.8)
Reinsurers' share		**191.1**	185.6
Claims paid, net of reinsurance		**(680.4)**	(1,066.2)
Change in the provision for claims:			
Gross amount		**(211.0)**	167.5
Reinsurers' share		**9.4**	98.8
Net change in the provision for claims		**(201.6)**	266.3
Claims incurred, net of reinsurance	5	**(882.0)**	(799.9)
Acquisition costs	9	**(526.6)**	(542.2)
Other operating expenses	9	**(155.6)**	(155.9)
Net foreign exchange losses	8	**(95.9)**	–
Total expenses excluding finance costs		**(1,660.1)**	(1,498.0)
Operating profit		**28.3**	268.3
Finance costs	12	**(20.6)**	(22.3)
Profit on ordinary activities before tax		**7.7**	246.0
Tax income/(expense)	14(a)	**7.9**	(16.7)
Profit for the year		**15.6**	229.3

All profits arise from continuing operations.

The accompanying Notes are an integral part of the annual accounts.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2015

	Note	Year ended 31 December 2015 US$m	Restated Year ended 31 December 2014 US$m
Profit attributable to owners of the parent		**15.6**	229.3
Other comprehensive income			
Items not to be reclassified to profit or loss in subsequent periods:			
Actuarial gains on defined benefit pension scheme	20	**3.0**	0.6
Deferred tax charge relating to actuarial gains on defined benefit pension scheme	14(b)	**(0.5)**	(0.1)
Items that may be reclassified to profit or loss in subsequent periods:			
Change in unrealised foreign currency translation losses on foreign operations		**(4.9)**	(82.4)
Total other comprehensive income		**(2.4)**	(81.9)
Total comprehensive income recognised for the year		**13.2**	147.4

The accompanying Notes are an integral part of the annual accounts.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2015

	Note	31 December 2015 US$m	Restated 31 December 2014 US$m	Restated 1 January 2014 US$m
Assets				
Intangible assets	15	**95.1**	97.0	104.1
Property, plant and equipment	16	**21.1**	7.3	8.5
Deferred acquisition costs	17	**222.6**	209.5	208.7
Investment in associated undertaking	13	**28.6**	–	–
Reinsurance contracts	19	**818.9**	821.2	747.0
Employee benefits	20	**52.1**	43.4	36.4
Current taxation		**15.3**	16.4	10.0
Financial investments	21	**3,330.8**	3,525.3	3,778.0
Derivative contracts	22	**63.6**	12.2	21.1
Insurance and other receivables	23	**691.7**	706.2	632.1
Cash and cash equivalents	24	**581.0**	501.4	524.1
Total assets		**5,920.8**	5,939.9	6,070.0
Liabilities and Equity				
Liabilities				
Insurance contracts	19	**4,182.3**	4,062.7	4,305.9
Borrowings	25	**185.6**	194.2	204.5
Deferred taxation	18	**27.4**	35.6	28.4
Provisions		**3.3**	3.0	4.0
Current taxation		**3.2**	4.5	17.6
Derivative contracts	22	**12.5**	4.2	18.4
Insurance and other payables	26	**350.0**	344.5	310.9
Total liabilities		**4,764.3**	4,648.7	4,889.7
Equity				
Called up share capital	27	**6.6**	6.6	1.1
Share premium account		**–**	–	733.6
Own shares		**–**	(1.5)	(2.5)
Reserves		**–**	–	(151.9)
Foreign currency translation reserve		**(77.3)**	(77.6)	4.8
Retained earnings		**1,227.2**	1,363.7	593.5
Total equity attributable to owners of the parent		**1,156.5**	1,291.2	1,178.6
Non-controlling interests		**–**	–	1.7
Total equity		**1,156.5**	1,291.2	1,180.3
Total liabilities and equity		**5,920.8**	5,939.9	6,070.0

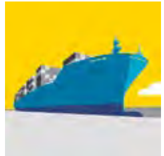
The accompanying Notes are an integral part of the annual accounts.

These financial statements were approved by the Board of Directors on 17 February 2016 and were signed on its behalf by:

Mark Cloutier
Group Chief Executive Officer

Mark Allan
Chief Financial Officer

CONSOLIDATED STATEMENT OF CASH FLOWS



For the year ended 31 December 2015

	Note	**Year ended 31 December 2015 US$m**	Restated Year ended 31 December 2014 US$m
Cash generated from operations			
Cash flows provided by operating activities	30	**262.0**	(75.1)
Tax paid		**(0.7)**	(27.6)
Interest received		**40.6**	63.4
Dividends received		**30.1**	34.2
Net cash inflows/(outflows) from operating activities		**332.0**	(5.1)
Cash flows from investing activities			
Purchase of intangible assets	15	**(7.7)**	(5.1)
Purchase of property, plant and equipment	16	**(18.6)**	(2.6)
Acquisitions	33	**–**	(2.0)
Investment in associated undertaking		**(28.6)**	–
Disposal of consolidated structured entity		**–**	72.4
Net cash (outflows)/inflows from investing activities		**(54.9)**	62.7
Cash flows from financing activities			
Disposal of own shares		**–**	0.5
Purchase of shares by non-controlling interests		**–**	2.4
Purchase of shares for share-based payment schemes		**(10.7)**	–
Interest paid		**(15.6)**	(18.6)
Dividend paid		**(154.1)**	(40.4)
Net cash outflows from financing activities		**(180.4)**	(56.1)
Net increase in cash and cash equivalents		**96.7**	1.5
Cash and cash equivalents at beginning of the year		**501.4**	524.1
Effect of exchange rate fluctuations on cash and cash equivalents		**(17.1)**	(24.2)
Cash and cash equivalents at the end of the year	24	**581.0**	501.4

The accompanying Notes are an integral part of the annual accounts.

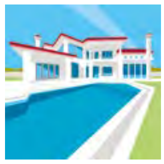
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2015

	Note	Called up Share capital US$m	Own shares US$m	Foreign currency translation reserve US$m	Retained earnings US$m	Total equity US$m
At 1 January 2015		**6.6**	**(1.5)**	**(77.6)**	**1,363.7**	**1,291.2**
Total comprehensive income recognised		–	–	(4.9)	18.1	13.2
Transfer to profit on liquidation of subsidiaries		–	–	5.2	–	5.2
Vesting of own shares		–	1.5	–	(1.5)	–
Share based payments	32	–	–	–	4.9	4.9
Purchase of shares for share-based payments	32	–	–	–	(3.9)	(3.9)
Dividend	28	–	–	–	(154.1)	(154.1)
At 31 December 2015		**6.6**	**–**	**(77.3)**	**1,227.2**	**1,156.5**

The accompanying Notes are an integral part of the annual accounts.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY



For the year ended 31 December 2014

	Note	Called up share capital US$m	Share premium account US$m	Own shares US$m	Reserves US$m	Foreign currency translation reserve US$m	Retained earnings US$m	Total equity attributable to owners of the parent US$m	Non-controlling interests US$m	Total equity US$m
At 1 January 2014 (Restated)		1.1	733.6	(2.5)	(151.9)	4.8	593.5	1,178.6	1.7	1,180.3
Total comprehensive income recognised		–	–	–	–	(82.4)	229.8	147.4	–	147.4
Purchase of shares by non-controlling interests		–	–	–	–	–	–	–	2.4	2.4
Buy-out of non-controlling interests		–	27.8	–	–	–	(23.7)	4.1	(4.1)	–
Vesting of own shares		–	–	1.2	–	–	(1.2)	–	–	–
Corporate reorganisation		(1.1)	(761.4)	1.3	151.9	–	609.3	–	–	–
Establishment of Brit Limited		1,328.0	–	(2.0)	–	–	(1,326.0)	–	–	–
Capital reduction		(1,321.4)	–	–	–	–	1,321.4	–	–	–
Disposal of own shares		–	–	0.5	–	–	–	0.5	–	0.5
Share-based payments	32	–	–	–	–	–	1.0	1.0	–	1.0
Dividend	28	–	–	–	–	–	(40.4)	(40.4)	–	(40.4)
At 31 December 2014 (Restated)		6.6	–	(1.5)	–	(77.6)	1,363.7	1,291.2	–	1,291.2

Nature and Purpose of Group Reserves

Share premium account: The share premium account represents the difference between the price at which shares are issued and their nominal value, less any distributions made from this account.

Own shares: Own shares represents the cost of shares held in trust for settling share-based payments and shares held in treasury.

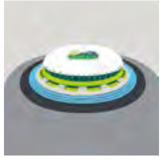
Reserves: The balance results from a share cancellation less a legal reserve.

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

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

The accompanying Notes are an integral part of the annual accounts.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS



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

1 GENERAL INFORMATION

The consolidated financial statements of Brit Limited and its subsidiaries (collectively, the Group) for the year ended 31 December 2015 were authorised for issue in accordance with a resolution of the Directors on 17 February 2016. The Group's principal activity is the underwriting of general insurance and reinsurance business.

Brit Limited (the Company) is a limited company, incorporated and domiciled in England and Wales.

2 ACCOUNTING POLICIES AND BASIS OF PREPARATION

2.1 Corporate reorganisation

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

2.2 Change of presentation currency

On 1 January 2015 the Group changed its presentation currency from Sterling to US dollars. This change has been made retrospectively and the 2014 full year financial statements have been restated using the following procedures:

- Assets and liabilities were translated into US dollars at closing rates of exchange;
- Income and expenses were translated into US dollars at average rates of exchange;
- Differences resulting from the retranslation were taken to reserves;
- The cumulative translation reserve was set to nil at 1 January 2005 (the transition date to IFRS); and
- Share capital, share premium, own shares and other reserves were translated at historic rates prevailing at the dates of transactions.

2.3 Change of functional currency

IAS 21 'The effects of changes in foreign exchange rates' describes functional currency as 'the currency of the primary economic environment in which an entity operates.' Determining when the functional currency of an entity has changed is a matter of judgement as the determining factors may move gradually over time. However, the Board has concluded that the functional currency of the principal operating entities of the Group changed from Sterling to US dollars with effect from 1 January 2015. The main reasons for the change were:

- A change in the capital policy from 1 January 2015, which resulted in an increased amount of capital held in US dollars relative to other currencies;
- A change in early 2015 from Sterling to US dollars in the denomination of the revolving credit facility, from which the principal operating entities benefit, to reflect the currency in which it would most likely be drawn; and
- A gradual movement towards US dollars, over a number of years, in the geographical concentration of premiums and settlement currency.

At the same time, the functional currency of the parent company, Brit Limited, also changed from Sterling to US dollars as it is deemed to be an extension of its principal operating entities as its primary source of income is dividends from those entities.

In accordance with IAS 21, the change in functional currency has been applied prospectively from 1 January 2015.

2.4 Basis of preparation

The consolidated financial statements for the year ended 31 December 2015 have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU). The Group has not adopted any new standards or amendments to standards in 2015.

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

Certain amounts recorded in the financial information include estimates and assumptions made by management, particularly about insurance liability reserves, investment valuations, interest rates and other factors. Actual results may differ from the estimates made.

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

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

Standard		Effective
IAS 1	Disclosure initiative (amendments)	Periods commencing on or after 1 January 2016
IAS 16 and IAS 18	Clarification (amendments)	Periods commencing on or after 1 January 2016
IFRS 14	Regulatory Deferral Accounts (2014)	Periods commencing on or after 1 January 2016
IAS 7	Statement of Cash Flows (amendments)	Periods commencing on or after 1 January 2017
IFRS 15	Revenue From Contracts With Customers (2014)	Periods commencing on or after 1 January 2018
IFRS 9	Financial Instruments (2014)	Periods commencing on or after 1 January 2018
IFRS 16	Leases (2016)	Periods commencing on or after 1 January 2019

In July 2014, the IASB issued the final version of IFRS 9 'Financial Instruments' that replaces IAS 39 'Financial Instruments: Recognition and Measurement' and all previous versions of IFRS 9. IFRS 9 (2014) addresses all three aspects of the IASB's accounting for financial instruments project, including classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. This standard has not yet been endorsed by the EU. The Group is considering the impact of this standard on its financial statements.

The Group also continues to monitor developments at the IASB in respect of an expected revised standard on IFRS 4 'Insurance Contracts', the issue date of which has not yet been confirmed by the IASB.

The Directors anticipate that the adoption of the other standards in future periods will have no material impact on the financial statements of the Group.

The comparative year of the consolidated statement of cash flows has been restated to the extent that interest paid has been recategorised from operating activity cash flows to financing activity cash flows.

2.5 Basis of consolidation

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

2 ACCOUNTING POLICIES AND BASIS OF PREPARATION (continued)

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

2.6 Product classification

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

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

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

2.7 Other accounting policies

2.7.1 Insurance contracts

(a) Premiums

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

(b) Profit commissions receivable

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

(c) Deferred acquisition costs

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

(d) Claims incurred

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

(e) Outstanding claims provisions

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

(f) Provision for unearned premiums

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

(g) Liability adequacy tests

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

(h) Reinsurance

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

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

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

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

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

(i) Syndicate assets and liabilities

For each managed syndicate on which the Group participates, the Group's proportion of the syndicate's assets and liabilities has been reflected in its consolidated statement of financial position. Syndicate assets are held subject to trust deeds for the benefit of the syndicate's insurance creditors.

2 ACCOUNTING POLICIES AND BASIS OF PREPARATION (continued)

2.7.2 Revenue recognition

(a) Fee and commission income

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

(b) Investment return

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

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

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

2.7.3 Recognition and derecognition of financial assets and financial liabilities

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the contract.

A financial asset is derecognised when either the contractual rights to the asset's cash flows expire, or the asset is transferred and the transfer qualifies for derecognition under a combination of risks and rewards and control tests.

A financial liability is derecognised when it is extinguished which is when the obligation in the contract is discharged, cancelled or expired.

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

2.7.4 Investments

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

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

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

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

2.7.5 Derivatives

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

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

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

2.7.6 Intangible assets

(a) Syndicate participation rights

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

(b) Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring into use the specific software. Internal development costs that are directly associated with the production of identifiable and unique software products controlled by the Group are also capitalised where the cost can be measured reliably, the Group intends to and has adequate resources to complete development and the computer software will generate future economic benefits.

All computer software costs are finite life assets and amortised on a straight-line basis over their expected useful lives, not exceeding a period of five years.

(c) Trade names and distribution channels

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

Trade names	5 years
Distribution channels	15 years

(d) Renewal rights

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 ACCOUNTING POLICIES AND BASIS OF PREPARATION (continued)

2.7.7 Property, plant and equipment

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

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

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

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

2.7.8 Impairment

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

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

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

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

2.7.9 Cash and cash equivalents

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

2.7.10 Income taxes

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

(a) Current income tax

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

(b) Deferred income tax

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

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

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

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

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

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

Deferred tax assets and liabilities are not discounted.

2.7.11 Employee benefits

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

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

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

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

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

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

2.7.12 Share-based payments

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

2 ACCOUNTING POLICIES AND BASIS OF PREPARATION (continued)

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

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

2.7.13 Own shares

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

2.7.14 Provisions and contingencies

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

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

2.7.15 Leased assets

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

2.7.16 Foreign currency translation

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

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

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

2.7.17 Borrowings

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

2.7.18 Segmental reporting

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

2.7.19 Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments. Loans and receivables are measured at amortised cost, using the effective interest rate method.

2.7.20 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.

2.7.21 Dividend and capital distributions

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

2.7.22 Collateral

The Group receives collateral from certain reinsurers and pledges collateral where required for regulatory purposes.

Collateral received in the form of cash is recognised as an asset on the statement of financial position with a corresponding liability for the repayment. Non-cash collateral received is not recognised on the statement of financial position.

Collateral pledged is not derecognised from the statement of financial position unless the Group defaults on its obligations under the relevant agreement.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

3.1 Introduction

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

3.2 The ultimate liability arising from claims made under insurance contracts

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

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

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

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

- Quarterly statistical data is produced in respect of gross and net premiums and claims (paid and incurred);
- Projections of ultimate premiums, reinstatement premiums and claims are produced by the internal actuarial department using standard actuarial projection techniques (e.g. Basic Chain Ladder, Bornhuetter-Ferguson, Initial Expected Loss Ratio). The Basic Chain Ladder and Bornhuetter-Ferguson projection methods are based on the key assumption that historical development of premiums and claims is representative of future development. Claims inflation is taken into account in the Initial Expected Loss Ratio selections but is otherwise assumed to be in line with historical inflation trends, unless explicit adjustments for other drivers of inflation such as legislative developments are deemed appropriate.
- Some classes of business have characteristics which do not necessarily lend themselves easily to statistical estimation techniques e.g. due to low data volumes. In such cases, for example, a policy-by-policy review may also be carried out to supplement statistical estimates;
- In the event of catastrophe losses, 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 auditors.

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

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

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

The carrying value at the date of the statement of financial position of gross claims reported and loss adjustment expenses and claims incurred but not reported were US$3,324.1m (2014: US$3,210.3m) as set out in Note 19 to the accounts. The amount of reinsurance recoveries estimated at that date is US$678.4m (2014: US$694.8m).

3.3 Pipeline premiums

Written premiums include pipeline premiums of US$486.8m (2014: US$482.1m) which represent future premiums receivable on in-force insurance contracts. Pipeline premium estimates are typically based on standard actuarial projection techniques (e.g. Basic Chain Ladder) on the key assumption that historical development of premiums is representative of future development.

3.4 Intangible assets

Intangible assets with indefinite useful lives are tested for impairment on an annual basis in accordance with IAS 36 'Impairment of Assets'. Determining the assumptions used in the test requires estimation. The indefinite useful life intangible assets of the Group consist of syndicate participation rights and their carrying amount at the date of the statement of financial position was US$70.8m (2014: US$70.8m). For further information, refer to Note 15.

3.5 Financial investments

Financial investments are carried in the statement of financial position at fair value. The carrying amount of financial investments at the date of the statement of financial position was US$3,330.8m (2014: US$3,525.3m). Determining the fair value of certain investments requires estimation.

The Group value investments using designated methodologies, estimations and assumptions. These securities, which are reported at fair value on the consolidated statement of financial position, represent the majority of the invested assets. The measurement basis for assets carried at fair value is categorised into a 'fair value hierarchy' in accordance with the valuation inputs and consistent with IFRS 13 'Fair Value Measurement'. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (level one); the middle priority to fair values other than quoted prices based on observable market information (level two); and the lowest priority to unobservable inputs that reflect the assumptions that we consider market participants would normally use (level three). At 31 December 2015, financial investments amounting to US$61.5m (2014: US$316.1m) were classified as level three.

The classification within the fair value hierarchy is based on the lowest level of significant input to its valuation. Any change to investment valuations may affect our results of operations and reported financial condition. For further information, refer to Note 21.

3.6 Defined benefit plans

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

The carrying amount of the pension asset at the date of the statement of financial position was US$52.1m (2014: US$43.4m). For further information, refer to Note 20.

