Important information about Syndicate Reports and Accounts

Access to this document is restricted to persons who have given the certification set forth below. If this document has been forwarded to you and you have not been asked to give the certification, please be aware that you are only permitted to access it if you are able to give the certification.

The syndicate reports and accounts set forth in this section of the Lloyd's website, which have been filed with Lloyd's in accordance with the Syndicate Accounting Byelaw (No. 8 of 2005), are being provided for informational purposes only. The syndicate reports and accounts have not been prepared by Lloyd's, and Lloyd's has no responsibility for their accuracy or content. Access to the syndicate reports and accounts is not being provided for the purposes of soliciting membership in Lloyd's or membership on any syndicate of Lloyd's, and no offer to join Lloyd's or any syndicate is being made hereby. Members of Lloyd's are reminded that past performance of a syndicate in any syndicate year is not predictive of the related syndicate's performance in any subsequent syndicate year.

You acknowledge and agree to the foregoing as a condition of your accessing the syndicate reports and accounts. You also agree that you will not provide any person with a copy of any syndicate report and accounts without also providing them with a copy of this acknowledgment and agreement, by which they will also be bound.

Brit Syndicate 2987
Annual Report 2014

Contents

Report of the Directors of the Managing Agent

The Syndicate's Managing Agent is Brit Syndicates Limited (BSL), a company registered in England and Wales.

The Directors of the Managing Agent present the report and annual accounts of Syndicate 2987 for the year ended 31 December 2014.

This annual report is prepared using the annual basis of accounting as required by Statutory Instrument No 1950 of 2008, The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 (Lloyd's Regulations 2008).

Result

The result for calendar year 2014 is a profit of £98.7m (2013 profit: £75.5m). Profits will continue to be distributed by reference to the results of individual underwriting years.

Principal activities

The principal business activity of the Syndicate is general insurance and reinsurance underwriting. The underwriting strategy reflects the Directors' view of prevailing market conditions in the classes of business written by the Syndicate during the year.

Review of the business

Summary profit and loss account

The Syndicate delivered a strong result in 2014, with profit increasing by 30.7% to £98.7m (2013: £75.5m). Excluding the effect of foreign exchange on non-monetary items the profit decreased by 3.6% to £78.6m (2013: £81.5m). The combined ratio excluding the effect of foreign exchange on non-monetary items was 96.1% (2013: 92.9%).

	12 months ended 31 December 2014 £m	**12 months ended 31 December 2013 £m**
Gross written premium	1,303.1	1,182.8
Net written premium	859.2	817.6
Net earned premium[1]	817.5	803.0
Underwriting result[1]	31.6	57.3
Investment return	47.0	24.2
Profit for the financial year[1]	**78.6**	**81.5**
Effect of foreign exchange on non-monetary items	20.1	(6.0)
Profit for the financial year as reported	**98.7**	**75.5**
Combined ratio[1]	96.1%	92.9%

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

Underwriting

Gross written premium	**12 months ended 31 December 2014 £m**	**12 months ended 31 December 2013 £m**	**Movement %**
Global Speciality Direct	1,056.6	904.4	16.8%
Global Speciality Reinsurance	246.5	277.0	(11.0%)
Other	-	1.4	(100%)
Total	**1,303.1**	**1,182.8**	**10.2%**

Gross written premium for 2014 increased by 10.2% to £1,303.1m (2013: £1,182.8m) with Global Speciality Direct the main catalyst, seeing premium growth emanating from the property binder book and the impact of underwriting initiatives launched in 2013 and 2014. The growth areas were partially offset by the reduction in Global Specialty Reinsurance where classes experienced difficult market conditions with falling rates.

We have continued the active management of the underwriting portfolio with a disciplined approach to renewal and new business sustaining our underwriting efforts with a focus on targeted lines where we see opportunity and the ability to leverage rate increases.

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

The Syndicate delivered a combined ratio excluding the effect of foreign exchange on non-monetary items of 96.1% compared to 92.9% in 2013.

Overall underwriting profitability has remained strong reflecting the underwriting discipline and relatively benign level of major events. The increase in combined ratio reflects the challenging rating environment and an increase in expenses payable under the flat fee agreement with the Managing Agent.

Our claims experience has been in line with expectation and, while we have sustained some losses from natural catastrophes (e.g. Hurricane Odile) and man-made events (e.g. the Tripoli airport attack), the claims environment has been benign. Underwriting profitability lies at the heart of our strategy evidenced not only in this year’s strong claims ratio but in the reduction of our attritional ratio over the last five years.

Included within our 2014 reinsurance expenditure was £42.9m in respect of a specific one-off reinsurance contract, entered into to provide adverse development cover for a discontinued professional lines account with exposure to Italian medical malpractice. This contract has provided the group with significantly greater certainty over a poorly performing legacy account. Under the terms of the contract, £40.3m of reserves transferred to the reinsurer.

The investment market environment continues to be challenging and volatile with low interest rates impacting on the overall 2.4% return (2013: 2.0%).

Syndicate outlook

Brit Global Specialty remains a highly focussed specialty insurance and reinsurance business underwriting exclusively through Syndicate 2987. Our stamp capacity has increased to £1.075billion for the 2014 year of account and will remain unchanged for 2015 (2013 YOA: £940m).

Market conditions are increasingly competitive and our continued focus on underwriting performance through a disciplined underwriting philosophy remains paramount. Our highly efficient platform provides us scope to focus on developing underwriting specialty products and enhance our local distribution capabilities to drive future profitable growth.

We continue to attract new underwriting talent to join the business alongside developing our internal talent. The hires have been concentrated in business areas where we see the best opportunity for profitable development and also included the addition of a new aviation team.

Looking forward the financial landscape in which the insurance industry operates continues to offer material challenges, the availability of industry capital is increasing from both traditional and non-traditional sources and we expect this to create further competition and pressure on pricing and conditions in 2015.

We expect 2015 to be another difficult year for the insurance industry but remain committed to navigate these demanding conditions and to continue to innovate and take advantage of opportunities for incremental growth as and when they arise.

We believe an established solid foundation provides us the ability for continued underwriting out-performance.

Principal risks and uncertainties

The information on principal risks and uncertainties is disclosed in note 3 to the accounts.

Offer from Fairfax

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

Employee and environmental matters

All staff in the UK are employed by Brit Group Services Limited, the group services company and the full staff cost disclosures are included in the notes to those accounts. Amounts are recharged to the Syndicate as part of the fixed fee charged by the Managing Agent.

Brit is committed to managing and reducing its environmental impact in a cost effective and responsible way.

Directors

The names of the current Directors of the Managing Agent and those who have served during the year are shown on page 43.

Statement of disclosure of information to auditor

The Syndicate's auditor is Ernst & Young LLP. Each person who is a Director of the Managing agent at the date of approval of this report confirms that:

- so far as the Director is aware, there is no relevant audit information, being information needed by the Syndicate auditor in connection with its report, of which the Syndicate's auditor is unaware; and

- he or she has taken all the steps that he or she is obliged to take as a director in order to make himself or herself aware of any relevant audit information and to establish that the Syndicate's auditor is aware of that information.

Auditor

Ernst & Young LLP is deemed reappointed as the Syndicate's auditor.

On behalf of the Board

Mark Cloutier
Chief Executive Officer
March 2015

Statement of Managing Agent's Responsibilities

The Managing Agent is responsible for preparing the Syndicate annual accounts in accordance with applicable law and regulations.

The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 require the Managing Agent to prepare Syndicate annual accounts at 31 December each year in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The Syndicate annual accounts are required by law to give a true and fair view of the state of affairs of the Syndicate as at that date and of its profit or loss for that year.

In preparing the Syndicate annual accounts, the Managing Agent is required to:

1. select suitable accounting policies and then apply them consistently;
2. make judgements and estimates that are reasonable and prudent;
3. state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the notes to the Syndicate annual accounts; and
4. prepare the Syndicate annual accounts on the basis that the Syndicate will continue to write future business unless it is inappropriate to presume that the Syndicate will do so.

The Managing Agent is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Syndicate and enable it to ensure that the Syndicate annual accounts comply with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. It is also responsible for safeguarding the assets of the Syndicate and hence for taking reasonable steps for prevention and detection of fraud and other irregularities.

The Managing Agent is responsible for the maintenance and integrity of the corporate and financial information included on the business' website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent Auditor's Report to the Member of Syndicate 2987

We have audited the Syndicate's annual accounts of Syndicate 2987 for the year ended 31 December 2014 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Cash Flows and the related notes 1 to 23. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Syndicate's member in accordance with The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. Our audit work has been undertaken so that we might state to the Syndicate's member those matters we are required to state to it in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Syndicate's member, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Managing Agent and the auditor
As explained more fully in the Statement of Managing Agent's Responsibilities set out on page 4, the Managing Agent is responsible for the preparation of Syndicate annual accounts which give a true and fair view. Our responsibility is to audit and express an opinion on the Syndicate annual accounts in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

Opinion on Syndicate annual accounts
In our opinion the annual accounts:

- give a true and fair view of the state of the Syndicate's affairs as at 31 December 2014 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

Opinion on other matter prescribed by the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008
In our opinion the information given in the Report of the Directors of the Managing Agent for the financial year in which the annual accounts are prepared is consistent with the annual accounts.

