

# FARADAY

Reinsurance Co. Limited  
Annual Report 2008



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## **Registered office:**

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Registered in England & Wales number 1733074

# Corporate information

## **Directors**

Lord Ashton of Hyde

Paul Ceurvorst

Mark Lowton (appointed 25 July 2008)

Joanne Merrick

Michael O'Dea

Mark Rayner

Simon Tovey

Peter Lütke-Bornefeld (Non-executive Director)

Andrew Phillips, Lord Phillips of Sudbury (Non-executive Director)

## **General Management**

### **Chief Executive Officer**

Lord Ashton of Hyde

### **Company Secretary**

Jeremy Percy

## **Underwriters**

Paul Ceurvorst

Robin Badocha

Martin Edwards

John Hunter

Roger Nash

Stuart Robins

Robert Schindele

Philip Weston

## **Claims**

### **Head of Claims**

Charles Glaisher

### **Claims Manager**

Andrew Hampton

## **Finance**

### **Chief Financial Officer**

Mark Lowton

### **Financial Controller**

Stephen Liu

## **Actuarial**

### **Company Actuary**

Nigel Finlay

# Directors' report

The directors submit their annual report and financial statements for Faraday Reinsurance Co. Limited "the Company" for the year ended 31 December 2008.

## Business review and principal activity

The Company is a wholly owned indirect subsidiary of Berkshire Hathaway Inc. and operates as part of the worldwide reinsurance and insurance operations of General Re. The Company is regulated by the UK Financial Services Authority.

The principal activity of the Company is the transaction of all classes of property and casualty reinsurance business and general liability direct insurance business. The directors are not aware, as of the date of this report, of any likely major changes in the Company's principal activity in the next year.

The attached financial statements cover the year ended 31 December 2008. The operating profit for the year before taxation was £51.9m (2007: £38.1m), which included unrealised investment gains of £19.5m (2007: gains of £11.1m). The technical account reported an underwriting profit of £4.0m for the year (2007: profit of £6.1m). The results represent a combined ratio of 93.8% (2007: 90.7%). The higher combined ratio compared with last year is due largely to prudent reserving on the current underwriting year in light of weakening rates and market conditions. The investment return, including unrealised investment gains, was £46.9m for the year (2007: £31.7m).

On 14 March 2008, the directors declared a dividend of £1.0m in respect of the year ended 31 December 2007 on the 5% Redeemable Cumulative Preference Shares. The dividend was paid on 17 April 2008 (2007: £1.0m). On 13 March 2009, the directors declared a dividend of £1.0m in respect of the year ended 31 December 2008 on the 5% Redeemable Cumulative Preference Shares.

The Balance sheet on page 10 shows that the Company's total assets increased to £648.7m (2007: £582.4m) and shareholder's funds increased to £203.5m (2007: £168.4m).

No significant events have arisen since the balance sheet date.

## Directors

The names of the directors appear on page 3.

## Directors' shares and share option interests

None of the directors had any beneficial interests in the shares of the Company at any time during the year. The Company is a wholly owned subsidiary of an entity incorporated outside Great Britain. Accordingly, no disclosure is provided for directors' interests in other group companies which are incorporated outside Great Britain.

## Donations

The Company has made no charitable donations during the year (2007 - nil).

## Principal risks and uncertainties

The main financial risks facing the Company are underwriting and reserving risk, investment market risk and credit risk. The Company seeks to control its exposures to these risks through the application of stringent pricing techniques, a conservative reserving approach, prudent investment policies and proactive credit control procedures. The Company's exposure to liquidity and cash flow risk is minimal given the high quality and relatively short duration of its investment portfolio, 99% of which is invested in quoted fixed maturity investments. The Company does not engage in hedging or any other type of derivative activity. The Company manages its foreign currency risk by regular rebalancing of its currency positions. The directors seek to minimise operational risk (being people and systems risk) through staff training and the maintenance and monitoring of its systems and controls.

## Directors' report (continued)

The Company operates in the London market and manages its underwriting risk by only writing business that meets stringent combined ratio targets. Combined ratio is the Company's primary key performance indicator. The Company believes it attracts customers through its superior security (AAA rating) and the expertise of its staff and group resources. Other key performance indicators are investment return and its regulatory solvency margin. The Company tracks investment return against an appropriate benchmark and monitors its regulatory solvency position against its Individual Capital Guidance capital requirement through a regular recalculation of its Enhanced Capital Requirement and taking into consideration current operating conditions.

