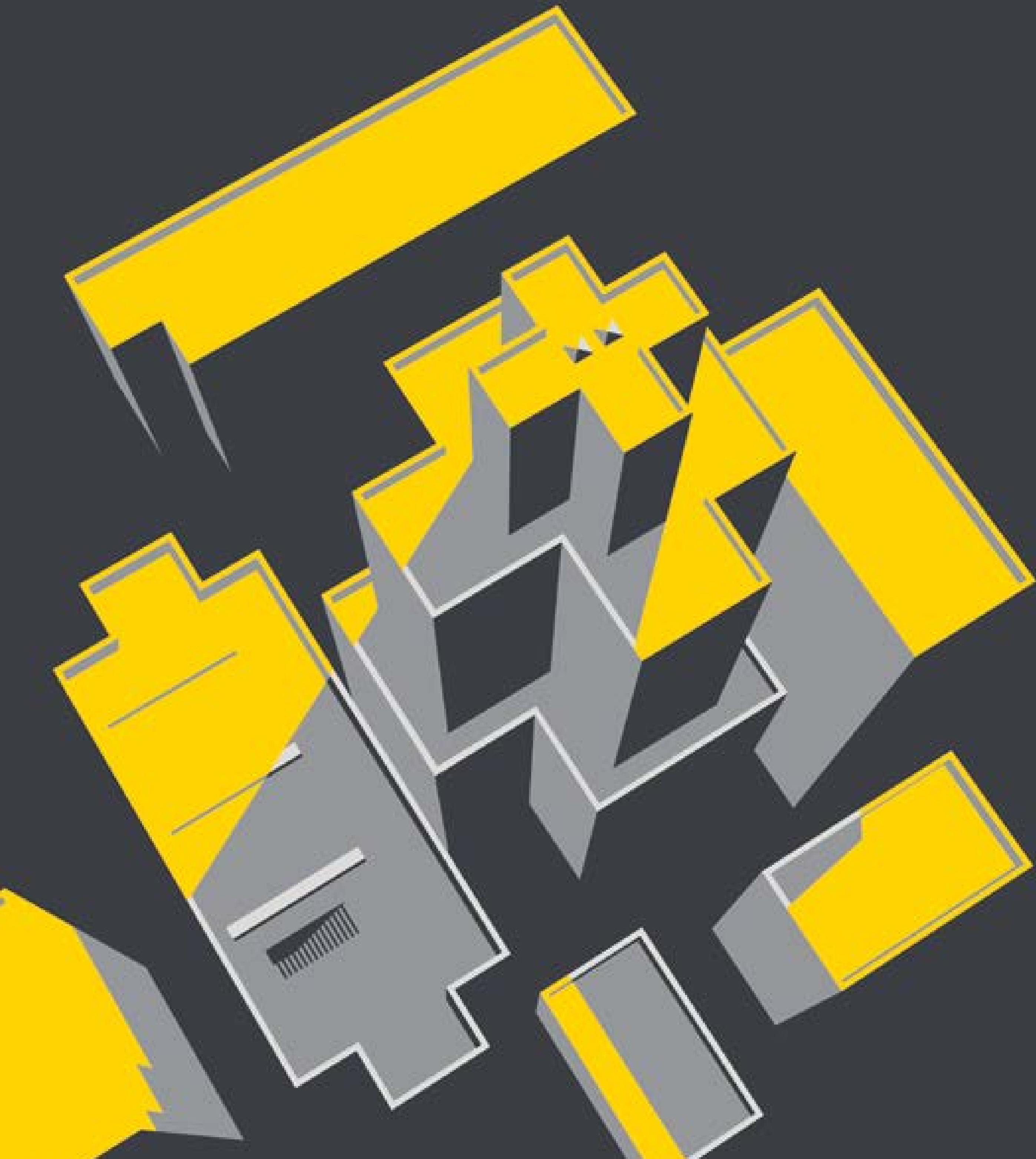
BRIT

Brit PLC Annual Report 2014

SEEING THE DIFFERENCE **MAKES THE DIFFERENCE**



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 strategy, business model and markets, as well as our 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. The structure of the Strategic Report is aligned to our business model.

GOVERNANCE

This section explains how the composition and organisation of the entity's governance structures supports the achievement of the entity's objectives. It also outlines how our Board and Board Committees operate and perform.

This section sets out our Directors' remuneration policy. It also sets out amounts awarded to Directors and provides details on the link between the Group's performance and Directors' remuneration.

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 useful to shareholders and set out further details about the Company including its Directors and advisers.

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

GOVERNANCE

FINANCIAL STATEMENTS

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 FOR OUR SHAREHOLDERS.

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.

To help you find related information on our strategy, look out for these icons inside.

STRATEGY KEY

- Value creation
- Underwriting
- Investment management
- Operating platform
- Capital management

STRATEGIC REPORT

THIS STRATEGIC REPORT CONTAINS INFORMATION ABOUT OUR BUSINESS, AND EXPLAINS HOW WE OPERATE AND GENERATE A RETURN FOR OUR SHAREHOLDERS. IT PROVIDES INSIGHT INTO OUR STRATEGY, BUSINESS MODEL AND THE MARKETS IN WHICH WE OPERATE, AS WELL AS OUTLINING OUR 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.

This Strategic Report was approved by the Board on 24 February 2015.

Mark Cloutier
Chief Executive Officer

BRIT AT A GLANCE
WHAT WE DO

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

Overview
We are a market-leading global specialty insurer and the largest business that trades solely on the Lloyd's of London platform, the world's leading specialist commercial insurance market.

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

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

We consider asset management as a core competency and integral part of our business. We seek to optimize the risk-adjusted return on our asset portfolio while never losing sight of our ongoing obligations to policyholders.

Underwriting
Brit predominantly underwrites complex, high value insurance and reinsurance business. Insurance forms in excess of 80% of our GWP. 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 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.

We source our business from a range of producers including the three largest brokers and also from a wide range of middle tier intermediaries. The majority of reinsurance business is sourced through the global reinsurance brokers.

Our platform and operations
We operate a strong and efficient capital model, with significant capital strength (as demonstrated by our 150.4% capital ratio), combined with capital efficiency resulting from our focus on the Lloyd's platform.

Our underwriting and investment teams are supported by an efficient, flexible and scalable operating platform. We believe that the 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.

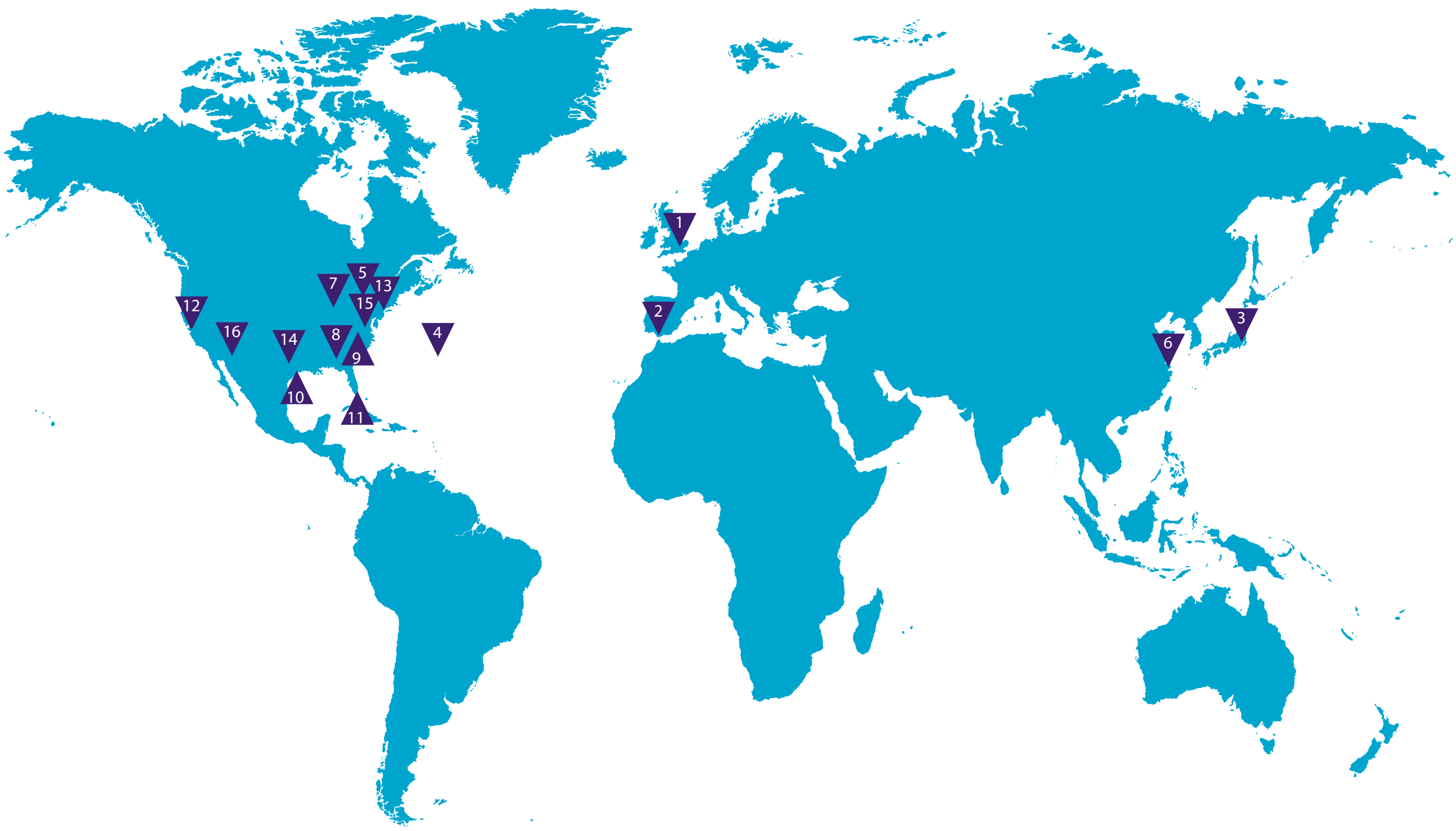
Investment Management
At Brit we have a significant investment portfolio comprising financial investments, investment-related derivatives and cash. The value of our invested assets at 31 December 2014 was £2.6bn. The principal focus is on a portfolio of income-generating assets across a range of sectors to balance risk and return, complemented by an allocation to growth assets. The investment portfolio is managed for the most part by external asset managers under the direction of an experienced in-house team. Despite the low rate and challenging investment environment, our portfolio has generated favourable returns net of investment management fees in recent years (2014: 2.9%; 2013: 2.1%; 2012: 2.9%).

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. Our objectives are aligned to those of our departments and employees, so that all of our employees understand the vital part they play in our success.

BRIT AT A GLANCE

WHERE WE ARE

OUR HEAD OFFICE IS LOCATED IN THE CITY OF LONDON WHERE 399 OF OUR 466 EMPLOYEES ARE BASED. BRIT HAS NINE OFFICES SUPPORTING THE DISTRIBUTION AND UNDERWRITING OF BUSINESS IN THE US, WHERE WE EMPLOY 61 STAFF, AND IN BERMUDA. BRIT IS REPRESENTED ON THE LLOYD'S CHINA PLATFORM BASED IN SHANGHAI, HAS A REPRESENTATIVE OFFICE IN TOKYO AND OPERATES A CAPTIVE REINSURANCE COMPANY IN GIBRALTAR.



1. UK – LONDON
Head Office/underwriting/investment management
Established: 1995

2. GIBRALTAR
Captive insurer/investment management
Established: 2008

3. JAPAN – TOKYO
Representative office (reinsurance)
Established: 2009

4. BERMUDA
Underwriting (reinsurance)
Established: 2013

5. CANADA – TORONTO
Pricing support for Bermuda office
Established: 2014

6. CHINA – SHANGHAI
Representative office (reinsurance and construction risks)
Established: 2013

7. USA – CHICAGO
USA head office/underwriting
Established: 2009

8. USA – ATLANTA
Underwriting (Maiden specialty – property excess and surplus)
Established: 2013

9. USA – GREENSBORO
Underwriting (self-insured retention policies for public and non-profit organisations)
Established: 2013

10. USA – HOUSTON
Underwriting (self-insured retention policies for public and non-profit organisations)
Established: 2013

11. USA – MIAMI
Underwriting (Latin American business)
Established: 2014

12. USA – NAPA
Underwriting (Maiden specialty – property excess and surplus covers)
Established: 2013

13. USA – NEW YORK
Underwriting (Maiden specialty – property excess and surplus covers)
Established: 2013

14. USA – DALLAS
Underwriting (Maiden specialty – property excess and surplus covers)
Established: 2013

15. USA – RICHMOND
Underwriting (first dollar package policies for public and non-profit organisations)
Established: 2011

16. USA – SCOTTSDALE
Underwriting (protections for criminal justice service organisations)
Established: 2013

BRIT AT A GLANCE

OUR TRACK RECORD AND 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 RATINGS AND A+ (STRONG) FROM STANDARD & POOR'S.

Track record

Over the past six 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 six-year period Brit has demonstrated a strong track record of profitable underwriting, strong net investment returns and growth in core business lines.

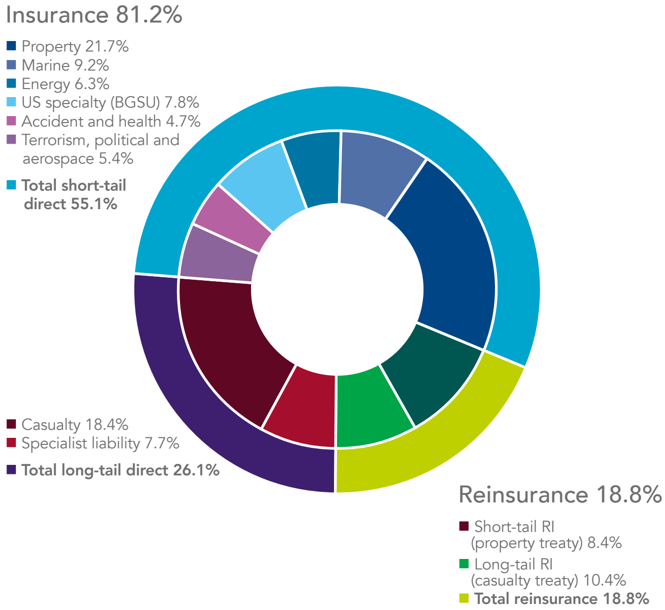
We have also demonstrated disciplined capital management, with paid or recommended distributions totalling 87.7% of total value created over the period 2011 to 2014. In addition the Group released a further £270m of capital to shareholders following the successful sale of the UK Insurance company in 2012. Over the same period, we have grown our surplus capital adjusted for the recommended 2014 dividends, to £251.7m.

In 2014, we continued to build on this track record with 9.8% growth in gross written premium (GWP) to £1.3bn, profit after tax of £139.0m and return on adjusted net tangible assets before foreign exchange movements and IPO costs (RoNTA) of 20.7%.

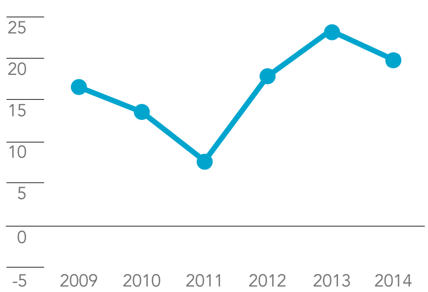
Financial strength

At 31 December 2014 we had capital resources equal to 150.4% of the management capital requirements needed to support our business. Our capital strength provides flexibility to allow us to cope with major losses while not deviating from our commitment to fund profitable expansion and to provide an attractive dividend for shareholders.

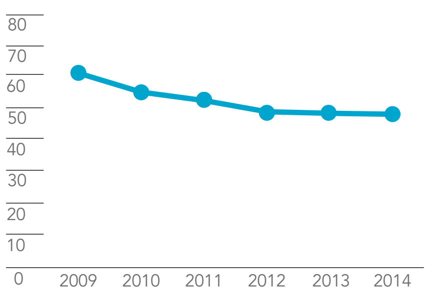
Group GWP by line of business (%)



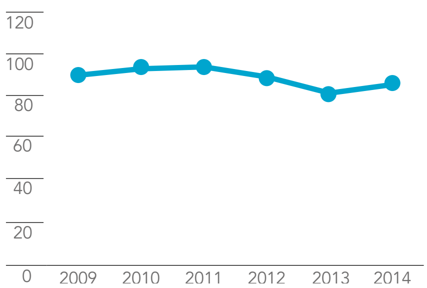
RoNTA (%)



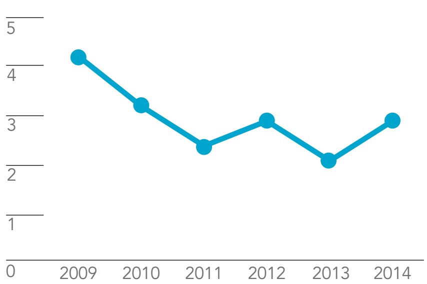
Attritional ratio (%)



Combined ratio (%)



Investment return (net of fees) (%)



BRIT AT A GLANCE

OUR HISTORY

IN 1995, THE BENFIELD AND REA INVESTMENT TRUST PLC WAS FOUNDED AS AN INVESTMENT TRUST INVESTING IN LLOYD'S LISTED UNDERWRITING VEHICLES. FOLLOWING THE ACQUISITION OF WREN PLC IN 1999, BRIT TRANSITIONED INTO A FTSE 250 LISTED (RE)INSURANCE CARRIER, WRITING BUSINESS ON BOTH THE LLOYD'S PLATFORM AND THROUGH ITS OWN UK INSURANCE COMPANY (BRIT INSURANCE LIMITED).

2008

Matthew Wilson appointed CEO of Brit Global Markets

96.4% Combined ratio

4.6% RoNTA

- Significant re-underwriting of the portfolio begins following the global financial crisis.

2009

94.0% Combined ratio

17.4% RoNTA

- Brit Insurance Holdings N.V., incorporated in the Netherlands and listed on the London Stock Exchange, became the new holding company of the Group.
- Brit Insurance Services USA (BISI) established in Chicago.
- Representative office established in Tokyo.

2010

97.1% Combined ratio

14.4% RoNTA

- Recommended cash offer for the Brit Group by Achilles, a Luxembourg based group backed by Apollo and CVC private equity houses.

2011

Appointment of Mark Cloutier as Group CEO

Insurance industry suffers second worst natural catastrophe year in history

98.0% Combined ratio

8.5% RoNTA

- Completion of the acquisition of the Group by Achilles.
- Delisted from the London Stock Exchange.
- Major restructuring programme commenced.
- Partnership announced with Infosys to provide operational and IT services.
- Expansion in the US with the acquisition of a public entity package team.
- New senior hires in London across business areas offering the most attractive profitable development including property treaty, energy and power, yachts and marine hull.

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

In 2011, Brit was acquired by Achilles Netherlands Holdings B.V, a member of a Luxembourg-based group backed by a number of investment funds managed by Apollo and CVC private equity houses. Brit subsequently delisted from the London Stock Exchange and embarked on a major restructuring programme.

Successful transformation

Over the period from 2008 to 2012, we carried out a significant transformation, refocusing our strategy as set out on pages 10 and 11. In 2008, following the global financial crises, we commenced re-underwriting significant portions of the portfolio and then continued in 2011 with the streamlining of our business model under new ownership and new management. There were five key themes to this transformation:

- Focus on the Lloyd's platform and disposal of non-core businesses;
- Focus on underwriting shorter tail more profitable business lines;
- Improvement of investment capability, performance and controls;
- Expense efficiency and operational scalability; and
- Strong capital management.

This major programme of change delivered excellent and improving results in 2011, 2012 and 2013 and we successfully executed an Initial Public Offering (IPO) of 25% of Brit PLC and were admitted to the London Stock Exchange on 2 April 2014. Brit PLC is now a member of the FTSE 250. With the formation of this new UK incorporated parent company, we moved the domicile of the Group back to the UK. The move affirms our commitment to the UK and its supportive business, political and regulatory regimes.

93.2%
Combined ratio

18.7%
RoNTA
Achieved despite Hurricane Sandy

85.4%
Combined ratio

24.2%
RoNTA

Dr Richard Ward joins Board as Chairman
Brit PLC lists on the LSE following an IPO

89.5%
Combined ratio

20.7%
RoNTA

2012

- Significant restructuring of the platform.
- Creation of the Brit Global Specialty underwriting franchise under Matthew Wilson.
- BISI renamed Brit Global Specialty USA (BGSU).
- Underwriting commenced in the Richmond, Virginia office and a property direct and facultative team was established in the Chicago office.
- Sale of non-core regional UK business to QBE.
- Sale of UK insurance company (BIL) to RiverStone Group.
- Brit now focused solely on the highly efficient Lloyd's platform.
- Senior management team further strengthened by the appointments of a new Chief Risk Officer, Chief Investment Officer and Head of Claims.
- Other new senior appointments including Group Director of Legal and Compliance, Head of Internal Audit and Head of Information Technology.

2013

- Senior management team restructuring completed with appointment of new Chief Financial Officer, Chief Operating Officer and Director of Strategy and Corporate Development.
- Implementation of new approach to investment management and asset allocation.
- New UK teams hired in the political and credit risk, high-value homeowners, fine art and specie and cargo classes.
- BGSU acquired renewal rights and underwriting platform of Maiden Holdings Ltd's excess and surplus property business.
- BGSU entered criminal justice services sector.
- Bermuda-based service company distribution capability opened.
- Syndicate 2987 became 'represented syndicate' on the Lloyd's China platform in Shanghai.

2014

- Acquired renewal rights to QBE's London-based Lloyd's Aviation business.
- Successful re-domicile with the formation of a new UK incorporated parent company.
- Senior underwriter appointed to lead Miami-based Latin America business.
- Senior underwriters appointed to develop UK property portfolio.
- Successful commutation of the remaining reinsurance contract from the sale of BIL in 2012.
- Purchase of a reinsurance contract to protect a discontinued professional lines account with Italian medical malpractice exposure.

STRATEGY, KEY OBJECTIVE AND STRATEGIC PRIORITIES

WE HAVE REPOSITIONED BRIT TO PUT OUR LLOYD'S PLATFORM AT THE CENTRE OF WHAT WE DO AND SET OUR UNDERWRITING STRATEGY ACCORDINGLY TO FOCUS ON COMPLEX, SPECIALTY LINES OF INSURANCE – LINES IN WHICH WE BELIEVE OUR EXPERTISE ENABLES US TO SEE THE DIFFERENCE.

GROUP RETURN
Value creation and shareholder return

Related KPIs: RoNTA before FX movement and IPO costs 20.7%

Total value created £139.2m

Our key objective is to deliver attractive long-term value creation for shareholders by leveraging our differentiating Lloyd's platform and leading global specialty franchise to deliver the best products and service to our clients.

Underpinning our key objective to deliver value creation and shareholder return is a focus on five strategic priorities that are central to our business:

1. **an efficient, flexible and scalable platform;**
2. **profitable underwriting;**
3. **opportunity-driven growth;**
4. **diversified and dynamic investment management;**
5. **proactive capital management.**

We measure our progress against our strategic priorities by using KPIs that are set out on page 16.

OPERATING PLATFORM
Our efficient, flexible and scaleable operating platform

Related KPIs: Ratio of front office employees to back office employees 159.8%

Our operating platform, comprising both our underwriting platform and our operational infrastructure, is one of our key differentiators. We intend to preserve this advantage by maintaining the simplicity and efficiency of our platform and this remains at the core of our strategy.

Our Lloyd's underwriting platform gives us a significant operational advantage through premium and asset leverage. Our premium and asset leverage is driven by our focus on specialty insurance and our decision to return to writing solely on the highly capital efficient Lloyd's platform. This means we can sustain strong returns on NTA, despite the current challenging rate and the low yield environments, while still maintaining prudent capital buffers. This also allows us to compete with new forms of capital and more traditional capacity while producing sector-leading returns.

Our underwriting platform is supported by an operational infrastructure where rigorous cost discipline is enforced. The scalability of our business is supported by the use of outsourcing for a number of business processing, support services and IT functions. This strategy allows us to distribute our products globally, through a mixture of open market business and delegated underwriting, in a more cost and capital-efficient manner, as we source business in Lloyd's directly as well as via our local service companies in the US and Bermuda.

STRATEGY KEY

- Value creation
- Underwriting
- Investment management
- Operating platform
- Capital management

UNDERWRITING

Achieve long-term and sustainable profitable underwriting

Related KPIs: Combined ratio 89.5%

We are six years into a strategy to develop a leading global specialty franchise. The results of our efforts are clearly demonstrated in our improved attritional loss ratio while the repositioning initiatives have demonstrated our focus on international specialty insurance. In the longer-term we believe the core skill sets of specialist underwriting knowledge and claims expertise which we have attracted into our business will deliver value to clients and allow us to deliver strong underwriting results for shareholders.

We manage the dynamics of the insurance cycle by operating a balanced and diverse mix of specialty insurance and reinsurance classes, which are reviewed regularly against prevailing market conditions and to identify new opportunities. We insure highly complex risks and our leadership positions in key Lloyd's classes, experienced underwriters and long-term broker and client relationships will enable us to continue to offer innovative products in core and niche lines, increase our global relevance and provide a platform for product innovation going forward.

While the current market conditions are challenging, the direct specialty business on which we focus our underwriting, has been more resilient. Alongside our strong risk management of catastrophe exposures, we will continue to deliver our objective of strong underwriting profitability with controlled volatility.

UNDERWRITING

Maintained commitment to opportunity-driven profitable growth

Related KPIs: Combined ratio 89.5%

We aim to capitalise on attractive growth opportunities as they arise but will only do so if we are convinced they will be profitable for the Group and if they are complementary to our existing portfolio and platform. As a specialty insurer we aim to grow in the specialty classes in which Lloyd's and the London market have major or leading positions globally and we expect to achieve this by continuing to attract top talent and supporting innovation of new products.

We also look to grow our specialty offering internationally through our international service company distribution network in mature markets such as the US and Bermuda and in emerging economies such as Asia and Latin America. These growth opportunities will inevitably depend on market conditions and will be opportunity-driven in nature, but the majority will continue to be aligned to our specialty products in property, energy and casualty.

INVESTMENT MANAGEMENT

Diversified and dynamic investment management

Related KPIs: Investment return 2.9%

We proactively manage our investment portfolio to generate attractive risk adjusted returns.

Proactive asset allocation, both strategic and tactical, enables us to optimise the risk-adjusted return on our portfolio. Our investment strategy differentiates us because we take a more balanced approach to generate yield by investing across a diverse mix of asset classes with the focus predominantly on income-generating assets, from which we aim to deliver a stable underlying earnings stream. Our in-house investment team proactively manage duration, liquidity and foreign exchange exposures to maximise risk-adjusted returns. Our investment performance produces a compelling contribution to our overall RoNTA.

CAPITAL MANAGEMENT

Proactive capital management

Related KPIs: Capital ratio 150.4%

We aim to maintain a strong capital position while delivering a sustainable and regular dividend.

We will achieve this by actively managing risk and allocation of capital within the Group and we are committed to maximising returns for shareholders over the long-term, while maintaining a strong balance sheet and capital position. We believe carrying a healthy capital buffer is appropriate in our business as it allows us both to absorb losses and to pursue profitable growth opportunities while underpinning an attractive and consistent dividend for shareholders. We believe that any excess capital in the business should be returned to shareholders if no attractive opportunities to deploy that capital are available.

BUSINESS MODEL

FOLLOWING OUR TRANSFORMATION OF THE BUSINESS OVER THE LAST SIX YEARS, WE NOW OPERATE A SIMPLIFIED AND HIGHLY EFFICIENT BUSINESS MODEL, WHICH WE BELIEVE IS BEST PLACED TO DELIVER OUR STRATEGIC PRIORITIES.

We have actively repositioned our business model to put our Lloyd's platform at the centre of what we do and we are proud to be the largest insurance group trading solely on the Lloyd's of London platform. This structure provides us with a capital efficient model, a significant operational advantage, financial strength, funding flexibility and enhanced distribution.

Our underwriting approach is focused on a diverse mix of complex, high-value specialty insurance business mainly across property, energy and casualty lines while we have a differentiating and dynamic investment management approach that enables us to optimise the risk-adjusted return on our assets.

OUR OPERATING PLATFORM

AT BRIT OUR OPERATING PLATFORM AND CAPITAL MANAGEMENT PHILOSOPHY IS A KEY DIFFERENTIATOR.

Our decision to focus on specialty lines and to trade solely on the Lloyd's platform give us a significant advantage in terms of premium leverage and maintaining our capital strength by benefiting from the strong Lloyd's rating.

Our head office is in London. We have service company operations in the US and Bermuda and have a representative office in Japan. Our syndicate is also represented on the Lloyd's China platform. The key to our efficiency is that all premiums are written into Syndicate 2987 while we also benefit from further efficiencies afforded by our captive reinsurer in Gibraltar.

Our focus on Lloyd's and our utilisation of the service company model enables us to operate cost efficiently and with significant flexibility. Our back office is operated out of our London corporate headquarters with support from our outsourcing partner, offering scalable IT and operational capability. This model means we do not have to recreate finance, actuarial and risk capabilities in every jurisdiction in which we operate and that we do not have to hold capital locally. In 2014, these efficiencies are illustrated by our premium leverage described above and the premium per head we achieved in London (£3.1m) and in our local offices (£2.1m).

The combination of these factors means we can operate with flexibility, enabling genuine portfolio management unhindered by expense drag or trapped capital. The business is run how a specialty insurer fundamentally should be: able to quickly respond to market conditions to generate strong returns across differing pricing and market conditions.

Our 466 talented and experienced employees have built strong and significant long-term relationships with our clients, brokers and service providers over time, that allow us access to attractive opportunities for profitable growth. Our nimble and flexible structure allows us to move quickly to capitalise on these opportunities, as we seek to maximise value creation for all our stakeholders.

UNDERWRITING

WE WRITE £1.3BN OF SPECIALTY INSURANCE AND REINSURANCE PREMIUMS. OUR UNDERWRITING BUSINESS MODEL IS CENTRED ON OUR LLOYD'S PLATFORM AND OUR INTERNATIONAL DISTRIBUTION NETWORK WHICH HAS PRODUCED STRONG UNDER-WRITING PROFITABILITY FOR THE LAST FIVE YEARS.

We distribute our products globally through brokers and place significant emphasis on maintaining strong, open and supportive long-term relationships with them. Our international network of service companies also allows us to increase client engagement and access business which would not usually be underwritten at Lloyd's, while maintaining the capital efficiencies of a Lloyd's platform. Over the past few years our focus has been on expanding our international footprint, particularly in the US.

The bulk of our underwriting portfolio (81.2% in 2014) is specialty insurance, where we provide specialist, complex products and support to clients. Our reinsurance portfolio complements this with a more opportunity-driven strategy dependent on market conditions. We believe this balance of insurance versus reinsurance gives us greater exposure to lines where technical knowledge and underwriting experience are most highly valued and therefore where we can offer maximum value to clients and shareholders. Brit has a strong reputation within the Lloyd's market for providing a leading underwriting capability that allows us to access the best opportunities available across the market and continue to strengthen our franchise.

We manage our overall net exposures to catastrophes and man-made risks actively through the purchase of various forms of reinsurance on quota share, excess of loss and aggregate bases. Combined with our diverse portfolio of underwriting risks and our prudent approach to line size management, this approach has resulted in reduced volatility in our underwriting profitability in recent years.

Our claims service is an integral part of the overall underwriting offering and one of the key market-facing parts of our business. We write a broad range of complex risks and we recognise that brokers and clients require efficient settlement of claims, clear communication and expert support through the settlement process. Our reputation for the way in which we handle often very complex claims can be a key factor in attracting and retaining business.

Our claims team works closely with our underwriters, in-house legal function and external service providers and experts through the life cycle of a claim to provide the best possible service. The use of outsourced service providers is an important component of our claims operating model. We manage these arrangements through a well-defined governance model that includes clear service standards and limits of authority, supported by a structured programme of review and independent third-party audit.

We aim to process and pay claims promptly, professionally and with integrity, keeping customers well informed and treating them fairly at all times.

INVESTMENT MANAGEMENT

OUR INVESTED ASSETS OF £2.6BN ARE OVERSEEN BY AN EXPERIENCED INTERNAL TEAM AND APART FROM A SMALL SELF-MANAGED PORTFOLIO, ARE MANAGED BY HIGH-QUALITY EXTERNAL MANAGERS. THIS ALLOWS US TO DRAW ON A BROAD RANGE OF EXPERTISE ACROSS A NUMBER OF ASSET CLASSES AND SECTORS. THESE MANAGERS ACT WITHIN A WELL-DEFINED RISK FRAMEWORK AND CONTROL ENVIRONMENT THAT CONTAINS INVESTMENT GUIDELINES DETERMINED BY ASSET CLASS.

Our asset portfolio targets a core of income generating investments (88.2% at 31 December 2014), supplemented by an allocation to growth assets across a range of sectors to balance risk and yield. We seek to achieve this mix while remaining broadly matched to currency exposure and with sufficient liquidity even in extreme stress scenarios.

The combination of our focus on specialty lines insurance and our utilisation of the efficient Lloyd's capital structure gives us significant asset leverage equivalent to 3.7 times our adjusted net tangible assets at 31 December 2014, after our recommended dividends.

THE ADVANTAGES OF OPERATING A LLOYD'S-BASED PLATFORM

Efficient platform
The Lloyd's capital model affords all members, including Brit, the benefit of favourable capital requirements compared to similarly rated non-Lloyd's entities. As such, we are able to maintain a strong capital surplus and write a higher volume of premium relative to that capital base compared to non-Lloyd's market participants, allowing us to generate a higher return on capital.

Financial backing and rating strength
Lloyd's financial security and strong ratings (A+ (strong) from Standard & Poor's; A (excellent) from A.M. Best; and AA- (very strong) from Fitch Ratings) enable the Lloyd's market to attract diverse and specialist insurance business on a global basis.

Distribution capability
Lloyd's has global distribution reach with direct or reinsurance licensing in over 200 territories and operational hubs in key international markets. This provides us with low-cost access to new business opportunities in international mature and emerging markets.

Brand strength
Lloyd's has an established global brand and is a leading participant in global specialty insurance and reinsurance.

In particular, Lloyd's has the largest share of the $38bn US surplus lines market.

Funding flexibility
Lloyd's affords greater flexibility in funding capital requirements compared to stand-alone insurance companies as Lloyd's members can support their underwriting capacity using letters of credit and/or bank guarantees. Brit uses letters of credit prudently to meet part of its funding requirement.

Infrastructure and service support
Lloyd's provides members with various central services, including the infrastructure supporting the subscription market, tax and regulatory reporting.

Barriers to entry
Lloyd's, through its membership-based participation model, has higher barriers to entry than the broader non-life property and casualty insurance market. Memberships are approved by the Council of Lloyd's and applicants are required to satisfy a range of admission criteria before such membership is granted. This includes business plans being subjected to scrutiny and approval by Lloyd's.

Further details of the Lloyd's market and how it operates can be found at **www.Lloyds.com**.

MARKET CONDITIONS
CHALLENGING MARKET CONDITIONS PERSIST

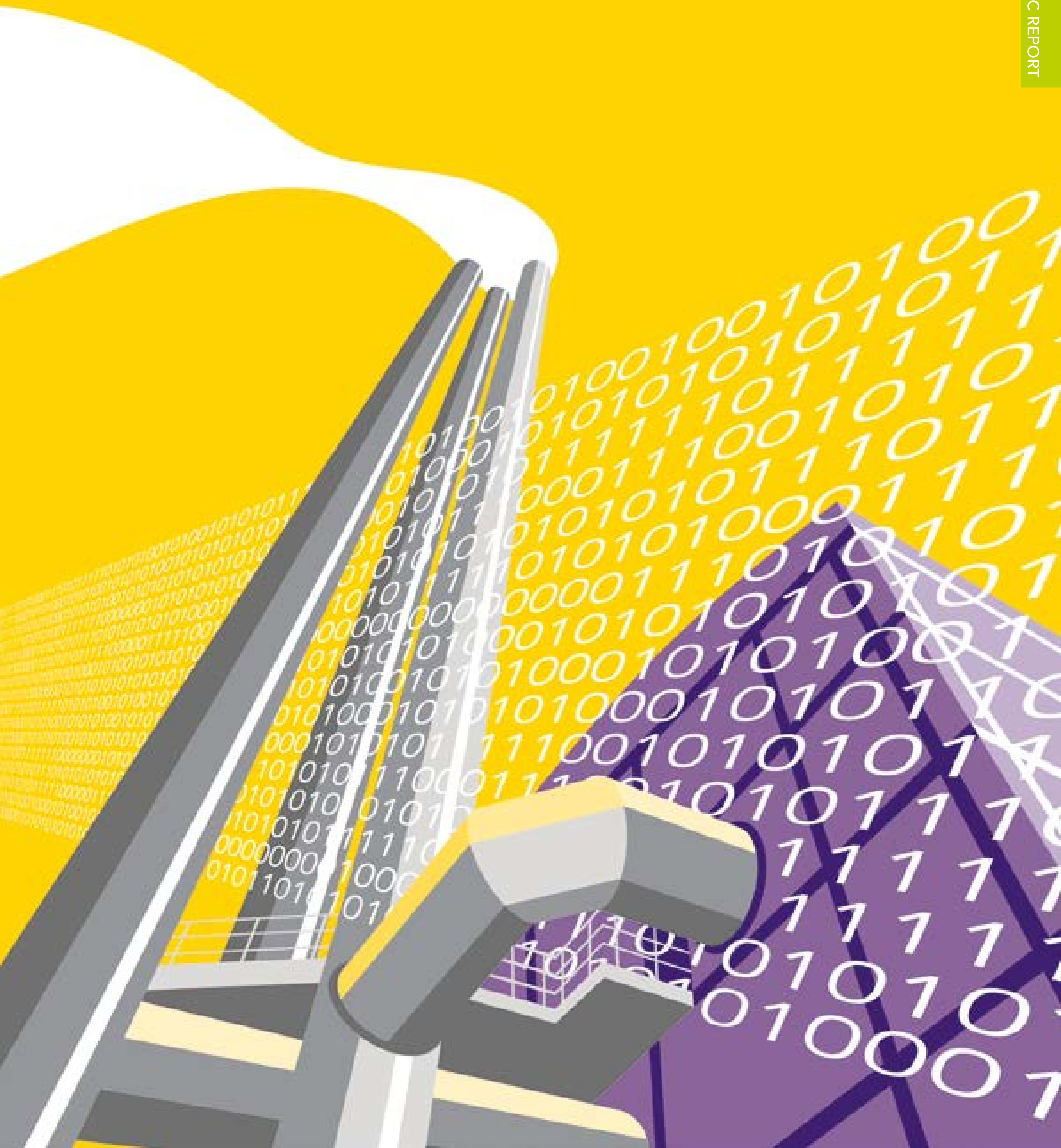
Their impact has been felt by all participants as a number of factors have led to pressure on insurance rates and investment performance. These include increasing levels of new capital in the insurance and reinsurance markets from traditional and non-traditional participants as well as increasingly unpredictable global geopolitical environment, a record low investment yield environment and uncertain economic prospects. 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 is in a unique position as the largest Lloyd's-only insurance business, with a proven track record over the past four years of delivering sector-leading returns through our strong underwriting, differentiating investment strategy and efficient platform. In the event of more difficult claims or investment environments, Brit has the capital strength and the strong risk management capability to navigate these conditions. 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.

PRODUCT INNOVATION

Cyber attack cover

In response to the rising cyber threat, we have developed a unique and innovative insurance service to protect companies operating critical infrastructure and industrial machinery from terrorist and other malicious attacks, such as sabotage, espionage and theft. The cyber attack cover brings to the market a unique product offering that has been developed by a highly experienced team at Brit in partnership with Coalfire (an independent expert in cyber risk). Alongside the support of our consortium partners we have capacity of US$350.0m per risk, offering significant new protection and support to clients in this complex area of emerging risk.



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 OUR STAKEHOLDERS TO SEE AT A GLANCE HOW WE ARE PERFORMING AGAINST OUR OBJECTIVES AND OUR COMPETITORS.

Our six KPIs are linked to our strategic priorities and show the returns that we are generating for our stakeholders, the performance of our underwriting activities, the performance of our investment portfolio, our financial strength and our efficient, flexible and scalable platform.

In 2011, we initiated a major repositioning of our business, refocusing on a simpler and more efficient model. We believe that our four-year track record is a strong indicator of the progress we have made so far.

Definitions of each of our KPIs are included in the Glossary starting on page 219.

Performance-related remuneration, which includes the Group bonus plan and share incentive plans, is explained in the Remuneration Report starting on page 92.

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

Strategic priority: deliver long-term value creation and shareholder return

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

In a year with average levels of major claims we target a RoNTA in the mid-teens range.

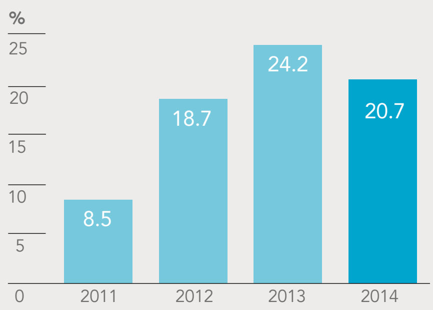
In 2014 we delivered a RoNTA of 20.7% driven by excellent performance across all areas of the business.

Strong underlying underwriting results were supported by limited losses from natural catastrophes and our investment return (net of fees) of 2.9%.

Our track record over the past four years has been very strong with significant outperformance of our global peers in both severe and benign catastrophe years.

Link to remuneration

Track record



TOTAL VALUE CREATED

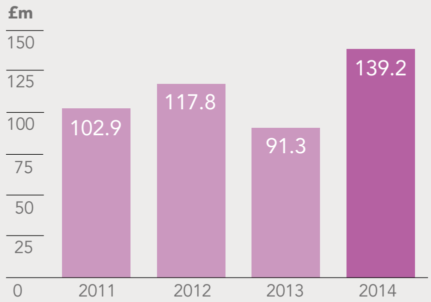
Strategic priority: deliver long-term value creation and shareholder return

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 2014 value creation was £139.2m or 21.1% of opening adjusted NTA. The company has now generated a total value of £451.2m over the past four years, an average of £112.8m per annum.

Link to remuneration

Track record



COMBINED RATIO
Strategic priorities: profitable underwriting; opportunity-driven profitable growth

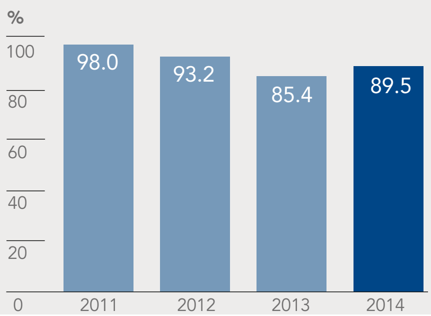
The combined ratio is our key underwriting metric and measures the profitability of our underwriting. It shows how much of every £1 of premium is spent in the total costs of sourcing and underwriting the business and settling claims. A combined ratio under 100% indicates underwriting profitability.

In a year with average levels of major claims, we target a combined ratio in the low to mid 90% range. In a year with low levels of major claims, the ratio would be expected to fall to the high 80% range.

In line with our guidance, our combined ratio in 2014 was 89.5%, reflecting excellent underwriting performance in difficult market conditions. We have consistently delivered combined ratios below 100% over the past four years and an average ratio of 91.5% over that period.

Link to remuneration

Track record



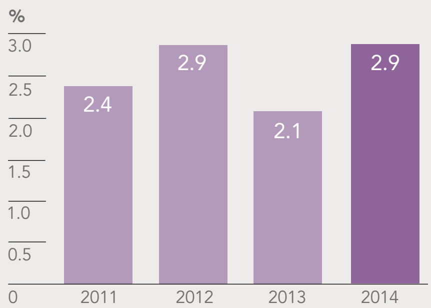
INVESTMENT RETURN
Strategic priority: diversified and dynamic investment management

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.

We have a track record of delivering consistent investment profitability and attractive risk adjusted returns ahead of benchmarks. The return in 2014 was 2.9% despite the low yield environment.

Link to remuneration

Track record



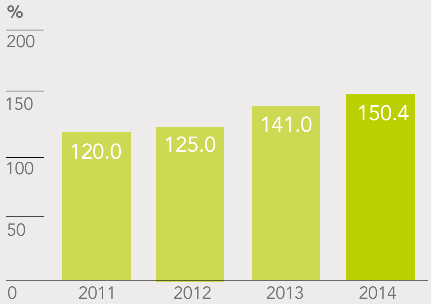
CAPITAL RATIO
Strategic priority: proactive capital management

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.

We target a capital ratio within a range of 120% to 140%.

At 31 December 2014, the ratio was 150.4% and as such, the Board is recommending a special dividend of £50.1m. Adjusted for this special dividend and the recommended final ordinary dividend of £50.1m, the ratio reduces to 136.0%.

Track record

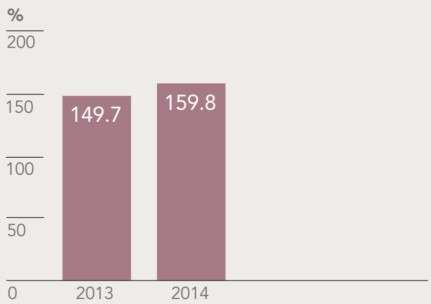


RATIO OF FRONT OFFICE EMPLOYEES TO BACK OFFICE EMPLOYEES
Strategic priority: efficient flexible and scalable operating platform

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 2014, the ratio was 159.8%, reflecting that we had 1.6 front office employees for every one back office employee.

Track record



CHAIRMAN'S STATEMENT

Dr Richard Ward
Chairman

2014 HAS BEEN A SIGNIFICANT YEAR FOR BRIT. STRATEGICALLY WE HAVE MADE ENCOURAGING PROGRESS IN DELIVERING OUR AMBITION TO BECOME THE LEADING GLOBAL SPECIALTY INSURER. FINANCIALLY, OUR UNDERWRITING, INVESTMENT AND OPERATIONAL PERFORMANCE ALL CONTRIBUTED TO AN EXCELLENT RONTA OF 20.7%. MOST IMPORTANTLY, 2014 SAW BRIT'S SUCCESSFUL RETURN TO THE MARKET FOLLOWING OUR INITIAL PUBLIC OFFERING (IPO) OF 25% OF THE COMPANY IN APRIL.

Our return to the market was met with significant investor interest and I see this as pleasing recognition of the major transformation our business has achieved over the past six years and the strong track record of professionalism and performance that we have built over that time. This is thanks to the hard work and dedication of our employees and the support and trust of our clients and shareholders. Having been CEO of Lloyd's for eight years, until the end of 2013, I have seen from a distance how much commitment this repositioning has taken from all areas of the business and my first-hand experience over the 12 months since I joined the Board as Chairman has further demonstrated what an exceptional job the management team has done. I am confident this is the best team to lead the business forward for you.

Offer from Fairfax

On 17 February 2015, we announced an offer for Brit from Fairfax. Brit's Board was pleased to recommend this combination with Fairfax, which I believe will greatly assist us in delivering our strategy of building the leading global speciality (re)insurer. The proposed deal provides an exciting opportunity to deliver our growth ambitions. Our simple and capital-efficient Lloyd's focused platform make us an attractive partner for Fairfax and our shared values in underwriting discipline, speciality lines focus, operational rigour and meticulous claims management make this transaction a compelling proposition for all stakeholders. The offer represents a strong result for all our shareholders and produces attractive financial returns following our successful IPO in April 2014.

Performance

Our key differentiators are our focused Lloyd's platform, our underwriting strategy and our investment strategy. We have made good progress against all of our strategic priorities in 2014 and delivered the targets we set at the time of the IPO. In underwriting, we have reported an excellent combined ratio of 89.5% underpinned by another year of attractive attritional loss ratio performance. We have also developed our international capabilities by delivering profitable growth in our US platform, which is now reaching significant scale, as well as our specialist Bermudian operations. In investments, our dynamic and active strategy continues to set us apart from our peers, with a decision to focus on income generating assets across a broad range of asset classes, generating another year of outperformance, with a return of 2.9%, well above investment benchmarks.

Capital advantages

The Brit business model remains simple but very effective. Our decision to focus our capital solely on the Lloyd's platform creates excellent capital efficiency, and our strict approach to cost control allows us to operate a flexible and scalable model

> "I absolutely believe that we have the right platform and business mix to deliver sector-leading returns for shareholders in this challenging insurance rate and low yield environment."

across the business. This platform has enabled us to deliver attractive returns (20.7% in 2014) despite challenging market conditions and to maintain a strong balance sheet, pursue growth opportunities and to support a consistent dividend for shareholders. I am delighted that we have delivered an ordinary dividend of 18.75p per share for 2014 and a further special dividend of 12.5p, driven by this year's excellent result and our rigorous capital management strategy.

Brit strategy and outlook

Looking forward, the financial landscape in which the insurance industry operates continues to offer material challenges. Exceptionally low interest rates, geopolitical uncertainty, global growth concerns and market volatility mean that the industry continues to face a testing back drop. For the insurance industry capital availability is increasing from both traditional and non-traditional sources and we expect this to create further competition and pressure on pricing and conditions in 2015. These new forms of capital, along with evolving distribution channels and constant improvements in technology continue to challenge industry norms and as a Board we will be mindful as to how we can react to this landscape quickly and drive the Brit and industry agenda.

I absolutely believe that we have the right platform and business mix to deliver sector-leading returns for shareholders in this challenging insurance rate and low yield environment. However, to maintain strong profitability, we must focus more than ever on our underwriting discipline, risk selection and capital management. Integral to this is maintaining good relationships with brokers, clients, cover holders and most importantly our regulators.

Brit is in a unique position as the largest Lloyd's-only insurance business and we plan to develop this business by continuing to invest in our people, by attracting top talent and by supporting the innovation of new products to meet our clients' needs. We also plan to build out our global distribution capability selectively, with significant opportunities to grow in mature markets such as the US and Bermuda, where we have achieved critical mass and expect to capitalise further on our investments in 2015. We also see opportunities in key growth markets over the longer-term such as building on the capability of our Latin America team in Miami and growing our presence in China.

We expect 2015 to be another difficult year for the insurance industry but we remain committed to delivering our goal of mid-teen RoNTA for our shareholders. We have the capital strength and exceptional talent within our business to navigate these demanding conditions and to continue to innovate and take advantage of opportunities for incremental growth as and when they arise. I look back at 2014 with immense pride at what has been achieved and I look forward with confidence and realism that we have the platform and the people to deliver strong returns for shareholders.

Finally, I express my sincere appreciation to the Board, the executive and all the staff at Brit for their contribution and for their ongoing commitment to delivering our strategy and for helping the business take another significant step forward to becoming the leading global specialty insurer.

Dr Richard Ward
24 February 2015

CHIEF EXECUTIVE OFFICER'S REPORT

Mark Cloutier
Chief Executive Officer

2014 HAS BEEN A LANDMARK YEAR FOR BRIT, MARKING OUR RETURN AS A PUBLICLY LISTED COMPANY AND DELIVERING ANOTHER STRONG SET OF RESULTS, A SIGNIFICANT ACHIEVEMENT GIVEN THE SHIFTING MARKET DYNAMICS. SINCE OUR DECISION TO REPOSITION THE BUSINESS, WE HAVE RELENTLESSLY FOCUSED ON DEVELOPING A PLATFORM THAT IS ALIGNED WITH OUR KEY OBJECTIVE OF LONG-TERM VALUE CREATION WHILE RETAINING A HIGHLY DISCIPLINED APPROACH TO THE BUSINESS WE CHOOSE TO UNDERWRITE IN THE SHORT-TERM.

Our model allows us to 'see the difference' and our recent track record is a strong vindication of what we have set out to achieve. It also gives us a clear path to deliver our key business objective: to maximise long-term value creation for shareholders by leveraging our differentiating Lloyd's-only platform and leading global specialty franchise to deliver the best insurance solutions to complex risks faced by our clients.

We closed the year with healthy growth in our business and delivered very strong total value creation of £139.2m with a 20.7% return on net tangible assets (excluding FX and IPO costs); our third year in a row of sector-leading returns in excess of 18.5%. The results discussed in this, our first annual report since our IPO, are a credit to the entire Brit team. They have worked tirelessly throughout the year, staying focused on the fundamentals that we consider key to generating long-term shareholder value and ensuring that our clients always see the difference in partnering with Brit.

We were very pleased to announce on 17 February 2015 an offer for the business from Fairfax. Our business is complementary to the Fairfax group's current offering and the deal represents an exciting opportunity for us to continue our story on an even stronger footing, for the benefit of both companies, our employees, customers and trading partners. It will give Brit access to Fairfax's existing relationships and expertise in the international insurance and reinsurance markets, allowing us to enhance our global product offering.

