

FARADAY

**Reinsurance Co. Limited
Annual Report 2009**



FARADAY REINSURANCE CO. LIMITED

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Registered office:

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Registered in England & Wales number 1733074

FARADAY REINSURANCE CO. LIMITED

Corporate information

Directors

Lord Ashton of Hyde

Paul Ceurvorst

Mark Lowton (25 July 2008 to 15 May 2009)

Joanne Merrick

Michael O'Dea

Mark Rayner

Simon Tovey

Peter Lütke-Bornefeld, non-executive

Andrew Phillips (Lord Phillips of Sudbury), non-executive

Nigel Finlay (appointed 22 February 2010)

Charles Glaisher (appointed 26 February 2010)

General Management

Chief Executive Officer

Lord Ashton of Hyde

Company Secretary

Jeremy Percy

Underwriters

Paul Ceurvorst

Mark Rayner

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

Acting Chief Financial Officer

Simon Ruffels

Financial Controller

Stephen Liu

Actuarial

Company Actuary

Nigel Finlay

FARADAY REINSURANCE CO. LIMITED

Directors' report

The directors submit their annual report and financial statements of Faraday Reinsurance Co. Limited ("the Company") for the year ended 31 December 2009.

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 Corporation. The Company is regulated by the Financial Services Authority in the UK.

The principal activity of the Company is the transaction of casualty reinsurance business and general liability 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 during the next financial year.

The attached financial statements cover the year ended 31 December 2009. The operating profit for the year before taxation was £6.0m (2008: £51.9m), which included unrealised investment losses of £10.1m (2008: gains of £19.5m). The technical account reported an underwriting loss of £14.0m for the year (2008: profit of £4.0m). The results represent a combined ratio of 120.2% (2008: 93.8%). The underwriting loss and consequent higher combined ratio compared to last year is largely due to reserve strengthening on the Casualty treaty account arising in respect of Periodic Payment Order related claims. The investment return, including unrealised investment losses, was £20.1m for the year (2008: £46.9m).

On 12 March 2010, the directors declared a dividend of £1.0m (2008: £1.0m) in respect of the year ended 31 December 2009 on the 5% Redeemable Cumulative Preference Shares.

On 23 July 2009, the Company paid a dividend on ordinary shares in respect of the year ending 31 December 2008 of £19.0m (2008: £nil).

The Balance sheet on page 12 shows that the Company's total assets increased to £655.4m (2008: £648.7m) and shareholder's funds decreased to £187.7m (2008: £203.5m), mainly because of the payment of the ordinary dividend of £19.0m noted in the paragraph above.

No other 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 group companies which are incorporated outside Great Britain.

Donations

The Company has made no charitable donations during the year (2008 - £nil).

FARADAY REINSURANCE CO. LIMITED

Directors' report (cont...)

Principal risks and uncertainties (continued)

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 risk is minimal given the high quality and relatively short duration of its investment portfolio, 99% of which is invested in 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, including independent reviews by the Internal Audit Department.

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 (AA+ 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, in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under the law the directors have elected to prepare these financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Company law requires the directors to ensure that the 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 for that year. 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, subject to any material departures disclosed and explained in the financial statements; 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 adequate accounting records which disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence, for taking reasonable steps for the prevention and detection of fraud and other irregularities.

FARADAY REINSURANCE CO. LIMITED

Directors' report (cont...)

Statement of disclosure of information to auditors

Each of the directors at the date of this report confirms that:

- so far as each of them is aware, there is no information relevant to the audit of the Company's financial statements for the year ended 31 December 2009 of which the auditors are unaware; and
- the director has taken all the steps that he/she ought to have taken in his/her duty as a director to make him/her 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 s418(2) Companies Act 2006.

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 12 March 2010.

By order of the Board



Jeremy Percy
Company Secretary
12 March 2010

FARADAY REINSURANCE CO. LIMITED

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 2009 which comprise the Profit and loss account, the Balance sheet, the Statement of total recognised gains and losses and the related notes 1 to 22. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's member, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's member 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

As explained more fully in the Directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2009 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

FARADAY REINSURANCE CO. LIMITED

Independent auditors' report to the member of Faraday Reinsurance Co. Limited (cont...)

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.



Andrew Downes (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditors
London, United Kingdom
12 March 2010

FARADAY REINSURANCE CO. LIMITED

Profit and loss account: technical account - general business

For the year ended 31 December 2009

	Note	2009 £000	2008 £000
Earned premiums, net of reinsurance			
Gross premiums written	1	71,132	62,736
Outward reinsurance premiums		(1,608)	(1,500)
Net written premiums		<u>69,524</u>	<u>61,236</u>
Change in provision for unearned premiums			
Gross amount	16	(68)	3,859
Reinsurers' share	16	30	19
		<u>(38)</u>	<u>3,878</u>
Earned premiums, net of reinsurance		<u>69,486</u>	<u>65,114</u>
Claims incurred, net of reinsurance			
Claims paid			
Gross amount		(28,972)	(28,933)
Reinsurers' share		2	813
		<u>(28,970)</u>	<u>(28,120)</u>
Change in the provision for claims			
Gross amount	16	(35,139)	(15,303)
Reinsurers' share	16	773	289
		<u>(34,366)</u>	<u>(15,014)</u>
Claims incurred, net of reinsurance		<u>(63,336)</u>	<u>(43,134)</u>
Net operating expenses	2	<u>(20,220)</u>	<u>(17,946)</u>
Balance on the technical account - general business before equalisation provisions	1	(14,070)	4,034
Change in equalisation provisions	4	-	-
Balance on the technical account - general business	1	<u>(14,070)</u>	<u>4,034</u>

The accounting policies and notes 1 to 22 form part of these financial statements.

FARADAY REINSURANCE CO. LIMITED

Profit and loss account: non-technical account

For the year ended 31 December 2009	Note	2009 £000	2008 £000
Balance on the technical account - general business	1	(14,070)	4,034
Investment income	7	31,581	31,135
Unrealised (losses)/gains on investments		(10,136)	19,520
Investment expenses and charges	8	(1,307)	(3,800)
Investment return		<u>20,138</u>	<u>46,855</u>
Other (expenses)/income		(19)	962
Other finance (charges)/income		(47)	52
Profit on ordinary activities before tax	10	6,002	51,903
Tax on profit on ordinary activities	9	(1,420)	(14,780)
Profit on ordinary activities after tax		<u>4,582</u>	<u>37,123</u>

All profits arise from continuing operations.

The accounting policies and notes 1 to 22 form part of these financial statements.

FARADAY REINSURANCE CO. LIMITED

Statement of total recognised gains and losses

For the year ended 31 December 2009	Note	2009 £000	2008 £000
Profit for the year after tax		<u>4,582</u>	<u>37,123</u>
Actuarial losses relating to pension deficit, net of deferred tax	15, 20	(415)	(994)
Total recognised gains for the year		<u>4,167</u>	<u>36,129</u>

The accounting policies and notes 1 to 22 form part of these financial statements.

