

Syndicate 435 Annual Report 2009

# FARADAY



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## Directors and administration

31 December 2009

### Managing agent

*Managing agent*

Faraday Underwriting Limited

*Directors*

Lord Ashton of Hyde

Paul Ceurvorst

Nigel Finlay

Charles Glaisher

Peter Lütke-Bornefeld, *non-executive*

*(resigning with effect from 31 March 2010)*

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](http://www.faraday.com)

## Report of the directors of the managing agent

31 December 2009

The directors of the managing agent present their report for the year ended 31 December 2009.

This annual report is prepared using the annual basis of accounting as required by Statutory Instrument No 1950 of 2008, the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

The 2007 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 2007 closed year of account.

### Results

The result for the 2009 calendar year is a profit of £134,590,000 (2008: a profit of £65,981,000).

### 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, like general market insurers, continues to face change with respect to operational, reporting and supervision matters. Much work is now being undertaken in addressing the new regulatory requirements that are being introduced under Solvency II. We believe that we are doing all we can to prepare for these changes.

The 2009 results benefited from a number of positive factors, most notably the lack of catastrophe losses in our core trading territories and the overall favourable development of the syndicate's reserves across most years of account and lines of business.

The absence of significant natural catastrophes contributed to excellent results in our Property book.

2009 was the worst year on record for aviation losses. Worldwide insured losses are expected to total approximately US\$ 2.5 billion against expected premium of US\$ 1.8 billion. Faraday's aviation results were not impacted by the majority of the losses and the team has performed well against its peer group.

The Casualty book continues to be priced and reserved on a prudent basis due to the long-tail nature of the business.

Prior underwriting years performed well. However, there has been some strengthening of reserves on the Casualty book, notably the contractors' account. Reserves for Hurricanes Katrina (2005), Gustav and Ike (2008) have seen stable loss development during 2009.

All underwriting areas suffered from challenging market conditions during 2009 and we continue to face competition from international markets. The significant losses from the hurricanes of 2008 did not result in significantly improved conditions in the Property market, in part due to capital returning to our US customers' balance sheets as well as those of our competitors. There has, however, been some hardening of rates in the aviation market following the losses referred to earlier.

The syndicate's underwriters continue to focus on the profitability of the business being written.

Capacity has increased from £250 million in 2009 to £325 million in 2010.

## 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. There are a number of board committees that oversee the strategy and performance of the syndicate in key areas. The three key committees are the Risk Management, Planning & Performance and Investment Committees. The Risk Management Committee meets on a regular basis to review and update the risk profile of the syndicate. The Planning & Performance Committee monitors underwriting performance using a series of key risk indicators. The Investment Committee sets the investment strategy and guidelines for the syndicate's investment managers and monitors their performance against pre-agreed benchmarks.

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 & Performance Committee monitors performance against the 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 half-yearly 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 on the syndicate's reinsurance programmes.

In relation to investment holdings, the Investment Committee sets the syndicate's investment strategy, having due regard to economic conditions and developments in financial markets and monitors 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 their 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 in respect of the duration of its investment portfolio, as well as through the monitoring of foreign exchange balances and exposures 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 and short-term investments 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 and controls in all areas of its business and a structured programme of testing of processes and systems by 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 2009, except where noted, were as follows:

Lord Ashton of Hyde

Paul Ceurvorst, *joint active underwriter*

Nigel Finlay (*appointed 22 February 2010*)

Charles Glaisher (*appointed 26 February 2010*)

Mark Lowton (*from 25 July 2008 to 15 May 2009*)

Peter Lütke-Bornefeld, *non-executive*  
(*resigning with effect from 31 March 2010*)

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 2007, 2008 or 2009 years of account of the syndicate.