4 RISK MANAGEMENT POLICIES

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

4.1 Insurance risk

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4 RISK MANAGEMENT POLICIES (continued)

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

4.1.1 Underwriting risk

(a) Introduction

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

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

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

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

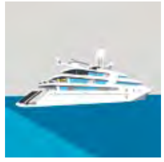
(b) Controls over underwriting strategy

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

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

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

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



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

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

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

(c) Underwriting risk profile

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

The Group underwrites a well-diversified portfolio across multiple regions and classes. While underlying risk and the policyholder may be situated anywhere in the world, more than 88% of the GWP of the Group in 2015 was sourced in London. The other business written by the syndicate is sourced through a wholly-owned service company in the United States, which business accounted for 8.8% of the Group's annual GWP in 2015. The Group also writes business from its office in Bermuda, with BGSB accounting for 3.1% of the Group's annual GWP in 2015, and through the Lloyd's China Platform. In 2015, 18.5% of the Group's GWP was reinsured to third parties.

(d) Geographical concentration of premium

The Group enters into policies with policyholders from all over the world, with the underlying risk relating to premiums spread worldwide. This allows the Group to benefit from a wide geographic diversification of risk. The three principal locations of the Group's policyholders are the United States, 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:

	Gross premiums written US$m	Net premiums written US$m
2015		
United States	**857.5**	**675.3**
United Kingdom	**120.3**	**102.4**
Europe (excluding UK)	**121.3**	**83.3**
Other (including worldwide)	**900.1**	**768.8**
	1,999.2	**1,629.8**
2014		
United States	827.3	663.1
United Kingdom	159.6	119.8
Europe (excluding UK)	138.6	85.6
Other (including worldwide)	1,023.0	822.6
	2,148.5	1,691.1

4 RISK MANAGEMENT POLICIES (continued)

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

(e) Portfolio mix

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

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

		2015 US$m	**2015 Gross premiums written %**	2014 US$m	2014 Gross premiums written %
Short-tail direct insurance	Property, marine, energy, accident and health, BGSU, aerospace, terrorism and political	**1,141.8**	**57%**	1,183.9	55%
Long-tail direct insurance	Professional lines, specialty lines, specialist liability	**492.1**	**24%**	559.7	26%
Short-tail reinsurance	Property treaty	**151.5**	**8%**	181.0	8%
Long-tail reinsurance	Casualty treaty	**213.6**	**11%**	224.0	10%
Other	Other underwriting and other corporate	**0.2**	**<1%**	(0.1)	<1%
		1,999.2	**100%**	2,148.5	100%

The Group underwrites a business mix of both insurance and reinsurance, long and short-tail business across a number of geographic areas which results in a diversification of the Group's portfolio. The business mix is monitored on an ongoing basis with particular focus on the short-tail vs. long-tail split and the proportion of delegated underwriting business. Long-tail business makes up 35.3% of the portfolio at 31 December 2015 (2014: 36.5%) and delegated underwriting represents 40.4% (2014: 38.0%). Underwriting risk is mainly driven by the syndicate's US catastrophe exposure. Casualty treaty is also a driver due to its long-tail exposure.

(i) Short-tail direct insurance

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

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

Property	Property coverage including business interruption on a worldwide basis and delegated underwriting business predominantly in North America.
Marine	Coverage for cargo (including specie and fine art), hull (including yacht) and marine liability.
Energy	Coverage for upstream (offshore) and midstream activities related to oil and gas production.
US specialty	Public and non-profit package on both a self-insured retention (SIR) and first dollar basis; property and liability package business for US criminal justice service operations; property direct and facultative reinsurance.
Accident and health	Coverage for personal accident (including kidnap and ransom), bloodstock and contingency
Terrorism and political	Coverage for terrorism, political and credit risks.
Aviation	Coverage for aviation risks, including airlines, general aviation and satellites at both launch and in orbit.

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

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

(ii) Long-tail direct insurance

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

Casualty	Includes cover for financial institutions, legal expenses, directors' and officers', and professional lines.
Specialist liability	Cover for employers' liability and public liability both in the UK and internationally but excluding the US.

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

(iii) Short-tail reinsurance

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

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

(iv) Long-tail reinsurance

Introduction

The Group's long-tail reinsurance business centres around casualty treaty. Core lines of business include officers', workers' compensation, medical malpractice, accident & health, and other accident classes including property terror.

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

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

4 RISK MANAGEMENT POLICIES (continued)

(v) Aggregate exposure management

The Group is exposed to the potential of large claims from natural catastrophe events. The Group's catastrophe risk appetite is set by the board who may adjust limits to reflect market conditions. Overall, the Group has a maximum catastrophe risk tolerance for major catastrophe events (as measured through RDS losses such as a Florida Miami windstorm) of 25% of Brit Limited Group level net tangible assets. This equates to a maximum acceptable loss (after all reinsurance) of US$265.4m at 31 December 2015.

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

		Modelled Group loss at 1 October 2015 (Note 1)		Modelled Group loss at 1 October 2014 (Note 1)	
	Estimated industry loss US$m	**Gross US$m**	**Net US$m**	Gross US$m	Net US$m
Gulf of Mexico windstorm	113,500	**813**	**174**	700	172
Florida Miami windstorm	128,250	**601**	**149**	540	127
US North East windstorm	80,500	**737**	**155**	605	130
San Francisco earthquake	87,750	**716**	**222**	596	177
Japan earthquake	43,118	**207**	**150**	181	133
Japan windstorm	12,853	**79**	**52**	85	72
European windstorm	26,103	**190**	**127**	195	111

Note 1: At 31 December 2015 foreign 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.

(vi) Sensitivity to changes in net claims ratio

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

	Movement in profit year ended 31 December 2015		Movement in profit year ended 31 December 2014	
	US$m	**%**	US$m	%
Short-tail direct insurance	**9.5**	**57%**	8.4	53%
Long-tail direct insurance	**3.8**	**23%**	4.1	26%
Short-tail reinsurance	**0.8**	**5%**	1.2	7%
Long-tail reinsurance	**2.1**	**13%**	2.1	13%
Other	**0.3**	**2%**	0.2	1%
	16.5	**100%**	16.0	100%

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

4.1.2 Reinsurance

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

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

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

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

Given the fundamental importance of reinsurance protection to the Group's risk management, the Group has in place internal controls and processes to ensure that the reinsurance arrangements provide appropriate protection of capital and maintain our ability to meet policyholder obligations. The Head of Outwards Reinsurance, the Deputy Group CEO, Chief Financial Officer and Chief Underwriting Officer and Chief Risk Officer propose external reinsurance arrangements with input from class underwriters for class level reinsurance. The Deputy Group CEO and Chief Underwriting Officer propose reinsurance arrangements with BIG. All reinsurance purchases must be signed off by the Group's Underwriting Committee. The Head of Outwards Reinsurance monitors and reports on the placement of reinsurance protections.

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

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

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

4.1.3 Reserving risk

Reserving risk arises as the actual cost of losses for policyholder obligations incurred before 31 December 2015 from the established reserves due to inaccurate assumptions or unforeseen circumstances. This is a key risk for the Group as the reserves for unpaid losses represent the largest component of the Group's liabilities and are inherently uncertain. The BSL Reserving Committee is responsible for the management of Syndicate 2987's reserving risk, and the BIG Management Committee performs a similar function for BIG.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4 RISK MANAGEMENT POLICIES (continued)

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

Whilst the case reserve is expected to be sufficient to meet the claims amount when it is settled, incurred but not reported (IBNR) claims require additional reserves. This is particularly the case for the longest tailed classes of business where the final settlement can occur several years after the claim occurred. Actuarial triangulation techniques are employed by the Group's experienced actuaries to establish the IBNR reserve. These techniques project IBNR reserves based on historical development of paid and incurred claims by underwriting year. For the most uncertain claims, the triangulation techniques are supplemented by additional methods to ensure the established reserve is appropriate. The actuarial team work closely with other business functions such as underwriting, claims and exposure management to ensure that they have a full understanding of the emerging claims experience across the Group. Further details on the actuarial methods used can be found in Note 19.

The Group's reserving policy sets out the approach to estimating claims provisions and is designed to produce accurate and reliable estimates that are consistent over time and across classes of business. The actuarial best estimate set out in the policy is subject to Reserving Committee and Brit Insurance Gibraltar Management Committee sign-off as part of the formal governance arrangements for the Group. The estimate agreed by the committees is used as a basis for the Group financial statements. A management risk margin is also applied over and above the actuarial best estimate to allow for the inherent uncertainty within the best estimate reserve position and wider inherent uncertainty across the economic and insurance environment. Finally, the reserves in the financial statements are presented to the Audit Committee for recommendation to the Board who are responsible for the final sign-off. As part of their audit engagement, reserves are subject to external actuarial review by Brit's 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 Group but typically is highest for those classes where there are significant delays in the settlement of the final claim amount. More specifically, the key areas of uncertainty within the Group's reserves are considered to be claims from the casualty treaty and specialty liability classes. The issues contributing to this heightened uncertainty are common to all entities which write such business.

Further details on the reserve profile and claims development tables can be found in Note 19.

4.2 Investment risk management

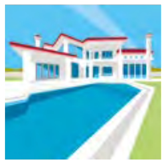
4.2.1 Introduction

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

4.2.2 Investment governance framework

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

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



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

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

4.2.3 Risk tolerance

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

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

4.2.4 Solvency matching

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

Under this strategy, the total assets of each Group underwriting entity are sought to be held in proportion to the currencies of that entity's technical provisions. For each Group underwriting entity, a solvency matched benchmark is calculated. This benchmark is the cashflow profile for investments which would minimise the sensitivity of the Group's solvency position to changes in interest rate and exchange rates. The Group seeks to implement this through the use of cash, investments and foreign exchange forward contracts in the respective currencies. The investment guidelines for each entity stipulate duration limits and the positioning and sensitivity for both the asset and solvency position is reported monthly.

4.2.5 Investment management

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

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

4.3 Market risk

4.3.1 Introduction

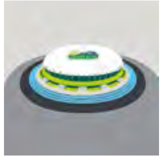
Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: interest rate risk, currency risk and other price risk. Credit risk on financial investments and cash is covered in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

4.3.2 Interest rate risk

Introduction

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS



4 RISK MANAGEMENT POLICIES (continued)

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

Duration	1 year or less US$m	1 to 3 years US$m	3 to 5 years US$m	Over 5 years US$m	Equities US$m	Total US$m
At 31 December 2015						
Cash and cash equivalents	**581.0**	**–**	**–**	**–**	**–**	**581.0**
Financial Investments	**1,913.2**	**257.4**	**77.9**	**816.8**	**265.5**	**3,330.8**
	2,494.2	**257.4**	**77.9**	**816.8**	**265.5**	**3,911.8**
At 31 December 2014						
Cash and cash equivalents	501.4	–	–	–	–	501.4
Financial Investments	1,906.7	485.5	360.3	730.4	42.4	3,525.3
	2,408.1	485.5	360.3	730.4	42.4	4,026.7

The duration of the investment portfolio is set within an allowable range relative to the targeted duration.

As the claims liabilities are measured on an undiscounted basis, the reported liabilities are not sensitive to changes in interest rates. This leads to the conflict between targeting a longer duration to protect the solvency position against movements in interest rates, whilst a shorter duration for the assets will reduce the possible volatility around the income statement.

Sensitivity to changes in investment yields

The sensitivity of the profit to the changes in investment yields is set out in the table below. The analysis is based on the information at 31 December 2015.

Impact on profit before tax	**2015 US$m**	2014 US$m
Increase		
25 basis points	**(61.1)**	(10.5)
50 basis points	**(122.1)**	(21.1)
100 basis points	**(244.3)**	(42.1)
Decrease		
25 basis points	**61.1**	10.5
50 basis points	**122.1**	21.1
100 basis points	**244.3**	42.1

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

4.3.3 Currency risk

Introduction

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

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

	USD US$m	GBP. conv. US$m	CAD $ conv. US$m	EUR € conv. US$m	AUS $ conv. US$m	Total conv. US$m
At 31 December 2015						
Total assets	**3,743.0**	**1,111.6**	**467.8**	**462.4**	**136.0**	**5,920.8**
Total liabilities	**3,040.7**	**1,035.9**	**211.0**	**311.9**	**164.8**	**4,764.3**
Net assets	**702.3**	**75.7**	**256.8**	**150.5**	**(28.8)**	**1,156.5**
At 31 December 2014						
Total assets	3,465.8	1,215.4	515.4	584.2	159.1	5,939.9
Total liabilities	2,838.3	1,094.5	261.8	347.7	106.4	4,648.7
Net assets	627.5	120.9	253.6	236.5	52.7	1,291.2

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

Foreign currency forward contracts may be used to achieve the desired exposure to each currency. From time to time the Group may also choose to utilise foreign currency options to manage the risk of reported losses due to changes in foreign exchange rates. The details of all foreign currency derivatives contracts entered into are given in Note 22.

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

Sensitivity to changes in foreign exchange rates

The table below gives an indication of the impact on profit of a percentage movement in the relative strength of the US dollar against the value of Sterling, Canadian dollar, Australian dollar and Euro simultaneously, after taking into consideration the effect of hedged positions. The analysis is based on the information at 31 December 2015.

Impact on profit before tax	**2015 US$m**	2014 US$m
US dollar weakens		
10% against other currencies	**83.6**	95.8
20% against other currencies	**167.1**	191.5
US dollar strengthens		
10% against other currencies	**(83.6)**	(95.8)
20% against other currencies	**(167.1)**	(191.5)

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

4.3.4 Other price risk

Introduction

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

4 RISK MANAGEMENT POLICIES (continued)

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

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

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

The Group invests a proportion of its assets in equities and residential mortgage-backed securities (RMBS) and Undertaking for Collective Investment in Transferable Securities (UCITS). These investments are limited within the investment guidelines to a diverse, small and manageable part of the Group investment portfolio.

Sensitivity to changes in other price risk
The sensitivity of the profit to the changes in the prices of equity, is set out in the table below. The analysis is based on the information at 31 December 2015.

Impact on profit before tax	**2015 US$m**	2014 US$m
Increase in fair value		
10%	**35.8**	53.2
20%	**71.7**	106.4
30%	**107.5**	159.6
Decrease in fair value		
10%	**(35.8)**	(53.2)
20%	**(71.7)**	(106.4)
30%	**(107.5)**	(159.6)

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

4.4 Credit risk

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

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

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

4.4.1 Investment credit risk

Investment credit risk management process
The Investment Committee chaired by the Group CFO 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 Group has established concentration guidelines that restrict the exposure to any individual counterparty. The investment guidelines further limit the type, credit quality and maturity profile of both the Group's cash and investments. In addition, the investment risk framework further limits potential exposure to credit risk through aggregate investment risk limits.

Investment credit risk profile

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

	AAA US$m	AA US$m	A US$m	P-1 US$m	P-2 US$m	BBB and below US$m	Equities US$m	Not rated US$m	Total US$m
At 31 December 2015									
Financial investments	**298.9**	**1,612.1**	**288.1**	**692.3**	**–**	**63.2**	**265.5**	**110.7**	**3,330.8**
Derivative contracts	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**63.6**	**63.6**
Cash and cash equivalents	**428.8**	**–**	**–**	**30.4**	**121.8**	**–**	**–**	**–**	**581.0**
	727.7	**1,612.1**	**288.1**	**722.7**	**121.8**	**63.2**	**265.5**	**174.3**	**3,975.4**
At 31 December 2014									
Financial investments	310.6	374.1	1,659.5	29.3	–	594.8	42.4	514.6	3,525.3
Derivative contracts	–	–	–	–	–	–	–	12.2	12.2
Cash and cash equivalents	237.0	–	–	95.0	169.4	–	–	–	501.4
	547.6	374.1	1,659.5	124.3	169.4	594.8	42.4	526.8	4,038.9

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

4.4.2 Insurance credit risk

Insurance credit risk management process

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

Reinsurer credit risk is managed by transacting only with reinsurance counterparties that satisfy a minimum level of financial strength or provide appropriate levels of collateral, and have been approved for use by the Reinsurance Security 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 balance sheet exposures and in relation to a number of extreme loss scenarios.

4 RISK MANAGEMENT POLICIES (continued)

Reinsurance aged debt is monitored and managed against tolerance limits set by the Board. 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 Board on at least a quarterly basis.

Insurance credit risk profile

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

	AAA US$m	AA US$m	A US$m	Collateral US$m	Not rated US$m	Total US$m
At 31 December 2015						
Reinsurance assets	**1.2**	**313.9**	**201.6**	**106.0**	**55.7**	**678.4**
Insurance receivables	**–**	**–**	**–**	**–**	**638.1**	**638.1**
	1.2	**313.9**	**201.6**	**106.0**	**693.8**	**1,316.5**
At 31 December 2014						
Reinsurance assets	0.6	315.0	232.0	129.3	17.9	694.8
Insurance receivables	–	–	–	–	661.8	661.8
	0.6	315.0	232.0	129.3	679.7	1,356.6

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

As at 31 December 2015, collateral of US$416.2m (2014: US$391.1m) is held in third party trust accounts or as a letter of credit (LOC) to guarantee Syndicate 2987 against reinsurance counterparties and is available for immediate drawdown in the event of a default. Of this amount, US$106.0m (2014: US$129.3m) had been drawn against reinsurance assets at 31 December 2015.

