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Brit Syndicate 2987
Annual Report 2015

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 2015.

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 2015 is a profit of US$99.6m (2014 profit: US$124.1m). 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 2015, despite profit decreasing by 19.7% to US$99.6m (2014: US$124.1m). The combined ratio was 91.4% (2014: 93.8%).

	12 months ended 31 December 2015 US$m	Restated 12 months ended 31 December 2014 US$m
Gross written premium	1,999.2	2,150.2
Net written premium	1,385.5	1,417.6
Net earned premium	1,400.8	1,348.8
Underwriting result	120.1	83.2
Investment return	33.0	77.5
Technical Profit for the financial year as reported	**153.1**	**160.7**
Non-technical account for the financial year as reported	(53.5)	(31.1)
Other Comprehensive Income	-	(5.5)
Total Gains and Losses for the Financial Year	**99.6**	**124.1**
Combined ratio	91.4%	93.8%

Underwriting

Gross written premium	12 months ended 31 December 2015 US$m	Restated 12 months ended 31 December 2014 US$m	Movement %
Global Speciality Direct	1,634.0	1,743.6	(6.3)%
Global Speciality Reinsurance	365.1	406.7	(10.2)%
Other	0.1	(0.1)	(200.0)%
Total	**1,999.2**	**2,150.2**	**(7.0)%**

Gross written premium for 2015 decreased by 7.0% to US$1,999.2m (2014: US$2,150.2m). At constant exchange rates over 2014 the decrease was 3.9%, reflecting our disciplined response to challenging market conditions.

Premium was lower in 2015 partly as a result of reduced levels of favourable ultimate premium development on prior years compared to 2014. In addition, overall risk adjusted premium rates reduced by 4.1% in 2015. Rating pressure has been most severe in our property treaty reinsurance business, with rate reductions in 2015 of 9.4%, and in property and energy direct open market classes. Overall reductions in direct insurance have been much less severe than in reinsurance at around 3.4%, with the pressure in Energy, Property PRV, Aviation and BGSU, partly offset by improved experience in Specialist Liability, Casualty and Accident and Health. Critically we are still seeing rate adequacy in many lines.

Premiums generated from our business initiatives launched in 2013, 2014 and 2015 resulted in a US$70.8m increase in GWP. The main contributors were Aviation, Bermuda, UK Property and BGSU Property Miami.

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

The Syndicate combined ratio reduced to 91.4% (2014: 93.8%), reflecting the absence of major events and the impact of foreign exchange on administrative expenses which are predominantly Sterling based.

Our overall claims experience in 2015 has been in line with expectations. An increase in the attritional loss ratio from rating pressures and a change in business mix was offset by the absence of major claims for the Syndicate in 2015.

Investment return was US$33.5m (2014: US$77.5m), reflecting continued low interest rates and volatility in investment markets.

Syndicate outlook

Brit Global Specialty remains a highly focussed specialty insurance and reinsurance business underwriting exclusively through Syndicate 2987. Our stamp capacity has remained unchanged at £1.075billion for the 2015 year of account (2014 YOA: £1.075billion) and will also be £1.075billion for 2016.

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

Our business is built on our talented underwriting professionals and our strong relationships with brokers and policyholders. During 2015 we have retained our underwriting talent and have continued to attract new hires. Our ability to lead business, combined with our innovative approach to underwriting, supports our success in building long-term and dependable market relationships.

Principal risks and uncertainties

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

Acquisition by the Fairfax Group

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

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 44.

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's 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 (EY) remain in office as the Syndicate's auditor.

On behalf of the Board

Mark Cloutier
Chief Executive Officer
March 2016

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 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 annual accounts may differ from legislation in other jurisdictions.

INDEPENDENT AUDITOR’S REPORT TO THE MEMBER OF SYNDICATE 2987

We have audited the syndicate annual accounts of syndicate 2987 (‘the syndicate’) for the year ended 31 December 2015 which comprise the Income Statement, the Statement of Comprehensive Income, the Statement of Movement in Member Balance, the Statement of Financial Position, the Statement of Cash Flows and the related notes 1 to 24. 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), including Financial Reporting Standard 102 ‘The Financial Reporting Standard applicable in the UK and Republic of Ireland’ and Financial Reporting Standard 103 ‘Insurance Contracts’,

This report is made solely to the syndicate’s members, as a body, 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 members those matters we are required to state to them 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 members as a body, 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 5], 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 syndicate annual accounts sufficient to give reasonable assurance that the syndicate 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 syndicate annual accounts. In addition, we read all the financial and non-financial information in the Report of the Directors of the Managing Agent 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 syndicate annual accounts:

- give a true and fair view of the syndicate’s affairs as at 31 December 2015 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 102 ‘The Financial Reporting Standard applicable in the UK and Republic of Ireland’ and Financial Reporting Standard 103 ‘Insurance Contracts’; 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 Managing Agent’s Report for the financial year in which the syndicate annual accounts are prepared is consistent with the syndicate 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.

Angus Millar (Senior statutory auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor

London, March 2016

Income Statement
Technical Account – General Business for the year ended 31 December 2015

	Notes	**2015 US$m**	Restated 2014 US$m
Gross premiums written	4	**1,999.2**	2,150.2
Outward reinsurance premiums		**(613.7)**	(732.6)
Net premiums written		**1,385.5**	1,417.6
Change in the gross provision for unearned premiums	12	**8.0**	(100.3)
Change in the provision for unearned premiums, reinsurers' share	12	**7.3**	31.5
Net change in the provision for unearned premiums		**15.3**	(68.8)
Earned premiums, net of reinsurance		**1,400.8**	1,348.8
Allocated investment return transferred from the non-technical account		**33.0**	77.5
Total technical income		**1,433.8**	1,426.3
Claims paid:			
Gross amount	13	**(871.3)**	(883.1)
Reinsurers' share	13	**331.0**	299.8
Net claims paid		**(540.3)**	(583.3)
Change in the provision for claims:			
Gross amount		**(207.6)**	(239.4)
Reinsurers' share		**68.4**	177.4
Net change in the provision for claims		**(139.2)**	(62.0)
Claims incurred, net of reinsurance	13	**(679.5)**	(645.3)
Net operating expenses	5	**(601.2)**	(620.3)
Total technical charges		**(1,280.7)**	(1,265.6)
Balance on the technical account for general business		**153.1**	160.7

The accompanying Notes are an integral part of these accounts.

