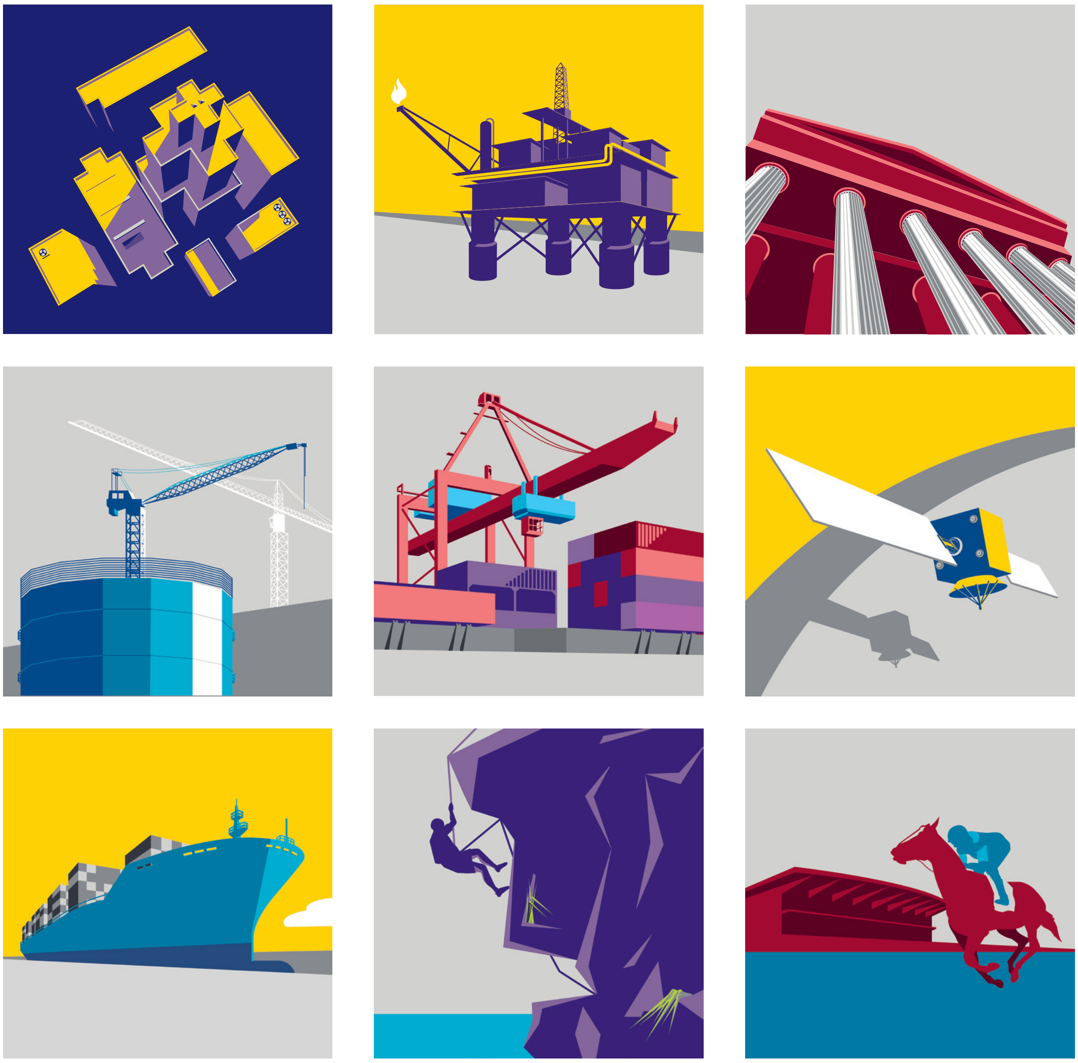
# BRIT PLC

## Interim Report 2014



SEEING THE DIFFERENCE **MAKES THE DIFFERENCE**

# Contents


| | |
|---|---|
| Performance summary and key performance indicators | 1 |
| Interim Management Report | 2 |
| Responsibility Statement of the Directors in respect of the interim report | 11 |
| Independent Auditor's Report | 12 |
| Condensed Consolidated Interim Financial Statements | |
| Condensed Consolidated Income Statement | 14 |
| Condensed Consolidated Statement of Comprehensive Income | 16 |
| Condensed Consolidated Statement of Financial Position | 17 |
| Condensed Consolidated Statement of Cash Flows | 18 |
| Condensed Consolidated Statement of Changes in Equity | 19 |
| Notes to the Condensed Consolidated Interim Financial Statements | 21 |
| Company Information | 42 |


# Key points

- Return on adjusted net tangible assets (annualised) before FX movements of 25.0% (HY 2013: 16.7%).
- Profit on ordinary activities before tax, FX and IPO costs of £96.0m (HY 2013: £56.0m).
- Profit after tax of £56.6m (HY 2013: £69.0m).
- Gross written premiums of £701.2m (HY 2013: £671.2m), an increase of 4.5%. The increase at constant exchange rates was 11.6%.
- Combined ratio of 88.3% (HY 2013: 86.2%).
- Attritional claims ratio of 51.4% (HY 2013: 51.4%).
- Investment return for the period of £56.3m representing a non-annualised return for the half year of 2.1% (HY 2013: £9.0m/0.3%).
- Capital surplus over requirements of £336.8m with a solvency ratio of 153.5% before payment of interim dividend (FY 2013: £264.4m/141.0%).
- Earnings per share of 14.2 pence (HY 2013: 15.9 pence).
- Closing adjusted net tangible assets per share of 179.4 pence (FY 2013: 168.6 pence).
- Interim dividend declared of 6.25 pence per share (HY 2013: nil).
- Successful IPO of Brit PLC and re-domicile to the UK.

# About Brit PLC

Brit PLC is a market-leading global specialty insurer and reinsurer, focused on underwriting complex risks. It has a major presence in Lloyd's of London, the world's specialist insurance market provider, with significant US and international reach. The Brit Group underwrites a broad class of commercial specialty insurance with a strong focus on property, casualty and energy business. Its capabilities are underpinned by robust financials. Brit PLC is listed on the London Stock Exchange.

For more information please visit www.britinsurance.com.

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# Performance summary and Key performance indicators

| | 6 months ended 30 June 2014 | 6 months ended 30 June 2013 | Year ended 31 December 2013 |
|---|---|---|---|
| **Performance summary** | | | |
| Gross written premium (£m) | 701.2 | 671.2 | 1,185.7 |
| Net written premium (£m) | 548.6 | 509.9 | 956.3 |
| Net earned premium (£m) | 495.6 | 437.8 | 945.5 |
| Underwriting profit (£m) | 56.5 | 61.7 | 138.4 |
| Investment return[1] (£m) | 56.3 | 9.0 | 54.7 |
| Corporate expenses (£m) | (9.7) | (7.3) | (14.9) |
| Finance costs (£m) | (7.1) | (7.4) | (15.0) |
| Other items (£m) | - | - | 4.4 |
| Profit on ordinary activities before tax, FX and IPO costs (£m) | 96.0 | 56.0 | 167.6 |
| FX movements[2] (£m) | (20.7) | 19.4 | (58.2) |
| IPO related expenses (£m) | (13.8) | - | (2.0) |
| Profit on ordinary activities before tax (£m) | 61.5 | 75.4 | 107.4 |
| Tax (£m) | (4.9) | (4.7) | (6.5) |
| Discontinued operations (£m) | - | (1.7) | (1.4) |
| Profit for the period (after tax) (£m) | 56.6 | 69.0 | 99.5 |
| Earnings per share (Basic) (pence) | 14.2 | 15.9 | 24.1 |
| Dividend per share (pence) | 6.25 | - | - |
| Net tangible assets per share (pence) | 176.2 | 157.9 | 165.3 |
| Adjusted net tangible assets[3] per share (pence) | 179.4 | 161.6 | 168.6 |
| **Key performance indicators** | | | |
| RoNTA before FX movements[4] | 25.0% | 16.7% | 24.0% |
| RoNTA[5] | 17.9% | 20.0% | 16.6% |
| *Attritional ratio[5]* | *51.4%* | *51.4%* | *51.3%* |
| *Major claims ratio[5]* | *-* | *-* | *3.2%* |
| *Reserve release ratio[5]* | *(2.6)%* | *(3.4)%* | *(6.0)%* |
| Claims ratio[5] | 48.8% | 48.0% | 48.5% |
| *Commission expense ratio[5]* | *27.9%* | *26.1%* | *24.9%* |
| *Operating expense ratio[5]* | *11.6%* | *12.1%* | *12.0%* |
| Expense ratio[5] | 39.5% | 38.2% | 36.9% |
| Combined ratio[5] | 88.3% | 86.2% | 85.4% |
| Solvency ratio[6] | 153.5% | 120.4% | 141.0% |
| Premium rate change | (3.0)% | 0.7% | 0.3% |
| Investment return[1,7] | 2.1% | 0.3% | 2.1% |

1 Inclusive of return on investment related derivatives and after deducting investment management expenses.
2 Includes the effect of foreign exchange on monetary items (£(27.5)m),foreign exchange on non-monetary items (£2.3m) and return on FX related derivatives (£4.5m).
3 Adjusted net tangible assets are defined as total equity, less intangible assets net of the deferred tax liability on those intangible assets. The deferred tax liability on intangible assets at 30 June 2014 was £12.6m (30 June 2013: £14.4m; 31 December 2013: £12.9m).
4 Excludes all FX movements (footnote 2) and based on adjusted net tangible assets (footnote 3). The 30 June figures are annualised.
5 Excludes the effect of foreign exchange on non-monetary items.
6 The solvency ratio is calculated as available resources as a percentage of management entity capital requirements.
7 The 30 June figures are non-annualised.

# Interim Management Report

## Overview of Results

Brit PLC ('Brit' or 'the Group') has delivered a strong performance in its first period as a listed Group. Underwriting return was healthy, benefitting from targeted premium growth, a low attritional ratio, an absence of large losses and favourable reserve development. This was supported by a very competitive non-annualised investment return of 2.1%. The result for the period also included foreign exchange losses and costs incurred in relation to the Group's initial public offering.

Profit before tax for the period was £61.5m (30 June 2013: £75.4m) and profit after tax was £56.6m (30 June 2013: £69.0m). Annualised return on net tangible assets (RoNTA), excluding the effects of FX, increased to 25.0% (30 June 2013: 16.7%) and RoNTA including the effect of FX was 17.9% (30 June 2013: 20.0%). Basic EPS was 14.2 pence per share (pps) (30 June 2013: 15.9pps).

Adjusted net tangible assets increased to £717.0m or 179.4pps (30 June 2013: £633.9m/161.6pps; 31 December 2013: £661.2m/168.6pps). The Board has declared an interim dividend of 6.25pps.

## Outlook

The outlook for the industry in the short term is challenging. However, Brit continues to see profitable growth opportunities as it benefits from its diversified portfolio operating solely through the capital efficient Lloyd's platform.

The pressures in property reinsurance, which accounts for only around 10% of income, are well documented and Brit expects its disciplined underwriting approach to lead to further reductions in premium written in this area as it focuses on business with adequate margins. Market conditions in reinsurance have, however, presented attractive opportunities for Brit to broaden and strengthen its own reinsurance protections.

Around 75% of the Group's underwriting remains in direct insurance business, where pricing is showing more resilience and where pricing levels remain adequate. Brit continues to see profitable opportunities for growth in both its existing books and its new teams and initiatives. The BGSU US specialty platform is a core focus of growth for the Group.

Brit expects the investment markets to be more challenging in the second six months of 2014, with short-term returns potentially impacted by a number of factors including rising interest rates as the global economic growth outlook improves and some volatility arising from uncertainty surrounding geopolitical events. However, Brit believes its focus on a diversified portfolio of income generating assets remains the best strategy for optimising risk adjusted return for the Group over the medium term.

The Group's strong capital position and its expense efficiency and scalability will hold it in good stead in a more challenging environment. Overall, Brit is confident that the targets set out at the time of the IPO remain achievable.

## Underwriting

**Premiums**

| **Premium growth** | **6 months ended 30 June 2014 £m** | **6 months ended 30 June 2013 £m** | **Growth %** | **Growth at constant FX rates %** |
|---|---|---|---|---|
| Brit Global Specialty Direct | 520.7 | 470.1 | 10.8 | 18.7 |
| Brit Global Specialty Reinsurance | 180.5 | 200.0 | (9.8) | (3.8) |
| Other underwriting | - | 1.1 | - | - |
| **Group** | **701.2** | **671.2** | **4.5** | **11.6** |

| Premiums by class | 6 months ended 30 June 2014 £m | 6 months ended 30 June 2013 £m | Year ended 31 December 2013 £m |
|---|---|---|---|
| **Brit Global Specialty Direct** | | | |
| **Short Tail Direct** | | | |
| Property | 151.1 | 128.7 | 228.1 |
| Marine | 66.4 | 60.6 | 109.0 |
| Energy | 49.2 | 69.0 | 106.2 |
| US Specialty (BGSU) | 48.8 | 25.4 | 67.0 |
| Accident & Health | 33.2 | 33.8 | 65.9 |
| Terrorism, Political and Aerospace | 20.3 | 9.7 | 23.0 |
| Short Tail Direct Total | 369.0 | 327.1 | 599.2 |
| **Long Tail Direct** | | | |
| Casualty | 109.2 | 107.6 | 233.1 |
| Specialist Liability | 42.5 | 35.3 | 70.8 |
| Long Tail Direct Total | 151.7 | 143.0 | 303.9 |
| **Total Direct** | **520.7** | **470.1** | **903.1** |
| **Brit Global Specialty Reinsurance** | | | |
| Short Tail RI (Property Treaty) | 86.4 | 103.2 | 136.9 |
| Long Tail RI (Casualty Treaty) | 94.1 | 94.7 | 141.4 |
| Discontinued lines | - | 2.1 | 2.7 |
| **Total Reinsurance** | **180.5** | **200.0** | **281.0** |
| **Other underwriting** | - | 1.1 | 1.6 |
| **Group Total** | **701.2** | **671.2** | **1,185.7** |

Gross written premium (GWP) for the six months ended 30 June 2013 increased by 4.5% to £701.2m (30 June 2013: £671.2m; 31 December 2013: £1,185.7m). Direct business increased by 10.8% to £520.7m (30 June 2013: £470.1m; 31 December 2013: £903.1m), while reinsurance decreased by 9.8% to £180.5m (30 June 2013: £200.0m; 31 December 2013: £281.0m). At constant exchange rates the overall increase was 11.6% (30 June 2013: 0.3%).