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

	Impairment provision against reinsurance assets US$m	**Impairment provision against insurance receivables US$m**
2015		
Opening provision at 1 January	**0.9**	**13.7**
Strengthening/(release) for the year	**0.1**	**(1.5)**
Net foreign exchange differences	**0.0**	**0.7**
Closing provision at 31 December	**1.0**	**12.9**
2014		
Opening provision at 1 January	1.2	10.1
(Release)/strengthening for the year	(0.3)	3.1
Net foreign exchange differences	–	0.5
Closing provision at 31 December	0.9	13.7

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

	2015 US$m	2014 US$m
0-3 months past due	**22.4**	14.2
4-6 months past due	**2.1**	3.4
7-9 months past due	**1.5**	0.9
10-12 months past due	**2.0**	0.3
More than 12 months past due	**2.3**	0.8
	30.3	19.6

4.5 Liquidity risk

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

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

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

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

		Fair values					
31 December 2015	Statement of financial position US$m	<1 year US$m	1 to 3 years US$m	3 to 5 years US$m	>5 years US$m	Equities US$m	Total US$m
Assets							
Reinsurance assets	**678.4**	**183.1**	**222.3**	**119.9**	**153.1**	**–**	**678.4**
Financial investments	**3,330.8**	**1,913.2**	**257.4**	**77.9**	**816.8**	**265.5**	**3,330.8**
Derivative contracts	**63.6**	**63.6**	**–**	**–**	**–**	**–**	**63.6**
Insurance receivables	**638.1**	**638.1**	**–**	**–**	**–**	**–**	**638.1**
Cash and cash equivalents	**581.0**	**581.0**	**–**	**–**	**–**	**–**	**581.0**
	5,291.9	**3,379.0**	**479.7**	**197.8**	**969.9**	**265.5**	**5,291.9**

		Undiscounted values					
31 December 2015	Statement of financial position US$m	<1 year US$m	1 to 3 years US$m	3 to 5 years US$m	>5 years US$m	Equities US$m	Total US$m
Liabilities							
Insurance contract liabilities	**3,324.1**	**777.1**	**990.0**	**592.6**	**964.4**	**–**	**3,324.1**
Derivative contracts	**12.5**	**12.5**	**–**	**–**	**–**	**–**	**12.5**
Borrowings	**185.6**	**–**	**–**	**–**	**199.0**	**–**	**199.0**
Insurance and other payables	**350.0**	**350.0**	**–**	**–**	**–**	**–**	**350.0**
	3,872.2	**1,139.6**	**990.0**	**592.6**	**1,163.4**	**–**	**3,885.6**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4 RISK MANAGEMENT POLICIES (continued)

31 December 2014	Statement of financial position US$m	Fair values <1 year US$m	1 to 3 years US$m	3 to 5 years US$m	>5 years US$m	Equities US$m	Total US$m
Assets							
Reinsurance assets	694.8	188.0	221.7	116.8	168.3	–	694.8
Financial investments	3,525.3	1,906.6	485.5	360.4	730.4	42.4	3,525.3
Derivative contracts	12.2	12.2	–	–	–	–	12.2
Insurance receivables	661.8	661.8	–	–	–	–	661.8
Cash and cash equivalents	501.4	501.4	–	–	–	–	501.4
	5,395.5	3,270.0	707.2	477.2	898.7	42.4	5,395.5

31 December 2014	Statement of financial position US$m	Undiscounted values <1 year US$m	1 to 3 years US$m	3 to 5 years US$m	>5 years US$m	Equities US$m	Total US$m
Liabilities							
Insurance contract liabilities	3,210.3	887.4	1,047.0	544.8	731.1	–	3,210.3
Derivative contracts	4.2	4.2	–	–	–	–	4.2
Borrowings	194.2	–	–	–	210.6	–	210.6
Insurance and other payables	344.5	344.5	–	–	–	–	344.5
	3,753.2	1,236.1	1,047.0	544.8	941.7	–	3,769.6

4.6 Operational risk

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

The Chief Operating Officer chairs the Operational Risk Working Group (ORWG) that provides a dedicated forum for managing operational risk in line with the Operational Risk policy and appetite limits set by the Board. This group reports to the Executive Committee where it is augmented by operational risk owners within executive management who actively manage operational risk within their respective areas (such as Underwriting, Claims, Investments and Finance).

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

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

4.7 Capital management

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

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

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

The Group's available capital consists of net tangible assets, subordinated debt, letters of credit and contingent funding. This amounted to US$1,495.5m as at 31 December 2015. This represented a surplus of US$329.5m over the management capital requirements, compared to the Group's minimum surplus of US$185m.

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

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

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

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

5 SEGMENTAL INFORMATION

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

As at 31 December 2015, the reportable segments identified were as follows:

- 'Brit Global Specialty Direct', which underwrites the Group's international and US business, other than treaty reinsurance. In the main, Brit Global Specialty Direct deals with wholesale buyers of insurance, rather than individuals. Risks are large and usually syndicated by several underwriters by means of the subscription market.
- 'Brit Global Specialty Reinsurance', which underwrites reinsurance business (essentially the insurance of insurance and reinsurance companies) and includes writing non-proportional cover for major events such as earthquakes or hurricanes. These insurance and reinsurance companies calculate how much risk they want to retain and then pass on their remaining exposure to reinsurers in return for a premium.
- 'Other underwriting', which comprises excess of loss reinsurance ceded from the strategic business units to a cell of Brit Insurance (Gibraltar) PCC Limited and life Syndicate 389.
- 'Other corporate', which is made up of residual income and expenditure not allocated to other segments.
- Foreign exchange differences on non-monetary items are separately disclosed. This provides a fairer representation of the claims ratios and financial performance of the strategic business units (SBUs) which would otherwise be distorted by the mismatch arising from IFRSs whereby unearned premium, reinsurer's share of unearned premium and deferred acquisition costs are treated as non-monetary items and the majority of other assets and liabilities are treated as monetary items. Non-monetary items are carried at historic exchange rates, while monetary items are translated at closing rates.

The Group investment return is managed centrally and an allocation is made to each of the strategic business units based on the average risk free interest rate for the period being applied to the opening insurance funds of each strategic business unit. The annualised average risk free rate applied to insurance funds was 1.5% for the year ended 31 December 2015 (31 December 2014: 1.5%).

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

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

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

(a) Statement of profit or loss by segment

Year ended 31 December 2015

	Brit Global Specialty Direct US$m	Brit Global Specialty Reinsurance US$m	Other Underwriting US$m	Intra Group US$m	Total underwriting excluding the effect of foreign exchange on non-monetary items US$m	Effect of foreign exchange on non-monetary items US$m	Total underwriting after the effect of foreign exchange on non-monetary items US$m	Other corporate US$m	Total US$m
Gross premiums written	**1,634.0**	**365.1**	**26.0**	**(25.9)**	**1,999.2**	**–**	**1,999.2**	**–**	**1,999.2**
Less premiums ceded to reinsurers	**(319.6)**	**(74.8)**	**(0.9)**	**25.9**	**(369.4)**	**–**	**(369.4)**	**–**	**(369.4)**
Premiums written, net of reinsurance	**1,314.4**	**290.3**	**25.1**	**–**	**1,629.8**	**–**	**1,629.8**	**–**	**1,629.8**
Gross earned premiums	**1,636.6**	**370.4**	**29.3**	**(29.2)**	**2,007.1**	**(13.7)**	**1,993.4**	**–**	**1,993.4**
Reinsurers' share	**(309.2)**	**(76.2)**	**(1.3)**	**29.2**	**(357.5)**	**2.2**	**(355.3)**	**–**	**(355.3)**
Earned premiums, net of reinsurance	**1,327.4**	**294.2**	**28.0**	**–**	**1,649.6**	**(11.5)**	**1,638.1**	**–**	**1,638.1**
Investment return	**26.0**	**10.3**	**–**	**–**	**36.3**	**–**	**36.3**	**(26.0)**	**10.3**
Return on derivative contracts	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**39.7**	**39.7**
Other income	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**0.3**	**0.3**
Total revenue	**1,353.4**	**304.5**	**28.0**	**–**	**1,685.9**	**(11.5)**	**1,674.4**	**14.0**	**1,688.4**
Gross claims incurred	**(954.4)**	**(125.0)**	**(33.4)**	**30.3**	**(1,082.5)**	**–**	**(1,082.5)**	**–**	**(1,082.5)**
Reinsurers' share	**235.7**	**(4.3)**	**(0.6)**	**(30.3)**	**200.5**	**–**	**200.5**	**–**	**200.5**
Claims incurred, net of reinsurance	**(718.7)**	**(129.3)**	**(34.0)**	**–**	**(882.0)**	**–**	**(882.0)**	**–**	**(882.0)**
Acquisition costs – commission	**(376.8)**	**(55.3)**	**2.9**	**–**	**(429.2)**	**2.7**	**(426.5)**	**–**	**(426.5)**
Acquisition costs – other	**(79.0)**	**(15.3)**	**(5.3)**	**–**	**(99.6)**	**(0.5)**	**(100.1)**	**–**	**(100.1)**
Other insurance related expenses	**(79.2)**	**(22.6)**	**–**	**–**	**(101.8)**	**–**	**(101.8)**	**–**	**(101.8)**
Other expenses	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(53.8)**	**(53.8)**
Net foreign exchange losses	**–**	**–**	**–**	**–**	**–**	**(10.5)**	**(10.5)**	**(85.4)**	**(95.9)**
Total expenses excluding finance costs	**(1,253.7)**	**(222.5)**	**(36.4)**	**–**	**(1,512.6)**	**(8.3)**	**(1,520.9)**	**(139.2)**	**(1,660.1)**
Operating profit/(loss)	**99.7**	**82.0**	**(8.4)**	**–**	**173.3**	**(19.8)**	**153.5**	**(125.2)**	**28.3**
Finance costs									**(20.6)**
Profit on ordinary activities before tax									**7.7**
Tax credit									**7.9**
Profit for the year									**15.6**
Claims ratio	**54.1%**	**43.9%**	**121.4%**		**53.5%**		**53.8%**		
Expense ratio	**40.3%**	**31.9%**	**8.6%**		**38.2%**		**38.4%**		
Combined ratio	**94.4%**	**75.8%**	**130.0%**		**91.7%**		**92.2%**		

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5 SEGMENTAL INFORMATION (continued)

Year ended 31 December 2014

	Brit Global Specialty Direct US$m	Brit Global Specialty Reinsurance US$m	Other Underwriting US$m	Intra Group US$m	Total underwriting excluding the effect of foreign exchange on non-monetary items US$m	Effect of foreign exchange on non-monetary items US$m	Total underwriting after the effect of foreign exchange on non-monetary items US$m	Other corporate US$m	Total US$m
Gross premiums written	1,743.8	404.7	36.5	(36.5)	2,148.5	–	2,148.5	–	2,148.5
Less premiums ceded to reinsurers	(414.1)	(74.7)	(5.1)	36.5	(457.4)	–	(457.4)	–	(457.4)
Premiums written, net of reinsurance	1,329.7	330.0	31.4	–	1,691.1	–	1,691.1	–	1,691.1
Gross earned premiums	1,639.7	408.2	24.1	(24.1)	2,047.9	17.7	2,065.6	–	2,065.6
Reinsurers' share	(391.7)	(76.2)	(3.0)	24.1	(446.8)	(2.3)	(449.1)	–	(449.1)
Earned premiums, net of reinsurance	1,248.0	332.0	21.1	–	1,601.1	15.4	1,616.5	–	1,616.5
Investment return	27.4	11.9	0.2	–	39.5	–	39.5	76.2	115.7
Return on derivative contracts	–	–	–	–	–	–	–	12.0	12.0
Other income	–	–	–	–	–	–	–	0.8	0.8
Net foreign exchange gains	–	–	–	–	–	22.0	22.0	(0.7)	21.3
Total revenue	1,275.4	343.9	21.3	–	1,640.6	37.4	1,678.0	88.3	1,766.3
Gross claims incurred	(948.0)	(142.9)	(9.7)	16.3	(1,084.3)	–	(1,084.3)	–	(1,084.3)
Reinsurers' share	280.7	19.3	0.7	(16.3)	284.4	–	284.4	–	284.4
Claims incurred, net of reinsurance	(667.3)	(123.6)	(9.0)	–	(799.9)	–	(799.9)	–	(799.9)
Acquisition costs – commission	(383.5)	(58.2)	0.2	–	(441.5)	(3.8)	(445.3)	–	(445.3)
Acquisition costs – other	(77.3)	(15.3)	(4.3)	–	(96.9)	–	(96.9)	–	(96.9)
Other insurance related expenses	(69.7)	(24.8)	–	–	(94.5)	–	(94.5)	–	(94.5)
Other expenses	–	–	–	–	–	–	–	(61.4)	(61.4)
Total expenses excluding finance costs	(1,197.8)	(221.9)	(13.1)	–	(1,432.8)	(3.8)	(1,436.6)	(61.4)	(1,498.0)
Operating profit	77.6	122.0	8.2	–	207.8	33.6	241.4	26.9	268.3
Finance costs									(22.3)
Profit on ordinary activities before tax									246.0
Tax expense									(16.7)
Profit for the year									229.3
Claims ratio	53.5%	37.2%	43.0%		50.0%		49.5%		
Expense ratio	42.5%	29.6%	19.5%		39.5%		39.4%		
Combined ratio	96.0%	66.8%	62.5%		89.5%		88.9%		

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

Year ended 31 December 2015	Brit Global Specialty Direct US$m	Brit Global Specialty Reinsurance US$m	Total US$m
Depreciation of property, plant and equipment	**2.3**	**0.6**	**2.9**
Impairment of property, plant and equipment	**1.4**	**0.4**	**1.8**
Amortisation of intangibles	**6.7**	**1.7**	**8.4**
Impairment of intangibles	**0.5**	**0.1**	**0.6**
Capital expenditure	**21.0**	**5.3**	**26.3**
Year ended 31 December 2014			
Depreciation of property, plant and equipment	2.3	1.0	3.3
Amortisation of intangibles	6.6	2.8	9.4
Capital expenditure	6.1	1.6	7.7

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

(c) Geographical information

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

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

Gross premiums written

	Year ended 31 December 2015 US$m	Year ended 31 December 2014 US$m
United States	**857.5**	827.3
United Kingdom	**120.3**	159.6
Europe (excluding UK)	**121.3**	138.6
Other (including worldwide)	**900.1**	1,023.0
	1,999.2	2,148.5

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6 INVESTMENT RETURN

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

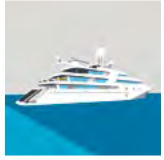
Year ended 31 December 2015	Investment income US$m	Net realised gains US$m	Net unrealised gains/(losses) US$m	Total investment return US$m
Equity securities	**0.6**	**2.0**	**2.9**	**5.5**
Debt securities	**34.8**	**3.7**	**(32.5)**	**6.0**
Loan instruments	**7.2**	**1.5**	**(16.8)**	**(8.1)**
Specialised investment funds	**29.5**	**50.8**	**(62.1)**	**18.2**
Cash and cash equivalents	**0.6**	**–**	**–**	**0.6**
Total investment return before expenses	**72.7**	**58.0**	**(108.5)**	**22.2**
Investment management expenses	**(11.9)**	**–**	**–**	**(11.9)**
Total investment return	**60.8**	**58.0**	**(108.5)**	**10.3**

Year ended 31 December 2014	Investment income US$m	Net realised gains US$m	Net unrealised (losses)/gains US$m	Total investment return US$m
Equity securities	1.3	3.7	(1.0)	4.0
Debt securities	43.7	4.1	(8.3)	39.5
Loan instruments	16.2	2.8	(6.4)	12.6
Specialised investment funds	33.2	10.4	24.9	68.5
Cash and cash equivalents	1.2	–	–	1.2
Total investment return before expenses	95.6	21.0	9.2	125.8
Investment management expenses	(10.1)	–	–	(10.1)
Total investment return	85.5	21.0	9.2	115.7

7 RETURN ON DERIVATIVE CONTRACTS

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

	Year ended 31 December 2015 US$m	Year ended 31 December 2014 US$m
Interest rate swaps	**(0.7)**	10.8
Futures	**0.1**	(2.3)
Non-currency options	**(4.7)**	0.6
Investment related derivatives	**(5.3)**	9.1
Currency forwards	**45.0**	6.8
Currency options	**–**	(3.9)
Currency related derivatives	**45.0**	2.9
Return on derivative contracts	**39.7**	12.0



8 NET FOREIGN EXCHANGE (LOSSES)/GAINS

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

The Group recognised foreign exchange losses of US$95.9m (31 December 2014: gains of US$21.3m) in the income statement in the period.

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

	Year ended 31 December 2015 US$m	Year ended 31 December 2014 US$m
(Losses)/gains on foreign exchange arising from:		
Translation of the statement of financial position and income statement	**(85.4)**	(0.7)
Maintaining UPR/DAC items in the statement of financial position at historic rates	**(19.8)**	33.6
Maintaining UPR/DAC items in the income statement at historic rates	**9.3**	(11.6)
Net foreign exchange (losses)/gains	**(95.9)**	21.3

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

	Year ended 31 December 2015		Year ended 31 December 2014	
	Average	**Closing**	Average	Closing
Sterling	**0.654**	**0.678**	0.606	0.641
Canadian dollar	**1.277**	**1.389**	1.103	1.160
Euro	**0.902**	**0.921**	0.752	0.827
Australian dollar	**1.330**	**1.374**	1.109	1.224

In accordance with IAS 1 'Presentation of Financial statements', exchange gains and losses are presented on a net basis. They are reported within revenue where they result in a net gain and within expenses where they result in a net loss.

9 ACQUISITION COSTS AND OTHER OPERATING EXPENSES

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

	Year ended 31 December 2015			Year ended 31 December 2014		
	Acquisition costs US$m	**Other operating expenses US$m**	**Total US$m**	Acquisition costs US$m	Other operating expenses US$m	Total US$m
Salary, pension and social security costs (Note 10)	**45.0**	**77.5**	**122.5**	42.3	74.9	117.2
Other staff related costs	**2.0**	**7.1**	**9.1**	1.4	6.4	7.8
Accommodation costs	**7.6**	**7.7**	**15.3**	5.8	5.1	10.9
Legal and professional charges	**2.0**	**8.7**	**10.7**	2.8	7.9	10.7
IT costs	**0.9**	**19.0**	**19.9**	0.8	19.7	20.5
Travel and entertaining	**4.4**	**3.1**	**7.5**	4.6	3.1	7.7
Marketing and communications	**0.3**	**2.0**	**2.3**	0.3	1.7	2.0
Amortisation and impairment of intangible assets	**0.4**	**8.6**	**9.0**	1.2	8.2	9.4
Depreciation and impairment of property, plant and equipment	**0.6**	**4.1**	**4.7**	0.3	3.0	3.3
Regulatory levies and charges	**36.4**	**–**	**36.4**	35.1	–	35.1
Costs relating to initial public offering	**–**	**–**	**–**	–	22.6	22.6
Costs relating to acquisition by FFHL Group Limited	**–**	**14.2**	**14.2**	–	–	–
Other	**0.5**	**3.6**	**4.1**	2.3	3.3	5.6
Expenses before commissions	**100.1**	**155.6**	**255.7**	96.9	155.9	252.8
Commission costs	**426.5**	**–**	**426.5**	445.3	–	445.3
Total acquisition costs and other operating expenses	**526.6**	**155.6**	**682.2**	542.2	155.9	698.1

Salary, pension and social security costs includes a further US$9.6m relating to the acquisition by FFHL Group Limited, bringing the total corporate activity costs to US$23.8m.

10 STAFF COSTS

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

	Year ended 31 December 2015 US$m	Year ended 31 December 2014 US$m
Wages and salaries	**103.9**	99.8
Social security costs	**12.3**	11.1
Pension costs	**6.3**	6.3
Total staff costs	**122.5**	117.2

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

	Year ended 31 December 2015 Number	Year ended 31 December 2014 Number
Front office staff		
Underwriters	**155**	139
Claims staff	**55**	50
Other underwriting and direct support staff	**113**	97
Total front office staff	**323**	286
Back office staff		
Management	**71**	76
Administration	**110**	103
Total back office staff	**181**	179
Total employees	**504**	465

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

11 FINANCE COSTS

Finance costs arise from interest due on moneys borrowed by the Group and any other amounts payable in respect of those borrowings or borrowing facilities. The Group's borrowings consist of a revolving credit facility and listed unsecured subordinated debt, details of which are set out in Note 25.