Income Statement
Non-Technical Account for the year ended 31 December 2015

	Notes	2015 US$m	Restated 2014 US$m
Balance on the technical account for general business		**153.1**	160.7
Investment Income		**40.8**	52.8
Unrealised (losses)/gains on investments		**(44.8)**	5.5
Realised gains on investments		**37.5**	19.2
Net investment return	8	**33.5**	77.5
Allocated investment return transferred to general business technical account	8	**(33.0)**	(77.5)
Loss on exchange		**(54.0)**	(31.1)
Profit for the financial year		**99.6**	129.6

The accompanying Notes are an integral part of these accounts.

Statement of Comprehensive Income
for the year ended 31 December 2015

	Notes	2015 US$m	Restated 2014 US$m
Profit for the financial year		**99.6**	129.6
Currency translation differences		**-**	(5.5)
Total comprehensive income for the financial year		**99.6**	124.1

The accompanying Notes are an integral part of these accounts.

Statement of Movement in Member Balance
as at 31 December 2015

	2015 US$m	Restated 2014 US$m
Member balance brought forward at 1 January	**85.8**	24.7
Total comprehensive income for the financial year	**99.6**	124.1
Payments of profit to member's personal reserve fund	**(41.6)**	(57.5)
Payments/(repayments) on account in respect of overseas taxation	**1.4**	(5.8)
Currency exchange movement on balance due to members	**0.6**	0.3
Member balance carried forward at 31 December	**145.8**	85.8

The member balance comprises the following:

	2015 US$m	Restated 2014 US$m
Underwriting participation	**155.0**	97.0
Payments on account in respect of overseas taxation	**(9.2)**	(11.2)
Member balance carried forward at 31 December	**145.8**	85.8

The accompanying Notes are an integral part of these accounts.

Statement of Financial Position
as at 31 December 2015

	Notes	2015 US$m	Restated 2014 US$m
Assets			
Investments:			
Financial investments	10	**1,840.7**	1,715.2
		1,840.7	1,715.2
Reinsurers' share of technical provisions:			
Provision for unearned premium	12	**244.4**	246.2
Claims outstanding	13	**1,214.1**	1,200.6
		1,458.5	1,446.8
Debtors:			
Debtors due within one year:			
Debtors arising out of direct insurance operations		**335.5**	194.7
Debtors arising out of reinsurance operations		**311.6**	484.5
Other debtors		**6.2**	7.3
Debtors due after one year:			
Debtors arising out of direct insurance operations		**0.7**	0.7
Debtors arising out of reinsurance operations		**0.9**	0.4
		654.9	687.6
Other assets:			
Cash at bank and in hand	14	**279.4**	201.8
Other	15	**232.0**	273.4
		511.4	475.2
Prepayments and accrued income:			
Deferred acquisition costs	16	**222.9**	217.2
Other prepayments and accrued income		**6.0**	5.1
		228.9	222.3
Total assets		**4,694.4**	4,547.1

The accompanying Notes are an integral part of these accounts.

Statement of Financial Position
as at 31 December 2015

	Notes	2015 US$m	Restated 2014 US$m
Member balance and liabilities			
Member balance		**145.8**	85.8
		145.8	85.8
Technical provisions:			
Provision for unearned premium	12	**850.6**	878.1
Claims outstanding	13	**3,314.9**	3,213.5
		4,165.5	4,091.6
Creditors:			
Creditors arising out of direct insurance operations	17	**3.4**	10.4
Creditors arising out of reinsurance operations		**280.0**	333.1
Derivative contracts	11	**3.3**	2.0
Other creditors		**78.9**	8.6
		365.6	354.1
Accruals and deferred income		**17.5**	15.6
Total liabilities		**4,548.6**	4,461.3
Total member balance and liabilities		**4,694.4**	4,547.1

The accompanying Notes are an integral part of these accounts.

The annual accounts on pages 7 to 44 were approved by the Board of Brit Syndicates Limited on March 2016 and signed on its behalf by:

Mark Cloutier
Chief Executive Officer

Mark Allan
Chief Financial Officer

Statement of Cash Flows
as at 31 December 2015

	Notes	2015 US$m	Restated 2014 US$m
Cash flows from operating activities			
Operating result		**99.6**	124.1
Movement in unearned premiums and outstanding claims		**198.7**	334.5
Movement in reinsurers' share of unearned premiums and		**(73.1)**	(197.3)
Movement in other assets/ liabilities		**52.8**	(80.8)
Investment return		**(33.0)**	(77.5)
Net cash flows from operating activities		**245.0**	103.0
Cash flows from investing activities			
Purchase of equity and debt instruments		**(1,833.0)**	(1,257.5)
Sale of equity and debt instruments		**1,559.1**	1,156.0
Investment income received		**85.3**	73.1
Net cash flows from investing activities		**(188.6)**	(28.4)
Cash flows from financing activities			
Distribution of profits		**(45.3)**	(36.2)
Profits added to Funds in Syndicates		**54.7**	-
Movement in non-standard personal expenses		**1.5**	(5.9)
Net cash flows from financing activities		**10.9**	(42.1)
Net increase in cash and cash equivalents		**67.3**	32.5
Cash and cash equivalents at 1 January		**220.1**	273.4
Exchange differences on opening cash		**(7.6)**	(85.8)
Cash and cash equivalents at 31 December	14	**279.8**	220.1

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 Syndicate has prepared accounts in accordance with FRS 102 and FRS 103 with effect from 1 January 2014 and Note 24 details the effect of the changes on the reported financial position and financial performance. All amounts are presented in rounded US$m to one decimal place, unless otherwise stated.

Change of presentation currency

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

- Assets and liabilities were translated into US dollars at closing rates of exchange;
- Income and expenses were translated into US dollars at average rates of exchange;
- Differences resulting for the retranslation were taken to the Member balance.

Change of functional currency

FRS 102 describes functional currency as 'the currency of the primary economic environment in which an entity operates'. Determining when the functional currency of an entity has changed is a matter of judgement as the determining factors may move gradually over time. However, the Board has concluded that the functional currency of the Syndicate changed from Sterling to US dollars with effect from 1 January 2015. This is due to:

- A change in the capital policy from 1 January 2015, which resulted in an increased amount of capital held in US dollars relative to other currencies; and
- A gradual movement towards US dollars, over a number of years, in the geographical concentration of premiums and settlement currency.

In accordance with FRS 102 paragraph 30.14, the change in functional currency has been applied prospectively from 1 January 2015.

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** Principal 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.

Note **2** Principal Accounting policies continued

Basis of accounting a) Underwriting activities continued

(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.

Note **2** **Principal Accounting policies continued**

Basis of accounting a) Underwriting activities continued

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

Note **2** **Principal Accounting policies continued**
b) Other accounting policies – Investments continued

(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 include currency forward contracts, equity options, inflation options, futures, put options 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. All derivatives are carried as assets when the fair values are positive and as liabilities when the fair values are negative.