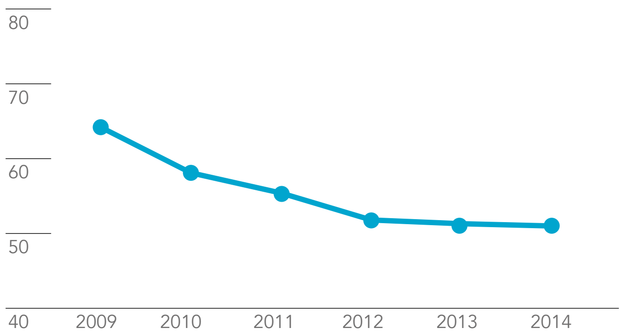
Financial highlights

In 2014, we delivered against the targets set out at the time of the IPO and continue to capitalise on profitable growth opportunities.

- We continue to create value for our stakeholders. In spite of challenging market conditions we have produced a RoNTA of 20.7% and the total value we created was £139.2m. Underwriting and investment performance both contributed to this result;
- Our underwriting operations generated a profit of £102.0m and produced a combined ratio of 89.5%.
  - Our premium growth of 9.8% (15.0% at constant rates of exchange), is driven by new business from the new teams and initiatives put in place from 2012 to 2014. We have also seen organic growth in a few selected lines where rating conditions remain attractive such as US binder business and some other specialty classes;
  - The overall risk-adjusted trend in pricing is a decrease of 2.9%, which is in line with our projection at the time of the IPO and our guidance repeated at half year. The price falls in treaty reinsurance were marked and occurred early in the year as the bulk of our reinsurance book renews in the first six months. The insurance business pricing was more resilient with an overall decrease in rates of 1.6%, justifying our strategy to focus on insurance business where our expertise is highly valued. While we are not alone in experiencing rating declines, we are happy with the rating adequacy of our overall portfolio;
  - Our claims experience has been in line with expectation and, while we have sustained some losses from natural catastrophes (e.g. Hurricane Odile) and man-made events (e.g. the Tripoli airport attack), the claims environment has been benign. Our attritional claims experience and the development of our prior year reserves have been in line with the guidance offered at the time of our IPO.

> In spite of the challenging market conditions we produced a RoNTA of 20.7% and the total value we created was £139.2m.

Attritional ratio (%)



- We have generated investment return net of fees ahead of our guidance at 2.9% and have benefited from falling yields and the tightening of credit spreads that have driven unrealised gains in our government and corporate credit weighted portfolios. We have shortened the duration of our portfolio in a defensive move against expected interest rate rises and we therefore believe we are well-positioned for 2015;

- We are well capitalised with resources amounting to 150.4% of the capital we need to meet regulatory requirements. As indicated at the time of our IPO, we are and will continue to be active managers of our capital and, in line with our guidance, will make a special dividend of £50.1m to bring our surplus position back to the upper end of the 120% to 140% range;

- In 2014, we successfully completed the commutation of a portfolio reinsurance transaction relating to the restructuring of the Group in 2012. We are pleased to have commuted on favourable terms, bringing closure on a portfolio of long-tail liability reserves including those related to the financial crisis. This transaction marked the final element of the major restructuring of the business undertaken since 2011 by Brit's new management.

Focus on the fundamentals

At Brit we focus on five core fundamentals that drive our overarching business objective: continuing to take advantage of our differentiating Lloyd's-only operating platform; delivering sustainable and profitable underwriting performance (which includes the claims component of our business); focused growth; dynamic asset management; and strong capital management. While we discuss all of these in some detail elsewhere in this Strategic Report, I will provide some additional perspective here.

Underwriting

Underwriting profitability lies at the heart of our strategy. Evidence of that commitment is seen not only in this year's very strong claims ratio but in the reduction in our attritional loss ratio over the last five years, as shown in the graph above.

Under Matthew Wilson's leadership, in what can best be described as a challenging environment, underwriting performance of £1,302.1m premium income and a claims ratio of 50.0% again proved the wisdom of writing a diversified portfolio of specialty classes. We saw good top line growth in 2014, predominantly from new teams and initiatives, however we continue to maintain a highly disciplined approach to organic growth, particularly given market conditions and outlook.

In volatile market conditions, the ability to draw on underwriting experience, sophisticated technical pricing tools and long-term trading relationships to grow or reduce exposures depending upon terms and conditions available by business class, is critical to optimising shareholder returns. Over the past six years we have consistently enhanced our product set, as well as the skills of our underwriting community. As a result, we were very well positioned to meet the challenges of the market conditions we faced in 2014 – and will continue to see going forward. Matthew goes into more detail on performance and outlook in our underwriting review on page 26.

The London market should be a centre of innovation: offering products that are responsive to new and emerging forms of risk. We believe the best response to excess capacity is to create demand through the development of new products for emerging needs, rather than allowing that excess capacity to cause us to give away our margins.

Brit set an excellent example of such innovation in 2014 with the roll-out of our new cyber-attack cover – targeted at first party physical damage and business interruption loss arising

CHIEF EXECUTIVE OFFICER'S REPORT

from a cyber-attack. We are proud of this development for several reasons:

- For 325 years the London market has been a place of innovation in the specialty insurance sector. As a firm that sells itself as a Lloyd's-based specialty insurance business, this major innovation from Brit makes a clear statement about the continued relevance and importance of the London market;
- The success of this initiative will again prove the need for – and importance of – a syndicated market for the placement of complex and new forms of risk, whereby products can be developed and enhanced through a broad distribution of those risks across different forms of capacity providers;
- The product development work by the Brit team is tangible evidence of our talent, collaboration and intent. Furthermore, the support of the market resulting in excess of US$350m of consortia capacity clearly reinforces Brit as a leader in the development of specialty products.

In tandem with our underwriting performance, delivery of a first class accurate claims service to our clients is key to our success. During the year we continued to strengthen our claims offering with a number of new hires, deepening our skill set and expanding the experience base in support of the new initiatives we implemented. We have also led innovation within the claim side of the business through the introduction of a fast track arbitration clause that will greatly enhance the client's experience on complex issues, with a more cost effective and robust solution to potential conflict points. This is unique to Brit and has been well received in the market.

Looking ahead, we expect that trading conditions in some classes will continue to be challenging. However, we believe we have the diversity in our portfolio, the cross-class expertise, the discipline and the trading relationships that will enable us to continue driving strong returns through shifting market cycles.

Focused growth

As a specialty (re)insurer we look to grow in two principal ways. First, in the specialty classes in which Lloyd's and the London market have a major and or leading presence. Secondly, through opportunity-driven geographic growth in specialty classes where we have expertise – in both mature and emerging markets including the US, China and Latin America.

2014 saw 15.0% growth in our top line GWP at constant FX rates. This was driven by our specialty insurance business which grew by 22.4%, while we chose to shrink our reinsurance portfolio by 8.1% in response to difficult market conditions. The growth we achieved in our book was driven predominantly by new underwriting initiatives implemented in 2013 and 2014, which included the addition of property and public entity specialty teams in the US, a casualty and property treaty team in Bermuda and a number of specialist class teams in London (high value homeowners, aviation, political and credit risks, and fine art and specie). Growth in our existing business was limited as we remained disciplined. This growth was focused on areas where rates have been most resilient and specifically our US property binder business and US specialty classes.

Our growth has been described as being 'opportunistic' and we agree with that view. Our approach is first to consider any opportunity within the context of our overall strategy and our basic understanding of the product offering to ensure it fits with our longer-term plan. We then examine historical results very closely and model the business in our own structure. This ensures we fully understand the capital implications, aggregation and correlation issues and expense impact. We only proceed if we fully understand the class and the business meets all our criteria – including a very high probability of achieving a profitable run rate within its first 12 months.

> "The product development work by the Brit team is tangible evidence of our talent, collaboration and intent."

This disciplined approach means we turn away many more 'opportunities' than we actually take on. Matthew provides more detail on specific initiatives in the Underwriting Review.

Given our capital structure and highly competitive expense model, it is important to remember that we are under no pressure to write new or unfamiliar premium (exposure); this is particularly important given the current challenging market conditions.

Given current market conditions and the effect of rate movements, we expect the impact of the various initiatives to deliver a low to mid-single digit growth rate for Brit over the next few years.

Investment management

An important part of our strategy is to optimise the risk-adjusted return on our asset portfolio within the context of the responsibilities of a property and casualty insurance business. Under John Stratton's leadership our result in 2014 is a good example of the effectiveness of that strategy.

Invested assets under management amounted to £2.6bn at the end of 2014 (2013: £2.6bn), with investment return net of fees for the year ahead of expectations at 2.9%, or £75.7m (2013: 2.1%, or £54.7m).

At 31 December 2014, 88.2% of the Group's investment portfolio was invested in cash and income generating assets. Over 70.0% of our invested assets corresponded to cash, government bonds and investment grade credit. A small proportion (11.8%) of the portfolio is allocated to growth assets where investment is targeted at lower volatility alternative and equity strategies.

During 2014, the duration and credit risk in the portfolio was actively managed through portfolio rebalancing. This, together with the ability of our growth strategies to manage periods of market volatility enhanced our performance and, in particular, risk-adjusted returns over the year.

While the macro-economic environment remains challenging, we believe our investment portfolio is appropriately positioned for a persistently slow global recovery and the prospect of changing monetary policy in different regions. With our established and flexible operating platform we remain well placed to actively manage our duration and sector profile as the market backdrop develops, accessing attractive investments as risk/reward opportunities arise.

Operating platform

A key element in long-term value creation is to position the Company with an efficient and scalable operating platform. Over the past four years we have developed a model that enables us to operate on a very competitive operating expense ratio. In 2014 our operating expense ratio was stable at 12.0% (2013: 12.0%). We monitor controllable expenses closely and work hard to ensure that discretionary spending is targeted at improving business performance, both for our shareholders and our trading partners.

While we manage expenses carefully, we recognise that both people and systems are critical to maintaining a competitive advantage for a specialty business. In 2014 we:

- Rolled-out major upgrades to our core underwriting system and financial ledger system;
- Significantly enhanced our technical pricing tools and made major improvements to our data warehouse and management information capabilities;
- Committed substantial resources to enhancing the skills of our people. Nearly 300 members of our team participated in more than 580 days of educational and training time. Our objective is simple: to have the most qualified and skilled people working with the best technical tools available.

CHIEF EXECUTIVE OFFICER'S REPORT

> Over the past four years we have developed a model that enables us to operate on a very competitive operating expense ratio. In 2014 our operating expense ratio was stable at 12.0% (2013: 12.0%).

These investments help empower us with a highly flexible business model. Operating an expense-efficient, scalable platform gives us greater ability to manage effectively through the challenges of market cycles.

Capital management

Our Lloyd's-focused business allows us to maintain a very strong capital position, while still achieving operating ratios that enable us to produce sector-leading returns for our shareholders. The capital efficiency embedded in the Lloyd's model – and the operating efficiency we achieve there – also enhances our flexibility when dealing with competitive pricing pressures and the market impact of lower-cost forms of capital.

We seek to hold actual capital in a range of 120% to 140% of our capital requirement and believe holding capital at this level enhances our ability to manage our approach to opportunity-driven growth, take advantage of positive market circumstances arising following major industry losses, and support our attractive dividend. Notwithstanding the prudent holding of that excess capital, we achieved a 20.7% return on net tangible assets for our shareholders this year and were able to recommend a final dividend of 12.5p per share (£50.1m) taking the total ordinary dividend for the year to 18.75p per share (£75.1m).

As excess capital builds above our expected range we will look for ways to deploy it through growth in the business. As we committed to at the time of the IPO, if market conditions or a lack of good opportunities suggest growth is not right for us, we will return that excess (above our prudent range) to our shareholders. This was the case in 2014 where our strong results have afforded us additional capital headroom and after consideration of the potential capital requirements for 2015 and growth opportunities we have proposed to pay a special dividend of a further 12.5p per share (£50.1m). This takes the total payout for the full year to £125.2m/31.25p per share or 90.1% of 2014 earnings. Our capital buffer at the end of 2014, adjusted for these recommended dividends, was 36.0% or £251.7m above requirements. Having slightly reduced both our maximum catastrophe realistic disaster scenario exposure and some of our credit exposures on the investment portfolio in the second half of 2014, we believe this is a prudent and appropriate level of capital buffer for our business to carry. I expect to continue this rigorous capital management policy in the future.

Brit has operated its governance and capital resources on a 'Solvency II' standard internal model for some years and we therefore believe we are well positioned to comply with full requirements when they become effective from 1 January 2016.

Conclusion and outlook

The results we have achieved this year and the strength of our business model is a credit to the entire Brit team. Our people are our core asset and everything we achieve is through their talent, experience, hard work and commitment. At Brit we operate a culture of achievement and involvement where we encourage our associates to excel in every aspect of our business through experience, training, natural talents and importantly, collaboration across business activities.

In each of the past two years we have performed engagement surveys to help us understand how our team members view our Company, the corporate environment and the behaviour of management. I am very happy to report extremely high participation levels in both of those surveys with 2014 participation at 89%.

The surveys provide invaluable feedback on what we are doing well and where we have room for improvement. Management takes that feedback very seriously and takes every effort to continuously improve our work environment and culture. I am delighted to report this year we scored very well in some key measures or statements. For example, 86%

of employees would recommend Brit as a great place to work and 85% of employees are proud to work here.

We believe having a workforce which is very engaged in the future of the business sets our Group on a course for continued outperformance for many years ahead.

Trading conditions are certainly not getting any easier with a continued flow of capital to our market place, a generally softening rate environment, and a continuing low yield investment environment. Nonetheless we believe we are well positioned to face the challenging days ahead with the flexibility we have built into our business model through our low cost scalable operating platform, our strong yet efficient capital structure, our dynamic approach to asset management and our opportunity-driven growth strategy. In addition, and very importantly given current market trends, we have over the past four years shown clear underwriting discipline; it is that which has enabled us to reach this stage and we will continue to focus on this fundamental which is so core to our business.

I would like to thank every member of the Brit team for their commitment and efforts over the past year and congratulate them on a great result. My thanks also go to our trading partners, brokers, agents, policyholders and cedants for their support and friendship as we have continued to develop the Brit story together.

Finally, I would like to extend my appreciation to our Board of Directors for their encouragement, advice, direction and support through what has been a very exciting and successful year for our Group.

Mark Cloutier
24 February 2015

UNDERWRITING REVIEW

"Underwriting profitability lies at the heart of our strategy. Evidence of that commitment is seen not only in this year's very strong 50.0% claims ratio, but in the five year trend in our attritional loss ratio."

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.

UNDERWRITING MANAGEMENT AND CULTURE

A culture of underwriting discipline and a robust and appropriate underwriting governance framework is at the heart of everything we do. Our non-renewal of around half of our underwriting portfolio from 2008 to 2012 is testament to this approach.

Our portfolio directors, each of whom is a key component of our underwriting management structure, are each responsible for a book of business of a size and scale that includes business lines at different stages of the insurance cycle. This provides the flexibility to move capital between business lines to give the best prospect of exploiting any market opportunity quickly and efficiently. The management structure has been strengthened during 2014, with the appointment of a deputy active underwriter who is responsible for underwriting discipline and performance management.

Underpinning our underwriting culture is the professionalism of our staff. Brit Syndicates Limited has Chartered Insurer status through the Chartered Insurance Institute (CII) and we are committed to continually expanding and supporting our staff's development. Our underwriters are incentivised to write for sustainable profit rather than volume, reinforcing discipline without excessive risk taking and aligning our underwriters' interests to those of our shareholders. Our culture also emphasises placing client interests at the heart of our underwriting, paying particular regard to the FCA's six consumer outcomes which focus on the fair treatment of customers.

BUSINESS MIX

Portfolio management of pricing cycles and subsequent business mix adjustments are central to our underwriting philosophy and at Brit we seek to have a balanced, diverse portfolio with a focus on our core book, supplemented by our diversifying insurance classes and reinsurance.

The mix of business is continually adjusted based on market conditions and we seek to optimise our underwriting portfolio via a combination of organic growth in profitable areas; adding new product lines in profitable niche areas; taking defensive positions in sectors where trading conditions are not favourable; and maintaining the flexibility to execute opportunity-driven growth as prospects present themselves.

Supporting both underwriting discipline and governance is a robust pricing framework consisting of an appropriate experience rating or predictive modelling tool for each line of business, with all risks above certain referral points being subject to actuarial review.

Matthew Wilson
Chief Underwriting Officer

DISTRIBUTION

Our approach to distribution is integral to our underwriting strategy and is based on a mixture of open market business, delegated underwriting and an established international network.

Open market underwriting

This has been the principal area of investment in London since 2009, through the addition of new underwriting and claims teams. Open market business allows our underwriters to use their expertise directly in the assessment and underwriting of individual risks, enabling careful risk selection to target leading profitability.

Delegated underwriting

We are one of the leading writers of delegated business within Lloyd's. This method of distribution accounted for 38.0% of our 2014 GWP and provides a cost-efficient way to access small to medium-sized risks. We work with selected coverholders worldwide to access a spread of business in both our short-tail and long-tail portfolios. We have a comprehensive governance framework in place including a specialist team (Delegated Underwriting Management Unit) and a separate oversight committee (Delegated Underwriting Management Committee) to ensure that the extensive processes and controls are effectively administered and adhered to before, during and after the life cycle of a contract.

International distribution

We have established a presence in the key (re)insurance markets of US, Bermuda, Japan and China to access business that would not normally be placed in the London market and form closer relationships with a broader range of clients and brokers.

Where possible, we have adopted an expense and capital efficient service company model to operate in these jurisdictions which importantly allows us to maintain all of the benefits from operating on the Lloyd's capital structure, while utilising our head office support functions to help manage costs.

Our longest established overseas presence is in the US, headquartered in Chicago, with nine offices nationwide. Since commencing underwriting in 2009, Brit Global Specialty USA has delivered measured and profitable growth both organically and by adding a number of complementary product lines including direct property and package business for public entities and criminal justice service organisations.

Our approach to international distribution is built upon a philosophy that any new product or office should be accretive in the near term. This is demonstrated through the recent initiative in Bermuda that contributed £22.0m of premiums and £1.6m of underwriting profit in 2014, following its establishment in November 2013.

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.

In recent years we have made considerable investment in enhancing our claims service and have attracted a number of experienced new hires into key claims management positions. Our claims service has also benefited from the upgrade of our core underwriting platform in early 2014 and from specific investment in technology such as the CTIS-TRAX system from Charles Taylor Insurance Service Ltd which has enhanced our claims workflow processes and management information.

Our efficient and professional approach to claims handling has been recognised during 2014, with improvements in a number of the key Lloyd's metrics and in external industry surveys such as the 'Gracechurch London Insurers Report'.

UNDERWRITING REVIEW

2014 HAS BEEN ANOTHER CHALLENGING YEAR, WITH THE (RE)INSURANCE INDUSTRY CONTINUING TO EXPERIENCE A SOFTENING CYCLE ACROSS MANY CLASSES OF BUSINESS. PREMIUM RATE REDUCTIONS HAVE BEEN BROUGHT ABOUT BY LOW LEVELS OF CATASTROPHE ACTIVITY AND INCREASED COMPETITION FROM NEW SOURCES OF CAPACITY, AS PENSION FUNDS AND MUTUAL FUNDS SEEK EXPOSURE TO NON-CORRELATING INVESTMENTS TO DIVERSIFY THEIR TRADITIONAL PORTFOLIOS.

This recent rate pressure has been most severe in our property treaty reinsurance business, with rate-reductions in 2014 of 10.6%, and in property and energy direct open market classes. Overall reductions in direct insurance have been much less severe than in reinsurance at around 1.6%, with the pressure in property and energy offset by resilience in casualty, marine and delegated underwriting. Overall rates reduced by 2.9% in 2014; critically, we are still seeing rate adequacy in many lines which should allow target returns on capital to be met.

In response to these conditions, we have taken a defensive position, particularly in our property treaty reinsurance book. We have reduced our reinsurance volumes and have focused on increasing our specialty business; our portfolio continues to re-balance towards short-tail specialty business where we believe there is greater rating adequacy.

While our underwriters have displayed excellent discipline in the more challenging classes, we still achieved premium growth of 9.8% to £1,302.1m in 2014 (15.0% at constant FX rates), with weaker lines being offset by growth in our fledgling international platforms and business generated by our new initiatives and team hires.

We have also seen a number of opportunities in 2014 for organic growth in delegated underwriting, particularly in US property, as a more stable rating environment combined with our recognised expertise in this area presented several attractive prospects.

A significant factor in our 2014 growth 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 52.2% and an improved CoR of 89.2%.

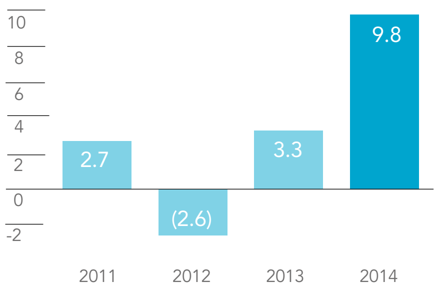
2014 was also the first full year for our Bermuda operation which has selectively written reinsurance business in lines and markets that we believe remain well rated, particularly casualty treaty. Premiums generated by our Bermuda office in 2014 amounted to £22.0m and this office returned an underwriting profit in its first full year.

New initiatives that we launched in 2013 have started to mature during 2014, with growth in lines such as high value homeowners, political and credit risks, and fine art and specie. These niche areas currently offer attractive returns and complement our existing insurance portfolio. We anticipate that these initiatives will continue to grow in 2015.

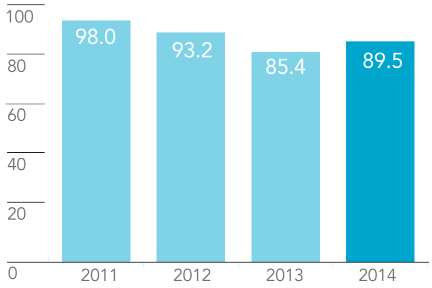
In June, we demonstrated our appetite for opportunity-driven growth with the acquisition of the underwriting team and renewal rights of QBE's Lloyd's based aviation book. By acquiring the renewal rights we have been able to bring this book to scale immediately and establish a lead position in the Lloyd's market. Similarly in January 2014, we hired a UK property team to write a predominantly commercial book that will complement our US and international property business.

Our business is built on our talented underwriting professionals and our strong relationships with brokers and

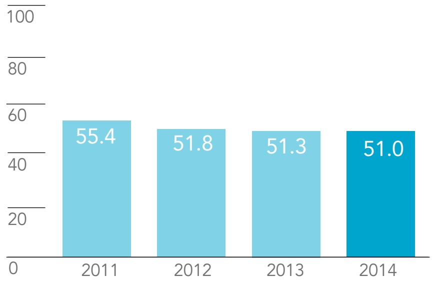
Group GWP growth (%)



Group combined ratio (%)



Group attritional ratio (%)



policyholders. During 2014, 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 83% from 70% in 2009 and by us leading, or being second agreement party, on approximately 70% of the business we write. This helps us to secure favourable rates.

Our underwriting growth has been supported by investment in our claims service, with the number of claims personnel increasing by 54.3% since 2009. This ensures a strong service to brokers and policyholders, both when underwriting business and when processing claims.

During 2014, to further protect the business from the current premium rate challenges, we completed a major overhaul of our outwards reinsurance protections and took advantage of the opportunities presented to a reinsurance purchaser by the softening reinsurance market. The significant restructure of our catastrophe reinsurance protections, including the purchase of a new aggregate protection, has strengthened the level of cover at a materially lower risk-adjusted price. This will further help us manage the impact of weaker pricing on our inwards book, while affording our balance sheet increased protection. Additionally, our Lloyd's syndicate increased the business it placed with our Gibraltar-based captive which was in turn protected by a new aggregate reinsurance cover.

Overall, the combination of strong portfolio management, underwriting discipline and opportunity-driven growth has led to us achieving an excellent 89.5% CoR in 2014. While catastrophe losses have been low, our attritional loss ratio of 51.0% is a testament to the strength of our underwriting franchise in the face of competitive pressures.

Looking ahead to 2015, the market is undoubtedly challenging. However, our business model, balanced portfolio, growing distribution reach and specialist underwriting approach leave us well placed to tackle the headwinds of the market rationally and confidently. We expect to continue to rebalance our underwriting portfolio in favour of insurance and are not afraid to step away from business which does not support our target of mid-teen RoNTA in a year with an average level of major claims.

We continue to look to enhance our own reinsurance protections and for 2015 have secured US$75m of new capacity from the capital markets through Versutus Limited, a Bermuda based reinsurance vehicle.

Finally, the new strategic initiatives executed in the last two years will continue to bear fruit and our underwriting teams will continue to take advantage of opportunities that are aligned to our overall Group strategy.

THE GRACECHURCH LONDON INSURERS REPORT 2014

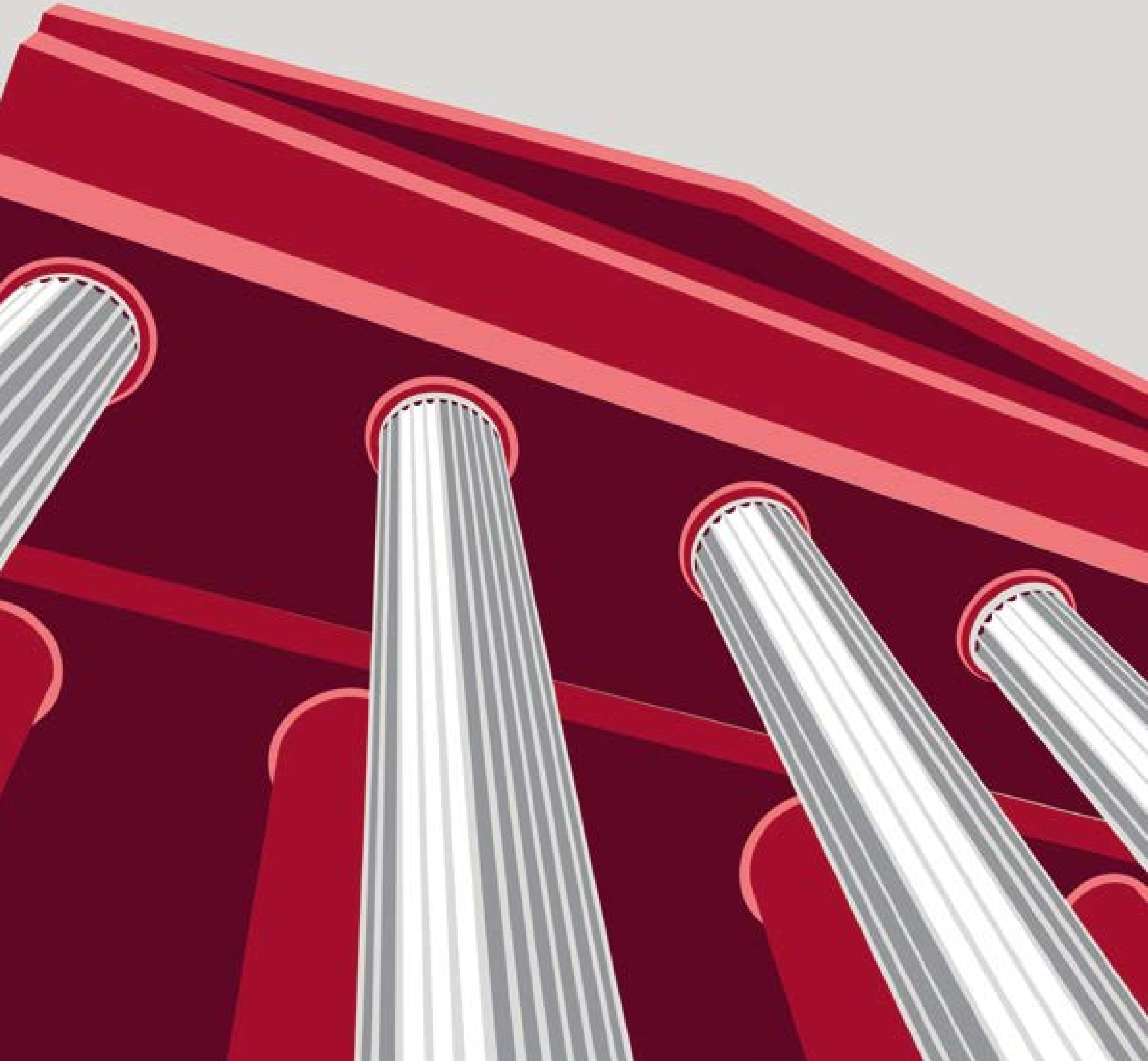
Brit Global Specialty uses Gracechurch's independent reports to measure its market performance. Our performance in the survey has been improving year-on-year and in 2014 we are proud to have been named in the top three Insurers that London Market brokers would shortlist to lead or co-lead quality new business. Brit Global Specialty was also ranked in the top three most innovative insurers.

Source: The Gracechurch London Insurers Report 2014

ORGANIC GROWTH & STRATEGIC DEVELOPMENT

Brit Global Specialty USA

Brit Global Specialty USA (BGSU) is one of the fastest-growing areas for Brit, albeit with a focus on growing profitably and in niche areas where we already have significant expertise and experience



BRIT GLOBAL SPECIALTY USA

Market position

Since its inception, BGSU has delivered strong organic growth. Over the last two years, a significant strategic investment has been made by adding market leading teams specialising in packages for public and non-profit entities written on a first dollar basis, packages for adjudicated care providers and property direct business. In 2014 premiums have grown 52.2% to £102.0m which equates to a compound annual growth rate of 47.1% over the past four years.

We opened an office in Miami during 2014, which is an important hub for Latin American business. The Miami office will target facultative reinsurance in both Latin America and the Caribbean.

At 31 December 2014, BGSU had 61 employees and income per head of £1.7m. The combined ratio of BGSU in the past four years has been consistently in the low 90% range highlighting our focus on making all organic growth and new initiatives within the Group accretive in the near term.

Market commentary

The main market of BGSU is specialty package products consisting of combined property and casualty lines, for a range of public and non-profit entities and adjudicated care providers. While competition in both the US excess and surplus (E&S) and admitted markets for these classes has increased, the expertise required to underwrite this business coupled with the budgetary certainty required by many of our policyholders, moderates new market entrants and rate volatility. Our pricing and retention ratios remain strong.

BGSU also writes a mix of property business in the E&S and facultative reinsurance market. Compounded by another benign Atlantic hurricane season, greater competition has put continued pressure on US property rates, terms and conditions. The restructuring of the Maiden specialty business acquired in our 2013 renewal rights transaction has left our US E&S business well placed to respond to these headwinds. We have developed a more focused distribution strategy, recalibrated underwriting appetite and imposed consistent pricing discipline across this business.

UNDERWRITING REVIEW – DIVISIONAL PERFORMANCE

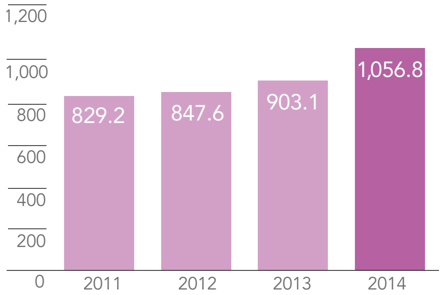
BRIT GLOBAL SPECIALTY DIRECT

WE LEAD APPROXIMATELY 50% OF THE BUSINESS WE WRITE AND ARE SECOND AGREEMENT PARTY ON A FURTHER 20%. THIS STRONG OFFERING TO BROKERS AND CLIENTS ALLOWS US TO DRIVE SCALE AND RELEVANCE IN OUR CORE INSURANCE LINES OF PROPERTY, ENERGY AND CASUALTY, WHERE THE LLOYD'S MARKET HAS SIGNIFICANT MARKET SHARE. THE BROAD NATURE OF OUR INSURANCE PORTFOLIO ALLOWS US TO MANAGE CYCLE DYNAMICS BY CLASS AND ALLOWS US TO TAKE ADVANTAGE OF OPPORTUNITIES THAT MAY ARISE IN OUR DIVERSIFYING LINES OF BUSINESS SUCH AS MARINE, TERROR, POLITICAL RISKS, AVIATION AND ACCIDENT AND HEALTH.

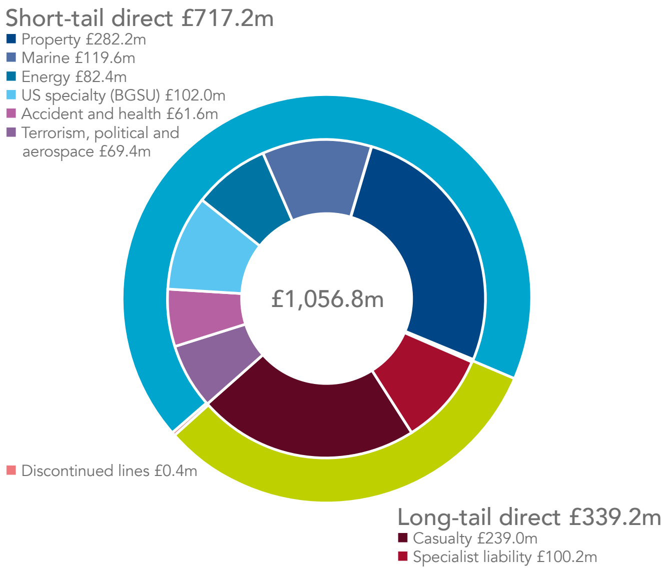
In 2014 this was illustrated by 17.0% growth in our GWP (22.4% at constant FX rates). The benefits of organic growth in more resilient lines such as property binders, US specialty and the income from new initiatives such as aviation, more than offset our underwriting discipline of reducing our energy account.

Brit Global Specialty Direct's CoR was 96.0%, driven by a particularly pleasing attritional loss ratio of 51.3%.

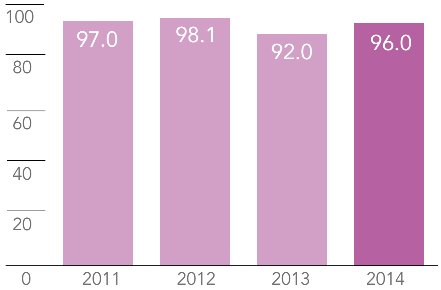
Brit Global Specialty Direct GWP (£m)



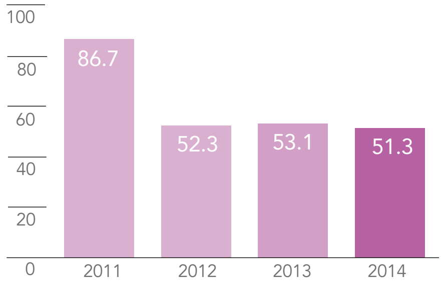
Brit Global Specialty Direct 2014 GWP by line of business (£m)



Brit Global Specialty Direct Combined ratio (%)



Brit Global Specialty Direct Attritional ratio (%)



Market position

Our core lines:

- **Property** – We underwrite, on both an open market and a binding authority basis, a portfolio of commercial, residential and high net worth homeowner risks. We have a long-standing leadership position in the binding authority market and, in recent years, have focused successfully on increasing our profile and leadership capabilities in the open market.
- **Energy** – Our energy account is focused on upstream and midstream business, following our withdrawal from the poorly performing downstream market in 2012. We both lead and follow on risks we write, and work with national oil companies and major integrated energy companies. We also insure independent operators in the oil and gas sector.
- **Casualty** – We have an established strong lead capability in our core competencies of professional indemnity (PI), financial institutions (FI), directors and officers (D&O) and legal expenses. Our PI account is well positioned within Lloyd's, reflecting strength in both US and international business. We have a clearly defined risk appetite and have no material exposure to the systemic risk areas of IFAs, UK solicitors and UK surveyors. We have demonstrated strong portfolio management by actively managing our exposures in response to the decline in the global economy, while retaining our expertise for when the outlook improves.

Our diversifying lines:

- **Marine** – Our marine account was one of the key areas of focus during our re-underwriting from 2008 to 2012 and the profitability of this account has been transformed over the last three years. Our marine book is now a balanced account of cargo (including fine art and specie), hull (including yachts and war) and marine liability, with a particular focus on higher-margin niche areas such as yacht, war and cargo. It is now positioned for growth when market conditions allow.
- **Terrorism, political and aerospace** – Our underwriting expertise combined with the use of market leading risk assessment tools has resulted in terrorism being a highly profitable class. We launched our new cyber-attack product in 2014, after working with cyber security experts and clients to develop an innovative solution tailored to their needs. Political and credit insurance is a niche market within Lloyd's where service and expertise are key to attracting the best business. In the second half of 2013, we recruited specialist political and credit underwriters and anticipate that premium from these risks will increase during 2015, as the team builds on a successful first full year.

  We set up our aviation division in June 2014, following our acquisition of the renewal rights to QBE's London-based dedicated Lloyd's aviation business, together with its associated underwriting and claims teams. The team underwrites a diverse book of general aviation, airlines and products liability and is one of the lead participants in the Lloyd's aviation market. The aviation book also includes space where we lead the Brit Space Consortium.
- **Accident and health** – Our accident and health account is a diverse portfolio of personal accident, contingency and bloodstock business. These classes are niche profitable business lines where we have a strong market profile and leadership position within Lloyd's. Our business is generated from a broad range of sources, on both open market and binding authority bases.

UNDERWRITING REVIEW – DIVISIONAL PERFORMANCE

- **Specialist liability** – Our specialist liability book contains UK employer's liability, UK public liability and an international non-US general liability book. In 2014 we started underwriting environmental impairment liability risks on a claims made basis. Historically, our specialist liability account has been weighted towards higher hazard business in which the Lloyd's market specialises. However, following changes to our underwriting personnel, we are rebalancing this account to complement the relatively volatile higher hazard business with the more predictable standard business which is experiencing rising rates.

Market commentary

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. We continue to see more pressure in open market business, particularly in property and energy business, while the greatest resilience is seen in more specialty lines such as casualty, US specialty and marine.

Our core lines:

- **Property** – While the market has seen some loss activity such as Hurricane Odile and the Nebraska Floods, the relative low level of major losses will result in continued downwards pressure on open market rates in 2015. Our binding authority book is experiencing a more stable rating environment and we targeted a number of profitable growth opportunities in 2014. We will continue to seek such opportunities in 2015. Having established a UK property team in 2014, we view this as an area for future development that is both complementary and diversifying to our existing book. The combination of binder growth and our new UK property team led to a 23.7% growth in property premium in 2014.
- **Energy** – Recent positive claims experience, together with the benign Gulf of Mexico hurricane season, have contributed to a good performance in 2014. However, this in turn has led to rating pressure and during 2014 we have reduced volumes by 22.4% to £82.4m. We would expect to demonstrate further discipline in 2015 as rates continue to experience pressure.
- **Casualty** – D&O, FI and PI are the casualty classes most exposed to economic volatility and, due to their long-tail nature, are also adversely affected by the current low interest rate environment. In general, the insurance market has not experienced material losses from recent headline events such as PPI, LIBOR and forex. However, the emergence of these events validates our decision to maintain our defensive stance to economic related exposures. In 2014 our premium levels increased marginally to £239.0m and we are continuing to see resilience in pricing into 2015.

Our diversifying lines:

- **Marine** – While there were no major market losses in 2014, the deterioration in the 2012 Costa Concordia loss has sustained increased rating levels in marine liability. Our marine liability book has also grown as the increased market pricing levels have improved rate adequacy. Following the addition of new underwriters in open market cargo, we have experienced growth in 2014; this has been in conjunction with the recruitment of a team to write fine art and specie, changing this profitable niche area from an incidental part of our portfolio to an area of specialism. Overall the marine book grew by 9.7% in 2014.
- **Terrorism, political and aerospace** – The market has been affected by the political situation in Russia and Ukraine and the extent of current market losses remains uncertain.

As we only commenced underwriting in 2014, our exposure to these events is very limited.

The aviation market experienced a number of high profile losses in 2014, particularly the two Malaysian Airliners, Air Asia and the Tripoli airport attacks. The market has responded to these events, albeit in a rather muted way with marginally increased rates in aviation war and airlines. Our team has made a successful start since they joined in June 2014, and in response to the changing market dynamics exceeded our plan for the second half of the year by writing £29.7m of GWP.

- **Accident and health** – All product lines have seen high levels of competition over recent years as a number of new market entrants, particularly within Lloyd's, have increased the available capacity. These lines are attractive to start-ups as they have relatively modest capital requirements and are largely free from natural catastrophe exposure. Some market areas have seen a number of risk losses, such as contingency relating to cancellation and non-appearance, which have served to moderate premium rate reductions.
- **Specialist liability** – The UK employer's liability and UK public liability markets have seen an increase in loss activity following a prolonged period of profitability and benign loss experience. We were exposed to some of these one-off losses in 2014. As a result, the market is experiencing positive rate changes and a number of insurers are redefining their risk appetite.

OPPORTUNITY-DRIVEN GROWTH

Acquisition of market-leading aviation team

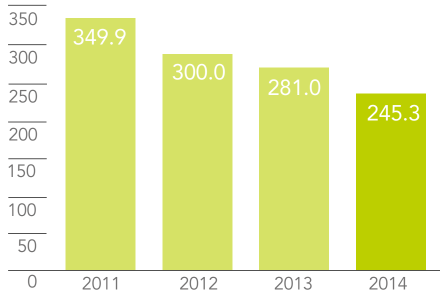
In July 2014, we acquired the renewal rights to QBE's London-based dedicated Lloyd's aviation business, and acquired the associated underwriting and claims teams. This represented a unique opportunity for us to assume a market leading team of highly experienced underwriters in a business line where Lloyd's has significant scale and global relevance. Our aviation team writes across all major lines of the aviation market and management expect that the assimilation into our efficient cost and capital platform will lead to this team contributing to Group profitability immediately. This type of transaction highlights our commitment to move decisively when opportunities arise.

UNDERWRITING REVIEW – DIVISIONAL PERFORMANCE

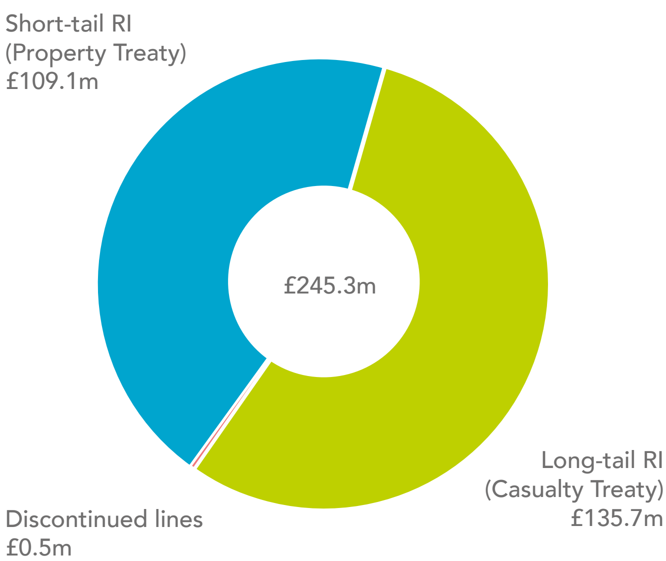
BRIT GLOBAL SPECIALTY REINSURANCE

THE PROFITABILITY OF OUR TREATY REINSURANCE BOOK REMAINED STRONG WITH A CoR OF 66.8%, DRIVEN BY LOW CATASTROPHE EXPERIENCE IN OUR PROPERTY ACCOUNT AND ANOTHER YEAR OF GOOD PERFORMANCE FROM OUR MARKET LEADING CASUALTY REINSURANCE ACCOUNT. DURING 2014, OUR TREATY REINSURANCE PORTFOLIO ACCOUNTED FOR 18.8% OF OUR GWP, HOWEVER, IN THE COMPETITIVE LANDSCAPE OUR UNDERWRITERS MAINTAINED DISCIPLINE, RESULTING IN A REDUCTION OF PREMIUMS OF 12.7% (8.1% AT CONSTANT FX RATES). THIS ALLOWED US TO REALLOCATE THEIR SURPLUS CAPITAL TO DIRECT LINES WITH MORE ROBUST RATING LEVELS

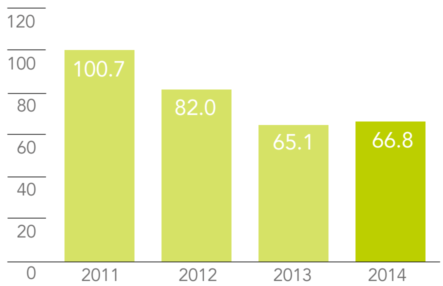
Brit Global Specialty Reinsurance GWP (£m)



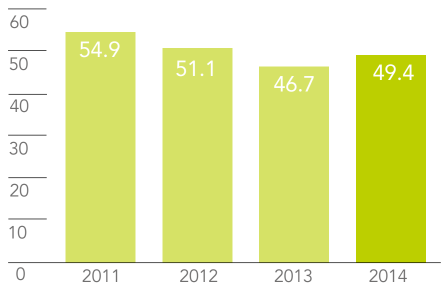
Brit Global Specialty Reinsurance 2014 GWP by class (£m)



Brit Global Specialty Reinsurance Combined ratio (%)



Brit Global Specialty Reinsurance Attritional ratio (%)



UNDERWRITING REVIEW – DIVISIONAL PERFORMANCE

Market position

Our short-tail reinsurance business focuses on property treaty, both in the US and internationally. Our target business emanates from territories with established catastrophe models, including the US, Canada, Europe, Japan, Australia and New Zealand. Our account also contains an element of excess of loss treaties, which normally exclude catastrophe perils. This offers some spread of risk within this catastrophe driven book and allows us to offer a complete product suite to our policyholders. This book has been significantly re-underwritten since 2011 under the guidance of a new portfolio director. The volume of premium written has reduced by 32.6% over the last five years due to our focus on pricing adequacy and profitability, while the attritional loss ratio and CoR have improved significantly.

Our long-tail reinsurance business has been one of our most consistently successful business lines over the past 14 years. The portfolio contains a diverse book of casualty and specialist treaties, a rare business mix within the Lloyd's market. It also contains a broad range of products, including whole account casualty clash reinsurance covers, professional indemnity risk placements, together with niche areas in which we have expertise such as terrorism, contingency, personal accident, political risks and kidnap and ransom. The portfolio has an excellent long-term track record of profitability and we are a recognised market leader with strong long-term relationships with cedants. This has been illustrated in 2014 as, even though policyholders have been buying less cover, we have maintained our position through leadership and increased distribution capability.

Market commentary

While the property treaty market has experienced some smaller events during 2014 such as the Nordic spring storms, Hurricane Odile and Nebraska floods, its overall catastrophe experience has been relatively benign. With pricing down around 15% to 20% from the 2012 highs and alternative capital sources continuing to enter the market, we continue to expect further pressure on pricing and terms in 2015. For the 1 January 2015 US property treaty renewals, rates decreased by 10.9%; this represented a slowing of recent rate decreases which suggests that rating levels are beginning to stabilise as technical pricing levels are reached.

We expect to maintain pricing discipline and as a result would expect premium volume to reduce further. Despite the level of capacity within the market, our property treaty underwriters continued to maintain a good profile and remain focused on maintaining service levels and building relationships with cedants who want continuity from long-term capacity providers, such as ourselves.

For 2015 we have taken advantage of current conditions to broaden our outwards property treaty retrocessional protections by placing a US$75m fully collateralised quota share with Versutus Limited, a Bermuda based reinsurance vehicle. This allows us to build relationships with newer providers of alternative capacity within the market.

The long-tail reinsurance market has seen increased competition as competitors seek diversity and, as cedants, re-evaluate their coverage requirements. Pricing however is still attractive and our portfolio has an excellent long-term track record of profitability and we are a recognised market leader with strong long-term cedent relationships. We feel we are well positioned to protect our current market-leading position, while maintaining strong profitability in order to respond to a market turn.

Matthew Wilson
24 February 2015

ORGANIC GROWTH & STRATEGIC DEVELOPMENT

Brit Global Specialty Bermuda

We launched Brit Global Specialty Bermuda (BGSB) in November 2013 to access business which may not normally come to the Lloyd's market, expand our distribution reach and write a portfolio of casualty and property treaty business.

Market position

Our Bermuda office enhances our offering with global brokers as well as giving us access to specialty niche brokers in North America as we look to build our long-term relationships with US and Bermudian clients. Our staff in Bermuda are in constant contact with their London colleagues to ensure uniformity of approach and to ensure the portfolio complements our London writings.

In 2014, its first full year of operation, our BGSB platform generated £22.0m of premium and made a positive contribution to the profitability of our reinsurance business.

INVESTMENT MANAGEMENT REVIEW

WE HAVE A DIVERSIFIED AND DYNAMIC APPROACH TO INVESTMENT STRATEGY. INVESTMENT RETURN IS A KEY COMPONENT OF BRIT'S EARNINGS AND A STRATEGIC PRIORITY FOR US.

John Stratton
Chief Investment Officer

The recent low interest rate environment and weak global economic performance has presented a challenging environment for insurers for a number of years. We have realigned our investment strategy and have transitioned to a broader mix of asset classes in order to deliver a more balanced and consistent risk adjusted return for our shareholders. We have also invested in our in-house capabilities that allow us to be more proactive in tactical decision-making within asset classes, which we feel is necessary in what remain challenging investment markets.

Performance and approach

2014 has produced a strong investment performance, driven by two aspects of our strategy – the focus on generating a higher running yield and our broader exposure to credit markets. Our 2014 investment return of 2.9% was a combination of 2.2% of investment income and 0.9% of mark-to-market gains on the portfolio, less fees equivalent to 0.2%.

Our investment strategy has taken a more balanced approach to generating income, with a longer duration of around two years maintained for most of 2014 and a broader exposure to credit resulting in a higher running yield.

We continue to review our asset mix and have tactically moved to a slightly more defensive credit positioning in late 2014. In addition we have rebalanced some assets into our growth/diversifying portfolio. Both of these changes are intended to reduce the impact of any 'surprise' negative data, while broadly maintaining the potential returns in a strong economic environment.

As 2014 developed, we reviewed the positioning of the portfolio and responded to reflect our view of the relative risk adjusted value in the market. The key change was to tactically shorten the duration of the asset portfolio. Our view is that there is a higher chance of an increase in yields anticipating rate rises during the first half of 2015, following strong economic data in the US. This positioning protects the income statement against shock increases in the yield curve in return for a modest reduction in our running yield.

During 2015, we will continue to keep our asset mix and positioning of our portfolio under review.

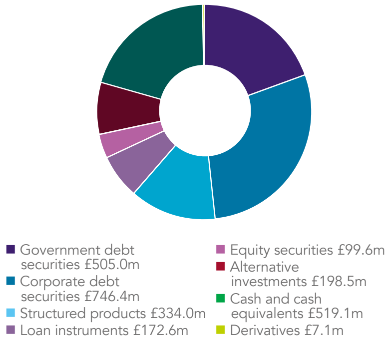
Overall, our annual running yield remains strong at 2.2% based on the portfolio at 31 December 2014. We continue to actively monitor our duration position and seek to manage this to optimise our investment return. In the longer-term our strategy remains to match the duration of our assets to liabilities and we would expect this to begin to be implemented early in 2015 as yields begin to rise.

We retain a strong liquidity position and a healthy cash and cash equivalents allocation, which on occasions during the year has been above our appetite as a consequence of managers holding cash due to their views of the markets. We are comfortable that our liquidity needs are more than adequately met by the assets held and even in a severe insurance and investment stressed scenario, we have surplus liquidity.

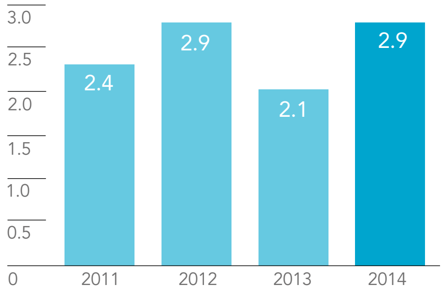
The investment return is an important focus for Brit, given the asset leverage our business mix affords us. After allowing for the recommended final and special 2014 dividends, our invested assets were approximately 3.7 times our adjusted NTA, so every 1% of investment return contributes almost 3.7 percentage points to our RoNTA. This highlights why we have invested considerable time and resource in building a strong investment management platform, defining clear investment guidelines and selecting the highest quality third party managers for our funds.

Our proactive approach to asset allocation and management has resulted in resilience to the volatile market conditions. This proactive approach positions us well both to react quickly to fluctuations in the financial markets and changes in macro-economic conditions and to achieve relative risk-adjusted returns.