	Year ended 31 December 2015 US$m	Year ended 31 December 2014 US$m
Revolving credit facility and other bank borrowings	**4.7**	5.3
Subordinated debt	**15.9**	17.0
Total finance costs	**20.6**	22.3

12 AUDITOR'S REMUNERATION

The Group engages Ernst & Young LLP to perform the audit of the Group. From time to time, Ernst & Young LLP are also engaged to perform additional work. This Note breaks down fees paid to Ernst & Young LLP for both the audit and other work.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12 AUDITOR'S REMUNERATION (continued)

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

	Year ended 31 December 2015 US$m	Year ended 31 December 2014 US$m
Audit of the Group and company financial statements	**0.7**	0.6
Fees payable for the audit of subsidiaries	**0.5**	0.5
Total audit	**1.2**	1.1
Audit related assurance services	**0.6**	0.5
Taxation compliance services	**–**	0.2
All taxation advisory services	**–**	1.5
Corporate finance services (excluding amounts covered above in the other assurance services and taxation advisory services)	**–**	3.3
Other non-audit services	**–**	0.2
Total non-audit services	**0.6**	5.7
Total audit and non-audit services	**1.8**	6.8

13 INVESTMENT IN ASSOCIATED UNDERTAKING

This Note describes the investment in associate made in 2015 and provides the summarised statement of financial position of the associate.

Ambridge Partners LLC

On 8 December 2015, the Group acquired 50% of the members' interests of Ambridge Partners LLC for US$28.6m and also entered into a call and a put option to purchase the remaining 50% in 2019. The investment in Ambridge Partners LLC is measured using the equity method although no movement in the equity value has been recognised in 2015 due to the short period of ownership up to the statement of financial position date. The principal place of business of Ambridge Partners LLC is the United States. Ambridge Partners LLC is a leading managing general underwriter of transactional insurance products, writing business on behalf of a broad consortium of Lloyd's of London syndicates and international insurers including Brit.

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

Statement of financial position	31 December 2015 US$m
Current assets	**33.6**
Non-current assets	**0.2**
Total assets	**33.8**
Current liabilities	**(30.6)**
Total liabilities	**(30.6)**
Net assets	**3.2**
50% not owned by Brit	**(1.6)**
Acquisition fair value and other adjustments	**27.0**
Carrying value	**28.6**

14 TAX EXPENSE

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

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

	Year ended 31 December 2015 US$m	Year ended 31 December 2014 US$m
Current tax:		
Current taxes on income for the year	**(2.0)**	(8.4)
Overseas tax on income for the year	**(6.3)**	(6.8)
	(8.3)	(15.2)
Double tax relief	**5.3**	5.8
Adjustments in respect of prior years	**2.5**	2.0
Total current tax	**(0.5)**	(7.4)
Deferred tax:		
Relating to the origination and reversal of temporary differences	**6.9**	(11.6)
Adjustments in respect of prior years	**1.5**	2.3
Total deferred tax	**8.4**	(9.2)
Total tax credited/(charged) to income statement	**7.9**	(16.7)

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

(b) Tax charged to other comprehensive income

	Year ended 31 December 2015 US$m	Year ended 31 December 2014 US$m
Deferred tax charge on actuarial gains on defined benefit pension scheme	**(0.5)**	(0.1)

(c) Tax reconciliation

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

	Year ended 31 December 2015 US$m	Year ended 31 December 2014 US$m
Profit on continuing ordinary activities before tax	**7.7**	246.0
Tax calculated at weighted average rate of tax on income	**4.2**	(26.6)
Non-deductible and non-taxable items	**(0.1)**	4.3
Taxes on income at rates in excess of the domestic rate and where credit is unavailable	**(1.0)**	(0.8)
Effect of temporary differences not recognised	**(1.0)**	0.3
Effect of revaluation of deferred tax following change in rate of tax	**2.3**	–
Other items	**(0.5)**	1.8
Adjustments to tax charge in respect of prior years	**4.0**	4.3
Total tax credit/(charged) to income statement	**7.9**	(16.7)

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

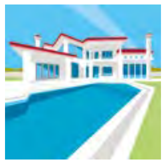
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15 INTANGIBLE ASSETS

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

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

	Distribution channels US$m	Trade names US$m	Syndicate participations US$m	Renewal rights US$m	Software US$m	Total US$m
Cost:						
At 1 January 2014	10.5	20.0	75.4	2.5	32.0	140.4
Additions	–	–	–	–	5.1	5.1
Additions through acquisitions	–	–	–	3.3	–	3.3
Disposals	–	–	–	–	(5.9)	(5.9)
Foreign exchange effect	(0.7)	(1.1)	(4.6)	–	(2.2)	(8.6)
At 31 December 2014	9.8	18.9	70.8	5.8	29.0	134.3
At 1 January 2015	**9.8**	**18.9**	**70.8**	**5.8**	**29.0**	**134.3**
Additions	**–**	**–**	**–**	**–**	**7.7**	**7.7**
Disposals	**–**	**–**	**–**	**–**	**(6.7)**	**(6.7)**
Foreign exchange effect	**–**	**–**	**–**	**–**	**(1.2)**	**(1.2)**
At 31 December 2015	**9.8**	**18.9**	**70.8**	**5.8**	**28.8**	**134.1**
Depreciation:						
At 1 January 2014	1.8	13.6	–	0.7	20.2	36.3
Charge for the year	0.7	3.0	–	2.1	3.6	9.4
Disposals	–	–	–	–	(5.9)	(5.9)
Foreign exchange effect	(0.1)	(0.9)	–	–	(1.5)	(2.5)
At 31 December 2014	2.4	15.7	–	2.8	16.4	37.3
At 1 January 2015	**2.4**	**15.7**	**–**	**2.8**	**16.4**	**37.3**
Charge for the year	**0.7**	**2.7**	–	**2.1**	**2.9**	**8.4**
Impairment	–	–	–	–	**0.6**	**0.6**
Disposals	–	–	–	–	**(6.7)**	**(6.7)**
Foreign exchange effect	**–**	**–**	**–**	**–**	**(0.6)**	**(0.6)**
At 31 December 2015	**3.1**	**18.4**	**–**	**4.9**	**12.6**	**39.0**
Carrying amount:						
At 31 December 2014	7.4	3.2	70.8	3.0	12.6	97.0
At 31 December 2015	**6.7**	**0.5**	**70.8**	**0.9**	**16.2**	**95.1**



Additional information

The gross cost of software fully amortised but still in use is US$7.6m (2014: US$9.5m).

All software additions in 2015 and 2014 were internally developed.

The software amortisation charge for the year of US$2.9m (2014: US$3.6m) is included in the 'other operating expenses' line in the income statement.

There were impairments to software of US$0.6m in 2015 due to obsolescence (2014: US$Nil) which have been included in the other operating expenses' line in the income statement.

Assets not yet in use with a total cost of US$6.1m (2014: US$2.8m) are included in software.

Further information is given in Note 5(b).

Impairment tests for syndicate participations

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

	31 December 2015 US$m	31 December 2014 US$m
Global Specialty Direct	**52.7**	52.7
Global Specialty Reinsurance	**18.1**	18.1
	70.8	70.8

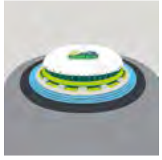
The recoverable amounts of the CGUs have been determined using a value in use calculation.

Each value in use calculation uses pre-tax cash flow projections based on business plans approved by senior management covering a three year period and subsequent cash flows which assume a nil growth rate. These cash flows have been discounted using a risk adjusted pre-tax discount rate of 10.2% (2014: 9.1%). In each syndicate participation impairment review, the recoverable amount significantly exceeds the carrying value of the CGU including its associated syndicate participations and it is considered that a reasonably possible change in key assumptions will not cause the carrying value of the CGU to exceed its recoverable amount.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS



16 PROPERTY, PLANT AND EQUIPMENT

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

	Office refurbishment US$m	Computers and office machinery, furniture and equipment US$m	Total US$m
Cost:			
At 1 January 2014	10.0	10.6	20.6
Additions	–	2.6	2.6
Disposals	(0.5)	(0.8)	(1.3)
Foreign exchange effect	(0.5)	(0.7)	(1.2)
At 31 December 2014	9.0	11.7	20.7
At 1 January 2015	**9.0**	**11.7**	**20.7**
Additions	**14.7**	**3.9**	**18.6**
Disposals	**(0.1)**	**(2.5)**	**(2.6)**
Foreign exchange effect	**(0.4)**	**(0.7)**	**(1.1)**
At 31 December 2015	**23.2**	**12.4**	**35.6**
Depreciation:			
At 1 January 2014	4.6	7.5	12.1
Charge for the year	1.7	1.6	3.3
Disposals	(0.5)	(0.8)	(1.3)
Foreign exchange effect	(0.2)	(0.5)	(0.7)
At 31 December 2014	5.6	7.8	13.4
At 1 January 2015	**5.6**	**7.8**	**13.4**
Charge for the year	**1.6**	**1.3**	**2.9**
Impairment	**1.6**	**0.2**	**1.8**
Disposals	**(0.1)**	**(2.5)**	**(2.6)**
Foreign exchange effect	**(0.4)**	**(0.6)**	**(1.0)**
At 31 December 2015	**8.3**	**6.2**	**14.5**
Carrying amount:			
At 31 December 2014	3.4	3.9	7.3
At 31 December 2015	**14.9**	**6.2**	**21.1**

The gross cost of property, plant and equipment fully depreciated but still in use is US$7.1m (2014: US$6.7m).

The depreciation charge for the year of US$2.9m (2014: US$3.3m) is included in the 'other operating expenses' line in the income statement.

There were impairments to property, plant and equipment of US$1.8m relating to the London office relocation due to take place in early 2016 (2014: US$Nil) which have been included in the 'other operating expenses' line in the income statement.

Further information is given in Note 5(b).

17 DEFERRED ACQUISITION COSTS

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

	31 December 2015 US$m	31 December 2014 US$m
At 1 January	**209.5**	208.7
Costs deferred during the year	**539.7**	526.0
Amortisation charge for the year	**(526.6)**	(542.2)
Foreign exchange differences arising on retranslation to presentation currency	**–**	17.0
At 31 December	**222.6**	209.5

18 DEFERRED TAXATION

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

	Pensions US$m	Intangible assets US$m	Underwriting US$m	Other US$m	Total US$m
At 1 January 2014	(7.3)	(21.4)	(36.0)	36.4	(28.3)
Movements in the year:					
(Charged)/credited to income statement	(2.0)	5.0	23.3	(35.5)	(9.2)
Tax relating to components of other comprehensive income (Note 14(b))	(0.1)	–	–	–	(0.1)
Foreign exchange effect	0.5	1.0	0.8	(0.3)	2.0
At 31 December 2014	(8.9)	(15.4)	(11.9)	0.6	(35.6)
At 1 January 2015	**(8.9)**	**(15.4)**	**(11.9)**	**0.6**	**(35.6)**
Movements in the year:					
(Charged)/credited to income statement	**(0.5)**	**2.2**	**1.2**	**5.5**	**8.4**
Tax relating to components of other comprehensive income (Note 14(b))	**(0.5)**	**–**	**–**	**–**	**(0.5)**
Foreign exchange effect	**0.5**	**–**	**–**	**(0.2)**	**0.3**
At 31 December 2015	**(9.4)**	**(13.2)**	**(10.7)**	**5.9**	**(27.4)**

Deferred tax has not been set up in respect of losses carried forward of US$86.0m (2014: US$96.4m) as it is not considered probable that they can be utilised in the foreseeable future.

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

Deferred tax assets arising on decelerated capital allowances of US$20.2m (2014: US$17.3m) have not been provided for due to uncertainty over the timing of their utilisation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

19 INSURANCE AND REINSURANCE CONTRACTS

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

(a) Balances on insurance and reinsurance contracts

	31 December 2015 US$m	31 December 2014 US$m
Gross		
Claims reported and loss adjustment expenses	**1,401.4**	1,426.4
Claims incurred but not reported	**1,922.7**	1,783.9
	3,324.1	3,210.3
Unearned premiums	**858.2**	852.4
Total gross liabilities	**4,182.3**	4,062.7
Recoverable from reinsurers		
Claims reported and loss adjustment expenses	**326.0**	338.1
Claims incurred but not reported	**353.4**	357.6
Impairment provision	**(1.0)**	(0.9)
	678.4	694.8
Unearned premiums	**140.5**	126.4
Total reinsurers' share of liabilities	**818.9**	821.2
Net		
Claims reported and loss adjustment expenses	**1,075.4**	1,088.3
Claims incurred but not reported	**1,569.3**	1,426.3
Impairment provision	**1.0**	0.9
	2,645.7	2,515.5
Unearned premiums	**717.7**	726.0
Total net insurance liabilities	**3,363.4**	3,241.5

Insurance contracts – assumptions and changes in assumptions
Process used to decide on assumptions required
The risks associated with these insurance liabilities and in particular with casualty insurance liabilities are complex and subject to a number of variables that complicate quantitative analysis.

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

Chain-ladder methods may be applied to premiums, paid claims or incurred claims (i.e. paid claims plus case estimates). The basic technique involves the analysis of historical claims development factors and the selection of estimated development factors based on this historical patterns. The selected development factors are then applied to cumulative claims data for each underwriting year that is not yet fully developed to produce an estimated ultimate claims cost for each underwriting year.

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

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

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

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

In addition to the estimation of claims reserves certain estimates are produced for unearned premiums. For open market business earned premium is calculated at policy level. However, premium derived from delegated underwriting authorities is calculated by applying the 1/144ths method to estimated premiums applied to the master policy. This assumes that attachments to master policies arise evenly throughout the period of that master policy.

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

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

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

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

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

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

They have been grossed up to include 100% of the managed syndicate claims rather than the claims that reflects the Group percentage ownership of each syndicate's underwriting capacity during the respective underwriting years. In addition, claims in currencies other than US dollars have been retranslated at 31 December 2015 exchange rates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

19 INSURANCE AND REINSURANCE CONTRACTS (continued)

Ultimate gross claims

Underwriting year	2006 and prior years	2007	2008	2009	2010	2011	2012	2013	2014	2015	Intra Group and other underwriting adjustments	Total
At end of underwriting year	67.7%	84.7%	90.5%	73.8%	76.4%	81.1%	76.1%	69.8%	70.3%	70.6%		
One year later	68.7%	86.9%	90.3%	75.9%	88.1%	78.6%	71.6%	70.0%	73.7%			
Two years later	64.0%	85.9%	93.2%	72.9%	92.0%	79.0%	72.2%	70.2%				
Three years later	61.9%	93.5%	97.1%	74.3%	92.5%	78.7%	70.3%					
Four years later	59.3%	95.9%	98.3%	74.9%	91.4%	79.4%						
Five years later	57.1%	96.0%	98.1%	75.8%	89.2%							
Six years later	57.3%	96.5%	99.9%	75.2%								
Seven years later	58.7%	96.2%	100.3%									
Eight years later	59.1%	95.8%										
Nine years later	58.7%											
	US$m	**US$m**	**US$m**	**US$m**	**US$m**	**US$m**	**US$m**	**US$m**	**US$m**	**US$m**	**US$m**	**US$m**
Total ultimate gross claims at 31 December 2015	**5,920.9**	**955.3**	**1,011.3**	**753.0**	**938.6**	**892.9**	**940.5**	**1,005.0**	**1,135.7**	**1,039.4**	**–**	**14,592.6**
Less accumulated gross paid claims	(5,717.6)	(845.2)	(815.5)	(621.9)	(754.7)	(611.6)	(545.4)	(449.6)	(294.7)	(39.6)	–	(10,695.8)
Unearned premium portion of gross ultimate claims	–	–	–	–	–	–	–	–	(43.7)	(587.3)	–	(631.0)
Claims handling provision and other corporate adjustments	3.1	1.7	3.0	2.0	2.7	4.2	5.9	8.3	12.2	6.2	9.0	58.3
Total outstanding gross claims at 31 December 2015	**206.4**	**111.8**	**198.8**	**133.1**	**186.6**	**285.5**	**401.0**	**563.7**	**809.5**	**418.7**	**9.0**	**3,324.1**

Ultimate net claims

Underwriting year	2006 and prior years	2007	2008	2009	2010	2011	2012	2013	2014	2015	Intra Group and other underwriting adjustments	Total
At end of underwriting year	76.6%	87.2%	96.2%	79.6%	79.9%	86.9%	82.5%	75.3%	76.3%	77.8%		
One year later	76.8%	83.1%	96.5%	78.9%	89.0%	84.3%	78.1%	76.7%	79.4%			
Two years later	68.3%	83.8%	97.2%	76.2%	91.0%	83.6%	77.7%	76.4%				
Three years later	65.6%	88.2%	100.5%	74.5%	91.0%	81.7%	75.5%					
Four years later	63.8%	90.1%	102.4%	74.9%	89.1%	81.8%						
Five years later	61.1%	90.3%	101.4%	76.4%	88.0%							
Six years later	60.5%	90.8%	101.9%	76.5%								
Seven years later	61.1%	90.9%	99.4%									
Eight years later	61.0%	90.5%										
Nine years later	60.4%											
	US$m	**US$m**	**US$m**	**US$m**	**US$m**	**US$m**	**US$m**	**US$m**	**US$m**	**US$m**	**US$m**	**US$m**
Total ultimate net claims at 31 December 2015	**4,217.5**	**743.0**	**775.0**	**618.2**	**741.0**	**738.0**	**785.1**	**816.9**	**914.3**	**840.4**	**–**	**11,189.4**
Less accumulated gross paid claims	(4,084.1)	(674.7)	(675.2)	(512.3)	(588.5)	(515.4)	(454.8)	(370.1)	(256.7)	(36.0)	–	(8,167.8)
Unearned premium portion of gross ultimate claims	–	–	–	–	–	–	–	–	(36.8)	(469.4)	–	(506.2)
Claims handling provision, bad debt provision and other corporate adjustments	2.8	1.7	3.1	2.1	4.0	4.2	5.9	8.3	12.1	6.1	80.0	130.3
Total outstanding net claims at 31 December 2015	**136.2**	**70.0**	**102.9**	**108.0**	**156.5**	**226.8**	**336.2**	**455.1**	**632.9**	**341.1**	**80.0**	**2,645.7**

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

The development of the 2007 and 2008 years of account was impacted by exposure to the financial crisis which resulted in reserving action which has subsequently led to stability in the ratios for a number of years. The 2010 year of account includes the impact of natural catastrophes occurring in 2011 which attached back to policies incepting in the 2010 year of account.

During 2015, the net aggregate reserve releases from prior years amounted to US$28.6m, which included a strengthening of US$41.6m in respect of 2014 and a reserve release of US$67.8m (236.9% of the net aggregate reserve release) derived from the 2012 and prior underwriting years (2014: US$53.0m/87.9% from the 2011 and prior underwriting years). Reserves in Brit Global Specialty Direct and Brit Global Specialty Reinsurance experienced releases of US$17.1m (2014: releases of US$5.6m) and US$23.3m (2014: releases of US$48.2m) respectively with a strengthening of US$11.8m (2014: strengthening of US$0.8m) within Other Underwriting.

