



Brit Insurance Holdings N.V.

*(a public company with limited liability incorporated under the laws of the Netherlands,
with its corporate seat in Amsterdam, the Netherlands)*

This Prospectus constitutes a prospectus for the purposes of Article 3 of the Prospectus Directive and has been prepared in accordance with Article 5:2 of the Dutch Financial Supervision Act and the rules promulgated thereunder. This Prospectus has been approved by and filed with the Dutch AFM. New Brit has requested the Dutch AFM to provide the competent authority in the United Kingdom with a certificate of approval, attesting that this Prospectus has been drawn up in accordance with Chapter 5.1 of the Dutch Financial Supervision Act and related regulations which implement the Prospectus Directive, and a copy of this Prospectus.

If the Scheme is approved and becomes effective, it will result in Old Brit Shareholders holding New Brit Shares in the same proportions in which they hold Old Brit Shares immediately prior to the Scheme becoming effective and in Old Brit becoming an indirect, wholly-owned subsidiary of New Brit.

Application will be made to the UK Listing Authority for the New Brit Shares to be admitted to the Official List and to the London Stock Exchange for the New Brit Shares to be admitted to trading on the London Stock Exchange's main market for listed securities, which together under the UK Listing Rules will constitute official listing on a stock exchange. If the Scheme proceeds as presently envisaged, it is expected that admission to the Official List of the New Brit Shares will become effective, and that dealings in New Brit Shares on the London Stock Exchange will commence, on 21 December 2009.

Certain information in relation to the Group has been incorporated by reference into this Prospectus, as described in Chapter 3 – "Important Information". Any potential investor should read this entire Prospectus and any documents incorporated by reference. In particular, attention is drawn to Chapter 2 – "Risk Factors" which contains a discussion of certain risks relating to the Group.

No New Brit Shares have been marketed to, nor are any available for purchase or exchange, in whole or in part, by, the public in the Netherlands, the United Kingdom or elsewhere in connection with the admission to the Official List. This Prospectus does not constitute an invitation or offer to sell or exchange or the solicitation of an invitation or offer to buy or exchange any security or to become a shareholder of New Brit.

The distribution of this Prospectus in jurisdictions other than the Netherlands may be restricted by law and therefore this Prospectus may not be distributed or published in any jurisdiction except under circumstances which result in compliance with any applicable laws and regulations. Persons into whose possession this Prospectus comes should inform themselves about and observe such restrictions. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction.

Securities may not be offered or sold in the United States unless they are registered under the US Securities Act or are exempt from such registration. The New Brit Shares have not been, and will not be, registered under the US Securities Act in reliance on an exemption from registration provided by Section 3(a) (10) thereof. In addition, the New Brit Shares have not been and will not be registered under the securities laws of any state of the United States, but will be issued pursuant to available exemptions from state law registration requirements. Neither the US SEC nor any other US federal or state securities commission or regulatory authority has approved or disapproved the New Brit Shares or passed an opinion on the adequacy of this Prospectus. Any representation to the contrary is a criminal offence in the United States.

Numis is acting exclusively for Old Brit and New Brit and no one else in relation to the Proposals and is not, and will not be, responsible to anyone other than Old Brit and New Brit for providing the protections afforded to its clients or for providing advice in relation to the Proposals or any other matter referred to in this Prospectus.

The date of this Prospectus is 12 November 2009.

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1. SUMMARY

This summary provides an overview of selected information contained elsewhere in this Prospectus, including the documents incorporated by reference into this Prospectus and should be read as an introduction to this Prospectus. Any decision to invest in any New Brit Shares should be based on consideration of this Prospectus as a whole. This summary should be read in conjunction with, and is qualified in its entirety by, reference to the more detailed information in this Prospectus, including, but not limited to, the risks as set out in Chapter 2 – “Risk Factors”, and the consolidated financial statements and notes thereto incorporated by reference into this Prospectus. As this is a summary it is not complete and does not contain all the information that a potential investor should consider in connection with any decision relating to the New Brit Shares.

Under laws in effect in the states within the European Economic Area, no civil liability will attach to the Group in respect of this Summary, or any translation thereof, unless it is misleading, inaccurate or inconsistent when read together with the other parts of this Prospectus. Where a claim relating to information contained in this Prospectus is brought before a court in a state within the European Economic Area, the plaintiff investor may, under the national legislation of the state where the claim is brought, be required to bear the costs of translating this Prospectus before the legal proceedings are initiated.

1. Introduction, reasons for and background to the Proposals

On 12 November 2009, Old Brit announced details of the Proposals. If the Scheme is implemented, a new London-listed holding company of the Group incorporated in the Netherlands, New Brit, will be put in place through a High Court approved scheme of arrangement under Sections 895 to 899 of the UK Companies Act.

To achieve its long-term growth objectives, the Group regularly assesses its organisational and capital structure. Following an extensive review, the Board has concluded that the redomicile of the Group's holding company to the Netherlands, combined with other changes to the Group structure, should deliver a number of significant benefits to the Group. In particular, it should provide a favourable operating 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 better align its corporate tax rate with those of its global peer group.

The new holding company, which is incorporated in the Netherlands and is called Brit Insurance Holdings N.V., will have the same Board and management team as Old Brit on the Scheme Effective Date. At least two Dutch resident persons will be appointed as non-executive Directors to the Board of New Brit either by, or within 12 months of, the Scheme Effective Date. It is not anticipated that there will be any substantive changes to corporate governance and investor protection measures. In particular, upon implementation of the Scheme, the continuing obligations under the UK Listing Rules will apply to New Brit, the Dutch AFM and the UK Takeover Panel will have shared jurisdiction in relation to takeovers and New Brit intends to comply with the UK Combined Code to the same extent that Old Brit does currently. As is the case for Old Brit, New Brit will have its primary listing on the London Stock Exchange and, upon listing, should replace Old Brit as a member of the FTSE 250 Index.

The Group will have substantially the same business and operations immediately after the Scheme Effective Date as the Group has before the Scheme Effective Date and will continue to report its financial results under IFRS in sterling.

2. Summary of the Proposals

The Scheme

If the Scheme is approved and becomes effective, it will result in (i) holders of Old Brit Shares becoming holders of the same number of New Brit Shares as the number of Old Brit Shares which they held immediately prior to the Scheme becoming effective and (ii) Old Brit becoming a wholly-owned subsidiary of New Brit.

Under the Scheme, Old Brit Shareholders at the Scheme Record Time will receive, in exchange for their Old Brit Shares, New Brit Shares on the following basis:

for every one Old Brit Share

one New Brit Share

Accordingly, immediately upon the Scheme becoming effective, a New Brit Shareholder will effectively have the same proportionate interest in the profits, net assets and distributions of the Group as it had as an Old Brit Shareholder immediately before the Scheme became effective.

Summary

Old Brit Capital Reduction

As part of the Scheme, Old Brit will effect a substantive reduction of capital. Under the Scheme, all of the Scheme Shares (which have a nominal value of 75 pence each) will be cancelled. The new shares in Old Brit which will be issued to BOH as part of the Scheme, will have a lower nominal value of 8 pence each. This will require only a proportion of the credit arising in the books of Old Brit as a result of the cancellation to be applied in paying up such new shares and, assuming that no further Old Brit Shares are issued between the date of this Prospectus and the Scheme Effective Date, the total paid up share capital of Old Brit will be reduced from approximately £235.5 million to approximately £25.1 million.

The balance of the credit arising in the books of Old Brit as a result of the cancellation of the Scheme Shares, which assuming that no further Old Brit Shares are issued between the date of this Prospectus and the Scheme Effective Date will be approximately £210.4 million, subject to any restrictions agreed with the High Court, will become a distributable reserve of Old Brit and will therefore increase Old Brit's distributable reserves by an equivalent amount. The main purposes of creating such additional distributable reserves are to increase capital management flexibility across the Group and to reduce any risk of Old Brit becoming a dividend block within the Group at a later date.

Conditions

Implementation of the Scheme is conditional (among other things) upon:

- approval of the Scheme at the Court Meeting;
- approval of the resolutions required to facilitate the implementation of the Scheme at the General Meeting; and
- sanction of the Scheme by the High Court.

3. Key information

Information on the Group

The Group is an international general insurance and reinsurance group specialising in commercial insurance. The Group underwrites through three internal strategic business units – Brit Global Markets, Brit Reinsurance and Brit UK – which each underwrite through the regulated underwriting platforms of BIL and BSL (the managing agent of Lloyd's Syndicate 2987). BIL's financial strength rating from Fitch Ratings is 'A' (Strong) with a stable outlook and from A.M. Best 'A' (Excellent) with a stable outlook. Lloyd's financial strength rating is 'A' (Excellent) with a stable outlook from A.M. Best and 'A+' (Strong) with a stable outlook from Fitch Ratings and Standard & Poor's.

Capitalisation and indebtedness

As at 30 September 2009, the Group had outstanding borrowings and indebtedness of £232.8 million. Old Brit's capitalisation as at 30 June 2009 amounted to £183.2 million.

As at the date of this Prospectus, New Brit has no outstanding indebtedness. As at the date of this Prospectus, New Brit's total capitalisation is €45,000.

Listing and Admission

Application will be made for the New Brit Shares to be admitted to the Official List and to trading on the London Stock Exchange's main market for listed securities. It is expected that admission of the New Brit Shares will become effective, and that dealings in New Brit Shares will commence, by no later than 8.00 a.m. on 21 December 2009. The share price for New Brit Shares will be quoted in Sterling.

Distribution policy

The Board of New Brit intends that its distribution policy, once the Scheme becomes effective, will follow Old Brit's current policy. This is to pursue a policy which seeks to grow distributions per share in line with the longer term prospects of the Group. For the purposes of this policy it is proposed that Old Brit's 2008 dividend per share of 15 pence will be used as the base.

It is anticipated that, for an initial period, New Brit is unlikely to pay dividends but instead will make distributions to shareholders by way of reductions of the par value of the New Brit Shares (i.e. in the form of a capital

Summary

distribution). Under current law and practice, any payments to New Brit Shareholders on such a reduction of capital should be free from Dutch dividend withholding tax whilst they are made out of the Recognised Capital of New Brit. To facilitate its intended distribution policy, the Board of New Brit expects to propose that the New Brit Shares will be consolidated prior to its first distribution. Shareholders may elect to receive distributions in either US\$, Sterling or Euro. In the absence of an election, distributions will be made in Sterling. In the ordinary course, it is anticipated that any such distributions would be made in or around June and October of each year.

4. Current trading and prospects

On 30 July 2009, Old Brit issued its (unaudited) Half Year Financial Report for the six months ended 30 June 2009. On 23 October 2009, Old Brit published its interim management statement for the 42 week period from 1 January 2009 to 22 October 2009. There has not been any significant change in the financial or trading position of the Group since 30 June 2009.

5. Key risk factors

Any potential investor should consider carefully the risks and uncertainties described in Chapter 2 – “Risk Factors”. The main risk factors are listed below. If they materialise, the price of New Brit Shares could decline.

- Risks relating to the Proposals, which include certain tax related risks.
- Risk factors relating to the general economic climate, including risks related to the current financial crisis.
- Risks relating to the Group, such as a decline in financial strength and credit ratings, fluctuation in exchange rates, failure to obtain new insurance business and accomplish expansion plans, losses on investments and lack of availability of capital in the long term and risks related to dependence on employees and third parties.
- Risks relating to the insurance industry, such as risk management, reinsurance and retrocession coverage, claims, disputes and competition.
- Risks relating to the New Brit Shares and the Depositary Interests.
- Regulatory risks.

6. Additional information

Memorandum and articles of association

There are a number of differences between the Old Brit Articles and the New Brit Articles. These arise primarily by reason of New Brit being a company incorporated in the Netherlands rather than in England.

Where appropriate, but subject to the Dutch Civil Code, provisions have been incorporated into the New Brit Articles, effective as per the Scheme Effective Date, to enshrine certain rights that are not conferred by the Dutch Civil Code, but which shareholders in a London listed company would normally expect.

2. RISK FACTORS

An investment in New Brit Shares is subject to a number of risks. Accordingly, investors and prospective investors in New Brit Shares should carefully consider the risks described below, together with all of the information set out in this Prospectus. The risks listed below do not necessarily comprise all those associated with an investment in New Brit Shares, but do comprise those which are known to the Directors and which the Directors regard as material to the Group. Additional risks and uncertainties not presently known or currently deemed immaterial may also have a material adverse effect on the Group.

If any of the risks described below were to occur, it could have a material adverse effect on the Group business, results of operations, financial condition or prospects. If this were to lead to a decline in the trading price of the New Brit Shares, investors in New Brit Shares may lose all or part of their investment. Investors and prospective investors should consider carefully whether an investment in New Brit Shares is suitable for them in light of the information in this Prospectus and the financial resources available to them.

In the following risk factors, references to “insurance” shall (save where the context otherwise requires) be deemed to include reinsurance and retrocession, and references to “reinsurance” shall (save where the context otherwise requires) be deemed to include retrocession.

1. Risks relating to the Proposals

Group taxation risk

Changes in tax law and practice could lead to unexpected increases in the overall tax rate and tax compliance costs of the Group. Furthermore, while Directors expect that New Brit will be regarded as tax resident solely in the Netherlands, if New Brit were, nonetheless, to be treated as tax resident in any other jurisdiction, this could lead to an increase in the overall effective tax rate and tax compliance costs of the Group. This could impair the Group’s ability to realise the expected benefits of the Proposals.

New Brit will be subject to laws and regulations in different jurisdictions which may give rise to conflicts

As a Dutch incorporated company, New Brit will be required to comply with Dutch laws and regulations, where applicable. As all of the New Brit Shares will be admitted to listing on the Official List and admitted to trading on the main market of the London Stock Exchange, conflicts may arise between the obligations of New Brit under applicable Dutch laws and regulations and the UK Listing Rules. If an irreconcilable conflict were to occur, it is possible that this could result in New Brit no longer being able to comply fully with all applicable laws and regulations. Further, it is possible that an irreconcilable conflict could arise between the laws or regulations in the UK and the Netherlands which might apply to New Brit in relation to mergers and takeovers and related matters. This could impair the Group’s ability to realise the expected benefits of the Proposals. However, having taken appropriate advice, the Board believes that under the current laws and regulations of the UK and the Netherlands, the risk of material and irreconcilable legislative or regulatory conflicts is low.

The rights of New Brit Shareholders will be governed by Dutch law and regulations following the Scheme becoming effective

The rights afforded to New Brit Shareholders will be governed by applicable Dutch law and regulations and by the New Brit Articles and, where relevant, the Deed Poll which establishes the Depositary Interests. The rights of the New Brit Shareholders under Dutch law will be different and in certain circumstances the treatment of shareholders could be less favourable than it would have been under UK law. The main differences between Dutch law and UK law which are likely to be of relevance to shareholders are set out in Chapter 9 “Articles of Association and applicable Law and Regulations”.

Distributions to shareholders will initially be made by way of reductions of capital, which will require certain approvals

It is anticipated that, for an initial period, New Brit is unlikely to pay dividends but instead will make distributions to its shareholders by way of reductions of the par value of the New Brit Shares (i.e. in the form of a capital distribution). Under current law and practice, any cash payments to New Brit Shareholders on such a reduction of capital should be free from Dutch dividend withholding tax whilst they are made out of the Recognised Capital of New Brit. However, there can be no assurance that the Dutch dividend withholding tax rules and practice will not be changed in the future.

Under Dutch law, any reduction of capital requires the prior approval of New Brit Shareholders at a duly convened general meeting and will only become effective if no creditor objects to the contemplated reduction within a two month period of the shareholder resolution being filed with the trade register and announced in a daily newspaper

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in the Netherlands, or if any creditor objections are turned down by the Dutch courts or are withdrawn. Accordingly, the shareholder approval process and the right of creditors to object may affect the ability of New Brit to make a distribution by way of a reduction of capital and/or the timing of any such distribution. In the ordinary course, it is anticipated that any such distributions would be made in or around June and October of each year.

Any distributions made by way of a reduction of capital of New Brit must be denominated in Euros, as the share capital of New Brit is denominated in Euros and can only be reduced by a whole number of cents. There will be a gap between the date on which the amount of the distribution is set (which will be on or before the date of the notice convening the general meeting of shareholders to approve the reduction of capital) and the date of payment of the distribution to New Brit Shareholders. There is a risk that foreign currency exchange rates may move significantly between these dates which, except as described in the following paragraph, may adversely affect New Brit Shareholders who account for distributions in another currency, including pounds sterling.

In determining the level of any reduction of capital, New Brit intends to ascertain the amount by reference to the expected rate of exchange for Sterling using forward rates of exchange. For New Brit Shareholders who elect to receive payment in a currency other than Euros, New Brit would typically expect to be able to fix a settlement rate of exchange for Sterling and US dollars, again by reference to relevant forward rates. Provided that there are no delays to the expected timetable for payment of such distribution, there should be no material currency exchange risk in respect of a distribution.

Once the Recognised Capital of New Brit has been utilised, any further payments to New Brit Shareholders on a reduction of capital could be subject to Dutch dividend withholding tax for certain categories of shareholders. There can be no guarantee that an alternative method will be available at that time to make further distributions to New Brit Shareholders free from Dutch dividend withholding tax.

2. Risks relating to the general economic climate

Deterioration in the financial markets may have a direct and indirect adverse impact on the Group's business, results of operations, prospects and financial condition

Over recent years the economies and capital markets throughout the world have been subject to major uncertainty. Although, at the date of this Prospectus, the private and public investment directed at stabilising the economic and capital markets appears to have stabilised the markets, the longer term uncertainty remains. Business risk for the future therefore remains subject to commercial conditions and risks are, therefore, more difficult than ever to predict. The risk management methods used by the Group reflect certain assumptions about the degrees of correlation, or lack thereof, among prices of various asset classes or other market indicators. In times of market turmoil or other unforeseen circumstances, similar to those that occurred during 2008, previously uncorrelated indicators may become correlated, or previously correlated indicators may move in different directions. These types of market movements may limit the effectiveness of the Group's risk management methods.

In times of significant market turmoil, the risk of substantial financial errors and wrongdoing may increase dramatically. The Group bases its estimates of future claims on past actuarial experience, and has established claims reserves for claims incurred but not reported based on its best estimates in respect of a number of adverse financial sector events that occurred during the year. Due to the difficulty in assessing the likelihood or magnitude of the exposures related to the financial crisis, particularly before many claims have been made, the Group could sustain losses significantly beyond its expectations and estimates.

The global markets have been experiencing extreme volatility and disruption since September 2008, due in part to the financial stresses affecting the liquidity of the banking system and the financial markets generally. These circumstances have also exerted downward pressure on stock prices and reduced access to the debt markets for insurers. In recent periods, this volatility and disruption have diminished; however, the possibility of further severe turmoil in the global markets cannot be ruled out. This extreme market volatility and general decline in the equity markets directly and materially affected Old Brit's 2008 results of operations and investment portfolio. The Group maintains a portfolio of fixed income and equity securities. Among other things, the Group's investment portfolio has substantial exposure to UK banks and other financial institutions, many of which suffered financial problems requiring significant government intervention, and further intervention cannot be entirely ruled out. The Group's investment portfolio supports its obligation to pay future insurance claims and provides investment returns which are an important part of its overall profitability. If uncertainty in the economic and market conditions were to intensify, rather than continue to diminish, the Group may experience reduced

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investment income and incur substantial additional realised and unrealised losses on its investments. As a result, the Group's results of operations, equity, business and the Group's financial strength and debt ratings could be materially adversely impacted.

Although many lines of the Group's business have both direct and indirect exposure to the economic crisis, the exposure is especially high for the casualty lines of business (including Casualty Treaty, Financial & Professional, Employers' and Public Liability and Professional Indemnity/D&O) that provide insurance to businesses engaged in real estate, financial services and professional services. Approximately 40 per cent. of the Group's gross written premiums in 2008 arose in classes which have at least some casualty exposure. As a result, the Group has experienced and may continue to experience increased levels of claims with respect to these lines of business and a decline in its premium volume.

Governmental initiatives intended to alleviate the crisis that have been adopted may not be effective or may be accompanied by other requirements or other regulations that could materially affect the Group's results of operations and financial condition in ways that cannot be predicted

Legislation has been passed in an attempt to stabilise the financial markets. This legislation or similar proposals, as well as companion actions such as monetary or fiscal actions of the Dutch Ministry of Finance, the Bank of England and the U.S. Federal Reserve Board or comparable authorities in other countries, may fail to stabilise the financial markets. This legislation and other proposals or actions may also have other consequences, including material effects on interest rates and foreign exchange rates, which could materially affect the Group's investments and results of operations in ways that cannot be predicted. The failure to effectively implement this legislation and related proposals or actions could also result in material adverse effects, notably increased constraints on the liquidity available in the banking system and financial markets and increased pressure on equities and bonds markets, any of which could materially and adversely affect the Group's results of operations and financial condition. In the event of future material deterioration in business conditions, and notwithstanding that the Group has sufficient working capital for its present requirements (that is for at least 12 months from the date of this Prospectus), the Group may need to raise additional capital or consider other transactions to manage its capital position or liquidity in the longer term.

The Group is subject to extensive laws and regulations that are administered and enforced by a number of different governmental authorities and non-governmental self-regulatory agencies, including the UK FSA, Lloyd's and other regulators. In light of the current financial crisis, some of these authorities are or may in the future consider enhanced or new regulatory requirements intended to prevent future crises or otherwise assure the stability of institutions under their supervision. These authorities may also seek to exercise their supervisory or enforcement authority in new or more robust ways. All of these possibilities, if they occurred, could affect the way the Group conducts its business and manages its capital, and may require the Group to satisfy increased capital requirements, any of which in turn could materially affect its results of operations or its financial condition.

The global markets have been experiencing extreme and sustained volatility and disruption. The Group is exposed to significant financial and capital markets risk, including changes in interest rates, credit spreads, equity prices, and foreign exchange rates which may adversely affect its results of operations and its financial condition

The global markets have experienced extreme volatility and disruption over the past year. The Group is exposed to significant financial and capital markets risk, including changes in interest rates, credit spreads, equity prices and foreign currency exchange rates.

The Group's exposure to interest rate risk relates primarily to the market price and cash flow variability associated with changes in interest rates. A rise in interest rates, in the absence of other countervailing changes, will cause an unrealised loss in the Group's investment portfolio.

The Group's exposure to credit spreads primarily relates to market price and cash flow variability associated with changes in credit spreads. A widening of credit spreads increases the net unrealised loss position of the Group's investment portfolio. If issuer credit spreads, which have been reducing during 2009, were to widen or increase significantly over an extended period of time, it would likely exacerbate these effects, resulting in greater and additional impairments. If credit spreads tighten significantly, it will reduce net investment income associated with new purchases of fixed maturities. In addition, were market liquidity to again diminish materially, it would be

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difficult to value certain securities held by the Group. As such, valuations may include assumptions or estimates that may be more susceptible to significant period to period changes which could have a material adverse effect on the Group's consolidated results of operations or financial condition.

A proportion of the Group's invested assets (30 June 2009: 5.9 per cent.; 31 December 2008: 7.1 per cent.; 31 December 2007: 18.3 per cent.) is invested in equities and specialised investment funds and is therefore exposed to associated investment yields and equity markets. With the deterioration in the credit markets in 2008/2009 and the accelerating global recession the Group sold specialised investment funds and equities to reduce exposure of risk. In the conduct of the Group's business, the Group regularly manages its investment assets in accordance with its investment policy. In connection with this policy, there could be scenarios where in order to fulfil its obligations and to raise incremental liquidity the Group would need to sell investment assets at a loss due to the illiquidity of the markets.

The Group's primary foreign currency exchange risks are related to non-Sterling denominated investments, technical provisions, and insurance debtors and creditors. These risks relate to the potential volatility that movements in foreign exchange rates relative to Sterling create in both the consolidated income statement and the consolidated balance sheet.

In addition, the weakness of Sterling has the effect of increasing the Group's capital requirements, in both BIL and BSL. In June 2009, the Group was required to commit approximately £52 million of additional funds at Lloyd's as a result of exchange rate movements. A continued weakening in the value of Sterling will increase the Group's capital requirements further in the future.

If significant, declines in equity prices, changes in UK interest rates, changes in credit spreads and the strengthening or weakening of foreign currencies against Sterling or a combination of these, could have a material adverse effect on the Group's consolidated results of operations or financial condition.

3. Risks relating to the Group

A decline in the financial strength and credit ratings assigned to the Group and its businesses by various rating agencies could materially adversely affect the Group's potential to write business, decrease the Group's premiums and earnings and could increase its costs of borrowing

Ratings are an important factor in establishing the competitive positions of insurance companies. Third-party rating agencies assess and rate the financial strength of insurers. These ratings are based upon criteria established by the rating agencies, including the following:

- statutory capital;
- operating performance;
- risk of investment portfolio;
- views of the rating organisation;
- economic trends affecting the financial services industry;
- changes in models and formulas used by rating organisations to assess the financial strength of a rated company;
- enterprise risk management; and
- other circumstances outside the rated company's control.

The rating agencies continuously evaluate the Group to confirm that it continues to meet the criteria of the rating assigned to the regulated entities, which may be revised downward or revoked at the sole discretion of the rating agencies. The financial strength ratings assigned by rating agencies to insurance companies are based upon factors relevant to the Group. BIL's financial strength rating from Fitch Ratings is 'A' (Strong) with a stable outlook and from A.M. Best 'A' (Excellent) with a stable outlook. Lloyd's financial strength rating is 'A' (Excellent) with a stable outlook from A.M. Best and 'A+' (Strong) with a stable outlook from Fitch Ratings and Standard & Poor's. The objective of these ratings systems is to provide an opinion of an insurer's financial strength and ability to meet

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ongoing obligations to its policyholders. The Group's financial strength ratings reflect the rating agencies' opinions of the Group's financial strength and are not evaluations directed to investors in the Group's securities and are not ratings of securities or recommendations to buy, hold or sell any security.

The Group can provide no assurance that one or more of these or other rating agencies will not downgrade or withdraw their ratings in the future. As financial strength ratings are a key factor in establishing the competitive position of insurers, a decline in the Group's ratings alone could make insurance provided by the Group less attractive to clients relative to insurance from its competitors with similar or stronger ratings. A ratings downgrade could also result in a substantial loss of business, including the loss of clients who are required by either policy or regulation to purchase insurance only from reinsurers with certain ratings. A decline in ratings could also obligate the Group to provide collateral or other guarantees in the course of its insurance business or trigger early termination of certain funding arrangements. Any rating downgrades could also materially adversely affect the Group's cost of borrowing or limit its access to capital markets.

Additionally, it is common for larger reinsurance contracts to contain terms that would allow the ceding companies to cancel the contract for the portion of the Group's obligations if any member of the Group is subject to a ratings downgrade. The Group cannot predict in advance the extent to which any such cancellation right would be exercised, if at all, but any such cancellation could have a material adverse effect on its financial condition or future operations. Further information about the Lloyd's financial strength rating is given below under the risk factor headed "Lloyd's financial strength ratings".

The Group is exposed to fluctuations in exchange rates and the fluctuations may adversely affect the Group's operating results

A substantial proportion of the Group's business is written outside the UK, in particular the US and continental Europe. The Group is therefore exposed to changes in exchange rates and there is no guarantee that hedging arrangements or any other foreign exchange strategy that the Group undertakes will be successful in preventing losses owing to such changes.

The Group earns a significant portion of its income from operations conducted in foreign currencies which must be translated into Sterling for consolidated reporting purposes. Consequently, exchange rate fluctuations can cause volatility in the Group's reported earnings from its business conducted overseas.

Similar to the income statement, the Group's overall balance sheet has net assets in overseas currencies and this exposes the balance sheet to translation gains and losses based on exchange rate fluctuations.

In preparing its consolidated financial statements, the Group uses period-end rates to translate balance sheet items not denominated in Sterling with the exception of non-monetary assets and liabilities (unearned premium reserves and deferred acquisition costs). IFRS requires these items to be translated at historical average exchange rates. This treatment introduces an additional level of volatility and uncertainty into the results reported in any period. The Group considers this as purely a timing difference in profit recognition.

The Group may fail to obtain new insurance business

The Group may fail to obtain new insurance business at the desired rates. There can be no assurance that business will be available to the Group on terms or at prices that it considers to be attractive, nor can there be any assurance that if such terms or prices exist initially, they will continue. Premium levels may be adversely affected by increases in insurance industry capacity generally, a reduction of prices in response to favourable loss experience, the pricing of underlying direct coverages and other factors.

The Group may fail to accomplish its plans to expand its business geographically or to different classes of insurance, or may fail to do so profitably

In connection with its strategic business plan, the Group intends to expand its business should opportunities to do so profitably arise. In addition, the Group may expand business through acquisitions or geographically through writing new classes of insurance in its current SBUs. There is no guarantee that the Group will realise its strategic business plans, or that it will be able to do so profitably. Among other things, the Group may fail to identify appropriate acquisitions, or may undertake acquisitions but fail to realise the expected benefits from these transactions. A failure on the part of the Group to accomplish its plans to expand its business may have an adverse impact on its business, financial condition or results of operations, notwithstanding any rights of action which the Group may have.

Risk Factors

Losses on the Group's investments may reduce its overall capital and profitability

Like all insurers, the Group holds significant investments to support its liabilities, and its profits depend in part upon the returns achieved on its investment portfolios. As at 30 June 2009, total investments were £3.2 billion, a multiple of net tangible assets. The effect of changes in interest rates, bonds and equity returns, credit ratings and other economic variables on the Group's investments could therefore substantially affect the profitability of the Group. A fall in the capital value of the Group's investments may result in a reduction in overall capital which would reduce the amount of business that the Group is able to underwrite. The current international accounting practice of mark-to-market investment valuations increases the volatility and uncertainty surrounding reported profits and net asset values at any point in time.

The Group retains assets in cash deposits, bonds and equity investments, and specialist investment funds. A major loss, series of losses or reduction in premium income could result in a sustained cash outflow requiring early realisation of those assets on terms that are detrimental to the position of the Group.

There can be no guarantee that any fundraisings sought in the long term will be available on favourable terms to the Group

Future capital requirements depend on many factors, including any changes to capital requirements imposed by regulators or third party credit rating agencies (in order to maintain a particular financial strength rating) and the Group's ability to write business successfully and establish premium rates and reserves at levels sufficient to cover losses and maintain the rating and solvency levels. Notwithstanding that the Group has sufficient funds for its present requirements (that is, for at least 12 months from the date of this Prospectus), to the extent that it is necessary to raise additional funds in the long term through financings or, in the alternative, curtail the Group's growth, any equity or debt financings, if available at all, may be on terms that are not acceptable to the Group, or contain operating and financial covenants that reduce the flexibility of the Group to respond to changing business and economic conditions, including increased competition in the insurance industry, and/or may prevent the Group from expanding its business. In addition, equity financings may result in the dilution of shareholders' interests in New Brit, with such equity securities issued holding rights, preferences and privileges that are senior to those of the ordinary shares. If such financing cannot be obtained, the Group's operating results and financial condition could be adversely affected.

If an underwriter or agent fails to comply with its underwriting authority, it could adversely affect the Group

The Group's premium income is written through underwriters employed by the Group together with agents to whom authority is given to accept risks on behalf of carriers of the Group. There is no guarantee that an underwriter or agent will comply with their authority or the terms of their agency. An underwriter or agent that breaches its authority or terms could expose the Group to unanticipated losses that adversely impact on the Group.

Employee or agent error and misconduct may be difficult to detect and prevent and could adversely affect the Group's business, results of operations, and financial condition

Losses may result from, among other things, fraud, errors, failure to document transactions properly or to obtain proper internal authorisation, or failure to comply with regulatory requirements. It is not always possible to deter or prevent employee or agent misconduct and the precautions taken to prevent and detect this activity may not be effective in all cases. Resultant losses could adversely affect the Group's business, results of operations and financial condition.

The Group depends on the performance of others, and their failure to perform in a satisfactory manner could negatively affect the business

The Group uses the services of third-parties including investment managers, claims managers, loss adjusters, market settlement bureaus and coverholders. Investment managers are required to provide investment advice and execute investment transactions that are within investment policy guidelines. Poor performance or fraudulent activities on the part of these, or other, outside parties could materially affect the Group's business, results of operations or financial condition.

The Group is subject to operational risk that could adversely affect its businesses

The Group's businesses are highly dependent on its ability to process, on a daily basis, a large number of transactions across numerous and diverse markets in many currencies. In general, the transactions the Group processes are increasingly complex. These transactions, as well as the information technology services the Group

Risk Factors

provides to clients, often must adhere to market norms, as well as legal and regulatory standards. As the Group's client base and geographical reach expands, developing and maintaining its operational systems and infrastructure becomes increasingly challenging. The Group's financial, accounting, data processing or other operating systems and facilities may fail to operate properly or become disabled as a result of events that are wholly or partially beyond its control, adversely affecting its ability to process these transactions or provide these services.

In particular, the Group relies on the ability of its employees, its internal systems and systems operated by third parties on behalf of the London insurance market, including technology centres, to process a high volume of transactions. Despite the business contingency plans the Group has in place, its ability to conduct business may be adversely affected by a disruption in the infrastructure that supports the Group's business and the communities where the Group is located. This may include a disruption involving physical site access, terrorist activities, disease pandemics, electrical, communications or other services used by the Group, its employees or third parties with whom it conducts business. Any such event, or any other failure of the Group's operational systems to function properly, could have a material impact on the Group's business, results of operations or financial condition.

Managing change initiatives to address business developments, new and proposed regulations, and increasing data security regulations and risks present significant challenges to the Group

While technological developments can streamline many business processes and ultimately reduce the cost of operations, technology initiatives can present short-term cost and implementation risks. In particular, projections of implementation costs, delivery schedules and the project benefits may be inaccurate and costs or delivery timelines can escalate over time.

The Group faces rising costs and competing time constraints in meeting compliance requirements of new and proposed regulations, such as Solvency II and IFRS Phase II. These statutory and regulatory requirements remain formative and the scope, implementation timescales and costs remain uncertain. The expanding volume and sophistication of computer viruses, hackers and other external hazards may increase the vulnerability of the Group's data systems to security breaches. These increased risks and expanding regulatory requirements expose the Group to potential data loss and damages and significant increases in compliance and litigation costs, and such exposure could have a material impact on the Group's business, results of operations or financial condition.

The Group is dependent on the use of third-party software and data, and any reduction in third-party product quality or any failure to comply with the Group's licensing requirements could have a material adverse effect on the Group's business, financial condition or results of operations

The Group relies on third-party software and data in connection with the Group's underwriting, claims and accounting activity. The Group depends on the ability of third-party software and data providers to deliver and support reliable products, enhance their current products, develop new products on a timely and cost-effective basis, and respond to emerging industry standards and other technological changes. The third-party software and data the Group uses may become obsolete or incompatible with future versions of its products. The Group also monitors its use of third-party software and data to comply with applicable license requirements. Despite the Group's efforts, there can be no assurance that such third parties may not challenge its use, resulting in loss of rights or costly legal actions. The Group's business could be materially adversely affected if the Group is not able, on a timely basis, to effectively replace the functionality provided by software or data that becomes unavailable or fails to operate effectively for any reason. In addition, the Group's operating costs could increase if license fees for third-party software or data increase or the efforts to incorporate enhancements to third-party or other software or data are substantial. Some of these third-party suppliers are also the Group's competitors, increasing the risks noted above.

The Group is exposed to risk of non-performance of its external suppliers and contractors in connection with outsourcing some of its ongoing operations

The Group utilises the services of external suppliers and contractors in connection with the Group's ongoing operations. These may include, for example, outsourced processing and support functions and consulting and other professional services. The Group manages its exposures to the quality of these services through a variety of means, including service level and other contractual agreements, service and quality reviews, and ongoing monitoring of the suppliers' or contractors' performance. It is anticipated that the use of these services will continue and possibly increase in the future. Any failure on the part of such third party suppliers and contractors to perform consistent with such agreements could have a material impact on the Group's operations.

Risk Factors

A failure in the Group's operational systems or infrastructure, or those of third parties, could disrupt its businesses, result in the disclosure of confidential information, damage its reputation and cause losses that could impact the Group's financial condition or results of operations

The Group's operations rely on the secure processing, storage and transmission of confidential and other information in its computer systems and networks. Although the Group takes protective measures and endeavours to modify them as circumstances warrant, the computer systems, software and networks may be vulnerable to unauthorised access, computer viruses or other malicious code and other events that could have a security impact. In addition, the Group routinely transmits and receives personal, confidential and proprietary information by email and other electronic means. The Group has discussed and worked with clients, vendors, service providers, counterparties and other third parties to develop secure transmission capabilities, but the Group does not have, and may be unable to put in place, secure capabilities with all of its clients, counterparties and other third parties and the Group may not be able to ensure that these third parties have appropriate controls in place to protect the confidentiality of the information. An interception, misuse or mishandling of personal, confidential or proprietary information being sent to or received from a client, counterparty or other third party could result in legal liability, regulatory action and reputational harm.

If one or more of such events occur, this potentially could jeopardise the Group's or its clients' or counterparties' confidential and other information processed and stored in, and transmitted through, computer systems and networks, or otherwise cause interruptions or malfunctions in the Group's, its clients', its counterparties' or third parties' operations, which could result in significant losses or reputational damage. The Group may be required to expend significant additional resources to modify its protective measures or to investigate and remediate vulnerabilities or other exposures, and the Group may be subject to litigation and financial losses that are either not insured against or not fully covered through any insurance maintained by the Group.

Loss of business reputation or negative publicity could negatively impact the Group's results

The Group is vulnerable to adverse market perception since it operates in an industry where integrity and customer trust and confidence are paramount. In addition, any negative publicity (whether well founded or not) associated with the business or operations of the Group could result in a loss of clients and/or business. Accordingly, any mismanagement, fraud or failure to satisfy fiduciary responsibilities, or the negative publicity resulting from such activities or any allegation of such activities, could have a material adverse effect on the Group.

The Group could be adversely affected by the loss of one or more key employees or by an inability to attract and retain qualified personnel, which could negatively affect its financial condition, results of operations, or ability to realise its strategic business plan

The future success of the Group is substantially dependent on the continued services and continuing contributions of its Directors, senior underwriters, senior management and other key personnel and its ability to continue to attract, motivate and retain the services of qualified personnel. While the Group has entered into employment contracts or letters of appointment with such key personnel, the retention of their services cannot be guaranteed.

The success of the Group will depend in part upon its continuing ability to recruit and retain employees of suitable skill and experience. There can be no assurance that the Group will be able to recruit sufficient or qualified staff, or that the individuals that it would like to recruit will be able to obtain the necessary work permits if required or that it will be able to retain such staff. The loss of the services of any of the Directors, senior underwriters, senior management or other key personnel or the inability to recruit and retain staff of suitable quality could materially adversely affect the ability of the Group to continue to conduct its business.

Failure of a court or other judicial body to recognise the jurisdiction clause in the Group's contracts could expose it to uncertain and/or unfamiliar legislative environments

The Group writes insurance contracts that provide local, regional or worldwide coverage using contractual policy wording that follows standard Lloyd's market practice. Individual contract wording may vary depending upon the customer requirements and the risk negotiation. Whilst the Group seeks to ensure where possible that the governing law clause of each contract is explicitly and validly set out in the terms of the contract, and identifies a jurisdiction that is acceptable to and appropriate in respect of the Group, it is possible that this legal framework may be deemed invalid or inappropriate by courts in the Netherlands, the UK or elsewhere. If the governing law provisions of the contracts were deemed invalid, this could expose the Group to uncertainty in respect of the legal environment.

Risk Factors

The Group may be exposed to uninsured risks

In certain circumstances, insurance may not cover or be adequate to cover liabilities incurred by a member of the Group. In addition, the Group may be subject to liability for events against which it does not insure or which it may elect not to insure against because of high insurance costs or other reasons. The occurrence of an event that is not covered or not fully covered by insurance could have a material adverse effect on the business, financial condition and results of operation of the Group. Moreover, there can be no assurance that the Group will be able to maintain adequate insurance in the future in amounts or at rates it considers appropriate.

Pension scheme liabilities may impact the Group

The Group operates a defined benefit pension scheme for its past and present employees. The scheme closed to new members in October 2001. It is possible that poor investment performance of the pension scheme assets or a revaluation of the pension scheme liabilities arising from the use of new life expectancy tables or other changes in assumptions could adversely affect the scheme's assets or liabilities, which could adversely impact the Group.

Intra-group arrangements found not to be on arm's length terms may adversely affect the Group's tax charge

Trading relationships between members of the Group in different jurisdictions will in general be subject to the transfer pricing regimes of the jurisdictions concerned. The Group intends to operate intra-group trading arrangements and relationships on demonstrable and documented arm's length terms. If, however, such trading arrangements were found not to be on arm's length terms adjustments may be required to taxable profits in the relevant jurisdictions which could lead to an increase in the Group's overall tax charge.

A significant change in the rate and basis of taxes may have an adverse impact on the Group's financial results

The Group is subject to direct taxes (corporate and employment) and indirect taxes (premium taxes and federal excise taxes) in the jurisdictions where it conducts its business operations. Significant changes in the tax rules or tax practices in such a jurisdiction may have a material impact upon the Group.

The occurrence of certain acts of terrorism or nuclear, chemical, biological or radiological exposure ("NCBR") would detrimentally impact the Group's ability to carry out its business

The Group operates from premises and in markets that may be affected by acts of terrorism or NCBR, which are not covered by its reinsurance policy with Pool Reinsurance Company Limited. Such actions may be uninsurable and, were they to occur in, or render incapable of occupation any public buildings, the Group's premises or those of third parties with or through whom the Group conducts its business, this may prevent the Group from carrying on that business.

4. Risks related to the insurance industry

The Group may mismanage the risks it is undertaking in underwriting business

The underwriting of insurance risks is, by its nature, a high-risk business. Earnings can be volatile and losses may be incurred which would have the effect of significantly reducing shareholders' equity.

The results of the insurance industry vary widely as do the results of insurers operating within the insurance market. Even if the insurance market makes an overall profit, some individual insurers or lines of business may incur losses. The past results of the insurance market, the Syndicate, BIL and of the Group are a historical record and may not necessarily be a reliable guide to future prospects. Previously profitable business may subsequently become unprofitable, the nature of business written may change, reserves created against future claims may prove to be inadequate, an insurer's reinsurance programme may be insufficient and/or its reinsurers may fail.

It is inherent in the nature of the underwriting business that it is difficult to forecast short-term trends or returns in a single year. If its underwriters fail to assess accurately the risks underwritten or if events or circumstances cause their risk assessment to be incorrect, the Group may not charge appropriate premiums and this could have a material adverse effect on its results of operations. Not only do underwriting results change but investment income and appreciation or depreciation, which may form an important part of the financial return to insurers, are affected by, among other things, interest rates, exchange rates, taxation changes and other economic events (which are outside the Group's control) as well as investment policy and performance and market events. In the insurance market, risks and rewards vary from insurer to insurer and according to the categories of business written by those insurers. The past results of the insurance market and of individual insurers are a matter of historic record and may be a poor guide to future prospects. A failure by the Group to effectively manage the risks described above could have a material impact on the Group's business, financial condition and results of operations.

Risk Factors

Estimating insurance reserves is inherently uncertain, and if the Group's loss reserves are insufficient, it will have an unfavourable impact on the Group's results

The Group uses informed, subjective professional judgment in estimating the ultimate cost of claims. The estimate of the ultimate cost at any particular valuation point may vary materially from the actual cost when claims are ultimately settled. The Group establishes loss reserves to cover estimated liabilities, which remain unpaid as of the end of each accounting period, and to investigate and settle all claims incurred under the insurance policies that it has issued. Loss reserves are established for claims that have been reported to the Group as at the end of the accounting period, as well as for losses or claims that have occurred or have been incurred but have not yet been reported to the Group. The estimates of loss reserves are based on the Group's assessment of the facts and circumstances known to it at the time, as well as estimates of the impact of future trends in the severity of claims, the frequency of claims and other factors.

The Group estimates the reserves for each product line and coverage that it writes using a variety of generally accepted actuarial loss reserving estimation methodologies that analyse experience trends and other relevant factors. These methodologies generally utilise analyses of historical patterns of the development of paid and reported losses by product lines, coverage and underwriting year (that is, the year in which the insured event that gave rise to the claim occurred). This process relies on the basic assumption that past experience, adjusted for the effects of current developments and likely trends, is an appropriate basis for predicting future outcomes. The expected ultimate losses are adjusted as claims mature and are eventually settled.

Using the various actuarial methods and different underlying assumptions, the Group's actuaries produce a number of point estimates for each class of business. After reviewing the appropriateness of the underlying assumptions, management selects the carried reserve for each product line and coverage. Management continually reviews the adequacy of reserve estimates in a regular and ongoing process as experience develops and further claims are reported and settled and reflects any adjustments to reserves in the results of the periods in which such estimates are changed.

The process of estimating loss reserves is complex and imprecise. As described above, the estimate of the ultimate cost of claims must take into consideration many factors that are dependent on the outcome of future events. As such, the impact on the Group's loss reserves from these factors is difficult to estimate accurately. Such factors consist of, but are not limited to, the following:

- changes in the length of time between the actual occurrence of the event that gives rise to a claim, and the date on which the claim is reported;
- changes in underwriting practices;
- changes in claim handling procedures;
- changes in medical care, including the impact of inflation, the extent of injuries and the utilisation of medical services;
- changes in the cost of home repair, including the impact of inflation and the availability of labour and materials;
- changes in the judicial environment, including, but not limited to, the interpretation of policy provisions, the impact of jury awards and changes in case law;
- changes in legislation; and
- changes in regulatory requirements.

In addition, due to the difficulty in assessing the likelihood or magnitude of the exposures related to the financial crisis, particularly before many claims have been made, the Group could sustain losses significantly beyond its expectations and estimates.

A change in any one or more of the foregoing factors is likely to result in a projected ultimate loss that is different from the previously estimated cost. Such changes may be material and if the Group were to fail to estimate its reserves effectively and such reserves were insufficient, it will have a material impact on the Group's results.

Risk Factors

The Group's operating results are affected by the cyclical nature of the insurance business

The insurance business historically has been a cyclical industry, with significant fluctuations in operating results due to competition, catastrophic events, general economic and social conditions and other factors. This cyclical nature has produced periods characterised by intense price competition due to excess underwriting capacity as well as periods when shortages of capacity permitted favourable premium levels. In addition, increases in the frequency and severity of losses suffered by insurers can significantly affect these cycles. The Group can be expected to suffer the effects of such cyclical nature.

Claims arising from unpredictable and severe catastrophic events could reduce the Group's earnings and shareholders' equity and limit its ability to write new insurance policies

The Group's insurance operations expose it to claims arising out of unpredictable natural and other catastrophic events, such as hurricanes, windstorms, tsunamis, severe winter weather, earthquakes, floods, fires, explosions and other natural or "man-made" disasters, such as terrorism, biological or nuclear attacks. The incidence and severity of catastrophes are inherently unpredictable and the Group's losses from catastrophes could be substantial. The extent of losses from catastrophes is a function of both the number and severity of the insured events and the total amount of insured exposure in the areas affected. Increases in the value and concentrations of insured property, the effects of inflation and changes in cyclical weather patterns may increase the severity of claims from catastrophic events in the future. Claims from catastrophic events could reduce the Group's earnings and cause substantial volatility in its results of operations for any fiscal quarter or year, which could adversely affect its financial condition, possibly to the extent of eliminating its shareholders' equity. The Group's ability to write new insurance policies could also be impacted as a result of corresponding reductions in its capital.

Underwriting is inherently a matter of judgment, involving important assumptions about matters that are unpredictable and beyond the Group's control, and for which historical experience and probability analysis may not provide sufficient guidance. One or more catastrophic or other events could result in claims that substantially exceed the Group's expectations.

The Group may experience significant losses on short notice, which may require it to liquidate its investments rapidly and may limit its ability to write new insurance policies

Catastrophes such as hurricanes, windstorms, tsunamis, severe winter weather, earthquakes, floods, fires, explosions and other natural or 'man-made' disasters, such as terrorism, biological or nuclear attacks are difficult to predict. By insuring damages resulting from such catastrophes, the Group subjects itself to large potential claims that may arise on short notice. To meet its obligations with respect to those claims, the Group may be forced to liquidate some of its investments rapidly, which may involve selling a portion of its investments into a depressed market. Those sales would decrease the Group's returns from investments and underwriting capacity.

The effects of emerging claim and coverage issues on the Group business are uncertain

As industry practices and legal, judicial, social and other environmental conditions change, unexpected and unintended issues related to claims and coverage may emerge. These issues may adversely affect the business of the Group, either by requiring the Group to extend coverage beyond its underwriting intent or by increasing the number or size of claims. Examples of emerging claims and coverage issues include but are not limited to:

- adverse changes in loss cost trends, including inflationary pressures;
- judicial expansion of policy coverage and the impact of new theories of liability;
- a growing trend of plaintiffs targeting property and casualty insurers in purported class action litigation relating to claim-handling and other practices;
- claims from directors' and officers' insurance relating to possible accounting irregularities, corporate governance issues and stock option "backdating," "spring-loading" and other option grant practices;
- claims arising from subprime mortgage losses, recessionary events, the deterioration of ratings for bond insurers and, more generally, lending practices and disclosure of risks in respect of securitisation transactions, including claims arising from regulatory investigations, civil and criminal proceedings and plaintiff lawsuits in respect of these practices and developments, and related claims of inadequate disclosure, accounting fraud and insider trading;

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- liability of insurers for bad faith practices, possibly in excess of policy limits (usually resulting from poor claims handling), which can occur in territories where a significant portion of the Group's business is written (for example, in certain states in the US); and
- environmental pollution, terrorism, global warming and flood risks.

The effects of these and other unforeseen emerging claim and coverage issues are extremely hard to predict and may not become apparent until a significant period of time after the Group has issued insurance or reinsurance contracts affected by such issues. In addition, the Group may from time to time receive a large number of precautionary notifications arising out of claims related to the financial crisis, some of which may ultimately turn into paid claims. Any such developments could harm the Group's business and materially adversely affect its financial condition and results of operations.

The Group's reinsurance coverage may be exhausted or ineffective, exposing the Group to insurance risks

The Group has an established reinsurance programme that seeks to mitigate the cost of losses arising from catastrophic events or the accumulation of unexpected volumes of attritional claims. The programme is finite and absolute in the protection offered and does not offer unlimited protection against highly extreme but improbable events. The programme is purchased annually, with elements of the programme expiring throughout the year. The programme is purchased on both a "losses occurring" and "risks attaching" basis. In addition, reinsurance cessation and commencement terms, timing and cost could leave the Group with an open position where intended reinsurance protection is either omitted or only partially effective. One or more of the Group's reinsurers could become insolvent, which could cause a portion of the Group's reinsurance protection to become ineffective. In the event that the reinsurance protections are exhausted, omitted or partially effective, any further losses would be fully retained by the Group and could materially affect the Group's business, financial condition or results of operations.

Failure to recover under reinsurance protections may adversely impact the trading position of the Group

The Group follows the customary insurance practice of reinsuring and retroceding with other insurance and reinsurance companies a portion of the risks under the policies it writes and under its reinsurance contracts. These reinsurance and retrocession arrangements are put in place to protect the Group against both severity and frequency of losses on individual claims and unusually serious occurrences in which a number of claims produce an aggregate extraordinary loss. Although reinsurance does not discharge the Group from its primary obligation to pay under an insurance policy for losses insured or under a reinsurance agreement for losses assumed, reinsurance does make the reinsurer or retrocessionaire liable to the Group for the reinsured or retroceded portion of the risk.

The collectability of reinsurance and retrocessions is largely a function of the solvency of reinsurers. The Group assesses the security represented by individual reinsurers using both in-house procedures and appropriate market and financial information. Despite these measures, a reinsurer's insolvency, inability or unwillingness to make payments under the terms of a reinsurance or retrocession arrangement could have a material effect on the Group's financial condition or results of operations. This risk is heightened by the significant financial difficulties being faced by a number of large global reinsurance companies, including recent and potential future rating downgrades. Such rating downgrades may in extremes cause a downgrade in New Brit's rating as New Brit may be required to provide additional reserves for potential bad debts. Recoveries can often occur many years after the contract was placed and the time delays increase the credit risk attaching to these reinsurances.

While the Group has historically enjoyed strong relationships with a number of reinsurers, there can be no assurance that reinsurance or retrocession will remain available to the Group or be made available in the future, or that it will continue to be available in terms of price and volume of capacity which are deemed by the Group to be appropriate or acceptable or from entities with satisfactory creditworthiness.

The Group may be unable to purchase reinsurance for its own account at all or on commercially acceptable terms

From time to time, market conditions have limited, and in some cases prevented, insurers and reinsurers from obtaining the types and amounts of reinsurance they consider adequate for their business needs. For example, following the terrorist attacks in the United States on 11 September 2001, terms and conditions in the reinsurance markets generally became less attractive to buyers of such coverage. Similar conditions occurred as a result of Hurricanes Katrina, Rita and Wilma in 2005, and may occur in the future, and the Group may not be able to

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purchase reinsurance in the areas and for the amounts required or desired. Even if reinsurance is generally available, the Group may not be able to negotiate terms that the Group deems appropriate or acceptable or to obtain coverage from entities with satisfactory financial resources. Accordingly, the Group may be forced to incur additional expenses to purchase reinsurance or may be unable to obtain sufficient reinsurance on acceptable terms, in which case the Group would have to accept an increase in exposure risk, reduce the amount of business written by its subsidiaries or seek alternatives.

If the reinsurance industry were to suffer future substantial losses, the effect could be to severely limit further the availability of appropriate or acceptable reinsurance facilities for the Group, which in the event of losses on the Group's risk portfolio could have a material adverse effect on the condition of the Group.

Furthermore, systemic reinsurance failure could have a material adverse effect on the Group's entire reinsurance programme.

The Group is exposed to claims relating to recent and possible future financial frauds

In times of financial turmoil discovery of incidents of financial fraud tend to increase, as has already been seen with the so called "Madoff" and "Stanford" alleged frauds where the Group has already received precautionary advices that may or may not lead to losses. There could be additional similar matters that would result in claims being made under policies written by the Group. These claims, individually or in the aggregate, could have a material adverse effect on the Group's business, financial condition and results of operations.

Coverage disputes can increase expenses and incurred losses

There can be no assurance that various provisions of the Group's insurance policy forms and reinsurance contracts such as limitations on, or exclusions from, coverage will be enforceable in the manner intended. Disputes relating to coverage and choice of legal forum can be expected to arise, as a result of which the Group may incur losses beyond those that it contemplates would be incurred pursuant to its insurance policies or reinsurance contracts.

The Group's hedging strategies and other risk management techniques may not be fully effective in mitigating risk exposure in all market environments or against all types of risk

The Group has devoted significant resources to develop its risk management policies and procedures and expects to continue to do so in the future. Nonetheless, the Group's hedging strategies and other risk management techniques may not be fully effective in mitigating risk exposure in all market environments or against all types of risk, including risks that are unidentified or unanticipated. Some methods of managing risk utilised by the Group are based upon observed historical market behaviour. As a result, these methods may not predict future risk exposures, which could be significantly greater than the historical measures indicate. Management of market, credit, liquidity, operational, legal and regulatory risks requires, among other things, policies and procedures to record properly and verify a large number of transactions and events, and these policies and procedures may not be fully effective. A failure in the effectiveness of the Group's risk management techniques could have a material impact on the Group's financial condition.

If the Group's risk management and loss limitation methods fail to adequately manage its exposure to losses, the losses it incurs could be materially higher than its expectations and its financial condition and results of operations could be adversely affected

The Group has historically sought and will in the future seek to limit its exposure to insurance and reinsurance losses through a number of loss limitation methods including internal risk management and security procedures as well as through the purchase of outwards reinsurance protection. The Group's underwriting processes and models include the setting and monitoring of underwriting limits and the monitoring and control of risks written and risk aggregation. Underwriting is a matter of judgment involving important assumptions about matters that are inherently unpredictable and beyond the Group's control and for which historical experience and probability analysis may not provide sufficient guidance.

The Group manages its exposure to catastrophic losses by analysing the probability and severity of the occurrence of catastrophic events and the impact of such events on its insurance and investment portfolios. The Group uses various tools to analyse and manage the inwards reinsurance exposures it assumes from ceding companies and direct and facultative exposures from clients from a catastrophic event that could impact on its investment portfolio. Among the most important of these are the industry standard risk modelling software applications which

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the Group licenses and upon which it places reliance when assessing risk. The risk modelling software assists the Group in assessing the adequacy of risk pricing and monitoring its overall exposure to risk in correlated geographic zones. The Group cannot make an assurance that the models and assumptions used by the software will accurately predict losses or loss aggregations in all situations. Further, the Group cannot make assurances that the models are free of defects in the modelling logic or in the software code. In addition, much of the information that the Group enters into its risk modelling software is based on third-party data that it does not control, and estimates and assumptions that are dependent on many variables, such as assumptions about loss adjustment expenses, insurance-to-value and post event loss amplification (the temporary local inflation of costs for building materials and labour resulting from increased demand for rebuilding services in the aftermath of a catastrophe). Accordingly, if the estimates and assumptions that the Group enters into its risk models are incorrect, or if such models prove to be an inaccurate forecasting tool, the losses the Group might incur from an actual catastrophe could be materially higher than its expectation of losses generated from modelled catastrophe scenarios, and its financial condition and results of operations could be adversely affected. In particular, the Group uses risk aggregation software to assist in determining the amount of outwards reinsurance it needs to purchase. Were the software, the inputs, or the modelling to provide inadequate representation of the potential losses, this may detrimentally affect the reinsurance purchasing strategy and leave the Group exposed to claims where reinsurance protections are exhausted.

The Group also seeks to limit its loss exposure through loss limitation provisions in the policies it issues to customers, such as limitations on the amount of losses that can be claimed under a policy, limitations or exclusions from coverage and provisions relating to choice of forum. The Group cannot make assurances that these contractual provisions will be enforceable in the manner it expects or that disputes relating to coverage will be resolved in its favour. If the loss limitation provisions in its policies are not enforceable or disputes arise concerning the application of such provisions, the losses the Group might incur from a catastrophic event could be materially higher than its expectations, and its financial condition and results of operations could be adversely affected.

Notwithstanding the risk mitigation and underwriting controls employed, one or more catastrophic or other loss events or a greater frequency of losses than expected could result in claims that substantially exceed the expectations of the Group, which could have a material adverse effect on its financial condition or results of operations, possibly to the extent of eliminating the shareholders' equity and statutory surplus of the Group.

In the absence of a liquid market for certain securities, various methodologies may be available to value securities positions, which may differ significantly from the Group's fair value estimates

The Group's financial instruments are carried at market value through the consolidated income statement. To establish the fair value of these instruments, the Group relies on quoted market prices in active markets or, where the market for a financial instrument is not sufficiently active, valuation techniques that utilise, wherever possible, observable market inputs. Observable inputs for such valuation models may become unavailable due to the disappearance of active markets for certain instruments.

To the extent that valuation is based on models or inputs that are not observable in the market, the determination of fair value can be subjective, dependant on the significance of the unobservable input to the overall valuation.

Unobservable inputs are determined based on the best information available, for example by reference to similar assets, similar maturities, appropriate proxies, or other analytical techniques. The effect of changing the assumptions for those financial instruments for which the fair values are measured using valuation techniques that are determined in full or in part on assumptions that are not supported by observable inputs may have a material adverse effect on the Group's earnings.

Financial institutions may use different accounting categorisations for the same or similar financial assets due to their different intentions regarding those assets. In determining fair value of financial instruments, different financial institutions may use different valuation techniques, assumptions, judgements and estimates which may result in lower or higher fair values for such financial instruments.

The Group assumes credit risk in its distribution channels

The Group relies on brokers and coverholders for the supply of business to its underwriting operations. Brokers and coverholders are independent of the insurers whose products they market. No broker or coverholder is committed to recommend or sell the products of Group entities; indeed, they may sell competing products.

Risk Factors

Therefore, the Group's relationships with its brokers and coverholders are important, and the failure, inability or unwillingness of brokers or coverholders to market the Group's products could have a material adverse affect on the Group's financial performance.

In accordance with industry practice, the Group will generally pay amounts owed on claims under its insurance and reinsurance contracts to brokers or coverholders, and these brokers or coverholders, in turn, will pay these amounts over to the clients that have purchased insurance or reinsurance from the Group. If a broker or coverholder fails to make such a payment, it is possible that the Group will be liable to the client for the deficiency in a particular jurisdiction because of local laws or contractual obligations. Likewise, in certain jurisdictions, when the insured or ceding insurer pays premiums for these policies to brokers or coverholders for payment over to the Group, these premiums might be considered to have been paid and the insured or ceding insurer will no longer be liable to the Group for those amounts, whether or not the Group has actually received the premiums from the broker or coverholder, while leaving the Group on risk in respect of the underlying policy. Consequently, the Group will assume a degree of credit risk associated with brokers and coverholders around the world with respect to most of its insurance and reinsurance business.

The insurance industry is highly competitive. Competitive pressures may result in fewer contracts written and lower premium rates, increased expense for customer acquisition and retention, and less favourable policy terms and conditions

The Group may find itself in competition with other insurance companies that may have a more established position in the market and/or greater financial resources available to them. Other insurance and non-insurance companies that may have greater experience or financial resources may offer alternative risk transfer products that compete with the insurance products that may be offered by the Group. Premiums vary and premium levels may be adversely affected by increases in insurance industry capacity, increases in reinsurance capacity, reduction of prices in response to favourable loss experience, the pricing of underlying direct coverages and other factors, any of which could develop in a relatively short period of time. Large amounts of new capital provided in the future to new and existing insurers may lead to increased levels of competition, which may render the Group unsuccessful in achieving targeted premium income levels.

5. Risks relating to the New Brit Shares and Depositary Interests

The market price of the New Brit Shares may be volatile

The price at which the New Brit Shares are quoted and the price which investors may realise for their New Brit Shares will be influenced by a large number of factors, some specific to the Group and its operations and some which may affect the quoted insurance sector or quoted companies generally and which are outside the Group's control. These factors could include the performance of the Group, large purchases or sales of the shares, legislative changes in the insurance industry, general economic, political or regulatory conditions, or changes in market sentiment towards the New Brit Shares.

The results of New Brit may fluctuate significantly as a result of a variety of factors, many of which are outside the control of the Group. Period to period comparisons of the Group's results may not be meaningful and investors should not rely on them as indications of New Brit's future performance. New Brit's results may fall below the expectations of securities analysts and investors. In addition, stock markets from time to time suffer significant price and volume fluctuations that affect the market prices for securities and which may be unrelated to Brit's operating performance. Any of these events could result in a decline in the market price of the New Brit Shares.

It may be more difficult for investors outside the Netherlands to serve process on or enforce foreign judgments against the Group

New Brit is incorporated in the Netherlands. As a result, it may be more difficult for investors outside the Netherlands to effect service of process upon New Brit or its Directors or other associated persons or entities, or to realise civil liabilities against them under the securities laws of their local jurisdictions, or to enforce foreign judgments against the Group.

Risk Factors

Any future issues of shares may further dilute the holdings of New Brit Shareholders and could adversely affect the market price of the New Brit Shares

Although the Directors are not currently aware of any reason to do so (with the exception of the potential issue of shares in connection with the exercise of rights under share incentive schemes which would not of itself adversely affect the price of New Brit Shares), it is possible that New Brit may decide to offer additional shares in the future either to raise capital or for other purposes (for example, as equity consideration in connection with an acquisition). If New Brit Shareholders did not take up such offer of shares or were not eligible to participate in such offering, their proportionate ownership and voting interests in New Brit would be reduced and the percentage that their New Brit Shares would represent of the total share capital of New Brit would be reduced accordingly. An additional offering could have a material adverse effect on the market price of the New Brit Shares as a whole.

Depository Interest holders may not have the rights that Dutch law confers on holders of depository receipts

Dutch law confers certain rights on holders of depository receipts of shares (*certificaten van aandelen*), provided that such depository receipts were issued with the co-operation of the company that issued the shares. Such rights include the right to attend general meetings of the company that issued the shares. Whilst it is believed that the DIs will qualify as depository receipts for these purposes there can be no guarantee that this is the case. Consequently, the holders of DIs should not rely on the rights conferred by Dutch law on holders of depository receipts, but should solely rely on the rights conferred on holders of DIs by the New Brit Articles and by the Deed Poll pursuant to which the DIs are created.

If the DI holders want to exercise their rights, they must rely on the Depositary or any custodian to either exercise those rights for their benefit or authorise them to exercise those rights for their own benefit. Pursuant to the Deed Poll pursuant to which the DIs are created, the Depositary and any custodian must pass on to and, so far as it is reasonably able, exercise on behalf of the relevant DI holders all rights and entitlements which it receives or is entitled to in respect of the underlying shares and which are capable of being passed on or exercised. However, there can be no assurance that all such rights and entitlements will at all times be duly and timely passed on or exercised.

6. Regulatory risks

Regulatory scrutiny may have an adverse impact on the industry in general and on the Group's business, results of operations and financial condition

In recent years, the insurance industry has been the focus of increased regulatory scrutiny as regulators in a number of jurisdictions in which the Group operates have conducted inquiries and investigations into the products and practices of the financial services industries. These included, for example, regulatory scrutiny of what was viewed as improper use of, and accounting for, finite type reinsurance in instances when risk was not properly transferred, and related cases are still being pursued. In some cases, regulatory scrutiny has led to regulatory penalties, settlements and litigation as well as calls for new regulations and reforms of certain business practices. Certain industry participants restated their financial statements to reflect reassessments of accounting for certain products and practices. The Group has not been subject to such scrutiny. It is difficult to predict what products, practices or parties could come under future regulatory review. New investigations in the financial services industry are underway as a result of various aspects of the subprime crisis and subsequent credit crisis and recessionary environment.

The consequences of future investigations could include, for example:

- criminal or civil actions or revocations of licenses by regulators or lawsuits arising from practices under review;
- changes in the scope and nature of regulatory oversight of the insurance industry;
- changes to applicable accounting rules, adoption of new reporting rules, and/or restatement of financial statements;
- changes to the range of products that are available and a reduction in the use of certain products;
- changes in the criteria used by ratings agencies; and
- changes to practices in respect of a range of products by both providers and users of products.

Risk Factors

Any of the foregoing could adversely affect the Group's business, results of operations and financial condition.

The insurance industry in the US has been the subject of numerous regulatory investigations in recent years. The focal point of these investigations, and subsequent lawsuits, has been on the way insurance is produced, the methods of paying compensation for producing insurance and finite reinsurance agreements. These investigations have created uncertainty over certain insurance business practices in the US and there can be no certainty that the US market will continue to operate in the same manner or that other US market participants will remain unaffected. It is also possible that regulators may begin investigating other practices that thus far have not been the subject of scrutiny, which may lead to the regulatory authorities investigating such practices in the United Kingdom or the Netherlands. There can be no certainty that changes arising from any such investigation by the relevant regulatory authorities will not adversely affect the Group.

Changes in governmental policy and regulation may have an adverse impact on the industry in general and on the Group's business, financial condition and results of operations

The Group's businesses and earnings can be affected by the fiscal or other policies and other actions of various governmental and regulatory authorities in the European Union, the United States and elsewhere. All these are subject to change, particularly in the current market environment where recent developments in the global financial markets have led to an increase in the involvement of various governmental and regulatory authorities in the financial sector and in the operations of financial institutions. As a result of recent events, the level of regulatory oversight over financial institutions, including the Group, is likely to increase, perhaps substantially. Any future regulatory changes may potentially restrict the Group's operations, mandate certain risks to be covered and impose other compliance costs. It is uncertain how the more rigorous regulatory climate will impact financial institutions including the Group.

Areas where changes could have an impact include:

- the monetary, interest rate and other policies of central banks and regulatory authorities;
- general changes in government or regulatory policy that may significantly influence investor decisions in particular markets in which the Group operates;
- general changes in the regulatory requirements, for example prudential rules relating to the capital adequacy framework and rules designed to promote financial stability;
- changes in competition and pricing environments;
- further developments in the financial reporting environment;
- expropriation, nationalisation, confiscation of assets and changes in legislation relating to foreign ownership; and
- other unfavourable political, military or diplomatic developments producing social instability or legal uncertainty which in turn may affect demand for the Group's products and services.

Non-compliance with existing or new laws or regulations now or in the future

If the Group would be in breach of any existing or new laws or regulations now or in the future, the Group is exposed to the risk of intervention by regulatory authorities, including investigation and surveillance, and judicial or administrative proceedings. In addition, the Group's reputation could suffer and the Group could be fined or prohibited from engaging in some of its business activities or be sued by customers if it does not comply with applicable laws or regulations.

Solvency II Directive

Most of the regulation governing the carrying on of insurance business in the Netherlands and the United Kingdom is imposed as a result of European regulatory directives. These include implementation of the new EU solvency framework for insurers (Solvency II Directive) which is expected to be implemented by member states by 31 October 2012. The Solvency II Directive aims to establish a revised set of EU-wide capital requirements, valuation techniques and risk management requirements that will replace the current Solvency I requirements. The new regime is expected to apply to all insurance firms with gross premium income exceeding €5 million or gross

Risk Factors

technical provisions in excess of €25 million. The application of Solvency II requirements to international groups is still unclear and there remains a risk of inconsistent application in different member states which may place the Group at a competitive disadvantage to other European and non-European insurance companies.