Invested asset – look through basis (£m)



Investment return (net of fees) (%)



Asset allocation

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

	Statutory basis							
31 December 2014	Equity securities £m	Debt securities £m	Loan instruments £m	Specialised investment funds £m	Cash and cash equivalents £m	Derivative assets £m	Derivative liabilities £m	Total invested assets (look through) £m
Look through basis								
Government debt securities	**–**	**315.0**	**–**	**190.0**	**–**	**–**	**–**	**505.0**
Corporate debt securities	**–**	**433.7**	**–**	**312.7**	**–**	**–**	**–**	**746.4**
Structured products	**–**	**236.9**	**–**	**97.1**	**–**	**–**	**–**	**334.0**
Loan instruments	**–**	**–**	**169.3**	**3.3**	**–**	**–**	**–**	**172.6**
Equity securities	**27.2**	**–**	**–**	**72.4**	**–**	**–**	**–**	**99.6**
Alternative investments	**–**	**–**	**–**	**198.5**	**–**	**–**	**–**	**198.5**
Cash and cash equivalents	**–**	**–**	**–**	**199.0**	**321.4**	**–**	**(1.3)**	**519.1**
Derivatives	**–**	**–**	**–**	**4.7**	**–**	**2.4**	**–**	**7.1**
Total invested assets (statutory)	**27.2**	**985.6**	**169.3**	**1,077.7**	**321.4**	**2.4**	**(1.3)**	**2,582.3**
31 December 2013								
Look through basis								
Government debt securities	–	369.4	–	75.0	–	–	–	444.4
Corporate debt securities	–	341.0	–	452.2	–	–	–	793.2
Structured products	–	288.4	–	48.6	–	–	–	337.0
Loan instruments	–	–	292.7	39.6	–	–	–	332.3
Equity securities	47.6	–	–	107.5	–	–	–	155.1
Alternative investments	–	–	–	125.2	–	–	–	125.2
Cash and cash equivalents	–	–	–	86.7	315.7	0.5	(2.7)	400.2
Derivatives	–	–	–	2.0	–	1.5	–	3.5
Total invested assets (statutory)	47.6	998.8	292.7	936.8	315.7	2.0	(2.7)	2,590.9

The changes between 2013 and 2014 have been driven principally by a re-balancing of the portfolio following the commutation of the 2012 reinsurance contract (page 21).

INVESTMENT MANAGEMENT REVIEW

Our investments in specialised investment funds account for 41.7% of our invested assets and the investments within these funds are analysed in the tables on page 41. We use these fund structures as vehicles for investment as we believe they deliver a number of advantages:

- Group structure: Where a number of Group entities hold similar investments, it is significantly more efficient for these entities to invest via a fund structure, rather than having separate segregated mandates;
- Investment strategy: Where a Group entity wishes to make a small investment in a niche strategy or specialist manager a separate managed account would often not be viable. A fund structure facilitates such an investment;
- Operational complexity: Some of the investment strategies are complex. By investing through a fund that complexity is centralised within the fund and is the responsibility of the fund manager; and
- Admissibility: A fund structure simplifies the regulatory admissibility assessment, especially when the structure meets the requirement for 'undertakings for collective investment in transferable securities' (UCITS).

At 31 December 2014, cash and cash equivalents accounted for 12.4% of our invested assets. A detailed analysis of these holdings, together with an explanation as to why these assets are held, is set out below.

Credit quality

At 31 December 2014, 72.9% of our invested assets were investment grade quality (2013: 72.9%). An analysis of the credit quality of our invested assets is set out below:

Invested assets by rating

	2014 %	2013 %
AAA	**13.6**	17.9
AA	**9.3**	12.0
A	**41.2**	37.9
BBB	**1.6**	2.2
P-1 and P-2	**7.2**	2.9
Other	**27.1**	27.1
Total	**100.0**	100.0

Classification	Definition	**31 December 2014 £m**	31 December 2013 £m
Cash within segregated fund mandates	Short term investment funds, money market funds, treasury bills or cash held within segregated mandates	**58.8**	64.5
Lloyd's Trust Funds	Cash within the Lloyd's Overseas Deposits Trust Funds held to meet regulatory requirements	**31.8**	29.9
Self-managed cash	Highly liquid instruments held to meet on-going working capital requirements	**136.1**	189.5
Letter of cash credit collateral	Cash held as collateral for letters of credit	**60.6**	2.0
Derivatives operating cash	Cash within segregated accounts held to meet margin calls and to enable derivative positions to be rolled	**34.1**	29.8
Total		**321.4**	315.7

John Stratton
24 February 2015

EXTENDING DISTRIBUTION CAPABILITY

Latin America

A strategic expansion into Latin America was initiated through the hiring of an experienced underwriting team in Miami in June 2014. The office will focus on expanding Brit Global Specialty USA's successful US facultative property platform into the Latin American and Caribbean markets, in line with our strategy of growing efficiently and profitably into international markets. Latin America is a natural evolution of our international strategy and Miami is an increasingly important hub in the placement of Latin American business.

FINANCIAL POSITION, CAPITAL STRENGTH AND OPERATIONAL EFFICIENCY REVIEW

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

Andrew Baddeley
Chief Financial Officer

Financial position

At 31 December 2014 our adjusted net tangible assets totalled £775.4m or 194.0pps (2013: £661.2m/168.6pps), an increase of 17.3% in the year.

Summary consolidated statement of financial position

	2014 £m	2013 £m
Assets		
Intangible assets	**62.2**	62.7
Reinsurance contracts	**526.4**	450.0
Insurance and other receivables	**452.7**	380.9
Financial investments and cash	**2,581.2**	2,591.6
Investment related derivatives	**2.4**	2.0
Other assets	**182.7**	169.4
Total assets	**3,807.6**	3,656.6
Liabilities		
Deferred tax on intangible assets	**9.9**	12.9
Insurance contracts	**2,604.3**	2,593.9
Borrowings	**124.5**	123.2
Investment related derivatives	**1.3**	2.7
Other liabilities	**239.9**	212.9
Total liabilities	**2,979.9**	2,945.6
Net assets	**827.7**	711.0
Adjusted net tangible assets	**775.4**	661.2
Net assets per share (pence)	**207.1**	181.3
Adjusted net tangible assets per share (pence)	**194.0**	168.6

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 (£0.3m);
- Share transactions related gains (£1.8m);
- Share-based payment charges (£0.6m); and
- The interim dividend (£25.0m) paid in September 2014.

Our increase in GWP of 9.8%, which is explained further on page 50, has resulted in increases in both our 'reinsurance contracts' balance and our 'insurance and other receivables' balance. The growth in our 'reinsurance contracts' balance was also influenced by a one-off reinsurance contract explained on page 53.

Further analysis of our financial investments, cash and investment related derivatives are set out in the Investment Management Review on page 40.

Approximately half of our net assets 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 by currency

	2014 %	2013 %
Sterling	**9.4**	3.7
US dollar	**48.6**	56.2
Euro	**18.3**	12.6
Canadian dollar	**19.6**	18.4
Australian dollar	**4.1**	9.1
Total	**100.0**	100.0

Capital strength

At Brit we carry capital resources significantly in excess of our management capital requirements and seek to hold capital resources in a range of 120% to 140% of our requirement. We believe this is an appropriate level of capital for the business and provides management with:

- The flexibility to absorb major losses while still being in a position to take advantage of subsequent market dislocations;
- The ability to pursue opportunity-driven growth in our core business; and
- The support to provide continuity in regular dividend payments to shareholders.

As shown in the table below, our statement of financial position remains strong, with capital resources equivalent to 150.4% of requirements (2013: 141.0%). Following approval and payment of the recommended final ordinary and special dividends, the 31 December 2014 capital ratio will reduce to 136.0%.

Capital resources and requirements

	2014 £m	2013 £m
Adjusted net tangible assets	**775.4**	661.2
Subordinated debt	**124.5**	123.2
Letters of credit/contingent funding	**150.6**	125.0
Total available capital resources	**1,050.5**	909.4
Management entity capital requirements	**(698.6)**	(645.0)
Excess of resources over management entity capital requirements	**351.9**	264.4
Capital ratio	**150.4%**	141.0%

Total value created for shareholders in 2014 was £139.2m. We have recommended a final ordinary dividend of £50.1m (12.5pps) for 2014. As stated at the time of the IPO, in the event that our capital position is in excess of requirements and we do not need this for growth opportunities, we will return it to our shareholders. After allowing for an increase in our capital requirements for 2015, driven by the growth of our business and overall pressure on market conditions, the capital buffer remained above our target level of 140%. Therefore, we have also recommended a special dividend of £50.1m (12.5pps) taking total dividends paid or recommended since the IPO in April 2014 to £125.2m (31.25pps).

We remain committed to proactive capital and risk management. After allowing for these dividends, our excess of capital resources over management entity capital requirements of £251.7m, a capital ratio of 136.0%, remains at the high end of our target range of 120% to 140% and is still comfortably in excess of our maximum RDS event on a net basis of £113m.

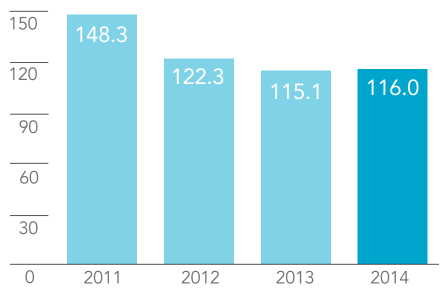
Operational advantage

We have repositioned our business around the Lloyd's platform because we believe that, as currently structured and operating, it represents the most efficient platform available from which to underwrite specialty business globally. It also means that we do not dissipate our capital by supporting separately regulated insurance entities in other jurisdictions. Through our Syndicate 2987, backed 100% by our own capital and benefiting from the Lloyd's rating, we can write most classes of business in over 200 countries, making use of the comprehensive set of licences that Lloyd's has secured.

The key metrics we use to demonstrate our operational advantage are our premium leverage of 1.9 times adjusted NTA which is a direct benefit of the Lloyd's only platform and asset leverage of 3.7 times adjusted NTA (post year end recommended dividends) due to our specialty insurance focus. This drives the efficiency of our business model, whereby

FINANCIAL POSITION, CAPITAL STRENGTH AND OPERATIONAL EFFICIENCY REVIEW

Underwriting expenses (£m)



1% of underwriting profit translates to 1.5 percentage points RoNTA and 1% return on invested assets translates to 3.7 percentage points of pre-tax RoNTA.

This highlights how Brit can continue to generate attractive mid to high teens RoNTA (even higher in years such as 2013 and 2014 with low natural catastrophe activity) while still maintaining very strong capital resources as demonstrated by the capital buffer.

Gearing

At 31 December 2014 our gearing ratio was 13.8% (2013: 21.9%). The reduction in the ratio reflects the collateralisation of the US$80.0m letter of credit in April 2014.

We have successfully renegotiated our revolving credit facility. The facility limit remains at £225.0m and has been extended by one year to 31 December 2018. Under our capital policy we have identified a maximum of US$235.0m (2013: £125.0m) of the facility to form part of our capital resources, with the balance available for liquidity funding. At 31 December 2014 a fully collateralised US$80.0m letter of credit was in place (31 December 2013: US$80.0m/uncollateralised) to support our underwriting activities. At 31 December 2014 and at 31 December 2013 no other drawings were outstanding on the facility.

In addition, we have in issue £135.0m of 6.625% Lower Tier Two subordinated debt with a carrying value of £124.5m (31 December 2013: £123.2m). 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.

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.

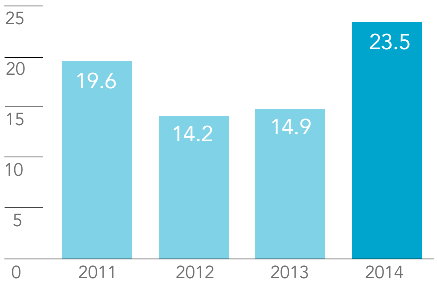
Our reserving policy is to reserve to a 'conservative best estimate' and carry an explicit risk margin above that 'conservative best estimate'. This policy has led to a track record of modest annual reserve releases. In 2014 this trend continued with net releases of £32.1m (2013: £57.3m). Maintaining 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.

Foreign exchange management

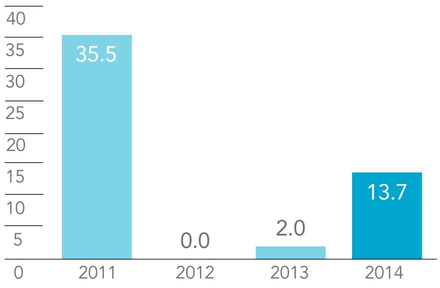
The reporting currency for the Group's consolidated financial statements is Sterling, which is also the functional currency for all of our material subsidiaries. Substantial portions of our revenues and expenses, and assets and liabilities are denominated in currencies other than Sterling. We are therefore exposed to fluctuations in the values of those currencies against Sterling and these fluctuations impact our reported operating results and our assets and liabilities.

We have sought to immunise our stakeholders from 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 Sterling, we import some exchange rate volatility into the income statement through the revaluation of our net

Corporate expenses General (£m)

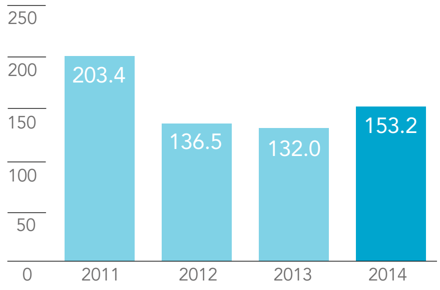


Corporate expenses Corporate activity costs (£m)



Total operating expenses (£m)

Continuing and discontinued operations



tangible assets. This income statement movement is, however, matching the movement in our capital requirement, so we are 'solvency matched', thereby protecting the position of our shareholders.

In the first half of 2014, Sterling strengthened against most of the other key currencies to which we had exposure. At 30 June 2014, the revaluation of our net tangible assets resulted in the foreign exchange losses we reported at that date. This strengthening was followed by a weakening in Sterling and a material strengthening of the US dollar against most other currencies. While these currency movements import volatility into the reported result, the movements are broadly matching the currency driven movement in the capital requirement thereby protecting our solvency position.

The regulatory environment

The conduct of insurance and reinsurance business is subject to significant and increasing legal and regulatory requirements. Any future legislative or regulatory changes in the EU (in particular, the UK and Gibraltar), the US, Bermuda and elsewhere may potentially affect our businesses.

Over the last six years, like our peers in the London market, we have been preparing for the planned introduction from 1 January 2016 of a risk-based prudential regime in the European Union known as 'Solvency II'. We have made significant investment to ensure we are prepared for Solvency II and our Syndicate is rated 'green' by Lloyd's for its Solvency II readiness.

Operating efficiency and cost control

Since 2011, we have focused on expense efficiency and we have significantly reduced our expense base as part of our transformation programme. We have disposed of our insurance company and have partnered with outsourcing specialist Infosys who provides much of our IT and operational support.

From a headcount of around 750 in 2010, we had by 2012 reduced the number of employees to 339, creating a lean and efficient back office where the focus is on scalability. At 31 December 2014 our headcount, excluding all non-executive directors, was 466, reflecting the Group's initiatives over the last two years such as targeted growth in our US operations and the acquisition of QBE's aviation book.

We have also made, and continue to make, selective investments in our operating platform. These investment actions have included the upgrade to our core IT infrastructure, underwriting systems and back office capability in the areas of risk, investments, claims handling, finance and performance reporting. This investment has enhanced our operational and management capability, enabling improved support of, and control over, our key revenue generating platforms of underwriting and investment management.

We look at three key metrics in this area.

- The ratio of front office staff to back office staff. In 2014, this ratio has improved from 149.7% to 159.8%;
- The premiums per head in all our operations. In London we think that it should be possible to achieve around £2.5m per person. In the US we believe that it is possible to target £1.5m per member of staff; and
- The operating expense ratio, seeking to achieve what we believe is a class leading 11% to 12% ratio. In 2014, we have maintained our operating ratio at 12.0% (2013: 12.0%).

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:

	2014 £m	2013 £m	2012 £m	2011 £m
Gross written premium	**1,302.1**	1,185.7	1,147.9	1,179.9
Net earned premium (Note 1)	**970.4**	947.7	942.8	1,003.6
Underwriting profit (Note 1)	**102.0**	138.4	63.7	20.0
Underwriting profit	**102.0**	138.4	63.7	20.0
Return on invested assets, net of fees	**75.7**	54.7	87.9	64.4
Corporate expenses	**(23.5)**	(14.9)	(14.2)	(18.9)
Finance costs	**(13.5)**	(15.0)	(14.6)	(16.7)
Other items	**0.5**	4.4	0.5	(0.3)
Profit on ordinary activities before tax, FX, negative goodwill write-off and corporate activity costs	**141.2**	167.6	123.3	48.5
FX movements	**21.6**	(58.2)	(27.4)	16.9
Write off of negative goodwill	**–**	–	–	51.9
Transaction costs (Note 2)	**(13.7)**	(2.0)	–	(35.5)
Profit on ordinary activities before tax	**149.1**	107.4	95.9	81.8
Tax	**(10.1)**	(6.5)	(5.2)	(0.3)
Discontinued operations	**–**	(1.4)	23.8	19.2
Profit for the year (after tax)	**139.0**	99.5	114.5	100.7
	Pence	Pence	Pence	Pence
Earnings per share (basic) (all business)	**34.8**	23.8	25.8	21.6
Earnings per share (basic) (continuing business)	**34.8**	24.1	20.4	17.5
Dividend per share	**31.25**	n/a	n/a	n/a

Note 1: Excluding the effects of foreign exchange on non-monetary items.
Note 2: The 2013 and 2014 costs relate to the April 2014 IPO; the 2011 costs relate to the acquisition by the Group of Brit Insurance Holdings B.V..

Group performance and total value added

We have delivered a strong performance in our first period as a re-listed Group. Underwriting return was healthy, benefiting from targeted premium growth, a low attritional loss ratio, an absence of large losses and favourable reserve development. This was supported by a very competitive investment return net of fees of 2.9%. Our result for the year also included costs incurred in relation to the IPO.

Profit before tax for the year was £149.1m (2013: £107.4m) and profit after tax was £139.0m (2013: £99.5m). Return on adjusted net tangible assets excluding the effects of FX on monetary items and IPO costs (RoNTA), decreased to 20.7% (2013: 24.2%). Basic EPS was 34.8 pence per share (pps) (2013: 24.1pps). Total value created for the year was £139.2m (2013: £91.3m).

Our adjusted net tangible assets increased to £775.4m or 194.0pps (2013: £661.2m/168.6pps), after payment in September of an interim dividend of £25.0m.

Dividends

The Board declared and paid an interim dividend of 6.25pps. The Board has also recommended a final ordinary dividend of 12.5pps and a special dividend of 12.5pps. Subject to AGM approval, both the final ordinary and special dividends will be paid on 30 April 2015 to shareholders on the register on 20 March 2015. The shares will go ex-dividend on 19 March 2015.

Performance measures

Our KPIs are set out on page 16. 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; Reserve release as a percentage of opening net claims reserves; and
- **Underwriting expense related:** Underwriting expense ratio; Commission ratio; Operating expense ratio.

These measures are linked to our strategic priorities and explained in the sections below.

Underwriting

Overview

Our underwriting profit for the year amounted to £102.0m (2013: £138.4m) and our combined ratio, which excludes the effect of foreign exchange on non-monetary items, was 89.5% (2013: 85.4%). The premiums, claims and expenses components of this result are examined below.

Premiums written

Premium growth	2014 £m	2013 £m	Growth %	Growth at constant FX rates %
Brit Global Specialty Direct	**1,056.8**	903.1	17.0	22.4
Brit Global Specialty Reinsurance	**245.3**	281.0	(12.7)	(8.1)
Other underwriting	**–**	1.6	(100.0)	(100.0)
Group	**1,302.1**	1,185.7	9.8	15.0

FINANCIAL PERFORMANCE REVIEW

Premiums by class	2014 £m	2013 £m
Brit Global Specialty Direct		
Short-tail direct		
Property	**282.2**	228.1
Energy	**82.4**	106.2
Marine	**119.6**	109.0
US specialty (BGSU)	**102.0**	67.0
Terrorism, political and aerospace	**69.4**	23.0
Accident and health	**61.6**	65.9
Short-tail direct total	**717.2**	599.2
Long-tail direct		
Casualty	**239.0**	233.1
Specialist liability	**100.2**	70.8
Long-tail direct total	**339.2**	303.9
Discontinued lines	**0.4**	–
Total direct	**1,056.8**	**903.1**
Brit Global Specialty Reinsurance		
Short-tail RI (property treaty)	**109.1**	136.9
Long-tail RI (casualty treaty)	**135.7**	141.4
Discontinued lines	**0.5**	2.7
Total reinsurance	**245.3**	281.0
Other underwriting	**–**	1.6
Group total	**1,302.1**	1,185.7

Gross written premium (GWP) in 2014 increased by 9.8% to £1,302.1m (2013: £1,185.7m). Direct business increased by 17.0% to £1,056.8m (2013: £903.1m), while reinsurance decreased by 12.7% to £245.3m (2013: £281.0m). At constant exchange rates the overall increase was 15.0% (2013: 2.1%).

The drivers of the 9.8% increase in Group GWP, which was in line with expectations, are set out in the chart below:

These drivers are explained further below:

- The Group's underwriting initiatives, launched in both 2013 and 2014 resulted in a £93.4m increase in GWP. The main contributors were aviation, Bermuda, high value homeowners, BGSU and political and credit.
- The Group's organic growth of £32.3m was driven by growth in classes experiencing favourable rate increases including the property binder book, specialist liability and marine. These growth areas were partly offset by premium reductions in classes experiencing falling rates including reinsurance and energy.
- The favourable development on prior years of £44.6m has resulted from a review of premium estimates, predominantly from our casualty book. This business was originally written in a stronger rating environment.
- These growth areas were offset by the impact of foreign exchange (£53.9m), which reflects the movements during 2014 of Sterling against a number of currencies in which the Group writes business including the US dollar.

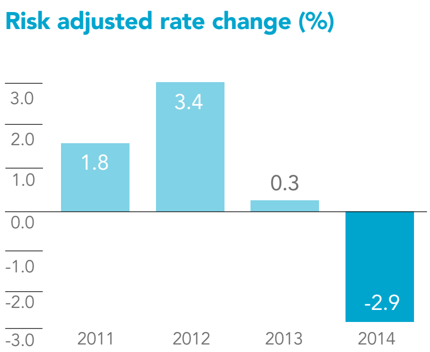
An increasing proportion of our GWP is US dollar-denominated, reflecting the expansion of our US operations. Our GWP analysed by currency is set out below.

Premiums by currency	**2014 %**	2013 %
Sterling (note 1)	**19.2**	21.9
US dollar	**69.6**	67.4
Euro	**6.5**	5.7
Canadian dollar	**4.7**	5.0
	100.0	100.0

Note 1: Includes incidental currencies

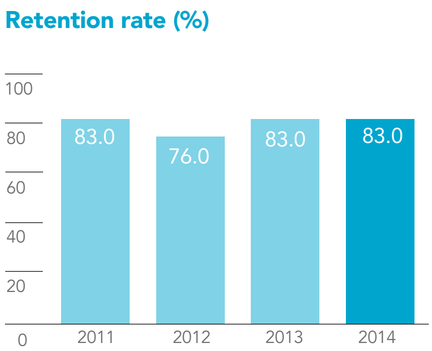
FINANCIAL PERFORMANCE REVIEW

Premium ratings

Strategic priority	Measure	Commentary	Track record
Profitable underwriting	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 decreased by 2.9% during 2014 (2013: increased by 0.3%). This reduction was strongly influenced by reinsurance business which experienced rate reductions of 7.4%, driven by a 10.6% rate reduction in property treaty. Rates for direct business fell by 1.6% in the period, with the principal movements being decreases in energy, the property open market book and casualty. These were partly offset by increases in specialist liability, marine and the property binder book.

Retention rates

Strategic priority	Measure	Commentary	Track record
Profitable underwriting	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 83.0% (2013: 83.0%). The retention rates we achieved in 2013 and 2014 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 2014 was £277.2m or 21.3% of GWP (2013: £229.4m/19.3%), an increase of £47.8m (20.8%). At constant exchange rates the overall increase was 26.3% (2013: 7.0%).

Included within our 2014 reinsurance expenditure was £42.9m 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. This contract has provided the Group with significantly greater certainty over a poorly performing legacy account. Under the terms of this contract, £40.3m of reserves transferred to the reinsurer, resulting in a net cost to the Group of £2.6m. An effect of this contract was to reduce our attritional ratio by 1.9 percentage points and increase our underwriting expense ratio by 1.7 percentage points. It did not materially impact our combined ratio.

During 2014, we also took advantage of reinsurance market conditions to strengthen significantly our catastrophe cover. These additional protections include a Group-wide property aggregate catastrophe cover and some additional variable quota share protections. As a result, the expected recoveries against a number of our realistic disaster scenarios (RDS) have increased, thereby reducing our net exposure to such events. Our largest net exposure under the Lloyd's-defined RDSs has fallen to £113m (2013: £149m).

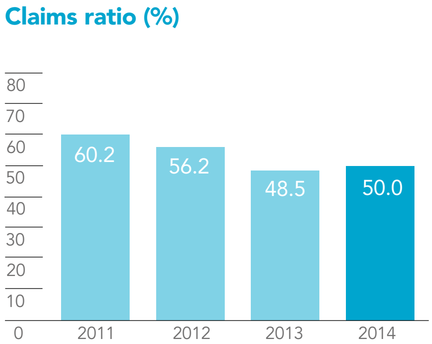
Net earned premium

Net earned premium in 2014, excluding the effects of foreign exchange on non-monetary items, increased by 2.4% to £970.4m (2013: £947.7m/0.5%). This growth was impacted by the £42.9m reinsurance premium paid in respect of the specific one-off reinsurance contract referred to in the outwards reinsurance section.

Direct business increased by 7.2% to £756.4m (2013: £705.7m/2.3%), while reinsurance decreased by 15.5% to £201.2m (2013: £238.1m/3.6%).

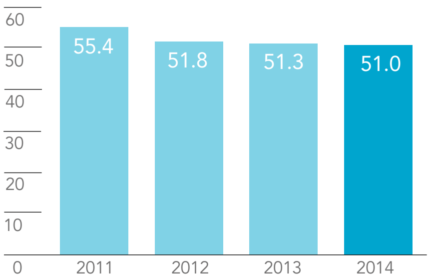
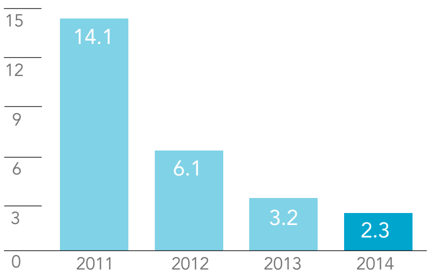
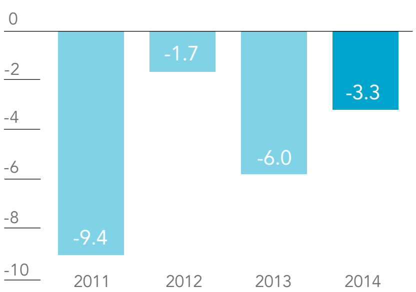
At constant exchange rates the overall increase was 7.4% (2013: decrease of 1.2%).

Claims

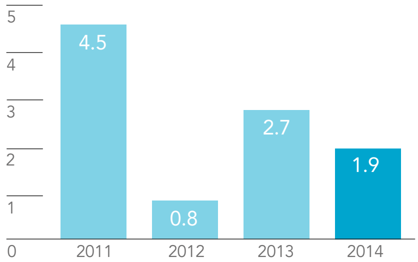
Strategic priority	Measure	Commentary	Track record
Profitable underwriting	Claims ratio	The claims ratio measures the performance of the whole underwriting book, encompassing risks written in the current year and in prior years.	

FINANCIAL PERFORMANCE REVIEW

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

Strategic priority	Measure	Commentary	Track record
Profitable underwriting	Attritional loss ratio	The attritional loss ratio measures the performance of the underlying underwriting book by measuring the effect of attritional claims. Brit has delivered a low 50% level of attritional loss ratio for three consecutive years providing clear track record, evidencing the turnaround in the underwriting performance of the business.	**Attritional loss ratio (%)** 
Profitable underwriting	Major claims ratio	The major claims ratio measures the effect of claims arising from major losses on our performance and the 2014 ratio reflects the low level of major loss activity during the year.	**Major claims ratio (%)** 
Profitable underwriting	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. The 2014 ratio reflects release of prior year claims reserves in line with our guidance.	**Reserve release ratio (%)** 

Strategic priority	Measure	Commentary	Track record
Profitable underwriting	Reserve releases, expressed as a percentage of opening claims reserves	This measure shows the percentage of opening reserves that are released to the income statement during the year.	**Reserve release – percentage of opening claims reserves (%)**



Our claims experience in 2014 was in line with expectations.

Our 51.0% attritional ratio has benefited by 1.9 percentage points from the one-off reinsurance contract as described above. This has offset deterioration arising from rating pressures and a change in business mix resulting from a reduction in short-tail reinsurance and an increase in lines such as specialist liability, the property binders book and marine.

2014 saw limited natural catastrophe activity, the only event being Hurricane Odile which resulted in incurred net losses of £8.8m.

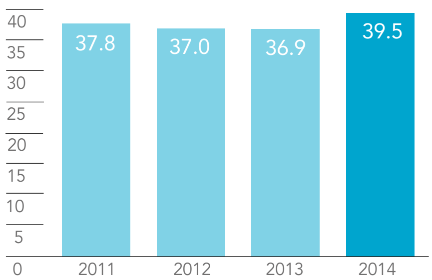
We had immaterial exposure to the losses of Malaysian Airlines' MH370 and MH17, the Korean ferry (SEWOL) and Air Asia, but we did incur net losses of £12.9m from the Tripoli airport attack.

As part of our quarterly reserving process, we released £32.1m of claims reserves established for prior year claims, the equivalent of a combined ratio reduction of 3.3% (2013: £57.3m/6.0%). Of this reserve release, 87.9% was derived from the 2011 and prior underwriting years (2013: 88.5% from the 2010 and prior underwriting years).The main drivers of this release were casualty treaty, property treaty and marine. Our statement of financial position remains strong and we continue to operate a robust reserving process.

Underwriting expenses

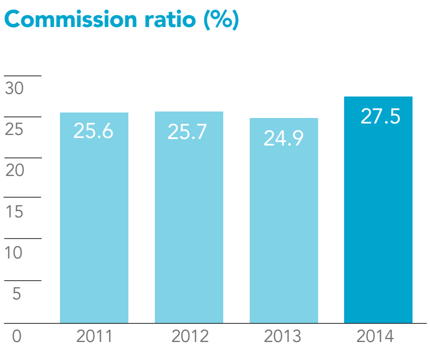
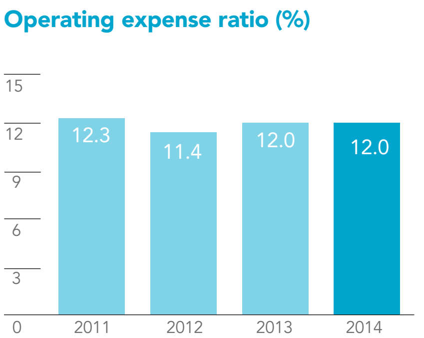
Our underwriting expense ratio was 39.5% (2013: 36.9%).

Strategic priority	Measure	Commentary	Track record
Profitable underwriting	Underwriting expense ratio	The underwriting expense ratio measures the cost we incur to acquire every £1 of premium. There are two key components to this – commission costs and operating expenses.	**Underwriting expense ratio (%)**



FINANCIAL PERFORMANCE REVIEW

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

Strategic priority	Measure	Commentary	Track record
Profitable underwriting	Commission ratio	The commission ratio measures our distribution costs and shows how much of every £1 of premium is paid to acquire our business.	
Profitable underwriting **Efficient, flexible and scalable operating platform**	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 £1 of premium we spend supporting our underwriting activities.	

As noted above, a one-off reinsurance contract added 1.7 percentage points to the 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 £269.9m and the commission expense ratio was 27.5% (2013: £235.8m/24.9%). 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 cover-holders as, in the current softening conditions, the rating of this business tends to be better than open market business.

Our operating expenses are analysed later in this report.

Underwriting – by business unit

Our underwriting performance, analysed by key business unit, is set out below:

	2014				2013			
	Brit Global Specialty Direct £m	Brit Global Specialty Reinsurance £m	Other underwriting and intra-Group £m	Total (note 1) £m	Brit Global Specialty Direct £m	Brit Global Specialty Reinsurance £m	Other underwriting and intra-Group £m	Total (note 1) £m
Gross written premium (£m)	**1,056.8**	**245.3**	**–**	**1,302.1**	903.1	281.0	1.6	1,185.7
Net earned premium (£m)	**756.4**	**201.2**	**12.8**	**970.4**	705.7	238.1	3.9	947.7
Underwriting profit (£m)	**30.5**	**66.7**	**4.8**	**102.0**	56.6	83.2	(1.0)	138.4
Claims ratio (%)	**53.5**	**37.2**	**43.0**	**50.0**	52.5	36.6	43.6	48.5
Underwriting expense ratio (%)	**42.5**	**29.6**	**19.5**	**39.5**	39.5	28.5	92.3	36.9
Combined ratio (%)	**96.0**	**66.8**	**62.5**	**89.5**	92.0	65.1	135.9	85.4
Rate change (%)	**(1.6)**	**(7.4)**	**–**	**(2.9)**	0.8	(0.9)	–	0.3

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

The performance and market position of Brit business units, together with relevant market developments, are discussed in the Underwriting Review section of this Strategic Report, commencing on page 26.

As explained above, an effect of a specific one-off reinsurance contract was to reduce our Group attritional ratio by 1.9 percentage points and increase the Group underwriting expense ratio by 1.7 percentage points. The effect of this contract on Brit Global Specialty Direct was to reduce its attritional ratio by 2.4 percentage points and increase its underwriting expense ratio by 2.3 percentage points. This contract had no effect on Brit Global Specialty Reinsurance.

Investment return

The return on our invested assets after deducting external fees was £75.7m or 2.9% (2013: £54.7m/2.1%). Our invested assets at 31 December 2014 amounted to £2,582.3m (2013: £2,590.9m). Overall duration at 31 December 2014 was 1.1 years (2013: 2.0 years) and the average credit quality was 'A' (2013: 'A').

Investment return	2014 £m	2013 £m
Income	**57.9**	57.5
Released gains	**12.7**	1.2
Unrealised gains	**5.6**	4.1
Investment return before fees	**76.2**	62.8
Investment management fees	**(6.1)**	(5.9)
Investment return net of fees	**70.1**	56.9
Investment related derivative return	**5.6**	(2.2)
Total return	**75.7**	54.7
Total return	**2.9%**	2.1%

FINANCIAL PERFORMANCE REVIEW

Our income producing assets performed well and we generated income of £57.9m during the year, representing a running yield of 2.2% (2013: £57.5m/2.2%). Our total return in 2014 of £75.7m (2013: £54.7m) was influenced by falling bond yields and a contraction in credit spreads across the US and European markets which led to gains on our fixed income and credit portfolios. Our growth assets showed gains as equity markets and alternatives rose.

Within our unrealised gains for the year there are £15.1m of gains made within fund investments (2013: £8.3m). Of these gains, £9.1m was distributed on scheduled distribution dates in January 2015 (January 2014: £nil), thereby converting unrealised gains into income.

Further discussion of our investment performance and portfolio is included in the Investment Management Review section of this Strategic Report, commencing on page 40.

Expenses

Our operating expense ratio was unchanged at 12.0% (2013: 12.0%) and includes 0.6 percentage points resulting from the one-off reinsurance contract mentioned above. Operating expenses for the period were as follows:

Expense analysis	2014 £m	2013 £m
Underlying operating expenses including bonus provisions	**138.0**	129.5
Project costs, timing differences and other expense adjustments	**1.5**	(0.7)
Expenses before IPO related costs	**139.5**	128.8
IPO related costs	**13.7**	2.0
Total operating expenses	**153.2**	130.8

Underlying operating expenses during 2014 increased by 6.6% to £138.0m (2013: £129.5m). This increase related to an increase in bonus costs, targeted expansion and investment in growth areas such as our US specialty business (BGSU) and aviation, together with increased costs reflecting the Company's listed status.

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

Disclosure of operating expenses	2014 £m	2013 £m
Acquisition costs	**58.7**	51.7
Other insurance related expenses	**57.3**	62.2
Total insurance related expenses	**116.0**	113.9
Other operating expenses	**37.2**	16.9
Total operating expenses	**153.2**	130.8

Foreign exchange

As explained on page 46, we manage our currency exposures to mitigate its impact on solvency rather than to achieve a short-term impact on earnings. We experienced a total foreign exchange gain of £21.6m in 2014 (2013: loss of £58.2m). This total foreign exchange related gain comprised:

- An unrealised revaluation loss of £0.4m (2013: loss of £65.4m), primarily relating to the mark to market of the capital we hold in non-Sterling currencies to match our risk exposures. The loss comprises a gain of £20.6m resulting from the weakening of Sterling against the US dollar, offset by losses of £21.0m resulting from the strengthening of Sterling against a number of other currencies, primarily the Euro, Australian dollar and the Canadian dollar;
- Gains of £1.7m (2013: gain of £13.2m) on derivative contracts which were entered into to help manage our FX exposures; and
- An accounting gain of £20.3m (2013: loss of £6.0m), as a result of the IFRS requirement to recognise non-monetary assets and liabilities at historic exchange rates.

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

Foreign exchange gains and (losses)	**2014 £m**	2013 £m
Net change in unearned premium provision – non-monetary FX effect	**9.3**	(2.2)
Acquisition costs – non-monetary FX effect	**(2.3)**	0.4
Net foreign exchange gains/(losses) – non-monetary (Note 1)	**13.3**	(4.2)
	20.3	(6.0)
Net foreign exchange (losses)/gains – monetary (Note 1)	**(0.4)**	(65.4)
Return on derivative contracts – FX related instruments	**1.7**	13.2
	1.3	(52.2)
Total gains/(losses)	**21.6**	(58.2)

Note 1: The sum of these two amounts, £12.9m (2013: £69.6m), is the 'Net foreign exchange gains/losses' figure per the consolidated income statement.

Tax

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. Our effective tax rate for the period was 6.8% (2013: 6.1%), which is a composite tax rate reflecting the mix of the tax rates charged in those jurisdictions.

Andrew Baddeley FCA, CTA
24 February 2015

RISK MANAGEMENT

2014 in focus

In 2014 the risk management team at Brit continued to operate an embedded risk management framework which was coordinated around all key initiatives undertaken during the year. Some of the key reviews performed included:

- New business initiatives such as the acquisition of the renewal rights of QBE's Lloyd's aviation portfolio;
- Commutation of a reinsurance contract relating to the restructuring of the Group in 2012 (see page 21);
- Optimisation of the outwards reinsurance programme; and
- Assessment of the hedging options to mitigate foreign exchange and interest rate risks.

These reviews included qualitative risk assessments, risk appetite and capital implications using our internal model which continued to be developed in 2014 to ensure that it meets both regulatory and business use requirements.

The quarterly 'own risk and solvency assessment' (ORSA) process continues to be used to communicate the risks across our Group and is seen as a valuable tool by management in understanding the risks that the Group faces.

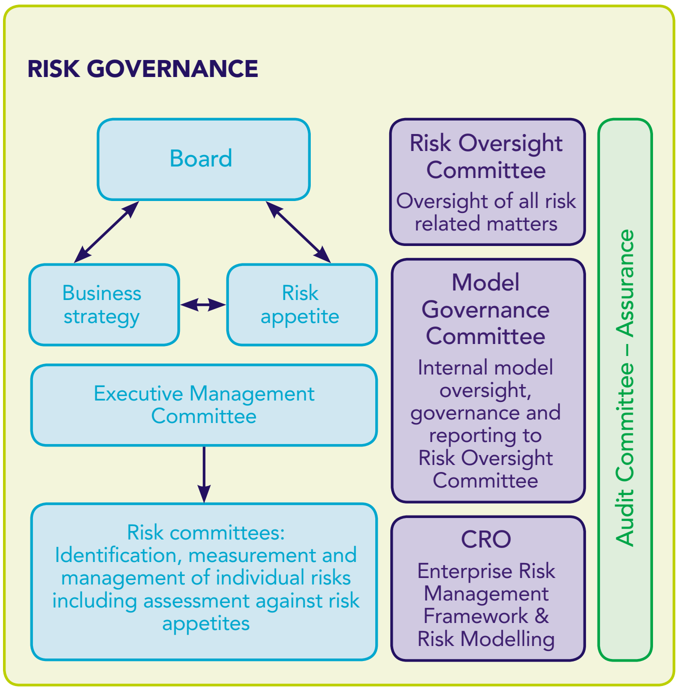
The risk management team has also been instrumental in the continued delivery of our Solvency II implementation. In particular, significant improvements were made around the internal model approval such as further enhancements in the modelling and validation to support the use of the model in our business. There has been an increased regulatory focus on Solvency II in 2014 and we have continued to make significant progress with the Syndicate, which is now close to full compliance, and in Gibraltar, where implementation is well under way. The risk management team played an instrumental role in continuing to build strong relationships with regulators and engaging in on-going communication as part of the regulatory review.

Risk Governance

The Board is responsible for overseeing our risk management and internal control systems, which management is responsible for implementing.

We maintain a strong risk governance framework using Risk Oversight Committees and Audit Committees consisting of independent Non-Executive Directors. The Risk Oversight Committees monitor and review the risk profile and the effectiveness of all risk management activities and, in particular, monitor adherence to agreed risk limits. Our internal audit function provides assurance to the Risk Oversight Committees, Audit Committees and Boards, while external audits are regularly used for independent assessments.

This governance structure is applicable at the Group and entity level and represents the three lines of defence operating at Brit. Within the first line of defence individual risk committees monitor day-to-day risk control activities.



The risk management function, as a second line of defence, provides oversight over business processes and sets out policies and procedures. The Audit Committee, as a third line of defence, provides independent assurance and monitors the effectiveness of the risk management processes.

Enterprise risk management framework

At Brit we deliver shareholder value by actively seeking and accepting risk within agreed limits. Our risk management policy highlights the importance of managing the impact of risk on the economic value of our Group. This is achieved by appropriately managing and controlling all risk exposures through the enterprise risk management framework (ERMF). This framework sets out a transparent process to identify, assess and manage risk and deploy risk appetite utilising an economic capital approach. This process enables us to protect policyholders and maximise shareholder value by ensuring the risk and capital implications of business strategy are well understood.

Under this framework the risk management team with the guidance of the Chief Risk Officer (CRO) ensures that our Group operates within the risk tolerance level approved by the Board. This includes the assessment of the new strategic initiatives and principal risks and uncertainties faced by the business as detailed below.

Our ERMF was designed to enable the Boards to set an appropriate risk strategy for the business and ensure that risk is managed throughout the organisation. The development of our ERMF ensures a strong culture of risk control and risk management continues to be embedded across our Group.

Risk appetite is set by the Board and cascaded throughout the organisation. We monitor the aggregation of risk across the business and have overarching limits in place to manage this. In addition to the overarching limits, the ERMF clearly identifies the key risk categories and risk tolerances set for each risk category.

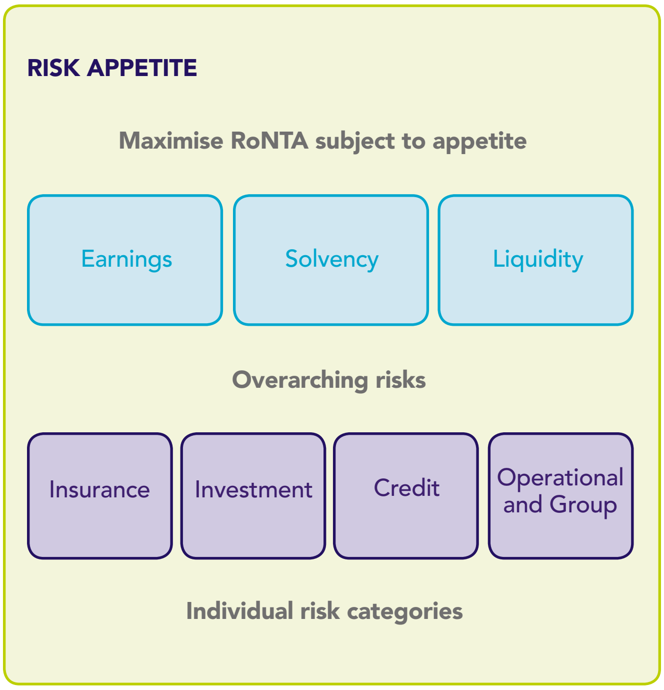
Principal risks and uncertainties

The Board monitors the key risks that the company is exposed to against its tolerance level through the quarterly ORSA. 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.

Insurance risk is the key driver of our Group capital requirements.



RISK MANAGEMENT

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		
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.	*Principal risk*	
	Underwriting – catastrophe	Premiums are insufficient to meet the long-term profitability as expected.	*Principal risk*	
	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).	*Principal risk*	
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.	*Principal risk*	
	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.	*Principal risk*	
	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:

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 to reduce impact on net underwriting result.	Risk adjusted rate change (2014: decrease of 2.9%; 2013: increase of 0.3%).	This risk is particularly relevant in the current softening rating environment. Active rebalancing of the portfolio is a key focus for management.

RISK MANAGEMENT

Principal risk	Mitigation tools	Metrics	Status
Underwriting – catastrophe			
A catastrophic event or catastrophic events could result in large insured losses that adversely impact our financial results and potentially our capital position.	• Diverse portfolio of risks written between lines of business and geographic location. • Regular monitoring against the Board catastrophe risk appetite by our exposure management team. • Effective outwards reinsurance programme in place, with particular emphasis on managing accumulation of risks. • Clear limits are set for key accumulations and conservative use of line size by our underwriters.	Largest realistic disaster scenarios (1 October 2014 estimated loss in £m): see table below	Our outwards reinsurance programme was revised in 2014 to enhance protection using aggregate worldwide cover for property.
Reserving			
Estimating insurance reserves is inherently uncertain and, if insufficient, may have a material adverse effect on our results and financial condition.	• Conservative best estimate reserving philosophy with track record of releases. • Actuarial team recommend reserves independently from underwriting division using established actuarial techniques. • Independent external review of reserving is performed annually.	Reserve release ratio (2014: 3.3%; 2013: 6.0%).	Reserves are held at a 'conservative best estimate' and we also carry an explicit risk margin. No change in approach from prior years. Commutation of a large reinsurance contract, relating to the restructuring of the Group in 2012.

Event	Gross	Net
Gulf of Mexico windstorm	449	110
Florida Miami windstorm	346	82
US North East windstorm	388	83
San Francisco earthquake	382	113
Japan earthquake	117	86
Japan windstorm	55	46
European windstorm	140	80

Principal risk	Mitigation tools	Metrics	Status
Investment risk			
Investments 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.	• Well diversified investment portfolio. • 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 (2014: 2.9%; 2013: 2.1%). Running yield (2014: 2.2%; 2013: 2.2%).	We have realigned our investment strategy and have transitioned to a broader mix of asset classes. The core focus of our investment portfolio is income-generating investments, balanced with growth assets across a wide range of sectors. This has produced a strong investment return in recent periods.
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. This could negatively affect our financial condition, results, or our ability to deliver our strategic priorities.	• Our remuneration strategy 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. • Share-based remuneration has been introduced since the listing of Brit PLC to align remuneration and the achievement of our long-term business goals. • Regular monitoring of employee turnover and morale through externally administered engagement survey.	Staff turnover (2014: 6.8%; 2013: 10.9%).	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, HUMAN RIGHTS AND ENVIRONMENTAL MATTERS

Introduction

In order to generate value for our investors, we recognise that our people, culture, social, community, human rights and environmental 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.

The responsibility to build a sustainable business means recognising and respecting the connections between customers, investors, business partners, the marketplace, the workplace, the environment and society at large. Sustainability means we 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 2014 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.

As part of this, over the past two years we have performed engagement surveys to help us understand how our employees view our company, the corporate environment and the behaviour of management. We had an extremely high participation in both of those surveys with 2014 participation at 89%, up 4% on last year.

The survey is a powerful tool which provides a significant amount of invaluable feedback on what we are doing well and where we have room for improvement. We take the feedback very seriously and make every effort to continuously improve our work environment and culture. This year we scored very well in most of the key measures or statements. For example our overall engagement score increased by 8%, and 77% of our employees who responded were extremely satisfied to work at Brit. Advocacy is an important measure for engagement and 86% of employees who responded would now recommend Brit as a great place to work, with 85% being proud to work here.

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 2014 senior managers (including the Executive Management Committee (EMC)) received 360 degree feedback to further develop self-awareness and leadership skills. 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.

We have attained Chartered Insurer status for Brit Syndicates Limited 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.

In 2014 we continued to focus on our employees' work/life balance. Initiatives to support this include increasing the standard annual holiday allowance from 25 to 27 days and giving employees the option of purchasing additional holiday. We also enhanced our maternity and paternity packages, introduced dental cover for UK-based employees and ran a series of healthcare presentations.

At the beginning of 2014 we established a social committee. This cross-functional group organised 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 2014 staff turnover rate excluding retirements and redundancies was 6.8% (2013: 10.9%).

At 31 December 2014, 33.9% (2013: 36.8%) of staff had completed at least five years of service and 11.6% (2013: 12.1%) had served at least ten years.

Employee gender diversity

We consider Brit an equal opportunities employer with policies and procedures that are free from discrimination in relation to all employment matters. Our equal opportunities policy aims to ensure that no employee, or potential employee, receives less favourable treatment because of his or her gender (including gender reassignment). The gender diversity of our employees at 31 December, including non-executive directors of all Group companies, is detailed in the table below.

Social, community and human rights

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 2014 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.

Gender diversity of our employees

	2014			2013		
At 31 December	**Male**	**Female**	**Total**	Male	Female	Total
Non-executive Directors of the Company (note 1)	**9**	**–**	**9**	3	1	4
Executive Directors of the Company (note 1)	**1**	**–**	**1**	–	–	–
	10	**–**	**10**	3	1	4
Employees in other senior executive positions (note 2)	**7**	**1**	**8**	8	1	9
Non-executive directors of subsidiary companies not included in above	**11**	**2**	**13**	21	2	23
Other directors of subsidiary companies not included in above	**8**	**–**	**8**	9	–	9
Employees in other management positions (note 3)	**100**	**33**	**133**	89	28	117
	126	**36**	**162**	127	31	158
Other employees	**188**	**128**	**316**	160	118	278
Total	**324**	**164**	**488**	290	150	440

Note 1: For 2014 'the Company' refers to Brit PLC; for 2013 'the Company' refers to Brit PLC's predecessor company, Achilles Holdings 1 S.à r.l.
Note 2: Senior executives are defined as members of the Executive Management Committee who are not Directors of the Company.
Note 3: Employees in other management positions are defined as those who have employees reporting directly to them.

OUR PEOPLE, CULTURE, SOCIAL, COMMUNITY, HUMAN RIGHTS AND ENVIRONMENTAL MATTERS

We support and operate our business in accordance with the Universal Declaration of Human Rights and take account of other internationally recognised and accepted human rights standards. This support is expressed through a number of our Group policies.

Distributors, partners and suppliers

We distribute our products through a carefully selected group of brokers and intermediaries. We also outsource some of our claims handling operations. These relationships are managed by each of the underwriting business units to ensure that development and performance objectives are met. This approach helps to ensure that the needs of the ultimate customer are consistently met, enabling us to achieve sustainable and profitable growth.

Our procurement team seeks to establish professional third party agreements that recognise and value the contribution made by our suppliers. Our procurement team is also involved in all major purchasing and contract decisions to ensure positive supplier relationship management throughout the life of the contract. We seek to pay all valid supplier invoices in a timely manner.

Environmental responsibility

During 2014 we recycled 26.0 tonnes of paper waste (2013: 30.0 tonnes). We sent approximately 158.3 tonnes of general waste to energy recycling (2013: 72 tonnes), recycled 8.2 tonnes of glass (2013: 3.6 tonnes), 25.8 tonnes of cardboard (2013: 20.4 tonnes) and 3.3 tonnes of food waste (2013: 2.4 tonnes). In 2014, in conjunction with our building managers, we continued to work hard to eliminate the waste sent to landfill.

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.

During 2014 we have made significantly greater use of the video conference facilities resulting in 455 tonnes of travel carbon avoided and on average 423 travel man hours avoided each month. Following the installation of LED lighting, longer-lasting and more efficient bulbs together with motion sensors in the 2012 refurbishment of our London office, our electricity consumption has reduced by 9%.

We measure and monitor our carbon footprint. In 2014 our carbon emissions per employee reduced by 12.7% to 4.1 tonnes (2013: 4.7 tonnes). This reduction was driven by both increased employees and a reduced carbon footprint. The sources of these emissions were as follows:

Emission source	2014 CO_2 (tonnes)	2013 CO_2 (tonnes)
Gas	**5**	1
Electricity	**994**	1,089
Business air travel	**887**	848
Business travel other	**4**	2
Total carbon footprint	**1,890**	1,940
Number of employees at 31 December excluding all non-executive directors	**466**	413
Carbon footprint per employee	**4.1**	4.7

CONTENTS

GOVERNANCE

This section explains how the composition and organisation of the entity's governance structures supports the achievement of the entity's objectives. It also outlines how our Board and Board Committees operate and perform.