The 10.8% increase in Brit Global Specialty Direct was driven by the continued development of Brit's strategic growth classes and the impact of specific growth initiatives. A significant contributor to this was the continued expansion of the Group's Chicago based US service company platform, BGSU, which writes business on behalf of Brit Syndicate 2987. BGSU wrote premiums of £48.8m in the six months to 30 June 2014, an increase of 92.1% over the same period in 2013. The new teams hired in 2013 by Brit Global Specialty London (High Value Homeowners, Political Risks, UK Property and Fine Art & Specie) also contributed to this increased premium income. In addition to these current year developments, favourable prior year development was experienced in a number of classes.

The 9.8% reduction in premiums for Brit Global Specialty Reinsurance is in line with expectations and reflects challenging market conditions experienced primarily by the Property Treaty book, where the Group has maintained underwriting discipline in a difficult rating environment. This reduction was partly offset by new business written by the Group's recently established Bermudan Office, which wrote US$23.9m of premium in the period, of which the majority was Casualty Treaty.

The rating environment is becoming more challenging, with overall premium rates decreasing by 3.0% during the period (30 June 2013: increased by 0.7%). This reduction was strongly influenced by reinsurance business which experienced rate reductions of 7.5%, driven by a 10.8% rate reduction in Property Treaty which saw 85% of its portfolio renewed in the period. Rates for Brit Global Specialty Direct business on the whole remain robust, falling by only 1.5% in the period, with the principal movements being increases in Marine and Specialist Liability, offset by decreases in Energy, open market Property and Terrorism. Overall, premium adequacy remains satisfactory and Brit continues to develop its book in classes and territories where more attractive margins are achievable, with particular focus currently on property binders and our US Specialty business through BGSU.

The Group retention rate for the period was 83.0% (30 June 2013: 82.0%; 31 December 2013: 83.0%).

**Outwards reinsurance**

Reinsurance expenditure in the six months ended 30 June 2014 was £152.6m or 21.8% of GWP (30 June 2013: £161.3m/24.0%; 31 December 2013: £229.4m/19.3%). Brit has taken advantage of current market conditions in reinsurance to significantly strengthen Group-wide catastrophe cover. These additional protections include a Group-wide property aggregate catastrophe cover and some additional variable quota share protection. As a result, the expected recoveries against a number of the Group's realistic disaster scenarios (RDS) have increased, thereby reducing the Group's net exposure to such events. The Group's largest net exposure to an RDS has fallen to £106m (31 December 2013: £140m).

**Underwriting performance**

The combined ratio excluding the effect of foreign exchange on non-monetary items was 88.3% (30 June 2013: 86.2%; 31 December 2013: 85.4%).

| **Claims ratio analysis** | **6 months ended 30 June 2014 %** | **6 months ended 30 June 2013 %** | **Year ended 31 December 2013 %** |
|---|---|---|---|
| Attritional claims ratio | 51.4 | 51.4 | 51.3 |
| Major loss ratio | - | - | 3.2 |
| Reserve release ratio | (2.6) | (3.4) | (6.0) |
| Claims ratio | 48.8 | 48.0 | 48.5 |

Claims experience in the six months to 30 June 2014 was in line with expectations.

The attritional claims ratio for the period remained constant at 51.4% (30 June 2013: 51.4%; 31 December 2013: 51.3%). This is in line with our expectations and demonstrates how the restructuring of the portfolio over recent years has underpinned profitability despite pricing headwinds. As set out in the 'Underwriting performance by business unit' section below, the attritional claims for direct business improved by 0.7 percentage points over the same period in 2013.

The first half of 2014 saw limited catastrophe activity and the Group incurred no claims in respect of major losses. The Group had immaterial exposure to the Malaysian Airlines MH 370 and Korean Ferry losses.

Brit has limited exposure to the Tripoli airport attack and, although loss information is still emerging on this particular event as it develops, we anticipate that this will also largely be contained within attritional loss ratios.

As part of its quarterly reserving process, Brit released £12.6m of claims reserves established for prior year claims, the equivalent of a combined ratio reduction of 2.6% (30 June 2013: £15.6m/3.4%; 31 December 2013: £57.3m/6.0%). The main drivers of this release were Casualty Treaty and Energy. Brit's balance sheet remains strong and Brit continues to operate a robust reserving process.

The expense ratio excluding the effect of foreign exchange on non-monetary items was 39.5% (30 June 2013: 38.2%; 31 December 2013: 36.9%).

| **Expense ratio analysis** | **6 months ended 30 June 2014 %** | **6 months ended 30 June 2013 %** | **Year ended 31 December 2013 %** |
|---|---|---|---|
| Commission expense ratio | 27.9 | 26.1 | 24.9 |
| Operating expense ratio | 11.6 | 12.1 | 12.0 |
| Expense ratio | 39.5 | 38.2 | 36.9 |

Commission costs for the period were £137.8m and the commission expense ratio was 27.9% (30 June 2013: £114.4m/26.1%; 31 December 2013: £235.8m/24.9%). The increase was largely due to changes in business mix, including increased binder business. The ratio was also influenced by favourable development on a number of prior year contracts, the effect of which is expected to be diluted during the remainder of 2014.

Operating expenses are analysed later in this report.

**Underwriting performance by business unit**

The Group's underwriting performance, analysed by the Group's key business units, is set out below:

| Business unit performance | Brit Global Specialty Direct | | | | Brit Global Specialty Reinsurance | | |
|---|---|---|---|---|---|---|---|
| | **6 months ended 30 June 2014** | **6 months ended 30 June 2013** | **Year ended 31 December 2013** | | **6 months ended 30 June 2014** | **6 months ended 30 June 2013** | **Year ended 31 December 2013** |
| **Financial performance** | | | | | | | |
| Gross written premium (£m) | 520.7 | 470.1 | 903.1 | | 180.5 | 200.0 | 281.0 |
| Net Earned Premium (£m) | 379.5 | 332.5 | 705.7 | | 101.0 | 111.4 | 238.1 |
| Underwriting profit (£m) | 29.4 | 23.0 | 56.6 | | 28.4 | 38.6 | 83.2 |
| **Key Performance Indicators** | | | | | | | |
| Claims ratio (%) | 50.4 | 51.7 | 52.5 | | 42.6 | 36.4 | 36.6 |
| Expense ratio (%) | 41.8 | 41.4 | 39.5 | | 29.3 | 29.0 | 28.5 |
| Combined ratio (%) | 92.2 | 93.1 | 92.0 | | 71.9 | 65.4 | 65.1 |
| Attritional ratio (%) | 51.4 | 52.1 | 53.1 | | 51.9 | 49.6 | 46.7 |
| Rate change (%) | (1.5) | 1.2 | 0.8 | | (7.5) | (0.5) | (0.9) |

## Investments

Return on investments and investment related derivatives for the period was £56.3m or 2.1% (30 June 2013: £9.0m/0.3%; 31 December 2013: £54.7m/2.1%). Invested assets at 30 June 2014 totalled £2,564.2m (30 June 2013: £2,677.2m; 31 December 2013: £2,590.9m). Overall duration is 2.1 years and the average credit quality is A.

The Group's asset allocation, on a look-through basis, is set out in the table below:

| Asset allocation | 6 months ended 30 June 2014 £m | 6 months ended 30 June 2013 £m | Year ended 31 December 2013 £m |
|---|---|---|---|
| Government debt securities | 505.3 | 432.2 | 444.4 |
| Corporate debt securities | 779.8 | 650.5 | 793.2 |
| Structured products | 304.5 | 336.6 | 337.0 |
| Loan instruments | 178.9 | 278.1 | 332.3 |
| Equity securities | 140.4 | 80.9 | 155.1 |
| Alternative investments | 145.1 | 65.0 | 125.2 |
| Cash and cash equivalents | 504.5 | 832.1 | 400.2 |
| Other[1] | 5.7 | 1.8 | 3.5 |
| Total invested assets | **2,564.2** | **2,677.2** | **2,590.9** |

1 Includes derivative contracts.

The reduction in invested assets was due to the revaluation of the portfolio at the closing rates of exchange at 30 June 2014, at which point Sterling had appreciated materially against currencies in which the bulk of the investment portfolio is denominated.

The reduction in loans instruments and the increases in government debt securities and in cash and cash equivalents have arisen from a number of transactions entered into in June 2014. During Q3 2014, the Group's asset allocation is expected to be more aligned to the 31 December 2013 position.

The classification of the Group's invested assets within the 'Condensed Consolidated Statement of Financial Position' is as follows:

| Invested assets - classification | 6 months ended 30 June 2014 £m | 6 months ended 30 June 2013 £m | Year ended 31 December 2013 £m |
|---|---|---|---|
| Assets held for sale | 44.2 | - | - |
| Financial investments | 2,140.0 | 1,954.1 | 2,275.9 |
| Derivative contracts – investment related (assets) | 4.8 | 4.1 | 2.0 |
| Cash and cash equivalents | 376.5 | 719.0 | 315.7 |
| Derivative contracts – investment related (liabilities) | (1.3) | - | (2.7) |
| Total invested assets | **2,564.2** | **2,677.2** | **2,590.9** |

The Group's return on investments is analysed in the table below:

| Investment return | 6 months ended 30 June 2014 £m | 6 months ended 30 June 2013 £m | Year ended 31 December 2013 £m |
|---|---|---|---|
| Income | 29.4 | 30.7 | 57.5 |
| Released gains/(losses) | 6.6 | (9.4) | 1.2 |
| Unrealised gains/(losses) | 17.9 | (8.8) | 4.1 |
| Investment return before fees | 53.9 | 12.5 | 62.8 |
| Investment management expenses | (3.6) | (2.9) | (5.9) |
| Investment return net of fees | 50.3 | 9.6 | 56.9 |
| Investment related derivative return | 6.0 | (0.6) | (2.2) |
| Total return | 56.3 | 9.0 | 54.7 |
| Total return | 2.1%[1] | 0.3%[1] | 2.1% |

1 Non-annualised.

Brit's strategic focus on income producing assets performed well with the Group generating income of £29.4m during the period, representing an annualised running yield of 2.2%. The total return of £56.3m during the period was influenced by falling bond yields and a contraction in credit spreads across the US and European markets which led to gains on our fixed income and credit portfolios. Our growth assets showed gains as equity markets and alternatives rose.

## Expenses

The Group's expense ratio fell by 0.5 percentage points to 11.6% (30 June 2013: 12.1%). The Group's operating expenses for the period were as follows:

| Expense analysis | 6 months ended 30 June 2014 £m | 6 months ended 30 June 2013 £m | Year ended 31 December 2013 £m |
|---|---|---|---|
| Underlying operating expenses[1] | 65.9 | 61.0 | 129.5 |
| Project costs, timing differences and other expense adjustments | (0.4) | 0.8 | (0.7) |
| Expenses before IPO related costs | 65.5 | 61.8 | 128.8 |
| IPO related costs[2] | 13.8 | - | 2.0 |
| Total operating expenses | 79.3 | 61.8 | 130.8 |

1 Includes bonus provisions.
2 IPO related costs include one-off fees paid to third parties in respect of their services and the termination of the monitoring arrangement with Apollo Management VII, L.P. and CVC Capital Partners Advisory Company (Luxembourg) S.à r.l.

Underlying operating expenses during the six months ended 30 June 2014 increased by 8.0% to £65.9m (30 June 2013: £61.0m; 31 December 2013: £129.5m). The increase relates to an increase in bonus costs, the targeted expansion and investment in growth areas such as Brit's US Specialty business (BGSU), together with increased costs reflecting the Group's listed status.

The allocation of operating expenses within the 'Condensed Consolidated Income Statement' and the 'Segmental Information' is as follows:

| Disclosure of operating expenses | 6 months ended 30 June 2014 £m | 6 months ended 30 June 2013 £m | Year ended 31 December 2013 £m |
|---|---|---|---|
| Acquisition costs[1] | 31.6 | 24.4 | 51.7 |
| Other insurance related expenses | 24.2 | 30.1 | 62.2 |
| Total insurance related expenses[2] | 55.8 | 54.5 | 113.9 |
| Other operating expenses[3] | 23.5 | 7.3 | 16.9 |
| Total operating expenses | 79.3 | 61.8 | 130.8 |

1 Operating expenses incurred in connection with the conclusion of insurance contracts. They exclude commission costs.
2 The 'Total insurance related expenses' are included within the expense ratio.
3 Other operating expenses at 30 June 2014 included IPO related costs of £13.8m.

## Foreign exchange

Brit manages its currency exposures to mitigate its solvency capital requirements efficiently rather than to achieve a short-term impact on earnings. During 2013 Brit re-balanced its surplus assets to match the exposures for which it carries its capital, so that these assets more closely mirror the currency of those exposures. An expected implication of this action is to introduce more volatility into the Sterling reported result. This is the 'mark to market' unrealised cost of ensuring that investors are not exposed to foreign exchange driven fluctuations in the solvency ratio. As a consequence, Brit's surplus capital over its capital requirement is not materially impacted by these foreign exchange rate fluctuations.

Brit experienced a total foreign exchange loss of £20.7m in the six months ended 30 June 2014 (30 June 2013: gain of £19.4m; 31 December 2013: loss of £58.2m). This total foreign exchange related loss comprised:

- An unrealised revaluation loss of £27.5m (30 June 2013: gain of £0.9m; 31 December 2013: loss of £65.4m), primarily relating to the mark to market of Brit's capital that it holds in non-Sterling currencies matching its risk exposures;
- A gain of £4.5m (30 June 2013: gain of £9.6m; 31 December 2013: gain of £13.2m) on derivative contracts which were entered into to help manage the Group's FX exposures; and
- An accounting gain of £2.3m (30 June 2013: gain of £8.9m; 31 December 2013: loss of £6.0m), as a result of the IFRS requirement to recognise non-monetary assets and liabilities at historic exchange rates.