Investor compensation

Various jurisdictions in which the Group operates have created investor compensation schemes that require mandatory contributions from market participants in some instances in the event of a failure of a market participant. As a major participant in the majority of its chosen markets, circumstances could arise where the Group, along with other companies, may be required to make additional material contributions.

Age discrimination

There is a bill that has been tabled in the UK Parliament in response to the proposals of the EU for an equal treatment directive including, amongst other things, prohibitions on age discrimination in connection with the supply of goods and services. This proposed directive and future legislation may have an adverse effect on the Group following their implementation, as it could restrict the Group's ability to use age as a factor in assessing insurance risks.

IFRS Phase II

The Group's accounts are prepared in accordance with current international financial reporting standards applicable to the insurance industry. The International Accounting Standards Board has published proposals in its IFRS Phase II discussion paper that would introduce significant changes to the statutory reporting of insurance entities that prepare accounts according to international financial reporting standards. It is uncertain whether and how the proposals in the discussion paper will affect the Group when they become definitive international financial reporting standards.

Expiry of the European Insurance Block Exemption

The Insurance Block Exemption will expire on 31 March 2010. The Insurance Block Exemption exempts certain agreements between insurance companies from EC Treaty antitrust rules' ban on restrictive business practices (Article 81). Whether to extend the Insurance Block Exemption is currently under review by the European Commission. A report on the findings of that review and proposals was produced in March 2009.

The Insurance Block Exemption permits insurance companies to form and operate as members of certain consortia without having to go through the tests contained in Article 81(3) that would substantiate that such arrangements are exempt from the prohibition on anti-competitive agreements. If the Insurance Block Exemption expires and is not renewed or is renewed on less favourable terms, insurers will need to apply general principles of competition law to determine whether the consortia to which they belong are not anti-competitive. Currently insurers operating through consortia are able to offer insurance protection that might otherwise be unavailable in the market or not commercially viable. As a consequence, it is arguable that the consortia are operating pro-competitively in the interests of consumers (that is, the buyers of the insurance for such larger risks). That said, if the Insurance Block Exemption is not renewed, or is renewed on substantially less favourable terms, insurers acting to insure large risks as a consortium will be required to justify that arrangement using the criteria set forth in Article 81. At the very least, this will require additional confirmatory work by such insurers to validate and satisfy the EC legal criteria. At worst certain consortium based coverage could cease to exist.

UK insurance regulation

The Group operates in a regulated industry. Its underwriting activities are regulated by the UK FSA and Lloyd's. Accordingly, the UK FSA has regulatory authority over BIL and BSL and Lloyd's has certain supervisory authority over BSL and the Brit Corporate Members. Both the UK FSA and Lloyd's have substantial powers of intervention and enforcement in relation to the companies they regulate and supervise, culminating (in the case of the UK FSA) in the ultimate sanction of the removal of authorisation to carry on the business of the Group. Authorisation by the UK FSA and to a lesser extent Lloyd's is therefore fundamental to the business of the Group and such business would be adversely affected or destroyed should such authorisation be restricted or withdrawn. In particular, the UK FSA or Lloyd's may restrict the amount of business that may be reinsured by quota-share under the Group reinsurance contract to BIG.

Risk Factors

The Council of Lloyd's has wide discretionary powers to manage and supervise the Lloyd's market. It may, for instance, vary the method by which the solvency capital requirements are calculated or the investment criteria applicable to funds at Lloyd's and/or syndicate investments are determined. Either might affect the Group's overall premium limit and consequently the returns from an investment in the Group.

The Franchise Board of Lloyd's also has wide discretionary powers in relation to the business of Lloyd's managing agents including requiring compliance with the franchise performance criteria and underwriting guidelines. The Franchise Board may, for example, impose certain restrictions on underwriting and/or on reinsurance arrangements for any syndicate and any such notifications if imposed on BSL and the Syndicate may have an adverse impact on its ability to underwrite as planned.

Similarly the UK FSA has wide regulatory powers, particularly certain powers of intervention. These include:

- the power to compel an insurance company to establish reserves to cover future liabilities;
- a wide residual power to require an insurance company to take such action as appears to the UK FSA appropriate to protect policyholders against the risk that such company may be unable or unwilling to meet its liabilities; and
- the power to examine Group solvency pursuant to the Solvency II Directive.

The business plan and franchise obligations

As with the business plan for any Lloyd's syndicate, the business plans prepared by BSL for the Syndicate must be approved by Lloyd's. Lloyd's may require changes to the Syndicate's business plan which may be unfavourable to New Brit Shareholders or Lloyd's may require additional capital deposits prior to approving any increased capacity desired by the Group.

For example, in order to obtain approval of a business plan, Lloyd's may require an additional capital loading above the minimum capital requirement specific to the Syndicate independent of other insurance syndicates. Additionally Lloyd's may require a revised business plan which may restrict the Syndicate's ability to underwrite to desired levels in particular classes.

Unforeseen and unreserved losses in connection with its run-off Lloyd's syndicate

The Group has a majority participation in a run-off life syndicate, Syndicate 389. Syndicate 389 is not fully owned and has a small number of third party Names. Whilst the Group believes that Syndicate 389 is adequately reserved and that appropriate procedures, controls and management remains in place, there can be no certainty that this business will run off without further losses. In the event of unforeseen losses, the Group could be subject to challenge or dispute from other members of Syndicate 389.

Lloyd's risk syndication principle

The Group writes approximately 50 per cent. of its business through the Lloyd's insurance market. The Lloyd's market has, since its inception, relied upon the principle of risk syndication and following the fortunes of the lead underwriter. If the principle were challenged, and insurers required to individually review and price each risk, potentially on differing commercial terms, it would substantially increase the cost of doing business and may cause the business to be no longer viable.

Reinsurance to close; run-off of account

In the event that a managing agent concludes in respect of a particular year of account of a syndicate that an equitable RITC (reinsurance to close) premium cannot be established it must determine that the year of account will remain open and be placed into run-off. During run-off, there can be neither a release of a Member's funds at Lloyd's nor a release to such Member of any profits arising in respect of that syndicate from the underwriting or investments of that syndicate, without the consent of the Council of Lloyd's. There can be no certainty that any open year of account of the Syndicate will not go into run-off at some future time.

Risk Factors

Cash calls

A managing agent may determine, in conjunction with the auditors of the relevant syndicate, what funds are required to meet a cash deficiency relevant to any year of account. In this event, the managing agent may call on the Members supporting that syndicate for further funds. Any early call for funds in this manner may adversely affect the cash flow of the Group and have a detrimental impact on earnings, distributions and asset values.

Risk-based capital

The capital which is required by Lloyd's to be maintained in the form of funds at Lloyd's to support the underwriting activities of Brit UW is determined by a combination of the assessment of capital requirements of the Syndicate, which is uplifted by a margin specified by Lloyd's, and a Lloyd's standard benchmarking exercise using a risk-based capital assessment based on market averages. The process and the method by which this assessment is performed may alter from year to year and the future participation in the Syndicate of Brit UW may be reduced if the Group considers the amount of capital required for a given capacity level to be too high. Lloyd's managing agents are required to comply with the UK FSA prudential requirements to assess the financial resources needed to support the risks of the insurance business that they manage, taking account of the underlying risks, the effectiveness of controls that mitigate those risks and stress and scenario tests. This Individual Capital Adequacy requirement aims to achieve a better assessment of the capital needed to support each syndicate, based on modelling individual syndicate robustness under a number of possible scenarios. Any failure by the Group to comply with these requirements may affect the amount of business which the Group may underwrite through the Syndicate and/or could result in additional capital requirements or sanctions being imposed by the UK FSA. In addition, Lloyd's has the power to impose "capital loadings" upon syndicates, resulting in an increase in the capital required of the Members supporting that syndicate. For 2009, Lloyd's imposed a loading of an additional 35 per cent. of each syndicate's Individual Capital Adequacy requirement, to produce a syndicate level capital figure to measure against the Lloyd's prescribed benchmark figure for a minimum capital requirement.

The New Central Fund

Despite the principle that each member of Lloyd's is only responsible for the proportion of risk written on his or its behalf, the New Central Fund acts, *inter alia*, as a policyholders' protection fund to make payments where other Members have failed to pay valid claims. The Council of Lloyd's may resolve to make payments from the New Central Fund for the advancement and protection of Members, which could lead to additional or special levies being payable by the Group.

Fees and levies

Members are required to pay certain fees and levies in connection with their membership of Lloyd's. These include an annual subscription fee, currently at the rate of 0.5 per cent. of the member's written premiums, and a New Central Fund contribution currently at the rate of 0.5 per cent. of written premiums. From time to time, Lloyd's may vary the rate of these levies. Lloyd's may also impose a special contribution to the New Central Fund if a majority (by capacity) of Members underwriting during the year of account in which such contribution is proposed, vote in favour of any proposal relating to such contribution. Further, there is a risk that Lloyd's may also call upon Members underwriting for 2009 and subsequent years of account to make additional contributions to the New Central Fund. For the 2009 year of account, the amount of this callable contribution for a member may not exceed 3 per cent. of the capacity which is allocated to syndicates in which that member participates for the 2009 year of account. Any such fees or levies may have an adverse effect on the profitability of the Group.

Lloyd's solvency

The UK FSA requires Lloyd's to maintain net central assets that are adequate to cover the aggregate of certain variable solvency margins set out in the Lloyd's source book in the UK FSA's Handbook of Rules and Guidance published by the UK FSA. If Lloyd's fails to maintain this level of net central assets, it has a duty to notify the UK FSA, and the UK FSA may require all the Lloyd's market to cease trading and/or Members to cease or reduce underwriting.

Lloyd's financial strength ratings

The ability of Lloyd's syndicates to trade in certain classes of business at current levels may be dependent on the maintenance by Lloyd's of a satisfactory financial strength rating issued by an accredited rating agency. At present,

Risk Factors

the financial security of the Lloyd's market is regularly assessed by three independent rating agencies, A.M. Best, Standard & Poor's Corporation and Fitch Ratings.

Currently, A.M. Best's rating of the Lloyd's market is 'A' (Excellent) with a stable outlook. Fitch Ratings has given Lloyd's an Insurer Financial Strength rating of 'A+' (Strong) with a stable outlook. Standard & Poor's rating of the Lloyd's market is 'A+' (Strong) with a stable outlook. These may change from their present levels at some time in the future. If the financial strength ratings are downgraded, this may have an adverse effect on the Syndicate.

Lloyd's trading licences

Lloyd's worldwide insurance and reinsurance business is subject to local regulation. Changes in such regulation (such as requirements for increased deposits to support underwriting) may have an adverse effect on Members and on the Group.

Lloyd's US trading arrangements

US regulators require Lloyd's syndicates writing certain business in the United States to maintain trust funds in the United States (the "US trust funds") as protection for US policyholders. US trust funds must be maintained for syndicates writing surplus lines, reinsurance, and Kentucky and Illinois licensed business. US trust funds represent a percentage of the syndicates' estimates of unpaid claims liabilities (in some cases, less premium receivable) relating to this business, adjusted by provisions for potential bad debt on premium earned but not received and for any anticipated profit on unearned premium. No credit against the required deposits is allowed for potential reinsurance recoveries by the syndicates. With respect to business classified as "surplus lines," syndicates must currently maintain a surplus lines trust fund, funded at 30 per cent. of gross liabilities for the first US\$200 million in surplus lines liabilities. Funding levels for surplus lines liabilities is then gradually reduced to 25 per cent. for US\$300 million excess of US\$200 million, 20 per cent. for US\$500 million excess of US\$300 million and 15 per cent. for excess of US\$1 billion. With respect to reinsurance business, syndicates must maintain a separate "Credit for Reinsurance" trust fund which is currently required to be funded at 100 per cent. of gross liabilities assumed from US insurers. It is possible that regulators could further alter the US trust fund deposit requirements for the Lloyd's market generally or any individual Lloyd's syndicate (including the Syndicate) specifically.

The funds contained within the deposits are not ordinarily available to meet trading expenses or to pay claims. Accordingly, in the event of a large claim arising in the United States, for example from a major catastrophe, syndicates participating in such US business may be required to make cash calls to meet claims payment and deposit funding obligations. There is a limited ability for managing agents to withdraw funds from the US trust funds other than at the normal quarterly revision periods.

United States insurance regulation

The Group conducts business in the US and is therefore subject to changes of law or regulation in that jurisdiction which may have an adverse impact on the operations of the Group, including changes in tax liability or increased regulatory supervision. BISI, a managing general agent ("MGA") and wholly-owned subsidiary of the Group, is regulated by the Illinois Division of Insurance as a licensed surplus lines broker. The Illinois Division of Insurance has substantial powers of intervention and enforcement in relation to the companies it regulates and supervises, culminating in the ultimate sanction of the removal of authorisation to carry on business. The continued licensing of BISI as a surplus lines broker is therefore fundamental to its business and such business would be adversely affected or destroyed should such licence be restricted or withdrawn.

TRIA

TRIA (the US federal Terrorism Risk Insurance Act, as amended) was extended on 26 December 2007 by the US Terrorism Risk Insurance Program Reauthorization Act, to 31 December 2014 to ensure the availability of insurance coverage for terrorist acts in the United States. This law requires insurers, including BIL and the Syndicate, writing certain lines of property and casualty insurance to make available coverage against certain acts of terrorism causing damage within the United States or to US flagged vessels or aircraft. In return, the law requires the federal government to indemnify such insurers for 85 per cent. of insured losses resulting from covered acts of terrorism, subject to a premium-based deductible. For an act of terrorism to have occurred, the US Treasury Secretary must make several findings.

Legislative changes

US state and federal insurance laws can and do change from time to time. In recent years, the US insurance regulatory framework has come under increased federal scrutiny, and some state legislators have considered or enacted laws that may alter or increase state regulation of insurance and reinsurance companies and holding companies. In addition, some members of the US congress have begun to explore whether the federal government should play a greater role in the regulation of insurance. Moreover, the National Association of Insurance Commissioners, which is an association of the insurance commissioners of all 50 US states and the District of Columbia, and state insurance regulators regularly examine existing laws and regulations. At present, there are both federal and state legislative initiatives that, if successful, would drastically change the insurance and reinsurance environment in the USA, including the surplus lines approval process and reinsurance funding requirements.

Gibraltar insurance regulation

BIG is regulated by the Financial Services Commission of Gibraltar (the “FSC”). The FSC has substantial powers of intervention and enforcement in relation to the companies it regulates and supervises, culminating in the ultimate sanction of the removal of authorisation to carry on the business of a company. Such continued authorisation is fundamental to the Group’s strategy.

The FSC investigates all cases of possible unlicensed activity with a particular emphasis on the prevention of fraud. Intelligence on such activities is gathered from complaints from individuals or institutions and from information passed to it from overseas regulators and other agencies. The FSC’s use of its enforcement powers to ensure compliance with statutory requirements plays an important role in the pursuit of its regulatory objectives. For example, in relation to the protection of consumers’ objectives, the imposition of disciplinary measures helps to deter future contraventions, ensures high standards of regulatory conduct and protects consumers. In addition, the FSC’s powers to impose conditions or directions may be used to require a firm to take urgent remedial action to protect the interests of consumers.

The regulatory requirements in Gibraltar may be changed in a manner that may adversely affect the business of the Group.

3. IMPORTANT INFORMATION

Brit Insurance Holdings N.V., with its corporate seat in Amsterdam, accepts responsibility for the information contained in this Prospectus. Having taken all reasonable care to ensure that such is the case, Brit Insurance Holdings N.V. further declares that the information contained in this Prospectus is, to the best of its knowledge, in accordance with the facts and contains no omission likely to affect its import.

No person is or has been authorised to give any information or to make any representation in connection with the information contained in this Prospectus or the New Brit Shares (other than as contained herein and information given by duly authorised officers and employees of Old Brit in connection with investors' examination of the Group) and, if given or made, such information or representation must not be relied upon as having been authorised by us. Without prejudice to any obligation to publish a supplementary prospectus pursuant to Article 5:23 of the Dutch Financial Supervision Act, neither the delivery of this Prospectus nor any sale made hereunder shall, under any circumstances, create any implication that the information herein is correct as of any time subsequent to the date hereof or that there has been no change in the Group's affairs since such date. Nothing contained in this Prospectus is, or shall be relied upon as, a promise or representation by the Group as to the future.

No New Brit Shares have been marketed to, nor are any available for purchase or exchange, in whole or in part, by, the public in the Netherlands, the United Kingdom or elsewhere in connection with the admission to the Official List. This Prospectus does not constitute an invitation or offer to sell or exchange or the solicitation of an invitation or offer to buy or exchange any security or to become a shareholder of New Brit.

1. Overseas Shareholders

The distribution of this Prospectus in jurisdictions other than the Netherlands may be restricted by law and therefore this Prospectus may not be distributed or published in any jurisdiction except under circumstances which result in compliance with any applicable laws and regulations. Persons into whose possession this Prospectus comes should inform themselves about and observe such restrictions. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction.

Securities may not be offered or sold in the United States unless they are registered under the US Securities Act or are exempt from such registration. The New Brit Shares have not been, and will not be, registered under the US Securities Act in reliance on an exemption from registration provided by Section 3(a)(10) thereof. In addition, the New Brit Shares have not been and will not be registered under the securities laws of any state of the United States, but will be issued pursuant to available exemptions from state law registration requirements. Neither the US SEC nor any other US federal or state securities commission or regulatory authority has approved or disapproved the New Brit Shares or passed an opinion on the adequacy of this Prospectus. Any representation to the contrary is a criminal offence in the United States.

For the purpose of qualifying for the Section 3(a)(10) exemption with respect to the New Brit Shares issued pursuant to the Scheme, Old Brit and New Brit will advise the High Court that New Brit will rely on the Section 3(a)(10) exemption based on the High Court's sanctioning of the Scheme, which will be relied upon by New Brit as an approval of the Scheme following a hearing on its fairness to Old Brit Shareholders at which hearing all such Old Brit Shareholders will be entitled to attend in person or through counsel to support or oppose the sanctioning of the Scheme and with respect to which notification has been or will be given to all such shareholders.

Further information applicable to Overseas Shareholders is contained in paragraph 4 of Chapter 11 – "Further Information relating to the Scheme".

2. Presentation of financial and other information

Certain figures contained in this Prospectus have been subject to rounding adjustments. Accordingly, in certain instances the sum of the numbers in a column or a row in tables contained in this Prospectus may not conform exactly to the total figure given for that column or row.

Unless otherwise indicated, all references in this Prospectus to "pounds Sterling", "Sterling", "£", "pence" or "p" are to the lawful currency of the UK, all references to "US\$" or "US dollars" are to the lawful currency of the US, all references to "Cdn\$" or "Cdn dollars" are to lawful currency of Canada and all references to "€" or "Euro" are to the currency introduced at the start of the third stage of the European economic and monetary union pursuant to the Treaty establishing the European Community. New Brit will prepare its financial statements in Sterling.

Important Information

3. Defined terms

Certain terms used in this Prospectus, including certain capitalised terms and other terms relating to the insurance industry, are defined in Chapter 14 – “Definitions and Glossary of Insurance Market Terms”.

4. Market data and other information from third parties

All references to market data, industry statistics and industry forecasts in this Prospectus consist of estimates compiled by RMS, Lloyd's, equity research analysts and the Group. The information in this Prospectus that has been sourced from third parties has been accurately reproduced and, as far as New Brit is aware and able to ascertain from the information published by that third party, no facts have been omitted that would render the reproduced information inaccurate or misleading. Industry publications generally state that such information is obtained from sources the third party believes to be reliable but that the accuracy and completeness of such information is not guaranteed and that the projections such publications contain are based on a number of significant assumptions. Although New Brit believes these sources are reliable, as it does not have access to the information, methodology and other bases for such information, it has not independently verified the information and therefore cannot guarantee its accuracy and completeness.

5. Documents incorporated by reference

5.1 *Financial information*

The following documentation, which was sent to Old Brit Shareholders at the relevant time and is available as described below, contains information which is relevant to the Proposals:

- Old Brit interim management statement for the 42 week period from 1 January 2009 to 22 October 2009;
- Old Brit Half Year Financial Report for the six months ended 30 June 2009;
- Old Brit Half Year Financial Report for the six months ended 30 June 2008;
- Old Brit Annual Report and Accounts for the financial year ended 31 December 2008;
- Old Brit Annual Report and Accounts for the financial year ended 31 December 2007; and
- Old Brit Annual Report and Accounts for the financial year ended 31 December 2006.

The Annual Reports and Accounts contain the audited consolidated financial statements of Old Brit and its subsidiaries and the audited financial statements of Old Brit for the financial year ended 31 December 2008, the financial year ended 31 December 2007 and the financial year ended 31 December 2006, together with an audit report in respect of each such year. The (unaudited) Half Year Financial Reports contain the condensed consolidated interim financial statements of Old Brit and its subsidiaries for the six months period ended 30 June 2009 and 30 June 2008, together with a review report. The interim management statement for the 42 week period from 1 January 2009 to 22 October 2009 relates to Old Brit and its subsidiaries.

New Brit and its 100 per cent. subsidiaries, BGH and BOH, have recently been incorporated and have not commenced operations or traded since their incorporation. In view hereof the consolidated financial statements of Old Brit for the periods indicated provide the information required pursuant to the Dutch Financial Supervision Act to ensure that investors and potential investors in New Brit Shares are aware of all information which, according to the particular nature of New Brit and of the New Brit Shares, is necessary to enable investors and potential investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of New Brit and of the rights attaching to the New Brit Shares.

The tables in Chapter 5 – “Financial Information” set out the various sections of the documents referred to above which are incorporated by reference into this Prospectus. The consolidated financial statements incorporated by reference into this Prospectus were prepared in accordance with IFRS as adopted by the EU. The balance sheets of Old Brit incorporated by reference into this Prospectus, were prepared in accordance with applicable UK accounting standards and law.

5.2 *Other information*

No other documents or information form part of, or are incorporated by reference into, this Prospectus.

6. **Forward-looking statements**

Some of the statements in this Prospectus include forward-looking statements which reflect the Group's current views with respect to financial performance, business strategy, plans and objectives of management for future operations (including development plans relating to the Group's products and services). These statements include forward-looking statements both with respect to the Group and the sectors and industries in which the Group operates. Statements which include the words "expects", "intends", "plans", "believes", "projects", "anticipates", "will", "targets", "aims", "may", "would", "could", "continue" and similar statements of a future or forward-looking nature identify forward-looking statements for purposes of the US federal securities laws or otherwise. These forward-looking statements include all matters that are not historical facts.

By their nature, forward-looking statements address matters that involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. Forward looking statements are not guarantees of future performance. Accordingly, there are or will be important factors that could cause the Group's actual results to differ materially from those indicated in these statements. These factors include but are not limited to those described in Chapter 2 – "Risk Factors", which should be read in conjunction with the other cautionary statements that are included in this Prospectus.

Any forward-looking statements in this Prospectus reflect the Group's current views with respect to future events and are subject to these and other risks, uncertainties and assumptions relating to the Group's business, results of operations, financial conditions, growth strategy and liquidity. For the avoidance of doubt, nothing in this paragraph qualifies the working capital statement set out in paragraph 8 of Chapter 13 – "General Information".

These forward-looking statements speak only as of the date of this Prospectus. Subject to any obligations under the Dutch Financial Supervision Act or applicable law and regulations, New Brit undertakes no obligation publicly to update or review any forward-looking statement, whether as a result of new information, future developments or otherwise. All subsequent written and oral forward-looking statements attributable to the Group or individuals acting on behalf of the Group are expressly qualified in their entirety by this paragraph. Prospective investors should specifically consider the factors identified in this Prospectus which could cause actual results to differ before making an investment decision.

4. EXPECTED TIMETABLE OF PRINCIPAL EVENTS

| | |
|--------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 10.00 a.m. on 29 November 2009 | Latest time for receipt by the Registrars of white forms of proxy from Old Brit Shareholders for the Court Meeting ¹ |
| 10.15 a.m. on 29 November 2009 | Latest time for receipt by the Registrars of green forms of proxy from Old Brit Shareholders for the General Meeting |
| 6.00 p.m. on 29 November 2009 | Voting record time for the Court Meeting and the General Meeting ² |
| 10.00 a.m. on 1 December 2009 | Court Meeting |
| 10.15 a.m. on 1 December 2009 | General Meeting ³ |
| 18 December 2009 | Court Hearing of claim form to sanction the Scheme |
| 18 December 2009 | Last day of dealings in Old Brit Shares |
| 6.00 p.m. on 18 December 2009 | Scheme Record Time ⁴ |
| 21 December 2009 | Scheme Effective Date ⁴ |
| 8.00 a.m. on 21 December 2009 | Delisting of Old Brit Shares, admission and listing of New Brit Shares and commencement of dealings in New Brit Shares on the London Stock Exchange's main market for listed securities ⁴ |
| 21 December 2009 | Credit of New Brit Depositary Interests to CREST accounts ⁴ |
| By 31 December 2009 | Despatch by the Registrar of statements of entitlement to New Brit Depositary Interests held by the Corporate Sponsored Nominee |

All references to time in this Prospectus are to London time unless otherwise stated. The dates given are based on the Directors' expectations and are subject to change.

-
- 1 White forms of proxy for the Court Meeting not returned by this time may be handed to the Chairman or the Registrars immediately prior to the Court Meeting. Green forms of proxy may not be returned in the same manner and, to be valid, must be lodged with the Registrars at least 48 hours before the time appointed for the General Meeting.
 - 2 If either the Court Meeting or the General Meeting is adjourned, the voting record time for the adjourned meeting will be 6.00 p.m. on the date falling two days before the adjourned meeting.
 - 3 To commence at the time fixed or as soon thereafter as the Court Meeting concludes or is adjourned.
 - 4 These times and dates are indicative only and will depend, among other things, on the date on which the Court sanctions the Scheme and whether the conditions to the Scheme are satisfied or waived.

5. FINANCIAL INFORMATION

1. Financial information on the Group for the financial year ended 31 December 2006 (audited)

| <i>Information incorporated by reference into this Prospectus</i> | <i>Reference document</i> | <i>Page number in reference document</i> |
|-------------------------------------------------------------------|------------------------------------------|------------------------------------------|
| Consolidated Income Statement | Old Brit Annual Report and Accounts 2006 | 96 |
| Consolidated Statement of Recognised Income and Expense | Old Brit Annual Report and Accounts 2006 | 97 |
| Consolidated Balance Sheet | Old Brit Annual Report and Accounts 2006 | 98 |
| Consolidated Cash Flow Statement | Old Brit Annual Report and Accounts 2006 | 99 |
| Notes to the Financial Statements | Old Brit Annual Report and Accounts 2006 | 100 to 147 |
| Independent Auditor's Report | Old Brit Annual Report and Accounts 2006 | 148 |
| Old Brit Balance Sheet | Old Brit Annual Report and Accounts 2006 | 150 |
| Notes to the Financial Statements of Old Brit | Old Brit Annual Report and Accounts 2006 | 151 to 158 |

2. Financial information on the Group for the financial year ended 31 December 2007 (audited)

| <i>Information incorporated by reference into this Prospectus</i> | <i>Reference document</i> | <i>Page number in reference document</i> |
|-------------------------------------------------------------------|------------------------------------------|------------------------------------------|
| Consolidated Income Statement | Old Brit Annual Report and Accounts 2007 | 113 |
| Consolidated Statement of Recognised Income and Expense | Old Brit Annual Report and Accounts 2007 | 114 |
| Consolidated Balance Sheet | Old Brit Annual Report and Accounts 2007 | 115 |
| Consolidated Cash Flow Statement | Old Brit Annual Report and Accounts 2007 | 116 |
| Notes to the Financial Statements | Old Brit Annual Report and Accounts 2007 | 117 to 172 |
| Old Brit Balance Sheet | Old Brit Annual Report and Accounts 2007 | 176 |
| Notes to the Financial Statements of Old Brit | Old Brit Annual Report and Accounts 2007 | 177 to 184 |
| Independent Auditor's Report | Old Brit Annual Report and Accounts 2007 | 185 |

3. Financial information on the Group for the financial year ended 31 December 2008 (audited)

| <i>Information incorporated by reference into this Prospectus</i> | <i>Reference document</i> | <i>Page number in reference document</i> |
|-------------------------------------------------------------------|------------------------------------------|------------------------------------------|
| Consolidated Income Statement | Old Brit Annual Report and Accounts 2008 | 88 |
| Consolidated Statement of Comprehensive Income | Old Brit Annual Report and Accounts 2008 | 89 |
| Consolidated Statement of Financial Position | Old Brit Annual Report and Accounts 2008 | 90 |
| Consolidated Statement of Cash Flows | Old Brit Annual Report and Accounts 2008 | 91 |
| Consolidated Statements of Changes in Equity | Old Brit Annual Report and Accounts 2008 | 92 |
| Notes to the Financial Statements | Old Brit Annual Report and Accounts 2008 | 93 to 137 |
| Independent Auditor's Report | Old Brit Annual Report and Accounts 2008 | 138 |
| Old Brit Balance Sheet | Old Brit Annual Report and Accounts 2008 | 140 |
| Notes to the Financial Statements of Old Brit | Old Brit Annual Report and Accounts 2008 | 141 to 147 |

4. Financial information on the Group for the six months ended 30 June 2008 (unaudited)

| <i>Information incorporated by reference into this Prospectus</i> | <i>Reference document</i> | <i>Page number in reference document</i> |
|-------------------------------------------------------------------|--------------------------------------------------|------------------------------------------|
| Condensed Consolidated Financial Statements | Old Brit Half Year Financial Report 30 June 2008 | 12 |
| Condensed Consolidated Statement of Comprehensive Income | Old Brit Half Year Financial Report 30 June 2008 | 13 |
| Condensed Consolidated Statement of Financial Position | Old Brit Half Year Financial Report 30 June 2008 | 14 |
| Condensed Consolidated Statement of Cash Flows | Old Brit Half Year Financial Report 30 June 2008 | 15 |
| Condensed Consolidated Statements of Changes in Equity | Old Brit Half Year Financial Report 30 June 2008 | 16-18 |
| Notes to the Condensed Consolidated Financial Statements | Old Brit Half Year Financial Report 30 June 2008 | 19-27 |
| Independent Review Report | Old Brit Half Year Financial Report 30 June 2008 | 29 |

Financial Information

5. Financial information on the Group for the six months ended 30 June 2009 (unaudited)

| <i>Information incorporated by reference into this Prospectus</i> | <i>Reference document</i> | <i>Page number in reference document</i> |
|-------------------------------------------------------------------|--------------------------------------------------|------------------------------------------|
| Condensed Consolidated Income Statement | Old Brit Half Year Financial Report 30 June 2009 | 19 |
| Condensed Consolidated Statement of Comprehensive Income | Old Brit Half Year Financial Report 30 June 2009 | 20 |
| Condensed Consolidated Statement of Financial Position | Old Brit Half Year Financial Report 30 June 2009 | 21 |
| Condensed Consolidated Statement of Cash Flows | Old Brit Half Year Financial Report 30 June 2009 | 22 |
| Condensed Consolidated Statements of Changes in Equity | Old Brit Half Year Financial Report 30 June 2009 | 23-25 |
| Notes to the Condensed Consolidated Financial Statements | Old Brit Half Year Financial Report 30 June 2009 | 26-36 |
| Independent Review Report | Old Brit Half Year Financial Report 30 June 2009 | 38 |

6. Financial information on the Group for the 42 week period from 1 January 2009 to 22 October 2009 (unaudited)

| <i>Information incorporated by reference into this Prospectus</i> | <i>Reference document</i> |
|-------------------------------------------------------------------|-------------------------------------------------------------|
| Interim management statement | Old Brit interim management statement dated 23 October 2009 |

6. OPERATING AND FINANCIAL REVIEW

Unless otherwise stated, the selected historical financial information discussed in this operating and financial review of the Group has been extracted without material adjustment from Old Brit's consolidated financial statements contained in the Annual Reports and Accounts for the financial years ended 31 December 2006, 2007 and 2008 and the Half Year Financial Reports for the six months ended 30 June 2008 and 30 June 2009, which are incorporated by reference in this Prospectus. The consolidated financial statements for the financial years ended 31 December 2006, 2007 and 2008 have been audited by Ernst & Young LLP. The condensed consolidated financial statements for the six months ended 30 June 2008 and 30 June 2009 have not been audited, but have been reviewed by Ernst & Young LLP. These consolidated financial statements were prepared in accordance with IFRS. This Chapter should be read together with the Group's audited consolidated financial statements for the financial years ended 31 December 2006, 2007 and 2008, together with the auditor's reports thereon, and the Group's condensed consolidated financial statements for the six months ended 30 June 2008 and 2009, together with the review reports thereon. Investors should read the whole of this Prospectus and the documents incorporated herein by reference and should not just rely on the summary of the operating and financial information set out in this Chapter. The results for the six months ended 30 June 2009 are not necessarily indicative of the results for the full year.

In the following section, references to "insurance" shall (save where context otherwise requires) be deemed to include reinsurance and retrocession, and references to "reinsurance" shall (save where context otherwise requires) be deemed to include retrocession.

1. Group overview

The Group is an international general insurance and reinsurance group specialising in commercial insurance.

The Group offers a range of products to manage risk and capital, including insurance and reinsurance to commercial enterprises and individuals. Its products address a broad variety of risks covering the needs of insureds. A core component of the Group strategy is to create a diverse portfolio of insurance risks to reduce the potential adverse impact of any one event or series of related events.

The Group underwrites external insurance risks through two regulated underwriting platforms, BIL and BSL. In 2008, BIL wrote 48.7 per cent. of the Group's business (2007: 48.7 per cent.). The balance of the Group's business in 2008 was written through Syndicate 2987, for which the Group provides 100 per cent. of the capital.

The management of the Group structure is aligned into the three SBUs. The SBUs are principally aligned to classes of business, with Brit Global Markets focused predominantly on offering a comprehensive range of insurance products for small and medium sized enterprises and large corporate clients worldwide, Brit UK principally writing UK insurance risks and Brit Reinsurance writing reinsurance of primary insurers and reinsurers in worldwide markets.

Underwriters in the three SBUs are authorised to write business into both regulated platforms. Deciding on which platform to ultimately write business is driven by a range of factors including customer preferences or requirements, availability of authorised insurance licences, security and rating requirements and the ability to access or redeploy surplus capital. The business is distributed through brokers, other intermediaries and electronic channels. The Group also uses binding authorities to distribute products into local markets, both within the UK and internationally.

Each of the SBU's utilisation of the two platforms in 2008 and 2007 are set out below:

| | 2008 | | 2007 | |
|---------------------|----------|----------|----------|----------|
| | BIL % | BSL % | BIL % | BSL % |
| Brit Global Markets | 31.7 | 68.3 | 34.7 | 65.3 |
| Brit Reinsurance | 47.6 | 52.4 | 54.4 | 45.6 |
| Brit UK | 87.5 | 12.5 | 82.6 | 17.4 |

BIL's financial strength rating from Fitch Ratings is 'A' (Strong) with a stable outlook and from A.M. Best 'A' (Excellent) with a stable outlook. Lloyd's financial strength rating is 'A' (Excellent) with a stable outlook from A.M. Best and 'A+' (Strong) with a stable outlook from Fitch Ratings and Standard & Poor's.

2. Factors impacting the Group's results

The Group derives its revenues principally through insurance and reinsurance premium income and the return on its investments. The Group's operations and financial results are affected by a variety of market and other factors. Such factors include:

- General economic conditions;
- Property and casualty insurance and reinsurance industry conditions;
- The impact of economic conditions on investments;
- Rating and claims;
- Exchange rate fluctuations;
- Interest rate and equity market fluctuations; and
- Increased regulation and disclosure requirements in the insurance industry.

2.1 *General economic conditions*

During 2008 and the six months ended 30 June 2009, the impact of the global recession was widely felt, initially in the banking markets, but subsequently more broadly as credit was restricted across all sectors. Government responses included the support (including, in some cases, the nationalisation) of banks, injection of liquidity into markets and substantial reductions in interest rates. In the UK, interest rates fell below the rate of inflation, giving negative real returns. Foreign exchange rates and investment markets both exhibited substantial volatility.

Many insurers, as well as other financial institutions, suffered from a significant reduction in the value of their investment assets following weak investment performance, especially where exposures to equities, hedge funds and asset backed securities (including mortgage backed securities and commercial mortgage backed securities) were material. Even companies with relatively conservative balance sheets suffered from significant mark downs of their corporate bond portfolios through the widening of credit spreads, the failure of Lehman Brothers Holdings, Inc., the concerns surrounding American International Group, Inc. (which necessitated significant US government support) and other credit impairments.

The factors outlined above combined over the course of 2008 and early 2009 to cause a significant decrease in the amount of capital available to support underwriting from traditional industry participants. In addition, this was further aggravated by the withdrawal of capital support of several special purpose vehicles (e.g. collateralised reinsurers and side-cars) backed by capital market participants who were facing liquidity constraints as a result of the wider global market fall out.

Although key economic indicators have remained depressed throughout 2009, the pace of decline has slowed and government intervention has increased confidence that a global depression will be avoided. With this improving backdrop there has been a sharp rally in the equity and credit markets from their lows in March 2009. This has in turn reversed a significant portion of the mark to market losses incurred during 2008 and early 2009 and has reduced the pressure on the capital base of global insurance market.

During late 2008 interest rates fell significantly and have remained low throughout 2009 in the Group's major trading economies.

2.2 *Property and casualty insurance and reinsurance industry conditions*

Supply of property and casualty insurance and reinsurance is influenced significantly by underwriting results and the underwriting capacity of insurers and reinsurers as well as by prevailing general economic conditions. The supply of insurance and reinsurance are primarily related to prevailing rates, levels of insured claims, levels of surplus and use of underwriting capacity, which, in turn, may fluctuate in response to changes in rates of return on investments earned in the industry. As a result, the property and casualty insurance and reinsurance business historically has been a cyclical industry characterised by periods of excess underwriting capacity and strong price competition as well as periods of reduced underwriting

capacity and favourable rates and premium levels. The frequency and severity of losses suffered by insurers and reinsurers can significantly affect these cycles. The absence of severe or frequent catastrophes and other loss events can result in declining premium rates in the global market. The effects of these underwriting cycles may be reduced if the insurer or reinsurer has a widely diversified business.

Profitability of the property and casualty insurance and reinsurance industry is significantly affected by volatile and unpredictable developments, including natural catastrophes and “man-made” disasters, the frequency and severity of which are inherently unpredictable. The cyclical nature and profitability of the property and casualty reinsurance business is also affected by (i) changes in the propensity of courts to expand insurance coverage and grant larger damage awards in product liability cases, (ii) trends in professional liability claims and plaintiff class actions (particularly in the United States) that have become more pronounced following the financial scandals of the past few years and have culminated in a series of large settlements by public reporting companies and financial institutions, (iii) fluctuations in interest rates, exchange rates and other changes in the economic environment that affect market prices and returns on investments, and (iv) inflationary pressures. Although the demand for insurance is not materially affected by recession, as insurance purchases are usually necessary and in some cases compulsory, it is likely that business failures and reductions in non-compulsory purchases will cause some reduction in the absolute demand as a result of lower economic activity and corporate cost-cutting.

During the periods under review, property and casualty claims levels were impacted by natural catastrophes and “man-made” events, the principal examples of which were the following:

(a) *Year ended 31 December 2006*

Catastrophes during 2006 led to total estimated insurance industry losses of approximately US\$15 billion (2005: US\$80 billion). Significantly, 2006 was the lowest natural catastrophe year since 2003, with significantly reduced US and Caribbean windstorm activity. In addition, there were no material natural catastrophes in Europe or other major industrial regions and very few non-elemental disasters such as aircraft crashes or terrorist attacks. The Group considered this year exceptional and believed it unlikely that catastrophe levels would remain this low for the foreseeable future.

(b) *Year ended 31 December 2007*

Catastrophes during 2007 led to total estimated industry losses of approximately US\$27.6 billion, which was below the long term claims trend and significantly below the record claims of 2005 of over US\$80 billion. Natural events included European windstorms (US\$6.1 billion), UK floods (US\$4.8 billion) and Californian wildfires (US\$1.1 billion). “Man-made” catastrophes were estimated to have cost a further US\$4.3 billion. US and Caribbean windstorm activity was high, although the majority of windstorms either failed to make landfall or did so in areas of low insured values. In total there were 14 named storms resulting in estimated claims of US\$1.6 billion.

During 2007, sub-prime related issues emerged with the potential to affect the global insurance market. In the US, higher interest rates and falling property prices contributed to increased levels of mortgage defaults among high-risk, or sub-prime, borrowers. This exacerbated a slowdown in the US economy and resulted in large losses for some banks and other financial institutions. Among those who suffered losses were investors who bought sub-prime mortgage bonds. The insurance market faced potential claims on directors and officers’ policies arising from the relaxation of lending criteria and from investment strategies involving bonds backed by sub-prime mortgages. It also faced potential claims on professional indemnity policies as professional advisors faced possible legal suits for advice given.

(c) *Year ended 31 December 2008*

Claims estimates for natural and “man-made” catastrophes were in the region of US\$50 billion industry-wide, making 2008 the second most costly year ever in terms of insured losses, second only to 2005. Natural disasters included Hurricane Ike (US\$20 billion), Hurricane Gustav (US\$4 billion), winter storm Emma in Europe, tornadoes in the US and the Caribbean, wind and hail in the US and storms in China.

During 2008, the effects of the sub-prime crisis and subsequent credit crunch resulted in a weakening of the global economy. Investment losses, previously confined to the subprime mortgage sector, spread throughout investment markets. In 2008 allegations of fraudulent activity also emerged following the failure of certain

investment schemes. These allegations included those associated with Bernard Madoff who has since been convicted of fraud. The effect on the insurance industry was most apparent in reduced investment returns, whilst casualty lines were affected by increased levels of claims, or potential claims, from insureds.

(d) *Six months ended 30 June 2009*

During the six months ended 30 June 2009 there were several major claim events, including Air France (estimated market loss of US\$680 million) and the Australian bushfires (estimated insurable cost in excess of one billion Australian Dollars).

2.3 *Impact of economic conditions on investments*

(a) *Year ended 31 December 2006*

The strong economic conditions and related asset price increases seen in 2005 persisted during 2006 with the US and other world economies showing strong growth. Bond yields rose steadily over the year, with corporate debt exhibiting narrow spreads over government debt. Central banks acted to raise interest rates later in the year in order to counter inflationary concerns. Deal volumes in the new issue markets expanded, particularly within the corporate buyout segment. Property prices continued to rise sharply in the UK, Europe, and much of Asia. However, in the US property prices began to peak and residential homebuilding activity began to decline.

(b) *Year ended 31 December 2007*

The US economy began to slow in 2007 under the weight of a rapidly deteriorating residential construction market. The global economy continued to expand, particularly in Eastern Europe and Asia. Investors began to believe that global growth would decouple from the slowdown experienced in the US. Confidence in emerging markets remained high and commodity prices continued their upward march. By mid-year the weakness in the US sub-prime mortgage market placed pressure on the ability of banks to fund their activities, precipitating the beginning of the financial crisis. The US Federal Reserve Bank became the first central bank to reduce interest rates, leading to a further depreciation in the US dollar.

(c) *Year ended 31 December 2008*

The US economy was officially in a recession throughout the entire year of 2008. Home prices continued their descent, with commercial construction activity beginning to weaken progressively throughout the year. Growth began to falter in the UK and Europe early in 2008, with Asia slowing sharply in the autumn. The decoupling thesis that soothed investors in the previous year gave way to the realisation that the entire world economy was experiencing a marked downturn. Bank funding issues were exacerbated by growing solvency concerns, leading to widespread government intervention in the financial markets. Equities experienced one of history's largest single year declines, and credit spreads widened considerably. Government bond prices rose strongly during 2008, particularly in the last quarter of the year as the scope of the financial crisis became clear. Investment returns were adversely affected by the economic uncertainty with some insurers reporting negative returns for the year.

(d) *Six months ended 30 June 2009*

Market conditions remained volatile in the early months of 2009, as equities reached new lows in March and credit spreads widened further, particularly for financial issuers. Conditions improved steadily from late March through to the end of June for both equities and corporate credit. The new issue market re-opened for many corporate issuers and confidence in the health of the banking system strengthened. Towards the end of the half year government bond yields began to rise, particularly in the US, as the market began to discount an economic recovery. Yields at the five year maturity rose a full percentage point during the six months to close at 2.55 per cent.

2.4 *Rating and claims*

During the periods under review, the key claims events affecting the Group's business included claims for natural catastrophes during 2005, which were the highest ever recorded in a single year, with Hurricane Katrina, the largest single insured loss in history. The effect of the 2005 claims, reduced capacity and heightened demand, led to a significant increase in natural catastrophe pricing for 2006 for the exposures most at risk, including US property exposures and marine offshore energy programs. Whilst rates and terms and conditions improved materially in 2006, the Group reviewed and reduced its risk appetite for catastrophe exposed classes.

In 2006 the Group benefited from rate strengthening in US wind exposed catastrophe classes and an exceptionally benign year both for catastrophe events and attritional claims. Offsetting these improved market conditions, the Group experienced adverse development in its claims estimates for Hurricanes Katrina, Rita and Wilma of £75.6 million net. This development was principally driven by additional claims in offshore energy where the Group's relevant reinsurances were exhausted. The reclassification of Hurricane Rita to a market loss in excess of US\$5 billion and of Hurricane Wilma to a market loss in excess of US\$10 billion resulted in several industry loss warranty policies in its property retrocessional account being triggered.

In 2007, claims experience returned to more normal levels and the business was affected by some large event and catastrophe claims, including UK flood claims (£14.2 million) and the claims arising from the fall out in the sub prime market (£62.5 million).

In 2007 rates in Brit Global Markets and Brit Reinsurance remained at satisfactory levels, though they had declined from the high levels seen in the previous two years. The UK market remained challenging though UK motor rates stabilised towards the end of the year.

In 2008, the impact of the turmoil in the financial markets on claims experience was particularly hard to predict. The Group may have had indirect claims exposure in respect of troubled or insolvent financial institutions or financial scandals through its liability and professional indemnity policies, but assessing the likelihood or magnitude of these exposures, particularly before any claims had been made, was difficult. The Group established claims reserves for claims incurred but not reported in 2008 based on its best estimates in respect of a number of adverse financial sector events that occurred during the year.

2008 saw overall rate reductions in Brit Global Markets, Brit Reinsurance and Brit UK. However, rate strengthening did occur in commercial motor, personal lines household and personal lines motor.

The 6 months ended 30 June 2009 saw higher short-tail claims experience. It was also adversely affected by the Air France claim. During this period rate increases were experienced in the majority of lines of business. They were greatest in catastrophe related areas and in reinsurance and where capacity remained tight.

2.5 *Exchange rate fluctuations*

The Group publishes its consolidated financial statements in Sterling. Because substantial portions of its revenues and expenses and its assets and liabilities are denominated in currencies other than Sterling, it is exposed to fluctuations in the values of those currencies against the Sterling. The Group's operations are transacted primarily in Sterling, US dollars, Euros and Canadian dollars. All exchange rate fluctuations involving these or other currencies have an impact on its reported results of operations, cash flows and financial condition from year to year and are expected to continue to do so in the future. The Group seeks to mitigate these effects by maintaining financial assets denominated in the same currency as its significant liabilities.

The decline in 2008 in the value of Sterling against the US dollar, Euro and Canadian dollar has the effect of increasing the Group's capital requirements. As a result of exchange rate movements during 2008, the Group was required, along with all other Lloyd's Syndicates with US dollar exposure, to provide additional funds at Lloyd's ("FAL") in 2009. The additional FAL requirement for the Group as a result of exchange rate movements was approximately £52 million, which was provided in June 2009.

In preparing its consolidated financial statements, the Group uses period-end exchange rates to translate balance sheet items not denominated in Sterling with the exception of non monetary assets and liabilities (unearned premium reserves and deferred acquisition costs). IFRS requires these items to be translated at historical average exchange rates. This treatment introduces a level of volatility and uncertainty into the results reported in any period. The effects of this treatment is discussed in "Foreign exchange gains and losses" herein. The exchange rate, expressed as the amount of Sterling per unit of listed currency, used to translate the balance sheet items with the exception of non monetary assets and liabilities are:

| | <i>At 30 June</i> | | <i>At 31 December</i> | | |
|------------------------------------------------------|-------------------|-------------|-----------------------|-------------|-------------|
| <i>(units of listed currency per pound Sterling)</i> | <i>2009</i> | <i>2008</i> | <i>2008</i> | <i>2007</i> | <i>2006</i> |
| Canadian dollar | 1.91 | 2.02 | 1.77 | 1.96 | 2.09 |
| Euro | 1.17 | 1.26 | 1.03 | 1.36 | 1.48 |
| US dollar | 1.65 | 1.99 | 1.44 | 1.99 | 1.96 |

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The Group uses the average exchange rate over the period reported to translate income statement items not denominated in Sterling. The exchange rates, expressed as the amount of Sterling per unit of listed currency, used to translate the income statement items are:

| (units of listed currency per pound Sterling) | 6 months ended 30 June | | Year ended 31 December | | |
|-----------------------------------------------|---------------------------|------|------------------------|------|------|
| | 2009 | 2008 | 2008 | 2007 | 2006 |
| Canadian dollar | 1.80 | 1.99 | 1.96 | 2.15 | 2.28 |
| Euro | 1.12 | 1.29 | 1.26 | 1.46 | 1.47 |
| US dollar | 1.50 | 1.98 | 1.85 | 2.00 | 1.84 |

Towards the end of 2008, Sterling depreciated significantly against the US dollar and the Euro compared to 2007 average rates. As a result, the currency effect on income and expense comparisons in 2008 was more significant than in 2007 and the impact on the Group's net income and shareholders' equity was significant. During the six months ended 30 June 2009, Sterling appreciated against the US dollar and Euro, again impacting the Group's net income and shareholders' equity significantly. Such impacts are discussed in "Foreign exchange gains and losses" below.

2.6 *Interest rate and equity market fluctuations*

Movements in short-term and long-term interest rates, as well as fluctuations in the value of equity securities, affect the level and timing of recognition of gains and losses on securities held by the Group, causing changes in realised and unrealised gains and losses. Generally, the Group's investment income will be reduced during sustained periods of lower interest rates as higher yielding fixed-income securities are called, mature or are sold and the proceeds are reinvested at lower rates. However, declining interest rates result in unrealised gains in the value of fixed-income securities the Group continues to hold, as well as realised gains to the extent that the relevant securities are sold. During periods of rising interest rates, prices of fixed-income securities tend to fall and realised gains upon their sale are reduced.

2.7 *Increased regulation and disclosure in the insurance industry*

Although most companies in the insurance industry have broadly managed the financial challenges since 2006, outside observers still raised concerns about the industry's financial stability. Insurers' capital bases were materially affected by significant events, such as Hurricanes Katrina, Rita and Wilma in 2005 and, more recently, Hurricanes Ike and Gustav, as well as by investment losses in 2008 and ongoing reduced investment returns.

These concerns are expected to lead to additional regulatory initiatives. At a variety of levels, the debate has focused on disclosure of commission in the insurance sector and the need to maintain and build confidence in the financial stability of the sector. On the national and regional level, especially in Europe, the trend towards stricter insurance regulation has been accelerating. The insurance industry has expressed its support for these initiatives and emphasised that solvency requirements should reflect insurers' risk profiles.

Most of the regulation governing the carrying on of insurance business in the United Kingdom is imposed as a result of European directives. A new EU solvency framework for insurers is expected to be implemented by member states during 2012. The application of Solvency II Directive requirements to international groups is still unclear and there is a risk of inconsistent application in different member states which may place the Group at a competitive disadvantage to other European, and to non-European, insurance companies.

These trends toward greater regulation and disclosure requirements directly impact the insurance industry. The challenge for companies lies in introducing consistent governance models and control processes that address insurance-specific risk management processes and the increased requirements for internal control over financial reporting.

2.8 *Adjustment in allocation of investment return*

The investment return of the Group is composed of investment return allocated to SBUs and Corporate Centre investment return. The basis of investment return was altered in 2008, with under/over performance against the risk-free return taken through the Corporate Centre's performance. Brit Corporate Centre

comprises those activities performed centrally on behalf of the Group that cannot be directly allocated to the SBUs. These include unallocated investment income, other income (including foreign exchange gains and losses) and expenses associated with the operation of a listed entity.

In 2006 and 2007, investment return allocated to SBUs was first split between insurance return and the Corporate Centre and the return was then reallocated between SBUs using opening net technical reserves as a proxy for invested assets. During 2008, the Group changed the basis of investment return allocation to recognise the centralised decision making over investment strategy, risk appetite and investment decisions. For 2008 and subsequent years, the SBUs are allocated the risk-free rate on their insurance funds average with the over/under performance against this target taken through the Corporate Centre performance. The effect of the revised allocation in 2008 was to recognise a positive investment return in the SBUs and a loss on Corporate Centre investing activity. The change in allocation basis has no impact on Group profit or SBU underwriting result, rather it affects the attribution of investment return and consequently profit or loss before tax of the SBUs and the Corporate Centre.

2.9 *Adopted International Financial Reporting Standard 8*

The Group adopted International Financial Reporting Standard 8 ‘Operating Segments’ (IFRS 8) in the six months ended 30 June 2009. IFRS 8 requires that segments represent the level at which financial information is reported to the Executive Management Committee, being the chief operating decision maker as defined in IFRS 8.

Following the adoption of IFRS 8, the quota share reinsurance ceded by the insurance entities to the BIG cell is no longer reflected in the Brit Global Markets, Brit Reinsurance and Brit UK strategic business unit (SBU) reportable segments. Consequently, the BIG 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’. The quota share arrangement commenced in 2008.

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 average exchange rates, while monetary items are translated at closing rates.

The segmental information for the six months ended 30 June 2008 and the year ended 31 December 2008 has been restated to reflect the adoption of IFRS 8.

3. **The Group’s performance measures**

The Group evaluates its operations by monitoring key measures of growth and profitability. These key measures include:

- *Return on equity (RoE)*. RoE comprises 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.
- *Gross written premiums (GWP)*. GWP is the amount payable by the insured, including any brokerage or commission deducted by intermediaries but excluding any taxes or duties levied on the premium. The “underlying” gross written premiums growth or reduction is computed by restating prior year premium income from prior year average exchange rates to current year average exchange rates.
- *Combined ratio*. The combined ratio is the combination of the claims ratio and the acquisition cost and insurance expense ratios. That is, the ratio of net claims incurred, acquisition costs plus insurance related administrative expenses to net earned premiums. The Group uses its combined ratio in evaluating overall underwriting profitability. A combined ratio under 100 per cent. indicates underwriting profitability, as the total of claims paid, change in the provisions for unpaid claims and claims adjustment expenses, acquisition costs and insurance administration expense are less than net premiums earned on the business. With a combined ratio at or above 100 per cent., the Group’s profitability depends on investment income and realised and unrealised gains.

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- *Profit before tax (PBT)*. PBT is the total of all income earned in the period less the total expenditure charged to the profit and loss account. The principal components of PBT are net earned premium income, net investment returns less net incurred claims, acquisition costs and operating expenses. It is a measure of the performance of the business prior to consideration of the capital required to support the insurance contracts written.
- *Earnings per share (EPS)*. Basic earnings per share is the amount, 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 earnings per share adjusts the number of shares and profit or loss for the year for all dilutive potential ordinary shares such as share options granted to employees.
- *Catastrophe exposed GWP*. The Group writes business in geographical regions and insurance classes which are exposed to catastrophic events. This business is referred to as catastrophe exposed premium income and is expressed below as a percentage of gross written premiums.
- *Net tangible assets per share*. Shareholders' equity less intangible assets divided by the number of shares at the balance sheet date, less own shares (being those that the company has repurchased).
- *Total invested assets*. Total invested assets are the accumulated investments (being fixed income, cash and cash equivalents, equities and specialised investment funds) held by the Group at the balance sheet date.

| Key Performance Indicators | 30 June | | 31 December | | |
|---------------------------------------|---------|---------|-------------|---------|---------|
| | 2009 | 2008 | 2008 | 2007 | 2006 |
| Return on equity (%) | (1.1)* | 10.5* | 9.2 | 22.1 | 21.6 |
| Gross written premiums (£ million) | 983.0 | 754.8 | 1,394.6 | 1,264.9 | 1,236.3 |
| Combined ratio (%) | 98.2 | 89.4 | 99.4 | 92.7 | 86.9 |
| Profit/(loss) before tax (£ million) | (8.7) | 49.9 | 89.2 | 191.2 | 186.3 |
| Earnings per share (pence) | (2.0) | 12.2 | 21.5 | 43.2 | 41.3 |
| Catastrophe exposed GWP (%) | n/a | n/a | 13.5 | 12.2 | 12.8 |
| Net tangible assets per share (pence) | 235.3 | 245.3 | 248.2 | 248.0 | 220.7 |
| Total Invested Assets (£ million) | 3,231.5 | 2,784.3 | 3,233.7 | 2,728.6 | 2,501.5 |

* Annualised

4. Critical accounting policies

The preparation of financial statements requires management to make significant estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses as well as the related disclosure including contingent assets and liabilities. The accounting policies that the Group's management considers are the most critical to its operations and require the most subjective judgments are discussed below. This discussion should be read in conjunction with the notes to the Group's consolidated financial statements.

4.1 Claims and claim adjustment expenses

Significant periods of time can elapse between the Group's assumption of risk, the occurrence of a loss event, the reporting of the event, the subsequent reporting to the Group, and the ultimate payment by the Group. To recognise liabilities for unpaid claims and claim adjustment expenses, the Group establishes reserves, which are balance sheet liabilities representing estimates of future amounts needed to pay reported and not yet reported claims and related expenses arising from insured losses that have already occurred.

Reserves are estimates that involve actuarial and statistical projections of the expected cost of the ultimate settlement and administration of claims. These estimates are based on facts and circumstances then known, predictions of future developments, estimates of future trends in claims frequency and severity and other variable factors such as inflation. The amount of time that elapses before a claim is reported and then subsequently reported to the insurer or reinsurer is commonly referred to in the industry as the reporting tail. Lines of business for which claims are reported quickly are commonly referred to as short-tail lines; and lines of business for which a longer period of time elapses before claims are reported are commonly referred to as long-tail lines. The delay varies by insured class, placement basis, type of treaty, whether losses are paid by the insured or reinsured and the size of the loss. The delay could vary from a few weeks to a year or sometimes longer.

The Group typically establishes case reserves by taking into account standard reserving methodologies and practices. Generally, the Group establishes a case reserve for the estimated amount of the ultimate payment for a reported claim. This estimate is based on the reserving practices and experience and knowledge of claims and underwriting teams regarding the nature and value of the specific types of claims. The Group generally establishes case reserve levels using reports and individual case estimates received from insureds, their broker or loss adjuster. The Group maintains claims and claim adjustment expense reserves to cover its estimated liability for both reported and unreported claims. The Group's internal actuaries review its reserving assumptions and methodologies on a regular basis. Unpaid claims provisions are undiscounted and do not include any investment credit for the time lag in paying claims.

The Group also establishes claims reserves for claims incurred but not reported (IBNR) which provide for payments for incurred claims that have not yet been reported to it. In calculating its IBNR reserves, the Group generally uses accepted actuarial reserving techniques that take into account quantitative loss experience data, together with, where appropriate, qualitative factors. IBNR reserves are based on claims experience and are grouped both by class of business and by year. IBNR reserves are also adjusted to take into account such factors as changes in the volume of business written, rating environment, contract terms and conditions, the mix of business, claims processing and inflation that can be expected to affect the Group's liability for claims over time.

The establishment of the appropriate level of reserves is an inherently uncertain process involving estimates and judgements made by management, and therefore there can be no assurance that ultimate claims and claim adjustment expenses will not exceed the claims reserves currently established.

4.2 *Premiums*

Management must make judgments about the ultimate premiums written and earned by the Group. Reported premiums written and earned are based upon reports received from the Group's underwriters, coverholder generated business under delegated underwriting authorities and its brokers, supplemented by its own estimates of premiums written for which broker, coverholder or ceding company reports have not been received. The determinations of estimates require a review of the Group's experience with these counterparties, familiarity with each geographic market and a thorough understanding of the characteristics of each line of business written. Premium estimates are updated when new information is received. Differences between such estimates and actual amounts are recorded in the period in which estimates are changed or the actual amounts are determined. In addition, the Group's internal actuaries review the progression of the estimated ultimate premium income. Premium income adjustments also affect the incurred claims in a period, as the ultimate claims estimates are determined by applying the ultimate loss ratio to the premium income.

4.3 *Deferred acquisition costs*

Acquisition costs, which vary with, and are primarily related to, the production of new business, are deferred to the extent they are deemed recoverable from future revenue margins. Deferred acquisition costs consist principally of commissions. Deferred acquisition costs are capitalised and amortised in proportion to the premiums earned.

4.4 *Goodwill*

The excess of the cost of acquired businesses over the fair value of the Group's share of the net identifiable assets, liabilities, and reliably measured contingent liabilities at the date of acquisition is recorded as goodwill (purchase method). Goodwill is not subject to amortisation but is tested annually for impairment as it is an asset with an indefinite useful life. 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 the asset's fair value less costs to sell and value in use.

4.5 *Financial instruments*

The Group uses certain financial instruments and invests in securities of certain entities for which exchange trading does not exist. The fair value of financial instruments for which exchange trading does not exist is estimated based on the quoted market prices of financial instruments with similar characteristics or on various valuation techniques. Because of the limited liquidity of some of these instruments, the recorded amounts may be different from the proceeds that might be realised if the financial instruments were sold at the balance sheet date.

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5. Consolidated results of operations

The table below presents summary consolidated results for the periods indicated.

| | <i>6 months ended</i> | | <i>Year ended 31 December</i> | | |
|-------------------------------------------------------------|-----------------------|----------------|-------------------------------|------------------|----------------|
| | <i>30 June</i> | | | | |
| <i>£'million</i> | <i>2009</i> | <i>2008</i> | <i>2008</i> | <i>2007</i> | <i>2006</i> |
| Revenue | | | | | |
| Gross written premiums | 983.0 | 754.8 | 1,394.6 | 1,264.9 | 1,236.3 |
| Earned premiums, net of reinsurance | 700.9 | 544.5 | 1,101.8 | 1,103.3 | 1,048.7 |
| Foreign exchange gains and other income | 0.3 | 12.7 | 125.1 | 21.4 | 0.8 |
| Investment return | 59.2 | 2.1 | 7.4 | 137.4 | 112.6 |
| Return on derivative contracts | (1.3) | (8.5) | (19.1) | (9.7) | (2.2) |
| Disposals | 4.2 | 4.5 | 4.5 | 7.1 | – |
| Total revenue | 763.3 | 555.3 | 1,219.7 | 1,259.5 | 1,159.9 |
| Expenses | | | | | |
| Claims incurred, net of reinsurance | (473.2) | (302.8) | (727.6) | (660.9) | (556.0) |
| Acquisition costs | (183.2) | (153.4) | (306.1) | (298.4) | (289.5) |
| Other operating expenses | (48.4) | (43.7) | (90.4) | (99.2) | (114.3) |
| Foreign exchange losses | (61.0) | – | – | – | – |
| Total expenses excluding finance costs | (765.8) | (499.9) | (1,124.1) | (1,058.5) | (959.8) |
| Operating (loss)/profit | (2.5) | 55.4 | 95.6 | 201.0 | 200.1 |
| Finance costs | (5.2) | (6.5) | (13.1) | (12.7) | (14.9) |
| Finance income | – | – | 7.2 | – | – |
| Share of (loss)/profit after tax of associated undertakings | (1.0) | 1.0 | (0.5) | 2.9 | 1.1 |
| (Loss)/profit on ordinary activities before tax | (8.7) | 49.9 | 89.2 | 191.2 | 186.3 |
| Tax expense | 2.4 | (12.3) | (22.6) | (53.6) | (52.5) |
| (Loss)/profit attributable to owners of the parent | (6.3) | 37.6 | 66.6 | 137.6 | 133.8 |
| Earnings per share (pence) | (2.0) | 12.2 | 21.5 | 43.2 | 41.3 |

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6. Consolidated statement of financial position

| | <i>At 30 June</i> | | | <i>At 31 December</i> | |
|----------------------------------------------------------|-------------------|----------------|----------------|-----------------------|----------------|
| | 2009 | 2008 | 2008 | 2007 | 2006 |
| <i>£'million</i> | | | | | |
| Assets | | | | | |
| Property, plant and equipment | 6.8 | 8.9 | 8.0 | 10.0 | 10.1 |
| Intangible assets | 82.9 | 80.6 | 82.1 | 80.5 | 89.0 |
| Deferred acquisition costs | 189.3 | 153.9 | 152.1 | 132.2 | 122.2 |
| Investments in associated undertakings | 14.4 | 24.0 | 29.1 | 33.0 | 21.1 |
| Current taxation | – | – | 1.9 | – | – |
| Reinsurance contracts | 581.0 | 460.6 | 549.6 | 380.8 | 374.1 |
| Financial investments | 2,150.1 | 2,228.3 | 2,393.0 | 1,993.3 | 2,079.3 |
| Derivative contracts | 1.0 | 1.1 | 1.4 | 1.8 | – |
| Insurance and other receivables | 642.7 | 552.2 | 518.4 | 467.5 | 540.3 |
| Assets held for sale | – | – | – | – | 1.1 |
| Cash and cash equivalents | 1,081.4 | 556.0 | 840.7 | 735.3 | 421.1 |
| Total assets | <u>4,749.6</u> | <u>4,065.6</u> | <u>4,576.3</u> | <u>3,834.4</u> | <u>3,658.3</u> |
| Liabilities and Equity | | | | | |
| Liabilities | | | | | |
| Insurance contracts | 3,447.4 | 2,785.8 | 3,344.7 | 2,623.0 | 2,400.1 |
| Employee benefits | 14.2 | 12.8 | 1.4 | 5.1 | 12.4 |
| Borrowings | 206.8 | 174.4 | 143.1 | 174.2 | 173.9 |
| Current taxation | 8.2 | 13.1 | – | 12.3 | 22.1 |
| Deferred taxation | 6.5 | 20.4 | 29.5 | 21.4 | 4.5 |
| Provisions | 0.3 | 0.4 | 0.4 | 0.4 | 0.4 |
| Derivative contracts | 1.4 | 0.6 | 5.4 | 1.9 | – |
| Insurance and other payables | 254.2 | 218.5 | 202.1 | 147.2 | 231.6 |
| Total liabilities | <u>3,939.0</u> | <u>3,226.0</u> | <u>3,726.6</u> | <u>2,985.5</u> | <u>2,845.0</u> |
| Equity | | | | | |
| Called up share capital | 247.3 | 247.3 | 247.3 | 247.3 | 246.1 |
| Share premium account | – | 138.0 | – | 138.0 | 135.8 |
| Capital redemption reserve | – | 0.6 | – | 0.6 | 0.6 |
| Translation reserve | – | – | 4.1 | (1.3) | (1.3) |
| Capital reorganisation reserve | – | – | – | – | 180.0 |
| Own shares | (64.1) | (64.0) | (64.2) | (63.1) | (5.8) |
| Retained earnings | 627.4 | 517.7 | 662.5 | 527.4 | 257.9 |
| Total equity attributable to owners of the parent | <u>810.6</u> | <u>839.6</u> | <u>849.7</u> | <u>848.9</u> | <u>813.3</u> |
| Total liabilities and equity | <u>4,749.6</u> | <u>4,065.6</u> | <u>4,576.3</u> | <u>3,834.4</u> | <u>3,658.3</u> |

| | <i>At 30 June</i> | | | <i>At 31 December</i> | |
|---------------------------------------|-------------------|-------|-------|-----------------------|-------|
| | 2009 | 2008 | 2008 | 2007 | 2006 |
| <i>£'million</i> | | | | | |
| Net assets (£ million) | 810.6 | 839.6 | 849.7 | 848.9 | 813.3 |
| Net tangible assets (£ million) | 727.7 | 759.0 | 767.6 | 768.4 | 724.3 |
| Net tangible assets per share (pence) | 235.3 | 245.3 | 248.2 | 248.0 | 220.7 |

7. Group performance

7.1 Six months ended 30 June 2009

The result before tax for the period was a loss of £8.7 million (30 June 2008: profit of £49.9 million). Return on equity (annualised) was a negative 1.1 per cent. (30 June 2008: 10.5 per cent. positive) and the Group combined ratio was 98.2 per cent. (30 June 2008: 89.4 per cent.). Operating result was a loss of £2.5 million

(30 June 2008: profit of £55.4 million). The Group's decrease in profitability was primarily a result of increased claims experience and substantial foreign exchange losses arising from the substantial strengthening of the pound against the US dollar, Canadian dollar and Euro during the course of the period, partially offset higher investment returns. The foreign exchange loss included a £54.0 million charge in respect of the reversal of a foreign exchange gain made in 2008 on the translation of non-monetary items (see section 12 in this Chapter).

Profit before tax excluding the effect of foreign exchange on non-monetary items was £64.9m (30 June 2008: £52.3m) and return on equity (annualised) excluding the effect of foreign exchange on non-monetary items was 13.1 per cent. (30 June 2008: 11.0 per cent.).