### Directors' responsibilities

The directors are responsible for preparing the Directors' report and the financial statements. The directors have prepared these financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (UK GAAP). Company law requires the directors to ensure that such financial statements give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company and comply with UK GAAP and the Companies Act 1985. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable United Kingdom accounting standards have been followed; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for the system of internal controls, for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

As far as the directors are aware, there is no relevant audit information of which the Company's auditors are unaware and all necessary steps have been taken by the directors to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of S234ZA of the Companies Act 1985.

### Auditors

A resolution for the re-appointment of Deloitte LLP as the Company's auditors for the ensuing year was proposed at the Board Meeting held on 13 March 2009.

By order of the Board

Jeremy Percy  
Company Secretary

13 March 2009

# **Independent auditors' report to the member of Faraday Reinsurance Co. Limited**

We have audited the financial statements of Faraday Reinsurance Co. Limited for the year ended 31 December 2008, which comprise Profit and Loss Account, the Balance Sheet, the Statement of Total Recognised Gains and Losses, the Reconciliation of Movements in Shareholder's Funds, the Accounting Policies and the related notes 1 to 23. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's member, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's member for our audit work, for this report, or for the opinions we have formed.

## **Respective responsibilities of directors and auditors**

The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed. We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

## **Basis of audit opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

# **Independent auditors' report to the member of Faraday Reinsurance Co. Limited (continued)**

## **Opinion**

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2008 and of its profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

## **Deloitte LLP**

Chartered Accountants and Registered Auditors  
London, United Kingdom  
13 March 2009

## Profit and loss account: technical account - general business

For the year ended 31 December 2008	Note	2008 £000	2007 £000
<b>Earned premiums net of reinsurance</b>			
Gross premiums written	1	62,736	65,027
Outward reinsurance premiums		<u>(1,500)</u>	<u>(1,417)</u>
Net written premiums		<u>61,236</u>	<u>63,610</u>
Change in provision for unearned premiums			
Gross amount	17	3,859	1,987
Reinsurers' share	17	19	6
		3,878	1,993
Earned premiums net of reinsurance		<u><b>65,114</b></u>	<u><b>65,603</b></u>
<b>Claims incurred net of reinsurance</b>			
Claims paid			
Gross amount		(28,933)	(33,990)
Reinsurers' share		813	(1,320)
		(28,120)	(35,310)
Change in the provision for claims			
Gross amount	17	(15,303)	(4,833)
Reinsurers' share	17	289	(803)
		(15,014)	(5,636)
Claims incurred net of reinsurance		<u><b>(43,134)</b></u>	<u><b>(40,946)</b></u>
Net operating expenses	2	<u><b>(17,946)</b></u>	<u><b>(18,674)</b></u>
Balance on the technical account - general business before equalisation provision	1	<b>4,034</b>	<b>5,983</b>
Change in equalisation provisions	4	-	176
Balance on the technical account - general business		<u><b>4,034</b></u>	<u><b>6,159</b></u>

The accounting policies and notes forms part of these financial statements.

## Profit and loss account: non-technical account

For the year ended 31 December 2008	Note	2008 £000	2007 £000
Balance on the technical account - general business		<u>4,034</u>	<u>6,159</u>
Investment income	7	31,135	29,236
Unrealised investment gains		19,520	11,133
Investment expenses and charges	8	(3,800)	(8,696)
Investment return		<u>46,855</u>	<u>31,673</u>
Other income		962	255
Other finance credits		52	25
Operating profit on ordinary activities before taxation	10	<u>51,903</u>	<u>38,112</u>
Taxation charge on profit on ordinary activities	9	(14,780)	(9,640)
Profit for the year after taxation		<u>37,123</u>	<u>28,472</u>

All profits arise on continuing business.

The accounting policies and notes form part of these financial statements.