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.

Note **2** Principal Accounting policies continued

b) Other accounting policies continued

Foreign currencies

The annual accounts are presented in US dollars 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 Sterling, Canadian Dollars and Euros are translated at the average rates of exchange for the period. Monetary assets and liabilities in currencies other than United States Dollars are translated at the rate of exchange ruling at 31 December of each year. Exchange profits or losses arising on the translation of foreign currency amounts relating to the Syndicate insurance operations are included within the Non-technical account as prescribed by FRS 103.

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

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 under-priced, 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.

Note **3** **Principal risks and uncertainties continued**
(i) Underwriting risk continued

Controls over underwriting strategy

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

The 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:

Note **3** **Principal risks and uncertainties continued**
(i) Underwriting risk continued

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:

Premiums written	**Gross**	**Net**
2015	**US$m**	**US$m**
United States	**857.5**	**582.0**
United Kingdom	**120.3**	**91.6**
Europe (excluding UK)	**121.3**	**61.9**
Other (including worldwide)	**900.1**	**650.0**
Total	**1,999.2**	**1,385.5**
2014	**US$m**	**US$m**
United States	827.3	568.6
United Kingdom	159.5	92.1
Europe (excluding UK)	138.7	52.3
Other (including worldwide)	1,024.7	704.6
Total	**2,150.2**	**1,417.6**

Portfolio mix

The Syndicate's breakdown of gross premium written by principal categories is summarised below:

		2015		**2014**	
Gross premium written		**US$m**	**%**	US$m	**%**
Short tail direct insurance	Property, Marine, Energy, Accident & Health, BGSU, Aerospace, Terrorism and Political	**1,141.8**	**57%**	1,183.9	55%
Long tail direct insurance	Professional lines, Specialty lines, Specialist liability	**492.1**	**24%**	559.7	26%
Short tail Reinsurance	Property Treaty	**151.5**	**8%**	180.9	8%
Long tail Reinsurance	Casualty Treaty	**213.6**	**11%**	225.8	11%
Other	Other underwriting and other corporate	**0.2**	**0%**	(0.1)	0%
Total		**1,999.2**	**100%**	2,150.2	100%

Note **3** **Principal risks and uncertainties continued**

Portfolio mix continued

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 35% (2014: 37%) of the portfolio as at 31 December 2015 and delegated underwriting represents approximately 40% (2014: 38%).

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 25% of the Brit Limited Group's net tangible assets (NTA). This equates to a maximum acceptable loss (after all reinsurance) of US$265.4m as at 31 December 2015.

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 US$ millions) (Unaudited):

Lloyd's Prescribed RDS Event	**Estimated Industry Loss**	**Modelled Syndicate Loss 2015(i)**		Modelled Syndicate Loss 2014(i)	
		Gross	**Net**	Gross	Net
Gulf of Mexico Windstorm	113,500	813	139	700	138
Florida Miami Windstorm	128,250	601	119	540	102
US North East Windstorm	80,500	737	124	605	104
San Francisco Earthquake	87,750	716	178	596	142
Japan Earthquake	43,118	207	120	181	107
Japan Windstorm	12,853	79	41	85	57
European Windstorm	26,103	190	102	195	89

(i): At 31 December 2015 foreign exchange rates.

Actual results may differ materially from the losses above given the significant uncertainties within model assumptions, techniques and simulations applied to calculate these event loss estimates. There could also be unmodelled losses which result in actual losses exceeding these figures. Moreover, the portfolio of insured risks changes dynamically over time.

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 each class of business as follows:

Change in reported profit	**2015**		2014	
Category	**US$m**	**%**	US$m	%
Short tail direct insurance	**7.6**	**58%**	6.7	53%
Long tail direct insurance	**3.0**	**23%**	3.4	26%
Short tail Reinsurance	**0.6**	**5%**	1.0	8%
Long tail Reinsurance	**1.7**	**13%**	1.7	13%
Other	**0.2**	**1%**	-	0%
Total	**13.1**	**100%**	12.8	100%

Note **3** **Principal risks and uncertainties continued**
Sensitivity to changes in net claims ratio continued

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 Chief Underwriting Officer and Chief Risk Officer propose external reinsurance arrangements with input from class underwriters for class level reinsurance. The Chief Underwriting Officer 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.

Note 3 Principal risks and uncertainties continued

(iii) Reserving risk

Reserving risk arises as the actual cost of losses for policyholder obligations incurred before 31 December 2015 from the established reserves due to inaccurate assumptions or unforeseen circumstances. This is a key risk for the 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, 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. As part of their audit engagement, reserves are subject to external actuarial review by the Syndicate's auditors.

The reserves can be more or less than is required to meet the claims arising from earned business. The level of uncertainty varies significantly between the classes written by the 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 in line with the liquidity policy set by the Board. This involves ensuring sufficient liquidity to withstand claim scenarios at the extreme end of business plan projections, by reference to modelled Realistic Disaster Scenarios. Contingent liquidity also exists in the form of the Group's revolving credit facility.

Note **3** **Principal risks and uncertainties continued**
Liquidity risk continued

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 2015

Assets (Fair values)	Balance Sheet US$m	Up to a year US$m	1-3 years US$m	3-5 years US$m	Over 5 years US$m	Equities US$m	Total US$m
Reinsurance assets	1,214.1	307.6	374.5	218.0	314.0	-	1,214.1
Financial investments	1,794.8	990.1	145.2	53.3	495.9	110.3	1,794.8
Derivative contracts	45.9	36.9	-	-	9.0	-	45.9
Insurance receivables	648.7	647.1	1.6	-	-	-	648.7
Cash at bank and in hand	279.4	279.4	-	-	-	-	279.4
Other	232.0	89.2	102.0	35.7	5.1	-	232.0
	4,214.9	2,350.3	623.3	307.0	824.0	110.3	4,214.9

Liabilities (Undiscounted values)	US$m	US$m	US$m	US$m	US$m	US$m	US$m
Insurance contract liabilities	3,314.9	777.1	980.9	592.6	964.3	-	3,314.9
Derivative contracts	3.3	3.3	-	-	-	-	3.3
Insurance & other payables	379.8	379.6	0.2	-	-	-	379.8
	3,698.0	1,160.0	981.1	592.6	964.3	-	3,698.0