The Group experienced significant headline growth in gross written premiums (GWP) for the six months to 30 June 2009 to £983.0 million (30 June 2008: £754.8 million), an increase of 30.2 per cent. At constant exchange rates the growth was 11.6 per cent. (30 June 2008: 2.3 per cent.) and included positive movements on prior year premium estimates equivalent to 6.5 per cent. of GWP. Premium movements mainly arose from prudent estimation of new business relationships in the UK and adjustment premiums in Reinsurance.

Investment return was £59.2 million (30 June 2008: £2.1 million) reflecting investment markets positive reaction to a modest stabilisation in the macro environment. Overall non-annualised investment return for the first six months of the year was 1.8 per cent. (30 June 2008: 0.1 per cent.), with a positive contribution from each of the Group's asset classes.

The Group's claims ratio was 67.5 per cent. (30 June 2008: 55.6 per cent.). This increase reflected both the weaker underwriting conditions prevalent in 2008 when the majority of the premium earned in the first six months of 2009 was written, and higher short-tail claims experience. In particular, the Reinsurance SBU was adversely affected by the Air France claim which was estimated at £12 million net of reinstatements and added 1.6 percentage points to the Group claims ratio. In 2008 the Group ceased its relationship with Augsburg Re, which wrote Aviation XL reinsurance on behalf of the Reinsurance SBU, and this portfolio will be materially off-risk by the end of 2009. In the UK, the claims ratio fell 4.4 percentage points as the Group's distribution platform enabled it to access lower claims ratio business, albeit with higher commission costs.

Prior year reserve releases in aggregate totalled £19.0 million (30 June 2008: £21.5 million) equivalent to 2.6 percentage points of net earned premium (30 June 2008: 3.9 percentage points). The Group experienced reserve releases in Global Markets and the UK, partially offset by an increase in Reinsurance. The increase in Reinsurance primarily related to claims attaching to underestimated premium from previous periods. The reserve release was lower than the first half of 2008 which saw a similar claims development but lower adjustments to prior year premium estimates. More specifically ultimate claim estimates for both the 2008 US hurricanes and 2007 'sub-prime' related claims remained unchanged. The specific 'sub-prime' reserve continued to develop in line with expectations for the tenth quarter in a row.

Group management expenses totalled £72.7 million (30 June 2008: £66.5 million), an increase of 9.3 per cent. The main increase arose from a number of projects including work on the Group's planned redomicile to the Netherlands and the proposed acquisition of Chaucer Holdings PLC.

Commission costs for the period increased to £158.9 million (30 June 2008: £130.6 million) but reduced as a per cent. of net earned premiums (30 June 2009: 22.7 per cent.; 30 June 2008: 24.0 per cent.). This primarily reflected changes to business mix.

7.2 *Year ended 31 December 2008*

Profit before tax for the year was £89.2 million, a decrease of 53.3 per cent. from 2007 (£191.2 million). RoE was 9.2 per cent. (2007: 22.1 per cent.) and the Group combined ratio was 99.4 per cent. (2007: 92.7 per cent.). Operating profit was £95.6 million (2007: £201.0 million), a decrease of 52.4 per cent. The Group's decrease in profitability was primarily a result of increased claims experience, including Hurricanes Ike and Gustav, and investment losses during 2008 on equities and specialised investment funds, reflecting the overall deterioration in investment climate, which were offset by substantial foreign exchange gains arising from the substantial weakening of the pound against the US dollar, Canadian dollar and Euro during the course of the year.

Profit before tax excluding the effect of foreign exchange on non-monetary items was £39.6 million and return on equity excluding the effect of foreign exchange on non-monetary items was 4.6 per cent.

Gross written premiums totalled £1,394.6 million (2007: £1,264.9 million), an increase of 10.3 per cent. Net earned premiums remained static at £1,101.8 million (2007: £1,103.3 million). Premium growth in respect of ongoing business, adjusted for exchange rate movements, or the “underlying growth” in gross written premiums was 4.2 per cent. between 2007 and 2008. The underlying growth was driven by Brit UK’s 26.5 per cent. underlying growth, while Brit Reinsurance’s underlying growth rate was 1.4 per cent. and Brit Global Markets experienced an underlying premium reduction of 3.1 per cent. The factors behind these movements are discussed in the SBU sections below.

Investment return in 2008 was £7.4 million, a return of 0.16 per cent. on average invested assets, calculated by the Dietz method (2007: £137.4 million, 5.42 per cent.). This 94.6 per cent. reduction was a reflection of the negative economic environment with the Group’s equity and specialised investment fund portfolios recording an aggregate of £106.6 million in investment losses for the year. These movements are discussed more fully in “Investments” below.

The Group’s claims ratio was 66.0 per cent. (2007: 59.9 per cent.). This movement reflected increased claims activity, both frequency and severity, together with claims arising from specific events such as Hurricanes Gustav and Ike in Brit Global Markets (2008 claims ratio: 61.2 per cent.; 2007: 54.4 per cent.) and Brit Reinsurance (2008 claims ratio: 65.3 per cent.; 2007: 56.4 per cent.). The claims ratio for Brit UK improved from 76.3 per cent. to 66.4 per cent., primarily reflecting the absence of any significant weather related events. The SBUs are discussed in more detail below.

Prior year reserve releases in aggregate totalled £79.1 million, representing 3.5 per cent. of opening net reserves (2007: £58.7 million, 2.9 per cent.). All three SBUs contributed towards this release.

Group management expenses totalled £140.6 million (2007: £145.3 million), a decrease of 3.2 per cent. This reduction was primarily due to a lower staff bonus provision (a function of Group profit) and the absence of any software impairment charge (2007: £4.0 million), offset by increases in other staff costs (2008: £69.1 million; 2007: £65.7 million) and legal and professional fees (2008: £12.9 million; 2007: £10.4 million).

Commission costs for the period increased marginally to £255.9 million, 23.2 per cent. of net earned premiums (2007: £252.3 million, 22.9 per cent.), primarily reflecting changes to business mix.

7.3 *Year ended 31 December 2007*

Profit before tax for the year was £191.2 million, an increase of 2.6 per cent. over 2006 (£186.3 million). RoE was 22.1 per cent. (2006: 21.6 per cent.) and the Group combined ratio was 92.7 per cent. (2006: 86.9 per cent.). Operating profit was £201.0 million (2006: £200.1 million).

Gross written premiums totalled £1,264.9 million (2006: £1,236.3 million), an increase of 2.3 per cent. Net earned premiums were £1,103.3 million (2006: £1,048.7 million) an increase of 5.2 per cent. Premium growth in respect of ongoing business, adjusted for exchange rate movements, was 6.7 per cent. The increase was primarily due to an increase in the Financial & Professional, Marine and Property lines of Brit Global Markets.

Investment return was £137.4 million, a return of 5.42 per cent. (2006: £112.6 million, 4.74 per cent.). This was due to improved performance of the fixed income securities in the Group’s investment portfolio and growth in invested assets reflecting strong operating cash flows.

The Group’s claims ratio was 59.9 per cent. (2006: 53.0 per cent.). This included a reserve of £62.5 million (net of reinsurance) established in respect of potential claims arising from sub-prime related exposures. This reserve was in addition to amounts carried within the Group’s normal ultimate loss ratios for the affected classes.

Claims also arose from events such as the Australian floods (£1.9 million net of reinsurance), European Windstorm Kyrill (£2.0 million net of reinsurance), UK floods (£14.2 million net of reinsurance), California wildfires (£6.2 million net of reinsurance) and a number of aviation and space events. The claims ratio was more in line with normal levels compared against a very benign year in 2006.

Prior year reserves releases in aggregate totalled £58.7 million, representing 2.9 per cent. of opening net reserves (2006: £33.9 million and 1.7 per cent.).

Group management expenses totalled £145.3 million (2006: £156.2 million), a decrease of 7.0 per cent. This reduction was due to foreign exchange losses incurred in 2006 of £25.4 million (2007: profit of £18.6 million). Excluding exchange movements, the increase in Group management expenses from 2006 to 2007 was 11.1 per cent. This represented a significant reduction over the 2006 growth in expenses over 2005 of 29.8 per cent., which was due to planned expansion of the business infrastructure in 2006.

Commission costs for the period increased to £252.3 million, 22.9 per cent. of net earned premium (2006: £247.6 million and 23.6 per cent. of net earned premium), reflecting the evolving mix of business written.

7.4 *Year ended 31 December 2006*

Profit before tax for the year was £186.3 million, an increase of 198.6 per cent. over 2005 (£62.4 million). RoE was 21.6 per cent. (2005: 7.9 per cent.) and the Group combined ratio was 86.9 per cent. (2005: 105.2 per cent.). Operating profit was £200.1 million (2005: £68.2 million).

Gross written premiums totalled £1,236.3 million (2005: £1,202.5 million), an increase of 2.8 per cent. Premium growth in respect of ongoing business, adjusted for exchange rate movements, was 7.0 per cent. Net earned premiums were £1,048.7 million (2005: £942.5 million), an increase of 11.3 per cent. The increase was primarily seen within all of the classes of business within Brit Global Markets. This increase offset a decrease in the gross written premiums of Brit Reinsurance, which decreased from £328.8 million in 2005 to £260.9 million in 2006, a decrease of 20.7 per cent., driven by lower levels of reinstatement premiums following the catastrophes of 2005 and the decision of management to withdraw from property retrocessional business.

Investment return was £112.6 million, a return of 4.74 per cent. (2005: £121.8 million, 5.40 per cent.). The decrease in the Group's investment return was driven by a lower return on equities and a lower return in Sterling fixed interest investments, partially offset by an increased return in US dollar fixed interest securities.

The Group's claims ratio was 53.0 per cent. (2005: 74.4 per cent.). The decrease was due to the fact that 2006 was an unusually benign year for claims activity compared against 2005, which was very active. Market insured losses for natural and "man-made" catastrophes were in the region of US\$15 billion compared with over US\$80 billion in 2005.

Prior year reserve releases were £33.9 million representing 1.7 per cent. of opening net reserves (2005: £110.8 million and 7.2 per cent.). Within this overall figure the Group strengthened reserves for the 2005 hurricanes by £75.6 million, driven principally by additional claims in offshore energy and by the reclassification of Hurricane Rita to a market loss in excess of US\$5 billion and of Hurricane Wilma to a market loss in excess of US\$10 billion, triggering several industry loss warranty policies in the Group's retrocessional account. Following the 2005 hurricane activity, the Group ceased underwriting retrocessional industry loss warranties and Gulf of Mexico catastrophe exposed energy business.

Group management expenses totalled £156.2 million (2005: £100.8 million). The 2006 figure included a foreign exchange loss of £25.4 million (2005: profit of £11.6 million, which was classified as other income). Excluding exchange movements, the increase between 2005 and 2006 was 29.8 per cent. This increase was due to investment in the business and the significant growth of the personnel in the Group from 601 employees to 751 employees made in order to support the Group's growth aspirations and business plans. The main growth areas were Group Operations / IT (74 additional personnel), underwriting (16 additional personnel) and Finance and Actuarial (36 additional personnel).

Commission costs for the period were £247.6 million, 23.6 per cent. of net earned premium (2005: £207.4 million and 22.0 per cent. of net earned premium). This reflects the evolving mix of business written.

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8. Underwriting – Group

8.1 *Net reserve releases/(strengthening)*

The table below reflects the reserve releases/(strengthening) for each of the Group's SBUs by class of business. These movements are discussed in greater detail below. The Group's aim is to reserve more recent years realistically yet cautiously and review these estimates as the years mature. Prior year reserve releases have the effect of increasing the profit in a reported period.

| <i>£'million</i> | <i>6 months ended</i> | | <i>Year ended 31 December</i> | | |
|----------------------------|-----------------------|-------------|-------------------------------|-------------|-------------|
| | <i>30 June</i> | | | | |
| | <i>2009</i> | <i>2008</i> | <i>2008</i> | <i>2007</i> | <i>2006</i> |
| Brit Global Markets | 18.1 | 10.0 | 22.0 | 29.5 | 17.0 |
| Brit Reinsurance | (11.7) | (6.0) | 20.1 | 4.2 | (12.0) |
| Brit UK | 12.1 | 18.2 | 38.6 | 25.2 | 32.0 |
| Syndicate 389 (in run off) | 0.5 | (0.7) | (1.6) | (0.2) | (3.1) |
| | <u>19.0</u> | <u>21.5</u> | <u>79.1</u> | <u>58.7</u> | <u>33.9</u> |

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.

| | <i>Development of Group ultimate net loss ratio by underwriting year</i> | | | | | | | <i>At 30 June</i> |
|------|--------------------------------------------------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|-------------------|
| | <i>After</i> | <i>After</i> | <i>After</i> | <i>After</i> | <i>After</i> | <i>After</i> | <i>After</i> | |
| | <i>1 year</i> | <i>2 years</i> | <i>3 years</i> | <i>4 years</i> | <i>5 years</i> | <i>6 years</i> | <i>7 years</i> | <i>2009</i> |
| 2002 | 76% | 70% | 66% | 60% | 57% | 56% | 55% | 55% |
| 2003 | 74% | 72% | 64% | 59% | 55% | 53% | | 52% |
| 2004 | 82% | 79% | 73% | 70% | 68% | | | 67% |
| 2005 | 104% | 109% | 106% | 103% | | | | 102% |
| 2006 | 81% | 83% | 80% | | | | | 78% |
| 2007 | 89% | 92% | | | | | | 93% |
| 2008 | 95% | | | | | | | 98% |

As this data is on an underwriting year basis, claims in the current calendar year can affect the previous underwriting year. For example the increase in the ultimate net loss ratio for 2008 is partially caused by the Air France claim which is recorded in the 2008 underwriting year.

8.2 *Movements in claims reserves and loss adjustment expenses*

The tables below show the movement in claims reserves and loss adjustment expenses for the periods indicated. It shows balances brought forward at the start of the period, claims settled during the period, increases in liabilities, foreign exchange movements and the balance carried forward at the end of the period. These items are shown on a gross and net basis.

| <i>Claims and loss adjustment expenses</i> | <i>Year ended 31 December 2008</i> | | | <i>Year ended 31 December 2007</i> | | | <i>Year ended 31 December 2006</i> | | |
|--------------------------------------------|------------------------------------|--------------------|----------------|------------------------------------|--------------------|----------------|------------------------------------|--------------------|----------------|
| | <i>Gross</i> | <i>Reinsurance</i> | <i>Net</i> | <i>Gross</i> | <i>Reinsurance</i> | <i>Net</i> | <i>Gross</i> | <i>Reinsurance</i> | <i>Net</i> |
| <i>£'million</i> | | | | | | | | | |
| As at 1 January | 2,013.2 | (326.1) | 1,687.1 | 1,801.1 | (314.1) | 1,487.0 | 1,992.7 | (592.0) | 1,400.7 |
| Cash paid for claims settled in the year | (694.3) | 90.0 | (604.3) | (584.8) | 112.9 | (471.9) | (690.7) | 324.1 | (366.6) |
| Increase in liabilities | 886.1 | (158.5) | 727.6 | 786.3 | (125.4) | 660.9 | 626.4 | (75.0) | 551.4 |
| Net exchange differences | 452.7 | (84.6) | 368.1 | 10.6 | 0.5 | 11.1 | (127.3) | 28.8 | (98.5) |
| As at 31 December | <u>2,657.7</u> | <u>(479.2)</u> | <u>2,178.5</u> | <u>2,013.2</u> | <u>(326.1)</u> | <u>1,687.1</u> | <u>1,801.1</u> | <u>(314.1)</u> | <u>1,487.0</u> |

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During the year ended 31 December 2007 net claims reserves increased by 13.5 per cent. to £1,687.1 million and during the year ended 31 December 2006 by 6.2 per cent. in £1,487.0 million. These movements were the result of increases in business written.

During the year ended 31 December 2008, net reserves increased by £491.4 million (29.1 per cent.) to £2,178.5 million. Of this increase, £368.1 million related to foreign exchange movements, reflecting the weakening of Sterling, while liabilities increased by £727.6 million reflecting increased claims activity. Claims settled during 2008 totalled £604.3 million.

During the period ended 30 June 2009, net reserves decreased by £19.9 million (0.9 per cent.) to £2,158.6 million. This was due to liabilities which increased by £473.2 million, offset by claims settled of £311.4 million and a decrease of £181.7 million related to foreign exchange movements, reflecting the strengthening of Sterling.

9. Segmental reconciliation to the Group's consolidated results

An analysis of the Group's performance by SBU together with the performance of the Group functions is set out below for the periods indicated. Individual results of each of the Group's SBUs are set forth in detail following the three year performance analysis below.

9.1 Financial results for the periods ending 31 December 2008, 2007 and 2006

| Year ended 31 December 2008 (restated) £'million | Brit Global Markets | Brit Reinsurance | Brit UK | Other underwriting ⁽¹⁾ | Intragroup Eliminations | Total Underwriting excluding the effect of foreign exchange on non-monetary items | Effect of foreign exchange on non-monetary items | Total Underwriting after the effect of foreign exchange on non-monetary items | Corporate | Total |
|-----------------------------------------------------------|---------------------------|---------------------|--------------|--------------------------------------|----------------------------|-----------------------------------------------------------------------------------------------------|--------------------------------------------------------------|-------------------------------------------------------------------------------------------------|-----------|-------------|
| Gross Written | | | | | | | | | | |
| Premiums | 781.3 | 260.7 | 350.6 | 14.9 | (12.9) | 1,394.6 | – | 1,394.6 | – | 1,394.6 |
| Net Written | | | | | | | | | | |
| Premiums | 658.2 | 208.1 | 282.6 | 14.4 | – | 1,163.3 | – | 1,163.3 | – | 1,163.3 |
| Net Earned | | | | | | | | | | |
| Premiums | 665.9 | 209.9 | 259.9 | 9.9 | – | 1,145.6 | (43.8) | 1,101.8 | – | 1,101.8 |
| Investment Return ⁽²⁾ | 33.4 | 13.4 | 33.8 | 1.7 | – | 82.3 | | 82.3 | (94.0) | (11.7) |
| Net Foreign | | | | | | | | | | |
| Exchange Gains | – | – | – | – | – | – | 84.1 | 84.1 | 39.9 | 124.0 |
| Other Income | – | – | – | 1.0 | – | 1.0 | – | 1.0 | 4.6 | 5.6 |
| Total Revenue | 699.3 | 223.3 | 293.7 | 12.6 | – | 1,228.9 | 40.3 | 1,269.2 | (49.5) | 1,219.7 |
| Net Claims Incurred | (407.2) | (137.1) | (172.6) | (10.7) | – | (727.6) | – | (727.6) | – | (727.6) |
| Commission Costs | (183.5) | (36.6) | (44.8) | (0.3) | – | (265.2) | 9.3 | (255.9) | – | (255.9) |
| Expenses | (51.0) | (18.8) | (40.6) | (1.4) | – | (111.8) | – | (111.8) | (28.8) | (140.6) |
| Net Foreign | | | | | | | | | | |
| Exchange Losses | – | – | – | – | – | – | – | – | – | – |
| Operating Profit | 57.6 | 30.8 | 35.7 | 0.2 | – | 124.3 | 49.6 | 173.9 | (78.3) | 95.6 |
| Finance Costs, Finance Income and Associates | | | | | | | | | | (6.4) |
| Profit Before Tax | | | | | | | | | | 89.2 |
| Claims Ratio | 61.2% | 65.3% | 66.4% | | | 63.5% | | 66.0% | | |
| Expense Ratio | 35.2% | 26.4% | 32.9% | | | 32.9% | | 33.4% | | |
| Combined Ratio | 96.4% | 91.7% | 99.3% | | | 96.4% | | 99.4% | | |

1 Other Underwriting comprises excess of loss reinsurances ceded to BIG by the Group's SBUs, Life Syndicate 389 in run-off (final year of account 2003) and historic participations on externally managed syndicates in run-off (final year of account 2000)

2 Including return on derivative contracts

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| <i>Year to 31 December 2007 £'million</i> | <i>Brit Global Markets</i> | <i>Brit Reinsurance</i> | <i>Brit UK</i> | <i>Other⁽¹⁾</i> | <i>Total Underwriting</i> | <i>Corporate</i> | <i>Total</i> |
|---------------------------------------------------|------------------------------------|-----------------------------|--------------------|----------------------------|-------------------------------|------------------|--------------|
| Gross Written Premiums | 749.2 | 239.4 | 274.0 | 2.3 | 1,264.9 | – | 1,264.9 |
| Net Written Premiums | 674.4 | 197.5 | 245.7 | 1.8 | 1,119.4 | – | 1,119.4 |
| Net Earned Premiums | 630.4 | 208.3 | 262.8 | 1.8 | 1,103.3 | – | 1,103.3 |
| Investment Return ⁽²⁾ | 55.9 | 25.6 | 40.1 | 0.3 | 121.9 | 5.8 | 127.7 |
| Other Income | – | – | – | – | – | 28.5 | 28.5 |
| Total Revenue | 686.3 | 233.9 | 302.9 | 2.1 | 1,225.2 | 34.3 | 1,259.5 |
| Net Claims Incurred | (342.8) | (117.4) | (200.5) | (0.2) | (660.9) | – | (660.9) |
| Commission Costs | (167.5) | (39.0) | (45.4) | (0.4) | (252.3) | – | (252.3) |
| Expenses | (52.3) | (16.5) | (41.2) | – | (110.0) | (35.3) | (145.3) |
| Operating Profit | 123.7 | 61.0 | 15.8 | 1.5 | 202.0 | (1.0) | 201.0 |
| Finance Costs and Associates | | | | | | | (9.8) |
| Profit Before Tax | | | | | | | 191.2 |
| Claims Ratio | 54.4% | 56.4% | 76.3% | | 59.9% | | |
| Expense Ratio | 34.9% | 26.6% | 33.0% | | 32.8% | | |
| Combined Ratio | 89.3% | 83.0% | 109.3% | | 92.7% | | |

1 Life Syndicate 389 in run-off (final year of account 2003) and historic participations on externally managed syndicates in run-off (final year of account 2000)

2 Including return on derivative contracts

| <i>Year to 31 December 2006 £'million</i> | <i>Brit Global Markets</i> | <i>Brit Reinsurance</i> | <i>Brit UK</i> | <i>Other⁽¹⁾</i> | <i>Total Underwriting</i> | <i>Corporate</i> | <i>Total</i> |
|---------------------------------------------------|------------------------------------|-----------------------------|--------------------|----------------------------|-------------------------------|------------------|--------------|
| Gross Written Premiums | 706.9 | 260.9 | 279.9 | (11.4) | 1,236.3 | – | 1,236.3 |
| Net Written Premiums | 591.1 | 211.7 | 250.8 | (8.7) | 1,044.9 | – | 1,044.9 |
| Net Earned Premiums | 557.5 | 237.0 | 251.2 | 2.9 | 1,048.6 | – | 1,048.6 |
| Investment Return ⁽²⁾ | 46.3 | 26.2 | 32.7 | 0.2 | 105.4 | 5.1 | 110.5 |
| Other Income | – | – | – | – | – | 0.8 | 0.8 |
| Total Revenue | 603.8 | 263.2 | 283.9 | 3.1 | 1,154.0 | 5.9 | 1,159.9 |
| Net Claims Incurred | (259.3) | (118.5) | (174.9) | (3.3) | (556.0) | – | (556.0) |
| Commission Costs | (157.5) | (45.4) | (43.4) | (1.3) | (247.6) | – | (247.6) |
| Expenses | (59.5) | (22.8) | (25.3) | (0.3) | (107.9) | (48.3) | (156.2) |
| Operating Profit | 127.5 | 76.5 | 40.3 | (1.8) | 242.5 | (42.4) | 200.1 |
| Finance Costs and Associates | | | | | | | (13.8) |
| Profit Before Tax | | | | | | | 186.3 |
| Claims Ratio | 46.5% | 50.0% | 69.6% | | 53.0% | | |
| Expense Ratio | 38.9% | 28.8% | 27.3% | | 33.9% | | |
| Combined Ratio | 85.4% | 78.8% | 96.9% | | 86.9% | | |

1 Life Syndicate 389 in run-off (final year of account 2003) and historic participations on externally managed syndicates in run-off (final year of account 2000)

2 Including return on derivative contracts

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9.2 Financial results for the six months ended 30 June 2009 and 30 June 2008

| Six months ended 30 June 2009 £'million | Brit Global Markets | Brit Reinsurance | Brit UK | Other underwriting ⁽¹⁾ | Intragroup Eliminations | Total Underwriting excluding the effect of foreign exchange on non-monetary items | Effect of foreign exchange on non-monetary items | Total Underwriting after the effect of foreign exchange on non-monetary items | Corporate | Total |
|--------------------------------------------|---------------------------|---------------------|--------------|--------------------------------------|----------------------------|--------------------------------------------------------------------------------------------------------|--------------------------------------------------------------|----------------------------------------------------------------------------------------------------|-----------|--------------|
| Gross Written Premiums | 469.3 | 277.4 | 235.5 | 15.2 | (14.4) | 983.0 | – | 983.0 | – | 983.0 |
| Net Written Premiums | 374.5 | 221.9 | 181.2 | 14.5 | – | 792.1 | – | 792.1 | – | 792.1 |
| Net Earned Premiums | 421.8 | 153.5 | 160.4 | 7.6 | – | 743.3 | (42.4) | 700.9 | – | 700.9 |
| Investment Return ⁽²⁾ | 2.2 | 0.3 | 1.6 | – | – | 4.1 | – | 4.1 | 53.8 | 57.9 |
| Net Foreign Exchange Gains | – | – | – | – | – | – | – | – | – | – |
| Other Income | – | – | – | – | – | – | – | – | 4.5 | 4.5 |
| Total Revenue | 424.0 | 153.8 | 162.0 | 7.6 | – | 747.4 | (42.4) | 705.0 | 58.3 | 763.3 |
| Net Claims Incurred | (254.3) | (106.1) | (105.2) | (7.6) | – | (473.2) | – | (473.2) | – | (473.2) |
| Commission Costs | (110.0) | (26.4) | (32.0) | 0.6 | – | (167.8) | 8.9 | (158.9) | – | (158.9) |
| Expenses | (27.7) | (7.5) | (20.5) | (0.7) | – | (56.4) | – | (56.4) | (16.3) | (72.7) |
| Net Foreign Exchange Losses | – | – | – | – | – | – | (40.1) | (40.1) | (20.9) | (61.0) |
| Operating Profit | 32.0 | 13.8 | 4.3 | (0.1) | – | 50.0 | (73.6) | (23.6) | 21.1 | (2.5) |
| Finance Costs and Associates | | | | | | | | | | (6.2) |
| Profit Before Tax | | | | | | | | | | (8.7) |
| Claims Ratio | 60.3% | 69.1% | 65.6% | | | 63.6% | | 67.5% | | |
| Expense Ratio | 32.6% | 22.1% | 32.7% | | | 30.2% | | 30.7% | | |
| Combined Ratio | 92.9% | 91.2% | 98.3% | | | 93.8% | | 98.2% | | |

- 1 Other Underwriting comprises excess of loss reinsurances ceded to BIG by the Group's SBUs, Life Syndicate 389 in run-off (final year of account 2003) and historic participations on externally managed syndicates in run-off (final year of account 2000)
- 2 Including return on derivative contract.

| Six months ended 30 June 2008 (restated) £'million | Brit Global Markets | Brit Reinsurance | Brit UK | Other underwriting ⁽¹⁾ | Intragroup Eliminations | Total Underwriting excluding the effect of foreign exchange on non-monetary items | Effect of foreign exchange on non-monetary items | Total Underwriting after the effect of foreign exchange on non-monetary items | Corporate | Total |
|----------------------------------------------------------|---------------------------|---------------------|---------------|--------------------------------------|----------------------------|--------------------------------------------------------------------------------------------------------|--------------------------------------------------------------|----------------------------------------------------------------------------------------------------|-----------|-------------|
| Gross Written Premiums | 404.5 | 182.5 | 167.0 | 12.2 | (11.4) | 754.8 | – | 754.8 | – | 754.8 |
| Net written premiums | 300.3 | 144.7 | 120.8 | 11.9 | – | 577.7 | – | 577.7 | – | 577.7 |
| Net Earned Premiums | 323.0 | 107.0 | 116.0 | 2.8 | – | 548.8 | (4.3) | 544.5 | – | 544.5 |
| Investment Return ⁽²⁾ | 16.1 | 6.4 | 16.0 | 0.8 | – | 39.3 | – | 39.3 | (45.7) | (6.4) |
| Net Foreign Exchange Gains | – | – | – | – | – | – | 1.1 | 1.1 | 10.7 | 11.8 |
| Other Income | – | – | – | 0.9 | – | 0.9 | – | 0.9 | 4.5 | 5.4 |
| Total Revenue | 339.1 | 113.4 | 132.0 | 4.5 | – | 589.0 | (3.2) | 585.8 | (30.5) | 555.3 |
| Net Claims Incurred | (166.2) | (53.3) | (81.2) | (2.1) | – | (302.8) | – | (302.8) | – | (302.8) |
| Commission Costs | (93.3) | (18.6) | (19.5) | – | – | (131.4) | 0.8 | (130.6) | – | (130.6) |
| Expenses | (25.5) | (8.1) | (19.0) | (0.7) | – | (53.3) | – | (53.3) | (13.2) | (66.5) |
| Net Foreign Exchange Losses | – | – | – | – | – | – | – | – | – | – |
| Operating Profit | 54.1 | 33.4 | 12.3 | 1.7 | – | 101.5 | (2.4) | 99.1 | (43.7) | 55.4 |
| Finance Costs and Associates | | | | | | | | | | (5.5) |
| Profit Before Tax | | | | | | | | | | 49.9 |
| Claims Ratio | 51.4% | 49.8% | 70.0% | | | 55.2% | | 55.6% | | |
| Expense Ratio | 36.8% | 25.0% | 33.2% | | | 33.6% | | 33.8% | | |
| Combined Ratio | 88.2% | 74.8% | 103.2% | | | 88.8% | | 89.4% | | |

- 1 Other Underwriting comprises excess of loss reinsurances ceded to BIG by the Group's SBUs, Life Syndicate 389 in run-off (final year of account 2003) and historic participations on externally managed syndicates in run-off (final year of account 2000)
- 2 Including return on derivative contract.

10. Performance of the Strategic Business Units

In 2006 and 2007, investment return allocated to SBUs was first split between insurance return and the Corporate Centre and then actual return was reallocated between SBUs using opening net technical reserves as a proxy for funds under management. During 2008, the Group changed the basis of investment return allocation to recognise the centralised decision making over investment strategy, risk appetite and investment decisions. For 2008 and subsequent years, the SBUs receive the risk-free rate on their average insurance funds with the over/under performance against this target taken through the Corporate Centre's performance. The effect of the revised allocation in 2008 was to recognise a positive investment return in SBUs and a loss on corporate investing activity. On the adoption of International Financial Reporting Standard 8 'Operating Segments' (IFRS 8) in the six months ended 30 June 2009, foreign exchange differences on non-monetary items were 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 segmental information for the six months ended 30 June 2008 and the year ended 31 December 2008 has been restated to reflect the adoption of IFRS 8.

The performance of each SBU, BIG, the Corporate Centre and an analysis of the Group's profit and loss on associated undertakings, is set out below.

10.1 Brit Global Markets

Brit Global Markets writes the following lines of insurance: Accident & Health, Aerospace, Financial & Professional, Marine and Property. This SBU provides a range of insurance products for SME and large corporate clients worldwide. In 2008, 31.7 per cent. of the Brit Global Markets business was underwritten by BIL and 68.3 per cent. by the Syndicate. The business mix was short tail 56.2 per cent., medium tail 10.7 per cent. and long tail 33.1 per cent. Brit Global Markets has benefited in 2008 and 2009 from underwriting decisions taken in 2006 to significantly reduce exposure to Gulf of Mexico windstorm exposed offshore energy and property. In addition, the SBU continued to reduce its financial institutions and US D&O business, thereby reducing exposure to portfolios that may be impacted by the current financial turmoil. Nonetheless, in 2008, the combination of falls in premium rates, increased hurricane activity and reduced investment income has significantly reduced profitability during the year.

Following the extreme financial conditions of 2008 and the tough underwriting stance taken by Brit Global Markets the platform had been created to capitalise upon the opportunities presenting themselves in the first six months of 2009, including improved rates and terms and wider distribution and geographical opportunities.

The following tables present gross written premiums by line of business and summarises certain financial information for Brit Global Markets for the periods indicated.

| | 6 months ended | | Year ended 31 December | | |
|-------------------------------------|----------------|--------------------|------------------------|-------|-------|
| | 30 June | | | | |
| Gross written premiums £'million | 2009 | 2008 (restated) | 2008 (restated) | 2007 | 2006 |
| Accident & Health | 49.3 | 80.6 | 144.2 | 143.7 | 140.2 |
| Aerospace | 17.7 | 13.8 | 20.3 | 16.5 | 23.9 |
| Financial & Professional | 153.3 | 145.1 | 308.3 | 276.5 | 267.8 |
| Marine | 138.6 | 99.5 | 183.5 | 165.9 | 143.4 |
| Property | 110.4 | 65.5 | 125.0 | 146.6 | 131.6 |
| Total | 469.3 | 404.5 | 781.3 | 749.2 | 706.9 |
| Net earned premium | 421.3 | 323.0 | 665.9 | 630.4 | 557.5 |
| Underwriting profit/(loss) | 28.7 | 36.7 | 20.7 | 67.8 | 81.2 |
| Profit before tax | 32.0 | 54.1 | 57.6 | 123.7 | 127.5 |

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| | 6 months ended 30 June | | Year ended 31 December | | |
|---------------------------|---------------------------|--------------------|------------------------|------|------|
| | 2009 | 2008 (restated) | 2008 (restated) | 2007 | 2006 |
| Claims ratio (%) | 60.3 | 51.4 | 61.2 | 54.4 | 46.5 |
| Expense Ratio (%) | 32.6 | 36.8 | 35.2 | 34.9 | 38.9 |
| Combined Ratio (%) | 92.9 | 88.2 | 96.4 | 89.3 | 85.4 |
| GWP growth (%) | 16.0 | 1.3 | 4.3 | 6.0 | 26.6 |
| Underlying GWP growth (%) | (5.0) | n/a | (3.1) | 11.7 | n/a |
| Retention ratio (%) | n/a | n/a | 76.6 | 80.1 | n/a |
| Business led (%) | n/a | n/a | 57.7 | 58.8 | n/a |

| Net reserve releases/(strengthening) by class of business £'million | Year ended 31 December | | |
|------------------------------------------------------------------------|------------------------|-------------|-------------|
| | 2008 | 2007 | 2006 |
| Accident & Health | (10.7) | (4.6) | 0.3 |
| Aerospace | 17.8 | 12.8 | 9.0 |
| Financial & Professional | 4.2 | 11.2 | 17.2 |
| Marine | 5.6 | 4.0 | (15.9) |
| Property | 5.1 | 6.1 | 6.4 |
| | <u>22.0</u> | <u>29.5</u> | <u>17.0</u> |

The overall net reserve releases for Brit Global Markets during the six months ended 30 June 2009 was £18.1 million (six months ended 30 June 2008: £10.0 million).

Premium Rating Index (Year 2000 as base year)

The premium rating table set out below compares the underwriters' estimate of the rating strength since 2000 (or when the Group started to write that class of business, if later) based upon an initial index of 100. An increase in the index from 100 (to, for example, 150) indicates that rates have increased by 50 per cent. compared to the prior period.

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 the Group has the best year-on-year data.

| | 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 | 170 | 169 | 164 | 152 | 149 | 142 | 131 | 100 | — |
| Aerospace | 203 | 215 | 254 | 268 | 260 | 237 | 202 | 158 | 100 |
| Financial & Professional | 266 | 268 | 276 | 280 | 280 | 265 | 207 | 122 | 100 |
| Marine | 177 | 181 | 182 | 171 | 160 | 156 | 144 | 112 | 100 |
| Property | 156 | 168 | 171 | 151 | 152 | 155 | 150 | 112 | 100 |

During the six months ended 30 June 2009, premium rate increases for Brit Global Markets totalled 4.4 per cent.

(a) Six months ended 30 June 2009

In the six months ended 30 June 2009, Brit Global Markets returned a profit before tax of £32.0 million (30 June 2008: £54.1 million), a decrease of 40.9 per cent., and a combined ratio of 92.9 per cent. (30 June 2008: 88.2 per cent.).

This was a result of an increase in the claims ratio to 60.3 per cent. compared with 51.4 per cent. in the first six months of 2008. The prior period benefited from an especially benign claims environment whilst the claims ratio in the first six months of 2009 showed an improvement on the 2008 full year claims ratio of 61.2 per cent. Prior year reserve releases totalled £18.1 million in aggregate (30 June 2008: £10.0 million).

Gross written premiums in the six months ended 30 June 2009 were £469.3 million (30 June 2008: £404.5 million). When adjusted for currency fluctuations, gross written premiums fell by 5.0 per cent. This resulted from realignment of the portfolio to reduce the level of Medical Expenses, Extended Warranty, FI and US casualty business offset by improved rates and new business opportunities in Marine and Property.

In 2009 premium rate improvements across the majority of Global Markets divisions were recorded. Of particular note rates increased by 20 per cent. across the FI classes, 17 per cent. in Downstream Energy, 15 per cent. in Upstream Energy, 10 per cent. in Marine Liability, 7 per cent. in Marine Hull and 17 per cent. for Open Market Property.

The SBU reaffirmed its strategy to focus on active portfolio management, distribution and operational performance. To this end the following was achieved in the period:

- the appointment of a Portfolio Director for long tail and the recruitment and a Portfolio Director for short tail established a team fully positioned to manage execution of the SBU's strategy and invest in future evolution, whilst enforcing and maintaining underwriting discipline.
- the underwriting team was strengthened with the recruitment of four new underwriters in Personal Accident, Marine Hull, US Package and International Property.
- the wholly-owned Chicago based MGA, BISI, began writing business on 1 May 2009. BISI provides the opportunity to strengthen local US relationships and deliver improved service to the Group's preferred target market.
- the SBU continued to support and strengthen relationships with key intermediaries and coverholders in order to improve its spread of reach and operational effectiveness.
- the SBU continued to build a delegated underwriting centre of excellence, in order to create a market leading platform for the management, administration and control of the SBU's delegated underwriting business.
- operationally significant gains were achieved in support systems including technical pricing tools, electronic peer review and underwriter dashboard resulting in improved management information, increased efficiency and ultimately better decision making.

(b) *Year ended 31 December 2008*

In 2008, Brit Global Markets returned a profit before tax of £57.6 million (2007: £123.7 million), a decrease of 53.4 per cent., and a combined ratio of 96.4 per cent. (2007: 89.3 per cent.). Profitability levels for this SBU moved down sharply due to unfavourable market conditions and increased claims activity.

Gross written premiums in 2008 was £781.3 million (2007: £749.2 million). When adjusted for currency fluctuations (also referred to as an "underlying" value), gross written premiums fell by 3.1 per cent. The reduction in gross written premiums in 2008 reflected a reduced retention of risks impacted by current economic conditions within the Financial & Professional class and competition and pricing impacting the Property portfolio. Net earned premiums of £622.7 million were 1.2 per cent. lower than 2007 (£630.4 million) and this decline was primarily the result of the higher costs of outwards reinsurance.

In 2008, the SBU undertook the following actions to develop the business:

- continued its growth of the profitable Marine hull portfolio from a gross written premiums of £39.4 million in 2007 to £60.5 million in 2008, diversifying the distribution channels in the process.
- increased its worldwide property portfolio (excluding the US) from a gross written premiums of £16.6 million in the 2007 underwriting year to £23.8 million, an increase of £7.2 million or 43.4 per cent.
- created BISI. The US is Brit Global Markets' largest operating territory and BISI allows the SBU to provide a local service to clients, establishing a physical presence in the US.

- established the delegated underwriting management committee to oversee the operational efficiency and control of delegated underwriting arrangements.
- enhanced the tools used to manage and control aggregate exposures across the Property and Marine portfolios.

and, in response to the current market turmoil, the SBU continued the scaling back of:

- UK mortgage indemnity business, from a gross written premiums of £14.5 million in 2006 to £2.6 million in 2008.
- financial institutions business, with the gross written premiums for the SBU's financial institutions business for the 2008 underwriting year totalling £73.6 million, of which £25.8 million was US based, down from £87.4 million and £37.6 million, respectively, in the 2007 underwriting year. For the 2009 underwriting year, budgeted gross written premiums is £61.0 million, with only £8.0 million of this being from US based liability business.
- commercial US D&O business, where gross written premiums of £10.3 million in the 2007 underwriting year reduced to £9.6 million in the 2008 underwriting year and in 2009 this book will be reduced further if rates do not rise considerably in line with SBU underwriting requirements.

In the first half of 2008 competition and pricing impacted many areas of the SBU's portfolios. In addition, due to uncertainty surrounding economic conditions, the Group focused its attention on reducing the levels of business in targeted areas of the portfolios as described above. In the latter half of 2008, following the hurricane season and developments relating to economic conditions, the rating environment began to show signs of improvement.

The level of claims activity, in terms of both frequency and severity, increased compared with 2007 and the claims ratio increased from 54.4 per cent. in 2007 to 61.2 per cent. in 2008. Hurricanes Gustav and Ike added 4.2 per cent. to the 2008 claims ratio.

Prior year reserve releases totalled £22.0 million in aggregate (2007: £29.5 million), with the majority emanating from the Aerospace account. These releases reflect the Group's reserving philosophy and the favourable prior year development in aggregate of this SBU.

(c) *Year ended 31 December 2007*

In 2007, Brit Global Markets returned a profit before tax of £123.7 million (2006: £127.5 million) with a combined ratio of 89.3 per cent. (2006: 85.4 per cent.). The SBU continued to write a broad spread of risks by class and geography, rejecting business that failed to meet its profitability criteria.

Gross written premiums in 2007 were £749.2 million (2006: £706.9 million), an underlying increase of 11.7 per cent. This increase reflected Brit Global Markets' focus on growing its business. Net earned premiums were £630.4 million (2006: £557.5 million), an increase of 13.1 per cent. Premium rates, which previously had been at a historical high, started to soften during 2007. However this did not materially impact Brit Global Markets' profitability due to the increased level of business written, and the earning of premiums which were written at higher premium rates prevailing in 2006.

Claims activity returned to historically normal levels (after the benign level in 2006), with the claims ratio increasing from 46.5 per cent. in 2006 to 54.4 per cent. in 2007. Specific events affecting this ratio included sub-prime related claims (£44.6 million in losses net of reinsurance), which impacted Brit Global Markets' Financial & Professional class, and California wildfires (£2.8 million in losses net of reinsurance), which primarily impacted its Property class.

Prior year reserve releases in aggregate increased by 73.5 per cent. to £29.5 million (2006: £17.0 million), the majority emanating from Aerospace and Financial & Professional classes. These releases reflect the Group's reserving philosophy and the favourable prior year development in aggregate of this SBU.

(d) Year ended 31 December 2006

In 2006, Brit Global Markets returned a profit before tax of £127.5 million (2005: £44.2 million) with a combined ratio of 85.4 per cent. (2005: 102.0 per cent.).

Gross written premiums in 2006 were £706.9 million (2005: £558.6 million), an increase of 26.6 per cent., in line with the Group's growth strategy for this SBU. Net earned premiums were £557.5 million (2005: £412.1 million), an increase of 35.3 per cent. During 2006, premium rates were at a historical high industry-wide, which influenced the increase over 2005.

The claims ratio was 46.5 per cent. (2005: 63.8 per cent.), reflecting primarily an unusually low level of catastrophic loss events during the course of the year. The decrease was influenced by the level of hurricane activity in 2005 and the unusually benign year in 2006.

Prior year reserve releases in 2006 (net of increased provisions in respect of the 2005 hurricanes, as explained above) were £17.0 million with the majority emanating from the Financial & Professional account.

10.2 Brit Reinsurance

Brit Reinsurance writes the following lines of reinsurance: Property Treaty, Casualty Treaty, Marine XL, Aviation XL and other reinsurance. In 2008, 47.6 per cent. of Brit Reinsurance business was underwritten by BIL with the remaining 52.4 per cent. underwritten by the Syndicate and the business mix was short tail 52.9 per cent., medium tail 16.7 per cent. and long tail 30.4 per cent. In 2008, 82.8 per cent. of the business was successfully retained.

Brit Reinsurance writes both *pro rata* and excess of loss insurance business which originates in the worldwide markets. These markets offer a global spread and distribution of the product range, enabling Brit Reinsurance to manage its risk profile by building a diverse book of business. Relationships are established with long-term buyers of reinsurance, providing access to customers requiring reinsurance risk transfer mechanisms. The business is 100 per cent. broker produced.

The SBU will continue to broaden Brit Reinsurance's influence beyond the London and Lloyd's markets through the development of the existing relationships within Europe and Australia. The SBU led on 33.9 per cent. of the gross written premiums in 2008. Given Brit Reinsurance's overall market share and size, the Directors believe this is a high proportion and reflects its level of expertise across the reinsurance segment.

The following table presents gross written premiums by line of business and summarises certain financial information for Brit Reinsurance for the periods indicated.

| | 6 months ended | | Year ended 31 December | | |
|----------------------------|----------------|--------------|------------------------|--------------|--------------|
| | 30 June | | | | |
| Gross written premiums | 2009 | 2008 | 2008 | 2007 | 2006 |
| £ million | | (restated) | (restated) | | |
| Property Treaty | 142.1 | 100.8 | 136.8 | 119.5 | 139.5 |
| Casualty Treaty | 101.2 | 61.1 | 82.6 | 85.1 | 95.5 |
| Marine XL | 15.8 | 12.1 | 17.8 | 9.1 | 9.4 |
| Aviation XL | 8.8 | 5.3 | 16.3 | 25.2 | 15.4 |
| Reinsurance Other | 9.5 | 3.2 | 7.2 | 0.5 | 1.1 |
| Total (£ million) | 277.4 | 182.5 | 260.7 | 239.4 | 260.9 |
| Net earned premium | 153.5 | 107.0 | 209.9 | 208.3 | 237.0 |
| Underwriting profit/(loss) | 12.4 | 25.7 | 13.9 | 35.4 | 50.3 |
| Profit/(loss) before tax | 13.8 | 33.4 | 30.8 | 61.0 | 76.5 |

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| | 6 months ended 30 June | | Year ended 31 December | | |
|---------------------------|---------------------------|--------------------|------------------------|-------|--------|
| | 2009 | 2008 (restated) | 2008 (restated) | 2007 | 2006 |
| Claims ratio (%) | 69.1 | 49.8 | 65.3 | 56.4 | 50.0 |
| Expense ratio (%) | 22.1 | 25.0 | 26.4 | 26.6 | 28.8 |
| Combined ratio (%) | 91.2 | 74.8 | 91.7 | 83.0 | 78.8 |
| GWP growth (%) | 52.0 | 2.0 | 8.9 | (8.2) | (20.7) |
| Underlying GWP growth (%) | 28.2 | n/a | 1.4 | (2.9) | n/a |
| Retention ratio (%) | n/a | n/a | 82.8 | 87.4 | n/a |
| Business led (%) | n/a | n/a | 33.9 | 29.6 | n/a |

| | Year ended 31 December | | |
|--------------------------------------------------------------------------------|------------------------|------------|---------------|
| | 2008 | 2007 | 2006 |
| <i>Net reserve releases/(strengthening) by class of business £'million</i> | | | |
| Property Treaty | 7.0 | 2.7 | 3.7 |
| Casualty Treaty | 19.5 | 8.9 | 1.3 |
| Marine XL | (3.7) | (0.4) | (3.9) |
| Aviation XL | (15.2) | (12.3) | 2.0 |
| Reinsurance Other | 12.5 | 5.3 | (15.1) |
| | <u>20.1</u> | <u>4.2</u> | <u>(12.0)</u> |

The overall net reserve strengthening for Brit Reinsurance during the six months ended 30 June 2009 was £11.7 million (30 June 2008: strengthening of £6.0 million).

Premium Rating Index (Year 2000 as base year)

The premium rating table set out below compares the underwriters' estimate of the rating strength since 2000 (or when the Group started to write that class of business, if later) based upon an initial index of 100. An increase in the index from 100 (to, for example, 150) indicates that rates have increased by 50 per cent. compared to the prior period.

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 the Group has the best year-on-year data.

| | 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 | 198 | 207 | 198 | 155 | 153 | 154 | 149 | 110 | 100 |
| Casualty Treaty | 226 | 230 | 234 | 228 | 230 | 215 | 182 | 115 | 100 |
| Marine XL | 279 | 288 | 286 | 193 | 183 | 179 | 171 | 115 | 100 |
| Aviation XL | 130 | 125 | 125 | 128 | 139 | 159 | 167 | 100 | 100 |

During the six months ended 30 June 2009, premium rate increase for Brit Reinsurance totalled 8.3 per cent.

(a) *Six months ended 30 June 2009*

In the six months ended 30 June 2009, Brit Reinsurance returned a profit before tax of £13.8 million (30 June 2008: £33.4 million), with a combined ratio of 91.2 per cent. (30 June 2008: 74.8 per cent.). This decline reflected the impact of several major claim events in the period, namely the Air France claim (£12m net of reinstatements) and the Australian floods and wildfires which affected the Property Treaty International account.

Gross written premiums in the period were £277.4 million (30 June 2008: £182.5 million), a 28.2 per cent. increase at constant exchange rates. The growth in the period included net movements on prior year premiums of £29.0m as a consequence of conservative original actuarial ultimates and projected reinstatement premiums from recent claims activity. Net earned premiums were £153.5 million (30 June 2008: £107.0 million), a increase of 43.5 per cent.

Rates increased across all classes of business written within the SBU reflecting the pricing improvements seen in the reinsurance segment following the 2008 hurricanes.

Back year reserves were strengthened by £11.7 million in the period (30 June 2008: £6.0 million strengthening). This strengthening primarily related to claims attaching to underestimated premium from previous periods.

Key developments for Brit Reinsurance during the six months ended 30 June 2008 were:

- the Reinsurance SBU continued to manage its portfolio of accounts responsibly. Increased pricing levels seen on catastrophe – exposed portfolios led to the Group increase its Sterling risk appetite for natural perils scenarios. The teams remained alert to new opportunities – this led to new business written in the period accounting for 11.6 per cent. of the total income.
- the underwriting skill displayed by the SBU was recognised with the Casualty Treaty team being awarded ‘Reinsurance Company of the Year Underwriting Casualty’ by Reactions Magazine.
- in June the SBU successfully established a representative office in Japan, the first element of the SBU’s strategy roll-out, as it looked to develop its market presence within the global reinsurance segment. This initiative will make the Group a more meaningful player in this specific arena and allow it to continue its responsible growth in international revenues.
- in addition, the team concluded its first catastrophe swap contract, swapping US\$50m of US wind exposure for US\$50m of Japanese wind exposure, demonstrating its proactive approach to aggregate management.

(b) *Year ended 31 December 2008*

In 2008, Brit Reinsurance returned a profit before tax of £30.8 million (2007: £61.0 million), with a combined ratio of 91.7 per cent. (2007: 83.0 per cent.). This 49.5 per cent. decline from 2007 reflected a combination of less favourable market conditions, as pricing softened from 2007 rates, and a heightened loss experience.

Gross written premiums in 2008 were £260.7 million (2007: £239.4 million), an underlying increase of 1.4 per cent. Net earned premiums were £209.9 million (2007: £208.3 million). Pricing came under increased pressure throughout 2008 in the majority of classes. The underlying gross written premiums growth of 1.4 per cent. includes Aviation XL business from which the SBU withdrew in November 2008. The underlying growth figure excluding Aviation XL was 6.2 per cent.

Key developments for Brit Reinsurance during 2008 were:

- continued development of the relationship with local representatives in Europe and Australia, promoting the growth of the international portfolio with particular emphasis on the Property Treaty account.
- the development of the Marine XL international portfolio, with a 95.6 per cent. growth in GWP seen in 2008 across the class, bringing greater balance and reduced volatility to the account.
- improved modelling, aggregate and management information tools to better assist underwriting decision-making.
- close review of the potential recessionary exposures within the Casualty Treaty book and strengthening of the terms and conditions.
- the cancellation of the Aviation XL coverholder agreement with Augsburg Re which led to the non-renewal of approximately £6.5 million of business in late 2008. Run off exposures are expected to exist throughout 2009.

The Directors believe that the reshaping of the account in 2006 has served the SBU well, and that the 2008 result reflects the improved balance of the portfolio, leaving the underwriting team in a strong position to capitalise on the more favourable pricing environment anticipated over the coming year and beyond.

Claims activity was notable in terms of both frequency and severity with the claims ratio increasing from 56.4 per cent. to 65.3 per cent. This reflected claims arising from a number of events during the course of the year, including Hurricanes Gustav and Ike and various property risk XL losses.

Prior year reserve releases were £20.1 million in aggregate (2007: £4.2 million). The largest contributor to these releases was the Casualty Treaty account offset by adverse claims development in Aviation XL. These releases reflect the Group's reserving philosophy and the favourable back year development in aggregate of this SBU.

(c) *Year ended 31 December 2007*

In 2007, Brit Reinsurance returned a profit before tax of £61.0 million (2006: £76.5 million) with a combined ratio of 83.0 per cent. (2006: 78.8 per cent.). The decline in operating profit resulted from a combination of increased pricing pressure and the return of claims activity to historical levels.

Gross written premiums in 2007 were £239.4 million (2006: £260.9 million), an underlying decrease of 2.9 per cent. Net earned premiums were £208.3 million (2006: £237.0 million), a reduction of 12.1 per cent. This decrease was the result of increased pricing pressure which resulted in efforts from a number of monoline reinsurers to diversify their existing portfolios and established reinsurers increasing their market share.

Claim activity returned to more normal levels in 2007, with the claims ratio increasing from 50.0 per cent. to 56.4 per cent. The SBU experienced claims arising primarily from a number of events including sub-prime (£17.9 million net of reinsurance), TAM Air (£8.0 million net of reinsurance), UK floods (£5.0 million net of reinsurance) and California wildfires (£3.4 million net of reinsurance).

Prior year reserve releases in aggregate totalled £4.2 million.

(d) *Year ended 31 December 2006*

In 2006, Brit Reinsurance returned a profit before tax of £76.5 million (2005: loss of £81.1 million) with a combined ratio of 78.8 per cent. (2005: 148.3 per cent.).

Gross written premiums in 2006 were £260.9 million (2005: £328.8 million), a decrease of 20.7 per cent. This was partly due to the level of reinstatement premium receivable in 2005 following the hurricane activity. Net earned premiums were £237.0 million (2005: £224.2 million), an increase of 5.7 per cent. In 2006 premium rates increased significantly for US-wind exposed catastrophe classes, such as Property Treaty and Marine XL.

The claims ratio was 50.0 per cent. (2005: 119.8 per cent.). This decrease was a reflection of benign claims activity in 2006 and the hurricane related claims in 2005.

Prior year reserves were strengthened by £12.0 million during 2006. This was primarily due to increased loss estimates for the 2005 hurricanes.

10.3 ***Brit UK***

Brit UK writes the following lines of insurance: Employers' and Public Liability, Professional Indemnity and D&O, Motor, and Property and Commercial Combined. The business operates in the UK marketplace through nine regional offices (including one in London) in disciplines such as underwriting, claims and distribution. Brit UK is focused on UK domiciled small and mid-market enterprises with a turnover of up to £300 million. This SBU has specialist teams focused on identified segments in personal lines, including mid-net worth household and private motor insurance.

The business mix in 2008 was short tail 32.1 per cent., medium tail 25.4 per cent. and long tail 42.5 per cent. Brit UK writes 87.5 per cent. of its business through BIL with the remainder written through the Syndicate (12.5 per cent.).

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The following table presents gross written premiums earned by line of business and summarises certain financial information for Brit UK for the periods indicated.

| <i>Gross written premiums £'million</i> | <i>6 months ended 30 June</i> | | <i>Year ended 31 December</i> | | |
|------------------------------------------------|-----------------------------------|----------------------------|-------------------------------|--------------|--------------|
| | <i>2009</i> | <i>2008 (restated)</i> | <i>2008 (restated)</i> | <i>2007</i> | <i>2006</i> |
| Employers'/Public Liability | 60.8 | 54.0 | 103.5 | 89.8 | 91.4 |
| Professional Indemnity/D&O | 21.2 | 8.0 | 34.0 | 36.3 | 36.7 |
| Motor | 60.8 | 43.4 | 87.3 | 63.8 | 91.3 |
| Property and Commercial Combined (Packages) | 92.7 | 61.6 | 125.8 | 84.1 | 60.5 |
| Total | 235.5 | 167.0 | 350.6 | 274.0 | 279.9 |
| Net earned premium | 160.4 | 116.0 | 259.9 | 262.8 | 251.2 |
| Underwriting (loss)/profit | 2.5 | (3.9) | 1.5 | (24.3) | 7.7 |
| Profit before tax | 4.3 | 12.3 | 35.7 | 15.8 | 40.4 |

| | <i>6 months ended 30 June</i> | | <i>Year ended 31 December</i> | | |
|---------------------------|-----------------------------------|----------------------------|-------------------------------|-------------|-------------|
| | <i>2009</i> | <i>2008 (restated)</i> | <i>2008 (restated)</i> | <i>2007</i> | <i>2006</i> |
| Claims ratio (%) | 65.6 | 70.0 | 66.4 | 76.3 | 69.6 |
| Expense ratio (%) | 32.7 | 33.2 | 32.9 | 33.0 | 27.3 |
| Combined ratio (%) | 98.3 | 103.2 | 99.3 | 109.3 | 96.9 |
| GWP growth (%) | 41.0 | 12.8 | 28.0 | (2.1) | (12.0) |
| Underlying GWP growth (%) | 38.7 | n/a | 26.5 | (1.9) | n/a |
| Retention ratio (%) | n/a | n/a | 78.0 | 72.3 | n/a |
| Business led (%) | n/a | n/a | 91.2 | 87.1 | n/a |

| <i>Net reserve releases/(strengthening) by class of business £'million</i> | <i>Year ended 31 December</i> | | |
|--------------------------------------------------------------------------------|-------------------------------|-------------|-------------|
| | <i>2008</i> | <i>2007</i> | <i>2006</i> |
| Employers'/Public Liability | 15.0 | 6.9 | 7.7 |
| Professional Indemnity/D&O | 11.3 | 11.7 | 6.5 |
| Motor | 1.7 | 1.7 | 1.2 |
| Property and Commercial Combined (Package) | 10.6 | 4.9 | 16.6 |
| | 38.6 | 25.2 | 32.0 |

The overall net reserve releases for Brit UK during the six months ended 30 June 2009 was £12.1 million (30 June 2008: £18.2 million)

Premium Rating Index (Year 2000 as base year)

The premium rating table set out below compares the underwriters' estimate of the rating strength since 2000 (or when the Group started to write that class of business, if later) based upon an initial index of 100. An increase in the index from 100 (to, for example, 150) indicates that rates have increased by 50 per cent. compared to the prior period.

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 the Group has the best year-on-year data.

| | <i>Full year 2008</i> | <i>Full year 2007</i> | <i>Full year 2006</i> | <i>Full year 2005</i> | <i>Full year 2004</i> | <i>Full year 2003</i> | <i>Full year 2002</i> | <i>Full year 2001</i> | <i>Full year 2000</i> |
|-----------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|
| Employers'/Public Liability | 206 | 217 | 237 | 257 | 284 | 286 | 200 | 100 | – |
| Professional Indemnity/D&O | 105 | 111 | 118 | 130 | 132 | 130 | 100 | – | – |
| Motor | 108 | 101 | 104 | 111 | 122 | 120 | 115 | 108 | 100 |
| Property | 121 | 122 | 125 | 130 | 131 | 132 | 123 | 104 | 100 |

During the six months ended 30 June 2009, premium rate increases for Brit UK totalled 3.4 per cent.

(a) *Six months ended 30 June 2009*

In the six months ended 30 June 2009, Brit UK returned a profit before tax of £4.3 million (30 June 2008: £12.3 million). This reduction was primarily due to reduced investment returns allocated to this SBU (30 June 2009: £1.8 million; 30 June 2008: £16.2 million).

Brit UK's combined ratio for the period was 98.3 per cent. (30 June 2008: 103.2 per cent.), driven by an improvement in both the claims and expense ratios. This improvement reflected investment in people, product development and infrastructure in recent years.

Gross written premiums were £235.5 million (30 June 2008: £167.0 million), an increase of 38.7 per cent. at constant exchange rates. Growth included favourable development of premiums written in previous years arising from prudent estimation of premium volumes on new binding authorities. Adjusted for these movements the growth rate was 22 per cent. This adjusted growth reflected an increase in business written through regional offices and in small commercial and niche personal lines business resulting from new relationships entered into during the last 12 months. Premiums written through regional offices represented 27 per cent. of Brit UK (30 June 2008: 22 per cent.).

Rates increased across all UK classes except Employers/Public Liability which showed a small reduction. The growth in the Employers/Public Liability account in 2009 related largely to the micro end of the market written through electronic trading. At the same time the Specialist Liability account written in London reduced its exposure.

Net earned premiums in the period were £160.4 million (30 June 2008: £116.0 million) reflecting increased levels of business written and lower proportional reinsurance expenditure.

Net reserve movement from prior years remained positive at £12.1 million in the first six months of 2009 (30 June 2008: £18.2 million).

The UK continued to execute its strategy and build upon the significant progress that was made during 2008. The book continued to both grow and diversify, notably with increased momentum in its well established regional network. In micro-commercial business which is traded electronically, revenues grew to £22.5m from £11.1m at 30 June 2008, representing close to 10 per cent. of overall gross written premiums.

Continued good progress was recognised at the British Insurance Awards where Brit UK won 'Underwriter of the Year' for 'Brit Lite'. Brit UK was also a finalist in two further categories – 'Customer Care' and 'Young Achiever of the Year'.

The UK SBU continued to see attractive new business opportunities as evidenced by a new relationship with Thistle Underwriters, a newly established Managing General Underwriter owned by Jardine Lloyd Thompson.

UK headcount reduced to 152 (30 June 2008: 163) with GWP per head for the six months to 30 June increasing by £0.5 million to £1.5 million.

(b) *Year ended 31 December 2008*

In 2008, Brit UK returned a profit before tax of £35.7 million (2007: £15.8 million), with a combined ratio of 99.3 per cent. (2007: 109.3 per cent.). Operating profit in this SBU increased by 125.9 per cent. over 2007 levels.

Gross written premiums were £350.6 million (2007: £274.0 million), an underlying increase of 26.5 per cent. The increase in gross written premiums was largely driven by growth in premiums written through regional offices, e-traded business and personal lines.

The SBU began to capitalise on the investment in people, processes and infrastructure with regions outside London growing by 45 per cent. and now representing 25 per cent. of Brit UK's total revenue (2007: 20 per cent.). At the same time, Brit UK's focus on electronically traded personal lines and small commercial lines business has had strong growth. Service delivery has been recognised in independent broker surveys whilst Brit UK's product and proposition development has seen further progress in both underwriting and claims including the launch of a new rehabilitation offering.

Brit UK has achieved rating increases on the commercial motor, personal lines and household books but has seen rates continue to fall in other classes, albeit at a slower rate than during 2007. Despite the drop in rates, Brit UK has been determined not to chase top line growth where prices have been inadequate. This was evidenced by premium growth skewed towards those areas where rates have held up, such as personal lines and micro-commercial business, offset by small reductions in the premiums written in the London liability portfolio and professional indemnity/D&O portfolio.

Net earned premium decreased by 1.1 per cent. despite the substantial growth in GWP, reflecting an increase in reinsurance spend of £39.7 million and the timing of growth in gross written premiums which has occurred primarily during the second half of 2008. The increased reinsurance spend included a new quota share reinsurance contract: a 40 per cent. quota share of the motor portfolio (£28.2 million).

Compared to 2007, the £19.9 million increase in profit before tax is comprised of £26.2 million in improvements to underwriting profit partly offset by a £6.3 million reduction in investment income. The improved underwriting profit reflects the absence of any significant weather related events (2007: UK floods £9.2 million net of reinsurance), and what the Directors believe to be a disciplined approach to underwriting, where decisions were made to limit business where an adequate rate could not be secured and to move into those classes where rates have been hardening. It also reflects prior year reserves of £38.6 million (2007: £25.2 million). The combined ratio of 99.3 per cent. is favourable to 2007 by 10.0 per cent. and is driven by the 9.9 per cent. improvement in claims ratio due to the prior year reserve releases and the absence of losses arising from UK floods. Expenses were reduced by £0.6 million; the expense ratio improved by 0.1 per cent. from 33.0 per cent. in 2007 to 32.9 per cent. in 2008.

Prior year reserve releases totalled £38.6 million in aggregate (2007: £25.2 million). All classes of business contributed to this release.

(c) *Year ended 31 December 2007*

In 2007, Brit UK returned a profit before tax of £15.8 million (2006: £40.4 million) with a combined ratio of 109.3 per cent. (2006: 96.9 per cent.). This 60.9 per cent. decrease in operating profit was primarily a product of increased levels of claims and expenses.

Gross written premiums were £274.0 million in 2007, reflecting an underlying decrease of 1.9 per cent. from £279.9 million in 2006. This decrease was primarily due to market conditions, which were extremely competitive with new entrants and established players continuing to reduce rates and reassess risk appetite. Net earned premiums were £262.8 million (2006: £251.2 million), an increase of 4.6 per cent. Brit UK's focus was on maintaining underwriting discipline and not chasing top line growth at inadequate prices.

The claims ratio 76.3 per cent. (2006: 69.6 per cent.) included the impact of the UK floods (£9.2 million net of reinsurance) offset by prior year releases of £25.2 million.

The increase in the expense ratio from 27.3 per cent. to 33.0 per cent. reflected investment in positioning Brit UK for the market upturn by investing in the SBU's regional infrastructure through an increase in headcount with recruitment of senior underwriting management.

Prior year reserve releases totalled £25.2 million (2006: £32.0 million). All classes of business contributed to this amount.

(d) *Year ended 31 December 2006*

In 2006, Brit UK returned a profit before tax of £40.4 million (2005: £112.3 million) with a combined ratio of 96.9 per cent. (2005: 78.4 per cent.).

Gross written premiums reduced from £317.9 million to £279.9 million as rates became increasingly competitive and as Brit UK maintained underwriting discipline. Net earned premiums were £251.2 million (2005: £302.6 million), a reduction of 17.0 per cent.

The claims ratio increased from 55.8 per cent. to 69.6 per cent. This reflected the more competitive underwriting conditions offset by prior year releases of £32.0 million.

The expense ratio increased from 22.6 per cent. to 27.3 per cent. reflecting increased investment in infrastructure (including staff, offices, brand, IT and broker relationships).

Prior year reserve releases totalled £32.0 million. All classes of business contributed to this amount.

10.4 Brit Insurance (Gibraltar) PCC Limited

In late 2007, a small team of senior underwriters was established in Gibraltar to develop the reinsurance business of a dedicated cell, Cell Re, in a newly formed and independently owned protected cell company, known as Brit Insurance (Gibraltar) PCC Limited ('BIG') (formerly Rockhampton Insurance PCC Limited). The cell is consolidated in the Group's financial statement as if it were a subsidiary.

In 2008 and 2009, as part of the Group's risk management framework, BIG wrote a selected part of the Group's outwards reinsurance programme. The cell participated in the Group's purchased excess of loss reinsurance programmes alongside external reinsurers and on equivalent terms. The table below summarises the excess of loss covers placed with BIG. These figures are included within the 'Other Underwriting' columns in Section 9.

| | 6 months ended 30 June | | Year ended 31 December | | |
|--------------------------------------------------|---------------------------|------|------------------------|------|------|
| | 2009 | 2008 | 2008 | 2007 | 2006 |
| Gross written premiums (£ million) | 14.4 | 11.4 | 12.9 | – | – |
| Premiums written, net of reinsurance (£ million) | 14.4 | 11.4 | 12.9 | – | – |
| Net earned premiums (£ million) | 7.2 | 2.3 | 8.3 | – | – |

In addition to these excess of loss reinsurance covers, the Group's SBUs also cede a whole account quota share to BIG (2009 year of account: 20 per cent.; 2008 year of account: 5 per cent.). The amount of gross written premiums ceded under this arrangement in the six months to 30 June 2009 was £87.7 million (30 June 2008: £15.0 million; 31 December 2008: £36.0m; 2007: £nil). These amounts are not included within the 'Other Underwriting' columns in Section 9, but are retained within the originating SBUs for reporting purposes.

The results of BIG have been adversely affected by losses incurred by the SBUs, in particular US Hurricanes Ike and Gustav. The expected impact on the Group's financial statements over the medium term will be to increase the Group's post tax earnings and directly enhance earnings per share. Subject to performance and market conditions, BIG anticipates its business and range of activities will expand over time.

