Brit Insurance Holdings N.V.
Annual Report 2009

Providing…
Protection for business

What's in this report...

Report of the Directors

Group Overview

Strategy and Achievements

Business Review

Financial Review

Governance

Financial Statements and Other Information

Financial Statements

Who we are

Brit Insurance is an international general insurance and reinsurance group specialising in commercial insurance. The Group writes a diverse portfolio of over 70 classes of insurance and reinsurance offering worldwide protection.

Our distribution model is centred on brokers and intermediaries and we aim to deliver an excellent service to them and their clients – through the range of cover we offer, our underwriters' expertise, and our specialist, market-leading claims teams.

Reflecting how and where our customers trade, we are organised into three strategic business units – Brit Global Markets, Brit Reinsurance and Brit UK which have access to our underwriting platforms including Brit Insurance Limited and our Lloyd's syndicate, Brit Syndicate 2987.

Contents:
View this report's contents under the flap

Further information:
Our Structure See page 02
Our Performance See page 04
Our People See page 06
Our Brand See page 08

Chairman's Statement

Result

I am pleased to announce that the Group recorded profit before tax of £171.3m and a return on equity of 17.4% (both excluding foreign exchange on non-monetary items). This is a respectable result given the backdrop of continued uncertainty in the global economy affecting both the investment and underwriting sides of our business.

Strategic progress in 2009

2009 was a busy year for the strategic development of the Group. Earlier in the year – and as I reported on in last year's annual report – the Board reviewed the longer term plans of the Group. These plans are focused on delivering upper quartile underwriting performance and reducing our cost base. I am confident that the achievement of these goals is the most effective way of improving returns to our shareholders.

In June we announced that we had made a proposal to the board of Chaucer Holdings PLC regarding a potential takeover of Chaucer. Ultimately we could not reach a satisfactory agreement which was in the best interests of the Group and our shareholders and withdrew our proposal.

We completed the Group reorganisation in December 2009 with a new holding company, Brit Insurance Holdings N.V., in the Netherlands. This move should provide a favourable environment from which to further the Group's international development, maintain its competitiveness as an international insurer and reinsurer and enhance access to additional sources of capital. In addition, the Group should be able to align its corporate tax rate more closely with those of its global peer group. Over time we believe the move will enhance the returns to shareholders.

Shareholder distributions

In line with our distribution policy, the Board is recommending a final distribution of 30.0p per share (after 1 for 4 share consolidation) making a total distribution of 60.0p per share for the year. As set out at the time of the Group reorganisation this will take the form of a capital distribution rather than a dividend. The Group seeks to grow distributions per share in line with the results and the longer term prospects of the Group.

Board of Directors

Following the Group reorganisation it has been appropriate to review the composition of the Board of Brit Insurance Holdings N.V. to reflect our new domicile. We intend to appoint two Dutch directors. I am delighted that the first of these, Willem Stevens, joined the Board in December 2009. Willem brings a wide range of expertise and experience in Dutch business to the Board.

Michael Smith and Ken Culley will not be offering themselves for re-election at the AGM in May and will leave the Board then. Both Michael and Ken have been involved in the Group for many years and I would like to thank them both for the significant contribution, wisdom and advice they have given over that time.

After 15 years with Brit Insurance, and the last ten years as Group Finance Director, Matthew Scales has indicated that it is his intention to step down as Finance Director of the Group within the next 12 months. The Board is pleased that, to ensure continuity, Matthew has agreed to stay on in his role until a suitable successor is found and his departure date will be confirmed in due course.

Outlook

We are in a risk business, and 2009 has been a good year with relatively few natural disasters. Together with significantly improved capital market conditions, this has allowed the industry to recapitalise and become more competitive. As a result, the rate increases we saw last year have all but disappeared and our markets are now broadly flat. More than ever the combination of a sound capital base, a diversified underwriting portfolio and a committed workforce – all of which we have – will be the fundamentals for our future success.

"The combination of a sound capital base, a diversified underwriting portfolio and a committed workforce will be the fundamentals for our future success."

John Barton,
Chairman
25 February 2010

2009 Highlights

Return on equity excluding the effect of foreign exchange on non-monetary items of

17.4%

4.6% 2008

Combined ratio excluding the effect of foreign exchange on non-monetary items of

94.0%

96.4% 2008

Recommended final distribution of 30.0p per share (after 1 for 4 share consolidation) making a total distribution for the year of

60.0p per share

60.0p 2008

Distribution to be made in the form of a capital reduction

Gross written premium (GWP) of

£1,696.4m

£1,394.6m 2008

a growth of 21.6% or 10.4% at constant currency

Profit before tax (PBT) excluding the effect of foreign exchange on non-monetary items of

£171.3m

£39.6m 2008

a growth of more than 300%

Net tangible assets (NTA) per share of

£10.52

(after 1 for 4 share consolidation). This represents growth of 6.0% and is stated after distributions during 2009 of 60.0p per share (6.0% of opening NTA) and foreign exchange on non-monetary items representing 5.1% of opening NTA

Earnings per share of

113.2p

86.0p 2008

(after 1 for 4 share consolidation) an increase of 32%

Operational and strategic highlights

Successful Group reorganisation with a new holding company, Brit Insurance Holdings N.V., in the Netherlands

Continued active portfolio management within and between business units to reflect ever-changing underwriting conditions

Extended presence in selected local markets with the opening of a managing general agent in Chicago, USA and a representative office in Tokyo, Japan

Excellent talent attracted across underwriting, operations, claims, investments and finance areas

Further information:
Our Structure See page 02
Our Performance See page 04
Chief Executive's Statement See page 12
Strategic Business Units See page 22
Progress against objectives and KPIs See page 17

View our website
www.britinsurance.com

Our Structure

Group

Brit Insurance

Brit Insurance (the Group) is a general insurance and reinsurance group specialising in commercial insurance.

The Group writes a diverse portfolio of over 70 classes of insurance and reinsurance offering protection for businesses worldwide. The scope is wide-ranging: from sole traders to the largest multinational corporations; from manufacturers to professional services; from shops to satellites. Our distribution model is centred on brokers and intermediaries.

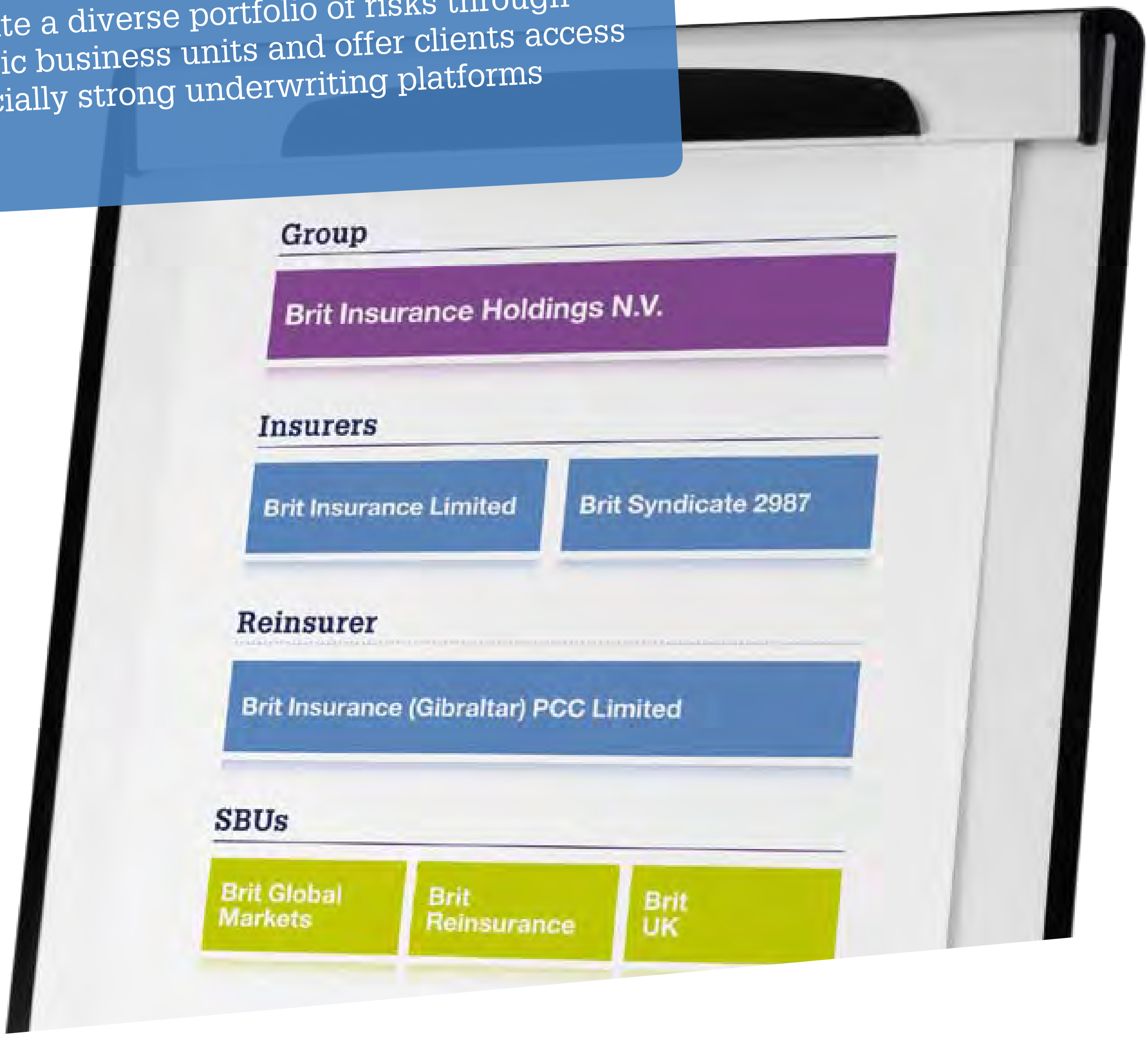
We serve our customers through three strategic business units (SBUs) – Brit Global Markets, Brit Reinsurance and Brit UK. Each SBU underwrites through two regulated underwriting platforms: Brit Syndicate 2987 (BSL) and Brit Insurance Limited (BIL).

The Group's holding company Brit Insurance Holdings N.V. is located in the Netherlands. Brit Insurance (Gibraltar) PCC Limited (BIG) acts as an intra-group reinsurer.

Organised for...

Stability & efficiency

We underwrite a diverse portfolio of risks through three strategic business units and offer clients access to two financially strong underwriting platforms



Insurers

Brit Syndicate 2987 (BSL)

The largest portion of the Group's ongoing business is written by the Group's wholly-aligned Lloyd's syndicate, Syndicate 2987. For 2010, Syndicate 2987 will have an initial capacity of £745m (2009: £560m), with the growth primarily due to exchange rate effects, and this will be reviewed and monitored throughout the year. Syndicate 2987 has licences, through Lloyd's, to write insurance business in over 65 territories including the US, and licences to write reinsurance business in these and many other territories.

Brit Insurance Limited (BIL)

Brit Insurance Limited (BIL) is the Group's UK FSA regulated insurance company. In 2009, BIL wrote 47.0% (2008: 48.7%) of the Group's business. BIL benefits from financial strength ratings of A (Excellent) from AM Best and A (Strong) from Fitch, each with stable outlook. It is licensed to write most lines of insurance business in the UK and EEA territories and reinsurance business in these and a number of other territories.

Reinsurer

Brit Insurance (Gibraltar) PCC Limited (BIG)

Brit Insurance (Gibraltar) PCC Limited, which changed its name from Rockhampton Insurance PCC Limited during the year, is the Group's wholly-owned intra-group reinsurer. BIG writes a number of intra-group reinsurance contracts on both an excess of loss and a quota share basis. BIG has shareholders' funds in excess of £450m.

Strategic business units

Brit Global Markets

Seeks to be a highly respected market leader delivering underwriting excellence based on market intelligence and innovation in chosen fields and disciplines.

Brit Global Markets has an extensive history of providing a comprehensive range of insurance products for small to medium sized enterprises as well as large corporate customers globally. The SBU is made up of a number of niche businesses which are expert in their respective fields and bring a broad spread to the portfolio. Business is distributed entirely through intermediaries. The unit accesses business through leading brokers in its main operations in London as well as through delegated authorities with selected coverholders who distribute products into local markets. This underwriting capability is backed up by first class claims handling through specialist staff in London and in overseas claims hubs.

Brit Reinsurance

Aims to build a diverse and high quality multi-class and multi-territory book of business by participating in this potentially high margin but volatile global business.

Brit Reinsurance writes multi-class and multi-territory reinsurance with a focus on providing excess of loss reinsurance to a broad range of clients globally. The Group transacts reinsurance business exclusively through broker intermediaries with clients ranging from small local mutual insurers to large well-known global insurance groups. It offers the capacity to quote and lead business, whilst aiming to deliver a first-class all-round service to customers backed up by its specialist contractual documentation and claims-handling teams.

Brit UK

Aims to be a significant player in its chosen markets. Expertise, service and execution skills will differentiate the SBU from its peers.

Brit UK underwrites a diverse book of UK commercial and increasingly specialist personal insurance through a combination of regional, national and international brokers. The SBU's target market focuses on sole traders through to corporates with turnover of up to £300m. Over the last two years the Group has been successful in developing online trading solutions for micro-SME business, underwriting commercial insurance with premium values typically less than £2,000 per policy. Brit UK has a carefully targeted distribution strategy with 80% of its commercial business sourced through its top 75 brokers.

Our Performance

Brit Reinsurance GWP
£364.2m
+24% 2008
at constant exchange rates

Combined ratio
79.9%

Positioned for...

Shareholder value

We delivered a return on equity of 17.4% for 2009 and intend to pay a total distribution equivalent of 60.0p per share.

Group and Strategic Business Unit Performance

Brit Insurance Group

	2009	2008
Gross written premium	£1,696.4m	£1,394.6m
Profit before tax[1]	£171.3m	£39.6m
Combined ratio[1]	94.0%	96.4%
Return on equity[1]	17.4%	4.6%
Net tangible assets per share (after 1 for 4 share consolidation)	£10.52	£9.93

Brit Reinsurance

	2009	2008
Gross written premium	£364.2m	£260.7m
Profit before tax[1]	£66.1m	£30.8m
Risks led (by value)	36.0%	33.9%
Retention rate (by value)	87.0%	82.8%
Combined ratio[1]	79.9%	91.7%

[1] Excluding the effect of foreign exchange on non-monetary items

Brit Global Markets

	2009	2008
Gross written premium	£875.3m	£781.3m
Profit before tax[1]	£42.8m	£57.6m
Risks led (by value)	59.1%	57.7%
Retention rate (by value)	71.3%	76.6%
Combined ratio[1]	96.9%	96.4%

Brit UK

	2009	2008
Gross written premium	£455.4m	£350.6m
Profit before tax[1]	£14.2m	£35.7m
Risks led (by value)	94.1%	91.2%
Retention rate (by value)	68.6%	78.0%
Combined ratio[1]	99.7%	99.3%

Brit UK GWP
£455.4m
+28% 2008
at constant exchange rates

Combined ratio
99.7%

2009

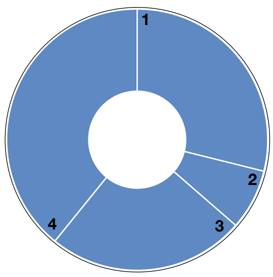
In 2009 Brit Insurance produced a return on equity excluding the effect of foreign exchange on non-monetary items of 17.4% (2008: 4.6%). Gross written premium grew by 10.4% at constant exchange rates reflecting improved underwriting conditions, with premium rate increases of 4.8% on average across the portfolio, and continued success of the Group's focused distribution strategy for Brit UK. The Group combined ratio excluding the effect of foreign exchange on non-monetary items of 94.0% was a 2.4 percentage point improvement compared with 2008.

Business Diversity

Diversity by location of risk

Gross written premium

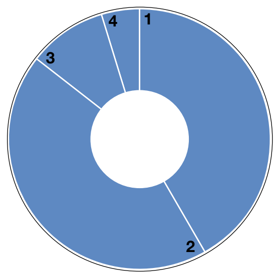
	%	2009 £m	2008 £m
1. United Kingdom	29.0	491.0	403.5
2. Europe	7.6	128.7	100.9
3. United States	24.5	416.2	348.5
4. Worldwide & Other	38.9	660.5	541.7
Total	**100.0**	**1,696.4**	**1,394.6**



Diversity by currency

Gross written premium

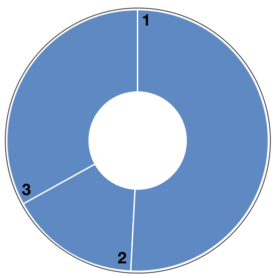
	%	2009 £m	2008 £m
1. Sterling & Other	41.9	711.2	515.3
2. US dollar	43.8	743.1	639.3
3. Euro	9.8	166.4	180.3
4. Canadian dollar	4.5	75.7	59.7
Total	**100.0**	**1,696.4**	**1,394.6**



Diversity by tail of business

Gross written premium

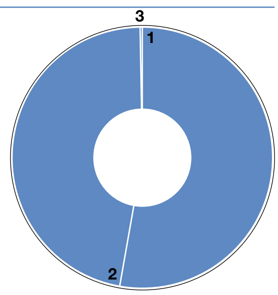
	%	2009 £m	2008 £m
1. Short tail (<1.5 years)	50.9	863.0	691.4
2. Medium tail (1.5 - 3.0 years)	16.2	274.9	216.3
3. Long tail (>3.0 years)	32.9	558.5	486.9
Total	**100.0**	**1,696.4**	**1,394.6**



Diversity by underwriting platform

Gross written premium

	%	2009 £m	2008 £m
1. Brit Syndicate 2987 (BSL)	52.9	897.0	713.6
2. Brit Insurance Limited (BIL)	47.0	797.9	679.0
3. Other	0.1	1.5	2.0
Total	**100.0**	**1,696.4**	**1,394.6**



Our People

Katrina Einchcomb Claims Adjuster
Marine Cargo

John Penruddocke Assistant Reinsurance Underwriter
Property

Above:
Katrina recently completed a three month secondment at our Atlanta Claims Hub. "The aim of my visit was to promote our claims service to new clients, as well as review how the hub can offer the best service to customers. The experience has certainly helped me to develop in my role".

Jehangir Kadan Graduate Trainee

Above:
John spent five weeks with our representative office in Sydney, to provide support during the key Australian and New Zealand property treaty renewal period. "My remit was to ensure that we applied our latest underwriting tools, systems and processes to optimise the success of the renewals. It was great to see how the local market operated as well as share the Brit Insurance culture with our overseas partners"

Left:
Jehangir joined Brit Insurance as a graduate trainee following the successful completion of his MSc in Management. "The graduate scheme has allowed me to experience a wide range of functions across the Group. It's given me the foundation I need to succeed in my first permanent role"

Inspiration for...

a committed team

We are committed to creating a demanding yet rewarding environment that encourages dedicated individuals to outperform.

Right:
Sandra was so taken with the BBC 'Trawlerman' series about the lives of Scottish fishermen that she used her 'Get a Life' opportunity to visit the crew who risk their lives on a daily basis. "They were impressed that I'd taken the time to visit them and thought it was great that Brit Insurance had contributed to the cost of the trip."

Sandra Wise Private Car Underwriter

Our People

We are committed to creating a demanding yet rewarding environment that encourages dedicated individuals to outperform. We aspire to be the insurer that is best able to attract, train and retain talented people.

Our culture and values are centred on ACHIEVEMENT:

- Delivering on commitments and ensuring the same from others
- Managing risk actively to optimise reward
- Prioritising actions, therefore focusing efforts to maximise results
- Living a distinct ethos of being polite, welcoming and open, treating people with fairness and staying close to our customers

Get a life

We believe that individuals perform best when they have a healthy work/life balance. Our 'Get a life' programme is one example of how we encourage every employee each year to do something unconnected with work. This takes the form of an activity or experience that would enhance their lives or lead to a new hobby or vocation.

Charitable giving and community involvement

The Group promotes staff involvement by matching the charitable fund-raising activities of its members of staff and by operating an employee volunteering scheme. This grants every employee two additional days of paid leave a year to volunteer their time through schemes offered by charity partners. In 2009 over £53,000 was raised by staff or donated through the payroll, which Brit Insurance matched on a £1 for £1 basis.

Our Brand

Brand strategy

Our strategy focuses on developing a successful and recognisable identity among intermediaries and potential customers.

We have been the sponsor of Surrey County Cricket Club and the Brit Insurance Oval since 2004, and are the Insurance Partner of the Test Match Grounds. In 2008 and 2009 we sponsored Sky Sports's coverage of England's home Test Matches. With effect from January 2010, we are the principal Team Sponsor of England Cricket, a partnership that will last for an initial four year period.

In 2008, we entered a four year partnership with the Design Museum. The partnership involves title sponsorship of the Brit Insurance Design Awards, and a supporting exhibition, the Brit Insurance Designs of the Year. These celebrate the most innovative and progressive international design over the previous 12 months and span the seven major design disciplines: Architecture, Graphics, Fashion, Product, Furniture, Interactive and Transport.

The Group is also committed to supporting local and international communities. In 2009 we donated £250,000 to our long-term partner, the British Red Cross to help fund 'Emergency Response Unit' vehicles and vital equipment in cities across the UK.

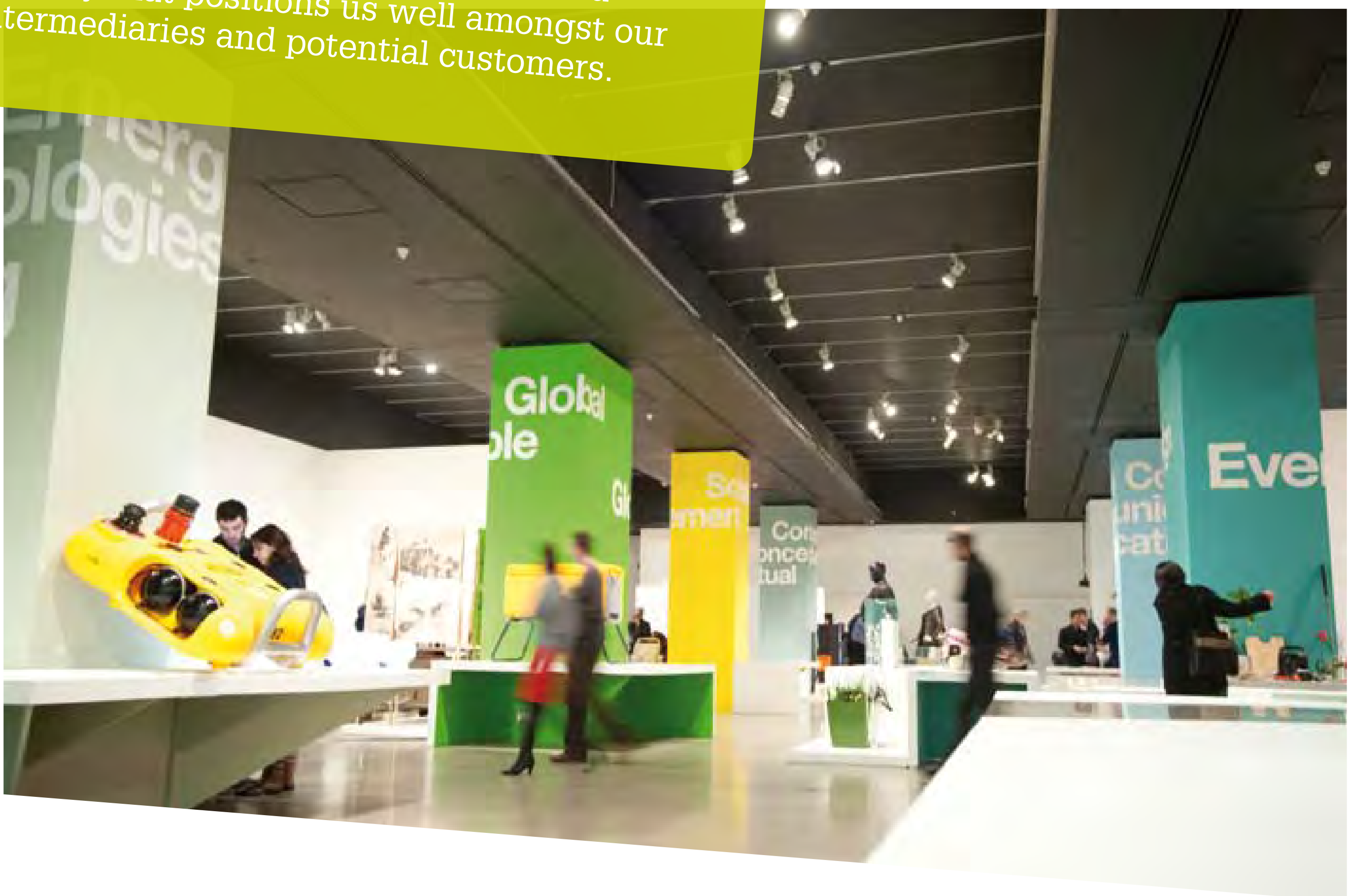
Investing for...

A strong identity

We focus on developing a strong brand identity that positions us well amongst our intermediaries and potential customers.

BRIT INSURANCE DESIGN AWARDS 2009

ARCHITECTURE
FASHION
FURNITURE
GRAPHICS
INTERACTIVE
PRODUCT
TRANSPORT



the Brit Oval
Insurance

Strategy and Achievements

"We are pleased with our results for 2009 and believe that the current rating environment will stay broadly flat in aggregate across our portfolio in 2010."

Dane Douetil, Chief Executive Officer

Chief Executive's Statement

"With our strong balance sheet, diverse business franchise and focus on optimising underwriting returns, we are confident of our ability to continue to create value for our shareholders."

Return on equity excluding the effect of foreign exchange on non-monetary items of

17.4%

4.6% 2008

Dane Douetil Chief Executive Officer

An ever-changing insurance landscape

When I wrote my CEO's statement a year ago the capital markets remained in a state of panic and paralysis; the main economic debate being whether we had already entered – or were about to enter – a depression. It may sound counter-intuitive, but at that time the outlook for the non-life insurance industry and Brit Insurance in particular looked good. A combination of investment losses and catastrophe claims had removed excess capital from the wider insurance industry and premium rates for a number of our major classes of business had already begun an upward trend.

In the context of this backdrop the Group pursued a two-fold strategy in order to take advantage of this market dislocation.

First, from an organic perspective, the Group chose to increase its natural peril risk appetite towards the upper end of its risk tolerance by accepting the increased exposure in our reinsurance account as a result of the strength of the US dollar versus Sterling. This led to a headline increase in premium from North America Property Treaty Reinsurance of 43%. Similar levels of growth were experienced in Property classes within Brit Global Markets.

Simultaneously we reduced our risk appetite for certain classes of casualty business, reflecting the potential increased risk stemming from the economic downturn. This led to a 17.8% decrease in premium written for Specialty Lines and Professional Lines on an underlying basis (at constant currency and excluding movements in prior year premium estimates). At the same time we continued to leverage our service-led distribution capability for Brit UK with a number of new relationships with trading partners especially in the small and micro-SME commercial ends of the market.

.

Secondly, we also reviewed a number of potential acquisitions within the insurance and reinsurance markets that we considered were consistent with the Group's strategy. Ultimately we felt that each potential deal was either of insufficient size, contained execution risks that outweighed the positive benefits, or could not be achieved at a price we felt was in the best interests of the Group and our shareholders.

As 2009 progressed, the market-wide optimism of a major turn in the cycle began to ebb away following the rebound in the global capital markets and a relatively benign US catastrophe season. During this period the Group's emphasis has continued to focus on improving our underwriting margin, a position that is unchanged today.

Delivering against our strategic framework

Last year we completed an extensive review of the Group's strategy and vision, a summary of which can be found in the following pages. The core goals and objectives of this strategy are now driving decision making within the organisation.

As part of this process we identified eight long-term goals that are key to our continued success. At different points in the insurance cycle, these goals will be assigned different levels of importance. During 2009 some of the key areas have been:

- **Responsible growth** in Brit Reinsurance and Brit UK, taking advantage of the improved rating environment for both SBUs and leveraging our regional network within Brit UK.
- Extending **spread of reach** with the opening of Brit Insurance Services USA Inc (BISI) a wholly-owned managing general agent in Chicago and a representative office in Tokyo, Japan.
- Enhancing **multi-channel distribution** through continued success of the Brit Lite proposition in the UK and creating closer links with customers through our spread of reach programme and our claims hubs in the US and in the UK.

I discuss 'Talent Management', a fourth key area in more detail later.

A relentless focus on RoE

The purpose of our goals and objectives is to promote a relentless focus on improving our return on equity (RoE). Since I became CEO in 2005 our consistent focus has been on improving the risk adjusted RoE for our shareholders.

At the start of 2005 we had not grown into our capital base and had a relatively inefficient capital structure. The issue of £150m of Tier Two subordinated debt in December 2005 and the return of over £325m of equity capital to shareholders since 2005 have made the Group's balance sheet more efficient whilst protecting the Group's external credit ratings.

In March 2009 and following an extensive review we decided to reorganise the Group with a new holding company in the Netherlands. This was completed in December 2009 and the Group now benefits from a corporate structure that is more aligned to our peer group.

Over the last five years the business has experienced a period of strong growth which has brought improved product and geographic diversification. With a more difficult market outlook, we expect this growth phase to slow down and 2010 will be a year of consolidation of our leading positions in our chosen markets.

We believe the diversity within our underwriting portfolio is excellent and the next step is to move our underwriting performance into the upper quartile of our peer group. In many respects this is a formalisation of a process that has already begun with the portfolio management initiatives in Brit Global Markets over the last two years.

Investment return for the year

4.2%

0.2% 2008

Further information:
Our Structure See page 02
Strategic Business Units See page 22
Progress against objectives and KPIs See page 17

Chief Executive's Statement continued

2009 financial results

In 2009 the Group delivered a respectable 17.4% return on equity excluding the impact of foreign exchange on non-monetary items and a solid 2.4 percentage point improvement in its combined ratio. Within this result we have set aside appropriate reserves against classes of business that the Group has either exited or significantly re-underwritten over the last two years. Looking forward I am confident that the actions we are taking will benefit our underwriting return. On the investment side, we had a good year with a total investment return of 4.2% but this is unlikely to be sustainable in a low interest rate environment.

The reported return on equity after taking account of all foreign exchange effects was 12.2% compared with 9.2% in 2008.

Talent management

Our talent is a vital part of our organisation and I am pleased to say that 2009 was an exceptional year for attracting people who will help to drive the business forward. We recruited a number of senior underwriters during the year, and this has continued into 2010. At the same time we recruited specialists in the other key functions including new Heads of Operations, Claims, Investments, Investor Relations and Risk Management.

We are constantly striving to improve the depth of our talent pool to meet the increasing sophistication of our business.

Solvency II

We made good progress in 2009 in positioning the Group for the Solvency II regulatory regime for 2012. We have a number of workstreams focused on ensuring that we embed capital and risk management in every part of the Group. We are working closely with the various regulators to ensure the best possible outcome for the Group.

Outlook

There is little doubt that the outlook for the premium rate environment for 2010 is not as positive as it was 12 months ago. Strong capital markets in the second half of 2009 and a benign catastrophe season have enabled the industry to re-capitalise far faster than expected. Furthermore there has been less retrenchment required by some of the leading players who were experiencing financial troubles at the end of 2008 and in early 2009. Some of this is due to state support for a number of large insurers distorting normal market forces.

With this backdrop we see the rating environment as finely poised across many of the markets that we operate in. Our focus on portfolio management and risk selection will therefore be vital if we are to outperform our peers.

For Brit Global Markets's diverse portfolio we expect a mixture of pricing trends as demonstrated by an average 0.7% increase on business renewed in January 2010. 77% of the SBU's classes of business experienced flat or improving rates whilst the remainder saw lower premium rates.

Brit Global Markets's portfolio has seen significant change over the last two years. Although it retains an appetite for casualty risk over the cycle it is likely that the long-tail portfolio will continue to take a defensive position in 2010. Offsetting this, the SBU expects to continue to benefit from opportunities arising from recent recruitment within the Property and Marine underwriting teams. The SBU will continue to focus on active management of the underwriting portfolio, disciplined monitoring of the claims environment and the careful expansion of BISI in the US.

Within Brit Reinsurance, underwriting margins in 2010 are expected to be broadly stable compared with 2009, and the SBU is not expecting to see significant changes to its underwriting portfolio. This has been borne out by renewal rate increases in January 2010 of 1.1%. 2010 should therefore be a year of reasonable stability with the SBU continuing to focus on expanding its distribution relationships and in particular taking advantage of its newly-established representative office in Tokyo, Japan.

Notwithstanding the 3.7% price rises achieved by Brit UK in 2009, the UK market continues to remain competitive. In the last quarter of 2009 the SBU witnessed more intense competition for larger risks but continued to see positive rate movements at the smaller end of the market. It is too early to say whether 2010 will bring the premium rate increases that we were expecting or that are needed for much of the UK market as a whole. The SBU will continue to focus on delivering market leading service with an emphasis on areas where it has a sustainable advantage.

Consistent with our goal to move towards upper quartile underwriting returns, we do not expect the Group to grow its overall premium base in 2010 unless additional premium rate increases are experienced.

With our strong balance sheet, diverse business franchise and focus on optimising underwriting returns, we are confident of our ability to continue to create value for our shareholders.

Dane Douetil CBE
Chief Executive Officer
25 February 2010

Group Strategy

Vision

The Group vision is to be a leading international general insurance and reinsurance group. This will be delivered through significant size, scale and diversity.

Group Long-Term Goals

Responsible Growth

Increasing the size of the organisation through sustainable, profitable growth.

The ambition is that the Group will grow, achieving a return on equity in excess of 6% over the UK base rate across the cycle, while working within financial return and risk appetite parameters.

This growth will be achieved through a mixture of organic growth of existing businesses, starting new ventures or by acquisition.

Financial Strength and Diversity

Creating diversification of risk income and building fee income to enhance financial strength, stability and flexibility.

Brit Insurance will be known not only for financial strength and stability but also for capital flexibility.

Sustained financial strength will create confidence for customers, while strong ratings will ensure access to business in chosen markets.

Flexibility will create long-term shareholder value by optimising the Group's capital efficiency. The use of capital and tax management strategies will ensure capital is used effectively.

Spread of Reach

Creating scale of market share in horizontal and vertical markets.

The Group will develop businesses that spread its reach into chosen markets. These will range from sectors that use skills to create new products, such as capital markets, to regions where market share can be built such as the US and Europe.

The Group will seek opportunities to grow the businesses inorganically. Areas of potential growth will be researched, appetite for entry understood and strategy, approach and business model identified before proceeding.

Group Strategy continued

Sustainable Business
Delivering sustainable propositions across chosen markets.

A key influence in market valuation is the business mix. Markets place a higher value on businesses with larger numbers of repeat customers, as this represents robustness and sustainability.

The Group aims to move towards business that is less volatile over time. The proposition in each strategic business unit (SBU), delivered by a mixture of scalable core and opportunistic niche products and services, will focus predominantly on the small and medium-sized markets, where loyalty is often greater and price competition less severe.

Multi-Channel Distribution
Creating closer links with customers, developing relationships and distribution channels.

Brit Insurance remains committed to the broker and intermediary model, whilst acknowledging the benefits of technology to support distribution.

Service Excellence
Delivering high quality service to customers, clients and colleagues with speed and consistency.

The Group recognises that a key differentiator is the provision of first class service to customers, brokers and colleagues through speed and quality of service delivery.

Brit Insurance will work locally with customers to deliver a loss adjusting service that provides timely and accurate assessment and speedy payment of claims.

Operational Effectiveness
Focusing on the balance between operational effectiveness and efficiency.

To create value for shareholders, it is critical that Brit Insurance demonstrates it can add more value as a group than the businesses do on a stand-alone basis.

The Group will use its capabilities in asset management to optimise the investment returns through asset allocation, fund manager selection and in-house fund management.

The Group seeks to become more operationally effective and efficient than its competitors to ensure a long-term sustainable competitive advantage, regardless of the underwriting cycle.

Talent Management
Focusing on people, skills, competencies and culture.

The Group will continue to focus on attracting, developing and retaining talented people.

Brit Insurance will continue to invest in employees' careers and support their aspirations, providing a total benefits package that ensures they are appropriately incentivised.

The Group will ensure that the culture reinforces its values, and supports the Group strategic direction.

Strategic Objectives

The Group's long-term operating objectives are to:

- Increase spread of reach across diverse sectors, such as international territories and capital markets and multi-channel distribution
- Build balanced, diversified portfolios of sustainable business, targeted predominantly at the small and medium end of chosen market sectors
- Reduce the effective 'cost of capital' by the use of capital and debt, and attracting third party or 'virtual' capital
- Develop a significant stream of non-capital intensive fee income that uses Brit Insurance's risk origination, risk pricing and loss adjusting capabilities
- Manage the portfolio against Group risk appetite to create a strong and flexible balance sheet supported by capital and tax management expertise
- Enhance asset management capabilities in asset allocation, fund manager selection and in-house fund management
- Differentiate the Group through communication and execution to deliver service excellence to others – customers, brokers or colleagues
- Enhance returns through sustainable operational effectiveness and efficiency
- Be recognised as the employer of choice for key talent.

In pursuit of responsible growth, maintain a focus on delivering return on equity of more than 6% above UK base rate.

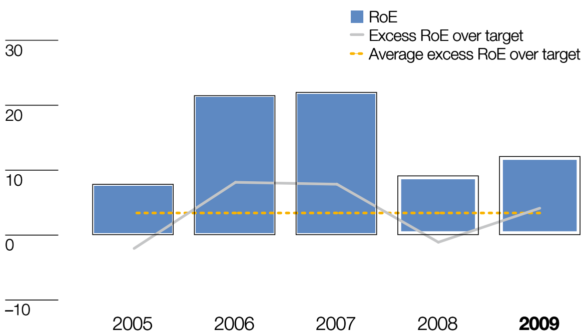
The core insurance competencies for the business are risk origination, risk pricing, loss adjusting, portfolio management and asset management supported by service delivery and communication. These beliefs and competencies are supported by brand, operational effectiveness and efficiency and a participative approach to business partners.

Further information:
Our People See page 06

Progress against objectives and key performance indicators

Performance metric	Why is it key?	2009 (2008) outcome	Performance versus Group's target and goals
Adjusted return on equity (RoE) = profit after tax excluding foreign exchange on non-monetary items and amortisation *divided by* opening net tangible assets adjusted for capital movements during the year	The ultimate measure of the Group's value creation for shareholders. Sustainable RoE in excess of the Group's cost of equity demonstrates delivery of long-term economic value added.	17.4% (4.6%)	10.8 percentage points ahead of the Group's cross-cycle target RoE of at least 6% over UK base rate. The return is also ahead of the Group's current estimate of its cost of equity of between 10%–11%.
Shareholder distribution per share = dividend *plus* capital return *divided by* number of shares	Represents the cash payment to shareholders in exchange for holding the Group's shares.	60.0p (60.0p)	In line with the Group's policy to base the 2009 distribution on the 2008 dividend of 60p per share (adjusted for 1 for 4 share consolidation).
Growth in net tangible assets per share = change in net assets *less* intangible assets *divided by* number of shares	Growth in net tangible assets per share is primarily a reflection of RoE less distributions to shareholders and is a key determinant of share price performance.	6.0% (0.1%)	Affected by the negative effect of the unwind of foreign exchange on non-monetary items (equivalent to 5.1% of opening NTA per share).
Combined ratio = claims net of reinsurance recoveries *plus* expenses *divided by* earned premium net of reinsurance premiums	Demonstrates the Group's underwriting profitability.	94.0% (96.4%)	In line with planned combined ratio.
No unauthorised breaches of catastrophe risk tolerance matrix (see page 40 for details of matrix)	An indication of how much risk is being taken to achieve the Group's RoE and combined ratio.	No unauthorised breaches in either year	In line with target – aggregate management during 2009 included the US wind to Japanese wind swap contract which assisted in managing peak exposures.
Staff turnover excluding retirements and redundancies	The retention of key talent is vital for the Group to continue to deliver a sustainable business.	8.2% (11.1%)	8.6 percentage points lower than the 2008 national average (latest available data).

Return on equity versus Group target (%)



The RoE in the five year chart above includes the effect of foreign exchange on non-monetary items.

Over the last five years the Group has on average generated a return on equity 4.6 percentage points in excess of its cross-cycle target.

Business Review

"During 2009 the Group recorded average premium rate increases on renewed business of 4.8%."

The Business Environment

Overview

2009 began with the expectation of improving underwriting conditions for the majority of classes the Group underwrites. In the end, recovering capital markets together with a benign claims environment have restored much of the industry's capital base. Meanwhile demand has remained constrained.

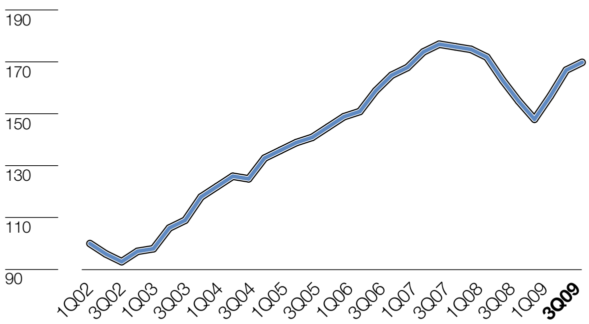
The Group considers the key short to medium-term external drivers of premium rate movements to be capital availability, global GDP, claims experience and investment returns. Over the longer term, changes to insurance penetration and distribution methods also have a significant influence.

Capital availability and global GDP

Over the last two years the level of available capital in the global insurance industry has witnessed significant volatility. As an example, the level of capital within the US insurance industry fell by 15.5% between June 2008 and March 2009. The reduction, a result of impairments in the financial markets as well as claims from natural catastrophes, pushed industry capital back to a position last seen at the end of 2005.

Over the same period the level of capital in the reinsurance industry fell by 19% as measured by the Aon Benfield Aggregate index.

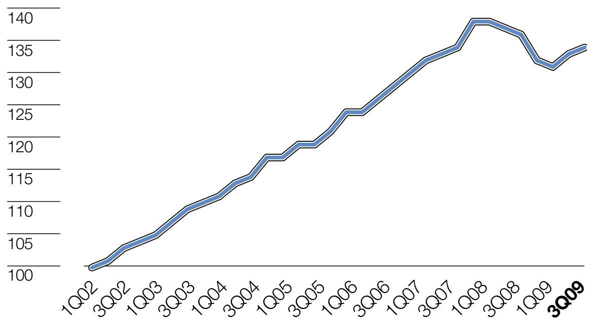
US insurance industry surplus index



Source: ISO

On the demand side, US nominal GDP fell by 2.2% from June 2008 to March 2009 whilst other developed markets experienced similar reductions. The net effect of a significant reduction in industry capital, a lower fall in nominal GDP, together with lower levels of non-traditional forms of capital, e.g. catastrophe bonds and side-cars, suggested the insurance industry could experience a period of sustained price rises.

US nominal GDP index



Source: Bloomberg

Since March 2009, however, the performance of equity and fixed income markets has significantly improved and together with a relatively benign claims environment have restored US industry capital back to within 6% of its peak in 2007. Meanwhile, economic growth did not make headway until the fourth quarter. Annual growth in 2009 of US nominal GDP was 0.8%.

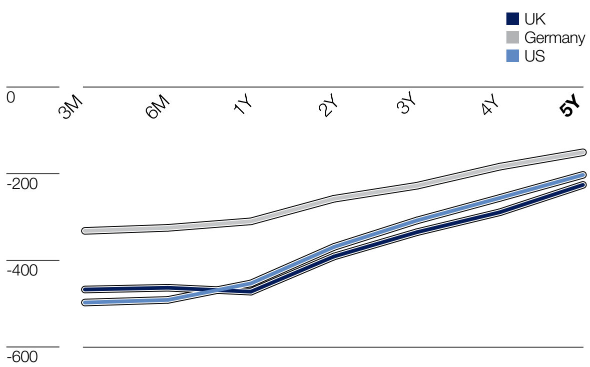
Further strong performance in the capital markets in the fourth quarter of 2009 consolidated the trends of the previous two quarters.

Low fixed income investment returns

Investment returns have historically made an important contribution to the overall profitability of the insurance industry; indeed the US insurance industry has made an underwriting profit in only three of the last nine years. Given solvency requirements, the majority of insurers' assets are fixed income and returns are therefore dependent on government bond yields and credit spreads for high quality corporate instruments.

Over the last three years the returns available on three-year government bonds in the US, the UK and Germany have reduced by over 300 basis points in the UK and US, and by 230 basis points in Germany. This has materially reduced the level of investment income available to insurers and reinsurers.

Change in government bond yields 2007 to 2009 (bps)



Source: Bloomberg

Within this environment a focus on delivering underwriting profit is even more important and is consistent with the Group's approach.

Claims experience

2009 was a relatively benign year in terms of claims from natural catastrophe events. Estimated insured claims from natural catastrophes of US$21.0bn fell over 50% compared with 2008 which was the second most costly year on record at US$44.7bn. The level of insured claims from man-made events also fell significantly with US$3.0bn estimated in 2009 compared with US$7.8bn in 2008.

Outside of catastrophe claims, the industry was faced with the potential for higher claims from recessionary influences. These included increased litigation and fraud, and lower corporate spending on preventative measures and health and safety. It is too early to assess with accuracy the insurance industry's exposure to increased levels of claims frequency and severity arising from the economic downturn and indirect evidence to date is inconclusive. Statistics on crime rates in the UK have shown only a 5% increase in household and personal crime with absolute levels well below those experienced through most of the decade.

