

Syndicate 435 Annual Report 2010

# FARADAY



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## Directors and administration

31 December 2010

### Managing agent

*Managing agent*

Faraday Underwriting Limited

*Directors*

Lord Ashton of Hyde

Paul Ceurvorst

Nigel Finlay

Charles Glaisher

Joanne Merrick

Michael O'Dea

Andrew Phillips (Lord Phillips of Sudbury)

*non-executive director (resigned 31 December 2010)*

Mark Rayner

Allen Thomas, *non-executive director*

Damon Vocke, *non-executive director*

*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)

### Syndicate

*Joint active underwriters*

Paul Ceurvorst

Mark Rayner

*Investment managers*

General Re-New England Asset Management Inc.

GR-NEAM Limited

*Registered auditor*

Deloitte LLP, London

## Report of the directors of the managing agent

31 December 2010

The directors of Faraday Underwriting Limited ('the managing agent') present their report for the year ended 31 December 2010.

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 2008 underwriting year of account is fully aligned and the capital for that year was provided by Faraday Capital Limited. The member has exercised its right to waive the requirement to prepare separate accounts for the 2008 closed year of account.

### Results

The result for the 2010 calendar year is a profit of £104,228,000 (2009: a profit of £134,590,000).

### 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 challenges with respect to operational, reporting and supervision matters, including Market Reform initiatives and the implementation of the Solvency II regulatory regime at the end of next year. We believe that we are doing all we can to prepare for these changes.

The 2010 results were impacted by a number of catastrophe losses, notably the earthquakes in Chile and in New Zealand. In addition we had some exposure to the Australian storms early in the year.

Despite these losses, the Property book performed well overall, benefitting from the absence of hurricane activity on the US mainland as well as favourable loss development on prior year reserves.

Although 2010 followed what had been one of the worst years on record for aviation losses, there has been little, if any, noticeable improvement in rates and accordingly this book of business reduced in size during 2010. The syndicate's underwriting discipline shown in recent years means that results have continued to compare 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. The positive loss development referred to earlier was seen across most years of account and lines of business and contributed to the profit for the year of £104,228,000. There have been some significant releases from the Corporate Liability book as legal actions have been settled favourably. Reserves for Hurricanes Katrina (2005) and Ike (2008) also saw releases during 2010.

All underwriting areas suffered from challenging market conditions during 2010 and we continue to face competition from international markets. The syndicate's underwriters continue to focus on the profitability of the business being written.

Capacity for 2011 remains unchanged from 2010 at £325 million.

## Principal risks and uncertainties

The board of the managing agent sets risk appetite as part of the syndicate's overall business strategy and Individual Capital Assessment process. There are currently three key board committees that oversee the strategy and performance of the syndicate. They are the Business Management, Planning & Performance and Investment Committees. The Business Management Committee meets on a regular basis to review and monitor 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 represents the risk that business will prove to be inadequately priced given the coverage being provided (underwriting risk), or that claims reserves 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. Catastrophe modelling software is also used to model maximum probable losses from natural catastrophe exposed business in key areas. Reserve adequacy is monitored through a monthly review of loss development and regular reserving analyses carried out by the actuarial department.

### Credit risk

This represents 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 and 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. Benchmarks are set each year with reference to this strategy, in order to monitor the performance of the syndicate's investment managers. Further, credit quality and asset concentration parameters are set which properly manage the syndicate's exposure to investments.

### 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 claims reserves. The managing agent manages these risks through the adoption of a prudent investment strategy with respect to the duration and credit quality of its investment portfolio, as well as through the regular monitoring of foreign exchange balances and exposures.

**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 level of short-term investment holdings 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 outsourced service providers and related companies. 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 both the Compliance and Internal Audit departments.

**Future developments**

As stated in previous reports, opportunities to write new classes of business are investigated where appropriate. For the 2011 year of account, the syndicate has written a quota share treaty in respect of UK motor insurance business, with a premium income estimate of £50 million. Apart from this important addition, the syndicate will continue to transact the current classes of general insurance and reinsurance business.

It is too early to assess, with any certainty, the loss as a result of the earthquake in New Zealand in February 2011 since access to the area affected is limited. However, preliminary reports suggest that the syndicate's loss from this event will exceed that from the 2010 earthquake in the region, due to the nature of the event.

**Directors**

The directors of the managing agent who served during the year ended 31 December 2010, 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*)

Peter Lütke-Bornefeld

*non-executive director (resigned 31 March 2010)*

Joanne Merrick

Michael O'Dea

Andrew Phillips (Lord Phillips of Sudbury)

*non-executive director (resigned 31 December 2010)*

Mark Rayner, *joint active underwriter*

Allen Thomas, *non-executive director (appointed 29 April 2010)*

Simon Tovey (*resigned 31 August 2010*)

Damon Vocke, *non-executive director*

**Statement of disclosure of information to auditors**

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

(a) so far as each of them is aware, there is no information relevant to the audit of the syndicate's financial statements for the year ended 31 December 2010 of which the auditors are unaware; and

(b) 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 syndicate's auditors are aware of that information.