10.5 Brit Corporate Centre

Brit Corporate Centre comprises those activities performed centrally on behalf of the Group that cannot be directly allocated to the SBUs. These include elements of investment income, other income (including foreign exchange gains) and expenses (including foreign exchange losses) associated with the operation of a listed entity. The table below sets out this financial information for the period.

| | Year ended 31 December 2008 | | | Year ended 31 December 2007 | | | Year ended 31 December 2006 | | |
|--------------------------------------------|-----------------------------|---------------|----------------|-----------------------------|---------------|----------------|-----------------------------|---------------|----------------|
| | Underwriting | Corporate | Group | Underwriting | Corporate | Group | Underwriting | Corporate | Group |
| <i>£'million</i> | | | | | | | | | |
| Investment return | 89.7 | (82.3) | 7.4 | 127.6 | 9.8 | 137.4 | 105.4 | 7.2 | 112.6 |
| Derivatives return | (7.4) | (11.7) | (19.1) | (5.7) | (4.0) | (9.7) | – | (2.2) | (2.2) |
| Total Investment return | 82.3 | (94.0) | (11.7) | 121.9 | 5.8 | 127.7 | 105.4 | 5.0 | 110.4 |
| Disposals ¹ | – | 4.5 | 4.5 | – | 7.1 | 7.1 | – | – | – |
| Other income | 1.0 | 0.1 | 1.1 | – | 2.8 | 2.8 | – | 0.8 | 0.8 |
| Foreign exchange gains | 84.1 | 39.9 | 124.0 | – | 18.6 | 18.6 | – | – | – |
| Fees, commission & other income | 85.1 | 44.5 | 129.6 | – | 28.5 | 28.5 | – | 0.8 | 0.8 |
| Foreign exchange losses | – | – | – | – | – | – | – | (25.4) | (25.4) |
| Total other operating expenses | (111.8) | (28.8) | (140.6) | (110.0) | (35.3) | (145.3) | (107.8) | (23.0) | (130.8) |
| Total expenses | (111.8) | (28.8) | (140.6) | (110.0) | (35.3) | (145.3) | (107.8) | (48.4) | (156.2) |

1 Disposals or part disposals of holdings in associated undertakings, subsidiary undertakings or assets held for sale

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| | 6 months ended 30 June 2009 | | | 6 months ended 30 June 2008 | | |
|---------------------------------------------|-----------------------------|---------------|----------------|-----------------------------|---------------|---------------|
| | Underwriting | Corporate | Group | Underwriting | Corporate | Group |
| <i>£'million</i> | | | | | | |
| Investment return | 6.5 | 52.7 | 59.2 | 42.1 | (40.0) | 2.1 |
| Derivatives return | (2.4) | 1.1 | (1.3) | (2.8) | (5.7) | (8.5) |
| Total investment return | 4.1 | 53.8 | 57.9 | 39.3 | (45.7) | (6.4) |
| Disposals ¹ | – | 4.2 | 4.2 | – | 4.5 | 4.5 |
| Other | – | 0.3 | 0.3 | 0.9 | – | 0.9 |
| Foreign exchange gains | – | – | – | 1.1 | 10.7 | 11.8 |
| Fees, commissions & other income | – | 4.5 | 4.5 | 2.0 | 15.2 | 17.2 |
| Foreign exchange losses | (40.1) | (20.9) | (61.0) | – | – | – |
| Total other operating expenses | (56.4) | (16.3) | (72.7) | (53.3) | (13.2) | (66.5) |
| Total expenses | (96.5) | (37.2) | (133.7) | (53.3) | (13.2) | (66.5) |

1 Disposals or part disposals of holdings in associated undertakings, subsidiary undertakings or assets held for sale

The table below shows the return on derivatives by type for the period.

| | 6 months ended 30 June | | Year ended 31 December | | |
|-------------------------------------------|---------------------------|--------------|------------------------|--------------|--------------|
| | 2009 | 2008 | 2008 | 2007 | 2006 |
| <i>£'million</i> | | | | | |
| Currency forwards | 1.5 | (5.7) | (11.9) | (5.0) | – |
| Currency options | – | – | – | – | (2.1) |
| Catastrophe swap contracts (Fremantle) | (2.5) | (2.8) | (7.4) | (5.7) | – |
| Other | (0.3) | – | 0.2 | 1.0 | (0.1) |
| | (1.3) | (8.5) | (19.1) | (9.7) | (2.2) |

As part of its foreign currency exposure management, the Group from time to time purchases foreign currency forwards and options and sells surplus foreign currency.

As set out above, the investment return of the Group is composed of investment return allocated to SBUs and Corporate Centre investment return. As noted above the SBU basis of investment return was altered in 2008, with under/over performance against the risk-free return taken through the Corporate Centre's performance.

The investment performance is discussed in paragraph 11 below.

Other income comprises foreign exchange gains and other income. Foreign exchange losses are accounted for as expenses. The foreign exchange gains and losses over the period are discussed in paragraph 12 below.

Expenses are analysed by expense type in paragraph 13 below.

10.6 Associated undertakings

Over the period, the Group has had an interest in a number of associated undertakings. Associated undertakings are entities over which the Group exerts significant influence but that are not subsidiary undertakings. The table below sets forth the Group's profit and loss from activities in connection with its associated undertakings.

| | 30 June | | | | 31 December | | | | | |
|------------------------------------|--------------|--------------|------------|------------|--------------|--------------|------------|------------|------------|------------|
| | 2009 | | 2008 | | 2008 | | 2007 | | 2006 | |
| £'million | Corporate | Group | Corporate | Group | Corporate | Group | Corporate | Group | Corporate | Group |
| Ebix | – | – | 0.4 | 0.4 | 0.4 | 0.4 | 1.6 | 1.6 | 1.1 | 1.1 |
| RI3K | (0.4) | (0.4) | (0.4) | (0.4) | (0.9) | (0.9) | (0.8) | (0.8) | – | – |
| Norton Re | – | – | – | – | – | – | 2.1 | 2.1 | – | – |
| Norton Re II | 0.4 | 0.4 | 1.0 | 1.0 | 0.8 | 0.8 | – | – | – | – |
| Xbridge | (0.5) | (0.5) | – | – | (0.4) | (0.4) | – | – | – | – |
| Verex | (0.5) | (0.5) | – | – | (0.4) | (0.4) | – | – | – | – |
| Profit (loss) on associates | (1.0) | (1.0) | 1.0 | 1.0 | (0.5) | (0.5) | 2.9 | 2.9 | 1.1 | 1.1 |

(a) Year ended 31 December 2006

On 4 January 2006 Ebix Inc. (“**Ebix**”), a US-registered and NASDAQ-listed provider of application software products to the insurance industry, became an associated undertaking. At 31 December 2006, the Group owned 33.6 per cent. of Ebix and Brit's share of its net assets was £4.0 million.

In December 2006, the Group subscribed for a 19.6 per cent. interest in Norton Holdings. Norton Holdings was the holding company of Norton Re, a Bermuda-based writer of catastrophe retrocession business. At 31 December 2006, the Group's share of Norton Holdings' net assets was £10.8 million. During 2006, the Group's share of profit after tax of associated undertakings was £1.1 million (2005: £0.1 million profit), arising exclusively from Ebix.

(b) Year ended 31 December 2007

RI3K, an unlisted company specialising in electronic infrastructure design and development, became an associated undertaking on 3 May 2007 (prior to this date it was a subsidiary undertaking). As at 31 December 2007, the Group owned 21.8 per cent. of RI3K.

Following the success of Norton Re, in December 2007 the Group invested US\$20 million for a 16.9 per cent. interest in a successor business, Norton II Holdings, the holding company of Norton Re II, a Bermuda-based writer of catastrophe retrocession business. At 31 December 2007, the Group's share of Norton II Holdings' net assets was £7.5 million.

In 2007, the Group made a profit of £1.9 million on the partial disposal of Ebix. At 31 December 2007 the Group owned 22.4 per cent. of Ebix.

As a result of these acquisitions and disposals of associated undertakings during 2007, the Group's share of profit after tax of associated undertakings was £2.9 million, which was comprised of Ebix (£1.6 million), Norton Holdings (£2.1 million) and RI3K (loss of £0.8 million). At 31 December 2007, the Group's share of net assets in these associated undertakings was: Ebix, £5.8 million; Norton Holdings, £9.9 million; and RI3K, deficit of £0.8 million. The Group also received £1.2 million in profit commission from Norton Re in 2007.

(c) Year ended 31 December 2008

Norton Re was placed into members' voluntary liquidation on 9 June 2008. The investment generated a total return of 27 per cent. for Norton shareholders.

In June 2008, the Group invested £7.2 million in Xbridge, an electronic insurance trading platform, giving the Group a 38.8 per cent. interest. In connection with the investment, the Group made available to Xbridge a loan facility of up to £6 million, of which £4.5 million was drawn down at 31 December 2008.

In 2008, the Group reduced its shareholding in Ebix further to below 20 per cent. and the remaining shares have been reclassified as financial investments. This disposal of shares resulted in a realised profit of £4.6m.

During 2008, the Group's share of loss after tax of associated undertakings was £0.5 million, which was comprised of Norton Re II (£0.8 million profit), RI3K (£0.9 million loss), Xbridge (£0.4 million loss), Ebix (£0.4 million profit) and Verex (£0.4 million loss). At 31 December 2008, the Group's share of the net assets in each of these associated undertakings consisted of: Norton Re II, £11.4 million; RI3K, £1.6 million deficit; Xbridge, £1.6 million deficit; and Verex, £0.4 million deficit. The Group also received £0.5 million in profit commission from Norton Re II in 2008.

(d) *Six months ended 30 June 2009*

The Group's share of the result of associated undertakings during the period was a loss of £1.0 million (30 June 2008: profit of £1.0 million). The loss from associates is partially offset by an additional £0.4 million of profit relating to Norton II prior to the members' voluntary liquidation. Norton Re II has so far generated an IRR of approximately 10 per cent. for investors, an excellent result considering the catastrophe activity during 2008, and follows an IRR of approximately 27 per cent. for Norton in 2007.

10.7 *Brit Capital Markets*

In 2006, the Group recognised the emerging changes in the insurance markets with the entry of new capital. In 2007, BIL entered a three-year cash collateralised catastrophe swap contract with Fremantle Limited (Fremantle), a Cayman Islands company. Under the terms of the contract, Fremantle will pay BIL up to US\$200 million in the event of four to nine qualifying natural catastrophes (called "trigger events"); US\$40 million for each of the fourth and fifth events (tranche C); and US\$30 million for each of the sixth to ninth events (tranches A and B). The first three trigger events are excluded. In 2007, Fremantle won Credit Magazine's structured credit award at the 2007 Credit of the Year Awards.

As a result of this experience, together with the previous experience with Norton Re and the issuance of subordinated debt in 2004 and 2005 the Group fully recognises the interaction and linkages between the capital and insurance markets. The Group is currently researching the potential opportunities created by the withdrawal of certain insurers and capital markets investors and the possibilities offered by these markets. To develop an understanding of these markets, the Group established Brit Capital Markets which undertook over 20 trades in 2008, principally the purchase of US\$51.0 million of Fremantle A/B tranche bonds for a consideration of US\$50.7 million. The principal at risk amounted to US\$51 million and at 31 December 2008 the investments had made a small profit. In addition, in 2008, the Group purchased 50 lots of an IFEX weather derivative for US\$190,750 and sold 10 lots during the year. Trading these products, together with the maintenance of a notional portfolio, has allowed the Group to understand the opportunities and risks associated with these markets.

During the six months ended 30 June 2009, Brit Capital Markets did not execute any trades. However, further evaluation of the opportunities to trade or issue products and the diversification benefits these may offer will continue throughout 2009.

11. Investments

Under the Group's investment governance framework, its investment oversight is allocated between the Board of Directors and the Investment Committee. The Investment Committee (chaired by the Finance Director and with a membership including the Group Chief Executive and the Director of Treasury and Investments) under authority from each of the regulated entity boards approves any investment plan and major investment decisions as part of the overall group plan, the risk framework and limits delegated to the investment managers and any major investment decisions exceeding pre-established limits. In addition, the Investment Committee reviews the investment performance and the benchmark given to the investment managers, as well as the significant changes to the Group's investment guidelines. The Investment Committee receives monthly reviews of investment performance that include a discussion of market outlook and tactics for the following period.

The Investment Committee approves the performance benchmarks given to the investment managers, as well as the risk framework and risk limits, within which investment managers may deviate from the established benchmarks.

Within established guidelines, investment managers discuss investment strategy and tactics, evaluate investment recommendations from the asset classes, and approve those recommendations which exceed the asset class investment decision limits, and review risk exposure and investment results.

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In addition, the Investment Committee considers any legal, accounting or regulatory implications of investment decisions.

11.1 *Investment portfolio*

The table below presents the Group's consolidated investment portfolio by category of investment based on market value, at the dates indicated.

| Asset Allocation | 6 months ended 30 June | | | | Year ended 31 December | | | | | |
|------------------------------|------------------------|--------------|----------------|--------------|------------------------|--------------|----------------|--------------|----------------|--------------|
| | 2009 | | 2008 | | 2008 | | 2007 | | 2006 | |
| | £'million | % | £'million | % | £'million | % | £'million | % | £'million | % |
| Equities | 100.3 | 3.1 | 167.2 | 6.0 | 117.4 | 3.6 | 218.7 | 8.0 | 226.4 | 9.1 |
| Fixed income | 1,959.3 | 60.6 | 1,855.0 | 66.6 | 2,162.5 | 66.9 | 1,493.6 | 54.7 | 1,825.7 | 73.0 |
| Specialised investment funds | 90.5 | 2.8 | 206.1 | 7.4 | 113.1 | 3.5 | 281.0 | 10.3 | 27.2 | 1.1 |
| | 2,150.1 | 66.5 | 2,228.3 | 80.0 | 2,393.0 | 74.0 | 1,993.3 | 73.0 | 2,079.3 | 83.2 |
| Cash and cash equivalents | 1,081.4 | 33.5 | 556.0 | 20.0 | 840.7 | 26.0 | 735.3 | 27.0 | 421.1 | 16.8 |
| Total | 3,231.5 | 100.0 | 2,784.3 | 100.0 | 3,233.7 | 100.0 | 2,728.6 | 100.0 | 2,500.4 | 100.0 |

At 31 December 2008 the Group's portfolio had over 45 per cent. of assets held in cash and assets maturing within one year. These assets consist mostly of overnight money market funds and certificates of deposit. The bond portfolio was 35 per cent. invested in government issued notes and 64 per cent. in certificates of deposit, commercial paper and corporate bonds. Over the course of 2008 the exposure to equity was reduced through net sales of 29.0 per cent. of the equities held at the end of 2007. Similarly, specialised investment funds were reduced, with net sales of 47.8 per cent. of the opening funds. The entire asset backed portfolio and the high yield portfolio were sold in the year.

At the beginning of 2008, the Group decided to undertake an extensive review of its investment portfolio with the support of a specialist investment advisor. This review was completed towards the end of 2008 and resulted in moves to reclassify the investment portfolio into three broad portfolios to aid greater clarity and to support investment decision making. These portfolios are:

- Reserve fund – policyholder funds matching insurance liabilities
- Treasury – working capital
- Diversified growth funds – shareholder funds

The reserve and treasury funds will be invested primarily in cash and bonds. The diversified growth fund will include most of the current equity and specialised investment funds.

During the six months ended 30 June 2009 the Group continued to maintain a cautious investment stance with the majority of investments in cash and short-dated high quality bonds.

At 30 June 2009 equities accounted for 3.1 per cent. of the investment portfolio, down from 3.6 per cent. at the end of the last year. This change was driven primarily by the sale of the Group's remaining shares in Ebix Inc, which realised a small gain. The remainder of the portfolio produced a small loss.

During the period the Group reduced the size of its corporate holdings through the sale of some financial sector holdings. Corporate bonds totalled £653.5 million on 30 June 2009, down from £851.6 million at 31 December 2008. In addition, the proportion of holdings in the financial sector was reduced slightly. Proceeds from the sale of corporates have been applied to government bond and cash holdings.

11.2 *Fixed-income securities*

The Group makes fixed-income investments in government, agency and corporate debt that meet the Group's liquidity and credit quality standards. To enhance total return, the Group is able to lengthen or shorten the duration for most of its fixed income accounts as needed.

At 30 June 2009, the fixed income portfolio totalled £1,959.3 million, or 60.6 per cent. of invested assets.

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The tables below present the composition of the Group's fixed-income securities portfolio classified by credit rating at 31 December 2006, 2007 and 2008 and at 30 June 2009.

| <i>Fixed income portfolio by credit rating</i> | 30 June 2009 | Year ended 31 December | | | | | |
|------------------------------------------------|----------------|------------------------|--------------|----------------|--------------|----------------|--------------|
| | | 2008 | | 2007 | | 2006 | |
| | £'million | £'million | % | £'million | % | £'million | % |
| Government | 887.0 | 753.9 | 34.8 | 470.9 | 31.6 | 571.4 | 31.3 |
| AAA | 86.3 | 168.4 | 7.8 | 249.3 | 16.7 | 293.7 | 16.1 |
| AA | 279.5 | 369.5 | 17.1 | 400.7 | 26.8 | 355.8 | 19.5 |
| A | 272.7 | 311.9 | 14.4 | 130.1 | 8.7 | 140.7 | 7.7 |
| P-1 | 418.8 | 557.0 | 25.8 | 219.9 | 14.7 | 464.1 | 25.4 |
| B and below | 15.0 | 1.8 | 0.1 | 22.7 | 1.5 | — | — |
| Total | 1,959.3 | 2,162.5 | 100.0 | 1,493.6 | 100.0 | 1,825.7 | 100.0 |

The tables below present the composition of the Group's fixed-income securities portfolio classified by currency and duration as of 31 December 2006, 2007 and 2008.

| <i>Fixed income portfolio by currency</i> | Year ended 31 December | | |
|-------------------------------------------|------------------------|--------------|--------------|
| | 2008 | 2007 | 2006 |
| | % | % | % |
| Sterling | 51.1 | 59.3 | 58.9 |
| US dollar | 36.4 | 25.4 | 31.1 |
| Euro | 8.2 | 11.1 | 6.8 |
| Cdn dollar | 4.3 | 4.2 | 3.2 |
| Total | 100.0 | 100.0 | 100.0 |

| <i>Fixed income portfolio duration</i> | Year ended 31 December | | |
|----------------------------------------|------------------------|-------|-------|
| | 2008 | 2007 | 2006 |
| | Years | Years | Years |
| Sterling | 1.51 | 1.65 | 1.96 |
| US dollar | 1.21 | 1.50 | 1.54 |
| Euro | 1.45 | 1.62 | 1.54 |
| Cdn dollar | 1.59 | 1.68 | 1.76 |

At 30 June 2009, overall credit quality in the Group's portfolio remained high with 99.2 per cent. of the fixed income portfolio rated investment grade and all of the short-term fixed income portfolio rated P-1 by Moody's. Government and government agency bonds, which accounted for 45.3 per cent. of the Group's fixed-income investments, in general, hold the highest credit rating (AAA or equivalent). The Group's corporate debt securities, with few exceptions, are invested in investment grade securities.

11.3 Investment return

The tables below show the Group's investment return (absolute, and as a percentage of the average invested assets, calculated using the Dietz method) by category of investment.

| <i>Investment return</i> | 6 months ended 30 June | | | | Year ended 31 December | | | | | |
|------------------------------|------------------------|------------|--------------|-------------|------------------------|-------------|--------------|-------------|--------------|-------------|
| | 2009 | | 2008 | | 2008 | | 2007 | | 2006 | |
| | £'million | % | £'million | % | £'million | % | £'million | % | £'million | % |
| Equities | 0.7 | 1.6 | (11.9) | (6.04) | (36.7) | (24.03) | 10.9 | 5.64 | 31.4 | 18.92 |
| Fixed income | 46.1 | 2.2 | 13.6 | 0.73 | 89.4 | 4.59 | 97.9 | 5.63 | 60.4 | 3.42 |
| Specialised investment funds | 2.6 | 2.2 | (11.0) | (3.90) | (69.9) | (38.81) | 5.4 | 4.24 | 0.8 | 5.55 |
| Cash and cash equivalents | 9.8 | 1.1 | 11.4 | 2.49 | 24.6 | 4.63 | 23.2 | 5.10 | 20.0 | 4.27 |
| Total portfolio | 59.2 | 1.8 | 2.1 | 0.07 | 7.4 | 0.16 | 137.4 | 5.42 | 112.6 | 4.74 |
| Return on derivatives | (1.3) | | (8.5) | | (19.1) | | (9.7) | | (2.2) | |
| | 57.9 | | (6.4) | | (11.7) | | 127.7 | | 110.4 | |

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| | Year ended 31 December 2008 | | | | Year ended 31 December 2007 | | | | Year ended 31 December 2006 | | | |
|------------------------------------|-----------------------------|-----------------------------|-------------------------------|-------------------------|-----------------------------|-----------------------------|-------------------------------|-------------------------|-----------------------------|-----------------------------|-------------------------------|-------------------------|
| | Investment income | Net realised gains/(losses) | Net unrealised gains/(losses) | Total investment return | Investment income | Net realised gains/(losses) | Net unrealised gains/(losses) | Total investment return | Investment income | Net realised gains/(losses) | Net unrealised gains/(losses) | Total investment return |
| <i>Investment return £'million</i> | | | | | | | | | | | | |
| Equity securities | 1.6 | 6.3 | (44.6) | (36.7) | 5.7 | 20.5 | (15.3) | 10.9 | 2.2 | 13.7 | 15.5 | 31.4 |
| Debt securities | 100.0 | (12.3) | 1.7 | 89.4 | 88.6 | (1.3) | 10.6 | 97.9 | 79.1 | (10.0) | (8.7) | 60.4 |
| Specialised investment funds | 2.4 | (3.9) | (68.4) | (69.9) | 0.5 | 2.8 | 2.1 | 5.4 | – | – | 0.8 | 0.8 |
| Cash and cash equivalents | 24.6 | – | – | 24.6 | 23.2 | – | – | 23.2 | 20.0 | – | – | 20.0 |
| | <u>128.6</u> | <u>(9.9)</u> | <u>(111.3)</u> | <u>7.4</u> | <u>118.0</u> | <u>22.0</u> | <u>(2.6)</u> | <u>137.4</u> | <u>101.3</u> | <u>3.7</u> | <u>7.6</u> | <u>112.6</u> |

| | 6 months ended 30 June 2009 | | | | 6 months ended 30 June 2008 | | | |
|------------------------------------|-----------------------------|-----------------------------|-------------------------------|-------------------------|-----------------------------|-----------------------------|-------------------------------|-------------------------|
| | Investment income | Net realised gains/(losses) | Net unrealised gains/(losses) | Total investment return | Investment income | Net realised gains/(losses) | Net unrealised gains/(losses) | Total investment return |
| <i>Investment return £'million</i> | | | | | | | | |
| Equity securities | 0.6 | 10.2 | (10.1) | 0.7 | 0.8 | 5.5 | (18.2) | (11.9) |
| Debt securities | 42.1 | 9.6 | (5.6) | 46.1 | 44.4 | (1.9) | (28.9) | 13.6 |
| Specialised investment funds | 0.7 | (9.1) | 11.0 | 2.6 | 1.4 | 4.2 | (16.6) | (11.0) |
| Cash and cash equivalents | 9.8 | – | – | 9.8 | 11.4 | – | – | 11.4 |
| | <u>53.2</u> | <u>10.7</u> | <u>(4.7)</u> | <u>59.2</u> | <u>58.0</u> | <u>7.8</u> | <u>(63.7)</u> | <u>2.1</u> |

The Group's investment portfolio grew by 29.2 per cent. from £2,500.4 million at 31 December 2006 to £3,231.5 million at 30 June 2009 due to underwriting cash flows, investment return and currency movements.

(a) *Six months ended June 2009*

Investment return during six months ended 30 June 2009 was £59.2 million, a significant improvement over the prior year (30 June 2008: £2.1 million) as investment markets reacted positively to a modest stabilisation in the macro environment. Overall non-annualised investment return for the first six months of the year was 1.8 per cent. (30 June 2008: 0.1 per cent.), with a positive contribution from each of the Group's asset classes.

The equity portfolio registered a modest gain of 1.6 per cent. in the first six months of the year. The fixed income portfolio witnessed a good performance owing to the tightening in corporate credit spreads and the short duration of the portfolio. Corporate bonds produced about half of the portfolio's £46.1 million total return. The Group's holdings in specialised investment funds provided a gain of £2.6 million during the first six months of 2009. The Emerging market and Funds of funds sectors performed well, but private equity and some credit funds continued to perform poorly.

(b) *Year ended 31 December 2008*

The Group's net investment return of £7.4 million, including realised gains and losses, fell by £130.0 million or 94.6 per cent. in 2008 compared to £137.4 million in 2007. The reduced investment return in 2008 reflected losses arising on both equities and specialised investment funds as equity markets responded to the global financial crisis. In contrast, fixed income and cash portfolios returned over 4.5 per cent., as investors switched to government and corporate debt. The Group's gross investment return (measured using average foreign exchange rates) was 4.74 per cent., in 2006, 5.42 per cent. in 2007 and 0.16 per cent. in 2008.

At the end of 2008, the share of the portfolio in fixed income (including fixed income securities, and short-term investments), cash and cash equivalents and equity securities, was 66.9 per cent., and 26.0 per cent., and 3.6 per cent., respectively, compared to 54.7 per cent., 27.0 per cent., and 8.0 per cent., respectively, at the end of 2007. Other investments, mainly funds of funds and debt funds, reduced from 10.3 per cent. in 2007 to 3.5 per cent., in 2008 as the Group sought to reduce exposure to deteriorating credit and equity markets.

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(c) Year ended 31 December 2007

Investment return was £137.4 million, a return of 5.42 per cent. (2006: £112.6 million, 4.74 per cent.) in difficult market conditions.

The Group had no material exposure to certain investment products that were most dramatically affected by the turmoil seen in the financial markets, such as collateralised debt obligations (CDOs), structured investment vehicles (SIVs), sub-prime related investments and assets backed by single class insurers (monolines).

The portfolio was highly liquid with over 40 per cent. of assets held in cash and assets under one year to maturity at 31 December 2007. At this date, 98.5 per cent. of the bond portfolio was invested in government and investment grade credit.

During 2007, exposure to specialised investment funds was increased.

(d) Year ended 31 December 2006

Investment return was £112.6 million, a return of 4.74 per cent. (2005: £121.8 million, 5.40 per cent.). The reduction in investment return was driven by a lower return on equities and a lower return on Sterling fixed interest investments, partially offset by an increased return in US dollar fixed interest securities.

Each of the three main asset classes performed above external comparative benchmarks. The portfolio was highly liquid with 91 per cent. of the Group's assets in cash and bonds at 31 December 2006.

The fixed income managers outperformed the 1-3 year bond index in Sterling by 27 basis points before fees and in the US by 34 basis points. The equity portfolios outperformed the FTSE 100 by 4.7 per cent. and the FTSE All Share by 2.4 per cent.

12. Foreign exchange gains and losses

The Group manages foreign exchange risk by holding sufficient assets in each of its four biggest currencies – Sterling, US dollars, Euros and Canadian dollars to cover anticipated liabilities in those currencies. The Group also generally retains surplus net assets in foreign currencies which are revalued as exchange rates move giving rise to transaction gains or losses in the income statement. The Group is also exposed 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 balance sheet are carried at a different exchange rate to other assets and liabilities with the resulting exchange differences that are created being recognised in the income statement.

| | 6 months ended | | 12 months ended 31 December | | |
|---------------------------------------------------------|----------------|--------------|-----------------------------|-------------|---------------|
| | 30 June | | 2008 | 2007 | 2006 |
| <i>Effect of foreign exchange on non-monetary items</i> | 2009 | 2008 | | | |
| <i>£million</i> | | | | | |
| UPR/DAC valued at historic rates of exchange | 518.5 | 434.4 | 464.5 | 422.9 | 416.8 |
| UPR/DAC valued at closing rates of exchange | 498.9 | 436.4 | 518.5 | 427.3 | 408.2 |
| Valuation difference in closing balance sheet | (19.6) | 2.0 | 54.0 | 4.4 | (8.6) |
| Valuation difference in opening balance sheet | 54.0 | 4.4 | 4.4 | (8.6) | 7.6 |
| Effect of foreign exchange on non-monetary items | (73.6) | (2.4) | 49.6 | 13.0 | (16.2) |

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| | <i>6 months ended</i> | | <i>12 months ended 31 December</i> | | |
|------------------------------------------------------|-----------------------|-------------|------------------------------------|-------------|-----------------------|
| | <i>30 June</i> | | | | |
| <i>Foreign exchange (losses)/gains</i> | <i>2009</i> | <i>2008</i> | <i>2008</i> | <i>2007</i> | <i>2006</i> |
| <i>£million</i> | | | | | |
| Gains/(losses) on exchange | (20.9) | 10.7 | 39.9 | 18.0 | 1.5 ^[1] |
| Effect of FX on non-monetary items (from above) | (73.6) | (2.4) | 49.6 | 13.0 | (16.2) |
| Total foreign exchange (losses)/gains | (94.5) | 8.3 | 89.5 | 31.0 | (14.7) |
| Of which: | | | | | |
| Net FX (losses)/gains (per face of income statement) | (61.0) | 11.8 | 124.0 | 18.6 | (25.4) ^[2] |
| Included within premium and acquisition costs | (33.5) | (3.5) | (34.5) | 12.4 | 10.7 |

1 This included profit on currency trades of £4.7 million.

2 Foreign exchange losses are accounted for as expenses. See section 13, “Expenses” herein.

12.1 *Six months ended 30 June 2009*

The Group experienced significant foreign exchange related losses in the first half of 2009 amounting to £94.5 million (30 June 2008: £8.3 million gain).

First, the Group recognised a charge of £73.6m relating to the IFRS requirement to recognise non-monetary assets and liabilities (i.e. UPR and DAC) at historic exchange rates. At 30 June 2009, the difference between recognising non-monetary assets and liabilities at historic rather than closing exchange rates was an additional £19.6 million net liability. This reflected the relative strength of Sterling at 30 June 2009 compared to the historic rate over the period. At 31 December 2008, the respective amount was an additional net asset (or lower net liability) of £54.0 million as Sterling was significantly weaker at the end of the year than the historic rate during the year. The charge in the first half of 2009 of £73.6 million was the movement between the differences at 31 December 2008 and 30 June 2009.

On the basis that exchange rates remain constant, the additional net liability at 30 June 2009 of £19.6 million will reverse as a gain to earnings during the second half of 2009 and early 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 as purely a timing difference.

Secondly, the Group recognised a charge of £20.9 million (30 June 2008: £10.7 million profit) 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 £94.5 million is made up of £61.0 million ‘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.

12.2 *Year ended 31 December 2008*

The Group’s performance was favourably affected by the significant strengthening of the US dollar and Euro in late 2008. It experienced significant foreign exchange related gains in 2008 amounting £89.5 million (2007: £31.0 million gain).

First, the Group recognised a gain of £49.6 million relating to the IFRS requirement to recognise non-monetary assets and liabilities at historic exchange rates. At 31 December 2008, the difference between recognising non-monetary assets and liabilities at historic rather than closing exchange rates was an additional £54.0 million net asset. On the basis that exchange rates remain constant, this net asset would be expected to reverse as a charge to earnings during 2009.

Secondly, the Group recognised a gain of £39.9 million (2007: £18.0 million 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 gain of £89.5 million was made up of £124.0 million ‘Net foreign exchange gain’ 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.

12.3 Year ended 31 December 2007

In 2007, the Group reported a pre-tax gain of £31.0 million (2006: £14.7 million loss).

First, the Group recognised a gain of £13.0 million relating to the IFRS requirement to recognise non-monetary assets and liabilities at historic exchange rates (2006: £16.2 million loss).

Secondly, the Group recognised a gain of £18.0 million (2006: £1.5 million gain) reflecting the translation of net assets denominated in foreign currencies and trading activities in the normal course of business. During 2007, the Group sold US dollars on a regular basis each month to keep the US dollar position within a predefined corridor. The average rate for the US dollar sales was \$1.9978 to £1.

The total foreign exchange related gain of £31.0 million is made up of £18.6 million 'Net foreign exchange gain' 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.

12.4 Year ended 31 December 2006

In 2006 the Group reported a pre-tax foreign exchange loss of £14.7 million.

First, the Group recognised a loss of £16.2 million relating to the IFRS requirement to recognise non-monetary assets and liabilities at historic exchange rates.

Secondly, the Group recognised a gain of £1.5 million gain reflecting the translation of net assets denominated in foreign currencies and trading activities in the normal course of business.

Following the active hurricane activity of late 2005, the Group had a net "short" position in US dollars. In line with policy, the Group decided to purchase dollars over an extended period rather than immediately, in order to take advantage of the dollar exchange rate which it expected to weaken. An option to purchase US\$200 million at £1 = US\$1.72 was purchased at a cost of £2.1 million to allow the dollar purchases to be conducted over time and to protect against any loss in the event of dollar strengthening. This policy was successful in realising a foreign exchange profit for the Group of £4.7 million and left the Group with a full economic hedge. The loss for the year is net of this £4.7 million gain.

The total foreign exchange related loss of £14.7 million is made up of £25.4 million '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.

13. Expenses

The Group incurs expenses in relation to underwriting activity and for general corporate purposes. The main categories of expenses are set forth on the table below.

| <i>Expenses</i> <i>£'million</i> | <i>Year ended 31 December</i> | | |
|-------------------------------------------|-------------------------------|--------------|--------------|
| | <i>2008</i> | <i>2007</i> | <i>2006</i> |
| Staff costs | 69.1 | 65.7 | 54.4 |
| Bonus pool | 6.7 | 14.4 | 14.0 |
| Premises costs | 7.7 | 7.9 | 7.3 |
| Legal and professional charges | 12.9 | 10.4 | 14.3 |
| IT costs | 7.4 | 6.8 | 5.9 |
| Regulatory levies and charges | 16.4 | 16.9 | 14.3 |
| Amortisation, depreciation and impairment | 7.0 | 11.6 | 6.4 |
| Other | 13.4 | 11.6 | 14.2 |
| | <u>140.6</u> | <u>145.3</u> | <u>130.8</u> |
| Foreign exchange losses ^[1] | — | — | 25.4 |
| | <u>140.6</u> | <u>145.3</u> | <u>156.2</u> |

1 The Group recognised foreign exchange gains in 2007 and 2008, treated as "other income"; see "Foreign exchange gains and losses" in this Chapter.

13.1 *Six months ended 30 June 2009*

Group management expenses totalled £72.7 million (30 June 2008: £66.5 million), an increase of 9.3 per cent. The main increase arose from a number of projects including work on the Group's redomicile to the Netherlands and the proposed acquisition of Chaucer Holdings PLC.

Commission costs for the period increased to £158.9 million (30 June 2008: £130.6 million) but reduced as a percentage of net earned premiums (30 June 2009: 22.7 per cent.; 30 June 2008: 24.0 per cent.). This primarily reflects changes to business mix.

13.2 *Year ended 31 December 2008*

Group management expenses totalled £140.6 million (2007: £145.3 million), a decrease of 3.2 per cent. This reduction was due to a lower staff bonus provision (a function of Group profit) and a reduction in impairment charges relating to software development, principally offset by increases in staff costs (before bonus), legal and professional charges and IT costs.

Commission costs for the period increased marginally to £255.9 million, 23.2 per cent. of net earned premiums (2007: £252.3 million, 22.9 per cent.).

13.3 *Year ended 31 December 2007*

Group management expenses before foreign exchange totalled £145.4 million (2006: £130.8 million).

The key drivers of the 2007 expense increase were:

- expansion in the second half of 2006, in headcount and of the Group's regional network, the full annualised cost of which was first seen in 2007;
- further headcount increases during 2007;
- ongoing investment in enhanced structures and processes; and
- an impairment provision of £4.0 million against IT software capitalised in 2005 and prior.

During 2007, the Group made a profit on foreign exchange of £18.6 million which has been included in "other income". In 2006, a foreign exchange loss of £25.4 million was incurred for the year and included within expenses. The commission cost ratio for the period was 22.9 per cent. (2006: 23.6 per cent.).

13.4 *Year ended 31 December 2006*

Group management expenses before foreign exchange totalled £130.8 million (2005: £100.8 million). The key drivers of this increase were:

- headcount increased from 601 to 751. This increase was primarily in the Group's underwriting and operational functions;
- investment in creating an efficient operational capability, delivering enhanced structures and processes; and
- expansion of the Group's regional office infrastructure.

The increase in expenses was in line with the Group's financial plan to support the Group's long-term growth.

In addition to these management expenses a foreign exchange loss of £25.4 million was incurred for the year. The foreign exchange profit for 2005 of £11.6 million was included in "other income".

The commission cost ratio for the period was 23.6 per cent. (2005: 22.0 per cent.). The change reflects the increase in the proportion of Group business emanating from the London Market Underwriting Centre and a change in business mix within the UK Underwriting Centre.

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14. Reinsurance recoverables

One of the elements by which the Group manages insurance risk is by the purchase of reinsurance protections. At each balance sheet date under review, the Group carried as an asset amounts recoverable from reinsurers in respect of claims incurred.

The Group's uses of reinsurance include:

- facultative reinsurance (proportional/non-proportional) for individual specific inwards contracts;
- risk excess of loss reinsurance (non-proportional) purchased to protect a range of inwards contracts that could give rise to individual large claims;
- general excess of loss reinsurance (non-proportional) purchased to provide protection from the aggregation of claims, possibly arising from catastrophe events; and
- quota share reinsurance (proportional) purchased to provide protection against claims arising either from large individual claims or aggregations.

The table below reflects reinsurance spend as a percentage of gross written premiums in 2008 was 16.6 per cent. (2007: 11.5 per cent.; 2006: 15.5 per cent.).

| <i>Reinsurance expenditure</i> <i>£ million</i> | <i>Year ended 31 December</i> | | |
|----------------------------------------------------|-------------------------------|--------------|--------------|
| | <i>2008</i> | <i>2007</i> | <i>2006</i> |
| Proportional | 73.5 | 41.6 | 34.2 |
| Non-proportional | 157.8 | 103.9 | 157.2 |
| Total | <u>231.3</u> | <u>145.5</u> | <u>191.4</u> |

The £85.8 million increase in reinsurance spend in 2008 included new quota share reinsurance treaties and increased reinsurance costs in line with increased inwards premium volume. BIG retained £12.9 million of reinsurance that would historically have been placed with external reinsurers.

The table below shows the Group's reinsurance recoverables by financial strength and are net of impairment provisions against reinsurance recoverables at 31 December 2008 of £15.5 million (2007: £11.2 million, 2006: £17.0 million).

| <i>Reinsurance recoverables</i> <i>£'million</i> | <i>Year ended 31 December</i> | | |
|-----------------------------------------------------|-------------------------------|--------------|--------------|
| | <i>2008</i> | <i>2007</i> | <i>2006</i> |
| AAA | 8.8 | 3.8 | 1.9 |
| AA | 229.1 | 129.9 | 127.5 |
| A | 149.8 | 150.5 | 124.4 |
| BBB and below | 3.9 | – | 6.6 |
| Not rated | 9.8 | 10.2 | 18.8 |
| Collateralised | 77.8 | 31.7 | 34.9 |
| Total | <u>479.2</u> | <u>326.1</u> | <u>314.1</u> |

As at 31 December 2008 97.1 per cent. of the Group's recoverables were rated 'A' or above or were collateralised (2007: 96.9 per cent.; 2006: 91.9 per cent.).

As at 30 June 2009, the Group's reinsurance recoverables totalled £441.7 million of which 97.4 per cent. were rated 'A' or above or were collateralised.

15. Liquidity and capital resources

The Group maintains a strong balance sheet. The Group's principal sources of capital are equity, subordinated debt, reinsurance and other instruments such as catastrophe bonds. The principal sources of funds for the Group's operations are insurance and reinsurance premiums, net investment income and net realised investment gains. The

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Group also enters into debt arrangements to obtain funds for general corporate purposes as well as for specific transaction financing. The principal uses of these funds are to pay claims benefits and related expenses and other operating costs. The Group's operations generate cash flow as a result of the receipt of premiums in advance of the time when claim payments are required. Operating cash flow, together with other available sources of liquidity, including a £150 million bank revolving credit facility, has historically enabled the Group to meet its long-term liquidity requirements and the Group expects that it will continue to do so.

| <i>Capital resources</i> <i>£million</i> | <i>At 30 June</i> | | <i>At 31 December</i> | | |
|----------------------------------------------------------------|---------------------|---------------------|-----------------------|---------------------|---------------------|
| | <i>2009</i> | <i>2008</i> | <i>2008</i> | <i>2007</i> | <i>2006</i> |
| Equity attributable to owners of the parent (net assets) | 810.6 | 839.6 | 849.7 | 848.9 | 813.3 |
| Less: Intangible assets | (82.9) | (80.6) | (82.1) | (80.5) | (89.0) |
| Net tangible assets (NTA) | <u>727.7</u> | <u>759.0</u> | <u>767.6</u> | <u>768.4</u> | <u>724.3</u> |
| Non-current long-term subordinated debt (at amortised cost) | | | | | |
| – Lower tier two subordinated debt | 132.7 | 147.3 | 132.7 | 147.3 | 147.2 |
| – US dollar floating rate unsecured subordinated loan notes | <u>9.1</u> | <u>7.5</u> | <u>10.4</u> | <u>7.4</u> | <u>7.5</u> |
| | <u>141.8</u> | <u>154.8</u> | <u>143.1</u> | <u>154.7</u> | <u>154.7</u> |
| Current long-term subordinated debt | | | | | |
| – 8.5% unsecured subordinated loan stock | <u>–</u> | <u>19.6</u> | <u>–</u> | <u>19.5</u> | <u>19.1</u> |
| Total capital resources | <u><u>869.5</u></u> | <u><u>933.4</u></u> | <u><u>910.7</u></u> | <u><u>942.6</u></u> | <u><u>898.1</u></u> |

As at 30 September 2009, the Group's drawings under its revolving credit facility amounted to £100 million (66.7 per cent. of the available facilities).

The Group's gearing ratio at 30 June 2009 was 24.0 per cent. (31 December 2008: 15.9 per cent.; 31 December 2007: 19.0 per cent.; 31 December 2006: 20.9 per cent.). The Group appetite is to keep its gearing ratio below 30 per cent.

15.1 *Long-term subordinated debt*

(a) *Lower tier two subordinated debt*

On 9 December 2005, the Group issued £150.0 million of Lower Tier Two subordinated unsecured debt at an effective interest rate of 6.84 per cent. It is callable by the Group on 9 December 2020. Following this date the interest rate resets at 340 basis points above the ten year gilt rate prevailing at the time. It is redeemable in 2030 and has no financial covenants. In October 2008 the Group bought back £15 million of the Subordinated Notes 2030 with a carrying value of £15.6 million. New Brit will replace Old Brit as principal debtor, and Old Brit will become a guarantor, in respect of the Subordinated Notes 2030 on the Scheme becoming effective, as further described in paragraph 6.2 of Chapter 13 – “General Information”.

(b) *US dollar floating rate unsecured subordinated loan notes*

On 28 June 2004, \$15.0 million of US dollar floating rate unsecured subordinated loan notes were issued. These loan notes attracted interest at US dollar three month LIBOR plus 3.5 per cent. These notes were fully redeemed by Old Brit on 17 August 2009 at a price equal to their principal amount plus all accrued interest.

(c) *8.5 per cent. unsecured subordinated loan stock*

On 18 December 2001, £45.2 million of Convertible Unsecured Subordinated Loan Stock 2008 was issued providing net proceeds of £43.4 million. This loan stock attracted interest at 8.5 per cent. The conversion rights expired on 21 November 2005. The balance of this loan stock was fully redeemed on 31 December 2008.

15.2 *Bank revolving credit facility*

On 21 December 2007, the Group entered into a five year £150.0 million unsecured revolving credit facility syndicated to four banks and led by the Royal Bank of Scotland. The cost of the facility was LIBOR plus 85.00 basis points (if drawn) and 29.75 basis points (if undrawn) and its principal financial covenants are set out below. As at 30 June 2009 the Group's drawings under the facility amounted to £65.0 million. As at 30 September 2009, the Group's drawings amounted to £100.0 million.

| <i>Financial covenants £million</i> | <i>At 30 June</i> | | | | <i>At 31 December</i> | | | |
|--------------------------------------------------------------------|-------------------|-----------------|-----------------|-----------------|-----------------------|-----------------|-----------------|-----------------|
| | <i>2009</i> | | <i>2008</i> | | <i>2008</i> | | <i>2007</i> | |
| | <i>Position</i> | <i>Headroom</i> | <i>Position</i> | <i>Headroom</i> | <i>Position</i> | <i>Headroom</i> | <i>Position</i> | <i>Headroom</i> |
| Net tangible assets plus qualifying subordinated debt ¹ | 860.4 | 210.4 | 906.3 | 256.3 | 900.3 | 250.3 | 915.7 | 265.7 |
| Gearing ² | 8.6% | 26.4% | 3.0% | 32.0% | 1.2% | 33.8% | 2.9% | 32.1% |

1 Must be at least £650.0 million

2 Borrowings (excluding subordinated debt) must not exceed 35.0 per cent. of Net tangible assets plus qualifying subordinated debt

The Group has negotiated a new secured revolving credit facility with a panel of three banks (Royal Bank of Scotland plc, Lloyds TSB Bank plc and Calyon SA). Upon the Scheme becoming effective the new facility will replace and refinance the existing £150 million facility. The borrower is BGH, the Dutch intermediate holding company in the new Group structure. The new facility is for £175 million and has a term of three years. It is secured by way of a charge over the shares in BIL. The margin is 325 basis points with a commitment fee of 50 per cent. of the margin. The key financial covenants are as follows:

- Borrowings (excluding subordinated debt) will not at any time exceed 35 per cent. of consolidated net tangible assets plus qualifying subordinated debt.
- The Group must have minimum consolidated net tangible assets (including subordinated debt) of £675 million. This covenant will be reset each year to 80 per cent. of consolidated net tangible assets (including subordinated debt) if this produces a figure greater than £675 million.
- BIL must have minimum consolidated net tangible assets of £262.5 million.

16. Guarantees and contingent liabilities

16.1 *Lloyd's*

As at 31 December 2008, the following arrangements were in place:

If any of the corporate member subsidiaries fails to meet any of its Lloyd's obligations, after having called on the Group under its guarantees, then:

- Lloyd's will be entitled to require the other corporate member subsidiaries to cease or reduce their underwriting; and/or
- 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.

The Group is not aware of any corporate member subsidiary failing to meet its Lloyd's obligations.

All investments and assets supporting the underwriting at Lloyd's are held in one subsidiary, Masthead Insurance Underwriting Limited ("**Masthead**"). Masthead provides stand-alone funds at Lloyd's for Brit UW by way of a covenant and charge arrangement for, as at 30 September 2009, £439.3 million (2008: £294.4 million; 2007: £362.5 million; 2006: £372.4 million), and those ceased corporate members that remain in run-off by way of deposits totalling £1.5 million (2008: £1.9 million; 2007: £3.3 million; 2006: £3.9 million). It is the intention to transfer the investments and assets supporting the underwriting at Lloyd's from Masthead to a new cell in BIG.

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16.2 Letters of credit

During 2008 BIL entered into a new Letter of Credit (LOC) facility with Citibank Europe Plc for US\$250.0 million, of which US\$94.5 million had been utilised at 30 September 2009 (31 December 2008: US\$73.0 million).

In addition, BIL had a LOC facility for US\$75.0 million (2008, 2007 and 2006: US\$75.0 million) with the Royal Bank of Scotland PLC of which US\$2.7 million was utilised as at 30 September 2009 (2008: US\$3.8 million; 2007 and 2006: US\$ nil) and a facility with Barclays Bank Plc for US\$2.1 million (2008: US\$8.2 million; 2007 and 2006: US\$100.0 million) all of which was utilised at 30 September 2009 (2008: US\$8.2 million; 2007: US\$85.9 million; 2006: US\$37.3 million).

These facilities provide security against liabilities arising from US reinsurance business and aviation excess of loss and are collateralised with cash and bonds.

16.3 Other

During 2008 the Group guaranteed a premises lease entered into by Brit Group Services Limited. The lease has a break clause in 2012 and the amounts guaranteed are approximately £0.2m per year.

17. Commitments

The Group's capital commitments and operating lease commitments at 30 September 2009 and at 31 December 2008, 2007 and 2006 are set out below. The Group expects to finance these commitments from income from operating activities.

| | <i>At 30 September</i> | <i>Year ended 31 December</i> | | |
|-----------------------------------------------------|------------------------|-------------------------------|-------------|------------------|
| | <i>2009</i> | <i>2008</i> | <i>2007</i> | <i>2006</i> |
| <i>£'million</i> | | | | |
| Capital commitments | | | | |
| Capital expenditure contracted for but not incurred | — | — | — | 0.4 ¹ |

1 Expense in respect of corporate re-furbishment costs

| | <i>At 30 September</i> | | | <i>At 31 December</i> | | | <i>At 31 December</i> | | | <i>At 31 December</i> | | |
|---------------------------------------------------|------------------------|--------------|--------------|-----------------------|--------------|--------------|-----------------------|--------------|--------------|-----------------------|--------------|--------------|
| | <i>2009</i> | | | <i>2008</i> | | | <i>2007</i> | | | <i>2006</i> | | |
| | <i>Properties</i> | <i>Other</i> | <i>Total</i> | <i>Properties</i> | <i>Other</i> | <i>Total</i> | <i>Properties</i> | <i>Other</i> | <i>Total</i> | <i>Properties</i> | <i>Other</i> | <i>Total</i> |
| <i>£'million</i> | | | | | | | | | | | | |
| Operating lease commitments | | | | | | | | | | | | |
| Not later than one year | 3.5 | 0.4 | 3.9 | 4.0 | 0.8 | 4.8 | 3.4 | 0.2 | 3.6 | 3.6 | 0.1 | 3.7 |
| Later than one year and not later than five years | 11.9 | 0.4 | 12.3 | 12.4 | 0.6 | 13.0 | 12.5 | 0.6 | 13.1 | 12.1 | 0.1 | 12.2 |
| Later than five years | 3.7 | — | 3.7 | 5.1 | — | 5.1 | 8.8 | — | 8.8 | 10.3 | — | 10.3 |
| | <u>19.1</u> | <u>0.8</u> | <u>19.9</u> | <u>21.5</u> | <u>1.4</u> | <u>22.9</u> | <u>24.7</u> | <u>0.8</u> | <u>25.5</u> | <u>26.0</u> | <u>0.2</u> | <u>26.2</u> |

The Group's operating lease commitments are in respect of business premises the Group occupies.

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18. Cash flow

Consolidated cash flow statement

| | 6 months ended 30 June | | Year ended 31 December | | |
|----------------------------------------------------------------------------|---------------------------|--------------------|------------------------|--------------------|--------------------|
| | 2009 | 2008 (restated) | 2008 | 2007 (restated) | 2006 (restated) |
| <i>£'million</i> | | | | | |
| Cash generated from operations | | | | | |
| Cash flows provided by operating activities | 194.9 | (187.6) | 36.5 | 368.2 | (25.4) |
| Income tax paid | (6.9) | (10.3) | (25.8) | (47.1) | (41.1) |
| Interest paid | (0.6) | (1.3) | (11.8) | (12.3) | (11.4) |
| Interest received | 64.0 | 54.3 | 109.3 | 109.1 | 84.9 |
| Dividends received | 0.7 | 1.4 | 4.0 | 5.7 | 2.2 |
| Net cash inflows from operating activities | <u>252.1</u> | <u>(143.5)</u> | <u>112.2</u> | <u>423.6</u> | <u>9.2</u> |
| Cash flows from investing activities | | | | | |
| Purchase of property, plant and equipment and related exchange adjustments | (0.3) | (0.7) | (2.1) | (3.9) | (4.5) |
| Purchase of intangible assets | (3.0) | (1.9) | (5.5) | (7.5) | (6.6) |
| Proceeds from disposal of property, plant and equipment | – | – | 0.2 | 0.4 | – |
| Repayment of loan from assets held for sale | – | – | – | – | 0.3 |
| Proceeds from disposal of asset held for sale | – | – | – | 1.2 | – |
| Net increase in cash from disposal of subsidiary undertaking | – | – | – | 7.6 | – |
| Proceeds from partial disposal of associated undertaking | 15.4 | 22.1 | 22.1 | 5.1 | – |
| Net movements in associated undertaking ordinary and preference shares | (1.6) | – | (0.8) | 1.5 | – |
| Investment in associated undertaking | – | (11.5) | (13.2) | (10.0) | (10.7) |
| Net cash inflows/(outflows) from investing activities | <u>10.5</u> | <u>8.0</u> | <u>0.7</u> | <u>(5.6)</u> | <u>(21.5)</u> |
| Cash flows from financing activities | | | | | |
| Proceeds from exercised share options | – | – | – | 3.5 | 2.5 |
| Equity dividends paid | (23.2) | (44.9) | (68.2) | (54.5) | (53.6) |
| Drawdown of revolving credit facility | 65.0 | – | – | – | – |
| Repurchase of Lower Tier Two subordinated debt | – | – | (8.4) | – | – |
| Repurchase of unsecured loan stock | – | – | (19.7) | – | (22.4) |
| Acquisition of own shares for employee incentive schemes | (0.1) | (0.1) | (0.5) | (5.5) | (0.3) |
| Repurchase of treasury shares | – | (1.1) | (1.1) | (52.3) | – |
| Proceeds from sale of own shares | – | – | – | – | 0.3 |
| Net cash outflows from financing activities | <u>41.7</u> | <u>(46.1)</u> | <u>(97.9)</u> | <u>(108.8)</u> | <u>(73.5)</u> |
| Net increase/(decrease) in cash and cash equivalents | <u>304.3</u> | <u>(181.6)</u> | <u>15.0</u> | <u>309.2</u> | <u>(85.8)</u> |
| Cash and cash equivalents at beginning of the year | 840.7 | 735.3 | 735.3 | 421.1 | 526.6 |
| Effect of exchange rate fluctuations on cash and cash equivalents | (63.6) | 2.3 | 90.4 | 5.0 | (19.7) |
| Cash and cash equivalents at the end of the year | <u>1081.4</u> | <u>556.0</u> | <u>840.7</u> | <u>735.3</u> | <u>421.1</u> |

18.1 *Six months ended 30 June 2009*

During the period cash and cash equivalents increased by £240.7 million, after taking into account exchange losses of £63.6 million.

Net cash inflows from operating activities were £252.1 million (30 June 2008: net outflows of £143.5 million). This was primarily a reflection of and increased levels of premiums written and improved investment performance in 2009, partially offset by higher claims experience.

Net cash inflows from investing activities of £10.5 million arose primarily from the £15.4 million partial disposal of an associated undertaking (Norton Re II), offset by the net movements in associated undertaking's preference shares of £1.6 million (RI3K and Xbridge) and net purchases of intangible and fixed assets (£3.3 million). Net cash inflows from financing activities (£41.7 million) included the payment equity dividends (£23.2 million) and the drawdown of the revolving credit facility (£65.0 million). The dividend payments were the final 2008 dividend (7.5 pence per share).

18.2 *Year ended 31 December 2008*

During the period cash and cash equivalents increased by £105.4 million; with £90.4 million of this increase resulting from foreign exchange movements.

Net cash inflows from operating activities were £112.2 million. This represented a decrease over the 2007 amount of £423.6 million. This was primarily a reflection of lower investment performance and higher claims experience in 2008.

Net cash inflows from investing activities of £0.7 million arose primarily from the £13.2m of investments in associated undertakings (Verex Limited and Xbridge Limited), and net purchases of intangible and fixed assets (£7.4 million) offset by the proceeds from a partial disposal of Ebix Inc and Norton Holdings Limited, both associated undertakings (£22.1 million). Cash outflows from financing activities (£97.9 million) included equity dividends (£68.2 million), the repurchase of loan stock (£28.1 million) and purchase of own shares (£1.6 million). The dividend payments were the final 2007 dividend (7.5 pence per share), the 2007 special dividend (7.0 pence per share) and the 2008 interim dividend (7.5 pence per share). These payments were in accordance with the Group's stated dividend policy. The 2007 special dividend reflected the high level earnings in 2007. The purchase of own shares was in accordance with the Group's stated policy to buy back shares in 2008 should conditions allow and should it be in the interests of the Group and its shareholders.

18.3 *Year ended 31 December 2007*

During the period cash and cash equivalents increased by £314.2 million; with £5.0 million of this increase resulting from foreign exchange movements.

Net cash inflows from operating activities were £423.6 million. This represented an increase over the 2006 amount of £9.2 million. 2007 benefited from higher levels of premium income, lower outwards reinsurance spend and lower claims payments.

Net cash outflows from investing activities (£5.6 million) arose predominantly from proceeds from the disposal or part disposal of Group undertakings and other assets, including a 60 per cent. share in RI3K, (£15.8 million) investment in associated undertakings (£10.0 million) and purchases of intangible assets (software – £7.5 million).

Cash outflows from financing activities totalled £108.8 million. It included equity dividend payments (£54.5 million) and the purchase of own shares (£57.8 million).

18.4 *Year ended 31 December 2006*

During the period cash and cash equivalents decreased by £105.5 million; with £19.7 million of this decrease resulting from foreign exchange movements.

Net cash inflows from operating activities were £9.2 million. In 2006, the Group benefited from increased levels of premium income and decreased outwards reinsurance spend. These, however, were offset by claims payments net of reinsurance recoveries, as claims arising from the 2005 hurricanes were settled.

Operating and Financial Review

Net cash outflows from investing activities (£21.5 million) arose predominantly from net purchases of investments, including associated undertakings (£10.7 million) and purchases of intangible assets (software: £6.6 million).

Cash outflows from financing activities totalled £73.5 million. It included equity dividend payments (£53.6 million) and the repurchase of unsecured loan stock (£22.4 million).

19. Capitalisation and indebtedness

Capitalisation (unaudited)

At 30 June 2009

£'million

Total current debt

| | |
|------------------------|---|
| Guaranteed | — |
| Secured | — |
| Unguaranteed/Unsecured | — |

Total non-current debt

| | |
|------------------------|--------------|
| Guaranteed | — |
| Secured | — |
| Unguaranteed/Unsecured | 206.8 |
| | <u>206.8</u> |

Shareholders' equity

| | |
|-----------------------|--------------|
| Share capital | 247.3 |
| Own shares | (64.1) |
| Share premium account | — |
| | <u>183.2</u> |

| | |
|--------------|---------------------|
| Total | <u><u>390.0</u></u> |
|--------------|---------------------|

The above information is derived from the Group's unaudited 30 June 2009 Half Year Financial Report. At 30 September 2009, unguaranteed/unsecured debt had increased to £232.8 million. There has been no material change to shareholders' equity since 30 June 2009.

Indebtedness (unaudited)

At 30 September 2009

£'million

Net indebtedness

| | |
|--------------------|---------|
| Cash | 1,011.2 |
| Cash equivalents | 3.1 |
| Trading securities | — |

| | |
|------------------|----------------|
| Liquidity | <u>1,014.3</u> |
|------------------|----------------|

| | |
|-------------------------------------|---|
| Current Financial Receivable | — |
| Current bank debt | — |
| Current portion of non current debt | — |
| Other current financial debt | — |

| | |
|-------------------------------|----------|
| Current Financial Debt | <u>—</u> |
|-------------------------------|----------|

| | |
|----------------------------------------|----------------|
| Net Current Financial Liquidity | <u>1,014.3</u> |
|----------------------------------------|----------------|

| | |
|-------------------------|-------|
| Non current bank loans | 100.0 |
| Bonds issued | 132.8 |
| Other non current loans | — |

| | |
|-------------------------------------------|--------------|
| Non current Financial Indebtedness | <u>232.8</u> |
|-------------------------------------------|--------------|

| | |
|--------------------------------|---------------------|
| Net Financial Liquidity | <u><u>781.5</u></u> |
|--------------------------------|---------------------|

The financial information in the table above has been derived from the Group's unaudited internal management accounts for the nine months ended 30 September 2009.

Operating and Financial Review

Included in cash and cash equivalents are amounts totalling £448.4 million not available for use by the Group which are held within the Lloyd's syndicates and as funds at Lloyd's.

As at 30 September 2009, the Group had an unsecured revolving credit facility of £150 million, £100.0 million of which was drawn down.

The Group has negotiated a new secured revolving credit facility of £175 million with a panel of three banks (Royal Bank of Scotland plc, Lloyds TSB Bank plc and Calyon SA). Upon the Scheme becoming effective the new facility will replace and refinance the existing £150 million facility. This new facility is detailed earlier in this Chapter.

At 30 September 2009 the Group had no finance lease commitments. Operating lease commitments totalled £19.9 million as at 30 September 2009 and are detailed earlier in this Chapter.

At 30 September 2009 the Group had various guarantees and contingent liabilities. These are detailed earlier in this Chapter.

The Group has no other indirect and contingent indebtedness.

On 23 October 2009, Old Brit published its interim management statement for the 42 week period from 1 January 2009 to 22 October 2009. There has not been any significant change in the Group's financial or trading position since 30 June 2009.

20. Distribution policy

Old Brit paid a total dividend of 15 pence per share in respect of the 2008 financial year. The Board of New Brit intends that its distribution policy, once the Scheme becomes effective, will follow Old Brit's current policy. This is to pursue a policy which seeks to grow distributions per share in line with the longer term prospects of the Group. For the purposes of this policy it is proposed that Old Brit's 2008 dividend per share of 15 pence will be used as the base.

Old Brit dividend payments are summarised below:

| | <i>Year ended 31 December</i> | | |
|------------------------------------|-------------------------------|-------------|-------------|
| | <i>2008</i> | <i>2007</i> | <i>2006</i> |
| <i>Dividends per share:</i> | | | |
| Interim (pence) | 7.5 | 7.5 | 7.5 |
| Final (pence) | 7.5 | 7.5 | 7.5 |
| Special (pence) | 0.0 | 7.0 | 2.0 |

Old Brit also declared an interim dividend of 7.5 pence per share payable by 7 September 2009.

It is anticipated that, for an initial period, New Brit is unlikely to pay dividends but instead will make distributions to its shareholders by way of reductions of the par value of the New Brit Shares (i.e. in the form of a capital distribution). Under current law and practice, any payments to New Brit Shareholders on such a reduction of capital should be free from Dutch dividend withholding tax whilst they are made out of the Recognised Capital of New Brit. However, there can be no assurance that the Dutch dividend withholding tax rules and practice will not be changed in the future.

Under Dutch law, any reduction of capital requires the prior approval of New Brit Shareholders at a duly convened general meeting and will only become effective if no creditor objects to the contemplated reduction within a two month period of the shareholder resolution being filed with the trade register and announced in a daily newspaper in the Netherlands, or if any creditor objections are turned down by the Dutch courts or are withdrawn. Accordingly, the shareholder approval process and the right of creditors to object may affect the ability of New Brit to make a distribution by way of a reduction of capital and/or the timing of any such distribution. In the ordinary course, it is anticipated that any such distributions would be made in or around June and October of each year.

Any distributions made by way of a reduction of capital of New Brit must be denominated in Euros, as the share capital of New Brit is denominated in Euros and can only be reduced by a whole number of cents. To facilitate its intended distribution policy the Board of New Brit expects to propose that the New Brit Shares will be consolidated prior to its first distribution. The effect of the consolidation will be to increase the distribution per share and restate the share price by reference to the consolidation factor. The aggregate market value of New Brit and the total amount

distributed are not expected to be materially influenced by such a share consolidation. There will be a gap between the date on which the amount of the distribution is set (which will be on or before the date of the notice convening the general meeting of shareholders to approve the reduction of capital) and the date of payment of the distribution to New Brit Shareholders. There is a risk that foreign currency exchange rates may move significantly between these dates which, except as described in the paragraph below, may adversely affect New Brit Shareholders who account for distributions in another currency, including pounds sterling.

In determining the level of any reduction of capital, New Brit intends to ascertain the amount by reference to the expected rate of exchange for Sterling using forward rates of exchange. For New Brit Shareholders who elect to receive payment in a currency other than Euros, New Brit would typically expect to be able to fix a settlement rate of exchange for Sterling and US dollars, again by reference to forward rates, provided that there are no delays to the expected timetable for payment of such distribution.

Once the Recognised Capital of New Brit has been utilised, any further payments to New Brit Shareholders on a reduction of capital could be subject to Dutch dividend withholding tax for certain categories of shareholders. There can be no guarantee that an alternative method will be available at that time to make further distributions to New Brit Shareholders free from Dutch dividend withholding tax.

21. Risk management

The Board is responsible for ensuring the principal risks and uncertainties facing the Group are identified and addressed. The Group believes that strong risk management practices and a sound internal control system are fundamental to its continued success and profitable growth. Failure to manage risk properly exposes the Group to significant losses, regulatory issues and risks damaging the Group's reputation.

The executive management has established the framework, principles and guidelines for risk management. The primary focus of risk management is to manage the risk of the Group incurring economic losses from the risk categories set forth below. Business managers are responsible for establishing and implementing risk management processes and responding to the needs and issues, including risk concentrations, with appropriate oversight from Group Risk Management. The risk management framework links risk appetite and risk management to the governance structure.

The Group risk management programme of risk and control identification and assessment ensures that the risk register is maintained. Risk accountability is clearly defined with meetings held with risk owners on a regular basis to discuss the status of risks and the effectiveness of the control environment. The risk management programme embraces all areas of the Group's operation. Risk register information is reported to senior management and the Board on a regular basis. The Group has set a number of key performance indicators to manage and monitor key activities of the business. These are reported to senior management and the Board on a regular basis.

The Group continues to refine the risk metrics (appetite, tolerance and capacity) for group, credit, market, liquidity, insurance and operational risk and reinforce these metrics with the Group strategy.

The Group identifies and manages risk under categories consistent with the UK FSA's risk classification: Group, Market, Insurance, Credit, Liquidity and Operational. Further details on risk management, including sensitivity analysis, are provided in Note 4 to Old Brit's financial statements.

21.1 *Group risk*

Group risk is defined as the risk of sub-optimal business strategy or execution either arising from internal or external factors. This risk is owned by the Group CEO and strategy is implemented through the Executive Management Committee ("EMC") and business owners throughout the Group. Risk tolerance is set by the Board with risk appetite set by the EMC through the annual review of the Group's strategic direction and three year plan.

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

The strategic plan is updated annually to reflect the Group's longer term competitive and market position. Three year business plans are prepared at SBU, principal operating legal entity and Group levels. The plans are subject to realistic disaster scenario analysis, stress tests and stochastic capital assessments and the impact on both earnings and solvency is evaluated. Business plans are evaluated against return on capital targets that take into consideration the inherent risk in each class of business. Actual results in any period are likely to vary, perhaps materially, from the modelled scenarios and the occurrence of one or more severe events could have a material adverse effect on the Group's financial condition, results of operations and liquidity.

21.2 *Market risk*

Market risk is defined as the risk that the fair value or future cashflow will fluctuate because of adverse movements in interest rates, exchange rates or asset prices. Market risk is owned by the Finance Director and day to day management of market risk is delegated to the Director of Treasury and Investments.

Market risk is controlled through the Group's investment guidelines, which manage exposures to predefined limits by asset class, rating, geography and counterparty. The guidelines are designed to limit the Group's exposure to large market loss events to a level that will not disrupt Group operations. In addition, a Value at Risk ("VAR") model is employed. The VAR methodology recognises the expected returns from each asset, the historical volatility of the asset and the correlation to other assets in the portfolio to calculate the risk of loss within specified levels of statistical confidence. VAR is reliant upon historical data, assumed distributions, holding periods and frequency of calculations.

Interest rate risk is managed through duration limits contained in the investment guidelines. The maximum permitted weighted average duration of the portfolio should not exceed 5 years and the maximum maturity for any debt instrument is ten years. This ensures that the investment portfolio duration is less than that of the anticipated future insurance liabilities.

The Group has material exposure to insurance business written in foreign currencies. Elements of the anticipated profits arising in foreign currencies are sold periodically. Some net assets are retained in foreign currencies as a hedge against solvency and realistic disaster scenarios ("RDS") requirements arising from those currencies and to meet Lloyd's trust fund requirements. At 30 June 2009, Sterling equivalents of net assets held in foreign currencies were £123.4 million in US dollars, £33.1 million in Cdn dollars and £2.6 million in Euros.

21.3 *Insurance risk*

Insurance risk is defined as the possibility that the insured event occurs and a claim results. By the very nature of an insurance contract, risk is based on chance and is therefore unpredictable. The principle 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.

Uncertainties include the severity, frequency and timing of claims and claims settlements compared to those anticipated when the business was written. Insurance risk is owned by the SBU CEOs and is delegated to the class underwriters. The Portfolio Management Committee monitors underwriting plans on a Group basis. Actual results in any period are likely to vary, perhaps materially, from the modelled scenarios and the occurrence of one or more severe events could have a material adverse effect on the Group's financial condition, results of operations and liquidity.

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

- underwriting guidelines and limits of authority;
- aggregate exposure limit by location or type of event;
- expected return on the capital; and
- anticipated future rate changes and claims inflation.

The Group seeks to manage the level of insurance risk, volatility and risk aggregation in line with the risk appetite set by the EMC. Mitigation operates at a number of levels moving from policy level, to reserve and catastrophe assessment.

However, it is important to recognise that, insurance business necessarily requires a level of estimation of future claims payments. The reported result for any single accounting period is sensitive to the accuracy of these estimates. There is no standard methodology to project possible losses from exposures. In addition, there are no industry standard assumptions to be used in projecting these losses. The use of different methodologies and assumptions could materially change the projected losses. Therefore, modelled losses may not be comparable to estimates made by other insurers. Estimates are inherently uncertain and may not reflect the Group's maximum exposure to events. It is possible that the Group's losses will vary, perhaps significantly, from the estimates. The key components of insurance risk are aggregation, pricing and reserving.

