

Syndicate 435 Annual Report 2007

# FARADAY

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## Directors and administration

31 December 2007

### Managing agent

#### Managing agent

Faraday Underwriting Limited

#### Directors

Henry Ashton

Paul Ceurvorst

David Mann, *non-executive*

Joanne Merrick

Michael O'Dea

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

Mark Rayner

Simon Tovey

Damon Vocke, *non-executive*

#### Company secretary

Elisabeth Richardson

#### Managing agent's registered office

Corn Exchange

55 Mark Lane

London

EC3R 7NE

#### Managing agent's registered number

1682486

#### Website

www.faraday.com

### Syndicate

#### Joint active underwriters

Paul Ceurvorst

Mark Rayner

#### Investment managers

General Re-New England Asset Management Inc.

#### Registered auditors

Ernst & Young LLP, London

## Report of the directors of the managing agent

31 December 2007

The directors of the managing agent present their report for the year ended 31 December 2007.

This annual report is prepared using the annual basis of accounting as required by Statutory Instrument No 3219 of 2004, the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2004 ('the 2004 Regulations').

Separate underwriting year accounts for the 2000 closed year of account will be made available to the syndicate members on that year. The 2005 underwriting year of account is fully aligned and the capital for that year was provided in full by Faraday Capital Limited. The member has exercised its right to waive the requirement to prepare separate accounts for the 2005 closed year of account.

### Results

The result for the 2007 calendar year is a profit of £127,531,000 (2006: a profit of £121,868,000). Losses will be collected and profits distributed by reference to the results of individual underwriting years.

### Principal activity and review of the business

The principal activity of the business remains the transaction of general insurance and reinsurance business in the United Kingdom. The Lloyd's insurance market is, like general market insurers, undergoing a period of change, with respect to operational, reporting and supervision matters. We believe that we are well prepared for all of these changes.

The results in 2007 benefited from a number of positive factors, most notably the lack of catastrophe losses and the overall favourable development of the syndicate's reserves across most years of account and lines of business.

Prior underwriting years performed well. Overall loss development was lower than anticipated across the majority of years and business classes. In particular additional reserve releases were possible in respect of Hurricane Katrina following stable loss development during the year. Two other significant developments were (a) the conclusion of a dispute with an insured which was resolved in our favour, and (b) the reduction in reserves in respect of so-called laddering claims following the limitation in the scope of potential class actions. All of these developments led to releases of prior year reserves, which further improved the results for the calendar year.

All underwriting areas suffered from weak market conditions during 2007, following the good results in 2006 and increased competition from international markets. The lack of significant losses in 2007 means that this trend has continued into 2008. The syndicate's underwriters will continue to focus on the profitability of the business being written, which is likely to mean that premium volumes will decrease in the short-term. Capacity for 2008 is £250 million, reduced from £325 million in 2007.

## Principal risks and uncertainties

The board of the managing agent sets risk appetite as part of the syndicate's business planning and Individual Capital Assessment processes. The managing agent's Risk Management Committee meets on a regular basis to review and update the Risk Register and the Planning Committee monitors performance using a series of key risk indicators. The principal risks and uncertainties facing the syndicate are as follows:

### Insurance risk

Insurance risk includes the risks that policies will be inadequately priced or provide inappropriate cover when compared with actual claims experience (underwriting risk), or that claims reserves established subsequently prove to be insufficient (reserving risk). The board of the managing agent manages insurance risk by agreeing its underwriting appetite annually through its business plan, which sets out a number of key criteria, including combined ratio targets and line size guidelines. The Planning Committee then monitors performance against business plan through the year. The managing agent uses catastrophe modelling software to model maximum probable losses from catastrophe exposed business. Reserve adequacy is monitored through a monthly review of loss development and quarterly reserving exercises by the actuarial department.

### Credit risk

The key aspect of credit risk is the risk of default by one or more of the syndicate's counterparties, be they brokers, coverholders, reinsurers or issuers of investment holdings. The syndicate conducts business only with brokers or coverholders that have been approved by an internal committee, which reviews the financial position

and other information in respect of these entities on at least an annual basis. A similar process is followed with respect to the use of reinsurers as security on the syndicate's reinsurance programmes.