31 December 2014

Assets (Fair values)	Balance Sheet US$m	Up to a year US$m	1-3 years US$m	3-5 years US$m	Over 5 years US$m	Equities US$m	Total US$m
Reinsurance assets	1,200.6	332.4	391.1	203.0	274.1	-	1,200.6
Financial investments	1,709.9	582.4	378.0	274.4	475.1	-	1,709.9
Derivative contracts	5.3	5.3	-	-	-	-	5.3
Insurance receivables	680.3	680.3	-	-	-	-	680.3
Cash at bank and in hand	201.8	201.8	-	-	-	-	201.8
Other	273.4	136.4	107.8	27.1	2.1	-	273.4
	4,071.3	1,938.6	876.9	504.5	751.3	-	4,071.3

Liabilities (Undiscounted values)	US$m	US$m	US$m	US$m	US$m	US$m	US$m
Insurance contract liabilities	3,213.5	888.0	1,048.2	545.3	732.0	-	3,213.5
Derivative contracts	2.0	2.0	-	-	-	-	2.0
Insurance & other payables	367.7	367.7	-	-	-	-	367.7
	3,583.2	1,257.7	1,048.2	545.3	732.0	-	3,583.2

Note **3** **Principal risks and uncertainties continued**

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 CFO is responsible for the management of investment credit risk. The Investment Guidelines and Investment policy set out clear limits and controls around the level of investment credit risk. The 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:

US$millions	AAA	AA	A	P-1	P-2	BBB and below	Equities	Not Rated	Total
As at 31 December 2015									
Financial Investments	224.2	762.1	560.3	-	-	48.8	110.3	89.1	**1,794.8**
Derivative contracts	-	-	-	-	-	-	-	45.9	**45.9**
Cash at bank	263.0	3.0	-	0.7	12.7	-	-	-	**279.4**
Other	110.4	52.5	53.6	-	-	9.4	-	6.1	**232.0**
Total	597.6	817.6	613.9	0.7	12.7	58.2	110.3	141.1	**2,352.1**
As at 31 December 2014									
Financial Investments	223.0	271.9	691.0	14.8	-	296.3	-	212.9	**1,709.9**
Derivative contracts	-	-	-	-	-	-	-	5.3	**5.3**
Cash at bank	133.6	-	7.1	48.8	12.3	-	-	-	**201.8**
Other	101.1	90.9	24.4	49.5	-	5.9	-	1.6	**273.4**
Total	457.7	362.8	722.5	113.1	12.3	302.2	-	219.8	**2,190.4**

Note **3** Principal risks and uncertainties continued

(ii) Insurance Credit Risk

Insurance Credit Risk Management Process

The Credit Committee, chaired by the Group CFO, 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:

US$millions	AAA	AA	A	Collateral	Not rated	Total
As at 31 December 2015						
Reinsurance on claims outstanding	1.2	314.0	211.8	631.3	55.8	1,214.1
Insurance and reinsurance receivables	-	-	-	-	648.7	648.7
Total	**1.2**	**314.0**	**211.8**	**631.3**	**704.5**	**1,862.8**
As at 31 December 2014						
Reinsurance on claims outstanding	0.7	314.8	332.6	534.5	18.0	1,200.6
Insurance and reinsurance receivables	-	-	-	-	680.3	680.3
Total	0.7	314.8	332.6	534.5	698.3	1,880.9

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 US$1,123.1m (2014: US$887.8m) is held in third party trust accounts or as a Letter of credit (LOC) to guarantee Syndicate 2987 against reinsurance counterparties and is available for immediate drawdown in the event of a default. Of this amount, US$631.3m (2014: US$534.5m) had been drawn against reinsurance assets at 31 December 2015.

Note **3** **Principal risks and uncertainties continued**

Insurance Credit Risk Profile continued

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

US$millions	Impairment Provision against Reinsurance Assets	Impairment Provision against Insurance Receivables
2015		
At 1 January 2015	**0.9**	**13.7**
Strengthening/ (Release) for the year	**0.1**	**(1.5)**
Net Foreign Exchange Differences	**-**	**0.7**
At 31 December 2015	**1.0**	**12.9**
2014		
At 1 January 2014	1.2	10.1
(Release)/strengthening for the year	(0.3)	3.1
Net Foreign Exchange Differences	-	0.5
At 31 December 2014	0.9	13.7

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

	31 December 2015 US$m	31 December 2014 US$m
0-3 months past due	**22.4**	14.2
4-6 months past due	**2.1**	3.4
7-9 months past due	**1.5**	0.9
10-12 months past due	**2.0**	0.3
More than 12 months past due	**2.3**	0.8
Total	**30.3**	19.6

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. Credit risk on financial investments and cash is covered in the credit risk section.

(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 functional currency is United States dollars, 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.

Note 3 Principal risks and uncertainties continued

Market risk continued i) Currency risk continued

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

Converted US$millions	UK £	US $	CAD $	EUR €	AUD $	Total
As at 31 December 2015						
Total assets	1,109.6	2,813.0	389.3	293.5	89.0	**4,694.4**
Total liabilities	(1,035.9)	(2,992.0)	(209.0)	(311.7)	-	**(4,548.6)**
Net assets	**73.7**	**(179.0)**	**180.3**	**(18.2)**	**89.0**	**145.8**
As at 31 December 2014						
Total assets	1,141.7	2,444.7	448.9	407.5	104.3	4,547.1
Total liabilities	(1,064.4)	(2,790.4)	(262.2)	(344.3)	-	(4,461.3)
Net assets	77.3	(345.7)	186.7	63.2	104.3	85.8

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

The Syndicate matches its assets relative to its liabilities in each of the main five currencies and the position is rebalanced quarterly. Assets in excess of its liabilities are held in US$. Where mismatches occur these may lead to FX gains and losses reported through the income statement. Foreign currency contracts are used to achieved the desired exposure to each currency. The details of all foreign currency derivative contracts entered into are given in Note 11.

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.

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 the US Dollar against the value of the Sterling, Canadian dollar, Euro and Australian dollar simultaneously.

US$millions	Impact on profit before tax and net assets 2015	2014
US Dollar weakens		
10% against other currencies	92.3	83.5
20% against other currencies	184.6	166.9
US Dollar strengthens		
10% against other currencies	(92.3)	(83.5)
20% against other currencies	(184.6)	(166.9)

Note **3** **Principal risks and uncertainties continued**
Market risk continued

(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:

US$millions at 31 December 2015	1 year or less	1 to 3 years	3 to 5 years	Over 5 years	Equities	**Total**
Cash at bank and in hand	279.4	-	-	-	-	**279.4**
Financial Investments	990.1	145.2	53.3	495.9	110.3	**1,794.8**
Derivatives	36.9	-	-	9.0	-	**45.9**
Other	89.2	102.0	35.7	5.1	-	**232.0**
Total	1,395.6	247.2	89.0	510.0	110.3	**2,352.1**
As at 31 December 2014						
Cash at bank and in hand	201.8	-	-	-	-	**201.8**
Financial Investments	582.4	378.0	274.4	475.1	-	**1,709.9**
Derivatives	5.3	-	-	-	-	**5.3**
Other	136.4	107.8	27.1	2.1	-	**273.4**
Total	925.9	485.8	301.5	477.2	-	**2,190.4**

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

Note **3** **Principal risks and uncertainties continued**
Market risk continued

Sensitivity to changes in investment yields

The sensitivity of the profit and net assets to changes in the investment yields is set out in the table below..