21.4 *Catastrophe risk and aggregate exposure management*

The risk of catastrophic loss is managed through aggregate exposure management together with reinsurance protections that seek to limit losses arising from catastrophic events. 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 Realistic Disaster Scenario Committee monitors and controls the accumulation of risk for over 30 key RDS events. These RDSs reflect the diversity of the Group's exposures and include specific scenarios for elemental, "man-made" and economic disasters.

The RDSs are reviewed quarterly in light of Group exposures and environmental factors, with more frequent reviews of the peak zone natural peril catastrophe RDSs that present the greatest exposure for the Group. The Board may decide to increase or decrease the maximum tolerance based on market conditions and other factors. Ultimately, the size of a probable maximum loss arising from an event or series of events will always remain subjective for the Group 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 guide to the level of catastrophe exposure written by the Group, the table below shows hypothetical claims at 1 January 2009 for various RDS events.

| <i>Event</i> | <i>Modelled industry gross claims US\$m</i> | <i>Group gross claims £m</i> | <i>Group net claims £m</i> | <i>Comments</i> |
|------------------------------------------|---------------------------------------------------------|--------------------------------------|------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Florida hurricane – Tampa Bay | 125,000 | 299 | 171 | Category 4 storm on the SS Scale, landfalling in Tampa. The Group claims estimates include demand surge, flood associated with the hurricane, and non-property exposures. |
| Florida hurricane – Miami | 125,000 | 257 | 129 | Category 5 storm on the SS Scale, landfalling in Miami. The Group claims estimates include demand surge, flood associated with the hurricane, and non-property exposures. |
| US north east coast hurricane | 78,000 | 263 | 151 | Category 4 storm on the SS Scale, landfalling in Suffolk County, New York State. The Group claims estimates include demand surge, flood associated with the hurricane, and non-property exposures. |
| California earthquake – Los Angeles | 78,000 | 290 | 115 | Magnitude 7.2 earthquake on the MMI scale, on the Elsinore fault in Los Angeles. The Group claims estimates include demand surge, fire following the earthquake, and non-property exposures. |
| California earthquake – San Francisco | 78,000 | 300 | 120 | Magnitude 7.4 earthquake on the MMI scale, on the San Andreas Fault in San Francisco. The Group claims estimates include demand surge, fire following the earthquake, and non-property exposures. |
| Europe windstorm | 31,000 | 244 | 99 | 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. The Group claims estimates include demand surge and UK coastal flood. |
| Japan earthquake | 51,000 | 196 | 101 | 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/Group

21.5 *Risk pricing and approval*

The Group uses rating tables, actuarial pricing models and underwriter judgement to evaluate and price individual risks and coverholder schemes. SBU peer reviews are undertaken in all SBUs. Pricing 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 underwriters and actuaries jointly develop rating models and review large risks. Each SBU operates a monthly management committee, responsible for assessing underwriting activity and consistency with the underwriting plan for each class of business.

21.6 *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. The Group Reserving Panel is responsible for reviewing and setting reserves. The panel is chaired by the Finance Director and includes the Group Actuary, the SBU CEOs and Claims representatives. The reserves selected by the Reserving Panel are based on quarterly reserve recommendations from the Actuarial department. Each year the reserves are also reviewed by external actuarial consultants. Further details on insurance risk are given in Note 4 of the financial statements.

21.7 *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 and is monitored through the Credit Committee on a monthly basis, and is managed by the market securities and ratings team, the credit control team and the investment and treasury teams.

21.8 *Liquidity risk*

Liquidity risk is defined as 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 and managed by the investment and treasury team. The Group risk appetite is to have access to sufficient liquidity at all times in each of its three liquidity centres BIL, the Syndicate and the remainder of the Group. In BIL and the Syndicate the tolerance is to fund a minimum of two, and a tolerance of three, RDS events. At holdings company level the tolerance is to have access to a minimum of £20 million of liquidity over and above short term liabilities at all times.

21.9 *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. 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 Management Group which reports to the EMC and the Audit Committee.

The Group has a business continuity plan in place which is regularly tested and enhanced and establishes policies covering the risks of financial crime, money laundering, whistle-blowing and disaster recovery.

22. **Outlook**

The following description of the outlook of the Group is taken directly from the Old Brit interim management statement dated 23 October 2009:

“The sharp recovery in the capital markets together with a benign US windstorm season has reversed much of the capital destruction experienced in the insurance industry during 2008 and early 2009. With this background, the Group expects the rate environment for a number of business lines to be finely poised entering 2010. Consequently the Group’s focus on portfolio management and risk selection will be even more important.

Operating and Financial Review

Currently Brit Reinsurance is experiencing the best trading conditions of the three SBUs and for Property Catastrophe the Group is expecting to continue to run its risk appetite at the upper end of its risk tolerance. At this stage pricing across the SBU is expected to be under only marginal pressure in 2010 and potential margins are anticipated to remain good.

Expectations in Global Markets are for less uniformity between pricing across the SBU. Under Matthew Wilson's leadership, the SBU has made good progress over the last 18 months and will continue to make tough decisions when allocating capital within its diversified portfolio. With, however, much of the restructuring now done, tangible benefits should start to emerge. Furthermore pockets of good opportunities are still being acted on and this is evidenced by the Group's increased exposure to Marine Hull, Energy, Lender Placed Property and Open Market Property.

The Group anticipates the UK market will experience continued price rises through the remainder of 2009 and 2010, and is well placed to enhance returns once a demonstrable turn in the UK market occurs.

Recent investment returns for the Group are unlikely to be sustained, owing to the simultaneous contraction of credit spreads and decrease in government bond yields experienced during the third quarter. Today's low yields will place further pressure upon next year's expected investment result.

Positive premium rate movements in 2009 combined with active management of the underwriting portfolio have improved the position of the Group heading into 2010. Furthermore, with a diversified underwriting platform developed during the last underwriting cycle, the Group is now well placed to manage its way successfully through an ever-changing insurance market."

7. INFORMATION ON NEW BRIT AND THE GROUP

The following information should be read in conjunction with the more detailed information appearing elsewhere in this Prospectus. The financial information included in this Chapter has been extracted without material adjustment from the consolidated financial statements of Old Brit, which have been incorporated into this Prospectus by reference.

1. Rationale for the Proposals

Introduction

To achieve its long-term growth objectives, the Group regularly assesses its organisational and capital structure. Following an extensive review, the Board has concluded that the redomicile of the Group's holding company to the Netherlands, combined with other changes in the Group structure, should deliver a number of significant benefits to the Group. In particular it should provide a favourable operating 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 better align its corporate tax rate with those of its global peer group.

If the Scheme is implemented, a new holding company of the Group incorporated in the Netherlands, New Brit, will be put in place through a High Court approved scheme of arrangement under Sections 895 to 899 of the UK Companies Act. New Brit will have the same Board and management team as Old Brit on the Scheme Effective Date. At least two Dutch resident persons will be appointed to the Board of New Brit as non-executive Directors either by, or within 12 months of, the Scheme Effective Date.

As is the case for Old Brit, New Brit will have its primary listing on the London Stock Exchange and, upon listing, should replace Old Brit as a member of the FTSE 250 Index. It is not anticipated that there will be any substantive changes to corporate governance or investor protection measures. In particular, upon implementation of the Scheme, the majority of the continuing obligations under the UK Listing Rules will apply to New Brit, the Dutch AFM and the UK Takeover Panel will have shared jurisdiction in relation to takeovers and New Brit intends to comply with the UK Combined Code to the same extent that Old Brit does currently.

Group reorganisation

As part of the Scheme, two new intermediate holding companies will be included in the Group structure, BGH will be a direct, wholly-owned subsidiary of New Brit, and BOH will be a direct, wholly-owned subsidiary of BGH. Old Brit will be a direct, wholly-owned subsidiary of BOH.

It is intended that BIG, which is currently a wholly-owned subsidiary of Old Brit, will in due course, after the Scheme becomes effective, become a wholly-owned subsidiary of BOH.

The Proposals are an integral part of the Group's continuing strategy of targeting superior returns for shareholders through its specialist underwriting activities and optimal capital management. The Board continues to consider the Syndicate and its UK FSA authorised insurance company, BIL, to be attractive underwriting platforms which will remain an important part of the Group's insurance operations for the foreseeable future.

The Board believes that the Proposals will:

Provide a favourable operating environment from which to further the Group's international development

As the Group seeks to develop a broader international general insurance and reinsurance business, the establishment of the domicile of the Group's holding company in the Netherlands should provide the Group with a stable commercial, legal, regulatory and fiscal environment from which to operate. Over time the Group intends to expand its international footprint that currently includes BISI, a fully owned MGA based in the US and a representative office in Japan. In addition, the Board considers that the Netherlands retains for the Group the operational and reputational benefits of an established EU jurisdiction.

Enhance access to additional sources of capital

The Board believes that the management of multiple sources of capital is a core skill of the Group and that establishing a presence in continental Europe will enhance the Group's ability to attract a broader spread of capital in support of its specialist underwriting operations.

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Better align the Group's corporate tax rate with those of its global peer group

Many of the Group's principal competitors already enjoy substantial tax benefits arising from their domicile; benefits not currently available to Old Brit. The Board believes that the restructuring of the Group under a new Dutch holding company should provide the opportunity to realise a reduction in the Group's effective tax rate over time aligning it with its global peer group. Dutch companies pay no additional tax on the majority of overseas earnings and enjoy a pragmatic regime dealing with income arising overseas. New Brit should continue to benefit from access to a strong network of tax treaties and the fiscal benefits of EU membership. A reduction in the Group's effective tax rate over time should enhance the return on New Brit shareholders' equity and the prospects for New Brit's shareholders.

2. The Scheme

If the Scheme is approved and becomes effective, it will result in (i) holders of Old Brit Shares becoming holders of the same number of New Brit Shares as the number of Old Brit Shares which they held immediately prior to the Scheme becoming effective and (ii) Old Brit becoming a wholly-owned subsidiary of New Brit. Under the Scheme, Old Brit Shareholders at the Scheme Record Time will receive, in exchange for their Old Brit Shares, New Brit Shares on the following basis:

for every one Old Brit Share

one New Brit Share

Accordingly, immediately upon the Scheme becoming effective, a New Brit Shareholder will effectively have the same proportionate interest in the profits, net assets and distributions of the Group as it had as an Old Brit Shareholder immediately before the Scheme became effective.

3. The Group

The Group is an international general insurance and reinsurance group specialising in commercial insurance.

| <i>Geography (£ million)</i> | <i>Gross written premiums Year ended 31 December</i> | | |
|----------------------------------|----------------------------------------------------------|----------------|----------------|
| | <i>2008</i> | <i>2007</i> | <i>2006</i> |
| UK | 403.5 | 335.7 | 339.1 |
| Europe (excl. UK) | 100.9 | 70.2 | 63.9 |
| United States | 348.5 | 356.1 | 382.3 |
| Other | 541.7 | 502.9 | 451.0 |
| | <u>1,394.6</u> | <u>1,264.9</u> | <u>1,236.3</u> |

The Group underwrites through three internal strategic business units (SBUs) – Brit Global Markets, Brit Reinsurance and Brit UK. Each of the SBUs underwrites through the regulated platforms of BIL and BSL (as managing agent of the Syndicate). In 2008, BIL wrote 48.7 per cent. of the Group's business (2007: 48.7 per cent.).

BIL's financial strength rating from Fitch Ratings is 'A' (Strong) with a stable outlook and from A.M. Best 'A' (Excellent) with a stable outlook. Lloyd's financial strength rating is 'A' (Excellent) with a stable outlook from A.M. Best and 'A+' (Strong) with a stable outlook from Fitch Ratings and Standard & Poor's.

The Group distributes its products through brokers, other intermediaries and electronic channels and uses delegated authorities to distribute products into local markets, both within the UK and internationally.

It is core to the Group's strategy to run a diverse portfolio of insurance risks as part of the effective management of the insurance cycle and to reduce the potential adverse impact on the Group of any one event or series of related events.

4. History and development of the Group

Old Brit was listed on the Official List in 1995 as The Benfield & Rea Investment Trust PLC with the principal focus of investing in Lloyd's investment vehicles and unquoted insurance investments and was granted investment trust status for its first accounting period. In 1996, Old Brit acquired HCG Lloyd's Investment Trust plc, a Lloyd's spread vehicle. In 1999, Old Brit acquired Wren plc, an emerging integrated Lloyd's vehicle, and consequently

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ceased to qualify as an investment trust and re-listed as a trading company. In the same year, the Group also completed the acquisition of BIL which is now a London market UK FSA regulated company writing both insurance and reinsurance business.

During 2000, the Group evolved as an underwriter of direct and reinsurance business and rationalised its Lloyd's underwriting into one corporate member, Brit UW Limited. The following year BIL was rated 'A' by Fitch Ratings and 'A-' by A.M. Best, and the Group's syndicates 250, 735, 800 and 1202 were consolidated into one, which is the Syndicate.

Following the 2001 US terror attack losses, in December 2001 and October 2002, Old Brit raised approximately £350 million in total through equity issues and loan stock in order to benefit from the improved rating climate and to enable it to support increased levels of anticipated underwriting business in subsequent years.

In 2003, the Group's gross written premiums exceeded £1 billion and BIL was upgraded to 'A' (Excellent) by A.M. Best, being one of the few upgrades in the insurance industry at a time of general downgrades. In the same year, the Group acquired PRI Group plc (a specialist insurance group underwriting a range of professional and legal liability insurances) by way of an all share takeover offer at a value of £173.5 million. Following the acquisition, Professional Risks Insurance Limited (a wholly-owned subsidiary of PRI Group plc) was renamed Brit Insurance (UK) Limited and became a wholly-owned subsidiary of BIL. The gross assets and liabilities of Brit Insurance (UK) Limited were transferred to BIL by way of a transfer under Part VII of UK FSMA in February 2007.

In 2004, the Group completed the restructuring of its underwriting operation into three underwriting centres: London Market, Reinsurance and UK and opened a UK network of regional offices.

At the end of 2005, following a series of natural catastrophes of extreme frequency and severity, the Group issued a £150 million subordinated bond. The issue was more than two-and-a-half-times subscribed and provided the Group with new long-term capital qualifying as lower tier two capital for regulatory purposes.

In 2006, Old Brit received shareholder approval to a share consolidation designed to facilitate a more appropriate trading range for its shares. In the same year, the Group invested US\$21 million for a 19.6 per cent. stake in Norton Holdings which, through its subsidiary Norton Re, wrote catastrophe retrocession business. Norton Re was placed into members' voluntary liquidation on 9 June 2008. The investment generated a return on capital of 27 per cent. for shareholders in Norton Holdings.

During 2007, the Group invested in an independent protected cell company, BIG based in Gibraltar which began writing business in 2008. BIG which operates from a single underwriting cell and was capitalised by the Group, forms part of the Group's overall risk management framework, allowing the Group to retain a selected part of the outwards reinsurance programmes of BIL and the Syndicate. In 2007, the Group disposed of its subsidiary interest in RI3K, whilst maintaining an associated undertaking interest in RI3K. The Group also disposed of part of its associated interest in Ebix, Inc. and disposed of its interest in Epic Asset Management Limited.

In December 2007, Old Brit entered into a revolving loan facility for up to £150 million with the Royal Bank of Scotland plc and certain other participating financial institutions, for general working capital purposes.

Following the success of Norton Re, in December 2007, the Group invested US\$20 million for a 16.9 per cent. stake in a successor business, Norton II Holdings, a new vehicle set up to participate in the 2008 renewal season.

Norton II Holdings was placed into members' voluntary liquidation on 26 March 2009, and the first distribution to BICL of approximately US\$9.1 million was made by the liquidator on 9 April 2009. A further distribution of approximately US\$4 million was made on 29 May 2009.

In 2007, the Group also announced a share buy-back programme of up to £50 million. In the period 2004 to 2008, the Group returned over £282 million to its shareholders by a combination of dividends and share buybacks.

In June 2008, the Group acquired a 38 per cent. interest in Xbridge, an electronic insurance trading platform, for £7 million. In connection with the investment, the Group made available to Xbridge a loan facility of £6 million. In October 2008, the Group acquired a 35 per cent. interest in Verex, an insurance intermediary active in motor business, for £7,500. In connection with the investment, Old Brit committed £4 million for loan notes in Verex

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and agreed to commit an additional £2 million for loan notes, subject to certain conditions being satisfied. Further details of Xbridge are set out in the section headed “Brit UK” below.

In 2009 the Group made a further capital injection into BIG increasing its stake to 100 per cent. of the equity and cell capital.

5. Strategy of the Group

Introduction

The Group’s aim is to increase the size, scale and diversity of its business in order to consolidate its position as an international general insurance and reinsurance group. The Group expects to achieve its goal by entering new territories and capital markets, through organic growth or (if appropriate opportunities arise) by acquisition, using different distribution channels and targeting small and medium sized clients. By using capital structure optimisation and attracting third party capital the Group aims to improve the return on its equity.

The Board believes that international diversification is a logical extension of the product diversification that already exists within the Group and the Board plans to consider opportunities to establish a broader geographic footprint going forward. Building on the Group’s approach to Norton, Fremantle, and BIG (further information on which can be found in paragraph 6 of Chapter 13 – “General Information”), the Group proposes to develop revenue streams which are not capital intensive to complement its insurance activities.

Upon the Scheme becoming effective, the parent company of the Group will be New Brit. The Group underneath New Brit once the Scheme becomes effective will include all of the companies in the existing Group and will encompass the current regulated insurance platforms of Old Brit. These are BIL, which is regulated by the UK FSA, BSL (as managing agent of the Syndicate), which is also regulated by the UK FSA and over which Lloyd’s has certain supervisory authority and BIG which is regulated by the Gibraltar Financial Services Commission.

It is intended that BIG, which is currently a wholly-owned subsidiary of Old Brit, will become a wholly-owned subsidiary of BOH.

Capitalisation of insurance companies

It is proposed that the three regulated insurance platforms of the Group under New Brit (BIL, the Syndicate and BIG) will be capitalised to at least Individual Capital Adequacy (ICA) requirements and, when introduced, to Solvency II requirements. Such capital may be in excess of minimum regulatory requirements. The level of capital held in a Group insurance company may also be increased to facilitate financial ratings for that company.

Intra-group reinsurance

The Group currently manages a proportion of its risk capital through intra-group reinsurance arrangements. It is expected that the level of such reinsurance arrangements will increase progressively in the Group, following the Scheme becoming effective, subject to a continuous review.

6. Organisational structure and description of the business of the Group

The management, underwriting and claims handling resources of the Group are spread across the three SBUs, Brit Global Markets, Brit Reinsurance and Brit UK, and this will continue to be the case if the Scheme proceeds. The contribution of each SBU to the Group’s 2008 gross written premiums is set out in the table below.

| <i>SBU</i> | <i>Percentage of Group’s ongoing gross written premiums</i> |
|---------------------|-------------------------------------------------------------|
| Brit Global Markets | 56.1 |
| Brit Reinsurance | 18.7 |
| Brit UK | 25.2 |
| Total | 100.0 |

Brit Global Markets

Brit Global Markets, led by Matthew Wilson, has over 60 underwriters with an average of over 20 years’ experience, who are engaged in attracting, retaining and managing business.

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This SBU provides a range of insurance products for SME and large corporate clients worldwide and business is written both in BIL and the Syndicate. Brit Global Markets' competitive advantages include its strong relationships with the major Lloyd's and London brokers and a variety of coverholders globally, experienced underwriting and claims teams and the positive security ratings of Lloyd's and BIL. This SBU is the lead insurer of a high number of accounts and has a broad client base with a comparatively small average line size.

The Board anticipates that development in Brit Global Markets will continue to be aided by the recent strengthening of the Group's personal accident and international property teams, as well as the creation of a wholly-owned MGA in Chicago which should strengthen the Group's distribution and franchise in a key territory.

In 2008, 31.7 per cent. of the Brit Global Markets business was underwritten by BIL and 68.3 per cent. by the Syndicate.

The spread of risks by class and financial highlights of this SBU during 2008 are shown in the tables below.

| <i>Classes of Business</i> | <i>%</i> |
|----------------------------|--------------|
| Accident & Health | 18.4 |
| Aerospace | 2.6 |
| Financial & Professional | 39.5 |
| Marine | 23.5 |
| Property | 16.0 |
| Total | 100.0 |

2008 Performance

| | |
|---------------------------|----------------|
| Gross written premiums | £781.3 million |
| Profit before tax | £31.5 million |
| Risks led (by value) | 57.7% |
| Retention rate (by value) | 76.6% |
| Combined ratio | 96.4% |

Brit Reinsurance

Brit Reinsurance, led by Jonathan Turner, comprises a team of more than 10 specialist lead underwriters with an average of over 24 years' experience. This SBU offers customers a multi-class underwriting capability supported by quality services in claims handling, wording and documentation.

Brit Reinsurance writes a diverse book of international business in Lloyd's and in the London, North American, Continental European, Asian and Australasian markets, using both BIL and the Syndicate. All of the SBU's business is produced via brokers, augmented by its existing contact offices in Europe and Australia. The SBU's customer base includes both global and domestic insurance and reinsurance companies, mutual insurers, Lloyd's syndicates and captives. Brit Reinsurance benefits from strong relationships with the major London brokers, a leadership position on a high proportion of accounts and a broad client base with a scaleable line size.

In 2008, 47.6 per cent. of Brit Reinsurance business was underwritten by BIL with the remaining 52.4 per cent. by the Syndicate.

The spread of risks by class and financial highlights of this SBU during 2008 are shown in the tables below.

| <i>Classes of Business</i> | <i>%</i> |
|-------------------------------|--------------|
| Property Treaty North America | 31.3 |
| Property Treaty International | 21.2 |
| Casualty Treaty | 31.7 |
| Marine XL | 6.8 |
| Aviation XL | 6.3 |
| Reinsurance Other | 2.7 |
| Total | 100.0 |

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2008 Performance

| | |
|---------------------------|----------------|
| Gross written premiums | £260.7 million |
| Profit before tax | £27.2 million |
| Risks led (by value) | 33.9% |
| Retention rate (by value) | 82.8% |
| Combined ratio | 91.7% |

Brit UK

Brit UK, led by Peter Burrows, has a team of over 70 underwriters with an average of over 15 years' experience. The business operates in the UK marketplace through nine regional offices (including one in London).

Brit UK is essentially focused on UK-domiciled small and mid-market enterprises with a turnover of up to £300 million, although some international liability exposures are written by the London based specialist liability team. This SBU writes some personal lines business, including mid-net worth household and private motor insurance. Rates on commercial motor, property, professional indemnity, personal lines motor and household books have increased, whilst rates on liability have been broadly flat. Accordingly, Brit UK has focused on those classes where rates have held up such as personal lines and micro-commercial business (offset by small reductions in premiums written in the London liability portfolio).

The Group has invested in Xbridge, an electronic trading platform that enables small to medium sized UK commercial insureds (whose insurance needs are typically more standardised) to receive competing insurance quotes online and to select, buy and receive policy documentation through electronic interchange. The Group has also invested in Verex, an organisation providing a range of services to motor manufacturers including insurance. Both these propositions play to the market segmentation plan of Brit UK and complement the SBU's more personalised regional based offering.

Brit UK's risk portfolio complements the other SBUs by adding to the Group's diversified underwriting portfolio. The spread of risks by class and financial highlights of this SBU during 2008 are shown in the tables below.

| | |
|--------------------------------|--------------|
| <i>Classes of Business</i> | <i>%</i> |
| Employers'/Public Liability | 29.5 |
| Professional Indemnity/D&O | 9.7 |
| Motor | 24.9 |
| Property & Commercial/Packages | 35.9 |
| Total | 100.0 |

2008 Performance

| | |
|---------------------------|----------------|
| Gross written premiums | £350.6 million |
| Profit before tax | £33.8 million |
| Risks led (by value) | 91.2% |
| Retention rate (by value) | 78.0% |
| Combined ratio | 99.3% |

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7. Employees

The table below sets out the number of Group employees by category as at the dates indicated.

| <i>Employee by Activity</i> | <i>Year ended 31 December</i> | | | | | |
|-----------------------------|-------------------------------|--------------|-------------------|--------------|-------------------|--------------|
| | <i>2008</i> | | <i>2007</i> | | <i>2006</i> | |
| | <i>No</i> | <i>%</i> | <i>No</i> | <i>%</i> | <i>No</i> | <i>%</i> |
| Underwriting | 301 | 41.5 | 306 | 41.5 | 270 | 38.4 |
| Claims | 93 | 12.8 | 113 | 15.3 | 114 | 16.2 |
| Operations & IT | 179* | 24.7 | 155 | 21.0 | 146 | 20.7 |
| Finance & Actuarial | 91 | 12.6 | 100 | 13.5 | 100 | 14.2 |
| Other | 61 | 8.4 | 64 | 8.7 | 74 | 10.5 |
| | <u>725</u> | <u>100.0</u> | <u>738</u> | <u>100.0</u> | <u>704</u> | <u>100.0</u> |
| RI3K | — | — | — | — | 39 | — |
| TOTAL | <u><u>725</u></u> | | <u><u>738</u></u> | | <u><u>743</u></u> | |

* Includes 17 internal transfers

As at 30 June 2009, group employees totalled 717.

8. Insurance regulation

Introduction

The Group operates in a highly regulated industry. The carrying on of insurance and reinsurance business is a regulated activity in the United Kingdom and Gibraltar.

The activities of various Group companies in the United Kingdom are regulated by the UK FSA and by the Council of Lloyd's (pursuant to UK FSA requirements). The activities of BIG are regulated by the FSC. The UK FSA, the Council of Lloyd's and the FSC have substantial powers of intervention in relation to the companies they regulate, culminating in the ultimate sanction of the removal of authorisation to carry on insurance and/or reinsurance business.

Controlling holdings under UK law and regulation

The UK FSA regulates the acquisition of "control" of any person authorised under UK FSMA. BIL and BSL are UK FSA Authorised Persons. Any company or individual that (together with its or his associates) directly or indirectly acquires 10 per cent. or more of the shares in a UK Authorised Person or its parent company, or is entitled to exercise or control the exercise of 10 per cent. or more of the voting power in such Authorised Person or its parent company, would be considered to have acquired "control" for the purposes of UK FSMA, as would a person who had significant influence over the management of such Authorised Person or its parent company by virtue of his shareholding or voting power in either. A purchaser of 10 per cent. or more of the New Brit Shares following the Scheme Effective Date would therefore be considered to have acquired "control" of BIL and BSL.

Under UK FSMA, any person proposing to acquire control over a UK Authorised Person must give prior notification to the UK FSA of his intention to do so. The UK FSA has three months to consider that person's application to acquire control. In considering whether to approve such application, the UK FSA must be satisfied that both the acquirer is a fit and proper person to have such "control" and that the interests of consumers would not be threatened by such acquisition of "control." Failure to make the relevant prior application could result in action being taken against BIL or BSL by the UK FSA. It could also result in criminal sanctions being applied to the proposed controller, and restrictions on the exercise of rights connected to the acquired shares, and an order for the sale or transfer of the improperly acquired shares.

Controlling holdings under Gibraltar law and regulation

The FSC regulates the acquisition of "control" of any person authorised under the Gibraltar Financial Services (Insurance Companies) Act 1987. BIG is so authorised. The rules relating to the acquisition of "control" of BIG under the Gibraltar Financial Services (Insurance Companies) Act 1987 are the same in all material respects as those described above with respect to BIL and BSL under UK FSMA.

8. MANAGEMENT, EMPLOYEES AND CORPORATE GOVERNANCE

Set out below is a summary of relevant information concerning the Directors, Senior Managers and other employees of the Group. This Chapter also contains a brief description on corporate governance.

1. Management structure

New Brit has a one-tier board structure, comprising executive and non-executive Directors.

2. Directors and Senior Managers

2.1 *Composition of the Board*

The Board of New Brit currently comprises four of the existing Directors of Old Brit, John Barton, Dane Douetil, Matthew Scales and Cees Schrauwens and will be expanded so as to comprise all of the existing Directors of Old Brit with effect from the Scheme Effective Date. At least two Dutch resident persons will be appointed to the Board of New Brit as non-executive directors either by, or within 12 months of, the Scheme Effective Date.

With effect from the Scheme Effective Date, the Board of New Brit will comprise two executive Directors, the Chief Executive Officer and the Finance Director (the “**Executive Directors**”), and six non-executive Directors (the “**Non-Executive Directors**”) of Old Brit. The Directors, their functions and relevant management expertise and experience are set out below:

John Barton, Chairman (date of birth: 23 August 1944)

John was appointed to the Board of Old Brit in 2007 as Deputy Chairman, succeeded Clive Coates as Chairman of Old Brit in May 2008 and joined the Nomination Committee in March 2009. 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 & Wireless PLC. He was Chief Executive Officer 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.

Dane Douetil CBE, Chief Executive Officer (date of birth: 28 July 1960)

Dane was appointed Chief Executive Officer of Old Brit in 2005 having been Deputy Chief Executive Officer since March 2004 and an Executive Director since 1999.

In 1998 Dane joined BIL and was appointed as its Chief Executive Officer. In 2002 he was appointed Chief Executive Officer of BSL and Group Head of Underwriting.

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 to 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 Association of British Insurers in 2009, was on the board of the Lloyd’s Market Association from 2004 to 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 CBE in 2007 for services to business.

Matthew Scales, Finance Director (date of birth: 21 May 1954)

Matthew joined the Board of Old Brit as Finance Director in 1999.

He has been Finance Director of BIL since 1993 and was appointed Finance Director of BSL in 2004.

Matthew 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 to 1993 and Group Financial Controller of Benfield Group plc from 1996 to 1999.

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

Kenneth Culley CBE, Non-Executive Director (date of birth: 3 June 1942)

Ken was appointed as a Non-Executive Director of Old Brit in February 2007 and is a member of its Audit, Nomination and Remuneration Committees. He has been a Non-Executive Director of BIL since 2000 and was Chairman of that company from 2003 to 2007. He has been a Non-Executive Director of BSL since 2004.

Ken was formerly Chief Executive Officer 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 to 2005, a non-executive director of JP Morgan Fleming Managed Income plc from 2000 to 2002 and a non-executive director then chairman of JP Morgan Elect plc from 1999 to 2007.

He was appointed a CBE in 1998 for services to the Building Society movement.

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

Peter Hazell, *Non-Executive Director* (date of birth: 4 August 1948)

Peter joined the Board of Old Brit in 2004 and is Chairman of its Audit Committee and a member of its 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 and a non-executive director of UK Coal PLC and Smith & Williamson Holdings Limited. He is a member of the Competition Commission and the Natural Environment Research Council and a trustee of The Oval Cricket Relief Trust.

Joe MacHale, *Non-Executive Director* (date of birth: 17 August 1951)

Joe was appointed to the Board of Old Brit in 2005 and is Chairman of its Remuneration Committee and a member of its Audit Committee.

He held a number of senior positions with J P Morgan between 1979 and 2001 and was most recently Chief Executive Officer of J.P. 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 and a Trustee of Macmillan Cancer Support.

Cees Schrauwers, *Senior Independent Director* (date of birth: 21 February 1947)

Cees joined the Board of Old Brit in 2005 and became its Senior Independent Director in 2006. He is a member of its Audit, Nomination and Remuneration Committees. Cees was appointed as a Non-Executive Director of BIL and BSL 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.

Michael Smith, *Non-Executive Director* (date of birth: 30 May 1945)

Michael joined the Board of Old Brit in 2004 and is Chairman of its Nomination Committee and a member of its Audit and Remuneration Committees.

He is a former senior partner of Titmuss 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.

The business address of each of the Directors is New Brit, 13th Floor, ITO Toren, Gustav Mahlerplein 82, 1082 MA Amsterdam.

2.2 *Senior Managers*

The Senior Managers who are relevant to establishing that the Group has the appropriate expertise and experience to manage its business (other than the Directors) and their functions in the Group are as follows:

Peter Goddard (date of birth: 4 March 1958)

In 2000, Peter joined Old Brit as Group Company Secretary becoming Commercial Director to the Group in 2009.

Prior to this, Peter worked at English & American Group, a former Bowring subsidiary, where he became Group Secretary in 1989, and then at Head Companies LLC where he became a founding director of the insurance outsourcer, TSS Eastgate Group (now Capita Insurance Services), responsible for claims and legal.

Peter is a member of the Risk Management Committee of the Lloyd's Market Association.

Peter Burrows (date of birth: 3 May 1953)

Peter was appointed Chief Executive Officer of Brit UK on 1 July 2006. Prior to this, he was Managing Director, UK Commercial of Zurich Financial Services for just over five years.

The bulk of Peter's career has been spent at RSA (Sun Alliance) where he held a number of senior positions with responsibility for sales, marketing, underwriting, distribution and risk services. During this period, he also spent time as managing director of National Vulcan, the engineering insurance and inspection subsidiary of Sun Alliance. Prior to joining Zurich he was director, UK Regions of RSA.

Jonathan Turner (date of birth: 16 March 1969)

Jonathan joined Old Brit in June 2005 as Reinsurance Underwriting Director. He joined Old Brit's Executive Management Committee in April 2006 and, following a change of structure, he became Chief Executive Officer of Brit Reinsurance in May 2007. In May 2008 he was appointed Active Underwriter of the Syndicate at Lloyd's of London, managed by BSL.

Before working at Old Brit, Jonathan joined the underwriting team of Allstate Reinsurance in 1991. Specialising in Motor and Casualty Excess of Loss reinsurance, Jonathan was part of QBE's acquisition of Allstate in late 1996. Thereafter, he held various underwriting management roles, most recently as the Director of Underwriting of the Reinsurance division of QBE Re, a role that covered the various class specialist underwriting teams across the London and Dublin company locations.

Matthew Wilson (date of birth: 10 March 1970)

Matthew joined Old Brit in 1999 to start the International Property division, becoming Divisional Director in 2001. In addition to his responsibilities for the property account, Matthew became Divisional Director for Old Brit's Space and Accident and Health Divisions in 2005 and 2007 respectively.

Matthew was promoted to Chief Executive Officer of Brit Global Markets in April 2008 and became a member of the EMC with effect from January 2009.

Matthew began his career in 1988 working for a Lloyd's syndicate, Sturge 204 (now assumed by ACE European Group), rising to class underwriter for property in 1997.

Malcolm Beane (date of birth: 26 October 1954)

Malcolm joined and was appointed as Chief Operating Officer of Old Brit on 21 September 2009, and joined the EMC on 22 September 2009.

Prior to his appointment, Malcolm was at XL Capital, where he was Chief Processing Officer, responsible for the company's global insurance operations, administration and business architecture. Malcolm also held a number of positions at XL Capital including Chief Operating Officer XL Insurance, Global Head of HR Service Delivery and previously, Global Business Partner of Global Risk and Regional Head of HR. Before joining the insurance industry, Malcolm worked at JP Morgan holding a number of senior HR and operational roles.

2.3 Remuneration

In the financial year ended 31 December 2008, the remuneration paid (including contingent or deferred compensation) and benefits in kind granted to each of the Directors and Senior Managers by members of the Group was as follows:

| <i>Name</i> | <i>Salary/Fee (£'000)</i> | <i>Bonus (£'000)</i> | <i>Benefits (£'000)</i> | <i>Pension (£'000)</i> | <i>Total (£'000)</i> |
|----------------------------|-------------------------------|--------------------------|-----------------------------|----------------------------|--------------------------|
| John Barton ¹ | 132 | — | — | — | 132 |
| Dane Douetil | 506 | 256 | 1 | 82 | 845 |
| Matthew Scales | 341 | 173 | 17 | 81 | 612 |
| Kenneth Culley | 67 | — | — | — | 67 |
| Peter Hazell | 73 | — | — | — | 73 |
| Joe MacHale | 65 | — | — | — | 65 |
| Cees Schraauwers | 87 | — | — | — | 87 |
| Michael Smith | 67 | — | — | — | 67 |
| Peter Goddard | 246 | 115 | 1 | 61 | 423 |
| Peter Burrows | 231 | 129 | 1 | 55 | 416 |
| Jonathan Turner | 268 | 150 | 1 | 53 | 472 |
| Matthew Wilson | 233 | 141 | 1 | 39 | 414 |
| Malcolm Beane ² | — | — | — | — | — |

1 The fees stated for John Barton are for his position as Deputy Chairman of Old Brit to 15 May 2008 and Chairman of Old Brit from that date.

2 Malcolm Beane was appointed as Chief Operating Officer of Old Brit on 21 September 2009.

2.4 Directors' and Senior Managers' service agreements and letters of appointment

Executive Directors' and Senior Managers' service agreements

The Executive Directors have each entered into a service agreement with Old Brit and BGSL, details of which are set out below.

The Executive Directors of Old Brit have been appointed to the Board of New Brit and will enter into new arrangements with the Group, in respect of their service agreements, in connection with the Proposals. The new arrangements will be on substantially the same terms as their existing arrangements with Old Brit and BGSL.

The Senior Managers of Old Brit have each entered into a service agreement with BGSL, details of which are set out below. The Senior Managers' service agreements with BGSL will remain in place.

| <i>(a) Individual</i> | <i>Date of Agreement</i> |
|-----------------------|--------------------------|
| Dane Douetil | 28 March 2007 |
| Matthew Scales | 18 May 2007 |
| Peter Goddard | 1 April 2003 |
| Peter Burrows | 3 July 2006 |
| Jonathan Turner | 1 June 2005 |
| Matthew Wilson | 1 May 2008 |
| Malcolm Beane | 21 September 2009 |

(b) The service agreements for each of the Executive Directors, Peter Goddard and Matthew Wilson are terminable on 12 months' written notice by either party. The service agreements for each of Peter Burrows, Jonathan Turner and Malcolm Beane are terminable on 6 months' written notice. In the event of early termination, when determining the amount of compensation that is paid, the Remuneration Committee will take into account the departing Executive Director or Senior Manager's duty to mitigate his loss.

(c) Each Director or Senior Manager is entitled to membership of a private medical insurance scheme, permanent health insurance, life assurance and death in service benefit.

(d) The service agreement of Matthew Scales has the provision for a company car.

- (e) The base salary of each Director and Senior Manager is subject to annual review with effect from 1 April each year.
- (f) The service agreements provide for the Executive Directors and Senior Managers to be members of various defined contribution pension schemes of the Group, or provide for the Group to make contributions into personal pensions of the relevant Executive Director or Senior Manager.
- (g) Each of the Executive Directors and Senior Managers is eligible for a discretionary annual bonus as determined by the Remuneration Committee and the Chief Executive Officer. Each of the Executive Directors and Senior Managers is also eligible for annual long-term incentive awards, details of which are set out in paragraphs 2.5 and 3 of this Chapter.

Non-Executive Directors' letters of appointment

Non-Executive Directors are appointed for fixed terms of three years and may be appointed for future terms. The following Non-Executive Directors have entered into letters of appointment with Old Brit in respect of their services as Non-Executive Directors, details of which are set out below.

John Barton and Cees Schrauwens have been appointed to the Board of New Brit. Each of the other Non-Executive Directors of Old Brit will be appointed to the Board of New Brit with effect from the Scheme Effective Date. Each Non-Executive Director will enter into a letter of appointment with New Brit. The new arrangements will be on substantially the same terms as the existing arrangements with Old Brit.

| <i>Non-Executive Director</i> | <i>Date of appointment</i> | <i>Expiry of appointment</i> |
|-------------------------------|----------------------------|------------------------------|
| John Barton | 1 October 2007 | 31 December 2010 |
| Ken Culley | 28 February 2007 | 27 February 2010 |
| Peter Hazell | 1 April 2004 | 31 March 2010 |
| Joe MacHale | 9 November 2005 | 8 November 2011 |
| Cees Schrauwens | 1 June 2005 | 31 May 2011 |
| Michael Smith | 8 March 2004 | 7 March 2010 |

The appointments of Peter Hazell, Joe MacHale, Cees Schrauwens and Michael Smith were each extended for a second three year term commencing 1 April 2007, 9 November 2008, 1 June 2008 and 8 March 2007 respectively.

Non-Executive Directors' letters of appointment are terminable on three months' notice, save for John Barton whose letter of appointment is terminable on 12 months' notice. A Non-Executive Director is not entitled to any benefits upon termination of his letter of appointment.

2.5 *Directors' and Senior Managers' interests*

- (a) On the Scheme becoming effective, assuming that no further Old Brit Shares have been purchased or issued after the Latest Practicable Date, the Directors and Senior Managers will have the following beneficial interests in New Brit Shares by virtue of the effect of the Scheme on their Old Brit Shares.

| <i>Director/Senior Manager</i> | <i>No. of Old Brit Shares*</i> | <i>No. of New Brit Shares*</i> | <i>% of issued share capital</i> |
|--------------------------------|--------------------------------|--------------------------------|----------------------------------|
| John Barton | 70,000 | 70,000 | 0.022 |
| Dane Douetil | 636,701 | 636,701 | 0.202 |
| Matthew Scales | 275,677 | 275,677 | 0.088 |
| Kenneth Culley | 23,412 | 23,412 | 0.007 |
| Peter Hazell | 0 | 0 | 0.000 |
| Joe MacHale | 60,000 | 60,000 | 0.019 |
| Cees Schrauwens | 11,666 | 11,666 | 0.004 |
| Michael Smith | 10,000 | 10,000 | 0.003 |
| Peter Goddard | 101,907 | 101,907 | 0.032 |
| Peter Burrows | 35,646 | 35,646 | 0.011 |
| Jonathan Turner | 87,049 | 87,049 | 0.028 |
| Matthew Wilson | 45,579 | 45,579 | 0.015 |
| | <u>1,357,637</u> | <u>1,357,637</u> | <u>0.43</u> |

* Personal holding plus ESOP Partnership Shares and BSMP Investment Shares

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The interests of the Directors and Senior Managers together represent approximately 0.43 per cent. of the issued share capital of Old Brit in existence as at the Latest Practicable Date.

In addition to their having an interest in 1,357,637 Old Brit Shares as detailed in paragraph 2.5 (a) above, certain of the Directors and Senior Managers also had interests in Old Brit Shares as at the date referred to in paragraph 2.5 (a) above as a result of their participation in the Old Brit Share Schemes. Details of the interests which Directors and Senior Managers will have in New Brit Shares by virtue of the effect of the Scheme on these interests are set out in paragraphs 2.5 (b), (c) and (d) below of this Chapter and are not included in the table above.

- (b) The interests of the Directors and Senior Managers in New Brit resulting from their participation in the Old BSMP and Old PSP will be as follows:

| <i>Director/Senior Manager</i> | <i>Scheme*</i> | <i>Award date</i> | <i>Number of shares as at the Latest Practicable Date</i> | <i>Vesting date</i> | <i>Expiry date</i> |
|------------------------------------|-----------------|-------------------|-----------------------------------------------------------------------|---------------------|--------------------|
| Dane Douetil | <i>Old BSMP</i> | 05/08/2009 | 7,378 | 05/08/2012 | 05/02/2013 |
| | <i>Old BSMP</i> | 26/06/2009 | 201,040 | 26/06/2012 | 26/12/2012 |
| | <i>Old BSMP</i> | 09/04/2008 | 251,991 | 09/04/2011 | 09/10/2011 |
| | <i>Old BSMP</i> | 31/05/2007 | 164,463 | 31/05/2010 | 31/11/2010 |
| | <i>Old PSP</i> | 05/08/2009 | 937 | 05/08/2012 | 05/02/2013 |
| | <i>Old PSP</i> | 26/06/2009 | 167,487 | 26/06/2012 | 26/12/2012 |
| | <i>Old PSP</i> | 10/03/2008 | 122,103 | 10/03/2011 | 10/09/2011 |
| | <i>Old PSP</i> | 16/10/2007 | 142,837 | 16/10/2010 | 16/04/2011 |
| | Total | | 1,058,236 | | |
| Matthew Scales | <i>Old BSMP</i> | 26/06/2009 | 141,150 | 26/06/2012 | 26/12/2012 |
| | <i>Old BSMP</i> | 09/04/2008 | 161,221 | 09/04/2011 | 09/10/2011 |
| | <i>Old BSMP</i> | 31/05/2007 | 69,540 | 31/05/2010 | 31/11/2010 |
| | <i>Old PSP</i> | 26/06/2009 | 112,857 | 26/06/2012 | 26/12/2012 |
| | <i>Old PSP</i> | 10/03/2008 | 82,715 | 10/03/2011 | 10/09/2011 |
| | <i>Old PSP</i> | 16/10/2007 | 96,761 | 16/10/2010 | 16/04/2011 |
| | Total | | 664,244 | | |
| Peter Goddard | <i>Old BSMP</i> | 26/06/2009 | 65,562 | 26/06/2012 | 26/12/2012 |
| | <i>Old BSMP</i> | 09/04/2008 | 110,031 | 09/04/2011 | 09/10/2011 |
| | <i>Old BSMP</i> | 31/05/2007 | 73,664 | 31/05/2010 | 31/11/2010 |
| | <i>Old PSP</i> | 26/06/2009 | 81,012 | 26/06/2012 | 26/12/2012 |
| | <i>Old PSP</i> | 10/03/2008 | 59,969 | 10/03/2011 | 10/09/2011 |
| | <i>Old PSP</i> | 16/10/2007 | 70,152 | 16/10/2010 | 16/04/2011 |
| | Total | | 460,390 | | |
| Peter Burrows | <i>Old BSMP</i> | 26/06/2009 | 105,796 | 26/06/2012 | 26/12/2012 |
| | <i>Old BSMP</i> | 09/04/2008 | 52,319 | 09/04/2011 | 09/10/2011 |
| | <i>Old BSMP</i> | 31/05/2007 | 26,519 | 31/05/2010 | 31/11/2010 |
| | <i>Old PSP</i> | 26/06/2009 | 76,435 | 26/06/2012 | 26/12/2012 |
| | <i>Old PSP</i> | 10/03/2008 | 65,162 | 10/03/2011 | 10/09/2011 |
| | <i>Old PSP</i> | 24/12/2007 | 57,607 | 16/10/2010 | 16/04/2011 |
| | Total | | 383,838 | | |

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| <i>Director/Senior Manager</i> | <i>Scheme*</i> | <i>Award date</i> | <i>Number of shares as at the Latest Practicable Date</i> | <i>Vesting date</i> | <i>Expiry date</i> |
|--------------------------------|-----------------|-------------------|-----------------------------------------------------------|---------------------|--------------------|
| Jonathan Turner | <i>Old BSMP</i> | 26/06/2009 | 117,816 | 26/06/2012 | 26/12/2012 |
| | <i>Old BSMP</i> | 09/04/2008 | 136,370 | 09/04/2011 | 09/10/2011 |
| | <i>Old BSMP</i> | 31/05/2007 | 103,131 | 31/05/2010 | 31/11/2010 |
| | <i>Old PSP</i> | 26/06/2009 | 89,959 | 26/06/2012 | 26/12/2012 |
| | <i>Old PSP</i> | 10/03/2008 | 62,656 | 10/03/2011 | 10/09/2011 |
| | <i>Old PSP</i> | 16/10/2007 | 73,295 | 16/10/2010 | 16/04/2011 |
| | Total | | 583,227 | | |
| Matthew Wilson | <i>Old BSMP</i> | 26/06/2009 | 83,162 | 26/06/2012 | 26/12/2012 |
| | <i>Old BSMP</i> | 09/04/2008 | 38,958 | 09/04/2011 | 09/10/2011 |
| | <i>Old BSMP</i> | 31/05/2007 | 88,397 | 31/05/2010 | 31/11/2010 |
| | <i>Old PSP</i> | 26/06/2009 | 81,781 | 26/06/2012 | 26/12/2012 |
| | <i>Old PSP</i> | 21/05/2008 | 110,537 | 21/05/2011 | 21/11/2011 |
| | <i>Old PSP</i> | 10/03/2008 | 34,210 | 10/03/2011 | 10/09/2011 |
| | Total | | 477,064 | | |
| Malcolm Beane | <i>Old PSP</i> | 21/09/2009 | 133,928 | 21/09/2012 | 20/03/2013 |
| | Total | | 133,928 | | |

* References to Old BSMP are to Old BSMP Matching Awards

- (c) The interests of the Directors and Senior Managers in New Brit resulting from their participation in the Old ESOS, Old Approved or Old Unapproved Schemes will be as follows:

| <i>Director/Senior Manager</i> | | <i>Number of shares as at the Latest Practicable Date</i> | <i>Exercise price</i> | <i>Vesting date</i> | <i>Expiry date</i> |
|--------------------------------|-----------------|-----------------------------------------------------------|-----------------------|---------------------|--------------------|
| Dane Douetil | Old ESOS | 69,003 | 235.50p | 18/10/2007 | 18/10/2014 |
| Matthew Scales | Old ESOS | 63,694 | 235.50p | 18/10/2007 | 18/10/2014 |
| Peter Goddard | Old Unapproved* | 41,666 | 340.50p | 07/06/2004 | 07/06/2011 |
| | Old Unapproved* | 96,666 | 212.49p | 31/05/2005 | 31/05/2012 |
| Matthew Wilson | Old ESOS | 44,586 | 235.50p | 18/10/2007 | 18/10/2014 |
| | Old Approved | 2,937 | 340.50p | 07/06/2004 | 07/06/2011 |
| | Old ESOS | 15,260 | 235.50p | 18/10/2007 | 18/10/2014 |
| | | 333,812 | | | |

* These options will lapse and will not entitle Mr. Goddard to shares in New Brit (see also paragraph 3.4 below).

- (d) The interests of the Directors and Senior Managers in New Brit resulting from their participation in the Old ESOP will be as follows:

| <i>Director/Senior Manager</i> | <i>Free shares as at the Latest Practicable Date</i> | <i>Partnership shares as at the Latest Practicable Date</i> | <i>Matching shares as at the Latest Practicable Date</i> | <i>Total</i> |
|--------------------------------|------------------------------------------------------|-------------------------------------------------------------|----------------------------------------------------------|--------------|
| Dane Douetil | 1,793 | 5,187 | 2,580 | 9,560 |
| Matthew Scales | 1,793 | 5,187 | 2,580 | 9,560 |
| Peter Goddard | 1,627 | 4,349 | 2,157 | 8,133 |
| Peter Burrows | 560 | 0 | 0 | 560 |
| Jonathan Turner | 960 | 2,067 | 1,023 | 4,050 |
| Matthew Wilson | 1,793 | 5,188 | 2,579 | 9,560 |
| Malcolm Beane | 0 | 0 | 0 | 0 |

- (e) The interests in paragraph 2.5 (a) are based upon the interests of the Directors and Senior Managers in Old Brit Shares which (a) have been notified by each Director or Senior Manager to Old Brit pursuant to Chapter 3 of the UK Disclosure and Transparency Rules before the Latest Practicable Date, or (b) are interests of a connected person (within the meaning of the UK Disclosure and Transparency Rules) of a Director or Senior Manager which have been notified to Old Brit by each connected person (within the meaning of the UK Disclosure and Transparency Rules) pursuant to Chapter 3 of the UK Disclosure and Transparency Rules.
- (f) Save as set out above, no Director or Senior Manager of New Brit (nor any person connected with them) has any interests (beneficial or non-beneficial) in the share capital of New Brit.
- (g) Save as set out above, no Director or Senior Manager (nor any person connected with them) holds an interest in any other securities of the Group.

2.6 *Directors' and Senior Managers' other directorships and other disclosures*

- (a) Except as disclosed below, no Director or Senior Manager has been at any time during the five years preceding the date of this Prospectus a director (or otherwise a member of any administrative, management or supervisory body) or partner of any companies or partnerships other than the directorships or partnerships of any member of the Group from time to time:

| <i>Director/Senior Manager</i> | <i>Current Directorships/ Partnerships</i> | <i>Previous Directorships/ Partnerships</i> |
|--------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| John Barton | Cable & Wireless plc Matheson & Co. Limited Next PLC Orchid Cancer Appeal WH Smith PLC | Catlin Underwriting General Insurance Standards Council Hammerson PLC Open Europe Limited Smiths News PLC Vote No Limited Wellington Pension Trustee Limited WH Smith Retail Holdings Limited |
| Dane Douetil | Pool Reinsurance Company Limited Association of British Insurers | Lloyd's Market Association |
| Matthew Scales | | Epic Asset Management Limited Epic Investment Partners Limited Epic Specialist Investments Limited |
| Kenneth Culley | Ridgeway Estate Agents Limited Marks & Spencer Financial Services PLC 1st Credit (Funding) Limited | HIP Facilities Group Limited Investors Compensation Scheme Limited JP Morgan Elect plc Marks & Spencer Life Assurance Limited Marks & Spencer Retail Financial Services Holdings Ltd Marks & Spencer Savings and Investments Ltd Marks & Spencer Unit Trust Management Limited Financial Services Compensation Scheme |
| Peter Hazell | Argent (King's Cross) Limited Argent Estates Limited Argent Group plc Argent King's Cross GP Limited Argent Nominee 1 Limited Argent Nominee 2 Limited Argent Project No 4 Nominee Limited Argent Projects No 4 GP Limited Natural Environment Research Council Smith & Williamson Holdings Limited The Oval Cricket Relief Trust UK Coal PLC | Regulatory Policy Institute |

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| <i>Director/Senior Manager</i> | <i>Current Directorships/ Partnerships</i> | <i>Previous Directorships/ Partnerships</i> |
|--------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Joe MacHale | National Westminster Bank Public Limited Company The Royal Bank of Scotland Group Public Limited Company The Royal Bank of Scotland Public Limited Company Prytania Holdings Group LLP Macmillan Cancer Support | Galahad Finance Limited Morgan Crucible Company PLC |
| Cees Schraauwers | Drive Assist Holdings Limited Drive Assist UK Limited Guernsey Financial Services Commission Record PLC | ADVICSEA Limited ALIO Limited Canopus Holdings UK Ltd Canopus Managing Agents Limited Claims Management Group Limited CMGL Group Limited CMGL Holdings Limited Munich Re General (UK) PLC |
| Michael Smith | Cavell Managing Agency Limited CFC Underwriting Limited Horseshoe Wharf Management Limited Michael Smith Associates Limited The Foyle Foundation The National Hospital for Neurology and Neurosurgery Development Foundation Randall & Quilter Investment Holdings PLC The Oval Cricket Relief Trust Wigcave Investments Limited | |
| Jonathan Turner | Norton Holdings II Limited Norton Re II Insurance Limited | Norton Holdings Limited Norton Re Insurance Limited |
| Peter Burrows | Xbridge Limited | |

(b) Within the period of five years preceding the date of this document none of the Directors or the Senior Managers:

- has any convictions in relation to fraudulent offences;
- has been a director or senior manager (who is relevant to establishing that a company has the appropriate expertise and experience for the management of that company) of any company at the time of any bankruptcy, receivership or liquidation of such company;
- has received any official public incrimination and/or sanction by any statutory or regulatory authorities (including designated professional bodies) or has been disqualified by a court from acting as a director of a company or from acting in the management or conduct of the affairs of a company; or
- has any family relationship with any other Director or Senior Manager.

(c) Save as set out below, no Director or Senior Manager has any potential conflicts of interest arising from their private interests and/or duties that could conflict with their duties to the Group:

| <i>Director/Senior Manager</i> | <i>Potential conflicts</i> |
|--------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| John Barton | Shareholder in the Catlin Group, a competitor of the Group. |
| Dane Douetil | Non-executive director of Pool Reinsurance Company Limited for which the Group receives a fee. |
| Matthew Scales | Director of Brit Corporate Services Ltd which acts as corporate trustee of the Funded Unapproved Retirement Benefits Scheme (the “ FURB Scheme ”). Matthew is a potential beneficiary of the FURB Scheme. |

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| <i>Director/Senior Manager</i> | <i>Potential conflicts</i> |
|--------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Ken Culley | <p>Chairman of Marks & Spencer Financial Services plc which provides insurance-related services such as travel insurance (AXA), home insurance (Aviva); and motor insurance (administered by BISL).</p> <p>Past director of companies in the JP Morgan group. JP Morgan Cazenove Limited was appointed as Old Brit's joint corporate broker and financial adviser in January 2009.</p> |
| Peter Hazell | <p>Member of the Competition Commission which potentially could be required to make a judgment in relation to a transaction involving the Group.</p> |
| Joe MacHale | <p>Non-executive director of Royal Bank of Scotland Group plc (“RBS”). RBS provides banking services to the Group and runs an insurance business in direct competition to the Group.</p> <p>Ernst & Young act for the Group as its auditors and for Joe MacHale as his personal tax advisers.</p> <p>Past director of companies in the JP Morgan group. JP Morgan Cazenove Limited was appointed as Old Brit's joint corporate broker and financial adviser in January 2009.</p> |
| Michael Smith | <p>Michael Smith is a non-executive Director of CFC Underwriting Limited (“CFC”). CFC is a small managing general agent, majority-owned by Hyperion Holdings plc. It has a specialist e-sure account supported by binders from the Group and others in the London insurance market (principally at Lloyd's). CFC receives capital support from the Group which is material to CFC.</p> |
| Peter Goddard | <p>Peter is a Director of Brit Pension Trustee Ltd which is the Trustee of the BGSL Retirement Benefits Scheme and also a director of BGSL, the sponsoring employer of that scheme.</p> <p>Director of Brit Corporate Services Limited which acts as corporate trustee of the FURB Scheme. Peter is a potential beneficiary of the FURB Scheme.</p> |
| Cees Schrauwens | <p>Commissioner of Guernsey Financial Services Commission. Potential conflict should the Group engage in financial and insurance services related activities in Guernsey.</p> <p>Chairman of Drive Assist Holdings Limited. Potential conflict because of the relationships that it has with motor insurers as part of its motor assistance service.</p> |

3. Old Brit Share Schemes

As at the Latest Practicable Date (inclusive of the options and awards granted to Directors and Senior Managers disclosed in paragraph 2.5 (b), (c) and (d) above) employees and former employees of the Group held options and awards over Old Brit Shares as set out below.

On the Scheme Effective Date these options and awards will not vest or become exercisable as a consequence of the Scheme and will instead, in general, be exchanged for interests in New Brit Shares. Communications will be sent to participants in the Old Brit Share Schemes shortly, explaining the effect of the Scheme on their interests and informing them of the proposals which are being made to them in more detail. A brief summary of the position in respect of each of Old Brit's share plans is set out below.

No new options or awards will be granted under the Old Brit Share Schemes following the Scheme Effective Date.

3.1 *Old Brit Bonus Share Matching Plan 2007 (the “Old BSMP”)*

| <i>Date of grant</i> | <i>Number of investment shares at the Latest Practicable Date</i> | <i>Number of matching shares subject to awards at the Latest Practicable Date</i> | <i>Vesting Date for matching shares</i> |
|----------------------|-------------------------------------------------------------------|-----------------------------------------------------------------------------------|-----------------------------------------|
| 31/05/2007 | 330,369 | 1,745,521 | 31/05/2010 |
| 09/04/2008 | 457,003 | 2,369,444 | 09/04/2011 |
| 23/04/2009 | 134,336 | 699,608 | 23/04/2012 |
| 25/06/2009 | 194,513 | 1,002,171 | 25/06/2012 |
| 26/06/2009 | 20,341 | 96,455 | 26/06/2012 |
| 29/06/2009 | 5,336 | 27,385 | 29/06/2012 |
| 05/08/2009 | 1,480 | 7,378 | 05/08/2012 |
| Total | 1,143,378* | 5,947,962* | |

* There is in addition one participant with a phantom award under which he has the right to receive a cash payment equivalent to an award made under the Old BSMP of 17,429 investment shares and 94,084 matching shares vesting on 3 June 2011.

Subject to the changes described in the description of the New BSMP in paragraph 4.1 below, the terms of the Old BSMP are so far as material the same as the terms of the New BSMP.

In accordance with the rules of the Old BSMP, the Old Brit remuneration committee has determined that all awards will be exchanged for equivalent awards over New Brit Shares on the Scheme Effective Date. The replacement awards will be over the same number of shares, will have the same vesting date and will be subject to the same performance conditions and other terms as the original awards.

3.2 *Old Brit Performance Share Plan 2003 (the “Old PSP”)*

| <i>Date of grant</i> | <i>Number of shares subject to awards at the Latest Practicable Date</i> | <i>Vesting Date</i> |
|----------------------|--------------------------------------------------------------------------|---------------------|
| 22/05/2007 | 100,000 | 22/05/2010 |
| 16/10/2007 | 2,265,141 | 16/10/2010 |
| 22/10/2007 | 8,655 | 22/10/2010 |
| 21/12/2007 | 57,607 | 21/12/2010 |
| 10/03/2008 | 2,283,170 | 10/03/2011 |
| 21/05/2008 | 110,537 | 21/05/2011 |
| 26/06/2008 | 80,286 | 26/06/2011 |
| 26/11/2008 | 25,564 | 26/11/2011 |
| 12/03/2009 | 2,547,579 | 12/03/2012 |
| 15/04/2009 | 97,390 | 15/04/2012 |
| 19/05/2009 | 260,951 | 19/05/2012 |
| 26/06/2009 | 609,531 | 26/06/2012 |
| 05/08/2009 | 50,937 | 05/08/2012 |
| 21/09/2009 | 151,289 | 21/09/2012 |
| Total | 8,648,637 | |

Subject to the changes described in the description of the New PSP in paragraph 4.2 below, the terms of the Old PSP are so far as material the same as the terms of the New PSP.

In accordance with the rules of the Old PSP, all awards will automatically be exchanged for equivalent awards over New Brit Shares on the Scheme Effective Date. The replacement awards will be over the same number of shares, will have the same vesting date and will be subject to the same performance conditions and other terms as the original awards.

3.3 *Old Brit Executive Share Option Scheme 2003 (the “Old ESOS”)*

| <i>Date of grant</i> | <i>Number of shares subject to awards at the Latest Practicable Date</i> | <i>Vesting Date</i> |
|----------------------|--------------------------------------------------------------------------------------|---------------------|
| 18/10/2004 | 772,620 | 18/10/2007 |

Subject to the changes described in the description of the New ESOS in paragraph 4.3 below, the terms of the Old ESOS are so far as material the same as the terms of the New ESOS.

In accordance with the rules of the Old ESOS, all unapproved options will automatically be exchanged for equivalent options over New Brit Shares on the Scheme Effective Date.

Holders of approved options will also be offered the opportunity to exchange their options for equivalent options over New Brit Shares. Any approved options which are not exercised or exchanged for equivalent options within six months of the Court Hearing will lapse.

The replacement options will be over the same number of shares, will have the same exercise period and will be subject to the same terms as the original awards.

3.4 *1998 Approved and Unapproved Executive Share Option Schemes (the “Old Approved Scheme” and the “Old Unapproved Scheme” respectively and together the “Old Option Schemes”)*

| <i>Date of grant</i> | <i>Number of shares subject to awards at the Latest Practicable Date</i> | <i>Vesting Date</i> |
|----------------------|--------------------------------------------------------------------------------------|---------------------|
| 20/11/2000 | 15,764 | 20/11/2003 |
| 07/06/2001 | 70,483* | 07/06/2004 |
| | 41,666 | |
| 27/05/2002 | 9,456* | 27/05/2005 |
| 31/05/2002 | 273,162 | 31/05/2005 |
| 05/06/2002 | 20,000 | 05/06/2005 |
| 06/02/2003 | 15,149* | 06/02/2006 |
| Total | 445,680 | |

* Options awarded under an HMRC approved part of the scheme

The terms of the Old Option Schemes are, so far as material, the same as the terms of the Old ESOS, save that they do not contain provisions for automatic rollover of unapproved options.

Any options under the Old Option Schemes which are not exercised or exchanged for equivalent options within one month of the Scheme Effective Date will lapse. Holders of options under the Old Approved Scheme will be offered the opportunity to exchange their options for equivalent options over New Brit Shares. Holders of options under the Old Unapproved Scheme are not being offered such opportunity. Instead, Old Brit proposes to compensate the holders of these options for the early lapse by making a cash payment equal to the market value of their outstanding options (calculated using the Black-Scholes valuation methodology). If calculated at the Latest Practicable Date, such payments would in aggregate amount to £111,268.

3.5 *Old Brit Employee Share Ownership Plan 2001 (the “Old ESOP”)*

Old Brit operates an HMRC approved share incentive plan. The Old Brit Shares subject to the Old ESOP are held in a trust established for the purpose. On the Scheme Effective Date Old Brit Shares held in the Old ESOP will be exchanged for New Brit Shares which will be held in the trust subject to the terms of the Old ESOP in the same way as the corresponding Old Brit Shares. Participants in the Old ESOP will be offered the opportunity to instruct the trustee to vote in respect of the Scheme.

Subject to the changes described in the description of the New ESOP in paragraph 4.4 below, the terms of the Old ESOP are so far as material the same as the terms of the New ESOP.

4. New Brit Share Schemes

The following is a summary of the main provisions of the new employee share schemes which it is proposed New Brit would adopt upon the Scheme becoming effective and in respect of which authorisation from Old Brit Shareholders is being sought at the General Meeting. The operation of each scheme will be governed by the rules of that scheme. With the exception of the New Brit Sharesave Scheme 2009, the new scheme rules are intended to mirror those of the old schemes, subject to certain changes required to reflect the status of New Brit as a Netherlands incorporated company and certain other minor changes to harmonise the treatment of participants across the various schemes, to allow the Remuneration Committee flexibility when making awards, to enforce prevailing best practice and to aid the administration of the various schemes.

The most material of the changes to the rules of the Old Brit Share Schemes are the following:

- awards granted under the New PSP or the New BSMP in the form of options will be exercisable for a period of eighteen months after vesting, rather than six months. This change will give participants flexibility as to the timing of the tax charge which arises on vesting; and
- participants in the New BSMP who cease to be employed due to redundancy will receive good leaver treatment. This change is to bring the rules of the New BSMP into line with the other schemes.

The New Brit Sharesave Scheme 2009 is proposed as it will be simpler to administer and better suited for international use than the New ESOP. In addition, the tax treatment for New ESOP participants in respect of distributions by New Brit is likely to be less favourable than the treatment currently available.

Awards under the New Brit Share Schemes will not be pensionable.

The term “Shares” in this paragraph refers to New Brit Shares.

4.1 *New Brit Bonus Share Matching Plan 2009 (the “New BSMP”)*

The New BSMP will, subject to the changes described below and certain other minor changes, be in the same form as the Old BSMP. The main features of the New BSMP are described below.

Under the New BSMP:

- individuals can purchase Shares (“**Investment Shares**”) using up to 50 per cent. of their post-tax annual bonus (subject to a maximum investment of 50 per cent. of post-tax base salary for Executive Directors); and
- New Brit can grant awards of Shares in New Brit (“**Matching Awards**”) under the New BSMP over shares with a market value of up to three times the pre-tax value of the monies used to acquire Investment Shares.

Eligibility

All employees (including Executive Directors) of New Brit and its subsidiaries will be eligible to participate in the New BSMP at the discretion of the Remuneration Committee.

Grant of awards

The Remuneration Committee can grant Matching Awards within six weeks following New Brit’s announcement of its results for any period, the date on which the eligible employee joins or the payment of any bonus or at any other time when the Remuneration Committee considers there are exceptional circumstances which justify the granting of Matching Awards.

Matching Awards can be granted as conditional Shares, an option or an award in such form as the Remuneration Committee considers has a substantially similar purpose or effect.

A Matching Award cannot be granted more than 10 years after shareholder approval of the New BSMP.

Vesting of awards

Matching Awards will normally vest three years after grant to the extent that any performance conditions are satisfied, provided the award holder is still either employed by, or a Director of, the Group (or left as a good leaver).

If a participant disposes of any of his Investment Shares before the vesting of the Matching Award associated with those Investment Shares then that Matching Award lapses *pro rata* to the number of related Investment Shares disposed of.

Any award granted as an option under the New BSMP may be exercised within eighteen months of vesting. This is a change to the exercise period from the six months permitted under the Old BSMP.

Performance conditions

The vesting of all Matching Awards is subject to performance conditions set by the Remuneration Committee each year. The extent to which a Matching Award vests under the New BSMP depends upon the extent to which the performance conditions have been satisfied over a fixed performance period of no less than three years.

The Remuneration Committee may vary the performance conditions applying to existing Matching Awards if an event has occurred which causes the Remuneration Committee to consider that it would be appropriate to amend the performance conditions, provided the Remuneration Committee considers the varied conditions to be fair and reasonable and not materially less difficult to satisfy than the original conditions would have been but for the event in question.

Leavers

Matching Awards will lapse when a participant ceases to be a Director or employee within the Group, unless the participant is a good leaver or his employing company or business is transferred out of the Group. The New BSMP provides that participants who are made redundant are good leavers. This is a change to the Old BSMP which provides that redundancy is not a good leaver reason. Awards held by good leavers will generally vest at the end of the performance period.

The Remuneration Committee will determine the proportion of the award which vests taking into account the extent to which the performance condition has been satisfied, the period elapsed since grant and such other factors as it considers relevant.

Corporate events

In the event of a takeover or, if the grantor so determines, on the proposal to pass a resolution to wind up New Brit, all Matching Awards will vest early subject to: (i) the extent that the performance conditions have, or would have, in the opinion of the Remuneration Committee, been satisfied at that time; and (ii) the pro-rating of the Matching Awards to reflect the reduced period of time between their grant and the time of vesting (rounding up any part of a year to the next whole year as was the case under the Old BSMP), although the Remuneration Committee can decide not to pro-rate a Matching Award if it regards it as inappropriate to do so in the particular circumstances.