In relation to investment holdings, the managing agent operates an Investment Committee, which reports to the board. It is charged primarily with developing the syndicate's investment strategy and monitoring the performance of the syndicate's investment managers. This involves the setting of credit quality and asset concentration parameters which properly manage the syndicate's exposure to investments. In addition, benchmarks are set each year, with reference to the syndicate's overall strategy, in order to monitor performance.

### Market risk

Market risk relates primarily to the exposures faced by the syndicate in respect of movements in interest rates and foreign exchange rates and the potential impact on the valuation of its investment portfolio and other balance sheet items, such as reserves. The managing agent manages these risks through the adoption of prudent investment guidelines, having regard to both the credit quality and duration of its investment portfolio, as well as through the monitoring of foreign exchange balances on a regular basis.

### Liquidity risk

This is the risk that the syndicate will not be able to meet its liabilities as they fall due, owing to a shortfall in cash. To mitigate this risk the levels of cash held are monitored carefully. The syndicate's conservative investment guidelines also help ensure that its portfolio has the necessary liquidity to respond quickly to short-term funding needs.

### Operational risk

Operational risk arises from errors caused by people, processes or systems that could lead to losses to the syndicate. This includes the impact from external bodies, such as related companies and regulators.

The managing agent seeks to manage this risk through the implementation of detailed procedures in all areas of its business and a structured programme of testing of processes and systems by both the Compliance and Internal Audit departments.

### Future developments

The syndicate will continue to transact the current classes of general insurance and reinsurance business. If opportunities arise to write new classes of business, these will be investigated at the appropriate time.

### Directors

The directors of the managing agent who served during the year ended 31 December 2007, except where noted, were as follows:

Henry Ashton  
 Andrew Baddeley (*resigned 6 November 2007*)  
 Paul Ceurvorst, *joint active underwriter*  
 David Mann, *non-executive*  
 Joanne Merrick  
 Michael O'Dea  
 Andrew Phillips (*Lord Phillips of Sudbury*), *non-executive*  
 Mark Rayner, *joint active underwriter*  
 Simon Tovey  
 Damon Vocke, *non-executive*

### Directors' interests

No director participated in the premium income capacity of the 2005, 2006 or 2007 years of account of the syndicate.

It is not considered meaningful to calculate how any individual director's shareholding in Berkshire Hathaway Inc. relates to their participation on Syndicate 435.

### Disclosure of information to the auditors

So far as each person who was a director of the managing agent at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditors in connection with their report, of which the auditors are unaware. Having made enquiries of fellow directors of the managing agent and the syndicate's auditors, each director has taken all steps that they are obliged to take as a director in order to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

### Management and capacity

Faraday Underwriting Limited ('the managing agent') is the managing agent for Syndicate 435 ('the syndicate'). Faraday Holdings Limited, the immediate parent company of the managing agent is itself owned by General Re Corporation which is a subsidiary of Berkshire Hathaway Inc. The ultimate holding company of the Faraday group of companies is therefore Berkshire Hathaway Inc.

Syndicate capacity for the 2005 to 2008 years of account has been provided in full by Faraday Capital Limited, a wholly owned subsidiary of Faraday Holdings Limited. The capacity amounted to £300 million in 2005, £325 million in both 2006 and 2007, and £250 million in 2008.

### Auditors and syndicate meeting

The board of the managing agent would like to express its thanks to Ernst & Young LLP for the services provided since the formation of the syndicate in 1984.

The managing agent hereby gives formal notification of a proposal to appoint Deloitte & Touche LLP as auditors of Syndicate 435. In addition the managing agent confirms that it does not propose to hold an annual general meeting of the members of the syndicate.

Members of the syndicate may within 21 days of 31 March 2008 object to the above proposals by contacting the undersigned.

Should members have any queries on this matter they should contact their members' agent.

By order of the board

**Elisabeth Richardson**

*Company Secretary*

London

14 March 2008

## Statement of managing agent's responsibilities

31 December 2007

The managing agent is responsible for preparing the syndicate report and annual accounts in accordance with applicable law and regulations.

The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2004 ('the 2004 Regulations') require the managing agent to prepare syndicate annual accounts at 31 December each year in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The annual accounts are required by law to give a true and fair view of the state of affairs of the syndicate as at that date and of its profit or loss for that year.