Distribution

Distribution trends in 2009 were affected in a number of ways by the slowdown in the global economy. First, 2009 experienced greater stability within the broker/intermediary market with lower levels of consolidation; second, reduced business volumes saw certain insurers taking control of distribution through acquisition; and third, there has been a continued shift towards e-trading in an attempt to streamline distribution processes and thereby reduce costs.

Throughout this period the Group has stayed loyal to its core philosophy of a distribution strategy centred on approved brokers and intermediaries. This has led to an increasing depth in relationships particularly with the Group's major producers and a selective engagement with Managing General Agents and Managing General Underwriters (MGAs/MGUs).

The insurance market for micro-SMEs in the UK is also undergoing a significant transformation with e-commerce at its core. Customers, distributors and insurers are all driving the market online, motivated by ease, convenience and reduced frictional costs. With its technological advantage, the Group has played an active role in shaping the transformation of this market.

Rate movements during 2009 and January 2010

During 2009, the Group recorded average premium rate increases on renewed business of 4.8%. Rate increases were highest in Brit Reinsurance where the Group recorded average rate increases of 7.4% including 18.5% in Marine XL and 10.3% in Property Treaty North America. In Brit Global Markets rates rose on average by 4.3% with US Open Market Property and Financial Institutions experiencing the greatest increases, whilst rates in other casualty lines saw lower rises. For Brit UK, average rates were up 3.7% with Motor rates up 9.7%, and Liability rates flat.

Rate movements in January 2010 were positive with Brit UK showing the largest increase.

Premium rating increases/(decreases) on renewal business

	One month ended 31 Jan 2010 %	Year ended 31 Dec 2009 %	Year ended 31 Dec 2008 %
Brit Global Markets	0.7	4.3	(2.0)
Brit Reinsurance	1.1	7.4	(3.3)
Brit UK	3.7	3.7	(0.8)
Group	**1.7**	**4.8**	**(1.9)**

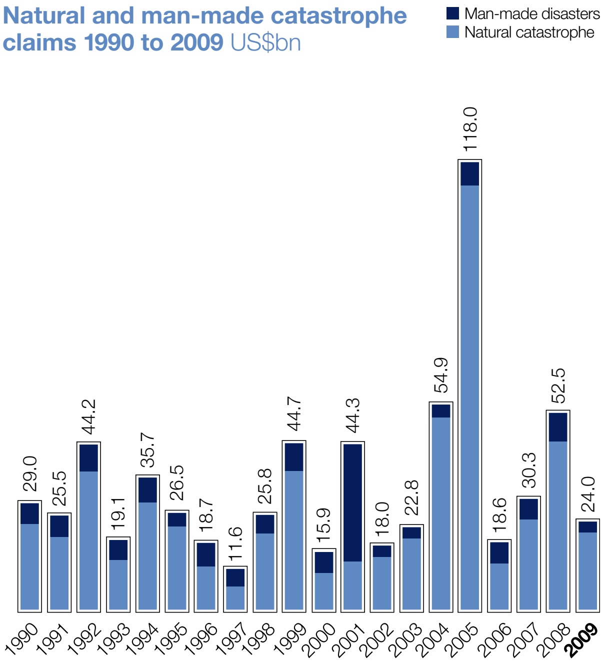
The rate movements should be read with caution. They are based on underwriters' estimates of rate changes, including adjustments to terms and conditions. They relate to renewal business only, since this represents the business for which there is the best year-on-year data.

Conclusion – one global cycle but many sub-cycles

The Group believes the outlook for the global insurance cycle based on the factors described here is broadly neutral. There are, however, a number of variations either by region or by product. The existence of these mini-cycles within the main global insurance cycle allows the Group to manage its underwriting portfolio and to allocate capital to different classes of business that are at different points in their respective cycles. For example, commercial insurance in the UK is close to its cyclical low whereas US catastrophe reinsurance is close to its cyclical peak.

Successful portfolio and cycle management together with continued efforts to support our key brokers and intermediaries will contribute to the Group's aim of delivering upper quartile underwriting performance.

Natural and man-made catastrophe claims 1990 to 2009 US$bn



Source: Swiss Re Sigma

Strategic Business Units (SBUs)

Brit Global Markets

Vision

Brit Global Markets seeks to be a highly respected market leader delivering underwriting excellence based on market intelligence and innovation in its chosen fields and disciplines.

About Brit Global Markets

Brit Global Markets has an extensive history of providing a comprehensive range of insurance products for small to medium-sized enterprises as well as large corporate customers globally. The SBU is made up of a number of niche businesses which are expert in their respective fields and bring a broad spread to the portfolio. Business is distributed entirely through intermediaries. The unit accesses business through leading brokers in its main operations in London as well as through delegated authorities with selected coverholders who distribute products into local markets.

Brit Global Markets's underwriting expertise and local relationships make it a market leader and it is the lead underwriter on 59.1% of the premium it underwrites. This offers excellent market visibility and enhances its ability to manage the underwriting portfolio through the insurance cycle. This underwriting capability is backed up by first-class claims handling through specialist staff in London and in overseas claims hubs.

Portfolio

In 2009, Brit Global Markets wrote £875.3m of gross premium across five underwriting divisions. The portfolio is further split into two elements with the short-tail portfolio representing 64% and long-tail portfolio representing 36%.

The short-tail portfolio consists of the Property & Space, Marine and Accident & Health divisions and underwrote £561.8m of gross premium in 2009, a growth of 2.9% at constant currency. This growth arose in both the Property (39.3%) and Marine (16.6%) accounts which experienced a combination of rate increases and new business wins, offset by a reduction in Accident & Health (-46.1%) due to the planned withdrawal from US Medical Expenses.

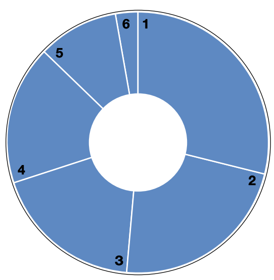
The Property portfolio consists of a broad-based book of business with particular strengths in the US through Property Financial (Lender Placed Property) and other US binding authority arrangements. In particular, volumes in Property Financial rose during the year as economic conditions led to greater demand for the product. The Property account has also benefited from a growth in Property Liability and Package business as a result of employing a specialist underwriter in this arena.

Aerospace business was stable in 2009 with gross premium of £22.9m. Brit Global Markets runs the leading London Market Aerospace consortium on behalf of a number of third party insurers. With a line size of US$40m it is a lead market globally for both launch and orbit risks.

Matthew Wilson CEO, Brit Global Markets

Class of business

	%
1. Marine	29.0
2. Property	22.6
3. Professional Lines	18.4
4. Specialty Lines	17.4
5. Accident and Health	10.0
6. Aerospace	2.6



Key points

- 104 employees (2008: 105)
- 73 underwriters with an average of 15 years' experience
- London and Chicago based
- 28.0% of business underwritten by BIL, 72.0% by BSL
- 51.6% of Group ongoing GWP
- Tail: short 57.7%; medium 11.7%; long 30.6%

The Marine portfolio offers a broad array of coverages including Hull, Cargo and Energy (upstream and downstream) and Liability. It experienced constant currency growth of 16.6% in 2009 mainly arising from the Cargo, Energy (upstream) and Liability accounts.

Accident & Health is the smallest division in the short-tail portfolio and writes a selection of diverse classes including Bloodstock, Contingency and Personal Accident. Following the withdrawal from US Medical Expenses, premium fell by 46.1% at constant currency, but the remaining book and distribution has been broadened with the appointment of an additional specialist Personal Accident underwriter.

The growth in the short-tail portfolio was offset by planned reductions in the long-tail portfolio. The SBU continued its policy of active portfolio management which saw gross written premium reduce by 7.4% at constant currency in total for the long-tail portfolio. Excluding re-estimations of prior years' premium, the reduction in premium in the long-tail portfolio would have been 17.8%. Increased premium rates mean that risk exposure has fallen even further.

The long-tail portfolio is split into two underwriting divisions – Specialty Lines (which includes Financial Institutions, Directors and Officers (D&O) and Legal Expenses) and Professional Lines. Over the last two years the SBU has made significant changes to the long-tail portfolio to insulate it from potential claims developments arising from recent economic uncertainty. Over this period Specialty Lines has seen a 19.5% reduction in gross premium written at constant currency.

Protection for...

over 10,000 vessels worldwide

The Global Markets Marine Hull team provide physical loss cover for over 10,000 vessels which represents nearly 30% of the world fleet above 1,000 gross tonnes.

Strategic Business Units (SBUs)

Brit Global Markets continued

The Financial Institutions (FI) account saw written premium fall at constant currency by 36.2% with the weight of the account moving away from Professional Indemnity (PI) and Directors and Officers (D&O) for US financials and towards Commercial Crime and non-US D&O. On an underwriting year basis the FI account has reduced by 50% from 2007 to 2009. Core clients remaining include investment managers, commercial banks and stockbrokers.

The D&O portfolio consists of privately-owned SME risks alongside a well diversified portfolio of larger risks. There are no specific industry concentrations and in 2009 the US D&O portfolio accounted for only £6m of premium.

Within Professional Lines the SBU underwrites Professional Indemnity on a global basis and Employment Practices Liability for SMEs in the US. Particular areas of strength include law firms, architects & engineers and technology firms. Professional Lines is written in the open market and through a selected network of coverholders.

The majority of the business is written through the Group's Lloyd's Syndicate 2987 (72.0%) with the remainder through Brit Insurance Limited.

Portfolio Management

Brit Global Markets has always been active in allocating capital between its core classes of business. With the introduction of the short-tail and long-tail Portfolio Directors, this strategy has been fully embedded into the structure of the SBU. The Portfolio Directors report directly to the SBU CEO and have prime responsibility for maximising RoE through portfolio optimisation.

Financial Performance

	Year ended 31 December 2009 £m	Year ended 31 December 2008 £m	Year ended 31 December 2007 £m	Year ended 31 December 2006 £m	Year ended 31 December 2005 £m
Gross written premium:					
Accident & Health	87.4	144.1	143.7	140.2	93.2
Aerospace	22.9	20.3	16.5	23.9	11.1
Specialty Lines	151.9	175.9	188.1	196.8	169.9
Professional Lines	161.6	132.4	88.4	71.0	53.3
Marine	253.8	186.5	165.9	143.4	115.7
Property	197.7	122.1	146.6	131.6	115.4
Total	**875.3**	**781.3**	**749.2**	**706.9**	**558.6**
Business led (%)	59.1	57.7	58.8		
Retention ratio (%)	71.3	76.6	80.1		
Net earned premium	819.9	665.9	630.4	557.5	412.1
Underwriting profit/(loss)	22.6	20.7	67.8	81.2	(0.8)
Profit before tax	42.8	57.6	123.7	127.5	44.2
Claims ratio (%)	62.7	61.2	54.4	46.5	63.8
Expense ratio (%)	34.2	35.2	34.9	38.9	38.2
Combined ratio (%)	**96.9**	**96.4**	**89.3**	**85.4**	**102.0**

Premium rating index (Year 2000 as base year)

	January 2010	Full year 2009	Full year 2008	Full year 2007	Full year 2006	Full year 2005	Full year 2004	Full year 2003	Full year 2002	Full year 2001	Full year 2000
Accident & Health	174	172	170	169	164	152	149	142	131	100	n/a
Aerospace	178	188	203	215	254	268	260	237	202	158	100
Specialty Lines	267	266	246	240	246	249	252	246	220	140	100
Professional Lines	290	287	280	294	305	312	302	260	194	120	100
Marine	192	189	177	181	182	171	160	156	144	112	100
Property	161	161	156	168	171	151	152	155	150	112	100

The rate movements should be read with caution. They are based on underwriters' estimates of rate changes, including adjustments to terms and conditions. They relate to renewal business only, since this represents the business for which there is the best year-on-year data.

This focus on risk-adjusted returns has led to a major reweighting of the underwriting portfolio with, on an underwriting year basis, short-tail business increasing from 59% of the portfolio in 2007 to 70% in 2009. The portfolio management approach led the SBU to exit US Medical Expenses and some specific European Medical Malpractice insurance where returns were no longer expected to meet the Group's long-term required rate of return, to reweight the Financial Institutions account towards Commercial Crime and non-US Directors & Officers/Professional Indemnity and to grow the Energy, Cargo and Property accounts.

In particular by reducing the SBU's exposure to Financial Institutions business the unit believes it has avoided a number of major market claims in 2009. Furthermore profitability in the Property division, where the Group has increased its exposure, has been strong.

The SBU has made excellent progress in its portfolio management initiatives over the last two years and will continue to make tough decisions when allocating capital within its diversified portfolio. At this stage, however, changes to the portfolio in 2010 are expected to be less significant than in 2008 and 2009.

Brit Insurance Services USA Inc

Brit Insurance Services USA Inc (BISI) was established in Chicago in May 2009 and represents the SBU's first Group-owned overseas presence. BISI is a Managing General Agent (MGA) which underwrites risks on behalf of Brit Global Markets using Syndicate 2987 as the insurance carrier. Initially, a £20m book of Public Entity and Religious package business previously underwritten in London was transferred to BISI and this process is now complete.

BISI now employs nine staff and will expand its product offering to include Facultative Reinsurance for both Property and Casualty in 2010. BISI is part of the Group's wider strategy to get closer to its underlying clients whilst continuing to recognise the importance of, and support for, London's position as a wholesale insurance market.

Premium and claim developments during 2009

Premium rates began to increase in a number of classes of business in the fourth quarter of 2008 and this continued through 2009. Rate increases were highest in classes with recent claim activity, namely US Property and Financial Institutions, but overall were recorded in over 85% of the classes underwritten by the SBU.

As capital market recovery gathered pace during 2009, rate increases stabilised at 4.3% on average for the SBU. Within this, certain lines of business, characterised by high returns or supposedly offering diversification benefits, came under modest pressure. Within casualty business, lower investment returns have yet to push a meaningful re-pricing in the majority of business lines.

2009 did not see a repeat of the catastrophe activity experienced in 2008; however the slowdown in the world economy during the year may lead to increased claims frequency in certain lines of business over time. The SBU remains vigilant in this regard.

The SBU's claims reserves remained resilient with a further £13.8m release from prior years.

Financial performance

Premium developments in 2009 were affected by three main trends: the Group's active portfolio management approach, average rate increases of 4.3%, and foreign exchange effects. Overall Brit Global Markets's gross premium rose by 12.0% to £875.3m, but after adjusting for foreign exchange fell by 1.0% on a constant currency basis. The SBU experienced positive re-estimation of premium from prior years' business and adjusting for this, gross premium written on an underlying basis fell by 2.9%.

Brit Global Markets's combined ratio of 96.9% was in line with 2008. The combined ratio benefited from reserve releases of £13.8m equivalent to 1.7 percentage points compared with £22.0m equivalent to 3.3 percentage points in 2008.

The SBU's focus on expense control resulted in the expense ratio falling to 34.2% (2008: 35.2%). Acquisition expenses were 0.7 percentage points lower whilst non-commission expenses were 0.3 percentage points lower, partially benefiting from the foreign exchange related growth in net earned premium.

Whilst underwriting profit increased by 9.2%, operating profit fell by 25.7%. This reflects lower allocated investment return as a result of the Group's policy to allocate investment return based on risk free rates.

Outlook

The rating outlook looks finely poised and this is demonstrated by an average 0.7% increase on business renewed in January 2010. 77% of the SBU's classes of business experienced flat or improving rates whilst the remainder saw lower premium rates.

The portfolio has seen significant change over the last two years. Although it retains an appetite for casualty risk over the cycle, it is likely that the long-tail portfolio will continue to take a defensive position in 2010. Offsetting this, the SBU expects to continue to benefit from opportunities arising from recent recruitment within the Property and Marine underwriting teams.

Brit Global Markets will continue to focus on active management of the underwriting portfolio, disciplined monitoring of the claims environment and the careful expansion of BISI in the US.

Strategic Business Units (SBUs)

Brit Reinsurance

Vision

Brit Reinsurance aims to build a diverse and high quality multi-class and multi-territory book of business by participating in this potentially high margin but volatile global business.

About Brit Reinsurance

Brit Reinsurance writes multi-class and multi-territory reinsurance with a focus on providing excess of loss reinsurance to a broad range of clients globally. The Group transacts reinsurance business exclusively through broker intermediaries with clients ranging from small local mutual insurers to large well-known global insurance groups. It offers the capacity to quote and lead business, whilst aiming to deliver a first-class all-round service to customers backed up by its specialist contractual documentation and claims-handling teams.

The SBU accesses global business through its main underwriting operation in London and has relationship offices in Denmark and Australia. In 2009 the Group opened a representative office in Tokyo, Japan, which will look to enhance the SBU's profile and business activities in this important territory.

Reinsurance protection for...

over 1,450 programmes covering insurance businesses in 66 countries across the globe

In 2009, Brit Insurance wrote over 3,000 reinsurance contracts for over 951 separate insurance companies worldwide.

Portfolio

In 2009 the SBU wrote £364.2m of gross premium across five main classes of business.

The largest portfolio is Property Treaty which accounted for 49.5% of the account in 2009 (2008: 52.5%). This is split into North America (64%) and International (36%). Each offers reinsurance cover against catastrophe events or large individual claims arising from either man-made or natural events. Growth in this portfolio of 31.7% was significant in 2009, driven by a combination of premium rate increases and foreign exchange effects (i.e. the weakness of Sterling). Constant currency growth for the North American portfolio was 21.8%. On the International side growth was more subdued with modest, albeit positive rate increases leading to constant currency growth of 7.8%.

The unit's second largest portfolio is Casualty Treaty which accounted for 39.0% of the SBU's premiums in 2009 (2008: 31.7%). The Casualty Treaty account combines a number of subclasses including: Personal Accident catastrophe; clash and individual per risk protection for General Liability, Professional Indemnity and Directors & Officers; as well as whole account coverage.

The Casualty Treaty portfolio is almost entirely written on an excess of loss basis with approximately 45% of the book exposed to catastrophe-type events. When allied to the almost immaterial amount of proportional reinsurance written, the portfolio is less exposed to potential attrition-type claims experienced in economic downturns. Growth in 2009 of 71.8% was boosted by currency effects, increased premium rate movements of 6.3% and a positive adjustment in the re-estimation of prior years' premium. On a constant currency basis and excluding the re-estimation of prior years' premium, growth would have been 34.2%.

Other smaller areas of the reinsurance book include Marine and Agriculture. Approximately half of the SBU's business is classified as short-tail, with 15.9% medium-tail and 33.1% long-tail.

Brit Reinsurance utilises each of the Group's insurance carriers with 60.0% written through the Group's Lloyd's Syndicate 2987 and 40.0% in Brit Insurance Limited (BIL). The majority of the SBU's North American business is written using Syndicate 2987 paper, making use of the extensive licenses available whereas the majority of the International and European business is written through BIL. The use of two carriers aims to maximise return on capital and to cater for client wishes where appropriate.

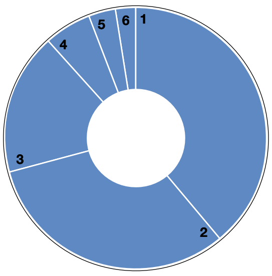
Risk management

Brit Reinsurance contributes a significant amount of the Group's potential exposure to catastrophe and severity claims. During 2009, the unit was able to increase materially its net Sterling risk appetite and fully benefit from the growth in premium as a result of the weakness of Sterling versus the US dollar in late 2008. This was made possible by close monitoring of the Group's exposure to

Jonathan Turner CEO, Brit Reinsurance

Class of business

	%
1. Casualty Treaty	39.0
2. Property Treaty North America	31.9
3. Property Treaty International	17.6
4. Marine XL	5.7
5. Reinsurance Other	3.5
6. Aviation XL	2.3



Key points

- 36 employees (2008: 33)
- 11 underwriters with an average of 25 years' experience
- London based
- 40.0% of business underwritten by BIL, 60.0% by BSL
- 21.5% of Group ongoing GWP
- Tail: short 51.0%; medium 15.9%; long 33.1%

Strategic Business Units (SBUs)

Brit Reinsurance continued

its key Realistic Disaster Scenarios (RDS) and through continuing the Group's innovative approach to aggregate management, as evidenced by entering into a catastrophe swap contract in July, which traded US$50m of US wind exposure for US$50m of Japanese wind exposure.

Premium and claim developments during 2009

The start of 2009 was characterised by premium rate increases for property catastrophe-exposed business (8.6% in January 2009) and improved risk-adjusted returns for casualty reinsurance business. Rates for US catastrophe business held steady during 2009 and with little significant catastrophe activity in the US, the account generated good margins during the year. The International account saw less upwards rating pressure during 2009 and experienced a number of attritional claims in territories such as Austria, Australia and France.

The Group continued to monitor its exposure to recessionary type claims during 2009. Strengthened terms and conditions throughout the year have served to improve the risk/reward characteristics of the long-tail element of the Casualty Treaty book.

In 2008 Brit Reinsurance ceased its relationship with Augsburg Re, which wrote Aviation excess of loss reinsurance on behalf of the Group. This decision reduced the Group's exposure to the Air France plane crash in June 2009. The SBU is now materially off-risk for Aviation XL, but continues to monitor the Aviation Reinsurance market, and will re-enter if conditions are suitable.

Overall the unit released claims reserves of £24.1m during 2009, arising primarily from the Casualty Treaty portfolio.

Financial Performance

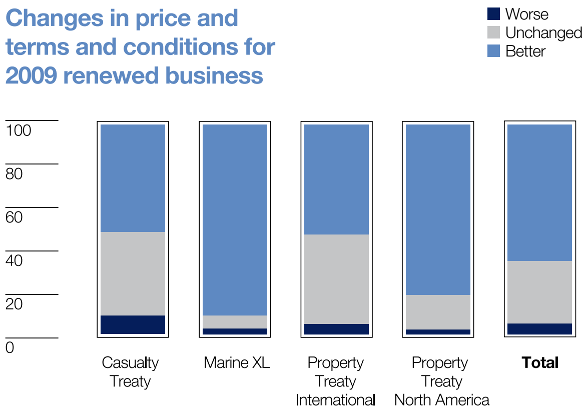
	Year ended 31 December 2009 £m	Year ended 31 December 2008 £m	Year ended 31 December 2007 £m	Year ended 31 December 2006 £m	Year ended 31 December 2005 £m
Gross written premium:					
Property Treaty North America	116.2	81.5	71.7	–	–
Property Treaty International	64.0	55.3	47.8	–	–
Property Treaty	–	–	–	139.5	140.8
Casualty Treaty	142.0	82.6	85.1	95.5	73.3
Marine XL	20.8	17.8	9.1	9.4	12.0
Aviation XL	8.4	16.3	25.2	15.4	39.4
Reinsurance Other	12.8	7.2	0.5	1.1	63.3
Total	**364.2**	**260.7**	**239.4**	**260.9**	**328.8**
Business led (%)	36.0	33.9	29.6		
Retention ratio (%)	87.0	82.8	87.4		
Net earned premium	297.6	209.9	208.3	237.0	224.2
Underwriting profit/(loss)	57.6	13.9	35.4	50.3	(103.5)
Profit/(loss) before tax	66.1	30.8	61.0	76.5	(81.1)
Claims ratio (%)	54.9	65.3	56.4	50.0	119.8
Expense ratio (%)	25.0	26.4	26.6	28.8	28.5
Combined ratio (%)	**79.9**	**91.7**	**83.0**	**78.8**	**148.3**

Premium rating index (Year 2000 as base year)

	January 2010	Full year 2009	Full year 2008	Full year 2007	Full year 2006	Full year 2005	Full year 2004	Full year 2003	Full year 2002	Full year 2001	Full year 2000
Property Treaty – NA	240	238	215	234	221	159	155	154	149	110	100
Property Treaty – Int'l	115	113	108	109	107	98	98	100	n/a	n/a	n/a
Casualty Treaty	242	241	226	230	234	228	230	215	182	115	100
Marine XL	344	331	279	288	286	193	183	179	171	115	100

The rate movements should be read with caution. They are based on underwriters' estimates of rate changes, including adjustments to terms and conditions. They relate to renewal business only, since this represents the business for which there is the best year-on-year data.

Changes in price and terms and conditions for 2009 renewed business



Financial performance

Gross premium growth of 39.7% to £364.2m arose from a combination of premium rate increases, exchange rate effects, and the re-estimation of prior year premium for Casualty Treaty reinsurance. Underlying premium growth on a constant currency basis and excluding re-estimates of prior year premium was 13.1%.

Reinsurance spend was £57.4m, equivalent to 15.8% of gross premium and was significantly lower than in 2008. Net written premium grew by 47.4% with net earned premium increasing by 41.8%. A proportion of the increased written premium in 2009 will not earn through until 2010.

The SBU's combined ratio of 79.9% was 11.8 percentage points better than 2008 as a result of lower US catastrophe claims. These were partially offset by increased attritional claims in the Property Treaty International account and the Air France aviation claim. The Air France claim contributed £12m to the large claims recorded by the Group, equivalent to 4.0 percentage points of the SBU's net earned premium. The combined ratio benefited from reserve releases of £24.1m equivalent to 8.1 percentage points of net earned premium compared with a release of £20.1m (9.6 percentage points of net earned premium) in 2008.

The expense ratio fell by 1.4 percentage points to 25.0% (2008: 26.4%). Acquisition costs were virtually flat at 17.3% whereas the non-commission expense ratio fell by 1.3 percentage points as a result of the headline premium growth during the year.

The allocated investment return fell significantly reflecting the Group's policy to allocate such income based on risk free rates by currency. Whilst underwriting profit (after catastrophe bond costs) increased by over 300%, operating profit increased by a lower 115%, a strong result for the SBU.

Outlook

With underwriting margins in 2010 expected to be broadly stable compared with 2009, Brit Reinsurance is not expecting to see significant changes to its underwriting portfolio. This has been borne out by rate increases on renewal business in January 2010 of 1.1%. 2010 should therefore be a year of reasonable stability and solid margins with the SBU continuing to focus on expanding its distribution relationships and taking advantage of its newly established representative office in Tokyo, Japan.

Strategic Business Units (SBUs)

Brit UK

Vision

Brit UK aims to be a significant player in its chosen markets. Expertise, service and execution skills will differentiate the SBU from its peers.

About Brit UK

Brit UK underwrites a diverse book of UK commercial and increasingly specialist personal insurance through a combination of regional, national and international brokers. The SBU's target market focuses on sole traders through to corporates with turnover of up to £300m. Over the last two years the Group has been successful in developing online trading solutions for micro-SME business, underwriting commercial insurance with premium values typically less than £2,000 per policy. Brit UK has a carefully targeted distribution strategy with 80% of its commercial business sourced through its top 75 brokers.

Portfolio

In 2009, Brit UK underwrote £455.4m of premium in four main classes of business.

Brit UK's largest class of business is Property and Commercial Packages which accounts for 40.7% of the portfolio. The SBU underwrites a wide range of property from shops and offices through to large manufacturing and warehouse risks as well as high value home insurance. The portfolio is underwritten directly through London or regional brokers, or through specialist coverholders such as Oak (high value home) and Thistle Underwriters, a managing general underwriter owned by Jardine Lloyd Thompson.

The Motor insurance portfolio consists of commercial – haulage, fleet, self-drive hire and taxi, as well as personal motor. Brit UK is one of the leading markets in London for fleet insurance. Motor insurance accounted for 25.3% of the portfolio in 2009.

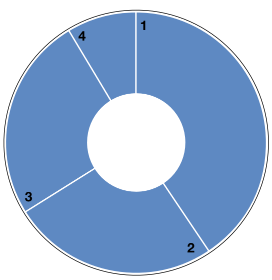
Liability, which accounts for 25.6% of the portfolio, is split into Employers' Liability insurance, which is a compulsory purchase in the UK, and Public Liability. Within this account the SBU underwrites a specialist book focusing on a number of industries including construction. In addition the SBU has a strong presence in electronically traded covers and more broadly based risks sourced through its regional network. It also participates on a small number of International programmes which collectively represent £40m of premium.

The smallest section of the portfolio relates to Professional Lines which includes Professional Indemnity (PI) and Directors and Officers (D&O) insurance. This accounts for 8.4% of the portfolio, with the vast majority being PI sourced through both London and regional offices. In addition the SBU has recently developed a PI Lite product especially tailored for the micro-SME market.

Peter Burrows Executive Chairman, Brit UK

Class of business

	%
1. Property & Commercial Packages	40.7
2. Employers'/Public Liability	25.6
3. Motor	25.3
4. Professional Indemnity/D&O	8.4



Key points

- 157 employees (2008: 163)
- 71 underwriters with an average of 16 years' experience
- Nine UK regional offices including London
- 89.4% of business underwritten by BIL, 10.6% by BSL
- 26.8% of Group ongoing GWP
- Tail: short 37.8%; medium 25.2%; long 37.0%

Further information:
Our Structure
See page 02

Brit UK opened its first regional office in 2003 and now has eight offices outside London, with the Manchester office celebrating its fifth anniversary during 2009. The regional offices experienced 35% premium growth in 2009 and now represent 26% of the SBU's portfolio, up from 20% two years ago. The regional offices transact business that is placed locally and does not reach the London market. Without an established regional office network, Brit UK would not be able to access this business. Business written in the regions tends to have a lower average premium than business underwritten in London, but is typically less volatile.

Consistency in underwriting in Brit UK is achieved through the use of a matrix approach. Each portfolio class, e.g. Property, Liability, Fleet and Financial Lines, has a Portfolio Manager who is responsible for setting underwriting guidelines across each of the distribution platforms.

In 2009 Brit UK wrote 26.8% of the Group's gross premium which was split 37.8% short-tail, 25.2% medium-tail and 37.0% long-tail. Brit Insurance Limited (BIL) is the carrier for the majority of the SBU's business (89.4%) with the Group's Lloyd's Syndicate 2987 (10.6%) primarily used for the International PL account.

Distribution successes

During 2009, the SBU developed a number of relationships with new trading partners and continued to leverage its distribution edge in the small commercial and micro-SME insurance market. Reflecting this, the SBU's Brit Lite proposition won the 'Underwriter of the Year' award at the British Insurance Awards.

Brit Lite, which focuses on providing commercial insurance to businesses typically with fewer than ten employees and insurance spend of less than £2,000,

Protection for...

over 100,000 small businesses in the UK

Through close relationships with our e-trading partners including Xbridge and our award winning Britbord product range, Brit Insurance has significantly increased its share of the small business insurance market in the UK.

Strategic Business Units (SBUs)

Brit UK continued

has grown to represent 11% of the SBU's portfolio from a standing start in 2007. The success of the proposition has been built on providing a flexible offering to brokers backed up with experienced referrals support, a comprehensive product range and rapid speed of execution. Customers can access Brit UK's suite of products via carefully selected partners either through the traditional broking channel or through e-trading. The SBU's largest e-trading relationship is with Xbridge, an online insurance broker, via its website www.simplybusiness.co.uk. The Group has a 39.2% shareholding in Xbridge.

In 2009 the SBU was approached by a number of coverholders and agents looking for access to Brit UK's service-led proposition. The SBU has carefully selected a handful of these arrangements where it feels the interests of the SBU and the intermediary were fully aligned. One such arrangement is with Thistle Underwriters, a managing general underwriter owned by Jardine Lloyd Thompson, which went live in June 2009.

Premium and claim developments during 2009

Increases in premium rates on renewed business for 2009 averaged 3.7%. Within this the Motor portfolio saw the highest rate increases of 9.7% following a turn in the market in late 2007.

Financial Performance

	Year ended 31 December 2009 £m	Year ended 31 December 2008 £m	Year ended 31 December 2007 £m	Year ended 31 December 2006 £m	Year ended 31 December 2005 £m
Gross written premium:					
Employers'/Public Liability	116.7	103.5	89.8	91.4	112.8
Professional Indemnity/D&O	38.3	34.0	36.3	36.7	35.6
Motor	115.2	87.3	63.8	91.3	89.9
Property & Commercial Packages	185.2	125.8	84.1	60.5	79.6
Total	**455.4**	**350.6**	**274.0**	**279.9**	**317.9**
Business led (%)	94.1	91.2	87.1		
Retention ratio (%)	68.6	78.0	72.3		
Net earned premium	362.4	259.9	262.8	251.2	302.6
Underwriting profit/(loss)	0.9	1.5	(24.3)	7.7	65.7
Profit before tax	14.2	35.7	15.8	40.4	112.3
Claims ratio (%)	66.7	66.4	76.3	69.6	55.8
Expense ratio (%)	33.0	32.9	33.0	27.3	22.6
Combined ratio (%)	**99.7**	**99.3**	**109.3**	**96.9**	**78.4**

Premium rating index (Year 2000 as base year)

	January 2010	Full year 2009	Full year 2008	Full year 2007	Full year 2006	Full year 2005	Full year 2004	Full year 2003	Full year 2002	Full year 2001	Full year 2000
Employers'/Public Liability	204	205	206	217	237	257	284	286	200	100	n/a
Professional Indemnity/D&O	108	107	105	111	118	130	132	130	100	n/a	n/a
Motor	129	118	108	101	104	111	122	120	115	108	100
Property	127	124	121	122	125	130	131	132	123	104	100

The rate movements should be read with caution. They are based on underwriters' estimates of rate changes, including adjustments to terms and conditions. They relate to renewal business only, since this represents the business for which there is the best year-on-year data.

Premium rate movements for the Property and Liability segments were positive or neutral in 2009. This suggested that they had hit the bottom of the underwriting cycle, but evidence of a sustained improvement did not materialise during the year.

In 2008, the SBU increased monitoring of potential fraud and recession-linked claims activity. Following this approach there have been a number of anti-fraud successes and the SBU has not experienced any material change in claims frequency related to recessionary factors across the book. 2009 has seen a small number of relatively large losses in the property book, but these have each been investigated and no link or pattern to the recessionary environment was established.

The UK experienced a number of periods of extreme weather in 2009, but from an insured perspective only the November floods were of note, the cost of which fell within normal expectations for the size of the event.

Overall the unit released claims reserves of £41.2m during 2009, arising from the Liability and Property portfolios.

Financial performance

Gross premium grew 29.9% to £455.4m, with underlying premium growth on a constant currency basis and excluding re-estimates of prior year premium of 21.0%. Growth in the portfolio on an underlying basis arose in the Property and Motor books as the Group leveraged its distribution model and took advantage of improved pricing.

Reinsurance spend was lower in 2009 as a specific quota share on the Motor book was reduced. Net earned premium rose by 39.4%.

Brit UK's combined ratio of 99.7% was broadly in line with 2008 (2008: 99.3%). The combined ratio benefited from reserve releases of £41.2m equivalent to 11.4 percentage points of net earned premium compared with a release of £38.6m in 2008 equivalent to 14.9 percentage points of net earned premium.

The unit's expense base remained under control with the expense ratio broadly unchanged at 33.0%. This masked a 3.0 percentage points decline in the non-commission expense ratio offset by a similar increase in the acquisition expense ratio. At 12.6% the non-commission expense ratio is competitive with Brit UK's peers.

Investment return fell significantly reflecting the Group's policy to allocate investment income based on risk free rates and contributed to the fall in operating profit to £14.2m.

Outlook

Notwithstanding the 3.7% price rises achieved by Brit UK in 2009, the UK market continues to remain competitive. In the last quarter of 2009 the SBU witnessed more intense competition for larger risks but continued to see positive rate movements at the smaller end of the market. It is too early to say whether 2010 will bring the premium rate increases that are expected or that are needed for much of the UK market as a whole. The SBU will continue to focus on delivering market leading service with an emphasis on areas where it has a sustainable advantage.

Claims

Claims
Insurance is selling a promise; the Brit Insurance claims service is about the efficient and responsive delivery of that promise.

Vision
To deal with customers and intermediaries fairly, speedily and objectively by understanding their needs, in order to enhance the Group's reputation and brand.

Protection for...

over 2,200 motor fleets in the UK

Brit Insurance insured over 2,200 motor fleets in 2009, ranging from fleets of lorries to taxis, self hire drive vehicles, buses, coaches and company cars. We helped improve their safety records through our comprehensive risk management service including a unique partnership with Alenia Optic to offer the Truckview lens. This is proven to reduce 'sideswipe' accidents in large vehicles by up to 60%.

Objectives and strategy

The Group's objective is to deliver high quality customer service with prompt and efficient handling and payment of claims which ultimately builds brand and goodwill.
The Group believes it is vital that claims are managed and adjusted professionally and efficiently, as they represent by far the largest cost for an insurer. Each claim is an opportunity to support clients and brokers using expertise in third party defence, balance sheet protection, loss minimisation, restoration and business continuity.
The Group aims to ensure fair, equitable and speedy resolution of covered claims. Regular and meaningful communication with customers and their brokers is essential in this process.

2009 achievements

Claims hub operating model

During 2009 the US claims hub in Atlanta, Georgia became fully operational. It handles the majority of the Group's business underwritten through US coverholders. The US claims hub should lead to advantages in terms of enhanced customer service, lower costs, local presence and significant catastrophe response capability. The UK Notice of Loss centre in Cardiff is performing well and has realised enhancements in customer service and efficiency.

Fraud prevention and detection

Existing anti-fraud practices were reviewed in recognition of an increasing SME and internet portfolio and a heightening fraud risk in a deteriorating economy.
A detailed anti-fraud response has been developed and specific members of the claims teams have been identified as 'fraud champions'. These measures have delivered results in terms of identifying and deterring fraud.

Lloyd's Market reform

Brit Insurance is fully supportive of the changes currently underway in the Lloyd's market. The Group has embraced the use of Electronic Claims Files (ECF) and now receives over 96% of all new and subsequent syndicate advices in electronic format. This initiative allows for quicker end to end processing of client claims and has led to greater efficiencies. The Group is also supportive of the Lloyd's Claims Transformation Programme (LCTP).

2010 priorities

The Group is implementing the pilot project of the LCTP. Under this programme smaller claims are only adjusted by the lead underwriter, which should provide efficiency savings and enhanced customer service. For mid-tier claims the second underwriter on the slip is directly involved and for the larger claims, following underwriters also have the opportunity to be directly involved in the adjustment process.

The Group continues to investigate and measure where value is being created or lost in the claims adjustment process, whilst at all times being mindful of policy and reputational obligations. Areas being examined include how the Group instructs and obtains value from experts and third party service providers, how recoveries are maximised and the timeframes and workflow procedures under which claims are adjusted. The aim, wherever possible and appropriate, is to speed up the payment of claims with a resultant saving of costs and enhancement of customer satisfaction.

Operations

Operations

In line with a vision of becoming more operationally effective and efficient than its competitors, the Group has continued to make focused investments in operational capabilities. 2009 was a year of solid achievement and execution against the priorities set out. These will help ensure a long-term sustainable competitive advantage is built regardless of the stage of the underwriting cycle.

Looking forward to 2010

Key areas of investment will include:

- Management Information – continuing to develop the breadth and depth of management information to support the analytical processes necessary in managing the business as the Group responds to market competition and regulatory pressures
- Claims Management – supporting the Claims function in developing service and process models aiming to drive service up and cost down
- Geographic Expansion – developing processes and capabilities which facilitate expansion with a standardised approach resulting in lower costs and shorter lead times
- Coverholder network – continuing the development of tools, processes, and capabilities to manage coverholder partnerships
- Risk and Capital Management – further developing and integrating the existing approach to the management of risk and capital requirements into formal processes, practices and systems (Solvency II is one but not the only influence on the unit's approach).

Component	Objective	Priorities for 2009	Achievements in 2009
▸Technology	*Leveraging technologies to drive efficiencies.*	Continue to **enhance service to coverholders,** in terms of information exchange and online servicing. **Expand electronic trading capabilities** and aim to be an early participant in the **Lloyd's Exchange e-trading initiative.**	Brit Insurance adopted **Lloyd's Atlas system** for due diligence reviews and management of Lloyd's approved coverholders. In October Brit Insurance became the **first insurer in the Lloyd's market** to endorse a risk and to bind a new risk via the Lloyd's Exchange (LEX).
▸Process re-engineering	*Driving efficiencies and delivering service excellence through continuous improvement.*	**Review claims processes** as the global claims strategy is rolled out. Implement further **efficiencies in the underwriting support** functions through consolidation and centralisation of key services.	**Delivered variety of changes** to support the evolving target operating model for claims processes. Deployed a **centralised Transaction Processing Unit** concept to support Brit Reinsurance. Put in place a centralised **Delegated Underwriting Management Unit** in support of all Group activity.
▸Data improvement	*Delivering quality management information to enhance decision making.*	Move towards the next phase of management information delivery, through **enhanced analytics and reporting capabilities, embedded into core systems** and in everyday use.	Continued to embed technical pricing models. Developing **core business analytical reporting** to support more dynamic pricing discussions in key markets, e.g. UK motor. Developed an **Underwriter Portal** that collates management information, with specific risk data and documentation, enabling underwriters to manage end to end placement. Built a tool for Brit UK business to **provide real-time aggregation risks when a new risk** is quoted for.
▸Premises and infrastructure	*Supporting growth through first-class premises and infrastructure.*	Continue to **refresh all premises** and look to **open new offices internationally** in support of global strategy.	Supported establishment of three overseas offices: a **Tokyo representative office,** a **Chicago managing general agent,** and the new holding company for the Group, Brit Insurance Holdings N.V. in the Netherlands. Effective procurement practices have delivered significant value.
▸Operational accountability	*Improving operational accountability and quality of data entry through cross-team working.*	**Optimise the delivery of back-office services** and work with third parties to increase the amount of **information exchanged electronically.** Review of business volumes to assess **opportunities for further cost reduction.**	Through the **award-winning Brit Lite** proposition an integrated solution capturing data at point of trading was developed. Delivery of an internal, **electronic peer review system** for Brit Global Markets and Brit Reinsurance giving underwriters the ability to peer review risks anywhere, anytime, whilst giving a full audit trail and improving data quality.

Risk Management and Risk Factors

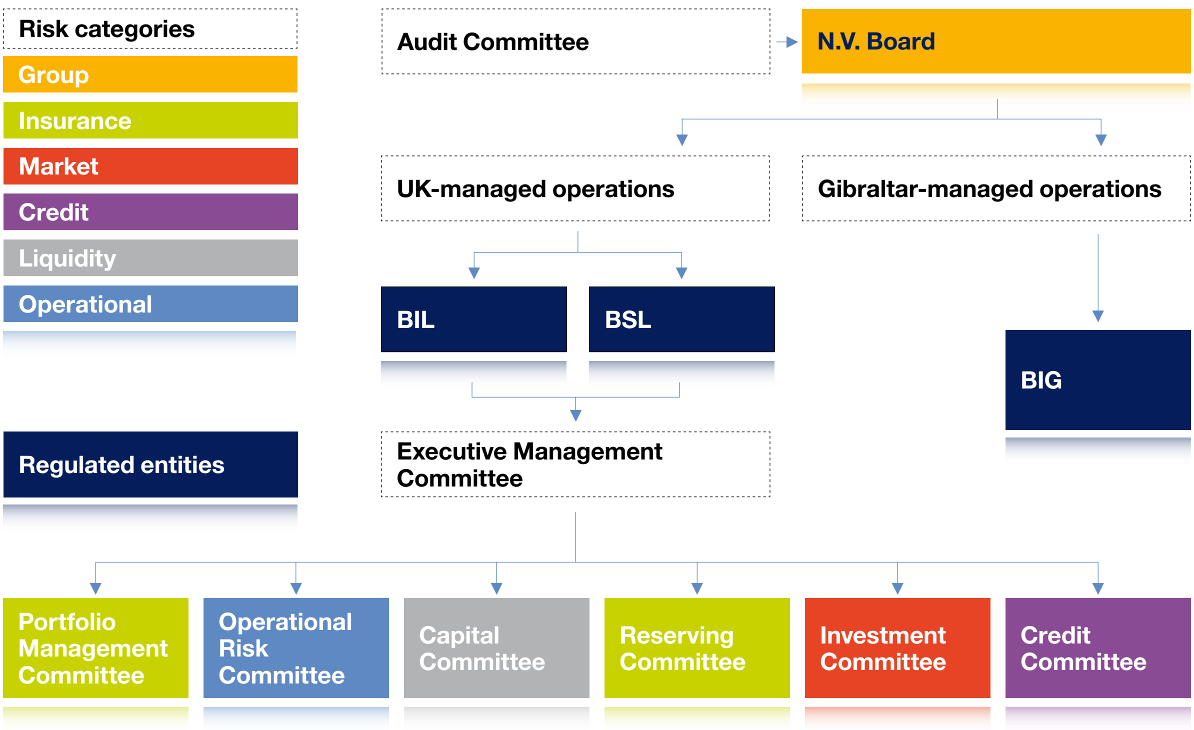
The Brit Insurance Holdings N.V. Board (N.V. Board) is responsible for ensuring the principal risks and uncertainties facing the Group are identified and addressed. The N.V. Board believes that strong risk management practices and a sound internal control system are fundamental to risk mitigation and consequently the continued success of the Group. Failure to manage risk properly exposes the Group to significant losses, regulatory issues and damage to the Group's reputation.

The Executive Management Committee (EMC) has the responsibility for the day to day management of the risks within the UK-managed operations. The EMC delegates the management of specific risks to committees as per the simplified Group governance structure set out below. The EMC reports on the risks within the UK-managed operations to the N.V. Board. The Brit Insurance Gibraltar (PCC) Limited Board (BIG Board) takes responsibility for the management of the risks within the Gibraltar-managed operations. The Group's CEO is a director of BIG and the BIG Board reports on the risks within the Gibraltar-managed operations to the N.V. Board on a regular basis.