It is not considered meaningful to calculate how any individual director's shareholding in Berkshire Hathaway Inc. (the managing agent's ultimate holding company) 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 appropriately 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 2007 to 2010 years of account has been provided in full by Faraday Capital Limited, a wholly owned subsidiary of Faraday Holdings Limited. The capacity amounted to £325 million in 2007, £250 million in both 2008 and 2009 and £325 million in 2010.

### Auditors and syndicate meeting

The managing agent hereby gives formal notification of a proposal to re-appoint Deloitte LLP as auditors of Syndicate 435 for a further year. In addition the managing agent confirms that it does not propose to hold an annual general meeting of the member of the syndicate.

By order of the board

**Elisabeth Richardson**

*Company Secretary*

London

12 March 2010

## Statement of managing agent's responsibilities

31 December 2009

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 2008 ('the 2008 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 annual accounts on the basis that the syndicate will continue to write future business unless it is inappropriate to presume that the syndicate will do so.

The managing agent is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the syndicate and enable it to ensure that the annual accounts comply with the 2008 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 annual accounts may differ from legislation in other jurisdictions.

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

We have audited the syndicate annual accounts of Syndicate 435 for the year ended 31 December 2009 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 syndicate annual accounts have been prepared under the accounting policies set out therein.

This report is made solely to the syndicate's member in accordance with regulation 10 of the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. Our audit work has been undertaken so that we might state to the syndicate's member those matters we are required to state to the member 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 member 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 preparing the syndicate annual accounts in accordance with applicable law and United Kingdom 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 syndicate 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 syndicate annual accounts give a true and fair view, have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice and have been prepared in accordance with the requirements of the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. We also report to you whether, in our opinion, the information given in the managing agent's report is consistent with the syndicate annual accounts.

In addition we report to you if, in our opinion, the managing agent in respect of the syndicate has not kept adequate accounting records, if we have not received all the information and explanations we require for our audit, or if certain disclosures of amounts charged to the syndicate in respect of emoluments paid to the managing agent's directors and the active underwriter specified by law are not made.

We read the managing agent's 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 syndicate annual accounts. It also includes an assessment of the significant estimates and judgements made by the managing agent in the preparation of the syndicate 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 syndicate 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 syndicate annual accounts.

## Opinion

In our opinion:

- (a) the syndicate annual accounts give a true and fair view of the state of the syndicate's affairs as at 31 December 2009 and of its profit for the year then ended;
- (b) the syndicate annual accounts have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice;
- (c) the syndicate annual accounts have been prepared in accordance with the requirements of the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008; and
- (d) the information given in the managing agent's report is consistent with the syndicate annual accounts.

### **Andrew Downes**

*Senior Statutory Auditor for and on behalf of Deloitte LLP  
Chartered Accountants and Statutory Auditors*

London, United Kingdom

12 March 2010

## Profit and loss account

for the year ended 31 December 2009

	Note	2009		2008	
		£'000	£'000	£'000	£'000
<b>Technical account - general business</b>					
<b>Earned premiums, net of reinsurance</b>					
Gross premiums written	3		<b>303,902</b>		258,231
Outward reinsurance premiums			<b>(56,450)</b>		(65,080)
Net premiums written			<b>247,452</b>		193,151
Change in the provision for unearned premiums					
Gross amount			<b>(2,226)</b>		16,530
Reinsurers' share			<b>9,137</b>		(3,725)
Change in the net provision for unearned premiums			<b>6,911</b>		12,805
<b>Earned premiums, net of reinsurance</b>			<b>254,363</b>		205,956
<b>Allocated investment return transferred from the non-technical account</b>			<b>51,546</b>		26,833
<b>Claims incurred, net of reinsurance</b>					
Claims paid					
Gross amount			<b>(180,054)</b>		(235,162)
Reinsurers' share			<b>59,443</b>		65,084
Net claims paid			<b>(120,611)</b>		(170,078)
Change in the provision for claims					
Gross amount			<b>77,073</b>		98,249
Reinsurers' share			<b>(50,457)</b>		(14,185)
Change in net provision for claims			<b>26,616</b>		84,064
<b>Claims incurred, net of reinsurance</b>			<b>(93,995)</b>		(86,014)
<b>Net operating expenses</b>	3, 5		<b>(77,324)</b>		(80,794)
<b>Balance on the technical account - general business</b>			<b>134,590</b>		65,981