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 requires us to report to you, if in our opinion:

- the Managing Agent in respect of the Syndicate has not kept adequate accounting records; or
- the Syndicate annual accounts are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit.

Michael Purrington (Senior Statutory Auditor)
For and on behalf of Ernst & Young LLP (Statutory Auditor)
London
March 2015

Profit and Loss Account

Technical Account – General Business for the year ended 31 December 2014

	Notes	**2014 £'000**	2013 £'000
Earned premiums, net of reinsurance**:**			
Gross premiums written	4	**1,303,134**	1,182,847
Outward reinsurance premiums		**(443,983)**	(365,276)
Net premiums written		**859,151**	817,571
Change in the gross provision for unearned premiums		**(50,121)**	(38,236)
Change in the provision for unearned premiums, reinsurers' share		**17,715**	21,415
Net change in the provision for unearned premiums		**(32,406)**	(16,821)
Earned premiums, net of reinsurance		**826,745**	800,750
Allocated investment return transferred from the non-technical account		**46,941**	24,157
Total technical income		**873,686**	824,907
Claims incurred, net of reinsurance:			
Claims paid:			
Gross amount		**(535,193)**	(496,814)
Reinsurers' share		**181,667**	173,238
Net claims paid		**(353,526)**	(323,576)
Change in the provision for claims:			
Gross amount		**(145,093)**	(117,974)
Reinsurers' share		**107,535**	45,557
Net change in the provision for claims		**(37,558)**	(72,417)
Claims incurred, net of reinsurance	5	**(391,084)**	(395,993)
Net operating expenses	6	**(383,935)**	(353,441)
Total technical charges		**(775,019)**	(749,434)
Balance on the technical account for general business		**98,667**	75,473

Profit and Loss Account
Non-Technical Account for the year ended 31 December 2014

	Notes	**2014 £'000**	2013 £'000
Balance on the technical account for general business		**98,667**	75,473
Investment Income		**31,986**	30,122
Unrealised (losses)/gains on investments		**3,349**	(13,601)
Realised gains/(losses) on investments		**11,606**	7,664
Net investment return	9	**46,941**	24,185
Allocated investment return transferred to general business technical account	9	**(46,941)**	(24,157)
Profit for the financial year		**98,667**	75,501

The Syndicate's income and expenses all relate to continuing operations.

The inclusion of unrealised gains and losses in the profit and loss account to reflect the marking to market value of investments in the balance sheet is not deemed to be a departure from the unmodified historical cost basis of accounting and a separate note of historical cost profits and losses is therefore unnecessary.

The Syndicate has no recognised gains and losses other than the profit for the financial year. Accordingly, a separate Statement of Total Recognised Gains and Losses has not been presented.

Balance Sheet
as at 31 December 2014

	Notes	**2014 £'000**	2013 £'000
Assets			
Investments:			
Financial investments	10	**1,099,514**	991,965
		1,099,514	991,965
Reinsurers' share of technical provisions:			
Provision for unearned premium		**155,262**	137,547
Claims outstanding		**769,613**	649,865
		924,875	787,412
Debtors:			
Debtors due within one year:			
Debtors arising out of direct insurance operations	12	**124,833**	133,411
Debtors arising out of reinsurance operations		**310,544**	195,326
Other debtors		**4,642**	4,940
Debtors due after one year:			
Debtors arising out of direct insurance operations	12	**431**	256
Debtors arising out of reinsurance operations		**240**	244
		440,690	334,177
Other assets:			
Cash at bank and in hand		**129,358**	115,698
Other	13	**175,285**	194,931
		304,643	310,629
Prepayments and accrued income:			
Deferred acquisition costs		**135,704**	126,171
Other prepayments and accrued income		**3,235**	3,641
		138,939	129,812
Total assets		**2,908,661**	2,553,995

Balance Sheet
as at 31 December 2014

	Notes	**2014 £'000**	2013 £'000
Liabilities			
Capital and reserves:			
Member balance	14	**65,294**	5,067
		65,294	5,067
Technical provisions:			
Provision for unearned premium		**546,439**	496,319
Claims outstanding		**2,059,950**	1,855,699
		2,606,389	2,352,018
Creditors:			
Creditors arising out of direct insurance operations	15	**6,655**	14,738
Creditors arising out of reinsurance operations		**213,557**	160,947
Derivative contracts	11	**1,264**	6,864
Other creditors		**5,521**	6,385
		226,997	188,934
Accruals and deferred income		**9,981**	7,976
Total liabilities		**2,908,661**	2,553,995

The annual accounts on pages 6 to 42 were approved by the Board of Brit Syndicates Limited on March 2015 and signed on its behalf by:

Mark Cloutier
Chief Executive Officer

Andrew Baddeley
Chief Financial Officer

Statement of Cash Flows
For the year ended 31 December 2014

	Notes	**2014 £'000**	2013 £'000
Net cash inflow from operating activities	16	**104,068**	142,157
Transfer to member in respect of underwriting participations		**(34,673)**	(44,607)
Receipt on account in respect of overseas taxation	14	**(3,760)**	7,969
		65,635	105,519
Cash flows were invested as follows:			
Increase in cash holdings	17	**10,360**	19,207
Decrease in overseas deposits	17	**(21,422)**	(17,526)
Increase in portfolio investments	17	**76,697**	103,838
Net investment of cash flows		**65,635**	105,519

Note **1** **Basis of preparation**

These annual accounts have been prepared in accordance with The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, and applicable Accounting Standards in the United Kingdom. The recommendations of the Statement of Recommended Practice on Accounting for Insurance Business issued in December 2005 (as amended in December 2006) by the Association of British Insurers have been adopted, except that exchange differences are dealt within the technical account – for general business (the Technical Account), as there are no non-technical items. Certain prior period items have been represented to conform to current period presentation.

Product classification

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

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

Note **2** **Accounting policies**

Basis of accounting

a) Underwriting activities

The results for all classes of business have been determined on an annual basis whereby the incurred cost of claims, commission and related expenses are charged against the earned proportion of premium written, net of reinsurance as follows:

(i) Premiums written relate to business incepted during the year, together with any differences between booked premiums for prior years and those previously accrued, and include estimates of premiums due but not yet received or notified, less an allowance for cancellations. Premiums are accreted to the Technical Account on a pro rata basis over the term of the related policy, except for those contracts where the period of the risk differs significantly from the contract period. In these circumstances, premiums are recognised over the period of risk in proportion to the amount of insurance protection provided. Reinstatement premiums are accreted to the Technical Account on a pro rata basis over the term of the original policy to which it relates.

(ii) Unearned premiums represent the proportion of premiums written in the year that relate to unexpired terms of policies in force at the balance sheet date, generally calculated on a time apportioned basis. The movement in the provision is taken to the Technical Account in order that revenue is recognised over the period of the risk.

(iii) Profit commission income arising from whole account quota share contracts is recognised when the economic benefits are highly probable.

(iv) Acquisition costs represent commission and other expenses arising from the conclusion of insurance contracts. They are capitalised and amortised over the life of the policy to which they relate on a basis consistent with the earnings pattern of that policy.

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

(vi) Claims outstanding represent the estimated ultimate cost of settling all claims (including direct and indirect claims settlement costs) arising from events which have occurred up to the balance sheet date, including IBNR, less any amounts paid in respect of those claims. Claims outstanding are reduced by anticipated salvage and other recoveries.

The ultimate cost of outstanding claims is based on statistical techniques of estimation applied by the Syndicate's internal actuaries. The primary sensitivity in these methods is the assumption that past experience is indicative of the final outcome of current business and, where past experience is insufficient, that the market benchmarks are representative of the Syndicate's own underwriting.

Claims provisions have been established on an individual class of business basis. The underwriting and management teams conduct a quarterly review of each class of business. Claims are projected to the ultimate position and provision is made for known claims and claims incurred but not reported.

Whilst the Directors consider that the estimate of claims outstanding is fairly calculated on the basis of the information currently available to them, there is inherent uncertainty in relation to the ultimate liability which will vary as a result of subsequent information and events. Adjustments to the amounts of the claims provisions established in prior years are reflected in the profit and loss account for the period in which the adjustments are made.

(vii) Unexpired risks provision: provision is made for any deficiencies arising when unearned premiums, net of related deferred acquisition costs, are insufficient to meet expected claims and expenses after taking into account future investment return on the investments supporting the unearned premiums provision and unexpired risks provision. The expected claims are calculated having regard to events that have occurred up to the balance sheet date.