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

| Foreign exchange gains and (losses) | 6 months ended 30 June 2014 £m | 6 months ended 30 June 2013 £m | Year ended 31 December 2013 £m |
|---|---|---|---|
| Net change in unearned premium provision - non-monetary FX effect | 13.5 | (9.5) | (2.2) |
| Acquisition costs - non-monetary FX effect | (3.4) | 2.2 | 0.4 |
| Net foreign exchange gains/(losses) - non-monetary[1] | (7.8) | 16.2 | (4.2) |
| | 2.3 | 8.9 | (6.0) |
| Net foreign exchange (losses)/gains - monetary[1] | (27.5) | 0.9 | (65.4) |
| Return on derivative contracts - FX related instruments | 4.5 | 9.6 | 13.2 |
| | (23.0) | 10.5 | (52.2) |
| Total (loss)/gain | (20.7) | 19.4 | (58.2) |

1 The sum of these two amounts, £(35.3)m, is the 'Net foreign exchange losses' figure per the Condensed Consolidated Income Statement.

## Tax

The Group's effective tax rate for the period was 8.0% (30 June 2013: 6.2%; 31 December 2013: 6.1%). In accordance with accounting standards, the half year tax charge is based on the estimated average annual effective tax rate derived from the expected tax on the projected 2014 total annual earnings.

## Balance sheet and capital resources

At 30 June 2014 Brit's adjusted net tangible assets[1] totalled £717.0m (30 June 2013: £633.9m; 31 December 2013: £661.2m), an increase of 8.4% in the period.

As shown in the table below, Brit's balance sheet remains strong, with capital resources equivalent to 153.5% of requirements (30 June 2013: 120.4%; 31 December 2013: 141.0%). Following payment of the interim dividend, the 30 June 2014 solvency ratio will reduce to 149.6%.

| **Capital resources and requirements** | **6 months ended 30 June 2014 £m** | **6 months ended 30 June 2013 £m** | **Year ended 31 December 2013 £m** |
|---|---|---|---|
| Adjusted net tangible assets[1] | 717.0 | 633.9 | 661.2 |
| Subordinated debt[2] | 123.8 | 122.5 | 123.2 |
| Letters of credit / contingent funding | 125.0 | 125.0 | 125.0 |
| **Total available resources** | 965.8 | 881.4 | 909.4 |
| **Management entity capital requirements**[3] | (629.0) | (732.0) | (645.0) |
| Excess of resources over management entity capital requirements | 336.8 | 149.4 | 264.4 |
| Solvency ratio[4] | 153.5% | 120.4% | 141.0% |

1 Adjusted net tangible assets is defined as total equity, less intangible assets net of the deferred tax liability on those intangible assets. The deferred tax liability on intangible assets at 30 June 2014 was £12.6m (30 June 2013: £14.4m; 31 December 2013: £12.9m).
2 This represents the carrying value of the instrument in the consolidated Brit PLC financial statements.
3 The management entity capital requirement is the sum of the capital required by each entity for current trading purposes based on business strategy and regulatory requirements.
4 Calculated as available resources as a percentage of management entity capital requirements.

The reduction in capital requirement reflects the impact of foreign exchange. No material changes to underlying capital requirement have been experienced. The 2015 capital requirements will be reviewed in the fourth quarter of 2014 to reflect expected business growth and any changes to the business risk profile.

During the period, Brit successfully renegotiated its revolving credit facility. The facility limit remains at £225m, with £125m available as a letter of credit. The facility has been extended by one year to 31 December 2018. At 30 June 2014 a fully collateralised US$80.0m letter of credit was in place (31 December 2013: US$80.0m/uncollateralised) to support Brit's underwriting activities. At 30 June 2014 and 31 December 2013 no other drawings were outstanding on the facility (30 June 2013: £15m).

In addition, Brit has in issue £135.0m of 6.625% Lower Tier Two subordinated debt with a carrying value of £123.8m (30 June 2013: £122.5m; 31 December 2013: £123.2m). This was issued in December 2005 and matures in 2030. It is callable in whole by Brit on 9 December 2020.

At 30 June 2014 Brit's gearing ratio was 14.7% (30 June 2013: 25.1%; 31 December 2013: 21.9%). The reduction in the ratio reflects the collateralisation of the US$80m letter of credit in April 2014.

## Share capital

On 30 April Brit received confirmation from the High Court of a reduction in its share capital, whereby the nominal value of Brit's 400,000,000 ordinary shares then in issue was reduced from £2 per share to 0.01p per share. This created distributable reserves of £796m. On 24 June, 452,960 new 0.01p ordinary shares were issued in respect of share based incentive schemes.

## Dividends

The Board has declared an interim dividend of 6.25 pence per share. This dividend will be paid on 26 September 2014 to shareholders on the register on 22 August 2014. The shares will go ex-dividend on 20 August 2014.

## Business development

**Underwriting**

- **Brit Global Specialty London (BGS)**

  On 1 June Brit acquired the renewal rights to QBE Underwriting Limited's London-based Lloyd's Aviation business. As part of the agreement, QBE's London-based aviation underwriting and claims staff transferred to Brit. Brit assumed no exposure to business previously written by this team at QBE. With Aviation being the largest single segment of the Lloyd's Market in which Brit did not participate, this was a unique opportunity to acquire a market leading Aviation team that was a strategic fit for the Group.

  In January 2014, Brit announced the appointment of three senior underwriters to develop a new UK property portfolio. This new team, headed by David Hancock, joined Brit in the second quarter of 2014 and forms part of the Brit Global Specialty Property Facilities Division.

- **Brit Global Specialty USA (BGSU)**

  In May, Juan Calvache joined the Group to lead its new Miami-based Latin American business. Juan is supported by Carlos Becerra (Vice President, Underwriting) and Jimena Salgado (Underwriter). The office is focussing on expanding BGSU's successful US Facultative Property platform into the Latin American and Caribbean markets, in line with Brit's strategy of growing efficiently and profitably into international markets. Prior to joining Brit, Juan spent over a decade with Partner Re where he built a Property Facultative team. Carlos joined Brit from AIG and previously worked for Juan at Partner Re, while Jimena joined Brit from Liberty International and previously held a production role at Colemont.

**Board changes**

Dr Richard Ward assumed the position of Group Chairman on 14 February 2014. Prior to joining Brit, Richard was Chief Executive of Lloyd's, a role he held since April 2006. Previously he had worked as both CEO and Vice-Chairman at the International Petroleum Exchange (IPE), re-branded ICE Futures. Prior to this, he held a range of senior positions at BP, after pursuing a scientific career with the Science & Engineering Research Council (SERC). Richard has extensive experience and understanding of the global marketplace and he brings great depth of experience and knowledge to the role.

## Principal risks and risk management

The principal risks faced by the Group are listed in the prospectus ('Part II – Risk Factors'), published by the Company on 28 March 2014. This is available at www.britinsurance.com.

There are a number of risks and uncertainties which could impact the Group's performance over the remaining six months of 2014. These risks include:

- A deterioration in macroeconomic conditions;
- Claims arising from catastrophic events or a series of claims for large losses;
- Increasingly challenging underwriting market conditions;
- Investment market volatility; and
- Fluctuations in exchange rates.

The risks arising from all business activities are managed in line with the Group risk management framework in order to protect policyholders and maximise shareholder value. This established framework addresses all the risks surrounding the organisation's activities past, present and, in particular, future. It sets out risk management standards, risk appetite, and provides a consistent methodology and structure to the way in which the risks are identified, measured and managed. The framework is supported by appropriate governance, management information, policies, processes, culture and systems.

Brit delivers shareholder value by actively seeking and accepting risk within agreed limits. Brit’s risk management framework highlights the importance of managing the impact of risk on the economic value of the company. It sets out a transparent process to identify, assess and manage risk and deploy risk appetite using an economic capital approach.

Brit's risk framework ensures that a strong culture of risk control and management continues to be embedded across the Group. Risk appetite is set by the Board and cascaded throughout the organisation. Brit monitors the aggregation of risk across the business and has overarching limits in place to manage this. In addition to the overarching limits, the risk framework clearly identifies the key risk categories and risk tolerances set for each risk category by the boards (e.g. risk tolerance is set for exposure to losses from US windstorms). Brit uses specialised risk management tools including sophisticated models to monitor current risk exposures relative to risk tolerance.

The responsibility for risk management is clearly defined and spread throughout the organisation and Brit maintains a strong risk governance structure based on the three lines of defence principle. Within the first line of defence, individual risk committees, chaired by members of the executive management team, monitor day-to-day risk control activities. Risk management, as a second line of defence provides oversight over business processes and sets out policies and procedures and reports directly to the Risk Oversight Committee of the Board. Internal Audit, reporting to the Audit Committee, is the third line of defence providing independent assurance and monitoring of the effectiveness of the risk management processes.

This risk governance structure ensures that information is passed to the relevant management committee or Board. This process enables Brit to protect policyholders and maximise shareholder value by ensuring the risk and capital implications of business strategy are well understood. Brit’s risk framework will also enable the Group, and the legal entities within it, to comply fully with the risk management requirements under Solvency II.

## Related party transactions

Related party transactions are disclosed in Note 20 of the condensed consolidated interim financial statements.

## Responsibility statement of the Directors in respect of the Interim Report

We confirm that to the best of our knowledge:

- the condensed consolidated interim financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the EU;
- the interim management report includes a fair review of the information required by:

(a) DTR 4.2.7R of the Disclosure and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed consolidated interim financial statements, and a description of the principal risks and uncertainties for the remaining six months of the year; and

(b) DTR 4.2.8R of the Disclosure and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that six months, and any changes in the related party transactions described in the last annual report that could do so.

**Mark Cloutier**
Group Chief Executive Officer

12 August 2014

# Independent Auditor's Report

To the Shareholders of
Brit PLC
55 Bishopsgate
London
United Kingdom
EC2N 3AS

**Report on review of interim condensed consolidated financial statements**

**Introduction**

We have been engaged by the Company to review the condensed consolidated interim financial statements in the half-yearly financial report for the six months ended 30 June 2014 which comprises condensed consolidated Income Statement, condensed consolidated Statement of Comprehensive Income, condensed consolidated Statement of Financial Position, condensed consolidated Statement of Cash Flows, condensed consolidated Statement of Changes in Equity and the notes to the Financial Statements. We have read the other information contained in the half yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed consolidated interim financial statements.

This report is made solely to the company in accordance with guidance contained in International Standard on Review Engagements 2410 (UK and Ireland) "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our work, for this report, or for the conclusions we have formed.

**Directors' Responsibilities**

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in note 2, the annual financial statements of Brit PLC are prepared in accordance with IFRSs as adopted by the European Union. The condensed consolidated interim financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting", as adopted by the European Union.

**Our Responsibility**

Our responsibility is to express to the Company a conclusion on the condensed consolidated interim financial statements in the half-yearly financial report based on our review.

**Scope of Review**

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## Independent Auditor's Report (continued)

**Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated interim financial statements in the half-yearly financial report for the six months ended 30 June 2014 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

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

12 August 2014

## Condensed Consolidated Income Statement
for six months ended 30 June 2014

| | Note | **Unaudited 6 months ended 30 June 2014 £m** | Unaudited 6 months ended 30 June 2013 £m | Audited Year ended 31 December 2013 £m |
|---|---|---|---|---|
| **Revenue** | | | | |
| Gross premiums written | 5 | **701.2** | 671.2 | 1,185.7 |
| Less premiums ceded to reinsurers | 5 | **(152.6)** | (161.3) | (229.4) |
| **Premiums written, net of reinsurance** | | **548.6** | 509.9 | 956.3 |
| | | | | |
| Gross amount of change in provision for unearned premiums | | **(92.0)** | (132.9) | (34.0) |
| Reinsurers' share of change in provision for unearned premiums | | **39.0** | 60.8 | 23.2 |
| Net change in provision for unearned premiums | | **(53.0)** | (72.1) | (10.8) |
| **Earned premiums, net of reinsurance** | | **495.6** | 437.8 | 945.5 |
| | | | | |
| Investment return | 6 | **50.3** | 9.6 | 56.9 |
| Return on derivative contracts | 7 | **10.5** | 9.0 | 11.0 |
| Profit on disposal of asset held for sale | | **-** | - | 4.4 |
| Net foreign exchange gains | 8 | **-** | 17.1 | - |
| **Total revenue** | | **556.4** | 473.5 | 1,017.8 |
| | | | | |
| **Expenses** | | | | |
| **Claims incurred:** | | | | |
| **Claims paid:** | | | | |
| Gross amount | | **(256.1)** | (275.7) | (542.1) |
| Reinsurers' share | | **48.5** | 39.2 | 99.2 |
| **Claims paid, net of reinsurance** | | **(207.6)** | (236.5) | (442.9) |
| | | | | |
| **Change in the provision for claims:** | | | | |
| Gross amount | | **(48.8)** | 11.8 | (34.1) |
| Reinsurers' share | | **21.0** | 10.2 | 17.8 |
| **Net change in the provision for claims** | | **(27.8)** | 22.0 | (16.3) |
| | | | | |
| Claims incurred, net of reinsurance | 5 | **(235.4)** | (214.5) | (459.2) |
| Acquisition costs | 9 | **(169.4)** | (138.8) | (287.5) |
| Other operating expenses | 9 | **(47.7)** | (37.4) | (79.1) |
| Net foreign exchange losses | 8 | **(35.3)** | - | (69.6) |
| **Total expenses excluding finance costs** | | **(487.8)** | (390.7) | (895.4) |
| | | | | |
| **Operating profit** | | **68.6** | 82.8 | 122.4 |
| | | | | |
| Finance costs | | **(7.1)** | (7.4) | (15.0) |
| **Profit on ordinary activities before tax** | | **61.5** | 75.4 | 107.4 |
| Tax expense | 12(i) | **(4.9)** | (4.7) | (6.5) |
| **Profit for the period from continuing operations** | | **56.6** | 70.7 | 100.9 |
| Loss from discontinued operations | | **-** | (1.7) | (1.4) |
| **Profit for the period** | | **56.6** | 69.0 | 99.5 |

The accompanying notes are an integral part of the condensed consolidated interim financial statements.