# Balance sheet

As at 31 December 2008	Note	2008 £000	2007 £000
<b>ASSETS</b>			
<b>Investments</b>			
Financial investments	11	595,768	528,432
Deposits with ceding undertakings		173	222
		<u>595,941</u>	<u>528,654</u>
<b>Reinsurers' share of technical provisions</b>			
Provision for unearned premiums	17	784	764
Claims outstanding	17	6,188	5,857
		<u>6,972</u>	<u>6,621</u>
<b>Debtors</b>			
Debtors arising out of direct insurance operations	12	3,731	5,335
Debtors arising out of reinsurance operations	13	6,048	8,865
Other debtors	14	-	220
		<u>9,779</u>	<u>14,420</u>
<b>Other assets</b>			
Cash at bank and in hand		20,310	18,776
Deferred tax	9	10	17
		<u>20,320</u>	<u>18,793</u>
<b>Prepayments and accrued income</b>			
Deferred acquisition costs	5	3,907	4,430
Accrued interest		11,770	9,426
Other prepayments and accrued income		-	46
		<u>15,677</u>	<u>13,902</u>
<b>Total assets</b>		<u>648,689</u>	<u>582,390</u>
<b>LIABILITIES</b>			
<b>Capital and reserves</b>			
Called-up ordinary share capital	15	47,000	47,000
Profit and loss account	16	136,502	101,373
Equity shareholder's funds		183,502	148,373
Non-equity shareholder's funds	15	20,000	20,000
Total shareholder's funds		<u>203,502</u>	<u>168,373</u>
<b>Technical provisions</b>			
Provision for unearned premiums	17	19,323	22,088
Claims outstanding	17	411,778	376,088
		<u>431,101</u>	<u>398,176</u>
<b>Creditors</b>			
Creditors arising out of direct insurance operations	18	-	1
Creditors arising out of reinsurance operations	19	443	5,591
Other creditors including tax and social security	20	10,856	8,658
		<u>11,299</u>	<u>14,250</u>
<b>Accruals and deferred income</b>			
Pension deficit, net of tax	21	572	-
		<u>2,215</u>	<u>1,591</u>
<b>Total liabilities</b>		<u>648,689</u>	<u>582,390</u>

These financial statements were approved by the Board of Directors on 13 March 2009 and were signed on its behalf by

Mark Lowton  
Director

## Statement of total recognised gains and losses

For the year ended 31 December 2008	Note	2008 £000	2007 £000
Profit for the year after taxation		37,123	28,472
Actuarial (losses)/gains relating to pension (deficit)/surplus net of deferred tax	21	(994)	7
Total recognised gains for the year	16	<u>36,129</u>	<u>28,479</u>

## Reconciliation of movements in shareholder's funds

For the year ended 31 December 2008	Note	2008 £000	2007 £000
Profit for the year after taxation		37,123	28,472
Actuarial (losses)/gains relating to pension (deficit)/surplus net of deferred tax	21	(994)	7
Preference share dividend		<u>(1,000)</u>	<u>(1,000)</u>
Retained profit for the year	16	<u>35,129</u>	<u>27,479</u>
Opening shareholder's funds		168,373	140,894
Closing shareholder's funds		<u>203,502</u>	<u>168,373</u>

# Accounting policies

The principal accounting policies adopted by the Company in determining the results for the year are set out below.

## **Basis of preparation**

The financial statements have been prepared in accordance with the provisions of section 255 of, and Schedule 9A to, the Companies Act 1985.

The financial statements have also been prepared in accordance with applicable United Kingdom accounting standards under the historical cost accounting rules, modified to include the current value rules of Schedule 9A to the Companies Act 1985, and comply with all material recommendations of the Statement of Recommended Practice on Accounting for Insurance Business as revised and issued by the Association of British Insurers in December 2005, as amended in December 2006.

The Company is exempt from the requirement of Financial Reporting Standard No. 1 (Cashflow Statements - revised 1996) to prepare a cash flow statement as it is a wholly-owned subsidiary undertaking of Kölnische Rückversicherungs-Gesellschaft AG, and its cash flows are included within the consolidated cash flow statement of that company.

As the Company is a wholly-owned subsidiary, disclosure under FRS 8 (Related Party Disclosures) regarding transactions with related parties has not been provided.

Having taken into account the risks and uncertainties and the performance of the business as disclosed in the Directors' Report and making inquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

## **Basis of accounting for underwriting activities**

All classes of business are accounted for under the annual accounting basis.

## **Premiums**

Written premiums, gross of commission payable to intermediaries, comprise the estimated premiums on contracts entered into in a financial year, regardless of whether such amounts relate in whole or in part to a later financial year, exclusive of taxes and duties levied on premiums.

Premiums written include adjustments to premiums written in prior years and estimates for "pipeline" premiums. Outwards reinsurance premiums are accounted for in the same accounting period as the premiums for the related inwards reinsurance business.

## **Unearned premiums**

The provision for unearned premiums comprises the amount representing that part of gross premiums written which is estimated to be earned in the following or subsequent financial years, computed for each insurance contract using either the "straight line" or "parallelogram" method, taking into account the risk profile of the contracts in each case.

## **Acquisition costs**

Acquisition costs comprise all direct costs arising from the conclusion of the Company's insurance and reinsurance contracts.