In preparing the syndicate annual accounts, the managing agent is required to:

- (a) select suitable accounting policies which are applied consistently;
- (b) make judgements and estimates that are reasonable and prudent;
- (c) state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the annual accounts; and
- (d) prepare the financial statements on the basis that the syndicate will continue to write future business unless it is inappropriate to presume that the syndicate will do so.

The managing agent is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the syndicate and enable it to ensure that the syndicate annual accounts comply with the 2004 Regulations. It is also responsible for safeguarding the assets of the syndicate and hence for taking reasonable steps for prevention and detection of fraud and other irregularities.

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

## Independent auditors' report to the members of Syndicate 435

We have audited the syndicate's annual accounts for the year ended 31 December 2007 which comprise the Profit and loss account, the Statement of total recognised gains and losses, the Balance sheet, the Statement of cash flows and the related notes 1 to 18. These accounts have been prepared under the accounting policies set out therein.

This report is made solely to the syndicate's members, as a body, in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2004. Our audit work has been undertaken so that we might state to the syndicate's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the syndicate's members as a body, for our audit work, for this report, or for the opinions we have formed.

### Respective responsibilities of the managing agent and auditors

The managing agent's responsibilities for the preparation of the annual accounts in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of managing agent's responsibilities.

Our responsibility is to audit the annual accounts 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 annual accounts give a true and fair view and have been properly prepared in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2004. We also report to you whether in our opinion the information given in the Report of the directors of the managing agent is consistent with the annual accounts.

In addition we report to you if, in our opinion, the managing agent, in respect of the syndicate, 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 remuneration of directors of the managing agent and other transactions is not disclosed.

We read the Report of the directors of the managing agent 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 annual accounts. It also includes an assessment of the significant estimates and judgements made by the directors of the managing agent in the preparation of the annual accounts, and of whether the accounting policies are appropriate to the syndicate'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 annual accounts 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 annual accounts.

### Opinion

In our opinion:

- (a) the annual accounts give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the syndicate's affairs as at 31 December 2007 and of its profit for the year then ended;
- (b) the annual accounts have been properly prepared in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2004; and
- (c) the information given in the Report of the directors of the managing agent is consistent with the annual accounts.

### Ernst & Young LLP

*Registered Auditor*

London

14 March 2008

## Profit and loss account

for the year ended 31 December 2007

Note	2007		2006	
	£'000	£'000	£'000	£'000
<b>Technical account - general business</b>				
<b>Earned premiums, net of reinsurance</b>				
Gross premiums written	3	257,697	331,626	
Outward reinsurance premiums		(52,145)	(45,192)	
Net premiums written		205,552	286,434	
Change in the provision for unearned premiums				
Gross amount		9,488	(9,562)	
Reinsurers' share		1,245	(3,748)	
Change in the net provision for unearned premiums		10,733	(13,310)	
<b>Earned premiums, net of reinsurance</b>		<b>216,285</b>	<b>273,124</b>	
<b>Allocated investment return transferred from general business technical account</b>		<b>44,499</b>	<b>30,328</b>	
<b>Claims incurred, net of reinsurance</b>				
Claims paid				
Gross amount		(147,647)	(273,069)	
Reinsurers' share		55,521	111,311	
Net claims paid		(92,126)	(161,758)	
Change in the provision for claims				
Gross amount		68,473	135,202	
Reinsurers' share		(42,293)	(82,550)	
Change in net provision for claims		26,180	52,652	
<b>Claims incurred, net of reinsurance</b>		<b>(65,946)</b>	<b>(109,106)</b>	
<b>Net operating expenses</b>	3, 5	<b>(67,307)</b>	<b>(72,478)</b>	
<b>Balance on the technical account - general business</b>		<b>127,531</b>	<b>121,868</b>	

## Profit and loss account

for the year ended 31 December 2007

Note	2007	2006
	£'000	£'000
<b>Non-technical account</b>		
<b>Balance on the technical account - general business</b>		
	127,531	121,868
Investment income	8	31,844
Unrealised gains/(losses) on investments		(951)
Investment expenses and charges	8	(565)
Allocated investment return transferred to the general business technical account		(30,328)
<b>Profit for the financial year</b>	<b>127,531</b>	<b>121,868</b>

## Statement of total recognised gains and losses

for the year ended 31 December 2007

Profit for the financial year	127,531	121,868
Foreign currency translation	11	22,170
Total recognised gains since the last annual report	<b>133,601</b>	<b>144,038</b>

The result for the financial year was derived solely from continuing operations.