## Management and capacity

Faraday Underwriting Limited 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 2008 to 2011 years of account has been provided in full by Faraday Capital Limited, a wholly owned subsidiary of Faraday Holdings Limited. The capacity amounted to £250 million in both 2008 and 2009 and £325 million in both 2010 and 2011.

## Auditors and syndicate meeting

The managing agent hereby gives formal notification of a proposal to re-appoint Deloitte LLP as auditor 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 syndicate.

By order of the board

**Elisabeth Richardson**

*Company Secretary*

London

11 March 2011

## Statement of managing agent's responsibilities

31 December 2010

The managing agent is responsible for preparing the annual report and the syndicate financial statements 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 financial statements for each financial year. Under that law the managing agent has elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the managing agent must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the syndicate and of the profit or loss of the syndicate for that period.

In preparing these syndicate financial statements, the managing agent is required to:

- (a) select suitable accounting policies and then apply them consistently;
- (b) make judgments and accounting 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 financial statements; and
- (d) prepare the syndicate financial statements on the going concern basis unless it is inappropriate to presume that the syndicate will continue to write business.

The managing agent is responsible for keeping adequate accounting records that are sufficient to show and explain the syndicate's transactions and disclose with reasonable accuracy at any time the financial position of the syndicate and enable it to ensure that the financial statements comply with 2008 Regulations. It is also responsible for safeguarding the assets of the syndicate and hence for taking reasonable steps for the 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 auditor's report to the member of Syndicate 435

We have audited the syndicate annual financial statements of Syndicate 435 for the year ended 31 December 2010 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. 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 syndicate's member, as a body, 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 them in an auditor's 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 as a body, for our audit work, for this report, or for the opinions we have formed.

### Respective responsibilities of the managing agent and the auditor

As explained more fully in the Statement of managing agent's responsibilities, the managing agent is responsible for the preparation of syndicate annual financial statements which give a true and fair view. Our responsibility is to audit and express an opinion on the syndicate annual 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 Ethical Standards for Auditors.

### Scope of the audit of the syndicate annual financial statements

An audit involves obtaining evidence about the amounts and disclosures in the syndicate annual financial statements sufficient to give reasonable assurance that the syndicate annual 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 syndicate's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the managing agent; and the overall presentation of the syndicate annual financial statements. In addition, we read all the financial and non-financial information in the syndicate annual report to identify material inconsistencies with the audited syndicate financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### Opinion on syndicate annual financial statements

In our opinion the syndicate annual financial statements:

- (a) give a true and fair view of the syndicate's affairs as at 31 December 2010 and of its profit for the year then ended;
- (b) have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- (c) have been prepared in accordance with the requirements of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

## Independent auditor's report to the member of Syndicate 435 (continued)

### Opinion on other matter prescribed by The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008

In our opinion the information given in the Report of the directors of the managing agent for the financial year in which the syndicate annual financial statements are prepared is consistent with the syndicate annual financial statements.

### Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where The Insurance Accounts Directive (Lloyds's Syndicate and Aggregate Accounts) Regulations 2008 requires us to report to you, if in our opinion:

- (a) the managing agent in respect of the syndicate has not kept adequate accounting records; or
- (b) the syndicate annual financial statements are not in agreement with the accounting records; or
- (c) we have not received all the information and explanations we require for our audit.

#### **Jeremy Casson**

*Senior statutory auditor, for and on behalf of Deloitte LLP  
Chartered Accountants and Statutory Auditor  
London, United Kingdom  
11 March 2011*

## Profit and loss account

for the year ended 31 December 2010

		2010		2009	
	Note	£'000	£'000	£'000	£'000
<b>Technical account - general business</b>					
<b>Earned premiums, net of reinsurance</b>					
Gross premiums written	3		221,698		303,902
Outward reinsurance premiums			<u>(39,134)</u>		<u>(56,450)</u>
Net premiums written			<u>182,564</u>		<u>247,452</u>
Change in the provision for unearned premiums					
Gross amount			23,552		(2,226)
Reinsurers' share			<u>(7,605)</u>		<u>9,137</u>
Change in the net provision for unearned premiums			<u>15,947</u>		<u>6,911</u>
<b>Earned premiums, net of reinsurance</b>			<b>198,511</b>		<b>254,363</b>
<b>Allocated investment return transferred from the non-technical account</b>			<b>28,779</b>		<b>51,546</b>
<b>Claims incurred, net of reinsurance</b>					
Claims paid					
Gross amount			(179,481)		(180,054)
Reinsurers' share			<u>56,129</u>		<u>59,443</u>
Net claims paid			<u>(123,352)</u>		<u>(120,611)</u>
Change in the provision for claims					
Gross amount			75,343		77,073
Reinsurers' share			<u>(25,800)</u>		<u>(50,457)</u>
Change in net provision for claims			<u>49,543</u>		<u>26,616</u>
<b>Claims incurred, net of reinsurance</b>			<b>(73,809)</b>		<b>(93,995)</b>
<b>Net operating expenses</b>	3, 5		<u>(49,253)</u>		<u>(77,324)</u>
<b>Balance on the technical account - general business</b>			<u>104,228</u>		<u>134,590</u>