Unexpired risk surpluses and deficits are offset where business classes are managed together and a provision is made if an aggregate deficit arises.

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

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

Gains or losses on buying reinsurance are recognised immediately in the Technical Account and not subject to amortisation.

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

(ix) Net operating expenses: the Managing Agent has charged the Syndicate a fixed fee and has borne all the management expenses of the Syndicate, other than those related to the direct cost of underwriting. Any internal or external claims adjustment or settlement costs are included within gross claims paid.

b) Other accounting policies

Investments

(i) Investments

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

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

Gains and losses on investments designated as FVTPL are recognised through the profit and loss account. Investments are held on the Balance Sheet at fair value.

(ii) Investment return

Investment return comprises all investment income, realised investment gains and losses and movements in unrealised gains and losses, charges and interest.

Realised gains and losses on investments carried at market value are calculated as the difference between sale proceeds and purchase price and are recognised when the sale transaction occurs. Unrealised gains and losses on investments represent the difference between the valuation at the balance sheet date and their valuation at the previous balance sheet date, or purchase price, if acquired during the year, together with the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current period.

Investment return is initially recorded in the non-technical account. A transfer is made from the non-technical account to the general business technical account to reflect the investment return on funds supporting underwriting business. All investment return is considered to arise on such funds except to the extent that investment income arises on Funds at Lloyd's retained at the syndicate level; that income remains in the non-technical account.

(iii) Recognition and derecognition of financial assets and financial liabilities

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

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

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

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

(iv) Impairment

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

(v) Derivatives

Derivative financial instruments are currency forward contracts, futures and interest rate swaps. Derivatives are initially and subsequently measured at their fair value with movements in the fair value being immediately recognised in the income statement. Fair values are obtained from quoted market prices, discounted cash flow models, risk models and option pricing models as appropriate.

Taxation

Under Schedule 19 of the Finance Act 1993, Managing Agents are not required to deduct basic rate income tax from trading income. In addition, all UK basic rate income tax deducted from Syndicate investment income is recoverable by Managing Agents and consequently the distribution made to members or their members' agents is gross of tax. Capital appreciation falls within trading income and is also distributed gross of tax.

No provision has been made for any United States Federal Income Tax payable on underwriting results or investment earnings. Any payments on account made by the Syndicate during the year are included in the balance sheet under the heading 'member balance'.

No provision has been made for any overseas tax payable by members on underwriting results.

Pension costs

The Managing Agent operates a defined contribution pension scheme. Contributions are charged to the Syndicate within the fixed fee.

Foreign currencies

The annual accounts are presented in Sterling which is the Syndicate's functional currency. Items included in the annual accounts are measured using the functional currency which is the primary economic environment in which the Syndicate operates.

Transactions in foreign currencies other than Sterling, United States Dollars, Canadian Dollars and Euros are translated at the rate of exchange ruling at the date the transaction is processed. Unless otherwise stated, transactions in United States Dollars, Canadian Dollars and Euros are translated at the average rates of exchange for the period. Monetary assets and liabilities in currencies other than Sterling are translated at the rate of exchange ruling at 31 December of each year. Unearned premiums and deferred acquisition costs are non-monetary assets and liabilities and accordingly are not retranslated from the historic rates. Exchange profits or losses arising on the translation of foreign currency amounts relating to the Syndicate insurance operations are included within net operating expenses in the technical account.

Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously.

Note **3** Principal risks and uncertainties

Risk management overview

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

The risks arising from any of the business activities are managed in line with the Group Risk Management Framework (RMF) in order to protect policyholders and maximise shareholder value. This established framework addresses all the risks surrounding the organisation's activities past, present and, in particular, future. It sets out risk management standards, risk appetite and provides a consistent methodology and structure to the way in which the risks are identified, measured and managed.

The key elements of the RMF are set out below:

- **Identification:** Risk events, risks and relevant controls are identified, classified and recorded in the risk register. This is a continuous process which considers any emerging and existing risks.
- **Measurement:** Risks are assessed and quantified and controls are evaluated. This is done through a combination of stochastic modelling techniques, stress and scenario analysis, reverse stress testing and qualitative assessment using relevant internal and external data.
- **Management:** The information resulting from risk identification and measurement is used to improve how the business is managed.

These elements of the framework are supported by appropriate governance, reporting management information, policies, culture, and systems.

The framework applies across all risk categories and is managed by the Chief Risk Officer (CRO). The ownership of many of the day-to-day activities is delegated to the relevant risk committee and members of the risk management team. The key categories of risk include: insurance, market, credit, liquidity and operational risks defined in line with IFRS requirements.

The RMF operates at the Group and Syndicate level. The key governance bodies in the risk management process in the Syndicate are set out below:

- The BSL Board, which is responsible for setting business and risk strategy and ensuring the principal risks and uncertainties facing the Syndicate are managed;
- The committees of the Brit Insurance Holdings Limited Board, including the Risk Oversight Committee and the Audit Committee;
- Executive Management which is responsible for the management of the overall risk profile within the agreed limits;
- The individual risk committees, which reflect the risk categories and are responsible for the management and monitoring of each risk against appetite. These committees include the Underwriting Committee, the Reserving Committee, the Investment Committee, the Credit Committee and the Operational Risk Working Group.

The key risk exposures for the individual categories and how these are managed are discussed in the sections below.

Insurance risk

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

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

(i) Underwriting risk

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

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

The Syndicate writes all of its business through Lloyd's and therefore can take advantage of Lloyd's centralised infrastructure and service support. Lloyd's also has an established global distribution framework, with extensive licensing agreements providing the Syndicate access to over 200 territories. Exclusively using the Lloyd's platform subjects the Syndicate to a number of resulting underwriting risks.

Controls over underwriting strategy

The Board sets the Syndicates' underwriting strategy for accepting and managing underwriting risk. The Underwriting Committee chaired by an independent non-executive Director, meets quarterly and is responsible for the management of underwriting risk in line with the RMF using specific measurable targets/actions and any breaches are reported to Executive Management, the Risk Oversight Committee and the Board.

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

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

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

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

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

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

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

Underwriting risk profile

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

The Syndicate underwrites a well diversified portfolio across multiple regions and classes. The breakdown of premiums before and after reinsurance by the geographic location is summarised below:

Geographical concentration of premium

The Syndicate enters into policies with policyholders from all over the world, with the underlying risk relating to premiums spread worldwide. This allows the Syndicate to benefit from a wide geographic diversification of risk. The three principal locations of the Syndicate's policyholders are the United States, UK and Ireland and mainland Europe. The concentration of insurance premium before and after reinsurance by the location of the underlying risk is summarised below:

Region **2014**	**Gross premiums written £'000**	**Net premiums written £'000**
United States	501,414	344,579
United Kingdom	96,643	55,827
Europe (excluding UK)	84,045	31,712
Other (including worldwide)	621,032	427,033
Total	**1,303,134**	**859,151**

Region **2013**	**Gross premiums written £'000**	**Net premiums written £'000**
United States	421,671	288,139
United Kingdom	94,115	61,164
Europe (excluding UK)	62,131	37,576
Other (including worldwide)	604,930	430,692
Total	**1,182,847**	**817,571**

Portfolio mix

The Syndicate's breakdown of premium before reinsurance by principal categories is summarised below:

Category	Principal lines of business	2014 Gross premiums written		2013 Gross premiums written	
		£'000	%	£'000	%
Short tail direct insurance	Property, Marine, Energy, Accident & Health, BGSU, Aerospace, Terrorism and Political	717,542	55%	599,190	51%
Long tail direct insurance	Professional lines, Specialty lines, Specialist liability	339,138	26%	305,239	26%
Short tail Reinsurance	Property Treaty	109,658	8%	139,639	12%
Long tail Reinsurance	Casualty Treaty	136,855	11%	137,374	11%
Other	Other underwriting and other corporate	(59)	0%	1,405	0%
Total		**1,303,134**	**100%**	**1,182,847**	**100%**

The Syndicate underwrites a business mix of both insurance and reinsurance, long and short tailed business across a number of geographic areas which results in a diversification of the Syndicate's portfolio. The business mix is monitored on an ongoing basis with particular focus on the short tail vs. long tail split and the proportion of delegated underwriting business. Long tail business is currently 37% of the portfolio as at 31 December 2014 and delegated underwriting represents approximately 38%. Long tail business was 37% of the portfolio as at 31 December 2013 and delegated underwriting was approximately 36%.

Aggregate exposure management

The Syndicate is exposed to the potential of large claims from natural catastrophe events. The Syndicate's catastrophe risk appetite is set by the Board who may adjust limits to reflect market conditions. Overall, the Syndicate has a catastrophe risk tolerance for major catastrophe events (such as a Florida Miami Windstorm) of 30% of the Group's net tangible assets (NTA). This equates to a maximum acceptable loss (after all reinsurance) of £184m as at 31 December 2014.