## Profit and loss account for the year ended 31 December 2009

		2009	2008
	<i>Note</i>	£'000	£'000
<b>Non-technical account</b>			
<b>Balance on the technical account - general business</b>		<b>134,590</b>	65,981
Investment income	8	42,026	37,760
Unrealised gains/(losses) on investments		10,248	(10,094)
Investment expenses and charges		(728)	(833)
Allocated investment return transferred to the technical account - general business		<u>(51,546)</u>	<u>(26,833)</u>
<b>Profit for the financial year</b>		<b><u>134,590</u></b>	<b><u>65,981</u></b>

## Statement of total recognised gains and losses for the year ended 31 December 2009

Profit for the financial year		134,590	65,981
Foreign currency translation	11	<u>5,556</u>	<u>57,912</u>
Total recognised gains since the last annual report		<b><u>140,146</u></b>	<b><u>123,893</u></b>

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

## Balance sheet

at 31 December 2009

		2009		2008	
	Note	£'000	£'000	£'000	£'000
<b>Assets</b>					
<b>Investments</b>					
Financial investments	9		<b>852,281</b>		948,662
<b>Reinsurers' share of technical provisions</b>					
Provision for unearned premiums		<b>18,302</b>		10,568	
Claims outstanding		<b>143,257</b>		205,578	
			<b>161,559</b>		216,146
<b>Debtors</b>					
Debtors arising out of direct insurance operations	10	<b>9,609</b>		8,147	
Debtors arising out of reinsurance operations		<b>94,124</b>		98,369	
Other debtors		<b>355</b>		51	
			<b>104,088</b>		106,567
<b>Other assets</b>					
Cash at bank and in hand			<b>34,709</b>		47,574
<b>Prepayments and accrued income</b>					
Accrued interest		<b>6,373</b>		8,907	
Deferred acquisition costs		<b>15,310</b>		17,009	
			<b>21,683</b>		25,916
<b>Total assets</b>			<b>1,174,320</b>		<b>1,344,865</b>

## Balance sheet

at 31 December 2009

		2009		2008	
	Note	£'000	£'000	£'000	£'000
<b>Liabilities</b>					
<b>Capital and reserves</b>					
Members' balances	11, 18		<b>91,591</b>		95,253
<b>Technical provisions</b>					
Provision for unearned premiums		<b>97,297</b>		106,444	
Claims outstanding	4	<b>932,436</b>		<u>1,079,076</u>	
			<b>1,029,733</b>		1,185,520
<b>Creditors</b>					
Creditors arising out of direct insurance operations	12	<b>4,311</b>		659	
Creditors arising out of reinsurance operations		<b>29,596</b>		30,993	
Other creditors		<b>5,004</b>		<u>6,180</u>	
			<b>38,911</b>		37,832
<b>Accruals and deferred income</b>	16		<b>14,085</b>		<u>26,260</u>
<b>Total liabilities</b>			<b>1,174,320</b>		<u>1,344,865</u>

The financial statements on pages 10 to 20 were approved by the board of Faraday Underwriting Limited on 12 March 2010 and were signed on its behalf by

**Michael O'Dea**

Director

Faraday Underwriting Limited

## Statement of cash flows

for the year ended 31 December 2009

		2009	2008
	<i>Note</i>	<b>£'000</b>	£'000
<b>Net cash inflow/(outflow) from operating activities</b>	13	<b>86,799</b>	(27,151)
<b>Transfer to member in respect of underwriting participations</b>		<b>(142,767)</b>	(78,237)
<b>Financing</b>			
Cash calls received		<b>251</b>	25,566
	14	<b><u>(55,717)</u></b>	<b><u>(79,822)</u></b>
<b>Cash flows were invested as follows:</b>			
Decrease in cash holdings	14	<b>(14,482)</b>	(1,492)
Net sale of portfolio investments	14, 15	<b><u>(41,235)</u></b>	<b><u>(78,330)</u></b>
<b>Net investment of cash flows</b>		<b><u>(55,717)</u></b>	<b><u>(79,822)</u></b>

# Notes to the financial statements

at 31 December 2009

## 1 Basis of preparation

These financial statements have been prepared in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 ('the 2008 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.