US$millions	Impact on profit before tax	
	2015	**2014**
Increase		
25 basis points	(31.7)	(6.6)
50 basis points	(63.3)	(13.1)
100 basis points	(126.7)	(26.2)
Decrease		
25 basis points	31.7	6.6
50 basis points	63.3	13.1
100 basis points	126.7	26.2

Capital risk management

The Society of Lloyd's (Lloyd's) is a regulated undertaking and subject to the supervision of the Prudential Regulatory Authority (PRA) under the Financial Services and Markets Act 2000.

Effective 1 January 2016, Lloyd's is subject to the Solvency II capital regime and the Solvency I figures are no longer applicable from that date. Although the capital regime has changed, this has not significantly impact the Solvency Capital Requirement of the syndicate, since this has been previously calculated based on Solvency II principles, as described below.

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** Analysis of underwriting result

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

Year ended 31 December 2015	**Gross Written Premiums US$m**	**Gross premiums earned US$m**	**Gross claims incurred US$m**	**Gross operating expenses US$m**	**Reinsurance balance US$m**	**Total US$m**
Direct Insurance:						
Accident and health	**25.2**	**25.3**	**(14.0)**	**(10.0)**	**(1.0)**	**0.3**
Motor (other classes)	**-**	**-**	**-**	**-**	**-**	**-**
Marine aviation and transport	**230.7**	**245.8**	**(142.0)**	**(75.0)**	**(8.2)**	**20.6**
Fire and other damage to property	**422.4**	**416.7**	**(165.1)**	**(147.2)**	**(68.3)**	**36.1**
Third party liability	**413.5**	**424.6**	**(329.4)**	**(127.1)**	**26.8**	**(5.1)**
Miscellaneous	**130.7**	**120.5**	**(53.6)**	**(58.1)**	**(7.0)**	**1.8**
	1,222.5	**1,232.9**	**(704.1)**	**(417.4)**	**(57.7)**	**53.7**
Reinsurance	**776.7**	**774.3**	**(374.8)**	**(227.7)**	**(105.4)**	**66.4**
Total	**1,999.2**	**2,007.2**	**(1,078.9)**	**(645.1)**	**(163.1)**	**120.1**

Year ended 31 December 2014	Gross Written Premiums US$m	Gross premiums earned US$m	Gross claims incurred US$m	Gross operating expenses US$m	Reinsurance balance US$m	Total US$m
Direct Insurance:						
Accident and health	29.1	28.8	(14.3)	(11.6)	(1.3)	1.6
Motor (other classes)	0.0	0.0	1.3	0.0	0.0	1.3
Marine aviation and transport	249.8	235.9	(141.8)	(74.7)	(7.5)	11.9
Fire and other damage to property	444.4	405.2	(163.4)	(144.1)	(62.9)	34.8
Third party liability	462.7	449.1	(342.7)	(135.4)	(7.8)	(36.8)
Miscellaneous	137.2	145.4	(62.7)	(71.4)	(11.0)	0.3
	1,323.2	1,264.4	(723.6)	(437.2)	(90.5)	13.1
Reinsurance	827.0	785.5	(398.9)	(223.1)	(93.4)	70.1
Total	2,150.2	2,049.9	(1,122.5)	(660.3)	(183.9)	83.2

Commissions on direct insurance gross premiums written during 2015 are US$325.7m (2014: US$329.3m).

All premiums were concluded in the UK.

Note 4 Analysis of underwriting result continued

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

	2015 US$m	2014 US$m
United Kingdom	**120.3**	159.5
Europe (excluding UK)	**121.3**	138.7
United States	**857.5**	827.3
Other (including worldwide)	**900.1**	1,024.7
	1,999.2	2,150.2

Year-ended 31 December 2015	**Brit Global Specialty Direct US$m**	**Brit Global Speciality Reinsurance US$m**	**Other Underwriting US$m**	**Total US$m**
Gross premiums written	1,634.0	365.1	0.1	1,999.2
Net premiums written	1,139.3	243.9	2.3	1,385.5
Net premiums earned	1,151.0	247.5	2.3	1,400.8
Claims incurred, net of reinsurance	(576.6)	(102.0)	(0.9)	(679.5)
Net operating expenses	(512.9)	(88.3)	-	(601.2)
Underwriting result	**61.5**	**57.2**	**1.4**	**120.1**
Investment return	23.6	9.3	0.1	33.0
Balance on technical account	**85.1**	**66.5**	**1.5**	**153.1**

Year-ended 31 December 2014	Brit Global Specialty Direct US$m	Brit Global Speciality Reinsurance US$m	Other Underwriting US$m	Total US$m
Gross premiums written	1,743.5	406.8	(0.1)	2,150.2
Net premiums written	1,139.3	278.4	(0.1)	1,417.6
Net premiums earned	1,069.1	279.8	(0.1)	1,348.8
Claims incurred, net of reinsurance	(524.1)	(127.0)	5.8	(645.3)
Net operating expenses	(526.5)	(94.0)	0.2	(620.3)
Underwriting result	**18.5**	**58.8**	**5.9**	**83.2**
Investment return	55.4	21.6	0.5	77.5
Balance on technical account	**73.9**	**80.4**	**6.4**	**160.7**

Note 5 Net operating expenses

	2015 US$m	2014 US$m
Acquisition costs	**486.5**	501.7
Change in deferred acquisition costs	**(11.7)**	(19.6)
Administrative expenses	**170.3**	181.0
	645.1	663.1
Reinsurance commissions receivable	**(43.9)**	(42.8)
	601.2	620.3

Note **5** **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:

	2015 US$'000	2014 US$'000
Audit of the Syndicate annual accounts	**318**	343
Audit of the Managing Agent's annual accounts	**20**	21
Other services pursuant to Regulations and Lloyd's Byelaws	**110**	119
	448	483

Member's standard personal expenses of US$14.9m (2014: US$13.2m) are included within administrative expenses.

Note **6** **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 **7** **Remuneration of the Directors of Brit Syndicates Limited**

No remuneration of the Directors of Brit Syndicates Limited have been charged to the Syndicate for the 2015 and 2014 calendar years.