19 INSURANCE AND REINSURANCE CONTRACTS (continued)

(b) Movements in insurance and reinsurance contracts

(i) Claims and loss adjustment expenses

	31 December 2015			31 December 2014		
	Gross US$m	Reinsurance US$m	Net US$m	Gross US$m	Reinsurance US$m	Net US$m
As at 1 January	**3,210.3**	**(694.8)**	**2,515.5**	3,482.2	(620.8)	2,861.4
Cash paid for claims settled in the year	**(871.5)**	**191.1**	**(680.4)**	(1,251.8)	185.6	(1,066.2)
Increase in liabilities	**1,082.5**	**(200.5)**	**882.0**	1,025.2	(268.9)	756.3
Net foreign exchange differences	**(97.2)**	**25.8**	**(71.4)**	(45.3)	9.3	(36.0)
As at 31 December	**3,324.1**	**(678.4)**	**2,645.7**	3,210.3	(694.8)	2,515.5

(ii) Unearned premiums

	31 December 2015			31 December 2014		
	Gross US$m	Reinsurance US$m	Net US$m	Gross US$m	Reinsurance US$m	Net US$m
As at 1 January	**852.4**	**(126.4)**	**726.0**	823.7	(126.2)	697.5
Premiums written in the year	**1,999.2**	**(369.4)**	**1,629.8**	2,148.5	(457.4)	1,691.1
Premiums earned during the year	**(1,993.4)**	**355.3**	**(1,638.1)**	(2,065.6)	449.1	(1,616.5)
Foreign exchange differences arising on retranslation to presentation currency	**–**	**–**	**–**	(54.2)	8.1	(46.1)
As at 31 December	**858.2**	**(140.5)**	**717.7**	852.4	(126.4)	726.0

20 EMPLOYEE BENEFITS

This Note explains the pension schemes operated by the Group for its employees. For the Group's defined benefit scheme (in which no further benefits are being accrued), it sets out the amount carried on the Group statement of financial position, gains and losses incurred during the year, amounts paid into the scheme, together with further information about the scheme. For the Group's two defined contribution schemes, it sets out the costs incurred during the year.

(a) Brit Group Services Limited – Defined Benefit Pension Scheme

Through Brit Group Services Limited, the Group operates a funded defined benefit pension scheme providing pensions and death benefits to its members. The scheme closed to new entrants on 4 October 2001 and closed to future accrual of benefits on 31 December 2011. All active members of the defined benefit scheme joined the defined contribution personal pension plan for future service. Following closure to future accruals, benefits now increase broadly in line with inflation. The weighted average duration to payment of the scheme's expected cash flows is 18 years (2014: 18 years).

The scheme is approved by HMRC for tax purposes, and is operated separately from the Group and managed by an independent trustee. The Trustee is responsible for payment of the benefits and management of the plan's assets. The scheme is subject to UK regulations overseen by the Pensions Regulator, which require the Group and Trustee to agree a funding strategy and contribution schedule for the scheme every three years. The most recent triennial review of the scheme was undertaken at 31 July 2015 and identified a funding surplus of US$10.4m. The Group agreed to continue to pay the remainder of the recovery plan agreed following the previous actuarial valuation, namely a contribution of US$2.4m on 31 July 2016.

The Group has also committed to pay further contributions to the scheme of at least US$2.9m a year from 1 January 2017 to 31 July 2024. These contributions are payable by Brit Group Services Limited and backed-up by a cross-company guarantee from Brit Insurance Holdings Limited.

Net amount recognised in the statement of financial position for the scheme:

	31 December 2015 US$m	31 December 2014 US$m
Present value of defined benefit obligation	**(190.9)**	(219.6)
Fair value of scheme assets	**243.0**	263.0
Net pension asset	**52.1**	43.4

Changes in the net pension asset recognised in the statement of financial position:

	31 December 2015 US$m	31 December 2014 US$m
Opening statement of financial position	**43.4**	36.4
Credit to income statement	**1.6**	1.7
Foreign exchange effect	**(2.8)**	(2.7)
Amount recognised outside income statement	**3.0**	0.6
Contributions paid	**6.9**	7.4
Closing statement of financial position	**52.1**	43.4

The net pension asset is expected to become available to the Group in the form of a refund, subject to income tax. This refund is expected to arise in the very long-term when the last scheme benefit has been paid at which point the Group would have an unconditional right to any remaining surplus in the scheme.

Net credit recognised in the income statement comprised:

	Year ended 31 December 2015 US$m	Year ended 31 December 2014 US$m
Net interest on net defined benefit asset	**(1.6)**	(1.7)

This credit has been recognised in the 'other operating expenses' line in the income statement.

The allocation of the scheme's assets was as follows:

	31 December 2015 US$m	31 December 2014 US$m
Equities	**76.3**	88.7
Index-linked UK government bonds	**123.5**	137.3
Non-UK index-linked bonds	**13.8**	13.9
Fixed interest government bonds	**12.2**	13.7
Cash and net current assets	**10.7**	5.0
Gold and gold mining equities	**2.9**	2.9
Other scheme assets	**3.6**	1.5
Fair value of scheme assets	**243.0**	263.0

All scheme assets have quoted prices in active markets. The scheme does not invest directly in property occupied by the Group or in financial securities issued by the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

20 EMPLOYEE BENEFITS (continued)

Investment strategy

The Trustee determines the scheme's investment strategy after taking appropriate advice from its investment consultants. The management of the assets is delegated to State Street Global Advisors and Ruffer LLP. The Trustee's investment objective is to ensure that the scheme has adequate resources to meet its liabilities and thereafter to maximise the long-term total rate of return on the assets. Investment risk is managed by diversifying the assets across asset classes whose return patterns are not highly correlated, and by periodically rebalancing asset classes. The assets include a portfolio of UK index-linked government bonds which aim to match a significant part of the scheme's inflation-linked benefits and therefore help to reduce the Group's exposure to investment and inflation risks.

Movements in the present value of the defined benefit obligation were as follows:

	31 December 2015 US$m	31 December 2014 US$m
Opening defined benefit obligation	**219.6**	207.4
Interest on defined benefit obligation	**7.6**	9.1
Remeasurements due to:		
Changes in financial assumptions	**(6.8)**	23.7
Changes in demographic assumptions	**0.9**	2.3
Experience on benefit obligations	**(6.7)**	(2.4)
Foreign exchange effect	**(11.6)**	(13.9)
Benefits paid	**(12.1)**	(6.6)
Closing defined benefit obligation	**190.9**	219.6

Movements in the fair value of the scheme assets were as follows:

	31 December 2015 US$m	31 December 2014 US$m
Opening fair value of scheme assets	**263.0**	243.8
Interest income	**9.2**	10.8
Actual return excluding interest income	**(9.6)**	24.2
Foreign exchange effect	**(14.4)**	(16.6)
Contributions by the employer	**6.9**	7.4
Benefits paid	**(12.1)**	(6.6)
Closing fair value of scheme assets	**243.0**	263.0

The principal actuarial assumptions at the year-end were:

	31 December 2015 US$m	31 December 2014 US$m
Discount rate	**3.8%**	3.6%
Retail Prices Index (RPI) inflation	**3.2%**	3.2%
Consumer Prices Index (CPI) inflation	**2.2%**	2.2%
Pension increases in payment	**3.1%**	3.1%
Mortality assumptions:		
Life expectancy of male aged 60 at statement of financial position date	**27.8 years**	27.4 years
Life expectancy of female aged 60 at statement of financial position date	**30.1 years**	29.7 years
Life expectancy of male age 60 retiring in 20 years' time	**29.6 years**	29.4 years
Life expectancy of female age 60 retiring in 20 years' time	**32.0 years**	31.4 years

The assumptions used to determine end-of-year benefit obligations are also used to calculate the following year's cost.

Sensitivity analysis:

Assumption	Change in assumption	Change in defined benefit obligation at end of period
Discount rate	Decrease by 0.5%	Increase by US$17.3m
Future RPI inflation increases	Increase by 0.5%	Increase by US$10.8m
Future CPI inflation increases	Increase by 0.5%	Increase by US$3.9m
Assumed life expectancy at age 60	Increase by 1 year	Increase by US$5.3m

The calculations in this section have been carried out using the same method and data as the Group's pensions and accounting figures with each assumption adjusted as shown above. Each assumption has been varied individually and a combination of changes in assumptions could produce a different result.

Risks:
The Group is exposed to a number of risks in relation to its defined benefit scheme, the most significant of which are detailed below:

Risk	
Investment strategy	Changes in asset values are not matched by changes in the scheme's defined benefit obligations. For example, if equity values fall with no changes in corporate bond yields, the net pension asset would reduce.
Investment returns	Future investment returns are lower than anticipated and so additional contributions are required from the Group to pay all the benefits promised.
Improvements in life expectancy	Scheme members live longer and so benefits are payable for longer than anticipated.
Inflation	Actual inflation is higher and so benefit payments are higher than anticipated.
Regulatory	In future the scheme may have backdated claims or liabilities arising from future legislation, emerging practice or court judgments.

(b) Brit Group Services Limited – Defined Contribution Personal Pension Plan
Brit Group Services Limited operates a defined contribution group personal pension plan. The assets of the scheme are held separately from those of the Group in an independently administered fund.

The pension cost charge represents contributions payable by Brit Group Services Limited to the fund and amounted to US$7.4m (2014: US$7.6m).

At 31 December 2015 no contributions were payable to the fund (2014: US$nil).

(c) Brit Insurance Services USA Inc. – 401(k) Safe Harbor Plan
Brit Insurance Services USA Inc. operates a '401(k) Safe Harbor Plan'. The assets of the scheme are held separately from those of the Group in an independently administered fund.

The pension cost charge represents contributions payable by Brit Insurance Services USA Inc. to the fund and amounted to US$0.3m (2014: US$0.3m).

At 31 December 2015 no contributions were payable to the fund (2014: US$nil).

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21 FINANCIAL INVESTMENTS

This Note summarises the total value of the financial assets of the Group and shows how much we have invested in each class of asset. It also explains how each asset is categorised under three different levels of hierarchy, the methods used to value assets within each level and assets transferred between levels.

	31 December 2015 US$m	31 December 2014 US$m
Equity securities	**265.5**	42.4
Debt securities	**1,956.0**	1,537.5
Loan instruments	**23.4**	264.1
Specialised investment funds	**1,085.9**	1,681.3
	3,330.8	3,525.3

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

Basis for determining the fair value hierarchy of financial instruments

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

(a) Level one – quoted prices (unadjusted) in active markets for identical assets;

(b) Level two – inputs other than quoted prices included within level one that are observable for the asset, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

(c) Level three – inputs for the assets that are not based on observable market data (unobservable inputs).

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

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

Fair values for level two and level three assets include:

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

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

Valuation techniques

Level one

Assets included in level one equities that have quoted prices in active markets (where transactions occur with sufficient frequency and volume), government bonds and treasury bills issued in Canada and the US.

Level two

Level two securities contain certain investments in US and non-US government agency securities, US and non-US Corporate debt securities, loan instruments and specialised investment funds.

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

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 timing of principal repayments are considered during their valuation.

Level two equities include certain limited partnerships where underlying investments have quoted prices in active markets that may be aggregated to produce a NAV for that partnership.

Level three

Level three securities contain certain investments in asset backed securities (ABS), residential mortgage backed securities (RMBS), investments in private equity/limited partnerships where the fund's underlying investments are not traded/quoted in an active market.

Level three ABS include mostly investment-grade debt securities backed by pools of loans with a variety of underlying collateral.

Level three RMBS include non-agency RMBS backed by non-conforming residential mortgages. Pricing models 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

21 FINANCIAL INVESTMENTS (continued)

Disclosures of fair values in accordance with the fair value hierarchy

31 December 2015	Level one US$m	Level two US$m	Level three US$m	Total US$m
Equity securities	**195.6**	**52.3**	**17.6**	**265.5**
Debt securities	**754.0**	**1,158.1**	**43.9**	**1,956.0**
Loan instruments	**–**	**23.4**	**–**	**23.4**
Specialised investment funds	**–**	**1,085.9**	**–**	**1,085.9**
	949.6	**2,319.7**	**61.5**	**3,330.8**
31 December 2014				
Equity securities	42.4	–	–	42.4
Debt securities	222.9	1,096.2	218.4	1,537.5
Loan instruments	–	257.7	6.4	264.1
Specialised investment funds	1,070.7	519.3	91.3	1,681.3
	1,336.0	1,873.2	316.1	3,525.3

All unrealised losses of US$108.5m (31 December 2014: gains of US$9.2m) and realised gains of US$58.0m (31 December 2014: gains of US$21.0m) on financial investments held during the period, are presented in investment return in the consolidated income statement.

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

Transfer from level one to level two
A total of US$37.7m (2014: US$nil) of fixed income investments and US$638.3m (2014: US$297.0m) of funds were transferred from level one to level two during 2015. The funds were transferred due to only limited or no trading taking place during 2015 and therefore they were no longer deemed to be actively traded.

Transfer from level two to level one
A total of US$0.8m (2014: US$nil) of fixed income investments were transferred from level two to level one during 2015.

Transfer from level two to level three
A total of US$1.0m of fixed income investments (2014: a loan of US$0.3m) were transferred from level two to level three during 2015.

Transfer from level three to level two
A total of US$0.5m of fixed income investments and US$7.0m of funds were transferred from level three to level two during 2015 (2014: US$173.4m). These fair value hierarchy movements were principally due to additional observable inputs becoming available for their valuation during 2014 and 2015.

Reconciliation of movements in level three financial investments measured at fair value

	Equity securities US$m	Debt securities US$m	Loan instruments US$m	Specialised investment funds US$m	Total US$m
At 1 January 2014	–	427.3	–	123.3	550.6
Transfers (to)/from level one and level two	–	(137.0)	0.3	(36.4)	(173.1)
Total gains/(losses) recognised in the income statement	–	3.0	(0.2)	2.0	4.8
Purchases	–	33.5	6.5	6.1	46.1
Sales proceeds	–	(106.6)	–	(3.5)	(110.1)
Foreign exchange losses	–	(1.8)	(0.2)	(0.2)	(2.2)
At 31 December 2014	–	218.4	6.4	91.3	316.1
Transfers from/(to) level one and level two	**–**	**0.5**	**–**	**(7.0)**	**(6.5)**
Total gains recognised in the income statement	**0.6**	**0.4**	**–**	**1.1**	**2.1**
Purchases	**17.5**	**47.4**	**–**	**–**	**64.9**
Sales proceeds	**–**	**(221.0)**	**(6.4)**	**(85.4)**	**(312.8)**
Foreign exchange losses	**(0.5)**	**(1.8)**	**–**	**–**	**(2.3)**
At 31 December 2015	**17.6**	**43.9**	**–**	**–**	**61.5**

Total net gains recognised in the income statement under ‘investment return’ in respect of level three financial investments for the period amounted to US$2.1m (31 December 2014: US$4.8m). Included in this balance are US$7.2m unrealised losses (31 December 2014: gains of US$1.2m) attributable to assets still held at the end of the year.

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

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

	31 December 2015		31 December 2014	
	Carrying amount US$m	**Effect of possible alternative assumptions (+/–) US$m**	Carrying amount US$m	Effect of possible alternative assumptions (+/–) US$m
Equity securities	**17.6**	**0.7**	–	–
Debt securities	**43.9**	**1.3**	224.8	7.2
Specialised investment funds	**–**	**–**	91.3	2.0
	61.5		316.1	

In order to determine reasonably possible alternative assumptions, the Group adjusted key unobservable model inputs as follows:

- For equities, the Group monitored the price of the security invested to changes on a month by month basis since acquisition.
- For debt securities, the Group adjusted, dependent on the type and valuation methodology of the investment, key variables including the probability of spread movements, leverage ratio changes and changes in mortgage default rates used in the models.
- For specialised investment funds, the assumptions have been adjusted by between 5% and 8% as determined by historic movements in volatility of valuations or price changes in the underlying investments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

22 DERIVATIVE CONTRACTS

This Note summarises the total value of the derivative contracts of the Group. It also explains how each derivative contract is categorised under three different levels of hierarchy, the valuation methods used to value derivative contracts and amounts transferred between levels. At 31 December 2015 and 31 December 2014, the options and interest rate swaps formed part of our investment management strategy, while the currency forwards formed part of our foreign exchange management strategy.

The disclosure provided in the tables below include derivatives recorded in the Group's statement of financial position:

Derivative contract assets

31 December 2015	Gross amounts of receivables on derivative contract assets US$m	Gross amounts of payables on derivative contract assets US$m	Derivatives contract assets presented in the statement of financial position US$m
Currency forwards	**830.3**	**(800.2)**	**30.1**
Options	**33.5**	**–**	**33.5**
Call and put option over Ambridge Partners LLC	**51.3**	**(51.3)**	**–**
	915.1	**(851.5)**	**63.6**

31 December 2014	Gross amounts of receivables on derivative contract assets US$m	Gross amounts of payables on derivative contract assets US$m	Derivatives contract assets presented in the statement of financial position US$m
Currency forwards	740.2	(731.7)	8.5
Options	3.7	–	3.7
	743.9	(731.7)	12.2

Derivative contract liabilities

31 December 2015	Gross amounts of payables on derivative contract liabilities US$m	Gross amounts of receivables on derivative contract liabilities US$m	Derivative contract liabilities presented in the statement of financial position US$m
Currency forwards	**(352.7)**	**340.2**	**(12.5)**

31 December 2014	Gross amounts of payables on derivative contract liabilities US$m	Gross amounts of receivables on derivative contract liabilities US$m	Derivative contract liabilities presented in the statement of financial position US$m
Currency forwards	(509.8)	507.6	(2.2)
Interest rate swaps	(2.0)	–	(2.0)
	(511.8)	507.6	(4.2)

Disclosures of fair values in accordance with the fair value hierarchy

31 December 2015	Level two US$m	Level three US$m	Total US$m
Derivative contract assets	**43.2**	**20.4**	**63.6**
Derivative contract liabilities	**(12.5)**	**–**	**(12.5)**
31 December 2014			
Derivative contract assets	8.5	3.7	12.2
Derivative contract liabilities	4.2	–	4.2

Valuation techniques

Level two

The fair value of Interest rate swaps are determined using pricing models based on observable market data such as prices of instruments with similar maturities and characteristics, interest rate yield curves and measures of interest rate volatility. The value is adjusted to reflect the credit risk of the counterparty.

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

The fair values of equity index put options are determined with the use of option pricing models based on observable inputs including the traded price, volatility and dividend yield of the underlying security.

Level three

The valuation technique to measure the fair value of put options is to use pricing models which requires market-based inputs such as expected volatility, expected dividend yield and the risk-free rate of interest.

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

	Put options US$m
At 1 January 2014	3.3
Purchases	0.2
Total gains recognised in the income statement	0.5
Foreign exchange losses	(0.3)
At 31 December 2014	3.7
Purchases	14.7
Total gains recognised in the income statement	2.6
Foreign exchange losses	(0.6)
At 31 December 2015	**20.4**

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

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

	31 December 2015		31 December 2014	
	Carrying amount US$m	**Effect of possible alternatives assumptions (+/-) US$m**	Carrying amount US$m	Effect of possible alternatives assumptions (+/-) US$m
Put options	**20.4**	**5.9**	3.7	0.7

In order to determine reasonably possible alternative assumptions, the Group adjusted key unobservable model inputs, including:

- Inflation volatility inputs – used to measure inflation-related put options in 2015.
- Credit risk inputs – used to measure put options over an unlisted investment held by the Group in 2015 and 2014.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

23 INSURANCE AND OTHER RECEIVABLES

This Note sets out the various categories of amounts which are owed to the Group.