The managing agent has prepared the financial statements on the expectation that continued capital support will be in place to enable the syndicate to write business in future underwriting years of account.

## 2 Accounting policies

### Premiums written

Premiums written comprise premiums on policies incepted during the financial year as well as adjustments made in the year to premiums written in prior financial years. 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 financial year 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 premiums ceded

Outwards reinsurance premiums are accounted for in the same financial year as the premiums for the related inwards business being reinsured.

### Claims provisions and related recoveries

Gross claims incurred comprise the estimated cost of all claims occurring during the financial 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 the projection from past experience of the development of claims over time to form a view of the likely ultimate claims to be incurred, 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 claims outstanding is based on the amounts of case reserves and IBNR, net of estimated irrecoverable amounts, having regard to the reinsurance programme in place for the class of business, the claims experience for the financial year 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 financial years 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 financial year in respect of contracts concluded before that date, are expected to exceed the unearned premiums under these contracts, after the deduction of any deferred acquisition costs.

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 financial year. 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. Unlisted investments for which a market does not exist, where the investment is held to maturity, are stated at amortised cost.

## 2 Accounting policies (continued)

### **Investment return**

Investment return comprises 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 financial year, together with the reversal of unrealised gains and losses recognised in earlier financial years in respect of investment disposals in the current financial year.

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

### **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 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, a wholly owned subsidiary of Faraday Holdings Limited. GRF Services Limited operates a defined contribution pension scheme. Pension contributions relating to syndicate staff are charged to the syndicate and included within net operating expenses.

### **Profit commission**

Profit commission was charged by the managing agent at a rate of 12.5% of profit on the 2006 and 2007 years of account, subject to the operation of a deficit clause. This is charged to the syndicate as incurred. Profit commission is not being charged by the managing agent for the 2008 and subsequent years of account.

### 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>2009</b>							
<b>Direct insurance</b>							
Accident and health	2	2	(77)	-	-	(75)	(739)
Motor (third party liability)	(1)	(3)	(23)	(5)	-	(31)	(1,641)
Motor (other classes)	(22)	(22)	(851)	-	-	(873)	(3,988)
Marine, aviation and transport	5,098	4,663	(2,718)	(1,218)	(582)	145	(6,737)
Fire and other damage to property	26,662	28,947	(16,449)	(7,571)	(4,615)	312	(52,412)
Third party liability	23,726	25,183	6,754	(6,921)	1,225	26,241	(244,492)
Other direct	196	207	14	(89)	(133)	(1)	(2,197)
Total direct	55,561	58,977	(13,350)	(15,804)	(4,105)	25,718	(312,206)
<b>Reinsurance</b>	<u>248,241</u>	<u>242,699</u>	<u>(89,631)</u>	<u>(61,520)</u>	<u>(34,222)</u>	<u>57,326</u>	<u>(555,968)</u>
	<u>303,902</u>	<u>301,676</u>	<u>(102,981)</u>	<u>(77,324)</u>	<u>(38,327)</u>	<u>83,044</u>	<u>(868,174)</u>
<b>2008</b>							
<b>Direct insurance</b>							
Accident and health	75	75	231	(126)	266	446	(1,056)
Motor (third party liability)	32	32	213	(115)	304	434	(1,309)
Motor (other classes)	336	336	442	(299)	619	1,098	(4,673)
Marine, aviation and transport	2,709	2,608	(3,298)	(180)	(1,388)	(2,258)	(8,363)
Fire and other damage to property	26,828	30,355	(17,861)	(7,399)	(44)	5,051	(68,528)
Third party liability	24,579	25,018	(8,113)	(8,884)	465	8,486	(299,365)
Other direct	(209)	(228)	6,667	(1,824)	1,925	6,540	(3,006)
Total direct	54,350	58,196	(21,719)	(18,827)	2,147	19,797	(386,300)
<b>Reinsurance</b>	<u>203,881</u>	<u>216,565</u>	<u>(115,194)</u>	<u>(61,967)</u>	<u>(20,053)</u>	<u>19,351</u>	<u>(583,074)</u>
	<u>258,231</u>	<u>274,761</u>	<u>(136,913)</u>	<u>(80,794)</u>	<u>(17,906)</u>	<u>39,148</u>	<u>(969,374)</u>