If a demerger, distribution or transaction is proposed which, in the opinion of the Remuneration Committee, would affect the current or future value of any Matching Awards, then the Remuneration Committee may determine the extent to which Matching Awards will vest and the period in which options may be exercised.

Limits

The New BSMP may operate over new issue Shares, treasury Shares or Shares purchased in the market.

In any ten calendar year period, New Brit may not allocate more than:

- (a) 10 per cent. of the issued ordinary share capital of New Brit under the New BSMP and any other employee share plan adopted by New Brit; and
- (b) 5 per cent. of the issued ordinary share capital of New Brit under the New BSMP and any other executive share plan adopted by New Brit.

Awards of rights over Old Brit Shares made under the Old BSMP or any other employee share plan or, as the case may be, executive share plan adopted by Old Brit and any New Brit Shares issued pursuant to such awards will count towards these limits. Awards which have lapsed or been cancelled are excluded.

Treasury shares will count as new issue Shares for the purposes of these limits until the Association of British Issuers (the “ABI”) decides that they need not count. Awards under the New BSMP will generally be satisfied by the transfer of Shares from the Group’s Employee Share Participation Trust. To the extent that newly issued shares are used in conjunction with the plan, they will count towards these dilution limits.

Participants’ rights

Matching Awards of conditional shares and options will not confer any shareholder rights until the Matching Awards vest or the options have been exercised and the participants have received their Shares.

If the Remuneration Committee so decides on or before the vesting of an award, participants will receive a payment (in cash and/or Shares) on or shortly following the vesting of their Matching Awards, of an amount equivalent to the dividends that would have been paid on those Shares between the time when the Matching Awards were granted and the time when they vest or, in the case of options, are exercised.

Any Shares issued when a Matching Award vests or is exercised rank equally with Shares then in issue (except for rights arising by reference to a record date prior to their issue).

Alterations

The Remuneration Committee may, at any time, amend the provisions of the New BSMP in any respect provided that the prior approval of shareholders is obtained for any amendments that are to the advantage of participants in respect of the rules governing eligibility, limits on participation, the overall limits on the issue of Shares or the transfer of treasury Shares, the basis for determining a participant’s entitlement to, and the terms of, Shares or cash to be acquired and the adjustment of awards on a variation of capital.

The requirement to obtain the prior approval of shareholders will not, however, apply to any minor alteration made to benefit the administration of the New BSMP, to take account of a change in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment for participants or for any company in the Group. Prior shareholder approval is also not required for any variation or alteration made in accordance with the rules to any performance condition applying to a Matching Award.

In the event of any variation of New Brit’s share capital or in the event of a demerger, rights issue, payment of a special distribution or special dividend or similar event which in the reasonable opinion of the Remuneration Committee justifies such adjustment, the Remuneration Committee may make such adjustment as it considers appropriate to the number of Shares subject to a Matching Award and/or the exercise price payable (if any).

Overseas participants

The Remuneration Committee may make such amendments as it considers necessary or desirable to take account of or to mitigate or to comply with taxation, securities or exchange control laws in any jurisdiction provided that the terms of awards granted to participants in any such jurisdiction are not overall materially more favourable than those of other awards and that the New Brit Shares made available in such jurisdictions shall count towards the dilution limits.

Currently, the New BSMP contains specific provisions applicable to participants in the Netherlands, Switzerland, the USA and the UK. In particular, participants in the Netherlands and Switzerland cannot be granted Matching Awards in the form of options. US participants are subject to US securities and tax laws and UK participants may be made, as a condition of the vesting or exercise of an award, to pay employers UK national insurance contributions.

4.2 New Brit Performance Share Plan 2009 (the “New PSP”)

The New PSP will, subject to the changes described below and certain other minor changes, be in the same form as the Old PSP. The main features of the New PSP are described below.

The New PSP will provide for the award to participants of rights to receive free Shares for no consideration at the end of a performance period. The Old PSP provided only for the grant of nil-cost options, whereas under the New PSP the Remuneration Committee will have the flexibility to decide the exact form of the award (which may include cash equivalents).

Eligibility

All employees of New Brit and its subsidiaries (including Executive Directors) will be eligible to participate in the New PSP at the discretion of the Remuneration Committee.

Grant of awards

Awards may be granted within the six weeks following the announcement by New Brit of its results for any period, the date on which the eligible employee joins or the removal of any statutory or regulatory restriction which had previously prevented an award being granted; and at other times in circumstances considered by the Remuneration Committee to be exceptional.

No awards may be granted later than 10 years after the approval of the New PSP by shareholders.

In any year, an employee may be granted an award over Shares with a market value of up to 100 per cent. of his basic salary, other than in exceptional circumstances (where the limit is 200 per cent. of basic salary).

Exercise of awards

Awards will normally become exercisable three years following their grant, subject to any performance condition attaching to them.

Under the Old PSP awards lapse six months after they become exercisable, unless the Remuneration Committee determines otherwise. Under the New PSP, this period is eighteen months.

Performance conditions

Awards will only vest or become exercisable upon the satisfaction of performance conditions set by the Remuneration Committee.

The Remuneration Committee may vary the performance conditions if an event occurs which causes the Remuneration Committee to consider that it would be appropriate to amend the performance conditions, provided the Remuneration Committee considers the varied conditions are fair and reasonable and not materially less challenging than the original conditions would have been but for the event in question.

Leavers

Unless the Remuneration Committee determines otherwise, unvested awards will lapse on cessation of employment, save as set out below:

- in respect of good leavers (including participants who retire with the agreement of New Brit), or where the participant's employer or business unit ceases to be within the Group, the awards generally vest (and if applicable, may be exercised) at the end of the performance period. The Remuneration Committee will determine the proportion of the award which vests taking into account the extent to which the performance condition has been satisfied, the period elapsed since grant and such other factors as it considers relevant. Where an award may be exercisable under this provision, the Remuneration Committee shall determine the extent to which the performance conditions relevant to that award are satisfied. In the event of death, awards vest immediately.
- Under the Old PSP, awards vest on the cessation of employment and are pro-rated for performance. In the event of retirement, awards vest to the extent prescribed by the performance conditions at the end of the performance period.

Corporate events

In the event of a takeover of, or, if the grantor so decides, on the proposal to pass a resolution to wind up New Brit, all awards will vest early subject to: (i) the extent that the performance conditions have, or would have, in the opinion of the Remuneration Committee, been satisfied at that time; and (ii) the pro-rating of the awards to reflect the reduced period of time between their grant and the time of vesting (rounding up any part of a year to the next whole year) although the Remuneration Committee can decide not to pro-rate if it regards it as inappropriate to do so in the particular circumstances.

If a demerger, distribution or transaction is proposed which, in the opinion of the Remuneration Committee, would adversely affect the current or future value of any awards, then the Remuneration Committee may determine the extent to which awards should vest (and the period in which options may be exercised).

Limits

No awards may be granted under the New PSP which would, at the time they are granted, cause the number of Shares allocated in the period of 10 years ending at that time under the New PSP or under any other discretionary share option scheme to exceed 5 per cent. of New Brit's ordinary share capital in issue at that time.

No awards may be granted under the New PSP which would, at the time they are granted, cause the number of Shares allocated in the period of 10 years ending at that time under the New PSP or under any other employee share scheme to exceed 10 per cent. of New Brit's ordinary share capital in issue at that time.

Awards of rights over Old Brit Shares made under the Old PSP or any other employee share plan or, as the case may be, executive share plan adopted by Old Brit and any New Brit Shares issued pursuant to such awards will count towards these limits. Awards which have lapsed or been cancelled are excluded.

Awards under the New PSP will generally be satisfied by the transfer of Shares from the Group's Employee Share Participation Trust. To the extent that newly issued shares are used in conjunction with the plan, they count towards these dilution limits. Treasury shares will count as new issue Shares for the purposes of these limits until the ABI decides that they need not count.

Participants' rights

Shares issued under the New PSP will rank *pari passu* with all other Shares for the time being in issue (except for rights arising by reference to a record date prior to their issue).

Alterations

The Remuneration Committee may, at any time, amend the provisions of the New PSP, provided that no alteration to the provisions of the New PSP may be made which would adversely prejudice any participant (other than to any performance condition) in respect of awards already granted unless the Board has consulted every relevant participant regarding the alteration and the alteration is approved by the majority of those participants.

The prior approval of a majority of shareholders will have to be obtained for any amendments that are to the advantage of participants in respect of the rules governing eligibility, limits on participation, the overall limits on the issue of Shares, the terms of the exercise of the awards, the rights attaching to the Shares acquired and the adjustment of awards. However, the requirement to obtain prior approval of shareholders does not apply to any minor alteration made to benefit the administration of the New PSP, to take account of a change in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment for participants or for any company in the Group.

In the event of any variation of New Brit's share capital or in the event of a demerger, rights issue, payment of a special distribution or special dividend or similar event which in the reasonable opinion of the Remuneration Committee justifies such adjustment, the Remuneration Committee may make such adjustment as it considers appropriate to the number of Shares subject to an award and/or the exercise price payable (if any).

Overseas participants

The Remuneration Committee may make such amendments as it considers necessary or desirable to take account of or to mitigate or to comply with taxation, securities or exchange control laws in any jurisdiction provided that the terms of awards granted to participants in any such jurisdiction are not overall materially more favourable than those of other awards and that the New Brit Shares made available in such jurisdictions shall count towards the dilution limits.

Currently, the New PSP contains specific provisions applicable to participants in the Netherlands, Switzerland, the USA and the UK. In particular, participants in the Netherlands and Switzerland may or may not be granted

options, US participants are subject to US securities laws and UK participants may be asked to agree to pay employers UK national insurance contributions.

4.3 *New Brit Executive Share Option Scheme 2009 (the “New ESOS”)*

The New ESOS will, subject to the changes described below and certain other minor changes, be in the same form as the Old ESOS. The main features of the New ESOS are described below.

The New ESOS will be a discretionary option scheme providing for the grant of market price options. It comprises the ‘approved’ part, which it is intended will be approved by HMRC, and the ‘unapproved’ part, which is intended to be used primarily where executives have more than £30,000 worth of outstanding approved options. The unapproved part of the New ESOS may provide for cash equivalents (which were not provided for under the Old ESOS).

Eligibility

Under the terms of the New ESOS, all employees of New Brit and its subsidiaries (including directors who are required to devote substantially the whole of their working time to the business of the Group and in any event 25 hours a week or more) will be eligible to participate in the New ESOS at the discretion of the Remuneration Committee.

Grant of awards

Awards may be granted within the six weeks following the announcement of the results of New Brit for any period, the date on which the eligible employee commenced employment, or the removal of any statutory or regulatory restriction which had previously prevented an award being granted; and at other times in circumstances considered by the Remuneration Committee to be exceptional.

Dilution

In any ten calendar year period, New Brit may not allocate more than:

- (a) 10 per cent. of the issued ordinary share capital of New Brit under the New ESOS and any other employee share plan adopted by New Brit; and
- (b) 5 per cent. of the issued ordinary share capital of New Brit under the New ESOS and any other executive share plan adopted by New Brit.

Awards of rights over Old Brit Shares made under the Old ESOS or any other employee share plan or, as the case may be, executive share plan adopted by Old Brit and any New Brit Shares issued pursuant to such awards will count towards these limits. Awards which have lapsed or been cancelled are excluded.

Treasury shares will count as new issue Shares for the purposes of these limits unless the ABI decides that they need not count.

Exercise of options

An option will normally be exercised between three and ten years following its grant subject to the achievement of any performance condition attaching to it.

Performance conditions

Options will only become exercisable if the performance condition set by the Remuneration Committee has been satisfied over a performance period of no less than three years (or, in the event of a corporate event, the period from grant until the relevant date).

Leavers

The leaver provisions will be, so far as is material, the same as those in the New PSP. Under the Old ESOS, good leavers other than retirees must exercise their option within six months of the cessation of employment or 12 months from the date of death. For participants under the Old ESOS, awards are only pro-rated in the case of retirement.

Corporate events

Options will become exercisable in the event of a takeover or, if the Remuneration Committee so determines, on the proposal to pass a resolution to wind up New Brit to the extent the Remuneration Committee determines that the performance conditions are satisfied, taking account of the performance of New Brit up to the relevant event.

Pro-rating for this is rounded up to the nearest year under the New ESOS. The Remuneration Committee may decide not to pro-rate if it regards it as inappropriate to do so in the circumstances.

If a demerger, distribution or transaction is proposed which, in the opinion of the Remuneration Committee, would adversely affect the current or future value of the options, then the Remuneration Committee may determine the extent to which options will vest and the period in which they may be exercised.

Participants' rights

Shares issued under the New ESOS are to rank *pari passu* with all other Shares for the time being in issue (except for rights arising by reference to a record date prior to their issue).

Overseas participants

The Remuneration Committee may make such amendments as it considers necessary or desirable to take account of or to mitigate or to comply with taxation, securities or exchange control laws in any jurisdiction provided that the terms of awards granted to participants in any such jurisdiction are not overall materially more favourable than those of other awards and that the New Brit Shares made available in such jurisdictions shall count towards the dilution limits.

Currently, the New ESOS contains specific provisions applicable to participants in the USA and the UK. In particular, US participants are subject to US securities laws and UK participants with unapproved options may be asked to pay employers UK national insurance contributions.

Alterations

The New ESOS may be amended by the Board. Shareholder approval is required in the same circumstances as under the New BSMP. HMRC consent will be required for changes to a key feature of the approved part.

In the event of any variation of New Brit's share capital or in the event of a demerger, rights issue, payment of a special distribution or special dividend or similar event which in the reasonable opinion of the Remuneration Committee justifies such adjustment, the Remuneration Committee may make such adjustment as it considers appropriate to the number of Shares in respect of which any option is granted and the exercise price payable.

4.4 ***New Brit Employee Share Ownership Plan 2009 (the "New ESOP")***

The New ESOP will, subject to the changes described below and certain other minor changes, be in the same form as the Old ESOP. The main features of the New ESOP are described below. New Brit is unlikely to operate the New ESOP immediately following the Scheme Effective Date but may choose to do so at a later date.

It is intended that the New ESOP will be an HMRC approved share incentive plan.

Eligibility

All UK resident employees of the Group are entitled to participate in the New ESOP (when it is operated).

Awards

Under the New ESOP participants may (i) purchase Shares at market price from their pre-tax salary ("**Partnership Shares**") (ii) receive free Shares based on the number of Partnership Shares they buy ("**Matching Shares**") and (iii) receive further free Shares ("**Free Shares**").

Performance conditions

The Board will determine whether or not Free Shares will be awarded and whether or not the Free Shares which will be awarded will be subject to performance conditions.

Leavers

In respect of each award of Free Shares or Matching Shares, the Board will have to provide for a forfeiture period of not more than three years. If a participant leaves within the forfeiture period, except under specified circumstances, the rights to those Shares will be forfeited.

Corporate events

In the event of a takeover, the participants may instruct the trustee of the New ESOP to accept certain proposals affecting their Shares.

Limits

Participants may apply up to a maximum of the lower of £1,500 and 10 per cent. of the participant's gross salary in any tax year in purchasing Partnership Shares and may be awarded up to two Matching Shares for each one Partnership Share purchased. New Brit may make awards of Free Shares of up to £3,000 per participant each year subject to Group performance. This is a slight change to the Old ESOP which limited this to £125 per month.

Alterations

The Board may amend the rules of the New ESOP with the agreement of the trustee, provided that no alteration will adversely prejudice to a material extent the rights attaching to any Shares appropriated to participants and that no alteration will give any company in the Group a beneficial interest in any Shares.

The prior approval of shareholders must be obtained for any amendments relating to the rules governing eligibility, limits on participation or the basis of determining eligible employees' entitlements to and the terms of Shares to be provided under the New ESOP. However, the requirement to obtain prior approval of shareholders does not apply to any minor alteration made to benefit the administration of the New ESOP or to take account of a change in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment for participants or for any company in the Group.

Overseas participants

The Remuneration Committee may make such amendments as it considers necessary or desirable to take account of or to mitigate or to comply with taxation, securities or exchange control laws in any jurisdiction provided that the terms of awards granted to participants in any such jurisdiction are not overall materially more favourable than those of other awards and that the New Brit Shares made available in such jurisdictions shall count towards the dilution limits.

4.5 New Brit Sharesave Scheme 2009 (the "New SAYE")

New Brit proposes to operate the New SAYE as an alternative to, or in conjunction with, the New ESOP. The main features of the New SAYE are described below.

The New SAYE is intended to be a HMRC approved all-employee scheme providing for the grant of options at a maximum discount of 20 per cent. to the market price of a Share on the date of grant.

On receipt of an invitation, eligible employees may apply for the grant of an option by entering into a savings contract to save a monthly amount which may not be less than the minimum specified in the savings contract (currently £5) and may not exceed £250. The limit of £250 per month may increase in line with changes in the applicable legislation. Applications must be received within a specified period and if the Board receives applications for options over more Shares than are available, applications may be scaled down. On receipt of the applications (after scaling down, if applicable) options will be granted to eligible employees by the Board.

Eligibility

All employees (including directors working at least 25 hours a week) who have worked continuously for a company in the Group for a qualifying period of time determined by the Board (not exceeding five years) are eligible to participate in the New SAYE. The Board has a discretion to invite employees who do not satisfy this condition to participate in any grant of options. No employee may participate in this scheme if they have a material interest in New Brit (being an interest in 25 per cent. or more of New Brit's share capital, if New Brit would be a close company if resident in the UK).

Invitations

Invitations may be made within the six weeks following HMRC approval, the announcement of the results of New Brit for any period, the removal of any statutory or regulatory restriction which had previously prevented an award being granted or any change to the SAYE regime; and at other times in circumstances considered by the Remuneration Committee to be exceptional.

Dilution

In any ten calendar year period, New Brit may not allocate (or grant rights to allocate) more than 10 per cent. of the issued ordinary share capital of New Brit under the New SAYE and any other employee share plan adopted by New Brit.

Awards of rights over Old Brit Shares made in the previous ten years under the Old ESOS or any other employee share plan or, as the case may be, executive share plan adopted by Old Brit and any New Brit Shares issued pursuant to such awards will count towards these limits. Awards which have lapsed or been cancelled are excluded.

Treasury shares will count as new issue Shares for the purposes of these limits until the ABI decides that they should not count.

Exercise of options

Options may be exercised in the six month period following the maturity date of the linked savings contract, which may be the third, fifth or the seventh anniversary of the commencement of the contract.

Performance conditions

Options will not be subject to performance conditions.

Leavers

If a participant ceases employment or to hold office by reason of injury, disability, redundancy or, in certain circumstances, retirement, because their employing company ceases to be a member of the Group or because the business by which they are employed is transferred out of the Group, their options may be exercised within six months of cessation. Any unexercised options will lapse after six months.

If a participant dies before the option becomes exercisable, their option may be exercised within twelve months of their death by their personal representatives. If they die after their option becomes exercisable, the option may be exercised within twelve months after the bonus date under his savings contract by their personal representatives. If not so exercised, their options will lapse.

If a participant ceases employment more than three years after the date of grant, their option may be exercised within six months of cessation, and if not so exercised, will lapse.

A participant may, but need not, exercise their option within six months of reaching age 60, even if they do not retire upon reaching that age.

If a participant ceases employment less than three years after the date of grant for any other reason, their option will lapse.

Corporate events

Options are also exercisable within limited periods to the extent of the accrued savings if there is a change of control of New Brit.

Participants' rights

Shares issued under the New SAYE are to rank *pari passu* with all other Shares for the time being in issue.

Alterations

Certain provisions of the New SAYE dealing with eligibility, limits and the basis for determining a participant's entitlement under the New SAYE cannot be altered to the advantage of participants without the prior sanction of New Brit in a general meeting, except in the case of minor amendments to benefit the administration of the New SAYE to take account of any change to legislation, or to obtain favourable tax, exchange control, or regulatory treatment for participants or any company in the Group. The New SAYE may also be amended to allow it to be operated outside the United Kingdom taking account of overseas legal, taxation and securities laws.

The prior approval of HMRC will be required to the amendment of any key feature of the New SAYE.

Overseas participants

The New SAYE has a separate part with specific provisions applying to overseas participants. These are materially the same as the provisions applying to UK resident employees, save as set out below, and certain other minor changes.

Eligibility

All employees or executive directors of participating companies, as the grantor may determine, may participate. There is no prohibition on an eligible overseas participant holding a 25 per cent. interest in New Brit.

Net settlement

Options granted under the international part of the New SAYE may be net settled. Instead of paying the exercise price, an overseas participant may elect to receive proportionately fewer shares on the exercise of his option.

Cash equivalence

The grantor may determine that, instead of issuing Shares to a participant on the exercise of his option, the option will be satisfied by providing the participant with a cash sum equal to the market value of the Shares (on the date of exercise) which would otherwise have been transferred to him.

5. Pension schemes

BGSL operates a defined benefit pension scheme (the “**DB Scheme**”), providing benefits for employees of the Group. The benefits are based on final pensionable salaries and length of service, with a maximum pension of two thirds of final salary. The assets of the DB Scheme are held in a separate trustee administered fund. The DB Scheme closed to new entrants on 4 October 2001.

From 5 October 2001, BGSL has operated a defined contribution group personal pension plan (the “**GPPP**”). BIL also operates a defined contribution pension scheme (the “**BIL Scheme**”). A participant's ultimate entitlement under these schemes depends on the amount of any contributions made by the participant or his employer and the value of the investments in the scheme resulting from those contributions. The assets of the defined contribution pension schemes are held separately from those of the Group in independently administered funds.

Dane Douetil has a personal pension into which the Group makes contributions. Matthew Scales is a member of the BIL Scheme and the GPPP. The Chairman and the other Non-Executive Directors do not have any pension benefits. Peter Burrows, Peter Goddard and Jonathan Turner participate in the GPPP. Matthew Wilson participates in the DB Scheme. Details of the contributions made pursuant to the GPPP and the BIL Scheme in 2008 for each of the Executive Directors and Senior Managers are set forth in the table in paragraph 2.3 above.

6. Corporate governance

6.1 UK Combined Code

New Brit intends to seek admission to trading of the New Brit Shares on the London Stock Exchange upon the Scheme Effective Date. In order for New Brit to operate so far as practicable in line with the current

practices of Old Brit, New Brit has decided to continue to apply the UK Combined Code instead of the Dutch Corporate Governance Code. Old Brit has complied during the year ended 31 December 2008, and New Brit intends to comply, with the provisions set out in section 1 of the UK Combined Code.

6.2 *The Board of New Brit*

The Board of New Brit will be the decision making body for all matters material to the Group in strategic, financial and reputational terms. The Board of New Brit will be responsible for creating and sustaining shareholder value through the management of the Group's businesses. It will also be responsible for ensuring 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. New Brit will hold its Board meetings in the Netherlands.

The Board of New Brit has a formal schedule of matters reserved to it for decision, which includes amongst others the approval of the financial results, strategy and corporate objectives, significant transactions and matters affecting share capital and all substantive corporate decisions.

The Board of New Brit will establish, amongst others, the following committees, each of which will be operated with the terms of reference which have been approved by the Board of New Brit and which are substantially in the same form as the terms of reference in place for the equivalent Old Brit board committees.

6.3 *Audit Committee*

The Audit Committee must comprise at least three members, each of whom must be appointed by the Board of New Brit and at least one of whom must have recent and relevant financial experience. All members of the Audit Committee will, with effect from the Scheme Effective Date, be Non-Executive Directors who are independent of management and free from any business or other relationship which could interfere with the exercise of their independent judgement. The quorum of the Audit Committee is two members. The Audit Committee is required to meet at least three times a year. The Audit Committee will, with effect from the Scheme Effective Date, comprise Peter Hazell (Chairman of the Committee), Ken Culley, Cees Schrauwens, Joe MacHale and Michael Smith, which is the same as the current membership of the audit committee of Old Brit.

The terms of reference include that the Audit Committee should:

- review the annual and interim financial statements of the company and principal operating subsidiaries along with their accounting policies;
- review draft disclosures relating to the Group's financial performance or containing financial information which is not already in the public domain;
- monitor compliance with relevant financial reporting requirements and companies legislation;
- discuss the nature, scope and planning of the audit with the external auditors;
- approve the remuneration and terms of engagement of external auditors;
- review matters arising from the audit with the external auditors (including difficulties, reservations, management representation letters, cost effectiveness and fees);
- review the independence and objectivity of the external auditors, including a review of non-audit fees;
- make recommendations to the Board on the appointment/dismissal of the external auditors and investigate the issues leading to any resignation of an external auditor and decide if any action should be taken;
- approve the plans and reviews the effectiveness of the internal audit function and approve the appointment of the Head of Internal Audit;
- liaise with Risk Management as regards the effectiveness of the company's financial reporting and internal control policies and procedures for the identification, assessment and reporting of risks;

- monitor compliance with important regulations relevant to the activities of the Group and its subsidiaries, including the UK FSA's handbooks and local regulations for overseas entities;
- review New Brit's procedures for handling allegations from whistleblowers; and
- review the annual report on internal controls.

It is expected that the Chairman, Finance Director, Group Financial Controller, Head of Internal Audit and the external Auditor will usually be invited to attend Audit Committee meetings.

6.4 *Nomination Committee*

The Nomination Committee will, with effect from the Scheme Effective Date, comprise five members, each of whom will be appointed by the Board of New Brit. The majority of the members of the Nomination Committee must be Non-Executive Directors who are independent of management and free from any business or other relationship which could interfere with the exercise of their independent judgement. The quorum of the Nomination Committee is three members. The Nomination Committee is required to meet at least twice a year. The Nomination Committee will, with effect from the Scheme Effective Date, comprise Michael Smith (Chairman of the Committee), Ken Culley, Peter Hazell, Cees Schrauwens and John Barton, each of whom is considered independent by the Board, which is the same as the current membership of the nomination committee of Old Brit.

The terms of reference include that the Nomination Committee should:

- review regularly the structure, size and composition of the Board;
- assess the independence and objectivity of Non-Executive Directors (independence being assessed annually);
- evaluate the skills, knowledge and experience of the Board, identifying any gaps;
- conduct an annual performance evaluation to ensure that all Directors have devoted sufficient time to their duties;
- make recommendations to the Board on the appointment of Executive and Non-Executive Directors and the membership of the Audit and Remuneration Committees;
- be responsible for finalising the candidate specification for all Board appointments and approve the process by which suitable candidates are identified and nominate candidates for approval by the Board;
- ensure that a candidate has sufficient time to undertake the role on appointment; and
- ensure that succession plans are in place for Board and other senior appointments.

6.5 *Remuneration Committee*

The Remuneration Committee is restricted to Non-Executive Directors of New Brit each of whom must be independent of management and free from any business or other relationship which could interfere with the exercise of their independent judgement. The quorum of the Remuneration Committee is two members. The Remuneration Committee is required to meet at least two times a year. The Remuneration Committee will, with effect from the Scheme Effective Date, comprise Joe MacHale (Chairman of the Committee), Ken Culley, Peter Hazell, Cees Schrauwens and Michael Smith, each of whom is considered independent by the Board, which is the same as the current membership of the remuneration committee of Old Brit.

The terms of reference include that the Remuneration Committee should:

- ensure the Board policy for the remuneration of the Group's senior executives provides senior executives with appropriate incentives to encourage enhanced performance, attracts and rewards senior executives in a fair and responsible manner for their individual contributions to the success of the Group, reflects a strong link between performance and reward and aligns the interests of senior executives and shareholders;

- analyse current trends in remuneration, benefits and rewards for senior executives, and in particular as applied in competitors;
- approve the design of, and determine targets for, any performance related pay schemes operated by the Group;
- review the design of all share incentive plans for approval by the Board and shareholders;
- set and assess the achievement of performance conditions for share incentive plans to determine the total remuneration package for each Executive Director and Executive Management Committee member;
- determine the policy for, and scope of, pension arrangements for senior executives;
- ensure that contractual terms on termination, and any payments made, are fair and recognise the duty to mitigate loss; and
- determine the total individual remuneration package of each Executive Director and other senior executives.

It is expected that the Chairman, Chief Executive Officer and HR Director will usually be invited to attend all or part of the Remuneration Committee meetings but they will be excluded from any discussion on their own remuneration.

6.6 *Executive Management Committee*

In addition to the Audit, Nomination and Remuneration Committees, the EMC will be the key operational committee of New Brit. The EMC will be chaired by the Chief Executive Officer and will comprise the Executive Directors and the Senior Managers. The EMC will meet frequently to manage the day to day affairs of the Group and to develop strategies and policies for recommendation to the Board and to implement strategy approved by the Board of New Brit.

9. ARTICLES OF ASSOCIATION AND APPLICABLE LAW AND REGULATIONS

1. Corporate objects of New Brit

Pursuant to Article 3 of the New Brit Articles, the corporate objects of New Brit are, amongst other things, to carry on the business of a holding company and to acquire and hold shares and other securities issued by any other legal entity, to manage businesses and companies, in particular businesses and companies with which it forms a group, and to otherwise further and promote the objects and interests of such businesses and companies as well as to raise, borrow and lend money and to secure obligations and liabilities of third parties, in particular businesses and companies with which it forms a group.

2. Summary of key provisions under the New Brit Articles

Set out below is a brief summary of certain provisions of the New Brit Articles (and the corporate action already taken in connection therewith) which shall become effective as per the Scheme Effective Date. This summary does not purport to give a complete overview and should be read in conjunction with the New Brit Articles, together with the relevant provisions of applicable law and regulations (a summary of the principal law and regulations being set out in paragraph 3 below), and does not constitute legal advice regarding these matters and should not be considered as such.

Capital

Subject to the limits of the authorised capital, the general meeting may from time to time resolve to increase the share capital of New Brit.

The general meeting may confer the authority to issue shares (or rights to subscribe for shares) on another body of New Brit for a fixed period not exceeding five years. Such resolution must state the maximum amount of securities that may be issued pursuant thereto and may be renewed by a resolution of the general meeting for a further period not exceeding five years. The resolution may not be revoked or varied, unless provided otherwise in the resolution itself. On 29 October 2009, the authority to issue shares (or rights to subscribe for shares or depositary interests thereof) was irrevocably conferred on the Board, for a period expiring on the date of the annual general meeting of New Brit to be held in 2010, or, if earlier, 12 August 2010, up to a maximum number of shares equal to one third of the issued and outstanding share capital of New Brit (excluding any shares held by New Brit) as it stands as per the Scheme Effective Date, provided that, before such expiry, the Board will be authorised to make any offer or agreement which would or might require shares to be issued (or rights to acquire shares to be granted) after such expiry as if the authority conferred had not expired.

The general meeting may resolve, by a majority of 75 per cent. of the votes cast at the meeting, to restrict or exclude rights of pre-emption or to confer the authority to do so for a fixed period not exceeding five years, on the same body upon which it conferred the authority to issue securities in accordance with the foregoing. On 29 October 2009, authority was conferred on the Board to restrict or exclude rights of pre-emption in respect of any issuance of shares, provided such authority is limited to the issuance of shares (or granting of rights to acquire shares) (a) in connection with any invitation made to holders of shares to subscribe by way of rights, open offer or otherwise where the shares attributable to the interests of all the holders of such shares are proportionate (as nearly as may be) to the number of shares held by them subject to such exclusions or other arrangements as the Board may deem necessary or expedient to deal with fractional entitlements or legal, regulatory or practical problems under the laws of, or the requirements of, any regulatory body or any stock exchange or otherwise in any territory and (b) for cash up to a maximum number of shares equal to five per cent. of the issued and outstanding share capital of New Brit (excluding any shares held by New Brit) as it stands as per the Scheme Effective Date. This authority expires on the date of the annual general meeting of New Brit to be held in 2010, or, if earlier, 12 August 2010, unless previously varied, revoked or renewed by the general meeting, provided that the Board may, before such expiry, make any offer or agreement which would or might require shares to be issued (or rights to subscribe for shares or depositary interests thereof) after such expiry and the Board may issue shares (or rights to subscribe for shares or depositary interests thereof) pursuant to any such offer or agreement as if authority conferred had not expired.

New Brit may, subject to the provisions of the Dutch Civil Code, enter into agreements in relation to the purchase of its own shares. New Brit may only acquire such securities for “valuable consideration” (*anders dan om niet*) if and to the extent the general meeting has authorised the Board to do so. Such authorisation shall be valid for no more than 18 months and it shall state the number of securities which may be acquired, the manner of acquisition and the limits within which the acquisition price must be set. On 29 October 2009, the Board was authorised to repurchase a maximum of ten per cent. of the issued and outstanding share capital of New Brit (excluding any

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shares held by New Brit) following a full consummation of the Scheme, provided that (a) the minimum price (exclusive of expenses) which may be paid for each share is not less than the nominal value of such share and (b) the maximum price (exclusive of expenses) which may be paid for each share shall not be more than the higher of (i) 105 per cent. of the average of the middle market values of the shares (or DIs) (as derived from the Daily Official List of the London Stock Exchange) for the 5 business days immediately preceding the date on which the purchase is made and (ii) that stipulated by Article 5(1) of the Buy-back and Stabilisation Regulation (EC 2273/2003) and (c) such authority shall expire on the date of the annual general meeting of New Brit to be held in 2010, or, if earlier, 12 August 2010, except in relation to any purchase of shares the contract for which was concluded before such date and which would or might be executed wholly or partly after such date.

The general meeting may reduce the capital of New Brit by resolving to cancel shares (which, as a matter of law in this instance, can only involve shares held in treasury or selected by lot) and decrease the aggregate amount of capital by the nominal amount of the shares so cancelled, subject to the provisions of the Dutch Civil Code. The general meeting may also reduce the capital of New Brit by resolving to amend the New Brit Articles and to generally decrease the nominal value per share (see below under “Amendment of the New Brit Articles”).

Voting rights of shareholders

At any general meeting, every shareholder present in person or by proxy shall have one vote for every share he holds. Resolutions by the general meeting may be adopted by absolute majority of the votes cast at the meeting, unless the New Brit Articles require a 75 per cent. majority (as described in this paragraph and in paragraph 4.14 below) and except for matters that require a two-thirds majority if less than 50 per cent. of the issued share capital is present or represented at the meeting. In the case of an equality of votes, the chairman of the meeting shall not be entitled to an additional or casting vote.

No shareholder shall, unless the Board otherwise determines, be entitled in respect of any share held by him to attend either personally or by proxy, a general meeting of New Brit or to vote such shares, if any call or other sum at that time payable by him to New Brit in respect of that share remains unpaid.

In certain limited circumstances, voting rights on shares held by certain shareholders and access to general meetings by such shareholders may be suspended as further discussed below under “Disclosure obligations, suspension of voting rights or mandatory sale”.

Dividends and other distributions

The profits realised in a financial year will be reserved unless and to the extent, immediately after the adoption of the annual accounts, the general meeting resolves to declare dividends out of such profits, to be paid to the shareholders according to their respective rights and interests in the profits of New Brit, provided, however, that no dividend declared by the general meeting shall exceed the amount proposed by the Board.

In addition, if and so far as in the opinion of the Board the profits of New Brit justify such payments, the Board may from time to time declare and pay interim dividends on shares of such amounts and on such dates and in respect of such periods as it thinks fit. No dividend shall be paid otherwise than out of profits available for distributions under the provisions of the Dutch Civil Code and under the provisions of the New Brit Articles. The Board may also resolve to make distributions to shareholders in the form of payments charged to the reserves and it is anticipated that, for an initial period, New Brit is unlikely to pay dividends but instead will make distributions to shareholders by way of reductions of the par value of the New Brit Shares (i.e. in the form of a capital distribution).

Resolutions to declare dividends or to otherwise make distributions may specify that such dividends or other distributions shall be payable to the persons registered as the holders of shares at the close of business on a particular date which may be a date prior to the date of such resolution.

Any dividends and other distributions unclaimed after a period of 12 years from the due date shall be forfeited and shall revert to New Brit.

General meetings

An annual general meeting shall be held once every year within six months from the end of the preceding financial year.

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The Board may whenever it thinks fit, and shall at the request of one or more shareholders representing at least 5 per cent. of New Brit's issued capital, proceed to convene a general meeting. On requisition by one or more shareholders (i) who jointly or severally represent at least 1 per cent. of New Brit's issued capital or (ii) whose shares represent at least €50 million in value, which requisition is submitted no later than 60 days before the day of a general meeting, the subject for discussion requisitioned by them shall be included in the notice for the meeting, or shall be notified in the same way as the other subjects for discussion.

The Board shall be authorised to determine that only the persons as appear on a specific register designated for that purpose by the Board on a certain record date, shall be entitled to attend and vote at a general meeting. The record date shall not be set more than 30 days before the day of the relevant general meeting.

General meetings shall be held in the Netherlands and may be held in any one of the following municipalities: Amsterdam, Rotterdam, The Hague and Utrecht. The Board may determine that the rights to attend and address a general meeting and to vote at such a meeting may also be exercised by electronic means provided that the identity of an attendee can be verified and that an attendee is able to observe and participate in the proceedings and vote at the meeting by such means. The Board may subject the use of electronic means (as well as the requirements for the use thereof) to certain conditions, which shall then be specified in the notice for the meeting.

An annual general meeting shall be called by not less than 21 clear days' notice and any other general meeting by not less than 14 clear days' notice. Notice for a general meeting shall be given by means of an announcement in a daily newspaper with national circulation in the Netherlands (to the extent still prescribed by law) or, alternatively, on New Brit's website (to the extent new legislation to that effect is enacted) and must also be given in writing to all of the shareholders and Depositary Interest holders other than to any who, under Dutch law or under the provisions of the New Brit Articles, are not entitled to receive such notices.

Board

The number of Directors shall not exceed 30 and shall not be less than three, albeit that the general meeting may from time to time resolve to vary the minimum number and/or maximum number of Directors. The Board may act notwithstanding any vacancies for as long as the number of Directors is not reduced below the minimum number fixed by or in accordance with the New Brit Articles. If the number of Directors is reduced below the fixed minimum number, the Board may act for the purpose of convening general meetings but not for any other purpose (except as required by Dutch law).

Directors are appointed, suspended and removed from office by the general meeting. The Directors may elect a chairman from their midst and determine the period for which he is to hold office as such (and may at any time remove him from such office). If no chairman or deputy chairman shall have been appointed, or if at any meeting of the Board neither is present within 30 minutes after the time appointed for holding the same, the Directors present may choose one of their number to be chairman of such meeting.

The Board itself shall from time to time designate one or more Directors to be executive Directors, on such terms and for such period as it may determine, and the other Directors shall be non-executive Directors. The Board may establish rules regarding its decision-making and working methods and may also determine the duties for which the executive Directors, or any executive Director in particular, shall be responsible.

New Brit shall have a policy on the remuneration of the Board, to be adopted from time to time by the general meeting, and, although the general meeting does not have an annual vote on such policy, any material changes thereto are again subject to its approval. The initial policy on the remuneration of the Board was adopted by the sole incorporator of New Brit on 29 October 2009. This policy can be summarised 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.

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- Components of these packages include salary, on which pension and other benefits are calculated, and short-term 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, with advisers, whether any adjustments to policy and practices are necessary.
- In respect of non-executive Directors, arrangements shall consist of a fixed basic fee which may be payable in the form of cash and/or shares.

All Directors will receive from New Brit remuneration for their services as directors of New Brit and the aggregate of such remuneration paid to all Directors shall not, in any year, exceed £2 million or such other sum as may from time to time be approved by the general meeting. Executive Directors will also receive remuneration as employees of the Group. The remuneration that the executive Directors receive from the Group will be such that the new arrangements will not result in those Directors receiving any additional remuneration upon the Scheme becoming effective. The amount of remuneration payable to Directors shall be determined by the Board in accordance with the remuneration policy.

In addition, any and all schemes under which shares or rights to subscribe for the same may be awarded to the Board, shall be approved by the general meeting before adoption.

The Board may meet for the despatch of business, adjourn and otherwise regulate its meetings as it thinks fit. The quorum necessary for the transaction of business at a meeting of the Board shall be three Directors.

A duly convened meeting of the Board at which a quorum is present shall be competent to exercise all powers, authorities and discretions for the time being vested in or exercisable by the Board. Questions arising at any meeting of the Board shall be determined by a majority of votes. In the case of an equality of votes the chairman of the meeting shall have a casting vote.

Indemnity

To the extent permitted by and subject to the restrictions of Dutch law, New Brit may indemnify every person who is a Director or another officer of New Brit or any associated company of New Brit out of the assets of New Brit from and against any loss, liability or expense incurred by him or them in relation to New Brit or any associated company of New Brit. In this respect, the Board may purchase and maintain insurance at the expense of New Brit for the benefit of any such Director or other officer of New Brit or of any associated company of New Brit and the Board may provide any such person with funds to meet expenditure incurred or to be incurred in defending any proceedings against him and take any action to enable such expenditure not to be incurred.

Amendment of the New Brit Articles

The general meeting may resolve to amend the New Brit Articles by a majority of 75 per cent. of the votes cast at the meeting (except where the amendment is to the authorised capital or the financial year in which event it will only require a simple majority of the votes cast or a two-thirds majority if less than 50 per cent. of the issued share capital is represented at the meeting). When a resolution to amend the New Brit Articles is to be proposed at a general meeting, the notice for such meeting shall contain a statement to that effect and a copy of the proposal, which shall include the verbatim text of the proposed amendment, shall be deposited at the office of New Brit and remain available for inspection by the shareholders until the conclusion of the meeting.

The rights under the New Brit Articles of any person other than a shareholder may be affected by an amendment of the New Brit Articles without such person's consent.

Disclosure obligations, suspension of voting rights or mandatory sale

The Directors may require shareholders to provide information for the purposes of determining, *inter alia*, whether that shareholder (or any person who has an interest in any shares held by that shareholder):

- (i) is a "controller" of New Brit and/or has a "notifiable holding" in New Brit (as defined in the New Brit Articles);

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- (ii) has an interest in any shares of any characteristics which might affect the ability of any member of the Group to carry on business as a member of Lloyd's, carry on business as a managing agent or service company or be registered as an insurance or reinsurance company; or
- (iii) is associated with, a Lloyd's broker.

If the Directors determine (after consultation with the Council of Lloyd's or the UK FSA or any other regulator with authority as appropriate) that there are reasonable grounds to believe that (i) a person has a notifiable holding, (ii) that person's interest in any shares may affect the ability of any member of the Group to carry on business as a member of Lloyd's or to act as a managing agent, service company, insurance company or reinsurance company, (iii) that person is a controller of New Brit, without the necessary consents having been obtained, or (iv) that person is associated with a Lloyd's broker, the Directors are entitled, but not obliged, to serve written notice on that person (and, if different, the relevant shareholder(s)) stating *inter alia* that they are required to sell some or all of their shares (the "Excess Shares") within a 21 day period or such other period as specified by the Directors. Any such notice will be withdrawn by the Directors if the reasons therefore no longer exist.

If a shareholder fails to sell all or any of the "Excess Shares" (as defined in the New Brit Articles) within the required period, and the relevant notice has not been withdrawn, New Brit shall make a mandated disposal of such remaining Excess Shares on behalf of the relevant shareholder at the best price reasonably obtainable in the circumstances.

If a person has failed to comply with a request for information (as referred to above) and has been sent a further notice in relation to that request, or a person has been sent a notice informing them that they are required to sell their Excess Shares, that person will not be entitled to attend or vote at any general meeting of New Brit or any class meeting.

In addition to the above, each shareholder must comply with the notification obligations owed to New Brit contained in Chapter 5 of the UK Disclosure and Transparency Rules as if New Brit were an issuer whose home Member State is the UK. Accordingly, a shareholder generally has the obligation to notify New Brit of the percentage of voting rights he holds if the percentage of those voting rights reaches, exceeds or falls below 3 per cent. or any whole percentage above 3 per cent. Voting rights include those held as a shareholder or otherwise through a direct or indirect holding of financial instruments (which include pure economic interests in shares such as contracts for differences). Where a shareholder fails to comply with such notification obligations or, in purported compliance, makes a statement which is false or inadequate in a material particular, such shareholder's rights to attend and vote at any general meeting of New Brit (and in certain instances his right to distributions) may be suspended. These restrictions shall cease to apply if, within three months after a request from such shareholder, New Brit has not designated a prospective purchaser or purchasers to whom such shareholder can transfer all of his shares in accordance with certain provisions of the New Brit Articles.

Dissolution of New Brit

The general meeting may resolve to dissolve New Brit. Any such resolution may only be adopted by a majority of at least 75 per cent. of the votes cast at the meeting. When a resolution to dissolve New Brit is to be proposed at a general meeting, the notice for such meeting shall contain a statement to that effect. Whatever remains upon settlement of the debts of New Brit after its dissolution shall be transferred to the shareholders according to their respective rights and interests in the profits of New Brit. The liquidation of New Brit shall be subject to the relevant provisions of the Dutch Civil Code.

3. Summary of principal differences between the Old Brit Articles and the New Brit Articles

The principal differences between the Old Brit Articles and the New Brit Articles are explained below. Some of these differences arise by reason of New Brit being a company incorporated in the Netherlands and not in England. As further described in paragraph 4 of this Chapter, there are a number of differences between the companies law and regulation which applies to New Brit and the companies law and regulation which applies to Old Brit and which may impact on the rights of holders of New Brit Shares. As such, where appropriate and subject to the applicable law and regulation in the Netherlands, provisions have been incorporated into the New Brit Articles, which shall become effective as per the Scheme Effective Date, to enshrine certain rights that are not conferred under Dutch law and regulation but which shareholders in a London listed company would normally expect.

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The principal differences are as follows:

General differences

- to note that New Brit has its corporate seat in Amsterdam, the Netherlands and to provide that, in accordance with Dutch company law, general meetings must be held in the Netherlands;
- certain matters which would require shareholder approval by way of a special resolution (75 per cent. majority) under the UK Companies Act only require a simple majority of over 50 per cent. (or a two-thirds majority if less than 50 per cent. of the issued share capital is represented at the meeting) under Dutch company law, although Dutch companies are allowed to impose higher voting majority thresholds. Accordingly the New Brit Articles contain provisions which require a 75 per cent. majority for resolutions concerning (i) disapplying the pre-emption rights on any new issue of shares, (ii) making any change to the name of New Brit, (iii) approving any repurchase of shares by New Brit, (iv) making any amendments to the New Brit Articles (other than changes to the authorised share capital or the financial year end) or adopting new articles of association and (v) approving the dissolution of New Brit. (Resolutions approving a reduction of capital are not included in the requirement for a 75 per cent. majority);
- to authorise the Board to make arrangements for the New Brit Shares to be represented by Depositary Interests which are eligible to be held and transferred in uncertificated form in CREST and to provide that share certificates will not be issued;
- as there will only be one class of shares in issue in New Brit on the Scheme Effective Date, the New Brit Articles do not contain any provisions concerning variation of class rights;
- to provide that the Board can require details of the register of Depositary Interest holders from the Depositary;
- Dutch company law does not permit forfeiture of shares in the event of failure to pay any call (on shares which are not fully paid up) nor does it provide for a company to have a lien on any shares for money called or payable in respect of such shares. So the forfeiture and lien provisions have not been included in the New Brit Articles. In any event the New Brit Shares will be treated as fully paid up on the Scheme Effective Date;
- because the Board has no right to refuse registration of transfers of shares under Dutch company law, these provisions have not been included in the New Brit Articles;
- the provisions concerning persons whose interests in the shares make them “Controllers” for regulatory purposes have been widened to include all regulatory bodies responsible for the management or supervision of the insurance or financial services markets in which New Brit or any of its subsidiaries operates and not just the UK FSA and Lloyd’s;
- to provide that a general meeting must be convened if so requested by shareholders with at least 5 per cent. of the total voting rights;
- to provide that shareholders with at least 1 per cent. of issued capital (or whose shares have a market value of at least €50 million, if less) can, by written requisition at least 60 days prior to a general meeting, require a particular matter to be discussed at such general meeting;
- there is no minimum quorum requirement for general meetings included in the New Brit Articles, as this is not a requirement under Dutch company law and in any event it is possible that the only registered shareholder will be the Depositary;
- votes at general meetings will be by way of poll (i.e. written ballot). The chairman of any general meeting will not have a casting vote in the case of an equality of votes;
- the provisions concerning the postponement or adjournment of general meetings have not been included in the New Brit Articles as this is not permitted under Dutch company law;
- in compliance with Dutch company law, to include a requirement for New Brit to adopt a remuneration policy for Directors in general meeting and for any material change to such remuneration policy to be submitted for adoption at a general meeting;

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- the total amount of directors' fees payable by New Brit in any year has been set at £2 million. The increase from £1 million in the Old Brit Articles is intended principally to deal with the likely increase in the size of the Board (to include at least two Non-Executive Directors resident in the Netherlands) and the fact that part of the Executive Directors' remuneration will now include directors' fees payable by New Brit (such fees being only a part of the remuneration received by each Executive Director);
- in accordance with Dutch company law, the New Brit Articles do not permit the Board to appoint new Directors or to remove existing Directors, any such appointments or removals instead being decided by the shareholders in general meeting;
- to provide that Board meetings must generally be held in the Netherlands (and that at least two-thirds of the attendees must be physically present in the Netherlands for the meeting to be deemed to be held there);
- to provide that the quorum for any Board meeting will be three Directors;
- to restrict the Board from acting by way of written resolutions;
- in compliance with Dutch company law, to provide that certain Board decisions require approval in general meeting, including those which relate to a significant change in the identity or character of New Brit or its undertaking;
- as Dutch company law does not recognise the concept of a company secretary, a company seal or execution of documents as deeds, these provisions have not been included in the New Brit Articles;
- the provisions concerning fixed dividends have not been included in the New Brit Articles as they are not relevant to the New Brit Shares;
- the provisions entitling New Brit to sell any shares held by untraced shareholders have not been included, as they are not permitted under Dutch company law;

Differences as a result of aligning the New Brit Articles with certain aspects of UK law, regulation and best practice

- to provide that any general meeting, other than an annual general meeting, can be called on 14 clear days' notice and that an annual general meeting can be called on 21 clear days' notice;
- to require written notice of general meetings to be sent to all shareholders, holders of Depositary Interests and other persons entitled to receive notice of meetings, since this is not necessarily a requirement for a public company under Dutch company law;
- to include certain provisions relating to shareholders' rights to require New Brit to circulate explanatory statements relating to resolutions to be dealt with at a general meeting, as well as the right for the shareholders to have published on New Brit's website statements setting out any matters concerning the audit of New Brit's accounts or any circumstances in which an auditor ceases to hold office, replicating the position under the UK Companies Act;
- to allow shareholders to appoint multiple proxies, replicating the position under the UK Companies Act;
- to include provisions requiring approval at a general meeting of "employee share schemes" and "long term incentive schemes", replicating the requirements in the UK Listing Rules for UK incorporated companies;
- to include provisions requiring shareholder approval of certain loans and quasi-loans to Directors, credit transactions with Directors, substantial property transactions with Directors and payments to Directors for loss of office, replicating the position under the UK Companies Act;
- under Dutch company law, it is not permissible to prevent a Director from voting on any proposal even if he has a material interest but the New Brit Articles provide that a Director "ought" not to vote in such circumstances;
- to incorporate into the New Brit Articles provisions which are based on section 793 of the UK Companies Act entitling a company to serve notices on persons so as to establish details of ownership of its shares; and

- to incorporate into the New Brit Articles provisions requiring shareholders to comply with the notification obligations to New Brit contained in Chapter 5 of the UK Disclosure and Transparency Rules as if New Brit was a company whose home state was the UK and giving New Brit the right to suspend a shareholder's rights in certain circumstances for non-compliance with such notification obligations.

Notwithstanding the differences between the New Brit Articles and the Old Brit Articles referred to above, with effect from the Scheme Effective Date, the voting rights relating to New Brit Shares will be substantially the same as the Old Brit Shares and the New Brit Shares will rank *pari passu* for distributions and in all respects with other fully paid New Brit Shares in issue on the Scheme Effective Date.

The provisions of the New Brit Articles are further described in paragraph 2 above of this Chapter 9. Copies of the Old Brit Articles and the New Brit Articles are also available for inspection as described in paragraph 2 of Chapter 13 – “General Information”.

4. Summary of applicable law and regulation

Set out below is a summary of the principal laws and regulations which will apply to New Brit after the Proposals take effect, together with a brief outline, for the purposes of comparison, of the laws and regulations which currently apply to Old Brit. This summary is intended to be illustrative only and does not purport to be exhaustive or to constitute legal advice. Any Old Brit Shareholder wishing to obtain further information regarding his rights as a New Brit Shareholder under Dutch and/or English law should consult his Dutch and/or English legal advisers.

4.1 UK Listing Rules

The UK Listing Rules will generally apply to New Brit in the same manner in which they applied to Old Brit. This will include, without limitation:

- (a) the continuing obligations in Chapter 9 of the UK Listing Rules;
- (b) the rules concerning significant transactions in Chapter 10 of the UK Listing Rules;
- (c) the rules concerning related party transactions in Chapter 11 of the UK Listing Rules;
- (d) the rules concerning dealing in own securities (including share buybacks) in Chapter 12 of the UK Listing Rules; and
- (e) the rules concerning the approval and contents of circulars to shareholders in Chapter 13 of the UK Listing Rules.

4.2 Notification of voting rights

New Brit

Obligations to notify voting rights in relation to New Brit will be governed primarily by Dutch law. The Dutch Financial Supervision Act provides that each person whose holding of voting rights and/or capital interest, directly or indirectly, amounts to 5 per cent. or more must notify the Dutch AFM without delay by means of a standard form or through its automated notification system. Any person who, directly or indirectly, acquires or disposes of an interest in New Brit's share capital or voting rights must without delay give written notice to the Dutch AFM, if, as a result of such acquisition or disposal, the percentage of capital interest or voting rights held by such person, directly or indirectly, reaches, exceeds or falls below the following thresholds: 5 per cent., 10 per cent., 15 per cent., 20 per cent., 25 per cent., 30 per cent., 40 per cent., 50 per cent., 60 per cent., 75 per cent. and 95 per cent.

In addition, if, as a result of a change in the share capital or voting rights of New Brit, a person's direct or indirect interest in New Brit's share capital or voting rights passively reaches, exceeds or falls below the above-mentioned thresholds, the person in question must give notice to the Dutch AFM no later than the fourth trading day after the Dutch AFM has published the change in its share capital and/or voting rights in the public register.

Annually, within four weeks after the end of the calendar year, each holder of 5 per cent. or more of New Brit's shares or voting rights whose interest has changed in the period after his most recent notification to the Dutch AFM, where the change relates to the composition of the notification as a result of certain acts

(e.g., the exchange of shares (an actual interest) for depositary receipts for shares (which is a potential interest) or the exercise of a right to acquire shares (pursuant to which the potential interest becomes an actual interest)) must also notify the Dutch AFM of such changes.

Voting rights for these purposes include those held as a shareholder or otherwise through a holding of financial instruments. Under the Dutch rules, this does not extend to pure economic interests in shares such as contracts for differences, as is the case under the UK Disclosure and Transparency Rules.

However, by virtue of provisions in the New Brit Articles, New Brit Shareholders will be required to disclose to New Brit on the same basis as Old Brit Shareholders do under the UK Disclosure and Transparency Rules.

The above rules under Dutch law may change.

It is envisaged that a threshold of 3 per cent. for shareholders will be added to the above described thresholds pursuant to a bill on the amendment of the Dutch Financial Supervision Act. Further, listed companies such as New Brit would be obliged to publish their strategy on their website. In connection therewith, shareholders with an interest of 3 per cent. or more will have to disclose whether they have any objections against the published strategy.

There is another draft bill, also amending the Dutch Financial Supervision Act, which includes an extension of the notification obligations in respect of substantial holdings on the basis of economic long positions. Pursuant to the proposal the notification obligations would be extended to voting rights and capital holdings in financial instruments of which the value depends on the increase in value of the shares or dividend rights and which will be settled other than in those shares. On the basis of this proposal, (legal) persons which/who hold certain financial instruments such as contracts for differences and total return equity swaps should notify their interest as of 3 per cent.

However, it is unclear if and when the above described proposed legislation will become effective.

Old Brit

The obligation to notify voting rights in relation to Old Brit is governed by the UK Disclosure and Transparency Rules, under which a person who is a shareholder in a UK company with shares admitted to trading on the London Stock Exchange is required to notify the company as soon as his voting rights reach, exceed or fall below 3 per cent. or any whole percentage above 3 per cent. Voting rights include those held as a shareholder or otherwise through a direct or indirect holding of financial instruments (which include pure economic interests in shares such as contracts for differences).

4.3 *Insider dealing and market abuse regimes*

New Brit

Both the rules on market abuse set out in Dutch law (in the Dutch Financial Supervision Act) and in UK law (in the UK FSMA) apply to New Brit. However, the Dutch Financial Supervision Act does not contain any material additional restrictions or obligations in relation to market abuse than those under UK law. The insider dealing legislation set out in the UK Criminal Justice Act 1993 will apply to New Brit.

Old Brit

The rules on insider dealing set out in the UK Criminal Justice Act 1993 and the rules on market abuse set out in the UK FSMA apply to Old Brit.

4.4 *Increase in share capital*

New Brit

Increases in the authorised and issued share capital of New Brit will be governed by Dutch law. The authorised share capital may be increased by shareholders by a simple majority vote (i.e. more than 50 per cent. of the total votes cast at the meeting). However the authorised share capital cannot be increased to a level which is five times greater than the total issued share capital.

The Directors of New Brit cannot issue new shares unless they are authorised to do so by the general meeting by a simple majority vote (i.e. more than 50 per cent. of the total votes cast at the meeting). The New Brit

Articles stipulate that such authority can only last for a maximum of 18 months. Paragraph 4.5 below explains the pre-emption rights for New Brit Shareholders which will apply to issues of shares by New Brit.

Old Brit

Increases in the share capital of Old Brit are governed by UK law. Directors of Old Brit must not issue shares unless they are authorised by an ordinary resolution of Old Brit Shareholders. The authorisation must state the maximum number of shares that may be issued under it and the date it will expire, which cannot be more than five years. For listed companies, it is customary practice for the authorisation to be renewed annually at the annual general meeting of the company and for the authorisation to remain in force for a period of fifteen months or until the next annual general meeting, whichever is the earlier. As of 1 October 2009, the concept of authorised share capital no longer exists in relation to any company incorporated in the UK, including Old Brit.

Paragraph 4.5 below explains the pre-emption rights of Old Brit Shareholders which apply to certain new issues of shares by Old Brit.

4.5 Pre-emption rights

New Brit

Dutch law will govern pre-emption rights in relation to New Brit. Under Dutch law, existing shareholders are afforded a right of pre-emption on any issue of shares, or rights to acquire shares, for cash. Pre-emption rights may be limited or excluded by a shareholder vote in a general meeting, unless the authority to exclude or limit pre-emption rights has been conferred on another corporate body for a certain period which according to the New Brit Articles may not exceed five years. The authority to issue shares and to limit or exclude pre-emption rights in respect of New Brit has been conferred on the Board as set out in paragraph 2 above under the heading “Capital”. Under the New Brit Articles, a resolution by the general meeting to limit or exclude pre-emption rights or to authorise another corporate body to do so requires a majority of 75 per cent. of the total votes cast at the meeting. Shareholders have no pre-emption rights in respect of shares issued for non-cash consideration or for shares issued to employees of New Brit or a group company.

Old Brit

UK law and the UK Listing Rules govern pre-emption rights in relation to Old Brit and the rules are the same, in all material respects, to the position set out above in relation to New Brit.

4.6 Reductions of share capital

New Brit

Reductions of share capital of New Brit will be governed by Dutch law. Dutch law provides that shareholders may resolve to reduce the issued share capital in a general meeting by either reducing the nominal value of the shares or cancelling shares. Such a resolution shall require a majority of the votes cast at the meeting or, if shareholders representing only half or less of the issued capital are present in person or by proxy, a majority of at least two-thirds of the votes cast at the meeting. The resolution must then be filed with the trade registry and a notice of the filing must be published in a nationally distributed daily newspaper in the Netherlands. After the resolution is passed, creditors have two months to oppose the resolution.

Old Brit

Reductions of share capital of Old Brit are governed by UK law. The capital reduction can take place in any way but must be approved by a special resolution of shareholders. The reduction must also be confirmed by the court, which will consider the interests of creditors. The reduction must be advertised in a national newspaper seven days before the court confirms the reduction. The reduction of capital takes effect on the registration of the court order with the registrar of companies.

4.7 Share buy-backs

New Brit

A share buy-back by New Brit is governed by Dutch law. A Dutch listed company can buy back shares if its equity less the acquisition price is not less than the sum of (x) the paid-up and called-up part of its issued

capital and (y) the mandatory reserves (if any). Not more than half of such company's issued capital may be held in treasury. The buy-back must be approved by a simple majority at a general meeting (i.e. by more than 50 per cent. of the total votes cast at such meeting). Under the New Brit Articles, however, a 75 per cent. majority shall be required instead.

Old Brit

A share buy-back by Old Brit is governed by UK law. A public company in the UK can buy back shares out of distributable profits or the proceeds of an issue of new shares made for such purpose. The buy-back must be approved by shareholders, either by simple majority (i.e. more than 50 per cent. of the total votes cast at the meeting) for a market purchase or a majority of 75 per cent. of the total votes cast at the meeting for an off-market purchase.

4.8 ***Significant transactions and related party transactions***

New Brit

Significant transactions undertaken by New Brit will be governed by a combination of Dutch law and UK regulation. Dutch law provides that all resolutions of the board of directors require approval in a general meeting where they relate to a significant change in the identity or character of a company or the business of the company, which includes (without limitation): (i) a transfer of the business of the company or substantially all of the business to a third party; (ii) the entry into or termination of a long-term co-operation arrangement with a third party which is of material significance to the company; and (iii) the purchase or sale of a company or business where the target company or business is over one-third of the value of the assets of the company (on a consolidated basis).

The UK Listing Rules will also apply to New Brit in relation to significant transactions. The UK Listing Rules set out "class tests" for UK listed companies. A transaction is classified according to its size by reference to a number of different percentage ratios. The results of the class tests are used to categorise the transaction as a Class 1, Class 2 or Class 3 transaction or a reverse takeover and the category of transaction then determines what procedural requirements must be complied with. In particular, a Class 1 transaction or a reverse takeover requires prior shareholder approval by a simple majority.

The UK Listing Rules also set out certain procedural requirements in respect of related party transactions, including shareholder approval, where a related party transaction exceeds a certain value on the basis of the class tests and these rules concerning related party transactions will also apply to New Brit.

Old Brit

Significant transactions and related party transactions undertaken by Old Brit are governed by the UK Listing Rules in the manner explained above.

4.9 ***Disclosure of information***

New Brit

New Brit's obligations to disclose information will be governed by a combination of Dutch law and UK regulation. Under Dutch law, pursuant to the Dutch Financial Supervision Act, New Brit is required to publish annual reports and accounts within four months after the end of each financial year and its half-yearly reports and accounts within two months after the end of the first six months of each financial year. In addition, New Brit is also obliged to publish interim management statements (*inter alia* containing an overview of important transactions and their financial consequences) in the period starting ten weeks after the beginning, and ending six weeks before the end, of the first and second half of each financial year, or, alternatively, to publish quarterly financial statements.

Under the UK Disclosure and Transparency Rules, subject to certain exceptions, New Brit will be obliged to notify the market as soon as possible of any inside information which directly concerns New Brit.

Old Brit

Old Brit has broadly similar obligations to those set out above, except that Old Brit is governed by UK regulation only, namely, the UK Listing Rules and the UK Disclosure and Transparency Rules.

4.10 *Distributions*

New Brit

Distributions made by New Brit will be governed by Dutch law. Under Dutch law, a limited liability company may make distributions up to the amount of its freely distributable reserves, being the aggregate of its called-up share capital and the reserves which must be maintained by law or its articles of association. Interim distributions may only be made (i) if the articles of association allow the same to be made and (ii) if there are sufficient freely distributable reserves (as determined on the basis of an interim statement of assets and liabilities).

Old Brit

Distributions made by Old Brit are governed by UK law. Under UK law, a public limited company can only make a distribution if the amount of its net assets is more than the aggregate of its called up share capital and undistributable reserves. The distribution cannot reduce its net assets to below that aggregate amount.

4.11 *Convening general meetings*

New Brit

The convening of general meetings by New Brit will be governed by a combination of Dutch law and UK regulation. Under Dutch law, all shareholder meetings must take place in the Netherlands. The New Brit Articles allow shareholders to participate in shareholder meetings in person, by proxy or by electronic means of communications. New Brit intends to provide video conference facilities in London and electronic links for shareholders unable to attend shareholders meetings in the Netherlands in person.

Under Dutch law, notices convening general meetings must include the subjects to be considered at the general meeting (with an agenda and explanatory notes thereto) or a statement that shareholders may inspect the same at the offices of the company. No valid resolutions will be able to be passed by New Brit in respect of matters not listed in the agenda set out in the notice. The notice convening the general meeting must also be published (with due observance of the notice period) in a daily newspaper with national circulation in the Netherlands.

The UK Listing Rules will also apply to New Brit. Under the UK Listing Rules, circulars (e.g. notices of meetings) should not be circulated or published unless they have been approved by the UK FSA. However, prior approval is not required if the circular or its subject matter has no unusual features, provided that certain requirements are complied with. For example, UK FSA approval is unlikely to be required for a notice of an annual general meeting at which only “ordinary business” is to be proposed. Directors are required to give a voting recommendation and certain wording should be included in a notice if any business other than ordinary business is proposed (i.e. special business).

Old Brit

The convening of general meetings by Old Brit is governed by UK law. There are no restrictions under UK law as to the place where a shareholder meeting must be held. Under UK law, a notice of a general meeting must: (i) provide a clear and adequate explanation of its subject matter; and (ii) contain all information necessary to allow members to make a properly informed decision on the issues they will be voting on at the meeting. No valid resolutions can be passed by Old Brit in respect of matters not listed in the agenda set out in the notice. There is no requirement that the notice convening the general meeting be published in a newspaper. The UK Listing Rules, as described above in relation to New Brit, apply to Old Brit.

4.12 *Notice period for general meetings*

New Brit

The notice period which New Brit will have to give to call a shareholder meeting is governed by a combination of Dutch law, the New Brit Articles and the UK Combined Code. Dutch law requires that a notice convening a shareholder meeting shall be given no later than on the fifteenth day prior to the day of the meeting. However, the new Brit Articles require at least 14 clear days’ notice of any general meeting (other than an annual general meeting) and at least 21 clear days’ notice of an annual general meeting.

In addition New Brit will be required to give more notice of its annual general meetings, as it has voluntarily decided to comply with the UK Combined Code, which recommends that the notice and related papers be sent to shareholders at least 20 working days before the meeting.

Old Brit

The notice period which Old Brit has to give to call a shareholder meeting is governed by UK law. UK law requires that a public limited company is required to give shareholders at least 21 clear days' notice of an annual general meeting and at least 14 clear days' notice of other general meetings, provided that it has been authorised by shareholders to do so and certain other requirements are satisfied. However, Old Brit is required to give more notice of its annual general meetings, as the UK Combined Code, with which Old Brit complies, recommends that the notice and related papers be sent to shareholders at least 20 working days before the meeting.

4.13 *Voting at general meetings*

New Brit

New Brit shareholder votes will be governed by Dutch law. Under Dutch law, the manner of voting by shareholders at general meetings is not prescribed by law. The New Brit Articles provide that shareholders cast their votes at a general meeting of shareholders on a poll (i.e. a written ballot). On a poll, each member has one vote for every share owned. It is anticipated that all or most New Brit Shareholders will hold Depositary Interests. A New Brit Shareholder who holds Depositary Interests will need to refer to the Deed Poll, which is described in more detail in Chapter 12 – “CREST, Depositary Interests and the Deed Poll”.

Old Brit

Old Brit shareholder votes are governed by UK law. Under UK law, shareholders may cast their votes at a general meeting of shareholders either on a show of hands or on a poll. Shareholders have a right to demand a poll but, unless so demanded, a resolution proposed at a general meeting of shareholders will be decided on a show of hands. On a show of hands (i) every member present in person has one vote; and (ii) every proxy appointed by one or more members has one vote but if the proxy has been appointed by more than one person and has been instructed by different members to vote in different ways, the proxy will have one vote for and one vote against the resolution. On a poll, each member has one vote for every share owned.

4.14 *Resolutions at general meetings*

New Brit

A combination of Dutch law and the New Brit Articles will govern the resolutions put to shareholders by New Brit. Under Dutch law, all resolutions may be passed by a simple majority (i.e. more than 50 per cent. of the total votes cast at the meeting), except that certain matters require a two thirds majority of the votes cast at the meeting if less than 50 per cent. of the issued share capital is represented at the meeting, either in person or by proxy.

However, it is permitted under Dutch law for the articles of association of a company to require higher voting majority thresholds. Accordingly, in order to make the voting requirements similar to those which shareholders would normally expect a company listed on the Official List to have, the New Brit Articles contain provisions which require a majority of 75 per cent. of the total votes cast at the meeting for resolutions put to New Brit Shareholders in relation to certain matters which would require a special resolution under UK law. These matters include:

- (a) making any amendments to the New Brit Articles or adopting new articles of association (excluding certain amendments in relation to an alteration of capital or a change to the financial year end);
- (b) disapplying the pre-emption rights on any new issues of shares;
- (c) making any change to the name of New Brit;
- (d) approving any repurchase of shares by New Brit;

- (e) approving the winding up of New Brit.