	31 December 2015 US$m	31 December 2014 US$m
Arising out of direct insurance operations	**357.4**	183.9
Arising out of reinsurance operations	**280.7**	477.8
Prepayments	**10.4**	13.3
Accrued income	**8.2**	6.2
Outstanding settlements on investments	**7.6**	18.6
Other assets	**6.8**	–
Other debtors	**20.6**	6.4
Total	**691.7**	706.2

Other assets relate to shares purchased to settle share-based payment awards. For further information, refer to Note 32(e).

24 CASH AND CASH EQUIVALENTS

This Note analyses the amounts of cash and cash equivalents. Cash equivalents are investment instruments with less than 90 days left to maturity when purchased by the Group. We have also provided some additional analysis which explains where our cash and cash equivalents are held and why we are holding them.

	31 December 2015 US$m	31 December 2014 US$m
Cash at bank and on deposit	**522.3**	459.0
Cash equivalents	**58.7**	42.4
Total	**581.0**	501.4

The carrying amounts disclosed above, reasonably approximate fair values.

The source of these amounts can be further analysed as follows:

Classification	**Definition**	**31 December 2015 US$m**	31 December 2014 US$m
Cash within segregated fund mandates	Short-term investment funds, money market funds, treasury bills or cash held within segregated mandates.	**170.4**	91.7
Lloyd's Trust Funds	Cash within the Lloyd's Overseas Deposits Trust Funds held to meet regulatory requirements.	**27.6**	49.6
Self-managed cash	Highly liquid instruments held to meet on-going working capital requirements.	**359.6**	212.3
Letter of credit cash collateral	Cash held as collateral for letters of credit.	**14.5**	94.6
Derivative operating cash	Cash within segregated accounts held to meet margin calls and to enable derivative positions to be rolled.	**8.9**	53.2
Total		**581.0**	501.4

25 BORROWINGS

This Note describes the main sources of borrowing available to the Group and the amounts currently borrowed from each of those sources.

				31 December 2015			31 December 2014		
	Maturity	Call	Effective interest rate	**Initial capitalised borrowing costs US$m**	**Amortised cost US$m**	**Fair value US$m**	Initial capitalised borrowing costs US$m	Amortised cost US$m	Fair value US$m
Non-current									
Subordinated debt	2030	2020	8.3%	**2.8**	**185.6**	**206.2**	2.8	194.2	214.2
Revolving credit facility	2018	–	LIBOR +2.3%	**14.7**	**–**	**–**	14.7	–	–
				17.5	**185.6**	**206.2**	17.5	194.2	214.2

As at 31 December 2015 and 31 December 2014, the fair value of the subordinated debt was determined by reference to trading market values on recognised exchanges and was therefore categorised as a level one measurement in the fair value hierarchy. For further information relating to the fair value hierarchy, refer to Note 21.

Subordinated debt

The subordinated debt is callable in whole by the Group on 9 December 2020. Following this date the interest rate resets to the higher of:

i) 3.4% above the gross redemption yield of the 4.75% Treasury Gilt due 2030 quoted on the reset date; or

ii) 3.4% above the gross redemption yield of the 8% Treasury Stock due 2021 quoted on the reset date.

The effective interest rate method of accounting has been applied over the term up to the call date.

Revolving credit facility

The Group has a US$360.0m (2014: US$ 360.0m) revolving credit facility which expires on 31 December 2018.

At 31 December 2015, a US$80.0m (2014: US$80.0m), letter of credit had been put in place under the facility while the remainder was undrawn. At 31 December 2015, the US$80.0m was uncollateralised (2014: fully collateralised).

26 INSURANCE AND OTHER PAYABLES

This Note sets out the various categories of amounts which are owed by the Group.

	31 December 2015 US$m	31 December 2014 US$m
Arising out of direct insurance operations	**1.5**	9.4
Arising out of reinsurance operations	**204.6**	243.8
Other taxes and social security costs	**2.5**	2.2
Accruals and deferred income	**56.0**	54.1
Outstanding settlements on investments	**79.3**	27.0
Other creditors	**6.1**	8.0
	350.0	344.5

The carrying amounts disclosed above reasonably approximate fair values as all amounts are payable within one year of the date of the statement of financial position.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

27 CALLED UP SHARE CAPITAL

This Note sets out the number of shares we have in issue and their nominal value.

	31 December 2015 US$m	31 December 2014 US$m	**31 December 2015 1p each Number**	31 December 2014 1p each Number
Ordinary shares:				
Allotted, Issued and fully paid	**6.6**	6.6	**401,057,706**	400,452,960

	US$m	Number
As at 1 January 2015	6.6	400,452,960
Shares issued in respect of share based incentive schemes	–	604,746
As at 31 December 2015	**6.6**	**401,057,706**

On 29 June 2015, 120,000,000 shares were reclassified as class A shares and the remainder reclassified as class B shares. The class A and B shares rank pari passu except that on a distribution of profits by the Company, the class A shareholders are entitled to a cumulative annual dividend which must be settled ahead of any equivalent distribution to class B shareholders.

The number of shares reported is for Brit Limited, the parent of the Group.

28 DIVIDENDS

This Note gives details of the amount we have paid to our shareholders by way of dividends.

A final ordinary dividend of 12.5p per share and a special dividend of 12.5p per share amounting to US$154.1m was declared by the Group in respect of 2014 and paid during 2015. No final dividends are to be declared in respect of 2015.

An interim dividend of 6.25p per share amounting to US$40.4 was paid during 2014.

29 COMMITMENTS

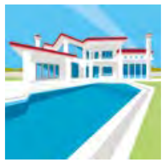
The Group has various financial commitments resulting from lease arrangements it has entered into. These amounts, which are not provided for on the consolidated statement of financial position, are set out in this Note.

Operating lease commitments

The Group has entered into a number of operating lease arrangements to lease properties and office equipment. Property leases typically have rent reviews every five years where the lease payments could be increased to reflect market rates.

Operating lease payments recognised in the consolidated income statement during 2015 were US$9.0m (2014: US$5.4m). The future minimum lease payments under non-cancellable operating leases were as follows:

	31 December 2015 US$m	31 December 2014 US$m
Not later than one year	**8.5**	4.8
Later than one year and not later than five years	**28.8**	2.4
Later than five years	**64.1**	–
	101.4	7.2



30 CASH FLOWS PROVIDED BY OPERATING ACTIVITIES

The table below shows how our profit for the year translates into cash flows generated from our operating activities.

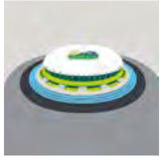
	Year ended 31 December 2015 US$m	Year ended 31 December 2014 US$m
Profit on ordinary activities before tax	**7.7**	246.0
Adjustments for non-cash movements:		
Realised and unrealised losses/(gains) on investments	**50.5**	(30.2)
Realised and unrealised gains on derivatives	**(39.7)**	(12.0)
Amortisation of intangible assets	**8.4**	9.4
Impairment of intangible assets	**0.6**	–
Depreciation of property, plant and equipment	**2.9**	3.3
Impairment of property, plant and equipment	**1.8**	–
Foreign exchange losses/(gains) on cash and cash equivalents	**15.8**	(8.7)
Charges in respect of share-based payment schemes	**4.9**	1.0
Interest income	**(42.6)**	(61.4)
Dividend income	**(30.1)**	(34.2)
Foreign currency translation reserve transferred to profit on liquidation of subsidiaries	**5.2**	–
Finance costs on borrowing	**20.6**	22.3
Changes in working capital:		
Deferred acquisition costs	**(13.1)**	(14.2)
Insurance and other receivables excluding accrued income	**20.6**	(120.5)
Insurance and reinsurance contracts	**121.9**	(108.9)
Financial investments	**143.7**	(15.7)
Derivative contracts	**(3.4)**	6.3
Insurance and other payables	**(5.7)**	52.3
Employee benefits	**(8.5)**	(9.1)
Provisions	**0.5**	(0.8)
Cash flows provided by operating activities	**262.0**	(75.1)

31 NON-CONTROLLING INTERESTS

During 2014, the Group bought out a number of minority shareholders who had interests in Group subsidiary companies. Following this, all of the Group's subsidiary companies are now fully owned by the parent company, Brit Limited.

On 28 March 2014, as part of the corporate reorganisation, the Group exchanged the non-controlling shares in Achilles Holdings 2 S.à R.L. for shares in Achilles Holdings 1 S.à R.L. which in turn were exchanged for shares in Brit Limited.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS



32 SHARE-BASED PAYMENTS

The Group rewards it employees through various share-based incentive schemes. This Note explains the different schemes used to facilitate those share-based payments and the charge recognised in the consolidated income statement in respect of these schemes.

The compensation cost recognised in the income statement under International Financial Reporting Standard 2 'Share-based Payments' for the Group's share-based payments arrangements are shown below:

	Year ended 31 December 2015 US$m	Year ended 31 December 2014 US$m
Equity-settled plans		
Retention Partnership Plan	**–**	0.3
Performance Share Plan	**2.6**	0.3
Brit All-Employee Share Plan	**1.5**	0.2
Long-Term Incentive Plan (Performance Share Plan replacement)	**0.7**	–
Employee Share Ownership Plan	**0.1**	–
Cash-settled plans		
Performance Share Plan dividend equivalents settled in cash	**0.2**	0.2
Long-Term Incentive Plan	**0.1**	–
Total	**5.2**	1.0

The total liability in respect of cash-settled plans at 31 December 2015 was US$0.1m (2014: US$0.2m).

On 5 June 2015, Brit Limited was acquired by FFHL Group Limited, a subsidiary of Fairfax Financial Holdings Limited (FFHL). As a result of the acquisition, the awards outstanding under the share-based payment plans settled with Brit Limited shares either vested or were transferred to a replacement scheme.

(a) Retention Partnership Plan (RPP)

During 2011, selected employees in the senior management team were invited to buy a number of shares in Achilles Holdings 1 S.à R.L. under the RPP. For each share bought, the participant was granted five nil-cost options over shares in Achilles Holdings 1 S.à R.L. As a result of the 2014 corporate reorganisation, whereby Brit Limited acquired the entire share capital of Achilles Holdings 1 S.à R.L, the outstanding RPP awards were exercised with an effective date of 28 March 2014.

Reconciliation of movement in the number of options

	Year ended 31 December 2015 Number of options	Year ended 31 December 2014 Number of options
Outstanding at 1 January	**–**	401,080
Exercised	**–**	(401,080)
Outstanding at 31 December	**–**	–

The number of share options in Achilles Holdings 1 S.à R.L. has been converted into the equivalent number of Brit Limited shares in order to reflect the corporate reorganisation.

(b) Performance Share Plan (PSP)

During 2014, selected employees in the senior management team were awarded the right to acquire a defined number of Brit Limited shares at no cost to the employee. On the Fairfax acquisition of Brit Limited, 35% of the shares vested and the remainder were replaced with awards under the Long-Term Incentive Plan (Performance Share Plan replacement).

Reconciliation of movement in the number of awards

	Year ended 31 December 2015 Number of awards	Year ended 31 December 2014 Number of awards
Outstanding at 1 January	**2,596,365**	–
Granted	**–**	2,596,365
Forfeited	**(40,477)**	–
Vested	**(894,519)**	–
Lapsed	**(163,428)**	–
Transferred to Long Term Incentive Plan (Performance Share Plan Replacement)	**(1,497,941)**	–
Outstanding at 31 December	**–**	2,596,365

The weighted average share price at date of vesting during 2015 was 280p. The weighted average fair value at date of grant for awards granted during 2014 was 212p including dividend equivalents.

(c) Brit All-Employee Share Plan

The Brit All-Employee Share Plan provided for the award of Brit Limited free shares, partnership shares, matching shares and dividend shares. On the Fairfax acquisition of Brit Limited, all of the awards vested.

Reconciliation of movement in the number of awards

	Year ended 31 December 2015 Number of awards	Year ended 31 December 2014 Number of awards
Outstanding at 1 January	**502,542**	–
Granted	**–**	528,205
Forfeited	**(17,781)**	(19,555)
Vested	**(484,761)**	(6,108)
Outstanding at 31 December	**–**	502,542

The weighted average share price at date of vesting during 2015 was 280p.

The weighted average fair value at date of grant for awards granted during 2014 was 239p.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

32 SHARE-BASED PAYMENTS (continued)

(d) Long-Term Incentive Plan (Performance Share Plan replacement)
On the acquisition of Brit Limited, the 65% of PSP awards that did not immediately vest were converted by FFHL into awards under this scheme. The conversion terms allowed for 60% of the 280p Brit Limited acquisition share price to be converted into the equivalent value of options to acquire shares in FFHL at a nil exercise price. Subject to continued service, the options vest in November 2018 and there are a further seven years to exercise the options.

The calculation of the compensation cost recognised in the income statement in respect of these awards assumes forfeitures due to employee turnover of 5% per annum prior to vesting, with subsequent adjustments to reflect actual experience.

Reconciliation of movement in the number awards

	Year ended 31 December 2015 Number of awards	Year ended 31 December 2014 Number of awards
Outstanding at 1 January	–	–
Granted	7,865	–
Outstanding at 31 December	7,865	–

The weighted average fair value at date of grant for awards granted during 2015 was US$491.15.

In order to settle share-based payment awards, the Group has purchased US$10.7m of preference shares in FFHL Share Option 1 Corp and that company has purchased shares in Fairfax Financial Holdings Limited. Of the purchase, US$3.9m related to this scheme and has been recorded within equity so as to offset the share-based payment charges recorded in equity on exercise of the awards.

(e) Long Term Incentive Plan
During 2015 the Company awarded selected employees options to acquire shares in FFHL at a nil exercise price. Subject to continued service, the options vest five years after the grant date and there are a further five years to exercise the options.

The calculation of the compensation cost recognised in the income statement in respect of these awards assumes forfeitures due to employee turnover of 5% per annum prior to vesting, with subsequent adjustments to reflect actual experience.

Reconciliation of movement in the number of awards

	Year ended 31 December 2015 Number of awards	Year ended 31 December 2014 Number of awards
Outstanding at 1 January	–	–
Granted	13,503	–
Outstanding at 31 December	13,503	–

There were no options exercisable at the end of the year.

The weighted average fair value at date of grant for awards granted during 2015 was US$491.15.

In order to settle share-based payment awards, the Group has purchased US$10.7m of preference shares in FFHL Share Option 1 Corp and that company has purchased shares in Fairfax Financial Holdings Limited. Of the purchase, US$6.8m related to this scheme, has been recorded within Other Assets so as to offset the share-based payment recorded as a liability within Other Creditors, on exercise of the awards.

(f) Employee Share Ownership Plan

Under the terms of the ESOP which was established in 2015, eligible employees are given the election to purchase common shares in FFHL in an amount up to 10% of their annual base salary. The Company purchases, on the employee's behalf, a number of FFHL's common shares equal in value to 30% of the employee's contribution. In the event that the Company achieves certain performance targets, additional shares are purchased by the Company for the employee's benefit, to an amount equal in value to 20% of the employee's contribution during that year. In respect of both shares purchased by the employees and matched by the Company, during the year ended 31 December 2015, the Company purchased a total of 1,137 common shares in FFHL at an average price of US$485.15 in respect of this plan.

33 ACQUISITIONS

Acquisitions made by the Group in 2014 and 2015 are described below, including the nature of the acquisition, the cost of the acquisition and the accounting treatment adopted.

On 1 June 2014, the Group acquired an aviation underwriting and claims team from QBE Underwriting Limited. The Group purchased this team and the renewal rights to their London based dedicated Lloyd's aviation business through a cash payment of US$2.0m and a further US$1.3m of estimated deferred consideration. This has been recognised as a renewal right intangible asset of US$3.3m.

34 INTERESTS IN STRUCTURED ENTITIES

This Note defines a structured entity and sets out the Group's interests in such vehicles and how we account for them.

A structured entity is defined as an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only, or when the relevant activities are directed by means of contractual arrangements.

(a) Interests in consolidated structured entities

During 2014, the Group sold its investment in a Qualifying Investment Fund (QIF), Avoca Loan Fund 1, which was a sub-fund of Avoca Capital Investments plc, the purpose of which was to invest in fixed income securities.

In determining whether the Group controlled the sub-fund, it considered how sub-fund investment decisions were made, voting or other rights and the design of the sub-fund. Based on these criteria, Avoca Loan Fund 1 was considered to be a consolidated structured entity.

The carrying value of the Group's investment in Avoca Loan Fund 1 represented the Group's maximum exposure to loss from the sub-fund and the Group provided no financial or other support to Avoca Loan Fund 1 during its ownership outside of any contractual arrangements in place.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

34 INTERESTS IN STRUCTURED ENTITIES (continued)

(b) Interests in unconsolidated structured entities

As part of its investment activities, the Group has the following interests in unconsolidated structured entities:

	Year ended 31 December 2015 US$m	Year ended 31 December 2014 US$m
Undertakings for Collective Investments in Transferable Securities (UCITS)	**999.5**	1,297.0
Mortgage backed securities	**18.2**	200.5
Commercial Mortgage backed securities	**–**	18.6
Other asset backed structures	**1.5**	194.2
	1,019.2	1,710.3

These assets are included within the debt securities and specialised investment funds classification in Note 21 and form part of Financial Investments on the Group statement of financial position. They are carried at fair value.

The risk that the Group faces in respect of the investments in structured entities is similar to the risk it faces in respect of other financial investments held on the statement of financial position in that the fair value is determined by market supply and demand. This is in turn driven by investor evaluation of the credit risk of the structure and changes in the term structure of interest rates which might change investor expectation of the cashflows associated with the instrument and therefore its value in the market.

The maximum exposure to loss in respect of these structured entities would be the carrying value of the instruments that the Group holds. Generally, default rates would have to increase substantially from their current level before the Group would suffer a loss and this assessment is made prior to investing and continually through the holding period for the security. The Group does not invest in securities which have a contingent liability to the borrowers or structures that provide any type of guarantee, revolving credit facility, callable loans or liquidity arrangement facilities to third parties such as overdrafts.

The Group has received investment returns from UCITS funds during 2015 amounting to US$0.8m (2014: US$58.9m) comprised of dividend income of US$28.7m (2014: US$31.3m) and capital losses of US$27.9m (2014: gains of US$27.6m).

The Group has also received investment returns from structured products (mortgage backed securities, commercial mortgage backed securities and other asset backed securities) during 2015 amounting to US$6.8m (2014: US$10.1m) comprised of interest US$3.4m (2014: US$8.3m) and capital gains of US$3.4m (2014: US$1.8m).

The Group has provided no financial or other support, other than through the normal purchase of tradeable securities, to structured entities either held at the date of the statement of financial position or held during 2014 or 2015 and has no current intention to do so.