The Syndicate closely monitors aggregation of exposure to natural catastrophe events against agreed risk appetites using stochastic catastrophe modelling tools, along with knowledge of the business, historical loss information, and geographical accumulations. Analysis and monitoring also measures the effectiveness of the Syndicate's reinsurance programmes. Stress and scenario tests are also run, such as Lloyd's and internally developed Realistic Disaster Scenarios (RDS).

Below are the key RDS losses to the Syndicate for all classes combined (in GBP millions):

Lloyd's Prescribed RDS Event	**Estimated Industry Loss**	**Modelled Syndicate Loss 2014[i]**		**Modelled Syndicate Loss 2013[i]**	
		Gross	**Net**	**Gross**	**Net**
Gulf of Mexico Windstorm	71,474	449	88	349	119
Florida Miami Windstorm	80,128	346	65	262	66
US North East Windstorm	50,000	388	66	304	106
San Francisco Earthquake	50,000	382	91	273	71
Japan Earthquake	26,745	117	69	93	41
Japan Windstorm	8,024	55	37	47	27
European Windstorm	17,829	140	64	148	63

[i] At 31 December 2014 exchange rates

Actual results may differ materially from the losses above given the significant uncertainties with respect to these estimates. Moreover, the portfolio of insured risks changes dynamically over time. There could also be unmodelled losses which result in actual losses exceeding these figures.

Sensitivity to changes in net claims ratio

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

Category	**Movement in profit Year ended 31 December 2014**		**Movement in profit Year ended 31 December 2013**	
	£'000	**%**	**£'000**	**%**
Short tail direct insurance	4,313	53%	4,235	53%
Long tail direct insurance	2,166	26%	1,834	23%
Short tail Reinsurance	622	8%	825	10%
Long tail Reinsurance	1,075	13%	1,136	14%
Other	-	0%	-	0%
Total	**8,176**	**100%**	**8,030**	**100%**

The impact on member's balance would be the same as that on profit following a change in the net claims ratio.

(ii) Reinsurance

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

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

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

a) Facultative reinsurance is used to reduce risk relating to individual contracts. The amount of cover bought varies by class of business. Facultative reinsurance is also used as a tool to manage the net line size on individual risks to within tolerance.

b) Risk excess of loss reinsurance is used to protect a range of individual inwards contracts which could give rise to individual large claims. The optimal net retention per risk is assessed for each class of business given the Syndicate’s risk appetite during the business planning exercise.

c) An aggregate catastrophe excess of loss cover is in place to protect the Syndicate against combined property claims from multiple policies resulting from catastrophe events. This is supplemented by specific covers for peril regions, catastrophe swaps and industry loss warranties where they are a cost-efficient means to ensure that the Syndicate remains within its catastrophe risk appetite.

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

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

- It is possible for extremely severe catastrophe losses to exhaust the reinsurance purchased. Any losses exceeding the reinsurance protection would be borne by the Syndicate.

- Some parts of the programme have limited reinstatements which limit the amount that may be recovered from second or subsequent claims. If the entirety of the cover is exhausted, it may not be possible to purchase additional reinsurance at a reasonable price.

- A dispute may arise with a reinsurer which may mean the recoveries received are lower than anticipated.

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

(iii) Reserving risk

Reserving risk arises as the actual cost of losses for policyholder obligations incurred before 31 December 2014 from the established reserves due to inaccurate assumptions or unforeseen circumstances. This is a key risk for the Syndicate as the reserves for unpaid losses represent the largest component of the Syndicates' liabilities and are inherently uncertain. The Reserving Committee is responsible for the management of Syndicate's reserving risk.

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

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

The Syndicate's reserving policy sets out the approach to estimating claims provisions and is designed to produce accurate and reliable estimates that are consistent over time and across classes of business. The actuarial best estimate set out in the policy is subject to sign-off by the Reserving Committee, chaired by the Chief Financial Officer and reporting to the Executive Management Committee, as part of the formal governance arrangements for the Syndicate. The estimate agreed by the committees is used as a basis for the Syndicate financial statements. A management risk margin is also applied over and above the actuarial best estimate to allow for the inherent uncertainty within the best estimate reserve position and wider inherent uncertainty across the economic and insurance environment. This margin increases the reserves reflected in the Syndicate financial statements above the mean expectation. Finally, the reserves in the financial statements are presented to the Audit Committee for recommendation to the BSL Board who are responsible for the final sign-off. The reserves are subject to an independent external actuarial review at least annually.

The reserves can be more or less than is required to meet the claims arising from earned business. The level of uncertainty varies significantly between the classes written by the Syndicate but typically is highest for those classes where there are significant delays in the settlement of the final claim amount. More specifically, the key areas of uncertainty within the Syndicate's reserves are considered to be claims from the casualty treaty and specialty liability classes. The issues contributing to this heightened uncertainty are common to all entities which write such business.

Liquidity risk

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

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

The Syndicate also limits the amount of investment in illiquid securities. This involves ensuring sufficient liquidity to withstand claim scenarios at the extreme end of business plan projections by reference to modelled Realistic Disaster Scenarios. Contingent liquidity also exists in the form of the Group's revolving credit facility.

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

31 December 2014

		Fair values					
Assets	**Balance Sheet**	**Up to a year**	**1-3 years**	**3-5 years**	**Over 5 years**	**Equities**	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Reinsurance assets	769,613	213,127	250,687	130,109	175,690	-	769,613
Financial investments	1,096,133	373,383	242,328	175,896	304,526	-	1,096,133
Derivative contracts	3,381	3,381	-	-	-	-	3,381
Insurance receivables	436,048	436,048	-	-	-	-	436,048
Cash at bank and in hand	129,358	129,358	-	-	-	-	129,358
Other	175,285	87,390	69,125	17,396	1,374	-	175,285
	2,609,818	1,242,687	562,140	323,401	481,590	-	2,609,818

		Undiscounted values					
Liabilities	**Balance Sheet**	**Up to a year**	**1-3 years**	**3-5 years**	**Over 5 years**	**Equities**	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Insurance contract liabilities	2,059,950	569,250	671,896	349,578	469,226	-	2,059,950
Derivative contracts	1,264	1,264	-	-	-	-	1,264
Insurance & other payables	235,714	235,714	-	-	-	-	235,714
	2,296,928	806,228	671,896	349,578	469,226	-	2,296,928

31 December 2013

		Fair values					
Assets	**Balance Sheet**	**Up to a year**	**1-3 years**	**3-5 years**	**Over 5 years**	**Equities**	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Reinsurance assets	649,865	188,531	218,232	111,136	131,966	-	649,865
Financial investments	986,961	221,572	335,796	168,947	260,646	-	986,961
Derivative contracts	5,004	5,004	-	-	-	-	5,004
Insurance receivables	329,237	329,237	-	-	-	-	329,237
Cash at bank and in hand	115,698	115,698	-	-	-	-	115,698
Other	194,931	87,715	71,535	34,053	1,627	-	194,931
	2,281,696	947,757	625,564	314,136	394,239	-	2,281,696

		Undiscounted values					
Liabilities	**Balance Sheet**	**Up to a year**	**1-3 years**	**3-5 years**	**Over 5 years**	**Equities**	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Insurance contract liabilities	1,855,699	532,667	613,025	317,462	392,545	-	1,855,699
Derivative contracts	6,864	6,864	-	-	-	-	6,864
Insurance & other payables	190,046	190,046	-	-	-	-	190,046
	2,052,609	729,577	613,025	317,462	392,545	-	2,052,609

Credit risk

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

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

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

(i) Investments credit risk

Investment credit risk management process

The Investment Committee chaired by the Group CEO is responsible for the management of investment credit risk. The Investment Guidelines and Investment policy set out clear limits and controls around the level of investment credit risk. The Syndicate has established concentration guidelines that restrict the exposure to any individual counterparty. The investment guidelines further limit the type, credit quality and maturity profile of both the Syndicate's cash and investments. In addition, the investment risk framework further limits potential exposure to credit risk through monitoring of the aggregate investment risk limits.