## Balance sheet

at 31 December 2007

	Note	2007		2006	
		£'000	£'000	£'000	£'000
<b>Assets</b>					
<b>Investments</b>					
Financial investments	9		<b>780,848</b>		689,714
<b>Reinsurers' share of technical provisions</b>					
Provision for unearned premiums		<b>8,768</b>		8,395	
Claims outstanding		<b>177,653</b>		221,203	
			<b>186,421</b>		229,598
<b>Debtors</b>					
Debtors arising out of direct insurance operations	10	<b>7,915</b>		9,588	
Debtors arising out of reinsurance operations		<b>81,560</b>		104,854	
Other debtors		<b>782</b>		319	
			<b>90,257</b>		114,761
<b>Other assets</b>					
Cash at bank and in hand			<b>37,538</b>		18,322
<b>Prepayments and accrued income</b>					
Accrued interest		<b>5,329</b>		3,149	
Deferred acquisition costs		<b>14,631</b>		16,938	
Other prepayments and accrued income		<b>480</b>		480	
			<b>20,440</b>		20,567
<b>Total assets</b>			<b><u>1,115,504</u></b>		<b><u>1,072,962</u></b>

## Balance sheet

at 31 December 2007

	Note	2007		2006	
		£'000	£'000	£'000	£'000
<b>Liabilities</b>					
<b>Capital and reserves</b>					
Members' balances	11, 18		<b>36,393</b>		(99,246)
<b>Technical provisions</b>					
Provision for unearned premiums			<b>89,401</b>		100,929
Claims outstanding	4		<b>935,422</b>		1,011,560
			<b>1,024,823</b>		1,112,489
<b>Creditors</b>					
Creditors arising out of direct insurance operations	12		<b>1,090</b>		1,178
Creditors arising out of reinsurance operations			<b>33,072</b>		43,481
Other creditors			<b>1,194</b>		4,689
			<b>35,356</b>		49,348
<b>Accruals and deferred income</b>	16		<b>18,932</b>		10,371
<b>Total liabilities</b>			<b><u>1,115,504</u></b>		<b><u>1,072,962</u></b>

The financial statements on pages 10 to 20 were approved by the board of Faraday Underwriting Limited on 14 March 2008 and were signed on its behalf by

**Michael O'Dea**  
 Director  
 Faraday Underwriting Limited

## Statement of cash flows

for the year ended 31 December 2007

		2007	2006
	Note	£'000	£'000
<b>Net cash inflow from operating activities</b>	13	<b>110,890</b>	82,930
<b>Transfer to members in respect of underwriting participations</b>		<b>(43,651)</b>	(75,420)
<b>Financing</b>			
Cash calls received		<u>47,181</u>	50,525
	14	<u>114,420</u>	<u>58,035</u>
<b>Cash flows were invested as follows:</b>			
Increase/(decrease) in cash at bank and in hand	14	<b>18,060</b>	(15,485)
Net portfolio investment	14, 15	<u>96,360</u>	<u>73,520</u>
<b>Net investment of cash flows</b>		<u>114,420</u>	<u>58,035</u>

## Notes to the financial statements

at 31 December 2007

### 1 Basis of preparation

These financial statements have been prepared in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2004 ('the 2004 Regulations') and applicable Accounting Standards in the United Kingdom. The recommendations of the Statement of Recommended Practice on Accounting for Insurance Business issued in December 2005 (as amended in December 2006) by the Association of British Insurers have been adopted in all material respects, except that exchange differences are dealt with in the technical account as there are no non-technical items.

### 2 Accounting policies

#### Premiums written

Premiums written comprise premiums on policies incepted during the accounting period as well as adjustments made in the year to premiums written in prior accounting periods. Premiums written are shown gross of acquisition costs payable and exclude taxes and duties levied on them. Premiums include estimates for pipeline premiums, representing amounts due to the syndicate not yet notified.