35 CONSOLIDATED ENTITIES

The principal entities which are members of the Brit Limited Group and whose results and financial position are consolidated to produce the Group result and financial position are set out in this Note.

All subsidiaries of the Company are 100% owned. The subsidiaries of the company at 31 December 2015, together with their principal activities, are listed below by country of incorporation.

Subsidiary	Principal activity
United Kingdom	
Brit Insurance Holdings Limited	Intermediate holding company
Brit Syndicates Limited	Lloyd's managing agent
Brit UW Limited	Lloyd's corporate member
Brit Insurance Services Limited	Service company
Brit Investment Holdings Limited	Service company
Brit Group Services Limited	Group services company
Brit Group Finance Limited	Group services company
BGS Services (Bermuda) Limited	Service company coverholder
Brit Pension Trustee Limited	Group services company (Dormant)
Brit Corporate Services Limited	Group services company (Dormant)
Brit Corporate Secretaries Limited	Group services company (Dormant)
United States of America	
Brit Insurance Services USA Inc.	Service company coverholder
Gibraltar	
Brit Insurance (Gibraltar) PCC Limited	Captive reinsurer
Brit Group Finance (Gibraltar) Limited	Group services company
Singapore	
Brit Global Specialty Singapore Pte. Ltd.	Service company coverholder
The Netherlands	
Brit Insurance Holdings BV	Former holding company
Luxembourg	
Brit Overseas Holdings S.à R.L.	Former holding company

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

36 RELATED PARTY TRANSACTIONS AND ULTIMATE PARENT COMPANY

The Group has a number of related parties which includes its principal investors and key managers. Sometimes it transacts business with these related parties. This Note sets out those transactions.

(a) Ultimate Parent Company

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

(b) Fairfax Financial Holdings Limited

In June 2015, Hamblin Watsa Investment Counsel Limited (HWIC), an affiliate of FFHL, was appointed as an investment manager to a number of Group companies. During the period from 5 June to 31 December 2015, the Group incurred and paid investment management fees to HWIC of US$5.7m.

The group has historically entered into various reinsurance arrangements with affiliates of FFHL.

In respect of insurance and ceded outwards reinsurance activity, the amounts included in the income statement relating to trading with affiliates of FFHL in the period from 5 June 2015 to 31 December 2015 were as follows:

	Period from 5 June to 31 December 2015 US$m
Gross premiums written	**6.8**
Less premiums ceded to reinsurers	**(3.5)**
Premiums written, net of reinsurance	**3.3**
Gross amount of change in provision for unearned premiums	**3.1**
Reinsurers' share of change in provision for unearned premiums	**(4.7)**
Net change in provision for unearned premiums	**(1.6)**
Earned premiums, net of reinsurance	**1.7**
Gross claims paid	**(6.9)**
Reinsurers' share of claims paid	**10.5**
Claims paid, net of reinsurance	**3.6**
Gross change in the provision for claims	**2.8**
Reinsurers' share of change in the provision for claims	**(9.1)**
Net change in the provision for claims	**(6.3)**
Commission income	**2.3**
Commission expense	**(1.2)**

The amounts included in the statement of financial position outstanding with affiliates of FFHL as at 31 December 2015 were as follows:

	Year ended 31 December 2015 US$m
Debtors arising out of direct insurance and reinsurance operations:	
Insurance premium receivable	**5.9**
Recoverable from reinsurers	**59.6**
Creditors arising out of direct insurance and reinsurance operations:	
Payable to reinsurers	**(4.1)**
Unpaid claims liabilities	**(45.9)**
Deferred acquisition costs	**1.0**
Gross unearned premiums	**(5.2)**
Unearned premium recoverable from reinsurers	**3.5**

(c) Associated undertakings

Ambridge Partners LLC

On 8 December 2015, the Group acquired 50% of the members' interests of Ambridge Partners LLC and also entered into a call and a put option to purchase the remaining 50% in 2019.

Trading with Ambridge Partners LLC is undertaken on an arms-length basis and is settled in cash. Acquisition costs included in the Income Statement relating to trading with Ambridge Partners LLC for the period from 8 December 2015 to 31 December 2015 amounted to US$0.4m for introducing insurance business.

The amount of premiums net of commission in the statement of financial position outstanding from Ambridge Partners LLC as at 31 December 2015 was US$6.4m.

The amount of fees in the statement of financial position payable to Ambridge Partners LLC as at 31 December 2015 was US$0.2m.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

36 RELATED PARTY TRANSACTIONS AND ULTIMATE PARENT COMPANY (continued)

(d) Key management

(i) Compensation

The amount of the emoluments granted in respect of the financial year to the members of the administrative, managerial and supervisory bodies by reason of their responsibilities, and any commitments arising or entered into in respect of retirement pension for former members of those bodies, are broken down as follows:

	Year ended 31 December 2015 US$m	Year ended 31 December 2014 US$m
Salaries and other short-term employee benefits	**19.7**	10.9
Post-employment benefits	**0.9**	0.3
Share based payments	**2.1**	0.2
Termination benefits	**2.1**	–
	24.8	11.4

For the purposes of International Accounting Standard 24, 'Related Party Disclosures', key managers are defined as the Board of Directors and members of the Executive Committee which is the primary vehicle for implementing Board decisions in respect of UK-managed operations.

(ii) Loans

As part of the 2014 corporate reorganisation certain key managers and certain other employees of the Group borrowed US$2.2m interest-free from Achilles Holdings 1 S.à R.L. for the purposes of temporarily acquiring additional shares in a subsidiary. As at 31 December 2014 the total amount of such loans outstanding was US$0.3m and this was repaid during 2015.

One of the loans referred to above was made to a Director, Mark Cloutier. The initial loan was US$0.8m and the amount outstanding at 31 December 2015 was US$nil (2014: US$0.3m).

37 GUARANTEES AND CONTINGENT LIABILITIES

This Note explains guarantees issued by Group companies and any contingent liabilities they may be exposed to.

(a) Lloyd's

Assets have been pledged, as Funds at Lloyd's, by way of deposits and fixed and floating charges for Brit UW Limited, the corporate member of the Group. As at 31 December 2015 the Funds at Lloyd's requirement amounted to US$806.5m (2014: US$765.7m).

(b) Revolving credit facility

The Group has access to a US$360.0m revolving credit facility. For further information, refer to Note 25. Guarantees have been made by Brit Limited and Brit Insurance Holdings Limited to the syndicated banks providing the facility.

As at 31 December 2015, a US$80.0m letter of credit had been provided to Lloyd's (2014: US$80.0m). At 31 December 2015, this letter of credit was uncollateralised (31 December 2014: fully collateralised).

(c) Taxation

The Group operates in a wide variety of jurisdictions around the world through its Lloyd's syndicate and uncertainties therefore exist with respect to the interpretation of complex tax laws and practices of those territories. The Group establishes provisions for taxes other than current and deferred income taxes, based upon various factors which are continually evaluated, if there is a present obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made.

Income taxes are provided for as set out in accounting policy Note 2.7.10.

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Statement of financial position

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

Statement of changes in equity

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

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STATEMENT OF FINANCIAL POSITION

At 31 December 2015

	Note	31 December 2015 US$m	Restated 31 December 2014 US$m
Fixed assets			
Investments:			
Shares in group undertakings	3	**1,050.5**	1,248.6
Loans to group undertakings	4	**151.9**	160.8
		1,202.4	1,409.4
Current assets			
Debtors: Amounts falling due within one year	5	**33.5**	23.0
Cash at bank and in hand		**0.1**	0.3
		33.6	23.3
Current liabilities			
Creditors: Amounts falling due within one year	6	**(24.1)**	(23.4)
Net current assets/(liabilities)		**9.5**	(0.1)
Total assets less current liabilities		**1,211.9**	1,409.3
Creditors: amounts falling due after more than one year	7	**(201.8)**	(214.0)
Net assets		**1,010.1**	1,195.3
Capital and reserves			
Called up share capital	8	**6.6**	6.6
Retained earnings		**1,003.5**	1,188.7
Total equity		**1,010.1**	1,195.3

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

These financial statements were approved by the Board of Directors on 17 February 2016 and were signed on its behalf by:

Mark Cloutier
Group Chief Executive Officer

Mark Allan
Chief Financial Officer

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2015

	Note	Called up Share capital US$m	Retained earnings US$m	Total equity US$m
1 January 2015		**6.6**	**1,188.7**	**1,195.3**
Total comprehensive income for the period		**–**	**(31.1)**	**(31.1)**
Dividend	11	**–**	**(154.1)**	**(154.1)**
At 31 December 2015		**6.6**	**1,003.5**	**1,010.1**

For the restated period from 19 December 2013 to 31 December 2014 (restated)

	Note	Called up Share capital US$m	Retained earnings US$m	Total equity US$m
On incorporation		–	–	–
Total comprehensive income for the period		–	(93.0)	(93.0)
Issue of share capital		1,328.0	–	1,328.0
Capital reduction		(1,321.4)	1,321.4	–
Capital contribution		–	0.7	0.7
Dividend	11	–	(40.4)	(40.4)
At 31 December 2014		6.6	1,188.7	1,195.3

NOTES TO THE FINANCIAL STATEMENTS

1 ACCOUNTING POLICIES AND BASIS OF PREPARATION

This Note provides details of the basis of preparation and accounting policies applied in producing these parent company financial statements.

1.1 Basis of preparation

The Company financial statements present the information about the company as a separate entity. The Company was incorporated and registered in England and Wales with registration number 8821629. The registered office of the company at the date of this report is 55 Bishopsgate, London EC2N 3AS. From 1 March 2016, the registered office of the company will be The Leadenhall Building, 122 Leadenhall Street, London EC3V 4AB.

The Company has prepared its financial statements in accordance with Financial Reporting Standard 'FRS 102', the Financial Reporting Standard applicable in the United Kingdom and republic of Ireland and provisions of Section 396 of the Companies Act 2006.

No individual income statement is presented for the Company, as permitted by Section 408 of the Act. The comprehensive income dealt with in the accounts of the parent company was a loss of US$31.1m (period from 19 December 2013 to 31 December 2014: loss of US$93.0m).

The Company financial statements are presented in US dollars and all values are rounded to the nearest US$0.1m except where otherwise indicated.

1.2 Corporate reorganisation

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

1.3 Change of presentation currency

On 1 January 2015 the Company changed its presentation currency from Sterling to US dollars. This change has been made retrospectively and the financial statements for the period from 19 December 2013 to 31 December 2014 have been restated using the following procedures:

- Assets and liabilities were translated into US dollars at closing rates of exchange;
- Income and expenses were translated into US dollars at average rates of exchange;
- Differences resulting from the retranslation were taken to reserves; and
- Share capital was translated at historic rates prevailing at the dates of transactions.

1.4 Change of functional currency

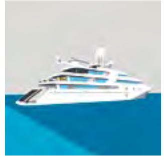
FRS 102 describes functional currency as 'the currency of the primary economic environment in which an entity operates.' Determining when the functional currency of an entity has changed is a matter of judgement as the determining factors may move gradually over time. However, the Board has concluded that the functional currency of Brit Limited changed from Sterling to US dollars with effect from 1 January 2015. This follows a similar change in the principal operating subsidiaries of Brit Limited as the Company is deemed to be an extension of these subsidiaries as they provide its primary source of income in the form of dividends.

In accordance with FRS 102 paragraph 30.14, the change in functional currency has been applied prospectively from 1 January 2015.

1.5 Accounting policies

(a) Investments

Investments in subsidiary undertakings are stated at cost less provisions for any impairment.



(b) Income from fixed asset investments
Dividend income is recognised when the shareholders' right to receive the payment is established.

(c) Long term debt
Long term debt is recognised initially at transaction price which is the fair value. It is subsequently measured at amortised cost using the effective interest rate method, in accordance with section 11 of FRS 102 (Basic Financial Instruments).

Interest payable is recognised using the effective interest rate method.

(d) Loans to group undertakings
Loans to group undertakings are recognised initially at transaction price which is the fair value. They are subsequently measured at amortised cost using the effective interest rate method, in accordance with section 11 of FRS 102 (Basic Financial Instruments).

Interest receivable is recognised using the effective interest rate method.

(e) Expenses
All expenses are accounted for on an accruals basis.

(f) Foreign currencies
Transactions in foreign currencies other than US dollars are converted at the rate of exchange ruling at the date the transaction is processed. Monetary assets and liabilities in currencies other than US dollars are converted at the rate of exchange ruling at 31 December of each year. Non-monetary assets and liabilities measured in terms of historical cost are translated using the exchange rate at the date of the transaction. Income statement items are translated at the average rate when this is a reasonable approximation. Exchange differences arising on conversion are dealt with in the income statement.

(g) Deferred taxation
Deferred tax is recognised in respect of all timing differences which are differences between taxable profits and total comprehensive income that arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements, except that:

- Provision is made for deferred tax that would arise on remittance of the retained earnings of overseas subsidiaries, associates and joint ventures only to the extent that, at the Statement of Financial Position date, dividends have been accrued as receivable; and
- Unrelieved tax losses and other deferred tax assets are recognised only to the extent that the directors consider that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

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

2 AUDITOR'S REMUNERATION

This Note sets out the fees paid in respect of the annual audit performed on the Company.

Audit fees borne by the Company amounted to US$15,000 (2014: US$16,000).

NOTES TO THE FINANCIAL STATEMENTS

3 SHARES IN GROUP UNDERTAKINGS

This Note explains the direct shareholdings of the Company in other Group entities.

	31 December 2015 US$m	31 December 2014 US$m
Investment in Achilles Holdings 1 S.à R.L.	**–**	1,248.6
Investment in Brit Insurance Holdings Limited	**1,050.5**	–

Reconciliation of movements in shares in group undertakings

	US$m
At 1 January 2015	1,248.6
Acquisition of Brit Insurance Holdings Limited	90.6
Revaluation of Brit Insurance Holdings Limited	305.6
Investment in new shares issued by Brit Insurance Holdings Limited	654.3
Revaluation of Achilles Holdings 1 S.à R.L.	(305.6)
Impairment of Achilles Holdings 1 S.à R.L.	(943.0)
At 31 December 2015	1,050.5

On 24 April 2015, as part of a reorganisation, the Company acquired Brit Insurance Holdings Limited, previously held by another Group company for its carrying value.

The subsidiaries of the Company at 31 December 2015, and their principal activities, are disclosed in the Brit Limited Consolidated Financial Statements.

4 LOANS TO GROUP UNDERTAKINGS

This note sets out moneys lent by the Company to other Group companies.

	31 December 2015 US$m	31 December 2014 US$m
Loans to Group undertakings	**151.9**	160.8

On 8 September 2014, a long-term loan to another Group Company was novated to Brit Limited at fair value. The agreement expires on 9 December 2020 and carries interest at an annual interest rate of 7.05%.

5 DEBTORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

This note sets out moneys owed to the Company that are due before 31 December 2016.

	31 December 2015 US$m	31 December 2014 US$m
Interest receivable on loans to group undertakings	**32.2**	22.6
Amounts owed by Group undertakings	**0.3**	–
Prepayments	**1.0**	0.4
	33.5	23.0

6 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

This note sets out moneys owed by the Company that are due before 31 December 2016.

	31 December 2015 US$m	31 December 2014 US$m
Amounts owed to Group undertakings	**22.6**	22.6
Accruals and deferred income	**1.5**	0.8
	24.1	23.4

7 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

This note sets out moneys owed by the Company that are due after 31 December 2016.

				31 December 2015		31 December 2014	
	Maturity	Call	Effective interest rate %	**Amortised cost US$m**	**Fair value US$m**	Amortised cost US$m	Fair value US$m
Subordinated debt	2030	2020	6.3%	**201.8**	**206.2**	214.0	214.2

The fair value of the subordinated debt has been determined by reference to trading market values on recognised exchanges and is categorised as Level 1 in the fair value hierarchy.

The subordinated debt was novated to the Company from another Group company on 8 September 2014 at fair value.

The subordinated debt is listed and callable in whole by the Company on 9 December 2020. Following this date the interest rate resets to the higher of:

(i) 3.4% above the gross redemption yield of the 4.75% Treasury Gilt due 2030 quoted on the reset date or

(ii) 3.4% above the gross redemption yield of the 8% Treasury Stock due 2021 quoted on the reset date.

The effective interest rate method of accounting has been applied over the term up to the call date.

8 CALLED UP SHARE CAPITAL

This Note sets out the number of shares we have in issue and their normal value.

	31 December 2015 US$m	31 December 2014 US$m	**31 December 2015 1p each Number**	31 December 2014 1p each Number
Ordinary shares:				
Allotted, Issued and fully paid	**6.6**	6.6	**401,057,706**	400,452,960

On 29 June 2015, 120,000,000 shares were reclassified as class A shares and the remainder reclassified as class B shares. The class A and B shares rank *pari passu* except that on a distribution of profits by the Company, the class A shareholders are entitled to a cumulative annual dividend which must be settled ahead of any equivalent distribution to class B shareholders.

NOTES TO THE FINANCIAL STATEMENTS

9 DIRECTORS' EMOLUMENTS

This Note gives a breakdown of emoluments paid to directors both in total and in respect of the highest paid director.

	Year ended 31 December 2015 US$m	Year ended 31 December 2014 US$m
Aggregate remuneration	**9.4**	3.6
Aggregate contributions to money purchase pension schemes	**0.1**	–
Total	**9.5**	3.6
The Directors' remuneration disclosed above includes the following amounts paid to the highest paid director:		
Aggregate remuneration	**6.5**	2.5

	Number	Number
Number of Directors with benefits accruing under money purchase pension schemes	**2**	–
Number of Directors in respect of whose qualifying services, shares were received or receivable under long-term incentive schemes	**3**	1

Shares were received or receivable by the highest paid director in respect of qualifying services under a long term incentive scheme during 2014 and 2015.

10 GUARANTEES AND CONTINGENT LIABILITIES

This Note explains guarantees issued by the company. The Company has no contingent liabilities.

The Company has access to a US$360.0m (2014: US$360.0m) revolving credit facility. Guarantees have been made by Brit Limited and a subsidiary company to the syndicated banks providing the facility.

11 DIVIDENDS

This Note gives details of the amounts we have paid to our shareholders by way of dividends.

A final ordinary dividend of 12.5p per share and a special dividend of 12.5p per share amounting to US$154.1m was declared by the Group in respect of 2014 and paid during 2015. No final dividends are to be declared in respect of 2015.

An interim dividend of 6.25p per share amounting to US$40.4m was paid during 2014.

12 SHARE-BASED PAYMENTS

The Group rewards its employees through various share-based incentive schemes. This Note explains the involvement of the Company in those schemes.

During the year, shares in the Company were used to settle a number of share-based payment incentive schemes.

As at 5 June 2015, control of Brit Limited passed to FFHL Group Limited, a subsidiary of FFHL. As a result of the takeover, the awards outstanding under the share-based payment plans settled with Brit Limited shares, being the Performance Share Plan and the Brit All Employee Share Plan either vested or were replaced with awards settled with Fairfax Financial Holdings Limited shares. As a result, as at 31 December 2015, there were no outstanding options or awards in respect of schemes settled with Brit Limited shares.