This section sets out our Directors' remuneration policy. It also sets out amounts awarded to Directors and provides details on the link between the Group's performance and Directors' remuneration.

GOVERNANCE

Board of Directors
This section introduces our Directors and sets out their roles at Brit, their background and areas of expertise.

Corporate Governance Report
This report, introduced by the Group Chairman, explains our governance framework, including the role and effectiveness of the Board. It also explains our compliance with the Corporate Governance Code.

Nomination Committee Report
This report explains the role of the Committee and explains its activities during the year. It comments on Board diversity, Board recruitment and Board evaluation.

Audit Committee Report
This report highlights areas that the Committee has reviewed during the year and reports back to shareholders the significant financial reporting issues arising and judgements made in connection with the preparation of the Company's Financial Statements. It also explains how the Committee has assisted the Board in reviewing the Company's internal control environment, how it has provided assurance to the Board that the Annual Report presents a fair, balanced and understandable view of the business and how it has assisted the Board in assessing the Company's longer-term prospects. It also explains what the Committee has done to review the effectiveness of both internal and external audits.

Risk Oversight Committee Report
This report explains the role of the Committee and explains its activities during the year. It comments on our risk management framework, the progress made towards implementation of Solvency II, the development of our internal model, emerging risks and the role it plays in challenging the management team across all areas of the business.

Underwriting Committee Report
This report explains the role of the Committee and explains its activities during the year. It discusses how the Committee monitors underwriting performance, reviews underwriting plans and assesses new products.

Investment Committee Report
This report explains the role of the Committee and explains its activities during the year. It specifically comments on the Committee's role in monitoring investment strategy, performance, investment risk management and asset liability management. It also comments on the Committee's interaction with external investment managers.

Remuneration Report
This report sets out the principles and policy we apply to remuneration for our executive Director and to explain how we have applied these in 2014. The report demonstrates how our remuneration policy is aligned to our strategic priorities by supporting the retention of the executive Director and rewarding him for outperformance.

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 and longer-term prospects.

BOARD OF DIRECTORS

DR RICHARD WARD
CHAIRMAN

Brit PLC
Appointed: 27/03/2014

Brit Insurance Holdings B.V.
Appointed: 14/02/2014
Resigned: 03/09/2014

Board and committee membership
Brit PLC Board (Chairman), Brit Syndicates Limited Board (Chairman), Nomination Committee (Chairman), Remuneration Committee

Skills and experience
Richard has more than 20 years' experience in financial services and regulated businesses. He served as chief executive of Lloyd's from April 2006 to December 2013. Previously, he was CEO at the International Petroleum Exchange (IPE, a global energy market place for risk management and a recognised investment exchange regulated by the PRA and FCA), rebranded ICE Futures from 1999 to October 2005 and vice-chairman from October 2005 until April 2006. Prior to this, he held a range of senior positions at BP, after pursuing a scientific career with the Science & Engineering Research Council (SERC).

External appointments
Executive chairman, Cunningham Lindsey Group Ltd; non–executive director, Partnership Assurance Group plc; Member, PRA Practitioners' Panel, Bank of England; Member, PwC Advisory Board.

MARK CLOUTIER
CHIEF EXECUTIVE OFFICER

Brit PLC
Appointed: 27/03/2014

Brit Insurance Holdings B.V.
Appointed: 27/10/2011
Resigned: 13/08/2014

Board and committee membership
Brit PLC Board, Brit Syndicates Limited Board, UK Investment Committee, PLC Underwriting Committee

Skills and experience
Mark has over 35 years of experience working in the international insurance and reinsurance sector. Since beginning his career in both management and technical roles with the Insurance Corporation of British Columbia, he has held a number of CEO and senior executive positions in both publicly owned and private companies, including CEO of the Alea Group, CEO of Overseas Partners Re and President of E.W. Blanch Insurance Services Inc. He has worked with a variety of private equity investors including Kohlberg Kravis Roberts (KKR) and Fortress.

External appointments
Member of the Lloyd's Franchise Board

WILLEM STEVENS
INDEPENDENT NON-EXECUTIVE DIRECTOR

Brit PLC
Appointed: 27/03/2014

Brit Insurance Holdings B.V.
Appointed: 21/12/2009
Resigned: 03/09/2014

Board and committee membership
Brit PLC Board

Skills and experience
Willem is an independent counsel on legal, tax and corporate governance issues. He is a former senior partner of Baker & McKenzie in Amsterdam.

External appointments
Willem is a member of the supervisory board of AZL N.V., Stichting Exploitatie Nederlandse Staatsloterij and Stichting Holland Casino. He is vice-chairman of the supervisory council of Stichting Diabetes Onderzoek Nederland, a managing director of Michelin Finance B.V., chairman of Stichting VEROZ (to promote entrepreneurship in healthcare) and of the Voting Foundation of Sequoia Healthcare. He is a governor on the board of the Harvard Law School Association of Europe. He has been a senator in the Netherlands parliament for 12 years.

IPE JACOB
SENIOR INDEPENDENT NON-EXECUTIVE DIRECTOR

Brit PLC
Appointed: 27/03/2014

Brit Insurance Holdings B.V.
Appointed: 27/09/2012
Resigned: 20/08/2014

Board and committee membership
Brit PLC Board, PLC Investment Committee, PLC Audit Committee (Chairman), PLC Risk Oversight Committee (Chairman)

Brit Syndicates Limited Board

Brit Insurance Holdings Limited: UK Audit Committee (Chairman), UK Risk Oversight Committee

Brit Insurance (Gibraltar) PCC Limited: BIG Audit Committee (Chairman), BIG Risk Oversight Committee (Chairman)

Skills and experience
Ipe is a Fellow of the Institute of Chartered Accountants in England and Wales and has served on its review committee for six years. He has held various management positions, including setting up Grant Thornton's Financial Services Group. During his career as a partner of Grant Thornton and predecessor firms, he has specialised in reorganisation and restructuring assignments in the financial services sector, particularly insurance and banking. Until March 2014, Ipe was a non-executive director and chairman of the audit and risk committee of Age UK Enterprises Limited.

External appointments
Non-executive director of City International Insurance Company Limited, Octagon Insurance Company Limited and Service Insurance Company Limited.

HANS-PETER GERHARDT
INDEPENDENT NON-EXECUTIVE DIRECTOR

Brit PLC
Appointed: 27/03/2014

Brit Insurance Holdings B.V.
Appointed: 23/05/2011
Resigned: 17/09/2014

Board and committee membership
Brit PLC Board, PLC Underwriting Committee (Chairman), Remuneration Committee (Chairman)

Skills and experience
Hans-Peter has more than 30 years of extensive experience in the reinsurance sector in a range of senior roles with major global reinsurance companies. He started his reinsurance career at Hannover Re, where he spent seven years underwriting treaty business for the US and South African markets. From 1988 to 2003 he held both underwriting and management functions for Cologne Re Group which merged into General Cologne Re where he served as vice-chairman of the management board of Cologne Re as well as a member of the General Re group's executive committee. During this period, Hans-Peter was also chairman of Faraday, General Cologne Re's London operations and Europa Re. In 2003 he then joined the AXA Group as chief executive officer of AXA Re and in addition served as chairman of AXA Liabilities Managers (run-off operations). His last executive position was as chief executive officer of Paris Re, which he created in 2006 with the support of private equity investors to acquire the business and management team of AXA Re. Paris Re was acquired by Partner Re in 2009 and he stepped down in June 2010 after the completion of the merger.

External appointments
Non-executive director of Asia Capital Re and of African Risk Capacity Reinsurance Co. of Bermuda

MAARTEN HULSHOFF
INDEPENDENT NON-EXECUTIVE DIRECTOR

Brit PLC
Appointed: 27/03/2014

Brit Insurance Holdings B.V.
Appointed: 17/12/2010
Resigned: 03/09/2014

Board and committee membership
Brit PLC Board, PLC Audit Committee, PLC Risk Oversight Committee, PLC Investment Committee (Chairman)

Skills and experience
Maarten holds a master's degree in economics from the Erasmus University of Rotterdam in the Netherlands. He has held various management positions with Citigroup in Europe and Asia and has been chairman of the managing board of NCM (renamed Atradius), chief executive officer of Rabobank International and chairman of the management board of Rodamco Europe (merged into Unibail-Rodamco).

External appointments
Director of Damen Shipyards Group, HB Reavis and HB Reavis foundation board, Goedland, Westplan Investments

SACHIN KHAJURIA
NON-EXECUTIVE DIRECTOR

Brit PLC
Appointed: 03/03/2014

Brit Insurance Holdings B.V.
Appointed: 09/03/2011
Resigned: 09/09/2014

Board and committee membership
Brit PLC Board, PLC Audit Committee, PLC Risk Oversight Committee, PLC Underwriting Committee

Skills and experience
Sachin is a partner at Apollo. In 2011 he led the execution of the acquisition of Brit Insurance for Apollo. Post-acquisition, he has managed Apollo's investment in Brit and has been heavily involved in strategy, business planning, financings and the 2014 IPO. He has focused on specialty insurance companies for the past six years and has 18 years of experience in private equity and distressed debt across sectors and geographies. He graduated with honours from the University of Cambridge with BA and MA degrees in economics and is a member of Trinity College Cambridge.

GERNOT LOHR
NON-EXECUTIVE DIRECTOR

Brit PLC
Appointed: 27/03/2014

Brit Insurance Holdings B.V.
Appointed: 09/03/2011
Resigned: 23/09/2014

Board and committee membership
Brit PLC Board, Nomination Committee, Remuneration Committee, PLC Investment Committee

Skills and experience
Gernot joined Apollo in 2007 after having been a founding partner at Infinity Point LLC, Apollo's joint venture partner for the financial services industry since 2005. Before that time he spent eight years in financial services investment banking at Goldman Sachs & Co in New York. He also worked at McKinsey & Company and B. Metzler Corporate Finance in Frankfurt. He graduated from the University of Karlsruhe, Germany, with a joint master's degree in economics and engineering and holds an MBA from the MIT Sloan School of Management.

External appointments
Director at Athene Holdings, Catalina, BKB Bank and AP Alternative Assets

KAMIL SALAME
NON-EXECUTIVE DIRECTOR

Brit PLC
Appointed: 03/03/2014

Brit Insurance Holdings B.V.
Appointed: 09/03/2011
Resigned: 27/08/2014

Board and committee membership
Brit PLC Board, PLC Audit Committee, PLC Risk Oversight Committee, PLC Investment Committee, PLC Underwriting Committee

Skills and experience
Kamil has nearly 25 years of experience in private equity and banking and has led a number of large investments in the insurance and reinsurance sectors over the past 15 years. Currently, he serves as a partner of CVC and US Head of CVC's Financial Services Group and was previously a partner and member of the Management Committee at DLJ Merchant Banking (Credit Suisse) where he led their financial services investment effort. In the insurance and reinsurance sector, among other positions, he was a founding investor and director of Aspen from its formation in 2002 until 2007, and a founding investor and director of Montpelier Re from its formation in 2001 to 2006. He has served on the audit, risk oversight, investment and compensation committees of various private and public insurance companies.

External appointments
Director at Avolon Aerospace Limited, Cunningham Lindsey Group Ltd and CL Holdings Ltd

JONATHAN FEUER
NON-EXECUTIVE DIRECTOR

Brit PLC
Appointed: 27/03/2014

Brit Insurance Holdings B.V.
Appointed: 09/03/2011
Resigned: 19/08/2014

Board and committee membership
Brit PLC Board, Remuneration Committee, Nomination Committee

Skills and experience
Jonathan is a managing partner of CVC Capital Partners, the global private equity group, having joined them in 1988. In November 2014 he was appointed co-head of CVC's Strategic Opportunities investment platform. Prior to this role he founded and ran CVC's Global Financial Institutions Group that has invested in eight financial services companies during the last five years. These investments, besides Brit, have included a global aircraft lessor, a full service bank in the Philippines, a global online payment services provider and a global insurance loss adjustor. During his 26 years at CVC he has represented CVC on many public and private boards and their committees. Prior to CVC he worked for Baring Brothers & Co. Ltd in London in the corporate finance department and Ernst & Whinney in London where he qualified as a chartered accountant. He holds an MSc degree in mathematics, operational research, statistics and economics from the University of Warwick.

External appointments
Director of CVC Capital Partners SICAV – FIS S.A. and CL Holdings Limited

CORPORATE GOVERNANCE REPORT

CHAIRMAN'S OVERVIEW

Dear shareholder

On behalf of the Board, I am pleased to introduce the first Corporate Governance Report of the Company. It has been a significant year for the Company coming to the market via its IPO in April 2014. The report covers the period from 2 April 2014 when the Company was admitted to the official list, through to the end of the financial year.

As a Board we are committed to high standards of corporate governance and to maintaining a strong framework for the control and management of the business. The Group's insurance business is regulated by the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA). Accordingly, many of the corporate governance structures required of a public company were already well established within the Group at the time of the IPO.

The Board takes seriously its commitment to corporate governance, as laid down in the UK Corporate Governance Code (the Code), but we are mindful that there are two major shareholders, Apollo and CVC, who own 39.7% and 33.6% of the Company respectively.

The Board has recognised that the Company is not fully compliant with all the provisions of the Code, as further discussed on page 73 (Compliance with the Code) but the Board was mindful that the views of both Apollo and CVC needed to be taken into consideration when drawing up the Company's own governance plans that were discussed in detail by the Board at the time of the IPO.

Over time we expect the Company to undergo a change in its ownership structure and, as the position evolves, the Board will keep its governance codes under review with the intention of becoming fully compliant with the Code.

Details of the activities of the Board and its committees are set out on page 73.

Dr Richard Ward
Chairman

24 February 2015

COMPLIANCE WITH THE CODE

The Financial Conduct Authority requires listed companies to disclose whether they have complied with the provisions of the Code throughout the year.

Other than as set out in the following two paragraphs, from admission the Company has complied with the requirements of the Code, which sets out standards of good practice in relation to board leadership and effectiveness, remuneration, accountability and relations with shareholders.

The Code recommends, in the case of a FTSE 350 company, that at least half of the board of directors (excluding the chairman) should comprise 'Independent' non-executive directors, being individuals determined by the board to be independent in character and judgement and free from relationships or circumstances which may affect, or could appear to affect, their objectivity. From admission, the Company did not comply with this aspect of the Code, because out of its nine Directors (being the Board excluding the Chairman), only four non-executive Directors are deemed by the Board to be independent. The Board expects this position to change over time either by virtue of new appointments or if the major shareholders sell down their interests below the prevailing thresholds.

The PLC Audit, Remuneration and Nomination Committees were not fully compliant with the Code due to the number of shareholder representative non-executive Directors who are members of these committees. The Board have noted that both Apollo and CVC, as joint shareholders of the Company prior to its IPO, were responsible in helping the Company's restructuring and return to sustained profitability that ultimately led to the Company's successful return to the London Stock Exchange in April 2014. The Board believes that the shareholder representative Directors continue to add value to the Company and the deliberations of the Board and that, while they continue as shareholders of the Company, they should be represented on the Board and its committees.

BOARD OF DIRECTORS

Introduction

The Board of Directors currently comprises ten Directors; a non-executive Chairman, one executive Director, four independent non–executive Directors and four shareholder representative Directors. All of the Directors were appointed to the Board prior to the Company's IPO and had all previously been board members of one of the Group's intermediate holding companies, Brit Insurance Holdings B.V., a company incorporated in the Netherlands. The Board meet on a regular basis and meetings include a private session with only the Chairman and the non-executive Directors present.

The biography of each Director is set out on pages 70 and 71.

Independence of Directors

The Board considers that Ipe Jacob, Hans-Peter Gerhardt, Maarten Hulshoff and Willem Stevens are independent non-executive Directors of the Company, within the meaning of the Code. None of the independent non-executive Directors has any executive or other role or relationship with the Company or management that would affect their objectivity and all have proven to be independent in character and judgement.

On an annual basis, each Board member receives for completion a questionnaire to determine factors that may affect independence according to best practice statements laid out in the Code. The responses to the questionnaires assist the Board in ascertaining whether a Director is independent in character and judgement and whether there are any relationships or circumstances, which are likely to affect, or could appear to affect, the Director's judgement.

The independent non-executive Directors bring a wide range of experience and expertise both in the insurance and financial services industries. The independent non-executive Directors are encouraged to challenge management and help develop proposals on strategy.

Ipe Jacob also serves as an independent non-executive director on the board of Brit Syndicates Limited and as chairman of the BIG and UK audit committees. Mr Jacob is also chairman 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 chairman of BSL. The contributions of both the Chairman and Ipe Jacob at these regulated insurance companies are of significant benefit to the Group.

The Board considers that Jonathan Feuer, Sachin Khajuria, Gernot Lohr and Kamil Salame are not independent non-executive Directors as a consequence of their being representative Directors of the major shareholders.

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 Chief Executive Officer

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

Senior independent non-executive Director

The Board has appointed Ipe Jacob as the senior independent non-executive Director of the Company. The role of the senior independent non-executive Director is to provide a conduit through which shareholders can express concerns where contact through normal channels of the Chairman and of the Chief Executive Officer may not have been appropriate or failed to resolve any of those concerns. The senior independent Director was also responsible for carrying out the evaluation of the role of the Chairman during the year.

CORPORATE GOVERNANCE REPORT

Non-executive Directors
The non-executive Directors are encouraged to challenge management, provide insight and help develop proposals on strategy.

Major shareholders' rights of appointment to the Board and committees

Apollo
For as long as AP Achilles Holdings (EH-1), LLC (the principal Apollo shareholder) and AP Helios Co-Invest L.P. and AP Selene Co-Invest L.P. (the latter two being the Apollo syndication vehicles) hold in aggregate more than10% of the Company's aggregate voting rights, the principal Apollo shareholder shall have the right to nominate two persons as Directors (the Apollo representative Directors) to the Board. Should the aggregate shareholding of the principal shareholder and the Apollo syndication vehicles fall below 10% but be greater than 5%, then the principal Apollo shareholder shall have the right to nominate one person to the Board as an Apollo representative Director. Should the aggregate shareholding of the principal Apollo shareholder and the Apollo syndication vehicles fall below 5% the principal Apollo shareholder will no longer have the right to nominate an Apollo representative Director to the Board. The principal Apollo shareholder and the Apollo syndication vehicles currently hold in aggregate, 39.7% of the aggregate voting rights in the Company.

The principal Apollo shareholder has nominated Gernot Lohr and Sachin Khajuria to serve on the Board as the Apollo representative Directors.

Furthermore, for as long as the principal Apollo shareholder has the right to nominate at least one Director to the Board, it shall have the right to nominate one Apollo representative Director to be a member of all standing committees of the Company.

CVC
For as long as CVC holds (directly or indirectly) more than 10% of the Company's aggregate voting rights, the CVC European Equity V Funds shall have the right to nominate two persons as Directors (the CVC representative Directors) to the Board. Should CVC's shareholding fall below 10% but be greater than 5%, then the CVC European Equity V Funds shall have the right to nominate one person as a Director to the Board. Should CVC's shareholding fall below 5% they will no longer have the right to nominate Directors to the Board. CVC currently holds 33.6% of the aggregate voting rights in the Company.

The CVC European Equity V Funds have nominated Jonathan Feuer and Kamil Salame to serve on the Board as the CVC representative Directors.

Furthermore, for as long as the CVC European Equity V Funds have the right to nominate at least one Director to the Board, they shall have the right to nominate one CVC representative Director to be a member of all standing committees of the Company.

Company Secretary
All the Directors have access to the services of the Company Secretary. The appointment and the removal of the Company Secretary is a matter for the Board as a whole under the direction of the Chairman. The Company Secretary is responsible for:

- Ensuring good information flows within the Board, its Committees and between senior management and non-executive Directors;
- Facilitating the induction programme for non-executive Directors of the Company and assisting with professional development;
- Advising the Board or a committee of the Board on corporate governance matters; and
- Ensuring that Board procedures are complied with.

Independent advice
After consulting with the Chairman, acting individually or jointly and at the Company's expense, all Directors are authorised to obtain external legal or professional advice on any matter, where they judge such advice necessary to discharge their responsibilities as Directors.

Directors' reappointment
In accordance with Code provision B7.2. all executive and non-executive Directors will retire and offer themselves for reappointment at the 2015 annual general meeting of the Company.

Information provided to the Directors
Each Director is provided with tailored packs for all Board or committee meetings which they are required to attend. Board packs are delivered at least one week prior to each meeting. The Company has adopted an electronic system whereby Directors' packs are accessible and available via a secure online tool. Directors regularly receive information between Board meetings, including the monthly management information pack. Where a Director was unable to attend a meeting, they were provided with all the papers and information relating to that meeting and were able to discuss issues arising directly with the Chairman.

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 Company's Articles of Association contain provisions that allow the Directors to authorise situations of potential conflicts of interest, so that a Director is not in breach of his duty under company law. 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.

During the year the Chairman was appointed as the executive chairman of Cunningham Lindsey Group, an insurance services provider. Prior to his appointment, the Board concluded that he would remain able to devote sufficient time and commitment to his role with the Company, whilst serving as executive chairman of Cunningham Lindsey Group and that no conflict arose from this position. The Board still considers that to be the case.

Directors' and officers' insurance and indemnity
The Company maintains a Directors' and Officers' liability insurance policy which meets defence costs on behalf of a Director and Officer, when they are found not to have acted fraudulently.

The Company's Articles of Association allow the Company to indemnify the Directors to the extent applicable under law and Deeds of Indemnity have been entered into with all members of the Board.

Board evaluation and induction

During the year an evaluation was carried out of the Board, its committees and the individual Directors. You can find details about this in the Nomination Committee Report on page 78.

THE BOARD – LEADERSHIP

The Board is responsible for leading and controlling the Group and has overall authority for the management and conduct of the business and the Group's strategy and development. The Board is also responsible for ensuring the maintenance of a sound system of internal control and risk management (including financial, operational and compliance controls, and for reviewing the overall effectiveness of systems in place) and for the approval of any changes to the capital, corporate and/or management structure of the Group.

2014 activities

Area	Comment
2014 strategic and operational objectives	The Board reviewed the performance of the Company against its strategy and reviewed in detail the strategic direction of the business.
Acquisition of QBE aviation business	The Board discussed and approved the acquisition of the Lloyd's aviation team from QBE.
Group restructure	The Board approved a restructure of the Group's entities and funding.
Commutation of the loss portfolio reinsurance with RiverStone Insurance Limited	The Board reviewed and agreed the commutation to RiverStone Insurance Limited of the loss portfolio reinsurance contract that had been concluded between BIG and Brit Insurance Limited following the sale of Brit Insurance Limited to RiverStone Insurance Limited in 2012.
Remuneration	A presentation was made to the Board on the Company's formal remuneration policy for approval by the Company's shareholders.

The Board has adopted a schedule of matters reserved for the Board. The principal matters reserved for the Board include the following:

- Responsibility for the overall leadership of the Company and setting the Company's values and standards;
- Approval of the Group's strategic aims and objectives;
- Approvals of the annual operating and capital expenditure budgets and any material changes to them;
- Oversight of the Group's operations ensuring: competent and prudent management; sound planning; maintenance of sound management and internal control systems; adequate accounting and other records; and compliance with statutory and regulatory obligations;
- Review of performance in the light of the Group's strategic priorities, business plans and budgets and ensuring that any necessary corrective action is taken;
- Approval of the half-yearly report, interim management statements and any preliminary announcement of the final results;
- Approval of the Annual Report and Accounts, including the corporate governance statement and Directors' remuneration report;
- Approval of the dividend policy; and
- Declaration of the interim/special dividend and recommendation of the final dividend.

The Board periodically received reports and recommendations from its committees in relation to certain of the matters listed above. In addition, the Board received reports and recommendations from time to time on any matter which it considers significant to the Company and its subsidiaries. The Board received regular updates from the Chief Executive Officer, the CEO of Brit Global Specialty, the Chief Financial Officer, the Chief Operating Officer, the Chief Risk Officer and Director of Strategy, the Chief Investment Officer, the Chief Actuary and the Head of Claims on their respective areas of the business.

During the year the Board also received training in relation to the Company's strategy for investment management. The Directors are also encouraged to attend director training courses that they believe are relevant to their personal development and the cost of these courses is borne by the Company.

The Board is scheduled to meet eight times a year. One of these meetings was set aside for the Board to attend an off-site day where the Board reviewed in detail the current performance of the business and refreshed its view of the strategic direction of the business.

The Board has met eight times since the IPO. Attendance at Board and committee meetings during the year is set out in the following table.

Director	Meetings attended	Comment
Richard Ward	eight out of eight	–
Mark Cloutier	eight out of eight	–
Jonathan Feuer	eight out of eight	–
Hans-Peter Gerhardt	eight out of eight	–
Maarten Hulshoff	eight out of eight	–
Ipe Jacob	eight out of eight	–
Sachin Khajuria	eight out of eight	–
Gernot Lohr	six out of eight	Mr Lohr missed two meetings. One conflicted with another board meeting and one coincided with an investor meeting day at Apollo.
Kamil Salame	eight out of eight	–
Willem Stevens	eight out of eight	–

CORPORATE GOVERNANCE REPORT

ACCOUNTABILITY

The Company is committed to providing shareholders with a fair, balanced and understandable assessment of the Company's position and prospects both throughout this report and the Financial Statements that are issued by the Company during the year. The PLC Audit Committee has oversight for the corporate reporting of the Company and the Company's relationship with its auditors. The PLC Risk Oversight Committee has responsibilities for overseeing the key risks affecting the Company. The PLC Audit Committee Report and the PLC Risk Oversight Committee Report can be found on pages 80 and 85.

The Company's principal risks and examples of how we mitigate these risks can be found on pages 60 to 65.

REMUNERATION

The Remuneration Committee's Report on Directors' remuneration and the remuneration policy can be found on pages 92 to 108.

RELATIONS WITH SHAREHOLDERS

Presentations and webcasts on the development of the business are available to all shareholders on the Company's website. The Company has taken advantage of the provisions within the Companies Act 2006, allowing the website to be used as the primary source of communication with all shareholders, where they have not requested hard copy documentation. The shareholder information on page 219 contains further details on electronic shareholder communications together with more general information of interest to shareholders which is also included on the Company's corporate website.

SHAREHOLDER ENGAGEMENT

The Company believes in maintaining an open and honest dialogue with its shareholders. Prior to the Company's IPO, roadshows were held in a number of cities and countries. Further roadshows have been held subsequent to the IPO and after the announcement of the Company's interim results.

The executive management of the Company continued to maintain a regular dialogue with shareholders throughout the year via meetings with analysts and investors as well as regular analyst presentations and webcasts. These are published on our website. The investor relations section of www.britinsurance.com/ir also holds information with regards to our Annual and Interim Reports, regulatory news and share price information.

The Board is regularly updated on shareholder feedback and in particular any specific comments from institutional shareholders. The senior independent non-executive Director and other non-executive Directors are available for meetings with major shareholders and have participated in these meetings in the last financial year.

ANNUAL GENERAL MEETING

The Company intends to use the annual general meeting as an opportunity to communicate with its shareholders and also as a forum to ask questions of the Board.

It is intended that all resolutions at the annual general meeting will be decided on a poll, with the results announced on the Company's website and to the London Stock Exchange as soon as practicable.

COMMITTEES OF THE BOARD

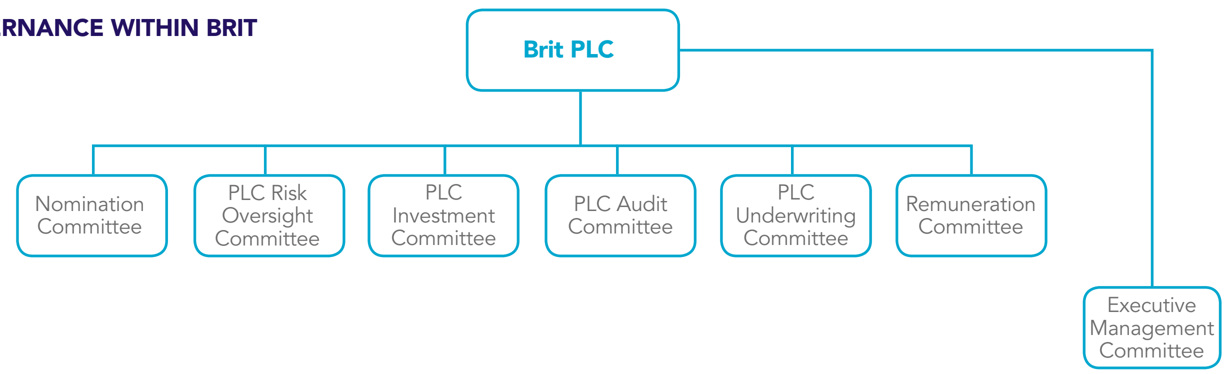
The Board has delegated specific responsibilities to Board committees, notably the PLC Audit, Nomination, Remuneration, PLC Risk Oversight, PLC Investment and PLC Underwriting Committees. Each committee's terms of reference can be found on the Company's website.

The minutes of committee meetings are made available to the Board of Directors on a timely basis. At each Board meeting the Chairman of each committee provides the Board with a brief update of the deliberations of the committee(s) they chair.

The Executive Management Committee (EMC) is chaired by the Chief Executive Officer and is responsible for day to day management of all aspects of the Company's business. The EMC has a number of sub-committees (e.g. Reserving Committee and Credit Committee) which have responsibility for oversight of day to day activities in various key areas of the Company's business as discussed elsewhere in this Annual Report.

The governance chart shows the governance structure that is currently in place for the Company.

GOVERNANCE WITHIN BRIT



In addition, to the Company's governance structure, the Group also has structures in place for its UK and Gibraltar based regulated entities.

- **UK**
  UK underwriting and investment operations are subject to governance provided by the board of Brit Syndicates Limited, the managing agent for Lloyd's Syndicate 2987, and a number of committees. The BSL board consists of ten directors, three of whom are non-executive, and is chaired by the Chairman of the Company. The UK also operates an Audit Committee, Risk Oversight Committee, Underwriting Committee and Investment Committee.

- **Gibraltar**
  Brit Insurance (Gibraltar) PCC Limited (BIG) is a captive insurance company based in Gibraltar and regulated by the Gibraltar Financial Services Commission (FSC). Its only activities are providing reinsurance to Syndicate 2987 and Brit UW Limited, and the management of its own investment portfolios. In addition to its own board, it operates three board committees: the BIG Audit Committee, the BIG Risk Oversight Committee and the BIG Investment Committee.

The committees within the UK and Gibraltar report to their PLC counterparties on a regular basis.

BOARD INTERNAL CONTROL STATEMENT

The Board recognises its responsibility for the Group's risk management and internal control systems. It has complied with principle C.2 of the Code by establishing a continuous process for identifying, evaluating and managing the principal risks facing the Group. This also includes risks arising from social, environmental and ethical matters, in accordance with the Turnbull Report.

Directors are aware that any internal control system is designed to manage, rather than eliminate, the risk of failure to achieve business objectives. They understand that the systems can only provide reasonable, and not absolute, assurance against material misstatement or financial loss. In the Strategic Report, the principal risks to which the business is exposed, are set out on pages 60 to 65 and further information is provided on how the Company has maintained a sound system of internal controls to safeguard shareholders' investment and the Company's assets.

The PLC Risk Oversight Committee regularly reviews the effectiveness of the Group's risk management system on the Board's behalf. The PLC Audit Committee regularly reviews the Group's financial reports, financial reporting process, regulatory and compliance matters. If significant control failings or weaknesses are identified, they are reported by management, via risk management, the compliance function or internal audit to the relevant committee. The relevant committee also receives regular reports on remediation work and discussions with other interested parties, such as regulators.

RISK MANAGEMENT

Managed by the Chief Risk Officer and Director of Strategy, our risk management function oversees the management of risk, ensuring each operating entity manages its risk in accordance with Group policies and allocated risk tolerances and appetites. The PLC Risk Oversight Committee reviews reports from the risk management function and considers appropriate executive actions. Additionally, each regulated subsidiary's board is responsible for overseeing its risk, supported by its own risk oversight committee.

RISK ASSESSMENT

The Group's risk assessment process includes using an enterprise risk management (ERM) system. The ERM system reports on every significant identified risk to achieving Group objectives, the nature and effectiveness of controls, and other management processes to manage these risks. The Company sets risk tolerances for key risk categories, for example, catastrophe, reserving, investment and operational risk. The risk management framework encompasses self-assessment of controls by risk owners throughout the business, which go through various levels of review, at which their assertions are independently challenged. The internal audit function regularly reviews the risks identified by risk owners and the effectiveness of their controls and operation.

The Own Risk and Solvency Assessment (ORSA) processes cover the Group's risk and solvency performance. The Group operates an Internal Model that captures the key economic and risk factors that could impact the Group's performance. The ORSA process runs quarterly and is used to escalate significant risks, their potential impact on the Group's financial position, any variations from the agreed risk appetites, and the actions to manage those risks. The Group Executive Management Committee and the PLC Risk Oversight Committee review the output from the ORSA processes.

INTERNAL AUDIT AND COMPLIANCE

The Group's internal audit and compliance departments perform our internal audits and compliance monitoring respectively. Both departments have a reporting line to the PLC Audit Committee. Internal audit also reports to the Chief Executive Officer, while the compliance department reports to the Group Director of Legal and Compliance. The Group has established risk-based audit and compliance programmes for reviewing and evaluating the internal controls and compliance procedures used to manage risk.

NOMINATIONS COMMITTEE REPORT

CHAIRMAN'S OVERVIEW

Dear shareholder

The Nominations Committee was formed following the IPO of the Company in April 2014 and I am delighted to present this report to you.

As noted earlier in this section the Committee is aware that the Company does not currently comply with the Code provision B.1.2 for half the Board, excluding the Chairman, to comprise non-executive Directors determined by the Board to be independent. The Board currently comprises ten Directors; myself as Chairman; one executive Director; four independent non-executive Directors; and four non-executive shareholder representative Directors.

The Committee has evaluated the balance of skills, experience, independence and knowledge of the current Board of Directors. The Committee considers that the Company has a diverse board, with a mix of broad business and geographical experience, but is aware of the need to develop its gender diversity. With this in mind we have identified and commenced a recruitment exercise to appoint two non-executive Directors to the Board, one of whom, or preferably both should be female.

In order to assist the Committee with its search, the Committee contacted a number of external search consultants who were invited to provide a specification and brief for the project under consideration. These proposals were then considered by the Committee and The Miles Partnership was appointed to assist the Company in its search for independent non-executive directors to be appointed to the Board. The Miles Partnership have no other relationship with the Company.

Although the Company is only in its infancy as a public listed entity, a Board evaluation was conducted in the year. All of the Directors of the Company were sent a questionnaire to complete and then one to one meetings were held between myself and each Director of the Company. In respect of my own evaluation, this took place at the end of a Board meeting at which I was not present and was led by Ipe Jacob as senior independent non-executive Director.

During the evaluation, consideration was given to the extent to which there may be an overlap in review and challenge of performance of the parent Company Board and the board of BSL, and it was recommended that there should be a review of the reports presented to each Board and their various committees to ensure that they were clear, concise, consistent and specifically relevant to the bodies terms of reference.

The Board considered that it and the Board committees were effective and had a sufficient balance of skills and experience to enable them to discharge their responsibilities appropriately. It also concluded that there was an appropriate level of challenge and discussion to enable the Board and its committees to work effectively as a unit.

As a Committee we will continue to focus on the structure of the Board and focus on executive succession planning in 2015.

Dr Richard Ward
Chairman

24 February 2015

Membership and attendance

Member	Meetings attended
Richard Ward (Chairman)	three out of three
Jonathan Feuer	three out of three
Gernot Lohr	three out of three

The Chief Executive Officer attends every meeting of the Nomination Committee and other members of the executive team are invited to provide technical input when required.

The role of the Committee

The Chairman reports regularly to the Board on its activities. The Committee's responsibilities are set out in the main terms of reference which are available for shareholders on the Company's website. Its main duties include:

- Regularly review the structure, size and composition (including the skills, knowledge, independence, experience and diversity) required of the Board compared with its current position and make recommendations to the Board with regard to any changes;
- Give full consideration to succession planning for Directors and other senior executives in the course of the work of the Nomination Committee, taking into account the challenges and opportunities facing the Company, and the skills and expertise that will, therefore, be needed on the Board in the future;
- Any matters relating to the continuation in office of any Director at any time including the suspension or termination of service of an executive Director as an employee of the Company subject to the provisions of the law and their service contract;
- The appointment of any Director to executive or other office; and
- Ensuring that the evaluation of the Board is externally facilitated at least every three years and reviewing the results of the Board performance evaluation process that relate to the composition of the Board.

2014 activities

Area	Comment
Board induction	The Committee reviewed the induction programme developed for non-executive directors that are appointed to the Board. The induction programme sets out detailed information that a non-executive Director should receive on his/her appointment to the Company and identifies those senior executives within the Company with whom the Director should meet, to gain a better understanding of the business and its operations.
Board recruitment	The Committee considered the balance of skills on the Board, the Company's commitment to comply with the Code and recognised the need to appoint two Independent non-executive Directors to the Board. The Committee identified areas where the Board may be lacking in particular skill sets and agreed a specification for each of the non-executive Directors that the Board was looking to recruit. The Miles Partnership were selected to support the Committee in its search.
Diversity	The Committee noted that the members of the Board have a mix of broad business and geographical experience and the skills and knowledge that they bring to the deliberations of the Board make for a diverse board.
Board evaluation	The Committee concluded that as the Company had only recently undergone an IPO that an internal review should be conducted in 2014 and would give consideration to an external review in 2015. The results of the 2014 evaluation concluded that the Board was performing well and discussions at Board meetings were positive. Points for future consideration have been discussed earlier in the report.

AUDIT COMMITTEE REPORT

CHAIRMAN'S OVERVIEW

Dear Shareholder

Following Brit PLC's IPO in April 2014, I was delighted to be appointed Chairman of the Audit Committee. I have been associated with the Brit Group since 2012, both as a non-executive director of Brit Insurance Holdings B.V. and as chairman of its audit committee. As part of my ongoing responsibilities, I also chair the audit committees of Brit's two main sub-groups, focusing on the Group's UK and Gibraltar based regulated entities.

The Committee's focus in 2014 has been on sound financial reporting, underpinned by a strong control environment. To support this focus we:

- Considered and provided challenge around significant financial reporting issues;
- Reviewed the effectiveness of the Group's current internal control regimes;
- Reviewed the Company's interim management statements, interim report, and Annual Report and recommended their approval to the Board;
- Monitored progress against the internal audit plan for 2014;
- Reviewed and approved the internal audit plan for 2015; and
- Conducted internal and external audit effectiveness reviews.

In addition to these activities, the Committee recommend the appointment of auditors and the approval of their audit fees. We also took the decision to embark on an audit tender process during 2015.

As part of our review of the Annual Report and Accounts we have, at the request of the Board, considered whether the document as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy. Following our review, we have concluded that the Annual Report and Accounts does meet these criteria and we have provided positive assurance to the Board in this regard.

I believe an ongoing dialogue with all key parties is important to help me and the Committee maintain an awareness and understanding of the organisation, the risks and challenges it faces, and the environment in which it operates. To help achieve this, in addition to the formal private meetings with our external auditors, the Head of Internal Audit and Brit's executives, I also meet with each of them informally on a regular basis. To facilitate full and open discussion, these informal meetings take place away from Brit's offices and without the rigidity of a formal agenda.

I also believe that the culture of an organisation is important and that the right culture helps embed the principles of ownership, accountability and openness. The Committee members and I have spent time understanding and assessing the culture of the organisation and we believe that these principles are embedded in the way Brit operates, thereby helping to maintain an effective control environment.

In the report below, you can read more about the Committee, our work in 2014 and our areas of focus for 2015.

During the year we have also assessed the effectiveness of our Committee. I am pleased to report that this evaluation process concluded that the Committee was operating effectively. More details can be found in 78.

Ipe Jacob FCA
24 February 2015

Membership and attendance

Member	Meetings attended	Comment
Ipe Jacob (Chairman)	six out of six	–
Maarten Hulshoff	five out of six	Mr Hulshoff was away for one meeting called at short notice.
Sachin Khajuria	six out of six	–
Kamil Salame	six out of six	–

The Role of the Committee

The Chairman reports regularly to the Board on its activities. The Committee's responsibilities are set out in its terms of reference which are available for shareholders on the Company's website. They include:

Financial reporting

- Monitor the integrity of the Company's Financial Statements and any other formal announcements relating to the Company's financial performance.
- Monitor the Company's financial reporting process and consider significant financial reporting issues and judgements, the going concern assumption, compliance with legal, regulatory and statutory requirements, the appropriateness of accounting policies selected and the consistency with which they are applied.
- Review the content of the annual report and provide advice to the Board on whether the annual report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy.

External audit

- Oversee the relationship with the external auditor, including approving its terms of engagement.
- Consider and make recommendations to the Board regarding the appointment and remuneration of the external auditor.
- Review annually the effectiveness of the external audit process.

Internal audit

- Monitor and review the effectiveness of the activities of internal audit and approve or terminate the appointment of the Head of Internal Audit.
- Review and agree the annual internal audit work plan with the Head of Internal Audit and ensure the function has the necessary resources.

Internal control

- Review the effectiveness of the system of internal control.

Compliance

- Review regular reports from the Compliance Department and keep under review the adequacy and effectiveness of the Company's compliance function.

Whistleblowing

- Review the adequacy, security and appropriateness of the Company's arrangements for its employees and contractors to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters.

Governance

- The Committee meets at least quarterly at appropriate intervals in the financial reporting and audit cycle and at such other times as required.
- The Committee receives regular reports on the activities and findings of the audit committees of Brit's two main sub-groups, focusing on the Group's UK and Gibraltar based regulated entities.
- Ernst & Young LLP (EY), the Company's external auditor, is invited to every meeting. At least once a year, and at any other time the Committee sees fit, the Committee meets with the external auditor without executive Directors or other management present.
- The Chief Financial Officer, Chief Risk Officer, Group Financial Controller, Head of Internal Audit and Head of Compliance usually attend meetings and other non-members (such as the Chairman of the Board, the Chief Executive Officer and other Directors) attend all or part of any meeting as and when appropriate and necessary.
- At least twice a year the Committee will meet the Head of Internal Audit without executive Directors or other management present.
- Outside the formal meeting programme, the Chairman maintains a dialogue with key individuals involved in the Company's governance, including the Chairman of the Board, the Chief Executive Officer, the Chief Financial Officer, the external audit lead partner and the Head of Internal Audit.
- The Committee may, at any time, request the Head of Internal Audit, the Chief Risk Officer or the Head of Compliance to carry out such independent reviews it deems necessary. It may also instruct independent external advisers to undertake any work required to fulfil its responsibilities, at the Company's expense.

2014 focus

Financial reporting

The Committee's main financial reporting focus was on the integrity of the Company's Annual Report, its interim report and its interim management statements. The Committee receives a twice-yearly 'Key Accounting Judgements' report from the Group Financial Controller setting out the significant assumptions, judgements and estimates supporting the Company's reported figures.

AUDIT COMMITTEE REPORT

These areas of judgement are discussed both with management and the external auditor and are challenged where appropriate. The Committee also considers whether such key judgements are satisfactorily disclosed in the Annual Report and Accounts. In addition, the Committee receives a twice-yearly report from the external auditor which presents its key audit findings. The Committee pays particular attention to the issues raised in these reports, discusses and challenges them to ensure the assumptions, judgements and estimates used are appropriate and justified. It also ensures that appropriate disclosure is made.

The significant issues considered for 2014 were:

Risk	Details
Income estimation	Please see page 133 (accounting policy), page 142 (critical accounting estimates) and page 178 (disclosures). The Group applies certain assumptions and estimation techniques in the earnings patterns of premiums and the setting of premium estimates. These assumptions are particularly relevant for business written through delegated authorities. There is a risk that the estimate and actual premiums realised are materially different. The Group also assesses whether there are adequate levels of risk transfer in the insurance contracts it writes. The Committee has: • Reviewed the controls operated in this area and the income recognition judgements made; and • Reviewed the findings arising from the work performed by the external auditors. Following these reviews, the Committee has concluded that the recognition of premiums in the Financial Statements is appropriate.
Reserving risk	Please see page 134 (accounting policy), page 141 (critical accounting estimates) and page 178 (disclosures). The Group has exposure to liabilities arising from risks written which can be difficult to estimate due to the level of subjectivity and uncertainty involved. As a result, there is a risk that the ultimate outcome could be materially different from the claims reserves carried. Brit's reserving process is robust and managed by the Chief Actuary, under the oversight of the Executive Management Committee and the boards of the two regulated entities of the Group. In considering whether the level of reserves resulting from this process is appropriate, the Committee has: • Considered the Chief Actuary's reserving report; • Reviewed and challenged key reserving judgements; • Reviewed the findings of the work performed by the external auditors, including their testing of the key controls, their evaluation of management's methodology, key assumptions and major sensitivities and the outcome of their re-projection of the reserves; and • Considered the appropriateness of the explicit risk margin. As a result of this work, the Committee is satisfied that the level of reserves determined by management is appropriate. The Committee has also reviewed related disclosures as set out in Note 21 of the Financial Statements and has concluded that they are also appropriate.
Investment valuation	Please see page 135 (accounting policy), page 142 (critical accounting estimates) and page 186 (disclosures). Brit has realigned its investment strategy and has transitioned to a broader mix of asset classes. This has resulted in the Group increasing its holdings in instruments such as structured products, loan portfolios and investment funds. Quoted prices may not always be available for these instruments therefore alternative valuation techniques may need to be applied. The Committee has: • Evaluated and challenged the process used by management in valuing these investments; and • Reviewed the findings of the work performed by the external auditors, including their testing of the key controls around management's valuation process and controls over information provided by investment managers. As a result of this work, the Committee is satisfied that the valuation of the Group's investments as determined by management is appropriate. The Committee has also reviewed the related disclosures in the Annual Report and has concluded that they are also appropriate.

Annual Report and Accounts

The Committee has also devoted significant time to reviewing the Company's Annual Report and Accounts, the first since the Company listed on the London Stock Exchange. In late 2014 and early 2015 additional Audit Committee meetings were convened to review a number of working drafts and to allow its challenge and feedback to be considered at appropriate stages of the report's development. The Committee also received briefings on the relevant statutory requirements and current best practice guidelines, and solicited the views of the external auditor. Following this process, the Committee concluded that the Annual Report and Accounts as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

Internal control and compliance

The Committee believes an effective control environment is important to help manage the Group's risk, particularly with respect to misstatement or loss, and to support true and fair financial reporting.

The Committee reviews the effectiveness of the Group's financial controls. It receives and debates a quarterly report on the performance of financial controls and an annual report on their effectiveness. It also discusses any control issues highlighted in internal audit reports and in any reports presented by the external auditor, and then monitors the remedying of any such issues. Following its review, the Committee has concluded that the Group maintains a comprehensive and effective financial control framework which supports approval of the 2014 Financial Statements.

The Committee reviews and monitors the work of compliance. A written report from the Head of Compliance is received quarterly, which the Committee reviews, discusses and challenges as appropriate. This report includes an update on all key compliance risks. It also includes an update on relevant issues arising in each of the Group's regulatory jurisdictions including the UK, the US and Gibraltar.

During the period, in addition to reviewing the Head of Compliance's report, the Committee:

- Reviewed and challenged the Group's sanctions monitoring procedures; and
- Examined and approved the Group financial crime policy; and
- Reviewed and agreed the Group's whistleblowing process.

Internal Audit

The Committee reviews and monitors the work of internal audit. A written report from the Head of Internal Audit is discussed at each meeting. This report includes an update on the current audit plan, the findings and actions arising from completed reports, an update on the completion of actions and an update on all ongoing audits. The Committee also holds regular private sessions with the Head of Internal Audit.

During the period, the Committee:

- Reviewed, debated and approved the internal audit charter, a new risk-based internal audit planning methodology and revisions to the internal audit methodology;
- Monitored progress against the 2014 internal audit plan and discussed and approved amendments to the plan;
- Reviewed and discussed all internal audit reports and monitored progress of addressing issues arising from those reports;
- Reviewed, discussed, challenged and approved the 2015 internal audit plan; and
- Reviewed the effectiveness of internal audit and concluded that it was operating effectively. In addition to this internal performance evaluation, an external assessment of internal audit will be conducted at least once every five years by a qualified independent assessor from outside of the organisation.

External audit

Assessing the effectiveness of the audit

The Committee is committed to ensuring the external audit process is effective and independent and uses an audit quality framework assessment to help achieve this. The Committee reviews the effectiveness of the external audit process throughout the year and has also undertaken a formal assessment. This assessment involved:

- Canvassing and analysing the views of the Committee and senior management by way of a comprehensive questionnaire;
- Reviewing the quality and scope of the audit planning document and subsequent planning updates;
- Reviewed reports and other documents presented by the auditor to the Committee;
- Monitoring the auditor's independence; and
- Discussing with EY the report published by the FRC on its 2013/14 inspection of Ernst & Young LLP.

The observations and findings of the assessment were presented to and discussed by the Committee who concluded that the external audit process was effective.

Auditor appointment

The current EY group engagement partner is signing the audit report of Brit PLC for the first time for the 2014 year end. However, as he has previously held partner responsibilities in respect of a sub-section of the Group, consistent with the provisions in Ethical Standard 3 he will rotate off the account when the 2014 audit process is complete. This will help maintain auditor independence. A new engagement partner has been proposed by EY and has been approved by the Audit Committee. Monitoring the transition to the new partner is a key objective for 2015 and, to help facilitate a smooth transition, the new proposed partner has attended Audit Committee meetings during 2014 at the chairman's invitation.

In accordance with section 489 of the Companies Act 2006, a resolution proposing the re-appointment of Ernst & Young LLP (EY) as Group auditor will be put to the shareholders at the 2015 annual general meeting.

AUDIT COMMITTEE REPORT

EY was appointed Brit PLC's external auditor on 3 March 2014. We are mindful and supportive of the new requirements on auditor appointment from the EU which requires Brit PLC to rotate its auditor every ten years. However, as EY have performed the audit of Brit PLC's predecessor companies since 2005, the Audit Committee intends to commence a qualifying audit tender process in 2015 for the appointment of the Group auditor for the 2016 year.

Non-audit services

The Audit Committee monitors the use of the external auditors for non-audit services to ensure compliance with our policy, which details the circumstances in which the auditors may be permitted to undertake non-audit work for the Group. Non-audit services permitted in the policy include transaction due diligence, tax advice, actuarial review, accountancy training and accounting advice. Services prohibited in the policy include preparing statutory accounts, selecting accounting policies, designing and implementing internal controls, process and financial information systems, and valuation services.

The authorisation limits for non-audit services allowed by the policy are:

Chief Financial Officer	< £100,000
Audit Committee Chairman	£100,000 to £250,000
Audit Committee	>£250,000

Once non-audit services in any one year exceed £500,000, all further non-audit services need to be approved by the Audit Committee.

This policy aims to ensure that the independence of the external auditors is maintained and that we comply with all relevant legislation relating to non-audit services.

During the year, the auditors undertook the following significant non-audit work:

Area	£m	Comment
Audit related assurance services	0.3	
Taxation compliance services	0.1	Completion of the Group's US tax returns.
Taxation advisory services	0.9	Incurred in connection with the Company's IPO in April 2014.
Corporate finance services (excluding amounts included in taxation advisory services)	2.0	Incurred in connection with the Company's IPO in April 2014.
Other non-audit services	0.1	

The fees paid to our auditors are set out in Note 13 to the accounts. Non-audit fees amounted to £3.4m, of which £2.9m related to our IPO in April 2014. The Committee approved these IPO related transaction services in advance after considering the impact of this work on the auditor's independence, its level of expertise and understanding of the Group, and its ability to provide these services on a timely and cost effective basis.

RISK OVERSIGHT COMMITTEE REPORT

CHAIRMAN'S OVERVIEW

Dear Shareholder

The Brit PLC Risk Oversight Committee was formally established as a result of the Company's listing in April 2014. While the PLC committee is newly established, a separate Risk Committee has been in place at Brit since 2012 and has played a key part of the risk governance at Brit. The risk oversight committee meets at least four times a year and reports directly to the PLC Board.

I have been a member of the Brit Group risk committees since 2012, serving as a member or chairman on the Syndicate, Gibraltar and Group Risk Oversight Committees. The risk committees benefit from experienced non-executive directors with a broad base of knowledge and experience at both a Group and a regulated entity level. The Chief Risk Officer attends the committee and other relevant experts attend to provide technical input as required.

Overview

Brit's risk governance is well embedded in the business, with established committees and a strong Risk Management Framework. The Chief Risk Officer provides an independent quarterly report to the Risk Oversight Committee, while other members of the management and risk team regularly present on topical issues and when requested by the committee. The Chief Risk Officer's report sets out the risk profile of the Group and include a risk dashboard showing exposure compared to Board-approved tolerance. The Committee has used Brit's established processes to effectively discharge its duties balancing ongoing risk management and compliance-related activity.