## Condensed Consolidated Income Statement (continued)

for six months ended 30 June 2014

| **Earnings per share from continuing operations attributable to equity holders of the parent (pence per share)** | Note | **Unaudited 6 months ended 30 June 2014** | Unaudited 6 months ended 30 June 2013 | Audited Year ended 31 December 2013 |
|---|---|---|---|---|
| Basic | 10 | **14.2** | 15.9 | 24.1 |
| Diluted | 10 | **14.2** | 15.9 | 24.1 |

| **Total earnings per share attributable to equity holders of the parent (pence per share)** | Note | **Unaudited 6 months ended 30 June 2014** | Unaudited 6 months ended 30 June 2013 | Audited Year ended 31 December 2013 |
|---|---|---|---|---|
| Basic | 10 | 14.2 | 15.6 | 23.8 |
| Diluted | 10 | 14.2 | 15.5 | 23.8 |

The numbers of shares used for calculating the earnings per share are those of Brit PLC. The number of Achilles Holdings 1 S.à r.l. shares in the comparative periods has been converted into the equivalent number of Brit PLC shares to reflect the corporate reorganisation on 28 March 2014.

## Condensed Consolidated Statement of Comprehensive Income
for 6 months ended 30 June 2014

| | Note | **Unaudited 6 months ended 30 June 2014** | Unaudited 6 months ended 30 June 2013 | Audited Year ended 31 December 2013 |
|---|---|---|---|---|
| **Profit attributable to:** | | | | |
| Equity holders of the parent | | **56.6** | 68.6 | 99.1 |
| Non-controlling interests | | **-** | 0.4 | 0.4 |
| **Profit for the period** | | **56.6** | 69.0 | 99.5 |
| | | | | |
| **Other comprehensive income** | | | | |
| | | | | |
| **Items not to be reclassified to profit or loss in subsequent periods:** | | | | |
| Actuarial (losses)/ gains on defined benefit pension scheme | | **(2.2)** | 3.6 | 2.0 |
| Current tax credit/ (charge) relating to actuarial gains/(losses) on defined benefit pension scheme | 12(ii) | **0.5** | (0.8) | (0.5) |
| **Net other comprehensive income not to be reclassified to profit or loss in subsequent periods** | | **(1.7)** | 2.8 | 1.5 |
| | | | | |
| **Other comprehensive income for the period net of tax** | | **54.9** | 71.8 | 101.0 |
| | | | | |
| **Total comprehensive income for the period attributable to:** | | | | |
| Equity holders of the parent | | **54.9** | 71.4 | 100.6 |
| Non-controlling interests | | **-** | 0.4 | 0.4 |
| **Total comprehensive income for the period** | | **54.9** | 71.8 | 101.0 |

The accompanying notes are an integral part of the condensed consolidated interim financial statements.

## Condensed Consolidated Statement of Financial Position
for 6 months ended 30 June 2014

| | Note | **Unaudited 30 June 2014 £m** | Unaudited 30 June 2013 £m | Audited 31 December 2013 £m |
|---|---|---|---|---|
| **Assets** | | | | |
| Property, plant and equipment | | **4.2** | 5.3 | 5.1 |
| Intangible assets | | **63.5** | 62.3 | 62.7 |
| Deferred acquisition costs | | **140.1** | 140.2 | 125.7 |
| Current taxation | | **9.6** | - | 6.0 |
| Reinsurance contracts | 13 | **501.3** | 503.7 | 450.0 |
| Employee benefits | | **20.2** | 18.6 | 21.9 |
| Assets held for sale | 11 | **44.2** | 14.8 | - |
| Financial investments | 14 | **2,140.0** | 1,954.1 | 2,275.9 |
| Derivative contracts | 15 | **8.6** | 6.2 | 12.7 |
| Insurance and other receivables | | **565.4** | 513.4 | 380.9 |
| Cash and cash equivalents | | **376.5** | 719.0 | 315.7 |
| **Total assets** | | **3,873.6** | 3,937.6 | 3,656.6 |
| | | | | |
| **Liabilities and Equity** | | | | |
| | | | | |
| **Liabilities** | | | | |
| Insurance contracts | 13 | **2,691.1** | 2,775.0 | 2,593.9 |
| Borrowings | | **123.8** | 132.2 | 123.2 |
| Current taxation | | **5.6** | 5.3 | 10.6 |
| Deferred taxation | | **17.1** | 15.1 | 17.1 |
| Provisions | | **2.1** | 4.0 | 2.4 |
| Derivative contracts | 15 | **5.7** | 2.1 | 11.1 |
| Insurance and other payables | | **260.3** | 322.1 | 187.3 |
| **Total liabilities** | | **3,105.7** | 3,255.8 | 2,945.6 |
| | | | | |
| **Equity** | | | | |
| Called up share capital | 16 | **4.0** | 0.7 | 0.7 |
| Share premium account | | **-** | 455.7 | 455.7 |
| Own shares | | **(0.9)** | (1.4) | (1.6) |
| Reserves | | **-** | (94.4) | (94.4) |
| Retained earnings | | **764.8** | 320.3 | 349.5 |
| **Total equity attributable to owners of the parent** | | **767.9** | 680.9 | 709.9 |
| | | | | |
| Non-controlling interests | | **-** | 0.9 | 1.1 |
| **Total equity** | | **767.9** | 681.8 | 711.0 |
| | | | | |
| **Total liabilities and equity** | | **3,873.6** | 3,937.6 | 3,656.6 |

The accompanying notes are an integral part of the condensed consolidated interim financial statements.

These financial statements were approved by the Board of Directors on 12 August 2014 and were signed on its behalf by:

**Richard Ward**
Group Chairman

**Mark Cloutier**
Group Chief Executive Officer

## Condensed Consolidated Statement of Cash Flows
for 6 months ended 30 June 2014

| | Note | **Unaudited 6 months ended 30 June 2014** | Unaudited 6 months ended 30 June 2013 | Audited Year ended 31 December 2013 |
|---|---|---|---|---|
| **Cash generated from operations** | | | | |
| Cash flows provided by operating activities | 18 | **45.5** | 463.1 | 55.9 |
| Tax paid | | **(13.0)** | (8.2) | (8.5) |
| Interest paid | | **(2.0)** | (2.2) | (13.7) |
| Interest received | | **31.5** | 41.0 | 67.6 |
| Dividends received | | **3.1** | 0.3 | 1.4 |
| **Net cash inflows from operating activities** | | **65.1** | 494.0 | 102.7 |
| **Cash flows from investing activities** | | | | |
| Purchase of property, plant and equipment | | **(0.1)** | (0.5) | (1.4) |
| Purchase of intangible assets | | **(1.4)** | (2.7) | (4.3) |
| Acquisitions | 19 | **(1.2)** | - | (1.2) |
| Disposal of asset held for sale | | **-** | - | 17.4 |
| Movements in associated undertaking loan balances | | **-** | (0.1) | (0.1) |
| **Net cash inflows from investing activities** | | **(2.7)** | (3.3) | 10.4 |
| **Cash flows from financing activities** | | | | |
| Draw down on revolving credit facility | | **-** | 15.0 | - |
| Share redemption | | **-** | (94.2) | (94.2) |
| Disposal of treasury shares | | **0.3** | - | - |
| Repurchase of shares from non-controlling interests | | **-** | (0.8) | (0.6) |
| Purchase of shares by non-controlling interests | | **1.5** | - | - |
| Buy-out of non-controlling interests | | **-** | (5.0) | (5.1) |
| Purchase of own shares | | **-** | (0.2) | (0.4) |
| **Net cash outflows from financing activities** | | **1.8** | (85.2) | (100.3) |
| **Net increase in cash and cash equivalents** | | **64.2** | 405.5 | 12.8 |
| Cash and cash equivalents at beginning of the period | | **315.7** | 304.9 | 304.9 |
| Effect of exchange rate fluctuations on cash and cash equivalents | | **(3.4)** | 8.6 | (2.0) |
| **Cash and cash equivalents at the end of the period** | | **376.5** | 719.0 | 315.7 |

The accompanying notes are an integral part of the condensed consolidated interim financial statements.

## Condensed Consolidated Statement of Changes in Equity

for 6 months ended 30 June 2014

| | Note | Called up Share capital £m | Share Premium account £m | Own shares £m | Reserves £m | Retained earnings £m | Total Equity Attributable to owners of the parent £m | Non -controlling interests £m | Total equity £m |
|---|---|---|---|---|---|---|---|---|---|
| **At 1 January 2014** | | **0.7** | **455.7** | **(1.6)** | **(94.4)** | **349.5** | **709.9** | **1.1** | **711.0** |
| Total comprehensive income recognised | | **-** | **-** | **-** | **-** | **54.9** | **54.9** | **-** | **54.9** |
| Purchase of shares by non-controlling interests | | **-** | **-** | **-** | **-** | **-** | **-** | **1.5** | **1.5** |
| Buy-out of non-controlling interests | | **-** | **16.7** | **-** | **-** | **(14.1)** | **2.6** | **(2.6)** | **-** |
| Vesting of own shares | | **-** | **-** | **0.7** | **-** | **(0.7)** | **-** | **-** | **-** |
| Corporate reorganisation | | **(0.7)** | **(472.4)** | **0.9** | **94.4** | **377.8** | **-** | **-** | **-** |
| Establishment of Brit PLC | 16 | **800.0** | **-** | **(1.2)** | **-** | **(798.8)** | **-** | **-** | **-** |
| Capital reduction | | **(796.0)** | **-** | **-** | **-** | **796.0** | **-** | **-** | **-** |
| Disposal of own shares | | **-** | **-** | **0.3** | **-** | **-** | **0.3** | **-** | **0.3** |
| Share based payments | | **-** | **-** | **-** | **-** | **0.2** | **0.2** | **-** | **0.2** |
| **At 30 June 2014** | | **4.0** | **-** | **(0.9)** | **-** | **764.8** | **767.9** | **-** | **767.9** |

for 6 months ended 30 June 2013

| | Called up Share capital £m | Share Premium account £m | Own shares £m | Reserves £m | Retained earnings £m | Total Equity Attributable to owners of the parent £m | Non - controlling interests £m | Total equity £m |
|---|---|---|---|---|---|---|---|---|
| **At 1 January 2013** | 0.8 | 456.1 | (1.2) | 0.1 | 248.7 | 704.5 | 5.7 | 710.2 |
| Total comprehensive income recognised | - | - | - | - | 71.4 | 71.4 | 0.4 | 71.8 |
| Redemption of shares | (0.1) | (0.4) | - | (94.5) | 0.8 | (94.2) | - | (94.2) |
| Purchase of own shares | - | - | (0.2) | - | - | (0.2) | - | (0.2) |
| Buy-out of non-controlling interests | - | - | - | - | (0.7) | (0.7) | (4.4) | (5.1) |
| Repurchase of shares from non-controlling interests | - | - | - | - | - | - | (0.8) | (0.8) |
| Share based payments | - | - | - | - | 0.1 | 0.1 | - | 0.1 |
| **At 30 June 2013** | 0.7 | 455.7 | (1.4) | (94.4) | 320.3 | 680.5 | 0.9 | 681.8 |

## Condensed Consolidated Statement of Changes in Equity (continued)

for year ended 31 December 2013

| | Called up Share capital £m | Share Premium account £m | Own shares £m | Reserves £m | Retained earnings £m | Total Equity Attributable to owners of the parent £m | Non -controlling interests £m | Total equity £m |
|---|---|---|---|---|---|---|---|---|
| **At 1 January 2013** | 0.8 | 456.1 | (1.2) | 0.1 | 248.7 | 704.5 | 5.7 | 710.2 |
| Total comprehensive income recognised | - | - | - | - | 100.6 | 100.6 | 0.4 | 101.0 |
| Redemption of shares | (0.1) | (0.4) | - | (94.5) | 0.8 | (94.2) | - | (94.2) |
| Purchase of own shares | - | - | (0.4) | - | - | (0.4) | - | (0.4) |
| Buy-out of non-controlling interests | - | - | - | - | (0.7) | (0.7) | (4.4) | (5.1) |
| Repurchase of shares from non-controlling interests | - | - | - | - | - | - | (0.6) | (0.6) |
| Share based payments | - | - | - | - | 0.1 | 0.1 | - | 0.1 |
| **At 31 December 2013** | 0.7 | 455.7 | (1.6) | (94.4) | 349.5 | 709.9 | 1.1 | 711.0 |

The accompanying notes are an integral part of the condensed consolidated interim financial statements.

# Notes to the Condensed Consolidated Interim Financial Statements

## 1 General information

The interim condensed consolidated financial statements of Brit PLC and its subsidiaries (collectively, the Group) for the six months ended 30 June 2014 were authorised for issue in accordance with a resolution of the directors on 12 August 2014.

Brit PLC (the Company) is a limited company, incorporated and domiciled in England and Wales, whose shares are publicly traded. The Group's principal activity is the underwriting of general insurance and reinsurance business.

## 2 Accounting policies and basis of preparation

### (a) Corporate reorganisation

Brit PLC was incorporated as a limited company on 19 December 2013 and was subsequently re-registered as a public limited company on 24 March 2014.

On 28 March 2014, Brit PLC acquired the entire share capital of the former ultimate holding company of the Group, Achilles Holdings 1 S.à.r.l.. Brit PLC was introduced as a new parent to the Achilles Insurance Group by the principal investors who were the same before and after the reorganisation.

Brit PLC's ordinary shares were admitted to trading on the London Stock Exchange on 2 April 2014.

On the basis that the transaction was effected by creating a new parent that is itself not a business, the transaction is considered to be outside the scope of IFRS 3 Business Combinations. It has therefore been accounted for using the pooling of interest method as a continuation of the existing Group. The result is that the consolidated financial statements of Brit PLC are the same as those previously presented by Achilles Holdings 1 S.à r.l., except for the share capital being that of Brit PLC. The Group continues to present its consolidated financial statements in pounds Sterling which is the functional currency of the Company.