Investment credit risk profile

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

£'000	Govn	AAA	AA	A	P-1	P-2	BBB and below	Equities	Not Rated	Total
As at 31 December 2014										
Financial Investments	195,067	19,439	109,168	437,190	9,463	-	189,913	-	135,893	**1,096,133**
Derivative contracts	-	-	-	-	-	-	-	-	3,381	**3,381**
Cash at bank and in hand	-	85,627	-	4,564	31,281	7,886	-	-	-	**129,358**
Other	103,992	8,313	14,669	15,648	31,753	-	-	-	910	**175,285**
Total	299,059	113,379	123,837	457,402	72,497	7,886	189,913	-	140,184	**1,404,157**
As at 31 December 2013										
Financial Investments	261,313	28,800	101,296	414,606	-	-	89,428	-	91,518	**986,961**
Derivative contracts	-	-	-	-	-	-	-	-	5,004	**5,004**
Cash at bank and in hand	-	84,713	-	-	18,967	12,018	-	-	-	**115,698**
Other	120,374	31,505	19,595	18,784	-	-	-	-	4,673	**194,931**
Total	381,687	145,018	120,891	433,390	18,967	12,018	89,428	-	101,195	**1,302,594**

(ii) Insurance Credit Risk

Insurance Credit Risk Management Process

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

Reinsurer credit risk is managed by transacting only with reinsurance counterparties that satisfy a minimum level of financial strength or provide appropriate levels of collateral, and have been approved for use by the Reinsurance Security Committee. The reinsurer security list, which sets out the list of approved reinsurance counterparties, is reviewed at least annually and following any significant change in risk profile, which includes any changes to reinsurers' financial ratings. Credit risk appetite limits are set for reinsurance entities and groups to limit accumulations of risk. These positions are monitored quarterly against current balance sheet exposures and in relation to a number of extreme loss scenarios.

Reinsurance aged debt is monitored and managed against tolerance limits set by the Board. A bad debt provision is held against all non-rated reinsurers or any reinsurer where there is deemed to be a specific risk of non-payment.

Any breaches of credit risk appetite are reported to the Risk Oversight Committee and the Board on at least a quarterly basis.

Insurance Credit Risk Profile

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

£'000	AAA	AA	A	BBB and below	Collateral	Not Rated	**Total**
As at 31 December 2014							
Reinsurance on claims outstanding	447	201,815	213,184	-	342,651	11,516	**769,613**
Insurance and reinsurance receivables	-	-	-	-	-	436,048	**436,048**
Total	**447**	**201,815**	**213,184**	**-**	**342,651**	**447,564**	**1,205,661**
As at 31 December 2013							
Reinsurance on claims outstanding	16	174,494	188,924	6,489	255,338	24,604	**649,865**
Insurance and reinsurance receivables	-	-	-	-	-	329,237	**329,237**
Total	**16**	**174,494**	**188,924**	**6,489**	**255,338**	**353,841**	**979,102**

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

Collateral of £569.1m (2013: £310.3m) is held in third party trust accounts or as a Letter of credit (LOC) to guarantee Syndicate 2987 against reinsurance counterparties and is available for immediate drawdown in the event of a default. Of this amount, £342.7m (2013: £255.3m) had been drawn against reinsurance assets at 31 December 2014.

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

£'000	**Impairment Provision against Reinsurance Assets**	**Impairment Provision against Insurance Receivables**
2014		
At 1 January 2014	769	6,481
(Release)/strenghtening for the year	(122)	1,998
Net Foreign Exchange Differences	(13)	343
At 31 December 2014	634	8,822
2013		
At 1 January 2013	416	6,361
Strengthening for the year	352	231
Net Foreign Exchange Differences	1	(111)
At 31 December 2013	769	6,481

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

	31 December 2014 £'000	31 December 2013 £'000
0-3 months past due	9,131	7,498
4-6 months past due	2,182	1,732
7-9 months past due	591	1,344
10-12 months past due	240	1,033
More than 12 months past due	538	1,756
Total	**12,682**	**13,363**

Market risk

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

(i) Currency risk

Currency risk is the risk that the fair value of assets and liabilities or future cash flows will fluctuate as a result of movements in the rates of foreign exchange. As the Syndicate reporting currency is Sterling it is exposed to currency risk because it underwrites insurance business internationally, dealing in five main currencies: US dollars, Sterling, Canadian dollars, Euros and Australian dollars.

The split of assets and liabilities for each of the Syndicate's main currencies is set out in the tables below:

Converted £'000	**UK £**	**US $**	**CAD $**	**EUR €**	**AUD $**	**Total**
As at 31 December 2014						
Total assets	731,833	1,560,762	287,779	261,433	66,854	**2,908,661**
Total liabilities	(615,479)	(1,771,626)	(168,083)	(221,325)	(66,854)	**(2,843,367)**
Net assets	**116,354**	**(210,864)**	**119,696**	**40,108**	**-**	**65,294**
As at 31 December 2013						
Total assets	651,509	1,362,019	252,670	197,963	89,833	**2,553,995**
Total liabilities	(563,690)	(1,506,776)	(165,043)	(223,585)	(89,833)	**(2,548,928)**
Net assets	**87,819**	**(144,756)**	**87,626**	**(25,622)**	**-**	**5,067**

The non-Sterling denominated net assets of the Syndicate may lead to a reported loss (depending on the mix relative to the liabilities), should Sterling strengthen against these currencies. Conversely, reported gains may arise should Sterling weaken.

The Syndicate matches its currency position so holds net assets across a number of currencies. The Syndicate takes into consideration the underlying currency of the Syndicate's required capital and invests its assets proportionately across these currencies so as to protect the solvency of the Syndicate, against variation in foreign exchange rates. As a result, the Syndicate holds a significant proportion of its assets in foreign currency investments.

In part, foreign currency forward contracts are used to achieve the desired exposure to each currency. From time to time the Syndicate may also choose to utilise options on foreign currency derivatives to mitigate the risk of reported losses due to changes in foreign exchange rates. The degree to which options are used is dependent on the prevailing cost versus the perceived benefit to shareholder value from reducing the chance of a reported loss due to changes in foreign currency exchange rates. The details of all foreign currency derivatives contracts entered into are given in note 11.

As a result of the accounting treatment for non-monetary items, the Syndicate may also experience volatility in its income statement due to fluctuations in exchange rates. In accordance with FRS 23, non-monetary items are recorded at original transaction rates and are not revalued at the reporting date. These items include unearned premiums, deferred acquisition costs and reinsurers' share of unearned premiums. Consequently, a mismatch arises in the income statement between the amount of premium recognised at historical transaction rates, and the related claims that are valued using foreign exchange rates in force at the reporting date. The Syndicate considers this to be a timing issue which can cause volatility in the profit and loss account.

Sensitivity to changes in foreign exchange rates

The table below gives an indication of the impact on profit of a percentage change in the relative strength of Sterling against the value of the US dollar, Canadian dollar, Euro and Australian dollar simultaneously. The analysis is based on the information as at 31st December 2014.

£'000	**Impact on profit before tax and net assets**	
	2014	**2013**
Sterling weakens		
10% against other currencies	33,262	14,470
20% against other currencies	66,524	28,940
Sterling strengthens		
10% against other currencies	(33,262)	(14,470)
20% against other currencies	(66,524)	(28,940)

(ii) Interest rate risk and price risk

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

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

	Duration					
£'000	1 year or less	1 to 3 years	3 to 5 years	Over 5 years	Equities	**Total**
As at 31 December 2014						
Cash at bank and in hand	129,358	-	-	-	-	**129,358**
Financial Investments	373,383	242,328	175,896	304,526	-	**1,096,133**
Derivatives	3,381	-	-	-	-	**3,381**
Other	87,390	69,125	17,396	1,374	-	**175,285**
Total	593,512	311,453	193,292	305,900	-	**1,404,157**
As at 31 December 2013						
Cash at bank and in hand	115,698	-	-	-	-	**115,698**
Financial Investments	221,572	335,796	168,947	260,646	-	**986,961**
Derivatives	5,004	-	-	-	-	**5,004**
Other	87,716	71,535	34,053	1,627	-	**194,931**
Total	429,990	407,331	203,000	262,273	-	**1,302,594**

The Syndicate takes into account the duration of its required capital, targeting an investment portfolio duration that, under a variation in interest rates, preserves the solvency ratio of the Syndicate. The duration of the investment portfolio is then set within an allowable range relative to the targeted duration. This is achieved by the use of interest rate derivatives.

Insurance payables and derivatives have a duration of 1 year or less.

Insurance liabilities are measured on an undiscounted basis, the reported liabilities are not sensitive to changes in interest rates.

Sensitivity to changes in investment yields

The sensitivity of the profit and net assets to the changes in the investment yields is set out in the table below. The analysis is based on the information as at 31st December 2014.

£'000	**Impact on profit before tax**	
	2014	**2013**
Increase		
25 basis points	(4,206)	(5,688)
50 basis points	(8,413)	(11,375)
100 basis points	(16,826)	(22,750)
Decrease		
25 basis points	4,206	5,688
50 basis points	8,413	11,375
100 basis points	16,826	22,750

Capital risk management

The Lloyd's corporate member is required to procure capital at Lloyd's which is held in trust and known as Funds at Lloyd's (FAL). These funds are intended primarily to cover circumstances where syndicate assets prove insufficient to meet participating members' underwriting liabilities. FAL is determined by reference to a Syndicate Capital Requirement to Ultimate (SCR to Ultimate), which is a risk-based capital assessment based upon the Syndicate's specific circumstances. The SCR to Ultimate is prepared annually by the Managing Agent and agreed with Lloyd's. The SCR to Ultimate is subject to an uplift to ensure that syndicates maintain capital commensurate with the Lloyd's S&P credit rating of A+ and results in an Economic Capital Assessment (ECA) for Syndicate 2987.