Oversight of risk is provided by the Group Risk Management team recently augmented by the recruitment of a Head of Risk. This team works alongside business managers who are responsible for establishing and implementing risk management processes and responding to needs and issues, including concentrations. The risk management framework links appetite and management to the governance structure with the tolerance set by the N.V. Board.

The Group management programme of risk and control identification and assessment ensures that each required risk register is maintained. Risk accountability is clearly defined with meetings held with owners on a regular basis to discuss the status of risks and the effectiveness of the control environment. The programme embraces all areas of the Group's operations. The risk profile and key risk indicators are reported to senior management and relevant Boards on a regular basis.

Simplified Group Governance Structure



Principal risks

The Group identifies and manages risk under categories consistent with the recognized framework of the Financial Services Authority (FSA). Risk classifications used are: group, market, insurance, credit, liquidity and operational. Further details on risk management, including sensitivity analysis, are given in Note 4 of the financial statements.

1. Group risk

Group risk is the risk of sub-optimal business strategy or execution arising from internal or external factors. Group risk is owned by the Group CEO and is managed by the EMC and the BIG Board for the UK and Gibraltar-managed operations respectively. Group risk tolerance is set by the N.V. Board. The risk appetite for the UK-managed operations is set by the EMC and for the Gibraltar-managed operations is set by the BIG Board. Risk appetite is determined following the annual review of strategy and three-year plans.

Group risk is affected by economic, political, regulatory, social, ethical, environmental, reputational and legal factors together with market competition.

Strategic plans are updated annually to reflect the Group's longer term competitive and market position. Three-year business plans are subject to realistic disaster scenario analysis, stress tests and stochastic capital assessments. The impact on both earnings and solvency is also evaluated at the entity level.

Actual results in any period are likely to vary, perhaps materially, from the modelled scenarios. The occurrence of one or more severe events could have a material adverse effect on the Group's financial condition, including capital availability and liquidity.

2. Market risk

Market risk is the risk that the fair value or future cash flows will fluctuate because of adverse movements in exchange rates, interest rates or asset prices. Market risk is owned by the Finance Director and for the UK-managed and Gibraltar-managed operations is delegated to the Investment Committee. Day-to-day management of market risk is conducted by the Director of Investments and Treasury.

Market risk for investments is controlled through the use of detailed investment guidelines. The guidelines have been constructed to account for the different requirements of the liability and capital portfolios. The liability portfolio is designed to ensure liquidity and safety for the payment of claims to policyholders. The capital portfolio attempts to earn a competitive return and can accept greater volatility. The guidelines, which also cover the portfolio as a whole, allow possible combinations of investments whose returns have been stress-tested using data accumulated over the past 100 years, a process that does not rely heavily on recent volatility data. The Group also uses Value at Risk (VaR) analysis within its overall market risk framework, but each portfolio is designed to be compliant with the guidelines constructed using a more holistic approach to risk management.

Interest rate risk is managed through duration limits at the security and portfolio levels within the investment guidelines. The maximum permitted duration of any security in the liability portfolio is five years. Investments of greater duration are allowed within the capital portfolio, but overall interest rate risk is constrained by asset class and security limits within the whole portfolio section of the guidelines.

The Group has material exposure to insurance business written in foreign currencies. Net assets are retained in foreign currencies as a hedge against solvency and realistic disaster scenario (RDS) requirements arising from those currencies and to meet Lloyd's Trust Fund requirements. For more detail see Currency Management on page 50.

3. Insurance risk

By the very nature of an insurance contract, risk is based on fortuity and is therefore unpredictable. The principal risks that the Group faces under its insurance contracts are those of inherent uncertainty in the pricing of insurance risk, the aggregation of underwriting exposures, adverse claims development, reserving inadequacy and the timing of the associated cash flows.

Insurance risk can, therefore, be segmented into three key areas:

- Pricing and underwriting risk: The risk of adverse financial impact due to inappropriate pricing of insurance business.
- Accumulation risk: The risk of excessive accumulation in a particular location, peril, sector or individual risk leading to adverse financial impact.
- Reserving risk: The risk of adverse reserve development leading to financial impact to the Group.

Insurance risk for the UK-managed operations is owned by the SBU CEOs and is delegated to the class underwriters. Insurance risk for the Gibraltar-managed operations is owned by the BIG Board and is delegated to the resident underwriting team. Underwriting plans for the UK-managed operations are overseen by the Portfolio Management Committee.

Risk appetite is set by reference to underwriters' experience and judgement in light of:

- underwriting guidelines and limits of authority
- aggregate exposure limit by location or type of event
- expected return on capital
- anticipated return on allocated capital
- actuarial best estimate reserve projections

The Group seeks to manage the level of insurance risk, volatility and risk aggregation in line with risk appetite. Mitigation operates at a number of levels moving from policy level, to reserve and catastrophe assessment. The key components of insurance risk are pricing and underwriting, accumulation and reserving.

Risk Management and Risk Factors continued

Pricing and underwriting

Quarterly planning is a fundamental part of the underwriting process and each underwriter is given clear authority relating to line size, aggregate exposure and the classes of business that may be written. The rate environment is continuously monitored and plans are updated to reflect the pricing trends. Within the UK-managed operations each SBU operates a monthly management committee, responsible for assessing underwriting activity and consistency with the underwriting plan for each class of business. In addition SBU peer reviews are undertaken for all classes of business.

The actuarial pricing models are a key tool used to objectively measure the rating environment relative to the plan. The pricing models, built jointly by actuarial and underwriting, along with underwriter judgement are used to evaluate and price individual risks and coverholder schemes.

Underwriting by the Gibraltar-based operation is supported and reviewed by third-party industry experts. The line size and aggregate exposure is determined by the BIG Board through approval of underwriting guidelines.

Hypothetical claims at 1 January 2010 for various RDS events

Event	Modelled industry gross claims US$m	**Brit Insurance gross claims £m**	Brit Insurance net claims £m	Comments
▸ Florida hurricane Tampa Bay	125,000	**259**	117	Category 4 storm on the SS Scale, landfalling in Tampa. Brit Insurance claims estimates include demand surge, flood associated with the hurricane, and non-property exposures.
▸ Florida hurricane Miami	125,000	**248**	87	Category 5 storm on the SS Scale, landfalling in Miami. Brit Insurance claims estimates include demand surge, flood associated with the hurricane, and non-property exposures.
▸ US north east coast hurricane New York State	78,000	**225**	116	Category 4 storm on the SS Scale, landfalling in Suffolk County, New York State. Brit Insurance claims estimates include demand surge, flood associated with the hurricane, and non-property exposures.
▸ California earthquake Los Angeles	78,000	**269**	84	Magnitude 7.2 earthquake on the MMI scale, on the Elsinore fault in Los Angeles. Brit Insurance claims estimates include demand surge, fire following the earthquake, and non-property exposures.
▸ California earthquake San Francisco	78,000	**279**	89	Magnitude 7.4 earthquake on the MMI scale, on the San Andreas fault in San Francisco. Brit Insurance claims estimates include demand surge, fire following the earthquake, and non-property exposures.
▸ Europe windstorm Western Europe	31,000	**232**	108	A winter storm with peak gusts in excess of 112mph resulting in a broad swath of damage across southern England, France, Belgium, Netherlands, Luxembourg, Germany and Denmark. Brit Insurance claims estimates include demand surge and UK coastal flood.
▸ Japan earthquake Tokyo	51,000	**153**	75	Based on a repeat of the Great Kanto event in 1923, a magnitude 7.9 earthquake in the Tokyo Metropolitan Area.

Source: RMS/Lloyd's/Brit Insurance

Accumulation

Claims from catastrophic events are managed through aggregate exposure management together with purchasing protections from third-party reinsurers. The Group's tolerance for catastrophe risk is a function of expected profitability and available capital. This tolerance is expressed as the maximum net incurred claims acceptable under a number of scenarios.

The N.V. Board may decide to increase or decrease the Group's maximum tolerance based on market conditions and other factors. Ultimately, the size of a probable maximum loss (PML) arising from an event or series of events will always remain subjective for the Group.

For the UK-managed operations the Realistic Disaster Scenario (RDS) Committee monitors and controls the risk of accumulation for over 30 key RDS events. These RDSs reflect the diversity of the underwriting exposures and include specific scenarios for elemental, man-made and economic disasters. The RDSs are reviewed quarterly, with more frequent reviews of the peak zone natural peril catastrophe RDSs that present the greatest exposure. For the Gibraltar-based operations accumulation risk is monitored by the BIG Board.

The Group uses its own and commercially available proprietary risk management software. However, there is always a risk that the assumptions and techniques used in these models are unreliable or that claims arising from an unmodelled event are greater than those arising from a modelled event.

As a guide to the level of catastrophe exposure the table alongside shows hypothetical claims in the fourth quarter 2009 for various RDS events.

Reserving

Insurance businesses necessarily require a level of estimation of future claims payments. The reported result for any single accounting period is sensitive to the accuracy of these estimates.

For the UK-managed operations the Reserving Committee is responsible for reviewing and setting reserves. The Committee is chaired by the Finance Director and includes the Group Actuary, the SBU CEOs and representatives from the claims division. The reserves selected by the Reserving Committee are based on quarterly reserve recommendations from the internal actuarial team.

For the Gibraltar-managed operations the reserves are selected by the BIG Board following advice from resident actuaries and underwriters.

Each year the Group reserves are also reviewed by external actuarial consultants. Further details on insurance risk are provided in Note 4 of the financial statements.

4. Credit risk

Credit risk is the risk that a counterparty (including reinsurers, brokers, coverholders, insureds, banks and investment counterparties) is unable or unwilling to settle their obligations as they fall due. Credit risk is owned by the Finance Director.

For the UK-managed operations credit risk is monitored through the Credit Committee with day-to-day management conducted by the market securities and ratings team, the credit control team and the investment and treasury team. For the Gibraltar-based operations credit risk is managed by the BIG Board.

5. Liquidity risk

Liquidity risk is the risk that the Group, although solvent, will have insufficient liquid financial resources to settle its obligations as they fall due. Liquidity risk includes ensuring adequate cash flow and monitoring funding sources in line with prevailing market conditions. Liquidity risk is owned by the Finance Director. The Group risk appetite is to have access to sufficient liquidity at all times at the holding company and in each underwriting entity in order to manage a number of modelled events. These include a major catastrophe event, a material US dollar strengthening, a deterioration in forecast underwriting conditions and a significant deficiency in claims reserves.

6. Operational risk

Operational risk is the risk of loss of earnings and/or value resulting from inadequate or failed internal processes, people and systems or from external events. It is inherent within all of the above risk categories. Operational risks encompass customer treatment, product development risk, processes and systems risk, change risk, people risk, theft, fraud, legal and regulatory risks and corporate governance risk. For the UK-managed operations, operational risk is owned by the Executive Management Committee and is managed by operational managers throughout the Group. Operational risk is monitored by the Operational Risk Committee which reports to the Executive Management Committee and the Audit Committee. For the Gibraltar-based operations, operational risk is owned and managed by the BIG Board.

Each Group activity has a business continuity plan in place covering all locations, which is regularly tested and enhanced and established policies cover the risks of data protection, financial crime, money laundering, whistle-blowing and disaster recovery.

Financial Review

"The Group combined ratio improved to 94% with a 1.3 percentage point reduction in the claims ratio together with a 1.1 percentage improvement in the expense ratio."

Financial Performance

In 2009 Brit Insurance produced a return on equity excluding the effect of foreign exchange on non-monetary items of 17.4% (2008: 4.6%). The improvement in the result compared with 2008 reflects higher underwriting profit as shown by a 2.4 percentage point improvement in the combined ratio, together with significantly higher investment return.

Summary income statement

	12 months ended 31 December 2009 £m	12 months ended 31 December 2008 £m
Gross written premium	1,696.4	1,394.6
Net written premium	1,471.4	1,163.3
Net earned premium[1]	1,495.5	1,145.6
Underwriting result[1]	84.2	33.6
Investment return	137.4	7.4
Other expenses	(39.5)	(28.8)
Other foreign exchange	(3.3)	39.9
Other income, finance costs and associates	(7.5)	(12.5)
Profit before tax[1]	**171.3**	**39.6**
Effect of foreign exchange on non-monetary items	(54.9)	49.6
Profit before tax	**116.4**	**89.2**
Tax	(28.9)	(22.6)
Profit after tax	**87.5**	**66.6**
Combined ratio[1]	94.0%	96.4%
RoE[1]	17.4%	4.6%

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

Premiums

The Group experienced significant headline growth in gross written premium (GWP) for the 12 months to 31 December 2009 to £1,696.4m (2008: £1,394.6m), an increase of 21.6%. At constant exchange rates the growth was 10.4% (2008: 4.2%). It included positive movements on prior year premium estimates arising from prudent estimation of new business relationships in Brit UK and premium adjustments in Brit Reinsurance. Excluding these effects, underlying premium growth at constant currency was 5.7%.

Gross written premiums

	12 months ended 31 December 2009 £m	12 months ended 31 December 2008 £m	Movement at constant exchange rates %
Brit Global Markets	875.3	781.3	-1.0
Brit Reinsurance	364.2	260.7	23.5
Brit UK	455.4	350.6	28.1
Other[2]	1.5	2.0	–
Total Group	**1,696.4**	**1,394.6**	**10.4**

2 Includes the run-off of historic participations including Life Syndicate 389.

Premium rate increases for the year were 4.8% (2008: –1.9%). Rate increases were experienced in the majority of lines of business and were greatest in Brit Reinsurance and in areas experiencing recent claims activity. Premium rates on Marine XL (18.5%) and Property Treaty North America (10.3%) helped Brit Reinsurance to an average premium rate increase of 7.4%.

In Brit Global Markets average rate increases were 4.3% but ranged from 22.7% in Financial Institutions to –7.4% in Aerospace. For Brit UK, premium rates rose by 3.7% with the greatest increases experienced in Motor which was up by 9.7%.

Premium rating increases/(decreases) on renewal business

	12 months ended 31 December 2009 %	12 months ended 31 December 2008 %
Brit Global Markets	4.3	(2.0)
Brit Reinsurance	7.4	(3.3)
Brit UK	3.7	(0.8)
Total Group	**4.8**	**(1.9)**

During the year, the Group actively managed its underwriting portfolio, evidenced by the reduction in Brit Global Markets's share of Group GWP from 56% in 2008 to 52% in 2009. At the same time Brit Reinsurance and Brit UK grew as a proportion of Group GWP from 19% to 21% and 25% to 27% respectively. This portfolio shift reflects a number of decisive actions, e.g. the withdrawal from US Medical Expenses and Extended Warranty in Brit Global Markets, the cessation of the relationship with Augsburg Re for Aviation XL and the re-weighting of the Financial Institutions portfolio towards Crime and non-US Directors & Officers/Professional Indemnity.

The Group expanded Brit Reinsurance during the period on the back of an average 7.4% renewal rate increase. Particular areas of growth came from North America Property Treaty and Casualty Treaty. For Brit UK, in addition to an improving rating environment, the Group successfully leveraged relationships with new trading partners arising from its focus on a narrow group of

Combined ratio (excluding the effect of foreign exchange on non-monetary items)

	12 months ended 31 December 2009 Claims ratio %	12 months ended 31 December 2009 Expense ratio %	12 months ended 31 December 2009 Combined ratio %	12 months ended 31 December 2008 Claims ratio %	12 months ended 31 December 2008 Expense ratio %	12 months ended 31 December 2008 Combined ratio %
Brit Global Markets	62.7	34.2	96.9	61.2	35.2	96.4
Brit Reinsurance	54.9	25.0	79.9	65.3	26.4	91.7
Brit UK	66.7	33.0	99.7	66.4	32.9	99.3
Total Group[3]	**62.2**	**31.8**	**94.0**	**63.5**	**32.9**	**96.4**

3 Includes the run-off of historic participations including Life Syndicate 389 and specific XL contracts underwritten by BIG.

brokers and selected coverholders. Examples of significant contributors to Brit UK's growth in targeted areas include Xbridge (small business insurance) and Oak (high value home).

Net written premium (NWP) increased 26.5% to £1,471.4m (2008: £1,163.3m) and net earned premium (NEP) excluding the effect of foreign exchange on non-monetary items increased 30.5% to £1,495.5m (2008: £1,145.6m).

Underwriting

The Group combined ratio – excluding the effect of foreign exchange on non-monetary items – improved to 94.0% (2008: 96.4%) with a 1.3 percentage point reduction in the claims ratio together with a 1.1 percentage point improvement in the expense ratio. The combined ratios for Brit Global Markets and Brit UK were broadly stable at 96.9% and 99.7% respectively whereas the combined ratio for Brit Reinsurance improved by 11.8 percentage points to 79.9%.

The reduction in the Group claims ratio primarily reflects a lower level of short-tail claims experience. Major claims net of reinstatements in 2009 were £12m relating entirely to the Air France airplane crash in June recorded within Brit Reinsurance. This added 0.8 percentage points to the Group claims ratio (2008: £61m claims from Hurricanes Gustav and Ike; 5.3 percentage points).

Notwithstanding the Air France claim, Brit Reinsurance improved its claims ratio by 10.4 percentage points. The claims ratio for Brit UK was stable with Brit Global Markets reporting a 1.5 percentage point deterioration.

As part of the Group's standard quarterly reserving reviews, the Group released £81.2m of claims reserves from prior years (2008: £79.1m) equivalent to 5.4 percentage points of net earned premium (2008: 6.9 percentage points of net earned premium). The Group experienced reserve releases in the majority of classes of business but in particular Property (Brit UK and Brit Global Markets), Treaty Casualty Reinsurance and UK Liability.

Net reserve movements by SBU

	12 months ended 31 December 2009 £m	12 months ended 31 December 2008 £m
Brit Global Markets	13.8	22.0
Brit Reinsurance	24.1	20.1
Brit UK	41.2	38.6
Other	2.1	(1.6)
Total Group	**81.2**	**79.1**

The expense ratio of 31.8% was 1.1 percentage points lower than 2008, primarily as a result of operational leverage arising from significant growth in net earned premium in Brit Reinsurance and Brit UK. For Brit UK, the non-commission expense ratio fell by 3.0 percentage points.

The Group combined ratio including the effect of foreign exchange on non-monetary items was 95.6% (2008: 99.4%). See 'Foreign exchange' for more detail.

Other underwriting related items

During 2009, £203.7m of reinsurance was ceded to a cell of Brit Insurance (Gibraltar) Insurance PCC Limited (BIG), a Gibraltar-based reinsurance company 100% owned by the Group. Amounts ceded included a whole account quota share and £15.0m relating to specific excess of loss reinsurance contracts underwritten alongside external reinsurers and on equivalent terms.

Within 'Disposal and partial disposal of associated undertakings', the Group has recognised a £4.2m gain on its participation on Norton II. This represents the recycling of translation gains of which £4.1m were already recognised in shareholders' equity at 31 December 2008.

The Group's catastrophe swap contract with Fremantle Limited, which is accounted for as a derivative, cost £4.8m in 2009 (2008: £7.4m). This contract expires in June 2010.

Financial Performance continued

Investment return

The Group continued to maintain a cautious investment stance during 2009 with the majority of investments in cash and short-dated high quality bonds. Investment return was £137.4m, a significant improvement over the prior year (2008: £7.4m) and benefited from significant appreciation in equities and specialised funds as well as the mark to market effect of narrowing credit spreads. Overall investment return for the year was 4.2% (2008: 0.2%), with a positive contribution from each of the Group's asset classes.

The Investments section of this report contains a detailed breakdown of the investment portfolio and investment return for 2009.

Other corporate expenses

Other non-insurance related expenses, which include Group central costs as well as one-off project costs, increased by £10.7m to £39.5m compared with 2008. The main increase arose from a number of projects including work leading to the Group reorganisation as well as the proposed acquisition of Chaucer Holdings PLC in the first half of the year. Excluding costs associated with these projects, other corporate expenses increased 10.1% but as a proportion of net earned premium fell to 2.1% (2008: 2.5%).

Group headcount at 31 December 2009 was 741. Headcount has remained broadly constant since 31 December 2008 (725).

Foreign exchange

The Group experienced significant foreign exchange related effects in 2009 amounting to a pre-tax charge of £58.2m (2008: £89.5m gain).

The Group recognised a charge of £54.9m relating to the IFRS requirement to recognise non-monetary assets and liabilities (DAC and UPR) at historic rather than closing exchange rates. At 31 December 2008, the difference between recognising non-monetary assets and liabilities at historic rather than closing exchange rates was a net asset of £54.0m. As highlighted at the end of 2008, this reversed during 2009. At 31 December 2009, the difference between recognising non-monetary assets and liabilities at historic rather than closing exchange rates was an additional £0.9m net liability. The reduction in the balance reflects the relative stability in exchange rates during 2009. The charge in 2009 of £54.9m is the movement between the differences at 31 December 2008 and 31 December 2009.

On the basis that exchange rates remain constant, the additional net liability at 31 December 2009 of £0.9m will reverse as a gain to earnings during 2010. Figures relating to this adjustment are disclosed separately in the segmental information in the column 'Effect of foreign exchange on non-monetary items'. The Group considers this purely a timing difference in profit recognition and has therefore presented additional profit before tax and RoE figures excluding its effect.

The Group also recognised a charge of £3.3m (2008: £39.9m gain) reflecting the translation of net assets denominated in foreign currencies and trading activities in the normal course of business.

The total foreign exchange related charge of £58.2m is made up of £33.4m 'Net foreign exchange loss' per the face of the income statement and a reclassification of part of the foreign exchange translation on non-monetary items to premium and acquisition costs. This latter adjustment can be seen in the column 'Effect of foreign exchange on non-monetary items' in Note 5 to the Financial Statements – Segmental information.

	Year ended 31 December 2009		Year ended 31 December 2008	
	Expenses £m	Ratio %	Expenses £m	Ratio %
Acquisition costs – commission[4]	345.1	23.1	265.2	23.1
Other insurance related expenses	130.7	8.7	111.8	9.8
Underwriting expenses	**475.8**	**31.8**	**377.0**	**32.9**
Other corporate expenses	39.5	2.6	28.8	2.5
Total expenses	**515.3**	**34.4**	**405.8**	**35.4**

4 Excluding the effect of foreign exchange on non-monetary items.

Effect of foreign exchange on non-monetary items

	12 months ended 31 December 2009 £m	12 months ended 31 December 2008 £m
UPR/DAC valued at historic rates of exchange	461.8	464.5
UPR/DAC valued at closing rates of exchange	460.9	518.5
Valuation difference in closing balance sheet (A)	(0.9)	54.0
Valuation difference in opening balance sheet (B)	54.0	4.4
Effect of foreign exchange on non-monetary items (A-B)	**(54.9)**	**49.6**

Foreign exchange (losses)/gains

	12 months ended 31 December 2009 £m	12 months ended 31 December 2008 £m
(Losses)/gains on exchange	(3.3)	39.9
Effect of FX on non-monetary items (from above)	(54.9)	49.6
Total foreign exchange (losses)/gains	**(58.2)**	**89.5**
Of which:		
Net FX (losses)/gains (per face of income statement)	(33.4)	124.0
Included within premium and acquisition costs (per segmental)	(24.8)	(34.5)

Associated undertakings

The Group's share of the result of associated undertakings was a loss of £2.3m (2008: loss of £0.5m). The loss from associates is partially offset by an additional £0.5m of profit relating to Norton II prior to the members' voluntary liquidation. Norton Re II is forecast to generate an internal rate of return (IRR) of approximately 8% for investors, a satisfactory result considering the catastrophe activity during 2008, and follows an IRR of 21% for Norton in 2007. Details of the Group's associated undertakings can be found in Note 20 of the consolidated financial statements.

Result before tax

The Group's profit before tax excluding the effect of foreign exchange on non-monetary items was £171.3m, an increase of more than 300% over the prior period (2008: £39.6m). Including the effect of foreign exchange on non-monetary items, the profit before tax rose 30.5% to £116.4m (2008: £89.2m).

Tax

The Group's effective tax rate was 24.8% and benefited from realisation of certain assets without incurring a tax liability. The Group reorganisation, which was completed in late 2009, should lead to a reduction in the tax rate in 2010 and beyond.

Net income, EPS and return on equity

Net income for the 12 months to 31 December 2009 was £87.5m compared to £66.6m in 2008. This translates into earnings per share (EPS) of 113.2p (2008: 86.0p, adjusted for 1 for 4 share consolidation) and return on equity of 12.2% (2008: 9.2%).

Excluding the effect of foreign exchange on non-monetary items, the annualised return on equity was 17.4%, an improvement compared with the return on equity excluding the effect of foreign exchange on non-monetary items of 4.6% for 2008.

Distributions

The Board has recommended a final distribution for the year ended 31 December 2009 of 30.0p per share (after 1 for 4 share consolidation) making a total distribution of 60.0p per share for the year (2008: 60.0p per share after 1 for 4 share consolidation). The distribution will take the form of a capital reduction.

Net asset value

Net tangible asset (NTA) value of £813.4m was 6.0% higher than at 31 December 2008. This growth reflects the profit after tax for the period of £87.5m less payment of the 2008 final and 2009 interim dividends of £46.4m. NTA per share at 31 December 2009 was £10.52 compared with £9.93 at 31 December 2008 (adjusted for 1 for 4 share consolidation).

Financial Management

Overview

Financial management focuses on all areas of the Group's balance sheet from assessing the right level and type of capital to managing the Group's exposure to credit and liquidity risk. The Group continuously responds to developments in the financial environment with the intention to improve risk-adjusted shareholder return. This is especially relevant to the introduction of Solvency II in 2012.

Capital resources

	31 December 2009 £m	31 December 2008 £m	31 December 2007 £m	31 December 2006 £m	31 December 2005 £m
Net tangible assets	813.4	767.6	768.4	724.3	638.4
Long-term subordinated debt*	132.8	132.7	147.3	147.2	147.1
Total capital resources	**946.2**	**900.3**	**915.7**	**871.5**	**785.5**

* Subordinated borrowings which have at least five years remaining to maturity or call and are of the types which qualify as regulatory capital.

Capital management

The purpose of the capital management strategy is to ensure the capital adequacy of the Group and each underwriting entity whilst optimising return on equity.

Capital adequacy is assessed against three benchmarks: regulatory capital, rating agency capital, and management capital. In the event a shortfall is forecast, escalation procedures are in place to address this.

Capital resources and capital adequacy

In assessing the Group's capital adequacy the principal sources of capital are shareholders' equity net of intangible assets (net tangible assets) and subordinated debt.

The main internal benchmark for assessing capital adequacy is management capital. This is defined as 120% of the Individual Capital Assessment (ICA), plus a capital buffer designed to deal with shock events. Management capital must at all times be covered entirely by net tangible assets and long-term debt. Throughout 2009, this condition was met.

For each regulated entity, capital is maintained at the higher of regulatory, rating agency and management capital requirements. The current ratings for Brit Insurance Limited are A (Strong) with stable outlook from Fitch and A (Excellent) with stable outlook from AM Best. The Group may decide to use short-term debt to cover timing differences, for example 'trapped' profits in Lloyd's or future dividends from BIL, but this is not permitted to form part of Group-wide management capital.

The Group's capital position is currently in excess of regulatory requirements. On an ECR (Enhanced Capital Requirement) basis the Group's coverage at 31 December 2009 was estimated at 1.31 times. The ECR approach uses a common factor-based model to calculate required capital on a risk-by-risk basis and does not explicitly allow for the potential diversification within an individual company or group.

The Group's ICA requirement, however, is based on the Group's internal model and takes into account the Group's specific portfolio and recent and expected future performance. The Group's coverage of its ICA requirement is estimated at 1.42 times at 31 December 2009.

Further details on capital risk management are given in Note 4 of the financial statements.

Lloyd's regulatory requirements

During 2009, in accordance with the regulatory timetable, the capital requirement for Syndicate 2987 was agreed with Lloyd's. The Lloyd's capital requirement is known as Funds at Lloyd's (FAL). The following table shows the FAL composition for 2009/10.

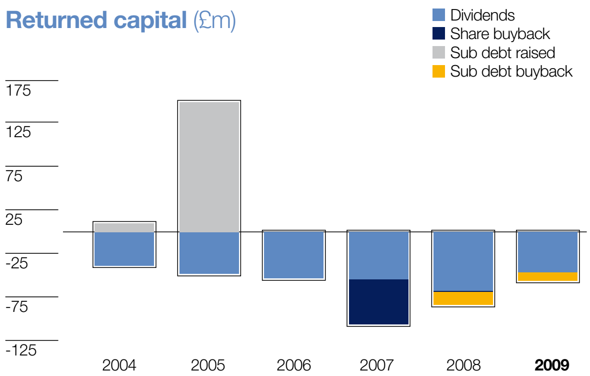
	2010 Year £m	2009 Year £m
Underwriting Capacity at Lloyd's (Syndicate 2987)	745.0	525.0
FAL requirement		
Capital requirement	397.4	310.3
Allowance for open years of account loss/(profits)	49.8	(15.9)
Total	**447.2**	**294.4**
	2009	**2008**
FAL assets at 31 December		
Investments	434.6	265.5
Cash	14.6	29.2
Total	**449.2**	**294.7**
Of which Sterling denominated	325.3	294.7
Of which US dollar denominated	123.9	–

As a consequence of the significant strengthening of the US dollar versus Sterling, Lloyd's required the Group to increase its FAL by £52m in June 2009. Furthermore, as part of the Group's ongoing currency management, an element of the FAL requirement is now denominated in US dollars (see currency management on page 50 for more details).

Managing the level of capital

Managing the level of capital is a key element in achieving the Group's return on equity target. The Group looks to hold adequate capital to meet its management capital requirements and to ensure rating agency and regulatory requirements are met for each entity. When capital resources are significantly above this level, the Group has a track record of returning excess funds to shareholders. Since it reinstated dividends in 2004, the Group has returned over £310m of equity to shareholders through cash distributions as well as £53m through share buybacks. Over this period the Group has also improved balance sheet efficiency, raising £150m of long-term subordinated debt in December 2005, of which £15m was bought back at a substantial discount in 2008. During 2009 the Group called and fully repaid its US$15m floating rate notes issued in June 2004.

Returned capital (£m)



Reinsurance and risk transfer

As part of the overall capital management process the Portfolio Management Committee (PMC) is responsible for structuring the reinsurance protection purchased to mitigate that element of the insurance risk the Group does not wish to retain. Different outwards reinsurance strategies are modelled and reviewed to assess the level of balance sheet and earnings volatility protection available. The Group uses a variety of proportional and non-proportional reinsurance contracts written on both a treaty (portfolio) and facultative (individual risk) basis.

In general, proportional reinsurance is used as a capital management tool and enables the Group to leverage its underwriting expertise. Non-proportional reinsurance is used to reduce volatility.

Reinsurance spend as a percentage of gross written premium was 13.3% (2008: 16.6%).

Reinsurance expenditure

	Year ended 31 December 2009 £m	Year ended 31 December 2008 £m
Proportional	101.2	108.2
Non-proportional	123.8	123.1
Total	**225.0**	**231.3**

Absolute reinsurance spend in 2009 was relatively flat compared with 2008 but fell by 3.3 percentage points as a percentage of gross written premium.

The financial strength ratings of the reinsurers underlying the Group reinsurance recoverables at 31 December 2009 are set out below. These figures include assumed recoveries in respect of outstanding claims and claims incurred but not reported and are net of impairment provisions at 31 December 2009 of £12.4m (2008: £15.5m).

Over 95% of the Group's reinsurance exposure is with counterparties with credit quality of A or better or is collateralised (2008: 97.1%).

	AAA £m	AA £m	A £m	BBB & below £m	Collateralised £m	Not rated £m	Total £m
Reinsurance assets at 31 December 2009	7.7	178.7	176.3	4.0	75.4	18.3	**460.4**
Reinsurance assets at 31 December 2008	8.8	229.1	149.8	3.9	77.8	9.8	**479.2**

Financial Management continued

Solvency II

In addition to current regulatory and rating agency requirements, the Group is actively researching and assessing the impact of anticipated changes to regulations such as Solvency II, the new capital adequacy regime that will affect all European insurance companies, including Lloyd's of London syndicates. Solvency II is expected to take effect in 2012.

The Solvency II framework has three main areas or pillars:

- **Pillar 1** consists of the quantitative requirements (for example, the amount of capital an insurer should hold).
- **Pillar 2** sets out requirements for the governance and risk management of insurers.
- **Pillar 3** focuses on public disclosure and regulatory reporting requirements.

Many of the requirements are simply good business practice and are already in place, but the Group will use its findings to act as a further catalyst for improvements across the business.

The Group has already participated in a number of activities with policy makers and regulators in order to prepare for Solvency II. A number of internal workstreams have been set up to address the requirements of Solvency II and cover areas such as capital modelling, risk management, asset portfolio management, data management, documentation, external reporting and governance. The framework, however, continues to evolve and the Group will commit extensive resources and optimise its work to reduce the risk of any surprises to the business and key stakeholders.

Liquidity management

The Group aims to hold a buffer to address the liquidity requirements to deal with shock events. This buffer is regularly reviewed and monitored by the Capital Committee. The liquidity buffer is funded by free cash as well as unutilised credit facilities.

On 9 November 2009 and as part of the Group reorganisation, the Group entered into a three-year revolving credit facility agreement for up to £175m with The Royal Bank of Scotland plc, Lloyds TSB Bank plc and Calyon. This became effective on 21 December 2009 and replaces the previous £150m revolving credit facility. At 31 December 2009, £107.0m of the facility was drawn down, an amount that was unchanged at 25 February 2010.

The Group gearing ratio at 31 December 2009 was 25.1% (31 December 2008: 15.9%). The Group's current appetite is to retain a gearing ratio below 30%.

Currency management

The Group writes a significant amount of its insurance business in currencies other than Sterling, thus necessitating the Group to hold multiple currency balances within its books.

The Group uses two main principles in managing currency exposure. First it matches major non-Sterling liabilities (i.e. net claims reserves) with equivalent financial assets denominated in the same currency. This mitigates the risk that the Group cannot meet its obligations in local currency or that a move in the exchange rate creates a financial loss.

Secondly, the Group holds non-Sterling financial assets in excess of non-Sterling liabilities in order to manage the effect of exchange rate movements on the Group's capital adequacy. As a significant amount of the Group's underwriting exposure (in particular to catastrophe risk) is in non-Sterling currencies, exchange rate fluctuations can affect the amount of Sterling capital required to be held as solvency or against realistic disaster scenarios (RDSs). The equivalent Sterling amount of US dollar, Canadian dollar and Euro balances at 31 December 2009 was £259.8m (2008: £223.6m). The Group manages currency positions with regular sales of the major non-Sterling currencies, in particular the US dollar.

In addition, the significant movement in exchange rates in recent years has at times caused the exchange rate used by Lloyd's for assessing the FAL solvency requirements to be materially different to the market spot rate. To manage the effect this has on the FAL requirement, it was concluded that US$200m of surplus net assets already denominated in US dollars should be held within FAL.

Claim reserve estimation

The Group evaluates reserves to pay for reported claims and for claims incurred but not reported (IBNR) on a quarterly basis. The process of estimating the right level of reserve is by definition subjective and can significantly affect the accounting result in any one period. The reserves selected each quarter are based on analysis and recommendations from the actuarial department. The Group's reserving policy is to reserve at actuarial best estimate and in addition to retain a margin to allow for uncertainties.

The Group has benefited from consistent net reserve releases over the last five years as claims in the 2002 to 2004 underwriting years have settled materially below initial estimates. Modest releases have also been experienced on the 2005 and 2006 underwriting years. More recent underwriting years are at an earlier stage of development but the Group's reserving process over this period was unchanged from prior years.

To aid understanding of the Group's reserving track record, the net ultimate loss ratios on an underwriting year basis are set out below. This table should be read horizontally and shows how over time the ultimate net loss ratio on each underwriting year develops from the level at which it was initially set. These figures are based on premium net of brokerage which is the basis on which the Group sets its claims reserves.

This data is based on an underwriting year approach and hence a significant amount of risk remains in force after one year. The ultimate net loss ratio after one year is therefore not necessarily a good indicator for the ultimate outcome as it can still be affected by new claim events. After two years the majority of risk has expired and consequently the movement in the ultimate net loss ratio from this point offers a better indicator of the reserving track record. For example the increase in the ultimate net loss ratio for 2008 is partially caused by the Air France claim which although occurring in 2009 relates to risks written in the 2008 underwriting year.

Group reorganisation

On 1 December 2009 a proposal for a new Netherlands company to become the Group holding company by means of a scheme of arrangement was approved by shareholders. This became effective on 21 December 2009, following approval by the High Court. Brit Insurance Holdings N.V. replaced Brit Insurance Holdings PLC as the ultimate holding company of the Group.

Development of Group ultimate net loss ratio by underwriting year

	After 1 year	After 2 years	After 3 years	After 4 years	After 5 years	After 6 years	After 7 years	After 8 years
2002	76%	71%	67%	61%	58%	57%	55%	55%
2003	74%	72%	64%	59%	56%	53%	51%	
2004	81%	79%	72%	70%	67%	66%		
2005	106%	109%	107%	104%	101%			
2006	81%	83%	80%	76%				
2007	89%	92%	92%					
2008	95%	99%						
2009	85%							

Investments

Strategy

The Group allocates its investment holdings into one of three internal portfolios – the liability portfolio, working capital portfolio and capital portfolio.

The largest portfolio represents funds that are expected to be called upon to pay claims to policyholders (the liability portfolio). These liabilities are segmented by currency and legal entity, and a benchmark is chosen for each segment that matches the characteristics of the liabilities. The investment objective in the liability portfolio is safety, liquidity and return of capital. Assets are primarily allocated to high quality fixed income securities.

The remaining investments, net of cash held in treasury (the working capital portfolio), are allocated to the capital portfolio. The objective of this portfolio is to support the long-term growth of shareholders' funds by earning a competitive return on capital. The current benchmark for the capital fund is LIBOR + 3%, which was comfortably exceeded during 2009. Assets are allocated to all types of fixed income securities (including corporates, mortgages, and index-linked bonds), equities and alternative assets.

The Group adheres to a detailed set of investment guidelines that have been approved by the Board of Directors. The guidelines have been constructed with the intention of allowing the Group to achieve a competitive investment return while minimising the risk of a meaningful reduction in capital arising from market volatility. All material decisions regarding the allocation of assets within the guidelines are taken by the Investment Committee.

One of the tactical objectives of the Group during 2009 was the management of counterparty risk in the investment portfolio. Over the course of the year the Group's exposures to individual counterparties were reduced by approximately half. In addition, greater diversification has been achieved in the corporate bond portfolio through an increase in the relative share of non-financial issuers.

Performance

In 2009 the Group's investments produced a total return for the year of £137.4m (4.2%), compared to a return of £7.4m (0.2%) in 2008.

The fixed income portfolio return of 4.5% was marginally lower than last year's 4.6%. Despite a similar outcome, the underlying performance could not have been more different from 2008. In 2009 government bond indices of short duration produced only modest returns. In fact, the US Treasury 3–5 year index produced a rare negative return. Corporate bonds, in contrast, produced excellent results in all currencies. The corporate Sterling AA 1–3 year benchmark produced a 7% return while a similar index in US dollars produced 8%. Longer-dated corporate bonds produced double-digit annual gains. Although the Group held corporate exposure at the upper end of its guideline limits throughout the year, the poor performance of government bonds kept the total portfolio return to the same level as 2008.

Equities and alternative assets performed well during the year in absolute terms. The equity portfolio provided a return of 17.5% in 2009, whilst specialised investment funds produced a return of 19.2% in 2009, following a very difficult 2008. Investments in emerging markets and leveraged loans provided significant gains during the year, while private equity posted a small decline.

Asset allocation

Brit Insurance entered the year with growing cash balances and a high weighting in corporate bonds relative to the range established by the Group's investment guidelines. The overweight position in corporate credit declined slightly in the middle of the year but was broadly maintained throughout 2009 as non-financial corporate issues were added to the portfolio. Cash balances rose during most of 2009, owing in part to the transition to a new fixed income manager. It is expected that cash holdings will decline during the first half of 2010.

Investment return

	Year ended 31 December 2009		Year ended 31 December 2008	
	£m	%	£m	%
Equity securities	13.8	17.5	(36.7)	(24.0)
Debt securities	92.5	4.5	89.4	4.6
Specialised investment funds	17.9	19.2	(69.9)	(38.8)
Cash and cash equivalents	13.2	1.5	24.6	4.6
Total portfolio	**137.4**	**4.2**	**7.4**	**0.2**

Asset allocation by asset class

	31 December 2009		31 December 2008	
	£m	%	£m	%
Equity securities	102.0	2.9	117.4	3.6
Debt securities	2,282.4	65.7	2,162.5	66.9
Specialised investment funds	96.7	2.8	113.1	3.5
Cash and cash equivalents	994.2	28.6	840.7	26.0
Total portfolio	**3,475.3**	**100.0**	**3,233.7**	**100.0**

Breakdown of debt securities at 31 December 2009

£m	Government	P-1	AAA	AA	A	BBB and lower	**Total**
Government issue*	1,045.5	–	–	–	–	–	**1,045.5**
Corporate bonds	–	–	163.3	218.5	282.9	58.1	**722.8**
CDs and CPs	–	346.9	–	–	–	–	**346.9**
Other	–	–	111.1	42.7	13.4	–	**167.2**
	1,045.5	346.9	274.4	261.2	296.3	58.1	**2,282.4**

* All government issue bonds are from either the US, Canada, UK or eurozone countries.

Breakdown of debt securities at 31 December 2008

£m	Government	P-1	AAA	AA	A	BBB and lower	**Total**
Government issue*	753.9	–	–	–	–	–	**753.9**
Corporate bonds	–	–	168.4	369.5	311.9	1.8	**851.6**
CDs and CPs	–	557.0	–	–	–	–	**557.0**
Other	–	–	–	–	–	–	**–**
	753.9	557.0	168.4	369.5	311.9	1.8	**2,162.5**

* All government issue bonds are from either the US, Canada, UK or eurozone countries.

Holdings of riskier asset classes remained broadly unchanged during the year. During the first half of the year, investments were made in European covered bonds and asset-backed securities as well as US mortgage-backed securities (MBS). Towards the end of the year the Group added some exposure to US commercial mortgage-backed securities (CMBS). Several investments in equities and equity funds were sold during the year owing to manager underperformance. In addition, some hedge fund investments were exited during the year as part of manager-led redemption programmes.

Investments by currency

	Year ended 31 December 2009		Year ended 31 December 2008	
	£m	**%**	£m	%
Sterling	1,780.1	51.2	1,564.6	48.4
US dollar	1,226.6	35.3	1,217.2	37.6
Euro	348.2	10.0	334.9	10.4
Canadian dollar	120.4	3.5	117.0	3.6
Total	**3,475.3**	**100.0**	**3,233.7**	**100.0**

The Group remained conservatively positioned during 2009 with respect to asset duration. Dollar duration declined during much of the year but began to increase in the fourth quarter following transition to a new fixed income manager. Duration in the US dollar portfolio ended the year at 1.5 years with the duration of the Sterling portfolio at 1.2 years. The duration of both portfolios is likely to increase during 2010.

Debt securities (ex CD/CPs) duration

	31 December 2009 Years	31 December 2008 Years
Sterling	1.2	1.5
US dollar	1.5	1.2
Euro	1.4	1.5
Canadian dollar	1.6	1.6

Outlook

The medium-term outlook for the Group's investment return remains challenging. Interest rates are not only low in absolute terms but have dipped below the rate of inflation in both the UK and US. Three-year government bond yields in the UK and US are both about 1% below the prevailing rate of CPI inflation. This contrasts markedly with the situation enjoyed over much of the past decade, when investors could expect consistently positive real spreads of several percentage points. As a result, insurers must either forego income or risk negative returns should rates rise quickly. In this environment Brit Insurance believes that high quality corporate bonds remain attractive in relative terms.

Governance

Board of Directors

Robert John Orr Barton (John)
Chairman

John joined the Board of Brit Insurance Holdings PLC in 2007 as Deputy Chairman and succeeded Clive Coates as Chairman in May 2008. He was appointed to the Board of Brit Insurance Holdings N.V. in October 2009 as Chairman. His term will expire in December 2010. He has a wealth of experience in insurance underwriting and broking as well as the property and consumer retail arena.

John is currently Chairman of Next plc and a non-executive director of WH Smith PLC and Cable and Wireless plc. He was Chief Executive of JIB Group plc for 13 years, Chairman of Jardine Lloyd Thompson Group plc for five years and Chairman of Wellington Underwriting plc for five years.

(Born 1944, British nationality, male, Chartered Accountant; appointed in 2009, term subject to terms of the Company's Articles of Association, term expires in 2010).

Dane Jonathan Douetil CBE
Chief Executive Officer

Dane joined Brit Insurance Limited (BIL) in 1998 and was appointed as BIL's Chief Executive Officer in December of the same year. In 2002 he was appointed Chief Executive Officer of Brit Syndicates Limited and Group Head of Underwriting.

Dane was appointed Chief Executive Officer of Brit Insurance Holdings PLC in 2005 having been Deputy Chief Executive Officer since March 2004 and an Executive Director since 1999. He was latterly appointed Chief Executive Officer of Brit Insurance Holdings N.V. in 2009.