Resolutions approving a reduction of capital of New Brit are not included, however, in the matters requiring a 75 per cent. majority.

Old Brit

UK law governs the resolutions put to shareholders by Old Brit. Under UK law there is a distinction between ordinary resolutions (which require a simple majority, being more than 50 per cent. of the total votes cast at the meeting) and special resolutions (which require a majority of 75 per cent. of the total votes cast at the meeting).

4.15 Directors' appointment and removal

New Brit

The appointment and removal of directors by New Brit will be governed by a combination of Dutch law and the UK Combined Code. Under Dutch law, directors can only be appointed, suspended or dismissed by shareholders at a shareholders' meeting. Unlike under UK law, a director cannot be appointed on an interim basis by the board of a company.

As New Brit has decided to comply voluntarily with the UK Combined Code, New Brit will also need to follow its provisions in this area. Accordingly, there should be a formal, rigorous and transparent procedure for the appointment of new directors to the Board. There should also be a nomination committee which should lead the process for Board appointments and make recommendations to the Board. Any shareholder resolutions appointing directors will also be drafted so that there is a separate resolution in respect of each director.

Old Brit

The appointment and removal of directors by Old Brit is governed by UK law and the UK Combined Code. Under UK law, the appointment and removal of directors is determined by the articles of association, subject to certain statutory requirements and regulatory recommendations. The UK Combined Code also applies, as described above.

4.16 Takeover offers

New Brit

Pursuant to Article 4(2)(e) of the Takeover Directive, jurisdiction on takeover matters relating to New Brit will be shared between the UK Takeover Panel and the Dutch AFM. Matters relating to the consideration and procedural matters will be governed by UK law, namely the UK City Code. Matters relating to employee information and company law matters (in particular the percentage of voting rights which confers control and any derogation from the obligation to launch an offer, as well as the conditions under which the board of the offeree company may undertake any action which might result in the frustration of the offer) will be governed by Dutch law.

Specific details in relation to mandatory offers and squeeze-outs are set out at paragraphs 4.17 and 4.18 below.

Old Brit

Takeover offers in relation to Old Brit are governed by UK law, in particular the UK Companies Act and the UK City Code. They are regulated by the UK Takeover Panel.

4.17 Mandatory offers

New Brit

Under the Dutch Financial Supervision Act, if an acquisition of New Brit Shares were to increase the aggregate holding of an acquirer and its concert parties of New Brit Shares to 30 per cent. or more of the voting rights ("controlling influence") in New Brit, the acquirer and its concert parties would be required to make an offer for the outstanding New Brit Shares (unless such holding is reduced below 30 per cent. within 30 days of the acquisition of controlling influence provided that (i) during this period the relevant shareholder(s) did not exercise its (their) voting rights and (ii) the reduction of the shareholding was not effected by a transfer of shares to an exempted party). Concert parties under the Dutch Financial Supervision Act include natural persons, legal persons and enterprises with whom a person is working together, pursuant

to an agreement, with the purpose of acquiring controlling influence in a listed public limited liability company or, if there is cooperation with the target company, the obstruction of a public offer in respect of a listed public limited liability company by a third party. The UK City Code applies to the procedural matters of such a mandatory offer.

Old Brit

Under the UK City Code, if an acquisition of Old Brit Shares were to increase the aggregate holding of an acquirer and its concert parties of Old Brit Shares carrying 30 per cent. or more of the voting rights in Old Brit, the acquirer and, depending upon the circumstances, its concert parties, would be required (except with the consent of the UK Takeover Panel) to make an offer for the outstanding Old Brit Shares. A similar obligation to make such a mandatory offer would also arise on the acquisition of Old Brit Shares by a person holding (together with its concert parties) Old Brit Shares carrying between 30 per cent. and 50 per cent. of the voting rights in Old Brit if the effect of such acquisition were to increase that person's percentage of the voting rights.

4.18 ***Compulsory acquisition of minority shareholdings***

New Brit

A shareholder who for his own account holds at least 95 per cent. of New Brit's issued capital may institute proceedings against New Brit's other shareholders jointly for the transfer of their shares to the claimant. The proceedings are held before the Enterprise Chamber of the Amsterdam Court of Appeal (*Ondernemingskamer van het Gerechtshof te Amsterdam*, the "Enterprise Chamber") and can be instituted by means of a writ of summons served upon each of the minority shareholders in accordance with the provisions of the Dutch Code of Civil Procedure (*Wetboek van Burgerlijke Rechtsvordering*). The Enterprise Chamber may grant the claim for squeeze out in relation to all minority shareholders and will determine the price to be paid for the shares, if necessary upon advice of one or more experts.

An offeror under a public offer is also entitled to start such a squeeze out procedure before the Enterprise Chamber within three months after the offer period, if following the public offer he holds at least 95 per cent. of the shares (or class of shares) to which the offer relates, representing at least 95 per cent. of the voting rights carried by the shares to which the offer relates. Where the offer is made on a mandatory basis (as described above), the offer price is in principle deemed to be a reasonable price, which has to be accepted by minority shareholders. Where the offer is made on a voluntary basis, the offer price is considered reasonable if the offeror has acquired at least 90 per cent. of the shares (or class of shares) to which the offer relates. The Enterprise Chamber, however, may instruct one or more experts to determine the price.

Following a public offer, each remaining minority shareholder is entitled to demand a sale of its shares to the offeror if the offeror has acquired at least 95 per cent. of the shares (or class of shares) to which the offer relates, representing at least 95 per cent. of the voting rights carried by those shares. The same rules as for squeeze out proceedings initiated by the offeror apply to the determination of the price.

Old Brit

The UK Companies Act provides that where a person (the offeror) makes a takeover offer to acquire all of the shares (or all of the shares of any class) in a company (other than any shares already held by the offeror at the date of the offer), if the offeror has by virtue of acceptances of the offer acquired or unconditionally contracted to acquire (i) not less than 90 per cent. in value of the shares (or class of shares) to which the offer relates and (ii) if the shares to which the offer relates are voting shares, not less than 90 per cent. of the voting rights carried by those shares, the offeror may give notice to the holder of any of the shares (or class of shares) to which the offer relates which the offeror has not acquired or unconditionally contracted to acquire that he desires to acquire those shares. The offeror is entitled and bound to acquire the shares to which the notice relates on the terms of the original takeover. A holder of any shares who receives a notice of compulsory acquisition may, within six weeks from the date of the notice, apply to the court for an order that the offeror not be entitled and bound to acquire the holder's shares or that the offeror purchase the holder's shares on terms different to those of the original takeover offer.

Similarly, where before the end of the period within which the takeover offer can be accepted, the offeror has by virtue of acceptances of the offer acquired or unconditionally contracted to acquire not less than

90 per cent. in value of all of the shares (or all of the shares of a particular class) of the company and not less than 90 per cent. of the voting rights of the company, the holder of any shares (or class of shares) to which the offer relates who has not accepted the offer may, by written notice to the offeror, require the offeror to acquire the holder's shares. The offeror shall be entitled and bound to acquire the holder's shares on the terms of the original takeover offer or on such other terms as may be agreed. Where a holder gives the offeror a notice of compulsory acquisition, each of the offeror and the holder of the shares is entitled to apply to the court for an order that the terms on which the offeror is entitled and bound to acquire the holder's shares shall be such as the court thinks fit.

5. CREST and depositary interest arrangements

CREST is a paperless settlement procedure enabling securities to be transferred otherwise than by written instrument. Euroclear is unable to take responsibility for the electronic settlement of shares issued by non-UK companies in certain jurisdictions, including the Netherlands.

Depositary Interests allow registered stock to be dematerialised and settled electronically. The registered shares are transferred to the Depositary which then issues DIs to the CREST accounts of individual subscribers for New Brit Shares on a one-for-one basis and provides the necessary custodial service. DIs can then be traded and settled within the CREST system in the same way as any other CREST stock.

Subscribers who elect to hold their New Brit Shares through the DI facility will be bound by a Deed Poll, the terms of which are summarised in Chapter 12 – “CREST, Depositary Interests and the Deed Poll”.

In such cases, New Brit's share register will show the Depositary, Computershare Investor Services PLC Limited, as the holder of the New Brit Shares, but the beneficial interest will be with the subscriber. Pursuant to the Deed Poll, the Depositary has agreed to pass on to the DI holders all economic rights attaching to the New Brit Shares. The Depositary is entitled to exercise all voting rights.

The Depositary has agreed, upon request, to grant written proxies to the holders of DIs to attend and address a general meeting of shareholders. The rights of holders of DIs are outlined in Chapter 12 – “CREST, Depositary Interests and the Deed Poll”.

DI holders can request that the Depositary transfer to them a certain number of New Brit Shares in exchange for the DIs. Such a transfer shall be made through a written instrument and acknowledgement by New Brit of the transfer.

Stamp duty or stamp duty reserve tax considerations in relation to DIs are set out in Chapter 10 – “Taxation”.

It is anticipated that permission will be given for the holding and settling of DIs in respect of New Brit through CREST with effect from the date of Admission.

DIs will have the same international security identification number (ISIN) as the underlying New Brit Shares and will not require a separate application for admission to the Official List.

For more information concerning CREST, Shareholders should contact their brokers or Euroclear at 33 Cannon Street, London EC4M 5SB, UK, Tel: +44 (0)20 7849 0000, Fax: +44 (0)20 7849 0130.

10. TAXATION

1. General

This Chapter assumes that holders of Depositary Interests in respect of New Brit Shares will be treated for Dutch, UK and US tax purposes as the absolute beneficial owner of the corresponding number of New Brit Shares held by the Depositary and hence references to New Brit Shares include references to Depositary Interests and corresponding references to New Brit Shareholders include references to holders of Depositary Interests, unless indicated otherwise.

2. Dutch taxation

The following is a general summary and the tax consequences as described here may not apply to a holder of Old Brit Shares or New Brit Shares. Any potential investor should consult his tax adviser for more information about the tax consequences of acquiring, owning and disposing (under the Scheme or otherwise), of Old Brit Shares or New Brit Shares in his particular circumstances.

This taxation summary solely addresses the principal Dutch tax consequences of the acquisition, ownership and disposal (under the Scheme or otherwise) of Old Brit Shares or New Brit Shares. It does not consider every aspect of taxation that may be relevant to a particular holder of Old Brit Shares or New Brit Shares under special circumstances or who is subject to special treatment under applicable law. Where in this summary English terms and expressions are used to refer to Dutch concepts, the meaning to be attributed to such terms and expressions shall be the meaning to be attributed to the equivalent Dutch concepts under Dutch tax law. This summary also assumes that the Group is organised, and that its business will be conducted, in the manner outlined in this Prospectus. A change to such organisational structure or to the manner in which the Group conducts its business may invalidate the contents of this summary, which will not be updated to reflect any such change.

This summary is based on the tax law of the Netherlands (unpublished case law not included) as it stands at the date of this Prospectus. The law upon which this summary is based is subject to change, perhaps with retroactive effect. Any such change may invalidate the contents of this summary, which will not be updated to reflect such change.

2.1. Taxes on income and capital gains

Resident holders

General

The summary set out in this section “Taxes on income and capital gains – Resident holders” applies only to a holder of Old Brit Shares or New Brit Shares who is a “Dutch Individual” or a “Dutch Corporate Entity”.

For the purposes of this section a holder of Old Brit Shares or New Brit Shares is a “Dutch Individual” if he satisfies the following tests:

- a. he is an individual;
- b. he is resident, or deemed to be resident, in the Netherlands for Dutch income tax purposes, or he has elected to be treated as a resident of the Netherlands for Dutch income tax purposes;
- c. his Old Brit Shares and his New Brit Shares and any benefits derived or deemed to be derived therefrom have no connection with his past, present or future employment, if any; and
- d. his Old Brit Shares and his New Brit Shares do not form part of a substantial interest (*aanmerkelijk belang*) or a deemed substantial interest in Old Brit or New Brit within the meaning of Chapter 4 of the Dutch Income Tax Act 2001 (*Wet inkomstenbelasting 2001*).

Generally, if a person holds an interest in Old Brit or in New Brit, such interest forms part of a substantial interest, or a deemed substantial interest, in Old Brit or in New Brit if any one or more of the following circumstances is present:

1. Such person alone or, if he is an individual, together with his partner (*partner*, as defined in Article 1.2 of the Dutch Income Tax Act 2001), if any, owns, directly or indirectly, a number of shares in Old Brit or in New Brit representing 5 per cent. or more of the total issued and outstanding capital of Old Brit or of New Brit (or the issued and outstanding capital of any class of shares of Old Brit or of New Brit), or rights to acquire, directly or indirectly, shares, whether or not already issued, representing 5 per cent. or more of the total issued and outstanding capital of Old Brit or of New Brit (or the issued and outstanding

capital of any class of shares of Old Brit or of New Brit), or profit participating certificates (*winstbewijzen*) relating to 5 per cent. or more of Old Brit's or New Brit's annual profit or to 5 per cent. or more of Old Brit's or New Brit's liquidation proceeds.

2. Such person's shares, profit participating certificates or rights to acquire shares or profit participating certificates in Old Brit or in New Brit have been acquired by him or are deemed to have been acquired by him under a non-recognition provision.
3. Such person's partner or any of his relatives by blood or by marriage in the direct line (including foster-children) or of those of his partner has a substantial interest (as described under 1. and 2. above) in Old Brit or in New Brit.

A person who is entitled to the benefits from shares or profit participating certificates (for instance a holder of a right of usufruct) is deemed to be a holder of shares or profit participating certificates, as the case may be, and his entitlement to benefits is considered a share or profit participating certificate, as the case may be.

If a holder of Old Brit Shares or New Brit Shares is an individual and if he satisfies test b., but does not satisfy test c. and/or test d., his Dutch income tax position is not discussed in this Prospectus. If a holder of Old Brit Shares or New Brit Shares is an individual who does not satisfy test b., please refer to the section "Taxes on income and capital gains – Non-resident holders".

For the purposes of this section a holder of Old Brit Shares or New Brit Shares is a "Dutch Corporate Entity" if it satisfies the following tests:

- i. it is a corporate entity (*lichaam*), including an association that is taxable as a corporate entity, that is subject to Dutch corporation tax in respect of benefits derived from its Old Brit Shares or New Brit Shares;
- ii. it is resident, or deemed to be resident, in the Netherlands for Dutch corporation tax purposes;
- iii. it is not an entity that, although in principle subject to Dutch corporation tax, is, in whole or in part, specifically exempt from that tax; and
- iv. it is not an investment institution (*beleggingsinstelling*) as defined in article 28 of the Dutch Corporation Tax Act 1969 (*Wet op de vennootschapsbelasting 1969*).

If a holder of Old Brit Shares or New Brit Shares is not an individual and if it does not satisfy any one or more of these tests, with the exception of test ii. its Dutch corporation tax position is not discussed in this Prospectus. If it is not an individual and a holder of Old Brit Shares or New Brit Shares that does not satisfy test ii, please refer to the section "Taxes on income and capital gains – Non-resident holders".

Dutch Individuals deriving profits or deemed to be deriving profits from an enterprise

Any benefits derived or deemed to be derived from Old Brit Shares or New Brit Shares, including any capital gain realised on the disposal of Old Brit Shares under the Scheme or on the disposal of New Brit Shares, by a Dutch Individual that are attributable to an enterprise from which such Dutch Individual derives profits, whether as an entrepreneur (*ondernemer*) or pursuant to a co-entitlement to the net value of an enterprise, other than as a shareholder, are generally subject to Dutch income tax at progressive rates.

Such a Dutch Individual is advised to consult his own tax advisor for information on the tax consequences of the Scheme, if he holds Old Brit Shares, and in particular whether the disposal under the Scheme is eligible for roll-over of the tax book value.

Dutch Individuals deriving benefits from miscellaneous activities

Any benefits derived or deemed to be derived from Old Brit Shares or New Brit Shares, including any capital gain realised on the disposal of Old Brit Shares under the Scheme or on the disposal of New Brit Shares, by a Dutch Individual that constitute benefits from miscellaneous activities (*resultaat uit overige werkzaamheden*) are generally subject to Dutch income tax at progressive rates.

A Dutch Individual may, *inter alia*, derive, or be deemed to derive, benefits from Old Brit Shares or New Brit Shares that are taxable as benefits from miscellaneous activities in the following circumstances:

- a. if his investment activities go beyond the activities of an active portfolio investor, for instance in the case of use of insider knowledge (*voorkennis*) or comparable forms of special knowledge; or
- b. if he holds Old Brit Shares or New Brit Shares, whether directly or indirectly, and any benefits to be derived from such Old Brit Shares or New Brit Shares are intended, in whole or in part, as remuneration for activities performed by him or by a person who is a connected person in relation to him as meant by article 3.92b, paragraph 5, of the Dutch Income Tax Act 2001.

Such a Dutch Individual is advised to consult his own tax advisor for information on the tax consequences of the Scheme, if he holds Old Brit Shares, and in particular whether the disposal under the Scheme is eligible for roll-over of the tax book value.

Other Dutch Individuals

If a holder of Old Brit Shares or New Brit Shares is a Dutch Individual whose situation has not been discussed before in this section “Taxes on income and capital gains – Resident holders”, benefits from his Old Brit Shares and New Brit Shares are taxed annually as a benefit from savings and investments (*voordeel uit sparen en beleggen*). Such benefit is deemed to be 4 per cent. per annum of the average of his “yield basis” (*rendementsgrondslag*) at the beginning and at the end of the year, to the extent that such average exceeds the “exempt net asset amount” (*heffingvrij vermogen*) for the relevant year. The benefit is taxed at the rate of 30 per cent. The value of his Old Brit Shares and New Brit Shares forms part of his yield basis. Actual benefits derived from his Old Brit Shares and New Brit Shares, including any capital gain realised on the disposal of Old Brit Shares (under the Scheme or otherwise) or New Brit Shares, are not as such subject to Dutch income tax.

Attribution rule

Benefits derived or deemed to be derived from certain miscellaneous activities by, and yield basis for benefits from savings and investments of, a child or a foster child who is under eighteen years of age, are attributed to the parent who exercises, or to the parents who exercise, authority over the child, regardless of whether the child is resident in the Netherlands or abroad.

Dutch Corporate Entities

Any benefits derived or deemed to be derived from Old Brit Shares or New Brit Shares, including any capital gain realised on the disposal of Old Brit Shares under the Scheme or on the disposal of New Brit Shares, by a Dutch Corporate Entity are generally subject to Dutch corporation tax, except to the extent that the benefits are exempt under the participation exemption as laid down in the Dutch Corporation Tax Act 1969.

Such a Dutch Corporate Entity is advised to consult his own tax advisor for information on the tax consequences of the Scheme, if he holds Old Brit Shares, and in particular whether the disposal under the Scheme is eligible for roll-over of the tax book value.

Non-resident holders

The summary set out in this section “Taxes on income and capital gains – Non-resident holders” applies only to a holder of Old Brit Shares or New Brit Shares who is a Non-resident holder of Old Brit Shares or New Brit Shares.

For the purposes of this section, a holder of Old Brit Shares or New Brit Shares will be considered a “Non-resident holder of Old Brit Shares or New Brit Shares” if he satisfies the following tests:

- a. he is neither resident, nor deemed to be resident, in the Netherlands for purposes of Dutch income tax or corporation tax, as the case may be, and, if he is an individual, he has not elected to be treated as a resident of the Netherlands for Dutch income tax purposes;

- b. his Old Brit Shares or New Brit Shares and any benefits derived or deemed to be derived from Old Brit Shares or New Brit Shares have no connection with his past, present or future employment or membership of a management board (*bestuurder*) or a supervisory board (*commissaris*);
- c. his Old Brit Shares or New Brit Shares do not form part of a substantial interest or a deemed substantial interest in Old Brit or in New Brit within the meaning of Chapter 4 of the Dutch Income Tax Act 2001, unless such interest forms part of the assets of an enterprise;
- d. if it is not an individual, no part of the benefits derived from its Old Brit Shares or its New Brit Shares is exempt from Dutch corporation tax under the participation exemption as laid down in the Dutch Corporation Tax Act 1969; and
- e. it is not an entity that is resident in a Member State of the European Union and that is not subject to a tax on profits levied there.

See the section “Taxes on income and capital gains – Resident holders” for a description of the circumstances under which Old Brit Shares and New Brit Shares form part of a substantial interest or a deemed substantial interest in Old Brit or in New Brit.

If a holder of Old Brit Shares or New Brit Shares satisfies test a., but does not satisfy any one or more of tests b., c., d. and e., his Dutch income tax position or corporation tax position, as the case may be, is not discussed in this Prospectus.

A Non-resident holder of Old Brit Shares or New Brit Shares will not be subject to any Dutch taxes on income or capital gains (other than the dividend withholding tax described below) in respect of any benefits derived or deemed to be derived from Old Brit Shares or New Brit Shares, including any capital gain realised on the disposal thereof, except if:

- 1. (i) he derives profits from an enterprise, as an entrepreneur (*ondernemer*) or pursuant to a co-entitlement to the net value of such enterprise, other than as a shareholder, if he is an individual, or other than as a holder of securities, if he is not an individual and (ii) such enterprise is either managed in the Netherlands or carried on, in whole or in part, through a permanent establishment or a permanent representative in the Netherlands, and (iii) his Old Brit Shares or New Brit Shares are attributable to such enterprise; or
- 2. he is an individual and he derives benefits from Old Brit Shares or New Brit Shares that are taxable as benefits from miscellaneous activities in the Netherlands.

See the section “Taxes on income and capital gains – Resident holders” for a description of the circumstances under which the benefits derived from Old Brit Shares or New Brit Shares may be taxable as benefits from miscellaneous activities, on the understanding that such benefits will be taxable in the Netherlands only if such activities are performed or deemed to be performed in the Netherlands.

Attribution rule

Benefits derived or deemed to be derived from certain miscellaneous activities by a child or a foster child who is under eighteen years of age, even if the child is resident in the Netherlands, are attributed to the parent who exercises, or the parents who exercise, authority over the child, regardless of whether the child is resident in the Netherlands or abroad.

2.2 Dividend withholding tax

General

New Brit is generally required to withhold Dutch dividend withholding tax at a rate of 15 per cent. from dividends distributed by it.

The concept “dividends distributed by New Brit” as used in this section “Dutch Taxation” includes, but is not limited to, the following:

- distributions in cash or in kind, deemed and constructive distributions and repayments of capital which does not form part of the Recognised Capital;
- liquidation proceeds and proceeds of repurchase or redemption of shares in excess of the average Recognised Capital;
- the par value of shares issued by New Brit to a holder of New Brit Shares or an increase of the par value of shares, as the case may be, to the extent that it does not appear that a contribution, recognised for Dutch dividend withholding tax purposes, has been made or will be made; and
- partial repayment of Recognised Capital, if and to the extent that there are net profits (*zuivere winst*), unless (a) the general meeting of shareholders of New Brit has resolved in advance to make such repayment and (b) the par value of the shares concerned has been reduced by an equal amount by way of an amendment to the articles of association of New Brit.

Dutch Individuals and Dutch Corporate Entities

A Dutch Individual (other than an individual who is not resident or deemed to be resident in the Netherlands, but who has elected to be treated as a resident of the Netherlands for Dutch income tax purposes) or a Dutch Corporate Entity generally can credit Dutch dividend withholding tax against his Dutch income tax or its Dutch corporation tax liability, as the case may be, and generally is entitled to a refund in the form of a negative assessment of Dutch income tax or Dutch corporation tax, as the case may be, insofar as such dividend withholding tax, together with any other creditable domestic and/or foreign taxes, exceeds his aggregate Dutch income tax or its aggregate Dutch corporation tax liability, as the case may be, provided that, in the case of a Dutch Corporate Entity, (i) the dividends distributed by New Brit in respect of which such dividend withholding tax is withheld are included in its taxable profits and (ii) it has timely and duly filed a corporation tax return. In the case of a Dutch Corporate Entity for which dividends distributed by New Brit are not included in its taxable profits, the dividend withholding tax withheld thereon is refunded upon a timely and duly filed request.

Pursuant to domestic rules to avoid dividend stripping, Dutch dividend withholding tax will only be creditable by or refundable to the beneficial owner (*uiteindelijk gerechtigde*) of dividends distributed by New Brit. A holder of New Brit Shares who receives proceeds therefrom shall *not* be recognised as the beneficial owner of such proceeds if, in connection with the receipt of the proceeds, it has given a consideration, in the framework of a composite transaction including, without limitation, the mere acquisition of one or more dividend coupons or the creation of short-term rights of enjoyment of shares (*kortlopende genotsrechten op aandelen*), whereas it may be presumed that (i) such proceeds in whole or in part, directly or indirectly, inure to a person who would not have been entitled to an exemption from, reduction or refund of, or credit for, dividend withholding tax, or who would have been entitled to a smaller reduction or refund of, or credit for, dividend withholding tax than the actual recipient of the proceeds; and (ii) such person acquires or retains, directly or indirectly, an interest in New Brit Shares or similar instruments, comparable to its interest in New Brit Shares prior to the time the composite transaction was first initiated.

An individual who is not resident or deemed to be resident in the Netherlands, but who has elected to be treated as a resident of the Netherlands for Dutch income tax purposes, may be eligible for relief from Dutch dividend withholding tax on the same conditions as an individual who is a Non-resident holder of New Brit Shares, as discussed below.

See the section “Dividend withholding tax – General” for a description of the concept “dividends distributed by New Brit”.

See the section “Taxes on income and capital gains – Resident holders” for a description of the terms Dutch Individual and Dutch Corporate Entity.

Non-resident holders

If a Non-resident holder of New Brit Shares is resident in the Netherlands Antilles or Aruba or in a country that has concluded a double taxation treaty with the Netherlands, such holder may be eligible for a full or partial relief from the dividend withholding tax, provided such relief is timely and duly claimed. Pursuant to domestic rules to avoid dividend stripping, dividend withholding tax relief will only be available to the beneficial owner of dividends distributed by New Brit. The Dutch tax authorities have taken the position that this beneficial-ownership test can also be applied to deny relief from dividend withholding tax under double tax treaties and the Tax Arrangement for the Kingdom (*Belastingregeling voor het Koninkrijk*).

In addition, a Non-resident holder of New Brit Shares that is not an individual and that is resident in a Member State of the European Union is entitled to an exemption from dividend withholding tax, provided that the following tests are satisfied:

1. it takes one of the legal forms listed in the Annex to the EU Parent Subsidiary Directive (Directive 90/435/EEC, as amended), or a legal form designated by ministerial decree;
2. any one or more of the following threshold conditions are satisfied;
3. at the time the dividend is distributed by New Brit, it holds shares representing at least 5 per cent. of the nominal paid up capital of New Brit; or
 - a. it has held shares representing at least 5 per cent. of the nominal paid up capital of New Brit for a continuous period of more than one year at any time during the four years preceding the time the dividend is distributed by New Brit, provided that such period ended after 31 December 2006; or
 - b. it is connected with New Brit within the meaning of article 10a, paragraph 4, of the Dutch Corporation Tax Act 1969; or
 - c. an entity connected with it within the meaning of article 10a, paragraph 4, of the Dutch Corporation Tax Act 1969 holds at the time the dividend is distributed by New Brit, shares representing at least 5 per cent. of the nominal paid up capital of New Brit;
4. it is subject to the tax levied in its country of residence as meant by article 2, paragraph 1, letter c, of the EU Parent Subsidiary Directive (Directive 90/435/EEC, as amended) without the possibility of an option or of being exempt; and
5. it is not considered to be resident outside the Member States of the European Union under the terms of a double taxation treaty concluded with a third State.

The exemption from dividend withholding tax is not available if pursuant to a provision for the prevention of fraud or abuse included in a double taxation treaty between the Netherlands and the country of residence of the Non-resident holder of New Brit Shares, such holder would not be entitled to the reduction of tax on dividends provided for by such treaty. Furthermore, the exemption from dividend withholding tax will only be available to the beneficial owner of dividends distributed by New Brit. If a Non-resident holder of New Brit Shares is resident in a Member State of the European Union with which the Netherlands has concluded a double taxation treaty that provides for a reduction of tax on dividends based on the ownership of the number of voting rights, the test under 2.a. above is also satisfied if such holder owns 5 per cent. of the voting rights in New Brit.

See the section “Dividend withholding tax – Dutch Individuals and Dutch Corporate Entities” for a description of the term beneficial owner.

See the section “Dividend withholding tax – General” for a description of the concept “dividends distributed by New Brit”.

See the section “Taxes on income and capital gains – Non-resident holders” for a description of the term Non-resident holder of New Brit Shares.

2.3 *Gift and inheritance taxes*

A person who acquires New Brit Shares as a gift (in form or in substance) or who acquires or is deemed to acquire New Brit Shares on the death of an individual will not be subject to Dutch gift tax or to Dutch inheritance tax, as the case may be, unless:

- (i) the donor is, or the deceased was, resident or deemed to be resident in the Netherlands for purposes of gift or inheritance tax (as the case may be); or
- (ii) the New Brit Shares are or were attributable to an enterprise or part of an enterprise that the donor or deceased carried on through a permanent establishment or a permanent representative in the Netherlands at the time of the gift or of the death of the deceased; or
- (iii) the donor made a gift of New Brit Shares, then became a resident or deemed resident of the Netherlands, and died as a resident or deemed resident of the Netherlands within 180 days of the date of the gift.

2.4 *Other taxes and duties*

No Dutch registration tax, transfer tax, stamp duty or any other similar documentary tax or duty is payable by the holder of Old Brit Shares upon implementation of the Scheme.

No Dutch registration tax, transfer tax, stamp duty or any other similar documentary tax or duty, other than court fees, is payable by the holder of New Brit Shares in respect of or in connection with (i) the subscription, issue, placement, delivery of New Brit Shares, (ii) the delivery and/or enforcement by way of legal proceedings (including the enforcement of any foreign judgment in the courts of the Netherlands) of the documents relating to the issue of New Brit Shares or the performance by New Brit of New Brit's obligations under such documents, or (iii) the transfer of New Brit Shares.

3. **United Kingdom taxation**

3.1 *General*

The following paragraphs, which are intended as a general guide only and not a substitute for detailed tax advice, are based on current legislation and on what is understood to be current HM Revenue & Customs ("HMRC") practice. They summarise certain limited aspects of the UK taxation consequences of the Scheme and the holding and disposing of New Brit Shares. Except where express reference is made to the position of non-UK residents, these paragraphs apply only to Old Brit Shareholders who are resident and, if individuals, ordinarily resident and domiciled in the UK for tax purposes. They relate only to such Old Brit Shareholders who hold their Old Brit Shares and who will hold their New Brit Shares directly as an investment (other than under individual savings accounts, "ISAs") and who are absolute beneficial owners of those Old Brit Shares or New Brit Shares. Unless they expressly provide to the contrary, these paragraphs do not deal with certain types of shareholders, such as persons who hold more than 5 per cent. of the share capital or voting rights of Old Brit or New Brit, persons who hold or who have acquired Old Brit Shares or New Brit Shares (or options or rights in respect thereof) in the course of trade or by reason of their, or another's, employment, or collective investment schemes and insurance companies or persons who are also resident in another jurisdiction.

Any holder of New Brit Shares, who is in doubt as to its taxation position or who is resident or otherwise subject to taxation in any jurisdiction other than the UK, should consult an appropriate professional adviser immediately. Old Brit Shareholders are directed to the sections headed "Dutch taxation" above and "US taxation" below for a description of the tax consequences of holding Old Brit Shares or New Brit Shares in such jurisdictions.

3.2 *UK taxation consequences of the Scheme*

Taxation of chargeable gains

An Old Brit Shareholder who does not hold (either alone or together with other persons connected with him) more than 5 per cent. of, or of any class of, shares in or debentures of Old Brit should not be treated as having made a disposal or part disposal of his Old Brit Shares for the purposes of UK taxation of chargeable gains

on implementation of the Scheme. Instead any chargeable gain or allowable loss which would otherwise have arisen on a disposal of such holder's Old Brit Shares should be "rolled over" into his New Brit Shares. As a result, the New Brit Shares should be treated as the same asset and as having been acquired at the same time and for the same consideration as the Old Brit Shares from which they derived.

An Old Brit Shareholder who holds (either alone or together with the persons connected with him) more than 5 per cent. of, or of any class of, shares in or debentures of Old Brit should not be treated as having made a disposal or part disposal of his Old Brit Shares for the purposes of UK taxation of chargeable gains on the implementation of the Scheme and should be able to "roll over" any chargeable gain or allowable loss into his New Brit Shares as described above provided the Scheme (i) is effected for bona fide commercial reasons, and (ii) does not form part of a scheme or arrangements of which the main purpose, or one of the main purposes, is avoidance of liability to capital gains tax or corporation tax. If these conditions are not met, then such an Old Brit Shareholder who is resident or, in the case of an individual, ordinarily resident, in the UK will be treated, on receiving New Brit Shares as consideration for the cancellation of his Old Brit Shares, as having made a disposal of his Old Brit Shares which may, depending on individual circumstances, give rise to a chargeable gain or allowable loss for the purposes of UK taxation of chargeable gains. No application has been made to HMRC under section 138 of the Taxation of Chargeable Gains Act 1992 for clearance that these conditions will be met.

UK stamp duty and stamp duty reserve tax (SDRT)

No stamp duty or SDRT will be payable by Old Brit Shareholders as a result of the cancellation of Old Brit Shares and the issue of New Brit Shares under the Scheme.

Transactions in securities

Old Brit Shareholders should note that Old Brit has been advised that the Old Brit Shareholders should not suffer a counter-acting tax assessment under the transactions in securities rules in sections 703 et seq. of the Income and Corporation Taxes Act 1988 and sections 682 et seq. of the Income Tax Act 2007 by reference to the Scheme but that no application for clearance has been made under section 707 of the Income and Corporation Taxes Act 1988 or section 701 of the Income Tax Act 2007 in relation to the Scheme. Therefore, any Old Brit Shareholder who is in doubt as to his personal tax position in the light of his own particular circumstances, should take professional advice.

3.3 UK taxation consequences of holding New Brit Shares

Disposal of New Brit Shares

A subsequent disposal of New Brit Shares by a New Brit Shareholder who is resident or ordinarily resident in the UK may, depending on individual circumstances, including the availability of any exemptions, reliefs and/or allowable losses, give rise to a chargeable gain or allowable loss for the purposes of UK taxation on chargeable gains. Any gain accruing to a corporate New Brit Shareholder from a disposal of New Brit Shares (other than corporates exempt from UK taxation on chargeable gains) will be included in such shareholder's profits chargeable to corporation tax and taxed at the appropriate rate (currently a maximum of 28 per cent.). Any gain accruing to an individual New Brit Shareholder will be taxed at the appropriate rate of capital gains tax (currently 18 per cent.). The principal factors which will determine the amount of capital gains tax payable by an individual are the level of the annual allowance of tax-free capital gains in the tax year in which the disposal takes place, the extent to which the New Brit Shareholder realises any other capital gains in that year and the extent to which the New Brit Shareholder has incurred capital losses in that or any earlier tax year.

A subsequent disposal of New Brit Shares by a New Brit Shareholder who is not resident in the UK for tax purposes but who carries on a trade, profession or vocation in the UK through a branch, agency or permanent establishment and has used, held or acquired the New Brit Shares for the purposes of such trade, profession or vocation or such branch, agency or permanent establishment may, depending on individual circumstances, give rise to a chargeable gain or allowable loss for the purposes of UK taxation on chargeable gains.

An individual New Brit Shareholder who ceases to be resident or ordinarily resident (for tax purposes) in the UK, or falls to be regarded as resident in a territory outside the UK for the purposes of double taxation relief arrangements for a temporary period (a period of several tax years may be regarded as "temporary")

and who disposes of the shares during that period may be liable on that shareholder's return to the UK to tax on any chargeable gain realised on the disposal (subject to any available exemption or relief).

On the basis that a New Brit Shareholder was able to "roll over" any chargeable gain or allowable loss which would otherwise have arisen on the disposal of such holder's Old Brit Shares on implementation of the Scheme (as set out above in the section entitled "UK tax consequences of the Scheme"), any chargeable gain or allowable loss on the disposal of New Brit Shares should be calculated taking into account the allowable original cost to the Old Brit Shareholder of acquiring the Old Brit Shares from which the New Brit Shares are derived.

In general, any chargeable gain or allowable loss on a disposal of New Brit Shares will be calculated by reference to the consideration received for the disposal of the New Brit Shares less the allowable cost to the shareholder of acquiring such New Brit Shares (which allowable cost may be reduced by repayments of nominal share capital – see the section headed "Distributions by repayment of share capital" below). It should be noted that the amount of any capital gain will be calculated using the pounds sterling values of acquisition cost and disposal proceeds, such that foreign currency movements could affect the amount of any gain.

For corporate shareholders only, indexation allowance on the relevant proportion of the original allowable cost should be taken into account for the purposes of calculating a chargeable gain (but not an allowable loss) arising on a disposal or part disposal of New Brit Shares.

UK stamp duty and SDRT on transfers of New Brit Shares

Stamp duty should generally not need to be paid on an instrument transferring New Brit Shares.

No SDRT will generally be payable in respect of any agreement to transfer New Brit Shares.

The statements in this paragraph summarise the current position on UK stamp duty and SDRT and are intended as a general guide only. They assume that the New Brit Shares will not be registered in a register kept in the UK by or on behalf of New Brit. New Brit has confirmed that it does not intend to keep such a register in the UK.

Distributions received from New Brit

(i) Cash distributions from New Brit

Where a distribution by New Brit is in cash and not in respect of a repayment of share capital (for which, see (ii) below) an individual New Brit Shareholder who:

- is resident or ordinarily resident in the UK; or
- carries on a trade in the UK through a UK branch or agency in connection with which their New Brit Shares are held,

will generally be subject to United Kingdom income tax on the gross amount of any dividends paid by New Brit before deduction of Dutch withholding tax (expected to be 15 per cent. of the cash amount of the dividend). Dutch tax withheld from a dividend payment to a holder of New Brit Shares (and not recoverable from the Dutch tax authorities) should generally be available as a credit against all or some of the UK tax payable in respect of such dividend, subject to the detailed rules of UK tax law and practice regarding the availability and calculation of any such credit.

Legislation has been introduced which sets out new rules for dividends and other distributions received by UK companies on or after 1 July 2009. Under this legislation, dividends received by a UK company from another company are taxable subject to certain exemptions. It is expected that generally one of these exemptions will apply to exempt a UK resident corporate holder of New Brit Shares from tax on the receipt of any dividend.

The following additional points should be noted in relation to dividends received by individual shareholders on the New Brit Shares:

A UK resident individual holder who owns less than a 10 per cent. shareholding in New Brit and is liable to income tax will be taxable on the total of the dividend and the related UK tax credit before the deduction of any Dutch withholding tax (the “gross dividend”), which will be regarded as the top slice of the individual’s income. The tax credit will, however, be treated as discharging the individual’s liability to income tax in respect of the gross dividend, unless and except to the extent that the gross dividend falls above the threshold for the higher rate of income tax, in which case the individual will, to that extent, pay tax on the gross dividend calculated as 32.5 per cent. of the gross dividend less the related tax credits. So, for example (and assuming Dutch withholding tax applies at 15 per cent.), a dividend of £90 will carry a tax credit of £10 and will be subject to Dutch withholding tax of £13.50 and the income tax payable on the dividend by an individual liable to income tax at the higher rate would be 32.5 per cent. of £100, namely £32.50, less the tax credit of £10 and (assuming it is available) credit for the Dutch tax withheld of £13.50 leaving a net tax charge of £9. A UK resident individual holder of New Brit Shares who is not liable to income tax in respect of the gross dividend will not be entitled to reclaim any part of the tax credit referred to above.

Dividends on Old Brit Shares were not subject to UK withholding tax and so a dividend of £90 on Old Brit Shares would carry a tax credit of £10 and the income tax payable on the dividend by an individual liable to income tax at the higher rate would be 32.5 per cent. of £100, namely £32.50, less the tax credit of £10, leaving a net tax charge of £22.50. Accordingly, a higher rate taxpayer will be liable for the same amount of tax, in aggregate, in respect of dividends paid on New Brit Shares as on Old Brit Shares. In the case of basic rate taxpayer’s, dividends on the Old Brit Shares were subject to tax on the gross dividend at the rate of 10 per cent. and the non-payable tax credit satisfied in full such shareholder’s liability to income tax on the gross dividend. However, a basic rate taxpayer will suffer more tax, in aggregate, in respect of cash dividends paid on New Brit Shares than on Old Brit Shares because Dutch withholding tax will not generally be refunded in the event that it exceeds the UK tax payable in respect of a dividend on New Brit Shares. In both cases, such shareholder’s liability to UK tax is discharged in full by their non-payable UK tax credit whereas Dutch withholding tax is payable in relation to dividends on the New Brit Shares and no UK withholding tax was payable on dividends on the Old Brit Shares.

The UK government announced in April 2009 that with effect from 6 April 2010 it is intended there will be a new additional dividend rate applicable where the gross dividend falls above the threshold for the new additional rate of income tax (i.e. taxable income of above £150,000), in which case the individual will, to that extent, pay tax on the gross dividend calculated as 42.5 per cent. of the gross dividend less the related tax credits.

Legislation has been introduced with effect from 22 April 2009, which extends eligibility for the UK tax credit described above to individuals who own a 10 per cent. or greater shareholding in the distributing non UK-resident company (subject to certain requirements and exceptions). Any shareholder who is in doubt as to his personal tax position should take professional advice.

(ii) Distributions by repayment of share capital

The payment by New Brit for the cancellation of a fixed proportion of the nominal value of each New Brit Share held (a “repayment of nominal share capital”) will not generally constitute an income distribution for UK tax purposes in the hands of New Brit Shareholders. Instead, in such circumstances, a New Brit Shareholder will be treated as having made a part disposal of their New Brit Shares for the purposes of UK taxation on chargeable gains.

Accordingly, no part of the proceeds received by a New Brit Shareholder pursuant to a repayment of nominal share capital should be treated as an income receipt in that shareholder’s hands for UK tax purposes. Those proceeds will not carry any entitlement to a tax credit and, in the hands of a corporate shareholder, will not constitute franked investment income.

A New Brit Shareholder who disposes of part of their holding of New Brit Shares pursuant to a repayment of nominal share capital may, depending on their circumstances (including whether the ‘small part disposal rules’ described below apply), be charged to capital gains tax or (in the case of a company) corporation tax on the amount of any chargeable gain realised. In computing such gain, the allowable acquisition cost on the part disposal will be calculated by apportioning the acquisition cost of the part disposed of and the part retained by reference to their respective market values.

Under current HMRC practice, a New Brit Shareholder who receives payment for the disposal of part of their holding of New Brit Shares in circumstances where the cash received is “small” as compared to the overall value of their holding of New Brit Shares should be entitled to treat the cash as a deduction from the acquisition cost of the New Brit Shares. For this purpose, HMRC generally considers the amount of cash received to be “small” when such amount is 5 per cent. or less of the market value of the relevant holding or is less than £3,000.

UK stamp duty and SDRT

No stamp duty or SDRT should arise on a repayment of nominal share capital.

Transactions in securities

Brit Shareholders should note that Old Brit has been advised that New Brit Shareholders should not suffer a counter-acting tax assessment under the transactions in securities rules in sections 703 et seq. of the Income and Corporation Taxes Act 1988 and sections 682 et seq. of the Income Tax Act 2007 by reference to distributions made by the repayment of nominal share capital but that no application for clearance has been made under section 707 of the Income and Corporation Taxes Act 1988 or section 701 of the Income Tax Act 2007. Therefore, any Brit Shareholder who is in doubt as to his personal tax position in the light of his own particular circumstances, should take professional advice.

4. United States taxation

4.1 *Material U.S. federal income tax considerations*

The following is a discussion of the material federal income tax consequences of the Scheme to U.S. Holders, as defined below, of Old Brit Shares, and the ownership and disposition by U.S. Holders of New Brit Shares acquired pursuant to the Scheme. This discussion is not a complete analysis or listing of all of the possible tax consequences of such transactions and does not address all tax considerations that might be relevant to particular holders in light of their specific circumstances or to persons that are subject to special tax rules. The discussion assumes that U.S. Holders of Old Brit Shares hold their shares as capital assets for U.S. federal income tax purposes (generally, property held for investment). In addition, this description of the material U.S. federal income tax consequences does not address the tax treatment of special classes of Old Brit Shareholders, such as financial institutions, regulated investment companies, real estate investment trusts, tax-exempt entities, insurance companies, persons holding the Old Brit Shares as part of a hedging, integrated or conversion transaction, constructive sale or “straddle”, persons who acquired Old Brit Shares through the exercise or cancellation of employee stock options or otherwise as compensation for their services, persons holding 10 per cent. or more of the total combined voting power of all classes of Old Brit’s stock entitled to vote, U.S. expatriates, persons subject to the alternative minimum tax, dealers or traders in securities or currencies, holders whose functional currency is not the U.S. dollar.

This summary does not address inheritance, estate and gift tax consequences or tax consequences under any state, local or foreign laws. **Any U.S. Holder, as defined below, of Old Brit Shares or New Brit Shares should consult his own tax advisor as to the specific tax consequences of the Scheme, including the applicable federal, state, local and foreign tax consequences to him.**

The following discussion is based upon the U.S. Internal Revenue Code of 1986, as amended (the “**Internal Revenue Code**”), U.S. judicial decisions, administrative pronouncements, existing and proposed Treasury regulations and the Convention between The Government of the United States of America and the Kingdom of the Netherlands for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to taxes on income and on capital gains (the “**U.S.-Dutch Treaty**”), all as in effect on the date hereof. All of the preceding authorities are subject to change, possibly with retroactive effect, so as to result in U.S. federal income tax consequences different from those discussed below. New Brit has not requested, and except as

indicated with respect to the application of the U.S.-Dutch Treaty to it, will not request, a ruling from the U.S. Internal Revenue Service (the “IRS”) with respect to any of the U.S. federal income tax consequences described below. As a result there can be no assurance that the IRS will not disagree with or challenge any of the conclusions New Brit has reached and describes herein.

U.S. Holder

For purposes of this section, a “U.S. Holder” of Old Brit Shares or New Brit Shares is: (1) an individual citizen of the United States or a resident alien of the United States as determined for U.S. federal income tax purposes; (2) a corporation (or other entity treated as a corporation for U.S. federal income tax purposes) created or organised under the laws of the United States or any state thereof or the District of Columbia; (3) an estate the income of which is subject to U.S. federal income taxation regardless of its source; or (4) a trust (A) if a court within the United States is able to exercise primary jurisdiction over its administration and one or more U.S. persons have authority to control all substantial decisions of the trust or (B) that has a valid election in effect under applicable Treasury regulations to be treated as a U.S. person.

If a partnership or other pass-through entity is a beneficial owner of the Old Brit Shares, the tax treatment of a partner or other owner will generally depend upon the status of the partner (or other owner) and the activities of the entity. If a U.S. Holder is a partner (or other owner) of a partnership or other pass-through entity that holds Old Brit Shares, he should consult his tax advisor regarding the tax consequences of the Scheme and of owning and disposing of the New Brit Shares.

Treasury Department Circular 230

To ensure compliance with U.S. Treasury Department Circular 230, each holder of Old Brit Shares is hereby notified that: (a) any discussion of tax issues herein is not intended or written to be relied upon, and cannot be relied upon, by him for the purpose of avoiding penalties that may be imposed on him under applicable tax law; (b) such discussion is included herein in connection with the promotion or marketing (within the meaning of Circular 230) of the Scheme; and (c) he should seek advice based on his particular circumstances from an independent advisor.

4.2 Material tax consequences of the Scheme

The U.S. federal income tax consequences of the Scheme will depend on whether a U.S. Holder of New Brit Shares owns 5 per cent. or more of the shares of New Brit immediately after the consummation of the Scheme.

U.S. Holder of less than 5 per cent. of New Brit Shares

No gain or loss will be recognised by a U.S. Holder holding less than 5 per cent. of New Brit Shares upon receipt of New Brit Shares in exchange for Old Brit Shares. The aggregate tax basis of the New Brit Shares received by such U.S. Holder under the Scheme will be the same as the aggregate tax basis of his Old Brit Shares exchanged therefore and the holding period for New Brit Shares received under the Scheme will include the period during which the Old Brit Shares were held.

U.S. Holder of 5 per cent. or more of New Brit Shares

Under Section 367(a) of the Internal Revenue Code and the Treasury Regulations thereunder, a U.S. Holder who owns (applying ownership attribution rules) 5 per cent. or more of the total voting power and the total value of the outstanding shares of New Brit immediately after the Scheme generally will be required to file and maintain with the IRS a “gain recognition agreement” and related materials (“GRA”) in order to defer gain realised as a result of the Scheme. Provided such U.S. Holder timely files and maintains a GRA, then the U.S. federal tax consequences of the Scheme to such U.S. Holder will be the same as to a U.S. Holder of less than 5 per cent. of New Brit Shares. If a 5 per cent. or more U.S. Holder fails properly to enter into a GRA, then such U.S. Holder will be required to recognise any gain (but not loss) realised upon the exchange of Old Brit Shares for New Brit Shares pursuant to the Scheme. In such event, the U.S. Holder’s basis in the New Brit Shares will be increased by the gain recognised and the holding period for the New Brit Shares will begin on the date of the exchange of Old Brit Shares for New Brit Shares pursuant to the Scheme. **5 per cent. or greater U.S. holders should consult their own tax advisor to determine whether and when to file a GRA and the tax implications thereof.**

4.3 *Taxation in respect of New Brit Shares*

Distributions

Subject to the discussion of the PFIC rules below, the gross amount of any distribution paid (including dividends, distributions by way of reduction of share capital and any other type of distribution) on account of the New Brit Shares will generally be subject to U.S. federal income tax as dividend income to the extent paid out of New Brit's current or accumulated earnings and profits, as determined under U.S. federal income tax principles. The amount of any distribution made by New Brit in property other than cash will be the fair market value of such property on the date of the distribution. Dividends paid by New Brit will not be eligible for the dividends received deduction allowed to corporations.

Subject to applicable exceptions with respect to short-term and hedged positions, certain dividends received by non-corporate U.S. shareholders prior to 1 January 2011 from a "qualified foreign corporation" may be eligible for reduced rates of taxation. A qualified corporation includes a foreign corporation that is eligible for the benefits of a comprehensive income tax treaty with the United States, such as the U.S.-Dutch Treaty, that the U.S. Treasury Department determines to be satisfactory for these purposes and that includes an exchange of information provision. The U.S.-Dutch Treaty applies to Dutch corporations that meet certain objective tests set out in the U.S.-Dutch Treaty and to Dutch corporations granted treaty benefits by the United States competent authority on a discretionary basis. New Brit does not expect to qualify for the benefits of the U.S.-Dutch Treaty under any of the objective tests. A foreign corporation is also treated as a qualified foreign corporation with respect to dividends paid by that corporation on ordinary shares that are readily tradeable on an established securities market in the United States. Because New Brit Shares will not be readily tradeable on an established securities market in the U.S., New Brit will not be a qualified corporation as a result of the rule. Accordingly, absent a discretionary grant of U.S.-Dutch Treaty benefits, New Brit will not be a "qualified foreign corporation" and dividends paid by it will not be eligible for reduced rates of U.S. federal income taxation allowed to individuals. New Brit is considering seeking a ruling from U.S. competent authority granting it the benefits of the U.S.-Dutch Treaty pursuant to the U.S. competent authority's discretionary authority. New Brit is unable to predict whether it will be granted such benefits.

Dividends received by a U.S. Holder from a foreign corporation that was a PFIC in either the taxable year of the distribution or the preceding taxable year will not constitute qualified dividends. As discussed below under "*Passive Foreign Investment Company Considerations*," New Brit believes it is currently not a PFIC.

To the extent that a distribution exceeds the amount of New Brit's current and accumulated earnings and profits, as determined under U.S. federal income tax principles, it will be treated first as a tax-free return of capital, causing a reduction in the adjusted basis in the New Brit Shares held by a U.S. Holder (thereby increasing the amount of gain, or decreasing the amount of loss, to be recognised by such U.S. Holder upon a subsequent disposition of the New Brit Shares), with any amount that exceeds his adjusted basis being taxed as a capital gain recognised on a sale or exchange (as discussed below). However, New Brit does not maintain calculations of earnings and profits in accordance with U.S. federal income tax principles, and a U.S. Holder of New Brit Shares should therefore assume that any distribution by New Brit with respect to its New Brit Shares will constitute ordinary dividend income.

In general, the amount of any dividend paid by New Brit will be treated as foreign source income for purposes of computing the eligibility of a U.S. Holder of New Brit Shares for a foreign tax credit.

The gross amount of distributions paid in Euros will be included by a U.S. Holder of New Brit Shares in income in a dollar amount calculated by reference to the exchange rate in effect on the day the distributions are paid regardless of whether the payment is in fact converted into U.S. dollars. If Euros are converted into U.S. dollars on the date of the payment, a U.S. Holder of New Brit Shares should not be required to recognise any foreign currency gain or loss with respect to the receipt of Euros as distributions. If, instead, the Euros are converted at a later date, any currency gains or losses resulting from the conversion of the Euros will be treated as U.S. source ordinary income or loss.

Sale, exchange or other taxable disposition of New Brit Shares

Subject to the possible application of the PFIC rules discussed below, a U.S. Holder of New Brit Shares generally will recognise gain or loss upon the taxable sale, exchange or other disposition of the New Brit

Shares in an amount equal to the difference between (i) the U.S. dollar amount realised upon the sale, exchange or other taxable disposition and (ii) his adjusted tax basis in the New Brit Shares. Generally, such gain or loss will be capital gain or loss and will be long-term capital gain or loss if, on the date of the sale, exchange or other taxable disposition of the New Brit Shares, his holding period in the New Brit Shares (which generally includes his holding period in the Old Brit Shares), exceeds one year. If a U.S. Holder of New Brit Shares is an individual taxpayer, long-term capital gains are subject to favourable rates. The deductibility of capital losses is subject to limitations under the Internal Revenue Code.

Gain or loss, if any, that a U.S. Holder of New Brit Shares realises upon a sale, exchange or other taxable disposition of New Brit Shares will be treated as having a U.S. source for U.S. foreign tax credit limitation purposes.

If a U.S. Holder of New Brit Shares receives any foreign currency on the sale of New Brit Shares, he may recognise ordinary income or loss as a result of currency fluctuations between the date of the sale of New Brit Shares and the date the sale proceeds are converted into U.S. dollars.

Passive Foreign Investment Company Considerations

Special, generally unfavourable, U.S. federal income tax rules apply to U.S. persons owning stock of a PFIC. A foreign corporation will be considered a PFIC for any taxable year in which (i) 75 per cent. or more of its gross income is passive income or (ii) 50 per cent. or more of the average value (or, if elected, the adjusted tax basis) of its assets are considered “passive assets” (generally, assets that generate passive income).

New Brit believes that it currently is not a PFIC for U.S. federal income tax purposes, and New Brit does not expect to become a PFIC in the future. However, the determination of PFIC status for any year is very fact specific, and there can be no assurance in this regard. Accordingly, it is possible that New Brit may become a PFIC in the current taxable year or in future years. If New Brit is classified as a PFIC in any year during which a U.S. Holder holds New Brit Shares, it generally will continue to be treated as a PFIC as to such U.S. Holder of New Brit Shares in all succeeding years, regardless of whether it continues to meet the income or asset test discussed above. U.S. Holders should consult their own tax advisors as to the potential application of the PFIC rules to the ownership and disposition of New Brit Shares.

Information reporting and backup withholding

In general, information reporting will apply to dividends paid to a U.S. Holder of New Brit Shares in respect of New Brit Shares and the proceeds received by him from the sale, exchange or other disposition of New Brit Shares within the United States unless the U.S. Holder of New Brit Shares is a corporation or other exempt recipient. A backup withholding tax may apply to such payments if the U.S. Holder of New Brit Shares fails to provide a taxpayer identification number or certification of exempt status or fails to report in full dividend and interest income.

Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules will be allowed as a refund or credit against the U.S. federal income tax liability of the U.S. Holder of New Brit Shares, provided that the required information is furnished to the IRS.

11. FURTHER INFORMATION RELATING TO THE SCHEME

1. Description of the Proposals

The establishment of a new holding company for the Group entails a number of steps. The principal steps involved in the Scheme are set out below.

1.1 *Cancellation of Scheme Shares*

Under the Scheme, all of the Scheme Shares will be cancelled on the Scheme Effective Date (which is expected to be 21 December 2009). In consideration of the cancellation of the Scheme Shares, the holders of the Scheme Shares will receive, in respect of any Scheme Shares held as at the Scheme Record Time (which is expected to be 6.00 p.m. on 18 December 2009):

for each Scheme Share cancelled

one New Brit Share

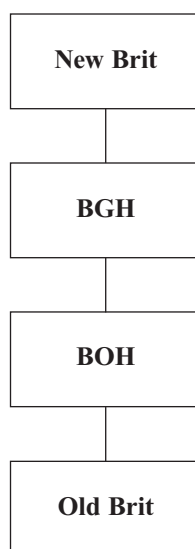
Accordingly, immediately upon the Scheme becoming effective, a New Brit Shareholder will effectively have the same proportionate interest in the profits, net assets and distributions of the Group as it had as an Old Brit Shareholder immediately before the Scheme became effective.

A summary of the rights attaching to the New Brit Shares and an explanation of the principal differences between the New Brit Articles and the Old Brit Articles are respectively set out at paragraphs 2 and 3 of Chapter 9 – “Articles of Association and applicable Law and Regulations”.

1.2 *Establishing New Brit as the new holding company of the Group and BGH and BOH as intermediate holding companies*

Following the cancellation of the Scheme Shares, a proportion of the credit arising in the books of Old Brit as a result of the cancellation will be applied in paying up in full new shares in Old Brit, such that the number of new shares in Old Brit equals the number of Scheme Shares cancelled. The new shares in Old Brit will be issued to BOH.

BOH is (and will continue to be once the Scheme becomes effective) a direct, wholly-owned subsidiary of BGH and BGH is (and will continue to be once the Scheme becomes effective) a direct, wholly-owned subsidiary of New Brit. Accordingly, as a result of the implementation of the Scheme, New Brit will be the ultimate holding company of the Group and Old Brit will be a direct, wholly-owned subsidiary of BOH. The structure would therefore look as follows:



1.3 *Amendment of Old Brit Articles*

Additional Old Brit Shares may have to be allotted after the approval of the Scheme at the General Meeting and the allottee may not hold such additional Old Brit Shares at the Scheme Record Time. This would mean that, in the absence of the following proposals, such additional Old Brit Shares would not be exchanged for New Brit Shares. It is therefore proposed that the Old Brit Articles should be amended in such a way as to ensure that: (i) any Old Brit Shares which are issued after the Scheme is approved at the General Meeting

Further Information relating to the Scheme

but prior to confirmation by the High Court of the reduction of Old Brit's ordinary share capital provided for under the Scheme will be allotted and issued subject to the terms of the Scheme and that the holders of such shares will be bound by the Scheme accordingly; (ii) any Old Brit Shares which are allotted otherwise than to BOH (or to a nominee of BOH) after confirmation by the High Court of the reduction of capital of Old Brit provided for under the Scheme will be acquired by BOH in exchange for the issue of New Brit Shares to the allottees; and (iii) in the event that any Old Brit Shares are allotted to any person within (ii) above following variation in the share capital of either Old Brit or New Brit or such other event as the Directors consider fair and reasonable after the Scheme Effective Date, the number of New Brit Shares to be issued to that person will be adjusted in an appropriate manner, provided Old Brit's auditors have confirmed the adjustment is fair and reasonable. In this way the allottees in question will receive New Brit Shares instead of Old Brit Shares.

1.4 *Old Brit Capital Reduction*

As part of the Scheme, Old Brit will effect a substantive reduction of capital. Under the Scheme, all of the Scheme Shares (which have a nominal value of 75 pence each) will be cancelled. The new shares in Old Brit which will be issued to BGH as part of the Scheme, will have a lower nominal value of 8 pence each. This will require only a proportion of the credit arising in the books of Old Brit as a result of the cancellation to be applied in paying up such new shares and assuming that no further Old Brit Shares are issued between the date of this Prospectus and the Scheme Effective Date, the total paid up share capital of Old Brit will be reduced from approximately £235.5 million to approximately £25.1 million.

The balance of the credit arising in the books of Old Brit as a result of the cancellation of the Scheme Shares, which assuming that no further Old Brit Shares are issued between the date of this Prospectus and the Scheme Effective Date will be approximately £210.4 million, will, subject to any restrictions agreed with the High Court, become a distributable reserve of Old Brit and will therefore increase Old Brit's distributable reserves by an equivalent amount. The main purposes of creating such additional distributable reserves are to increase capital management flexibility across the Group and to reduce any risk of Old Brit becoming a dividend block within the Group at a later date.

The Old Brit Capital Reduction will require the confirmation of the High Court. Old Brit anticipates that it will either be able to obtain the consent of its creditors to the Old Brit Capital Reduction or otherwise implement appropriate arrangements (with the approval of the High Court) for the protection of any creditors whose consent has not been obtained. The precise form of protection is a matter for the High Court; however, Old Brit will provide such protection as the High Court requires and Old Brit's advisers recommend is appropriate.

2. **Conditions to and implementation of the Proposals**

The Scheme will not become effective and binding unless:

- (i) the Scheme is approved at the Court Meeting;
- (ii) the special resolution set out in the notice of the General Meeting to approve the cancellation of the Scheme Shares, the creation of the new shares in Old Brit and the allotment of such shares by the Directors (pursuant to the Scheme) and certain amendments to the Old Brit Articles are passed;
- (iii) the Scheme is sanctioned by the High Court and the High Court confirms the Capital Reduction of Old Brit; and
- (iv) a copy of the order of the High Court sanctioning the Scheme and confirming the Capital Reduction has been delivered to the Registrar of Companies for England and Wales for registration.

The Court Hearing (at which it is proposed that the High Court sanctions the Scheme) is expected to be held on or around 18 December 2009. Old Brit Shareholders or creditors who wish to oppose the Scheme will be informed by advertisement in a newspaper with national distribution in the United Kingdom of their right to appear in person, or be represented by counsel, at the Court Hearing.

In addition, the Directors will not take the necessary steps to enable the Scheme to become effective unless, at the relevant time, the following conditions have been satisfied:

Further Information relating to the Scheme

- (i) the UK Listing Authority has agreed to admit (subject to the satisfaction of conditions (i)–(iv) above, save to the extent already satisfied) the New Brit Shares to be issued in connection with the Scheme to the Official List and its agreement has not been withdrawn prior to the Scheme Effective Date; and
- (ii) the London Stock Exchange has agreed to admit the New Brit Shares to be issued in connection with the Scheme to trading on its main market for listed securities and its agreement has not been withdrawn prior to the Scheme Effective Date.

If the Scheme is sanctioned by the High Court and conditions (v) and (vi) above are satisfied, the Scheme is expected to become effective, and dealings in the New Brit Shares to be issued pursuant to the Scheme are expected to commence, at 8:00 a.m. on 21 December 2009.

If the Scheme has not become effective by 31 March 2010 (or such later date as the High Court may allow), it will lapse, in which event the Scheme will not proceed, Old Brit Shareholders will remain holders of Old Brit Shares and the Old Brit Shares will continue to be listed on the Official List.

The Scheme contains a provision for Old Brit, New Brit, BGH and BOH jointly to consent on behalf of all persons concerned to any modification of or addition to the Scheme, or to any condition which the High Court may think fit to approve or impose. Old Brit has been advised by its legal advisers that the High Court would be unlikely to approve or impose any modification of, or addition or condition to, the Scheme which might be material to the interest of Old Brit Shareholders unless Old Brit Shareholders were informed of any such modification, addition or condition. If the High Court does approve or impose a modification of, or addition or condition to, the Scheme which in the opinion of the Directors requires consent of the Old Brit Shareholders, the Directors will not take the necessary steps to enable the Scheme to become effective unless and until such consent is obtained.

3. Admission and dealings

Application will be made to the UK Listing Authority for up to 313,950,031 New Brit Shares to be admitted to the Official List and to the London Stock Exchange for such shares to be admitted to trading on the London Stock Exchange's main market for listed securities. The ISIN number of the New Brit Shares will be NL0009311406. The share price for New Brit Shares will be quoted in Sterling.

The last day of dealings in Old Brit Shares is expected to be 18 December 2009. The last date for registration of transfers of Old Brit Shares is expected to be 18 December 2009.

At the Scheme Effective Date, share certificates for the Old Brit Shares in certificated form will cease to be valid and, with respect to the Old Brit Shares held in uncertificated form, Euroclear will be instructed to cancel the entitlements of the relevant Old Brit Shareholders in respect of those Old Brit Shares. Admission of the New Brit Shares to the Official List is expected to become effective and dealings in the New Brit Shares is expected to commence at 8:00 a.m. on 21 December 2009.

These dates may be deferred if it is necessary to adjourn any meeting required to approve the Scheme or if there is any delay in obtaining the High Court's sanction of the Scheme. In the event of a delay, the application for the Old Brit Shares to be delisted will be deferred, so that the listing will not be cancelled until immediately before the Scheme takes effect.

No New Brit Shares have been marketed to, nor are any available for purchase or exchange, in whole or in part, by the public in the United Kingdom or elsewhere in connection with the admission to the Official List.

New Brit Shares will be held through DIs (further details of which are set out in Chapter 12 – "CREST, Depositary Interests and the Deed Poll"). It is expected that DIs will be credited to CREST accounts on 21 December 2009.

All documents, certificates or other communications sent by or to shareholders will be sent at their own risk and may be sent by post.

All instructions given to Old Brit in relation to notices and other communications in force immediately prior to the Scheme Effective Date will be, unless and until revoked or varied, deemed as from the Scheme Effective Date to be valid and effective instructions to New Brit in relation to the corresponding holdings of New Brit Shares.

Further Information relating to the Scheme

4. Overseas Shareholders

Overseas Shareholders may be affected by the laws of other jurisdictions in relation to the Scheme. Overseas Shareholders should inform themselves about and observe all applicable legal requirements.

It is the responsibility of any person into whose possession this Prospectus comes to satisfy themselves as to the full observance of the laws of the relevant jurisdiction in connection with the issue of New Brit Shares following the Scheme becoming effective, including the obtaining of any governmental, exchange control or other consents which may be required and/or compliance with other necessary formalities which are required to be observed and the payment of any issue, transfer or other taxes or levies due in such jurisdiction.

If, in respect of any Overseas Shareholder, New Brit is advised that the issue of New Brit Shares would or might infringe the laws of any jurisdiction outside the Netherlands or the United Kingdom, or would or might require New Brit to obtain any governmental or other consent or effect any registration, filing or other formality, New Brit may determine that no New Brit Shares shall be issued to such shareholder but instead those New Brit Shares shall be issued to a nominee appointed by New Brit as trustee for such shareholder, on terms that they shall be sold on behalf of such shareholder as soon as reasonably practicable after the Scheme becomes effective, with the net proceeds of sale being remitted to the Overseas Shareholder concerned at the risk of such shareholder. Alternatively, New Brit may determine that the New Brit Shares shall be issued to that Overseas Shareholder and sold, with the net proceeds of sale being remitted to the Overseas Shareholder at the Overseas Shareholder's risk.

This Prospectus has been prepared for the purpose of complying with the Dutch Financial Supervision Act and the rules of the UK Listing Authority and the information disclosed may not be the same as that which would have been disclosed if this Prospectus had been prepared in accordance with the laws of jurisdictions outside the Netherlands.

THIS PROSPECTUS DOES NOT CONSTITUTE AN INVITATION OR OFFER TO SELL OR EXCHANGE OR THE SOLICITATION OF AN INVITATION OR OFFER TO BUY OR EXCHANGE ANY SECURITY OR TO BECOME A MEMBER OF NEW BRIT, NOR SHALL THERE BE ANY SALE, ISSUANCE, EXCHANGE OR TRANSFER OF THE SECURITIES REFERRED TO IN THIS PROSPECTUS IN ANY JURISDICTION IN CONTRAVENTION OF APPLICABLE LAW.

Overseas Shareholders should consult their own legal and tax advisers with respect to the legal and tax consequences of the Scheme in their particular circumstances.

4.1 *United States*

The New Brit Shares have not been, and will not be, registered under the US Securities Act and will be issued pursuant to the Scheme in reliance on the exemption from the registration requirements of the US Securities Act provided by Section 3(a)(10) thereof.

For the purpose of qualifying for the Section 3(a)(10) exemption with respect to the New Brit Shares issued pursuant to the Scheme, Old Brit and New Brit will advise the High Court that New Brit will rely on the Section 3(a)(10) exemption based on the High Court's sanctioning of the Scheme, which will be relied upon by New Brit as an approval of the Scheme following a hearing on its fairness to Old Brit Shareholders at which hearing all such Old Brit Shareholders will be entitled to attend in person or through counsel to support or oppose the sanctioning of the Scheme and with respect to which notification has been or will be given to all such shareholders.

The New Brit Shares will not be registered under the securities laws of any state of the United States, and will be issued pursuant to the Scheme in reliance on available exemptions from such state law registration requirements or the pre-emption of such requirements by the US Securities Act.