#### Unearned premiums

Written premiums are recognised as earned according to the risk profile of the policy. Unearned premiums represent the proportion of premiums written in the accounting period that relate to unexpired terms of policies in force at the balance sheet date, calculated on the basis of established earnings patterns or time apportionment as appropriate.

#### Reinsurance premium ceded

Outwards reinsurance premiums are accounted for in the same accounting period as the premiums for the related direct or inwards business being reinsured.

#### Claims provisions and related recoveries

Gross claims incurred comprise the estimated cost of all claims occurring during the year, whether reported or not, including related direct and indirect claims handling costs and adjustments to claims outstanding from previous years.

The provision for claims outstanding is assessed on an individual case basis and is based on the estimated ultimate cost of all claims notified but not settled by the balance sheet date, together with the provision for related claims handling costs. The provision also includes the estimated cost of claims incurred but not reported ('IBNR') at the balance sheet date based on statistical methods.

These methods generally involve projecting from past experience of the development of claims over time to form a view of the likely ultimate claims to be experienced for more recent underwriting, having regard to variations in the business accepted and the underlying terms and conditions. For the most recent years, where a high degree of volatility arises from projections, estimates may be based in part on output from rating and other models of the business accepted and assessments of underwriting conditions. The amount of salvage and subrogation recoveries is separately identified and, where material, reported as an asset.

The reinsurers' share of provision for claims outstanding is based on the amounts of outstanding claims and projections for IBNR, net of estimated irrecoverable amounts, having regard to the reinsurance programme in place for the class of business, the claims experience for the accounting period and the current security rating of the reinsurance companies involved. A number of statistical methods are used to assist in making these estimates.

The two most critical assumptions as regards claims provisions are firstly that the past is, in general terms, a reasonable predictor of the likely level of claims development but subject always to unpredictable changes and secondly that the rating and other models used for current business are fair reflections of the likely level of ultimate claims to be incurred.

The directors consider that the provisions for gross claims and related reinsurance recoveries are fairly stated on the basis of the information currently available to them. However, the ultimate liability will vary as a result of subsequent information and events and this may result in significant adjustments to the amounts provided. Adjustments to the amounts of claims provisions established in prior accounting periods 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.

#### Unexpired risks provision

A provision for unexpired risks is made where claims and related expenses arising after the end of the accounting period in respect of contracts concluded before that date, are expected to exceed the unearned premiums and premiums receivable under these contracts, after the deduction of any acquisition costs deferred.

The provision for unexpired risks is calculated by reference to classes of business which are managed together, after taking into account relevant investment return.

#### Deferred acquisition costs

Acquisition costs, comprising commission and other costs related to the acquisition of insurance and reinsurance policies are deferred to the extent that they are attributable to premiums unearned at the balance sheet date.

#### Foreign currencies

Transactions in US dollars and Canadian dollars are translated at the average rates of exchange for each month of the accounting period. Underwriting transactions denominated in other foreign currencies are included at the rate of exchange ruling at the date the transaction is processed.

Assets and liabilities denominated in foreign currencies are translated at the rate of exchange at the balance sheet date.

Exchange differences arising from the retranslation of the opening balance sheet items at the closing balance sheet rate and the retranslation of the profit and loss account for the year from the average rate to the closing balance sheet rate are taken to reserves and included in the Statement of total recognised gains and losses. All other exchange differences are dealt with in the technical account and included within operating expenses.

#### Investments

Investments are stated at current value at the balance sheet date. For this purpose listed investments are stated at market value and deposits with credit institutions and overseas deposits are stated at cost. Unlisted investments for which a market exists are stated at the average price at which they are traded on the balance sheet date or the last trading day before that date.

#### Investment return

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

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

Investment return is initially recorded in the non-technical account. A transfer is made from the non-technical account to the general business technical account. Investment return has been wholly allocated to the technical account as all investments relate to the technical account.

## 2 Accounting policies (continued)

### Taxation

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

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

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

### Pension costs

Staff who provide services to the syndicate are employed by GRF Services Limited, 'GRFS' (formerly known as Faraday Group Services Limited), a wholly owned subsidiary of Faraday Holdings Limited. GRFS operates a defined contribution scheme. Pension contributions relating to syndicate staff are charged to the syndicate and included within net operating expenses.