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

	2015 US$m	2014 US$m
Aggregate remuneration	**3.5**	1.8
Pension contributions	**0.1**	0.1
	3.6	1.9

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

Note **8** **Investment return**

	2015 US$m	2014 US$m
Income from investments	**40.8**	52.8
Gains on investments	**106.0**	66.8
Losses on investments	**(113.3)**	(42.1)
	33.5	77.5
Allocated investment return transferred to the general business technical account	**(33.0)**	(77.5)
Net investment return included in the non-technical account	**0.5**	-
Total investment return	**33.5**	77.5

The investment income retained in the non-technical account relates to investment income on FIS income (see Note 20).

Note **9** Claims development

The following tables show the estimates of cumulative incurred claims, including both claims notified and IBNR for each successive underwriting year at each reporting date. The amounts are reported on an earned basis, which leads to a large increase in incurred claims in the second year, due to the premium earning pattern.

The Syndicate has taken advantage of the transitional rules of FRS 103 that permit only five years of information to be disclosed upon adoption.

Amounts are converted at 31 December 2015 rates.

Estimate of cumulative gross incurred claims

US$m **Underwriting year**	**2011**	**2012**	**2013**	**2014**	**2015**
At end of underwriting year	449.6	481.9	447.1	482.2	457.9
One year later	844.6	907.1	963.6	1,104.2	
Two years later	892.0	970.0	1,013.6		
Three years later	890.2	946.9			
Four years later	897.1				
Current estimate of cumulative claims incurred	**897.1**	**946.9**	**1,013.6**	**1,104.2**	**457.9**
Cumulative payments to date	611.6	545.4	449.6	294.7	39.6
Gross outstanding claims provision at 31 Dec 2015	**285.5**	**401.5**	**564.0**	**809.5**	**418.3**

Estimate of cumulative net incurred claims

US$m **Underwriting year**	**2011**	**2012**	**2013**	**2014**	**2015**
At end of underwriting year	309.4	325.0	293.8	328.9	303.9
One year later	584.9	617.7	637.0	724.9	
Two years later	610.2	650.7	669.3		
Three years later	597.8	636.4			
Four years later	597.8				
Current estimate of cumulative claims incurred	**597.8**	**636.4**	**669.3**	**724.9**	**303.9**
Cumulative payments to date	416.7	368.1	303.8	217.9	32.3
Net outstanding claims provision at 31 Dec 2015	**181.1**	**268.3**	**365.5**	**507.0**	**271.6**

Note **10** Financial investments

	Market value 2015 US$m	Market value 2014 US$m	**Cost 2015 US$m**	Cost 2014 US$m
Shares and other variable yield securities and units in unit trusts	**478.6**	430.1	**487.7**	417.6
Debt securities and other fixed income securities	**1,295.8**	1,189.2	**1,430.8**	1,191.3
Derivative contracts	**45.9**	5.3	**20.1**	-
Other investments	**20.4**	90.6	**38.0**	92.1
	1,840.7	1,715.2	**1,976.6**	1,701.0

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

US$421.0m (2014: US$843.0m) of "Shares and other variable yield securities and units in unit trusts" and "Debt securities and other fixed income securities" are listed. These comprise 22.9% (2014: 49.1%) of the total market value of investments.

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

	Level 1 2015 US$m	**Level 2 2015 US$m**	**Level 3 2015 US$m**	**Total 2015 US$m**
Equity securities	92.8	-	17.5	110.3
Debt securities	565.3	698.3	32.3	1,295.9
Loan instrument securities	-	20.4	-	20.4
Derivatives	-	36.9	9.0	45.9
Specialised investment funds	368.2	-	-	368.2
	1,026.3	**755.6**	**58.8**	**1,840.7**

	Level 1 2014 US$m	Level 2 2014 US$m	Level 3 2014 US$m	Total 2014 US$m
Equity securities	-	-	-	-
Debt securities	89.3	930.4	169.5	1,189.2
Loan instrument securities	-	89.8	0.8	90.6
Derivatives	-	5.3	-	5.3
Specialised investment funds	236.9	118.5	74.7	430.1
	326.2	1,144.0	245.0	1,715.2

Note **10** **Financial investments continued**
Basis for determining the fair value hierarchy of financial instruments

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

(a) Level one - quoted prices (unadjusted) in active markets for identical assets that are readily and regularly available representing actual and regularly occurring market transactions on an arm's length basis;
(b) Level two - price of recent transactions of identical assets or adjusted prices using observable market data inputs that have a significant effect on recorded fair value, either directly or indirectly;
(c) Level three - prices derived using a valuation technique which uses inputs that have a significant effect on the recorded fair value that are not based on observable market data.

Included in the level one category are financial assets that are measured by reference to published quotes in an active market. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry Syndicate, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Included in the level two category are financial assets that are measured using a valuation technique based on assumptions that are supported by prices from observable current market transactions. For example values provided at the request of the Syndicate by pricing services for those securities that are not publicly available, values based on broker quotes or values using a valuation technique including varying degree of assumption supported by market transaction and observable data. This category also includes certain funds that are valued based on the underlying assets within the fund.

Included in the level three category are financial assets measured using a valuation technique (model) based on assumptions that are neither supported by prices from observable current market transactions in the same instrument nor are they based on available market data. Therefore, unobservable inputs reflect the Syndicate's own assumptions about the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk). These inputs are developed based on the best information available.

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

<u>Level one financial assets</u>
The main asset classes in the level one category are government bonds and treasury bills issues in Canada and in the US where transactions occur with sufficient frequency and volume on an arm's length basis.

<u>Level two financial assets</u>
The main asset classes in the level two category are US and non-US government agency securities, US and non-US corporate debt securities, loan instruments and certain specialised investment funds.

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

US and non-US corporate debt securities are investment grade and the information collected during pricing of these instruments includes credit data as well as other observations from the market and the particular sector. Prices for all these securities are based on a limited number of transactions (OTC prices/broker-dealer quotes) so they are derived indirectly using inputs that can be corroborated by observable market data. These also include certain private placement corporate debt securities which are valued with the use of discounted cash flow models.

Note **10** Financial investments continued

Basis for determining the fair value hierarchy of financial instruments continued

Level two specialised investment funds contain credit opportunities funds that are valued based on the underlying assets in the fund on a security by security basis. A number of direct and indirect inputs such as benchmark yield curves, credit spreads, estimated default rates, anticipated market interest rate volatility, coupon rates and anticipated timing of principal repayments are considered during their valuation.