As I mentioned in my introduction to the Audit Committee Report, I believe an ongoing dialogue with all relevant parties is important to maintain an awareness and understanding of the organisation, the risks and challenges it faces, and the environment in which it operates. To help achieve this I hold both regular formal private meetings and regular informal off-site meetings with each relevant party including the Chief Risk Officer, other members of the Brit executive and senior management team and the Group's external auditor.

2014 activities and focus

The key areas of focus for the committee in 2014 have been:

- **Implementation of Solvency II:** The Committee continued to oversee the implementation of Solvency II across the Group with the deadline of 1 January 2016 approaching. The preparations for the Syndicate are now close to completion in line with the Lloyd's deadline for compliance with full tests and standards. Implementation in Gibraltar is well advanced and on track to meet the full Solvency II requirements in 2015. The Group overall has made a significant investment in the implementation of Solvency II over recent years and the benefits can now be clearly seen through a much improved risk management framework and transparent risk reporting throughout the organisation. The Syndicate is rated 'green' by Lloyd's for Solvency II preparedness.
- **Development and oversight of the internal model process:** The Internal Model is used throughout the Group as part of the management capital setting, risk monitoring, strategic analysis and assessing the assumptions used in the business plan. Brit now uses an internal model in both the Syndicate and Gibraltar to set its entity management capital. The Committee takes an active part in challenging the model parameters through the validation process and receives a quarterly report summarising any model uses and changes.
- **Operating and improving the risk management framework:** The Committee reviews the risk management framework regularly. The risk appetite framework was improved in 2014 for insurance and credit risk which included the introduction of additional earnings metrics and modification of the metrics already in place. The Group has also continued to improve the processes supporting the risk management framework such as the management of the operational risk around the investment and catastrophe modelling capabilities. We believe we are now well positioned and have fully embedded the principles and practices of risk management in the business. The processes are now business as usual as the Syndicate has been running its ORSA and SCR processes under the risk management framework since 2012.
- **Challenging the management team across all areas of the business:** A major role of the Committee is to monitor and challenge the executive management's approach to managing the current and emerging risk profile of the business. The Committee has dedicated time to reviewing all areas of the business, with a particular focus in 2014 on catastrophe risk, investment risk and the market outlook, including challenging the business plan.
- **Monitoring the response to new and emerging risks within the business:** The Committee also monitors the use of the risk and solvency processes and in 2014 there was strong evidence that these are well embedded at Brit. In particular, assessments were completed for a number of the initiatives undertaken during the year including:
  - New business initiatives such as the acquisition of the renewal rights of QBE's Lloyd's aviation portfolio;
  - Commutation of the reinsurance contract with RiverStone Insurance Limited;
  - Optimisation of the outwards reinsurance programme; and
  - Assessment of options to manage foreign exchange and interest rate risks.

In the current regulatory and market environment I believe the Risk Oversight Committee has an increasingly important role to play in maintaining discipline and focus on the principal and emerging risks facing the business both in the short and longer term. It is critical that Brit maintains its focus on compliance and Solvency II and these will continue to be priorities for the Committee. The Group has invested significantly in its risk framework and processes over the past three years and under this Committee's guidance we believe is well prepared for the future.

Ipe Jacob FCA
24 February 2015

RISK OVERSIGHT COMMITEE REPORT

The role of the Committee

The Chairman reports quarterly to the Board on the activities of the Committee. The Committee's responsibilities are set out in its terms of reference which are available for shareholders on the Company's website. They include:

- Considering and approving, on behalf of the Board, the Risk Management Framework and its key risk management policies;
- Reviewing and recommending the risk tolerances to the Board, covering underwriting risk, reserving risk, market risk, operational risk and credit risk;
- Oversight of the ORSA processes, including reviewing actual exposures against risk tolerances set out by the Board, stress and scenario testing and reverse stress testing. Performing regular reviews of reports on risk and internal controls, including the evaluation of breaches in risk tolerance;
- Oversight of the key assumptions used in the Internal Model and ensuring that the model governance processes are operating effectively;
- Reviewing the effectiveness of the risk function and the scope and quality of management's ongoing monitoring of risks and the system of internal control; and
- Receiving regular reports on the activities and findings of the risk oversight committees of Brit's two main sub-groups, focusing on the Group's UK and Gibraltar based regulated entities.

Membership and governance

The attendance of the Committee's Chairman and members was as follows:

Member	Meetings attended
Ipe Jacob (Chairman)	four out of four
Maarten Hulshoff	four out of four
Sachin Khajuria	four out of four
Kamil Salame	four out of four

The Group Chief Risk Officer attends every meeting and other relevant experts attend to provide technical input as required. For example, members of the risk team attend the meetings to present the technical findings of the validation and ORSA. The Chief Financial Officer and Chief Actuary are regular attendees and other members of executive management regularly present on topical issues.

The committee met four times in the year and the Chairman also meets with the Chief Risk Officer without executive management being present.

2014 activities – ongoing oversight and monitoring

Area	Comment
Internal Model	The regular Internal Model processes were completed including reviewing capital requirements, the validation of the Internal Model and regular updates on model use and change within the business.
ORSA processes	Regular reports were received from the Chief Risk Officer covering all aspects of the business risk profile, monitoring exposure against tolerance and highlighting key topics in each risk category.
Risk appetite and tolerance	The risk appetite framework was reviewed and updated to include new metrics on underwriting and reserving risk. The credit risk metrics were updated to enable better external benchmarking. Risk appetite and tolerance were monitored quarterly and breaches actively resolved.
Risk management framework	The risk management framework was reviewed and evaluated as being effective. The risk register was reviewed in detail.

2014 activities – focus areas

Area	Comment
Solvency II compliance and development of capital requirements	As a critical deliverable for the Group, the Committee received regular updates on progress against the implementation plan and interactions with regulators. The process was well managed and Brit is in a good position to fully comply with the new regulations.
Use of the Internal Model and ORSA processes in the review of strategic initiatives	The ORSA processes were applied to strategic initiatives including the acquisition of the QBE aviation portfolio and a review of outwards reinsurance. The Committee monitored the use of the ORSA processes and Internal Model throughout the year.
Market conditions and business outlook	Market conditions are challenging in a number of areas. The Committee prioritised its review of the business plan and reviewed analysis from the Internal Model to understand the risk profile. In addition, stress and scenario and reverse stress tests were performed to understand potential risks to the plan.

UNDERWRITING COMMITTEE REPORT

CHAIRMAN'S OVERVIEW

Dear shareholder

I am pleased to present the first report of the Underwriting Committee.

The role of the Underwriting Committee is to review, advise and make recommendations to the Board and management to inform the setting of strategy with a view to optimising Group underwriting performance.

The Committee is scheduled to meet five times a year but has met three times since the IPO of the Company in April. The attendance of the members of the Committee at meetings is set out in the table later in this report.

In addition to these three meetings, the Committee members were present at a Board underwriting strategy day in May 2014. The Group's underwriting strategy was discussed in detail and the Committee members were given the opportunity to question and challenge the senior underwriters of the Group.

The Committee is supported in its deliberations by the Chief Executive Officer of Brit Global Specialty who has responsibility for the underwriting business of the Company. I also meet regularly with portfolio directors to discuss their particular lines of business and issues that are effecting them.

At its meetings the Committee reviews the underwriting KPIs that include volume measures such as premium and retention; distribution measures such as volumes and signing levels with key broking partners; pricing metrics such as rate change and pricing strength; and performance metrics such as loss ratios and cash flow. The Committee also reviews the key Underwriting Risk Metrics in particular the comparison of the Company's exposure to natural catastrophe losses to the Board's Risk Appetite. Complementing the KPI reviews, in line with the Group's quarterly management reporting cycles, the Committee reviews the financial underwriting results of each business line including combined ratios and return on equity and monitors reserving developments. The Committee also reviews the Company's underwriting performance relative to its peers.

In addition to the review of the activities of the incoming portfolios, the Committee also reviews the outwards reinsurance strategy to ensure that all classes are effectively protected.

The Company carries out an annual underwriting business planning exercise which the Committee reviews, providing appropriate challenge around the underwriting plans in particular assumptions for premium volumes, rates and loss ratios.

The Company writes a broad range of products which due to market conditions will be at different stages in the insurance cycle. Where underwriting action has been instigated to improve the performance of a segment the Committee will ask for a detailed product line review and follow-up to ensure that the action has been effective.

The Committee is kept abreast of all new major products launched by the Company. For example, during the course of the year a cyber terrorism product was launched providing cover for industrial clients who face vulnerability to first party property damage as a result of having automated industrial control systems. The product was reviewed by the Committee with regards to the nature of the coverage, the intended customers, the Group's risk appetite and the suitability of the associated outwards reinsurance protections.

The Committee also monitors the position of the Group's major losses both in respect of the development of historic losses and also new events such as the Tripoli aviation war loss in 2014.

The Company has also established an underwriting committee for the Lloyd's platform. This is a management committee that meets on a monthly basis and is responsible for reviewing the underwriting activities of Syndicate 2987. From time to time I attend these meetings, which provide valuable insight to the underwriting activities of the Syndicate. This committee reports to the Executive Management Committee and its minutes are tabled at meetings of the PLC Underwriting Committee.

Hans-Peter Gerhardt
24 February 2015

Membership and attendance

Member	Meetings attended
Hans-Peter Gerhardt (Chairman)	three out of three
Mark Cloutier	three out of three
Sachin Khajuria	three out of three
Kamil Salame	three out of three

The role of the Committee

The Chairman reports regularly to the Board on its activities. The Committee's responsibilities are set out in the main terms of reference which are available for shareholders on the Company's website. They include:

- Review, advise and make recommendations to the Board and management to inform the setting of strategy with a view to optimising Group underwriting performance by considering the following inputs:
  - Current and historic profitability based upon ultimate loss ratios, combined ratios and return on equity by class of business;
  - Current and future expected rating environments;
  - Current realistic disaster scenarios and risk appetite;
  - Current and projected capital and liquidity adequacy/ resources;
  - Group and business unit strategic and underwriting plans; and
  - The design and implementation of current and potential outwards reinsurance strategies
- Receive and review reports from, and the minutes of, the UK Underwriting Committee;
- Review Group and business unit-specific business plans;
- Review quarterly underwriting results;
- Review quarterly risk tolerance and risk appetite metrics;
- Review outwards reinsurance performance metrics and buying plans;
- Review annually skills/talents of the underwriting team; and
- Enquire into any issue relating to the Group's underwriting activities that it sees fit.

2014 activities and focus

Area	Comment
Review of the 2015 business plan	The Committee approved the 2015 underwriting plan following a review of product line details for premiums and performance.
New products	During the year the Company introduced a new insurance product for cyber terrrorism and the policy terms and limits of insurance were reviewed by the Committee.
Product performance reviews	The Committee reviewed two product areas upon the basis of performance: for the first product area it was noted that significant underwriting action had been taken and was showing improved results; for the second area a summary of the detailed analysis was reviewed and the proposed actions for 2015 agreed as appropriate.

CHAIRMAN'S OVERVIEW

INVESTMENT COMMITTEE REPORT

Dear shareholder

The Investment Committee of the Board is mandated to review, advise and make recommendations to the Board and management to inform the setting of strategy with a view to optimising Group investment performance.

2014 activities and focus

During the year the Committee hosted meetings with a number of our external investment managers, received reports from the Chief Investment Officer and risk management. The key areas of focus for the committee in 2014 have been:

- Review of, and where appropriate challenge of, investment strategy and performance;
- Consideration of reports on investment risk management and asset/liability management (ALM);
- Interaction with our external investment managers, including challenging them where appropriate on their strategy and performance; and
- Consideration of interest rate duration of the investment portfolio and approval of changes to strategy.

The Group has established two additional investment committees: the UK investment committee, which has oversight of the investments held by Syndicate 2987, and the BIG investment committee which has oversight of the Gibraltar-based investments. The minutes of these committees are tabled at the Committee's meetings and a verbal update is provided of both Committees activities

Maarten Hulshoff
24 February 2015

Membership and governance

The attendance of the Committee's Chairman and members was as follows:

Member	Meetings attended
Maarten Hulshoff (Chairman)	three out of three
Ipe Jacob	three out of three
Sachin Khajuria	three out of three
Kamil Salame	three out of three

The Chief Investment Officer attends every meeting and other relevant experts attend to provide technical input as required. For example, members of the investment team attend the meetings. The Chief Executive Officer, Chief Financial Officer and Chief Risk Officer are regular attendees and other members of executive management regularly present on topical issues.

The Committee met three times in the year and the Committee Chairman also meets with the Chief Investment Officer without executive management being present.

The role of the Committee

The Chairman reports quarterly to the Board on the activities of the Committee. The Committee's responsibilities are set out in its terms of reference which are available for shareholders on the Company's website. They include:

- Review, advise and make recommendations to the Board and management to inform the setting of strategy with a view to optimising Group investment performance;
- Receive and review reports from, and the minutes of, the UK and BIG investment Committees;
- Review quarterly investment results;
- Review quarterly investment risk tolerance and risk appetite metrics; and
- Enquire into any issue relating to the Group's investment activities that it sees fit.

2014 activities and focus

The key areas of focus for the Committee in 2014 are set out below.

Area	Comment
Strategy and performance	Reviewing the strategy and performance of the Group investment portfolio through the year. Providing challenge to the Chief Investment Officer and oversight of the strategic and tactical asset allocations and relative performance of our external investment managers.
Risk and ALM	Independent risk reporting from the risk management department on the risk profile of the investment portfolio was presented at each meeting. The reports included the level of risk to reported earnings and the solvency position (both on a modelled and event basis), liquidity and where there were any material mismatches in the ALM profile. The Committee used these reports to gain assurance that the investment portfolio was being managed in line with the risk appetite and ALM guidelines prescribed in the Board approved investment policy.
Investment manager presentations	At each meeting one of our external managers was invited to present to the Committee. These presentations provided the Committee with both invaluable insight into the investment strategies employed by our managers and the opportunity to question them directly on both strategy and performance.
Interest rate duration	The Committee was requested to consider a change in the duration of the investment portfolio. During the year the investment performance had been very strong and the Chief Investment Officer proposed shortening the asset duration down to around 1.25 years, thereby locking in some of the outperformance by de-risking the investment portfolio, should interest rates rise unexpectedly over the remainder of 2014. These changes, which included a change to the ALM guidelines as set out in the Investment Policy, were approved by the Committee and subsequently the Board.

REMUNERATION REPORT

ANNUAL STATEMENT FROM THE REMUNERATION COMMITTEE CHAIRMAN

DEAR SHAREHOLDER

On behalf of the Remuneration Committee, it gives me great pleasure to present our first Directors' Remuneration Report following Brit's return to the listed market.

In accordance with the UK disclosure regime, this report comprises our Remuneration Policy and Annual Report on Remuneration. The remuneration policy sets out our forward looking policy on pay for directors, and will be put forward to shareholders for a binding vote at the 2015 annual general meeting. The Annual Report on Remuneration details payments made to directors during the last year, and how we will apply our policy in 2015. Shareholders will have the opportunity of an advisory vote on this report at the annual general meeting.

Details of the remuneration structure were set out in our prospectus prior to admission to the London Stock Exchange. The structure implemented was intended to be aligned with evolving market and best practice. During the year the Committee has given further consideration to how these arrangements will be operated in practice, and further details are set out in this Remuneration Report.

The overall remuneration structure is weighted towards performance-related variable pay especially at the Company's senior management levels. The objectives are closely aligned with our strategic financial priorities and reward for creation of shareholder value. A large proportion of variable pay is delivered in shares. Consistent principles apply to the remuneration structure for all senior executives. We have also rolled out operation of a global all-employee Share Incentive Plan to facilitate a culture of share ownership across the entire organisation.

Remuneration outcomes in respect of 2014

This has been a landmark year for Brit. As well as returning to the listed market, we have continued the process of strategic transformation undertaken over the last four years and delivered another strong set of results.

In 2014, the Company achieved profit after tax of £139.0m and a return on adjusted net tangible assets excluding FX and IPO costs (RoNTA) of 20.7%. This is a very strong result, and towards the top-end of the stretching targets set for the year. The Committee considered this performance in the context of both challenging market dynamics and the successful admission. The Chief Executive Officer's bonus is 200% of salary and the Committee are of the view that this fairly reflects performance relative to our peers in what has been a very strong year.

During the year, the Committee granted its first round of awards under the new PSP. These awards are earned based on an average RoNTA, the key financial metric for the Group, and relative total shareholder return (TSR) performance targets which are measured over three years. If these stretching targets are achieved, shares will vest over a period of three to five years.

Consistent with best practice, malus and clawback provisions are in place.

Further detail on Directors' remuneration during the year is provided in the Annual Report on Remuneration below.

Remuneration in 2015

As shareholders will be aware, in light of the offer from Fairfax (see page 18 above), there may be changes to the remuneration structure for 2015, depending on if and when the acquisition is completed. In the event that the acquisition is completed, then, pursuant to the rules of the relevant share plan, awards may vest at this time. Further details will be set out in the offer document.

The Committee has made the following decisions in relation to the Chief Executive Officer's remuneration for 2015 to reflect the nature of his role, his continued strong performance since appointment and the value created for shreholders since IPO.

- Annual bonus will continue to be predominantly based on RoNTA performance. The maximum opportunity for 2015 will be 300% of salary; and
- If PSP awards are granted in 2015, then the intention is that performance targets will continue to be based on RoNTA and relative TSR.

The Committee will be carefully monitoring the Company's performance against the achievement of financial and strategic goals, in order to ensure that our remuneration arrangements continue to support the long-term interests of the Company and its shareholders, also bearing in mind evolving regulation that will apply to the Company.

We wish to be transparent and open about our remuneration for senior management at Brit. We hope shareholders are comfortable with the decisions we have made and will support the two resolutions relating to remuneration at the forthcoming annual general meeting.

I would also like to take the opportunity to thank Shareholders, the Board, management and employees for their support in what has been a busy and very successful year.

Hans-Peter Gerhardt
24 February 2015

Membership and attendance

Member	Meetings attended
Hans-Peter Gerhardt	four out of four
Richard Ward	four out of four
Jonathan Feuer	four out of four
Gernot Lohr	four out of four

The Chief Executive Officer and HR Director are usually invited to attend all or part of Committee meetings, but are excluded from any discussions of their own remuneration.

Remuneration principles

As part of the process of admission in April 2014, the Company implemented a framework for remuneration that would operate in the listed environment. Much of the content was articulated in the prospectus. This Annual Report provides further detail.

Brit's overarching objective is to maximise returns and deliver value for our shareholders by focusing on key fundamentals of the specialty insurance business:

Underwriting
- Deliver 'best-in-class' underwriting returns
- Capitalise on profitable growth opportunities

Investment management
- Proactive management of the investment portfolio

Operations
- Continued focus on operating efficiency

Capital management
- Maintain strong capital position
- Sustainable regular dividend

Risk management
- Focus on control framework

MAXIMISE RETURNS AND DELIVER VALUE FOR SHAREHOLDERS

In order to support the above strategy, the Company's approach to remuneration is to provide overall pay packages that:

- Recognise the strong link between variable compensation and performance at Company, business unit and individual levels;
- Reward employees for delivering the Group's business plan and key strategic goals;
- Reward superior performance through incentive compensation;
- Appropriately reflect the risk appetite incorporated into the business strategy, as well as being balanced against the Group's audit and compliance obligations; and
- Align employees' interests with the interests of shareholders and other external stakeholders.

REMUNERATION REPORT

REMUNERATION POLICY REPORT

This section sets out the Company's Remuneration Policy (the 'Policy'), which will be put to shareholders for approval at the annual general meeting on 21 April 2015. Subject to shareholder approval, the Policy will take effect from 1 January 2016.

Future remuneration policy for executive Directors

The table below summarises each element of the Policy for executive Directors, with further details set out after the table.

Base salary	
Purpose and link to strategy	The Group's aim is to attract the best talent and strengthen a highly committed team to allow the Group to achieve its business goals.
Operation	Salaries are reviewed taking into account various internal and external factors including size and scope of the role, individual and business performance, and practices both at industry peers and across the FTSE 250 more generally. Due regard is also taken of the pay and conditions of the wider workforce. Salaries are normally reviewed annually.
Maximum opportunity	Salary increases will be based on a range of factors based on individual circumstances. There is no maximum opportunity. The Committee will take into account pay conditions in the Group when determining any increases.
Performance metrics	n/a
Benefits	
Purpose and link to strategy	To provide a standard package comparable with practice in the markets in which we operate.
Operation	Benefits include (but are not limited to) private medical care, life assurance, income protection and employee assistance. Further benefits may also be provided where the Committee considers this appropriate (e.g. on relocation).
Maximum opportunity	The value of benefits provided will be, in the Committee's opinion, reasonable in the context of relevant market practice for comparable roles, taking into account any individual circumstances (e.g. relocation). There is no maximum monetary value.
Performance metrics	n/a
Retirement benefits	
Purpose and link to strategy	To provide market-competitive retirement benefits.
Operation	Benefits are normally provided under the Group Personal Pension Plan (GPPP). The GPPP is a defined contribution pension arrangement, with benefits entirely based on contributions made to the plan and the investment returns on those contributions. Alternatively, the Company may pay a cash allowance in lieu of participation in the GPPP. Where appropriate, more bespoke arrangements may be considered (e.g. for non-UK participants). In such circumstances, the Committee will give appropriate consideration to relevant local market practices and the overall cost of the arrangement.
Maximum opportunity	The current Chief Executive Officer receives a cash allowance equivalent to 25% of salary per annum. For new hires the nature and value of any retirement benefit provided will be, in the Committee's opinion, reasonable in the context of market practice for comparable roles and take account of both the individual's circumstances and the cost to the Company.
Performance metrics	n/a

Annual bonus	
Purpose and link to strategy	To provide a short-term incentive based on financial and non-financial performance over one financial year.
Operation	The Group Bonus Plan is a discretionary annual bonus arrangement. Under the Group Bonus Plan, all awards are subject to the achievement of performance targets. A proportion of any annual bonus earned in respect of each financial year may be deferred into awards over shares normally vesting after a three-year deferral period, unless the Committee considers an alternative deferral period is appropriate. This deferral is facilitated by the Deferred Share Plan (DSP). Dividends (or equivalents) may accrue on any DSP awards shares that vest.
Maximum opportunity	Maximum annual opportunity up to 300% of salary.
Performance metrics	Bonuses are subject to the achievement of Group and individual performance objectives. Where relevant, business unit performance may also be considered. Performance conditions are normally set by the Remuneration Committee at the beginning of each financial year. The overall incentive pool is normally based on Group returns and profitability. The incentive pool begins to accrue once a threshold performance hurdle is delivered. There are no payments for performance below this level. Individual pay-outs to Executive Directors are discretionary, taking into account various factors including achievement of individual performance objectives relevant to the executive Director's roles. In respect of 2015, the overall incentive pool will be linked to Group return on net tangible assets.

Performance share plan	
Purpose and link to strategy	To provide rewards linked to Company performance and shareholder value over the longer-term, while facilitating share ownership and aligning the interests of executive Directors and shareholders.
Operation	Awards normally vest dependent on performance measured over a period of at least three years. The Committee reviews the metrics, targets and weightings prior to each grant to ensure they remain appropriate. Dividends (or equivalents) may accrue in respect of any shares that vest.
Maximum opportunity	Maximum award of up to 225% of salary in respect of any financial year.
Performance metrics	Vesting is based on performance against financial/operational and shareholder return measures. At least 25% of an award will be based on total shareholder return. The Committee determines targets each year to ensure that targets are stretching and represent value creation for shareholders, while remaining motivational for management. No more than 25% of each element will vest for performance at the threshold level set. There will normally be proportionate vesting for performance between the threshold target and performance required for full vesting. Prior to granting awards, the Committee will review the performance conditions and may opt to vary the metrics and weightings to ensure targets and measures remain aligned with the corporate strategy. The Committee will consult as appropriate with its major shareholders regarding any material changes.

REMUNERATION POLICY REPORT

Other HMRC all-employee approved plans	
Purpose and link to strategy	To create staff alignment with the Company and promote a sense of ownership.
Operation	Executive Directors may participate in any all-employee share plans operated by the Company or its subsidiaries. Executive Directors would participate on the same terms as all employees of the Group. Brit currently operates a share incentive plan (SIP).
Maximum opportunity	Participation in any HMRC-approved all-employee share plan (e.g. the SIP) is limited to the maximum award levels permitted by the relevant legislation from time-to-time.
Performance metrics	n/a

Share ownership guidelines	
Operation	Share ownership guidelines are operated to encourage senior executives to build and/or maintain a material shareholding in the Company. The relevant threshold is expected to be reached and maintained within five years from admission or, if later, from the date the individual became subject to the share ownership guidelines. The Chief Executive Officer is required to build up and maintain a holding equivalent to 200% of his base salary.

Notes to the future remuneration policy table

Selection of performance measures for incentives
It is intended that the performance measures and targets for incentives are closely aligned with the Company's short-term and long-term objectives. The intention is to provide a direct link between reward levels, performance and delivery of the Group strategy, and the shareholder experience.

The incentive plan incorporates measures which focus on delivery of long-term value creation and shareholder returns. RoNTA is a measure of efficient profitability and is a key indicator of how well we execute the Group's strategy. This is the primary KPI used in the business. Relative total shareholder return targets measure the value generated for shareholders and provide a direct comparison against our key sector peers.

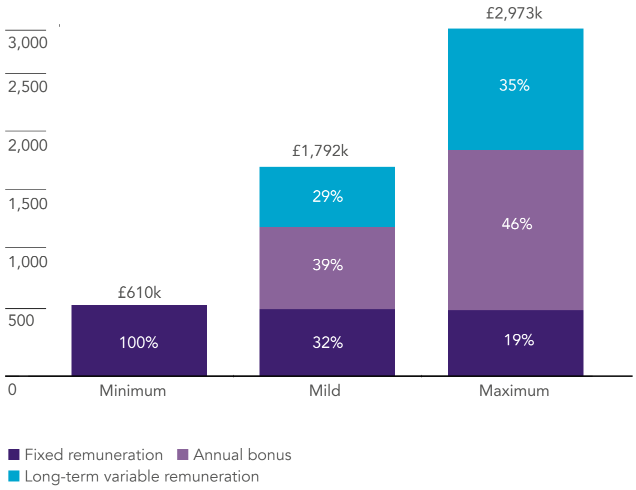
The Committee may vary or rebalance the weighting of the performance metrics for future incentives, to ensure that they remain aligned with the Company's strategic objectives. The Committee may also adjust the calculation of performance measures and vesting outcomes (e.g. for material acquisitions or disposals and events not foreseen at the time the targets were set) to ensure they remain a fair reflection of performance over the relevant period.

Malus and clawback
Malus and clawback provisions may be operated at the discretion of the Committee in respect of awards granted under the DSP and the PSP. Malus (under which awards may be reduced or made subject to additional conditions) may be applied prior to the satisfaction of the award, while clawback (requiring a repayment of cash or some or all of the shares which have been delivered) may be operated up to three years following satisfaction of the award. Circumstances in which the operation of these provisions may be considered include a material misstatement of the Company's financial results, a material failure of risk management by any member of the Group or a relevant business unit, material reputational damage to any member of the Group or relevant business unit, or if the participant's employment is terminated for gross misconduct.

The Committee is satisfied that the above provisions are suitably aligned with good market practice and provide appropriate safeguards against payments for failure.

Illustration of application of the remuneration policy

The chart below shows the potential remuneration receivable by the Chief Executive Officer under three performance scenarios.



The chart above has been compiled using the following assumptions:

Assumptions	
Fixed remuneration	• Base salary: salary at 31 December 2014. • Benefits: value of benefits provided to incumbent in 2014. • Pension: value of cash allowance of 25% of salary.
Variable remuneration	• Annual bonus: maximum award of up to 300% of salary. • PSP: allowable under plan rules of 225% of salary. • The amounts shown do not take into account share price growth or receipt of dividend equivalents.

Performance scenarios	
Minimum	Fixed remuneration only.
Mid	Fixed remuneration plus variable pay for the purpose of illustration as follows: • Annual bonus: assumes a bonus pay-out of 50% of maximum. • PSP: assumes vesting of 50% of maximum.
Maximum	Fixed remuneration plus variable pay for the purpose of illustration as follows: • Annual bonus: assumes a bonus pay-out of 100% of maximum. • PSP: assumes vesting of 100% of maximum.

REMUNERATION POLICY REPORT

Recruitment policy

Brit operates in a highly competitive and specialised sector. The Company competes for talent in both the UK and international markets and therefore needs to remain cognisant of remuneration practices in this wider context. While aiming to remain competitive when recruiting talent of an appropriate calibre, the Committee will seek to avoid paying more than is necessary.

On recruitment of a new executive Director, the Committee will initially seek to align the remuneration package with the policy described above. The overall limits are consistent with the Policy Table.

Recruitment policy	
Fixed pay	Salary and benefits (including retirement benefits) will normally be determined in accordance with the Policy Table above. In certain cases, the initial salary for a new appointment may be set at a lower level, with the intention of increasing the salary over time as the executive Directors gain experience in the role. An alternative fixed pay package may be necessary where an individual fulfils an executive role on an interim basis. Benefits may also need to be tailored based on the individual circumstances (e.g. relocation, housing or travel allowances may be required).
Variable pay	The maximum variable remuneration that may be offered to an executive Director in respect of recruitment will be no more than 525% of salary (excluding any buy-out arrangements). This limit is consistent with the overall maximum set out in the Policy Table. Within these limits (and where appropriate) the Committee may tailor the award (e.g. timeframe, form, performance criteria) based on the commercial circumstances. Shareholders will be informed of the terms for any such arrangements.
Buyouts	Where there is a need to 'buyout' remuneration terms forfeited on joining the Company, the Committee will seek to ensure any buyout is of comparable commercial value and capped as appropriate. The quantum, form and structure of any buyout arrangement will be determined by the Committee taking into account the terms of the arrangement being forfeited (e.g. form and structure of award, timeframe, performance criteria, likelihood of vesting, etc.). Where appropriate the Committee may seek to deliver any buyout under one of Brit's existing incentive plans. Where appropriate, the Committee will normally seek to clawback any buyouts if the individual departs within two years of joining. Where an executive Director is appointed from either within the Company or following corporate activity/reorganisation (e.g. acquisition of another company), the normal policy will be to honour any legacy arrangements in line with the original terms and conditions.
Non-executive Directors	On the appointment of a new Chairman or non-executive Director, the terms and fees will normally be consistent with the fee policy outlined later in the Policy. Fees to non-executive Directors will not include share options or performance-related elements.

Executive Director service contracts and payment for loss of office

Service contracts	
General policy	The Company's policy is for executive Directors' service contracts to normally be terminable on six months' notice by either party. Where appropriate, consideration may be given to a longer notice period of up to 12 months. The Company may terminate an individual's service agreement at an earlier date by making a payment in lieu of notice in respect of salary and benefits for the outstanding period of notice. Consideration will be given to appropriate mitigation terms to reduce payments in lieu of notice made on termination in the event of the executive Director commencing alternative employment within the relevant period. Benefits payable on termination may include certain one-off benefits in connection with termination, such as legal costs and the costs of meeting any settlement agreement.

The service contract of the Chief Executive Officer, Mark Cloutier, is terminable on six months' notice by either party. During the notice period the individual may be placed on garden leave. During this period he remains an employee of the Group and is subject to certain restrictions. The Company may elect to terminate Mark Cloutier's employment immediately by making a payment in lieu of notice equivalent to his basic salary for the notice period. This would typically be paid in monthly instalments, which continue until the expiry of the notice period or the date on which the individual obtains alternative employment.

The service agreement also contains post-termination restrictions. For a period of six months after termination (less any period spent on garden leave), he may not be concerned (in a similar role) in any competing business without the Board's written concent. For a period of 12 months after termination (less any period spent on garden leave) he may not solicit or employ any senior employees from the Company in connection with any competing business.

Incentive plans

The Committee retains discretion to determine the exact termination terms of any executive Director, having regard to all the relevant facts and circumstances available to them at the time, subject to the terms of the relevant incentive plan rules. The table below sets out the general position and range of approaches in respect of incentive arrangements.

Incentive arrangements	
Annual bonus	Payment of any bonus is at the discretion of the Committee taking into account the circumstances of leaving and performance over the relevant period. Usual policy is not to pay any bonus.
DSP	*Good leaver (e.g. cessation due to ill-health)* Any outstanding awards will ordinarily vest on the normal vesting date. The extent to which awards vest will be determined by the Committee based on the period that has elapsed between the grant of the award and cessation. The Committee can alternatively decide that awards may vest early at the time of cessation (or on such other date prior to the original vesting date as the Committee may determine). If a participant dies, his award will vest immediately (unless the Committee determines otherwise, on the same basis as referred to above). *Other leavers (e.g. termination for cause)* Any unvested awards lapse on cessation. Vested but unexercised awards may be exercised for a period of 12 months following cessation (or such period as the Committee may determine), except in the case of summary dismissal where all awards lapse.
PSP	*Good leaver (e.g. cessation due to ill-health)* Any outstanding awards will ordinarily vest on the normal vesting date as determined by the Committee, based on the extent that any applicable performance conditions measured over the original performance period have been satisfied and the period of time elapsed between the grant of the award and cessation. Alternatively, the Committee can decide that awards may vest early at the time of cessation (or on such other date prior to the original vesting date as the Committee may determine) but with any vesting subject to performance measured up to cessation and time prorating (on the basis referred to above). If a participant dies, his award will vest immediately (unless the committee decides otherwise) with any vesting subject to performance and prorating for time on the same basis as referred to above. *Other leavers (e.g. termination for cause)* Any unvested awards lapse on cessation. Vested but unexercised awards may be exercised for a period of 12 months following cessation (or such period as the Committee may determine), except in the case of summary dismissal where all awards lapse.

REMUNERATION POLICY REPORT

Future remuneration policy table for non-executive Directors

Remuneration of independent non-executive Directors, with the exception of the Chairman, is determined by the Chairman and the executive Directors. The remuneration of the Chairman is determined by the Committee. Directors are not involved in any decisions as to their own remuneration. The current non-independent non-executive Directors are not entitled to any fee in respect of their appointments.

The table below sets out the policy with respect to non-executive Directors. Non-executive Directors do not participate in the Company's bonus arrangements, share incentive plans or pension-benefit plans. Any new independent non-executive Director will be treated in accordance with the policy.

Fees	
Approach to setting remuneration	Fees are set at appropriate levels to ensure non-executive Directors are paid to reflect the individual responsibility taken. Fees are reviewed periodically. When setting fee levels, consideration is given to a number of internal and external factors including responsibilities, market positioning, inflation and colleague pay increases. Where appropriate, benefits appropriate to the role may be provided. Travel and other reasonable expenses (including fees incurred in obtaining professional advice in the furtherance of their duties and any associated taxes) incurred in the course of performing their duties may be paid by the Company or reimbursed to independent and non-independent non-executive Directors.
Opportunity	The total fees paid to non-executive Directors will remain within the limit stated in the Articles of Association. Individual fees reflect responsibility and time commitment. Additional fees are paid for further responsibilities, such as chairmanship of committees, or duties related to subsidiary boards. Benefits provided will be reasonable, in the Committee's opinion, in the market context and take account of the individual circumstances and benefits provided to comparable roles.

The appointment of the Chairman and each independent non-executive Director is terminable by either party, giving not less than three months' written notice.

The appointment of any non-independent non-executive Director will terminate on the individual resigning from his or her office with the Company and on termination of the applicable relationship deed.

Detailed provisions

All incentive awards are subject to the terms of the relevant plan rules under which the award was granted. The Committee may adjust or amend awards only in accordance with the provisions of the plan rules. This includes making adjustments to awards to reflect corporate events, such as a change in the Company's capital structure. In accordance with the plan rules, awards may be settled in cash.

The Committee may amend any performance condition applicable to incentive awards in certain circumstances (e.g. significant acquisition or disposal) if the Committee considers it appropriate and the amended performance condition would be fair, reasonable and not materially less challenging than the original performance condition would have been in the absence of such circumstances.

If the Company undergoes a change of control, then awards will vest to the extent determined by the Committee based on the period of time elapsed between the date on which the award was granted and the change of control and, in the case of PSP awards, the extent to which any relevant performance conditions have been satisfied after taking into account all factors it considers relevant (including its assessment of likely future performance). The Committee (with the consent of the acquiring company) may allow or require awards to be exchanged for equivalent new awards in the acquiring company in the event of an internal reorganisation of the Group or if the participant agrees to the exchange.

The Committee may make any remuneration payments (including vesting of incentives) and payments for loss of office notwithstanding that they are not in line with the policy set out above, where the terms of that payment were agreed before this Policy came into effect; or at a time when the relevant individual was not a Director of the Company and, in the opinion of the Committee, the payment was not in consideration for the individual becoming a Director of the Company.

The Committee may make minor amendments to the remuneration policy to aid its operation or implementation without seeking shareholder approvals (e.g. for regulatory, exchange control, tax or administrative purposes).

Consideration of employment conditions elsewhere at Brit

Remuneration across the Company is based on similar principles. When considering remuneration arrangements for senior executives the Committee takes into account pay and conditions across the Group.

Incentive plans are operated across the Group to ensure remuneration is linked to performance. Incentive opportunities are based on the nature and seniority of the relevant role. Annual bonus plans are operated across the Group, with arrangements tailored to the nature of the role where appropriate. Participation in DSP and PSP is generally limited to senior management, usually on similar terms to the Chief Executive Officer.

All employees (including the Chief Executive Officer) participate in the same retirement and benefits schemes, albeit the Chief Executive Officer has a cash allowance in lieu of participation in the GPPP. Brit also operates an all-employee share incentive plan to create staff alignment and promote a sense of ownership in the Company.

The Committee does not formally consult with colleagues on the setting of the Policy but as a result of the Company's all-employee share plans, colleagues are able to become shareholders in the Company and can comment on the Policy in the same way as other shareholders.

Consideration of shareholder views

The Committee recognises the importance of engaging with key shareholders regarding the Company's approach to pay for executive Directors. An overview of remuneration arrangements for senior executives was disclosed in the admission prospectus.

REMUNERATION REPORT

ANNUAL REPORT ON REMUNERATION

This Annual Report on Remuneration explains how Directors have been paid in relation to the year ended 31 December 2014 and provides detailed disclosure on how the Remuneration Policy will be implemented in 2015.

This report will be put to an advisory shareholder vote at the 2015 annual general meeting held on 21 April 2015. Where information has been subject to audit this has been stated.

Brit's shares were admitted onto the London Stock Exchange on 2 April 2014 ('admission'). As such, there are a number of disclosures for which we are only required to report 'part-year' numbers. However, in the spirit of transparency embodied in the new directors' remuneration disclosure regulations we have reported full-year figures wherever possible or appropriate to do so.

Single total figure of remuneration for the Chief Executive Officer (audited)

The table below sets out the remuneration received by the Chief Executive Officer for the financial years ending 31 December 2014 and 31 December 2013.

	Year	Salary £000	Benefits £000	Pension £000	Annual bonus £000	Long-term incentives £000	All-employee share awards £000	Total £000
Mark Cloutier	2014	450	61	99	900	–	4	1,514
	2013	450	58	99	1,250	–	–	1,857

Notes to the Chief Executive Officer Remuneration table

Salary

The CEO's salary in 2014 was £450,000.

The Committee is mindful that the Chief Executive Officer's salary has not been increased since April 2012. Given the exceptional circumstances, the Committee has not made a decision in respect of the Chief Executive Officer's salary for 2015. Any increase would look to take into account the nature of his role and contribution, as well as practise amongst comparable companies. Details of any salary review undertaken in due course will be disclosed in subsequent reports as appropriate.

Benefits

Benefits provided included private health cover, permanent health cover and life assurance cover in 2014. As disclosed in the prospectus, prior to admission, a loan was made by Achilles Holdings 1, S.à.r.l. to the Chief Executive Officer. The taxable benefit associated with this loan was £8,584. This loan has now been repaid in full.

Pension

The Chief Executive Officer received a pension allowance of 25% of salary (inclusive of employer national insurance contributions) in lieu of contributions under the Brit Group Personal Pension Plan. He received no other retirement benefits from the Group.

Annual bonus

The annual bonus plan is designed to reward and incentivise performance over the financial year. The bonus framework uses a range of performance measures, linked to Group, business unit (where relevant) and individual performance. Prior to determining the final bonus outcomes, the Committee considers performance in the round to ensure that actual bonuses are appropriate.

The maximum bonus for the Chief Executive Officer in 2014 was 200% of base salary, as disclosed in the prospectus. The whole of his 2014 annual bonus was dependent on performance against Group profit targets and assessment of individual performance.

The table below sets out the committee's assessment of performance achieved in respect of the 2014 annual bonus. The Remuneration Committee and the Board have given careful consideration to the retrospective disclosure of targets and has disclosed targets where not considered to be commercially sensitive. Where details of any performance conditions are considered to be commercially sensitive disclosure will be considered in future remuneration reports where appropriate.

The Company's RoNTA performance creates a bonus pool. An individual's performance then determines the value of the bonus payable to him. For 2014, the target RoNTA was 18.0% with a range created around this level. Actual RoNTA achieved was 20.7%.

When considering the Chief Executive's bonus, the Committee noted his role and contribution played in the successful return to the listed market; growth in premiums and strong underwriting performance notwithstanding challenging market conditions and ongoing progress in developing platforms in line with our long-term strategy. The RoNTA outcomes represents a third year of sector leading returns. On the basis of these factors and taking into account overall performance, the Committee determined that the bonus for the Chief Executive Officer would be 200% of base salary.

For 2015, the maximum bonus opportunity for the Chief Executive Officer will be 300% of base salary which is aligned with sector practice. The Committee has agreed the performance measures and targets against which any annual bonus will be assessed. The targets have not been disclosed prospectively as the Board considers this commercially sensitive information. The 2015 bonus will have a broadly similar structure to the award in 2014.

Long-term incentives

During 2014 the Company granted the first set of PSP awards. The key terms of the award granted during 2014 are as follows:

- Award subject to TSR and RoNTA targets
- Three-year performance period
- Awards vest in tranches over three to five years following grant.

The performance targets for the 2014 award are as follows:

Performance metrics	Weighting	Threshold performance	Superior performance	Performance period
Average annual RoNTA	75%	10%	20%	FY14-FY16
Relative TSR[1]	25%	Median	Upper quartile	3 years following admission

1 The constituents of this group are: Ace, Amlin, Arch, Argo, Aspen, Axis, Beazley, Catlin, Endurance, HCC Insurance, Hiscox, Lancashire Holdings, Markel, Novae Group, QBE Insurance, Validus, W R Berkley, XL Group. Total shareholder return performance will be measured from the date of admission on 2 April 2014.

2 The level of vesting for performance between threshold and superior performance will be determined on a straight-line basis. For performance below threshold for either element of the award, vesting will be nil for that element.

Vesting of each element of the award will take place in three tranches. Subject to performance, the first tranche (50% of the total award) will normally vest and become exercisable on the third anniversary of grant. The remaining tranches of the award will vest on the fourth (25% of total award) and fifth anniversaries (25% of total award) of grant.

ANNUAL REPORT ON REMUNERATION

In respect of 2014, the Chief Executive Officer was granted an award equivalent to 120% of salary. The table below sets out further details of the award.

Description of award	Date of grant	Number of shares under award	Face value[1]	End of the performance period
Conditional shares	16/09/2014	219,406	£540,000	01/04/2017

1 The Chief Executive Officer's award has been valued based on the five-day average share price prior to grant, which was £2.46.

Under the rules of the PSP, the award will be subject to malus and clawback provisions, as summarised in the Policy Report.

If awards are granted in 2015 (in the context of the offer from Fairfax to acquire the Company), then details will be disclosed, as appropriate, in our 2015 annual report on remuneration.

All-employee share plan
As disclosed in the admission prospectus, the Company granted a one-off IPO award to all eligible employees in order to reward them on the occasion of the admission. Following admission, awards were made on similar terms under the Brit All-Employee Share Plan.

Accordingly, the Chief Executive Officer was granted an award, as set out in the table below.

Description of award	Date of grant	Number of shares under award	Face value[1]	Proportion of award vesting or threshold performance	End of the[2] performance period
Free share award	24/06/2014	1,490	£3,600	n/a	n/a

1 The Chief Executive Officer's award has been valued based on the five-day average share price prior to grant, which was £2.41.
2 The IPO Award is not subject to performance conditions. However, in accordance with the rules of the plan this award is subject to a holding period of three years normally subject to continued employment. Shares must be retained for a further two years (i.e. five years) in order to benefit from the relevant beneficial tax treatment under the relevant legislation.

Single total figure of remuneration for the non-executive Directors (audited)

The table below sets out the remuneration received by the non-executive Directors for the financial years ending 31 December 2014.

	Year	Fees £000	Benefits £000	Total £000
Richard Ward[1] Chairman	**2014**	**229**	**2**	**231**
Ipe Jacob[2] iNED	**2014**	**150**	**2**	**152**
Jonathan Feuer[3] NED	**2014**	–	–	–
Hans-Peter Gerhardt[4] iNED	**2014**	**121**	**6**	**127**
Maarten Hulshoff [5,6] iNED	**2014**	**69**	**10**	**79**
Sachin Khajuria[3] NED	**2014**	–	–	–
Gernot Lohr[3] NED	**2014**	–	–	–
Kamil Salame[3] NED	**2014**	–	–	–
Willem Stevens[5] iNED	**2014**	**69**	**4**	**73**

1 Richard Ward receives an all-inclusive fee for his services as Chairman of Brit PLC, Chairman of BSL, and Chairman of the Nomination Committee. Fee prorated for commencement in February 2014.
2 Ipe Jacob is entitled to fees in addition to his basic fee in recognition of services as Brit PLC Audit Committee Chairman, Brit PLC Risk Oversight Committee Chairman, Senior Independent Director, BIG Audit Committee Chairman, BIG Risk Oversight Committee Chairman and UK Audit Committee Chairman.
3 Under the terms of relationship agreements entered into, as disclosed in the prospectus, Apollo AIF VII Euro Holdings L.P. and CVC-affiliated funds have the right to nominate two persons each as Directors of the Company. These non-independent non-executive Directors (Gernot Lohr, Sachin Khajuria, Kamil Salame and Jonathan Feuer) are not entitled to any fee in respect of their appointment.
4 Hans-Peter Gerhardt is entitled to fees in addition to his basic fee, in recognition of his services as Remuneration Committee Chairman and Underwriting Committee Chairman. Fee converted from Swiss Francs to Sterling – CHF to GBP 1.51.
5 Fee for period January to March 2014 converted from Euros to Sterling – EUR to GBP 1.24; Sterling fee from 27 March 2014 onward.
6 Maarten Hulshoff holds the position of Investment Committee Chairman.

The fee policy with effect from 1 January 2015 is as follows:

- Chairman – £250,000 per annum
- Base fee – £75,000 per annum
- Senior Independent Director – additional £25,000 per annum
- Chairman of the Audit Committee – additional £25,000 per annum
- Chairman of the Risk Oversight Committee – additional £15,000 per annum
- Chairman of the Underwriting Committee – additional £15,000 per annum
- Chairman of the Investment Committee – additional £15,000 per annum
- Subsidiary Board – any additional fees will reflect nature of the role

ANNUAL REPORT ON REMUNERATION

Payments for loss of office and payments to past directors

No payments for loss of office or payments to past directors were made during the year.

Statement of Directors' shareholdings and share interests

The table below sets out the Directors' shareholdings in the Company.

	Shareholding	Guidelines
	As at 31 December 2014	Proportion of shareholding guideline achieved[2]
Executive Directors		
Mark Cloutier	1,204,813	Guideline met
Non-executive Directors		
Richard Ward	102,750	n/a
Ipe Jacob	–	n/a
Jonathan Feuer	–	n/a
Hans-Peter Gerhardt	79,594	n/a
Maarten Hulshoff	–	n/a
Sachin Khajuria	–	n/a
Gernot Lohr	–	n/a
Kamil Salame	–	n/a
Willem Stevens	–	n/a

The table below sets out the Directors' interests in shares of the Company.

	Shares				Options	
	Unvested and subject to performance	Unvested and not subject to performance	Unvested and subject to performance	Unvested and not subject to performance	Vested but unexercised	Exercised during the year
Executive Directors						
Mark Cloutier	219,406	1,490	–	–	–	–
Non-Executive Directors						
Richard Ward	–	–	–	–	–	–
Ipe Jacob	–	–	–	–	–	–
Jonathan Feuer	–	–	–	–	–	–
Hans-Peter Gerhardt	–	–	–	–	–	–
Maarten Hulshoff	–	–	–	–	–	–
Sachin Khajuria	–	–	–	–	–	–
Gernot Lohr	–	–	–	–	–	–
Kamil Salame	–	–	–	–	–	–
Willem Stevens	–	–	–	–	–	–

Service agreements

The following table sets out detail of the Directors' service agreements. Further details regarding the terms are set out in the Policy Report.

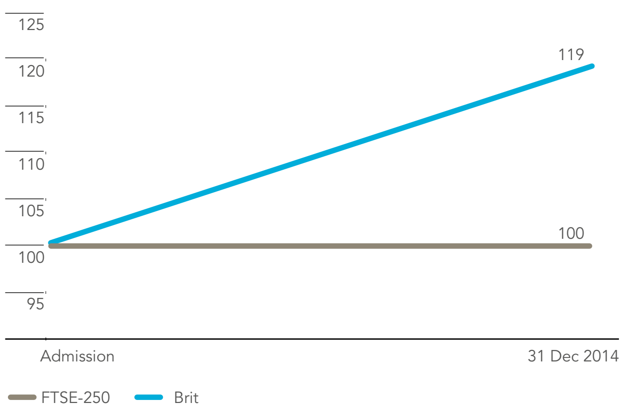
	Date of appointment	Date of contract	Notice period/ unexpired term [1]
Executive Directors			
Mark Cloutier	27/03/14	27/03/14	6 months
Non-Executive Directors			
Richard Ward	27/03/14	03/02/14	24 months
Ipe Jacob	27/03/14	27/03/14	24 months
Jonathan Feuer	27/03/14	27/03/14	–
Hans-Peter Gerhardt	27/03/14	27/03/14	24 months
Maarten Hulshoff	27/03/14	27/03/14	24 months
Sachin Khajuria	27/03/14	03/03/14	–
Gernot Lohr	27/03/14	27/03/14	–
Kamil Salame	27/03/14	03/03/14	–
Willem Stevens	27/03/14	27/03/14	24 months

1 Jonathan Feuer, Sachin Khajuria, Gernot Lohr and Kamil Salame's terms of appointments are determined by the applicable relationship agreement.

Performance and Chief Executive Officer's total remuneration

The chart below illustrates the Company's TSR performance against the FTSE 250 since admission on 2 April 2014. This cross-sector index was chosen as the Company is a constituent of that index.

Total Shareholder return index



Source: Thomson Reuters Datastream

The table below shows the single figure of total remuneration for the Chief Executive Officer in 2014. Note that this relates to the whole of the 2014 financial year and so is not directly comparable to the period used above for TSR purposes.

	2014 £000
Total remuneration	**1,514**
Annual bonus as a % of maximum	**100**
Long-term incentives as a % of maximum	**N/A**

ANNUAL REPORT ON REMUNERATION

Percentage change in the Chief Executive Officer's remuneration

The following table compares the percentage change in the Chief Executive Officer's remuneration to the average percentage change in remuneration for all employees from 2013 to 2014.

	Salary	Benefits	Annual bonus
Chief Executive Officer	0%	6%	(20%)
All-employee average	3%	7%	40%

1 The change in benefits for all employees represents the change in private medical cover.
2 The change in annual bonus refers to the change in awards from the Group Bonus Plan.

Relative importance of spend on pay

The table below shows the relative movement in shareholder distributions and total employee remuneration.

	2013 £m	**2014 £m**
Total remuneration	59.8	**71.0**
Distributions	–	**25.0**

Consideration by the Directors of matters relating to Directors' remuneration

The Remuneration Committee members in 2014 were Hans-Peter Gerhardt (Chairman), Richard Ward, Jonathan Feuer and Gernot Lohr.

In accordance with its terms of reference, the Committee holds delegated responsibility for matters including:

- The determination of the terms and conditions of employment, remuneration and benefits of each of the Chairman, any executive Directors, other members of the executive Management Committee and the Company Secretary;
- For the determination of all aspects of share-based incentive arrangements; and
- Oversight of any major changes in employee benefit structures throughout the Group.

The full Terms of Reference are available for inspection on the governance section of the Company's website.

Deloitte LLP support the Company with the provision of external market perspectives and assist in ensuring evolving best practice is taken into account. Since admission, Deloitte fees for these services have been £93,400. The Deloitte remuneration practice also provide advice on wider remuneration and implementation matters. Deloitte LLP is a member of the Remuneration Consultants' Group and as such voluntarily operates under the code of conduct in relation to executive remuneration consulting in the UK. During the year, a separate Deloitte team also provided the Company with an unrelated regulatory assurance report.