### (b) Basis of preparation

The interim condensed consolidated financial statements for the six months ended 30 June 2014 have been prepared in accordance with IAS 34 Interim Financial Reporting. The accounting policies applied in these condensed consolidated interim financial statements are consistent with those applied by the Achilles Holdings 1 S.à r.l. Group in its consolidated financial statements as at the year ended 31 December 2013. The consolidated financial statements as at, and for the year ended 31 December 2013 were compliant with International Financial Reporting Standards as adopted by the European Union.

This condensed consolidated interim financial information does not comprise statutory accounts within the meaning of Section 434 of the Companies Act 2006. Statutory accounts for Achilles Holdings 1 S.à r.l., for the year ended 31 December 2013 were prepared in accordance with IFRS and Luxembourg company law. IFRS comprises standards issued by the International Accounting Standards Board (IASB) and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and as endorsed by the EU. The consolidated financial statements of the Achilles Holdings 1 S.à r.l. Group for the year ended 31 December 2013 were authorised for issue in accordance with a resolution of the directors on 28 February 2014 and delivered to the Registrar of Companies in Luxembourg. The report of the auditors on those accounts was unqualified.

These condensed consolidated interim financial statements have been prepared in accordance with the Listing Rules issued by the Financial Conduct Authority. The information presented herein does not include all the disclosures typically required for full consolidated financial statements. Consequently these financial statements should be read in conjunction with the full consolidated financial statements of the Achilles Holdings 1 S.à r.l. Group as at, and for the year ended 31 December 2013 available from the Company's registered office.

During the period ended 30 June 2014 the Group adopted amendments to IAS 32 'Offsetting Financial Assets and Financial Liabilities', amendments to IAS 36 'Recoverable Amount Disclosures for Non-Financial Assets', amendments to IAS 39 'Novation of Derivatives and Continuation of Hedge Accounting' and IFRIC 21 'Levies', none of which has had a significant impact on the financial statements.

## 2 Accounting policies and basis of preparation (continued)

After making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Therefore the Group continues to adopt the going concern basis in preparing its condensed consolidated interim financial statements.

### (c) Basis of consolidation

The consolidated financial statements include the financial statements of the Company, its subsidiaries and the Group's participation in Lloyd's syndicates' assets, liabilities, revenues and expenses. Subsidiaries are those entities that an investor controls, when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The financial statements of subsidiaries are prepared up to 31 December each year. Consolidation adjustments are made to convert subsidiary financial statements from local GAAP into IFRS so as to remove any dissimilar accounting policies that may exist. Subsidiaries are consolidated from the date control is transferred to the Group and cease to be consolidated from the date control is transferred from the Group. All inter-company balances, profits and transactions are eliminated.

## 3 Risk management policies

The Group's financial, insurance and other risk management objectives and policies are consistent with those disclosed in Note 4 to the Group's consolidated financial statements as at and for the year ended 31 December 2013. The principal risks and certainties are unchanged and may be summarised as insurance risk, market risk, other price risk, credit risk, liquidity risk and operational risk.

## 4 Seasonality of operations

The Group underwrites a wide range of risks, some of which are subject to potential seasonal variation. The most material of these is the Group's exposure to North Atlantic hurricanes which are largely concentrated into the second half of a calendar year. The Group actively participates in many regions and if any catastrophe events do occur, it is likely that the Group will share some of the market's losses. Consequently the potential for significantly greater volatility in expected returns remains during the second half of the year.

## 5 Segmental information

As at 30 June 2014, the reportable segments identified were as follows:

‘Brit Global Specialty Direct’, which underwrites the Group's international and US business other than reinsurance. In the main, Global Specialty Direct deals with wholesale buyers of insurance, rather than individuals. Risks are large and usually syndicated by several underwriters by means of the subscription market.

‘Brit Global Specialty Reinsurance’, which underwrites reinsurance business which is essentially the insurance of insurance and reinsurance companies and includes providing non-proportional cover for major events such as earthquakes or hurricanes. These insurance and reinsurance companies calculate how much risk they want to bear and pass on the remaining exposure to reinsurers in return for a premium.

'Other underwriting', which is made up of excess of loss reinsurance ceded from the strategic business units to a cell of Brit Insurance (Gibraltar) PCC Limited and Life Syndicate 389.

'Other corporate', which is made up of residual income and expenditure not allocated to other segments.

Foreign exchange differences on non-monetary items are separately disclosed. This provides a fairer representation of the claims ratios and financial performance of the Strategic Business Units (SBUs) which would otherwise be distorted by the mismatch arising from IFRSs whereby unearned premium, reinsurer’s share of unearned premium and deferred acquisition costs are treated as non-monetary items and the majority of other assets and liabilities are treated as monetary items. Non-monetary items are carried at historic exchange rates, while monetary items are translated at closing rates.

The Group investment return is managed centrally and an allocation is made to each of the strategic business units based on the average risk free interest rate for the period being applied to the insurance funds of each strategic business unit.

The annualised average risk free rate applied to insurance funds was 1.5% for the 6 months period ended 30 June 2014 (30 June 2013: 0.9%), (31 December 2013: 1.5%).

Information regarding the Group's reportable segments is presented below.

The allocation of total assets and liabilities between the Brit Global Speciality Direct, Brit Global Speciality Reinsurance and Other Underwriting segments for the year ended 31 December 2013 have been represented from those presented in the consolidated financial statements of Achilles Holdings 1 S.à.r.l., to conform with the current method of allocating assets and liabilities within the Group. The total assets and liabilities are not impacted as a result of this reclassification.

The claims ratio is calculated as claims incurred, net of reinsurance divided by earned premiums, net of reinsurance.
The expense ratio is calculated as acquisition costs and other insurance related expenses divided by earned premiums, net of reinsurance.

The combined ratio is the sum of the claims and expense ratios.

**(a) Statement of profit or loss by segment**

**6 months ended 30 June 2014**

| | Brit Global Specialty Direct £m | Brit Global Specialty Reinsurance £m | Other Underwriting £m | Intra Group £m | Total underwriting excluding the effect of foreign exchange on non-monetary items £m | Effect of foreign exchange on non-monetary items £m | Total underwriting after the effect of foreign exchange on non-monetary items £m | Other corporate £m | Continuing Operations £m | Discontinued Operations £m | Total £m |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Gross premiums written | 520.7 | 180.5 | 18.0 | (18.0) | **701.2** | - | **701.2** | - | **701.2** | - | **701.2** |
| Less premiums ceded to reinsurers | (127.2) | (40.3) | (3.1) | 18.0 | **(152.6)** | - | **(152.6)** | - | **(152.6)** | - | **(152.6)** |
| Premiums written, net of reinsurance | 393.5 | 140.2 | 14.9 | - | **548.6** | - | **548.6** | - | **548.6** | - | **548.6** |
| Gross earned premiums | 470.0 | 124.0 | 3.1 | (3.3) | **593.8** | 15.4 | **609.2** | - | **609.2** | - | **609.2** |
| Reinsurers' share | (90.5) | (23.0) | (1.5) | 3.3 | **(111.7)** | (1.9) | **(113.6)** | - | **(113.6)** | - | **(113.6)** |
| Earned premiums, net of reinsurance | 379.5 | 101.0 | 1.6 | - | **482.1** | 13.5 | **495.6** | - | **495.6** | - | **495.6** |
| Investment return | 8.6 | 4.0 | 0.1 | - | **12.7** | - | **12.7** | 37.6 | **50.3** | - | **50.3** |
| Return on derivative contracts | - | - | - | - | **-** | - | **-** | 10.5 | **10.5** | - | **10.5** |
| Profit on disposal of asset held for sale | - | - | - | - | **-** | - | **-** | - | **-** | - | **-** |
| Other income | - | - | - | - | **-** | - | **-** | - | **-** | - | **-** |
| **Total revenue** | 388.1 | 105.0 | 1.7 | - | **494.8** | 13.5 | **508.3** | 48.1 | **556.4** | - | **556.4** |
| Gross claims incurred | (253.6) | (51.7) | (1.6) | 2.0 | **(304.9)** | - | **(304.9)** | - | **(304.9)** | - | **(304.9)** |
| Reinsurers' share | 62.3 | 8.7 | 0.5 | (2.0) | **69.5** | - | **69.5** | - | **69.5** | - | **69.5** |
| Claims incurred, net of reinsurance | (191.3) | (43.0) | (1.1) | - | **(235.4)** | - | **(235.4)** | - | **(235.4)** | - | **(235.4)** |
| Acquisition costs - commission | (116.7) | (17.7) | - | - | **(134.4)** | (3.4) | **(137.8)** | - | **(137.8)** | - | **(137.8)** |
| Acquisition costs - other | (24.1) | (5.7) | (1.8) | - | **(31.6)** | - | **(31.6)** | - | **(31.6)** | - | **(31.6)** |
| Other insurance related expenses | (18.0) | (6.2) | - | - | **(24.2)** | - | **(24.2)** | - | **(24.2)** | - | **(24.2)** |
| Other expenses | - | - | - | - | **-** | - | **-** | (23.5) | **(23.5)** | - | **(23.5)** |
| Net foreign exchange losses | - | - | - | - | **-** | (7.8) | **(7.8)** | (27.5) | **(35.3)** | - | **(35.3)** |
| Total expenses excluding finance costs | (350.1) | (72.6) | (2.9) | - | **(425.6)** | (11.2) | **(436.8)** | (51.0) | **(487.8)** | - | **(487.8)** |
| **Operating profit/(loss)** | 38.0 | 32.4 | (1.2) | - | **69.2** | 2.3 | **71.5** | (2.9) | **68.6** | - | **68.6** |
| Loss on sale of subsidiary | | | | | | | | | **-** | - | **-** |
| Finance costs | | | | | | | | | **(7.1)** | - | **(7.1)** |
| Profit on ordinary activities before tax | | | | | | | | | **61.5** | - | **61.5** |
| Tax expense | | | | | | | | | **(4.9)** | - | **(4.9)** |
| **Profit attributable to owners of the parent** | | | | | | | | | **56.6** | - | **56.6** |
| | | | | | | | | | | | |
| Claims ratio | 50.4% | 42.6% | 68.8% | | 48.8% | | 47.5% | | | | |
| Expense ratio | 41.8% | 29.3% | 112.5% | | 39.5% | | 39.0% | | | | |
| Combined ratio | 92.2% | 71.9% | 181.3% | | 88.3% | | 86.5% | | | | |

**6 months ended 30 June 2013**

| | Brit Global Specialty Direct £m | Brit Global Specialty Reinsurance £m | Other Underwriting £m | Intra Group £m | Total underwriting excluding the effect of foreign exchange on non-monetary items £m | Effect of foreign exchange on non-monetary items £m | Total underwriting after the effect of foreign exchange on non-monetary items £m | Other corporate £m | Continuing Operations £m | Discontinued Operations £m | Total £m |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Gross premiums written | 470.1 | 200.0 | 5.8 | (4.7) | 671.2 | - | 671.2 | - | 671.2 | - | 671.2 |
| Less premiums ceded to reinsurers | (126.8) | (39.0) | (0.2) | 4.7 | (161.3) | - | (161.3) | - | (161.3) | - | (161.3) |
| Premiums written, net of reinsurance | 343.3 | 161.0 | 5.6 | - | 509.9 | - | 509.9 | - | 509.9 | - | 509.9 |
| Gross earned premiums | 412.9 | 134.1 | 3.4 | (1.9) | 548.5 | (10.2) | 538.3 | - | 538.3 | - | 538.3 |
| Reinsurers' share | (80.4) | (22.7) | - | 1.9 | (101.2) | 0.7 | (100.5) | - | (100.5) | - | (100.5) |
| Earned premiums, net of reinsurance | 332.5 | 111.4 | 3.4 | - | 447.3 | (9.5) | 437.8 | - | 437.8 | - | 437.8 |
| | | | | | | | | | | | |
| Investment return | 10.0 | 3.4 | 0.1 | - | 13.5 | - | 13.5 | (3.9) | 9.6 | - | 9.6 |
| Return on derivative contracts | - | - | - | - | - | - | - | 9.0 | 9.0 | - | 9.0 |
| Net foreign exchange gain | - | - | - | - | - | 16.2 | 16.2 | 0.9 | 17.1 | - | 17.1 |
| Other income | - | - | - | - | - | - | - | - | - | 0.7 | 0.7 |
| Total revenue | 342.5 | 114.8 | 3.5 | - | 460.8 | 6.7 | 467.5 | 6.0 | 473.5 | 0.7 | 474.2 |
| | | | | | | | | | | | |
| Gross claims incurred | (219.0) | (44.1) | (1.9) | 1.1 | (263.9) | - | (263.9) | - | (263.9) | - | (263.9) |
| Reinsurers' share | 47.1 | 3.6 | (0.2) | (1.1) | 49.4 | - | 49.4 | - | 49.4 | - | 49.4 |
| Claims incurred, net of reinsurance | (171.9) | (40.5) | (2.1) | - | (214.5) | - | (214.5) | - | (214.5) | - | (214.5) |
| Acquisition costs - commission | (97.0) | (19.3) | (0.3) | - | (116.6) | 2.2 | (114.4) | - | (114.4) | - | (114.4) |
| Acquisition costs - other | (18.5) | (5.0) | (0.9) | - | (24.4) | - | (24.4) | - | (24.4) | - | (24.4) |
| Other insurance related expenses | (22.1) | (8.0) | - | - | (30.1) | - | (30.1) | - | (30.1) | (1.2) | (31.3) |
| Other expenses | - | - | - | - | - | - | - | (7.3) | (7.3) | - | (7.3) |
| Total expenses excluding finance costs | (309.5) | (72.8) | (3.3) | - | (385.6) | 2.2 | (383.4) | (7.3) | (390.7) | (1.2) | (391.9) |
| Operating profit/(loss) | 33.0 | 42.0 | 0.2 | - | 75.2 | 8.9 | 84.1 | (1.3) | 82.8 | (0.5) | 82.3 |
| Loss on sale of subsidiary | | | | | | | | | - | (1.3) | (1.3) |
| Finance costs | | | | | | | | | (7.4) | - | (7.4) |
| Profit on ordinary activities before tax | | | | | | | | | 75.4 | (1.8) | 73.6 |
| Tax expense | | | | | | | | | (4.7) | 0.1 | (4.6) |
| **Profit attributable to owners of the parent** | | | | | | | | | 70.7 | (1.7) | 69.0 |
| | | | | | | | | | | | |
| Claims ratio | 51.7% | 36.4% | 61.8% | | 48.0% | | 49.0% | | | | |
| Expense ratio | 41.4% | 29.0% | 35.3% | | 38.2% | | 38.6% | | | | |
| Combined ratio | 93.1% | 65.4% | 97.1% | | 86.2% | | 87.6% | | | | |