<u>Level three financial assets</u>

Level three securities contain certain investments in asset backed securities (ABS), residential mortgage backed securities (RMBS), investments in private equity/limited partnerships where the fund's underlying investments are not traded/quoted in an active market. Level three ABS include mostly investment-grade debt securities backed by pools of loans with a variety of underlying collateral. Level three RMBS include non-agency RMBS backed by non-conforming residential mortgages. Pricing models factor in interest rates, bond or credit swap spreads and volatility.

Level three specialised investment funds include securities that are valued using techniques appropriate to each specific investment. The valuation techniques include fair value by reference to net asset values (NAVs) adjusted and issued by fund managers based on their knowledge of underlying investments and credit spreads of counterparties. In some instances, certain investment funds are classified as Level three because they may require at least three months' notice to liquidate.

Level three equities include investments in limited partnerships where the fund's underlying investments are not traded/quoted in an active market. In some instances, limited partnerships are classified as level three because they may require at least three months of notice to liquidate.

Note **11** Derivative contracts

The Syndicate purchases derivative financial instruments:
- i) to hedge its foreign currency exposure on future commitments;
- ii) as part of its investment management strategy.

	Fair value	
Assets	**2015 US$m**	2014 US$m
Foreign exchange forward contract Assets	**29.0**	5.3
Equity options	**7.9**	-
Non-currency based inflation options	**9.0**	-
Other financial investments – derivatives	**45.9**	5.3
Foreign exchange forward contracts Liabilities	**(3.3)**	(2.0)
Net value of derivatives at 31 December	**42.6**	3.3

The derivatives contracts Fair Value Hierarchy is shown as part of Note 10 above.

Note **12** Provision for unearned premium

	Gross US$m	**Reinsurers' share US$m**	**Net US$m**
Balance at 1 January 2015	**878.1**	**(246.2)**	**631.9**
Premiums written in the year	**1,999.2**	**(613.7)**	**1,385.5**
Premiums earned in the year	**(2,007.2)**	**606.4**	**(1,400.8)**
Effect of movement in exchange rates	**(19.5)**	**9.1**	**(10.4)**
Balance at 31 December 2015	**850.6**	**(244.4)**	**606.2**

	Gross US$m	Reinsurers' share US$m	Net US$m
Balance at 1 January 2014	798.6	(224.8)	573.8
Premiums written in the year	2,150.2	(732.6)	1,417.6
Premiums earned in the year	(2,049.9)	701.1	(1,348.8)
Effect of movement in exchange rates	(20.8)	10.1	(10.7)
Balance at 31 December 2014	878.1	(246.2)	631.9

Note **13** Claims Outstanding

	Gross US$m	**Reinsurers' share US$m**	**Net US$m**
Balance at 1 January 2015	**3,213.5**	**(1,200.6)**	**2,012.9**
Claims incurred in current underwriting year	**1,080.3**	**(365.7)**	**714.6**
Claims incurred in prior underwriting years	**(1.4)**	**(33.7)**	**(35.1)**
Claims paid in the year	**(871.3)**	**331.0**	**(540.3)**
Effect of movement in exchange rates	**(106.2)**	**54.9**	**(51.3)**
Balance at 31 December 2015	**3,314.9**	**(1,214.1)**	**2,100.8**

	Gross US$m	Reinsurers' share US$m	Net US$m
Balance at 1 January 2014	3,080.5	(1,078.8)	2,001.7
Claims incurred in current underwriting year	1,109.9	(445.7)	664.2
Claims incurred in prior underwriting years	12.6	(31.5)	(18.9)
Claims paid in the year	(883.1)	299.8	(583.3)
Effect of movement in exchange rates	(106.4)	55.6	(50.8)
Balance at 31 December 2014	3,213.5	(1,200.6)	2,012.9

Note **14** Cash and cash equivalents

	2015 US$m	2014 US$m
Cash at bank and in hand	**279.4**	201.8
Short-term deposits	**0.4**	18.3
	279.8	220.1

Note **15** Other assets

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

Note **16** Deferred acquisition costs

	2015 US$m	2014 US$m
Balance at 1 January	**217.2**	203.9
Change in deferred acquisition costs	**11.7**	19.6
Effect of movement in exchange rates	**(6.0)**	(6.3)
Balance at 31 December	**222.9**	217.2

Note **17** Creditors arising out of direct insurance operations

	2015 US$m	2014 US$m
Due to intermediaries within one year	**3.3**	10.1
Due to intermediaries after one year	**0.1**	0.3
	3.4	10.4

Note **18** Related parties

(i) Group companies

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

(a) Fairfax Financial Holdings Limited ('FFHL')

On 5 June 2015, the parent company of the managing agent was acquired by FFHL Group Limited, a subsidiary of FFHL. The Syndicate has historically entered into various reinsurance arrangements with affiliates of FFHL. In respect of insurance and ceded outwards reinsurance activity, the amounts included in the income statement relating to trading with affiliates of FFHL in the period from 5 June 2015 to 31 December 2015 were as follows:

	Period from 5 June to 31 December 2015 US$m
Gross premiums written	**6.8**
Less premiums ceded to reinsurers	**(3.5)**
Premiums written, net of reinsurance	**3.3**
Gross amount of change in provision for unearned premiums	**3.1**
Reinsurers' share of change in provision for unearned premiums	**(4.7)**
Net change in provision for unearned premiums	**(1.6)**
Earned premiums, net of reinsurance	**1.7**
Gross claims paid	**(6.9)**
Reinsurers' share of claims paid	**10.5**
Claims paid, net of reinsurance	**3.6**
Gross change in the provision for claims	**2.8**
Reinsurers' share of change in the provision for claims	**(9.1)**
Net change in the provision for claims	**(6.3)**
Commission income	**2.3**
Commission expense	**(1.2)**

Note **18** **Related parties**
Group companies continued
(a) Fairfax Financial Holdings Limited continued

The amounts included in the statement of financial position outstanding with affiliates of FFHL and its affiliates as at 31 December 2015 were as follows:

	Year ended 31 December 2015 US$m
Debtors arising out of direct insurance and reinsurance operations:	
Insurance premium receivable	**5.9**
Recoverable from reinsurers	**59.6**
Creditors arising out of direct insurance and reinsurance operations:	
Payable to reinsurers	**(4.1)**
Unpaid claims liabilities	**(45.9)**
Deferred acquisition costs	**1.0**
Gross unearned premiums	**(5.2)**
Unearned premium recoverable from reinsurers	**3.5**

(b) 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	**£m**
2013	940.0
2014	1,075.0
2015	1,075.0

In order to do this, it has provided Funds at Lloyd's. As at 31 December 2015, the Funds at Lloyd's requirement amounted to US$806.5m (2014: US$765.7m). For further information, refer to Note 19.