Dane joined the Willis Faber Group in 1982 and was appointed executive director of the Political & Financial Risk Division in 1988. He was a founder shareholder and director of Special Risk Services Limited from 1989-1994. Between 1994 and 1998 he was a consultant on the sale of a number of mortgage operations and a risk consultant to several financial institutions. He was appointed a full time consultant to The Benfield Group in 1997 prior to joining BIL.

He joined the Board of the ABI in 2009, was on the Board of the Lloyd's Market Association from 2004-2006, the last year of which was as chairman, chaired the Market Reform Group until the beginning of 2008 and chaired the industry's Contract Certainty Steering Group from 2005 to 2007.

Dane was made a Commander of the Order of the British Empire in 2007 for services to business.

(Born 1960, British nationality, male, appointed in 2009, term subject to terms of the Company's Articles of Association, has a 12 month rolling contract of employment).

Matthew Scales
Finance Director

Matthew joined the Board of Brit Insurance Holdings PLC in 1999. He was appointed to the Board of Brit Insurance Holdings N.V. in October 2009. He has been Finance Director of Brit Insurance Limited since 1993 and was appointed Finance Director of Brit Syndicates Limited in 2004.

He is a fellow of the Institute of Chartered Accountants and joined the C T Bowring Group in 1979, transferring to English & American Group in 1982. He was finance director of English & American Group plc from 1991-1993 and Group Financial Controller of Benfield Group plc from 1996-1999.

He is a member of the Finance Committee of the Lloyd's Market Association.

(Born 1954, British nationality, male, Chartered Accountant; appointed in 2009, term subject to terms of the Company's Articles of Association, has a 12 month rolling contract of employment).

Kenneth Culley CBE (Ken)
Non-Executive Director

Ken joined the Board of Brit Insurance Holdings PLC in 2007. He was appointed to the Board of Brit Insurance Holdings N.V. in December 2009. He is a member of the Audit, Remuneration and Nomination Committees. He has been a Non-Executive Director of Brit Insurance Limited since 2000 and was Chairman of that company from 2003-2007. He has been a Non-Executive Director of Brit Syndicates Limited since 2004.

Ken was formerly chief executive of the Portman Building Society, is a past chairman of the Building Societies Association and was a member of the Council of Mortgage Lenders. He was also deputy president of the International Union for Housing Finance Institutions until 1999, a director of the Financial Services Compensation Scheme from 2000-2005, a non-executive director of JP Morgan Fleming Managed Income plc from 2000-2002 and a non-executive director then chairman of JP Morgan Elect plc from 1999-2007.

He was made a Commander of the Order of the British Empire in 1998 for services to the Building Society movement.

He is currently chairman of Marks & Spencer Financial Services plc and 1st Credit (Funding) Limited.

(Born 1942, British nationality, male, appointed in 2009, will retire at the 2010 Annual General Meeting).

Joseph Patrick MacHale (Joe)
Non-Executive Director

Joe joined the Board of Brit Insurance Holdings PLC in 2005. He was appointed to the Board of Brit Insurance Holdings N.V. in December 2009. He is Chairman of the Remuneration Committee and a member of the Nomination and Audit Committees.

He held a number of senior positions with JP Morgan between 1979 and 2001 and was most recently chief executive of JP Morgan Europe, Middle East and Africa Region.

He is currently a non-executive director of Royal Bank of Scotland Group PLC, chairman of the Prytania Group LLP and a Trustee of Macmillan Cancer Support.

(Born 1951, British nationality, male, Banker; appointed in 2009, term subject to terms of the Company's Articles of Association).

Peter Frank Hazell
Non-Executive Director

Peter joined the Board of Brit Insurance Holdings PLC in 2004. He was appointed to the Board of Brit Insurance Holdings N.V. in December 2009. He is Chairman of the Audit Committee and a member of the Remuneration and Nomination Committees.

He was previously UK managing partner of PricewaterhouseCoopers. He spent his early career at Deloitte Haskins & Sells in their Management Consultancy Division, later advising on competition policy, investment appraisal and strategic planning. He was also involved in founding the Corporate Finance Practice, specialising in privatisation, regulation and mergers and acquisitions.

Peter is chairman of Argent Group PLC, a non-executive director of UK Coal PLC and of Smith & Williamson Holdings Limited. He is a member of the Natural Environment Research Council, a trustee of The Oval Cricket Relief Trust, and was until mid January 2010 a member of the Competition Commission.

(Born 1948, British nationality, male, appointed in 2009, term subject to terms of the Company's Articles of Association).

Cornelis Antonius Carolus Maria Schrauwers (Cees)
Senior Independent Director

Cees joined the Board of Brit Insurance Holdings PLC in 2005. He was appointed to the Board of Brit Insurance Holdings N.V. in October 2009 and is the Senior Independent Director. He is a member of the Audit, Nomination and Remuneration Committees. Cees was appointed as a Non-Executive Director of Brit Insurance Limited and Brit Syndicates Limited in 2007.

He has some 30 years' industry experience, most recently as managing director of Aviva International and managing director of CGU Insurance. He previously held a number of senior positions in Commercial Union. Prior to this Cees was a partner with Coopers & Lybrand in charge of insurance consultancy.

He is chairman of Drive Assist Holdings Limited, Senior Independent Director of Record plc and, a Commissioner of the Guernsey Financial Services Commission.

(Born 1947, Dutch nationality, male, appointed in 2009, term subject to terms of the Company's Articles of Association).

Michael Gordon Smith
Non-Executive Director

Michael joined the Board of Brit Insurance Holdings PLC in 2004. He was appointed to the Board of Brit Insurance Holdings N.V. in December 2009. He is Chairman of the Nomination Committee and a member of the Audit and Remuneration Committees.

He is a former senior partner of Times Sainer & Webb (now Dechert LLP), where he was a specialist corporate lawyer. From the early 1990s he concentrated on the Lloyd's insurance market and built a team of lawyers focused solely on this area.

He is a non-executive director of Randall & Quilter Investment Holdings plc, Cavell Managing Agency Limited and CFC Underwriting Limited, and a trustee of The Foyle Foundation, The National Hospital for Neurology and Neurosurgery Development Foundation, and The Oval Cricket Relief Trust.

(Born 1945, British nationality, male, Lawyer; appointed in 2009, will retire at the 2010 Annual General Meeting).

Willem Frans Casimir Stevens
Non-Executive Director

Willem was appointed to the Board in December 2009. He is an independent counsel on legal, tax and corporate governance issues.

Willem is a member of the supervisory board of AZL N.V., Ermenegildo Zegna International N.V., Goedland N.V., N.V. Luchthaven Schiphol, Stichting Exploitatie Nederlandse Staatsloterij, Stichting Holland Casino and TBI Holdings BV.

He is a member of the supervisory council of Onze Lieve Vrouwe Gasthuis, chairman of Amsterdam City Hospital and chairman of Stichting Diabetes Onderzoek Nederland.

He is a managing director on the board of Michelin Finance BV, chairman of Foundation Preferred Shares WAVIN N.V., vice-chairman of Het Concertgebouw Fonds, a director of Foundation Priority Shares ANTEA Participaties and VEROZ.

He is a board member of Chamber of Commerce Nederland-Israel, a governor of Harvard Law School Association of Europe and a member of the advisory council of the Royal Netherlands Institute of Chartered Accountants.

(Born 1938, Dutch nationality, male, Attorney at Law; appointed in 2009, term subject to terms of the Company's Articles of Association).

Corporate Governance Report

Last year Brit Insurance Holdings PLC (BIH PLC) sought and obtained Court and shareholder approval for a Scheme of Arrangement (the Scheme), which was approved and subsequently completed on 21 December 2009. This Scheme made Brit Insurance Holdings N.V. (the Company) the new parent company for the Brit Insurance group. The Scheme Circular stated that 'it is not anticipated that there will be any substantive changes to corporate governance or investor protection measures.' This report reflects the corporate governance measures operated by BIH PLC during 2009 and adopted by the Company.

The Brit Insurance Holdings N.V. Board (the Board) complies with the UK's Financial Reporting Council's UK Corporate Governance Code (the Code) and if the Company had been subject to the Dutch Corporate Governance Code for the whole of 2009 it would have been in compliance with this particular code in respect of one-tier board provisions, except for one provision below. Brit Insurance has a strong ethos of corporate governance and is committed to business integrity, ethics and professionalism. The Board believes that BIH PLC fully complied with the Code during the year until it was de-listed and re-registered on 21 December 2009. During the year both BIH PLC and the Company have complied with the relevant listing requirements of the UK Listing Authority and its obligations under the Authority for the Financial Markets (AFM) in the Netherlands. The Board also ensures that the Dutch Civil Code and the Listing, Prospectus, Disclosure and Transparency Rules are adhered to.

The Board expects to implement any recommendations that it considers to be in the best interest of the business, resulting from the Walker Review of Corporate Governance and the current review of the Code.

Unless otherwise stated, any statements made in this report apply equally to both BIH PLC and the Company during their relevant periods as a listed company on the London Stock Exchange.

The Board

The Board operates a single tier management structure and is responsible for creating and sustaining shareholder value through the management and control of the Group's businesses. It is the decision making body for all matters material to the Group in strategic, financial and reputational terms and ensures that management maintain a system of internal control that provides assurance of effective and efficient operations, internal financial controls and compliance with regulation and laws. The schedule of matters reserved to the Board is reviewed annually and includes approval of the financial results, strategy and corporate objectives, significant transactions and matters affecting share capital. Subject to this schedule, the Board delegates certain powers to a number of committees within written terms of reference as detailed below.

During the period up to 21 December 2009 BIH PLC held eight scheduled board meetings. In addition, a further eight meetings were held to deal with matters such as the Scheme. The Company held one meeting during the period October to December to consider the proposed Scheme, this being held in the Netherlands.

The board of BIH PLC (the BIH PLC Board) considered, amongst other items, the 2008 full-year and 2009 half-year results, dividends, annual business plan and budget. At each scheduled meeting, the BIH PLC Board received a report on the Group's performance and other relevant matters from the Chief Executive Officer and Finance Director. Meetings were also held to consider the Scheme of Arrangement and the proposed acquisition of Chaucer Holdings PLC. The BIH PLC Board held a two day meeting to consider the Group's ongoing strategy. The BIH PLC strategy has been adopted by the Company.

Board Composition

The Board should have an appropriate balance of skills, knowledge and experience to support its strategy and the effective management of the Company and its investments. The Nomination Committee reviews the balance and composition of the Board and its principal Committees and considers the issue of independence on an annual basis. The BIH PLC Nomination Committee reviewed the Non-Executive Directors' independence against the Code's criteria and considered each Non-Executive Director to be independent. At least half the Board, excluding the Chairman, are independent Non-Executive Directors. The Chairman was deemed to be independent at his date of appointment. The Company's Nomination Committee supports BIH PLC's position on Directors' independence.

At the date of this report, the Board comprised the Chairman, two Executive Directors and six Non-Executive Directors whose biographies are on page 56. Kathy Lisson retired from the Board of BIH PLC on 12 May 2009. All other directors of BIH PLC, except Matthew Scales retired on 21 December 2009. John Barton, Dane Douetil, Cees Schrauwers and Matthew Scales were appointed directors of the Company on 28 October 2009 and Peter Hazell, Ken Culley, Joe MacHale, Michael Smith and Willem Stevens' appointments became effective on 21 December 2009.

Executive Directors are permitted to maintain one non-executive appointment at any one time. These may be found in their biographies on page 56. Any fees receivable in respect of these directorships are paid directly to the Group and are not passed on to the Director.

Chairman and CEO

The roles of the Chairman and Chief Executive Officer (CEO) are separate and each has clearly defined responsibilities. The Chairman's main role is to lead and manage the work of the Board to ensure that it operates effectively and provides appropriate challenge and support to the executive management. The Chairman also ensures, with support from the Company Secretariat, that Directors receive accurate, timely and clear information about the Group's performance to enable the Board to take sound decisions, monitor effectively and provide advice to promote the success of the Group. He also ensures effective communication with shareholders. The CEO is responsible for the day-to-day management of the Group, recommending strategy to the Board and making and implementing operational decisions.

Senior Independent Director

Cees Schrauwers continued in this role during the year and led the Chairman's performance evaluation process for BIH PLC, consulting with the other Non-Executive Directors. If shareholders or investors do not wish to follow the usual methods of communication through the Chairman, Chief Executive Officer or Finance Director, the Board's Senior Independent Director is available to meet with shareholders or investors. The role of the Senior Independent Director is clearly established and agreed by the Board.

Appointment, retirement and re-election

The Company's shareholders may appoint a Director by ordinary resolution. The Code and the Company's Articles of Association require one third of the Directors to retire from office at every Annual General Meeting (AGM) and each Director must offer himself for re-election at least once every three years. In accordance with this, Michael Smith, Peter Hazell, Ken Culley and Willem Stevens will retire this year and Peter Hazell and Willem Stevens will offer themselves for re-election at the forthcoming AGM. The Company's Nomination Committee has considered the effectiveness of each Director offering himself for re-election at the AGM and has advised the Board that each Director has continued to make an effective contribution to the Group and each Director has committed sufficient time to the Group.

Directors' Interests

The interests of the Directors who held office at 31 December 2009 and their connected persons in the ordinary shares or other securities of the Company are disclosed in the Directors' Remuneration Report on pages 64 to 72.

Conflicts of Interest

The Company's Articles of Association and the Dutch Corporate Governance Code permit the Board to consider, and if thought fit, to authorise situations where a Director has an interest that conflicts, or may possibly conflict, with the interests of the Company. The Board has adopted a formal policy and notifications for Directors to declare conflicts of interest to be considered for authorisation by those Directors who have no interest in the matter being considered. In deciding whether to authorise a conflict of interest, the conflicted Director will not take part in any discussion or decision making. The Board will consider if approving a conflict of interest promotes the success of the Company and whether authorisation should be contingent on factors including: the type of company involved, the nature of the conflict and the position of the Director. This policy has been incorporated into the Board's Terms of Reference. Any notified conflicts of interest considered or approved will be recorded in the minutes of the meeting and included on the Register of Conflicts of Interest. The Board of the Company have adopted a revised Conflicts of Interest Policy taking into account the Dutch Corporate Governance Code.

Joe MacHale is a Non-Executive Director of Royal Bank of Scotland Group PLC (RBS Group) and is consequently deemed to be interested in a £175m revolving credit facility agreement with an RBS Group company, the arranger and facility agent. Ken Culley and Joe MacHale have both been directors of companies in the JP Morgan group in recent years and the Company appointed JP Morgan Securities Limited as the Company's joint corporate broker and financial adviser in January 2010. The potential conflict of interest for these two Directors was disclosed prior to their appointment and authorised by the BIH PLC Board. These conflicts have been reviewed by the Company's Board and remain authorised. At no time during the year did any other Director hold a material interest in any contract of significance with the Company or any of its subsidiary undertakings other than service contracts between each Executive Director and a Group company, details of which are disclosed in the Directors' Remuneration Report. The Board has adopted an appropriate policy to ensure that its powers of authorisation of conflicts of interest operates effectively.

Directors and Officers Insurance

Throughout 2009, directors and officers liability insurance has been available for the benefit of Directors and Officers. In addition, each Director had a deed of indemnity with BIH PLC. Each Director also has a similar deed in respect of the Company with effect from 21 December 2009. Both deeds of indemnity were in accordance with the provisions of the relevant Articles of the company.

Induction and Professional Development

On appointment Directors receive a comprehensive induction programme tailored to their individual requirements. This covers the Group's operations, activities and risks, responsibilities of a Director, role of the Board and Committees and governance policies and procedures. In addition, they meet key business and function heads and receive ongoing training and updates to improve their knowledge and skills to discharge their duties effectively. Directors may request independent professional advice at the Company's expense. No such requests were received during the year.

Board Effectiveness

The Chairman of BIH PLC conducted an annual, formal and rigorous evaluation of the Board's performance in compliance with the Code. In 2009 all Directors were asked to complete questionnaires covering the Board, each Committee of which they were a member and an individual review. This was conducted internally with the aid of a framework developed by external specialists. In addition to the questionnaire, one-to-one interviews were held between the Chairman and each Director. The review took into account factors such as roles, responsibilities, composition, expertise, procedures and achievement of objectives. Responses were attributable and were co-ordinated by the Company Secretariat and a report was prepared for discussion at Board and Committee meetings. Following the Scheme of Arrangement this report was considered by the Board and its Committees and a decision was taken to adopt the conclusions and recommendations made in the report. The Board believes that it and its Committees operate effectively and in compliance with the Code. Progress on the identified actions is monitored by the Company Secretariat with the Chairman.

Corporate Governance continued

The performance of the BIH PLC Chairman was assessed by the Non-Executive Directors led by the Senior Independent Director without the Chairman present. The review took into account the views of the Executive Directors and the results were communicated to the Chairman by the Senior Independent Director.

Regular meetings are held between the CEO and the Chairman to discuss the performance of the business and the Board.

Actions from the 2009 Board review included:

1. Improving the process for monitoring the performance of the company against objectives.
2. Understanding better the expectations of the Company's major investors and how these expectations can be met.
3. Improving the efficiency of the process for reviewing the Group's strategy.
4. Increased focus on succession planning for more senior roles within the Group.

During 2009 BIH PLC achieved the objectives that resulted from the 2008 Board performance process.

Communications with Shareholders

The Board regards communication with shareholders as a high priority and uses the AGM and meetings with institutional shareholders to ensure there is a mutual understanding of the Group's strategy and performance. Directors are regularly updated on shareholder and market matters at Board meetings and through the provision of analyst reports.

The Company's website provides access to information about the Company, including its results and press releases.

Board Committees

The Audit Committee

The Audit Committee is composed of independent Non-Executive Directors, with a minimum requirement of three such members. The Board is satisfied that each member is competent in financial matters and Peter Hazell, Ken Culley, Joe MacHale and Cees Schrauwers have recent and relevant financial experience. The Chairman and Finance Director attend the Audit Committee meetings by invitation. The Audit Committee reviews the financial and internal reporting process and financial statements, the system of internal control, risk management and the external and internal audit process. The Audit Committee meets the external auditors without management present at least twice a year.

The Audit Committee of BIH PLC met on eight scheduled occasions (ten in total) to consider the full-year, half-year and IMS results. In addition, it considered

- annual audit and interim review planning
- monitoring the integrity of the financial statements
- the effectiveness of financial controls
- risk management
- internal control
- governance, including its own Terms of Reference
- capital management
- regulatory matters
- provision of non-audit services
- relationship with auditors and their independence
- the performance, qualifications and independence of the external auditors
- presentations from the business regarding progress following audits and on significant ongoing projects

The Audit Committee did not focus on the tax planning policy in 2009 as required under section III.5.4.e of the Dutch Corporate Governance Code.

However, the Committee did consider tax planning in relation to various matters, such as the Scheme. The Tax Policy of the Company was reviewed by the Board in early January 2010 and will be considered by the Audit Committee later in the year.

The Nomination Committee

The Nomination Committee is composed of independent Non-Executive Directors. The Committee reviews the structure, size and composition of the Board and recommends appointees to the Board, as well as establishing, approving and monitoring the succession plan for the Board and senior management.

The Nomination Committee of BIH PLC met on three scheduled occasions to consider amongst other matters:

- The Committee's Terms of Reference
- Board balance and Non-Executive Director independence
- Executive succession planning
- Executive development programme
- Committee evaluation
- Review of balance of skills, knowledge and experience of the Board
- Rotation of Directors
- The identification and recommendation of a further Non-Executive Director.

One of the Committee's key activities was the identification of Willem Stevens as a new Non-Executive Director. Willem Stevens was subsequently appointed to the Board of the Company by its then sole shareholder, with effect from, but prior to the Scheme becoming effective on 21 December 2009. Willem Stevens' biography may be found on page 57.

The Remuneration Committee

The Remuneration Committee is comprised only of independent Non-Executive Directors, with a minimum requirement of two such members.

The Remuneration Committee determines the terms of service and remuneration of Executive Directors and Executive Management Committee members, using input from external advisers, and recommends the Company's Remuneration Policy for ultimate approval by shareholders. In 2009, the Remuneration Committee of BIH PLC met on four scheduled occasions to discuss various matters including:

- The Committee's Terms of Reference
- The Rules of new share plans proposed to shareholders for adoption
- Directors' salary reviews and bonus awards
- 2008 Report to shareholders

The terms of reference of the Audit, Nomination and Remuneration Committees for the Company are available at www.britinsurance.com.

Committee Membership and Attendance at Meetings

The table below sets out the membership of the Audit, Nomination and Remuneration Committees as at 31 December 2009:

Current Directors	Audit Committee	Nomination Committee	Remuneration Committee
John Barton	–	M*	–
Ken Culley	M	M	M**
Dane Douetil	–	–	–
Peter Hazell	C	M	M
Joe MacHale	M	–	C
Matthew Scales	–	–	–
Cees Schrauwers	M	M	M
Michael Smith	M	C	M
Willem Stevens***	–	–	–

Key: C = Chairman M = Member

* appointed to the relevant Committee of BIH PLC on 5 March 2009

** appointed to the relevant Committee of BIH PLC on 11 May 2009

*** appointed to the Board on 21 December 2009. Willem Stevens will join the Audit Committee of the Company on 1 March 2010.

All committee members and chairmen were appointed to the equivalent Company committee on 21 December 2009. All BIH PLC committees ceased to exist on 21 December 2009.

All Directors of BIH PLC and the Company invested the time required in 2009 to discharge their responsibilities and their attendance at meetings is disclosed below. Directors unable to attend a meeting provide feedback on the papers and their comments are then communicated to the meeting. All Directors must report any material change in their circumstances and potential conflict situations to the Board before any change occurs. The other commitments of the Directors are reported in their biographies on pages 56 to 57.

Directors	Board	Audit Committee	Nomination Committee	Remuneration Committee
No. of scheduled meetings held by BIH PLC	8	8	3	4
John Barton	8	n/a	1***	n/a
Ken Culley	8	8	3	1****
Dane Douetil	7	n/a	n/a	n/a
Peter Hazell	8	8	3	4
Joe MacHale	8	7	n/a	3
Matthew Scales	6	n/a	n/a	n/a
Cees Schrauwers	7	7	3	4
Michael Smith	8	7	3	4
Willem Stevens*	n/a	n/a	n/a	n/a
Kathy Lisson**	4	n/a	n/a	n/a

Notes:

* Willem Stevens' appointment was effective on 21 December 2009, after which no Board meetings were held.

** Kathy Lisson resigned from the Board on 12 May 2009 and the maximum number of scheduled Board meetings she could have attended was 4.

*** John Barton was appointed to the Nomination Committee on 5 May 2009 and the maximum number of scheduled Nomination Committee meetings he could have attended was 1.

**** Ken Culley was appointed to the Remuneration Committee on 11 May 2009 and the maximum number of scheduled Remuneration Committee meetings he could have attended was 1.

The above table indicates the number of scheduled meetings held in the year. Further meetings were held to consider such matters as the Scheme of Arrangement and the proposed acquisition of Chaucer Holdings PLC. The total number of Board and Committee meetings held during the year was as follows:

BIH PLC: Board: 16, Audit Committee: 10, Nomination Committee: 3, Remuneration Committee: 4.

The Company: Board: 1, Audit Committee: 1, Nomination Committee: 0, Remuneration Committee: 0. These Board and Committee meeting were fully attended, except for Matthew Scales who was unable to attend the Board meeting.

Corporate Governance continued

Internal Control

The Board has overall responsibility for the Group's systems of internal control and for reviewing their effectiveness. However, the Board delegates responsibility for the operation, review and effectiveness of the systems of internal control to executive management. Neither the Board nor its Audit Committee has made any material changes to the internal control systems.

The Group's systems of control cover all material controls including operational, financial, risk management and compliance and are in compliance with latest UK best practice. The internal control systems are designed to manage risk and not eliminate it and cannot be expected to provide absolute assurance against material loss, error or fraud.

The Group's system of internal control has been in place throughout 2009 and up to the date of this Report and accords with the UK Turnbull Guidance on Internal Control.

Internal Audit

Internal Audit provides independent assurance to management and the Audit Committee that major risks affecting the Group are being managed appropriately by means of a controls network, which is operating effectively. Audit Committee members had regular meetings with the Head of Internal Audit during the year to review work plans and findings and the Audit Committee approves the Internal Audit Plan each year. The results of audits and opinions on controls effectiveness and operation are communicated to the relevant business unit with Internal Audit conducting follow up reviews where appropriate.

Risk Management

It is necessary to understand and manage the risks which may impact on the Group's performance. To ensure this is achieved in an effective manner the Audit Committee, on behalf of the Board, oversaw the operation of the Group's Risk Management function. In conjunction with other support functions the Risk Management department regularly evaluated risks facing the business and implemented plans to mitigate these risks. These plans take into account the Group's long-term strategy and immediate business objectives. In particular, risk management activities are interlinked with the Group's key performance indicators, which can be found on page 17. Regular risk management updates are presented to the Audit Committee and relevant reports are circulated to the Board. The Audit Committee believes that the Group's risk management plans and processes are appropriate and effective for the operation of the business and have therefore been adopted for 2010. Further details are provided under 'Risk Management and Risk Factors' on page 38.

External Auditors

The Group's external auditors, Ernst and Young Accountants LLP (Ernst and Young), provide an independent, supplementary perspective on the Group's internal control systems. In the course of their work they assess the Group's internal control systems relating to financial reporting and report their findings to the Audit Committee. To ensure auditor objectivity and independence there is a process in place to seek approval for any non audit work. This requires the Chairman of the Audit Committee or Finance Director to approve any such work. Ernst and Young undertook a significant amount of non audit work pursuant to the Scheme of Arrangement and the proposed acquisition of Chaucer Holdings PLC. It was believed appropriate that they undertake such work given their knowledge and understanding of the Group's business. After review the Board proposes the re-appointment of Ernst and Young as the Company's auditors at the 2010 annual general meeting.

Each person who is a Director at the date of preparation of this Report confirms that:

- so far as the Director is aware, there is no relevant audit information of which the Company's Auditors are unaware and
- he has taken all the steps that ought to have been taken in order to make himself aware of any relevant audit information and to establish the Company's Auditors are aware of that information.

Creditors Payment Policy

It is the policy of the Company to settle all expenses on a timely basis in the ordinary course of business. It is the Group's policy to agree appropriate terms and conditions in advance with its suppliers and to make payment in accordance with those terms and conditions, provided that the supplier has complied with them. During 2009 BIH PLC and the Company aimed to settle invoices in an average of five days (2008: five days).

Share Capital

As of 21 December 2009 and under the Scheme of Arrangement approved by the Court, the Company's authorised share capital was one billion Euros, divided into one billion (1,000,000,000) ordinary shares of one Euro (Euro 1.00) each. The issued share capital was 313,995,031 ordinary shares of one Euro each.

At a General Meeting held on 25 February 2010 shareholders approved a 1:4 share consolidation which resulted in the issued share capital reducing to 78,498,758 ordinary shares of 4.00 Euros each.

Going Concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Directors' Report on pages 1 to 79. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the financial review on pages 42 to 53. In addition, note 4 to the financial statements includes the Group's objectives, policies and processes for managing its capital, its insurance risk management procedures, risk concentrations, reinsurance protections, aggregate exposure management and sensitivities, its financial risk management objectives, details of its financial instruments and hedging activities, and its exposures to credit risk and liquidity risk.

The Group has sufficient financial resources together with sufficient renewing income from customers across different geographic areas and industries. As highlighted in notes 22 and 25 to the financial statements, the Group meets its day to day working capital requirements through maintaining a proportion of its investment portfolio in cash, cash equivalents and short dated fixed income securities. The current economic conditions and exchange rate fluctuations create a degree of uncertainty over the exchange rate between Sterling and the US dollar and Euro and the level of capital required to support this planned premium income. As disclosed in note 27, the Group also has access to a three year revolving credit facility dated 9 November 2009.

The Directors believe that the Group has adequate resources to manage its business risks successfully despite the current uncertain economic outlook. After making enquiries, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Annual Report and Accounts.

Board Support

The Company Secretariat provides advice and administrative support to the Board. All Directors have access to the advice of the Company Secretariat and procedures are in place for Directors to seek independent professional advice at the company's expense. No such advice was sought by any Director during the year.

Annual General Meeting

The annual general meeting will be held in the Netherlands (see AGM Notice of Meeting for full details). All Directors are expected to be in attendance at the meeting to answer any shareholders' questions. To ensure shareholders' views are reflected proportionately, all resolutions will be voted on a poll.

General Meeting

During 2009 BIH PLC held a general meeting to approve the Scheme of Arrangement, change BIH PLC's Articles of Association and approve certain share plans. These matters were approved by shareholders on 1 December. Full details, including results can be found on the Company's website. In future, the Company expects to hold two general meetings each year to seek approval to pay distributions when deemed appropriate. Such meetings will feature live video and audio links.

Voting by holders of Depositary Interests

Although the Depositary Interests themselves do not formally have voting rights, holders of Depositary Interests are in practice equated with shareholders. They can attend all of the Company's general meetings, either personally or by proxy, and also have right of speech. The holders of the Depositary Interests will then automatically, without limitation and under all circumstances, receive a voting proxy from the Depository, managed by Computershare Investor Services PLC (CIS), to vote on the underlying shares. Under the terms of the Poll Deed, CIS is obliged to follow voting instructions of holders of Depositary Interests.

Directors' Remuneration Report

The Remuneration Committee (the Committee) wishes to summarise some of its key considerations below.

1. Salaries

As was the case in 2009, the Group's Executive Directors have volunteered to receive no salary increase for 2010. In addition, the EMC members have also agreed not to receive a salary increase for 2010. The Committee has endorsed these actions.

2. Bonuses

The bonus levels for 2009 have been set at a level to reflect the progress and achievements towards the Group's long-term strategic goals and financial performance during the year. However the Committee has also taken into account the continued objective of improving underwriting performance and achieving superior shareholder returns.

3. Long-Term Incentive Plans

The Group's long-term incentive plans (the PSP and BSMP) have been linked to achieving targeted returns over the risk free rate. Given the extraordinary low level of interest rates (which was not foreseen when the plan was established), the Committee has decided to replace these targeted returns over the risk free rate and instead target returns on equity as an alternative for the grants made this year.

4. Review

The Committee intends to carry out an in depth review of all of the Group's approach to remuneration over the course of 2010 to reflect current market practices and the recommendations of the Walker report.

Non-audited information

The principal responsibilities of the Committee are:

- to recommend the remuneration policy for the Executive Directors and members of the Executive Management Committee (EMC) to the Board
- to review the design of all share incentive plans for approval by the Board and shareholders
- to set and assess the achievement of performance conditions for share incentive schemes
- to determine the total remuneration package for each Executive Director and EMC member

The Chairman, Chief Executive Officer (CEO) and HR Director are usually invited to attend all or part of Committee meetings but are excluded from any discussion on their own remuneration.

Deloitte LLP (Deloitte) is the Committee's appointed independent remuneration consultants. During the year Deloitte also provided unrelated tax services to the Company, and also provided market data to the Company on Non-Executive Directors' remuneration.

Brit Insurance Holdings N.V. is a Dutch incorporated company and therefore has no UK statutory requirement to prepare a Directors' Remuneration Report. Nevertheless, on a voluntary basis, the requirements of the UK Companies Acts and Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 have been taken into account in preparing this report. The report also meets the requirements of the Listing Rules and the UK Listing Authority. In addition, the report meets the Dutch statutory disclosure requirements as set out in Title 9 of Book 2 of the Dutch Civil Code.

Remuneration policy

In summary, the Remuneration Policy adopted by the Company is as follows:

- The Group operates in personnel-orientated markets and its performance is dependent on the skill and experience of motivated employees.
- The remuneration policy aims to attract, retain and motivate high calibre executives, rewarding outstanding performance with packages that are aligned with the interests of shareholders.
- The level of Executive Directors' remuneration takes into account market practice and Executive Directors are rewarded on the basis of responsibility, competence and contribution.
- Components of these packages include salary, on which pension and other benefits are calculated, an annual bonus and long-term incentives.
- The Remuneration Committee will assess whether the reward strategies are achieving their objectives. It reviews independent market data regularly and assesses whether any adjustments to policy and practices are necessary.
- In respect of Non-Executive Directors, arrangements shall consist of a fixed fee and where appropriate this may include an additional element to reflect areas of responsibility (e.g. Chairmanship of individual Board Committees), which may be payable in the form of cash and/or shares.

The current remuneration package adopted by the Company is closely linked to the performance of the Group. It is anticipated that approximately 60% of remuneration (excluding pensions) for Executive Directors and EMC members will be performance related.

The table below shows the principal elements of executive remuneration:

	Objective	Participation	Performance Period	Performance conditions
▸ Base salary	To reflect the value of the individual, their role and their skills.	All employees.	Not applicable but salaries are reviewed annually.	Not applicable but salaries are determined by taking a number of factors into account including individual performance, level of experience, scope of responsibility and market benchmarks.
▸ Pension	To provide post-retirement remuneration.	All employees (see individual terms).	Not applicable	Not applicable
▸ Annual Bonus	To reward strong performance and incentivise delivery of short-term objectives. A proportion of the annual bonus earned by senior executives may be deferred under the BSMP (see below).	All employees are eligible to be considered for a non-contractual bonus.	1 year	Achievement of Group profit and reflecting individual performance.
▸ Bonus Share Matching Plan (BSMP)	To encourage executives to invest in Brit Insurance shares and incentivise generation of strong Return on Equity.	Generally targeted at senior executives.	3 years	Subject to Return on Equity performance and a further underpin.
▸ Performance Share Plan (PSP)	To encourage a share ownership culture and to incentivise generation of (i) long-term shareholder returns; and (ii) strong Return on Equity.	Generally targeted at senior executives.	3 years	One half subject to the achievement of Total Shareholder Return ('TSR') conditions using a sector based comparator group. One half subject to Return on Equity condition and a further underpin.
▸ All employee share rewards	To develop wider share ownership amongst employees to align their interests with those of shareholders. Previously the Company operated the HMRC approved Brit Employee Share Ownership Plan 2001. Going forward the Company intends to operate the Brit Insurance Holdings N.V. Savings Related Share Option Scheme.	All employees are eligible to participate subject to a minimum employment period.	3 years	Not Applicable

During 2010, the Committee intends to carry out a review of the remuneration policy to ensure the structure of incentive arrangements continues to complement and support the Company's strategy over the medium to long-term. The Committee intends to consult with the Company's key investors in respect of any significant changes. Relevant details will be set out in the 2010 Remuneration Report.

Directors' Remuneration Report continued

Base salary

Base salaries are reviewed annually and take into account the individual's responsibilities, skills and experience and are set against a benchmark determined by reference to other insurance companies and FTSE 250 organisations. Any changes are usually effective from 1 April each year. Brit's Executive Directors have volunteered to receive no salary increase in 2010 (as they did in 2009) in order to set an example and this was endorsed by the Committee. The table below sets out the current base salaries of Executive Directors:

Base salary from 1 April 2010 (unchanged from 1 April 2008)	
D J Douetil	£512,000
M Scales	£345,000

Annual bonuses

All Group employees participate in the Group's annual bonus schemes. The schemes aim to reinforce the relationship between individual and Group performance and reward. For the most senior executives within the Company, including Executive Directors and EMC members, bonuses are primarily dependent on profit which funds a bonus pool.

For Executive Directors and other senior executives, allocations are based on personal performance and contribution to the Group's performance and achievements during the year. The Chairman sets the CEO's objectives and reviews his performance against objectives following the year-end. The Committee then determines the bonus payable to the CEO. The CEO makes recommendations to the Committee regarding the performance of the other Executive Directors against their objectives and the Committee considers these recommendations when setting their bonuses.

As indicated in last year's report, bonuses may exceed 100% of salary for superior levels of performance. Although there is no formal cap, it is extremely unlikely that bonuses will exceed 200% of salary, even in exceptional circumstances. The Committee believe that this structure will appropriately incentivise participants and ensures that the Company remains in line with market practice in the sector.

Long-term incentives

Executive Directors are eligible for annual long-term incentive awards along with senior employees. The awards are designed to attract and retain talented employees and have stretching performance conditions that aim to encourage participants to work for the long-term benefit of the Group. The Company currently grants awards under two discretionary share incentive schemes, the BSMP and the PSP. Details of the performance conditions attaching to the outstanding awards of each Director are summarised below. Deloitte provides the information on the extent to which the TSR performance conditions are met and the Committee determines the extent to which the award will vest in accordance with the terms of the Performance Condition.

All permanent employees with one year's service, including Executive Directors, were previously eligible to join the ESOP. From 2010, the Company will cease making awards under the ESOP. Instead, all employees of the Group (subject to a minimum service requirement) will be able to participate in the Brit Insurance Holdings N.V. Savings Related Share Option Scheme.

In December 2009, following shareholder approval, Brit reorganised its corporate structure by putting in place a new holding company for the Group. As part of this process shareholders approved the implementation of replacement share plans to enable Brit Insurance Holdings N.V. to continue to operate share based remuneration structures in the future. The reorganisation did not trigger accelerated vesting of awards held by Executive Directors, and instead outstanding awards were rolled over to shares in the new holding company.

BSMP

In practice, participation in the BSMP is restricted to the most senior executives who are best placed to drive the future success of the Company.

Under the BSMP an individual may choose to receive up to 50% of their post-tax annual bonus in the form of ordinary shares (Investment Shares) subject to a maximum investment of 50% of post tax salary for Executive Directors. The Company may then grant Matching Awards over shares with a market value worth up to three times the pre-tax value of the Investment Shares. Matching Awards may vest on the third anniversary of grant subject to the achievement of a sliding scale of average annual Return on Equity (ROE) targets as follows:

Matching Awards granted in 2010 may vest on the third anniversary of grant subject to the achievement of a sliding scale of average annual RoE targets as follows:

Average annual ROE during the Performance Period	Portion of matching award that will vest
Equal to 10%	One-sixth
Between 10% and 20%	Between one-sixth and the whole award vesting on a straight-line basis
Equal to or greater than 20%	The whole award

The Committee may, at its discretion, reduce the level of vesting of a Matching Award if, in any year of the Performance Period, the Group generates a negative ROE. Any part of an award that does not vest at the end of the Performance Period will lapse and cannot be retested.

Matching Awards granted in 2007, 2008 and 2009 were subject to the achievement of a sliding scale of RoE targets over the risk free rate of return. Average annual RoE over the risk free rate equal to 6% was required for entry level vesting (at which point one-third of the Matching Award would vest), with average annual RoE over the risk free rate equal to or greater than 10% required for maximum vesting. The Committee has reviewed these targets in the context of the current level of the risk free rate and has determined that the targets outlined above (which are de-linked from the risk free rate) are more aligned to shareholder interests. In addition, the portion of the Matching Award that vests for entry-level performance has been reduced.

The performance period for BSMP awards granted in 2007 ended on 31 December 2009. Based on Group ROE achieved over the three-year performance period the Committee has determined that 100% of the match relating to this award will vest. Taking into account economic climate over the performance period, undue focus on growth in Gross Premiums could have potentially compromised the Group's exposure to risk. This underpin was therefore deemed by the Committee to be inappropriate in the current circumstances.

PSP

Under the PSP, awards may be granted each year over shares with a value of up to 100% of basic salary (or 200% of salary in exceptional circumstances). The vesting of awards is determined by the extent to which Performance Conditions are satisfied over a three-year Performance Period.

The ROE targets for awards granted in 2010 are as follows:

Average annual ROE during the Performance Period	Percentage of one half of the total number of shares subject to the award that will vest
Equal to 10%	20%
Between 10% and 20%	Pro-rata on a straight-line basis between 20% and 100%
Equal to or greater than 20%	100%

For awards granted in 2007, 2008 and 2009, the RoE element of the award was subject to the achievement of a sliding scale of RoE targets over the risk free rate (the targets were the same as those used for the BSMP Matching Awards granted in these years as outlined above). The Committee has determined to change the targets for 2010 PSP awards for the same reasons as is the case for the BSMP Matching Awards.

The Committee may, at its discretion, reduce the level of vesting of the ROE part of an award if, in any year of the Performance Period, the Group generates a negative ROE.

The other half of an award is subject to the Group's Total Shareholder Return (TSR) against a bespoke industry comparator group chosen as a representative peer group against which the Group's performance can be measured. The portion of the award subject to the TSR performance condition will vest as follows:

Position at which the Group is ranked against the comparator group at the end of the Performance Period	Percentage of one half of the total number of shares subject to the award that vests
Below median	0%
Median	20%
Between median and upper quartile	Between 20% and 100% (interpolated based on Brit Insurance's TSR relative to the TSR of the companies ranked above and below Brit Insurance)
Upper quartile	100%

Any part of an award that does not vest at the end of the Performance Period will lapse and cannot be retested.

The current comparator group for awards since 2007 comprises:

- Amlin plc
- Beazley Group plc
- Catlin Group Limited
- Chaucer Holdings PLC
- Hardy Underwriting Group plc
- Hiscox Limited
- Novae Group plc

The performance period for PSP awards granted in 2007 ended on 31 December 2009. Based on TSR and Group ROE achieved over the three-year performance period the Committee has determined that 50% of the maximum award will vest. The review of the ROE performance was consistent with the 2007 BSMP award.

The 2006 PSP awards were subject to a TSR Performance Condition based on performance against an industry peer group. The performance period for this award ended during the year, and the award lapsed since the Company was positioned below median against the relevant comparator group.

Brit Executive Share Option Scheme (ESOS)

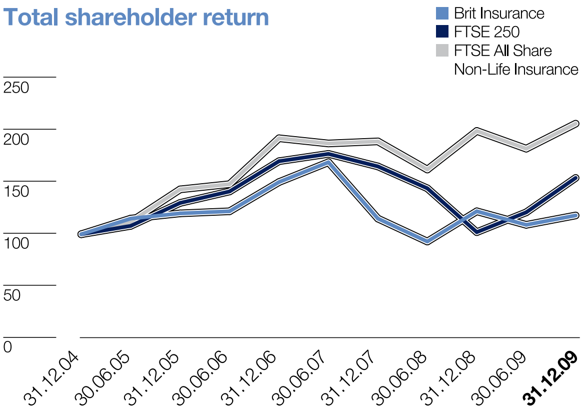
The last grant under the ESOS was made in 2005 and the Committee does not intend to make further grants under the ESOS save in exceptional circumstances. There are no outstanding unvested awards under this plan.

Directors' Remuneration Report continued

Performance graph

As required by the Directors Remuneration Report Regulations 2002, the following graph illustrates the performance of Brit Insurance against (i) the FTSE Mid 250 Index and (ii) the FTSE All Share Non-Life Insurance Sector over the past five years to indicate performance against the broader market and industry comparators. Performance, as required by the legislation, is measured by TSR (share price growth plus dividends paid).

Total shareholder return



Source: Datastream

Options and awards outstanding

As at 31 December 2009, there were a total of 15,682,047 options and awards outstanding under all executive share incentive schemes, and the employee share participational trust held 4,068,784 shares. The Executive Directors are deemed to have an interest in the shares held in the employee share participational trust. If all outstanding awards in excess of the shares held in trust were satisfied by the issue of ordinary shares, the maximum potential dilution would be 3.7% of the issued share capital of the Company. However, the current intention of the Company is to use a combination of new issue and market purchased shares in order to satisfy any vested awards.

Share ownership guidelines

Executive Directors and EMC members are expected to build up their holding in Brit Insurance ordinary shares to 100% of salary within five years of the introduction of the BSMP (2007) or later date of appointment through their own investment and the retention of all the vested BSMP shares (other than those sold to cover any income tax and national insurance liability) until they have reached the target.

The current shareholdings of Executive Directors are set out on pages 69 to 71.

Fees of the Chairman and Non-Executive Directors

The Executive Directors set the fees of the Non-Executive Directors and review their fees annually. The Chairman is also consulted on the fee policy (excluding his own arrangements). Any change in fees is effective from 1 April each year. Non-Executive Directors are not entitled to participate in any of the Group's short and long-term incentive and pension arrangements. Fees are not set by reference to the number of meetings held.

Non-Executive Directors receive a basic fee and additional fees for chairmanship of the Audit, Remuneration and Nomination Committees and for the duties associated with the Senior Independent Director role. Non-Executive Directors do not receive any additional fees for membership of individual Board Committees. The Chairman receives an all-inclusive fee for his role.

Since 1 April 2008, the fees paid to Non-Executive Directors are as follows:

Role	Fee per annum (£)
Chairman	175,000
Non-Executive Director	55,000
Nomination or Remuneration Committees Chairman	12,000
Audit Committee Chairman	18,000
Senior Independent Director	18,000

The fees were not increased during 2009.

Non-Executive Directors serving on the Boards of Brit Insurance Limited and Brit Syndicates Limited are paid an additional fee of £12,000 per annum.

Directors' Remuneration

Audited information

Emoluments and compensation

	Year End 31 December 2009					2008
	Fees & salaries £'000	Benefits in kind £'000	Bonus* £'000	Pension £'000	2009 Total £'000	Total £'000
John Barton	175	–	–	–	**175**	132
Kenneth Culley	66	–	–	–	**66**	68
Dane Douetil	512	2	320	135	**969**	920
Peter Hazell	73	–	–	–	**73**	73
Joe MacHale	67	–	–	–	**67**	66
Matthew Scales	345	18	190	75	**628**	616
Cees Schrauwers	86	–	–	–	**86**	88
Michael Smith	67	–	–	–	**67**	67
Willem Stevens[3]	–	–	–	–	**–**	–
Former Directors						
Clive Coates[2]	–	–	–	–	**–**	64
Neil Eckert[2]	–	–	–	–	**–**	16
Kathy Lisson[1]	120	1	–	34	**155**	440
Anthony Townsend[2]	–	–	–	–	**–**	35
Total for the Year	**1,511**	**21**	**510**	**244**	**2,286**	**2,585**

1 Until retirement on 12 May 2009.

2 Clive Coates, Neil Eckert and Anthony Townsend retired on 15 May 2008.

3 Willem Stevens was appointed to the Board on 21 December 2009.

* Bonuses are based on Company targets and individual performance.