Certain members of staff were, until 31 December 2006, members of a defined benefit pension scheme which is operated by a related company. Contributions in respect of this scheme are charged to the syndicate and included within net operating expenses. However, any shortfall in the funding position is reflected in the accounts of that company and is not charged to the syndicate and accordingly no disclosures are made in respect of that scheme, which was closed to future accrual on 31 December 2006.

### Profit commission

Profit commission is charged by the managing agent at a rate of 12.5% of profit on a year of account, subject to the operation of a deficit clause. This is charged to the syndicate as incurred but does not become payable until after the appropriate year of account closes, normally at 36 months.

## 3 Segmental analysis

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

	Gross premiums written £'000	Gross premiums earned £'000	Gross claims incurred £'000	Net operating expenses £'000	Reinsurance balance £'000	Total £'000	Net technical provisions £'000
<b>2007</b>							
<b>Direct insurance</b>							
Accident and health	306	306	(789)	(73)	153	(403)	(117)
Motor (third party liability)	363	351	(1,526)	(122)	448	(849)	(1,629)
Motor (other classes)	182	182	256	(43)	149	544	(3,691)
Marine, aviation and transport	3,773	4,037	(2,561)	(1,131)	(271)	74	(6,820)
Fire and other damage to property	39,226	41,512	(6,217)	(10,865)	1,870	26,300	(68,479)
Third party liability	25,861	31,179	(21,450)	(6,304)	5,958	9,383	(283,406)
Other direct	<u>231</u>	<u>253</u>	<u>1,194</u>	<u>(144)</u>	<u>(119)</u>	<u>1,184</u>	<u>(4,673)</u>
Total direct	69,942	77,820	(31,093)	(18,682)	8,188	36,233	(368,815)
<b>Reinsurance</b>	<u>187,755</u>	<u>189,365</u>	<u>(48,081)</u>	<u>(48,625)</u>	<u>(45,860)</u>	<u>46,799</u>	<u>(469,587)</u>
	<u>257,697</u>	<u>267,185</u>	<u>(79,174)</u>	<u>(67,307)</u>	<u>(37,672)</u>	<u>83,032</u>	<u>(838,402)</u>
<b>2006</b>							
<b>Direct insurance</b>							
Accident and health	(36)	(36)	(104)	28	5	(107)	(2,143)
Motor (third party liability)	(2)	7	(387)	(60)	46	(394)	(2,708)
Motor (other classes)	(124)	(124)	(189)	(198)	333	(178)	(10,278)
Marine, aviation and transport	1,381	4,309	(1,893)	(1,858)	(911)	(353)	(6,758)
Fire and other damage to property	41,128	35,600	5,353	(8,387)	(7,313)	25,253	(99,257)
Third party liability	38,281	40,120	2,963	(11,662)	(5,120)	26,301	(375,247)
Other direct	<u>93</u>	<u>107</u>	<u>4,345</u>	<u>(169)</u>	<u>(994)</u>	<u>3,289</u>	<u>(9,801)</u>
Total direct	80,721	79,983	10,088	(22,306)	(13,954)	53,811	(506,192)
<b>Reinsurance</b>	<u>250,905</u>	<u>242,081</u>	<u>(147,955)</u>	<u>(50,172)</u>	<u>(6,225)</u>	<u>37,729</u>	<u>(376,699)</u>
	<u>331,626</u>	<u>322,064</u>	<u>(137,867)</u>	<u>(72,478)</u>	<u>(20,179)</u>	<u>91,540</u>	<u>(882,891)</u>

Acquisition costs on direct insurance gross premiums earned during 2007 were £15,280,000 (2006: £14,933,000). All premiums were concluded in the UK.

The geographical analysis of premiums by reference to the situs of the risk is as follows:

	2007 £'000	2006 £'000
UK	15,499	33,112
Other EU countries	21,524	23,142
US	181,154	221,015
Other	<u>39,520</u>	<u>54,357</u>
Total	<u>257,697</u>	<u>331,626</u>

#### 4 Claims outstanding

There has been no material reassessment of claims outstanding held at the end of the previous year.