(c) Brit Syndicates Limited

During the year, the Syndicate has paid fees to Brit Syndicates Limited, the Managing Agent subsidiary of the Group, amounting to US$147.9m (2014: US$159.6m). As at 31 December 2015, no amounts were outstanding (2014: nil).

(d) 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 $247.4m (2014: $280.2m). As at 31 December 2015, the Syndicate owed $75.4m of premiums to Brit Insurance (Gibraltar) PCC Limited (2014: $89.4m). The collateral disclosed in Note 3 that is available for immediate drawdown in the event of a default includes collateral for Brit Insurance (Gibraltar) PCC Limited of up to $685.6m (2014: $495.7m).

Note **18** **Related parties**
Group companies continued

(e) 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 US$18.0m (2014: US$16.2m). As at 31 December 2015, no amounts of commission were outstanding (2014: nil). As at 31 December 2015, Brit Insurance Services USA Inc. owed US$41.0m of premiums to the Syndicate (2014: $37.6m).

(f) 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 US$5.8m (2014: US$3.5m). As at 31 December 2015, no amounts of commission were outstanding (2014: nil). As at 31 December 2015, BGS Services (Bermuda) Limited owed US$35.8m of premiums to the Syndicate (2014: US$16.5m).

(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 (2014: nil) and no technical adviser fees or profit commission.

(iii) Directors of Brit Syndicates Limited

For information relating to the remuneration of the directors of Brit Syndicates Limited, refer to Note 7.

During 2015, a non-executive director also held office with a coverholder, The Medical Professional Liability Company ('MPLC') that provided business to the Syndicate. All business has been carried out on an arm's length basis. The amount of Gross Written Premium transacted with MPLC during the year is US$3.2m (2014:US$2.7m).

(iv) Associated undertakings - Ambridge Partners LLC

On 8 December 2015, the Group acquired 50% of the members' interests of Ambridge Partners LLC and also entered into a call and a put option to purchase the remaining 50% in 2019. Ambridge Partners LLC is a leading managing general underwriter of transactional insurance products, writing business on behalf of a range of insurers including Syndicate 2987.

Trading with Ambridge Partners LLC is undertaken on an arm's-length basis and is settled in cash. The amounts in the income statement relating to trading with Ambridge Partners LLC for the period from 8 December 2015 to 31 December 2015 included commission for introducing insurance business of US$0.4m.

The amount of premiums net of commission in the statement of financial position outstanding from Ambridge Partners LLC as at 31 December 2015 was US$6.4m.

The amount of fees in the statement of financial position payable to Ambridge Partners LLC as at 31 December 2015 was US$0.2m.

(v) Key Management personnel compensation

For the purposes of FRS 102, the active underwriters are deemed to be the key management personnel. Compensation, including share-based payments, incurred by the key management personnel in 2015 was US$4.3m (2014: US$2.0m).

Note **19** 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 The UK Prudential Regulation Authority (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 2015 are US$806.5m (2014: US$765.7m). The Managing Agent is able to make a call on the members' FAL to meet liquidity requirements or to settle losses.

Note **20** Funds in Syndicate

As at 31 December 2015, the Syndicate held US$54.7m (2014: US$nil) of undistributed profit in respect of the 2012 year of account. The investment return for the calendar year was US$0.5m. These amounts are included in the Statement of Financial Position under 'Financial Investments' and the income is in the non-technical account.

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** Subsequent events

There have been no events subsequent to the period end which require adjustment or disclosure in the financial statements or notes thereto.

Note **23** Ultimate holding company

The Managing Agent is a wholly owned subsidiary of Brit Insurance Holdings Limited, a company registered in the United Kingdom. The ultimate parent undertaking at the year-end is Fairfax Financial Holdings Limited (Fairfax), a company registered in Toronto. Copies of Fairfax consolidated accounts can be obtained by writing to 95 Wellington Street West, Suite 800, Toronto, Ontario, Canada, M5J 2N7 or from the website www.fairfax.ca.

Note **24** Transition to FRS 102 and 103

The Syndicate transitioned to FRS 102 and FRS 103 from previously extant UKGAAP as at 1 January 2014.

Reconciliation of members' balances brought forward

	US$m
Balance at 31 December 2013 as previously stated	8.4
Adjustment re non-monetary items now treated as monetary items	16.3
Restated balance at 31 December 2013	**24.7**

	US$m
Balance at 31 December 2014 as previously stated	101.9
Adjustment re non-monetary items now treated as monetary items	(16.1)
Restated balance at 31 December 2014	**85.8**

Changes in accounting policies arising from the transition to FRS 102 and FRS 103.

FRS103 requires all assets and liabilities arising from an insurance contract to be treated as monetary items and therefore retranslated at the year-end exchange rate. Previously under FRS23, unearned premiums and deferred acquisition costs were treated as non-monetary items and so were not retranslated and instead held at the historic exchange rate.

Also FRS103 requires exchange gains and losses to be presented in the non-technical account. Previously these were included in the technical account under 'net operating expenses'.

The change from previous UKGAAP to FRS102 and FRS 103 had the following impact on the profit and loss account.

	US$m
Profit for the year ended 31 December 2014 under previous UKGAAP	**162.8**
Unearned premiums and deferred acquisition costs now treated as monetary items	**(33.2)**
Profit for the year ended 31 December 2014 under new UKGAAP	**129.6**

Directors of the Managing Agent

Executive
Mark Andrew Allan – Chief Financial Officer (appointed 3 December 2015)
Andrew Martin Baddeley (resigned 17 September 2015)
Mark Bertrand Cloutier - Chief Executive Officer
Nigel Sinclair Meyer (appointed 23 June 2015)
Steven Derek Robson
John William Stratton (resigned 9 September 2015)
Matthew Dominic Wilson

Non-Executive
Andrew Acheson Barnard (appointed 5 November 2015, resigned 16 December 2015)
Ipe Jacob
Bijan Khosrowshahi (appointed 5 November 2015)
Anthony John Medniuk
Dr Richard Churchill Ward
John William Young (resigned 5 November 2015)

Director appointed after the Balance Sheet date
Simon Philip Guy Lee (appointed 19 January 2016)

Secretary
Paul Michael Armfield (resigned 20 March 2015)
Tim James Harmer (appointed 23 March 2015)

Active Underwriter
Christiern Dart
Matthew Wilson

Registered Office
The Leadenhall Building
122 Leadenhall Street
London
EC3V 4AB

Auditor
Ernst & Young LLP
25 Churchill Place
Canary Wharf
London
E14 5EY