Executive Directors are offered a number of benefits namely private medical insurance, permanent health insurance and life assurance. Matthew Scales also has a company car and all Executive Directors have a death in service benefit which is subject to the terms and conditions of the insurer.

Share-based incentives

In all instances the details of share options and share awards shown below reflect the position prior to the share consolidation approved by shareholders on 25 February 2010.

Share Options

Directors had the following interests in share options in the Company at 31 December 2009:

	Scheme	1 January 2009	No. options granted in year	No. options exercised in year	No. options lapsed in year	31 December 2009	Exercise price	Exercisable from	Expiry date	Market price at 31 December 2009*
Current Directors										
Dane Douetil	A	69,003	–	–	–	69,003	235.50p	18/10/07	17/10/14	197.10p
Total		**69,003**				**69,003**				
Matthew Scales	A	63,694	–	–	–	63,694	235.50p	18/10/07	17/10/14	197.10p
Total		**63,694**				**63,694**				

A Options granted to Directors under the ESOS.

* Or date of exercise or lapse if earlier.

Directors' Remuneration Report continued

Share awards

Directors had the following interests in awards over shares in the Company at 31 December 2009:

	Scheme	Performance Period ending:	Award Date	Share Price on Award Date	1 January 2009	Awarded	Exercised	Lapsed	31 December 2009	Value Vested 2009	Vesting Date	Expiry Date
Dane Douetil	C	2011	05/08/2009	195.00p	–	7,378	–	–	7,378	–	05/08/2012	04/02/2013
	C	2011	26/06/2009	185.00p	–	201,040	–	–	201,040	–	26/06/2012	25/12/2012
	C	2010	09/04/2008	260.01p	251,991	–	–	–	251,991	–	09/04/2011	08/10/2011
	C	2009	31/05/2007	346.75p	164,463	–	–	–	164,463	–	25/02/2010	25/08/2010
	B	2011	05/08/2009	195.00p	–	937	–	–	937	–	05/08/2012	04/02/2013
	B	2011	26/06/2009	185.00p	–	167,487	–	–	167,487	–	26/06/2012	25/12/2012
	B	2010	10/03/2008	216.00p	122,103	–	–	–	122,103	–	10/03/2011	09/09/2011
	B	2009	16/10/2007	334.55p	142,837	–	–	–	142,837	–	25/02/2010	25/08/2010
	B	2009	10/10/2006	313.00p	152,091	–	–	152,091	–	–	10/10/2009	09/04/2010
Total					**833,485**				**1,058,236**			
Kathy Lisson	C	2010	09/04/2008	260.01p	107,149	–	–	107,149	–	–	n/a	n/a
	C	2009	31/05/2007	346.75p	91,344	–	–	91,344	–	–	n/a	n/a
	B	2010	10/03/2008	216.00p	76,441	–	–	76,441	–	–	n/a	n/a
	B	2009	16/10/2007	334.55p	89,420	–	–	89,420	–	–	n/a	n/a
	B	2009	10/10/2006	313.00p	85,212	–	–	85,212	–	–	n/a	n/a
Total					**499,566**				**–**			
Matthew Scales	C	2011	26/06/2009	185.00p	–	141,150	–	–	141,150	–	26/06/2012	25/12/2012
	C	2010	09/04/2008	260.01p	161,221	–	–	–	161,221	–	09/04/2011	08/10/2011
	C	2009	31/05/2007	346.75p	69,540	–	–	–	69,540	–	25/02/2010	25/08/2010
	B	2011	26/06/2009	185.00p	–	112,857	–	–	112,857	–	26/06/2012	25/12/2012
	B	2010	10/03/2008	216.00p	82,715	–	–	–	82,715	–	10/03/2011	09/09/2011
	B	2009	16/10/2007	334.55p	96,761	–	–	–	96,761	–	25/02/2010	25/08/2010
	B	2009	10/10/2006	313.00p	103,030	–	–	103,030	–	–	10/10/2009	09/04/2010
Total					**513,267**				**664,244**			

B Awards granted to Directors under the PSP. The performance period for the 2007 award ended on 31 December 2009 resulting in vesting of 50% of the award.
C Awards granted to Directors under the BSMP. The performance period for the 2007 award ended on 31 December 2009 resulting in vesting of 100% of the award.

As at 31 December 2009 there were no outstanding vested and exercisable awards under the BSMP or PSP.

The share price at 31 December 2009 was 197.10p (31 December 2008: 220.00p). The highest and lowest closing prices during the financial year were 235.00p and 170.00p respectively.

Brit Employee Share Ownership Plan (ESOP)

The ESOP was available to all Group employees following one year's service. One Matching Share is granted for every two Partnership Shares acquired with participants' contributions. The Directors' interests in the ESOP at 31 December 2009 are below:

	1 January 2009	Free shares	Partnership shares	Matching shares	31 December 2009
Dane Douetil	8,266	244	835	416	9,761
Kathy Lisson*	516	–	–	–	n/a
Matthew Scales	8,266	244	835	416	9,761

*Kathy Lisson contributed to the ESOP until 12 May 2009 when she ceased to be an employee of the Group.

As at 31 December 2009, the ESOP trust held 1,561,348 shares.

Interests in Shares

The interests of Directors in the Shares of the Company at 31 December 2009, including BSMP Investment Shares, were as follows:

	1 January 2009	31 December 2009*
John Barton	70,000	70,000
Ken Culley	23,412	23,412
Dane Douetil	591,014	631,514
Peter Hazell	–	–
Kathy Lisson	37,960	37,960
Joe MacHale	33,333	60,000
Matthew Scales	243,094	270,490
Cees Schrauwers	11,666	11,666
Michael Smith	10,000	10,000
Willem Stevens	–	–

*or earlier retirement date

No Director's interest in the share capital of the Company has changed between 31 December 2009 and 25 February 2010.

Directors' pension benefits

No Director who held office during 2009 was a member of a defined benefit pension scheme.

Dane Douetil has a personal pension, into which the Group makes contributions as detailed in the emoluments and compensation table above. Matthew Scales is a member of the Brit Insurance Limited Retirement Benefits Scheme (BIL Scheme) and the defined contribution Brit Group Services Limited Group Personal Pension Plan (GPPP). Kathy Lisson was a member of the GPPP. The Chairman and Non-Executive Directors do not have any pension benefits.

External appointments

Dane Douetil is a Non-Executive Director of Pool Reinsurance Company Limited and is a member of the ABI Board. Kathy Lisson was a Director of RI3K Limited until she resigned from this role on 30 April 2009. No other Brit Director took over this role on Kathy Lisson's departure. Any fees receivable in respect of these directorships are paid directly to the Group and are not passed on to the Director.

Directors' Remuneration Report continued

Service contracts

Copies of the Executive Directors' service contracts and Chairman and Non-Executive Directors' letters of appointment are available for inspection at the registered office of the Company. Following the organisational and capital restructuring in 2009, Dane Douetil and Mathew Scales will be in receipt of new service agreements with Brit Insurance Holdings N.V. The Committee's policy on the length of notice periods is that they should be set so as to reflect appropriately the interests of the Company and the Executive Director, while also reflecting best practice. Consequently, the Executive Directors have notice periods of 12 months, which can be given by either party.

In the event of early termination, when determining the amount of compensation that is paid, the Committee will take into account the departing Executive Director's duty to mitigate his loss. Compensation payments will be based on 12 months' basic salary and benefits.

Subject to prior consent by the Company, Executive Directors may be permitted to accept appointments on external boards or committees provided these are not deemed to interfere with the business of the Group. Any fees received in respect of these appointments are remitted to the Group and any such fees are reflected in the remuneration package of the individual Director concerned.

Chairman and Non-Executive Directors

The Non-Executive Directors have letters of appointment with the Company for an initial three-year term and provide for a notice period of three months but with no provision for compensation for loss of office save for John Barton whose initial term is from 1 October 2007 to 31 December 2010 and a 12-month notice period. The date of appointment to the Board and the date of the last re-appointment at an AGM for each Non-Executive Director on the Board during the year is shown below:

	Date of appointment to the Board*	Date of last reappointment at an AGM
John Barton	1 October 2007	15 May 2008
Ken Culley	28 February 2007	24 April 2007
Peter Hazell	1 April 2004	24 April 2007
Joe MacHale	9 November 2005	12 May 2009
Cees Schrauwers	1 June 2005	12 May 2009
Michael Smith	8 March 2004	24 April 2007
Willem Stevens	21 December 2009	n/a

* Appointment dates prior to the restructuring in 2009 reflect posts held with Brit Insurance Holdings PLC.

Approved by the Board and signed on its behalf by

Joe MacHale
Chairman of the Remuneration Committee
25 February 2010

Directors' Responsibility Statement

The members of the Board as required by section 5:25c, paragraph 2, under c of the Dutch Act on Financial Supervision (Wet op het Financieel Toezicht) confirm that to the best of their knowledge:

- These 2009 financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
- This Annual Report gives a true and fair view of the Company's position and the undertakings included in the consolidation taken as a whole as of 31 December, 2009 and of the development and performance of the business for the financial year then ended;
- This Annual Report includes a description of the principal risks and uncertainties that the Company faces.

This Annual Report and the 2009 financial statements, audited by Ernst and Young Accountants LLP, have been presented to the Board. The 2009 financial statements and the external auditor's report relating to the audit of the 2009 financial statements were discussed with the Audit Committee in the presence of the Executive Board and the external auditor. The Board recommends that the General Meeting of Shareholders adopts the 2009 financial statements included in this Annual Report and recommends the proposal to pay a final cash distribution for the financial year 2009 of 30.0p per ordinary share.

All members of the Board have signed a copy of this Annual Report pursuant to their obligation under section 2, article 101, paragraph 2 of the Dutch Civil Code.

Amsterdam
25 February 2010

Robert John Orr Barton

Dane Jonathan Douetil

Matthew Scales

Kenneth Culley

Joseph Patrick MacHale

Peter Frank Hazell

Michael Gordon Smith

Cornelis Antonius Carolus Maria Schrauwers

Willem Frans Casimir Stevens

Investors

Brit Insurance is committed to communicating with and understanding the needs of current and potential investors. The Group has an ongoing programme of dialogue and meetings between senior management (including the Executive Directors) and institutional investors, fund managers and analysts. The investment community is also encouraged to interact with the Chairman and Non-Executive Directors. The Chairman attended both results presentations during 2009. Reports and market feedback are regularly circulated to the Board, enabling any issues to be addressed as well as providing investor views on strategic direction.

	Year ended 31 December 2009	Year ended 31 December 2008
Number of investor/analyst meetings	141	113

In 2009, the Group recognised the increased need to communicate with the market and recruited a new Head of Investor Relations. During the year the number of shareholder meetings remained high and roadshows were carried out in London, Edinburgh, Germany, Canada and the United States. Furthermore, management presented at two investor conferences, giving exposure to over 50 institutional investors.

In addition to the regular presentations that follow financial results announcements, the Group held its fifth 'Analysts' Day' in June 2009. The session focused on 'Underwriting in a Recession' and included presentations from Brit UK and Brit Global Markets. Senior management from Brit UK detailed the claims trends it is experiencing and its approach to minimising claims frequency whilst Brit Global Markets explained its approach towards portfolio management and managing its risk profile in the current environment. Additional time was spent on a thorough explanation of the Financial Institutions portfolio as well as summarising the threats and opportunities presented to Brit Global Markets' short-tail book.

Analyst coverage

The Group is aware of 20 analysts who have published notes on Brit Insurance during 2009 (2008: 14) and the Group provides the names of analysts and their firms on its website.

Group reorganisation

On 21 December 2009 following shareholder approval Brit Insurance Holdings N.V. became the new holding company of the Group. The Company is incorporated in the Netherlands, and its shares are listed on the London Stock Exchange in the UK.

As part of the reorganisation, shareholders received one new share in Brit Insurance Holdings N.V. for each share they held in Brit Insurance Holdings PLC. Shares in Brit Insurance Holdings N.V. are tradeable in CREST through Depositary Interests (DIs) with each DI representing one share in Brit Insurance Holdings N.V.. DIs are independent securities constituted under English law and are traded in uncertificated form.

Share consolidation

On 25 February 2010 shareholder approval was given to consolidate the shares of Brit Insurance Holdings N.V. on the basis of one share for each four shares held.

Listing

The principal trading market for the ordinary shares is the London Stock Exchange. During 2009 302,017,700 ordinary shares/DIs were traded (2008: 641,622,700). At 31 December 2009, the Group had a market capitalisation of £618.8m (2008: £690.7m) and a 0.327% weighting in the FTSE 250 (2008: 0.563%).

Distribution of equity investors

31 December 2009	Number of DI holders	% of total	Number of DIs[1]	% of total
Up to 1,000 shares	820	34.1	409,118	0.1
1,001 – 10,000	1,122	46.7	3,525,282	1.1
10,001 – 100,000	247	10.3	8,985,155	2.9
100,001 – 1,000,000	163	6.8	51,422,427	16.4
1,000,001 and over	51	2.1	249,653,048	79.5
Total	**2,403**	**100.0**	**313,995,030**	**100.0**

1 Each DI represents one share in Brit Insurance Holdings N.V.
Source: Computershare.

Analysis of equity investors by type

	31 December 2009 %	31 December 2008 %
Mutual funds	46.0	34.2
Pension schemes	15.5	15.6
Retail sector	5.6	1.9
Investment trusts	0.0	2.3
Insurance sector	4.5	2.0
Other	28.4	44.0
Total	**100.0**	**100.0**

Source: JP Morgan Cazenove/Thomson Financial.

Analysis of equity investors by geography

	31 December 2009 %	31 December 2008 %
United Kingdom	51.1	61.8
North America	33.9	29.4
Europe (excluding UK)	4.8	6.0
Miscellaneous	9.8	2.3
Asia/Oceania	0.4	0.5
Total	**100.0**	**100.0**

Source: JP Morgan Cazenove/Thomson Financial.

Substantial equity investors

At 25 February 2010 the Directors had been advised of the following interests in 3% or more in the Company's issued share capital:

Holder of DIs[1]

	No. of DIs[1]	% of issued share capital
Schroders Plc	24,961,765	7.83
Jupiter Asset Management Limited	22,197,627	7.07
Third Avenue Management LLC	18,867,304	5.96
Artisan Investment GP LLC	16,236,567	5.17
Dimensional Holdings Inc	15,814,993	5.04
AXA SA	12,739,026	4.06
Legal & General Investment Management	12,519,124	3.97
Barclays Global Investors	12,361,570	3.94

1 Each DI represents one share in Brit Insurance Holdings N.V.

Source: Disclosures to Brit Insurance under Disclosure and Transparency Rule 5, and disclosures to the AFM.

Investor return statistics

Cumulative total investor returns to 31 December 2009, assuming reinvestment of dividends, were as follows:

Period	Brit Insurance %	FTSE Insurance Index (non-life) %	FTSE 250 %
1 year	–3.2	3.5	50.6
3 years	–21.3	7.6	–9.1
5 years	17.9	117.6	54.1

Source: JP Morgan Cazenove.

During the 12 months ended 31 December 2009, the Group's total investor return on the basis of the calculation set out above comprised 6.8% yield and 10.0% capital loss (2008: 9.6% yield and 3.6% capital loss), including return on reinvested dividends.

During 2009 the share price reached a high on 7 January of 235p and a low of 170p on 20 March.

Distributions

At the time of the Group reorganisation in December 2009, it was announced that for an initial period the Group would make distributions to shareholders by way of reductions of the par value of Brit Insurance Holdings N.V. shares (i.e. in the form of a capital distribution). The distribution will be free from Dutch dividend withholding tax. The Group has been advised that for UK and Dutch shareholders the distribution is capital for tax purposes. The Group has also been advised that it would be appropriate for UK funds to account for the distribution as income. Shareholders should seek independent advice on their own tax and accounting affairs.

The Board has recommended a final distribution for the year ended 31 December 2009 of 30.0p per share (after 1 for 4 share consolidation) making a total distribution of 60.0p per share for the year (2008: 60.0p per share after 1 for 4 share consolidation).

The final distribution will be conditional on the approval of shareholders and the Dutch Court. Details of the distribution procedure, including a timetable of key dates will be made available in due course.

The following table sets out the Sterling amounts of interim, final and total distributions paid per ordinary share.

	Pence per ordinary share		
Year ended 31 December	Interim	Final	Total
2005*∞	36.0	36.0	72.0
2006∞	30.0	38.0**	68.0**
2007∞	30.0	58.0^	88.0^
2008∞	30.0	30.0	60.0
2009∞	**30.0**	**30.0**	**60.0**

Source: Brit Insurance.

* Adjusted for 1 for 3 share consolidation in May 2006.

** Includes special dividend of 8.0p per share.

^ Includes special dividend of 28.0p per share.

∞ Adjusted for 1 for 4 share consolidation in February 2010.

Debt particulars

The Group's debt securities at 31 December 2009 comprise £135m Subordinated Notes due 2030 which were first issued in 2005.

6.625% Subordinated Notes due 2030	
Nominal outstanding	£135.0m
Call	9 December 2020
Maturity	9 December 2030
Credit ratings	BB+ Fitch
	BBB- AM Best
LSE Code:	32 OW
SEDOL:	B0SRM51

During 2009, the Group called and fully repaid its US$15m Floating Rate Unsecured Subordinated Loan Notes issued in June 2004.

Enquiries

Neil Manser
Head of Investor Relations
Tel: +44 (0) 20 7098 6980

Sharan Huliat
Investor Relations Officer
Tel: +44 (0) 20 7098 6968

investor.relations@britinsurance.com

Events calendar

6 May 2010	AGM and 1Q 2010 Interim Management Statement
28 July 2010	2010 Half Year Financial Report
26 October 2010	3Q 2010 Interim Management Statement

Sustainability

Introduction
Whilst the main focus of the Group is to generate value for shareholders, that value must be sustainable and aligned to the interests of all Group stakeholders. Brit Insurance seeks both to make a positive contribution to society and to be aware of the long-term consequences of its 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 the Group seeks to generate new commercial opportunities by developing stronger stakeholder relationships and by recruiting and retaining a highly skilled, engaged and motivated workforce.

Customers

Customer services strategy
The Group's customer service objective focuses on delivering sustainable value through:

- providing efficient claims management and funds settlement
- delivering a quality range of products tailored to customers' business risks
- challenging and improving service standards for each major process and business unit
- regularly re-evaluating processes to promote an efficient and customer friendly operational environment
- facilitating ease of access to key decision makers

The Group embraces fully the FSA's 'Treating Customers Fairly' principle to assist in achieving these objectives.

Complaint handling

Developments in 2009
During 2009, the Financial Ombudsman Services and Financial Services Authority published industry figures regarding complaint handling. These show the Group's process to be effective. For example on average Brit Insurance closed 95% of regulated complaints within eight weeks compared with the FSA reported average of 94%.

Ongoing review of appropriate resources and tools will continue to ensure the process remains effective.

Performance
Brit Insurance tracks and monitors customer treatment using the number of complaints escalated to the Financial Ombudsman Service and the outcome of those referrals.

The Group also monitors the proportion of complaints that are resolved informally without the need for a formal complaint investigation. During 2009, 30% of all complaints logged were resolved in this way (2008: 23%). This demonstrates that staff are keen to help customers resolve matters and is a more economical way of resolving issues that might otherwise escalate to formal complaints.

'FTSE4GOOD'
During 2009, Brit Insurance was independently assessed and again satisfied the requirements of the 'FTSE4Good Index Series'. Created by the global index company FTSE Group, FTSE4Good is an equity index series designed to facilitate investment in companies that meet globally recognised corporate responsibility standards. Companies selected have to meet stringent social, ethical and environmental criteria and are positioned to capitalise on the benefits of responsible business practice.

Distributors, partners and suppliers

The Group distributes its products through a carefully selected group of brokers and intermediaries. These relationships are managed by each of the strategic business units, working together where appropriate, 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 the Group to achieve sustainable and profitable growth.

Group procurement seeks to establish professional third party agreements that recognise and value the contribution made by Group suppliers. Group procurement is also involved in all major purchasing and contract decisions to ensure positive supplier relationship management throughout the life of the contract. Brit Insurance seeks to pay all valid supplier invoices in a timely manner. Brit Insurance also complies with The Late Payment of Commercial Debts (Interest) Act 1998. A copy of the regulations can be obtained from www.opsi.gov.uk.

Brit Insurance in the marketplace

The Group's strategy focuses on developing a successful and recognisable brand among intermediaries and potential customers wherever it may trade internationally. This is critical to achieve the objectives of growth and market positioning. The core elements of brand development include specific sponsorships, promotional campaigns and expert editorial contributions in key publications. Of these, sponsorships in cricket and design make up the largest components.

Cricket

There is a good match between the characteristics of cricket followers and the key audience of insurance buyers and intermediaries, and cricket creates excellent all-round media coverage.

During 2009 the Group achieved a key milestone in brand development, one that had been previously identified as an element that would build on and complement the existing cricket sponsorships. In July 2009, Brit Insurance announced its sponsorship of the England cricket teams with effect from January 2010 for an initial period of four years. This new sponsorship delivers Brit Insurance branding on all playing and training kit and will significantly increase the awareness of the Group both at home and internationally.

Brit Insurance has been the sponsor of Surrey County Cricket Club and the Brit Insurance Oval since 2004. The total TV and mainstream print media coverage connected with the Brit Insurance Oval sponsorship rose year-on-year largely as a consequence of the final Ashes Test that took place in August 2009.

The sponsorship programme has been supported by the Group's status as Insurance Partner of the Test Match Grounds and in 2009 Brit Insurance was once again Sky Sports' partner for coverage of England's home Test Matches. Over the two years of the Sky Sports sponsorship, the Brit Insurance brand reached over nine million individuals. At the end of summer 2009, 55% of viewers who declared themselves as buyers of business insurance said they would be likely to take out insurance from Brit Insurance, an increase from 25% prior to the sponsorship arrangement.

The Design Museum

In January 2008 the Group entered into a four-year partnership with the Design Museum, the world's foremost museum devoted to contemporary design. The partnership involves title sponsorship of the Brit Insurance Design Awards, and a supporting exhibition, the Brit Insurance Designs of the Year. These celebrate the most innovative and progressive international design over the previous 12 months and span the seven major design disciplines: Architecture, Graphics, Fashion, Product, Furniture, Interactive and Transport.

Again in 2009 the Awards were received with critical acclaim and have increased visibility of Brit Insurance in the media and with key associated audiences. Two very different winners – Yves Béhar's 'One Laptop per Child' in 2008 and Shepard Fairey's 'Obama' poster in 2009 encouraged debate and enabled coverage in all target quality national daily and weekend press.

People

The workplace

Brit Insurance is committed to creating a demanding yet rewarding environment that encourages dedicated individuals to outperform. The Group aspires to be the insurer that is best able to attract, train and retain talented people. Achieving this is fundamental to the Group's financial and operational objectives and strategy.

The creation of this environment encourages dedicated individuals to outperform and focuses on:

- continuous training, development and learning
- empowering people and creating the freedom for them to take appropriate action to achieve their objectives
- encouraging people by providing a competitive remuneration and benefits package
- providing a first-class working environment

Headcount

Following a period of growth prior to 2009, the total headcount of the Group in 2009 increased only marginally.

Employees by activity

	Year ended 31 December 2009		Year ended 31 December 2008	
	No.	%	No.	%
Underwriting	297	40.1	301	41.5
Claims	101	13.6	93	12.8
Operations and IT	190	25.6	179	24.7
Finance and Actuarial	91	12.3	91	12.6
Other	62	8.4	61	8.4
Total	**741**	**100.0**	**725**	**100.0**

The above figures exclude Non-Executive Directors (2009: seven; 2008: six).

Staff retention

The 2009 staff turnover rate excluding retirements and redundancies was 8.2% (2008: 11.1%), compared with the national average of 16.8% for 2008. At 31 December 2009, 23% (2008: 29%) of staff had completed at least five years' service and 9% (2008: 10%) had served at least ten years.

Sustainability continued

The Sunday Times 'Best Companies to Work For' survey

In 2009 Brit Insurance was again awarded a 'one to watch' accreditation in The Sunday Times 'Best Companies to Work For' survey. The data from the survey provided valuable insight into the Group and how it compares to other companies. Employee focus groups have been established to examine further the key issues identified.

Culture and policies

Brit Insurance's culture is centred on achievement: delivering on commitments and ensuring the same from others, managing risk actively to optimise reward, focusing efforts to maximise results and living a distinct ethos.

The Group's policies on recruitment, learning and development and reward are continuously reviewed. They are designed to evolve whilst maintaining the objective of attracting and retaining high calibre personnel.

The Group considers itself an equal opportunities employer with policies and procedures that are free from discrimination in relation to all employment matters. The Group does not discriminate against current or prospective employees because of any disability. Should any employee become disabled, Brit Insurance works with the individual and provides specialised training where necessary to enable their employment within the Group to continue.

Brit Insurance's employee handbook explains the systems and procedures that all individuals must follow. It is given to all employees when they join and is available on the intranet (Britnet).

The Group is pleased to consider applications for flexible working from eligible staff with children aged under 17, disabled children under 18 or dependants over 18 for whom the employee is the main carer. Others may work from home where this is appropriate to their role and the needs of the business.

All employees are expected to treat each other with dignity and respect. Any form of harassment or bullying will not be tolerated and staff are encouraged to report any such occurrences to management.

The Group provides a healthy and safe working environment ensuring, insofar as is reasonably practicable, any machinery, systems or equipment provided for the use of employees is safe in its operations and that maintenance methods do not present a risk to health and safety.

Staff are encouraged to speak up on any unlawful or unethical activities and behaviour in the business. This is in accordance with policies on whistle-blowing, ethics and conflicts of interest. Brit Insurance also has an employee assistance programme whereby individuals can contact independent counsellors and other specialist advisers via a 24-hour helpline.

Management, leadership and development programmes

During 2009 Brit Insurance continued to operate a three-tier management development programme which identified a pool of talented leaders to meet future business challenges and maintain Brit Insurance's competitive edge. The 'Executive Development Programme' assists senior managers to develop as leaders and enhance their expertise and personal performance in the pursuit of excellence. The programme involves in-depth assessment, a tailored development plan and executive coaching. The 'Accelerated Leadership Programme' helps grow future leaders and involves self assessment, a development centre and a leadership event, culminating in a tailored development plan. The 'Manager's Toolkit' builds the skills of managers, enabling them to effectively manage their teams.

The management, learning and development programmes identify and develop the next generation of leaders and embed a consistent approach to management across the Group.

Rewards and incentives

The reward structure provides a competitive package which includes share incentive schemes, non-contractual bonus, health insurance and pension arrangements. These are regularly reviewed to ensure that they continue to attract, retain and motivate whilst supporting the Group's objectives and values. Going forward the Group intends to make use of its recently established Saving Related Share Option Scheme (SAYE) as a replacement to the existing ESOP.

The Group is undertaking a review of its existing incentive arrangements.

Details of employees and their remuneration are included in Note 11 to the Financial Statements.

Employee involvement and communication

Brit Insurance encourages employee involvement and feedback is sought on all aspects of how the Group works. Consultation methods used include Britnet, employee surveys, briefings, electronic newsletters and lunches attended by Directors, members of the Executive Management Committee for the Group's UK operations and selected staff. These methods foster the development of a common awareness of the financial and strategic factors affecting business performance.

The environment

Brit Insurance is committed to managing its environmental impact in a cost effective and responsible way. The Chief Operating Officer sponsors an environmental programme and during 2009 the Group's performance was monitored and reported on by the corporate responsibility team. This fulfilled a commitment to report, and where possible, reduce the carbon dioxide emissions resulting from energy use in buildings and from business travel. Details of emissions are:

Carbon emissions

	Year ended 31 December 2009 Tonnes per employee	Year ended 31 December 2008 Tonnes per employee	Year ended 31 December 2007 Tonnes per employee
Building emissions	3.8	3.5	4.2
Travel emissions	1.1	1.0	1.0
Total	**4.9**	**4.5**	**5.2**

Brit Insurance's total measured carbon emissions in 2009 totalled 3,700 tonnes (2008: 3,490 tonnes).

During 2009 the Group also:

- recycled 99 tonnes of paper (2008: 92 tonnes)
- following an awareness campaign during the year, recycled 1,782kg 'Save-a-Cups' (2008: 934kg)
- recycled 540 printer cartridges

Charitable giving and community involvement

The Group is committed to supporting local and international communities. Its strategy 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 Brit Insurance
- financial involvement should be capable of being leveraged for the benefit of the good cause, such as sponsored charity cricket matches
- projects should, where possible, offer alignment with the Group's vision

Brit Insurance's main aims in 2009 were to:

- support the multi-year partnership with the British Red Cross and the community activities of Brit Insurance's sponsorship partners: Surrey County Cricket Club, the Design Museum and Lloyd's Community Programme
- match money raised by staff for their chosen charities
- build a reserve to support ongoing charitable giving in future years

During 2009 over 8,000 people benefited from its community sponsorships. Brit Insurance made substantial contributions, both financially and in staff time and expertise, to many projects relating to youth, education and disability and which complement the Group's commercial sponsorships. No donations were made to any political organisation (2008: nil).

The Group promotes staff involvement by matching the charitable fundraising activities of its members of staff and by operating an employee volunteering scheme. This grants every employee two additional days of paid leave a year to volunteer their time through schemes offered by charity partners. In 2009 over £53,000 was raised by staff or donated through the payroll, which Brit Insurance matched on a £1 for £1 basis.

British Red Cross

In 2009, a total of £250,000 was given to the Group's long-term partner, the British Red Cross.

One of the key aims of the partnership is to help UK communities be better prepared for, and cope with emergencies. £200,000 of the Group's donation provided 'Emergency Response Unit' vehicles and vital equipment in cities across the UK including Birmingham, Bristol, Glasgow and Manchester, from which over 1,100 people benefited. Over 50 employees also received first aid training throughout the year.

The additional £50,000 of donated funds allowed the British Red Cross to:

1. Promote and further develop the website pages which are designed to help the UK population to prepare and cope better with emergencies. This achieved up to 376 hits a day during the peak of the supporting promotional campaign and continues to average in excess of 164 a day.
2. Launch the Christmas 'Ducks and Cows' campaign in key national papers and online which aimed to raise funds to help families internationally to recover from natural disasters. This campaign enabled the British Red Cross to raise £16,000 during the pre-Christmas period.

Surrey County Cricket Club

The Group actively supports Surrey County Cricket Club's community programmes. In 2009 it contributed to initiatives that included the provision of playground markings in five primary schools in Surrey and Inner London through its playground markings scheme. Fifteen primary schools have now benefited from the playground markings scheme that Brit Insurance supported. The Group also continued to support the Brit Insurance 'Howzat!' education programme, which involves over 1,000 children a year, and diverse coaching including a disability day and local coaching in Lambeth. Coaching in Lambeth reached over 20 primary and secondary schools in inner London, with 420 hours of coaching delivered to 3,800 participants. Its support of the disability day enabled 144 pupils from special needs schools from across Surrey to enjoy coaching and matches at the Brit Insurance Oval.

Design Museum

During 2009 the Group supported a number of educational programmes at the Design Museum which drew on the Brit Insurance Designs of the Year 2009. This included the Design Museum's ongoing primary education activities, and activities for secondary and further education students through schools workshop programmes. During April and May 2009 four family workshops took place, themed on the Brit Insurance Designs of the Year exhibition, with 128 children aged five to eleven joining a specialist team of design students from the Royal College of Art Vehicle Design Course. This was complemented by after-school workshops for local primary school children. The Brit Insurance Designs of the Year National Student Competition, collaboration between the Design Museum and the Specialist Schools and Academies Trust, received 155 entrants in 2009. Supporting teachers and students, the Group also helped enable *Discover Design*, a new online interactive resource for students and teachers to learn about design. This receives an average of 1,000 unique users monthly.

Lloyd's Community Programme

A day of play at the Brit Insurance Oval was again donated to the Lloyd's Community Programme to enable 180 children from Tower Hamlets to enjoy cricket coaching and a tournament.

Consolidated Financial Statements

Consolidated Income Statement

for the year ended 31 December 2009

	Note	Year ended 31 December 2009 £m	Year ended 31 December 2008 £m
Revenue			
Gross premiums written	5	1,696.4	1,394.6
Less premiums ceded to reinsurers	5	(225.0)	(231.3)
Premiums written, net of reinsurance		**1,471.4**	**1,163.3**
Gross amount of change in provision for unearned premiums		(0.3)	(77.2)
Reinsurers' share of change in provision for unearned premiums		(7.2)	15.7
Net change in provision for unearned premiums		(7.5)	(61.5)
Earned premiums, net of reinsurance		**1,463.9**	**1,101.8**
Investment return	7	137.4	7.4
Return on derivative contracts	8	(4.1)	(19.1)
Disposal and partial disposal of associated undertakings	9	4.2	4.5
Net foreign exchange gains	6	–	124.0
Other income		1.4	1.1
Total revenue		**1,602.8**	**1,219.7**
Expenses			
Claims incurred:			
Claims paid:			
Gross amount		(792.2)	(694.3)
Reinsurers' share		110.8	90.0
Claims paid, net of reinsurance		**(681.4)**	**(604.3)**
Change in the provision for claims:			
Gross amount		(262.1)	(191.8)
Reinsurers' share		12.8	68.5
Net change in the provision for claims		**(249.3)**	**(123.3)**
Claims incurred, net of reinsurance	5	(930.7)	(727.6)
Acquisition costs	10	(396.9)	(306.1)
Other operating expenses	10	(111.6)	(90.4)
Net foreign exchange losses	6	(33.4)	–
Total expenses excluding finance costs		**(1,472.6)**	**(1,124.1)**
Operating profit		130.2	95.6
Finance costs	12	(11.5)	(13.1)
Finance income	13	–	7.2
Share of loss after tax of associated undertakings	20	(2.3)	(0.5)
Profit on ordinary activities before tax		**116.4**	**89.2**
Tax expense	15(i)	(28.9)	(22.6)
Profit attributable to owners of the parent		**87.5**	**66.6**
Basic earnings per share (pence per share) (restated for 25 February 2010 share consolidation)	16	113.2p	86.0p
Diluted earnings per share (pence per share) (restated for 25 February 2010 share consolidation)	16	113.2p	86.0p
Prior to restatement for 25 February 2010 share consolidation:			
Basic earnings per share (pence per share)	16	28.3p	21.5p
Diluted earnings per share (pence per share)	16	28.3p	21.5p

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2009

	Note	Year ended 31 December 2009 £m	Year ended 31 December 2008 £m
Profit for the year		**87.5**	**66.6**
Other comprehensive income			
Actuarial losses on defined benefit pension scheme	26	(2.5)	(10.1)
Tax relating to actuarial losses on defined benefit pension scheme	15(ii)	0.7	2.9
Foreign exchange differences arising on the revaluation of foreign operations	20	0.1	4.1
Reversal of foreign exchange translation differences resulting from the disposal and partial disposal of foreign operations		(4.2)	1.3
Effect of associates' capital movements	20	–	0.6
Other comprehensive income for the year net of tax		**(5.9)**	**(1.2)**
Total comprehensive income for the year attributable to owners of the parent		**81.6**	**65.4**

Consolidated Statement of Financial Position

at 31 December 2009

	Note	31 December 2009 £m	31 December 2008 £m
Assets			
Property, plant and equipment	17	6.0	8.0
Intangible assets	18	81.2	82.1
Deferred acquisition costs	19	162.4	152.1
Investments in associated undertakings	20	15.3	29.1
Current taxation		–	1.9
Reinsurance contracts	21	523.5	549.6
Financial investments	22	2,481.1	2,393.0
Derivative contracts	23	0.6	1.4
Insurance and other receivables	24	537.0	518.4
Cash and cash equivalents	25	994.2	840.7
Total assets		**4,801.3**	**4,576.3**
Liabilities and equity			
Liabilities			
Insurance contracts	21	3,439.4	3,344.7
Employee benefits	26	4.1	1.4
Borrowings	27	237.6	143.1
Current taxation		4.7	–
Deferred taxation	28	19.0	29.5
Provisions	29	0.3	0.4
Derivative contracts	23	0.9	5.4
Insurance and other payables	30	200.7	202.1
Total liabilities		**3,906.7**	**3,726.6**
Equity			
Called up share capital	32	277.9	247.3
Share premium account		612.0	–
Capital redemption reserve		–	–
Translation reserve		–	4.1
Own shares	33	(10.7)	(64.2)
Retained earnings		15.4	662.5
Total equity attributable to owners of the parent		**894.6**	**849.7**
Total liabilities and equity		**4,801.3**	**4,576.3**

The financial statements were approved by the Board of Directors on 25 February 2010 and were signed on its behalf by

John Barton
Chairman

Matthew Scales
Finance Director

Consolidated Statement of Cash Flows
for the year ended 31 December 2009

	Note	Year ended 31 December 2009 £m	Year ended 31 December 2008 £m
Cash generated from operations			
Cash flows provided by operating activities	35	73.5	36.5
Tax paid		(32.1)	(25.8)
Interest paid		(11.3)	(11.8)
Interest received		116.0	109.3
Dividends received		2.4	4.0
Net cash inflows from operating activities		**148.5**	**112.2**
Cash flows from investing activities			
Purchase of property, plant and equipment		(1.0)	(2.1)
Purchase of intangible assets		(5.5)	(5.5)
Net proceeds from disposal of property, plant and equipment		–	0.2
Net proceeds from disposals and partial disposals of associated undertakings		15.4	22.1
Movements in associated undertaking loan and preference share balances		(3.8)	(0.8)
Investment in associated undertakings		–	(13.2)
Net cash inflows from investing activities		**5.1**	**0.7**
Cash flows from financing activities			
Equity dividends paid		(46.4)	(68.2)
Draw down on revolving credit facility		104.8	–
Repurchase of Lower Tier Two subordinated debt		–	(8.4)
Repurchase of 8.5% unsecured subordinated loan stock		–	(19.7)
Repurchase of US dollar floating rate unsecured subordinated loan notes		(9.1)	–
Acquisition of own shares for employee incentive schemes		(0.4)	(0.5)
Repurchase of treasury shares		–	(1.1)
Net cash inflows/(outflows) from financing activities		**48.9**	**(97.9)**
Net increase in cash and cash equivalents		**202.5**	**15.0**
Cash and cash equivalents at beginning of the year		840.7	735.3
Effect of exchange rate fluctuations on cash and cash equivalents		(49.0)	90.4
Cash and cash equivalents at the end of the year	25	**994.2**	**840.7**

Consolidated Statement of Changes in Equity

for the year ended 31 December 2009

	Note	Called up share capital £m	Share premium account £m	Capital redemption reserve £m	Translation reserve £m	Own shares £m	Retained earnings £m	Total equity attributable to owners of the parent £m
At 1 January 2009		**247.3**	**–**	**–**	**4.1**	**(64.2)**	**662.5**	**849.7**
Total comprehensive income for the year		–	–	–	(4.1)	–	85.7	81.6
Cancellation of treasury shares		(11.9)	–	11.9	–	53.4	(53.4)	–
Equity dividends	31	–	–	–	–	–	(46.4)	(46.4)
Corporate reorganisation		(235.4)	–	(11.9)	–	–	247.3	–
Establishment of Brit Insurance Holdings N.V.		278.7	612.0	–	–	–	(890.7)	–
Exchange difference on retranslation of share capital		(0.8)	–	–	–	–	0.8	–
Acquisition of own shares for share schemes		–	–	–	–	(0.4)	–	(0.4)
Vesting of own shares		–	–	–	–	0.5	(0.5)	–
Share-based payments	36	–	–	–	–	–	10.1	10.1
At 31 December 2009		**277.9**	**612.0**	**–**	**–**	**(10.7)**	**15.4**	**894.6**

for the year ended 31 December 2008

	Note	Called up share capital £m	Share premium account £m	Capital redemption reserve £m	Translation reserve £m	Own shares £m	Retained earnings £m	Total equity attributable to owners of the parent £m
At 1 January 2008		**247.3**	**138.0**	**0.6**	**(1.3)**	**(63.1)**	**527.4**	**848.9**
Total comprehensive income for the year		–	–	–	5.4	–	60.0	65.4
Purchase of treasury shares		–	–	–	–	(1.1)	–	(1.1)
Equity dividends	31	–	–	–	–	–	(68.2)	(68.2)
Acquisition of own shares for share schemes		–	–	–	–	(0.5)	–	(0.5)
Vesting of own shares		–	–	–	–	0.5	(0.5)	–
Share-based payments	36	–	–	–	–	–	5.2	5.2
Capital reduction		–	(138.0)	(0.6)	–	–	138.6	–
At 31 December 2008		**247.3**	**–**	**–**	**4.1**	**(64.2)**	**662.5**	**849.7**

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.

As a result of the corporate reorganisation on 21 December 2009, the balance as at that date has been cleared. On the same date, an amount equal to the difference between the issue price of Brit Insurance Holdings N.V. shares and their nominal value has been recognised in the share premium account.

Capital redemption reserve

The capital redemption reserve is used to maintain the Company's capital where, under certain circumstances, the Company's shares are cancelled.

Translation reserve

The translation reserve arises on the revaluation of overseas associated undertakings.

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 dividends.

Notes to the Financial Statements

1 General information

Brit Insurance Holdings N.V. (the Company) was incorporated and registered in the Netherlands on 22 June 2009 as a public company limited by shares with registered number 24464323. The address of the registered office is provided in the Company information page. The nature of the Group's operations and its principal activities are included in the Report of the Directors.

2 Accounting policies

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed by the European Union (EU).

During the year the Group has adopted IFRS 8: 'Operating segments', Amendment to IFRS 2: 'Share based payment: Vesting Conditions and Cancellations', Improving Disclosures and Financial Instruments (Amendment to IFRS 7) and IAS 27 'Consolidated and Separate Financial Statements', IAS 32 'Financial Instruments: Presentation' and IAS 1 'Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation' and IFRIC 16 'Hedges of a Net Investment in a Foreign Operation'. The adoption of these standards has had no effect on the consolidated financial statements for the year ended 31 December 2009 except for the adoption of IFRS 8 and the amendments to IFRS 7. The effects of IFRS 8 are explained in Note 5 and the additional disclosures required by the amendments to IFRS 7 are included in Notes 22 and 23. The Group has taken advantage of the transitional rules included in the amendments to IFRS 7 to not present comparative figures.

The solus accounts of the parent company are prepared in accordance with the Netherlands Civil Code and presented in a separate section of the annual report.

Corporate reorganisation

On 12 November 2009, the former ultimate holding company of the Brit Insurance Group, Brit Insurance Holdings PLC, announced proposals for the establishment of a Netherlands holding company for the Group.

Following approval by the shareholders of Brit Insurance Holdings PLC, the approval by the High Court of Justice of a scheme of arrangement under sections 895 to 899 of the UK Companies Act 2006 (the 'Scheme') and the Scheme becoming effective on 21 December 2009, the Company became the new holding company of the Group.

Under the Scheme, all of the shares of Brit Insurance Holdings PLC were cancelled. In consideration of the cancellation of these shares, the holders received one share in Brit Insurance Holdings N.V. in return for each share in Brit Insurance Holdings PLC.

The Company's ordinary shares were admitted to trading on the London Stock Exchange on 21 December 2009.

On the basis that the transaction was effected by creating a new parent that is not itself a business, the transaction is considered to be outside the scope of IFRS 3. It has therefore been accounted for using the pooling of interests method as a continuation of the existing Group. The result of this is that the consolidated financial statements of Brit Insurance Holdings N.V. are the same as those previously presented by Brit Insurance Holdings PLC, except for the share capital being that of Brit Insurance Holdings N.V. There is no requirement to restate the prior period comparatives.

The Group continues to present its consolidated financial statements in pounds Sterling which is the functional currency of the Company.

Basis of preparation

The Group's consolidated opening and closing statement of financial position, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of cash flows and the consolidated statement of changes in equity, have been prepared in accordance with IFRS and Part 9 of Book 2 of the Netherlands Civil Code. IFRS comprises standards issued by the International Accounting Standards Board (IASB) and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and as endorsed by the EU.

The income statement of the holding company, Brit Insurance Holdings N.V., has been drawn up in accordance with Section 402, Book 2, of the Netherlands Civil Code, allowing a simplified format.

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 9 Financial Instruments	Periods commencing on or after 1 January 2013
IFRS 3R Business Combinations	Periods commencing on or after 1 July 2009
IAS 27R Consolidated and Separate Financial Statements	Periods commencing on or after 1 July 2009
IAS 24R Related Party Disclosures	Periods commencing on or after 1 January 2011
IFRIC 17 Distributions of Non-Cash Assets to Owners	Periods commencing on or after 1 July 2009
IFRIC 18 Transfers of Assets from Customers	Transactions on or after 1 July 2009

The impact of IFRS 9 is still being evaluated.

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.

In accordance with IFRS 4, 'Insurance Contracts', the Group continues to comply with the recommendations of the Statement of Recommended Practice on Accounting for Insurance Businesses issued by the Association of British Insurers in December 2005 (as revised in December 2006). However the Group has the option to make improvements to its policies if the changes make the financial statements more relevant and no less reliable to decision making needs of the users.