Acquisition costs on direct insurance gross premiums earned during 2009 were £9,745,000 (2008: £12,739,000). All premiums were concluded in the UK.

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

	2009 £'000	2008 £'000
UK	15,903	15,808
Other EU countries	24,773	21,927
US	203,981	169,473
Other	<u>59,245</u>	<u>51,023</u>
Total	<u>303,902</u>	<u>258,231</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 there were reserve releases of £34,853,000 arising from Property business, as well as releases of £18,285,000 from Corporate Liability business. In total there was a net release of £74,305,000 during 2009 in respect of claims outstanding at 31 December 2008 (2008: £95,143,000).

#### 5 Net operating expenses

	2009 £'000	2008 £'000
Acquisition costs	41,281	34,460
Reinsurance commissions and profit participations	(6,977)	(8,320)
Change in deferred acquisition costs	458	2,130
Administrative expenses	<u>42,562</u>	<u>52,524</u>
	<u>77,324</u>	<u>80,794</u>
Administrative expenses include:		
Auditors' remuneration		
Audit services	<u>214</u>	<u>196</u>
Member's standard personal expenses (Lloyd's subscriptions, New Central Fund contributions, managing agent's fees and profit commission) included within administrative expenses	<u>16,863</u>	<u>28,808</u>

#### 6 Staff numbers and costs

All staff are employed by GRF Services Limited. The following amounts were recharged to the syndicate in respect of salary costs:

	2009 £'000	2008 £'000
Wages and salaries	15,729	11,271
Social security costs	1,905	1,602
Other pension costs	<u>1,039</u>	<u>1,362</u>
	<u>18,673</u>	<u>14,235</u>

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

	Number	Number
Administration and finance	61	66
Underwriting	26	27
Claims	10	9
Investments	<u>1</u>	<u>1</u>
	<u>98</u>	<u>103</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:

	2009 £'000	2008 £'000
Emoluments	<u>2,393</u>	<u>2,241</u>

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

	2009 £'000	2008 £'000
Emoluments	<u>1,126</u>	<u>1,103</u>

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

#### 8 Investment income

	2009 £'000	2008 £'000
Income from investments	32,406	38,224
Gains/(losses) on the realisation of investments	<u>9,620</u>	<u>(464)</u>
	<u>42,026</u>	<u>37,760</u>

#### 9 Financial investments

	<u>Market value</u>		<u>Cost</u>	
	2009 £'000	2008 £'000	2009 £'000	2008 £'000
Debt securities and other fixed income securities	748,405	825,967	737,963	840,165
Deposits with credit institutions	67,672	73,935	67,672	73,935
Overseas deposits	<u>36,204</u>	<u>48,760</u>	<u>36,204</u>	<u>48,760</u>
	<u>852,281</u>	<u>948,662</u>	<u>841,839</u>	<u>962,860</u>

Unlisted debt securities of £12,588,000 (2008: £13,778,000) are stated at amortised cost. Where a valuation is used, the syndicate's investment advisers select the most reliable source of data, including observable market data where possible.