## **Deferred acquisition costs**

Deferred acquisition costs represent the proportion of acquisition costs incurred which corresponds to the proportion of gross premiums written that are unearned at the balance sheet date.

## Accounting policies (continued)

### Claims incurred

Claims incurred include all claims and claims settlement expense payments made in the financial year, the movements in the provisions for outstanding claims, claims settlement expenses and claims incurred but not reported.

### Claims outstanding

Claims outstanding comprise provisions for the estimated cost of settling all claims incurred but not paid, whether reported or not, at the balance sheet date, together with related internal and external claims settlement expenses.

Anticipated reinsurance and other recoveries are disclosed separately as assets.

Whilst the directors consider that the provision for gross claims and the related reinsurance recoveries are fairly stated on the basis of the information currently available to them, the ultimate liability will vary as a result of subsequent information and events and may result in significant adjustments to the amounts currently stated.

Adjustments to the amounts of provisions are reflected in the financial statements for the year in which the adjustments are made.

The methods used and the estimates made are reviewed regularly.

### Unexpired risks

Provision is made for unexpired risks where the claims and administrative expenses likely to arise after the end of the financial year in respect of contracts concluded before that date are expected to exceed the unearned premiums under those contracts. Provisions for unexpired risks are calculated separately by classes of business which are managed together and after taking into account the relevant investment return.

### Equalisation provisions

Equalisation provisions have been established in accordance with the requirements of the Interim Prudential Sourcebook for Insurers Chapter 6 to mitigate exceptional high loss ratios for classes of business displaying a high degree of claims volatility.

### Investment return

All investment return is recognised in the Profit and loss account: non-technical account.

Investment income includes interest and realised investment gains. Interest is reported on an accrued basis.

Investment expenses and charges include realised investment losses and expenses incurred in the management of investments accounted for on an accruals basis.

### Investments

All investments are stated at market value with the exception of one fixed interest security which is held at amortised cost. Unrealised investment gains/losses which represent the difference between the market value of investments at the balance sheet date and purchase cost are taken to the Profit and loss account: non-technical account.

The movement in unrealised investment gains/losses includes an adjustment for previously recognised unrealised gains/losses on investments disposed of during the year.

### Foreign currencies

All transactions in foreign currencies are translated into sterling at the average rates of exchange for each month of the accounting period. All assets and liabilities are translated at the rates ruling at the year end. Exchange profits and losses are taken to the Profit and loss account: non-technical account.

## Accounting policies (continued)

### Deferred taxation

Deferred taxation is provided for in full on timing differences that result in an obligation at the balance sheet date to pay tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in tax computations in periods different from those in which they are included in the financial statements. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

### Pension plan

Under FRS 17, the defined benefit pension plan assets are measured using fair values. Pension plan liabilities are measured using the projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term to the liability.

The pension plan deficit is recognised in full, net of deferred tax, and presented on the face of the balance sheet. Any pension plan surplus is capped at the recoverable amount. The movement in the plan surplus/deficit is split between net operating expenses in the Profit and loss account: technical account - general business, and other finance charges in the Profit and loss account: non-technical account.

The full service cost of the pension provision is charged to the Profit and loss account: technical account - general business. The net impact of unwinding the discount rate on the plan liabilities and the expected return on the plan assets is charged/credited to other finance costs.

Any difference between the expected return on assets and that actually achieved is charged through the Statement of total recognised gains and losses. Similarly, any differences that arise from experience or assumption changes are charged through the Statement of total recognised gains and losses.

Defined contribution pension costs are charged to the Profit and loss account: technical account - general business as they become payable in accordance with the rules of the plan.

### Operating leases

The rental costs relating to operating leases are charged to the Profit and loss account: technical account - general business, as they are incurred.

# Notes to the financial statements

## 1. Segmental information

Analysis of technical results by direct and reinsurance business:

	Year ended 31 December 2008		
	Direct £000	Reinsurance £000	Total £000
Gross premiums written	19,117	43,619	62,736
Gross premiums earned	20,296	46,299	66,595
Gross claims incurred	(10,217)	(34,019)	(44,236)
Gross operating expenses	<u>(9,653)</u>	<u>(8,240)</u>	<u>(17,893)</u>
Gross technical result	426	4,040	4,466
Reinsurance balance	<u>(356)</u>	<u>(76)</u>	<u>(432)</u>
Net technical result before equalisation provisions	<u>70</u>	<u>3,964</u>	<u>4,034</u>

	Year ended 31 December 2007		
	Direct £000	Reinsurance £000	Total £000
Gross premiums written	20,837	44,190	65,027
Gross premiums earned	22,570	44,444	67,014
Gross claims incurred	(11,308)	(27,515)	(38,823)
Gross operating expenses	<u>(8,247)</u>	<u>(10,413)</u>	<u>(18,660)</u>
Gross technical result	3,015	6,516	9,531
Reinsurance balance	<u>(1,824)</u>	<u>(1,724)</u>	<u>(3,548)</u>
Net technical result before equalisation provision	<u>1,191</u>	<u>4,792</u>	<u>5,983</u>

The direct business, which was first written in 2005, relates entirely to liability business.