The New Brit Shares will not be "restricted securities" within the meaning of Rule 144(a)(3) under the US Securities Act and may be immediately resold without restriction under the US Securities Act by former holders of Old Brit Shares who are not affiliates of New Brit and have not been affiliates of New Brit within 90 days prior to the issuance of New Brit Shares under the Scheme.

Under the US Securities Act, a former Old Brit Shareholder who is an affiliate of New Brit at the time or within 90 days prior to any resale of New Brit Shares received under the Scheme will be subject to certain transfer restrictions relating to such shares to the extent they wish to sell such shares in the United States. In

Further Information relating to the Scheme

particular, such New Brit Shares may not be sold in the United States without registration under the US Securities Act, except pursuant to any available exemptions from the registration requirements or in a transaction not subject to such registration requirements (including a transaction that satisfies the applicable requirements for resales outside the United States pursuant to Regulation S under the US Securities Act). Whether a person is an affiliate of New Brit for such purposes depends on the circumstances, but affiliates could include certain officers and directors and significant shareholders. A New Brit Shareholder who believes that he or she may be an affiliate of New Brit should consult his or her own legal advisers prior to any sales of New Brit Shares received pursuant to the Scheme.

Neither the US SEC nor any other US federal or state securities commission or regulatory authority has approved or disapproved of the New Brit Shares or passed comment upon the accuracy or adequacy of this Prospectus. Any representation to the contrary is a criminal offence in the United States.

Old Brit Shareholders who are citizens or residents of the United States should consult their own legal and tax advisers with respect to the legal and tax consequences of the Scheme in their particular circumstances.

4.2 *Canada*

This Prospectus is not, and under no circumstances is to be construed as, an offer to any person in Canada nor an advertisement nor a public offering of the securities described herein. No securities commission or similar regulatory authority in Canada has reviewed or in any way passed comment upon this Prospectus or the merits of the securities described herein and any representation to the contrary is an offence in Canada.

New Brit is incorporated under the laws of the Netherlands. All or substantially all of the Directors and officers may be located outside of Canada and, as a result, it may not be possible for Canadian investors to effect service of process within Canada upon New Brit or such persons. All or a substantial portion of the assets of New Brit and such other persons may be located outside of Canada and, as a result, it may not be possible to satisfy a judgment against New Brit or such persons in Canada or to enforce a judgment in Canadian courts against New Brit or persons outside of Canada.

4.3 *Australia*

This Prospectus is not an Australian law compliant prospectus and has not been, and will not be, lodged with the Australian Securities and Investments Commission. The information disclosed in this Prospectus may not be the same as that which would have been disclosed if this Prospectus had been prepared in accordance with Australian law. Neither New Brit nor Old Brit hold an Australian financial services licence.

The New Brit Shares issued to Old Brit Shareholders under the Scheme will be issued in consideration of the cancellation of their Old Brit Shares under the Scheme. For the purposes of Australian securities law, the New Brit Shares will not be issued with the purpose of the Old Brit Shareholders on-selling or transferring them.

Old Brit Shareholders who are citizens or residents of Australia should read this Prospectus carefully and consult their own legal and tax advisers with respect to the legal and tax consequences of the Scheme in their particular circumstances.

12. CREST, DEPOSITARY INTERESTS AND THE DEED POLL

CREST is a paperless settlement system allowing securities to be transferred from one person's CREST account to another without the need to use share certificates or written instruments of transfer. Securities issued by non-UK companies, such as New Brit, cannot be held or transferred in the CREST system. However, to enable investors to settle such securities through CREST, a depositary can hold such securities and issue to investors dematerialised depositary interests ("DIs") representing the underlying securities. The underlying securities are held on trust for the holders of the DIs.

Accordingly, with effect from Admission, it will be possible for CREST members to hold and transfer interests in New Brit Shares within CREST pursuant to a DI arrangement established by New Brit.

The DIs will be created pursuant to, and issued on the terms of, the Deed Poll, executed by the Depositary in favour of the holders of the DIs from time to time. New Brit Shares will be transferred to the Depositary or its nominated custodian and the Depositary has agreed to issue DIs to New Brit Shareholders as explained below. The Depositary has also agreed to pass on to the holders of DIs any cash or other benefits received by it as holder of New Brit Shares.

The DIs will be independent securities constituted under English law which may be held and transferred through CREST. However, the DIs will have the same security code (ISIN) as the underlying New Brit Shares and will not require a separate application for Admission. Application will be made by the Registrar for the DIs representing the New Brit Shares to be admitted to CREST on Admission. The DIs are in registered, book entry form.

Prospective holders of DIs should note that under the Deed Poll they will have no rights in respect of the underlying New Brit Shares, or the DIs representing them, against Euroclear or its subsidiaries.

A New Brit Shareholder will receive DIs either directly or indirectly, depending upon the manner in which its Old Brit Shares were held at the Scheme Record Time:

- (i) if Old Brit Shares are held in CREST in uncertificated form at the Scheme Record Time, the relevant holder will receive DIs in CREST on Admission in respect of its entitlement to New Brit Shares under the Scheme;
- (ii) if Old Brit Shares are held in certificated form at the Scheme Record Time, the relevant holder will not receive New Brit Shares in certificated form. Instead, subject to the following paragraph, DIs will be issued to a nominee company, the Corporate Sponsored Nominee, which will hold such DIs on behalf of the relevant New Brit Shareholder. Accordingly, any New Brit Shareholder who held Old Brit Shares in certificated form at the Scheme Record Time will receive a statement from the Corporate Sponsored Nominee. The statement sets out the number of DIs in CREST held in the name of the Corporate Sponsored Nominee on behalf of such New Brit Shareholder, such DIs representing the entitlement of such New Brit Shareholder to New Brit Shares under the Scheme.

The Corporate Sponsored Nominee arrangements are not available to New Brit Shareholders who are resident in Restricted Jurisdictions and therefore a Restricted Certificated Shareholder at the Scheme Record Time will not receive DIs, either directly or indirectly. Instead, the New Brit Shares (represented by DIs) that a Restricted Certificated Shareholder would otherwise be entitled to under the Scheme will be sold in the market and the proceeds delivered to the Restricted Certificated Shareholder. A Restricted Certificated Shareholder can avoid such a sale of its New Brit Shares by taking the necessary steps to ensure that, prior to the Scheme Record Time, its Old Brit Shares are dematerialised and held through CREST, in which case such Old Brit Shareholder will not be a Restricted Certificated Shareholder at the Scheme Effective Time and will receive DIs in CREST on Admission in respect of its entitlement to New Brit Shares under the Scheme.

A list of all jurisdictions in which the Corporate Sponsored Nominee arrangements are available, and which are not therefore Restricted Jurisdictions, can be found at the following website: www.britinsurance.com/corporate-reorganisation.

Depositary Interests – principal terms of the Deed Poll

As explained above, the DIs will be created pursuant to, and issued on the terms of, the Deed Poll.

Each DI will be treated by the Depositary as one New Brit Share for the purposes of determining, for example, eligibility for any distributions. The Depositary has agreed to pass on to holders of DIs any stock or cash benefits received by it as holder of New Brit Shares on trust for such DI holder.

CREST, Depositary Interests and the Deed Poll

In summary, the Deed Poll contains, *inter alia*, provisions to the following effect:

The Depositary will hold (itself or through the Custodian), as bare trustee, the underlying securities issued by New Brit and all and any rights and other securities, property and cash attributable to the underlying securities for the time being held by the Depositary or Custodian pertaining to the DIs for the benefit of the DI holders. The Depositary will re-allocate securities or distributions allocated to the Depositary or the Custodian *pro rata* to the New Brit Shares held for the respective accounts of the holders of DIs but will not be required to account for fractional entitlements arising from such re-allocation.

Each DI holder warrants, *inter alia*, that the securities in New Brit transferred or issued to the Depositary or Custodian for the account of such DI holder are free and clear of all liens, charges, encumbrances or third party interests and that such transfers or issues are not in contravention of the New Brit Articles or any contractual obligation, or applicable law or regulations binding or affecting such holder.

The Depositary and any Custodian must pass on to DI holders, or exercise on their behalf, all rights and entitlements received by the Depositary or the Custodian in respect of the underlying securities. However, there can be no assurance that all such rights and entitlements will at all times be duly and timely passed on or exercised. Rights and entitlements to cash distributions, to information, to make choices and elections and to attend and vote at meetings must, subject to the Deed Poll, be passed on in the form which they are received, together with amendments and additional documentation necessary to effect such passing-on, or exercised in accordance with the Deed Poll. If arrangements are made which allow a DI holder to take up rights in New Brit's securities requiring further payment, the DI holder must put the Depositary in cleared funds before the relevant payment date or other date notified by the Depositary if it wishes the Depositary to exercise such rights.

The Depositary will be entitled to cancel DIs and treat the DI holder as having requested a withdrawal of the underlying securities in certain circumstances, including where a DI holder fails to furnish to the Depositary such certificates or representations as to material matters of fact, including his identity, as the Depositary deems appropriate.

The Deed Poll contains provisions excluding and limiting the Depositary's liability. For example, the Depositary shall not be liable to any DI holder or any other person for liabilities in connection with the performance or non-performance of obligations under the Deed Poll or otherwise except as may result from its negligence or wilful default or fraud or that of any person for whom it is vicariously liable, provided that the Depositary shall not be liable for the negligence, wilful default or fraud of any Custodian or agent which is not a member of its group unless it has failed to exercise reasonable care in the appointment and continued use and supervision of such Custodian or agent. Furthermore, the Depositary's liability to a DI holder will be limited to the lesser of:

- (i) the value of the shares and other deposited property properly attributable to the DIs to which the liability relates; and
- (ii) that proportion of £5 million which corresponds to the proportion which the amount the Depositary would otherwise be liable to pay to the DI holder bears to the aggregate of the amounts the Depositary would otherwise be liable to pay to all such holders in respect of the same act, omission, or event or, if there are no such amounts, £5 million.

The Depositary is entitled to charge DI holders fees and expenses for the provision of its services under the Deed Poll.

The DI holders are required to agree and acknowledge with the Depositary that it is their responsibility to ensure that any transfer of DIs by them which is identified by the CREST system as exempt from SDRT is so exempt, and to notify the Depositary if this is not the case, and to pay to Euroclear any interest, charges or penalties arising from non-payment of SDRT in respect of such transaction.

Each DI holder is liable to indemnify the Depositary and any Custodian (and their agents, officers and employees) against all liabilities arising from or incurred in connection with, or arising from any act related to, the Deed Poll so far as they relate to the DIs (and any property or rights held by the Depositary or Custodian in connection with the DIs) held by that holder, other than those resulting from the wilful default, negligence or fraud of the Depositary, or the Custodian or agent if such Custodian or agent is a member of the Depositary's group or if, not being a member of the same group, the Depositary shall have failed to exercise reasonable care in the appointment and continued use and supervision of such Custodian or agent.

CREST, Depositary Interests and the Deed Poll

The Depositary is entitled to make deductions from any income or capital arising from the underlying securities, or to sell such underlying securities and make deductions from the sale proceeds therefrom, in order to discharge the indemnification obligations of DI holders.

The Depositary may terminate the Deed Poll by giving 30 days' notice. During such notice period holders may cancel their DIs and withdraw their deposited property and, if any DIs remain outstanding after termination, the Depositary must, among other things, deliver the deposited property in respect of the DIs to the relevant DI holders or, at its discretion, sell all or part of such deposited property. It shall, as soon as reasonably practicable, deliver the net proceeds of any such sale, after deducting any sums due to the Depositary, together with any other cash held by it under the Deed Poll *pro rata* to holders of DIs in respect of their DIs.

The Depositary or the Custodian may require from any holder information as to the capacity in which DIs are or were owned and the identity of any other person with or previously having any interest in such DIs and the nature of such interest and evidence or declarations of nationality or residence of the legal or beneficial owners of DIs and such information as is required for the transfer of the relevant New Brit Shares to the DI holders. DI holders agree to provide such information requested and consent to the disclosure of such information by the Depositary or Custodian to the extent necessary or desirable to comply with their legal or regulatory obligations. Furthermore, to the extent that the New Brit Articles require disclosure to New Brit of, or limitations in relation to, beneficial or other ownership of New Brit's securities, the DI holders are to comply with New Brit's instructions with respect thereto.

It should also be noted that the DI holders will not have the opportunity to exercise all of the rights and entitlement which Dutch law and the New Brit Articles confer on shareholders, such as the ability to vote on a show of hands. In relation to voting it will be important for DI holders to give prompt instructions to the Depositary to vote the underlying shares on their behalf.

13. GENERAL INFORMATION

1. Share capital of New Brit

1.1 *Authorised and issued share capital*

At the date of this Prospectus, the authorised capital of New Brit is €225,000 and is divided into 180,000 ordinary shares and 45,000 extraordinary incorporation shares, each with a nominal value of €1.0.

The New Brit Shares will be issued by virtue of a resolution of the Board upon the Scheme becoming effective. At the Scheme Effective Date, prior to Admission, the authorised capital of New Brit will be €1,000,000,000, divided into 1,000,000,000 ordinary shares each with a nominal value of €1.0.

The following table sets forth information about the issued share capital of New Brit at the date of this Prospectus and at the Scheme Effective Date (on the assumption that no further Old Brit Shares are issued, whether as a result of the exercise or vesting of any options or awards under any of the Old Brit Share Schemes or otherwise, between the date of this Prospectus and the Scheme Effective Date).

| | <i>Issued share capital</i> | |
|------------------------|-------------------------------------------|-----------------------------------------|
| | <i>At the date of this Prospectus</i> | <i>At the Scheme Effective Date</i> |
| New Brit Shares | 45,000 | 313,950,031 |

Currently, the Group does not hold any New Brit Shares. All shares that are outstanding as of the date of this Prospectus are fully paid up.

The New Brit Shares are in registered form (*aandelen op naam*). The Board shall have power to issue share certificates as it may think proper but no person, except any person in respect of whom New Brit is required by applicable law to complete and have ready for delivery a certificate, shall be entitled to a share certificate.

1.2 *Outstanding options*

The following table sets forth the number of outstanding options and awards to acquire New Brit Shares at the date of this Prospectus and at the Scheme Effective Date (on the assumption that no further options or awards are granted under any of the Old Brit Share Schemes between the date of this Prospectus and the Scheme Effective Date).

| | <i>Outstanding options and awards</i> | |
|----------------|-------------------------------------------|-----------------------------------------|
| | <i>At the date of this Prospectus</i> | <i>At the Scheme Effective Date</i> |
| Options | – | 1,218,300 |
| Awards | – | 14,596,599 |
| Total | – | 15,814,899 |

The Group has not issued any warrants or other instruments exchangeable or convertible into New Brit Shares.

2. Available information

Copies of Old Brit's Annual Reports and Accounts for the three years ended 31 December 2008, 2007 and 2006 and (unaudited) Half Year Financial Reports for the six months periods ended 30 June 2008 and 30 June 2009, as well as a copy of the deed of incorporation of New Brit and a copy of the (draft) New Brit Articles, are available on the Group's website (www.britisurance.com/annual-reports) for the life of this Prospectus. Except to the extent expressly set out in Chapter 3 – "Important Information", neither the content of the Group's website (or any other website) nor the content of any website accessible from hyperlinks on the Group's website (or any other website) is incorporated into, or forms part of, this Prospectus.

Copies of the following documents will be available for inspection at the offices of Macfarlanes LLP at 20 Cursitor Street, London, EC4A, 1LT, England, during normal business hours on any day (Saturdays, Sundays and public holidays excepted) from the date of this Prospectus up to and including the Scheme Effective Date and will also be available for inspection for 15 minutes before and during the Court Meeting and the General Meeting:

- (a) the memorandum of association of Old Brit and the Old Brit Articles in their present form;

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- (b) the amendments to the Old Brit Articles proposed at the General Meeting;
- (c) the Scheme Circular;
- (d) the rules of the Old Brit Share Schemes and the draft rules of the New Brit Share Schemes referred to in paragraphs 3 and 4 of Chapter 8 “Management, Employees and Corporate Governance”;
- (e) the Deed Poll in relation to the Depositary Interests; and
- (f) this Prospectus.

The Prospectus will also be available to investors at the registered office of Brit Insurance Holdings PLC, 55 Bishopsgate, London EC2N 3AS or through the website of Old Brit www.britinsurance.com or the London Stock Exchange www.londonstockexchange.com.

3. New Brit

New Brit was incorporated in the Netherlands on 22 June 2009.

The principal legislation under which New Brit operates is the Netherlands.

The registered office of New Brit is 13th Floor, ITO Toren, Gustav Mahlerplein 82, 1082 MA Amsterdam, the Netherlands (telephone number: +31 (0) 20 719 1500, which will be operable from the Scheme Effective Date). New Brit is registered with the trade register of the Dutch Chamber of Commerce under number 24464323.

4. Organisational structure

Upon the Scheme becoming effective, New Brit will be the top holding company of the Group and will have a number of directly or indirectly held operating companies. New Brit will have the following significant subsidiaries once the Scheme becomes effective:

| <i>Name</i> | <i>Percentage</i> | <i>Country of incorporation</i> |
|-------------------------------------|-------------------|---------------------------------|
| Brit Group Holdings B.V. | 100% | the Netherlands |
| Brit Overseas Holdings S.à r.l | 100% | Luxembourg |
| Old Brit | 100% | United Kingdom |
| Brit Insurance Ltd | 100% | United Kingdom |
| Brit Syndicates Ltd | 100% | United Kingdom |
| Brit UW Ltd | 100% | United Kingdom |
| Masthead Insurance Underwriting Ltd | 100% | United Kingdom |
| Brit Group Services Ltd | 100% | United Kingdom |
| Elite EEA Investment Portfolio | 75% | United Kingdom |
| Brit Insurance (Gibraltar) PCC Ltd | 100% | Gibraltar |

5. Independent auditors

Ernst & Young LLP, whose address is Wassenaarseweg 80, 2596 CZ The Hague, the Netherlands, is the auditing firm of New Brit and has been the only auditing firm of New Brit since its incorporation. The auditor of New Brit is a member of the Royal Netherlands Institute of Chartered Accountants (*Koninklijk Nederlands Instituut voor Registeraccountants*).

Ernst & Young LLP, whose address is 1 More London Place, London, SE1 2AF, is the auditor of Old Brit and audited the financial statements of Old Brit for the years ended 31 December 2006, 31 December 2007 and 31 December 2008. The audit reports in respect of the financial statements for each of the three years were unqualified. Ernst & Young LLP is a member of the Institute of Chartered Accountants in England and Wales.

6. Material contracts

Other than the following contracts, there are no contracts (not being contracts entered into in the ordinary course of business) which are, or may be, material and which (i) have been entered into by the Group during the two years immediately preceding the date of this Prospectus or (ii) which contain any provision under which the Group has any obligation or entitlement which is material to the Group as at the date of this Prospectus.

6.1 *Existing revolving credit facility agreement with The Royal Bank of Scotland plc*

On 21 December 2007, Old Brit entered into a revolving loan facility agreement for up to £150 million (the “**Existing Facility Agreement**”) with The Royal Bank of Scotland plc as lender, arranger and agent (the “**Agent**”) for certain participating financial institutions (together, the “**Lenders**”) (as amended by a letter dated 17 November 2008 entered into between Old Brit and the Agent) under which the Lenders made available a facility (the “**Existing Facility**”) to Old Brit and any other member of the Group that becomes a borrower under the Existing Facility Agreement (each a “**Borrower**”).

Drawings

The Existing Facility may be drawn in tranches as and when required until 21 November 2012. The amount of each tranche may be specified by a Borrower but must be a minimum of £5 million or, if less, the amount left available under the Existing Facility. Drawings must be made in Sterling. Amounts drawn down are to be used for general corporate purposes. At 30 September 2009, £100.0 million has been drawn under the Existing Facility. The termination date under the Existing Facility Agreement is 21 December 2012.

Interest

Interest accrues in respect of advances under the Existing Facility at the aggregate of LIBOR plus a margin and any mandatory costs. The margin is subject to a ratchet determined on the basis of the financial strength rating of Old Brit and is currently 0.85 per cent.

Repayment and prepayment

Any loan drawn down (together with interest accrued thereon) is repayable on each interest payment date. Prepayments may be made by giving no less than 10 business days’ notice to the Agent and must be of a minimum of £5 million. Subject to the terms of the Existing Facility Agreement, amounts prepaid may be redrawn.

Financial covenants

Old Brit is subject to the following financial covenants tested semi-annually on 30 June and 31 December: (a) Borrowings will not at any time exceed 35 per cent. of Consolidated Net Tangible Assets (each term as defined in the Existing Facility Agreement) and (b) Consolidated Net Tangible Assets will not at any time be less than £650 million.

For the purposes of the definitions of Borrowings and Consolidated Net Tangible Assets under the Existing Facility, the amount of the Group’s subordinated debt is included in Consolidated Net Tangible Assets and not in Borrowings.

Events of default

There are customary events of default under the Existing Facility Agreement, including Old Brit failing to satisfy either of the financial covenants referred to above.

At any time after an event of default occurs, the Agent (acting on the instructions of the majority lenders (being one or more lenders representing more than 66% per cent. in value)) may cancel the commitments of the Lenders and accelerate the payment of loans outstanding under the Existing Facility, including any accrued interest and all other sums owing under the Existing Facility.

Miscellaneous

Each Borrower has given customary representations, warranties and undertakings and loans are subject to customary conditions precedent.

6.2 *New revolving credit facility agreement with The Royal Bank of Scotland plc*

On 9 November 2009, New Brit, BGH, BOH and Old Brit entered into a revolving loan facility agreement for up to £175 million (the “**New Facility Agreement**”) with The Royal Bank of Scotland plc as lender, arranger and agent (the “**New Agent**”) for certain participating financial institutions (together, the “**New Lenders**”) under which the New Lenders made available a facility (the “**New Facility**”) to BGH and any other member of the Group that becomes a borrower under the New Facility Agreement (each a “**New Borrower**”). The New Facility Agreement is conditional upon the Scheme becoming effective.

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Drawings

The New Facility may be drawn in tranches as and when required from the date of the New Facility Agreement to the date falling one month prior to the third anniversary of the New Facility Agreement. The amount of each tranche may be specified by a New Borrower but must be a minimum of £5 million or, if less, the amount left available under the New Facility. Drawings must be made in Sterling. Amounts drawn down are to be used to (i) refinance the Existing Facility Agreement (which New Brit intends to do once the Scheme becomes effective) and (ii) finance the general corporate and working capital purposes of BGH. The termination date under the New Facility Agreement is 9 November 2012.

Interest

Interest accrues in respect of advances under the New Facility at the aggregate of LIBOR plus a margin and mandatory costs. The margin is 3.25 per cent. per annum.

Repayment and prepayment

Any loan drawn down (together with interest accrued thereon) shall be repaid on the last day of its interest period. Prepayments (in whole or in part) may be made by giving no less than 5 business days' notice to the New Agent and must be of a minimum of £5 million. Any amount prepaid may be redrawn.

Financial covenants

BGH is subject to the following financial covenants tested quarterly: (a) Borrowings will not at any time exceed 35 per cent. of Consolidated Net Tangible Assets, (b) Consolidated Net Tangible Assets will not be less than the higher of (i) £675,898,000 and (ii) 80 per cent. of the highest value of Consolidated Net Tangible Assets based on any set of audited consolidated annual financial statements since the date of the New Facility Agreement and (c) the Consolidated Net Tangible Assets of BIL will not be less than the £262,500,000 (each capitalised term is as defined in the New Facility Agreement).

For the purposes of the definitions of Borrowings and Consolidated Net Tangible Assets under the New Facility, the amount of the Group's subordinated debt is included in Consolidated Net Tangible Assets and not in Borrowings.

Events of default

There are customary events of default under the New Facility Agreement, including BGH failing to satisfy the financial covenants referred to above.

At any time after an event of default occurs, the New Agent (acting on the instructions of the majority lenders (being one or more lenders representing more than 66% per cent. in value)) may cancel the commitments of the New Lenders and accelerate the payment of loans outstanding under the New Facility, including any accrued interest and all other sums owing under the New Facility.

Miscellaneous

Each New Borrower has given customary representations, warranties and undertakings and loans are subject to customary conditions precedent. Obligations of the New Borrowers are guaranteed by each of New Brit, BOH and Old Brit. In addition, Old Brit provides security in the form of a share charge over its shares in BIL in respect of all amounts owed by the New Borrowers under the New Facility Agreement.

6.3 *Subordinated notes due 2030*

On 9 December 2005 Old Brit issued £150 million 6.625 per cent. subordinated notes due 2030 (the "**Subordinated Notes 2030**"), constituted by a trust deed dated 9 December 2005 (the "**Original Trust Deed**") made between Old Brit and HSBC Trustee (C.I.) Limited (as trustee). The Subordinated Notes 2030 are unsecured and subordinated to the rights of all unsubordinated creditors of Old Brit and constitute Lower Tier 2 Capital for UK FSA regulatory capital purposes.

Interest is payable on the Subordinated Notes 2030 annually in arrears on 9 December in each year, although Old Brit has the option to defer any interest payment in certain limited circumstances. The Subordinated Notes 2030 bear interest to (but excluding) 9 December 2020 at the initial rate of 6.625 per cent. per annum.

General Information

The interest rate will be reset on 9 December 2020, for all interest accruing from (and including) that date up to (but excluding) maturity date of the Subordinated Notes 2030, to the rate per annum which is the aggregate of (i) 3.4 per cent. and (ii) the gross redemption yield of the 8 per cent. Treasury Stock due 2021.

The Subordinated Notes 2030 are due to be redeemed on 9 December 2030, if not previously redeemed, purchased or cancelled. Old Brit may (at its option) elect to redeem all, but not some only, of the Subordinated Notes 2030 on 9 December 2020 at their principal amount plus all accrued interest.

In October 2008, Old Brit bought back £14,998,000 of the Subordinated Notes 2030 so that, as at the date of this Prospectus, £135,002,000 principal amount of the Subordinated Notes 2030 remains outstanding.

On 4 November 2009, New Brit, Old Brit and the trustee entered into a supplemental trust deed, amending and restating the Original Trust Deed (the “**Supplemental Trust Deed**”). Pursuant to the Supplemental Trust Deed, on the Scheme Effective Date, New Brit will replace Old Brit as principal debtor and Old Brit will become a guarantor in respect of the Subordinated Notes 2030. The terms of the Subordinated Notes 2030 will otherwise remain unchanged.

The Subordinated Notes 2030 are admitted to the Official List and admitted to trading on the regular market of the London Stock Exchange and it is expected that this listing and the trading arrangements will continue following the Scheme Effective Date.

6.4 *Investment in Norton II Holdings*

On 28 November 2007, a subscription and shareholders agreement was entered into between (1) Norton II Holdings and (2) BICL, Citigroup Financial Products Inc., Drawbridge Global Macro Intermediate Fund L.P., Ontario Teachers’ Pension Plan Board and Walsham Investment Limited (together, the “**Investors**”). Under the terms of the agreement, BICL agreed to subscribe for 15,000 common shares (“**Common Shares**”) for a consideration of US\$1,000 per Common Share and 5,000 preference shares designated Series A (“**Preference Shares**”) for a consideration of US\$1,000 per Preference Share (US\$20,000,000 aggregate consideration). The proceeds of the subscription by the Investors were used to incorporate and capitalise a wholly-owned subsidiary of Norton II Holdings, Norton Re II. In the agreement, Norton II Holdings and BICL each made certain warranties, principally in respect of corporate status, capacity and authority to enter into the transaction. Norton II Holdings also granted certain covenants in favour of BICL.

The Preference Shares have the rights set out in a Certificate of Designation of Series A Preference Shares, in particular, the right to a preferred dividend and a liquidation preference both payable on liquidation of Norton II Holdings. Since 31 December 2008 the Preference Shares have been redeemable at Norton II Holdings’ sole option. Investors also have a right of pre-emption on a proposed transfer of any class of shares in Norton II Holdings by a selling Investor (save for transfers to affiliates).

Under the agreement, Norton II Holdings was required, on or before 1 April 2008, to determine how much (if any) of its capital was surplus to its needs and (subject to the approval of the Bermuda Monetary Authority), to return any such surplus to the Investors by way of a redemption of Preference Shares. At the relevant time, Norton II Holdings determined that it had no surplus capital and therefore no Preference Shares were redeemed.

Each Investor agreed to notify Norton II Holdings on or before 31 October 2008 (or in any future year, 31 October in that year), indicating whether or not it wished to participate in reinsurance treaties in the following year. On delivery of a notice by an Investor stating that it does not wish to participate (a “**Withdrawing Investor**”), Norton II Holdings may (i) cause Norton Re II to cease to enter new reinsurance treaties, commute all retrocessional treaties then in force and liquidate itself, (ii) redeem the shares of the Withdrawing Investor, or (iii) sell the shares of the Withdrawing Investor to a new investor (subject to the pre-emption rights referred to above). BICL is not entitled to be a Withdrawing Investor or to sell or transfer any shares in Norton II Holdings (save to affiliates) unless the services agreement referred to below is terminated.

In connection with the subscription and shareholders agreement, a services agreement was entered into between BGSL and Norton Re II on or around 28 November 2007, pursuant to which Norton Re II appointed BGSL to provide certain insurance administration services at a cost of US\$1,000,000.

General Information

Norton II Holdings was placed into members' voluntary liquidation on 26 March 2009, and the first distribution to BICL of approximately US\$9.1 million was made by the liquidator on 9 April 2009. A further distribution of approximately US\$4 million was made on 29 May 2009.

6.5 *Investment in Xbridge*

Share purchase agreements

On 3 June 2008, a share purchase agreement was entered into between Carol Cox Liebmann as trustee of the Brad Liebmann Family Trust and Origen Trustee Services Limited (together the "**Xbridge Sellers**"), Brad Hunter Liebmann (the "**Warrantor**") and Old Brit (as purchaser), pursuant to which Old Brit acquired in two tranches an aggregate of 1,363,636 ordinary shares in Xbridge, for an aggregate consideration of £1.5 million. Xbridge owns and operates an electronic insurance trading platform.

The Warrantor provided customary warranties and a tax covenant to Old Brit which expire three months after delivery of Xbridge's accounts for the year ending 31 December 2009, save for the tax warranties and the tax covenant which expire on 3 June 2015. The aggregate liability of the Warrantor in respect of the warranties and the tax covenant is capped at £1.5 million.

In addition, the Warrantor undertook with Old Brit that he would not, for a period of two years from the date of the agreement, (i) be employed by or interested in any business which competes with Xbridge, (ii) interfere with any customer or supplier of Xbridge, (iii) solicit or entice away any director or senior employee of Xbridge, (iv) divulge any confidential information about Xbridge, or (v) use any trade, business or domain name of Xbridge (for so long as it is used by Xbridge).

On 3 June 2008, Old Brit also entered into a share purchase agreement to purchase 4,701,000 Series A Preferred Shares in Xbridge from Prudential Corporation Holdings Limited ("**Prudential**") for a consideration of £5,500,170. Prudential provided title and capacity warranties only to Old Brit.

As a result of the two share purchase agreements, Old Brit acquired an aggregate stake in 38.2 per cent. of the total issued shares of Xbridge.

On 14 July 2008, Old Brit agreed to purchase an additional 105,000 ordinary shares, increasing its aggregate stake in Xbridge to 38.8 per cent. Subsequently, on 12 February 2009, Old Brit transferred its entire share holding in Xbridge to another group company, Brit Investment Holdings Limited.

Subordinated loan agreement

On 3 June 2008, Old Brit entered into a subordinated loan agreement with Xbridge under which it agreed to make available to Xbridge a £6 million unsecured revolving facility until 2 July 2011, to be used firstly in the repayment of amounts outstanding under an existing Xbridge debt facility and thereafter for general working capital purposes.

Interest accrues on the loan at a rate of 1 per cent. per annum above LIBOR. Xbridge must repay the loan in full on 3 June 2013 unless, with Old Brit's consent, the loan is capitalised (in accordance with the formula set out in the agreement). Old Brit's rights in respect of Xbridge's liabilities under the loan agreement are subordinated to those of other creditors and the payment of any principal or interest is subject to certain conditions. Old Brit has the benefit of limited representations, warranties and undertakings given by Xbridge.

Under the loan agreement, Xbridge agrees to issue a warrant to Old Brit within ten business days of each anniversary of the loan agreement until all amounts outstanding under the loan agreement have been repaid. The terms of the warrants are governed by a warrant instrument dated 3 June 2008, which prescribes that each warrant grants Old Brit the right to subscribe for 67,000 ordinary shares in Xbridge for every £1 million of principal and accrued interest outstanding under the loan agreement at that anniversary (and/or a pro-rated number of shares for every amount less than £1 million of principal and accrued interest outstanding).

6.6 *Investment in BIG*

On or around 3 December 2007, a subscription and shareholders agreement was entered into between (1) BIG, (2) Old Brit and (3) Line Trustees SPV (International) Limited as trustee of The BIG Settlement (the "**BIG Agreement**"). Under the BIG Agreement, Old Brit agreed to subscribe for 20,000 core shares of BIG ("**Core Shares**") for a consideration of £20,000 and one unclassified share of BIG issued as a

redeemable preference share and termed an insurance share (the “**Insurance Share**”) for a consideration of £15 million and Line Trustees SPV (International) Limited agreed to subscribe for 80,000 Core Shares for a consideration of £80,000, subject to the satisfaction of certain conditions. Subsequently, in late 2007, a second Insurance Share was issued to Old Brit for a further consideration of £10 million.

In March 2009, Old Brit acquired from Line Trustees SPV (International) Limited its holding of 80,000 Core Shares for a consideration of £85,000, and a third Insurance Share was issued to Old Brit for a further consideration of £20 million, and as a result BIG became a wholly-owned subsidiary of Old Brit.

Under the BIG Agreement, BIG undertook (i) in respect of the Insurance Share, to create a “cell” (within the meaning of the Protected Cell Companies Act 2001) (the “**Insurance Cell**”), the Insurance Share representing the Insurance Cell’s capital and (ii) in respect of the profits before tax initially attributable each year to the Insurance Cell (the “**Cell Profits**”), to allocate the greater of 0.6 per cent. of the Cell Profits and £85,000 to meet the expenses of BIG not otherwise included in the calculation of the Cell Profits and to the extent not so used, the Cell Profits may be accounted for and distributed to the holders of Core Shares. Limited reciprocal warranties were given by BIG and Old Brit, principally in respect of their capacity and authority to enter into the transaction.

The Core Shares and the Insurance Share have the rights and restrictions set out in the articles of association of BIG (the “**BIG Articles**”). Under the BIG Articles, the directors are required to establish a “cell” for each class of Insurance Share in issue and all the assets, income, earnings, liabilities, expenses and costs of each cell must be segregated from the assets, income, earnings, liabilities, expenses and costs of BIG, Core Shares and of each other cell. Insurance Shares may be redeemed on two weeks’ notice, (i) by BIG at its sole discretion or (ii) by any holder of an Insurance Share, with the prior written consent of the Financial Services Commission of Gibraltar. The redemption price for an Insurance Share is calculated by reference to the net asset value of the relevant cell at the redemption date. On a winding up, holders of Insurance Shares are only entitled to participate in the assets of the cell constituted in respect of the specific class of that Insurance Share. In addition to the above restrictions, the BIG Articles limit the transfer of all classes of shares to group companies, nominees or trustees of a particular shareholder.

6.7 *Fremantle*

On 21 June 2007, BIL entered into a three year cash collateralised catastrophe swap contract (the “**Swap Contract**”) with Fremantle, a Cayman Islands company, pursuant to which Fremantle agrees to pay BIL in aggregate up to US\$200 million in the event of four to nine qualifying natural catastrophes (“**trigger events**”), comprising US\$40 million for each of the fourth and fifth trigger events and US\$30 million for each of the sixth to ninth trigger events. The first three trigger events are excluded. The Swap Contract covers trigger events occurring during the period from 21 June 2007 to 21 June 2010. The swap can be extended at Old Brit’s sole option for an additional three months and, in respect of certain limited trigger events, may be further extended for up to a maximum of nine months.

Fremantle was formed solely for the purpose of issuing loan notes underpinning the catastrophe swap programme. In its first issue Fremantle raised US\$200 million by the issue of three separate classes of three-year principal at-risk variable rate notes due 28 June 2010. The proceeds from the notes secure Fremantle’s obligations under the Swap Contract.

Old Brit’s fees under the Swap Contract are calculated based on an amount equal to the expenses incurred by Fremantle in connection with the swap, such amount being limited to an annual maximum of US\$400,000 plus an additional US\$180,000 for each class of notes that is outstanding under the programme. In addition, Old Brit is required to pay, for each class of notes outstanding, an amount equal to the sum of the interest spread (Class A notes: 0.9 per cent.; Class B notes: 2 per cent.; Class C notes: 7 per cent.) and the swap spread (0.10 per cent. for each class) on quarterly payment dates. The cost of the instrument in 2008 was £7.4 million.

6.8 *The Depositary Agreement*

Under the depositary agreement dated 11 November 2009 between New Brit and the Depositary (the “**Depositary Agreement**”), New Brit appoints the Depositary to constitute and issue from time to time, upon the terms of the Deed Poll, series of DIs representing securities issued by New Brit and to provide certain other services in connection with such DIs.

The Depositary Agreement contains, *inter alia*, provisions to the following effect:

- (a) The Depositary agrees that it will comply, and will procure certain other persons comply, with the terms of the Deed Poll in relation to the DIs (the terms of which are summarised in Chapter 12—“CREST, Depositary Interests and the Deed Poll”) and that it and they will perform their obligations and exercise all rights in good faith and with all reasonable skill, diligence and care. The Depositary assumes certain specific obligations including, for example, to arrange for the DIs to be admitted to CREST as participating securities and provide copies of, and access to, the register of DIs.
- (b) The Depositary warrants that it is an authorised person under the UK FSMA and is duly authorised to carry out custodial and other activities under the Deed Poll. It also undertakes to maintain that status and authorisation.
- (c) The Depositary will either itself or through its appointed Custodian as bare trustee hold the deposited property (which includes, *inter alia*, the securities represented by the DIs) for the benefit of the holders of the DIs as tenants in common, subject to the terms of the Deed Poll.
- (d) New Brit agrees to provide such assistance, information and documentation to the Depositary as is reasonably required by the Depositary for the purposes of performing its duties, responsibilities and obligations under the Deed Poll and Depositary Agreement. In particular, New Brit is to supply the Depositary with all documents it sends to its shareholders so that the Depositary can distribute the same to all holders of DIs.
- (e) The Depositary will not be obliged to accept transfers of DIs if the transfer would place the Depositary in breach of any law or regulation. If such circumstances were to occur the Depositary will discuss this with New Brit as soon as is reasonably practicable in order to review how to proceed.
- (f) The Depositary Agreement sets out the procedures to be followed where New Brit is to pay or make a distribution.
- (g) The Depositary is to indemnify New Brit and each of its subsidiaries and subsidiary undertakings against claims made against any of them by any holder of DIs or any person having any direct or indirect interest in any such DIs or the underlying securities which arises out of any breach or alleged breach of the terms of the Deed Poll or any trust declared or arising thereunder.
- (h) The Depositary Agreement is to remain in force for as long as the Deed Poll remains in force. New Brit may, by giving not less than 30 days’ written notice to the Depositary, terminate the appointment of the Depositary if an Event of Default (as defined in the Depositary Agreement) occurs in relation to the Depositary or if it commits an irremediable material breach of the Depositary Agreement or the Deed Poll or any other material breach which is not remedied within 30 days of being required to do so by written notice given by New Brit. The Depositary has, by giving not less than 30 days’ written notice to New Brit, the same termination rights in respect of Events of Default occurring or any such breach by New Brit. Either of the parties may terminate the Depositary’s appointment by giving not less than 45 days’ written notice.
- (i) The Depositary may not subcontract or delegate its obligations under the Deed Poll to any person without New Brit’s prior consent (not to be unreasonably withheld).
- (j) New Brit is to pay certain fees and charges including, *inter alia*, an annual fee, a fee based on the number of DIs per year and certain CREST related fees. The Depositary is also entitled to recover reasonable out of pocket fees and expenses.
- (k) On 11 November 2009, New Brit and the Depositary also entered into an agreement, on substantially the same terms as the Depositary Agreement, to enable the Corporate Sponsored Nominee to provide the nominee services referred to in Chapter 12 – “CREST, Depositary Interests and the Deed Poll”.

6.9 *Sponsor’s agreement*

New Brit, Old Brit and Numis entered into a sponsor’s agreement on 11 November 2009. Under this agreement Numis was appointed to act as sponsor to New Brit in connection with its application for Admission. New Brit gave Numis certain customary warranties and undertakings regarding, among other things, the accuracy of

General Information

information contained in this Prospectus and concerning the Group and its business. New Brit and Old Brit have also indemnified Numis against any losses incurred in connection with the Admission. Numis' obligations under the agreement are without prejudice to any obligations arising pursuant to UK FSMA.

7. Property

The Group conducts its activities from the principal establishments set out below:

| <i>Location</i> | <i>Tenure</i> | <i>Rent payable per annum (excluding VAT)</i> |
|------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------|
| 13th Floor ITO Toren Gustav Mahlerplein 82 1082 MA Amsterdam The Netherlands | Managed office (expires 31 March 2010), three months notice after initial three months. Six months extension after initial three months | €17,225 with no review. |
| 2nd Floor and part of Lower Ground 55 Bishopsgate London EC2N 3AS | Leasehold (expires 24 March 2016) with no break option. | £1,191,910 with next review on 24 June 2009. |
| 1st Floor and Part Basement 55 Bishopsgate London EC2N 3AS | Leasehold (expires 24 March 2016) with no break option. | £1,203,420 with next review on 21 December 2010. |
| Lower Ground (remainder) 55 Bishopsgate London EC2N 3AS | Leasehold (expires 24 March 2016) with a break option on 10 February 2013. | £192,500 with next review on 10 February 2013. |
| Ground Floor 55 Bishopsgate London EC2N 3AS | Leasehold (expires 24 March 2016) with no break option. | £96,277 with next review on 24 June 2009. |
| 3rd Floor Marlowe House 109 Station Road Sidcup Kent DA15 7BB | Leasehold (expires 25 December 2014) with no break option. | £95,000 with next review on 25 December 2009. |
| 4th Floor Sutherland House 149 St. Vincent Street Glasgow G2 5NW | Leasehold (expires 10 January 2016) with a break option on 10 January 2011. | £91,253 with next review on 10 January 2011. |
| Jubilee House 33-41 Park Place Leeds LS1 2RY | Leasehold (expires 21 August 2015) with a break option on 22 August 2010. | £96,710 with next review on 22 August 2010. |
| 3rd Floor 1 Colmore Row Birmingham B3 2BJ | Leasehold (expires 21 June 2015) with a break option on 21 June 2010. | £103,491 with next review on 21 June 2010. |
| Room TO2 Castlemead Lower Castle Street Bristol BS1 3AG | Service agreement (expires 30 November 2010) with 3 months' notice to renew or terminate. | £36,000 with no review. |

General Information

| <i>Location</i> | <i>Tenure</i> | <i>Rent payable per annum (excluding VAT)</i> |
|-------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------|
| Lloyd's Of London Boxes 1 Lime Street London EC3M 7HA | Lease on boxes 273 and 275 (expires 7 March 2011) each with a break option at anytime with six months' notice from either party. | £85,326 with no review. |
| Lloyd's Of London Boxes 1 Lime Street London EC3M 7HA | Rolling licence with no break option but terminable by either party on three months' notice per box. | £549,082 with no review. |
| 3rd Floor Stephenson House Morton Palms Business Park Darlington DL1 4PQ | Leasehold (expires 24 December 2016) with a break option in September 2009 and September 2013. | £80,024 with next review on 1 October 2011. |
| 12 Camomile Street London EC3A 7EX | Lease (expires 24 November 2011) with a rolling break option from 24 March 2009. | £177,587 with no review. |
| Part of the 8th Floor Reading Bridge George Street Caversham Reading RG1 8LS | Lease (expires 25 November 2017) with a break option on 25 November 2012 with nine months' written notice. | £133,608 with next review on 26 November 2012. |
| Room 211 Forsyth House Cromac Square Belfast BT2 8LA | Regus-managed office (expires 2 March 2010) with no break option. | £36,000 with no review. |
| 7th Floor The Chancery 58 Spring Gardens Manchester M2 1EW | Leasehold (expires 28 September 2017) with a break option on 25 March 2013. | £141,590 with next review on 29 September 2012. |
| Office 3539 180 North Stetson Street Suite 3500 Chicago Illinois 60601 USA | Managed office (expires 31 January 2010) with no break option. | US\$44,460 with no review. |
| Suite 750 1445 North Loop West Houston Texas 77008 USA | Managed office (expires 31 May 2011) with no break option. | US\$17,730 with no review. |
| Room 69 15th Floor The Imperial Hotel Tower 1-1-1 Uchisaiwaicho Chiyoda-ku Tokyo 100-0011 Japan | Managed office (expires 31 July 2010) with a break option at anytime after November 2009 with two months notice. | JPY2,685,600 with no review. |

General Information

So far as is known to the Group, there are no environmental issues that may affect the Group's utilisation of its fixed assets.

8. Working capital

In the opinion of New Brit, the Group has sufficient working capital for its present requirements, that is for at least the next 12 months from the date of this Prospectus.

9. Litigation

There are no governmental, legal or arbitration proceedings, including any such proceedings pending or threatened of which New Brit is aware, during the last 12 months which may have, or have had in the recent past, significant effects on New Brit's or the Group's financial position or profitability.

10. Major shareholders

Insofar as is known to New Brit, based on the existing shareholders of Old Brit as at the Latest Practicable Date determined by reference to relevant notifications made pursuant to the UK Disclosure and Transparency Rules, on the Scheme becoming effective, assuming that no further Old Brit Shares have been traded or issued after the Latest Practicable Date, the only persons who will be, directly or indirectly, interested in 5 per cent. or more of the New Brit Shares will be:

| <i>Shareholder</i> | <i>Number of shares</i> | <i>% of issued share capital²</i> |
|-----------------------------------------|-----------------------------|--------------------------------------------------|
| Third Avenue Management LLC | 21,846,558 | 6.96% |
| Schroders Plc | 18,524,434 | 5.90% |
| Jupiter Asset Management Limited | 16,473,314 | 5.25% |
| Dimensional Holdings Inc. | 15,971,363 | 5.09% |
| AXA SA | 12,739,026 | 4.06% |
| Third Avenue LLP ¹ | 12,623,162 | 4.02% |
| Legal and General Investment Management | 12,474,835 | 3.97% |
| Barclays Global Investors | 12,361,570 | 3.94% |
| Odey Asset Management LLP | 10,740,137 | 3.42% |

1 These shares are held on behalf of Third Avenue Management International Value Fund.

2 Based on an outstanding share capital of 313,950,031 Old Brit Shares (excluding treasury shares).

None of the New Brit Shareholders listed above will have voting rights that are different from those of any other holder of New Brit Shares.

Save as disclosed in this Chapter, New Brit is not aware of any person who is, or will be, immediately following the Scheme Effective Date, directly or indirectly, interested in 5 per cent. or more of the New Brit Shares.

11. Related party transactions

Save as disclosed in note 39 to the Annual Report and Accounts of Old Brit for the year ended 31 December 2008, note 39 to the Annual Report and Accounts of Old Brit for the year ended 31 December 2007 and note 38 to the Annual Report and Accounts of Old Brit for the year ended 31 December 2006, no related party transactions between New Brit or members of the Group were entered into between 1 January 2006 and the date of this Prospectus.

12. Change in Registrars of Old Brit

It is the intention to appoint Computershare Investor Services PLC as the Registrars of Old Brit with effect from 14 December 2009 until the Scheme Effective Date, at which time Computershare Investor Services PLC will become the Registrar in respect of the Depositary Interests.

14. DEFINITIONS AND GLOSSARY OF INSURANCE MARKET TERMS

1. Definitions

The following definitions apply throughout this Prospectus, unless the context requires otherwise:

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| “Admission to Listing” | the admission to listing on the Official List of the New Brit Shares |
| “Admission to Trading” | the admission to trading on the London Stock Exchange’s market for listed securities of the New Brit Shares |
| “Admission” | Admission to Listing and Admission to Trading and a reference to Admission becoming “effective” is to be construed in accordance with the UK Listing Rules or the Admission and Disclosure Standards of the London Stock Exchange (as applicable) |
| “BGH” | Brit Group Holdings B.V., a company incorporated in the Netherlands, with registered number 34359381 |
| “BGSL” | Brit Group Services Limited, a company incorporated in England and Wales with registered number 02245562 |
| “BICL” | Brit Investment Company Limited, a company incorporated in England and Wales with registered number 03221251 |
| “BIG” | Brit Insurance (Gibraltar) PCC Limited, a company incorporated in Gibraltar, with registered number 99532 (formerly Rockhampton Insurance PCC Limited) |
| “BIL” | Brit Insurance Limited, a company incorporated in England and Wales with registered number 2763688 |
| “BISI” | Brit Insurance Services USA, Inc., a company incorporated in Illinois, USA, with registered number 6634-884-9 |
| “BISL” | Brit Insurance Services Limited, a company incorporated in England and Wales with registered number 2068264 |
| “Board” | the board of Directors of New Brit, except where the context makes it clear that it is a reference to the board Directors of Old Brit |
| “BOH” | Brit Overseas Holdings S.à.r.l., a company incorporated in Luxembourg, with registered number B 147 442 |
| “Brit Corporate Members” | Brit UW, 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, and Masthead E Limited |
| “Brit UW” | Brit UW Limited, a company incorporated in England and Wales with registered number 3217775 |
| “BSL” | Brit Syndicates Limited, a company incorporated in England and Wales with registered number 824611 |
| “Business Day” | any day on which banks are generally open in England and Wales for the transaction of business, other than a Saturday or Sunday or a public holiday |
| “certificated” or “in certificated form” | in relation to a share or other security, a share or other security title to which is recorded in the relevant register of the share or other security as being held in certificated form (that is, not in CREST (in |

Definitions and Glossary of Insurance Market Terms

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| | the case of Old Brit Shares) or not represented by a Depositary Interest to enable settlement through CREST (in the case of New Brit Shares)); |
| “Corporate Sponsored Nominee” | Computershare Company Nominees Limited, a company incorporated in Scotland with registered number SC167175, or such a wholly-owned subsidiary of the Depositary as the Depositary may nominate, acting as corporate sponsored nominee as described in Chapter 12 – “CREST, Depositary Interests and the Deed Poll” |
| “Court Hearing” | the hearing of the claim form to sanction the Scheme |
| “Court Meeting” | the meeting of holders of Old Brit Shares convened by order of the Court pursuant to sections 895 to 899 of the UK Companies Act to consider and, if thought fit, approve the Scheme and any adjournment of that meeting |
| “CREST” | the system for paperless settlement of trades in listed securities, of which Euroclear is the operator |
| “CREST Regulations” | the Uncertificated Securities Regulations 2001 (SI 2001 No. 3755) as from time to time amended |
| “Custodian” | Computershare Company Nominees Limited, a company incorporated in Scotland with registered number SC167175, or such other wholly-owned subsidiary of the Depositary as the Depositary may nominate, acting as custodian of New Brit Shares |
| “Deed Poll” | the deed poll executed by the Depositary in favour of, and which sets out the rights of, the holders of Depositary Interests from time to time |
| “Depositary Interest” or “DI” | a depositary interest representing an underlying New Brit Share, details of which are set out in Chapter 12 – “CREST, Depositary Interests and the Deed Poll” |
| “Depositary” | Computershare Investor Services PLC, a company incorporated in England and Wales with registered number 3498808, being the entity which will issue DIs representing entitlements to the New Brit Shares |
| “Directors” | the members of the Board |
| “Dutch AFM” | the Netherlands Authority for the Financial Markets (<i>Stichting Autoriteit Financiële Markten</i>) |
| “Dutch Financial Supervision Act” | Dutch Financial Supervision Act effective as per 1 January, 2007 (<i>Wet op het financieel toezicht</i>) as amended from time to time |
| “EU” | the European Union, first established by the treaty made at Maastricht on 7 February, 1992 |
| “Euroclear” | Euroclear UK & Ireland Limited (formerly CRESTCo Limited), the operator of CREST |
| “FSC” | the Gibraltar Financial Services Commission |
| “GAAP” | generally accepted accounting principles |
| “General Meeting” or “GM” | the general meeting of Old Brit Shareholders in connection with the Proposals to be held at 55 Bishopsgate, London EC2N 3AS at 10.15 a.m. on 1 December 2009, and any adjournment thereof |

Definitions and Glossary of Insurance Market Terms

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| “Group” | (i) prior to the Scheme Effective Time, Old Brit and its subsidiaries; and (ii) after the Scheme Effective Time, New Brit and its subsidiaries |
| “High Court” | the High Court of Justice of England and Wales |
| “HMRC” | Her Majesty’s Revenue and Customs |
| “IAS” | International Accounting Standards |
| “IFRS” | International Financial Reporting Standards as adopted by the European Commission for use in the EU |
| “IFRS Phase II” | the second phase of a project undertaken by the International Accounting Standards Board to create a uniform set of accounting principles that will eventually govern the measurement of insurance contracts. Phase I of this project resulted in IFRS 4 Insurance Contracts, an interim standard, which permits a wide variety of accounting practices for insurance contracts. IFRS Phase II is expected to be effective around 2012 |
| “Latest Practicable Date” | 9 November 2009, being the latest date on which it was practicable to provide the relevant information for the purposes of this Prospectus, prior to the publication of this Prospectus |
| “Lloyd’s” | The Society of Lloyd’s and Corporation of Lloyd’s created and governed by the Lloyd’s Acts 1871-1982, including the Council of Lloyd’s (and its delegates and other persons through whom the Council may act), as the context may require |
| “London Stock Exchange” | London Stock Exchange plc |
| “Madoff” | the securities fraud by Bernard L. Madoff Investment Securities LLC and affiliated companies |
| “New Brit ” | Brit Insurance Holdings N.V. a company incorporated in the Netherlands, with registered number 24464323 |
| “New Brit Articles” | the articles of association of New Brit as they will read as of the Scheme Effective Date |
| “New Brit Share Schemes” | the New BSMP, the New PSP, the New ESOP, the New ESOS and the New SAYE |
| “New Brit Shareholder” | a holder for the time being of New Brit Shares (either directly or as a direct or indirect holder of Depositary Interests) |
| “New Brit Shares” | the ordinary shares with a nominal value of €1.0 each in the share capital of New Brit |
| “New BSMP” | the New Brit Bonus Share Matching Plan 2009 |
| “New ESOP” | the New Brit Employee Share Ownership Plan 2009 |
| “New ESOS” | the New Brit Executive Share Option Scheme 2009 |
| “New PSP” | the New Brit Performance Share Plan 2009 |
| “New SAYE” | the New Brit Sharesave Scheme 2009 |
| “Norton Holdings” | Norton Holdings Limited, a company incorporated in Bermuda, with registered company number 39282 |

Definitions and Glossary of Insurance Market Terms

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| “Norton II Holdings” | Norton II Holdings Limited, a company incorporated in Bermuda, with registered company number 41059 |
| “Norton Re II” | Norton Re II Insurance Limited, a company incorporated in Bermuda, with registered company number 41018 |
| “Norton Re” | Norton Re Insurance Limited, a company incorporated in Bermuda, with registered company number 38205 |
| “Numis” | Numis Securities Limited, a company incorporated in England and Wales with registered number 2285918 |
| “Official List” | the Official List of the UK Listing Authority |
| “Old Approved Scheme” | the 1998 Approved Executive Share Option Scheme, which has been closed |
| “Old Brit ” | Brit Insurance Holdings PLC, a public limited company incorporated in England and Wales with registered number 3121594 |
| “Old Brit Articles” | the articles of association of Old Brit as at the date of this Prospectus |
| “Old Brit Capital Reduction” | the proposed reduction of share capital of Old Brit to be effected as part of the Scheme |
| “Old Brit Share Option Plans” | the Old ESOS, the Old Approved Scheme and the Old Unapproved Scheme |
| “Old Brit Share Schemes” | the Old Approved Scheme, the Old Unapproved Scheme, the Old BSMP, the Old ESOP, the Old ESOS and the Old PSP. |
| “Old Brit Shareholder” | a holder for the time being of Old Brit Shares |
| “Old Brit Shares” | (i) prior to the Scheme Effective Date the ordinary shares with a nominal value of 75 pence each in the share capital of Old Brit; and (ii) after the Scheme Effective Date the ordinary shares with a nominal value of 8 pence each in the share capital of Old Brit |
| “Old BSMP” | the Old Brit Bonus Share Matching Plan 2007 |
| “Old ESOP” | the Old Brit Employee Share Ownership Plan 2001 |
| “Old ESOS” | the Old Brit Executive Share Option Scheme 2003 |
| “Old Option Schemes” | the Old Approved Scheme and the Old Unapproved Scheme |
| “Old PSP” | the Old Brit Performance Share Plan 2003 |
| “Old Unapproved Scheme” | the 1998 Unapproved Executive Share Option Scheme, which has been closed |
| “Overseas Shareholders” | holders of Shares who have registered addresses in, or who are resident or ordinarily resident in, or citizens of, or which are corporations, partnerships or other entities created or organised under the laws of countries other than the Netherlands or the United Kingdom or persons who are nominees of or custodians, trustees or guardians for citizens, residents in or nationals of, countries other than the Netherlands or the United Kingdom which may be affected by the laws or regulatory requirements of the relevant jurisdictions |

Definitions and Glossary of Insurance Market Terms

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| “Proposals” | the proposals relating to the implementation of the Scheme, (including the Old Brit Capital Reduction) and the adoption by New Brit of the New Brit Share Schemes |
| “Prospectus Directive” | Directive 2003/7/EC |
| “Prospectus” | this document |
| “Recognised Capital” | capital recognised as paid-in for Dutch dividend withholding tax purposes |
| “Registrar of Companies” | the Registrar of Companies in England and Wales |
| “Registrar” | prior to 14 December 2009, Equiniti Limited, a company incorporated in England and Wales with registered number 6226088 and from 14 December 2009, Computershare Investor Services PLC, a company incorporated in England and Wales with registered number 3498808 |
| “Regulation S” | Regulation S under the US Securities Act |
| “Remuneration Committee” | the remuneration committee of Old Brit or, following the Scheme becoming effective, of New Brit |
| “Restricted Certificated Shareholder” | means Scheme Shareholder who holds Scheme Shares in certificated form and who is a citizen, resident or national of a Restricted Jurisdiction |
| “Restricted Jurisdiction” | <p>a jurisdiction, the laws of which would or might:</p> <ul style="list-style-type: none">(i) be infringed; and/or(ii) require to be obtained any governmental or other consent or to be effected any registration, filing or other formality, <p>were the Corporate Sponsored Nominee to hold on behalf of a person who is a citizen, resident or national of such jurisdiction, Depositary Interests on terms that would permit the Corporate Sponsored Nominee to deal in such Depositary Interests on behalf of such person</p> |
| “RI3K” | RI3K Limited, a company incorporated in England and Wales with registered number 3909745 |
| “SBU” | strategic business unit |
| “Scheme” | the scheme of arrangement under Sections 895 to 899 of the UK Companies Act between Old Brit and holders of Scheme Shares including any modification, addition or condition approved by the High Court, details of which are set out in the Scheme Circular |
| “Scheme Circular” | the circular, dated on or about the date of this Prospectus, sent to holders of Old Brit Shares containing details of the Proposals |
| “Scheme Effective Date” | the date on which the Scheme becomes effective in accordance with its terms, expected to be 21 December 2009 |
| “Scheme Effective Time” | the time at which the Scheme becomes effective |
| “Scheme Record Time” | 6.00 p.m. London time on the date of the hearing (or the adjourned hearing) by the Court of the claim form to sanction the Scheme |

Definitions and Glossary of Insurance Market Terms

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| “Scheme Shares” | <p>Old Brit Shares which are:</p> <ul style="list-style-type: none">(i) in issue at the date of the Scheme Circular and which remain in issue at the Scheme Record Time;(ii) (if any) issued after the date of the Scheme Circular and before the Voting Record Time and which remain in issue at the Scheme Record Time; and(iii) (if any) issued at or after the Voting Record Time and at or prior to the Scheme Record Time, on terms that the holder thereof shall be bound by the Scheme, or in respect of which the original or any subsequent holder thereof agrees in writing by such time to be bound by the Scheme and which remain in issue at the Scheme Record Time; <p>but excluding any Old Brit Shares held by New Brit, BGH or BOH;</p> |
| “SDRT” | stamp duty reserve tax in the UK |
| “Senior Managers” | Peter John Goddard, Peter Burrows, Jonathan Rory Turner, Matthew Wilson and Malcolm Beane |
| “SME” | small and medium size enterprises |
| “Solvency II Directive” | the amended proposal for a directive of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II) (recast) (presented by the Commission pursuant to Article 250 (2) of the EC Treaty) (Proposal COM (2008) 119 final) |
| “Stanford” | alleged securities fraud by Stanford International Bank and affiliated companies |
| “Subordinated Notes 2030” | £150 million 6.625 per cent. subordinated notes due 2030 constituted by a trust deed dated 9 December 2005 made between Old Brit and HSBC Trustee (C.I.) Limited (as trustee) |
| “Syndicate” | Lloyd’s Syndicate 2987 |
| “Takeover Directive” | Directive 2004/25/EC of 21 April 2004 concerning the regulation of public takeover bids |
| “UK City Code” | the UK City Code on Takeovers and Mergers, as amended from time to time |
| “UK Combined Code” | the UK Combined Code on Corporate Governance published by the Financial Reporting Council in June 2008 |
| “UK Companies Act” | the UK Companies Act 2006 |
| “UK Disclosure and Transparency Rules” | the UK disclosure rules and transparency rules as published by the UK FSA under section 73A of UK FSMA |
| “UK FSA” | the UK Financial Services Authority |
| “UK FSMA” | the UK Financial Services and Markets Act 2000 |
| “UKLA” or “UK Listing Authority” | the Financial Services Authority, acting in its capacity as the competent authority for the purposes of Part VI of UK FSMA |

Definitions and Glossary of Insurance Market Terms

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|---------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| “UK Listing Rules” | the listing rules and regulations made by the UKLA under section 73A of UK FSMA |
| “UK” or “United Kingdom” | the United Kingdom of Great Britain and Northern Ireland |
| “US SEC” | the US Securities and Exchange Commission |
| “US Securities Act” | the United States Securities Act of 1933 |
| “US” or “United States” | the United States of America, its territories and possessions, any state of the United States and the District of Columbia |
| “Verex” | Verex Group Limited (registered company number 6609423) |
| “Voting Record Time” | 6.00 p.m. on the day that is two days before the date of the Court Meeting or, if that meeting is adjourned, 6.00 p.m. on the day that is two days before the date of the adjourned Court Meeting |
| “Xbridge” | Xbridge Limited (registered company number 3967717) |

All references to legislation in this Prospectus are to the legislation of the Netherlands unless the contrary is indicated. Any reference to any provision of any legislation shall include any amendment, modification, re-enactment or extension thereof.

Words importing the singular shall include the plural and vice versa, and words importing the masculine gender shall include the feminine or neutral gender.

2. Glossary of insurance market terms

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| “acquisition cost ratio” | the portion of premiums earned that represents the cost of obtaining the business. Such cost includes intermediaries’ commission, the Group’s sales expense and other related expenses, and these are expressed in relation to premiums earned on such business |
| “binding authority” | authority given to brokers and agents (known as “coverholders”) by a managing agent to bind a syndicate |
| “capacity” | in relation to a syndicate, the limit for the time being prescribed on the amount of insurance business that is able to be allocated to a particular year of account which is to be accepted by a syndicate, such limit being based on the aggregate of the Member’s OPLs with appropriate uplift or in relation to a Member of Lloyd’s, the Member’s OPL |
| “cash call” | a request for funds made by a managing agent pursuant to the terms of the standard managing agent’s agreement in the form prescribed by Lloyd’s at or prior to the closure of the relevant year of account |
| “ceding company” | a company that transfers its risk to a reinsurer |
| “claims ratio” | the sum of claims paid, change in the provisions for unpaid claims and claims adjustment expenses in relation to premiums earned. That is, the ratio, in per cent., of net claims incurred to net earned premiums |
| “combined ratio” | means the ratio of the aggregate cost of underwriting, being claims (including claims incurred but not reported) plus underwriting expenses, to net earned premium expressed as a percentage |
| “controller” | an individual or body corporate who, <i>inter alia</i> , holds 10 per cent. or more of the shares in a parent undertaking (“P”) of a company undertaking a regulated activity (“A”), or is able to exercise |

Definitions and Glossary of Insurance Market Terms

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| | significant influence over the management of P through his shareholding in P, or is able to exercise significant influence over the management of P through his voting power in P, or is entitled to exercise or control the exercise of 10 per cent. or more of the voting power in P |
| “corporate member” | a member of Lloyd’s which is a body corporate or a Scottish limited partnership |
| “coverholder” | see “binding authority” |
| “D&O” | Directors’ and Officers’ Liability |
| “Equitas” | Equitas Reinsurance Limited, the company into which all non life liabilities in relation to 1992 and prior business have been reinsured |
| “excess of loss reinsurance (XL)/(XOL)” | a reinsurance that covers that part of a loss paid by the reinsured that is in excess of an agreed amount and then pays up to the limit of the policy |
| “expense ratio” | the sum of administration expenses in relation to premiums earned. That is, the sum of acquisition costs plus insurance related administrative expenses divided by net earned premiums |
| “Franchise Board of Lloyd’s” or “Franchise Board” | the Franchise Performance Board of Lloyd’s |
| “funds at Lloyd’s” or “FAL” | funds held in trust at Lloyd’s to support a member’s underwriting activities |
| “gearing ratio” | the ratio, in per cent., of total borrowings to net tangible assets plus subordinated borrowings that have at least five years remaining to call or maturity |
| “IBNR” | an actuarially determined reserve for losses that have been incurred but not yet reported |
| “investment result” | the combination of net investment income and net realised investment gains/losses |
| “lead underwriter” or “lead” | a lead underwriter (usually a specialist in the field of the insurance concerned) is the first underwriter to take a portion of a risk and quote an appropriate rate of premium |
| “managing agent” or “managing agency” | an underwriting agent at Lloyd’s responsible for, amongst other things, managing a syndicate and employing the active underwriter |
| “Member” | except where the context otherwise requires, an underwriting member of Lloyd’s |
| “Name” | an individual underwriting member of Lloyd’s |
| “net earned premiums” | the portion of premiums written net of reinsurance protection purchased that is recognised for accounting purposes as income during a period |
| “New Central Fund” | a fund established pursuant to the New Central Fund Byelaw (No. 23 of 1996) by Lloyd’s primarily as a policyholders’ protection fund in the event of a member being unable to meet his underwriting liabilities. The New Central Fund may also be used, with certain |

Definitions and Glossary of Insurance Market Terms

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| | exceptions, for any purpose which may appear to the Council to further any of the objects of Lloyd's |
| “OPL” or “overall premium limit” or “underwriting capacity” | the premium limit which determines the maximum amount of business which a member may underwrite, based on the level of his funds at Lloyd's, in any year of account |
| “premiums trust fund” | a trust fund into which all premiums received by or on behalf of the member must be placed and which is available for payment of claims, reinsurance premiums, syndicate expenses and, when the relevant year of account has been closed, profits |
| “proportional reinsurance” | a type of reinsurance where the ceding insurer cedes to the reinsurer a set proportion of the premium and liability of those policies under the reinsurance agreement |
| “quota share” | a form of proportional reinsurance where the reinsurer receives a per cent. of every risk, as defined by the reinsurance contracts, written by the ceding company |
| “reinsurance” | the transfer of some or all of an insurance risk to another insurer. The company transferring the risk is called the “ceding company” and the company assuming the risk is called the “assuming company” or the “reinsurer” |
| “reinsurance to close” or “RITC” | a reinsurance agreement under which the members of a syndicate for a year of account are reinsured by underwriting members who comprise that or another syndicate for a later year of account against all liabilities arising out of insurance business underwritten by the reinsured syndicate |
| “retrocession” | reinsurance of reinsurance business |
| “side car” | a financial structure created to allow investors to take on/earn the risk and return of a group of insurance policies written by an insurer or reinsurer |
| “solvency ratio” | the ratio of a member's funds at Lloyd's to its Overall Premium Limit, determined in accordance with Lloyd's requirements |
| “syndicate” | a group of underwriting members of Lloyd's or a single corporate member underwriting insurance business at Lloyd's through the agency of a managing agent to which a particular syndicate number is assigned by or with the authority of the Council |
| “treaty” | a reinsurance contract covering an entire portfolio of risks |
| “unearned premium” | the amount of premium relating to the unexpired period of a policy |
| “XL/XOL” | see “excess of loss reinsurance (XL)/(XOL)” |
| “year of account” | the basic accounting year at Lloyd's commencing 1 January and ending 31 December in each year |

NEW BRIT DIRECTORS, REGISTERED OFFICE AND ADVISERS

Directors

John Barton
Dane Douetil
Matthew Scales
Kenneth Culley
Peter Hazell
Joe MacHale
Cees Schrauwens
Michael Smith

Chairman
Chief Executive Officer
Finance Director
Non-Executive Director
Non-Executive Director
Non-Executive Director
Senior Independent Director
Non-Executive Director

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Luxembourg

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