Further detail in respect of these schemes can be found in Note 32 of the notes accompanying the Brit Limited Consolidated Financial Statements.

13 DISCLOSURE EXEMPTIONS

This Note explains the Company's approach to qualifying exemptions available in FRS 102.

The Company has taken advantage of the disclosure exemptions provided by paragraph 1.12 of FRS 102. Accordingly, these financial statements do not include the following:

- Statement of cash flows;
- A reconciliation of shares outstanding at the beginning and end of the period;
- Specific information relating to financial instruments that is included within equivalent disclosures for the Group;
- Specific information relating to share-based payments that is included within equivalent disclosures for the Group; and
- Disclosure of key management personnel compensation.

The Brit Limited Consolidated Financial Statements and accompanying notes provide further detail in respect of these areas.

14 ULTIMATE PARENT COMPANY

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

COMPANY INFORMATION

Directors
Dr Richard Ward – Chairman
Mr Mark Cloutier – Group Chief Executive Officer
Mr Ipe Jacob – Senior independent non-executive Director
Mr Matthew Wilson – Group Deputy CEO and Chief Underwriting Officer
Mr Mark Allan – Chief Financial Officer
Mr Andrew Barnard – Non-executive Director
Mr Bijan Khosrowshahi – Non-executive Director
Mr Jeremy Ehrlich – Non-executive Director

Group Company Secretary
Mr David Gormley

Registered Office
At the date of this report, Brit Limited's registered office is:
55 Bishopsgate
London EC2N 3AS
UK

Telephone: +44 (0) 20 7984 8500

From 1 March 2016, the registered office will change to:
The Leadenhall Building
122 Leadenhall Street
London EC3V 4AB
UK

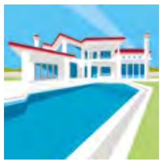
Telephone: +44 (0) 20 3857 0000

Website
www.britinsurance.com
The Company website provides information about Brit Limited including information on the business, annual reports, half yearly reports and announcements to the London Stock Exchange.

Registered Number
8821629

Auditor
Ernst & Young LLP
25 Churchill Place
Canary Wharf
London
E14 5EY

GLOSSARY



A

Acquisition costs: Costs incurred in the course of writing business and issuing policies including commissions paid to intermediaries and related internal expenses such as underwriter related costs.

Adjusted net tangible assets or **adjusted NTA:** Total equity, less intangible assets net of the deferred tax liability on those intangible assets.

Adjusted net tangible assets per share: Calculated as closing adjusted net tangible assets divided by the number of shares in issue at the balance sheet date less own shares.

Aggregate exposure: The expected maximum total of claims that could be incurred by an insurer in respect of any event or series of similar events. Also see 'realistic disaster scenarios'.

Asset allocation: The allocation of our investments across different kinds of asset classes, such as equities, bonds and cash, in order to achieve a balance between return and risk.

Attritional losses: Common losses, as opposed to major or catastrophe losses, incurred from ordinary insurance and/or reinsurance operations.

Attritional loss ratio: Attritional losses incurred expressed as a percentage of net earned premiums (excluding the effect of foreign exchange movements on non-monetary items).

Available capital resources: Adjusted net tangible assets, subordinated debt and Letters of credit/ contingent funding.

B

BGSB: Brit Global Specialty Bermuda, the business of the Group operating in Bermuda.

BGSU: Brit Global Specialty USA, the business of the Group operating in the United States, of which BISI is the managing general agent.

BIG: Brit Insurance (Gibraltar) PCC Limited, the Group's captive reinsurer incorporated in Gibraltar.

Binder business: Business conducted by a coverholder acting under a binding authority.

Binding authority: See 'delegated underwriting authority'.

BISI: Brit Insurance Services USA, Inc., a company incorporated in Illinois, USA.

Broker: An intermediary who negotiates contracts of insurance or reinsurance, receiving a commission for placement and other services rendered.

C

Capital ratio: Available capital resources expressed as a percentage of management entity capital requirement.

Captive: An entity that provides risk-mitigation services for other entities within the same Group only.

Catastrophe or **Cat:** Perils including earthquakes, hurricanes, hailstorms, severe winter weather, floods, fires, tornadoes, explosions and other natural or man-made disasters. Catastrophe losses may also arise from acts of war, acts of terrorism and political instability.

Claims: Moneys demanded by an insured for indemnity under an insurance contract.

Claims development triangles: Tabulations of claims development data, set out with underwriting years along one axis and calendar years of development along the other.

Claims incurred: Claims arising from events that have occurred, regardless of whether or not they have been reported to the insurer.

Claims ratio: Calculated as total claims incurred expressed as a percentage of net earned premiums (excluding the effect of foreign exchange movements on non-monetary items). The claims ratio is the aggregate of the reserve release ratio, major claims ratio and the attritional loss ratio.

Combined ratio or **CoR:** Calculated as total claims incurred and total expenses incurred by the underwriting divisions, expressed as a percentage of net earned premiums (excluding the effect of foreign exchange movements on non-monetary items). The combined ratio is the aggregate of the claims ratio and the expense ratio.

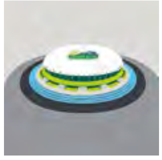
Commission ratio: Commission expense incurred by the underwriting division expressed as a percentage of net earned premiums (excluding the effect of foreign exchange movements on non-monetary items).

Constant FX rates: An increase or decrease in figures between two years after eliminating the effect of FX rate movements.

Corporate member: A company providing the capital to support the underwriting activity of a syndicate at Lloyd's. Brit's corporate member is Brit UW Limited.

Coverholder: An entity authorised by an insurer to enter into a contract of insurance on its behalf.

GLOSSARY



D

Deferred acquisition costs or **DAC:** Costs incurred for the acquisition or renewal of insurance policies which are capitalised and amortised over the term of those policies.

Delegated underwriting authority: An authority granted by an underwriter to an agent (known as a coverholder) whereby that agent is entitled to accept, within certain limits, insurance business on behalf of the underwriter. The coverholder has full power to commit the underwriter within the terms of the authority.

E

Earned premium: That proportion of a premium which relates to the portion of a risk which has expired during a given period.

Excess and Surplus or **E&S:** A generic US regulatory classification referring to insurance coverage not ordinarily written by insurers fully admitted in various states. The E&S lines business is largely unregulated as to rate and form but insurers must be authorised to write such business in a state by the local regulator.

Excess of loss or **XL:** A type of reinsurance that covers specified losses incurred by the reinsured party in excess of a stated amount (the excess) up to a higher amount of limit, for example US$5m excess of US$1m. Such coverage can operate on a per loss basis or an aggregate basis.

Executive Committee or **EC:** A committee at Brit consisting of the senior management and the CEO.

Expense ratio: Calculated as total expenses incurred by the underwriting divisions expressed as a percentage of net earned premiums (excluding the effect of foreign exchange movements on non-monetary items). The expense ratio is the aggregate of the commission ratio and the operating expense ratio.

F

FCA: The UK Financial Conduct Authority, established pursuant to the Financial Services Act 2012 and responsible for, among other things, the conduct regulation of all firms authorised and regulated under FSMA and the prudential regulation of firms which are not regulated by the PRA.

First dollar: An insurance policy written with low excess and deductible, and written in the admitted market.

FSC: The Financial Services Commission of Gibraltar, a statutory corporate body established by the 1989 Financial Services Commission Ordinance (since replaced by the Financial Services Commission Act 2007), responsible for regulating the financial services industry in Gibraltar.

Funds at Lloyd's or **FAL:** Funds held in trust at Lloyd's to support a Lloyd's underwriter's underwriting activities.

G

Gearing ratio: Calculated as total borrowings (subordinated debt, revolving credit facility cash drawdowns and uncollateralised drawn letters of credit) divided by adjusted net tangible assets and subordinated debt.

Gross written premium or **gross premiums written** or **GWP:** Amounts payable by the insured, including any brokerage or commission deducted by intermediaries but excluding any taxes or duties levied on the premium.

H

Hardening or **hard market:** An insurance market where prevalent prices are high, with more restrictive terms and conditions offered by insurers.

HMRC: Her Majesty's Revenue and Customs.

I

Incurred but not reported or **IBNR:** Claims incurred but not reported, including claims which are incurred but not enough reported (i.e. where the amount of the notification is insufficient).

International Accounting Standards or **IAS:** See 'International Financial Reporting Standards'.

International Financial Reporting Standards or **IFRS:** Accounting and reporting Standards established by the International Accounting Standards Board, as adopted by the European Commission for use in the European Union. UK listed entities have reported on an IFRS basis since 2005.

Invested assets: Financial investments, investment in associated undertakings, cash and cash equivalents and investment related derivatives.

Investment related derivatives: Includes options and interest rate swaps. Excludes currency forwards.

Investment return: Income, net realised and unrealised gains and losses on financial investments, cash and cash equivalents and investment related derivatives (net of investment management fees).

Investment return percentage: Investment return expressed as a percentage of average invested assets, calculated on a month by month basis.

L

Lead underwriter or **lead:** A lead underwriter (usually a specialist in the field of the insurance concerned) is the first underwriter to take a portion of a risk, quote an appropriate rate of premium and set terms and conditions.

Letter of credit or **LoC:** A written undertaking by a financial institution to provide funding if required.

LIBOR: The daily London Interbank Offered Rate set by the British Banking Association.

Line size: The proportion of an insurance or reinsurance risk that is accepted by an underwriter or which an underwriter is willing to accept.

Lloyd's China Platform: The branch of Lloyd's in Shanghai in the People's Republic of China operated through Lloyd's Insurance Company (China) Limited, on which certain Lloyd's syndicates have representation.

Lloyd's of London: The Society of Lloyd's and Corporation of Lloyd's created and governed by the Lloyd's Acts 1871-1982, including the Council of Lloyd's (and its delegates and other persons through whom the Council may act), as the context may require.

London Market: The London insurance market, which includes the Lloyd's market.

Long-tail: The term used to describe business where the difference between the timing of the average premium receipt and the timing of the average claim payment is over three years.

M

Major claims: Claims in excess of US$10.0m (net of reinsurance and allowing for reinstatement), incurred from natural or man-made catastrophes, or from large single risk loss events.

Major claims ratio: Major claims incurred expressed as a percentage of net earned premiums (excluding the effect of foreign exchange movements on non-monetary items).

Management entity capital requirement: The capital required by an entity for business strategy and regulatory requirements.

N

Net earned premium or **NEP:** The net written premium adjusted by the change in net unearned premium (i.e. the premium for which insurance exposure has yet to be incurred) for a year.

Net tangible assets or **NTA:** The total assets of a company, minus any intangible assets, less all liabilities.

Net written premiums or **NWP:** Gross premiums written during a specified period less outwards reinsurance premiums ceded.

O

Operating expense ratio: Calculated as operating expenses incurred by the underwriting divisions expressed as a percentage of net earned premiums (excluding the effect of foreign exchange movements on non-monetary items).

Outstanding claims: Claims which have been notified at the balance sheet date but not settled.

Own risk and solvency assessment or **ORSA:** The name given to the entirety of the processes and procedures employed by an insurer to identify, assess, monitor, manage and report the short and long term risks it faces or may face and to determine the capital necessary to ensure that the insurer's overall solvency needs are met at all times.

P

PRA: The UK Prudential Regulation Authority established pursuant to the Financial Services Act 2012 and responsible for the prudential regulation and supervision of banks, building societies, credit unions, insurers and major investment firms.

Protected cell company or **PCC:** A company that has been separated into legally distinct portions or cells. The revenue streams, assets and liabilities of each cell are kept separate from all other cells. Each cell has its own separate portion of the PCC's overall share capital, allowing shareholders to maintain sole ownership of an entire cell.

Q

Quota share or **QS:** A type of reinsurance which provides that the reassured shall cede to the reinsurer a specified percentage of all the premiums that it receives in respect of a given section or of all of its underwriting account for a given period in return for which the reinsurer is obliged to pay the same percentage of any claims and specified expenses arising on the reinsured business.

R

Ratio of front office employees to back office employees: Calculated as the average number of front office staff divided by the average number of back office staff employed during the year. Front office employees are defined as underwriters, other underwriting staff, claims staff and direct support staff. The balance of employees are classified as back office.

Realistic Disaster Scenarios or **RDS:** Specific scenarios which the Group uses to test its ability to settle claims arising from certain types of disaster.

Reinsurance: The transfer of some or all of an insurance risk to another insurer. The company transferring the risk is called the 'ceding company' and the company assuming the risk is called the 'assuming company' or the 'reinsurer'.

Representative office: An office established by Brit to conduct marketing and other non-transactional operations overseas.

Reserves: Outstanding claims and claims incurred but not reported.

Reserve releases: The amount of the reserves at the end of the previous period determined as being excess to requirements at the end of the current period.

GLOSSARY

Reserve release ratio: The amount of reserve releases expressed as a percentage of net earned premiums (excluding the effect of foreign exchange movements on non-monetary items).

Retention rate: The ratio, in percent, of the value of premiums relating to risks written in one year renewed in the following year. The data used is risk adjusted (i.e. it allows for changes to terms and conditions).

Return on equity or **RoE:** See 'Return on net tangible assets or RoNTA'.

Return on net tangible assets before foreign exchange movements and corporate activity costs or **RoNTA:** Profit after tax before the effects of foreign exchange movements on monetary and non-monetary items, before the return on currency related derivative contracts, before charges in respect of intangible assets and before costs incurred in respect of corporate activity, expressed as a percentage of adjusted opening net tangible assets. The adjusted opening net tangible assets are also modified on a weighted average basis for capital distributions, share buybacks or share issues during the period.

Risk adjusted rate change: Change in premium rates during the year expressed as a percentage of opening premium rates. The data reflects internal estimates by Brit's underwriters, based on available year-on year underlying renewal data after allowing for changes to terms and conditions.

Risk management framework or **RMF:** The Group's own internal framework for risk management.

Running yield: The income return, expressed either as a percentage or a monetary amount, on invested assets.

S

Service companies: Subsidiary companies set up to operate a binding authority on behalf of the Syndicate to write business from non-Lloyd's brokers or direct from policymakers.

Short-tail: The term used to describe business where the difference between the timing of the average premium receipt and the timing of the average claim payment is under three years.

Softening or **soft market:** An insurance market where prevalent prices are low, and terms and conditions offered by insurers are less restrictive.

Solvency capital requirement or **SCR:** The higher of the two capital levels required by Solvency II. The SCR is the prudent amount of assets to be held in excess of liabilities and functions as an early warning mechanism if it is breached. The SCR is calculated using either the standard formula or an approved internal model.

Solvency matched: The matching of the currencies of the Group's liabilities and management entity capital requirements with the currencies of the assets held by the Group.

Solvency II: A combination of several EU Directives that codify and harmonise EU insurance regulation, primarily concerning the amount of capital that EU insurance companies must hold to reduce the risk of insolvency. Principal components are Directive 2009/138/EC on the taking-up and pursuit of the business of insurance and reinsurance and Directive 2012/23/EU on the financial position of insurance undertakings. Solvency II will come into force in all EU member states on 1 January 2016.

Strategic asset allocation or **SAA:** The Group's strategic asset allocation defines the overall Group investment strategy and reflects entity-level considerations and governance matters. See 'asset allocation'.

Syndicate: A group of underwriting members of Lloyd's or a single corporate member managed as a unit to underwrite insurance business at Lloyd's to which a particular syndicate number is assigned by or with the authority of Lloyd's of London. Brit operates through Lloyd's Syndicate 2987.

T

Tail: See 'short-tail' and 'long-tail'.

Technical price: The price for the risk which is expected to produce the long-term required return on capital for the Group.

The Company: Brit Limited.

The Group: Brit Limited and its subsidiaries.

The Syndicate: Brit Syndicate 2987.

Total available resources: Sum of the closing adjusted net tangible assets, subordinated debt and letters of credit/contingent funding.

Total invested assets: See 'invested assets'.

Total operating expenses: These represent all expenses incurred by the Group, excluding commission costs. They include costs incurred in respect of the IPO.

Total value created: Calculated as closing adjusted net tangible assets plus dividends paid during the year, less opening adjusted net tangible assets.

Treaty: A reinsurance contract pursuant to which the reinsurer is obliged to accept, within agreed limits, all risks underwritten by the reinsured within specified classes of business in a given time period.

U

Ultimate claims: The total forecast claims expected to arise from a policy or class of business. Ultimate claims include those losses paid, those notified and IBNR.

Underlying operating expenses: Calculated as total operating expenses less IPO related expenses, project costs and other timing differences. Underlying operating expenses include bonus costs.

Underwriting capacity: The maximum premium income which a Lloyd's syndicate is permitted to underwrite. A capacity figure is assigned to each underwriting year and the relevant premium income is defined as gross written premiums less commissions payable.

Underwriting profit: Operating profit generated by our underwriting segments less investment return.

Unearned premium reserve or **UPR:** The portion of premium income written in the calendar year that is attributable to periods after the balance sheet date. It is accounted for as unearned premiums in the underwriting provisions.

Unrealised gains or **unrealised losses:** Gains or losses that are yet to be crystallised in the form of a cash movement from disposals of invested assets.

Brit Limited
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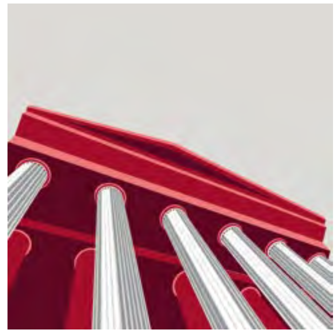


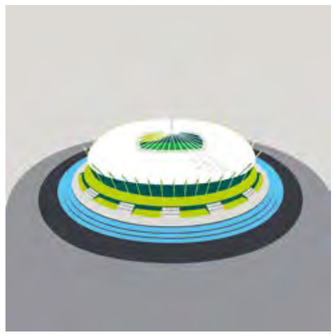

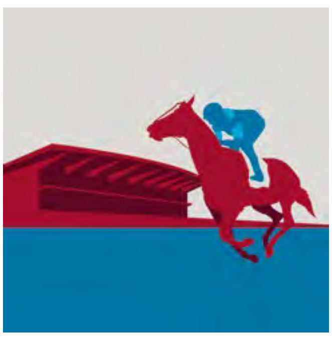
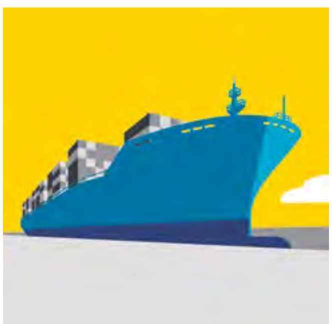





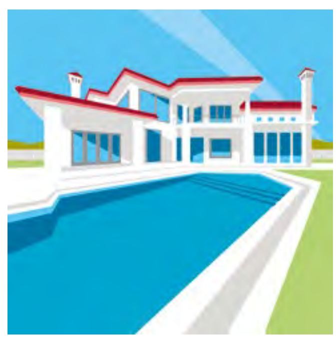

SEEING THE DIFFERENCE **MAKES THE DIFFERENCE**