The Company operates its business in the UK. 81% and 6% of the Company's premiums emanate from clients in the UK and the rest of the European Union respectively, with the balance coming from clients in the rest of the world. The Company's net assets are predominantly based in the European Union. Net assets and profit before tax by each class of business and by geographical segment are not presented as it is not practical to do so.

## 2. Net operating expenses

	2008 £000	2007 £000
Acquisition costs	9,969	11,568
Change in deferred acquisition costs	523	234
Revaluation adjustment	<u>122</u>	<u>25</u>
	<b>10,614</b>	<b>11,827</b>
Administration expenses	<u>7,279</u>	<u>6,833</u>
Gross operating expenses	<b>17,893</b>	<b>18,660</b>
Reinsurance commissions	<u>53</u>	<u>14</u>
	<b>17,946</b>	<b>18,674</b>

## Notes to the financial statements

### 3. Prior years' claims provisions

	<b>2008</b>	<b>2007</b>
	<b>£000</b>	<b>£000</b>
Over provision for claims at the beginning of the year compared to net paid claims during the year and provisions at the end of the year in respect of prior years' claims are as follows:		
Property	202	1,335
Casualty	23,620	17,589
	<u><b>23,822</b></u>	<u><b>18,924</b></u>

### 4. Equalisation provisions

Equalisation provisions are established in accordance with the requirements of the INSPRU Handbook Chapter 1. These provisions, which are in addition to the provisions required to meet the anticipated ultimate cost of settlement of outstanding claims at the balance sheet date, are required by Schedule 9A to the Companies Act 1985 to be included within technical provisions in the balance sheet, notwithstanding that they do not represent liabilities at the balance sheet date. The company held no equalisation provisions at 31 December 2008 (2007 – nil). The movement in equalisation provisions during the year is nil (2007 - £176,000).

### 5. Deferred acquisition costs

	<b>2008</b>	<b>2007</b>
	<b>£000</b>	<b>£000</b>
At 1 January 2008	4,430	4,664
Change in deferred acquisition costs	(645)	(259)
Revaluation adjustment	122	25
Deferred acquisition costs at 31 December 2008	<u><b>3,907</b></u>	<u><b>4,430</b></u>

### 6. Directors' emoluments

The aggregate emoluments of the directors, which include fees, were £756,000 (2007 - £746,000), of which £294,000 (2007 - £198,000) was attributable to the highest paid director.

The Company made £113,000 (2007 - £55,000) pension contributions for the directors, of which £44,000 (2007 - £18,000) relates to the highest paid director.

### 7. Investment income

	<b>2008</b>	<b>2007</b>
	<b>£000</b>	<b>£000</b>
Income from investments	30,411	29,118
Gains on the realisation of investments	724	118
	<u><b>31,135</b></u>	<u><b>29,236</b></u>

### 8. Investment expenses and charges

	<b>2008</b>	<b>2007</b>
	<b>£000</b>	<b>£000</b>
Losses on realisation of investments	3,167	8,144
Investment management expenses	633	552
	<u><b>3,800</b></u>	<u><b>8,696</b></u>

## Notes to the financial statements

### 9. Taxation

	2008 £000	2007 £000
(a) Analysis of the tax charge in the year:		
UK corporation tax on profit for the year	(14,999)	(11,433)
Adjustments in respect of prior years	<u>226</u>	<u>(60)</u>
Current tax charge for the year	(14,773)	(11,493)
Deferred tax (charge)/credit for the year	(7)	1,853
Taxation charge on profit on ordinary activities	<u>(14,780)</u>	<u>(9,640)</u>
(b) Factors affecting the tax charge for the year:		
Operating profit on ordinary activities before taxation	<u>51,903</u>	<u>38,112</u>
Profit on ordinary activities multiplied by the standard rate of UK corporation tax of 28.5% (2007: 30%)	(14,792)	(11,433)
Adjustments in respect of prior years	226	(60)
Other adjustments	<u>(207)</u>	<u>-</u>
Current tax charge for the year	<u>(14,773)</u>	<u>(11,493)</u>
(c) Movements in the deferred tax asset/(liability) is analysed below:		
Deferred tax asset/(liability) at the beginning of the year	17	(1,836)
(Charge)/credit for the year	<u>(7)</u>	<u>1,853</u>
Deferred tax asset/(liability) at the end of the year	<u>10</u>	<u>17</u>
(d) Deferred tax asset/(liability) at the end of the year comprises:		
Deferred tax asset in respect of future capital allowances	<u>10</u>	<u>17</u>
Total deferred tax asset/(liability)	<u>10</u>	<u>17</u>