Statement of shareholder voting

As this is the Company's first report following admission in 2014, there are no general meeting resolutions, or voting outcomes, to report in respect of Directors' remuneration in the prior financial year.

The Company is committed to ongoing shareholder dialogue and will be seeking approval for both the Annual Report on Remuneration and the Remuneration Policy at the 2015 annual general meeting.

Hans-Peter Gerhardt
24 February 2015

DIRECTORS' REPORT

The Strategic Report and the audited financial statements are presented on pages 5 to 68 and pages 115 to 218 respectively. The Governance Report on pages 72 to 77 and information contained in the Strategic Report forms part of this Director's report and are incorporated by reference.

The Directors present their report together with the audited Consolidated Financial Statements for the year ended 31 December 2014.

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. This includes the Chairman's Statement, the Chief Executive Officer's Review and other material. The principal activities of Brit during the year were underwriting general insurance, reinsurance risks and the management of a Lloyd's syndicate.

Significant changes and events

On 3 March 2014, the Company was re-registered as a public limited company from a private company limited by shares and changed its name from Brit Newco Limited to Brit PLC.

On 2 April 2014, the Company's shares were admitted to the premium listing segment of the Official List of the UK Listing Authority and to trading on the London Stock Exchange's main market for listed securities.

Brit PLC

Brit PLC is registered in the UK, number 8821629. Its registered office is 55 Bishopsgate, London EC2N 3AS.

Directors

The following Directors held office since March 2014 and up to the date of this report:

Richard Ward
Mark Cloutier
Ipe Jacob
Jonathan Feuer
Hans-Peter Gerhardt
Maarten Hulshoff
Sachin Khajuria
Gernot Lohr
Kamil Salame
Willem Stevens

The biographical details of the Directors are provided on pages 70 and 71.

Particulars of the Directors' interest in ordinary shares are disclosed in the Remuneration Report on page 92.

Appointment and retirement of Directors

The Directors may from time to time appoint one or more Directors. Any such Director shall hold office only until the next AGM and shall then be eligible for reappointment by the Company's shareholders. At the Company's 2015 AGM all current Executive and Non-Executive Directors will retire and offer themselves for reappointment in compliance with the Code.

Dividend

The Directors recommend a final ordinary dividend for the year ended 31 December 2014 of 12.5 pence per ordinary share and a special dividend of 12.5 pence per ordinary share. Together with the interim dividend of 6.25 pence per share paid to shareholders on 26 September 2014 will make a total dividend for the year of 31.25 pence per share. Subject to approval at the annual general meeting, the final and special dividends will be paid on 30 April 2015 to shareholders appearing on the register at the close of business on 20 March 2015. The shares will go ex-dividend on 19 March 2015.

Share capital

The Company's ordinary issued share capital at 31 December 2014 comprised one class of ordinary shares. All of the issued ordinary shares are fully paid and rank equally in all respects.

On 30 April 2014, the nominal value of the shares was reduced from £2.00 per ordinary share to £0.01 per ordinary share.

DIRECTORS' REPORT

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 on their behalf. 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. Holders of the Company's ordinary shares do not have cumulative voting rights.

Restrictions on transfer of securities
There are no specific restrictions on the transfer of securities in the Company, which is governed by the Articles of Association and prevailing legislation, nor is the Company aware of any agreements between holders of securities that may result in restrictions on the transfer of securities or that may result in restrictions on voting rights.

Variation of rights
Subject to the Companies Act 2006, rights attached to any class of shares may be varied with the consent in writing of the holders of three-quarters in nominal value of the issued shares of the class or with the sanction of a special resolution passed at a separate general meeting of the shareholders.

Lock-up arrangements
At the time of the Company's IPO, the CVC-affiliated funds, the Apollo entities and the Directors agreed to certain lock-up arrangements.

The CVC-affiliated funds and the Apollo entities agreed that, subject to certain exceptions, during the period of 180 days from 2 April 2014, the date of admission of the Company's ordinary shares to the Official List, they would not directly or indirectly effect the disposal of, or interest in, any ordinary shares of the Company. The lock up arrangements in respect of the CVC-affiliated funds and the Apollo entities are no longer applicable.

Each of the Directors and certain of the management employees who held shares at the time of the IPO agreed that, subject to certain exceptions, during the period of 365 days from the 2 April 2014, the date of admission of the Company's ordinary shares to the Official List, they would not directly or indirectly effect the disposal of, or interest in, any ordinary shares of the Company. These lock-up arrangements will fall away on 2 April 2015.

Power of Directors to issue shares
The Directors require express authorisation from shareholders to allot new shares. This authority can be granted for a period of five years, however, we will follow best practice and seek shareholder approval annually. It will be proposed at the 2015 AGM that the Directors be granted authority to allot new shares.

Purchase of own shares
The Directors require express authorisation from shareholders to purchase own shares. Accordingly, at the 2015 AGM, the Directors will seek authority to make market purchases of up to a maximum of 10% of issued share capital. At the present time the Group has no intention of exercising this authority.

The Company did not repurchase any of its ordinary shares during 2014.

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

Major shareholders
Information provided to the Company pursuant to the UK Listing Authority's 'Disclosure and Transparency Rules' (DTRs) is published on a regulatory information service and on the Company's website. As at 31 December 2014, the Company had been notified under DTRs of the following significant holdings of voting rights in its shares:

Shareholder	Units	%	Comments
Apollo	158,999,103	39.7	Apollo Management VII, L.P. is the investment manager to Apollo Fund VII and its co-investment vehicles and have the power to determine the exercise of voting rights indirectly held by each of the entities which total 39.7% of the share aggregate voting rights.
CVC	134,567,032	33.6	CVC and its affiliated funds including Bishop LP hold 33.6% of the share aggregate voting rights.

There have been no changes in the significant holdings between 1 January 2015 and 24 February 2015.

Significant changes
There were no significant changes to the Group's state of affairs during the financial year, other than as disclosed in this Annual Report.

Significant agreements
The following agreement which was in force at 31 December 2014, takes effect, alters or terminates on a change of control of the Company.

Revolving credit facility
The Group has a syndicated revolving credit facility (RCF) which provides for £225.0m of committed multi-currency financing. Amounts under the RCF can be drawn until 30 November 2018, and the revolving credit facility 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.

Employee involvement
Further information on equal opportunities, employee engagement together with the information on diversity can be found on pages 66 and 67.

Greenhouse gas emissions
Disclosures concerning greenhouse gas emissions are now compulsory and details of this and our environmental responsibility can be found on page 68.

Directors' responsibility statement
The Directors are responsible for preparing the Annual Report and the Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Financial Statements for each financial year. Under that law the Directors have prepared the Group Financial Statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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 Group and the Company and of the profit or loss of the Group 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;
- State whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the Financial Statements; 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 are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the Financial Statements and the Directors' Remuneration Report comply with the Companies Act 2006 and, as regards the Group Financial Statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Having taken advice from the Audit Committee on the process, all the Directors consider that the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

Pursuant to the Disclosure and Transparency Rule 4, the Directors confirm that, to the best of their knowledge:

- The Consolidated Financial Statements, which have been prepared in accordance with accounting principles generally accepted in the United Kingdom, 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.

Going concern

A review of the financial performance of the Group is set out on pages 48 to 59. The financial position of the Group, its cash flows and borrowing facilities are set out on pages 40 to 47. 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 ought to have taken as a Director to make himself 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), the auditor of the Company, has expressed willingness to continue in office. A resolution to reappoint them as the Company's auditor and to authorise the Directors to determine EY's remuneration will be proposed at the forthcoming AGM.

The Audit Committee has made the decision to commence a qualifying audit tender process in 2015 for the appointment of the Group auditor for 2016.

Annual general meeting

The venue and timing of the Company's 2015 annual general meeting is detailed in the notice convening the meeting which will be available for download from the Company's corporate website at: www.britinsurance.com/ir.

Offer from Fairfax

On 17 February 2015, the boards of Fairfax Financial Holdings Limited (Fairfax) and the Company announced that they had reached agreement regarding the terms of a recommended cash offer through which the entire issued and to be issued ordinary share capital of the Company would be acquired by FFHL Group Ltd, an entity wholly-owned by Fairfax.

Under the terms of this offer, shareholders of the Company would be entitled to receive 305 pence in cash for each Brit Share, comprising 280 pence in cash and 25 pence by way of the 2014 final ordinary and special dividends recommended by the Board of the Company. Further details will be set out in the offer document.

By order of the Board

David Gormley
Group Company Secretary
24 February 2015

CONTENTS

FINANCIAL STATEMENTS

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BRIT PLC

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 2014 and of the Group's profit for the year then ended;
- The Group Financial Statements have been properly prepared in accordance with International Financial Reporting Standards (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 and, as regards the Group Financial Statements, Article 4 of the IAS Regulation.

What we have audited

We have audited the Group and parent Company Financial Statements of Brit PLC for the year ended 31 December 2014 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 43 to the Consolidated Financial Statements;
- the parent Company statement of financial position;
- the parent Company statement of cash flows (for the period from 19 December 2013 to 31 December 2014);
- the parent Company statement of changes in equity (for the period from 19 December 2013 to 31 December 2014); 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).

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.

Our assessment of the risks of material misstatement and responses to those risks

We identified the following risks that have had the greatest effect on the overall audit strategy, the allocation of resources in the audit, and directing the efforts of the engagement team together with our audit responses to those risks:

- Valuation of insurance liabilities
- Valuation of investments
- Revenue recognition

Valuation of insurance liabilities

Refer to page 82 (Audit Committee report), page 134 (accounting policy), page 141 (critical accounting estimates) and page 178 (disclosures)

Risk	Response
The valuation of the insurance liabilities, or claims reserves, held by the Group is an area of risk due to the level of subjectivity in estimating the ultimate cost of the settlement of claims that have occurred but for which the eventual outcome remains uncertain. In particular, judgement is required when estimating the value of amounts that should be provided for claims that have been incurred at the reporting date but have not yet been reported to the Group. In determining the claims reserves, management include an additional margin above the actuarial best estimate to take account of estimation uncertainty. The key risk is the use of inappropriate assumptions resulting in reported claims reserves not falling within a reasonable range of possible estimates, meaning insurance liabilities could be materially misstated. These judgements and uncertainties are significant to the earnings of the Group.	We understood, assessed and tested the design and operational effectiveness of key controls over the Brit PLC reserving process, which included controls over the extraction of data from the underlying systems and the review and approval of the reserves. We used our own actuarial specialists to support us in our evaluation of management's methodology against market practice, and challenged management's assumptions and their assessment of major sensitivities based on our market knowledge and industry data where available. Using management data we re-projected the claims reserves on both a gross and net basis and investigated further where there were significant differences between our projections and management's reported claims reserves. Using our re-projections we then evaluated whether the reported claims reserves at the year-end fall within an acceptable range, and also compared for consistency with the position in the range in prior years. This included consideration of the consistency of the basis for the margin applied to the actuarial best estimate. In light of our work outlined above we also considered the adequacy of disclosures of the judgements and uncertainties being made by the directors in the insurance risk note starting on page 143, and Note 21 related to insurance and reinsurance contracts.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BRIT PLC

Valuation of investments

Refer to page 82 (Audit Committee report), page 135 (accounting policy), page 142 (critical accounting estimates) and page 186 (disclosures)

Risk	Response
The Group's financial investments represent 59% of total assets. The investment strategy adopted by management includes holdings in instruments such as structured products, loan portfolios and investment funds. These investments are not always valued using quoted prices based on observable market information. As a result significant judgement is inherent in the methodologies and assumptions used by management in determining the fair value of these investments and preparing the required disclosures in the notes to the Financial Statements.	We understood, assessed and tested the design and operating effectiveness of the key controls over the investment valuation process, including management's process for estimating the fair value of investments held and controls over information provided by the investment managers. We used our valuation experts to support the audit team in challenging the valuation methodologies and assumptions being used by management to price these investments. Where model inputs and assumptions were not observable in the market, our valuation experts have critically assessed whether these management valuations fell within an acceptable range based on relevant knowledge and experience of the market. We also considered the investments disclosures for compliance with IFRS, with particular focus on the fair value hierarchy and related disclosures for Level 2 and 3 investments.

Revenue Recognition

Refer to page 82 (Audit Committee report), page 133 (accounting policy), page 142 (critical accounting estimates) and page 178 (disclosures)

Risk	Response
For certain contracts written, premium is initially recognised based on estimates of ultimate premiums. Estimation occurs for contracts where pricing is based on variables which are not known with certainty at the point of binding the contract or where contracts have been entered into but not processed on the system by 31 December 2014. These estimates are judgemental and therefore could result in misstatements of revenue recognised in the Financial Statements. There is also a risk that earnings patterns applied to written premiums are inappropriate or inaccurate and that insufficient risk transfer is present within policies to categorise as insurance contracts.	We evaluated and tested the key controls over the premium process, which included the data reconciliations over the flow of premium balances from initiation on underlying systems through to the general ledger. We used actuarial specialists to support the audit team in performing a consistency check of premium income estimates to identify over or under estimation, which was supplemented by detailed tests of certain transactions and balances relating to premiums. We have recalculated a sample of earning patterns and considered by class of business whether earning patterns are consistent with the prior year, our expectations and our understanding of the business. We have also completed analytical review procedures on premium balances. We reviewed a sample of policies to ensure appropriate transfer of risk has taken place and premium has been recognised in accordance with the Company's policy and applicable accounting framework.

The Audit Committee's consideration of these judgements is set out on page 82.

Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of identified misstatements on our audit and of uncorrected misstatements, if any, on the Financial Statements and in forming our opinion in the Audit Report. When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the Financial Statements as a whole.

We determined planning materiality for the Group to be £5.3m, which was based on 5% of prior year profit on ordinary activities before tax taking into account current year forecasts. This provided a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement is that overall performance materiality (i.e. our tolerance for misstatement in an individual account or balance) for the Group should be 50% of materiality, namely £2.7m. Our objective in adopting this approach was to ensure that total uncorrected and undetected audit differences in all accounts did not exceed our materiality level.

At year end we have revised our materiality based on 5% of actual profit on ordinary activities before tax of £149.1m (2013: PBT of £107.4m) to £7.5m (2013 final: £5.3m). As a result we have also revised our performance materiality to £3.8m (2013 final: £2.7m).

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £0.3m, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in the light of other relevant qualitative considerations.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BRIT PLC

An overview of the scope of our audit

Following our assessment of the risk of material misstatement to the Group Financial Statements, we performed the audit in order to obtain assurance that the Financial Statements give a true and fair view and cover the risks identified above. The work performed enabled us to provide an audit opinion on the Group Financial Statements as a whole.

Whilst the Group has operations in locations other than the United Kingdom, we have performed an assessment of these other Group locations and do not consider them to be significant enough to warrant an audit by a local audit team for group reporting purposes. In completing our procedures, we have therefore audited all material overseas balances. The audit work performed by the team covered 100% of each of the Group's insurance liabilities, investments and revenue.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 111 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 other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- 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:

Under the ISAs (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is:

- materially inconsistent with the information in the audited Financial Statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or
- is otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the directors' statement that they consider the annual report is fair, balanced and understandable and whether the annual report appropriately discloses those matters that we communicated to the audit committee which we consider should have been disclosed.

Under the Companies Act 2006 we are required 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 and the part of the Directors' Remuneration Report to be audited 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.

Under the Listing Rules we are required to review:

- the Directors' statement, set out on page 112, in relation to going concern; and
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review.

Michael Purrington (Senior Statutory Auditor)
For and on behalf of Ernst & Young LLP, Statutory Auditor
London
24 February 2015

Notes:
1. The maintenance and integrity of the Brit PLC 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 consolidated 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. The earnings per share is the profit for the year divided by the number of shares.

Consolidated statement of comprehensive income

As well as the profit or loss reported in the consolidated income statement, there are a number of other items not reported in the consolidated income statement which are instead shown here. These are gains and losses in the Group's pension scheme and any tax associated with these gains or losses. 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 to show the overall result.

Consolidated statement of financial position

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

Consolidated statement of changes in equity

The consolidated statement of changes in equity shows how the various lines in the equity section of the Group's statement of financial position have moved during the year. The main changes are due to corporate reorganisation and listing of the Group on the London Stock Exchange along with profit for the year shown in the 'Total comprehensive income recognised' line.

CONTENTS

INDEX TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2014

	Note	Year ended 31 December 2014 £m	Year ended 31 December 2013 £m
Revenue			
Gross premiums written	5	**1,302.1**	1,185.7
Less premiums ceded to reinsurers	5	**(277.2)**	(229.4)
Premiums written, net of reinsurance		**1,024.9**	956.3
Gross amount of change in provision for unearned premiums		**(50.2)**	(34.0)
Reinsurers' share of change in provision for unearned premiums		**5.0**	23.2
Net change in provision for unearned premiums		**(45.2)**	(10.8)
Earned premiums, net of reinsurance		**979.7**	945.5
Investment return	6	**70.1**	56.9
Return on derivative contracts	7	**7.3**	11.0
Profit on disposal of asset held for sale	14	**–**	4.4
Other income		**0.5**	–
Net foreign exchange gains	8	**12.9**	–
Total revenue		**1,070.5**	1,017.8
Expenses			
Claims incurred:			
Claims paid:			
Gross amount		**(758.7)**	(542.1)
Reinsurers' share		**112.5**	99.2
Claims paid, net of reinsurance		**(646.2)**	(442.9)
Change in the provision for claims:			
Gross amount		**101.5**	(34.1)
Reinsurers' share		**59.9**	17.8
Net change in the provision for claims		**161.4**	(16.3)
Claims incurred, net of reinsurance	5	**(484.8)**	(459.2)
Acquisition costs	9	**(328.6)**	(287.5)
Other operating expenses	9	**(94.5)**	(79.1)
Net foreign exchange losses	8	**–**	(69.6)
Total expenses excluding finance costs		**(907.9)**	(895.4)
Operating profit		**162.6**	122.4
Finance costs		**(13.5)**	(15.0)
Profit on ordinary activities before tax		**149.1**	107.4
Tax expense	15(a)	**(10.1)**	(6.5)
Profit for the year from continuing operations		**139.0**	100.9
Loss from discontinued operations	16	**–**	(1.4)
Profit for the year		**139.0**	99.5

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

Earnings per share from continuing operations attributable to equity holders of the parent (pence per share)

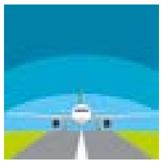
	Note	Year ended 31 December 2014 £m	Year ended 31 December 2013 £m
Basic	11	**34.8**	24.1
Diluted	11	**34.8**	24.1

Total earnings per share attributable to equity holders of the parent (pence per share)

	Note	Year ended 31 December 2014 £m	Year ended 31 December 2013 £m
Basic	11	**34.8**	23.8
Diluted	11	**34.8**	23.8

The numbers of shares used for calculating the earnings per share are those of Brit PLC. The number of Achilles Holdings 1 S.à.r.l. shares in the comparative period has been converted into the equivalent number of Brit PLC shares to reflect the corporate reorganisation on 28 March 2014.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME



For the year ended 31 December 2014

	Note	**Year ended 31 December 2014 £m**	Year ended 31 December 2013 £m
Profit attributable to:			
Equity holders of the parent		**139.0**	99.1
Non-controlling interests		**–**	0.4
Profit for the year		**139.0**	99.5
Other comprehensive income			
Items not to be reclassified to profit or loss in subsequent periods:			
Actuarial gains on defined benefit pension scheme	22	**0.4**	2.0
Deferred tax charge relating to actuarial gains on defined benefit pension scheme	15(b)	**(0.1)**	(0.5)
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods		**0.3**	1.5
Other comprehensive income for the year net of tax		**139.3**	101.0
Total comprehensive income for the period attributable to:			
Equity holders of the parent		**139.3**	100.6
Non-controlling interests		**–**	0.4
Total comprehensive income for the year		**139.3**	101.0

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2014

	Note	Year ended 31 December 2014 £m	Year ended 31 December 2013 £m
Assets			
Intangible assets	17	**62.2**	62.7
Property, plant and equipment	18	**4.7**	5.1
Deferred acquisition costs	19	**134.3**	125.7
Reinsurance contracts	21	**526.4**	450.0
Employee benefits	22	**27.8**	21.9
Current taxation		**10.5**	6.0
Financial investments	23	**2,259.8**	2,275.9
Derivative contracts	24	**7.8**	12.7
Insurance and other receivables	25	**452.7**	380.9
Cash and cash equivalents	26	**321.4**	315.7
Total assets		**3,807.6**	3,656.6
Liabilities and equity			
Liabilities			
Insurance contracts	21	**2,604.3**	2,593.9
Borrowings	27	**124.5**	123.2
Deferred taxation	20	**22.8**	17.1
Provisions	28	**1.9**	2.4
Current taxation		**2.9**	10.6
Derivative contracts	24	**2.7**	11.1
Insurance and other payables	29	**220.8**	187.3
Total liabilities		**2,979.9**	2,945.6
Equity			
Called up share capital	30	**4.0**	0.7
Share premium account		**–**	455.7
Own shares	32	**(0.9)**	(1.6)
Reserves	33	**–**	(94.4)
Retained earnings		**824.6**	349.5
Total equity attributable to owners of the parent		**827.7**	709.9
Non-controlling interests		**–**	1.1
Total equity		**827.7**	711.0
Total liabilities and equity		**3,807.6**	3,656.6

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

These Financial Statements were approved by the Board of Directors on 24 February 2015 and were signed on its behalf by:

Dr Richard Ward
Chairman

Mark Cloutier
Chief Executive Officer

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2014

	Note	Year ended 31 December 2014 £m	Year ended 31 December 2013 £m
Cash generated from operations			
Cash flows provided by operating activities	35	**(45.5)**	55.9
Tax paid		**(16.7)**	(8.5)
Interest paid		**(11.3)**	(13.7)
Interest received		**38.4**	67.6
Dividends received		**20.7**	1.4
Net cash (outflows)/inflows from operating activities		**(14.4)**	102.7
Cash flows from investing activities			
Purchase of property, plant and equipment	18	**(1.6)**	(1.4)
Purchase of intangible assets	17	**(3.1)**	(4.3)
Acquisitions	38	**(1.2)**	(1.2)
Disposal of consolidated structured entity	14	**43.9**	–
Disposal of asset held for sale	14	**–**	17.4
Movements in associated undertaking loan balances		**–**	(0.1)
Net cash inflows from investing activities		**38.0**	10.4
Cash flows from financing activities			
Share redemption		**–**	(94.2)
Purchase/(repurchase) of shares by/(from) non-controlling interests		**1.5**	(0.6)
Buy-out of non-controlling interests		**–**	(5.1)
Disposal/(purchase) of own shares		**0.3**	(0.4)
Dividend paid		**(25.0)**	–
Net cash outflows from financing activities		**(23.2)**	(100.3)
Net increase in cash and cash equivalents		**0.4**	12.8
Cash and cash equivalents at beginning of the year		**315.7**	304.9
Effect of exchange rate fluctuations on cash and cash equivalents		**5.3**	(2.0)
Cash and cash equivalents at the end of the year	26	**321.4**	315.7

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

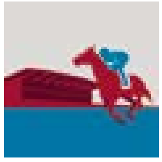
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2014

	Note	Called up share capital £m	Share premium account £m	Own shares £m	Reserves £m	Retained earnings £m	Total equity attributable to owners of the parent £m	Non-controlling interests £m	Total equity £m
At 1 January 2014		**0.7**	**455.7**	**(1.6)**	**(94.4)**	**349.5**	**709.9**	**1.1**	**711.0**
Total comprehensive income recognised		–	–	–	–	139.3	139.3	–	139.3
Purchase of shares by non-controlling interests		–	–	–	–	–	–	1.5	1.5
Buy-out of non-controlling interests		–	16.7	–	–	(14.1)	2.6	(2.6)	–
Vesting of own shares		–	–	0.7	–	(0.7)	–	–	–
Corporate reorganisation		(0.7)	(472.4)	0.9	94.4	377.8	–	–	–
Establishment of Brit PLC		800.0	–	(1.2)	–	(798.8)	–	–	–
Capital reduction	30	(796.0)	–	–	–	796.0	–	–	–
Disposal of own shares		–	–	0.3	–	–	0.3	–	0.3
Share-based payments	37	–	–	–	–	0.6	0.6	–	0.6
Dividend	31	–	–	–	–	(25.0)	(25.0)	–	(25.0)
At 31 December 2014		**4.0**	**–**	**(0.9)**	**–**	**824.6**	**827.7**	**–**	**827.7**

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 £m	Share premium account £m	Own shares £m	Reserves £m	Retained earnings £m	Total equity attributable to owners of the parent £m	Non-controlling interests £m	Total equity £m
At 1 January 2013		0.8	456.1	(1.2)	0.1	248.7	704.5	5.7	710.2
Total comprehensive income recognised		–	–	–	–	100.6	100.6	0.4	101.0
Redemption of shares		(0.1)	(0.4)	–	(94.5)	0.8	(94.2)	–	(94.2)
Purchase of own shares		–	–	(0.4)	–	–	(0.4)	–	(0.4)
Buy-out of non-controlling interests		–	–	–	–	(0.7)	(0.7)	(4.4)	(5.1)
Repurchase of shares from non-controlling interests		–	–	–	–	–	–	(0.6)	(0.6)
Share-based payments	37	–	–	–	–	0.1	0.1	–	0.1
At 31 December 2013		0.7	455.7	(1.6)	(94.4)	349.5	709.9	1.1	711.0

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.

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The first three Notes provide details of the 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 PLC and its subsidiaries (collectively, the Group) for the year ended 31 December 2014 were authorised for issue in accordance with a resolution of the Directors on 24 February 2015.

Brit PLC (the Company) is a limited company, incorporated and domiciled in England and Wales, whose shares are publicly traded. The Group's principal activity is the underwriting of general insurance and reinsurance business.

2 ACCOUNTING POLICIES AND BASIS OF PREPARATION

2.1 Corporate reorganisation

Brit PLC was incorporated as a limited company on 19 December 2013 and was subsequently re-registered as a public limited company on 24 March 2014.

On 28 March 2014, Brit PLC acquired the entire share capital of the former ultimate holding company of the Group, Achilles Holdings 1 S.à.r.l. Brit PLC was introduced as a new parent to the Achilles Insurance Group by the principal investors who were the same before and after the reorganisation.

Brit PLC's ordinary shares were admitted to trading on the London Stock Exchange on 2 April 2014.

On the basis that the transaction was effected by creating a new parent that is itself not a business, the transaction is considered to be outside the scope of IFRS 3 Business Combinations. It has therefore been accounted for using the pooling of interest method as a continuation of the existing Group. The result is that the Consolidated Financial Statements of Brit PLC are the same as those previously presented by Achilles Holdings 1 S.à.r.l., except for the share capital being that of Brit PLC.

2.2 Basis of preparation

The Consolidated Financial Statements for the year ended 31 December 2014 have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU).

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 Sterling and all values are rounded to the nearest £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.

2 ACCOUNTING POLICIES AND BASIS OF PREPARATION (continued)

The Group has adopted the following new standards and amendments to standards with a date of initial application of 1 January 2014:

(a) Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32
These amendments clarify the meaning of 'currently has a legally enforceable right to set-off' and also clarify the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting. These amendments have no impact on the Group.

(b) Recoverable Amount Disclosures for Non-Financial Assets – Amendments to IAS 36
These amendments remove the unintended consequences of IFRS 13 'Fair Value Measurement' on the disclosures required under IAS 36 'Impairment of Assets'. In addition, these amendments require disclosure of the recoverable amounts for the assets or cash-generating units (CGUs) for which an impairment loss has been recognised or reversed during the period. These amendments have no impact on the Group.

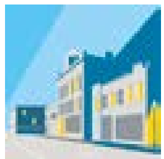
(c) Novation of Derivatives and Continuation of Hedge Accounting – Amendments to IAS 39
These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. These amendments have no impact on the Group.

(d) IFRIC 21 – Levies
IFRIC 21 was endorsed by the EU for periods commencing on or after 17 June 2014. Earlier application was permitted and hence the Group has early adopted the IFRIC in accordance with the IASB effective date of 1 January 2014. It is applicable to all levies imposed by governments under legislation, other than outflows that are within the scope of other standards. The interpretation clarifies that an entity recognises a liability for a levy no earlier than when the activity that triggers payment, as identified by the relevant legislation, occurs. It also clarifies that a levy liability is accrued progressively only if the activity that triggers payment occurs over a period of time, in accordance with the relevant legislation. IFRIC 21 has no impact on the Group.

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

Standard		Effective
IFRS 14	Regulatory Deferral Accounts (2014)	Periods commencing on or after 1 January 2016
IFRS 15	Revenue From Contracts With Customers (2014)	Periods commencing on or after 1 January 2017
IFRS 9	Financial Instruments (2013)	Periods commencing on or after 1 January 2018

In November 2009, as part of the phased project to replace IAS 39 'Financial Instruments: Recognition and Measurement', the IASB issued IFRS 9 'Financial Instruments' which reconsiders the classification and measurement of financial assets. This standard has not yet been endorsed by the EU. The Group plans to assess the impact of this standard on its Financial Statements in conjunction with the revised standard on IFRS 4 'Insurance Contracts' which is expected to be effective from no earlier than 2018. 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.



2.3 Basis of consolidation

The consolidated accounts include the accounts of the Company, its subsidiaries 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.

2.4 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'.

2.5 Other accounting policies

2.5.1 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 and overriding commissions receivable

Profit commission income arising from whole account quota share contracts is recognised when the economic benefits are highly probable. Profit commissions and overrider commissions 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 those external costs related to the negotiation and settlement of claims.

2 ACCOUNTING POLICIES AND BASIS OF PREPARATION (continued)

(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.

2.5.2 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.

2.5.3 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.

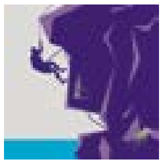
A financial liability is derecognised when it is extinguished which is when the obligation in the contract is discharged, cancelled or expired.

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.

2.5.4 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.



2 ACCOUNTING POLICIES AND BASIS OF PREPARATION (continued)

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.

2.5.5 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.

2.5.6 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 capacity is reviewed for impairment annually by reference to the expected future profit streams to be earned from the respective syndicate, with any impairment in value being charged to the income statement.

(b) Computer software

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

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

(c) Trade names and distribution channels

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

Trade names	5 years
Distribution channels	15 years

(d) Renewal rights

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

2.5.7 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.

2.5.8 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.

2.5.9 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 ACCOUNTING POLICIES AND BASIS OF PREPARATION (continued)

2.5.10 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.

2.5.11 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.

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.

2.5.12 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, excluding the impact of any non-market vesting conditions. 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. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment is made to equity over the remaining vesting period. The fair value of the awards and ultimate expense are not adjusted on a change in market vesting conditions during the vesting period.

2.5.13 Earnings per share

Basic earnings per share are calculated by dividing profit after tax attributable to equity shareholders of the parent company by the weighted average number of ordinary shares in issue during the period.

Diluted earnings per share requires that the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. These arise from awards made under share-based incentive schemes. Share awards with performance conditions attaching to them are not considered to be dilutive unless these conditions have been met at the reporting date.

Shares held in employee share trusts are excluded from the weighted average number of shares in issue until they have vested unconditionally with the employees.

2.5.14 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.

2.5.15 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.

2.5.16 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 ACCOUNTING POLICIES AND BASIS OF PREPARATION (continued)

2.5.17 Foreign currency translation

Items included in the Financial Statements of the parent and subsidiaries are measured using the functional currency which is the primary economic environment in which the entity operates. The Group presents its Consolidated Financial Statements in Sterling 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 Sterling 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.

2.5.18 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.

2.5.19 Segmental reporting

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

2.5.20 Loans and receivables

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

2.5.21 Offsetting of financial instruments

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

2.5.22 Dividend and capital distributions

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

2.5.23 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.

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, chaired by the Chief Financial Officer and reporting to the Executive Management 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
- Claims provisions are subject to independent external actuarial review at least annually.

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

The results of the independent external actuarial review are presented to both the Reserving Committee and the Audit Committee with key assumptions, methodologies and uncertainties 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 and provide additional information on which to base the establishment of the reserves for the Group.

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 £2,057.9m (2013: £2,097.7m) as set out in Note 21 to the accounts. The amount of reinsurance recoveries estimated at that date is £445.4m (2013: £374.0m).

3.3 Pipeline premiums

Written premiums include pipeline premiums of £292.2m (2013: £234.4m) which represent future premiums receivable in respect of 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 £45.4m (2013: £45.4m). For further information, refer to Note 17.

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 £2,259.8m (2013: £2,275.9m). Determining the fair value of certain investments requires estimation.

The Group values 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 2014, financial investments amounting to £202.6m (2013: £331.7m) 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 23.

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 underpriced, under-reserved or subject to unforeseen catastrophe claims.

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

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 resulting underwriting risks. The Group relies on the efficient functioning of the Lloyd's market and if for any reason, Brit Syndicates Ltd 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 PLC Underwriting Committee chaired by an independent non-executive Director, meets quarterly and is responsible for the management of underwriting risk in line with the RMF using specific measurable targets/actions and any breaches are reported to Executive Management, the Risk Oversight Committee and the Board.

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 KPIs, technical pricing MI, premium monitoring, delegated underwriting operations and claims MI. 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.

4 RISK MANAGEMENT POLICIES (continued)

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

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

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

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

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

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

(c) Underwriting risk profile

The core insurance portfolio of property, 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 90% of the GWP of the Group in 2014 was sourced in London. The other business written by the syndicate is sourced through a wholly-owned service company in the United States, which accounted for 7.8% of the Group's annual GWP in 2014. The Group has also recently started writing business through the Lloyd's China Platform and from its office in Bermuda (which opened in September 2013). In 2014, 21.3% 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 £m	Net premiums written £m
2014		
United States	**501.4**	**401.9**
United Kingdom	**96.7**	**72.6**
Europe (excluding UK)	**84.0**	**51.9**
Other (including worldwide)	**620.0**	**498.5**
Total	**1,302.1**	**1,024.9**
2013		
United States	421.5	336.6
United Kingdom	93.0	68.3
Europe (excluding UK)	61.8	41.8
Other (including worldwide)	609.4	509.6
Total	1,185.7	956.3

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.

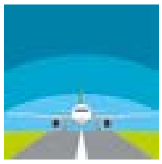
(e) Portfolio mix

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:

		£m	**2014 gross premiums written %**	£m	2013 gross premiums written %
Short-tail direct insurance	Property, marine, energy, accident and health, BGSU, aerospace, terrorism and political	**717.6**	**55%**	599.2	50%
Long-tail direct insurance	Professional lines, specialty lines, specialist liability	**339.2**	**26%**	303.9	26%
Short-tail reinsurance	Property treaty	**109.6**	**8%**	139.6	12%
Long-tail reinsurance	Casualty treaty	**135.7**	**10%**	141.4	12%
Other	Other underwriting and other corporate	**–**	**<1%**	1.6	<1%
Total		**1,302.1**	**100%**	1,185.7	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 36.5% of the portfolio at 31 December 2014 (2013: 37.4%) and delegated underwriting represents 38.0% (2013: 41.8%). Underwriting risk is mainly driven by the syndicate's US catastrophe exposure. Casualty Treaty is also a driver due to its long-tail exposure.



4 RISK MANAGEMENT POLICIES (continued)

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

The Group's short-tail business consists of 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, political and aerospace	Coverage for terrorism (including aviation war), political and credit risks, and satellites at both launch and in-orbit.

The key risks on short-tail business are exposures to catastrophe claims, particularly US windstorms, earthquakes 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 which 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. 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 and risk excess of loss reinsurance.

(iv) Long-tail reinsurance

Introduction

The Group's long-tail reinsurance business centres around casualty treaty. Core lines of business include Genral Liability, Professional Indemnity/Financial Institutions/Directors and Officers', Workers' Compensation, Medical Malpractice, Accident & Health, and other accident classes including Property Terror.

Casualty treaty Casualty and accident treaty reinsurance. Worldwide portfolio, written on excess of loss basis (currently only one specialist quota share contract written). 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.

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 30% of Brit PLC Group level net tangible assets. This equates to a maximum acceptable loss (after all reinsurance) of £229.7m at 31 December 2014.

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 2014 (Note 1)		Modelled Group loss at 1 October 2013 (Note 1)	
	Estimated industry loss £m	**Gross £m**	**Net £m**	Gross £m	Net £m
Gulf of Mexico windstorm	71,474	**449**	**110**	349	149
Florida Miami windstorm	80,128	**346**	**82**	262	83
US North East windstorm	50,000	**388**	**83**	304	133
San Francisco earthquake	50,000	**382**	**113**	273	89
Japan earthquake	26,745	**117**	**86**	93	51
Japan windstorm	8,024	**55**	**46**	47	34
European windstorm	17,829	**140**	**80**	148	79

Note 1: At 31 December 2014 exchange rates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4 RISK MANAGEMENT POLICIES (continued)

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

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 2014		Movement in profit year ended 31 December 2013	
	£m	**%**	£m	%
Short-tail direct insurance	**5.1**	**52%**	5.0	52%
Long-tail direct insurance	**2.5**	**26%**	2.1	22%
Short-tail reinsurance	**0.7**	**8%**	0.9	10%
Long-tail reinsurance	**1.3**	**13%**	1.4	15%
Other	**0.1**	**1%**	0.1	1%
Total	**9.7**	**100%**	9.5	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 warrantees 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 CEO of Brit Global Specialty and Chief Risk Officer propose external reinsurance arrangements with input from class underwriters for class level reinsurance. The CEO of Brit Global Specialty proposes 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 Group's Credit Committee. This is further discussed in the credit risk section below.

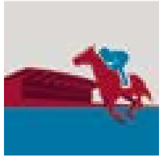
4.1.3 Reserving risk

Reserving risk arises as the actual cost of losses for policyholder obligations incurred before 31 December 2014 will differ 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 Reserving Committee is responsible for the management of Syndicate 2987's reserving risk, and the BIG Management Committee performs a similar function for BIG.

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.

While 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 21.

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 sign-off by the Reserving Committee, chaired by the Chief Financial Officer and reporting to the Executive Management Committee, 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. This margin increases the reserves reflected in the Group Financial Statements above the mean expectation. 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. The reserves are subject to an independent external actuarial review at least annually.



4 RISK MANAGEMENT POLICIES (continued)

The reserves can be more or less than is required to meet the claims arising from earned business. The level of uncertainty varies significantly between the classes written by the Group but typically is highest for those classes where there are significant delays in the settlement of the final claim amount. More specifically, the key areas of uncertainty within the Group's reserves are considered to be claims from the 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 21.

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 amount of risk tolerance. This is achieved through investment policies, guidelines and the Group's strategic asset allocation, by which the assets are managed, which reflect the risk appetite and the business strategy of the Group. The Group's strategic asset allocation is discussed is section 4.2.4 below.

The Investment Committee has been mandated to review, advise and make recommendations to the Board on investment strategy with a view to optimising the Group's investment performance. The Investment Committee can assign the management of these assets to external investment and fund managers as well as to the internal investment team.

The Risk Oversight Committee ensures that the investment risk is managed within the framework and also reports to the Board. An Operational Risk Working Group 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 quarterly.

4.2.3 Risk tolerance

Investment risk tolerances are set by the Board, defining the Group's appetite to investments earnings risk, solvency risk due purely to investment, 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 Strategic asset allocation

The strategic asset allocation represents the medium-term target asset allocation across the economic cycle with the aim to optimise risk-adjusted returns. Funds are allocated across various asset classes defined by type or risk reflecting entity-level considerations and governance matters. Tactical ranges (known as the tactical asset allocation) around the asset allocation in the strategic asset allocation provide flexibility to optimise the balance between risk and return.

The strategic asset allocation has been designed and is managed within the constraints of the Group's Credit, Foreign Exchange, Liquidity, and ALM Policies and Guidelines. The strategic asset allocation, the tactical asset allocation and the investment guidelines form part of the guidelines framework that is set by the Investment Committee and approved by the Board, in line with the Group's risk appetite and business strategy.

4.2.5 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 currencies in proportion to the currencies in that entity's technical provisions. The Group seeks to implement this through the use of cash, investments and foreign exchange forward contracts in the respective currencies.

For each Group underwriting entity, a solvency matched duration target is calculated that seeks to minimise the sensitivity of the Group to changes in interest rates impacting its solvency position. Within the investment guidelines for each entity, limits above and below this solvency matched position are stipulated. Cash, investments and interest rate derivatives are structured to target appropriate positioning within this range recognising the current yield curve.

4.2.6 Investment management

The Group outsources investment management where it is believed to be in its best interest. Where the Group sees fit, investment activities will also be carried out, analysed and monitored by the investment department.

The Group aims to appoint 'best-in-class' managers, targeting their specific area of expertise. The managers are subject to a rigorous manager selection process. The Group also monitors and controls its third-party investment managers on an ongoing basis. Investment management agreements with each internal and external manager document the relevant guidelines and procedures in place to deal with monitoring of performance and controls.

The investment guidelines specify the allowable strategic asset allocations for each investing entity along with the detailed concentration limits surrounding each of the investment portfolios. The tactical ranges around the asset allocation provide flexibility to optimise the balance between risk and return. Investment manager agreements are constructed so that in aggregate the investment portfolios are consistent with the parameters set out in the investment guidelines.

The investment guidelines, derived from the strategic asset allocation and tactical asset allocation, issued to fund managers stipulate exposure limits for counterparties, credit quality and subordination levels to help control credit risk.

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 £m	1 to 3 years £m	3 to 5 years £m	Over 5 years £m	Equities £m	Total £m
At 31 December 2014						
Cash and cash equivalents	**321.4**	**–**	**–**	**–**	**–**	**321.4**
Financial investments	**1,222.2**	**311.2**	**231.0**	**468.2**	**27.2**	**2,259.8**
Total	**1,543.6**	**311.2**	**231.0**	**468.2**	**27.2**	**2,581.2**
At 31 December 2013						
Cash and cash equivalents	315.7	–	–	–	–	315.7
Financial investments	1,055.7	415.3	251.5	505.8	47.6	2,275.9
Total	1,371.4	415.3	251.5	505.8	47.6	2,591.6

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

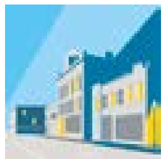
As the claims liabilities are measured on an undiscounted basis, the reported liabilities are not sensitive to changes in interest rates. This leads to the conflict between targeting a longer duration to protect the solvency position against movements in interest rates, while a shorter duration for the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

Sensitivity to changes in bond 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 2014.

Impact on profit before tax	**2014 £m**	2013 £m
Increase:		
25 basis points	**(6.8)**	(14.4)
50 basis points	**(13.5)**	(28.7)
100 basis points	**(27.0)**	(57.5)
Decrease:		
25 basis points	**6.8**	14.4
50 basis points	**13.5**	28.7
100 basis points	**27.0**	57.5

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 the fair value of assets and liabilities or future cash flows will fluctuate as a result of movements in the rates of foreign exchange. As the Group reporting currency is Sterling it is exposed to currency risk because it underwrites insurance business internationally, dealing in five main currencies: US dollars, Sterling, Canadian dollars, Euros and Australian dollars. All other currencies are included as Sterling.

The split of assets and liabilities for each of the Group's main currencies, converted to Sterling, is set out in the table below:

At 31 December 2014	GBP £m	US $ conv. £m	CAD $ conv. £m	EUR € conv. £m	AUS $ conv. £m	Total conv. £m
Total assets	**779.1**	**2,221.6**	**330.4**	**374.5**	**102.0**	**3,807.6**
Total liabilities	**701.6**	**1,819.4**	**167.8**	**222.9**	**68.2**	**2,979.9**
Net assets	**77.5**	**402.2**	**162.6**	**151.6**	**33.8**	**827.7**

At 31 December 2013	GBP £m	US $ conv. £m	CAD $ conv. £m	EUR € conv. £m	AUS $ conv. £m	Total conv. £m
Total assets	813.3	2,013.7	294.7	378.1	156.8	3,656.6
Total liabilities	786.7	1,615.0	163.8	288.2	91.9	2,945.6
Net assets	26.6	398.7	130.9	89.9	64.9	711.0

The non-Sterling denominated net assets of the Group may lead to a reported loss (depending on the mix relative to the liabilities), should Sterling strengthen against these currencies. Conversely, reported gains may arise should Sterling weaken.

The Group matches its currency position so holds net assets across a number of currencies. The Group takes into consideration the underlying currency of its required capital and invests its assets proportionately across these currencies so as to protect the solvency of the Group, and hence capital available for distribution to shareholders, against variation in foreign exchange rates. As a result, the Group holds a significant proportion of its assets in foreign currency investments.

In part, foreign currency forward contracts are used to achieve the desired exposure to each currency. From time to time the Group may also choose to utilise options on foreign currency derivatives to mitigate the risk of reported losses due to changes in foreign exchange rates. The degree to which options are used is dependent on the prevailing cost versus the perceived benefit to shareholder value from reducing the chance of a reported loss due to changes in foreign currency exchange rates. The details of all foreign currency derivatives contracts entered into are given in Note 24.

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 revalued at the reporting date. These items include unearned premiums, deferred acquisition costs and reinsurers' share of unearned premiums. Consequently, a mismatch arises in the income statement between the amount of premium recognised at historical transaction rates, and the related claims that are valued using foreign exchange rates in force at the reporting date. The Group considers this to be a timing issue which can cause volatility in the income statement.

4 RISK MANAGEMENT POLICIES (continued)

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 Sterling against the value of the US dollar, Canadian dollar, Australian dollar and Euro simultaneously. The analysis is based on the information at 31 December 2014.

Impact on profit before tax	2014 £m	2013 £m
Sterling weakens:		
10% against other currencies	**104.1**	72.1
20% against other currencies	**208.3**	144.2
Sterling strengthens:		
10% against other currencies	**(104.1)**	(72.1)
20% against other currencies	**(208.3)**	(144.2)

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

4.3.4 Other price risk

Introduction

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

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

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

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

The Group invests a proportion of its assets in equities and hedge funds. 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 and hedge fund investments is set out in the table below. The analysis is based on the information at 31 December 2014.

Impact on profit before tax	**2014 £m**	2013 £m
Increase in fair value:		
10%	**34.1**	28.0
20%	**68.2**	56.1
30%	**102.3**	84.1
Decrease in fair value:		
10%	**(34.1)**	(28.0)
20%	**(68.2)**	(56.1)
30%	**(102.3)**	(84.1)

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:

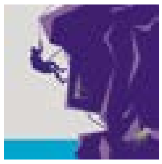
- Reinsurers: through the failure to pay valid claims against a reinsurance contract held by the Group.
- Brokers and coverholders: where counterparties fail to pass on premiums or claims collected or paid on behalf of the Group.
- Investments, through the issuer default of all or part of the value of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



4 RISK MANAGEMENT POLICIES (continued)

Investment credit risk profile

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

At 31 December 2014	AAA £m	AA £m	A £m	BBB £m	P-1 £m	P-2 £m	BB and below £m	Equities £m	Not rated £m	Total £m
Financial investments	**199.1**	**239.8**	**1,063.8**	**42.4**	**18.8**	**–**	**338.9**	**27.2**	**329.8**	**2,259.8**
Derivative contracts	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**7.8**	**7.8**
Cash and cash equivalents	**151.9**	**–**	**–**	**–**	**60.9**	**108.6**	**–**	**–**	**–**	**321.4**
Total	**351.0**	**239.8**	**1,063.8**	**42.4**	**79.7**	**108.6**	**338.9**	**27.2**	**337.6**	**2,589.0**
At 31 December 2013										
Financial investments	221.2	310.1	978.0	57.5	5.7	–	382.5	47.6	273.3	2,275.9
Derivative contracts	–	–	–	–	–	–	–	–	12.7	12.7
Cash and cash equivalents	243.5	–	4.0	–	37.1	31.1	–	–	–	315.7
Total	464.7	310.1	982.0	57.5	42.8	31.1	382.5	47.6	286.0	2,604.3

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 and reporting to the Executive Management Committee, 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.

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:

At 31 December 2014	AAA £m	AA £m	A £m	BBB and below £m	Collateral £m	Not rated £m	Total £m
Reinsurance assets	**0.4**	**201.9**	**148.7**	**–**	**82.9**	**11.5**	**445.4**
Insurance receivables	**–**	**–**	**–**	**–**	**–**	**424.2**	**424.2**
Total	**0.4**	**201.9**	**148.7**	**–**	**82.9**	**435.7**	**869.6**
At 31 December 2013							
Reinsurance assets	–	174.5	134.9	3.5	36.4	24.7	374.0
Insurance receivables	–	–	–	–	16.5	335.3	351.8
Total	–	174.5	134.9	3.5	52.9	360.0	725.8

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

As at 31 December 2014, collateral of £250.7m (2013: £64.1m) 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, £82.9m (2013: £36.4m) had been drawn against reinsurance assets at 31 December 2014.

As at 31 December 2013, £16.5m was included within insurance receivables relating to funds provided to RiverStone Insurance Limited as collateral for standby letters of credit. This was repaid during 2014.

4 RISK MANAGEMENT POLICIES (continued)

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

	Impairment provision against reinsurance assets £m	Impairment provision against insurance receivables £m
2014:		
Opening provision at 1 January	**0.8**	**6.5**
(Release)/strengthening for the year	**(0.2)**	**2.0**
Net foreign exchange differences	**–**	**0.3**
Closing provision at 31 December	**0.6**	**8.8**
2013:		
Opening provision at 1 January	0.4	6.4
Strengthening for the year	0.4	0.2
Net foreign exchange differences	–	(0.1)
Closing provision at 31 December	0.8	6.5

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

	2014 £m	2013 £m
0-3 months past due	**9.1**	7.5
4-6 months past due	**2.2**	1.7
7-9 months past due	**0.6**	1.3
10-12 months past due	**0.2**	1.0
More than 12 months past due	**0.5**	1.8
Total	**12.6**	13.3

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.

31 December 2014	Statement of financial position £m	Fair values <1 year £m	1 to 3 years £m	3 to 5 years £m	>5 years £m	Equities £m	Total £m
Assets:							
Reinsurance assets	445.4	120.5	142.1	74.9	107.9	–	445.4
Financial investments	2,259.8	1,222.2	311.2	231.0	468.2	27.2	2,259.8
Derivative contracts	7.8	7.8	–	–	–	–	7.8
Insurance receivables	424.2	424.2	–	–	–	–	424.2
Cash and cash equivalents	321.4	321.4	–	–	–	–	321.4
Total	3,458.6	2,096.1	453.3	305.9	576.1	27.2	3,458.6

31 December 2014	Statement of financial position £m	Undiscounted values <1 year £m	1 to 3 years £m	3 to 5 years £m	>5 years £m	Equities £m	Total £m
Liabilities:							
Insurance contract liabilities	2,057.9	568.7	671.2	349.2	468.8	–	2,057.9
Derivative contracts	2.7	2.7	–	–	–	–	2.7
Borrowings	124.5	–	–	–	135.0	–	135.0
Insurance and other payables	220.8	220.8	–	–	–	–	220.8
Total	2,405.9	792.2	671.2	349.2	603.8	–	2,416.4

31 December 2013	Statement of financial position £m	Fair values <1 year £m	1 to 3 years £m	3 to 5 years £m	>5 years £m	Equities £m	Total £m
Assets:							
Reinsurance assets	374.0	108.3	124.7	62.8	78.2	–	374.0
Financial investments	2,275.9	1,055.7	415.3	251.5	505.8	47.6	2,275.9
Derivative contracts	12.7	12.7	–	–	–	–	12.7
Insurance receivables	351.8	351.8	–	–	–	–	351.8
Cash and cash equivalents	315.7	315.7	–	–	–	–	315.7
Total	3,330.1	1,844.2	540.0	314.3	584.0	47.6	3,330.1

31 December 2013	Statement of financial position £m	Undiscounted values <1 year £m	1 to 3 years £m	3 to 5 years £m	>5 years £m	Equities £m	Total £m
Liabilities:							
Insurance contract liabilities	2,097.7	600.1	691.4	356.3	449.9	–	2,097.7
Derivative contracts	11.1	11.1	–	–	–	–	11.1
Borrowings	123.2	–	–	–	135.0	–	135.0
Insurance and other payables	187.3	187.3	–	–	–	–	187.3
Total	2,419.3	798.5	691.4	356.3	584.9	–	2,431.1

4 RISK MANAGEMENT POLICIES (continued)

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 EMC 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

The Group's capital policy is to hold management capital at an entity level and surplus capital resources at both entity and Group level. Management capital is the capital required by each entity for current trading purposes based on our business strategy and regulatory requirements. The level of the surplus capital held at Group level is based on our risk appetite and provides flexibility, allowing the Group to deal with shock events and to take advantage of opportunities as they arise.