The SCR to Ultimate is calculated using a stochastic risk-based capital model developed by the Brit Group which allows the Board of the Managing Agent to identify an appropriate level of capital required. This capital requirement is specific to the actual reserving history, reinsurance programme and business profile of Syndicate 2987 rather than being based on company market averages. The Board of the Managing Agent reviews and approves all capital modelling submissions to Lloyd's.

The FAL provided by the Syndicate takes account of any estimated surpluses or expected losses in respect of open years. Consequently the actual FAL provided may be higher or lower than the ECA.

Note **4** Segmental information

An analysis of the underwriting result before investment return is set out below:

	Year ended 31 December 2014							
	Gross written premiums £'000	Gross premiums earned £'000	Gross claims incurred £'000	Gross operating expenses £'000	Reinsurance balance £'000	Total £'000	Net technical provisions £'000	Commissions on gross Premiums Earned £'000
Direct Insurance:								
Accident and health	**17,657**	**17,592**	**(8,668)**	**(7,552)**	**(545)**	**827**	**18,921**	**(6,001)**
Motor (other classes)	**0**	**0**	**795**	**(0)**	**(10)**	**785**	**(1,560)**	**0**
Marine aviation and transport	**151,374**	**144,514**	**(85,948)**	**(44,041)**	**(6,077)**	**8,448**	**149,337**	**(32,015)**
Fire and other damage to property	**269,306**	**247,665**	**(99,027)**	**(89,597)**	**(38,565)**	**20,476**	**173,221**	**(64,747)**
Third party liability	**280,409**	**275,028**	**(207,665)**	**(82,591)**	**(6,282)**	**(21,510)**	**588,137**	**(58,969)**
Miscellaneous	**83,165**	**88,217**	**(38,029)**	**(45,972)**	**(7,498)**	**(3,282)**	**45,236**	**(37,190)**
	801,911	**773,016**	**(438,542)**	**(269,753)**	**(58,977)**	**5,744**	**973,292**	**(198,922)**
Reinsurance	**501,223**	**479,997**	**(241,744)**	**(140,074)**	**(52,197)**	**45,982**	**708,222**	**(95,595)**
Total	**1,303,134**	**1,253,013**	**(680,286)**	**(409,827)**	**(111,174)**	**51,726**	**1,681,514**	**(294,517)**

Note **4** **Segmental information continued**

Year ended 31 December 2013

	Gross Written Premiums £'000	Gross premiums earned £'000	Gross claims incurred £'000	Gross operating expenses £'000	Reinsurance balance £'000	Total £'000	Net technical provisions £'000	Commissions on gross premiums earned £'000
Direct Insurance:								
Accident and health	**19,772**	**20,081**	**(10,118)**	**(8,767)**	**(485)**	**711**	**15,067**	**6,883**
Motor (other classes)	**246**	**246**	**(255)**	**(29)**	**135**	**97**	**-**	**29**
Marine aviation and transport	**139,668**	**140,160**	**(92,234)**	**(47,873)**	**(2,606)**	**(2,553)**	**159,053**	**31,756**
Fire and other damage to property	**233,251**	**218,628**	**(77,240)**	**(81,731)**	**(38,239)**	**21,418**	**174,841**	**56,678**
Third party liability	**212,369**	**208,478**	**(172,220)**	**(68,138)**	**12,366**	**(19,514)**	**491,979**	**42,867**
Miscellaneous	**78,567**	**62,134**	**(30,595)**	**(32,138)**	**(3,091)**	**(3,690)**	**31,592**	**26,728**
	683,873	**649,727**	**(382,662)**	**(238,676)**	**(31,920)**	**(3,531)**	**872,532**	**164,941**
Reinsurance	**498,974**	**494,884**	**(232,126)**	**(144,663)**	**(63,248)**	**54,847**	**692,074**	**92,566**
Total	**1,182,847**	**1,144,611**	**(614,788)**	**(383,339)**	**(95,168)**	**51,316**	**1,564,606**	**257,507**

All premiums were concluded in the UK.

The geographical analysis of premiums by the location of the underlying risk is as follows:

	2014 £'000	2013 £'000
United Kingdom	**96,643**	94,115
Europe (excluding UK)	**84,045**	62,131
United States	**501,414**	421,671
Other (including worldwide)	**621,032**	604,930
	1,303,134	1,182,847

Year-ended 31 December 2014	**Brit Global Specialty Direct £'000**	**Brit Global Speciality Reinsurance £'000**	**Other Under-writing £'000**	**Total underwriting £'000**	**Effect of foreign exchange on non-monetary items £'000**	**Total £'000**
Gross premiums written	1,056,680	246,513	(59)	1,303,134	-	1,303,134
Net premiums written	690,463	168,740	(52)	859,151	-	859,151
Net premiums earned	647,909	169,623	(48)	817,484	9,261	826,745
Claims incurred, net of reinsurance	(317,618)	(76,987)	3,521	(391,084)	-	(391,084)
Net operating expenses	(335,073)	(59,856)	122	(394,807)	10,872	(383,935)
Underwriting result	**(4,782)**	**32,780**	**3,595**	**31,593**	**20,133**	**51,726**
Investment return	33,597	13,075	269	46,941	-	46,941
Balance on technical account	**28,815**	**45,855**	**3,864**	**78,534**	**20,133**	**98,667**
Claims ratio	49.0%	45.4%	7335.4%	47.8%		47.3%
Expense ratio	51.7%	35.3%	254.2%	48.3%		46.4%
Combined ratio	100.7%	80.7%	7589.6%	96.1%		93.7%

Note **4** Segmental information continued

Year-ended 31 December 2013	Brit Global Specialty Direct £'000	Brit Global Speciality Reinsurance £'000	Other Under-writing £'000	Total underwriting £'000	Effect of foreign exchange on non-monetary items £'000	Total £'000
Gross premiums written	904,429	277,013	1,405	1,182,847	-	1,182,847
Net premiums written	626,438	191,576	(443)	817,571	-	817,571
Net premiums earned	606,964	196,056	(112)	802,908	(2,158)	800,750
Claims incurred, net of reinsurance	(304,108)	(92,036)	151	(395,993)	-	(395,993)
Net operating expenses	(286,631)	(62,496)	(510)	(349,637)	(3,804)	(353,441)
Underwriting result	**16,225**	**41,524**	**(471)**	**57,278**	**(5,962)**	**51,316**
Investment return	17,510	6,457	190	24,157	-	24,157
Balance on technical account	**33,735**	**47,981**	**(281)**	**81,435**	**(5,962)**	**75,473**
Claims ratio	50.1%	46.9%	134.8%	49.3%		49.5%
Expense ratio	47.2%	31.9%	(455.3)%	43.6%		44.1%
Combined ratio	97.3%	78.8%	(320.5)%	92.9%		93.6%

Note **5** Claims outstanding

A net aggregate release of £8.7m (2013: £12.4m release) to the net reserves for claims outstanding, set at 31 December 2013 was made in calendar year 2014 as a result of the claims experience over the prior years.

The Brit Global Specialty Direct portfolio experienced a strengthening of £0.9m (2013: £2.8m release), the RI portfolio a £7.0m release (2013: £10.7m release) and a £2.6m release (2013: £1.1m strengthening) from Other Underwriting.

Note **6** Net operating expenses

	2014 £'000	2013 £'000
Acquisition costs	**304,050**	270,934
Change in deferred acquisition costs	**(9,533)**	(13,427)
Administrative expenses	**109,668**	98,334
Loss on exchange	**5,642**	27,498
	409,827	383,339
Reinsurance commissions receivable	**(25,892)**	(29,898)
	383,935	353,441

Included within foreign exchange movements are exchange gains of £30.4m (2013: £20.8m losses) arising on the retranslation of monetary items that are classified as fair value through profit and loss.

Note **6** **Net operating expenses continued**

The auditors' remuneration and audit services charged to the Syndicate within the fixed fee charged by the Managing Agent and the auditors' remuneration borne by another group company are as follows:

	2014 £'000	2013 £'000
Audit of the Syndicate annual accounts	**208**	170
Audit of the Managing Agent's annual accounts	**13**	12
Other services pursuant to Regulations and Lloyd's Byelaws	**72**	72
	293	254

Member's standard personal expenses of £8.0m (2013: £9.2m) are included within administrative expenses.

Note **7** **Staff numbers and costs**

All staff in the UK are employed by the Group services company, Brit Group Services Limited, and the full staff cost disclosures are included in the notes to those accounts. Amounts are recharged to the Syndicate as part of the fixed fee charged by the Managing Agent.