### 10. Operating profit on ordinary activities before taxation

	2008 £000	2007 £000
Profit on ordinary activities before taxation is stated after taking into account:		
Income from listed investments	29,091	27,846
Rent payable	(70)	(150)
Auditors' remuneration:		
Audit	(145)	(109)

### 11. Financial investments

	Carried Value		Purchase Cost	
	2008 £000	2007 £000	2008 £000	2007 £000
Shares and other variable yield securities	6,868	7,387	7,504	7,504
Debt securities and other fixed income securities	<u>588,900</u>	<u>521,045</u>	<u>574,709</u>	<u>526,893</u>
	<u>595,768</u>	<u>528,432</u>	<u>582,213</u>	<u>534,397</u>

Debt securities and other fixed income securities include £3,763,000 (2007: £3,752,000) pledged as collateral in respect of letters of credit issued in favour of cedants.

# Notes to the financial statements

## 12. Debtors arising out of direct insurance operations

	2008 £000	2007 £000
Amounts owed by intermediaries	3,731	5,335
	<u>3,731</u>	<u>5,335</u>

## 13. Debtors arising out of reinsurance operations

	2008 £000	2007 £000
Amounts owed by cedants/retrocessionaires	6,048	8,865
	<u>6,048</u>	<u>8,865</u>

## 14. Other debtors

	2008 £000	2007 £000
Sundry debtors	-	220
	<u>-</u>	<u>220</u>

## 15. Share capital

	2008 £000	2007 £000
Ordinary Shares:		
Authorised		
100,000,000 (2007- 100,000,000) of £1 each	100,000	100,000
Allotted, issued and fully paid		
47,000,000 (2007- 47,000,000) of £1 each	47,000	47,000
Preference shares:		
5% Redeemable Cumulative Preference Shares		
Authorised		
20,000,000 (2007 – 20,000,000) of £1 each	20,000	20,000
Allotted, issued and fully paid		
20,000,000 (2007 – 20,000,000) of £1 each	20,000	20,000

The 20,000,000 5% Redeemable Cumulative Preference Shares were issued at par for cash consideration on 23 November 2004. These shares are redeemable at par on 23 November 2009 and each subsequent anniversary at the option of the holder. Prior approval by the Company's Board of Directors is required before any redemption of the Preference Shares or payment of any outstanding or accumulated Preference Share dividends can be made. Holders of the Preference Shares in respect of which dividends are in arrears are entitled to vote at general meetings.

## 16. Profit and loss account

	2008 £000	2007 £000
At 1 January 2008	101,373	73,894
Total recognised gains for the year	36,129	28,479
Preference share dividend	(1,000)	(1,000)
At 31 December 2008	<u>136,502</u>	<u>101,373</u>

# Notes to the financial statements

## 17. Technical provisions

	Provision for unearned premiums £000	Claims outstanding £000	Total £000
Gross amount:			
At beginning of year	22,088	376,088	398,176
Revaluation adjustment	1,094	20,387	21,481
Movement in the provision	<u>(3,859)</u>	<u>15,303</u>	<u>11,444</u>
At end of year	<u>19,323</u>	<u>411,778</u>	<u>431,101</u>
Reinsurers' share:			
At beginning of year	764	5,857	6,621
Revaluation adjustment	1	42	43
Movement in the provision	19	289	308
At end of year	<u>784</u>	<u>6,188</u>	<u>6,972</u>
Net technical provisions:			
At 31 December 2008	<b>18,539</b>	<b>405,590</b>	<b>424,129</b>
At 31 December 2007	<b>21,324</b>	<b>370,231</b>	<b>391,555</b>

Claims outstanding have been set on the basis of information that is currently available. Whilst the directors consider that the provisions for gross claims and the related reinsurance recoveries are fairly stated on the basis of the information currently available to them, the ultimate liability may vary as a result of subsequent information and events and may result in significant adjustments to the amounts provided. Adjustments to the amounts of provision are reflected in the financial statements for the period in which the adjustments are made. The methods used, and the estimates made, are reviewed regularly.