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. For further information on the use of estimates and judgements, refer to Note 3.

2 Accounting policies continued

Basis of consolidation

The consolidated financial statements 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 in which the Group directly or indirectly has the power to exercise control over the operating and financial policies in order to gain economic benefits. Also consolidated as if they were subsidiaries are special purpose entities. 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.

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

Product classification

Insurance contracts are those contracts that transfer significant insurance risk. Insurance risk is transferred when an insurer agrees to compensate a policyholder if a specified uncertain future event adversely affects the policyholder. The significance of insurance risk is dependent on both the probability of an insured event and the magnitude of its potential effect.

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'.

Other accounting policies

(i) 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.

b) 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.

c) 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.

d) 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.

e) 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.

f) 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 cost, 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.

g) 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 it relates.

2 Accounting policies continued

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.

h) 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.

(ii) 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. 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.

(iii) 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.

(iv) 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.

The fair values of quoted financial investments are based on current bid prices. If the market for an investment is not active, the Group establishes fair value by using valuation techniques such as recent arm's length transactions, reference to similar listed investments, discounted cash flow models or option pricing models.

Unquoted equity investments are initially carried at fair value where this can be reliably determined. Where fair value cannot be reliably determined, cost is used as the best estimate of fair value. This is subsequently adjusted whenever events or changes in circumstances indicate that cost may not approximate to fair value. The fair value of an unquoted equity is calculated using the most appropriate valuation technique, such as reference to current fair values of another instrument that is substantially the same, discounted cash flow analysis or option pricing models.

Gains and losses on investments designated as FVTPL are recognised through the income statement. Investments are held on the statement of financial position at fair value.

(v) Derivatives
Derivative financial instruments include foreign exchange contracts, forward rate agreements, catastrophe swap contracts and other financial instruments that derive their value mainly from underlying interest rates, foreign exchange rates, catastrophe risk, commodity values or equity instruments. All derivatives are initially and subsequently measured at their fair value with movements in the fair value being immediately recognised in the income statement. Fair values are obtained from quoted market prices, discounted cash flow models, risk models and option pricing models as appropriate.

Where the risks and characteristics of derivatives embedded in financial instruments are not closely related to those of the host contract and the combined instrument is not measured at fair value with changes in fair value recognised in profit or loss, the derivative is separated from that host contract and measured at fair value.

(vi) Intangible assets
a) Goodwill
Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets, liabilities and reliably measured contingent liabilities of the acquired subsidiary or associated undertaking at the date of the acquisition. Goodwill on acquisition of subsidiaries is included in intangible assets. Goodwill on acquisition of associates is included in investments in associates. Goodwill is treated as an indefinite life asset and is carried at cost less any accumulated impairment losses.

2 Accounting policies continued

As at the acquisition date, any goodwill acquired is allocated to each of the cash-generating units expected to benefit from the combination's synergies.

All goodwill created prior to 1 January 2003 is recorded at UK GAAP carrying amount at 1 January 2004 less any subsequent impairments.

b) Syndicate participation rights
Where the Group has purchased the right to participate on managed syndicates, the cost is capitalised and amortised in equal annual instalments over their estimated useful economic lives of three years. Amortisation commences from the date the underwriting results are first recognised in the income statement.

c) 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.

(vii) 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, computers (except personal computers), office machinery, furniture and equipment	20% per annum
Personal computers	33% per annum

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.

(viii) Impairment
Goodwill is not subjected to amortisation but is tested annually for impairment as it is 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.

(ix) 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 placement or acquisition, free of encumbrances.

For the purpose of the consolidated cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

(x) 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 the current income tax rate.

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 Accounting policies continued

(xi) Post-retirement 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 liability recognised in the statement of financial position in respect of the defined benefit scheme is the present value of the defined benefit obligation at the date of the statement of financial position less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows. The discount rate is based on market yields 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.

Past service costs arising in the period are recognised immediately in the income statement, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past service costs are amortised on a straight-line basis over the vesting period.

(xii) Share-based payments

The Group operates a number of equity-settled share-based payment plans. The fair value of the equity instrument granted is recognised as an expense, 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.

Where the Group operates cash-settled share-based payment plans, the treatment is similar except that at the date of each financial statement the fair value of the awards is remeasured. The impact of the resulting adjustment is recognised in the income statement and a corresponding adjustment is made to liabilities.

(xiii) Own shares

Where the Company purchases the Company's 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.

(xiv) Provisions

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.

(xv) 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.

(xvi) Foreign currency translation

The consolidated financial statements are presented in Sterling. Items included in the financial statements of each of the Group's entities are measured using the functional currency which is the primary economic environment in which the entity operates.

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. Non-monetary assets and liabilities that are measured at historical cost denominated in a foreign currency are not retranslated. The resulting exchange differences on translation are recorded in the income statement.

Exchange differences arising on monetary items which form part of the Group's net investment in a foreign operation are initially recognised in other comprehensive income until the disposal of the investment.

(xvii) 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 method.

(xviii) 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.

(xix) 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 method.

(xx) 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.

(xxi) Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are declared and appropriately approved.

2 Accounting policies continued

(xxii) 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 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 obligation under the relevant agreement.

3 Critical accounting estimates and judgements in applying accounting policies

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities. Estimates and judgements are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(i) 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:

a) Estimates of the amount of any liability in respect of claims notified but not settled and incurred but not reported claims provisions (IBNR) included within provisions for insurance and reinsurance contracts.

b) The corresponding estimate of the amount of reinsurance recoveries which will become due as a result of these estimated claims.

c) The recoverability of amounts due from reinsurers.

d) 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:

a) Quarterly statistical data is produced in respect of gross and net premiums and claims (paid and incurred).

b) Projections are produced by an internal actuarial department, with appropriate adjustment for specific claims made by management where deemed appropriate.

c) The resulting projections are discussed with experienced underwriting and claims personnel and claims provision recommendations made to an internal reserving committee consisting of senior underwriters, claims managers and finance staff.

d) Claims provisions are subject to independent external actuarial review at least annually.

e) Some classes of business have characteristics which do not necessarily lend themselves easily to statistical estimation techniques. These classes would include Financial Risk, Casualty Treaty, Catastrophe Retrocessional and Mortgage Indemnity Guarantee business. In these cases review is carried out on a policy-by-policy basis to support statistical estimates.

f) In the event of catastrophe losses and prior to detailed claims information becoming available, claims provision estimates are compiled using a combination of specific recognised modelling software and reviews of material contracts exposed to the event in question.

Overall the objectives of the estimates and judgements applied to claims provisions seek to state such provisions on a best estimate, undiscounted basis.

In addition to claims provisions, the reserve for future loss adjustment expenses is also subject to estimation. In arriving at this estimate, regard is had to the levels of internal and third party loss adjusting expenses incurred annually. The estimated loss adjustment expenses are expressed as a percentage of net claims reserves and are benchmarked to assess the reasonableness of the estimate.

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 £2,752.1m (2008: £2,657.7m) as set out in Note 21 to the accounts. The amount of reinsurance recoveries estimated at that date is £460.4m (2008: £479.2m).

(ii) Impairment of goodwill
Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value, both of which are material sources of uncertainty.

The carrying amount of goodwill at the date of the statement of financial position was £63.7m (2008: £63.7m) as set out in Note 18 to the accounts.

(iii) 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 £2,481.1m (2008: £2,393.0m). Determining the fair value of certain investments requires estimation. For further information refer to Note 22.

4 Risk management policies

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

The Board is responsible for the Group's systems of internal control and for reviewing their effectiveness. The systems of internal control are designed to manage rather than eliminate risk and aim to provide reasonable and not absolute assurance. Group underwriting activities are co-ordinated through a system of strategic business unit management committees as well as the Executive Management Committee and the Boards for the regulated entities. Investment risk is managed in accordance with investment frameworks which are set by the Investment Committee which meets monthly.

Financial Risk

(i) Credit risk

This is the risk that one party to a financial arrangement will fail to discharge an obligation and cause the other party to incur a financial loss. The following is an overview of how the Group manages its significant credit risk exposures.

Reinsurance

Reinsurance is placed in line with policy guidelines and concentration of risk is managed by reference to counterparties' limits that are set each year and are subject to regular reviews. On a regular basis management performs assessments of creditworthiness of reinsurers to update reinsurance purchase strategy and to ascertain suitable allowance for impairment of reinsurance assets.

Financial investments and cash and cash equivalents

Credit risk relating to financial investments and cash and cash equivalents is monitored by the Investment Committee. The Group's investment guidelines specify the maximum percentage of the portfolios that can be invested in or with any single counterparty – these limits are determined using the Moody's or other recognised credit rating of each asset. In addition the Group's Investment Committee will from time to time impose special limits on assets that are deemed more at risk than the rating agencies currently imply.

Insurance receivables

The Group credit risk is in respect of balances with customers, intermediaries and reinsurers. The Group seeks to reduce its credit exposure to intermediaries through application of its internal credit vetting processes and its active credit control procedures. Wherever possible, the Group includes premium payment warranties in its terms and conditions which gives it the right to cancel policies in the event of non-payment. Insurance receivables are made up of debtors arising out of direct and reinsurance operations.

Derivative products

The Group may use derivatives from time to time, with prior approval from the Investment Committee. The four main derivative classes are credit derivatives, foreign exchange forwards and options, interest rate derivatives and equity index options. Derivatives are only used for the purposes of efficient portfolio management, reduction in investment risk and to mitigate the credit risk of certain reinsurance counterparties.

Credit risk with respect to derivatives, where deemed necessary, is controlled with the implementation of collateral agreements with derivative counterparties that put a finite limit on the credit risk of each transaction.

The following credit risk table in respect of monetary assets and derivatives provides information regarding the credit risk exposure of the Group by classifying the assets according to credit ratings of the counterparties. Ratings in respect of financial investments and cash and cash equivalents are from the Moody's rating scale and ratings in respect of reinsurance assets are from the Standard and Poor's rating scale. These amounts represent the maximum credit risk exposure.

31 December 2009

	Government £m	AAA £m	AA £m	A £m	P-1 £m	BBB and below £m	Collateralised £m	Equities £m	Not rated £m	Total £m
Reinsurance assets (a)	–	7.7	178.7	176.3	–	4.0	75.4	–	18.3	460.4
Financial investments (b)	1,045.5	274.4	261.2	296.3	346.9	58.1	–	102.0	96.7	2,481.1
Derivative contracts	–	–	–	–	–	–	–	–	0.6	0.6
Insurance receivables (c) (d)	–	–	–	–	–	–	–	–	493.4	493.4
Cash and cash equivalents	–	613.3	63.1	138.7	33.6	145.5	–	–	–	994.2
	1,045.5	**895.4**	**503.0**	**611.3**	**380.5**	**207.6**	**75.4**	**102.0**	**609.0**	**4,429.7**

4 Risk management policies continued

31 December 2008

	Government £m	AAA £m	AA £m	A £m	P-1 £m	BBB and below £m	Collateralised £m	Equities £m	Not rated £m	Total £m
Reinsurance assets (a)	–	8.8	229.1	149.8	–	3.9	77.8	–	9.8	479.2
Financial investments (b)	753.9	168.4	369.5	311.9	557.0	1.8	–	117.4	113.1	2,393.0
Derivative contracts	–	–	–	–	–	–	–	–	1.4	1.4
Insurance receivables (c) (d)	–	–	–	–	–	–	–	–	458.7	458.7
Cash and cash equivalents	–	435.7	156.7	108.4	139.9	–	–	–	–	840.7
	753.9	**612.9**	**755.3**	**570.1**	**696.9**	**5.7**	**77.8**	**117.4**	**583.0**	**4,173.0**

a Amounts recoverable from reinsurers on claims reported and loss adjustment expenses and claims incurred.

b Financial investments categorised as government, are bonds issued by the governments of Eurozone countries, the UK, Canada and the US.

c Insurance receivables arising out of direct and reinsurance operations.

d Insurance receivables are generally due from customers and intermediaries who are unlikely to seek ratings as part of their normal course of business.

Impairment

The Group considers reinsurer ratings, notified disputes and collection experience in determining which assets should be impaired.

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

	Impairment provision against reinsurance assets		Impairment provision against insurance receivables	
	31 December 2009 £m	31 December 2008 £m	**31 December 2009 £m**	31 December 2008 £m
1 January	15.5	11.2	5.1	5.1
(Release)/strengthening for the year	(2.2)	2.1	1.2	–
Net foreign exchange differences	(0.9)	2.2	–	–
31 December	**12.4**	**15.5**	**6.3**	**5.1**

The following table shows a breakdown of the impairment provision against reinsurance assets.

	31 December 2009 £m	31 December 2008 £m
AAA	0.2	0.3
AA	5.8	8.8
A	5.7	5.8
BBB and below	0.1	0.2
Not rated	0.6	0.4
Total	**12.4**	**15.5**

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

	31 December 2009 £m	31 December 2008 £m
0–3 months past due	20.3	25.7
4–6 months past due	2.7	2.2
7–9 months past due	0.5	1.6
10–12 months past due	0.3	0.6
More than 12 months past due	1.9	–
Total	**25.7**	**30.1**

4 Risk management policies continued

(ii) Liquidity risk

This is the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities that are settled by cash or another financial asset.

The most significant liquidity risk confronting the Group is the daily calls on its available cash resources in respect of claims arising from insurance contracts. This liquidity risk is increased by the requirement to collateralise funds in respect of US and Canadian regulated business.

The Group manages this risk by maintaining sufficient liquid assets or assets that can be translated into liquid assets at short notice to meet the expected cash flow requirements. The Group's Investment Guidelines also set out various short-term cash balances to be held by external fund managers.

The Group has determined the minimum proportion of funds required to ensure that the Group has sufficient liquid assets to withstand claim scenarios at the extreme end of business plan projections by reference to modelled Realistic Disaster Scenario events.

The table below analyses 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.

31 December 2009

							Fair values
Assets	Statement of financial position £m	Up to a year £m	1–3 years £m	3–5 years £m	Over 5 years £m	Equities £m	Total £m
Reinsurance assets	460.4	164.0	122.2	74.0	100.2	–	460.4
Financial investments	2,481.1	767.4	1,194.2	242.3	175.2	102.0	2,481.1
Derivative contracts	0.6	–	–	–	–	–	–
Insurance receivables	493.4	493.4	–	–	–	–	493.4
Cash and cash equivalents	994.2	994.2	–	–	–	–	994.2
	4,429.7	**2,419.0**	**1,316.4**	**316.3**	**275.4**	**102.0**	**4,429.1**

							Undiscounted values
Liabilities	Statement of financial position £m	Up to a year £m	1–3 years £m	3–5 years £m	Over 5 years £m		Total £m
Insurance contract liabilities	2,752.1	980.1	730.2	442.5	599.3		2,752.1
Derivative contracts	0.9	2.4	–	–	–		2.4
Borrowings	237.6	13.1	132.4	17.9	188.7		352.1
Insurance and other payables	200.7	200.7	–	–	–		200.7
	3,191.3	**1,196.3**	**862.6**	**460.4**	**788.0**		**3,307.3**

31 December 2008

							Fair values
Assets	Statement of financial position £m	Up to a year £m	1–3 years £m	3–5 years £m	Over 5 years £m	Equities £m	Total £m
Reinsurance assets	479.2	135.6	130.9	85.0	127.7	–	479.2
Financial investments	2,393.0	783.3	1,089.5	390.2	12.6	117.4	2,393.0
Derivative contracts	1.4	0.3	–	–	–	–	0.3
Insurance receivables	458.7	458.7	–	–	–	–	458.7
Cash and cash equivalents	840.7	840.7	–	–	–	–	840.7
	4,173.0	**2,218.6**	**1,220.4**	**475.2**	**140.3**	**117.4**	**4,171.9**

4 Risk management policies continued

Liabilities	Statement of financial position £m	Up to a year £m	1–3 years £m	3–5 years £m	Over 5 years £m		Total £m
		Undiscounted values					
Insurance contract liabilities	2,657.7	752.1	725.9	471.3	708.4		2,657.7
Derivative contracts	5.4	6.9	2.5	–	–		9.4
Borrowings	143.1	19.9	17.9	17.9	197.6		253.3
Insurance and other payables	202.1	202.1	–	–	–		202.1
	3,008.3	**981.0**	**746.3**	**489.2**	**906.0**		**3,122.5**

The nature of insurance is that the requirements of funding cannot be predicted with absolute certainty and therefore the theory of probability is applied to insurance contracts to ascertain the likely provision and the time period when such liabilities will require settlement. The amounts and maturities in respect of insurance liabilities are thus based on management's best estimate based on statistical techniques and past experience.

Collateral

Part of the Group's underwriting is carried out through its syndicate, Syndicate 2987 at Lloyd's. This syndicate writes regulated business in a number of countries, including USA and Canada. As a result the syndicate is required to collateralise a number of Lloyd's trust funds in respect of outstanding claims relating to this business. Collateral is provided in the form of cash and approved investments in accordance with the terms of the trust deed. The total amount of collateral provided at 31 December 2009 was £615.8m (2008: £490.4m).

In addition, Brit Insurance Limited maintains letters of credit (LOC) facilities in respect of its US regulated business. The company is obliged to collateralise any LOCs issued under these facilities. The total amount of collateral provided at 31 December 2009 was US$94.8m (2008: US$85.0m).

(iii) Market risk

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: currency risk, interest rate risk and price risk.

Market risk can be caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market.

a) Currency risk

The Group writes a significant proportion of its insurance business in currencies other than Sterling.

Currency risk is mitigated by the Group mainly maintaining financial assets denominated in the same currencies as its liabilities which is demonstrated in the table below. This is monitored by reviewing the Group's currency statement of financial position on a quarterly basis.

31 December 2009

Assets	US dollars £m	Canadian dollars £m	Euros £m	Sterling and others £m	Total £m
	Sterling equivalent				
Reinsurance assets	248.4	7.6	31.1	173.3	460.4
Financial investments	827.4	93.4	242.4	1,317.9	2,481.1
Derivative contracts	(0.6)	–	–	1.2	0.6
Insurance receivables	226.0	25.8	32.6	209.0	493.4
Cash and cash equivalents	399.2	27.0	105.8	462.2	994.2
Total monetary assets	**1,700.4**	**153.8**	**411.9**	**2,163.6**	**4,429.7**
Non-monetary assets	88.4	14.6	22.1	246.5	371.6
Total assets	**1,788.8**	**168.4**	**434.0**	**2,410.1**	**4,801.3**

4 Risk management policies continued

Liabilities	US dollars £m	Canadian Dollars £m	Euros £m	Sterling and others £m	Sterling equivalent Total £m
Insurance contract liabilities	1,246.5	95.8	359.0	1,050.8	2,752.1
Derivative contracts	–	–	–	0.9	0.9
Borrowings	–	–	–	237.6	237.6
Insurance and other payables	65.5	2.1	12.3	120.8	200.7
Total monetary liabilities	**1,312.0**	**97.9**	**371.3**	**1,410.1**	**3,191.3**
Non-monetary liabilities	275.2	17.4	57.6	365.2	715.4
Total liabilities	**1,587.2**	**115.3**	**428.9**	**1,775.3**	**3,906.7**
Net assets and liabilities	**201.6**	**53.1**	**5.1**	**634.8**	**894.6**

31 December 2008

Assets	US dollars £m	Canadian Dollars £m	Euros £m	Sterling and others £m	Sterling equivalent Total £m
Reinsurance assets	300.2	6.5	26.0	146.5	479.2
Financial investments	836.9	93.8	222.4	1,239.9	2,393.0
Derivative contracts	(1.7)	–	–	3.1	1.4
Insurance receivables	262.2	16.1	44.9	135.5	458.7
Cash and cash equivalents	380.3	23.2	112.5	324.7	840.7
Total monetary assets	**1,777.9**	**139.6**	**405.8**	**1,849.7**	**4,173.0**
Non-monetary assets	118.3	11.9	21.0	252.1	403.3
Total assets	**1,896.2**	**151.5**	**426.8**	**2,101.8**	**4,576.3**

Liabilities	US dollars £m	Canadian Dollars £m	Euros £m	Sterling and others £m	Sterling equivalent Total £m
Insurance contract liabilities	1,365.2	74.6	316.4	901.5	2,657.7
Derivative contracts	–	–	–	5.4	5.4
Borrowings	10.4	–	–	132.7	143.1
Insurance and other payables	85.5	8.4	14.9	93.3	202.1
Total monetary liabilities	**1,461.1**	**83.0**	**331.3**	**1,132.9**	**3,008.3**
Non-monetary liabilities	296.2	20.6	58.7	342.8	718.3
Total liabilities	**1,757.3**	**103.6**	**390.0**	**1,475.7**	**3,726.6**
Net assets and liabilities	**138.9**	**47.9**	**36.8**	**626.1**	**849.7**

The matching of assets and liabilities prevents economic exposure to currency risk but it does not prevent exposure to exchange gains or losses recorded in the income statement created as a result of the IFRS accounting treatment of certain assets and liabilities. IFRS requires that gross and reinsurers unearned premium reserves and deferred acquisition costs are translated at historical transaction rate rather than closing rate. This means that these amounts in the statement of financial position are carried at a different exchange rate to the remaining assets and liabilities with the resulting exchange differences that are created being recognised in the income statement.

4 Risk management policies continued

A strengthening of the following currencies relative to Sterling by 10% would have resulted in a net gain/(loss) before tax in the income statement as set out below which is made up of foreign exchange gains/(losses) less (losses)/gains on forward hedges.

	Year ended 31 December 2009 £m	Year ended 31 December 2008 £m
US dollars	44.8	39.5
Canadian dollars	8.1	6.7
Euros	5.2	5.1

b) Interest rate risk and price risk

The Group is exposed to interest rate and price risk on its investment portfolio. Interest rate risk is the risk that the value and future cash flows of a financial instrument will fluctuate because of changes in interest rates. Price risk is the risk that the value of investments decreases due to market factors.

In order to manage interest rate and price risk the Group uses Value at Risk (VaR) methodology with the objective of minimising the risk taken on the investment portfolio in targeting a desired return. This is performed by examining the asset allocation of the portfolio and modelling the portfolio's expected return and associated risk. Different asset combinations are then modelled to examine the effect of the changes on risk, determining which combination of changes is expected to minimise risk.

The model uses assumptions of risks, correlations and expected returns for each asset class. Interest rate risk, price risk and currency risk are all included in the model both independently and in their interaction with each other. Assumptions for future market returns, volatilities and correlations are provided by independent investment consultants.

A principal measure of risk produced by the model is one year VaR. One year VaR measures the minimum amount by which the assets should be expected to underperform the expected annual return of the portfolio with a 1 in 20 probability.

The model used by the Group estimates the VaR and the tracking error. The tracking error measures annual volatility as the standard deviation of the asset returns relative to the expected return. Whereas VaR expresses a 1 in 20 probability of the portfolio returns being reduced by at least that amount in one year, the tracking error is the expected deviation above or below the expected return.

	31 December 2009	31 December 2008
Value at Risk 95%	2.01%	3.44%
Tracking Error	1.33%	2.17%

As an illustration of the above information, if the expected return as at 31 December 2009 for the following year was 5.0%, then there would be a 1 in 20 probability that if the asset portfolio remained unaltered, the actual return for the following year would underperform the 5.0% expected return by at least 2.01% i.e. a 2.99% return or less.

The model is designed to illustrate the future range of returns stemming from different asset classes and their inter-relationship. The assumptions have incorporated a degree of subjective judgement to complement the information provided by historical returns and current conditions.

(iv) Capital risk management

The total amount of capital of the Group is £946.2m (2008: £900.3m) consisting of net tangible assets amounting to £813.4m (2008: £767.6m) and long-term subordinated debt amounting to £132.8m (2008: £132.7m).

The Capital Committee is responsible for reviewing the capital position on an ongoing basis to ensure compliance with the capital policy.

The capital policy requires that the Group always holds long-term capital in excess of the Management Capital requirement (derived from a risk-based internal stochastic model) and that the appropriate level of capital is held at individual insurance entity level with reference to the various regulatory or rating agency requirements.

The capital policy also requires that the appropriate mix of debt and equity is used to fund the Group and that adequate liquidity is available at all times.

The most significant entities within the Group subject to externally imposed capital requirements are Brit Insurance Limited, Brit Insurance (Gibraltar) PCC Ltd and the Lloyd's corporate member, Brit UW Limited, which provides the entire capacity of Syndicate 2987.

Brit Insurance Limited is regulated by the Financial Services Authority (FSA) which has provided the company with capital guidance based on the Enhanced Capital Requirements return (ECR). The ECR, which takes into account the premiums written and outstanding reserves on a class of business basis, seeks to ensure that the company has at least the minimum amount and type of capital to meet future expected claims obligations. Brit Insurance Limited holds capital in excess of the FSA requirement in order to maintain a strong 'A' credit rating.

The Lloyd's corporate member is required to hold capital at Lloyd's which is held in trust and known as Funds at Lloyd's (FAL). These funds are intended primarily to cover circumstances where syndicate assets prove insufficient to meet participating members' underwriting liabilities. FAL is determined by a risk based capital assessment based upon the syndicate's specific circumstances and results in an individual capital assessment (ICA).

Brit Insurance (Gibraltar) PCC Ltd is regulated by the Financial Services Commission of Gibraltar which sets a capital requirement based on the Solvency I Minimum Capital Requirement (MCR). The MCR is a factor based calculation based on premiums written and earned during the year.

All externally imposed capital requirements have been complied with during the year.

Insurance risk

(i) Introduction

The risk under any one insurance contract is the possibility that an insured event occurs and a claim results. By the very nature of an insurance contract, risk is based on fortuity and is therefore unpredictable.

The principal risks that the Group faces under its insurance contracts are that the business will be under-priced, under-reserved or subject to catastrophe claims.

4 Risk management policies continued

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected across the board by a change in any subset of the portfolio. The Group has developed its insurance underwriting strategy to diversify the type of insurance risks accepted to achieve a sufficiently large population of risks to reduce the variability of the expected outcome.

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 as well as establishing more general principles and conditions. A proportion of the Group's insurance risks are written by third parties under delegated underwriting authorities. 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.

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.

The Group carries out an annual business planning process for each of its underwriting units. The resulting plans set out premium, territorial and aggregate limits for all classes of business.

Performance against the plans is monitored on a regular basis through a system of underwriting committees as well as regularly by the Executive Management Committee and the Boards for the regulated entities.

(ii) Concentrations of risk

The concentration of insurance risk before and after reinsurance by the location of the underlying risk is summarised below:

Year ended 31 December 2009

	Gross written premium £m	Premium ceded to reinsurers £m	Net written premium £m
UK	491.0	(77.5)	413.5
Europe	128.7	(15.4)	113.3
US	416.2	(64.2)	352.0
Other (including worldwide)	660.5	(67.9)	592.6
	1,696.4	**(225.0)**	**1,471.4**

Year ended 31 December 2008

	Gross written premium £m	Premium ceded to reinsurers £m	Net written premium £m
UK	403.5	(83.3)	320.2
Europe	100.9	(16.8)	84.1
US	348.5	(65.0)	283.5
Other (including worldwide)	541.7	(66.2)	475.5
	1,394.6	**(231.3)**	**1,163.3**

The Group is organised into three Strategic Business Units, details of which are set out in Note 5.

(iii) Reinsurance

The Group purchases reinsurance to limit its exposure to individual risks and aggregation of risks arising from individual large claims and catastrophe events. The types of reinsurance purchased were as follows:

- facultative reinsurance purchased to reduce risk relating to an individual specific inwards contract.
- risk excess of loss reinsurance purchased to protect a range of individual inwards contracts which could give rise to individual large claims.
- general excess of loss reinsurance purchased to provide protection from the aggregation of claims, possibly arising from catastrophe events.
- pro rata reinsurance purchased to provide protection against claims arising either from individual large claims or aggregations.

All of the Group's reinsurance purchasing is approved by the Portfolio Management Committee, a sub-committee of the Executive Management Committee. Decisions are supported by historical underwriting experience and actuarial analysis.

(iv) Aggregate exposure management

The Group's Realistic Disaster Scenario Committee monitors and controls the accumulation of risk for over thirty key Realistic Disaster Scenario (RDS) events. These RDSs reflect the diversity of the Group's exposures. There are specific scenarios for elemental, man-made and economic disasters, and for different business classes such as marine, aerospace, casualty and property. The RDSs are regularly reviewed in light of Group exposures and environmental factors.

The Group's RDS Committee reviews each scenario quarterly, with more frequent reviews of the peak zone natural peril catastrophe RDSs which present the greatest exposure to the Group.

Aggregate claims tolerance

The Group's tolerance for catastrophe risk is a function of expected profitability and available capital. This tolerance is expressed as the maximum net claims acceptable under a number of scenarios.

Exposure and compliance with the severity band matrix is formally reviewed on a quarterly basis, with informal reviews being conducted more frequently. The Board may decide to increase or decrease the maximum tolerances based on market conditions and other factors.

4 Risk management policies continued

The tolerance for catastrophe risk is set using industry claims bandings. For example for US Windstorm, tolerance is set for seven separate industry claims bands increasing from a 'US$20bn–US$30bn' band to a 'US$200bn–US$350bn' band. The underlying frequency and severity of catastrophe events varies by peril and territory. For instance, a US$20bn US windstorm is expected to occur much more frequently than a US$20bn Japanese earthquake. Therefore, in terms of risk appetite and claims tolerance, it is not appropriate to treat these events equally.

The severity bands show the industry claims for each peril which are probabilistically equivalent. An example band is shown below.

US windstorm	US$70bn–US$100bn
California earthquake	US$30bn–US$40bn
European windstorm	US$10bn–US$15bn
Japanese earthquake	US$20bn–US$30bn
Japanese typhoon	US$10bn–US$15bn

The portfolio contains a mix of business and therefore given an industry event there will be a large range of possible aggregate claims to the Group. To capture this claim distribution whilst being able to measure compliance, the measure used is a weighted 75th percentile of the claim distribution within a particular band. Ultimately, the size of a probable maximum loss (PML) arising from an event or series of events will always remain judgemental for Brit Insurance and others in the industry.

The Group uses its own and commercially available proprietary risk management software. However, there is always a risk that the assumptions and techniques used in these models are unreliable or that claims arising from an unmodelled event are greater than those arising from a modelled event.

As a further guide to the level of catastrophe exposure written by the Group, the table below shows hypothetical claims as at 1 January 2010 for various RDSs.

Event	Modelled industry gross claims US$m	Brit Insurance gross claims £m	Brit Insurance net claims £m	Comments
Florida hurricane Tampa Bay	125,000	**259**	117	Category 4 storm on the SS Scale, landfalling in Tampa. Brit Insurance claims estimates include demand surge, flood associated with the hurricane, and non-property exposures.
Florida hurricane Miami	125,000	**248**	87	Category 5 storm on the SS Scale, landfalling in Miami. Brit Insurance claims estimates include demand surge, flood associated with the hurricane, and non-property exposures.
US north east coast hurricane New York State	78,000	**225**	116	Category 4 storm on the SS Scale, landfalling in Suffolk County, New York State. Brit Insurance claims estimates include demand surge, flood associated with the hurricane, and non-property exposures.
California earthquake Los Angeles	78,000	**269**	84	Magnitude 7.2 earthquake on the MMI scale, on the Elsinore fault in Los Angeles. Brit Insurance claims estimates include demand surge, fire following the earthquake, and non-property exposures.
California earthquake San Francisco	78,000	**279**	89	Magnitude 7.4 earthquake on the MMI scale, on the San Andreas Fault in San Francisco. Brit Insurance claims estimates include demand surge, fire following the earthquake, and non-property exposures.
Europe windstorm Western Europe	31,000	**232**	108	A winter storm with peak gusts in excess of 112mph resulting in a broad swath of damage across southern England, France, Belgium, Netherlands, Luxembourg, Germany and Denmark. Brit Insurance claims estimates include demand surge and UK coastal flood.
Japan earthquake Tokyo	51,000	**153**	75	Based on a repeat of the Great Kanto event in 1923, a magnitude 7.9 earthquake in the Tokyo Metropolitan Area.

Source: RMS/Lloyd's/Brit Insurance

4 Risk management policies continued

(v) Sensitivity

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:

Strategic business unit	Class	Year ended 31 December 2009 £m	Year ended 31 December 2008 £m
Global Markets	Accident & Health	1.1	1.5
	Aerospace	0.2	0.2
	Specialty lines	1.6	1.4
	Professional lines	1.3	1.0
	Marine	2.3	1.5
	Property	1.7	1.1
		8.2	**6.7**
Reinsurance	Property Treaty NA	0.9	0.6
	Property Treaty INT	0.5	0.4
	Casualty Treaty	1.3	0.8
	Marine XL	0.2	0.1
	Aviation XL	0.1	0.2
		3.0	**2.1**
UK	Employers'/Public Liability	1.0	0.9
	Professional Indemnity/D&O	0.3	0.2
	Motor	0.7	0.6
	Property and Commercial Combined (Packages)	1.6	0.9
		3.6	**2.6**
Other underwriting		0.2	0.1
Total		**15.0**	**11.5**

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

5 Segmental information

The Group has adopted International Financial Reporting Standard 8 'Operating Segments' (IFRS 8) in the current period. IFRS 8 requires that segments represent the level at which financial information is reported to the Board, being the chief operating decision maker as defined in IFRS 8. Following the adoption of IFRS 8, quota share reinsurance ceded by the insurance entities (Brit Insurance Limited and Syndicate 2987) to the Brit Insurance (Gibraltar) PCC Limited (formerly Rockhampton PCC Limited) cell is no longer reflected in the Brit Global Markets, Brit Reinsurance and Brit UK strategic business unit (SBU) reportable segments. Consequently, the Brit Insurance (Gibraltar) PCC Limited cell segment consists solely of Excess of Loss reinsurance ceded from the SBUs and based on quantitative thresholds this segment has been included within 'Other underwriting'. In addition, on the adoption of IFRS 8, foreign exchange differences on non-monetary items are no longer reflected in the SBU reportable segments but are instead separately disclosed. This provides a fairer representation of the claims ratios and financial performance of the SBUs which would otherwise be distorted by the mismatch arising from IFRSs whereby unearned premium, reinsurers share of unearned premium and deferred acquisition costs are treated as non-monetary items and claims reserves are treated as monetary items. Non-monetary items are carried at historic exchange rates, while monetary items are translated at closing rates.

The reportable segments have been identified as follows:

Brit Global Markets SBU which underwrites Brit's international and US business other than reinsurance. In the main, Global Markets deals with wholesale buyers of insurance, not individuals. Risks are large and usually syndicated by several underwriters – the subscription market.

Brit Reinsurance SBU which underwrites reinsurance business which is essentially the insurance of insurance and reinsurance companies and includes providing non-proportional cover for major events such as earthquakes or hurricanes. These insurance and reinsurance companies calculate how much risk they want to bear and pass on the remaining exposure to reinsurers in return for a premium.

Brit UK SBU which is developing business opportunities within the UK general commercial insurance markets through both wholesale and retail brokers and has opened offices in key locations across the UK.

'Other underwriting' which is made up of Excess of Loss reinsurance ceded from the SBUs to the Brit Insurance (Gibraltar) PCC Limited cell, Syndicate 389 (Life – final year of account 2003), and historic participations on external managed syndicates in run off (final year of account 2000).

'Other corporate' which is made up of residual income and expenditure not allocated to other segments.

The Group investment return is managed centrally and an allocation is made to each of the SBUs based on the average risk free interest rate for the period being applied to the insurance funds of each Unit.

The annualised average risk free rate applied to the insurance funds was 1.66% for the year ended 31 December 2009 (31 December 2008: 3.9%).

Information regarding the Group's reportable segments is presented below. Comparative information has been restated to reflect the adoption of IFRS 8.

5 Segmental information continued

a) Income statement by segment

12 months ended 31 December 2009

	Brit Global Markets £m	Brit Reinsurance £m	Brit UK £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	Total £m
Gross premiums written	875.3	364.2	455.4	16.5	(15.0)	1,696.4	–	1,696.4	–	1,696.4
Less premiums ceded to reinsurers	(116.8)	(57.4)	(64.9)	(0.9)	15.0	(225.0)	–	(225.0)	–	(225.0)
Premiums written, net of reinsurance	758.5	306.8	390.5	15.6	–	1,471.4	–	1,471.4	–	1,471.4
Gross earned premiums	944.4	354.5	430.1	16.4	(15.0)	1,730.4	(34.3)	1,696.1	–	1,696.1
Reinsurers' share	(124.5)	(56.9)	(67.7)	(0.8)	15.0	(234.9)	2.7	(232.2)	–	(232.2)
Earned premiums, net of reinsurance	819.9	297.6	362.4	15.6	–	1,495.5	(31.6)	1,463.9	–	1,463.9
Investment return	20.2	8.5	13.3	0.1	–	42.1	–	42.1	95.3	137.4
Return on derivative contracts	(2.3)	(2.2)	(0.3)	–	–	(4.8)	–	(4.8)	0.7	(4.1)
Disposal and partial disposal of associated undertaking	–	–	–	–	–	–	–	–	4.2	4.2
Other income	–	–	–	–	–	–	–	–	1.4	1.4
Total revenue	**837.8**	**303.9**	**375.4**	**15.7**	**–**	**1,532.8**	**(31.6)**	**1,501.2**	**101.6**	**1,602.8**
Gross claims incurred	(582.7)	(180.5)	(290.8)	(13.0)	12.7	(1,054.3)	–	(1,054.3)	–	(1,054.3)
Reinsurers' share	68.5	17.1	49.2	1.5	(12.7)	123.6	–	123.6	–	123.6
Claims incurred, net of reinsurance	(514.2)	(163.4)	(241.6)	(11.5)	–	(930.7)	–	(930.7)	–	(930.7)
Acquisition costs – commission	(220.2)	(51.6)	(73.9)	0.6	–	(345.1)	6.8	(338.3)	–	(338.3)
Acquisition costs – other	(29.6)	(9.3)	(18.1)	(1.6)	–	(58.6)	–	(58.6)	–	(58.6)
Other insurance related expenses	(31.0)	(13.5)	(27.6)	–	–	(72.1)	–	(72.1)	–	(72.1)
Other expenses	–	–	–	–	–	–	–	–	(39.5)	(39.5)
Net foreign exchange losses	–	–	–	–	–	–	(30.1)	(30.1)	(3.3)	(33.4)
Total expenses excluding finance costs	**(795.0)**	**(237.8)**	**(361.2)**	**(12.5)**	**–**	**(1,406.5)**	**(23.3)**	**(1,429.8)**	**(42.8)**	**(1,472.6)**
Operating profit/(loss)	**42.8**	**66.1**	**14.2**	**3.2**	**–**	**126.3**	**(54.9)**	**71.4**	**58.8**	**130.2**
Finance costs										(11.5)
Share of loss of associated undertakings										(2.3)
Profit on ordinary activities before tax										116.4
Tax expense										(28.9)
Profit attributable to owners of the parent										**87.5**
Claims ratio	62.7%	54.9%	66.7%	73.7%		62.2%		63.6%		
Expense ratio	34.2%	25.0%	33.0%	6.4%		31.8%		32.0%		
Combined ratio	96.9%	79.9%	99.7%	80.1%		94.0%		95.6%		

5 Segmental information continued

12 months ended 31 December 2008

	Brit Global Markets £m	Brit Reinsurance £m	Brit UK £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	Total £m
Gross premiums written	781.3	260.7	350.6	14.9	(12.9)	1,394.6	–	1,394.6	–	1,394.6
Less premiums ceded to reinsurers	(123.1)	(52.6)	(68.0)	(0.5)	12.9	(231.3)	–	(231.3)	–	(231.3)
Premiums written, net of reinsurance	658.2	208.1	282.6	14.4	–	1,163.3	–	1,163.3	–	1,163.3
Gross earned premiums	789.7	259.2	313.6	10.4	(8.3)	1,364.6	(47.2)	1,317.4	–	1,317.4
Reinsurers' share	(123.8)	(49.3)	(53.7)	(0.5)	8.3	(219.0)	3.4	(215.6)	–	(215.6)
Earned premiums, net of reinsurance	665.9	209.9	259.9	9.9	–	1,145.6	(43.8)	1,101.8	–	1,101.8
Investment return	36.9	16.9	34.2	1.7	–	89.7	–	89.7	(82.3)	7.4
Return on derivative contracts	(3.5)	(3.5)	(0.4)	–	–	(7.4)	–	(7.4)	(11.7)	(19.1)
Disposal and partial disposal of associated undertaking	–	–	–	–	–	–	–	–	4.5	4.5
Net foreign exchange gains	–	–	–	–	–	–	84.1	84.1	39.9	124.0
Other income	–	–	–	1.0	–	1.0	–	1.0	0.1	1.1
Total revenue	**699.3**	**223.3**	**293.7**	**12.6**	**–**	**1,228.9**	**40.3**	**1,269.2**	**(49.5)**	**1,219.7**
Gross claims incurred	(529.1)	(144.2)	(211.7)	(10.6)	9.5	(886.1)	–	(886.1)	–	(886.1)
Reinsurers' share	121.9	7.1	39.1	(0.1)	(9.5)	158.5	–	158.5	–	158.5
Claims incurred, net of reinsurance	(407.2)	(137.1)	(172.6)	(10.7)	–	(727.6)	–	(727.6)	–	(727.6)
Acquisition costs – commission	(183.5)	(36.6)	(44.8)	(0.3)	–	(265.2)	9.3	(255.9)	–	(255.9)
Acquisition costs – other	(24.5)	(9.2)	(15.1)	(1.4)	–	(50.2)	–	(50.2)	–	(50.2)
Other insurance related expenses	(26.5)	(9.6)	(25.5)	–	–	(61.6)	–	(61.6)	–	(61.6)
Other expenses	–	–	–	–	–	–	–	–	(28.8)	(28.8)
Total expenses excluding finance costs	**(641.7)**	**(192.5)**	**(258.0)**	**(12.4)**	**–**	**(1,104.6)**	**9.3**	**(1,095.3)**	**(28.8)**	**(1,124.1)**
Operating profit/(loss)	**57.6**	**30.8**	**35.7**	**0.2**	**–**	**124.3**	**49.6**	**173.9**	**(78.3)**	**95.6**
Finance costs										(13.1)
Finance income										7.2
Share of loss of associated undertakings										(0.5)
Profit on ordinary activities before tax										89.2
Tax expense										(22.6)
Profit attributable to owners of the parent										**66.6**
Claims ratio	61.2%	65.3%	66.4%	108.1%		63.5%		66.0%		
Expense ratio	35.2%	26.4%	32.9%	17.2%		32.9%		33.4%		
Combined ratio	96.4%	91.7%	99.3%	125.3%		96.4%		99.4%		

5 Segmental information continued

b) Statement of financial position by segment

As at 31 December 2009

	Brit Global Markets £m	Brit Reinsurance £m	Brit UK £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	Total £m
Reinsurance contracts	363.9	68.0	116.0	1.5	(26.0)	523.4	0.1	523.5	–	523.5
Intangible assets	19.4	2.9	58.8	0.1	–	81.2	–	81.2	–	81.2
Other assets	2,161.1	829.0	1,171.2	35.1	–	4,196.4	0.2	4,196.6	–	4,196.6
Total assets	**2,544.4**	**899.9**	**1,346.0**	**36.7**	**(26.0)**	**4,801.0**	**0.3**	**4,801.3**	**–**	**4,801.3**
Insurance contracts	1,784.2	684.3	966.8	28.9	(26.0)	3,438.2	1.2	3,439.4	–	3,439.4
Other liabilities	103.8	39.8	56.3	1.7	–	201.6	–	201.6	265.7	467.3
Total liabilities	**1,888.0**	**724.1**	**1,023.1**	**30.6**	**(26.0)**	**3,639.8**	**1.2**	**3,641.0**	**265.7**	**3,906.7**

As at 31 December 2008

	Brit Global Markets £m	Brit Reinsurance £m	Brit UK £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	Total £m
Reinsurance contracts	399.7	71.6	99.5	1.0	(16.5)	555.3	(5.7)	549.6	–	549.6
Intangible assets	20.6	3.3	58.1	0.1	–	82.1	–	82.1	–	82.1
Other assets	2,144.3	761.6	991.2	23.0	–	3,920.1	(15.0)	3,905.1	39.5	3,944.6
Total assets	**2,564.6**	**836.5**	**1,148.8**	**24.1**	**(16.5)**	**4,557.5**	**(20.7)**	**4,536.8**	**39.5**	**4,576.3**
Insurance contracts	1,879.6	667.5	868.6	20.2	(16.5)	3,419.4	(74.7)	3,344.7	–	3,344.7
Other liabilities	113.6	40.3	52.5	1.1	–	207.5	–	207.5	174.4	381.9
Total liabilities	**1,993.2**	**707.8**	**921.1**	**21.3**	**(16.5)**	**3,626.9**	**(74.7)**	**3,552.2**	**174.4**	**3,726.6**

c) Depreciation, amortisation and capital expenditure by segment

Year ended 31 December 2009

	Brit Global Markets £m	Brit Reinsurance £m	Brit UK £m	Other corporate £m	Total £m
Depreciation	1.2	0.5	1.2	–	2.9
Amortisation	1.8	0.7	1.7	–	4.2
Impairment	–	–	–	2.2	2.2
Capital expenditure	2.0	0.8	3.7	–	6.5

Year ended 31 December 2008

	Brit Global Markets £m	Brit Reinsurance £m	Brit UK £m	Other corporate £m	Total £m
Depreciation	1.3	0.5	1.3	–	3.1
Amortisation	1.7	0.6	1.6	–	3.9
Capital expenditure	2.7	1.3	3.6	–	7.6

Report of the Directors Group Overview
Report of the Directors Strategy and Achievements
Report of the Directors Business Review
Report of the Directors Financial Review
Report of the Directors Governance
Financial Statements

5 Segmental information continued

d) 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 insured.