## 12 months ended 31 December 2013

| | Brit Global Specialty Direct £m | Brit Global Specialty Reinsurance £m | Other Underwriting £m | Intra Group £m | Total underwriting excluding the effect of foreign exchange on non-monetary items £m | Effect of foreign exchange on non-onetary items £m | Total underwriting after the effect of foreign exchange on non-monetary items £m | Other corporate £m | Continuing Operations £m | Discontinued Operations £m | Total £m |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Gross premiums written | 903.1 | 281.0 | 6.0 | (4.4) | 1,185.7 | - | 1,185.7 | - | 1,185.7 | - | 1,185.7 |
| Less premiums ceded to reinsurers | (181.5) | (50.1) | (2.2) | 4.4 | (229.4) | - | (229.4) | - | (229.4) | - | (229.4) |
| Premiums written, net of reinsurance | 721.6 | 230.9 | 3.8 | - | 956.3 | - | 956.3 | - | 956.3 | - | 956.3 |
| Gross earned premiums | 868.1 | 283.8 | 6.1 | (4.2) | 1,153.8 | (2.1) | 1,151.7 | - | 1,151.7 | - | 1,151.7 |
| Reinsurers' share | (162.4) | (45.7) | (2.2) | 4.2 | (206.1) | (0.1) | (206.2) | - | (206.2) | - | (206.2) |
| Earned premiums, net of reinsurance | 705.7 | 238.1 | 3.9 | - | 947.7 | (2.2) | 945.5 | - | 945.5 | - | 945.5 |
| Investment return | 16.8 | 7.8 | 0.2 | - | 24.8 | - | 24.8 | 32.1 | 56.9 | - | 56.9 |
| Return on derivative contracts | - | - | - | - | - | - | - | 11.0 | 11.0 | - | 11.0 |
| Profit on disposal of asset held for sale | - | - | - | - | - | - | - | 4.4 | 4.4 | - | 4.4 |
| Other income | - | - | - | - | - | - | - | - | - | 1.4 | 1.4 |
| **Total revenue** | 722.5 | 245.9 | 4.1 | - | 972.5 | (2.2) | 970.3 | 47.5 | 1,017.8 | 1.4 | 1,019.2 |
| Gross claims incurred | (482.3) | (93.1) | (3.5) | 2.7 | (576.2) | - | (576.2) | - | (576.2) | - | (576.2) |
| Reinsurers' share | 111.9 | 6.0 | 1.8 | (2.7) | 117.0 | - | 117.0 | - | 117.0 | - | 117.0 |
| Claims incurred, net of reinsurance | (370.4) | (87.1) | (1.7) | - | (459.2) | - | (459.2) | - | (459.2) | - | (459.2) |
| Acquisition costs - commission | (196.5) | (39.3) | (0.4) | - | (236.2) | 0.4 | (235.8) | - | (235.8) | - | (235.8) |
| Acquisition costs - other | (38.8) | (9.7) | (3.2) | - | (51.7) | - | (51.7) | - | (51.7) | - | (51.7) |
| Other insurance related expenses | (43.4) | (18.8) | - | - | (62.2) | - | (62.2) | - | (62.2) | (1.2) | (63.4) |
| Other expenses | - | - | - | - | - | - | - | (16.9) | (16.9) | | (16.9) |
| Net foreign exchange losses | - | - | - | - | - | (4.2) | (4.2) | (65.4) | (69.6) | - | (69.6) |
| Total expenses excluding finance costs | (649.1) | (154.9) | (5.3) | - | (809.3) | (3.8) | (813.1) | (82.3) | (895.4) | (1.2) | (896.6) |
| **Operating profit/(loss)** | 73.4 | 91.0 | (1.2) | - | 163.2 | (6.0) | 157.2 | (34.8) | 122.4 | 0.2 | 122.6 |
| Loss on sale of subsidiary | | | | | | | | | - | (1.5) | (1.5) |
| Finance costs | | | | | | | | | (15.0) | - | (15.0) |
| Profit/(loss) on ordinary activities before tax | | | | | | | | | 107.4 | (1.3) | 106.1 |
| Tax expense | | | | | | | | | (6.5) | (0.1) | (6.6) |
| **Profit/(loss) attributable to owners of the parent** | | | | | | | | | 100.9 | (1.4) | 99.5 |
| Claims ratio | 52.5% | 36.6% | 43.6% | | 48.5% | | 48.6% | | | | |
| Expense ratio | 39.5% | 28.5% | 92.3% | | 36.9% | | 37.0% | | | | |
| Combined ratio | 92.0% | 65.1% | 135.9% | | 85.4% | | 85.6% | | | | |

## 5 Segmental information (continued)

### (b) Statement of financial position by segment

**As at 30 June 2014**

| | Brit Global Specialty Direct £m | Brit Global Specialty Reinsurance £m | Other Underwriting £m | Intra Group £m | Total underwriting excluding the effect of foreign exchange on non-monetary items £m | Effect of foreign exchange on non-monetary items £m | Total underwriting after the effect of foreign exchange on non-monetary items £m | Other corporate £m | Total £m |
|---|---|---|---|---|---|---|---|---|---|
| **Total assets** | **2,837.6** | **948.1** | **63.7** | **(49.4)** | **3,800.00** | **5.4** | **3,805.4** | **68.2** | **3,873.6** |
| **Total liabilities** | **2,158.6** | **779.8** | **55.0** | **(49.4)** | **2,944.00** | **13.0** | **2,957.0** | **148.7** | **3,105.7** |

**As at 30 June 2013**

| | Brit Global Specialty Direct £m | Brit Global Specialty Reinsurance £m | Other Underwriting £m | Intra Group £m | Total underwriting excluding the effect of foreign exchange on non-monetary items £m | Effect of foreign exchange on non-monetary items £m | Total underwriting after the effect of foreign exchange on non-monetary items £m | Other corporate £m | Total £m |
|---|---|---|---|---|---|---|---|---|---|
| **Total assets** | 2,801.0 | 1,087.9 | 46.3 | (36.3) | 3,898.9 | 1.8 | 3,900.7 | 36.9 | 3,937.6 |
| **Total liabilities** | 2,201.2 | 900.8 | 41.7 | (36.3) | 3,107.4 | (8.2) | 3,099.2 | 156.6 | 3,255.8 |

**As at 31 December 2013**

| | Brit Global Specialty Direct £m | Brit Global Specialty Reinsurance £m | Other Underwriting £m | Intra Group £m | Total underwriting excluding the effect of foreign exchange on non-monetary items £m | Effect of foreign exchange on non-monetary items £m | Total underwriting after the effect of foreign exchange on non-monetary items £m | Other corporate £m | Total £m |
|---|---|---|---|---|---|---|---|---|---|
| **Total assets** | 2,713.2 | 902.0 | 41.8 | (34.0) | 3,623.0 | 5.3 | 3,628.3 | 28.3 | 3,656.6 |
| **Total liabilities** | 2,045.0 | 728.4 | 37.7 | (34.0) | 2,777.1 | 15.2 | 2,792.3 | 153.3 | 2,945.6 |

## 6 Investment return

**6 Months ended 30 June 2014**

| | **Investment income £m** | **Net realised gains £m** | **Net unrealised gains/(losses) £m** | **Total investment return £m** |
|---|---|---|---|---|
| Equity securities | **0.3** | **1.2** | **0.4** | **1.9** |
| Debt securities | **13.7** | **1.8** | **1.8** | **17.3** |
| Loan instruments | **5.5** | **1.4** | **(0.6)** | **6.3** |
| Specialised investment funds | **9.6** | **2.2** | **16.4** | **28.2** |
| Cash and cash equivalents | **0.3** | **-** | **(0.1)** | **0.2** |
| Total investment return before expenses | **29.4** | **6.6** | **17.9** | **53.9** |
| Investment management expenses | **(3.6)** | **-** | **-** | **(3.6)** |
| Total investment return | **25.8** | **6.6** | **17.9** | **50.3** |

**6 Months ended 30 June 2013**

| | Investment income £m | Net realised (losses)/gains £m | Net unrealised (losses)/gains £m | Total investment return £m |
|---|---|---|---|---|
| Equity securities | - | (0.1) | - | (0.1) |
| Debt securities | 27.9 | (13.6) | (9.1) | 5.2 |
| Loan instruments | 1.9 | 0.4 | (0.9) | 1.4 |
| Specialised investment funds | 0.7 | 3.8 | 1.2 | 5.7 |
| Cash and cash equivalents | 0.2 | 0.1 | 0.0 | 0.3 |
| Total investment return before expenses | 30.7 | (9.4) | (8.8) | 12.5 |
| Investment management expenses | (2.9) | - | - | (2.9) |
| Total investment return | 27.8 | (9.4) | (8.8) | 9.6 |

**Year ended 31 December 2013**

| | Investment income £m | Net realised (losses)/gains £m | Net unrealised gains/(losses) £m | Total investment return £m |
|---|---|---|---|---|
| Equity securities | 0.3 | (0.1) | 1.0 | 1.2 |
| Debt securities | 43.5 | (15.3) | (8.2) | 20.0 |
| Loan instruments | 8.3 | 0.8 | 3.0 | 12.1 |
| Specialised investment funds | 4.9 | 15.7 | 8.3 | 28.9 |
| Cash and cash equivalents | 0.5 | 0.1 | - | 0.6 |
| Total investment return before expenses | 57.5 | 1.2 | 4.1 | 62.8 |
| Investment management expenses | (5.9) | - | - | (5.9) |
| Total investment return | 51.6 | 1.2 | 4.1 | 56.9 |

## 7 Return on derivative contracts

| | **6 months ended 30 June 2014 £m** | 6 months ended 30 June 2013 £m | Year ended 31 December 2013 £m |
|---|---|---|---|
| Currency forwards | **4.5** | 9.6 | 13.2 |
| Interest rate swaps | **5.7** | - | (2.6) |
| Futures | **0.1** | (0.6) | 0.4 |
| Options and warrants | **0.2** | - | - |
| Return on derivative contracts | **10.5** | 9.0 | 11.0 |

## 8 Net foreign exchange gains/(losses)

The Group recognised foreign exchange losses of £35.3m (30 June 2013: gains of £17.1m), (31 December 2013: losses of £69.6m) in the income statement in the period.

Foreign exchange gains and losses result from the translation of the balance sheet to closing exchange rates and the income statement to average exchange rates. However, as an exception to this, International Accounting Standard 21 'The Effects of Changes in Foreign Exchange Rates' requires that net unearned premiums and deferred acquisition costs (UPR/DAC), being non-monetary items, remain at historic exchange rates. This creates a foreign exchange mismatch, the financial effects of which are shown in the table below.

| | **6 months ended 30 June 2014 £m** | 6 months ended 30 June 2013 £m | Year ended 31 December 2013 £m |
|---|---|---|---|
| Losses on foreign exchange arising from: | | | |
| Translation of the balance sheet and income statement | (27.5) | 0.9 | (65.4) |
| Maintaining UPR/DAC items in the balance sheet at historic rates | 2.3 | 8.9 | (6.0) |
| Maintaining UPR/DAC items in the income statement at historic rates | (10.1) | 7.3 | 1.8 |
| **Net foreign exchange (losses)/gains** | **(35.3)** | **17.1** | **(69.6)** |

Principal exchange rates applied are set out in the table below.

| | **6 months ended 30 June 2014 £m** | | 6 months ended 30 June 2013 £m | | Year ended 31 December 2013 £m | |
|---|---|---|---|---|---|---|
| | **Average** | **Closing** | Average | Closing | Average | Closing |
| US dollar | **1.67** | **1.71** | 1.54 | 1.52 | 1.56 | 1.66 |
| Canadian dollar | **1.83** | **1.82** | 1.57 | 1.60 | 1.61 | 1.76 |
| Euro | **1.22** | **1.25** | 1.18 | 1.17 | 1.18 | 1.20 |
| Australian dollar | **1.82** | **1.81** | 1.52 | 1.66 | 1.62 | 1.85 |

## 9 Acquisition costs and other operating expenses

| | **6 months ended 30 June 2014** | | | 6 months ended 30 June 2013 | | | Year ended 31 December 2013 | | |
|---|---|---|---|---|---|---|---|---|---|
| | **Acquisition costs £m** | **Other operating expenses £m** | **Total £m** | Acquisition costs £m | Other operating expenses £m | Total £m | Acquisition costs £m | Other operating expenses £m | Total £m |
| Salary, pension and social security costs | **15.6** | **17.5** | **33.1** | 10.2 | 16.3 | 26.5 | 20.8 | 37.8 | 58.6 |
| Other staff related costs | **0.5** | **1.5** | **2.0** | 0.4 | 1.6 | 2.0 | 0.7 | 3.1 | 3.8 |
| Accommodation costs | **1.7** | **1.4** | **3.1** | 1.4 | 1.7 | 3.1 | 3.1 | 3.3 | 6.4 |
| Legal and professional charges | **0.9** | **1.5** | **2.4** | 0.6 | 2.4 | 3.0 | 1.3 | 5.7 | 7.0 |
| IT costs | **0.3** | **5.8** | **6.1** | 0.1 | 6.0 | 6.1 | 0.6 | 11.8 | 12.4 |
| Travel and entertaining | **1.3** | **0.8** | **2.1** | 0.7 | 1.1 | 1.8 | 2.0 | 1.8 | 3.8 |
| Marketing and communications | **0.1** | **0.5** | **0.6** | 0.1 | 2.2 | 2.3 | 0.1 | 4.4 | 4.5 |
| Amortisation and impairment of intangible assets | **0.4** | **2.3** | **2.7** | - | 2.4 | 2.4 | 0.5 | 4.5 | 5.0 |
| Depreciation and impairment of property, plant and equipment | **0.1** | **0.9** | **1.0** | 0.1 | 0.9 | 1.0 | 0.2 | 2.0 | 2.2 |
| Regulatory levies and charges | **11.9** | **-** | **11.9** | 11.4 | - | 11.4 | 22.1 | 0.2 | 22.3 |
| Costs relating to initial public offering | **-** | **13.8** | **13.8** | - | - | - | - | 2.0 | 2.0 |
| Other | **(1.2)** | **1.7** | **0.5** | (0.6) | 2.8 | 2.2 | 0.3 | 2.5 | 2.8 |
| Expenses before commissions | **31.6** | **47.7** | **79.3** | 24.4 | 37.4 | 61.8 | 51.7 | 79.1 | 130.8 |
| Commission costs | **137.8** | **-** | **137.8** | 114.4 | - | 114.4 | 235.8 | - | 235.8 |
| Acquisition costs and other operating expenses - continuing operations | **169.4** | **47.7** | **217.1** | 138.8 | 37.4 | 176.2 | 287.5 | 79.1 | 366.6 |
| Acquisition costs and other operating expenses - discontinued operations | **-** | **-** | | - | 1.2 | 1.2 | - | 1.2 | 1.2 |
| Total acquisition costs and other operating expenses | **169.4** | **47.7** | **217.1** | 138.8 | 38.6 | 177.4 | 287.5 | 80.3 | 367.8 |

## 10 Earnings and net assets per share

The numbers of shares used for calculating the earnings per share and net assets per share are those of Brit PLC. The number of Achilles Holdings 1 S.à r.l. shares in the comparative periods have been converted into the equivalent number of Brit PLC shares to reflect the corporate reorganisation on 28 March 2014. For further information refer to Note 2.