The incurred but not reported provision for a given class is calculated on a combination of the Bornheutter-Ferguson and Basic Chain Ladder methods, unless another specific reserving methodology is deemed to be more appropriate. Significant assumptions made include the selection of loss ratios by reserve line and accident or underwriting year, and loss development patterns by reserve line.

The claims provisions include amounts in respect of liability claims that are not expected to be settled for many years. There is considerable uncertainty as to the amounts at which they will settle given the continuously changing legal framework, as demonstrated by the Courts Act. The level of provision has been set on the basis of the information that is currently available, including potential outstanding loss advices, experience of development of similar claims and case law.

## 18. Creditors arising out of direct insurance operations

	2008 £000	2007 £000
Amounts owed to intermediaries	<u>-</u>	<u>1</u>
	<u>-</u>	<u>1</u>

## 19. Creditors arising out of reinsurance operations

	2008 £000	2007 £000
Amounts owed to cedants/retrocessionaires	242	5,390
Amounts owed to parent company	<u>201</u>	<u>201</u>
	<u>443</u>	<u>5,591</u>

# Notes to the financial statements

## 20. Other creditors including tax and social security

	<b>2008</b>	<b>2007</b>
	<b>£000</b>	<b>£000</b>
Corporation tax payable	10,545	6,575
Other creditors	311	2,083
	<u><b>10,856</b></u>	<u><b>8,658</b></u>

## 21. Pension plan

The Company operates a defined benefit pension plan (the Plan) for some of its employees. The Plan was closed to future accrual from 31 December 2006.

The Plan assets are held in separate trustee administered funds and comprise units in a managed fund, which invests predominantly in equities, with smaller allocations in bonds, property and cash. In addition, the trustees are maintaining cash balances in a high interest bank account.

The latest triennial valuation of the Plan was carried out as at 31 December 2007. The valuation used the attained age method and was carried out by an independent qualified actuary, employed by JLT Benefit Solutions Limited. Contributions made by the Company in 2008 in respect of deficit reduction were £514,000, which includes the changes following adoption of a new schedule of contribution with effect from August 2008. In addition, the Company has agreed to pay contributions of £58,685 per month from 1 August 2008 for 5 years to pay off the deficit. The Company expects to pay £704,220 to the Plan during the accounting year beginning 1 January 2009.

The mortality assumptions adopted at 31 December 2007 imply the following life expectations:

Male currently age 65	25 years
Female currently age 65	27 years

In accordance with Financial Reporting Standard ("FRS") 17, the 31 December 2007 triennial actuarial valuation has been reviewed and updated as at 31 December 2008 based upon the following annual financial assumptions:

	<b>2008</b>	<b>2007</b>
Rate of increase in salaries	n/a	n/a
Rate of increase in pensions in payment	3.0%	3.3%
Discount rate for Plan liabilities	6.0%	6.1%
Inflation	3.1%	3.3%
Revaluation rate for deferred pensioners	3.1%	3.3%

The assets in the Plan and the expected rate of return were:

	<b>2008</b>	<b>2007</b>
Equities	3,136	4,696
Bonds	667	499
Property	63	-
Cash	1,882	1,854
Total fair value of assets	<u>5,748</u>	<u>7,049</u>
Equities	7.0%	7.7%
Bonds	6.7%	6.1%
Property	7.0%	4.7%
Cash	2.0%	3.0%
Net expected rate of return on assets	5.3%	6.3%

# Notes to the financial statements

## Pension plans (continued)

The overall expected rate of return on Plan assets is based on advice from an independent actuary. The Plan allows a return of 3.3% per annum on equities in excess of that available on long term fixed-interest government bonds. The assumed return on bonds is taken to be the same as that currently available in the market based on the AA-rated over-15 year iBoxx Corporate Bond index. The assumed return on cash is in line with the Bank of England base rate as at 31 December 2008.

There are no amounts charged to operating profit in respect of current service cost or gains and losses on settlements or curtailments.