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

	2009 £'000	2008 £'000
Due from intermediaries	<u>9,609</u>	<u>8,147</u>

**11 Reconciliation of members' balances**

	2009 £'000	2008 £'000
Members' balances brought forward	95,253	36,393
Profit for the financial year	134,590	65,981
Foreign currency translation	5,556	57,912
Payment of profit to members' personal reserves	(143,808)	(65,033)
Members' balances carried forward	<u>91,591</u>	<u>95,253</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**

	2009 £'000	2008 £'000
Due to intermediaries	<u>4,311</u>	<u>659</u>

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

	2009 £'000	2008 £'000
Operating profit on ordinary activities	134,590	65,981
Changes in market value and exchange rates	53,529	(257,672)
(Decrease)/increase in net technical provisions	(101,200)	130,972
Decrease/(increase) in debtors	6,712	(21,786)
Decrease in creditors	(12,388)	(2,558)
Foreign currency translation	5,556	57,912
Net cash inflow/(outflow) from operating activities	<u>86,799</u>	<u>(27,151)</u>

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

	2009 £'000	2008 £'000
Net cash outflow for the year	(14,482)	(1,492)
Cash flow - portfolio investments	(41,235)	(78,330)
Movement arising from cash flows	(55,717)	(79,822)
Changes in market value and exchange rates	(53,529)	257,672
Total movement in portfolio investments	(109,246)	177,850
Portfolio investments at 1 January	996,236	818,386
Portfolio investments at 31 December	<u>886,990</u>	<u>996,236</u>

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

	At 1 Jan 2009 £'000	Cash flow £'000	Changes in market value & currencies £'000	At 31 Dec 2009 £'000
Cash at bank and in hand	47,574	(14,482)	1,617	<u>34,709</u>
Portfolio investments				
Debt securities and other fixed income securities	825,967	(33,590)	(43,972)	<u>748,405</u>
Deposits with credit institutions	73,935	4,633	(10,896)	<u>67,672</u>
Overseas deposits	48,760	(12,278)	(278)	<u>36,204</u>
Total portfolio investments	<u>948,662</u>	<u>(41,235)</u>	<u>(55,146)</u>	<u>852,281</u>
Total cash, portfolio investments and financing	<u>996,236</u>	<u>(55,717)</u>	<u>(53,529)</u>	<u>886,990</u>

## 15 Net cash inflow on portfolio investments

	<b>2009</b>	2008
	<b>£'000</b>	£'000
Purchase of debt securities and other fixed income securities	<b>(1,595,317)</b>	(1,864,539)
Net movement of deposits with credit institutions	<b>(4,633)</b>	(16,986)
Net movement of overseas deposits	<b>12,278</b>	1,726
Sale of debt securities and other fixed income securities	<b>1,628,907</b>	1,958,129
Net cash inflow on portfolio investments	<b><u>41,235</u></b>	<u>78,330</u>

## 16 Accruals and deferred income

Included within accruals and deferred income is an amount of £1,814,000 (2008: £1,777,000) in respect of reinsurance deferred acquisition costs.

## 17 Related parties

As part of the Berkshire Hathaway Inc. group, 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 £11,585,000 due to Faraday Underwriting Limited has been accrued by the syndicate in respect of the result for the 2007 year of account in the 2009 calendar year (2008: £24,433,000). In respect of other transactions, the amount due from Faraday Underwriting Limited at the year end was £282,000 (2008: £135,000 was due to Faraday Underwriting Limited).

In 2009, managing agency fees of £1,875,000 (2008: £1,875,000) were paid by the syndicate to Faraday Underwriting Limited. In addition to this, expenses of £26,709,000 (2008: £31,367,000) 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 £4,977,000 (2008: £6,273,000).

The agency has subcontracted much of the syndicate's data input and processing functions to Pro Insurance Solutions Limited and Ambant 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.