Gross premiums written

	Year ended 31 December 2009 £m	Year ended 31 December 2008 £m
United Kingdom	491.0	403.5
Europe	128.7	100.9
United States	416.2	348.5
Other (including worldwide)	660.5	541.7
	1,696.4	1,394.6

All non-current assets of the Group are located in the United Kingdom.

6 Net foreign exchange (losses)/gains

The Group recognised foreign exchange losses of £33.4m (31 December 2008: gain of £124.0m) in the income statement in the period.

Foreign exchange gains and losses result from the translation of the balance sheet to closing exchange rates and the income statement to average exchange rates. However, as an exception to this, International Accounting Standard 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 2009 £m	Year ended 31 December 2008 £m
(Losses)/gains on foreign exchange arising from:		
Translation of the balance sheet and income statement	(3.3)	39.9
Maintaining UPR/DAC items in the balance sheet at historic rates	(54.9)	49.6
Maintaining UPR/DAC items in the income statement at historic rates	24.8	34.5
Net foreign exchange (losses)/gains	**(33.4)**	**124.0**

Included within foreign exchange (losses)/gains are exchange losses of £103.6m (2008: gains of £278.8m) arising on the retranslation of monetary items that are classified as fair value through profit or loss.

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

	Year ended 31 December 2009		Year ended 31 December 2008	
	Average	Closing	Average	Closing
US dollar	1.57	1.61	1.85	1.44
Canadian dollar	1.78	1.69	1.96	1.77
Euro	1.12	1.13	1.26	1.03

In accordance with International Accounting Standard 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.

7 Investment return

	Year ended 31 December 2009				Year ended 31 December 2008			
	Investment income £m	Net realised gains/(losses) £m	Net unrealised gains/(losses) £m	Total investment return £m	Investment income £m	Net realised gains/(losses) £m	Net unrealised gains/(losses) £m	Total investment return £m
Equity securities	2.4	6.7	4.7	13.8	1.6	6.3	(44.6)	(36.7)
Debt securities	81.2	6.6	4.7	92.5	100.0	(12.3)	1.7	89.4
Specialised investment funds	2.6	(12.3)	27.6	17.9	2.4	(3.9)	(68.4)	(69.9)
Cash and cash equivalents	13.2	–	–	13.2	24.6	–	–	24.6
	99.4	**1.0**	**37.0**	**137.4**	**128.6**	**(9.9)**	**(111.3)**	**7.4**

8 Return on derivative contracts

	Year ended 31 December 2009 £m	Year ended 31 December 2008 £m
Currency forwards	1.1	(11.9)
Catastrophe swap contracts	(4.8)	(7.4)
Credit derivatives, warrants and weather derivatives	(0.4)	0.2
	(4.1)	**(19.1)**

9 Disposal and partial disposal of associated undertakings

On 26 March 2009, Norton II Holdings Limited was placed in members' voluntary liquidation in order to return capital to investors.

Assets disposed of and related sales proceeds during 2009 were as follows:

	Norton II Holdings Limited £m
Proceeds	15.4
Carrying value of Group holding in associated undertaking	(15.4)
Reversal of translation reserve	4.2
Profit on disposal	**4.2**

Ebix Inc. was reclassified as a financial investment during 2008 following the loss of significant influence.

On 21 February 2008, Norton Holdings Limited was placed in members' voluntary liquidation in order to return capital to investors.

Assets disposed of and related sales proceeds during 2008 were as follows:

	Ebix Inc. £m	Norton Holdings Limited £m	Total £m
Proceeds	12.2	9.9	22.1
Carrying value of Group holding in associated undertakings	(6.4)	(9.9)	(16.3)
Reversal of translation reserve	(1.2)	(0.1)	(1.3)
Profit/(loss) on disposal	**4.6**	**(0.1)**	**4.5**

10 Acquisition costs and other operating expenses

	Year ended 31 December 2009			Year ended 31 December 2008		
	Acquisition costs £m	Other operating expenses £m	Total £m	Acquisition costs £m	Other operating expenses £m	Total £m
Staff costs (Note 11)	27.6	45.3	72.9	25.3	40.2	65.5
Other staff related costs	0.5	15.9	16.4	0.6	9.7	10.3
Accommodation costs	4.3	4.2	8.5	4.0	3.7	7.7
Legal and professional charges	4.1	12.0	16.1	3.1	5.6	8.7
Investment management expenses	–	3.5	3.5	–	4.2	4.2
IT costs	–	8.3	8.3	–	7.4	7.4
Travel and entertaining	2.2	0.8	3.0	2.4	0.7	3.1
Marketing and communications	0.2	3.9	4.1	0.1	3.0	3.1
Amortisation and impairment of intangible assets	–	6.4	6.4	–	3.9	3.9
Depreciation of property, plant and equipment	–	2.9	2.9	–	3.1	3.1
Regulatory levies and charges	18.9	–	18.9	16.4	–	16.4
Other	1.3	8.4	9.7	0.7	8.9	9.6
Movement on insurance related acquisition cost deferral	(0.5)	–	(0.5)	(2.4)	–	(2.4)
Expenses before commissions	**58.6**	**111.6**	**170.2**	**50.2**	**90.4**	**140.6**
Commission costs	338.3	–	338.3	255.9	–	255.9
Total expenses	**396.9**	**111.6**	**508.5**	**306.1**	**90.4**	**396.5**

11 Staff costs

	Year ended 31 December 2009 £m	Year ended 31 December 2008 £m
Wages and salaries	57.8	52.0
Social security costs	6.0	5.7
Pension costs	9.1	7.8
	72.9	**65.5**

The average monthly number of employees during the year, including Executive Directors, was as follows:

	Year ended 31 December 2009 Number	Year ended 31 December 2008 Number (restated)
Management	32	29
Administration	311	312
Underwriting and claims	391	416
	734	**757**

The majority of employees work outside of the Netherlands.

12 Finance costs

	Year ended 31 December 2009 £m	Year ended 31 December 2008 £m
Interest and fee expenses on current borrowings:		
Revolving credit facility and other bank borrowings	2.0	0.6
Interest and fee expenses on non-current borrowings:		
Unsecured subordinated loan stock	–	2.0
US dollar floating rate unsecured subordinated loan notes	0.4	0.6
Lower Tier Two subordinated debt	9.1	9.9
Total interest and fee expenses on non-current borrowings	**9.5**	**12.5**
Total finance costs	**11.5**	**13.1**

13 Finance income

On 28 October 2008, the Group repurchased 14,998,000 £1 units of Lower Tier Two Subordinated debt for £0.56 each including accrued interest. The income resulting from this transaction was as follows:

	Year ended 31 December 2009 £m	Year ended 31 December 2008 £m
Carrying value of repurchased Lower Tier Two Subordinated debt	–	15.6
Consideration for repurchase	–	(8.4)
	–	7.2

14 Auditors remuneration

	Year ended 31 December 2009				
	Audit of the financial statements £m	Audit related fees £m	Tax advisory £m	All other services £m	Total £m
Fees payable to the Group's auditor for the audit of the Group's annual accounts	0.3	–	–	–	**0.3**
Fees payable to the Group's auditor and its associates for other services:					
The audit of the Group's subsidiaries pursuant to legislation	0.4	–	–	–	**0.4**
	0.7	–	–	–	**0.7**
Other services pursuant to legislation	–	1.1	–	–	**1.1**
Other services relating to taxation	–	–	0.1	–	**0.1**
Valuation and actuarial services	–	–	–	0.2	**0.2**
Services relating to corporate finance transactions entered into or proposed to be entered into by or on behalf of the company or any of its associates	–	0.2	–	–	**0.2**
Other	–	0.2	–	–	**0.2**
	0.7	**1.5**	**0.1**	**0.2**	**2.5**

Of the other services pursuant to legislation, £0.9m relates to services provided to the Group as required by the Listing Rules and Prospectus Rules.

	Year ended 31 December 2008				
	Audit of the financial statements £m	Audit related fees £m	Tax advisory £m	All other services £m	Total £m
Fees payable to the Group's auditor for the audit of the Group's annual accounts	0.2	–	–	–	**0.2**
Fees payable to the Group's auditor and its associates for other services:					
The audit of the Group's subsidiaries pursuant to legislation	0.3	–	–	–	**0.3**
	0.5	–	–	–	**0.5**
Other services pursuant to legislation	–	0.1	–	–	**0.1**
Other services relating to taxation	–	–	0.1	–	**0.1**
Valuation and actuarial services	–	–	–	0.2	**0.2**
Services relating to corporate finance transactions entered into or proposed to be entered into by or on behalf of the company or any of its associates	–	0.3	–	–	**0.3**
Other	–	–	–	–	**–**
	0.5	**0.4**	**0.1**	**0.2**	**1.2**

15 Tax expense

(i) Tax charged to income statement

	Year ended 31 December 2009 £m	Year ended 31 December 2008 £m
Current tax:		
For the year	(44.5)	(12.0)
Adjustments in respect of prior years	5.8	0.4
Total current tax	**(38.7)**	**(11.6)**
Deferred tax:		
Origination and reversal of temporary differences	9.9	(13.9)
Adjustments in respect of prior years	(0.1)	2.9
Total deferred tax (Note 28)	**9.8**	**(11.0)**
Total tax charged to income statement	**(28.9)**	**(22.6)**

No tax relating to associated companies has been charged to the income statement within the Group's share of profit after tax of associated undertakings in 2009 or 2008.

(ii) Tax relating to components of other comprehensive income

	Year ended 31 December 2009 £m	Year ended 31 December 2008 £m
Deferred tax on actuarial losses on defined benefit pension scheme	0.7	2.9

(iii) Tax reconciliation

The tax on the Group's profits before tax differs from the theoretical amount that would arise from using the current standard rate for corporation tax applicable in the UK of 28.0% (2008: 28.5%) as follows:

	Year ended 31 December 2009 £m	Year ended 31 December 2008 £m
Profit on ordinary activities before tax	116.4	89.2
Tax calculated at standard rate for corporation tax	(32.6)	(25.4)
Expenses not deductible for tax purposes	(2.4)	(1.6)
Equity dividends not subject to corporation tax	0.1	0.6
Group entities subject to tax rates different from 28.0% (2008: 28.5%)	(2.5)	(0.1)
Profit on sale and unrealised gain on substantial shareholdings	0.4	3.8
Effect of temporary differences not recognised in previous year	3.0	(3.8)
Tax effect of share of results of associated undertakings	(0.6)	(0.1)
Other adjustments to tax charge in respect of prior years	5.7	3.4
Effect of future tax rate changes	–	0.6
	(28.9)	**(22.6)**

16 Earnings and net assets per share

Subsequent to the balance sheet date, on 25 February 2010, the Company undertook a consolidation of its share capital, such that the shareholders received one ordinary €4 share for every four ordinary €1 shares owned as at that date.

Basic and diluted earnings per share, after adjusting for the share consolidation, are as follows:

	Year ended 31 December 2009 £m	Year ended 31 December 2008 £m
Profit on ordinary activities after tax	87.5	66.6

	Year ended 31 December 2009 Number in millions	Year ended 31 December 2008 Number in millions
Basic weighted average number of shares	77.3	77.3
Employee share options	–	–
Diluted weighted average number of shares	77.3	77.3

Basic earnings per share (pence per share)	113.2	86.0
Diluted earnings per share (pence per share)	113.2	86.0

16 Earnings and net assets per share continued

Net assets and net tangible assets per share, after adjusting for the share consolidation, are as follows:

	31 December 2009 £m	31 December 2008 £m
Net assets	894.6	849.7
Intangible assets	(81.2)	(82.1)
Net tangible assets	**813.4**	**767.6**

	31 December 2009 Number in millions	31 December 2008 Number in millions
Number of shares in issue at end of period	78.5	82.4
Own shares	(1.2)	(5.1)
Number of shares in issue less own shares	77.3	77.3

Net assets per share (pence per share)	1,156.8	1,099.2
Net tangible net assets per share (pence per share)	1,052.0	992.8

The earnings and net assets per share on a basis prior to the share consolidation are as follows:

	Year ended 31 December 2009	Year ended 31 December 2008
Basic earnings per share (pence per share)	28.3	21.5
Diluted earnings per share (pence per share)	28.3	21.5

	31 December 2009	31 December 2008
Net assets per share (pence per share)	289.2	274.8
Net tangible assets per share (pence per share)	263.0	248.2

17 Property, plant and equipment

	Office refurbishment £m	Computers and office machinery, furniture and equipment £m	Total £m
Cost:			
At 1 January 2008	11.4	9.4	20.8
Additions	1.3	0.8	2.1
Disposals	(2.9)	(3.3)	(6.2)
At 31 December 2008	9.8	6.9	16.7
At 1 January 2009	9.8	6.9	16.7
Additions	0.1	0.9	1.0
Disposals	–	(0.1)	(0.1)
At 31 December 2009	9.9	7.7	17.6
Depreciation:			
At 1 January 2008	5.0	5.8	10.8
Charge for the year	1.7	1.4	3.1
Disposals	(2.3)	(2.9)	(5.2)
At 31 December 2008	4.4	4.3	8.7
At 1 January 2009	4.4	4.3	8.7
Charge for the year	1.8	1.1	2.9
Disposals	–	–	–
At 31 December 2009	6.2	5.4	11.6
Carrying amount:			
At 31 December 2008	5.4	2.6	8.0
At 31 December 2009	**3.7**	**2.3**	**6.0**

The gross cost of any property, plant and equipment fully depreciated but still in use is £2.3m (2008: £1.7m).

The depreciation charge for the year is included in 'Other operating expenses' in the income statement.

18 Intangible assets

	Goodwill £m	Syndicate participations £m	Software £m	Total £m
Cost:				
At 1 January 2008	72.3	9.0	33.4	114.7
Additions	–	–	5.5	5.5
Disposals	–	–	(9.2)	(9.2)
At 31 December 2008	72.3	9.0	29.7	111.0
At 1 January 2009	72.3	9.0	29.7	111.0
Additions	–	–	5.5	5.5
Disposals	–	–	(2.5)	(2.5)
At 31 December 2009	72.3	9.0	32.7	114.0
Amortisation:				
At 1 January 2008	8.6	9.0	16.6	34.2
Charge for the year	–	–	3.9	3.9
Disposals	–	–	(9.2)	(9.2)
At 31 December 2008	8.6	9.0	11.3	28.9
At 1 January 2009	8.6	9.0	11.3	28.9
Charge for the year	–	–	4.2	4.2
Impairment	–	–	2.2	2.2
Disposals	–	–	(2.5)	(2.5)
At 31 December 2009	8.6	9.0	15.2	32.8
Carrying amount:				
At 31 December 2008	63.7	–	18.4	82.1
At 31 December 2009	**63.7**	**–**	**17.5**	**81.2**

The gross cost of any software fully amortised but still in use is £6.4m (2008: £0.7m).

All software additions in 2009 and 2008 are internally developed.

The amortisation charge for the year is included in 'Other operating expenses' in the income statement.

During the year, various items of software system belonging to the 'Other corporate' business segment were impaired down to a recoverable amount of £nil. This was mainly due to those software systems being replaced such that economic benefits were no longer accruing from the initial expenditure and resulted in a charge of £2.2m.

Impairment tests for goodwill

Goodwill is reviewed annually for impairment and has been allocated to individual cash-generating units (CGUs) as follows:

	31 December 2009 £m	31 December 2008 £m
Brit UK Strategic Business Unit	52.0	52.0
Brit Global Markets Strategic Business Unit	11.7	11.7
	63.7	**63.7**

The recoverable amount of each CGU has been determined using a value in use calculation.

18 Intangible assets continued

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 11.3% (2008: 10.4%). In each goodwill impairment review, the recoverable amount significantly exceeds the carrying value of the CGU including its associated goodwill 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:

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.

Forecast investment returns are based on risk free interest rates being applied to Strategic Business Unit insurance funds which is the method of allocating investment returns to Strategic Business Units.

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

19 Deferred acquisition costs

	31 December 2009 £m	31 December 2008 £m
At 1 January	152.1	132.2
Costs deferred during the year	164.5	148.0
Amortisation charge for the year	(154.2)	(128.1)
At 31 December	**162.4**	**152.1**

20 Investments in associated undertakings

The following companies have been designated as associated undertakings due to the significant influence resulting from a combination of shareholding and board representation.

Norton II Holdings Limited

Norton II Holdings Limited ceased to be an associated undertaking during the year. For further information see Note 9.

RI3K Limited

The Group owns 21.8% of the ordinary share capital of RI3K Limited and has the right to appoint a Director to its Board.

RI3K Limited is an unlisted company registered in England and Wales. Its accounting reference date is 31 December.

The company's principal activity is providing a paperless trading service for the insurance and reinsurance industry.

Xbridge Limited

The Group owns 39.2% of the ordinary share capital of Xbridge Limited and has a director on its Board.

The Group has granted Xbridge Limited a five year loan facility of up to £6.0m. As at 31 December 2009, £5.2m of this amount had been drawn down.

Xbridge Limited is an unlisted company registered in England and Wales. Its accounting reference date is 31 December.

The company's principal activity online insurance and finance technology.

Verex Limited

The Group owns 35.3% of the ordinary share capital of Verex Limited and has a director on its Board.

The Group has entered into a contract to subscribe for up to £6.0m of Verex Limited loan notes. As at 31 December 2009, £4.0m of these loan notes had been subscribed for.

Verex Limited is an unlisted company registered in England and Wales. Its accounting reference date is 31 December.

The company provides vehicle manufacturer affinity motor insurance, accident management, network management and related products and services, back office support and administration to vehicle manufacturers, their dealers and associated body shops.

20 Investments in associated undertakings continued

The movements in the Group's investments in associated undertakings were as follows:

	Norton II Holdings Limited 2009 £m	RI3K Limited 2009 £m	Xbridge Limited 2009 £m	Verex Limited 2009 £m	Total 2009 £m	Total 2008 £m
At 1 January	15.1	2.2	10.7	1.1	29.1	33.0
Investment in ordinary shares in the year	–	–	–	–	–	7.2
Share of profit/(loss) after tax in the year	0.5	(0.9)	(0.7)	(1.2)	(2.3)	(0.5)
Effect of associates' capital movements	–	–	–	–	–	0.6
Movements in loan and preference share balances	(0.3)	0.4	0.9	2.8	3.8	6.2
Foreign exchange revaluation	0.1	–	–	–	0.1	4.1
Transferred to financial investments	–	–	–	–	–	(5.2)
Disposal of associated undertaking	(15.4)	–	–	–	(15.4)	(16.3)
At 31 December	**–**	**1.7**	**10.9**	**2.7**	**15.3**	**29.1**

The carrying value is made up as follows:

	RI3K Limited 2009 £m	Xbridge Limited 2009 £m	Verex Limited 2009 £m	Total 2009 £m	Total 2008 £m
Share of net (liabilities)/assets	(2.5)	(2.3)	(1.5)	(6.3)	7.8
Goodwill arising on acquisition	1.9	8.3	–	10.2	10.3
Preference shares and loans	2.3	4.9	4.2	11.4	11.0
	1.7	**10.9**	**2.7**	**15.3**	29.1

The summary income statement and statement of financial position of the companies which were associated undertakings as at 31 December 2009 were as follows:

	RI3K Limited 2009 £m	Xbridge Limited 2009 £m	Verex Limited 2009 £m
Income statement			
Income	2.2	11.5	0.8
Loss on ordinary activities before tax	(3.9)	(1.4)	(3.7)
Tax charge on profit	–	–	–
Loss on ordinary activities after tax	(3.9)	(1.4)	(3.7)
Statement of financial position			
Current assets	1.7	6.6	1.3
Non-current assets	–	–	2.0
Total assets	1.7	6.6	3.3
Current liabilities	(1.5)	(5.9)	(0.6)
Non-current liabilities	(11.4)	(6.6)	(7.1)
Total liabilities	**(12.9)**	**(12.5)**	**(7.7)**
Net liabilities	**(11.2)**	**(5.9)**	**(4.4)**

21 Insurance and reinsurance contracts

(i) Balances on insurance and reinsurance contracts

	31 December 2009 £m	31 December 2008 £m
Gross		
Insurance contracts		
Claims reported and loss adjustment expenses	1,511.7	1,439.2
Claims incurred but not reported	1,240.4	1,218.5
	2,752.1	2,657.7
Unearned premiums	687.3	687.0
Total insurance contracts	**3,439.4**	**3,344.7**
Recoverable from reinsurers		
Reinsurance contracts		
Claims reported and loss adjustment expenses	284.5	274.9
Claims incurred but not reported	188.3	219.8
Impairment provision	(12.4)	(15.5)
	460.4	479.2
Unearned premiums	63.1	70.4
Total reinsurance contracts	**523.5**	**549.6**
Net		
Claims reported and loss adjustment expenses	1,227.2	1,164.3
Claims incurred but not reported	1,052.1	998.7
Impairment provision	12.4	15.5
	2,291.7	2,178.5
Unearned premiums	624.2	616.6
Net insurance and reinsurance contracts	**2,915.9**	**2,795.1**

Insurance contracts – assumptions and changes in assumptions

Process used to decide on assumptions required

The risks associated with these insurance contracts and in particular with casualty insurance contracts are complex and subject to a number of variables that complicate quantitative sensitivity analysis.

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

21 Insurance and reinsurance contracts continued

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

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 accident years or new classes of business).

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

Claims for a number of classes of business, including Financial Risk, Mortgage Indemnity Guarantee, Catastrophe Retrocession and Casualty Treaty, do not always conform to the statistical distribution expected. For these classes claims reserves are additionally reviewed on a policy by policy basis by underwriters and claims managers and these reviews take account of market intelligence in addition to notified claims.

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. In previous years financial statements, they have been presented on an accident 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 as 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 Brit Insurance 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 2009 exchange rates.

21 Insurance and reinsurance contracts continued

Ultimate gross claims

Underwriting year	2001 and prior years £m	2002 £m	2003 £m	2004 £m	2005 £m	2006 £m	2007 £m	2008 £m	2009 £m	Intra Group and other underwriting adjustments £m	Total £m
At end of underwriting year	2,116.9	355.4	595.2	831.6	1,320.7	817.4	1,008.5	1,060.5	962.0		
One year later	2,172.9	353.7	563.3	788.1	1,352.5	831.9	1,077.8	1,166.3			
Two years later	2,198.8	341.4	507.1	748.8	1,366.4	828.0	1,089.5				
Three years later	2,200.5	340.2	482.0	730.9	1,340.1	796.3					
Four years later	2,207.1	324.8	471.3	712.2	1,310.9						
Five years later	2,164.0	318.9	460.7	697.7							
Six years later	2,177.1	316.5	447.0								
Seven years later	2,170.3	316.2									
Eight years later	2,168.2										
Total ultimate gross claims at 31 December 2009	**2,168.2**	**316.2**	**447.0**	**697.7**	**1,310.9**	**796.3**	**1,089.5**	**1,166.3**	**962.0**	**–**	**8,954.1**
Less accumulated gross paid claims	(1,987.6)	(276.1)	(356.3)	(571.9)	(1,071.6)	(462.1)	(500.8)	(365.2)	(68.6)	–	(5,660.2)
Unearned portion of gross ultimate claims	–	–	–	(0.7)	(5.5)	(7.4)	(8.5)	(68.4)	(497.6)	–	(588.1)
Claims handling provision	2.2	0.5	1.4	2.0	4.0	5.3	9.3	12.2	6.5	–	43.4
Outstanding gross claims at 31 December 2009	**182.8**	**40.6**	**92.1**	**127.1**	**237.8**	**332.1**	**589.5**	**744.9**	**402.3**	**–**	**2,749.2**
Other corporate adjustments	–	–	–	–	–	–	–	–	–	2.9	2.9
Total outstanding gross claims at 31 December 2009	**182.8**	**40.6**	**92.1**	**127.1**	**237.8**	**332.1**	**589.5**	**744.9**	**402.3**	**2.9**	**2,752.1**
Ultimate movement in gross claims during 2009 calendar year	(2.1)	(0.3)	(13.7)	(14.5)	(29.2)	(31.7)	11.7	105.8	–	–	26.0
of which relates to re-estimation of ultimate premium	0.3	(0.2)	(0.2)	(0.4)	(2.6)	2.3	22.4	57.2	–	–	78.8
of which relates to re-estimation of gross ultimate claims	(2.4)	(0.1)	(13.5)	(14.1)	(26.6)	(34.0)	(10.7)	48.6	–	–	(52.8)

21 Insurance and reinsurance contracts continued

Ultimate net claims

Underwriting year	2001 and prior years £m	2002 £m	2003 £m	2004 £m	2005 £m	2006 £m	2007 £m	2008 £m	2009 £m	Intra Group and other underwriting adjustments £m	Total £m
At end of underwriting year	1,402.6	299.6	540.3	703.4	931.8	729.8	870.7	902.1	826.2		
One year later	1,478.7	294.6	498.8	620.1	928.5	757.7	919.1	1,002.4			
Two years later	1,496.3	277.0	439.1	585.4	935.9	733.7	940.0				
Three years later	1,488.6	260.1	418.5	576.4	910.9	706.6					
Four years later	1,491.6	252.5	397.3	561.7	885.1						
Five years later	1,468.5	247.0	381.0	547.3							
Six years later	1,476.1	240.9	367.6								
Seven years later	1,463.9	240.0									
Eight years later	1,454.9										
Total ultimate net claims at 31 December 2009	1,454.9	240.0	367.6	547.3	885.1	706.6	940.0	1,002.4	826.2	–	6,970.1
Less accumulated net paid claims	(1,346.0)	(208.9)	(303.0)	(447.6)	(680.2)	(427.7)	(457.6)	(315.3)	(59.1)	–	(4,245.4)
Unearned portion of net ultimate claims	–	–	–	(0.7)	(5.5)	(7.4)	(8.5)	(64.4)	(425.0)	–	(511.5)
Claims handling provision	2.2	0.5	1.4	2.0	4.0	5.3	9.3	12.2	6.5	–	43.4
Bad debt provision	2.1	0.5	0.8	0.5	1.6	1.8	3.0	1.3	0.7	–	12.3
Outstanding net claims at 31 December 2009	113.2	32.1	66.8	101.5	205.0	278.6	486.2	636.2	349.3	–	2,268.9
Other corporate adjustments	–	–	–	–	–	–	–	–	–	22.7	22.7
Total outstanding net claims at 31 December 2009	113.2	32.1	66.8	101.5	205.0	278.6	486.2	636.2	349.3	22.7	2,291.6
Ultimate movement in net claims during 2009 calendar year	(9.0)	(0.9)	(13.4)	(14.4)	(25.8)	(27.1)	20.9	100.3	–	–	30.6
of which relates to re-estimation of ultimate premium	2.0	(0.3)	(0.7)	0.6	(2.8)	3.7	19.0	62.5	–	–	84.0
of which relates to re-estimation of net ultimate claims	(11.0)	(0.6)	(12.7)	(15.0)	(23.0)	(30.8)	1.9	37.8	–	–	(53.4)

Material surpluses released

The net aggregate reserve releases from prior years amounted to £81.2m (2008: £79.1m). In part this arises from the Group's reserving philosophy which aims to make the most recent years, with the greatest uncertainty of result, prudently reserved leaving a potential for subsequent release.

This differs from the £53.4m stated in the table above as the table above is on an underwriting year basis and the surpluses in this narrative are on an annually accounted basis. The reconciling items are the 2008 underwriting year not being fully earned and the Air France loss which is a 2009 accident year loss but relates to 2008 underwriting year policies.

Releases have been made in the Brit Global Markets SBU of £13.8m (2008: £22.0m), Brit Reinsurance SBU of £24.1m (2008: £20.1m), Brit UK SBU of £41.2m (2008: £38.6m) and Other Underwriting of £2.1m (2008: strengthening of £1.6m).

21 Insurance and reinsurance contracts continued

(ii) Movements in insurance and reinsurance contracts

a) Claims and loss adjustment expenses

	31 December 2009			31 December 2008		
	Gross £m	Reinsurance £m	Net £m	Gross £m	Reinsurance £m	Net £m
As at 1 January	2,657.7	(479.2)	2,178.5	2,013.2	(326.1)	1,687.1
Cash paid for claims settled in the year	(792.2)	110.8	(681.4)	(694.3)	90.0	(604.3)
Increase in liabilities	1,054.3	(123.6)	930.7	886.1	(158.5)	727.6
Net foreign exchange differences	(167.7)	31.6	(136.1)	452.7	(84.6)	368.1
As at 31 December	**2,752.1**	**(460.4)**	**2,291.7**	**2,657.7**	**(479.2)**	**2,178.5**

b) Unearned premiums

	31 December 2009			31 December 2008		
	Gross £m	Reinsurance £m	Net £m	Gross £m	Reinsurance £m	Net £m
As at 1 January	687.0	(70.4)	616.6	609.8	(54.7)	555.1
Premiums written in the year	1,696.4	(225.0)	1,471.4	1,394.6	(231.3)	1,163.3
Premiums earned during the year	(1,696.1)	232.2	(1,463.9)	(1,317.4)	215.6	(1,101.8)
As at 31 December	**687.3**	**(63.2)**	**624.1**	**687.0**	**(70.4)**	**616.6**

22 Financial investments

	31 December 2009 £m	31 December 2008 £m
Equity securities:		
Listed	100.7	116.0
Unlisted	1.3	1.4
	102.0	117.4
Debt securities:		
Listed	1,628.0	1,431.0
Unlisted	307.5	109.4
Certificates of deposit	346.9	622.1
	2,282.4	2,162.5
Specialised investment funds	96.7	113.1
	2,481.1	2,393.0

US debt securities including treasury bills, notes and bonds and mortgage backed securities are shown as unlisted in the table above.

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

Disclosures of fair values in accordance with the fair value hierarchy

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

The fair value hierarchy includes the following levels:

a) quoted prices (unadjusted) in active markets for identical assets (Level 1);
b) inputs other than quoted prices included within Level 1 that are observable for the asset, either directly (i.e. as prices) or indirectly (i.e. derived from prices) (Level 2); and
c) inputs for the asset that are not based on observable market data (unobservable inputs) (Level 3).

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety shall be 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. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a Level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgement, considering factors specific to the asset.

22 Financial investments continued

Level 3 financial investments are valued using techniques appropriate to the specific investment. The techniques used, amongst others, include fair value by reference to NAVs issued by fund managers based on their knowledge of underlying investments and actuarial models using assumptions of realistic disaster scenarios and credit spreads of counterparties.

	31 December 2009			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Equity securities	84.9	5.7	11.4	**102.0**
Debt securities	634.2	1,601.0	47.2	**2,282.4**
Specialised investment funds	41.9	–	54.8	**96.7**
	761.0	**1,606.7**	**113.4**	**2,481.1**

Reconciliation of movements in Level 3 financial investments measured at fair value

	Equity securities £m	Debt Securities £m	Specialised investment funds £m	Total £m
At 1 January 2009	45.0	46.9	61.9	153.8
Total gains recognised in the income statement	2.2	1.8	7.8	11.8
Purchases	–	5.7	8.9	14.6
Sales	(35.7)	(2.7)	(19.5)	(57.9)
Foreign exchange losses	(0.1)	(4.5)	(4.3)	(8.9)
At 31 December 2009	**11.4**	**47.2**	**54.8**	**113.4**

All unrealised gains of £36.2m and realised losses of £24.4m on Level 3 financial investments are presented in investment return in the income statement.

Total unrealised gains of £17.9m are included in the income statement in respect of Level 3 financial investments held at the end of the year.

There were no transfers between Level 3 and Levels 1 or 2 in the year.

Transfers between Level 1 and Level 2

The Group has transferred debt securities of £71.9m from Level 1 to Level 2 due to market conditions and liquidity issues during the year. There have been no transfers from Level 2 to Level 1 during the year.

Sensitivity of Level 3 financial investments measured at fair value to changes in key assumptions

The following table shows the sensitivity of the fair value of Level 3 financial investments to changes in key assumptions.

	31 December 2009	
	Carrying amount £m	Effect of possible alternative assumptions (+/–) £m
Equity securities	11.4	0.5
Debt securities	47.2	2.0
Specialised investment funds	54.8	7.1
	113.4	

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

- For equity securities, based on a review of the composition and investment strategy of the fund, the price was recalculated assuming movements in prices of the underlying investments.
- For debt securities, the Group adjusted, dependent on the type and valuation methodology of the investment, key variables including the probability of a catastrophe event, 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 10 – 20% which has been determined by historic movements in valuations or price changes in the underlying investments.

23 Derivative contracts

	31 December 2009 £m	31 December 2008 £m
Derivative contract assets		
Credit derivatives, warrants and weather derivatives	0.6	1.4
	0.6	**1.4**

	31 December 2009 £m	31 December 2008 £m
Derivative contract liabilities		
Currency forwards	0.3	3.1
Catastrophe swap contracts	0.6	2.3
	0.9	**5.4**

Disclosures of fair values in accordance with the fair value hierarchy

	31 December 2009			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Derivative contract assets	–	–	0.6	**0.6**
Derivative contract liabilities	–	0.3	0.6	**0.9**

For further information regarding the fair value hierarchy, see Note 22.

24 Insurance and other receivables

	31 December 2009 £m	31 December 2008 £m
Arising out of direct insurance operations	302.9	288.2
Arising out of reinsurance operations	190.5	170.5
Prepayments	5.9	4.7
Accrued income	31.4	50.3
Other debtors	6.3	4.7
	537.0	**518.4**

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

25 Cash and cash equivalents

	31 December 2009 £m	31 December 2008 £m
Cash at bank and on deposit	949.2	840.1
Cash equivalents	45.0	0.6
	994.2	**840.7**

The carrying amounts disclosed above reasonably approximate fair values.

Included in cash and cash equivalents are amounts totalling £357.8m (2008: £418.2m) not available for use by the Group which are held within the Lloyd's syndicates or as Funds at Lloyd's.

26 Employee benefits

The Group has the following pension schemes in operation:

(i) Brit Group Services Limited – defined benefit pension scheme
The Group operates a funded pension plan providing benefits for its employees based on final pensionable salaries. The assets of the scheme are held in a separate trustee administered fund. This scheme closed to new entrants on 4 October 2001. The scheme is subject to a formal actuarial valuation every three years and the preliminary results of the valuation carried out as at 31 July 2009 were updated to the accounting date by an independent qualified actuary in accordance with International Accounting Standard 19 'Employee Benefits' (IAS 19). As required by IAS 19, the value of the defined benefit obligations and current service cost have been measured using the projected unit credit method.

The following table sets out the key IAS 19 assumptions used for the scheme.

	31 December 2009 %	31 December 2008 %	31 December 2007 %
Retail price inflation	3.60	2.90	3.30
Discount rate	5.60	6.40	5.80
Pension increases in payment	3.50	2.90	3.20
General salary increases	5.10	4.90	5.30
Life expectancy of a pensioner aged 60 at the date of the statement of financial position			
Male	26.2 years	26.8 years	26.8 years
Female	28.5 years	29.2 years	29.2 years
Life expectancy of a member retiring at age 60 in 20 years' time			
Male	28.3 years	28.1 years	28.0 years
Female	29.8 years	30.3 years	30.2 years

The expected rate of return on assets has been derived by taking the weighted average of the long-term expected rate of return on each of the asset classes at the start of each year.

The expected returns for individual asset classes at the start of each year were as follows:

	31 December 2009 %	31 December 2008 %	31 December 2007 %
Equities	7.40	7.60	7.50
Corporate Bonds	5.00	5.00	4.80
Gilts	3.60	4.20	4.10
Cash	3.80	4.40	4.30
Weighted average expected return	6.00	6.60	6.60

The amount included in the statement of financial position arising from the Group's obligations in respect of the scheme is as follows:

	31 December 2009 £m	31 December 2008 £m	31 December 2007 £m
Present value of defined benefit obligations	100.7	84.1	93.5
Fair value of scheme assets	(96.6)	(82.7)	(88.4)
Net pension benefit obligations	4.1	1.4	5.1

26 Employee benefits continued

The amounts recognised in the income statement were as follows:

	31 December 2009 £m	31 December 2008 £m
Current service cost	1.2	1.6
Interest cost	5.3	5.4
Past service cost	0.1	–
Expected return on scheme assets	(4.9)	(6.0)
Total expense recognised in the income statement	**1.7**	**1.0**

The above charges have been recognised in the acquisition costs and other operating expenses lines of the income statement.

The actual return on the scheme's assets over the year was a gain of £16.3m (2008: loss of £16.3m).

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

	31 December 2009		31 December 2008		31 December 2007	
	Allocation %	Fair value £m	Allocation %	Fair value £m	Allocation %	Fair value £m
Equity securities	66	63.8	57	46.8	68	59.8
Debt securities	23	22.2	27	22.6	31	27.6
Other	11	10.6	16	13.3	1	1.0
	100	**96.6**	**100**	**82.7**	**100**	**88.4**

A reconciliation of the present value of the defined benefit obligation is as follows:

	31 December 2009 £m	31 December 2008 £m
Opening defined benefit obligations	84.1	93.5
Current service cost	1.2	1.6
Interest cost	5.3	5.4
Past service cost	0.1	–
Actuarial losses/(gains)	13.9	(12.2)
Benefits paid	(3.9)	(4.2)
Closing defined benefit obligations	**100.7**	**84.1**

26 Employee benefits continued

A reconciliation of the fair value of the scheme assets is as follows:

	31 December 2009 £m	31 December 2008 £m
Opening fair value of scheme assets	82.7	88.4
Expected return on scheme assets	4.9	6.0
Difference between expected and actual return on scheme assets	11.4	(22.3)
Contributions by the employer	1.5	14.8
Benefits paid	(3.9)	(4.2)
Closing fair value of scheme assets	**96.6**	**82.7**

During 2009 the Group has paid regular contributions of 33.7% of eligible salaries (2008: 33.7% of eligible salaries and additional lump sum contributions totalling £13.3m).

The contributions expected to be paid during 2010 will depend on the final results of the triennial valuation of the scheme as at 31 July 2009.

A summary of the scheme's experience was as follows:

	31 December 2009 £m	31 December 2008 £m	31 December 2007 £m	31 December 2006 £m	31 December 2005 £m
Defined benefit obligation	(100.7)	(84.1)	(93.5)	(89.7)	(95.0)
Scheme assets	96.6	82.7	88.4	77.3	72.2
Deficit	**(4.1)**	**(1.4)**	**(5.1)**	**(12.4)**	**(22.8)**

The recent history of experience gains and losses is as follows:

	31 December 2009 £m	31 December 2008 £m	31 December 2007 £m	31 December 2006 £m	31 December 2005 £m
Difference between expected and actual return on scheme assets:					
Amount – gain/(loss)	11.4	(22.3)	2.7	(0.3)	8.0
Experience gains and losses on obligations:					
Amount – gain/(loss)	4.8	(0.6)	(0.7)	4.1	(0.7)
Total amount recognised outside income statement:					
Actuarial (losses)/gains on defined benefit pension scheme	**(2.5)**	**(10.1)**	**1.9**	**8.8**	**(3.9)**

The cumulative amount recognised in the Consolidated Statement of Comprehensive Income since 1 January 2004 is a loss of £8.6m (2008: loss of £6.1m).

(ii) Brit Group Services Limited – Defined Contribution Group Personal Pension Plan

From 5 October 2001, Brit Group Services Limited has operated a defined contribution group personal pension plan. The assets of the scheme are held separately from those of the Group in an independently administered fund.

The pension cost charge represents contributions payable by Brit Group Services Limited to the fund and amounted to £7.3m (2008: £6.7m).

At 31 December 2009 no contributions were payable to the fund (2008: £nil).

(iii) Brit Insurance Limited - Defined Contribution Scheme

For Brit Insurance Limited, the Group operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the Group in an independently administered fund.

The pension cost charge represents contributions payable by Brit Insurance Limited to the fund and amounted to £0.0m (2008: £0.1m).

At 31 December 2009, no contributions were payable to the fund (2008: £nil).

27 Borrowings

	Maturity	Call	Effective interest rate %	31 December 2009 Initial capitalised borrowing costs £m	31 December 2009 Amortised cost £m	31 December 2009 Fair value £m	31 December 2008 Amortised cost £m	31 December 2008 Fair value £m
Non-current								
US dollar floating rate unsecured subordinated loan notes	2034	2009	US dollar 3 month LIBOR + 3.5	0.3	–	–	10.4	10.4
Lower Tier Two subordinated debt	2030	2020	6.84	1.8	132.8	95.6	132.7	97.9
Revolving credit facility	2012	–	LIBOR + 3.25	2.2	104.8	107.0	–	–
				4.3	**237.6**	**202.6**	**143.1**	**108.3**

The fair value of the Lower Tier Two subordinated debt represents trading market values on recognised exchanges.

The US dollar floating rate unsecured subordinated loan notes were not liquid and hence their fair value has been estimated by reference to spreads, maturity and credit risk.

US dollar floating rate unsecured subordinated loan notes

The US dollar floating rate unsecured subordinated loan notes were called during 2009.

Lower Tier Two subordinated debt

The Lower Tier Two subordinated debt is callable in whole by the Group on 9 December 2020. Following this date the interest rate resets to 3.4% above the 10-year gilt rate prevailing at the time. The effective interest rate method of accounting has been applied over the term up to the call date.

On 28 October 2008, the Group repurchased 14,998,000 £1 units and subsequently cancelled this debt.

Revolving credit facility

On 9 November 2009, the Group entered into a three year revolving credit facility for £175m syndicated to three banks.

On 22 December 2009, the Group cancelled a five year revolving credit facility for £150m and repaid amounts outstanding on that facility.

28 Deferred taxation

The movement in deferred tax assets and liabilities during the year, taking into consideration the offsetting of balances within the same tax jurisdiction is as follows:

	Unrealised (profits)/losses on investments £m	Pensions £m	Foreign exchange (profits)/losses on non-monetary items £m	Trading losses carried forward £m	Declared underwriting results £m	Other £m	Total £m
As at 1 January 2009	–	0.4	(1.3)	–	(30.7)	2.1	(29.5)
Movements in the year:							
(Charged)/credited to income statement in respect of current year	(0.5)	0.1	0.5	–	7.1	2.7	9.9
Other adjustments in respect of prior years	–	–	–	–	–	(0.1)	(0.1)
(Charged)/credited to income statement (Note 15)	(0.5)	0.1	0.5	–	7.1	2.6	9.8
Tax relating to components of other comprehensive income (Note 15)	–	0.7	–	–	–	–	0.7
At 31 December 2009	**(0.5)**	**1.2**	**(0.8)**	**–**	**(23.6)**	**4.7**	**(19.0)**
As at 1 January 2008	(3.3)	1.4	(1.0)	–	(18.9)	0.4	(21.4)
Movements in the year:							
Credited/(charged) to income statement in respect of current year	4.7	(3.9)	(0.3)	(0.6)	(14.4)	0.1	(14.4)
Deferred tax assets previously unrecognised	–	–	–	–	0.5	–	0.5
Other adjustments in respect of prior years	(1.4)	–	–	0.6	2.1	1.6	2.9
Credited/(charged) to income statement (Note 15)	3.3	(3.9)	(0.3)	–	(11.8)	1.7	(11.0)
Tax relating to components of other comprehensive income (Note 15)	–	2.9	–	–	–	–	2.9
At 31 December 2008	**–**	**0.4**	**(1.3)**	**–**	**(30.7)**	**2.1**	**(29.5)**

Deferred tax assets are recognised for temporary differences to the extent that the realisation of the related tax benefit through the future taxable profits is probable.

29 Provisions

	31 December 2009 £m	31 December 2008 £m
At 1 January	0.4	0.4
Amounts utilised during the year	(0.1)	–
At 31 December	**0.3**	0.4

The provision is in respect of a lease shortfall on a property which is leased by a subsidiary and sublet to third parties. The Directors anticipate a loss arising over the period of the lease which expires in 2014 and this has been recognised as a provision.

30 Insurance and other payables

	31 December 2009 £m	31 December 2008 £m
Arising out of direct insurance operations	24.7	30.4
Arising out of reinsurance operations	147.6	135.8
Other taxes and social security costs	1.6	1.7
Shares held by third parties – Elite EEA Investment Portfolio	–	10.4
Accruals and deferred income	24.1	20.5
Other creditors	2.7	3.3
	200.7	202.1

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

31 Equity dividends

Dividend paid	Amount (pence per ordinary share)	31 December 2009 £m	31 December 2008 £m
Final 2007	7.5	–	23.3
Special 2007	7.0	–	21.7
Interim 2008	7.5	–	23.2
Final 2008	7.5	23.2	–
Interim 2009	7.5	23.2	–
		46.4	**68.2**

Following the corporate reorganisation effective from 21 December 2009, it is anticipated that, for an initial period, the Company is unlikely to pay dividends but instead will make distributions to shareholders by way of reductions of the par value of the Company shares.

The amounts of pence per ordinary share stated above are based on the number of shares in issue prior to the share consolidation on 25 February 2010.