Note **8** **Emoluments of the Directors of Brit Syndicates Limited**

No emoluments of the Directors of Brit Syndicates Limited have been charged to the Syndicate for the 2014 and 2013 calendar years.

The active underwriter received the following remuneration charged to the Syndicate and included within the fixed fee charged by the Managing Agent:

	2014 £'000	2013 £'000
Emoluments	**1,122**	957
Pension contributions	**43**	50
	1,165	1,007

No advances or credit were granted by the Managing Agent to any of its directors during the year.

Note **9** **Investment return**

	2014 £'000	2013 £'000
Income from investments	**31,986**	30,122
Gains on investments	**40,465**	22,994
Losses on investments	**(25,510)**	(28,931)
	46,941	24,185

	2014 £'000	2013 £'000
Allocated investment return transferred to the general business technical account	**46,941**	24,157
Net investment return included in the non technical account	**-**	28
Total investment return	**46,941**	24,185

Note **9** **Investment Return continued**

The average amount of syndicate funds available for investment during 2014 and the investment return and yield for that calendar year were as follows:

	2014 £'000	2013 £'000
Average fund	**1,341,869**	1,262,885
Investment return (excluding return on derivative)	**32,662**	25,532
Calendar year investment yield	**2.4%**	2.0%
Average funds available for investment by fund		
Sterling	**144,847**	168,546
Euro	**187,778**	159,896
United States Dollars	**1,367,946**	1,204,206
Canadian Dollars	**387,003**	333,035
Analysis of calendar year investment yield by fund		
Sterling	**2.2%**	2.6%
Euro	**6.1%**	2.4%
United States Dollars	**2.0%**	1.9%
Canadian Dollars	**1.6%**	1.6%

"Average fund" is the average of bank balances, overseas deposits and investments held at the end of each quarter during the calendar year. For this purpose, investments are revalued at quarter-end market prices, which include accrued income where appropriate.

Note **10** **Financial investments**

	Market value 2014 £'000	Market value 2013 £'000	**Cost 2014 £'000**	Cost 2013 £'000
Shares and other variable yield securities and units in unit trusts	**275,689**	199,404	267,691	196,882
Debt securities and other fixed income securities	**762,363**	735,866	763,641	734,583
Derivative contracts	**3,381**	5,004	-	-
Other investments	**58,081**	51,691	59,063	51,223
	1,099,514	991,965	1,090,395	982,688

"Other investments" relates to loan instrument securities including senior secured and second lien debt.

£540.4m (2013: £477.3m) of "Shares and other variable yield securities and units in unit trusts" and "Debt securities and other fixed income securities" are listed. These comprise 49.1% (2013: 48.1%) of the total market value of investments.

Note **10** **Financial investments continued**

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

(i) Disclosures of fair values in accordance with the fair value hierarchy

The Syndicate has classified fair value measurements using a fair valued hierarchy that reflects the significance of the inputs used in making the measurements.
The fair value hierarchy includes the following levels:

- quoted prices (unadjusted) in active markets for identical assets (Level 1);
- inputs other than quoted prices included within Level 1 that are observable for the asset, either directly (i.e. as prices) or indirectly (i.e. derived from prices) (Level 2); and
- inputs for the asset that are not based on observable market data (unobservable inputs) (Level 3).

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement. The significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a Level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgement, considering factors specific to the asset.

Level 3 financial investments are valued using techniques appropriate to the specific investment. The techniques used, amongst others, include fair value by reference to Net Asset Values issued by fund managers based on their knowledge of underlying investments and credit spreads of counterparties.

	Level 1 2014 £'000	**Level 2 2014 £'000**	**Level 3 2014 £'000**	**Total 2014 £'000**
Equity securities	-	-	-	-
Debt securities	57,253	596,434	108,676	762,363
Loan instrument securities	-	57,553	528	58,081
Specialised investment funds	151,827	76,002	47,860	275,689
	209,080	729,989	157,064	1,096,133

	Level 1 2013 £'000	Level 2 2013 £'000	Level 3 2013 £'000	Total 2013 £'000
Equity securities	-	-	-	-
Debt securities	143,246	416,689	175,931	735,866
Loan instrument securities	-	51,691	-	51,691
Specialised investment funds	133,260	-	66,144	199,404
	276,506	468,380	242,075	986,961

Note **10** **Financial investments continued**

(ii) Reconciliation of movements in Level 3 financial investments measured at fair value

	Debt securities £'000	Specialised investment funds £'000	Loan Instruments £'000	Total £'000
At 1 January 2014	175,931	66,144	-	242,075
Transfer out of Level 3	(40,205)	(22,130)	-	(62,335)
Total gains recognised in the profit and loss account	1,263	1,260	(106)	2,417
Purchases	20,148	-	600	20,748
Sales	(54,683)	(218)	(2)	(54,903)
Foreign exchange gains	6,222	2,804	36	9,062
At 31 December 2014	108,676	47,860	528	157,064

	Debt securities £'000	Specialised investment funds £'000	Loan Instruments £'000	Total £'000
At 1 January 2013	13,799	34,360	-	48,159
Total gains recognised in the profit and loss account	(420)	6,264	-	5,844
Purchases	89,335	67,040	-	156,375
Sales	(49,924)	(38,218)	-	(88,142)
Transfers from Level 2	128,200	-	-	128,200
Foreign exchange losses	(5,059)	(3,302)	-	(8,361)
At 31 December 2013	175,931	66,144	-	242,075

All unrealised gains of £2.9m (2013: gains of £4.8m) and unrealised losses of £2.8m (2013: losses of £8.2m) on Level 3 financial investments held during the year are presented in net investment return in the profit and loss account.

All realised gains of £2.7m (2013: gains of £10.5m) and realised losses of £0.4m (2013: losses of £1.3m) are presented in the net investment return in respect of Level 3 financial investments held at the end of the year.

(iii) During the year ended 31 December 2014 the transfers of financial assets between fair value hierarchy levels are as follows:

Transfers between Level 1 and Level 2
There were no transfers between Levels 1 and 2 during the year (2013: no transfers).

Transfers from Level 2 to Level 3
There were no transfers from Level 2 to Level 3 in the year (2013: £128.2m of structured products from Level 2 to 3). There was no change to the risks and rewards of ownership to which the Syndicate was exposed.

Note **10** **Financial investments continued**

Transfers from Level 3 to Level 2
There were transfers amounting to £62.3m (2013:£nil), which comprised the following:

	31 December 2014 £m	31 December 2013 £m
ABSs	**9.4**	-
CDOs	**3.0**	-
CMBSs	**9.7**	-
RMBSs	**18.1**	-
Specialised investment funds	**22.1**	-
	62.3	-

The availability of financial data for structured products such as ABSs, CDOs, RMBSs and CMBSs can vary and is affected by a wide variety of factors, including the type of financial instrument, whether it is established in the marketplace and other characteristics specific to each transaction. At the time the 2014 levelling exercise was performed, there was an increase in the availability of indirect observable market inputs (e.g. interest rates, yield curves, volatilities, prepayment speeds, credit risk, default rates) over those inputs available at the time of the 2013 levelling exercise. This increase in the availability of inputs was driven by an increase in trading of the instruments held by the Group or through an increase in trading of similar instruments.

These factors, together with the pricing validation exercise conducted on a regular basis throughout 2014, has given management comfort and allowed it to reassess certain structured products as level two in the fair value hierarchy.

A total of £22.1m of funds were transferred from level three to level two during 2014 (2013: £nil). Additional information was obtained in 2014 from fund managers relating to the underlying assets within their specialised investment funds which identified that the majority of the underlying assets were level two.

(iv) Sensitivity of Level 3 financial investments measured at fair value to changes in key assumptions

The following table shows the sensitivity of the fair value of Level 3 financial investments to changes in key assumptions:

	Carrying amount 2014 £'000	**Effect of possible alternative assumptions (+/-) 2014 £'000**
Debt securities	108,676	3,505
Specialised investment funds	47,860	1,544
Loan Instrument securities	528	12
	157,064	

Note **10** **Financial investments continued**

	Carrying amount 2013 £'000	Effect of possible alternative assumptions (+/-) 2013 £'000
Debt securities	175,931	9
Specialised investment funds	66,144	4,630
	242,075	

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

- For debt securities, the Syndicate adjusted, dependent on the type and valuation methodology of the investment, key variables including the probability of spread movements, leverage ratio changes and changes in mortgage default rates used in the models.
- For specialised investment funds, the assumptions have been adjusted by 5-8% which has been determined by historic movements in valuations or price changes in the underlying investments.

Note **11** **Derivative contracts**

The Syndicate purchases forward foreign currency contracts to hedge currency exposure on future commitments.