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

At Brit we seek to hold capital resources in a range of 120% to 140% of our requirement. We believe this is an appropriate level of capital for the business and provides management with:

- The flexibility to absorb major losses while still being in a position to take advantage of subsequent market dislocations;
- The ability to pursue opportunity-driven growth in our core business; and
- The support to provide continuity in regular dividend payments to shareholders.

The Group manages Adjusted net tangible assets, Subordinated debt, Letters of credit and Contingent funding as capital which amounted to £1,050.5m as at 31 December 2014 (31 December 2013: £909.4m). All external capital requirements have been complied with during the year by the Company as well as its individual insurance subsidiaries.

The Lloyd's market is subject to the solvency and capital adequacy requirements of the Prudential Regulation Authority (PRA), as a result of which the Group may be adversely affected. 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. A downgrade in Lloyd's financial strength ratings may have an adverse effect on the Group.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5 SEGMENTAL INFORMATION

This Note breaks down the operating results summarised in the income statement and the assets and liabilities in the statement of financial position 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 2014, the reportable segments identified were as follows:

- 'Brit Global Specialty Direct', which underwrites the Group's international and US business, other than 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 2014 (31 December 2013: 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 2014	Brit Global Specialty Direct £m	Brit Global Specialty Reinsurance £m	Other underwriting £m	Intra Group £m	Total underwriting excluding the effect of foreign exchange on non-monetary items £m	Effect of foreign exchange on non-monetary items £m	Total underwriting after the effect of foreign exchange on non-monetary items £m	Other corporate £m	Continuing operations £m	Discontinued operations £m	Total £m
Gross premiums written	1,056.8	245.3	22.1	(22.1)	1,302.1	–	1,302.1	–	1,302.1	–	1,302.1
Less premiums ceded to reinsurers	(250.9)	(45.3)	(3.1)	22.1	(277.2)	–	(277.2)	–	(277.2)	–	(277.2)
Premiums written, net of reinsurance	805.9	200.0	19.0	–	1,024.9	–	1,024.9	–	1,024.9	–	1,024.9
Gross earned premiums	993.8	247.4	14.6	(14.6)	1,241.2	10.7	1,251.9	–	1,251.9	–	1,251.9
Reinsurers' share	(237.4)	(46.2)	(1.8)	14.6	(270.8)	(1.4)	(272.2)	–	(272.2)	–	(272.2)
Earned premiums, net of reinsurance	756.4	201.2	12.8	–	970.4	9.3	979.7	–	979.7	–	979.7
Investment return	16.6	7.2	0.1	–	23.9	–	23.9	46.2	70.1	–	70.1
Return on derivative contracts	–	–	–	–	–	–	–	7.3	7.3	–	7.3
Other income	–	–	–	–	–	–	–	0.5	0.5	–	0.5
Net foreign exchange gains	–	–	–	–	–	13.3	13.3	(0.4)	12.9	–	12.9
Total revenue	773.0	208.4	12.9	–	994.3	22.6	1,016.9	53.6	1,070.5	–	1,070.5
Gross claims incurred	(574.6)	(86.6)	(5.9)	9.9	(657.2)	–	(657.2)	–	(657.2)	–	(657.2)
Reinsurers' share	170.2	11.7	0.4	(9.9)	172.4	–	172.4	–	172.4	–	172.4
Claims incurred, net of reinsurance	(404.4)	(74.9)	(5.5)	–	(484.8)	–	(484.8)	–	(484.8)	–	(484.8)
Acquisition costs – commission	(232.4)	(35.3)	0.1	–	(267.6)	(2.3)	(269.9)	–	(269.9)	–	(269.9)
Acquisition costs – other	(46.8)	(9.3)	(2.6)	–	(58.7)	–	(58.7)	–	(58.7)	–	(58.7)
Other insurance-related expenses	(42.3)	(15.0)	–	–	(57.3)	–	(57.3)	–	(57.3)	–	(57.3)
Other expenses	–	–	–	–	–	–	–	(37.2)	(37.2)	–	(37.2)
Total expenses excluding finance costs	(725.9)	(134.5)	(8.0)	–	(868.4)	(2.3)	(870.7)	(37.2)	(907.9)	–	(907.9)
Operating profit	47.1	73.9	4.9	–	125.9	20.3	146.2	16.4	162.6	–	162.6
Finance costs									(13.5)	–	(13.5)
Profit on ordinary activities before tax									149.1	–	149.1
Tax expense									(10.1)	–	(10.1)
Profit attributable to owners of the parent									139.0	–	139.0
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%				

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5 SEGMENTAL INFORMATION (continued)

Year ended 31 December 2013	Brit Global Specialty Direct £m	Brit Global Specialty Reinsurance £m	Other underwriting £m	Intra Group £m	Total underwriting excluding the effect of foreign exchange on non-monetary items £m	Effect of foreign exchange on non-monetary items £m	Total underwriting after the effect of foreign exchange on non-monetary items £m	Other corporate £m	Continuing operations £m	Discontinued operations £m	Total £m
Gross premiums written	903.1	281.0	6.0	(4.4)	1,185.7	–	1,185.7	–	1,185.7	–	1,185.7
Less premiums ceded to reinsurers	(181.5)	(50.1)	(2.2)	4.4	(229.4)	–	(229.4)	–	(229.4)	–	(229.4)
Premiums written, net of reinsurance	721.6	230.9	3.8	–	956.3	–	956.3	–	956.3	–	956.3
Gross earned premiums	868.1	283.8	6.1	(4.2)	1,153.8	(2.1)	1,151.7	–	1,151.7	–	1,151.7
Reinsurers' share	(162.4)	(45.7)	(2.2)	4.2	(206.1)	(0.1)	(206.2)	–	(206.2)	–	(206.2)
Earned premiums, net of reinsurance	705.7	238.1	3.9	–	947.7	(2.2)	945.5	–	945.5	–	945.5
Investment return	16.8	7.8	0.2	–	24.8	–	24.8	32.1	56.9	–	56.9
Return on derivative contracts	–	–	–	–	–	–	–	11.0	11.0	–	11.0
Profit on disposal of asset held for sale	–	–	–	–	–	–	–	4.4	4.4	–	4.4
Other income	–	–	–	–	–	–	–	–	–	1.4	1.4
Total revenue	722.5	245.9	4.1	–	972.5	(2.2)	970.3	47.5	1,017.8	1.4	1,019.2
Gross claims incurred	(482.3)	(93.1)	(3.5)	2.7	(576.2)	–	(576.2)	–	(576.2)	–	(576.2)
Reinsurers' share	111.9	6.0	1.8	(2.7)	117.0	–	117.0	–	117.0	–	117.0
Claims incurred, net of reinsurance	(370.4)	(87.1)	(1.7)	–	(459.2)	–	(459.2)	–	(459.2)	–	(459.2)
Acquisition costs – commission	(196.5)	(39.3)	(0.4)	–	(236.2)	0.4	(235.8)	–	(235.8)	–	(235.8)
Acquisition costs – other	(38.8)	(9.7)	(3.2)	–	(51.7)	–	(51.7)	–	(51.7)	–	(51.7)
Other insurance-related expenses	(43.4)	(18.8)	–	–	(62.2)	–	(62.2)	–	(62.2)	(1.2)	(63.4)
Other expenses	–	–	–	–	–	–	–	(16.9)	(16.9)	–	(16.9)
Net foreign exchange losses	–	–	–	–	–	(4.2)	(4.2)	(65.4)	(69.6)	–	(69.6)
Total expenses excluding finance costs	(649.1)	(154.9)	(5.3)	–	(809.3)	(3.8)	(813.1)	(82.3)	(895.4)	(1.2)	(896.6)
Operating profit/(loss)	73.4	91.0	(1.2)	–	163.2	(6.0)	157.2	(34.8)	122.4	0.2	122.6
Loss on sale of subsidiary									–	(1.5)	(1.5)
Finance costs									(15.0)	–	(15.0)
Profit/(loss) on ordinary activities before tax									107.4	(1.3)	106.1
Tax expense									(6.5)	(0.1)	(6.6)
Profit/(loss) attributable to owners of the parent									100.9	(1.4)	99.5
Claims ratio	52.5%	36.6%	43.6%		48.5%		48.6%				
Expense ratio	39.5%	28.5%	92.3%		36.9%		37.0%				
Combined ratio	92.0%	65.1%	135.9%		85.4%		85.6%				

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

Year ended 31 December 2014	Brit Global Specialty Direct £m	Brit Global Specialty Reinsurance £m	Total £m
Depreciation of property, plant and equipment	**1.4**	**0.6**	**2.0**
Amortisation of intangibles	**4.0**	**1.7**	**5.7**
Capital expenditure	**3.7**	**1.0**	**4.7**
Year ended 31 December 2013			
Depreciation of property, plant and equipment	1.4	0.6	2.0
Impairment of property, plant and equipment	0.2	–	0.2
Amortisation of intangibles	3.3	1.5	4.8
Impairment of intangibles	0.2	–	0.2
Capital expenditure	4.6	1.1	5.7

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.

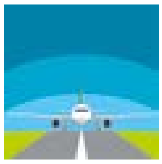
The segmental split shown below is based on the location of the underlying risk.

Gross premiums written

	Year ended 31 December 2014 £m	Year ended 31 December 2013 £m
US	**501.4**	421.5
UK	**96.7**	93.0
Europe (excluding UK)	**84.0**	61.8
Other (including worldwide)	**620.0**	609.4
	1,302.1	1,185.7

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 2014	Investment income £m	Net realised (losses)/gains £m	Net unrealised (losses)/gains £m	Total investment return £m
Equity securities	**0.8**	**2.2**	**(0.6)**	**2.4**
Debt securities	**26.5**	**2.5**	**(5.0)**	**24.0**
Loan instruments	**9.8**	**1.7**	**(3.9)**	**7.6**
Specialised investment funds	**20.1**	**6.3**	**15.1**	**41.5**
Cash and cash equivalents	**0.7**	**–**	**–**	**0.7**
Total investment return before expenses	**57.9**	**12.7**	**5.6**	**76.2**
Investment management expenses	**(6.1)**	**–**	**–**	**(6.1)**
Total investment return	**51.8**	**12.7**	**5.6**	**70.1**

Year ended 31 December 2013				
Equity securities	0.3	(0.1)	1.0	1.2
Debt securities	43.5	(15.3)	(8.2)	20.0
Loan instruments	8.3	0.8	3.0	12.1
Specialised investment funds	4.9	15.7	8.3	28.9
Cash and cash equivalents	0.5	0.1	–	0.6
Total investment return before expenses	57.5	1.2	4.1	62.8
Investment management expenses	(5.9)	–	–	(5.9)
Total investment return	51.6	1.2	4.1	56.9

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 2014 £m	Year ended 31 December 2013 £m
Interest rate swaps	**6.6**	(2.6)
Futures	**(1.4)**	0.4
Non-currency options	**0.4**	–
Investment related derivatives	**5.6**	(2.2)
Currency forwards	**4.1**	13.2
Currency options	**(2.4)**	–
Currency related derivatives	**1.7**	13.2
	7.3	11.0

8 NET FOREIGN EXCHANGE GAINS/(LOSSES)

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 Sterling.

The Group recognised foreign exchange gains of £12.9m (31 December 2013: losses of £69.6m) 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 2014 £m	Year ended 31 December 2013 £m
(Losses)/gains on foreign exchange arising from:		
Translation of the statement of financial position and Income statement	**(0.4)**	(65.4)
Maintaining UPR/DAC items in the statement of financial position at historic rates	**20.3**	(6.0)
Maintaining UPR/DAC items in the income statement at historic rates	**(7.0)**	1.8
Net foreign exchange gains/(losses)	**12.9**	(69.6)

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

		Year ended 31 December 2014 £m		Year ended 31 December 2013 £m
	Average	**Closing**	Average	Closing
US dollar	**1.65**	**1.56**	1.56	1.66
Canadian dollar	**1.82**	**1.81**	1.61	1.76
Euro	**1.24**	**1.29**	1.18	1.20
Australian dollar	**1.83**	**1.91**	1.62	1.85

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 2014			Year ended 31 December 2013		
	Acquisition costs £m	**Other operating expenses £m**	**Total £m**	Acquisition costs £m	Other operating expenses £m	Total £m
Salary, pension and social security costs (Note 10)	**25.6**	**45.4**	**71.0**	20.8	37.8	58.6
Other staff-related costs	**0.8**	**3.9**	**4.7**	0.7	3.1	3.8
Accommodation costs	**3.5**	**3.1**	**6.6**	3.1	3.3	6.4
Legal and professional charges	**1.7**	**4.8**	**6.5**	1.3	5.7	7.0
IT costs	**0.5**	**11.9**	**12.4**	0.6	11.8	12.4
Travel and entertaining	**2.8**	**1.9**	**4.7**	2.0	1.8	3.8
Marketing and communications	**0.2**	**1.0**	**1.2**	0.1	4.4	4.5
Amortisation and impairment of intangible assets	**0.7**	**5.0**	**5.7**	0.5	4.5	5.0
Depreciation and impairment of property, plant and equipment	**0.2**	**1.8**	**2.0**	0.2	2.0	2.2
Regulatory levies and charges	**21.3**	**–**	**21.3**	22.1	0.2	22.3
Costs relating to initial public offering	**–**	**13.7**	**13.7**	–	2.0	2.0
Other	**1.4**	**2.0**	**3.4**	0.3	2.5	2.8
Expenses before commissions	**58.7**	**94.5**	**153.2**	51.7	79.1	130.8
Commission costs	**269.9**	**–**	**269.9**	235.8	–	235.8
Acquisition costs and other operating expenses – continuing operations	**328.6**	**94.5**	**423.1**	287.5	79.1	366.6
Acquisition costs and other operating expenses – discontinued operations	**–**	**–**	**–**	–	1.2	1.2
Total acquisition costs and other operating expenses	**328.6**	**94.5**	**423.1**	287.5	80.3	367.8

Netted off against 'commission costs' above are £1.2m (2013: £8.8m) of profit commissions receivable in respect of whole account quota share reinsurance contracts ceded by the Group.

10 STAFF COSTS

This Note gives a breakdown of 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 2014 £m	Year ended 31 December 2013 £m
Wages and salaries	**60.5**	48.0
Social security costs	**6.7**	6.5
Pension costs	**3.8**	4.1
Staff costs from continuing operations	**71.0**	58.6
Staff costs from discontinued operations	**–**	1.2
Total staff costs	**71.0**	59.8

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

	Year ended 31 December 2014 Number	Year ended 31 December 2013 Number
Front office staff:		
Underwriters	**139**	112
Claims staff	**50**	44
Other underwriting and direct support staff	**97**	94
Total front office staff	**286**	250
Back office staff:		
Management	**76**	74
Administration	**103**	93
Total back office staff	**179**	167
Total employees	**465**	417

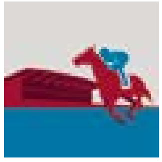
'Management' includes non-executive Directors and employees who have other members of staff reporting to them.

11 EARNINGS AND NET ASSETS PER SHARE

Earnings per share shows the profit for each share our shareholders own. We have also provided information to show the amount of net assets (both tangible assets and tangible and intangible assets combined) attributable to each share.

The numbers of shares used for calculating the earnings per share and net assets per share are those of Brit PLC. The number of Achilles Holdings 1 S.à.r.l. shares in the comparative periods have been converted into the equivalent number of Brit PLC shares to reflect the corporate reorganisation on 28 March 2014. For further information refer to Note 2.

	Year ended 31 December 2014	Year ended 31 December 2013
The calculations of the basic and diluted earnings per share from continuing operations are based on the following figures:		
Profit on ordinary activities after tax, attributable to the parent (£m)	**139.0**	100.5
Basic weighted average number of shares (number in millions)	**399.4**	416.8
Diluted weighted average number of shares (number in millions)	**399.7**	417.2
Basic earnings per share (pence per share)	**34.8**	24.1
Diluted earnings per share (pence per share)	**34.8**	24.1
The calculations of the total basic and diluted earnings per share are based on the following figures:		
Profit on ordinary activities after tax, attributable to the parent (£m)	**139.0**	99.1
Basic weighted average number of shares (number in millions)	**399.4**	416.8
Diluted weighted average number of shares (number in millions)	**399.7**	417.2
Basic earnings per share (pence per share)	**34.8**	23.8
Diluted earnings per share (pence per share)	**34.8**	23.8



11 EARNINGS AND NET ASSETS PER SHARE (continued)

The calculations of the net assets and net tangible assets per share are based on the following figures:

	31 December 2014	31 December 2013
Net assets (£m)	**827.7**	711.0
Intangible assets (£m)	**(62.2)**	(62.7)
Net tangible assets (£m)	**765.5**	648.3
Number of shares in issue at the end of the period (number in millions)	**400.5**	393.0
Number of own shares (number in millions)	**(0.8)**	(0.9)
Number of shares in issue less own shares (number in millions)	**399.7**	392.1
Net assets per share (pence per share)	**207.1**	181.3
Net tangible assets per share (pence per share)	**191.5**	165.3

12 FINANCE COSTS

Finance costs arise from interest due on moneys borrowed by the Group and any other amounts payable in respect of those borrowings or borrowing facilities. The Group's borrowings consist of a revolving credit facility and listed unsecured subordinated debt, details of which are set out in Note 27.

	Year ended 31 December 2014 £m	Year ended 31 December 2013 £m
Revolving credit facility and other bank borrowings	**3.2**	4.9
Lower tier two subordinated debt	**10.3**	10.1
Total finance costs	**13.5**	15.0

13 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. Details of the additional permitted work and the approval process for such work are explained in the Report of the Audit Committee. This Note breaks down fees paid to Ernst & Young LLP for both the audit and other work.

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

	2014 £m	2013 £m
Audit of the Group and Company Financial Statements	**0.4**	0.3
Fees payable for the audit of subsidiaries	**0.3**	0.3
Total audit	**0.7**	0.6
Audit related assurance services	**0.3**	0.3
Taxation compliance services	**0.1**	–
All taxation advisory services	**0.9**	–
Corporate finance services (excluding amounts covered above in taxation advisory services)	**2.0**	–
Other non-audit services	**0.1**	0.3
Total non-audit services	**3.4**	0.6
Total audit and non-audit services	**4.1**	1.2

14 PROFIT ON DISPOSAL OF ASSET HELD FOR SALE

This Note sets out the details of and financial effect of the disposal of assets held for sale. It also gives an update on the contingent consideration receivable in respect of one of these disposals.

Year ended 31 December 2014

On 20 May 2014, Avoca Loan Fund 1, a qualifying investment fund treated as a consolidated structured entity at 31 December 2013 was categorised as an asset held for sale following a decision by management to dispose of this fund. The disposal was made in stages during the remainder of the year and all consideration received was equal to the fair value of the underlying assets.

	Year ended 31 December 2014 £m
Consideration	**43.9**
Carrying value	**(43.9)**
Profit on disposal	**–**

Year ended 31 December 2013

On 10 August 2012, the Group entered into various contracts with the other owners of Verex Limited and Jardine Estates Limited. These contracts effectively converted £6.0m of Verex loan notes and accumulated interest previously held by the Group into 250,000 B shares and a put option whereby Jardine Estates Limited are required to buy the B shares for the higher of 10% of the aggregate value of Verex and £3.5m at any time after 10 August 2016. The contracts also committed the Group to sell its 35.3% of the ordinary share capital of Verex Limited at par to Jardine Estates Ltd. On 8 May 2013, following Financial Conduct Authority approval, the disposal was completed and the carrying value was transferred from asset held for sale to derivative contracts.

On 20 April 2013, the Group entered into a contract to dispose of its equity holding in Xbridge Limited to Intercede Limited. This disposal received the approval of the Financial Conduct Authority on 24 June 2013 and completed on 17 July 2013.

	Verex Limited £m	Xbridge Limited £m	**Total £m**
Initial consideration	1.9	17.4	**19.3**
Contingent consideration	–	1.8	**1.8**
Carrying value	(1.9)	(14.8)	**(16.7)**
Gain on sale	–	4.4	**4.4**

The range of the undiscounted contingent consideration receivable from the disposal of Xbridge Limited is £nil to £5.3m. The outcome will depend on the performance of Xbridge Limited during the three years commencing 1 January 2013 and on distributions and proceeds that the purchaser receives up to and including their ultimate exit from Xbridge Limited. The contingent consideration of £1.8m has been derived from a probability weighted model of possible outcomes on a discounted basis and had not been adjusted by 31 December 2014 except for the unwinding of the discount.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15 TAX EXPENSE

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

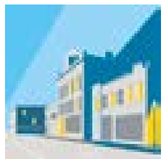
(a) Tax (charged)/credited to income statement

	Year ended 31 December 2014 £m	Year ended 31 December 2013 £m
Current tax:		
Current taxes on income for the year	**(5.1)**	(2.0)
Overseas tax on income for the year	**(4.1)**	(2.8)
	(9.2)	(4.8)
Double tax relief	**3.5**	2.2
Adjustments in respect of prior years	**1.2**	2.2
Total current tax	**(4.5)**	(0.4)
Deferred tax:		
Relating to the origination and reversal of temporary differences	**(7.0)**	(8.5)
Relating to changes in tax rates	**–**	1.4
Adjustments in respect of prior years	**1.4**	1.0
Total deferred tax	**(5.6)**	(6.1)
Total tax charged to income statement from continuing operations	**(10.1)**	(6.5)
Total tax charged to income statement from discontinued operations	**–**	(0.1)
Total tax charged to income statement	**(10.1)**	(6.6)

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 2014 £m	Year ended 31 December 2013 £m
Deferred tax charge on actuarial gains on defined benefit pension scheme	**(0.1)**	(0.5)
	(0.1)	(0.5)



(c) Tax reconciliation

Based on the analysis of Group profits, the weighted average rate of tax is 10.8% (2013: 10.2%). 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 2014 £m	Year ended 31 December 2013 £m
Profit on continuing ordinary activities before tax	**149.1**	107.4
Loss on sale of subsidiary (Note 16)	**–**	(1.5)
Income less expenses of discontinued business (Note 16)	**–**	0.2
Total profit on ordinary activities before tax	**149.1**	106.1
Tax calculated at weighted average rate of tax on income	**(16.1)**	(10.8)
Non-deductible and non-taxable items	**2.6**	2.6
Taxes on income at rates in excess of the domestic rate and where credit is unavailable	**(0.5)**	(0.6)
Effect of temporary differences not recognised	**0.2**	(2.4)
Effect of revaluation of deferred tax following change in rate of tax	**–**	1.4
Other items	**1.1**	–
Adjustments to tax charge in respect of prior years	**2.6**	3.2
	(10.1)	(6.6)
Tax expense on profit on ordinary activities	**(10.1)**	(6.5)
Tax expense on profit on discontinued operations	**–**	(0.1)
Total tax charged to income statement	**(10.1)**	(6.6)

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.

16 LOSS FROM DISCONTINUED OPERATIONS

This Note analyses the components of the loss recognised in the consolidated income statement from the Group's discontinued operations. The Group had no ongoing discontinued operations during 2014.

An analysis of the result of discontinued operations is as follows:

	Year ended 31 December 2014 £m	Year ended 31 December 2013 £m
Total income	**–**	1.4
Total expenses	**–**	(1.2)
	–	0.2
Loss on sale of subsidiary	**–**	(1.5)
Loss before tax of discontinued operations	**–**	(1.3)
Tax relating to discontinued operations	**–**	(0.1)
Loss on discontinued operations	**–**	(1.4)

On 12 October 2012, the Group completed the sale of Brit Insurance Limited to RiverStone Group. Brit Insurance Limited was subsequently renamed RiverStone Insurance Limited. The proceeds recognised in 2012 were dependent on the outcome of certain trading results in RiverStone Insurance Limited. The final outcome of these results was established in 2013 and the proceeds reduced by £1.5m.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

17 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. We also carry out our annual assessment of the carrying value of these assets and, if necessary, make an impairment charge to the income statement.

	Distribution channels £m	Trade names £m	Syndicate participations £m	Renewal rights £m	Software £m	Total £m
Cost:						
At 1 January 2013	6.3	12.1	45.4	–	27.2	91.0
Additions	–	–	–	–	4.3	4.3
Additions through acquisitions	–	–	–	1.4	–	1.4
Disposals	–	–	–	–	(12.1)	(12.1)
At 31 December 2013	6.3	12.1	45.4	1.4	19.4	84.6
At 1 January 2014	**6.3**	**12.1**	**45.4**	**1.4**	**19.4**	**84.6**
Additions	**–**	**–**	**–**	**–**	**3.1**	**3.1**
Additions through acquisitions	**–**	**–**	**–**	**2.1**	**–**	**2.1**
Disposals	**–**	**–**	**–**	**–**	**(3.7)**	**(3.7)**
At 31 December 2014	**6.3**	**12.1**	**45.4**	**3.5**	**18.8**	**86.1**
Amortisation:						
At 1 January 2013	0.7	6.5	–	–	21.8	29.0
Charge for the year	0.4	1.7	–	0.4	2.3	4.8
Impairment	–	–	–	–	0.2	0.2
Disposals	–	–	–	–	(12.1)	(12.1)
At 31 December 2013	1.1	8.2	–	0.4	12.2	21.9
At 1 January 2014	**1.1**	**8.2**	**–**	**0.4**	**12.2**	**21.9**
Charge for the year	**0.4**	**1.8**	**–**	**1.3**	**2.2**	**5.7**
Disposals	**–**	**–**	**–**	**–**	**(3.7)**	**(3.7)**
At 31 December 2014	**1.5**	**10.0**	**–**	**1.7**	**10.7**	**23.9**
Carrying amount:						
At 31 December 2013	5.2	3.9	45.4	1.0	7.2	62.7
At 31 December 2014	**4.8**	**2.1**	**45.4**	**1.8**	**8.1**	**62.2**

Additional information

The gross cost of software fully amortised but still in use is £6.1m (2013: £8.7m).

All software additions in 2014 and 2013 were internally developed.

The software amortisation charge for the year of £2.2m (2013: £2.3m) is included in the 'other operating expenses' line in the income statement.

There were impairments to intangible assets of £0.2m in 2013 which have been included in the other operating expenses' line in the income statement.

Assets not yet in use with a total cost of £1.8m (2013: £3.8m) 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 2014 £m	31 December 2013 £m
Global Specialty Direct	**33.8**	33.8
Global Specialty Reinsurance	**11.6**	11.6
	45.4	45.4

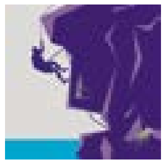
The recoverable amounts of the CGUs have been determined using a value in use calculation.

Each value in use calculation uses 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 discount rate of 9.1% (2013: 8.7%). 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



18 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 £m	Computers and office machinery, furniture and equipment £m	Total £m
Cost:			
At 1 January 2013	14.1	9.7	23.8
Additions	0.3	1.1	1.4
Additions through acquisitions	–	0.1	0.1
Disposals	(8.4)	(4.5)	(12.9)
At 31 December 2013	6.0	6.4	12.4
At 1 January 2014	**6.0**	**6.4**	**12.4**
Additions	**–**	**1.6**	**1.6**
Disposals	**(0.3)**	**(0.5)**	**(0.8)**
At 31 December 2014	**5.7**	**7.5**	**13.2**
Depreciation:			
At 1 January 2013	10.1	7.9	18.0
Charge for the year	1.0	1.0	2.0
Impairment	0.1	0.1	0.2
Disposals	(8.4)	(4.5)	(12.9)
At 31 December 2013	2.8	4.5	7.3
At 1 January 2014	**2.8**	**4.5**	**7.3**
Charge for the year	**1.0**	**1.0**	**2.0**
Disposals	**(0.3)**	**(0.5)**	**(0.8)**
At 31 December 2014	**3.5**	**5.0**	**8.5**
Carrying amount:			
At 31 December 2013	3.2	1.9	5.1
At 31 December 2014	**2.2**	**2.5**	**4.7**

The gross cost of property, plant and equipment fully depreciated but still in use is £4.3m (2013: £3.2m).

The depreciation charge for the year of £2.0m (2013: £2.0m) is included in the 'other operating expenses' line in the income statement.

There were impairments to property, plant and equipment of £0.2m in 2013 which have been included in the 'other operating expenses' line in the income statement.

Further information is given in Note 5(b).

19 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.

	Year ended 31 December 2014 £m	Year ended 31 December 2013 £m
At 1 January	**125.7**	113.3
Costs deferred during the year	**337.2**	299.9
Amortisation charge for the year	**(328.6)**	(287.5)
At 31 December	**134.3**	125.7

20 DEFERRED TAXATION

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

	Unrealised losses/(profits) on investments £m	Pensions £m	Intangible assets £m	Underwriting £m	Other £m	Total £m
At 1 January 2013	0.3	(3.3)	(15.9)	(4.5)	12.9	(10.5)
Movements in the year:						
Credited to income statement	(0.3)	(0.6)	3.0	(17.2)	9.0	(6.1)
Tax relating to components of other comprehensive income (Note 15(b))	–	(0.5)	–	–	–	(0.5)
At 31 December 2013	–	(4.4)	(12.9)	(21.7)	21.9	(17.1)
At 1 January 2014	**–**	**(4.4)**	**(12.9)**	**(21.7)**	**21.9**	**(17.1)**
Movements in the year:						
(Charged)/credited to income statement	**–**	**(1.2)**	**3.0**	**14.1**	**(21.5)**	**(5.6)**
Tax relating to components of other comprehensive income (Note 15(b))	**–**	**(0.1)**	**–**	**–**	**–**	**(0.1)**
At 31 December 2014	**–**	**(5.7)**	**(9.9)**	**(7.6)**	**0.4**	**(22.8)**

The movements in the year charged to the income statement of £5.6m includes the re-categorisation of certain deferred tax balances included in the brought forward 'Other' and 'Intangible assets' categories to fully align the categorisation for deferred tax disclosure purposes with the categorisation for accounting disclosure purposes. The net effect of these categorisations on the movement in the year is £nil.

Deferred tax has not been set up in respect of losses carried forward of £61.8m (2013: £60.3m) 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 £11.1m (2013: £5.0m) have not been provided for due to uncertainty over the timing of their utilisation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

21 INSURANCE AND REINSURANCE CONTRACTS

This Note deals with balances carried in respect of insurance contracts (liabilities) and reinsurance contracts (assets). It examines the statement of financial position, splitting both insurance and reinsurance balances into their component parts, and explains the assumptions applied in arriving at these figures. The Note also shows how our claims have developed (before and after the effects of reinsurance) over a period 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 2014 £m	31 December 2013 £m
Gross:		
Claims reported and loss adjustment expenses	**914.4**	994.7
Claims incurred but not reported	**1,143.5**	1,103.0
	2,057.9	2,097.7
Unearned premiums	**546.4**	496.2
Total gross liabilities	**2,604.3**	2,593.9
Recoverable from reinsurers:		
Claims reported and loss adjustment expenses	**216.8**	202.3
Claims incurred but not reported	**229.2**	172.5
Impairment provision	**(0.6)**	(0.8)
	445.4	374.0
Unearned premiums	**81.0**	76.0
Total reinsurers' share of liabilities	**526.4**	450.0
Net:		
Claims reported and loss adjustment expenses	**697.6**	792.4
Claims incurred but not reported	**914.3**	930.5
Impairment provision	**0.6**	0.8
	1,612.5	1,723.7
Unearned premiums	**465.4**	420.2
Total net insurance liabilities	**2,077.9**	2,143.9

Insurance contracts – assumptions and changes in assumptions

Process used to decide on assumptions required

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

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

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

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

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

The choice of selected results for each year of each class of business depends on an assessment of the technique that has been most appropriate to observed historical developments. In certain instances, this has meant that different techniques or combinations 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) and 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 capacity during the respective underwriting years. In addition, claims in currencies other than Sterling have been retranslated at 31 December 2014 exchange rates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

21 INSURANCE AND REINSURANCE CONTRACTS (continued)

Ultimate gross claims

Underwriting year	2005 and prior years	2006	2007	2008	2009	2010	2011	2012	2013	2014	Intra Group and other underwriting adjustments	Total
At end of underwriting year	93.1%	67.8%	84.7%	90.3%	73.8%	76.5%	81.3%	76.0%	70.1%	70.4%		
One year later	91.1%	68.4%	86.6%	90.0%	76.1%	88.6%	78.7%	71.7%	70.3%	–		
Two years later	90.6%	63.7%	85.6%	92.8%	73.0%	92.4%	79.1%	72.2%	–	–		
Three years later	89.4%	61.7%	93.1%	96.8%	74.7%	92.9%	78.7%	–	–	–		
Four years later	89.1%	59.1%	95.4%	98.2%	75.4%	91.9%	–	–	–	–		
Five years later	87.7%	57.0%	95.5%	98.0%	76.3%	–	–	–	–	–		
Six years later	86.9%	57.2%	96.0%	99.8%	–	–	–	–	–	–		
Seven years later	86.7%	58.5%	95.8%	–	–	–	–	–	–	–		
Eight years later	86.3%	59.1%	–	–	–	–	–	–	–	–		
Nine years later	86.2%	–	–	–	–	–	–	–	–	–		
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Total ultimate gross claims at 31 December 2014	3,568.8	329.2	628.0	663.0	503.8	637.9	583.2	633.9	655.3	698.3	–	8,901.4
Less accumulated gross paid claims	(3,438.3)	(286.3)	(531.9)	(505.6)	(371.3)	(455.1)	(363.3)	(290.8)	(179.8)	(38.5)	–	(6,460.9)
Unearned premium portion of gross ultimate claims	–	–	–	–	–	–	–	–	(25.1)	(386.1)	–	(411.2)
Claims handling provision and other corporate adjustments	1.9	0.7	1.5	2.4	2.0	2.7	3.2	5.2	6.8	4.2	(2.0)	28.6
Total outstanding gross claims at 31 December 2014	132.4	43.6	97.6	159.8	134.5	185.5	223.1	348.3	457.2	277.9	(2.0)	2,057.9

Ultimate net claims

Underwriting year	2005 and prior years	2006	2007	2008	2009	2010	2011	2012	2013	2014	Intra Group and other underwriting adjustments	Total
At end of underwriting year	88.5%	76.6%	87.2%	96.0%	79.6%	79.9%	87.0%	82.2%	75.4%	76.3%		
One year later	86.6%	76.3%	83.1%	96.2%	79.1%	89.3%	84.2%	78.2%	76.9%	–		
Two years later	85.8%	68.0%	83.7%	96.8%	76.3%	91.3%	83.6%	77.7%	–	–		
Three years later	84.0%	65.4%	88.0%	100.2%	74.8%	91.3%	81.7%	–	–	–		
Four years later	83.1%	63.6%	89.9%	102.4%	75.3%	89.5%	–	–	–	–		
Five years later	81.7%	61.0%	90.3%	101.3%	76.7%	–	–	–	–	–		
Six years later	80.8%	60.4%	90.7%	101.8%	–	–	–	–	–	–		
Seven years later	80.4%	61.0%	90.9%	–	–	–	–	–	–	–		
Eight years later	80.0%	60.9%	–	–	–	–	–	–	–	–		
Nine years later	80.0%	–	–	–	–	–	–	–	–	–		
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Total ultimate net claims at 31 December 2014	2,512.2	276.7	489.2	520.5	409.7	497.7	485.1	528.3	533.1	573.7	–	6,826.2
Less accumulated net paid claims	(2,416.7)	(251.8)	(428.8)	(428.4)	(323.5)	(360.0)	(307.7)	(243.4)	(150.3)	(34.7)	–	(4,945.3)
Unearned premium portion of net ultimate claims	–	–	–	–	–	–	–	–	(21.4)	(311.8)	–	(333.2)
Claims handling provision, bad debt provision and other corporate adjustments	1.2	0.7	1.5	2.5	2.1	3.5	3.2	5.2	7.1	4.2	33.6	64.8
Total outstanding net claims at 31 December 2014	96.7	25.6	61.9	94.6	88.3	141.2	180.6	290.1	368.5	231.4	33.6	1,612.5

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 patterns reflect our conservative reserving philosophy where positive development from the initial reserving position is slowly recognised as experience begins to emerge.

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 2014, the net aggregate reserve releases from prior years amounted to £32.1m, of which 87.9% was derived from the 2011 and prior underwriting years (2013: £57.3m/88.5% from the 2010 and prior underwriting years). Reserves in Brit Global Specialty Direct and Brit Global Specialty Reinsurance experienced releases of £3.4m (2013: releases of £13.0m) and £29.2m (2013: releases of £45.3m) respectively with a strengthening of £0.5m (2013: strengthening of £1.0m) within Other Underwriting.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

21 INSURANCE AND REINSURANCE CONTRACTS (continued)

(b) Movements in insurance and reinsurance contracts

(i) Claims and loss adjustment expenses

	31 December 2014			31 December 2013		
	Gross £m	Reinsurance £m	Net £m	Gross £m	Reinsurance £m	Net £m
As at 1 January	**2,097.7**	**(374.0)**	**1,723.7**	2,099.0	(361.5)	1,737.5
Cash paid for claims settled in the year	**(758.7)**	**112.5**	**(646.2)**	(542.1)	99.2	(442.9)
Increase in liabilities	**657.2**	**(172.4)**	**484.8**	576.2	(117.0)	459.2
Net foreign exchange differences	**61.7**	**(11.5)**	**50.2**	(35.4)	5.3	(30.1)
As at 31 December	**2,057.9**	**(445.4)**	**1,612.5**	2,097.7	(374.0)	1,723.7

(ii) Unearned premiums

	31 December 2014			31 December 2013		
	Gross £m	Reinsurance £m	Net £m	Gross £m	Reinsurance £m	Net £m
As at 1 January	**496.2**	**(76.0)**	**420.2**	462.2	(52.8)	409.4
Premiums written in the year	**1,302.1**	**(277.2)**	**1,024.9**	1,185.7	(229.4)	956.3
Premiums earned during the year	**(1,251.9)**	**272.2**	**(979.7)**	(1,151.7)	206.2	(945.5)
As at 31 December	**546.4**	**(81.0)**	**465.4**	496.2	(76.0)	420.2

22 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 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 (2013: 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 2012 and identified a funding deficit of £11.6m. The Group agreed to pay three contributions of £4.5m on each subsequent 31 July and a final contribution of £1.6m on 31 July 2016 to remove this deficit by 31 July 2016. The Group expects to contribute £4.5m to the scheme in 2015.

The Group has also committed to pay further contributions to the scheme of at least £2.0m a year from 1 January 2017 to 31 July 2024, while the scheme remains in deficit when calculated on a 'buyout' basis. These contributions are payable by Brit Group Services Limited and backed-up by a cross-company guarantee from Brit Insurance Holdings Limited and Brit Overseas Holdings S.à.r.l.

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

	31 December 2014 £m	31 December 2013 £m
Present value of defined benefit obligation	**(140.8)**	(125.0)
Fair value of scheme assets	**168.6**	146.9
Net pension asset	**27.8**	21.9

Changes in the net pensions asset recognised in the Statement of financial position:

	31 December 2014 £m	31 December 2013 £m
Opening statement of financial position	**21.9**	14.7
Credit to Income statement	**1.0**	0.7
Amount recognised outside income statement	**0.4**	2.0
Contributions paid	**4.5**	4.5
Closing statement of financial position	**27.8**	21.9

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 2014 £m	Year ended 31 December 2013 £m
Net interest on net defined benefit asset	**(1.0)**	(0.7)
Net credit	**(1.0)**	(0.7)

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 2014 £m	31 December 2013 £m
Equities	**56.8**	58.4
Index-linked UK government bonds	**88.1**	71.2
Non-UK index-linked bonds	**8.9**	5.5
Fixed interest government bonds	**8.8**	–
Cash and net current assets	**3.2**	7.1
Gold and gold mining equities	**1.9**	2.1
Other scheme assets	**0.9**	2.6
Fair value of scheme assets	**168.6**	146.9

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.

22 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 2014 £m	31 December 2013 £m
Opening defined benefit obligation	**125.0**	119.1
Interest on defined benefit obligation	**5.5**	5.2
Remeasurements due to:		
Changes in financial assumptions	**14.4**	5.8
Changes in demographic assumptions	**1.4**	–
Experience on benefit obligations	**(1.5)**	0.1
Benefits paid	**(4.0)**	(5.2)
Closing defined benefit obligation	**140.8**	125.0

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

	31 December 2014 £m	31 December 2013 £m
Opening fair value of scheme assets	**146.9**	133.8
Interest income	**6.6**	5.9
Actual return excluding interest income	**14.6**	7.9
Contributions by the employer	**4.5**	4.5
Benefits paid	**(4.0)**	(5.2)
Closing fair value of scheme assets	**168.6**	146.9

The principal actuarial assumptions at the year-end were:

	31 December 2014	31 December 2013
Discount rate	**3.6%**	4.5%
Retail Prices Index (RPI) inflation	**3.2%**	3.5%
Consumer Prices Index (CPI) inflation	**2.2%**	2.5%
Pension increases in payment	**3.1%**	3.4%
Mortality assumptions:		
Life expectancy of male aged 60 at statement of financial position date	**27.4 years**	27.4 years
Life expectancy of female aged 60 at statement of financial position date	**29.7 years**	29.7 years
Life expectancy of male aged 60 retiring in 20 years' time	**29.4 years**	29.4 years
Life expectancy of female aged 60 retiring in 20 years' time	**31.4 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 £13.3m
Future RPI inflation increases	Increase by 0.5%	Increase by £7.9m
Future CPI inflation increases	Increase by 0.5%	Increase by £2.3m
Assumed life expectancy at age 60	Increase by 1 year	Increase by £3.9m

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.

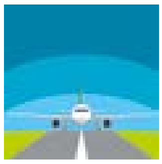
The pension charge to the income statement represents contributions payable by Brit Group Services Limited to the fund and amounted to £4.6m (2013: £4.4m).

At 31 December 2014, no contributions were payable to the fund (2013: £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 charge to the income statement represents contributions payable by Brit Insurance Services USA Inc. to the fund and amounted to £0.2m (2013: £0.3m).

At 31 December 2014, no contributions were payable to the fund (2013: £nil).



23 FINANCIAL INVESTMENTS

This Note summarises the total value of the financial investments 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 2014 £m	31 December 2013 £m
Equity securities	**27.2**	47.6
Debt securities	**985.6**	998.8
Loan instruments	**169.3**	292.7
Specialised investment funds	**1,077.7**	936.8
	2,259.8	2,275.9

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

Basis for determining the fair value hierarchy of financial instruments

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

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

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

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

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement. The significance of an input is assessed against the fair value measurement in its entirety.

Assets are categorised as level one where fair values are 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 additional 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 are government bonds, treasury bills, exchange-traded equities and exchange-traded funds which are measured based on quoted prices.

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, structured products (Asset Backed Securities (ABSs), Collateralised Mortgage Obligations (CMOs), Commercial Mortgage Backed Securities (CMBSs), Collateralised Loan Obligations (CLOs), Mortgage Backed Securities (MBSs) and Residential Mortgage Backed Securities (RMBSs)) and specialised investment funds.

US and non-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. 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 so they are derived indirectly using inputs that can be corroborated by observable market data.

Level two loan instruments consist primarily of below investment-grade debt of a wide variety of corporate issuers and industries. These instruments are mostly over the counter (OTC) traded. These instruments are priced using pricing models whose inputs are derived principally from or corroborated by observable market data through correlation or other means for substantially the full term of the asset or liability.

Level two structured products include certain ABSs, CMOs, CMBSs, CLOs, MBSs and RMBSs. These structured products include pools of assets with a variety of underlying collateral. During pricing, the prepayment models might be adjusted for the underlying collateral and current price data, treasury curve, swap curve as well as the cash settlement.

Level two specialised investment funds contain alternative and 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 three
Level three securities contain certain investments in ABSs, CMOs, CMBSs and RMBSs as well as investments in Insurance-Linked Securities (ILS), loan instruments and specialised investment funds.

Level three ABSs, MBSs and CMBSs include debt securities backed by pools of loans with a variety of underlying collateral. These instruments are priced using unobservable inputs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

23 FINANCIAL INVESTMENTS (continued)

Level three CMOs are non-agency mortgage backed securities that are valued using unobservable data at the time of valuation.

Level three RMBSs include non-agency RMBS backed by non-conforming residential mortgages. Pricing models factor in interest rates, bond or credit swap spreads and volatility.

ILSs are financial instruments whose performance is primarily driven by insurance and/or reinsurance loss events. Instead of an active market, there is a secondary market existing for ILS contracts. Valuations of these securities require mark-to-market considerations when evaluating risk/return and pricing models use at least one significant input not being based on observable market data.

Level three loan instruments consist primarily of below investment-grade debt of a wide variety of corporate issuers and industries. These instruments are mostly over the counter (OTC) traded. These instruments are priced using unobservable inputs.

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.

Disclosures of fair values in accordance with the fair value hierarchy

31 December 2014	**Level one £m**	**Level two £m**	**Level three £m**	**Total £m**
Equity securities	**27.2**	**–**	**–**	**27.2**
Debt securities	**142.9**	**702.7**	**140.0**	**985.6**
Loan instruments	**–**	**165.2**	**4.1**	**169.3**
Specialised investment funds	**686.3**	**332.9**	**58.5**	**1,077.7**
	856.4	**1,200.8**	**202.6**	**2,259.8**

31 December 2013	Level one £m	Level two £m	Level three £m	Total £m
Equity securities	47.6	–	–	47.6
Debt securities	251.6	489.8	257.4	998.8
Loan instruments	–	292.7	–	292.7
Specialised investment funds	792.9	69.6	74.3	936.8
	1,092.1	852.1	331.7	2,275.9

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.

All unrealised gains of £5.6m (31 December 2013: £4.1m) and realised gains of £12.7m (31 December 2013: £1.2m) on financial investments held during the period, are presented in investment return in the consolidated income statement.

Transfers from level one to level two

A total of £190.4m of funds were transferred from level one to level two during 2014 (2013: £nil). Additional information was obtained in 2014 from one fund manager relating to the underlying assets within their specialised investment funds which identified that the majority of the underlying assets were level two.

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

	Debt Securities £m	Loan instruments £m	Specialised investment funds £m	Total £m
At 1 January 2013	19.2	–	49.8	69.0
Transfers from level two	88.0	–	–	88.0
Total (losses)/gains recognised in the income statement	(0.4)	–	6.7	6.3
Purchases	159.5	–	73.7	233.2
Sales proceeds	(9.1)	–	(52.5)	(61.6)
Foreign exchange gains/(losses)	0.2	–	(3.4)	(3.2)
At 31 December 2013	257.4	–	74.3	331.7
Transfers (to)/from level two	**(83.0)**	**0.2**	**(22.1)**	**(104.9)**
Total gains recognised in the income statement	**1.8**	**(0.1)**	**1.2**	**2.9**
Purchases	**20.3**	**3.9**	**3.7**	**27.9**
Sales proceeds	**(64.6)**	**–**	**(2.1)**	**(66.7)**
Foreign exchange gains	**8.1**	**0.1**	**3.5**	**11.7**
At 31 December 2014	**140.0**	**4.1**	**58.5**	**202.6**

Total Total net gains recognised in the income statement under 'investment return' in respect of level three financial investments for the period amounted to £2.9m (31 December 2013: £6.3m). Included in this balance are £0.7m of unrealised gains (31 December 2013: £0.9m) attributable to assets still held at the end of the year.

During the year ended 31 December 2014 the transfers of financial assets between fair value hierarchy level two and level three is as follows:

Transfers from level two to level three

A loan of £0.2m (2013:£nil) was transferred from level two to level three due to its inputs becoming unobservable during 2014.

Transfers from level three to level two

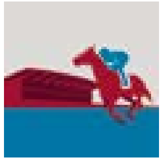
There were transfers amounting to £105.1m (2013:£nil), which comprised the following:

	31 December 2014 £m	31 December 2013 £m
ABSs	**49.0**	–
CMOs	**3.0**	–
CMBSs	**9.7**	–
RMBSs	**18.1**	–
Specialised investment funds	**22.1**	–
Other financial assets	**3.2**	–
	105.1	–

The availability of financial data for structured products such as ABSs, CMOs, RMBSs and CMBSs can vary and is affected by a wide variety of factors, including the type of financial instrument, whether it is established in the marketplace and other characteristics specific to each transaction. At the time the 2014 levelling exercise was performed, there was an increase in the availability of indirect observable market inputs (e.g. interest rates, yield curves, volatilities, prepayment speeds, credit risk, default rates) over those inputs available at the time of the 2013 levelling exercise. This increase in the availability of inputs was driven by an increase in trading of the instruments held by the Group or through an increase in trading of similar instruments.

These factors, together with the pricing validation exercise conducted on a regular basis throughout 2014, has given management comfort and allowed it to reassess certain structured products as level two in the fair value hierarchy.

A total of £22.1m of funds were transferred from level three to level two during 2014 (2013: £nil). Additional information was obtained in 2014 from fund managers relating to the underlying assets within their specialised investment funds which identified that the majority of the underlying assets were level two.



23 FINANCIAL INVESTMENTS (continued)

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 2014		31 December 2013	
	Carrying amount £m	**Effect of possible alternative assumptions (+/–) £m**	Carrying amount £m	Effect of possible alternative assumptions (+/–) £m
Debt securities	**144.1**	**4.6**	257.4	12.9
Specialised investment funds	**58.5**	**1.3**	74.3	5.1
	202.6		331.7	

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

- 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.

24 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 2014 and 31 December 2013, 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 that are set off in the Group's statement of financial position.

Derivative contract assets

31 December 2014	**Gross amounts of derivative contract assets £m**	**Gross amounts of derivative contract liabilities set off in the statement of financial position £m**	**Net amounts of derivative contract assets presented in the statement of financial position £m**	**Related amount of cash collateral received not set off in the statement of financial position £m**	**Net amount £m**
Currency forwards	**474.5**	**(469.1)**	**5.4**	**–**	**5.4**
Options	**2.4**	**–**	**2.4**	**–**	**2.4**
	476.9	**(469.1)**	**7.8**	**–**	**7.8**
31 December 2013					
Currency forwards	478.9	(468.2)	10.7	–	10.7
Options	2.0	–	2.0	–	2.0
	480.9	(468.2)	12.7	–	12.7

Derivative contract liabilities

31 December 2014	Gross amounts of derivative contract liabilities £m	Gross amounts of derivative contract assets set off in the statement of financial position £m	Net amounts of derivative contract liabilities presented in the statement of financial position £m	Related amount of cash collateral pledged and not set off in the statement of financial position £m	Net amount £m
Currency forwards	**(326.8)**	**325.4**	**(1.4)**	**–**	**(1.4)**
Interest rate swaps	**(1.3)**	**–**	**(1.3)**	**1.4**	**0.1**
	(328.1)	**325.4**	**(2.7)**	**1.4**	**(1.3)**
31 December 2013					
Currency forwards	(348.6)	340.2	(8.4)	–	(8.4)
Interest rate swaps	(2.7)	–	(2.7)	2.1	(0.6)
	(351.3)	340.2	(11.1)	2.1	(9.0)

Disclosures of fair values in accordance with the fair value hierarchy

31 December 2014	Level one £m	Level two £m	Level three £m	Total £m
Derivative contract assets	**–**	**5.4**	**2.4**	**7.8**
Derivative contract liabilities	**–**	**(2.7)**	**–**	**(2.7)**

31 December 2013	Level one £m	Level two £m	Level three £m	Total £m
Derivative contract assets	10.7	–	2.0	12.7
Derivative contract liabilities	(8.4)	(2.7)	–	(11.1)

Valuation techniques

Level one

Futures contracts are 'forward-based' derivative contracts that are standardised, transferable and exchange-traded, and therefore quoted prices are available in an active market.

Level two

The fair value of the 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 forward contracts is derived from observable inputs such as active foreign exchange and interest rate markets that may require adjustments for certain unobservable inputs.

Level three

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

24 DERIVATIVE CONTRACTS (continued)

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

	Put options £m	Currency forwards £m	Total £m
At 1 January 2013	–	(0.7)	(0.7)
Transferred to level 1	–	0.7	0.7
On disposal of asset held for sale	2.0	–	2.0
At 31 December 2013	2.0	–	2.0
Purchases	**0.1**	**–**	**0.1**
Total gains recognised in the income statement	**0.3**	**–**	**0.3**
At 31 December 2014	**2.4**	**–**	**2.4**

25 INSURANCE AND OTHER RECEIVABLES

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

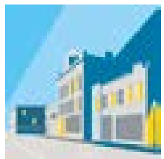
	31 December 2014 £m	31 December 2013 £m
Arising out of direct insurance operations	**117.9**	156.2
Arising out of reinsurance operations	**306.3**	195.6
Prepayments	**8.5**	8.0
Accrued income	**4.0**	5.2
Outstanding settlement on investments	**11.9**	12.3
Other debtors	**4.1**	3.6
Total	**452.7**	380.9

26 CASH AND CASH EQUIVALENTS

This Note analyses the amount 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 2014 £m	31 December 2013 £m
Cash at bank and on deposit	**294.2**	284.3
Cash equivalents	**27.2**	31.4
Total	**321.4**	315.7

The carrying amounts disclosed above reasonably approximate fair values.