The calculations of the basic and diluted earnings per share from continuing operations are based on the following figures:

| | **6 months ended 30 June 2014** | 6 months ended 30 June 2013 | Year ended 31 December 2013 |
|---|---|---|---|
| Profit on ordinary activities after tax, attributable to the parent (£m) | **56.6** | 70.3 | 100.5 |
| Basic weighted average number of shares (number in millions) | **397.5** | 440.7 | 416.8 |
| Diluted weighted average number of shares (number in millions) | **397.5** | 441.1 | 417.2 |
| Basic earnings per share (pence per share) | **14.2** | 15.9 | 24.1 |
| Diluted earnings per share (pence per share) | **14.2** | 15.9 | 24.1 |

The calculations of the total basic and diluted earnings per share are based on the following figures:

| | **6 months ended 30 June 2014** | 6 months ended 30 June 2013 | Year ended 31 December 2013 |
|---|---|---|---|
| Profit on ordinary activities after tax, attributable to the parent (£m) | **56.6** | 68.6 | 99.1 |
| Basic weighted average number of shares (number in millions) | **397.5** | 440.7 | 416.8 |
| Diluted weighted average number of shares (number in millions) | **397.5** | 441.1 | 417.2 |
| Basic earnings per share (pence per share) | **14.2** | 15.6 | 23.8 |
| Diluted earnings per share (pence per share) | **14.2** | 15.5 | 23.8 |

The calculations of the net assets and net tangible assets per share are based on the following figures:

| | **30 June 2014** | 30 June 2013 | 31 December 2013 |
|---|---|---|---|
| Net assets (£m) | **767.9** | 681.8 | 711.0 |
| Intangible assets (£m) | **(63.5)** | (62.3) | (62.7) |
| Net tangible assets (£m) | **704.4** | 619.5 | 648.3 |

## 10 Earnings and net assets per share (continued)

| | **30 June 2014** | 30 June 2013 | 31 December 2013 |
|---|---|---|---|
| Number of shares in issue at the end of the period (number in millions) | **400.5** | 393.0 | 393.0 |
| Number of own shares (number in millions) | **(0.8)** | (0.8) | (0.9) |
| Number of shares in issue less own shares (number in millions) | **399.7** | 392.2 | 392.1 |

| | **30 June 2014** | 30 June 2013 | 31 December 2013 |
|---|---|---|---|
| Net assets per share (pence per share) | **192.1** | 173.8 | 181.3 |
| Net tangible assets per share (pence per share) | **176.2** | 157.9 | 165.3 |

## 11 Asset held for sale

On 20 May 2014, Avoca Loan Fund 1, a qualifying investment fund treated as a consolidated structured entity as at 31 December 2013 was categorised as an asset held for sale following a decision by management to dispose of this fund. The fair value of Avoca Loan Fund 1 as at 30 June 2014 was £44.2m, which comprises £38.6m of cash and £5.6m of loan instruments, which are categorised as Level 2 in the fair value hierarchy.

## 12 Tax expense

### (a) Tax (charged)/credited to income statement

| | **6 months ended 30 June 2014 £m** | 6 months ended 30 June 2013 £m | Year ended 31 December 2013 £m |
|---|---|---|---|
| Current tax: | | | |
| Current taxes on income for the year | **(4.5)** | (0.2) | (2.0) |
| United States tax on income for the year | **(2.9)** | (2.0) | (2.8) |
| | **(7.4)** | (2.2) | (4.8) |
| Double tax relief | **2.6** | 2.1 | 2.2 |
| Adjustments in respect of prior years | **(0.1)** | (0.9) | 2.2 |
| Total current tax | **(4.9)** | (1.0) | (0.4) |
| Deferred tax: | | | |
| Relating to the origination and reversal of temporary differences | **(1.6)** | (4.5) | (8.5) |
| Relating to changes in tax rates | **-** | 1.1 | 1.4 |
| Adjustments in respect of prior years | **1.6** | (0.3) | 1.0 |
| Total deferred tax | **-** | (3.7) | (6.1) |
| Total tax charged to income statement from continuing operations | **(4.9)** | (4.7) | (6.5) |
| Total tax charged to income statement from discontinued operations | **-** | 0.1 | (0.1) |
| Total tax charged to income statement | **(4.9)** | (4.6) | (6.6) |

United States tax and the double tax relief principally arise from taxes suffered as a result of the Group's operations at Lloyd's. Double tax relief is effectively limited to an amount equal to the tax due at the UK tax rate on the same source of income.

## 12 Tax expense (continued)

### (b) Tax credited/(charged) to other comprehensive income

| | **6 months ended 30 June 2014 £m** | 6 months ended 30 June 2013 £m | Year ended 31 December 2013 £m |
|---|---|---|---|
| Current tax credit/ (charge) on actuarial gains/losses on defined benefit pension scheme | **0.5** | **-** | **-** |
| Deferred tax credit/(charge) on actuarial gains/losses on defined benefit pension scheme | **-** | **(0.8)** | **(0.5)** |
| | **0.5** | **(0.8)** | **(0.5)** |

## 13 Insurance and reinsurance contracts

### Balances on insurance and reinsurance contracts

| | **30 June 2014 £m** | 30 June 2013 £m | 31 December 2013 £m |
|---|---|---|---|
| **Gross** | | | |
| Insurance contracts | | | |
| Claims reported and loss adjustment expenses | **976.8** | 1,008.6 | 994.7 |
| Claims incurred but not reported | **1,126.1** | 1,171.2 | 1,103.0 |
| | **2,102.9** | 2,179.8 | 2,097.7 |
| Unearned premiums | **588.2** | 595.2 | 496.2 |
| Total insurance contracts | **2,691.1** | 2,775.0 | 2,593.9 |
| **Recoverable from reinsurers** | | | |
| Reinsurance contracts | | | |
| Claims reported and loss adjustment expenses | **184.7** | 202.9 | 202.3 |
| Claims incurred but not reported | **201.7** | 188.5 | 172.5 |
| Impairment provision | **(0.1)** | (1.4) | (0.8) |
| | **386.3** | 390.0 | 374.0 |
| Unearned premiums | **115.0** | 113.7 | 76.0 |
| Total reinsurance contracts | **501.3** | 503.7 | 450.0 |
| **Net** | | | |
| Claims reported and loss adjustment expenses | **792.1** | 805.7 | 792.4 |
| Claims incurred but not reported | **924.4** | 982.7 | 930.5 |
| Impairment provision | **0.1** | 1.4 | 0.8 |
| | **1,716.6** | 1,789.8 | 1,723.7 |
| Unearned premiums | **473.2** | 481.5 | 420.2 |
| Net insurance and reinsurance contracts | **2,189.8** | 2271.3 | 2,143.9 |

The net aggregate reserve releases from prior years amounted to £12.6m (June 2013: £15.6m), (December 2013: £57.3m). In part this arises from the Group's reserving philosophy which reflects a conservative best estimate, reserving prudently for the most recent years where the outcome is most uncertain, leaving a potential for subsequent release.

## 14 Financial Investments

| | **30 June 2014 £m** | 30 June 2013 £m | 31 December 2013 £m |
|---|---|---|---|
| Equity securities | **30.4** | - | 47.6 |
| Debt securities | **1,010.7** | 1,132.8 | 998.8 |
| Loan instruments | **142.7** | 220.1 | 292.7 |
| Specialised investment funds | **956.2** | 601.2 | 936.8 |
| | **2,140.0** | 1,954.1 | 2,275.9 |

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

**Basis for determining the fair value hierarchy of financial instruments**

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

(a) Level 1 - quoted prices (unadjusted) in active markets for identical assets;

(b) Level 2 - inputs other than quoted prices included within Level 1 that are observable for the asset, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

(c) Level 3 - inputs for the assets that are not based on observable market data (unobservable inputs).

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety shall be determined on the basis of the lowest level input that is significant to the fair value measurement. The significance of an input is assessed against the fair value measurement in its entirety.

Assets are categorised as Level 1 where fair values determined in whole directly by reference to an active market relate to prices which are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm’s length basis, i.e. the market is still active.

For assets and liabilities that are recognised at fair value on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level of input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Fair values for Level 2 and Level 3 assets include:

- values provided at the request of the Group by pricing services and which are not publicly available or values provided by external parties which are readily available but relate to assets for which the market is not always active; and

- assets measured on the basis of valuation techniques including a varying degree of assumptions supported by market transactions and observable data.

For all assets not quoted in an active market or 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 3 and the classification between Level 2 and Level 3 depends highly on the proportion of assumptions used, supported by market transactions and observable data.

## 14 Financial Investments (continued)

### Valuation techniques

Level 1

Assets included in Level 1 are Government bonds, Treasury bills, exchange traded equities and exchange-traded funds which are measured based on quoted prices.

Level 2

Level 2 securities contain investments in US and Non-US government agency securities, US and Non-US Corporate debt securities, Loan instruments and certain Specialised Investment Funds.

US and Non-US government agency securities are priced using valuations from independent pricing vendors who use discounted cash flow models supplemented with market and credit research to gather specific information. US and Non-US Corporate debt securities are investment grade and the information collected during pricing of these instruments includes credit data as well as other observations from the market and the particular sector. Prices for all these securities are based on a limited number of transactions that are adjusted during valuations.

Loan instruments consist primarily of below investment-grade debt of a wide variety of corporate issuers and industries. These instruments are mostly over the counter (OTC) traded. It is not possible to establish the volume being traded and the information is private, limited and not widely available.

Level 2 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 observable and non observable market characteristics such as benchmark yield curves, credit spreads, estimated default rates, anticipated market interest rate volatility, coupon rates and anticipated timing of principal repayments are considered during their valuation.

Level 3

Level 3 securities contain investments in Asset Backed Securities (ABS), Collateralised Debt Obligations (CDO), Collateralised Mortgage Obligations (CMO), Mortgage Backed Securities (MBS, CMBS and RMBS) as well as investments in Insurance-Linked securities (ILS) and certain Specialised Investment Funds.

ABSs, MBSs and CMBSs include mostly investment-grade debt securities backed by pools of loans with a variety of underlying collateral. During pricing, the prepayment models might be adjusted for the underlying collateral and current price data, treasury curve, swap curve as well as the cash settlement.

CDOs do not have an active market and any broker quotes may be significantly adjusted during the valuation process.
CMOs are non-agency mortgage backed securities that are valued using market observable data when available.
RMBSs include non-agency RMBS backed by non-conforming residential mortgages. Pricing models factor in interest rates, bond or credit swap spreads and volatility.

ILSs are financial instruments whose performance is primarily driven by insurance and/or reinsurance loss events. Instead of an active market, there is a secondary market existing for ILS contracts. Valuations of these securities require mark-to-market considerations when evaluating risk/return and might require significant adjustments.

Level 3 Specialised investment Funds include securities that are valued using techniques appropriate to each specific investment. The valuation techniques include fair value by reference to NAVs adjusted and issued by fund managers based on their knowledge of underlying investments and credit spreads of counterparties.

## 14 Financial Investments (continued)

**Disclosures of fair values in accordance with the fair value hierarchy**

| | 30 June 2014 | | | |
|---|---|---|---|---|
| | **Level 1 £m** | **Level 2 £m** | **Level 3 £m** | **Total £m** |
| Equity securities | **30.4** | **-** | **-** | **30.4** |
| Debt securities | **273.6** | **458.8** | **278.3** | **1,010.7** |
| Loan instruments | **-** | **142.7** | **-** | **142.7** |
| Specialised investment funds | **785.9** | **69.6** | **100.7** | **956.2** |
| | **1,089.9** | **671.1** | **379.0** | **2,140.0** |

| | 30 June 2013 | | | |
|---|---|---|---|---|
| | Level 1 £m | Level 2 £m | Level 3 £m | Total £m |
| Equity securities | - | - | - | - |
| Debt securities | 281.2 | 837.7 | 13.8 | 1,132.8 |
| Loan instruments | - | 220.1 | - | 220.1 |
| Specialised investment funds | 2.8 | 528.8 | 69.7 | 601.2 |
| | 284.0 | 1,586.6 | 83.5 | 1,954.1 |

| | 31 December 2013 | | | |
|---|---|---|---|---|
| | Level 1 £m | Level 2 £m | Level 3 £m | Total £m |
| Equity securities | 47.6 | - | - | 47.6 |
| Debt securities | 251.6 | 489.8 | 257.4 | 998.8 |
| Loan instruments | - | 292.7 | - | 292.7 |
| Specialised investment funds | 792.9 | 69.6 | 74.3 | 936.8 |
| | 1,092.1 | 852.1 | 331.7 | 2,275.9 |

All fair value measurements above are recurring. Fair values are classified as Level 1 when the financial instrument or derivative is actively traded and a quoted price is available. If an instrument classified as Level 1 subsequently ceases to be actively traded, it is transferred out of Level 1. In such cases, instruments are classified into Level 2, unless the measurement of its fair value requires the use of significant unobservable inputs, in which case it is classified as Level 3.