	2014 £'000	2013 £'000
Other financial investments - derivatives	**3,381**	5,004
Other creditors	**(1,264)**	(6,864)
	2,117	(1,860)

Note **11** Derivative contracts continued

The derivatives contracts were all Level 2 for 2014 in accordance with the fair value hierarchy.

During 2013 there was £0.8m of derivatives that were transferred from Level 3 to Level 2.

Note **12** Debtors arising out of direct insurance operations

	2014 £'000	2013 £'000
Due from intermediaries within one year	**124,833**	133,411
Due from intermediaries after one year	**431**	256
	125,264	133,667

Note **13** Other assets

Other assets comprise overseas deposits which are lodged as a condition of conducting underwriting business in certain countries.

Note **14** Reconciliation of the member balance

	2014 £'000	2013 £'000
Member balance brought forward at 1 January	**5,067**	(33,931)
Total recognised gains and losses since last annual report	**98,667**	75,501
Payments of profit to member's personal reserve fund	**(34,673)**	(44,607)
(Payments)/repayments on account in respect of overseas taxation	**(3,760)**	7,969
Currency exchange movement on balance due to members	**(7)**	135
Member balance carried forward at 31 December	**65,294**	5,067

Note 14 Reconciliation of the member balance continued

The member balance comprises the following:

	2014 £'000	2013 £'000
Underwriting participation	**72,521**	8,528
Payments on account in respect of overseas taxation	**(7,227)**	(3,461)
	65,294	5,067

Note 15 Creditors arising out of direct insurance operations

	2014 £'000	2013 £'000
Due to intermediaries within one year	**6,450**	14,728
Due to intermediaries after one year	**205**	10
	6,655	14,738

Note 16 Reconciliation of operating profit to net cash inflow from operating activities

	2014 £'000	2013 £'000
Operating profit on ordinary activities	**98,667**	75,501
Changes to market values and currencies	**(35,928)**	31,046
Increase in net technical provisions	**116,908**	63,117
Increase in debtors and prepayments and accrued income	**(115,640)**	(28,097)
Increase in creditors and accruals and deferred income	**40,067**	455
Currency exchange movement on balance due to members	**(6)**	135
Net cash inflow from operating activities	**104,068**	142,157

Note 17 Statement of cash flow

(i) Movement in opening and closing portfolio investments net of financing

	2014 £'000	2013 £'000
Net cash outflow for the year	**10,360**	19,207
Cash flow		
(Decrease)/Increase in overseas deposits	**(21,422)**	(17,526)
Increase in portfolio investments	**76,697**	103,838
Movement arising from cash flows	**65,635**	105,519
Changes in market value and exchange rates	**35,928**	(31,046)
Total movement in portfolio investments	**101,563**	74,473
Portfolio at 1 January	**1,302,594**	1,228,121
Portfolio at 31 December	**1,404,157**	1,302,594

Note **17** **Statement of cash flow continued**

(ii) Movement in cash, portfolio investments and financing

	At 1 January 2014 £'000	Cash flow £'000	Changes in market value and exchange rates £'000	At 31 December 2014 £'000
Cash at bank and cash in hand	115,698	10,360	3,300	**129,358**
Overseas deposits	194,931	(21,422)	1,776	**175,285**
Portfolio investments:				
Shares and other variable yield securities and units in unit trusts	199,404	74,138	2,147	**275,689**
Debt securities and other fixed income securities	735,866	(1,750)	28,247	**762,363**
Derivative contracts	5,004	-	(1,623)	**3,381**
Other Investments	51,691	4,309	2,081	**58,081**
Total portfolio investments	991,965	76,697	30,852	**1,099,514**
Total cash, portfolio investments and financing	1,302,594	65,635	35,928	**1,404,157**

Note **18** **Net cash inflow/(outflow) on portfolio investments**

	2014 £'000	2013 £'000
Purchase of shares and other variable yield securities	(79,195)	(203,140)
Purchase of debt securities and other fixed income securities	(647,563)	(936,783)
Purchase of loans secured by mortgage	-	-
Purchase of other investments	(57,583)	(86,161)
Sale of shares and other variable yield securities	5,057	40,899
Sale of debt securities and other fixed income securities	649,313	1,049,560
Sale of loans secured by mortgage	-	-
Sale of other investments	53,274	31,787
Net cash inflow/(outflow) on portfolio investments	(76,697)	(103,838)

Note **19** **Related parties**

(i) Group companies

All trading with companies within the Brit PLC Group has been carried out on an arm's length basis.

Note **19** **Related parties continued**

(a) Brit UW Limited

Brit UW Limited, the corporate member subsidiary of the Group, provided capacity for the following years of account on the Syndicate:

Year of account	£'000
2012	940,000
2013	940,000
2014	1,075,000

In order to do this, it has provided Funds at Lloyd's. As at 31 December 2014, the Funds at Lloyd's requirement amounted to £490.9m (2013: £551.2m). For further information, refer to Note 20.

(b) Brit Syndicates Limited

During the year, the Syndicate has paid fees to Brit Syndicates Limited, the Managing Agent subsidiary of the Group, amounting to £96.8m (2013: £84.6m). As at 31 December 2014, no amounts were outstanding (2013: nil).

(c) Brit Insurance (Gibraltar) PCC Limited

During the year, the Syndicate has ceded reinsurance premiums to Brit Insurance (Gibraltar) PCC Limited, an insurance company in the Group, amounting to £169.8m (2013: £135.9m). As at 31 December 2014, the Syndicate owed £57.3m of premiums to Brit Insurance (Gibraltar) PCC Limited (2013: £49.2m). The collateral disclosed in note 4 that is available for immediate drawdown in the event of a default includes collateral for Brit Insurance (Gibraltar) PCC Limited of £318.4m (2013: £246.2m).

(d) Brit Insurance Services USA Inc

During the year, the Syndicate has paid commissions to Brit Insurance Services USA Inc, a coverholder subsidiary of the Group, amounting to £9.8m (2013: £8.1m). As at 31 December 2014, no amounts of commission were outstanding (2013: nil). As at 31 December 2014, Brit Insurance Services USA Inc owed £24.1m of premiums to the Syndicate (2013: £16.3m).

(e) BGS Services (Bermuda) Limited

During the year, the Syndicate has paid commissions to BGS Services (Bermuda) Limited, a coverholder subsidiary of the Group, amounting to £2.1m (2013: nil). As at 31 December 2014, no amounts of commission were outstanding (2013: nil). As at 31 December 2014, BGS Services (Bermuda) Limited owed £10.6m of premiums to the Syndicate (2013: nil).

(ii) Brit Space Consortium

The Syndicate participates in the Brit Space Consortium which underwrites space/satellite risks. The consortium leader in the years under review was Brit Syndicate 2987.

The risks are allocated between the members of the consortium on the basis of their percentage line on the consortium underwriting agreement.

During the period under review Brit Syndicate 2987 paid no management fee (2013: nil) and no technical adviser fees or profit commission.

(iii) Directors of Brit Syndicates Limited

For information relating to the emoluments of the directors of Brit Syndicates Limited, refer to Note 8.

Note **20** Funds at Lloyd's

Every corporate member is required to provide capital at Lloyd's which is held in trust and known as Funds at Lloyd's (FAL). These funds are intended primarily to cover circumstances where Syndicate assets prove insufficient to meet participating members' underwriting liabilities.

The level of FAL that Lloyd's requires a member to maintain is determined by Lloyd's based on PRA requirements and resource criteria. FAL has regard to a number of factors including the nature and amount of risk to be underwritten by the member and the assessment of the reserving risk in respect of business that has been underwritten. Investments and assets supporting the underwriting at Lloyd's by way of fixed and floating charges at 31 December 2014 are £490.9m (2013: £551.2m). The Managing Agent is able to make a call on the members' FAL to meet liquidity requirements or to settle losses.

Note **21** Off-balance sheet items

The Syndicate has not been party to an arrangement, which is not reflected in its balance sheet, where material risks and benefits arise for the syndicate.

Note **22** Ultimate holding company

The Managing Agent is a wholly owned subsidiary of Brit Insurance Holdings Limited, a company incorporated in the United Kingdom. As at 31 December 2014, the ultimate holding company was Brit PLC, a public limited company incorporated under the laws of England and Wales and listed on the London Stock Exchange.

Note **23** Subsequent Events

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

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

Managing Agent Information

Directors of the Managing Agent
Executive

Mark Bertrand Cloutier - Chief Executive Officer
Andrew Martin Baddeley - Chief Financial Officer
Steven Derek Robson
John William Stratton
Matthew Dominic Wilson

Non-Executive

Ipe Jacob
Anthony John Medniuk
Dr Richard Churchill Ward (appointed 17 February 2014)
John William Young

Secretary
Paul Michael Armfield

Active Underwriter
Matthew Wilson

Registered Office
55 Bishopsgate
London EC2N 3AS

Auditor
Ernst & Young LLP
1 More London Place
London SE1 2AF