32 Share capital

	31 December 2009 £m	On incorporation £m	31 December 2009 €m	On incorporation €m	31 December 2009 Number in millions	On incorporation Number in millions
Authorised:						
Ordinary shares of €1 each	885.0	0.2	1,000.0	0.2	1,000.0	0.2
Allotted, issued and fully paid:						
Ordinary shares of €1 each	277.9	–	314.0	–	314.0	–

The number of shares reported is for Brit Insurance Holdings N.V., the ultimate parent of the Group.

Share capital has been translated from Euros into Sterling using an exchange rate of 1.13 as at the end of the year.

Brit Insurance Holdings N.V. was incorporated on 22 June 2009.

32 Share capital continued

The authorised share capital was increased from 0.2m shares of €1 each to 1,000.0m shares of €1 each as part of the corporate reorganisation which was effective from 21 December 2009.

	Number in millions of €1 ordinary shares in issue
As at 31 December 2008	–
Issue of ordinary shares on incorporation	–
Issue of ordinary shares on corporate reorganisation	314.0
As at 31 December 2009	**314.0**

There were no shares reserved for issue under options as at 31 December 2009 or on incorporation.

Subsequent to the date of the consolidated statement of financial position, on 25 February 2010, the Company undertook a consolidation of its share capital, such that the shareholders received one ordinary €4 share for every four ordinary €1 shares owned as at that date.

33 Own shares

On 1 December 2009, prior to the corporate reorganisation, the Group cancelled its treasury shares held in Brit Insurance Holdings PLC, which was the parent of the Group at that time.

The trustees of the Brit Bonus Share Matching Plan 2007 (BSMP) and Brit Performance Share Plan 2003 (PSP) acquire Brit Insurance Holdings N.V. shares in accordance with the terms of that trust. The number of shares held at 31 December 2009 was 4,068,784 (2008: 4,091,500) (stated on a basis prior to the share consolidation on 25 February 2010).

The trustees of the Brit All Employee Share Ownership Plan 2001 (ESOP) acquire Brit Insurance Holdings N.V. shares in accordance with the terms of that trust. The number of unvested shares held at 31 December 2009 was 657,269 (2008: 595,662) (stated on a basis prior to the share consolidation on 25 February 2010).

Shares in Brit Insurance Holdings PLC held by the trusts were exchanged on a one for one basis for shares in Brit Insurance Holdings N.V. on the effective date of the corporate reorganisation.

Details of the BSMP, PSP and ESOP are given in Note 36.

	31 December 2009 £m	31 December 2008 £m
Treasury shares	–	53.4
BSMP and PSP	9.2	9.3
ESOP	1.5	1.5
	10.7	**64.2**

34 Commitments

Operating lease commitments

The Group has entered into a number of operating lease arrangements to lease properties, motor vehicles 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 income statement were £4.8m (2008: £4.7m).

The future minimum lease payments under non-cancellable operating leases were as follows:

	31 December 2009 £m	31 December 2008 £m
Not later than one year	4.0	4.8
Later than one year and not later than five years	12.5	13.0
Later than five years	2.5	5.1
	19.0	**22.9**

The Group has sublet one of the properties at a rental of £55,000 per year until 2014 and therefore the future minimum sublease receipts expected to be received under this sublease as at 31 December 2009 were £0.3m (2008: £0.3m). Sublease receipts recognised in the income statement during the year were £0.1m (2008: £0.1m).

35 Cash flows provided by operating activities

	Year ended 31 December 2009 £m	Year ended 31 December 2008 £m
Profit on ordinary activities before tax	116.4	89.2
Adjustments for non-cash movements:		
Realised and unrealised (gains)/losses on investments	(38.0)	121.2
Realised and unrealised losses on derivatives	4.1	19.1
Loss on sale of property, plant and equipment	0.1	0.8
Amortisation of software	4.2	3.9
Impairment of software	2.2	–
Depreciation of property, plant and equipment	2.9	3.1
Foreign exchange (gains)/losses on financing items	(1.4)	2.9
Foreign exchange losses/(gains) on cash and cash equivalents	49.0	(90.4)
Share of loss after tax of associated undertakings	2.3	0.5
Charges in respect of employee share schemes	10.1	5.2
Cash contributions in excess of charges in respect of defined benefit pension scheme	0.2	(13.8)
Interest income	(97.1)	(124.6)
Dividend income	(2.4)	(4.0)
Finance costs on borrowing	11.5	13.1
Finance income	–	(7.2)
Profit on disposal and partial disposal of associated undertakings	(4.2)	(4.5)
Changes in working capital:		
Deferred acquisition costs	(10.3)	(19.9)
Insurance and other receivables excluding accrued income	(37.5)	(35.6)
Insurance and reinsurance contracts	120.8	552.9
Financial investments	(50.1)	(515.7)
Derivative contracts	(7.8)	(14.6)
Insurance and other payables	(1.4)	54.9
Provisions	(0.1)	–
Cash flows provided by operating activities	**73.5**	**36.5**

36 Share-based payments

During the year ended 31 December 2009, the Group had a number of long-term employee incentive schemes. With the exception of one cash-settled award made under terms similar to the Bonus Share Matching Plan all awards have been classified as equity-settled. These schemes are described below and further information is available in the Directors' Remuneration Report.

The compensation cost recognised in the income statement under International Financial Reporting Standard 2 'Share-based payments' (IFRS 2) for the Group's share-based payment arrangements is shown below:

	Year ended 31 December 2009 £m	Year ended 31 December 2008 £m
Brit All Employee Share Ownership Plan 2001 (ESOP)	0.3	0.3
Brit Performance Share Plan 2003 (PSP)	5.3	2.6
Bonus Share Matching Plan 2007 (BSMP)	4.5	2.2
Brit Executive Share Option Scheme 2003 (ESOS)	–	0.1
	10.1	**5.2**

Corporate reorganisation

Awards granted for Brit Insurance Holdings PLC shares, but not exercised prior to the corporate reorganisation on 21 December 2009, were exchanged on a one for one basis for share awards in Brit Insurance Holdings N.V. on that date.

Share consolidation

All numbers of shares and prices per share in this Note are stated on a basis prior to the share consolidation on 25 February 2010.

Measurement of fair value

PSP share awards with vesting based on Total Shareholder Return (TSR) performance

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 calendar years beginning with the year in which the awards are granted. 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 and the expected volatility of share returns over the life of the awards. The uncertainty of share returns is generated for each simulation of future TSRs by randomly sampling from the weekly share returns which have been observed over recent periods of history. The correlation between the stocks in the comparator group is allowed for automatically (without the need for separate assumptions) because the simulation is sampling from the observed share returns which include the stocks' relative weekly returns. Dividends are not deducted in the calculation of fair value because it has been assumed that any dividends will be accumulated over the vesting period and repaid in equivalent shares. Many thousands of simulations of the future TSRs are calculated and these are used to determine the average fair value of the PSP share award.

BSMP, PSP and ESOP share awards with vesting based on non-market conditions

The fair values of the BSMP, PSP and ESOP share awards with vesting based on non-market conditions are set to equal the share price on date of grant. Dividends are not deducted in the calculation of fair value because dividends are received by ESOP holders during the vesting period and it has been assumed that any dividends will be accumulated over the vesting period and repaid in equivalent shares on the BSMP and PSP schemes.

For PSP share awards granted during the year, the following assumptions have been made:

	Year ended 31 December 2009	Year ended 31 December 2008
Expected volatility	32.9%–33.9%	34.0%–35.0%
Risk-free interest rate	1.7%–2.4%	2.9%–5.1%

Expected volatilities are based on the historical volatility of the Group's share returns over the most recent period that is commensurate with the expected term of the performance shares and also the long-term trend observed.

The risk-free rate used in the valuation model is equal to the yield available on zero-coupon UK government bonds at the date of grant with a term equal to the expected term of the awards.

36 Share-based payments continued

(i) Brit All Employee Share Ownership Plan 2001

Following the corporate reorganisation, no further purchases or awards will be made under the ESOP after 31 December 2009. All participating employees had the opportunity to make contributions from their pre-tax salary each month (to a maximum of £125 per month), to buy shares in the Group at the prevailing market price (partnership shares). The Group provided one share for each two shares purchased by the employee (matching shares). Free shares were awarded depending on Group performance over the previous year. If the participant leaves within three years of the award of free shares and within five years of the award of matching shares, except under specified circumstances, the rights to these shares are forfeited. There are no performance criteria that must be satisfied before the Plan shares may be sold or transferred.

A reconciliation of the free and matching shares awards which had not yet vested unconditionally by 31 December 2009 is shown in the table below. All of these shares have been conditionally gifted to employees, subject to reaching the relevant qualifying period.

	31 December 2009 Number of shares	31 December 2008 Number of shares
Outstanding and unvested at start of year	595,662	417,861
Granted	260,890	293,319
Forfeited	(116,142)	(40,265)
Vested	(83,141)	(75,253)
Outstanding and unvested at end of year	**657,269**	**595,662**

The weighted average share price at date of vesting during 2009 was 200.7p (2008: 189.1p).

The weighted average fair value at date of grant for awards granted during 2009 was 200.1p (2008: 172.3p).

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.

(ii) Brit Performance Share Plan 2003

Selected employees are awarded the right to acquire a defined number of shares in the Group at no cost to the employee. Subject to the satisfaction of prescribed criteria, the right to acquire shares may be exercised on or after the third anniversary of the grant date. The performance condition that applied prior to 24 April 2007 was that the Group's TSR had to exceed the median TSR of the other FTSE Actuaries Insurance sector companies on the grant date over a period of three years from that date. After 24 April 2007 the performance condition was changed so that:

- one half of an award is subject to the Company's TSR against a bespoke industry comparator group; and
- one half of an award is subject to the delivery of strong average annual Return on Equity over a fixed three-year performance period, underpinned by further conditions based on growth in Gross Premiums and the delivery of positive Return on Equity to shareholders.

The right must be exercised within six months of the award becoming exercisable. Participants do not receive any dividends until after the shares have been received. However, the Remuneration Committee may decide to award the value of accrued dividends in the vesting period, for options granted after 24 April 2007.

For options granted after 24 April 2007 it has been assumed that the participants will receive the value of any dividends accrued between date of grant and date of vest at the date of vesting of the awards and in proportion to the number of awards that vest. 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.

Outstanding PSP awards granted at nil cost were as follows as at 31 December 2009:

Year of grant	Number of shares	Latest vesting year
2007	2,400,443	2010
2008	2,477,712	2011
2009	3,689,711	2012
	8,567,866	

36 Share-based payments continued

A reconciliation of the PSP share awards which had not been exercised by 31 December 2009 is presented below. All of these shares have been conditionally gifted to employees, subject to reaching the relevant qualifying period and meeting the relevant performance criteria.

	31 December 2009 Number of shares	31 December 2008 Number of shares
Outstanding and unexercised at start of year	7,985,681	6,893,956
Granted	3,935,492	3,039,475
Forfeited	(1,046,308)	(434,859)
Failed performance conditions and lapsed	(2,270,937)	(1,400,687)
Exercised	(36,062)	(112,204)
Outstanding and unexercised at end of year	**8,567,866**	**7,985,681**

The weighted average share price at date of exercise during the year was 203.3p (2008: 248.6p).

The weighted average fair value at date of grant for awards granted during 2009 was 143.4p (2008: 142.7p).

(iii) Bonus Share Matching Plan 2007
Selected employees are invited to purchase a number of Investment Shares in the Group using up to 50% of their post tax bonus. Each participant is awarded the right to acquire Matching Shares to match the investment at no cost to the employee. Subject to retaining the Investment Shares for three years and subject to the satisfaction of performance conditions, the Matching Shares will vest on the third anniversary of the grant date. The right must be exercised within six months of the award becoming exercisable. The performance conditions include targets for the Group's return on equity, growth in gross written premiums and volatility of ROE. The Remuneration Committee may decide to award the participants the value of the accrued dividends in the vesting period. It has been assumed in the calculation of fair value for IFRS 2 purposes that the participants will receive the value of any dividends accrued between date of grant and date of vest at the date of vesting of the awards and in proportion to the number of awards that vest. 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.

Outstanding BSMP awards granted at nil cost were as follows as at 31 December 2009:

Year of grant	Number of matching shares	Latest vesting year
2007	1,738,155	2010
2008	2,359,707	2011
2009	1,798,019	2012
	5,895,881	

A reconciliation of the BSMP share awards which had not been exercised by 31 December 2009 is presented below. All of these shares have been conditionally gifted to employees, subject to reaching the relevant qualifying period and meeting the relevant performance criteria.

	31 December 2009 Number of matching shares	31 December 2008 Number of matching shares
Outstanding and unexercised at start of year	**4,482,001**	2,144,833
Granted	**1,884,890**	2,616,504
Forfeited	**(471,010)**	(279,336)
Outstanding and unexercised at end of year	**5,895,881**	4,482,001

The weighted average fair value at date of grant for awards granted during 2009 was 182.8p (2008: 259.3p).

In addition to the amounts referred to above, during 2008, a senior consultant was granted the right to receive a further 94,084 Matching Shares on terms similar to the BSMP scheme but with the exception that the award should be settled with cash instead of equity. The fair value of this award was £0.2m which is based on the share price on the date of grant. As at 31 December 2009 all of the consultant's matching shares were outstanding and unexercised.

36 Share-based payments continued

(iv) Brit Executive Share Option Scheme 2003

Under the terms of the ESOS, selected employees were offered a defined number of options at an exercise price no less than the average market price of the shares on the three dealing days preceding date of grant. Subject to a prescribed performance criterion, the options may be exercised in a period commencing three years after the date of grant and ending ten years after the date of grant. The current performance criterion is for the Group's TSR to exceed the median TSR of the companies in the FTSE Mid 250 over a period of at least three years from grant. The proportion of options that will become exercisable depends on the level of outperformance. If an employee leaves the Group before the beginning of the exercise period, he forfeits his options. All outstanding options expire at the end of the exercise period. Following shareholder approval of the BSMP in 2007, no further grants of options are expected to be made under this scheme.

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

A summary of the status of the ESOS as at 31 December 2009 and changes during the year is presented below:

	31 December 2009		31 December 2008	
	Number of options	Weighted average exercise price (pence)	Number of options	Weighted average exercise price (pence)
Outstanding at start of year	834,985	235.5	2,645,956	245.3
Forfeited	–	n/a	(106,214)	249.8
Failed performance conditions and lapsed	–	n/a	(1,627,571)	250.2
Exercised	–	n/a	(4,350)	235.5
Expired or lapsed after vesting	(62,365)	235.5	(72,836)	241.8
Outstanding at end of year	**772,620**	**235.5**	**834,985**	**235.5**

There were 772,620 shares (2008: 834,985) exercisable at the end of the year.

The weighted average exercise price of options exercisable at the end of the year was 235.5p (2008: 235.5p).

The weighted average share price at date of exercise during the year was not applicable as there were no exercises (2008: 242.3p).

The weighted average remaining contractual life at the end of the year was 4.8 years (2008: 5.8 years).

The exercise price for outstanding options at the end of the year was 235.5p (2008: 235.5p).

(v) Executive Share Option Schemes

Prior to the introduction of the ESOS, share options were granted under a number of share option schemes which have subsequently been closed.

A summary of the status of the Executive Share Option Schemes as at 31 December 2009 and changes during the year is presented below:

	31 December 2009		31 December 2008	
	Number of options	Weighted average exercise price (pence)	Number of options	Weighted average exercise price (pence)
Outstanding at start of year	480,283	243.4	796,941	303.6
Exercised	–	n/a	–	n/a
Expired or lapsed after vesting	(34,603)	222.4	(316,658)	394.9
Outstanding at end of year	**445,680**	**245.1**	480,283	243.4

There were 445,680 shares (2008: 480,283) exercisable at the end of the year.

The weighted average exercise price of options exercisable at the end of the year was 245.1p (2008: 243.4p).

The weighted average share price at date of exercise during the year was not applicable as there were no exercises (2008: not applicable).

36 Share-based payments continued

A summary of the range of exercise prices of the outstanding options and their remaining contractual lifetimes is presented below:

	31 December 2009		31 December 2008	
Range of exercise prices for outstanding options	Number of options	Weighted average remaining contractual life (years)	Number of options	Weighted average remaining contractual life (years)
211.5p to 226.5p (2008: 211.5p to 226.5p)	333,531	2.4	365,197	3.4
340.5p to 340.5p (2008: 340.5p to 340.5p)	112,149	1.4	115,086	2.4
211.5p to 340.5p (2008: 211.5p to 340.5p)	445,680	2.1	480,283	3.2

Employee share trusts and award settlement

Awards under the ESOP are settled by the transfer of shares from an independent trust which acquires shares for this purpose by buying shares in the market. Distributions are payable on shares held in the Trust. As at 31 December 2009, the Trust held 535,668 (2008: 513,130) free shares, 334,657 (2008: 278,245) matching shares, 678,702 (2008: 563,092) partnership shares and 12,321 (2008: nil) unallocated shares with a total nominal value of €1.5m (2008: £1.0m) and a market value of £3.1m (2008: £3.0m), based on the mid-market value of the Group's shares at close of business on 31 December 2009, as shown in the Official List of the London Stock Exchange. This equates to 0.5% of the Group's issued share capital as at 31 December 2009 (2008: 0.4%).

Awards under the PSP and BSMP are settled by the transfer of shares from the Group's Employee Share Participation Trust which acquires shares for this purpose by buying shares in the market. The trustees have waived their entitlement to distributions on any shares acquired. As at 31 December 2009, the Employee Share Participation Trust held 4,068,784 (2008: 4,091,500) ordinary €1 shares which represented 1.3% (2008: 1.2%) of the issued share capital of the Group as at 31 December 2009. The shares had a total nominal value of €4.1m (2008: £3.1m) and a market value of £8.0m (2008: £9.0m), based on the mid-market value of the Group's shares at close of business on 31 December 2009, as shown in the Official List of the London Stock Exchange.

Awards under the ESOS and Executive Share Option Schemes are settled by the issue of new shares.

37 Subsidiary undertakings

The subsidiaries of Brit Insurance Holdings N.V. are as follows:

The Netherlands
Brit Group Holdings B.V.
Brit Services B.V.

United Kingdom
Brit Insurance Holdings Limited
Brit Insurance Limited
Brit Syndicates Limited
Brit UW Limited
Masthead Insurance Underwriting Limited
Brit Corporate Holdings Limited
Brit Investment Holdings Limited
Brit Underwriting Holdings Limited
Brit Group Finance Limited
Brit Capital Markets Limited
Brit Group Services Limited
Brit Australia Representative Limited
Brit Investment Company Limited
Brit Insurance Services Limited
Brit Pension Trustee Limited
Brit Corporate Secretaries Limited
Brit Corporate Services Limited

37 Subsidiary undertakings continued

Brit Dormant One Limited
Brit Dormant Two Limited
Brit Dormant Three Limited
Brit Run-Off Services Limited
Brit Insurance (UK) Limited
Fuit One Limited
Fuit Two Limited
Fuit Three Limited
Fuit Four Limited
Fuit Five Limited
HCG Alpha Limited
HCG Bravo Limited
HCG Charlie Limited
HCG Delta Limited
HCG Echo Limited
HCG Foxtrot Limited
Masthead A Limited
Masthead B Limited
Masthead C Limited
Masthead D Limited
Masthead E Limited

Luxembourg
Brit Overseas Holdings S.àr.l

United States of America
Brit Insurance Services USA Inc

Gibraltar
Brit Insurance (Gibraltar) PCC Ltd

38 Related party transactions

(i) Key management compensation

	Year ended 31 December 2009 £m	Year ended 31 December 2008 £m
Salaries and other short-term employee benefits	3.6	4.4
Post-employment benefits	0.5	0.4
Share-based payments	2.6	1.2
	6.7	**6.0**

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.

Further details concerning individual Directors' remuneration and interests is given in the Directors' remuneration report.

(ii) Purchases of products and services and arising year-end balances

All of the following trading with associated undertakings is carried out on an arm's-length basis and is settled in cash.

RI3K Limited
RI3K Limited has charged £0.3m (2008: £0.3m) for services to Group companies.

There were no fees outstanding as at 31 December 2009 or 31 December 2008.

Norton II Holdings Limited
Group companies have charged Norton II Holdings Limited £nil (2008: £0.5m) for underwriting services and a further £nil (2008: £0.5m) in respect of profit commission.

There were fees outstanding from Norton II Holdings Ltd at 31 December 2009 of £nil (2008: £0.7m).

Xbridge Limited
A Group company is a member of the panel to which Xbridge Limited introduces insurance business.

During the year, Xbridge Limited has received commission of £6.4m (2008 from when it became an associate: £2.3m) for introducing such business.

There were premiums net of commission outstanding from Xbridge Limited of £2.0m as at 31 December 2009 (2008: £1.2m).

Verex Limited
A Group company is the insurance provider to which Verex Limited introduces insurance business.

During the year, Verex Limited has received commission of £0.1m (2008: £nil) for introducing such business.

There were premiums net of commission outstanding from Verex Limited of £0.4m as at 31 December 2009 (2008: £nil).

(iii) Loans

Brit Insurance Holdings N.V. and its subsidiaries have the following loans with associated undertakings which are all on an arm's-length basis.

Xbridge Limited
A Group company has granted Xbridge Limited a five year loan facility of up to £6.0m.

As at 31 December 2009, £5.2m of this amount had been drawn down (2008: £4.5m).

Verex Limited
A Group company has entered into a contract to subscribe for up to £6.0m of Verex Limited loan notes.

As at 31 December 2009, £4.0m of these loan notes had been subscribed for (2008: £1.5m).

39 Guarantees and contingent liabilities

(i) Lloyd's
The Group is a party to arrangements with Lloyd's as set out below:

If any of the corporate member subsidiaries fails to meet any of its Lloyd's obligations, then:

(a) Lloyd's will be entitled to require the other corporate member subsidiaries to cease or reduce their underwriting; and/or

(b) having regard to the fact that the Central Fund or the New Central Fund may be applied to discharge the obligations of the defaulting corporate member subsidiary, Lloyd's will be entitled to require each of the other corporate member subsidiaries to make contributions to the New Central Fund up to the amount of their respective net profits held from time to time in Premium Trust Funds, sufficient to reimburse the Central Fund or the New Central Fund in full for any payment made on behalf of the defaulting member.

At the date of signing these financial statements the Group is not aware of any corporate member subsidiary failing to meet its Lloyd's obligations.

Assets are required to be pledged, as Funds at Lloyd's, by way of deposits and fixed and floating charges for the corporate members of the Group, principally Brit UW Limited. As at 31 December 2009 these amounted to US$200.0m (2008: US$ nil) and £316.2m (2008: £297.1m).

(ii) Letters of Credit
Brit Insurance Limited has a Letter of Credit (LOC) facility with Citibank Europe Plc for US$250.0m, of which US$92.1m had been utilised at 31 December 2009 (2008: US$73.0m).

In addition, Brit Insurance Limited has a LOC facility for US$30.0m (2008: US$75.0m) with the Royal Bank of Scotland PLC of which US$2.7m was utilised as at 31 December 2009 (2008: US$3.8m).

During the year, Brit Insurance Limited cancelled a US$8.2m LOC facility with Barclays Bank PLC which was fully utilised as at 31 December 2008.

These facilities provide security against liabilities arising from US reinsurance business and aviation excess of loss and are collateralised with cash and bonds.

Amsterdam
25 February 2010

Robert John Orr Barton

Dane Jonathan Douetil

Matthew Scales

Kenneth Culley

Joseph Patrick MacHale

Peter Frank Hazell

Michael Gordon Smith

Cornelis Antonius Carolus Maria Schrauwers

Willem Frans Casimir Stevens

Auditor's report

To: The Meeting of Shareholders of Brit Insurance Holdings N.V.

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements 2009 which are part of the financial statements of Brit Insurance Holdings N.V., Amsterdam, which comprise the consolidated statement of financial position as at 31 December 2009, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of cash flows and the consolidated statement of changes in equity for the year then ended and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility

The Directors are responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code, and for the preparation of the Directors' Board report in accordance with Part 9 of Book 2 of the Netherlands Civil Code. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audit. We conducted our audit in accordance with Dutch law. This law requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of Brit Insurance Holdings N.V. as at 31 December 2009, and of its result and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code.

Report on other legal and regulatory requirements

Pursuant to the legal requirement under 2:393 sub 5 part f of the Netherlands Civil Code, we report, to the extent of our competence, that the Directors' report is consistent with the consolidated financial statements as required by 2:391 sub 4 of the Netherlands Civil Code.

We report that the Corporate Governance Statement reflects the Company's voluntary compliance with the nine provisions of the June 2008 Combined Code specified by the Listing Rules of the Financial Services Authority in the United Kingdom.

The Hague, 25 February 2010
Ernst & Young Accountants LLP

was signed by
S.B. Spiessens

Parent Company Financial Statements

Balance Sheet of Brit Insurance Holdings N.V.

at 31 December 2009 before appropriation of result

	Notes	31 December 2009 £m
Assets		
Investment in subsidiaries	3	894.6
Amounts owed from Group companies		133.3
Total assets		**1,027.9**
Equity		
Called up share capital	5	277.9
Share premium account		612.0
Retained earnings	6	4.7
Total equity		**894.6**
Liabilities		
Long-term borrowings	4	132.8
Current liabilities		
Accruals and deferred income		0.5
Total liabilities		**133.3**
Total liabilities and equity		**1,027.9**

Income Statement of Brit Insurance Holdings N.V.
for the period ended 31 December 2009

	Notes	31 December 2009 £m
Result of Group companies after taxation	3	3.9
Other results after taxation		–
Net profit		**3.9**

Statement of Changes in Equity of Brit Insurance Holdings N.V.
for the period ended 31 December 2009

	Note	Called up share capital £m	Share premium account £m	Retained earnings £m	Total £m
On incorporation		–	–	–	–
Corporate reorganisation	3	278.7	612.0	–	890.7
Exchange difference on retranslation of share capital	5	(0.8)	–	0.8	–
Amount recognised directly in equity		277.9	612.0	0.8	890.7
Net profit		–	–	3.9	3.9
At 31 December 2009		**277.9**	**612.0**	**4.7**	**894.6**

Notes to the Financial Statements of the Company

1 General information

Brit Insurance Holdings N.V. (the Company) was incorporated and registered in the Netherlands on 22 June 2009 as a public company limited by shares with registered number 24464323. The address of the registered office is provided in the Company information page. The nature of the Group's operations and its principal activities are included in the Report of the Directors.

Following a corporate reorganisation, Brit Insurance Holdings N.V. became the ultimate holding company of the Brit Insurance Group on 21 December 2009. For further information relating to the corporate reorganisation, see Note 2 to the consolidated financial statements.

2 Accounting policies

Basis of preparation

The parent company accounts are prepared in accordance with the financial reporting requirements included in Part 9 of Book 2, of the Netherlands Civil Code. The accounting policies applicable to presentation and disclosures are in accordance with the financial reporting requirements included in Part 9 of Book 2, of the Netherlands Civil Code. The principles of valuation and determination of results stated in connection with the consolidated balance sheet and income statement are also applicable to the parent company balance sheet and income statement with the exception of investments in Group companies which are initially recognised at cost and subsequently accounted for using the equity method of accounting.

The income statement of the holding company, Brit Insurance Holdings N.V., has been drawn up in accordance with Section 402, Book 2, of the Netherlands Civil Code, allowing a simplified format.

Other accounting policies

(i) Investments

Subsidiaries are stated at their net asset value, determined on the basis of IFRS as applied in the consolidated financial statements of the Group. For details on the accounting policies applied for the subsidiaries refer to the consolidated financial statements.

(ii) Cash and cash equivalents

Cash comprises cash at banks and in-hand. Cash equivalents are short-term highly liquid investments that are readily convertible to known cash amounts, are subject to insignificant risks of changes in value and are held for the purpose of meeting short-term cash commitments.

(iii) Impairment of assets

An asset is impaired if the carrying amount exceeds the amount that would be recovered through its use or sale.

(iv) Subordinated borrowings

A financial instrument issued by the Company is classified as a liability if the contractual obligation must be settled in cash or another financial asset or through the exchange of financial assets and liabilities at potentially unfavourable conditions for the Company. Subordinated borrowings are initially recognised at their fair value including directly attributable transaction costs and are subsequently carried at amortised cost using the effective interest rate method. Fair value is normally determined by reference to the fair value of the proceeds received.

(v) Foreign currency translation

The financial statements are presented in Sterling which is the Company's presentational and functional currency.

Foreign currency transactions are recorded 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. Monetary assets and liabilities denominated in foreign currencies are translated at period end exchange rates. Non-monetary assets and liabilities that are measured at historical cost denominated in a foreign currency are not retranslated. The resulting exchange differences on translation are recorded in the income statement.

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

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

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.

(vii) Offsetting of assets and liabilities

Financial assets and liabilities are offset in the balance sheet when the Company has a legally enforceable right to offset and has the intention to settle the assets and liabilities on a net basis or simultaneously.

3 Investment in subsidiaries

	31 December 2009 £m
On incorporation	–
Corporate reorganisation	890.7
Net profit for the year	3.9
As at 31 December	**894.6**

For a list of the subsidiaries of the Company, refer to Note 37 of the consolidated financial statements.

4 Borrowings

	Maturity	Call	Effective interest rate %	Coupon %	31 December 2009 Amortised cost £m	31 December 2009 Fair value £m
Amounts payable after five years:						
Lower Tier Two subordinated debt	2030	2020	6.84	6.625	132.8	95.6
					132.8	**95.6**

The fair value represents trading market values on recognised exchanges at the balance sheet date.

Lower Tier Two subordinated debt

The Lower Tier Two subordinated debt is callable in whole by the Group on 9 December 2020. Following this date the interest rate resets to 3.4% above the 10-year gilt rate prevailing at the time. The effective interest rate method of accounting has been applied over the term up to the call date.

5 Share capital

	31 December 2009 £m	On incorporation £m	31 December 2009 €m	On incorporation €m	31 December 2009 Number in millions	On incorporation Number in millions
Authorised:						
Ordinary shares of €1 each	885.0	0.2	1,000.0	0.2	1,000.0	0.2
Allotted, issued and fully paid:						
Ordinary shares of €1 each	277.9	–	314.0	–	314.0	–

Share capital has been translated from Euros into Sterling using an exchange rate of 1.13 as at the end of the year.

The authorised share capital was increased from 0.2m shares of €1 each to 1,000.0m shares of €1 each as part of the corporate reorganisation which was effective from 21 December 2009.

	Number in millions of €1 ordinary shares in issue
Issue of ordinary shares on incorporation	–
Issue of ordinary shares on corporate reorganisation	314.0
As at 31 December 2009	**314.0**

Subsequent to the balance sheet date, on 25 February 2010, the Company undertook a consolidation of its share capital, such that the shareholders received one ordinary €4 share for every four ordinary €1 shares owned as at that date.

Notes to the Financial Statements of the Company Continued

6 Retained earnings

	31 December 2009 £m
On incorporation	–
Exchange difference on retranslation of share capital	0.8
Other retained earnings	3.9
Retained earnings	**4.7**

7 Auditors' remuneration

For information relating to auditors' remuneration, refer to Note 14 of the consolidated financial statements.

8 Guarantees and contingent liabilities

The Company has provided a guarantee to the lenders of a £175m revolving credit facility. This facility has been entered into by Brit Group Holdings B.V., a subsidiary of the Company.

For further information relating to guarantees and contingent liabilities, refer to Note 39 of the consolidated financial statements.

9 Board remuneration

Detailed information on remuneration of active and retired members of the Board of Directors including their share-based incentives and their interests in the shares of the Company are included in the Directors' remuneration report.

10 Share-based payments

For information relating to share-based payments, refer to Note 36 of the consolidated financial statements.

11 Commitments

For information relating to commitments, refer to Note 34 of the consolidated financial statements.

Amsterdam
25 February 2010

Robert John Orr Barton

Dane Jonathan Douetil

Matthew Scales

Kenneth Culley

Joseph Patrick MacHale

Peter Frank Hazell

Michael Gordon Smith

Cornelis Antonius Carolus Maria Schrauwers

Willem Frans Casimir Stevens

Other Information

Statutory requirements for appropriation of results

The Company's Articles of Association contain the following requirements regarding appropriation of results:

The profit will be distributed pursuant to Articles 86 to 90 of the Articles of Association of Brit Insurance Holdings N.V.

The provisions can be summarised as follows:

Subject to the provisions of the Civil Code, the Board of Directors may from time to time and at any time declare and make distributions on shares other than dividends of such amounts and on such dates and in respect of such periods as it thinks fit.

The profits realised in a financial year are at the disposal of the General Meeting but no distributions declared by the General Meeting shall exceed the amount proposed by the Board of Directors.

No distribution shall be paid otherwise than out of profits available for distribution under the provisions of the Civil Code.

Subject to the provisions of the Civil Code, if and so far as in the opinion of the Board of Directors the profits of the Company justify such payments, the Board of Directors may from time to time declare and pay interim distributions on shares of such amounts and on such dates and in respect of such periods as it thinks fit.

Distributable reserves

Brit Insurance Holdings N.V. is subject to legal restrictions on the amount of distributions it can make to shareholders. Under Dutch Law the amount that is available for distribution consists of total shareholders' equity less the issued and outstanding capital and less any legal reserves. The distributable reserves as at 31 December 2009 were £616.7m

Proposed appropriation of result	£m
Net result	3.9
Distributions	–
Transferred to retained earnings	**3.9**

At the time of the Group reorganisation in December 2009, it was announced that for an initial period the Group would make distributions to shareholders by way of reductions of the par value of Brit Insurance Holdings N.V. shares (i.e. in the form of a capital distribution).

Subsequent events

The Board has recommended a final distribution for the year ended 31 December 2009 of 30.0p per share (after 1 for 4 share consolidation) making a total distribution of 60.0p per share for the year (2008: 60.0p per share after 1 for 4 share consolidation).

The final distribution will be conditional on the approval of shareholders and the Dutch Court. Details of the distribution procedure, including a timetable of key dates will be made available in due course.

Further information relating to distributions are given on page 75.

Auditor's report

To: The Meeting of Shareholders of Brit Insurance Holdings N.V.

Report on the Company financial statements

We have audited the accompanying Company financial statements 2009 which are part of the financial statements of Brit Insurance Holdings N.V., Amsterdam, which comprise the balance sheet of the Company as at 31 December 2009, the income statement for the year then ended and the notes.

Directors' responsibility

The Directors are responsible for the preparation and fair presentation of the Company financial statements and for the preparation of the Directors' report, both in accordance with Part 9 of Book 2 of the Netherlands Civil Code. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the Company financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on the Company financial statements based on our audit. We conducted our audit in accordance with Dutch law. This law requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the Company financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Company financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the Company financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the Company financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the Company financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the Company financial statements give a true and fair view of the financial position of Brit Insurance Holdings N.V. as at 31 December 2009, and of its result for the year then ended in accordance with Part 9 of Book 2 of the Netherlands Civil Code.

Report on other legal and regulatory requirements

Pursuant to the legal requirement under 2:393 sub 5 part f of the Netherlands Civil Code, we report, to the extent of our competence, that the Directors' report is consistent with the Company financial statements as required by 2:391 sub 4 of the Netherlands Civil Code.

The Hague, 25 February 2010
Ernst & Young Accountants LLP

was signed by
S.B. Spiessens

Glossary

A

Aggregate exposure
The maximum total of claims that can be incurred by an insurer in respect of any event or series of similar events. It is usually related to a particular risk type, class of business and/or geographical area. Also see 'realistic disaster scenario'.

Asset allocation
The process of dividing our investments among different kinds of assets, such as stocks, bonds, property and cash, in order to achieve a balance between return and risk.

B

Bordereaux
A detailed list of financial information (e.g. premiums or claims) prepared by cedants or coverholders for periodic submission to underwriters to advise them of risks covered and claims incurred.

C

Capacity
The maximum premium income which an insurer is permitted to underwrite. For a Lloyd's syndicate, a capacity figure is assigned to each underwriting year and is defined as gross written premiums less commissions payable.

Cell
See 'Protected cell company'.

Casualty
A class of insurance, mainly comprising accident and liability business.

Claims
Demand by an insured for indemnity under an insurance contract.

Claims development triangles
Tabulations of claims development data. This data is set out with underwriting years along one axis and years of development. (e.g. calendar year end dates) along the other.

Claims incurred
Claims that have occurred, regardless of whether or not they have been reported to the insurer.

Claims ratio
Ratio, in percent, of net claims incurred to net earned premiums.

Combined ratio
Ratio, in percent, of net claims incurred, acquisition costs plus insurance related administrative expenses to net earned premiums. Also the sum of the claims ratio and the expense ratio.

Coverholder
See 'Delegated authority'.

D

Deferred acquisition costs (DAC)
Costs incurred for the acquisition or renewal of insurance policies (e.g. brokerage and underwriter related costs) which are capitalised and amortised over the term of those policies.

Delegated 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 deals with premium collection, the issue of certificates and the servicing of claims, and 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 the period.

Earnings per share (EPS)

Basic:
Ratio, in pence, calculated by dividing the consolidated profit after tax by the weighted average number of ordinary shares issued, excluding shares owned by the Group.

Diluted:
For calculating diluted earnings per share the number of shares and profit or loss for the year is adjusted for all dilutive potential ordinary shares such as share options granted to employees.

Expense ratio
Acquisition costs plus insurance related administrative expenses divided by net earned premiums.

G

Gearing ratio
Ratio, in per cent, of total borrowings to total capital resources.

Gross written premium (GWP)
Amounts payable by the insured, including any brokerage or commission deducted by intermediaries but excluding any taxes or duties levied on the premium.

Gross written premium represented by catastrophe exposed premium
Percentage of Group calendar year GWP with potential exposure to catastrophic events.

H

Hard market
An insurance market where prevalent prices are high, with more restrictive terms and conditions offered by insurers.

I

IFRS
International Financial Reporting Standards – Standards formulated by the International Accounting Standards Board (IASB). UK listed entities have reported on an IFRS basis since 2005.

Incurred but not reported (IBNR)
Anticipated or likely claims that may result from an insured event although no claims have been reported so far.

Investment return
Investment return is calculated using the 'Dietz' method. This method calculates a return percentage for the average funds invested over a month. It assumes that all net contributions take place in the middle of the period. The annual return is calculated by geometrically adding the monthly returns figures.

L

Lead underwriter/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 and quote an appropriate rate of premium.

LIBOR
London Interbank Offered Rate – An interest rate at which banks can borrow funds, in marketable size, from other banks in the London interbank market.

Line size
The proportion of an insurance or reinsurance risk that is accepted by an underwriter or which an underwriter is willing to accept.

Long-tail
The difference between the average claim payment and the average premium payment term. Long tail is over three years.

Long-term subordinated debt
Subordinated borrowings which have at least five years remaining to maturity or call and are of types which qualify as regulatory capital.

M

Medium-tail
The difference between the average claim payment and the average premium payment term. Medium tail is 1.5 to three years.

MMI scale
The Modified Mercalli Intensity (MMI) scale measures the shaking severity generated by an earthquake. The scale ranges from 'I' (not felt) to 'XII' (damage nearly total).

Monoline insurers
An insurer who has exposure to only one line of business.

N

Net tangible assets per share
Shareholder funds less intangible assets divided by the number of shares in issue at the balance sheet date less own shares.

Net written premiums
Gross premiums written less outwards reinsurance premiums.

O

Outstanding claims
Claims which have been notified at the balance sheet date but not settled.

P

Protected cell company (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 while owning only a small proportion of the PCC as a whole. PCCs can provide a means of entry into captive insurance markets to entities for which it was previously uneconomic.

R

Rating model
A formal, structured tool to assist an underwriter in setting a price for a risk.

Realistic disaster scenario (RDS)
A stress test for underwriting entities to show how they withstand accumulated exposure. Levels of claims are assessed in respect of a number of hypothetical disaster scenarios, using consistent and appropriate methods and assumptions. Also see 'aggregate exposure'.

Reserves
Outstanding claims and claims incurred but not reported (IBNR).

Retention ratio
Ratio, in per cent, of the value of premiums written in one year renewed in the following year.

Retrocession/retrocessional
Reinsurance of the reinsurance account.

Return on equity (RoE)
Profit after tax achieved by the Group adjusted for movements charged to the income statement in respect of intangible assets, divided by opening net tangible assets adjusted on a weighted average basis for share issues or buy-backs during the period.

Glossary continued

S

Short-tail
The difference between the average claim payment and the average premium payment term. Short tail is under 1.5 years.

Soft market
An insurance market where prevalent prices are low, and terms and conditions offered by insurers are less restrictive.

Solvency II
Initiative launched by the European Commission to revise current EU insurance solvency rules. Solvency II focuses on capital requirements, risk modelling, prudential rules, supervisory control, market discipline and disclosure and is currently forecast to apply from 2012.

Specialised investment funds
Investments in assets with low correlation to interest rate and equity price movements.

SS scale
The Saffir-Simpson (SS) scale is used to classify hurricanes from category 1 (wind speed 74 to 95 mph) to category 5 (wind speed 156+ mph). The SS scale evaluates winds and storm surge generated by the hurricane over open water pre-landfall.

Strategic Business Unit (SBU)
Underwriting division of Brit Insurance. Brit Insurance underwrites through three SBUs: Brit Global Markets, Brit Reinsurance and Brit UK.

T

Tail
See ‘short-tail’, ‘medium-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.

Total capital resources
Net tangible assets plus long-term subordinated debt.

Total invested assets
The sum of ‘financial investments’, ‘assets held for sale’ and ‘cash and cash equivalents’.

U

Ultimate loss ratio (ULR)
The ratio of the sum of paid claims, outstanding claims and IBNR to premiums, all of which can be expressed either gross or net of reinsurance recoveries and reinsurance premiums.

Underlying premium growth
Increase in Gross Written Premium between two calendar years where the earlier year is restated using the exchange rates applicable to the latter year.

Underwriting profit
Profit before tax arising from each SBU less investment return.

Unearned premium reserve (UPR)
The portion of premium income written in the calendar year that is attributable to periods after the balance sheet date. It is accounted for as unearned premiums in the underwriting provisions.

Shareholder and Depositary Interest Holder Information

Annual General Meeting

The AGM will be held at 3.00 pm Central European Time (2.00 pm UK time) on Thursday 6 May 2010. A circular containing a letter from the Chairman, the Notice of the Meeting, Explanatory Notes and a Proxy Form has been sent to Shareholders and Depositary Interest holders with this Annual Report. These documents are also available on the Company's website at www.britinsurance.com

Publication

The sections in this document titled Report of the Directors and Financial Statements and Other Information together form the 2009 annual report, the 2009 financial statements and other information of Brit Insurance Holdings N.V. as required by Dutch law.

Filing

After they have been adopted, the 2009 annual report, the 2009 financial statements and other information will be filed at the offices of Trade Registry of the Chamber of Commerce and Industries under number 24464323.

Website

Our website, www.britinsurance.com, contains

- The Company's latest results, and key dates and announcements
- Current and past Annual Reports
- Current and historic Brit insurance share price information and distribution history
- Presentations and webcasts of financial results
- Announcements

Registered address

The Company's Head Office is located at: 13th Floor, ITO Tower, Gustav Mahlerplein 82, 1082 MA Amsterdam, The Netherlands.

All correspondence to the Company should be conveyed to the following address.

Brit Insurance Holdings N.V.
PO Box 79083
1070 NC
Amsterdam
The Netherlands

Useful details:

Investor Relations
Neil Manser
T: +44 (0)20 7098 6980
investor.relations@britinsurance.com

Media Queries
Brit Insurance
T: +44 (0)20 7098 6626

Haggie Financial
T: +44 (0)20 7417 8989

Managing your shareholding or Depositary Interest holding
Computershare Investment Services Plc maintains the Company's register of members and in respect of the holders of Depositary Interests.

Computershare can be contacted for any queries regarding your holdings at:

The Pavilions, Bridgwater Road, Bristol
BS13 8AE, United Kingdom

Tel: +44 (0)871 495 0102
Fax: +44 (0)870 703 6116
Website: www.computershare.com
(at the date of this document calls to this number are charged at 8p per minute from a BT landline, other telephone provider's costs may vary)

Unsolicited phone calls or mail
Shareholders and Depositary Interest holders are advised to be very wary of any unsolicited advice, offers to buy shares at a discount or offers for free company reports. These are typically from 'brokers' who target shareholders offering to sell them what often turns out to be worthless or high risk shares in US or UK investments.

If you receive any unsolicited investment advice:

- Make sure you get the correct name of the person and organisation; and
- Check that they are properly authorised by the FSA before getting involved. You can check at www.fsa.gov.uk/register.

For further information on avoiding fraud please see the FSA website at www.moneymadeclear.fsa.gov.uk/news/scams/share_scams.html

Auditor
Ernst and Young Accountants LLP
PO Box 90636
2509 LP The Hague
The Netherlands

Corporate Brokers
JP Morgan Securities Limited
125 London Wall
London
EC2Y 5AS
United Kingdom

Numis Securities Limited
10 Paternoster Square
London
EC4M 7LT
United Kingdom

Design and production by Radley Yeldar

Printed by Park Communications on FSC certified paper.
Park is an EMAS certified CarbonNeutral® Company and its Environmental Management System is certified to ISO14001:2004. 100% of the inks used are vegetable oil based, 95% of press chemicals are recycled for further use and on average 99% of any waste associated with this production will be recycled. This document is printed on Revive 50:50 Silk, a paper containing 50% recovered waste and 50% virgin fibre sourced from well managed, sustainable, FSC certified forests. The pulp used in this product is bleached using a Totally Chlorine Free (TCF) process.