Overall loss development was lower than anticipated across the majority of years and business classes. In particular we were able to release some reserves in respect of Hurricane Katrina following stable loss development during the year. In addition, a successful resolution of a dispute with an insured and legal developments in respect of laddering losses have led to further releases of prior year reserves.

#### 5 Net operating expenses

	2007 £'000	2006 £'000
Acquisition costs	34,079	46,107
Reinsurance commissions and profit participations	(5,450)	(7,448)
Changes in deferred acquisition costs	2,095	2,272
Administrative expenses	36,583	31,547
	<u>67,307</u>	<u>72,478</u>
Administrative expenses include:		
Auditors' remuneration		
Audit services	<u>263</u>	<u>235</u>
Members' standard personal expenses (Lloyd's subscriptions, New Central Fund contributions, managing agent's fees and profit commission) included within administrative expenses	<u>15,789</u>	<u>9,475</u>

#### 6 Staff numbers and costs

All staff are employed by GRF Services Limited (formerly known as Faraday Group Services Limited). The following amounts were recharged to the syndicate in respect of salary costs:

	2007 £'000	2006 £'000
Wages and salaries	12,607	11,024
Social security costs	1,606	1,556
Other pension costs	1,017	598
	<u>15,230</u>	<u>13,178</u>

The average number of employees employed by GRF Services Limited but working for the syndicate during the year was as follows:

	Number	Number
Administration and finance	56	52
Underwriting	36	35
Claims	13	13
Investments	1	1
	<u>106</u>	<u>101</u>

#### 7 Emoluments of the directors of Faraday Underwriting Limited

The directors of Faraday Underwriting Limited received the following aggregate remuneration charged to the syndicate and included within net operating expenses:

	2007 £'000	2006 £'000
Fees	-	18
Emoluments	<u>1,933</u>	<u>1,129</u>
	<u>1,933</u>	<u>1,147</u>

The joint active underwriters received the following emoluments charged as a syndicate expense:

	2007 £'000	2006 £'000
Emoluments	<u>1,013</u>	<u>650</u>

Emoluments includes salaries, fees and bonuses, sums paid by way of expense allowances and the estimated money value of any other benefits received by the directors other than in cash.

#### 8 Investment return

	2007 £'000	2006 £'000
Income from investments	34,425	26,596
Gains on the realisation of investments	<u>4,151</u>	<u>5,248</u>
	<u>38,576</u>	<u>31,844</u>
Investment expenses and charges		
Investment management expenses, including interest	<u>562</u>	<u>565</u>

#### 9 Financial investments

	Market value		Cost	
	2007 £'000	2006 £'000	2007 £'000	2006 £'000
Debt securities and other fixed income securities	670,106	530,322	664,441	531,048
Other loans	-	4,688	-	4,688
Deposits with credit institutions	68,478	104,349	68,478	104,349
Overseas deposits	<u>42,264</u>	<u>50,355</u>	<u>42,264</u>	<u>50,355</u>
	<u>780,848</u>	<u>689,714</u>	<u>775,183</u>	<u>690,440</u>

Other loans comprises loans to the Lloyd's New Central Fund. All debt securities are listed on recognised stock exchanges.

#### 10 Debtors arising out of direct insurance operations

	2007 £'000	2006 £'000
Due from intermediaries	<u>7,915</u>	<u>9,588</u>

#### 11 Reconciliation of members' balances

	2007 £'000	2006 £'000
Members' balances brought forward at 1 January	(99,246)	(213,473)
Profit for the financial year	127,531	121,868
Foreign currency translation	6,070	22,170
Payment of profits to/(receipt of losses from) members' personal reserves	<u>2,038</u>	<u>(29,811)</u>
Members' balances carried forward at 31 December	<u>36,393</u>	<u>(99,246)</u>

Members participate on syndicates by reference to years of account and their ultimate result, assets and liabilities are assessed with reference to policies incepting in that year of account in respect of their membership of a particular year.