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

Classification	Definition	31 December 2014 £m	31 December 2013 £m
Cash within segregated fund mandates	Short-term investment funds, money market funds, treasury bills or cash held within segregated mandates.	**58.8**	64.5
Lloyd's trust funds	Cash within the Lloyd's Overseas Deposits Trust Funds held to meet regulatory requirements.	**31.8**	29.9
Self-managed cash	Highly liquid instruments held to meet ongoing working capital requirements.	**136.1**	189.5
Letter of credit cash collateral	Cash held as collateral for letters of credit.	**60.6**	2.0
Derivative operating cash	Cash within segregated accounts held to meet margin calls and to enable derivative positions to be rolled.	**34.1**	29.8
Total		**321.4**	315.7

The cash and cash equivalent balances held in Lloyd's Trust Funds and as letter of credit collateral are not available for use by the Group.

27 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 2014			31 December 2013		
	Maturity	Call	Effective interest rate	Initial capitalised borrowing costs £m	Amortised cost £m	Fair value £m	Initial capitalised borrowing costs £m	Amortised cost £m	Fair value £m
Non-current:									
Lower tier two subordinated debt	2030	2020	8.3%	**1.8**	**124.5**	**137.3**	1.8	123.2	131.0
Revolving credit facility	2018	–	LIBOR+2.3%	**9.4**	**–**	**–**	8.2	–	–
				11.2	**124.5**	**137.3**	10.0	123.2	131.0

As at 31 December 2014, the fair value of the lower tier two subordinated debt was determined by reference to trading market values on recognised exchanges and was therefore categorised as a level one in the fair value hierarchy. As at 31 December 2013, the fair value of the lower tier two subordinated debt was determined by reference to a portfolio of securities with similar characteristics with a discount applied to allow for illiquidity and was therefore categorised as a level two measurement in the fair value hierarchy. For further information relating to the fair value hierarchy, refer to Note 23.

Lower tier two subordinated debt

The lower tier two subordinated debt has a nominal value of £135.0m and interest is payable annually at a rate of 6.625%. It is listed and callable in whole by the Group on 9 December 2020 and 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 Gilt 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

27 BORROWINGS (continued)

Revolving credit facility

During 2014, the Group renegotiated its £225m revolving credit facility with its existing banking partners, with certain amendments taking effect on the date of the corporate reorganisation. The main changes were to reduce the margin from 3.0% to 2.3% and to extend the expiry date from 31 December 2017 to 31 December 2018.

At 31 December 2014, a US$80.0m (£51.3m) (2013: US$80.0m/£48.2m), letter of credit had been put in place under the facility while the remainder was undrawn. At 31 December 2014, the US$80.0m was fully collateralised (2013: uncollateralised).

28 PROVISIONS

A provision is recognised instead of an amount payable when there is uncertainty over the amount and timing of any future payment. The Group maintains two types of provisions, one related to leased properties which are currently unoccupied and one relating to dilapidation costs which we will have to pay when we vacate leasehold properties.

	Onerous lease provision £m	Dilapidation provision £m	Total £m
At 1 January 2013	2.9	1.5	4.4
Amounts utilised during the year	(2.1)	(0.3)	(2.4)
Unwinding of discount	0.2	0.2	0.4
At 31 December 2013	1.0	1.4	2.4
At 1 January 2014	**1.0**	**1.4**	**2.4**
Amounts utilised during the year	**(0.6)**	**(0.1)**	**(0.7)**
Unwinding of discount	**0.1**	**0.1**	**0.2**
At 31 December 2014	**0.5**	**1.4**	**1.9**

29 INSURANCE AND OTHER PAYABLES

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

	31 December 2014 £m	31 December 2013 £m
Arising out of direct insurance operations	**6.0**	14.7
Arising out of reinsurance operations	**156.3**	111.8
Other taxes and social security costs	**1.4**	1.2
Accruals and deferred income	**34.7**	31.0
Outstanding settlements on investments	**17.3**	23.8
Other creditors	**5.1**	4.8
Total	**220.8**	187.3

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

30 SHARE CAPITAL

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

	31 December 2014 £m	31 December 2013 £m	On incorporation £m	**31 December 2014 1p each Number**	31 December 2013 200p each Number	On incorporation 200p each Number
Ordinary shares:						
Allotted, Issued and fully paid	**4.0**	–	–	**400,452,960**	1	1

	£m	**Number**
As at 31 December 2013	**–**	**1**
Issue of ordinary shares on corporate reorganisation	**800.0**	**399,999,999**
Capital reduction	**(796.0)**	**–**
Shares issued in respect of share-based incentive schemes	**–**	**452,960**
As at 31 December 2014	**4.0**	**400,452,960**

Following court approval, on 30 April 2014, the share capital of the Company was reduced by the cancellation of 199p from the nominal value of each ordinary share.

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

Brit PLC was incorporated on 19 December 2013.

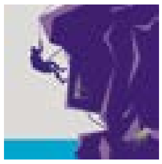
31 DIVIDENDS

This Note gives details of the amount we have paid to our shareholders during 2014 by way of dividends. It also sets out what the Board are proposing to the annual general meeting as a final 2014 dividend and as a special 2014 dividend, and the timetable for those dividends.

A final ordinary dividend of 12.5p per share (2013: nil) and a special dividend of 12.5p per share (2013: nil) was agreed by the Board on 24 February 2015 and is subject to shareholder approval at the annual general meeting on 21 April 2015. These Financial Statements do not include as a liability the provision for these dividends. Subject to annual general meeting approval, both the final ordinary and special dividends are payable on 30 April 2015 to shareholders on the register on 20 March 2015. The shares will go ex-dividend on 19 March 2015.

An interim dividend of 6.25p (2013: nil) per share was paid on 26 September 2014.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS



32 OWN SHARES

This Note gives information about the holding the Group has in Brit PLC shares, including the number and the rationale for holding them.

At 31 December 2014, the number of own shares held in trust amounted to 829,913 (2013: 874,399 Brit PLC shares after reflecting the corporate reorganisation on 28 March 2014) with a value of £0.9m (2013: £1.6m). The purpose of the own shares is to satisfy awards under the share-based payment schemes.

33 RESERVES

This Note gives information about the reserves carried on the Group's statement of financial position at 31 December 2013. Following the reorganisation in 2014, the balance at 31 December 2014 was nil.

The reserve balance of £94.4m at 31 December 2013 was a reserve of Achilles Holdings 1 S.à.r.l. which mainly resulted from a share cancellation made by that company during 2013. Following the corporate reorganisation on 28 March 2014 and the introduction of Brit PLC as the new ultimate holding company, the amount was no longer recognised in the consolidated statement of financial position.

34 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 2014 were £3.3m (2013: £3.1m).

The future minimum lease payments under non-cancellable operating leases were as follows:

	Year ended 31 December 2014 £m	Year ended 31 December 2013 £m
Not later than one year	**3.1**	3.4
Later than one year and not later than five years	**1.5**	6.5
Total	**4.6**	9.9

35 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 2014 £m	Year ended 31 December 2013 £m
Profit on ordinary activities before tax	**149.1**	107.4
Adjustments for non-cash movements:		
Realised and unrealised (gains)/losses on investments	**(18.3)**	(5.3)
Realised and unrealised (gains)/losses on derivatives	**(7.3)**	(11.0)
Amortisation of intangible assets	**5.7**	4.8
Impairment of intangible assets	**–**	0.2
Depreciation of property, plant and equipment	**2.0**	2.0
Impairment of property, plant and equipment	**–**	0.2
Foreign exchange (gains)/losses on cash and cash equivalents	**(5.3)**	2.0
Profit on disposal of asset held for sale	**–**	(4.4)
Charges to equity in respect of employee share schemes	**0.6**	0.1
Interest income	**(37.2)**	(56.1)
Dividend income	**(20.7)**	(1.4)
Finance costs on borrowing	**13.5**	15.0
Movement in operating assets and liabilities:		
Deferred acquisition costs	**(8.6)**	(12.4)
Insurance and other receivables excluding accrued income	**(73.0)**	(38.6)
Insurance and reinsurance contracts	**(66.0)**	(3.1)
Financial investments	**(9.5)**	41.5
Derivative contracts	**3.8**	10.6
Insurance and other payables	**31.7**	11.6
Employee benefits	**(5.5)**	(5.2)
Provisions	**(0.5)**	(2.0)
Cash flows provided by operating activities	**(45.5)**	55.9

36 NON-CONTROLLING INTERESTS

During 2013 and 2014, the Group has 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 ultimate parent company, Brit PLC.

On 15 March 2013, the Group completed the buy-out of the non-controlling interests in Brit Insurance Holdings B.V. remaining from its acquisition on 9 March 2011. 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 PLC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

37 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 Group has a number of long-term employee incentive schemes. These schemes are described below and further information is available in the Remuneration Report.

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 2014 £m	Year ended 31 December 2013 £m
Equity–settled plans:		
Retention Partnership Plan	**0.2**	0.1
Performance Share Plan (PSP)	**0.2**	–
Brit All Employee Share Plan	**0.1**	–
Cash–settled plans:		
PSP dividend equivalents settled in cash	**0.1**	–
Total	**0.6**	0.1

The total liability in respect of cash-settled plans at 31 December 2014 was £0.1m (2013: £nil). The total intrinsic value of cash-settled awards which had vested at 31 December 2014 was £nil (2013: £nil).

(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 corporate reorganisation, the outstanding RPP awards were exercised with an effective date of 28 March 2014.

Reconciliation of movement in the number of Retention Partnership Plan options

	Year ended 31 December 2014 Number of options	Year ended 31 December 2013 Number of options
Outstanding at 1 January	**401,080**	451,512
Forfeited	**–**	(50,135)
Exercised	**(401,080)**	–
Outstanding at 31 December	**–**	401,080

The numbers of shares in Achilles Holdings 1 S.à.r.l. have been converted into the equivalent number of Brit PLC shares in order to reflect the corporate reorganisation on 28 March 2014.

(b) Performance Share Plan (PSP)
During 2014 selected employees were awarded the right to acquire a defined number of Brit PLC shares at no cost to the employee. Subject to continued service and the satisfaction of the performance conditions, the right to acquire shares may be exercised in differing proportions with effect from the third, fourth and fifth anniversaries of the grant date. These proportions are 50%, 25% and 25% respectively.

The performance conditions are:

- 75% of each award is subject to achieving specific targets for average annual Return on Net Tangible Assets (RoNTA) over a fixed three-year performance period; and
- 25% of each award is subject to the Group's total shareholder return (TSR) achieving specific targets relative to a bespoke industry comparator group over a fixed three-year performance period.

Participants do not receive any dividends until after the shares have been received. A payment may be made at the time of vesting to reflect the dividend that would have accrued on vested shares between the date of grant and vesting.

The fair value of the PSP share awards with a TSR performance condition is calculated at the date of grant using a Monte Carlo simulation. This valuation process simulates the future TSRs for the Group and each stock in the comparator group over the three performance periods. The TSR for each stock is simulated by assuming a log-normal model of share returns. The inputs to that model are: the risk-free interest rate, expected future dividends, the expected volatility of share returns over the life of the awards and the historical correlation matrix of returns between companies. Expected dividends are deducted in the calculation of fair value because any dividends accrued over the vesting period are expected to be paid separately in cash.

The fair value of the PSP share awards with a RoNTA performance condition is equal to the share price on date of grant less the value of expected dividends in respect of the shares. The value of expected dividends is excluded because it is anticipated, as for the PSP awards with vesting based on TSR, that they will be paid separately in cash.

For PSP share awards granted during the year, the following key assumptions have been made:

	Year ended 31 December 2014	Year ended 31 December 2013
Risk-free interest rate (3-5 year terms)	**1.3%-1.8% pa**	–
Expected volatility	**22.0% pa**	–
Expected dividend yield	**7.7% pa**	–

The risk-free rate is equal to the yields available on zero-coupon UK government bonds at the date of grant with terms equal to the expected lives of the awards. Expected volatility is based on the historic volatility of the Group's share returns since the IPO and the historic volatility of the comparator group companies over periods commensurate with the expected term of the awards. The expected dividend yield is based on declared dividends and the Group's dividend policy as at the date of grant and the share price on the date of grant.

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 PSP awards

	Year ended 31 December 2014 Number of awards	Year ended 31 December 2013 Number of awards
Outstanding at 1 January	**–**	–
Granted	**2,596,365**	–
Outstanding at 31 December	**2,596,365**	–

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

The weighted average fair value at date of grant for equity-settled awards granted during 2014 was 158p. In addition, the weighted average fair value at date of grant for the related dividend equivalents, which are cash-settled, was 54p.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

37 SHARE-BASED PAYMENTS (continued)

The weighted average remaining contractual life at the end of the year was 3.5 years.

(c) Brit All-Employee Share Plan

The Brit All-Employee Share Plan (comprising the Share Incentive Plan (SIP) for UK employees and the International Share Incentive Plan for overseas employees) provides for the award of Brit PLC Free Shares, Partnership Shares, Matching Shares and Dividend Shares. In 2014, Free Share awards were granted with a vesting period of three years from the Award Date. Vesting is unconditional for participants still in-service at the vesting date. Participants will also receive Dividend Shares which represent the value of reinvested dividends that would have accrued over the vesting period on the shares in the Free Share award. No Partnership or Matching shares had been awarded by 31 December 2014.

The fair value of the Brit All-Employee Share Plan awards is equal to the share price on date of grant. Dividends are not deducted in the calculation of fair value because dividends will be accumulated over the vesting period and repaid in equivalent dividend shares.

The calculation of the compensation cost recognised in the income statement in respect of these awards assumes forfeitures due to employee turnover of 10% per annum prior to vesting, with subsequent adjustments to reflect actual experience.

Reconciliation of movement in the number of Brit All-Employee Share Plan awards

	Year ended 31 December 2014 Number of awards	Year ended 31 December 2013 Number of awards
Outstanding at 1 January	**–**	–
Granted	**528,205**	–
Forfeited	**(19,555)**	–
Vested	**(6,108)**	–
Outstanding at 31 December	**502,542**	–

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

The weighted average remaining contractual life at the end of the year was 2.5 years.

Employee share trusts and award settlement

Awards under the RPP were settled by the transfer of shares from an independent trust. New Brit PLC shares have been issued to an independent trust in order to settle awards as they vest under the Share Incentive Plan (SIP) for UK employees.

38 ACQUISITIONS

Acquisitions made by the Group in 2013 and 2014 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 £1.2m and a further £0.9m of estimated contingent consideration. This has been recognised as a renewal right intangible asset of £2.1m.

On 15 March 2013, the Group reached an agreement to acquire a portion of the formerly exclusive wholesale broker, Protected Self Insurance Manager from Risk Placement Services, Inc. The Group purchased this team and access to renewal rights through a cash payment of £0.3m. This has been recognised as a renewal right intangible asset.

The Group reached agreement on 1 May 2013 to acquire Maiden Specialty from Maiden Re Insurance Company. The Group purchased this team and access to renewal rights and certain items of office equipment through a cash payment of £0.9m and a further £0.4m of estimated contingent consideration. This has been recognised as a renewal right intangible asset of £1.2m and property, plant and equipment of £0.1m.

39 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 2013, the Group invested 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. By 31 December 2014, the Group had sold its investment in the sub-fund.

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.

(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 2014 £m	Year ended 31 December 2013 £m
Undertakings for Collective Investments in Transferable Securities	**831.4**	651.3
Mortgage-backed securities	**128.5**	85.4
Commercial Mortgage-backed securities	**11.9**	13.3
Other asset-backed structures	**124.5**	133.0
Total	**1,096.3**	883.0

These assets are included within the debt securities and specialised investment funds classification in Note 23 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 cash flows associated with the instrument and therefore its value in the market.

39 INTERESTS IN STRUCTURED ENTITIES (continued)

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 2014 amounting to £35.7m (2013: £11.2m) comprised of dividend income £19.0m (2013: £3.5m) and capital gains of £16.7m (2013: £7.7m). The Group has also received investment returns from structured products (mortgage backed securities, commercial mortgage backed securities and other asset backed securities) during 2014 amounting to £6.1m (2013: £5.9m) comprised of interest £5.0m (2013: £7.7m) and capital gains of £1.1m (2013: losses of £1.8m).

The Group has provided no financial or other support, other than through the normal purchase of tradable securities, to structured entities either held at the date of the statement of financial position or held during 2013 or 2014 and has no current intention to do so.

40 CONSOLIDATED ENTITIES

The principal entities which are members of the Brit PLC 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 principal subsidiaries of the Company at 31 December 2014, together with their main function, are listed below by country of incorporation.

United Kingdom	
Brit Insurance Holdings Limited	Intermediate holding company
Brit Syndicates Limited	Lloyd's managing agent
Brit UW Limited	Lloyd's corporate member
Brit Group Services Limited	Group services company
BGS Services (Bermuda) Limited	Service company

United States of America	
Brit Insurance Services USA Inc.	Service company

Gibraltar	
Brit Insurance (Gibraltar) PCC Limited	Insurance company

41 RELATED PARTY TRANSACTIONS

The Group has a number of related parties which includes its principal investors and its key management. Sometimes it transacts business with these related parties. This Note sets out those transactions.

(a) Principal investors

The principal investors in Brit PLC are a number of Apollo and CVC investment funds.

The Group has paid monitoring fees to Apollo and CVC-affiliated investment funds amounting to £7.4m (31 December 2013: £2.0m) of which £5.4m (31 December 2013: £nil) was paid in connection with the termination of those monitoring fee arrangements on 27 March 2014.

Apollo Capital Management LP and Athene Asset Management LLC are members of the Apollo Group and CVC Credit Partners LLC is a member of the CVC Group. The Group has incurred investment management fees, including performance fees, payable to these companies as follows:

	Year ended 31 December 2014 £m	Year ended 31 December 2013 £m
Apollo Capital Management, LP	**0.6**	0.4
Athene Asset Management, LLC	**1.0**	0.9
CVC Credit Partners, LLC	**0.2**	0.1
	1.8	1.4

The Group has made investments in Apollo and CVC investment funds as follows:

	31 December 2014 £m	31 December 2013 £m
Apollo Offshore Credit Strategies Fund	**27.2**	22.1
CVC Credit Partners European Opportunities Fund	**15.3**	17.0
	42.5	39.1

The Group has made investments in the loan notes of members of the Apollo Group as follows:

	31 December 2014 £m	31 December 2013 £m
Great Wolf Resorts Inc.	**0.6**	1.5
Rexnord Corporation	**1.3**	1.7
	1.9	3.2

(b) 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 2014 £m	Year ended 31 December 2013 £m
Salaries and other short-term employee benefits	**6.6**	6.3
Post-employment benefits	**0.2**	0.2
Share-based payments	**0.1**	–
Termination benefits	**–**	0.5
	6.9	7.0

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 Management Committee which is the primary vehicle for implementing Board decisions in respect of UK-managed operations.

Information relating to Directors' remuneration and Directors' shareholdings and share interests are included in the Remuneration Report.

41 RELATED PARTY TRANSACTIONS (continued)

(ii) Loans

On 27 March 2014, certain key managers and certain other employees of the Group entered into loan agreements with Achilles Holdings 1 S.à.r.l., pursuant to which they borrowed £1.4m from Achilles Holdings 1 S.à.r.l. for the purpose of funding their acquisition of additional shares in Achilles Holdings 2 S.à.r.l., a Group company. The loans are interest free and are repayable in full on 28 February 2015 or, if earlier, the date on which the borrower ceases to be employed by a Group company. As part of the corporate reorganisation, the relevant shares in Achilles Holdings 2 S.à.r.l. were exchanged for shares in Achilles Holdings 1 S.à.r.l., which in turn were exchanged for shares in Brit PLC. Each key manager and employee has been required to sell 25% of all of their shares in Brit PLC resulting from the corporate reorganisation and use 50% of the post-tax consideration for full or partial repayment of their respective loan. As at 31 December 2014, the total amount of such loans outstanding was £0.2m.

One of the loans referred to above was made to a Director, Mark Cloutier. The initial loan was £0.5m and the amount outstanding at 31 December 2014 was £0.2m.

(iii) Other transactions with Directors

Certain Directors are also directors of other companies as set out in the Governance section of this Annual Report. Some of these companies are their subsidiaries made with companies within the Brit Group. All such trading is carried out on arms-length commercial terms.

42 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 2014, the Funds at Lloyd's requirement amounted to £490.9m (2013: £551.2m).

(b) Revolving credit facility

The Group has access to a £225.0m revolving credit facility. For further information, refer to Note 27. Guarantees have been made by Brit PLC and Brit Insurance Holdings Limited to the syndicated banks providing the facility.

As at 31 December 2014, a US$80m (£51.3m) letter of credit had been provided to Lloyd's (2013: US$80.0m/£48.2m). At 31 December 2014, this letter of credit was fully collateralised with USD cash held in a charged bank account (31 December 2013: uncollateralised).

(c) Collateral pledged

As part of its reinsurance arrangements, a subsidiary company entered into a collateralised reinsurance arrangement with a counterparty and the fair value of the assets held to support this liability as at 31 December 2013 was £428.1m. The reinsurance arrangements ceased on 18 August 2014 and the collateral pledged was withdrawn on that date.

A Group company, Brit Syndicates Limited, has a letter of credit facility with Citibank PLC. Letters of credit to the value of US$14.6m (£9.3m) were in issuance at 31 December 2014 (31 December 2013: US$3.3m (£2.0m)) and were fully collateralised in cash.

(d) 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.

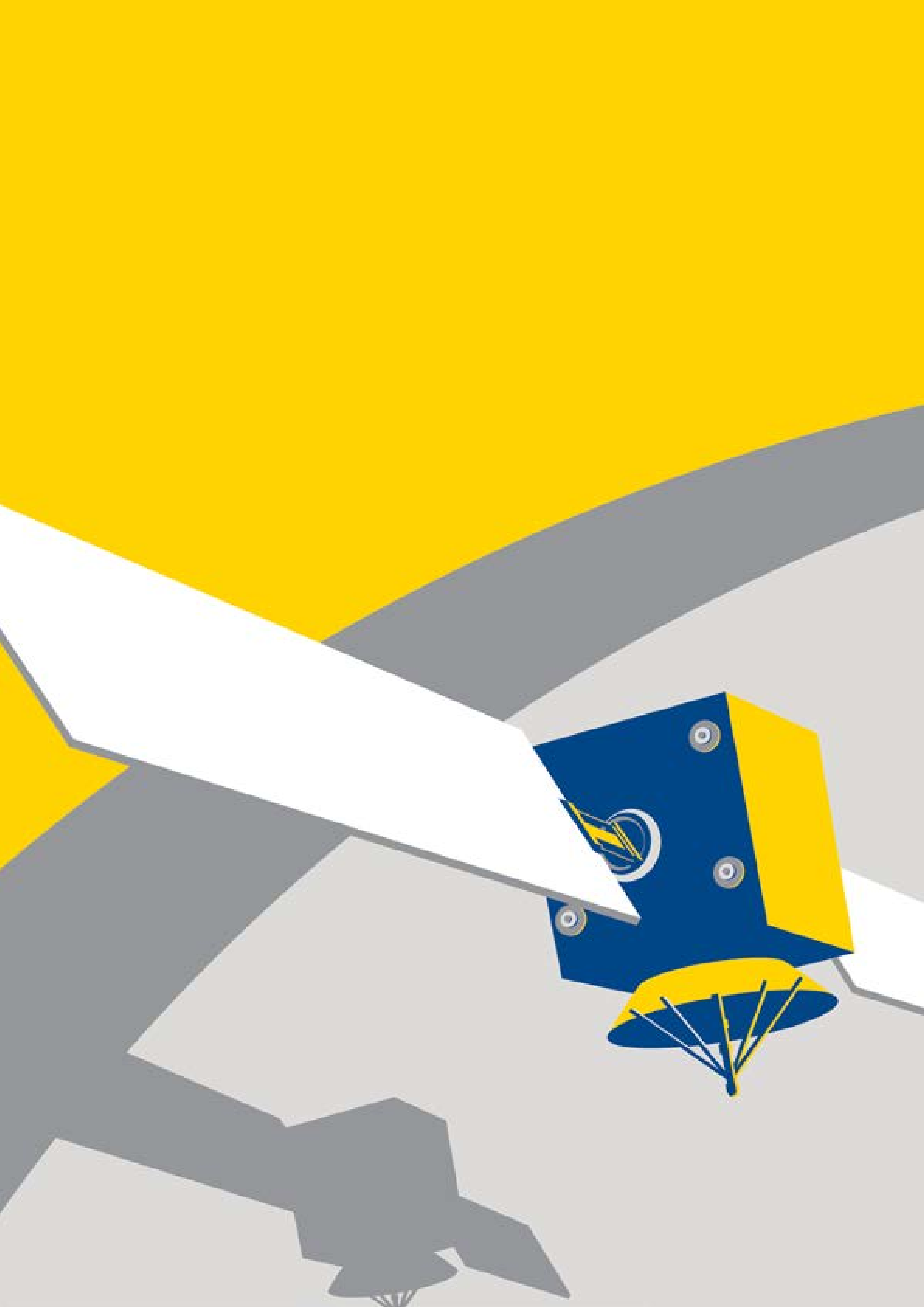
Income taxes are provided for as set out in accounting policy Note 2.5.10.

43 SUBSEQUENT EVENTS

This Note explains any events which have occurred between the date to which these statements are prepared (31 December 2014) and to the date of this report (24 February 2015). Such events can be categorised as adjusting or non-adjusting depending on whether the condition existed in 2014. If non-adjusting events after the year end are material, non-disclosure could influence the economic decisions that users make on the basis of the Financial Statements. Therefore, in this section we disclose details of any material non-adjusting events after the reporting period.

On 17 February 2015, the boards of Fairfax Financial Holdings Limited (Fairfax) and the Company announced that they had reached agreement regarding the terms of a recommended cash offer through which the entire issued and to be issued ordinary share capital of the Company would be acquired by FFHL Group Ltd, an entity wholly-owned by Fairfax.

Under the terms of this offer, shareholders of the Company would be entitled to receive 305 pence in cash for each Brit share, comprising 280 pence in cash and 25 pence by way of the 2014 final ordinary and special dividends recommended by the Board of the Company.



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Statement of cash flows
The statement of cash flows shows how the Company generated cash through its operating activities, how it has spent cash (investing activities) and how it has spent cash to fund the business.

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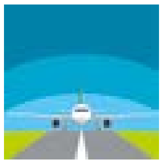
STATEMENT OF FINANCIAL POSITION



At 31 December 2014

	Note	31 December 2014 £m
Fixed assets		
Investments:		
Shares in Group undertakings	3	**800.4**
Loans to Group undertakings	4	**103.1**
		903.5
Current assets		
Debtors: amounts falling due within one year	5	**14.7**
Cash at bank and in hand		**0.2**
		14.9
Current liabilities		
Creditors: amounts falling due within one year	6	**(15.0)**
Net current liabilities		**(0.1)**
Total assets less current liabilities		**903.4**
Creditors: amounts falling due after more than one year	7	**(137.2)**
Net assets		**766.2**
Capital and reserves		
Called up share capital	8	**4.0**
Profit and loss account		**762.2**
Total equity		**766.2**

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

These Financial Statements were approved by the Board of Directors on 24 February 2015 and were signed on its behalf by:

Dr Richard Ward
Chairman

Mark Cloutier
Group Chief Executive Officer

STATEMENT OF CASH FLOWS

For the period from 19 December 2013 to 31 December 2014

	Note	Period from 19 December 2013 to 31 December 2014 £m
Cash generated from operations		
Cash flows provided by operating activities	12	**5.6**
Interest paid		**(8.9)**
Net cash outflows from operating activities		**(3.3)**
Cash flows from investing activities		
Novation of loan to group undertakings		**(115.4)**
Net cash outflows from investing activities		**(115.4)**
Cash flows from financing activities		
Novation of lower Tier Two Subordinated debt		**143.9**
Equity dividend paid		**(25.0)**
Net cash inflows from financing activities		**118.9**
Net increase in cash and cash equivalents		**0.2**
Cash and cash equivalents at beginning of the period		**–**
Cash and cash equivalents at the end of the period		**0.2**

The accompanying Notes are an integral part of these Financial Statements.

STATEMENT OF CHANGES IN EQUITY

For the period from 19 December 2013 to 31 December 2014

	Note	Called up Share capital £m	Profit and loss account £m	Total equity £m
On incorporation		–	–	–
Total comprehensive income for the period		–	(9.2)	(9.2)
Issue of share capital	8	800.0	–	800.0
Capital reduction	8	(796.0)	796.0	–
Capital contribution	13	–	0.4	0.4
Dividend	10	–	(25.0)	(25.0)
At 31 December 2014		4.0	762.2	766.2

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 as a private limited company on 19 December 2013 and subsequently re-registered as a public company under the name Brit PLC on 3 March 2014. The Company was incorporated and registered in England and Wales with registration number 8821629. The registered office of the Company is 55 Bishopsgate London EC2N 3AS. Brit PLC's ordinary shares were admitted to trading on the London Stock Exchange on 2 April 2014.

These statutory accounts cover the period from 19 December 2013 to 31 December 2014 and have been prepared accordingly.

The Company has elected to prepare 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. The Company has adopted FRS 102 early as permitted by the standard.

No individual income statement is presented for the Company, as permitted by Section 408 of the Act. The loss dealt with in the accounts of the parent Company was £9.2m.

1.2 Accounting policies

(a) Investments

Investments in subsidiary undertakings are stated at cost less provisions for any impairment.

(b) Income from fixed asset investments

Dividend income is recognised when the shareholders' right to receive the payment is established.

(c) Long-term debt

Long-term debt is recognised initially at transaction price which is the fair value. In accordance with Section 11 of FRS 102 Basic Financial Instruments, it is subsequently measured at amortised cost using the effective interest rate method, which is the future cash flows discounted at the effective interest rate.

(d) Loans to group undertakings

Loans to group undertakings are recognised initially at transaction price which is the fair value, (including transaction costs incurred except in the initial measurement of financial liabilities that are measured at fair value through profit or loss) less 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 rate interest method.

(e) Expenses

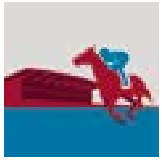
All expenses are accounted for on an accruals basis.

(f) Foreign currencies

The functional currency of the Company is Sterling which is the currency of the primary economic environment in which it operates.

Transactions in foreign currencies other than Sterling are converted at the rate of exchange ruling at the date the transaction is processed. Unless otherwise stated, transactions are converted at the average rates of exchange for the period. Assets and liabilities in currencies other than Sterling are converted at the rates of exchange ruling at 31 December of each year. Exchange differences arising on conversion are dealt with in the income statement.

NOTES TO THE FINANCIAL STATEMENTS



1 ACCOUNTING POLICIES AND BASIS OF PREPARATION (continued)

(g) Deferred taxation

Deferred tax is recognised in respect of all timing differences which are differences between taxable profits and total comprehensive income that arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the Financial Statements, except that:

- Provision is made for deferred tax that would arise on remittance of the retained earnings of overseas subsidiaries, associates and joint ventures only to the extent that, at the statement of financial position date, dividends have been accrued as receivable;
- Where there are differences between amounts that can be deducted for tax for assets (other than goodwill) and liabilities compared with the amounts that are recognised for those assets and liabilities in a business combination a deferred tax liability/(asset) shall be recognised. The amount attributed to goodwill is adjusted by the amount of the deferred tax recognised; and
- Unrelieved tax losses and other deferred tax assets are recognised only to the extent that the directors consider that it 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.

(h) 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, excluding the impact of any non-market vesting conditions. At the date of each statement of financial position, the Company revises its estimate of the number of equity instruments that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment is made to equity over the remaining vesting period. The fair value of the awards and ultimate expense are not adjusted on a change in market vesting conditions during the vesting period.

2 AUDITOR'S REMUNERATION

This Note sets out the fees paid in respect of the annual audit performed on the Company.

The audit fees of the Company have been borne by a related Group company and amounted to £10,000.

3 SHARES IN GROUP UNDERTAKINGS

This Note explains the direct shareholdings of the Company in other Group entities.

	Period from 19 December 2013 to 31 December 2014 £m
On 19 December 2013	–
Acquisition of Achilles Holdings 1 S.à.r.l.	**800.0**
Capital contribution	**0.4**
At 31 December 2014	**800.4**

On 28 March 2014, Brit PLC acquired the entire share capital of Achilles Holdings 1 S.à.r.l., the former ultimate holding company of the Group.

The capital contribution relates to the provision of the share–based payments to the employees of certain Group companies. The principal subsidiaries of the Brit PLC Group are described in Note 40 to the Group Consolidated Financial Statements.

4 LOANS TO GROUP UNDERTAKINGS

This Note sets out moneys lent by the Company to other Group companies.

	31 December 2014 £m
Loans to Group undertakings	**103.1**

On 8 September 2014, a long-term loan to Brit Group Finance (Gibraltar) Limited from Brit Group Holdings B.V. was novated to Brit PLC. The novation was made at fair value which amounted to £115.4m including accrued interest. The agreement expires on 9 December 2020 and carries an 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 2015.

	31 December 2014 £m
Interest receivable on loans to Group undertakings	**14.5**
Prepayments	**0.2**
Total	**14.7**

6 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

This Note sets out moneys owed by the Company that are due before 31 December 2015.

	31 December 2014 £m
Amounts owed to Group undertakings	**14.5**
Accruals and deferred income	**0.5**
	15.0

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 2015.

	Maturity	Call	Effective interest rate %	Amortised cost £m	Fair value £m
Lower tier two subordinated debt	2030	2020	6.29	137.2	137.3

The fair value of the lower tier two subordinated debt has been determined by reference to trading market values on recognised exchanges and is categorised as level one in the fair value hierarchy.

The lower tier two subordinated debt was novated to the Company from Brit Insurance Holdings B.V. on 8 September 2014. The novation was made at fair value which amounted to £143.9m including accrued interest.

The lower tier two subordinated debt has a nominal value of £135.0m and interest is paid annually at a rate of 6.625%. It is listed and callable in whole by the Company on 9 December 2020 and 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 Guilt 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 SHARE CAPITAL

This Note sets out the share capital of the Company at 31 December 2014 and analyses movements in the period.

	31 December 2014 £m	On incorporation £m	31 December 2014 1p each Number	On incorporation 200p each Number
Ordinary shares:				
Allotted, Issued and fully paid	**4.0**	–	**400,452,960**	1

	£m	Number
Issued on incorporation	–	1
Issue of ordinary share on corporate reorganisation	800.0	399,999,999
Capital reduction	(796.0)	–
Shares issued in respect of share-based incentive schemes	–	452,960
At 31 December 2014	**4.0**	**400,452,960**

The issue of ordinary shares on corporate reorganisation was made on 28 March 2014, such that the Company acquired the entire share capital of the former ultimate holding company of the Group, Achilles Holdings 1 S.à.r.l.

The Company has taken advantage of Section 612/613 of the Companies' Act 2006 not to transfer an amount to a share premium account.

Following court approval, on 30 April 2014, the share capital of the Company was reduced by the cancellation of 199p from the nominal value of each ordinary share.

9 GUARANTEES AND CONTINGENT LIABILITIES

This Note explains guarantees issued by the Company. It has no contingent liabilities.

The Company has access to a £225.0m revolving credit facility. Guarantees have been made by Brit PLC and a subsidiary Company to the syndicated banks providing the facility.

10 DIVIDENDS

This Note gives details of the amount we have paid to our shareholders during 2014 by way of dividends. It also sets out what the Board are proposing to the annual general meeting as a final 2014 dividend and as a special 2014 dividend, and the timetable for those dividends.

A final ordinary dividend of 12.5p per share (2013: nil) and a special dividend of 12.5p per share (2013: nil) was agreed by the Board on 24 February 2015 and is subject to shareholder approval at the annual general meeting on 21 April 2015. These Financial Statements do not include as a liability the provision for these dividends. Subject to annual general meeting approval, both the ordinary and special dividends are payable on 30 April 2015 to shareholders on the register on 20 March 2015. The shares will go ex-dividend on 19 March 2015.

An interim dividend of 6.25p (2013: nil) per share was paid on 26 September 2014.

11 RELATED PARTY TRANSACTIONS

The Company has a number of related parties which includes its key management and Group undertakings. This Note sets out the Company's financial relationship with its related parties during the period.

(a) Key management

The amount of 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 was £6.9m. Key managers are defined as the Board of Directors and members of the Executive Management Committee which is the primary vehicle for implementing Board decisions in respect of UK-managed operations.

A loan was made during the period to a Director, Mark Cloutier. The initial loan was £0.5m and the amount outstanding at 31 December 2014 was £0.2m.

Information relating to Directors' remuneration, loans to Directors and Directors' shareholdings and share interests are included in the Remuneration Report.

(b) Group undertakings

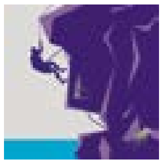
During the period, the Company entered into a transaction with Brit Insurance Holdings B.V. to novate a long-term debt instrument to the Company. Refer to Note 7 for further information.

At the same time, the Company entered into a transaction to novate a loan to a Group undertaking from Brit Insurance Holdings B.V. to the Company. Refer to Note 4 for further information.

12 CASH FLOW FROM OPERATIONS

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

	Period from 19 December 2013 to 31 December 2014 £m
Loss on ordinary activities before tax	**(9.2)**
Adjustments for non-cash movements:	
Interest income	**(2.2)**
Finance costs on borrowing	**2.8**
Changes in working capital:	
Debtors	**(0.2)**
Creditors	**14.4**
Cash flows provided by operating activities	**5.6**



13 SHARE-BASED PAYMENTS

The Company rewards its employees through various share-based incentive schemes. This Note explains the different schemes used to facilitate those share-based payments.

A number of long-term employee incentive schemes are settled with Brit PLC shares. These schemes are described below and further information is available in the Remuneration Committee Report.

The compensation cost under Section 3 of Financial Reporting Standard 103 in respect of these schemes is shown below:

	Period from 19 December 2013 to 31 December 2014 £m
Equity-settled plans:	
Performance Share Plan (PSP)	**0.2**
Brit All Employee Share plan	**0.1**
Cash-settled plans:	
PSP dividend equivalents settled in cash	**0.1**
Total	**0.4**

The cost has been recognised in the financial statements of the subsidiary companies where the staff are employed.

(a) Performance Share Plan (PSP)
During 2014 selected employees were awarded the right to acquire a defined number of Brit PLC shares at no cost to the employee. Subject to continued service and the satisfaction of the performance conditions, the right to acquire shares may be exercised in differing proportions with effect from the third, fourth and fifth anniversaries of the grant date. These proportions are 50%, 25% and 25% respectively.

The performance conditions are:

- 75% of each award is subject to achieving specific targets for average annual Return on Net Tangible Assets (RoNTA) over a fixed three-year performance period; and
- 25% of each award is subject to the Group's total shareholder return (TSR) achieving specific targets relative to a bespoke industry comparator group over a three-year performance period.

Participants do not receive any dividends until after the shares have been received. A payment may be made at the time of vesting to reflect the dividend that would have accrued on vested shares between the date of grant and vesting.

The fair value of the PSP share awards with a TSR performance condition is calculated at the date of grant using a Monte Carlo simulation. This valuation process simulates the future TSRs for the Group and each stock in the comparator group over the three-year performance period. The TSR for each stock is simulated by assuming a log-normal model of share returns. The inputs to that model are: the risk-free interest rate, expected future dividends, the expected volatility of share returns over the life of the awards and the historical correlation matrix of returns between companies. Expected dividends are deducted in the calculation of fair value because any dividends accrued over the vesting period are expected to be paid separately in cash.

The fair value of the PSP share awards with a RoNTA performance condition is equal to the share price on date of grant less the value of expected dividends in respect of the shares. The value of expected dividends is excluded because it is anticipated, as for the PSP awards with vesting based on TSR, that they will be paid separately in cash.

13 SHARE–BASED PAYMENTS (continued)

For PSP share awards granted during the year, the following key assumptions have been made:

	Period from 19 December 2013 to 31 December 2014
Risk-free interest rate (3-5 year terms)	**1.3%-1.8% pa**
Expected volatility	**22.0% pa**
Expected dividend yield	**7.7% pa**

The risk-free rate is equal to the yields available on zero-coupon UK government bonds at the date of grant with terms equal to the expected lives of the awards. Expected volatility is based on the historic volatility of the Group's share returns since the IPO and the historic volatility of the comparator group companies over periods commensurate with the expected term of the awards. The expected dividend yield is based on declared dividends and the Group's dividend policy as at the date of grant divided by the share price on the date of grant.

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 PSP awards

	Period from 19 December 2013 to 31 December 2014
Outstanding at 1 January	–
Granted	**2,596,365**
Forfeited	–
Exercised	–
Outstanding at 31 December	**2,596,365**

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

The weighted average fair value at date of grant for equity-settled awards granted during 2014 was 158p.

The weighted average remaining contractual life at the end of the year was 3.7 years.

(b) Brit All-Employee Share Plan

The Brit All-Employee Share Plan (comprising the Share Incentive Plan (SIP) for UK employees and the International Share Incentive Plan for overseas employees) provides for the award of Free Shares, Partnership Shares, Matching Shares and Dividend Shares. In 2014, Free Share awards were granted with a vesting period of three years from the Award Date. Vesting is unconditional for participants still in-service at the vesting date. Participants will receive further shares (Dividend Shares) representing the value of reinvested dividends that would have accrued over the vesting period on the shares in the Free Share award.

The fair value of the Brit All-Employee Share Plan awards is equal to the share price on date of grant. Dividends are not deducted in the calculation of fair value because it is assumed that any dividends will be accumulated over the vesting period and repaid in equivalent shares.

The calculation of the compensation cost recognised in the income statement in respect of these awards assumes forfeitures due to employee turnover of 10% per annum prior to vesting, with subsequent adjustments to reflect actual experience.

NOTES TO THE FINANCIAL STATEMENTS

Reconciliation of movement in the number of Brit All-Employee Share Plan awards

	Period from 19 December 2013 to 31 December 2014 Number of awards
Outstanding at 1 January	–
Granted	**528,205**
Forfeited	**(19,555)**
Vested	**(6,108)**
Outstanding at 31 December	**502,542**

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

The weighted average remaining contractual life at the end of the year was 2.5 years.

Employee share trusts and award settlement
New Brit PLC shares have been issued to an independent trust in order to settle awards as they vest under the Share Incentive Plan (SIP) for UK employees.

14 SUBSEQUENT EVENTS

This Note explains any events which have occurred between the date to which these statements are prepared (31 December 2014) and to the date of this report (24 February 2015). Such events can be categorised as adjusting or non-adjusting depending on whether the condition existed in 2014. If non-adjusting events after the year end are material, non-disclosure could influence the economic decisions that users make on the basis of the Financial Statements. Therefore, in this section we disclose details of any material non-adjusting events after the reporting period.

On 17 February 2015, the boards of Fairfax Financial Holdings Limited (Fairfax) and the Company announced that they had reached agreement regarding the terms of a recommended cash offer through which the entire issued and to be issued ordinary share capital of the Company would be acquired by FFHL Group Ltd, an entity wholly–owned by Fairfax.

Under the terms of this offer, shareholders of the Company would be entitled to receive 305 pence in cash for each Brit share, comprising 280 pence in cash and 25 pence by way of the 2014 final ordinary and special dividends recommended by the Board of the Company.

COMPANY INFORMATION

Directors
Dr Richard Ward – Chairman
Mark Cloutier – Chief Executive Officer
Ipe Jacob – senior independent non-executive Director
Jonathan Feuer – non-executive Director
Hans-Peter Gerhardt – non-executive Director
Maarten Hulshoff – non-executive Director
Sachin Khajuria – non-executive Director
Gernot Lohr – non-executive Director
Kamil Salame – non-executive Director
Willem Stevens – non-executive Director

Group Company Secretary
David Gormley

Head of Investor Relations
Sam Dobbyn
Telephone: +44 (0)20 7984 8800

Registered Office
55 Bishopsgate, London EC2N 3AS
Telephone: +44 (0)20 7984 8500

Incorporation and listing
Brit PLC is incorporated in the UK and its registered number is 8821629. Brit PLC is listed on the London Stock Exchange and trades under the symbol 'BRIT'.

Registrar
Computershare Investor Services PLC
The Pavilions
Bridgwater Road
Bristol BS99 6ZZ
Telephone: 0870 889 3156
Lines are open from 8.30am to 5pm (UK time), Monday to Friday (excluding public holidays).

Website
www.britinsurance.com

The Company website provides information about Brit PLC including information on the business, Annual Reports, half-yearly reports and announcements to the London Stock Exchange.

Share capital
Brit PLC has one class of shares – ordinary shares of £0.01, each of which constitutes equity security and hold voting rights.

Dividends
Brit pays cash dividends to shareholders resident in the UK into a UK bank or building society account with the tax voucher sent direct to their registered address. Please contact Computershare for a dividend mandate form.

Eligible shareholders can participate in Brit's Dividend Reinvestment Plan. This scheme offers shareholders the opportunity to use their cash dividends to buy new shares in Brit.

The recommended final ordinary and special dividends will, subject to AGM approval, be paid on 30 April 2015 to shareholders on the register on 20 March 2015. The shares will go ex-dividend on 19 March 2015.

Electronic communication
Shareholders can choose to receive dividend statements, notices of meetings, Annual Reports and other important Company information electronically by contacting Computershare. You may register online at www.investorcentre.co.uk/ecomms.

Annual general meeting
Brit PLC's 2015 AGM will take place at 9.30am on Tuesday, 21 April 2015 at 55 Bishopsgate, London EC2N 3AS.

Auditors
Ernst & Young LLP
1 More London Place
London SE1 2AF

Joint stockbrokers
J.P. Morgan Cazenove
25 Bank Street
Canary Wharf
London E14 5JP

Numis Securities Limited
The London Stock Exchange Building
10 Paternoster Square
London EC4M 7LT

Corporate lawyers
Slaughter and May
One Bunhill Row
London EC1Y 8YY

Clifford Chance
10 Upper Bank Street
London E14 5JJ

Principal bankers
The Royal Bank of Scotland Group plc
280 Bishopsgate
London EC2M 4RB

Lloyds Bank plc
25 Gresham Street
London EC2V 7HN

GLOSSARY

A

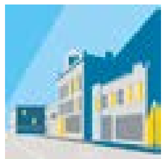
Acquisition costs: Costs incurred in the course of writing business and issuing policies including commissions paid to intermediaries and related internal expenses such as underwriter related costs.
Adjusted net tangible assets or **adjusted NTA:** Total equity, less intangible assets net of the deferred 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 statement of financial position date less own shares.
Admitted market: Insurance provided by an insurer that is admitted (or licensed) in the US state in which the policy was sold. Admitted insurance must also be sold by an agent who is licensed in that state.
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'.
Apollo: Means (i) AP Achilles Holdings (EH-1), LLC, AP Achilles Holdings (EH-2), LLC, AP Achilles Holdings (EH-3), LLC, and AP Achilles Holdings (EH-4), LLC; (ii) AP Helios Co-Invest, L.P.; and (iii) AP Selene Co-Invest, L.P.
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.
Asset leverage: The ratio of invested assets to adjusted net tangible assets. In this calculation, both invested assets and adjusted net tangible assets are reduced by the amount of any recommended final ordinary and special dividends.
Attritional losses: Common losses, as opposed to a 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.
Clash reinsurance: A form of reinsurance that provides additional cover in the event that the reinsured is exposed to multiple claims from two or more of its insureds arising out of the same loss occurrence.
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).
Commutation: An agreement between a ceding insurer and a reinsurer that provides for the valuation, payment and complete discharge of all obligations between the parties under a particular reinsurance contract.



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.
CVC: Means (i) Bishop, L.P. and (ii) the CVC European Equity V Funds.
CVC European Equity V Funds: Means CVC European Equity Partners V (A) L.P., CVC European Equity Partners V (B) L.P., CVC European Equity Partners V (C) L.P., CVC European Equity Partners V (D) L.P. and CVC European Equity Partners V (E) L.P., whose shareholdings in the Company are held directly by their wholly owned direct subsidiary, White Poolco Holdings Limited.
Cycles: Trends or patterns that may exist in a given market environment. See 'hard market' and 'soft market'.

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.
Energy downstream: Cover for the petrochemical/refining sector.
Energy midstream: Cover for elements of production not covered by energy upstream including land rigs, gas plants and general midstream energy excluding petrochemical and refining. Coverage provided for physical damage, business interruption.
Energy upstream: Cover for exploration and upstream production including construction, operational physical damage risk, business interruption/loss of production income, liabilities (on a package basis), operators extra expenses and the typical ancillary coverages required by the energy sector.
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 reassured party in excess of a stated amount (the excess) up to a higher amount of limit, for example £5m excess of £1m. Such coverage can operate on a per loss basis or an aggregate basis.
Executive Management Committee or **EMC:** 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 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 body corporate 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.
FX: Foreign currency exchange.

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.

GLOSSARY

Higher hazard liability business: The provision of cover to industries that have inherent and significant hazards, including industries where personnel work at height, depth or in confined space.
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, 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 arising from natural or man-made catastrophes, or claims in excess of £10.0m (net of reinsurance and allowing for reinstatement) 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 based on business strategy and regulatory requirements.
Managing Agency: A company that manages a syndicate at Lloyd's on behalf of the member or members providing the capital. Brit's managing agency is Brit Syndicates Limited.

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 tangible assets per share: Calculated as closing net tangible assets divided by the number of shares in issue at the statement of financial position date less own shares.
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).
Ordinary dividend (interim and final): The sustainable regular dividend that the Company aims to pay shareholders. Dividends are linked to past performance and future prospects, expected cash flows and working capital needs, as well as the availability of distributable reserves.
Outstanding claims: Claims which have been notified at the statement of financial position 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

Portfolio director: The employees of the Group appointed to manage the Group's underwriting portfolios: short-tail direct, long-tail direct, short-tail reinsurance and long-tail reinsurance.

Pps: Pence per share.

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.

Premium leverage: The ratio of gross written premium to adjusted net tangible assets. For this calculation the adjusted net tangible assets are reduced by the amount of the recommended final ordinary and special dividends.

Premium trust fund or **PTF:** The premiums and other monies that members receive in respect of their underwriting at Lloyd's which are held by their managing agents in trust for them subject to the discharge of their underwriting liabilities.

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.

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).

Retrocession: The transfer of some or all of a reinsurance risk to another reinsurer.

Return on equity or **RoE:** See 'Return on net tangible assets before foreign exchange movements and IPO costs or RoNTA'.

Return on net tangible assets before foreign exchange movements and IPO 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 the IPO, 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 of invested assets.

GLOSSARY

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.

Special dividend: Any dividend paid in excess of the ordinary dividend. In the event that the Group's capital position is in excess of requirements and that excess capital is not needed for growth opportunities, the Company will consider returning it to its shareholders. This will be done via a special dividend.

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

Tactical asset allocation: This is the allocation of invested assets from time to time (within the strategic asset allocation ranges and investment risk framework) to reflect shorter-term changes in market conditions.

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 PLC.

The Group: Brit PLC 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: The sum of 'financial investments', 'assets held for sale', 'cash and cash equivalents' and net 'derivative contracts'.

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 statement of financial position date. It is accounted for as unearned premiums in the underwriting provisions.

Unrealised gains or **losses:** Gains or losses that are yet to be crystallised in the form of a cash movement from disposals of invested assets.

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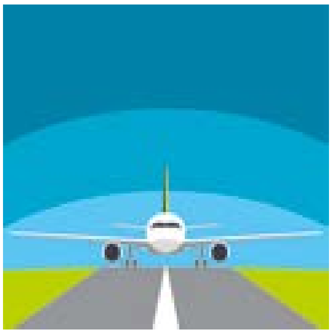






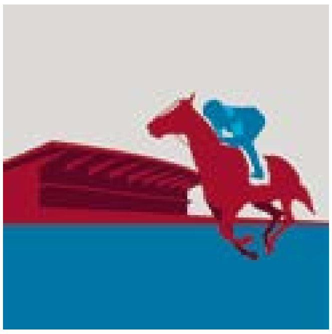
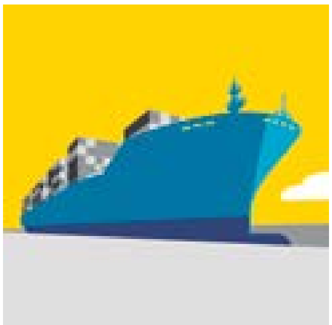





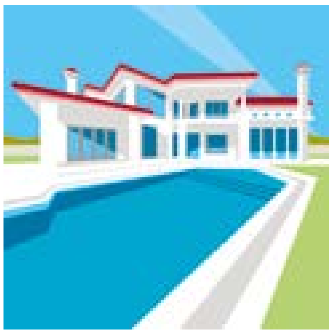

SEEING THE DIFFERENCE **MAKES THE DIFFERENCE**