Analysis of the amount credited/(charged) to other finance income:

	<b>2008</b>	<b>2007</b>
	<b>£000</b>	<b>£000</b>
Expected return on Plan assets	416	394
Interest cost on Plan liabilities	(344)	(369)
Net return	<u>72</u>	<u>25</u>

Analysis of amount recognised in the statement of total recognised gains and losses:

	<b>2007</b>	<b>2007</b>
	<b>£000</b>	<b>£000</b>
Actual return less expected return on Plan assets	(1,538)	191
Experience (losses)/gains arising on the Plan liabilities	(632)	(383)
Changes in assumptions underlying the present value of the Plan liabilities	68	924
Non-recoverable surplus		(722)
Limit of recognition of asset	722	-
Actuarial gains recognised in the statement of total recognised gains and losses	<u>(1,380)</u>	<u>10</u>
Related deferred tax charge	<u>386</u>	<u>(3)</u>
Net actuarial gains recognised in the statement of total recognised gains and losses	<u>(994)</u>	<u>7</u>

Analysis of the movement in the Plan surplus/(deficit) during the year:

	<b>2008</b>	<b>2007</b>
	<b>£000</b>	<b>£000</b>
Plan deficit at beginning of year	-	(413)
Current service cost	-	-
Contributions	514	378
Curtailement and settlement gain	-	-
Other finance (expense)/income	72	25
Actuarial (loss)/gain	(2,102)	732
Non-recoverable surplus	-	(722)
Limit of recognition of asset	722	-
Plan deficit at end of year	<u>(794)</u>	-
Related deferred tax asset	<u>222</u>	-
Plan deficit at end of year net of deferred tax	<u>(572)</u>	-

# Notes to the financial statements

## Pension plans (continued)

Analysis of changes in the value of the Plan liabilities over the year:

	<b>2008</b>	<b>2007</b>
	<b>£000</b>	<b>£000</b>
Value of liabilities at start of year	6,327	7,622
Interest cost	344	369
Benefits paid	(693)	(1,123)
Actuarial (gains)/losses	564	(541)
Value of liabilities at end of year	<u>6,542</u>	<u>6,327</u>

Analysis of changes in the value of the Plan assets over the year:

	<b>2008</b>	<b>2007</b>
	<b>£000</b>	<b>£000</b>
Market value of assets at start of year	7,049	7,209
Expected return on Plan assets	416	394
Actuarial gains/(losses)	(1,538)	191
Employer contributions	514	378
Benefits paid	(693)	(1,123)
Market value of assets at end of year	<u>5,748</u>	<u>7,049</u>

History of amounts recognised in the statement of total recognised gains and losses is:

	2008	2007	2006	2005	2004
	£'000	£'000	£'000	£'000	£'000
Market value of Plan assets	5,748	7,049	7,209	5,383	3,834
Value of Plan liabilities	6,542	6,327	7,623	8,484	5,781
Difference between expected and actual return on assets	(1,538)	191	160	507	55
Percentage of difference of return on assets over Plan assets at end of year	-27%	3%	2%	9%	1%
Experience gains and losses on Plan liabilities at end of year	(632)	(383)	354	179	586
Percentage of the present value of Plan liabilities at end of year	-10%	6%	5%	2%	10%
Effect of changes in the demographic and financial assumptions underlying the present value of Plan liabilities	68	924	959	(2,311)	(235)
Percentage of the present value of Plan liabilities at end of year	1%	15%	13%	-27%	-4%
Non-recoverable surplus		(722)	-	-	-
Limit of recognition of asset	722		-	-	-
Total actuarial gains/(losses)	(1,380)	10	1,473	(1,625)	406
Percentage of actuarial gains/(losses) over the present value of Plan liabilities at end of year	-21%	0%	19%	-19%	7%

The cumulative amount of actuarial losses recognised in the Statement of total recognised gains and losses since 2002 is £1,805,000.

The Company operates a defined contribution pension plan for its employees. The total contributions in the financial year amounted to £139,000 (2007 - £172,000).

# Notes to the financial statements

## 22. Employee information

All Company staff are employed by GRF Services Limited. Staff costs recharged to the Company are included in these financial statements.

## 23. Ultimate holding company and controlling party

The ultimate holding company and controlling party is Berkshire Hathaway Inc., incorporated in the United States of America. This company produces group accounts which consolidate the results of Faraday Reinsurance Co. Limited. Copies of their financial statements can be obtained from 3555 Farnam St, Suite 1440, Omaha, NE 68131, USA.

The ultimate insurance holding company and controlling party is General Re Corporation, incorporated in the United States of America. This company produces group accounts which consolidate the results of Faraday Reinsurance Co. Limited. Copies of their financial statements can be obtained from 695 East Main Street, Stamford, Connecticut, CT 06904-0300 USA.

The parent company, into which the Company is consolidated, is Kölnische Rückversicherungs-Gesellschaft AG, incorporated in Germany. Copies of their financial statements can be obtained from Theodor-Heuss-Ring 11, D-50668 Cologne, Germany.