#### 12 Creditors arising out of direct insurance operations

	2007 £'000	2006 £'000
Due to intermediaries	<u>1,090</u>	<u>1,178</u>

#### 13 Reconciliation of operating profit to net cash inflow from operating activities

	2007 £'000	2006 £'000
Operating profit on ordinary activities	127,531	121,868
Realised and unrealised investment losses	4,070	64,731
Decrease in net technical provisions	(44,489)	(133,806)
Decrease in debtors	24,631	29,643
Decrease in creditors	(6,923)	(21,676)
Foreign currency translation	6,070	22,170
Net cash inflow from operating activities	<u>110,890</u>	<u>82,930</u>

#### 14 Movement in opening and closing portfolio investments net of financing

	2007 £'000	2006 £'000
Net cash inflow/(outflow) for the year	18,060	(15,485)
Cash flow		
Portfolio investments	96,360	73,520
Movement arising from cash flows	114,420	58,035
Changes in market value and exchange rates	(4,070)	(64,731)
Total movement in portfolio investments	110,350	(6,696)
Portfolio at 1 January	708,036	714,732
Portfolio at 31 December	<u>818,386</u>	<u>708,036</u>

#### Movement in cash, portfolio investments and financing

	At 1 Jan 2007	Cash flow	Changes to market value & currencies	At 31 Dec 2007
	£'000	£'000	£'000	£'000
Cash at bank and in hand	18,322	18,060	1,156	37,538
Portfolio investments				
Debt securities and other fixed income securities	530,322	144,453	(4,669)	670,106
Other loans	4,688	(4,688)	-	-
Overseas deposits	50,355	(8,694)	603	42,264
Deposits with credit institutions	104,349	(34,711)	(1,160)	68,478
Total portfolio investments	689,714	96,360	(5,226)	780,848
Total cash, portfolio investments and financing	708,036	114,420	(4,070)	818,386

Other loans comprises loans to the Lloyd's New Central Fund.

### 15 Net cash outflow on portfolio investments

	2007 £'000	2006 £'000
Purchase of debt securities and other fixed income securities	(1,221,686)	(1,263,941)
Repayment of loans from/(payment of loans to) Lloyd's New Central Fund	4,688	(2,438)
Net movement of deposits with credit institutions	34,711	(17,756)
Net movement of overseas deposits	8,694	7,928
Sale of debt securities and other fixed income securities	1,077,233	1,202,687
Net cash outflow on portfolio investments	<u>(96,360)</u>	<u>(73,520)</u>

### 16 Accruals and deferred income

Included within accruals and deferred income is an amount of £1,533,000 (2006: £1,562,000) in respect of reinsurance deferred acquisition costs.

### 17 Related parties

The syndicate, in the normal course of business, conducts underwriting transactions with the group's immediate and ultimate parent companies, General Re Corporation and Berkshire Hathaway Inc. and their subsidiaries. This might include reinsurance by, or reinsurance of, these companies and their subsidiaries. All such transactions are carried out at arm's length.

As members of the General Re Corporation group of companies, the syndicate and the agency benefit from, and are charged for, services provided by employees of related companies. All such services are provided at arm's length.

Profit commission of £8,476,000, due to Faraday Underwriting Limited, has been accrued by the syndicate in respect of the result for the 2007 calendar year (2006: £2,162,000). Any profit commission that may be due is not paid until the year of account is closed, normally after three years.

In 2007, managing agency fees of £2,437,500 (2006: £2,437,500) were paid by the syndicate to Faraday Underwriting Limited. In addition to this, expenses of £19,560,000 (2006: £15,480,000) were paid to GRF Services Limited for expenses paid on behalf of the syndicate. At the year end, the amount owing to GRF Services Limited was £81,000 (2006: £489,000).

The agency has subcontracted much of the syndicate's data input and processing functions to Lambourn Insurance Services Limited and Pro Insurance Solutions Limited, independent outsourcing service companies.

### 18 Funds at Lloyd's

Every member is required to hold capital at Lloyd's which is held in trust and known as Funds at Lloyd's ('FAL'). These funds are intended primarily to cover circumstances where syndicate assets prove insufficient to meet participating members' underwriting liabilities. The level of FAL that Lloyd's requires a member to maintain is determined by Lloyd's based on FSA requirements and resource criteria. The determination of FAL has regard to a number of factors including the nature and amount of risk to be underwritten by the member and the assessment of the reserving risk in respect of business that has been underwritten. Since FAL is not under the management of the managing agent, no amount has been shown in these financial statements by way of such capital resources. However, the managing agent is able to make a call on the members' FAL to meet liquidity requirements or to settle losses.