For the 6 months to 30 June 2014, there were no transfers of financial assets or liabilities between fair value hierarchy Level 1 and Level 2. There were £19.8m transfers between fair value hierarchy Levels 2 and 3 (30 June 2013: £nil), (31 December 2013: £43.2m Asset Backed Securities, £35.9m Residential Mortgage-Backed Securities and £8.9 of Collateralized Mortgage Obligations). The fair value hierarchy movement was due to a change in the composition of Mortgage Backed Securities from 31December 2013 to 30 June 2014. The new securities have less observable inputs available for their valuation.

All unrealised gains of £17.9m (30 June 2013: loss £8.8m), (31 December 2013: £4.1m) and realised gains of £6.6m (30 June 2013: loss £9.4m), (31 December 2013: £1.2m) on financial investments held during the period, are presented in investment return in the consolidated income statement.

## 14 Financial Investments (continued)

### Reconciliation of movements in Level 3 financial investments measured at fair value

| | Equity securities £m | Debt Securities £m | Specialised investment funds £m | Total £m |
|---|---|---|---|---|
| **At 1 January 2013** | - | 19.2 | 49.8 | 69.0 |
| Transfers into Level 3 | - | 88.0 | - | 88.0 |
| Total (losses)/gains recognised in the statement of profit or loss | - | (0.4) | 6.7 | 6.3 |
| Purchases | - | 159.5 | 73.7 | 233.2 |
| Sales proceeds | - | (9.1) | (52.5) | (61.6) |
| Foreign exchange gains/(losses) | - | 0.2 | (3.4) | (3.2) |
| **At 31 December 2013** | - | 257.4 | 74.3 | 331.7 |
| Transfers into Level 3 | **-** | **19.8** | **-** | **19.8** |
| Total gains recognised in the statement of profit or loss | **-** | **3.5** | **2.4** | **5.9** |
| Purchases | **-** | **62.8** | **28.5** | **91.3** |
| Sales proceeds | **-** | **(56.5)** | **(2.0)** | **(58.5)** |
| Foreign exchange losses | **-** | **(8.7)** | **(2.5)** | **(11.2)** |
| **At 30 June 2014** | **-** | **278.3** | **100.7** | **379.0** |

Total net gains recognised in the income statement under “investment return” in respect of Level 3 financial investments for the period amounted to £5.9m (30 June 2013: £11.3m), (31 December 2013: £6.3m). Included in this balance are £3.4m unrealised gains (30 June 2013: £10.0m), (31 December 2013: £0.9m) attributable to assets still held at the end of the year.

### Sensitivity of Level 3 financial investments measured at fair value to changes in key assumptions

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

| | **30 June 2014** | | 30 June 2013 | | 31 December 2013 | |
|---|---|---|---|---|---|---|
| | **Carrying amount £m** | **Effect of possible alternative assumptions (+/-) £m** | Carrying amount £m | Effect of possible alternative assumptions (+/-) £m | Carrying amount £m | Effect of possible alternative assumptions (+/-) £m |
| Debt securities | **278.3** | **12.6** | 13.8 | 0.7 | 257.4 | 12.9 |
| Specialised investment funds | **100.7** | **5.0** | 69.7 | 8.6 | 74.3 | 5.1 |
| | **379.0** | | 83.5 | | 331.7 | |

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

- For debt securities, the Group adjusted, dependent on the type and valuation methodology of the investment, key variables including the probability of spread movements, leverage ratio changes and changes in mortgage default rates used in the models.

- For specialised investment funds, the assumptions have been adjusted by between 5-8% as determined by historic movements in volatility of valuations or price changes in the underlying investments.

## 15 Derivative contracts

| Derivative contract assets | 30 June 2014 £m | 30 June 2013 £m | 31 December 2013 £m |
|---|---|---|---|
| Currency forwards | **3.8** | 2.1 | 10.7 |
| Put options | **2.4** | 1.9 | 2.0 |
| Interest rate swaps | **2.4** | - | - |
| Futures | **-** | 2.2 | - |
| | **8.6** | 6.2 | 12.7 |

| Derivative contract liabilities | 30 June 2014 £m | 30 June 2013 £m | 31 December 2013 £m |
|---|---|---|---|
| Currency forwards | **4.4** | 2.1 | 8.4 |
| Put options | **0.1** | - | - |
| Interest rate swaps | **1.2** | - | 2.7 |
| | **5.7** | 2.1 | 11.1 |

**Disclosures of fair values in accordance with the fair value hierarchy**

| | **30 June 2014** | | | |
|---|---|---|---|---|
| | **Level 1 £m** | **Level 2 £m** | **Level 3 £m** | **Total £m** |
| Derivative contract assets | **-** | **6.2** | **2.4** | **8.6** |
| Derivative contract liabilities | **-** | **5.6** | **0.1** | **5.7** |

| | 30 June 2013 | | | |
|---|---|---|---|---|
| | Level 1 £m | Level 2 £m | Level 3 £m | Total £m |
| Derivative contract assets | 2.2 | 2.1 | 1.9 | 6.2 |
| Derivative contract liabilities | - | 2.1 | - | 2.1 |

| | 31 December 2013 | | | |
|---|---|---|---|---|
| | Level 1 £m | Level 2 £m | Level 3 £m | Total £m |
| Derivative contract assets | 10.7 | - | 2.0 | 12.7 |
| Derivative contract liabilities | 8.4 | 2.7 | - | 11.1 |

**Valuation techniques**

Level 1

Futures contracts are “forward-based” derivative contracts that are standardised, transferable and exchange-traded, and therefore quoted prices are available in an active market.

Level 2

The fair value of the Interest rate swaps are determined using pricing models based on observable market data such as prices of instruments with similar maturities and characteristics, interest rate yield curves and measures of interest rate volatility. The value is adjusted to reflect the credit risk of the counterparty.

The valuation technique used to determine the fair value of forward contracts is derived from observable inputs such as active foreign-exchange and interest-rate markets that may require adjustments for certain unobservable inputs.

### 15 Derivative contracts (continued)

Level 3

The valuation technique to measure the fair value of Put Options is to use pricing models which requires market-based inputs such as expected volatility, expected dividend yield and the risk-free rate of interest.

**Reconciliation of movements in Level 3 derivative contracts measured at fair value**

| | Put options £m | Currency forwards £m | Total £m |
|---|---|---|---|
| **At 1 January 2013** | - | (0.7) | (0.7) |
| Transferred to Level 1 | - | 0.7 | 0.7 |
| On disposal of asset held for sale | 2.0 | - | 2.0 |
| **At 31 December 2013** | 2.0 | - | 2.0 |
| Total gains recognised in the income statement | **0.3** | - | **0.3** |
| **At 30 June 2014** | **2.3** | **-** | **2.3** |

### 16 Share Capital

| | 30 June 2014 £m | 31 December 2013 £m | On incorporat-ion £m | 30 June 2014 1p each Number | 31 December 2013 200p each Number | On incorporat-ion 200p each Number |
|---|---|---|---|---|---|---|
| Ordinary shares: | | | | | | |
| Allotted, Issued and fully paid | 4.0 | - | - | 400,452,960 | 1 | 1 |

| | £m | Number |
|---|---|---|
| As at 31 December 2013 | - | 1 |
| Issue of ordinary share on corporate reorganisation | 800.0 | 399,999,999 |
| Capital reduction | (796.0) | - |
| Shares issued in respect of share based incentive schemes | - | 452,960 |
| As at 30 June 2014 | 4.0 | **400,452,960** |

Following court approval, on 30 April 2014, the share capital of the Company was reduced by the cancellation of 199p from the nominal value of each ordinary share.
The number of shares reported is for Brit PLC, the ultimate parent of the Group.

Brit PLC was incorporated on 19 December 2013.

### 17 Dividends

An interim dividend of 6.25p per share (30 June 2013: nil per share) is payable on 26 September 2014 to shareholders on the register on 22 August 2014. The shares will go ex-dividend on 20 August 2014. These financial statements do not include as a liability the provision for this interim dividend, which was approved by the Board on 12 August 2014.

## 18 Cash flows provided by operating activities

| | **6 months ended 30 June 2014 £m** | 6 months ended 30 June 2013 £m | Year ended 31 December 2013 £m |
|---|---|---|---|
| **Profit on ordinary activities before tax** | **61.5** | 75.4 | 107.4 |
| **Adjustments for non-cash movements:** | | | |
| Realised and unrealised (gains)/losses on investments | **(24.5)** | 18.2 | (5.3) |
| Realised and unrealised (gains)/losses on derivatives | **(10.5)** | (9.0) | (11.0) |
| Amortisation of intangible assets | **2.7** | 2.4 | 4.8 |
| Impairment of intangible assets | **-** | - | 0.2 |
| Depreciation of property, plant and equipment | **1.0** | 1.0 | 2.0 |
| Impairment of property, plant and equipment | **-** | - | 0.2 |
| Foreign exchange losses/(gains) on cash and cash equivalents | **3.4** | (8.6) | 2.0 |
| Impairment of associated undertaking | **-** | - | (4.4) |
| Charges to equity in respect of employee share schemes | **0.2** | 0.1 | 0.1 |
| Cash contributions in excess of defined benefit pension scheme charges | **(0.5)** | (0.3) | (5.2) |
| Interest income | **(26.3)** | (30.4) | (56.1) |
| Dividend income | **(3.1)** | (0.3) | (1.4) |
| Finance costs on borrowing | **7.1** | 7.4 | 15.0 |
| **Changes in working capital:** | | | |
| Deferred acquisition costs | **(14.4)** | (26.9) | (12.4) |
| Insurance and other receivables excluding accrued income | **(189.7)** | (177.9) | (38.6) |
| Insurance and reinsurance contracts | **45.9** | 124.3 | (3.1) |
| Financial investments | **116.2** | 339.9 | 41.5 |
| Derivative contracts | **9.2** | 6.1 | 10.6 |
| Insurance and other payables | **67.6** | 142.2 | 11.6 |
| Provisions | **(0.3)** | (0.5) | (2.0) |
| **Cash flows provided by operating activities** | **45.5** | 463.1 | 55.9 |

## 19 Acquisitions

On 1 June 2014 the Group acquired an aviation underwriting and claims team from QBE Underwriting Limited. The Group purchased this team and the renewal rights to their London based dedicated Lloyd's aviation business through a cash payment of £1.2m and a further £0.9m of estimated deferred consideration. This has been recognised as a renewal right intangible asset of £2.1m.

## 20 Related party transactions

### (a) Principal investors

The principal investors in Brit PLC, the ultimate parent company of the Group, are a number of Apollo and CVC investment funds.

The Group has paid monitoring fees to Apollo and CVC affiliated investment funds amounting to £7.4m (30 June 2013: £1.0m), (31 December 2013: £2.0m) of which £5.4m was paid in connection with the termination of those monitoring fee arrangements.

Apollo Capital Management, LP and Athene Asset Management, LLC are members of the Apollo Group and CVC Credit Partners, LLC is a member of the CVC Group. The Group has paid investment management fees to these companies as follows:

| | **6 months ended 30 June 2014 £m** | 6 months ended 30 June 2013 £m | Year ended 31 December 2013 £m |
|---|---|---|---|
| Apollo Capital Management, LP | **0.3** | 0.2 | 0.4 |
| Athene Asset Management, LLC | **0.4** | 0.4 | 0.9 |
| CVC Credit Partners, LLC | **0.2** | 0.1 | 0.1 |
| | **0.9** | 0.7 | 1.4 |

The Group has made investments in Apollo and CVC investment funds as follows:

| | **6 months ended 30 June 2014 £m** | 6 months ended 30 June 2013 £m | Year ended 31 December 2013 £m |
|---|---|---|---|
| Apollo Offshore Credit Strategies Fund | **22.2** | 13.2 | 22.1 |
| CVC Credit Partners European Opportunities Fund | **16.2** | - | 17.0 |
| | **38.4** | 13.2 | 39.1 |

### (b) Key management

On 27 March 2014, certain key managers and certain other employees of the Group entered into loan agreements with Achilles Holdings 1 S.à r.l., pursuant to which they borrowed £1.4m from Achilles Holdings 1 S.à r.l. for the purpose of funding their acquisition of additional shares in Achilles Holdings 2 S.à r.l., a Group company. The loans are interest free and are repayable in full on 28 February 2015 or, if earlier, the date on which the borrower ceases to be employed by a Group company. As part of the corporate reorganisation, the relevant shares in Achilles Holdings 2 S.à.r.l. were exchanged for shares in Achilles Holdings 1 S.à.r.l., which in turn were exchanged for shares in Brit PLC. Each key manager and employee has been required to sell 25% of all of their shares in Brit PLC resulting from the corporate reorganisation and use 50% of the post-tax consideration for full or partial repayment of their respective loan. As at 30 June 2014, the total amount of such loans outstanding was £0.3m.

# Company information

**Directors**

Dr Richard Ward (Chairman)
Mark Cloutier (Chief Executive Officer)
Ipe Jacob (Non-Executive Director)
Hans-Peter Gerhardt (Non-Executive Director)
Willem Stevens (Non-Executive Director)
Maarten Hulshoff (Non-Executive Director)
Sachin Khajuria (Non-Executive Director)
Gernot Lohr (Non-Executive Director)
Kamil Salame (Non-Executive Director)
Jonathan Feuer (Non-Executive Director)

**Secretary**

David Gormley

**Head of Investor Relations**

Sam Dobbyn (+44 (0) 20 7984 8800)

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**Registered Number**

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**Auditors**

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