## Profit and loss account for the year ended 31 December 2010

	<i>Note</i>	<b>2010</b> <b>£'000</b>	2009 £'000
<b>Non-technical account</b>			
<b>Balance on the technical account - general business</b>		<b>104,228</b>	134,590
Investment income	8	<b>26,965</b>	42,026
Unrealised gains on investments		<b>2,291</b>	10,248
Investment expenses and charges		<b>(477)</b>	(728)
Allocated investment return transferred to the technical account - general business		<b><u>(28,779)</u></b>	<u>(51,546)</u>
<b>Profit for the financial year</b>	<i>11,13</i>	<b><u>104,228</u></b>	<u>134,590</u>

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

## Statement of total recognised gains and losses for the year ended 31 December 2010

Profit for the financial year	<i>11,13</i>	<b>104,228</b>	134,590
Foreign currency translation	<i>11,13</i>	<b><u>1,893</u></b>	<u>5,556</u>
Total recognised gains since the last annual report	<i>11,13</i>	<b><u>106,121</u></b>	<u>140,146</u>

## Balance sheet

at 31 December 2010

		2010		2009	
	Note	£'000	£'000	£'000	£'000
<b>Assets</b>					
<b>Investments</b>					
Financial investments	9,14		<b>823,739</b>		852,281
<b>Reinsurers' share of technical provisions</b>					
Provision for unearned premiums		<b>11,509</b>		18,302	
Claims outstanding		<b>120,110</b>		143,257	
			<b>131,619</b>		161,559
<b>Debtors</b>					
Debtors arising out of direct insurance operations	10	<b>6,163</b>		9,609	
Debtors arising out of reinsurance operations		<b>80,706</b>		94,124	
Other debtors		<b>804</b>		355	
			<b>87,673</b>		104,088
<b>Other assets</b>					
Cash at bank and in hand	14		<b>12,627</b>		34,709
<b>Prepayments and accrued income</b>					
Accrued interest		<b>5,155</b>		6,373	
Deferred acquisition costs		<b>11,838</b>		15,310	
			<b>16,993</b>		21,683
<b>Total assets</b>			<b>1,072,651</b>		<b>1,174,320</b>

## Balance sheet

at 31 December 2010

	Note	2010		2009	
		£'000	£'000	£'000	£'000
<b>Liabilities</b>					
<b>Capital and reserves</b>					
Member's balances	11, 18		<b>94,328</b>		91,591
<b>Technical provisions</b>					
Provision for unearned premiums		<b>78,155</b>		97,297	
Claims outstanding	4	<b>876,532</b>		932,436	
			<b>954,687</b>		1,029,733
<b>Creditors</b>					
Creditors arising out of direct insurance operations	12	<b>210</b>		4,311	
Creditors arising out of reinsurance operations		<b>21,890</b>		29,596	
Other creditors		<b>170</b>		5,004	
			<b>22,270</b>		38,911
<b>Accruals and deferred income</b>	16		<b>1,366</b>		14,085
<b>Total liabilities</b>			<b>1,072,651</b>		<b>1,174,320</b>

The financial statements on pages 10 to 20 were approved by the board of Faraday Underwriting Limited on 11 March 2011 and were signed on its behalf by

**Michael O'Dea**

*Director*

Faraday Underwriting Limited

## Statement of cash flows

for the year ended 31 December 2010

		<b>2010</b>	2009
	<i>Note</i>	<b>£'000</b>	£'000
<b>Net cash inflow from operating activities</b>	13	<b>31,536</b>	86,799
<b>Transfer to the member in respect of underwriting participations</b>		<b>(101,299)</b>	(142,767)
<b>Financing:</b>			
Cash calls received		<u>94</u>	<u>251</u>
	14	<u><b>(69,669)</b></u>	<u><b>(55,717)</b></u>
<b>Cash flows were invested as follows:</b>			
Decrease in cash holdings	14	<b>(22,082)</b>	(14,482)
Net sale of portfolio investments	14, 15	<u><b>(47,587)</b></u>	<u><b>(41,235)</b></u>
<b>Net investment of cash flows</b>		<u><b>(69,669)</b></u>	<u><b>(55,717)</b></u>

# Notes to the financial statements

at 31 December 2010

## 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.

Having taken into account the risks and uncertainties and the performance of the syndicate as disclosed in the Report of the directors of the managing agent and making enquiries, the managing agent has a reasonable expectation that the syndicate will continue to write business for the foreseeable future. Moreover, the managing agent expects that continued capital support will be in place in order to do so. Accordingly, the financial statements have been prepared on the going concern basis.

## 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

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 established in 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 anticipated 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 the relevant investment return.

### Deferred acquisition costs

Acquisition costs, comprising commission and other costs related to the acquisition of insurance and reinsurance policies as well as reinsurance policies ceded, 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 net 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 cost.

## 2 Accounting policies (continued)

### 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 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 - general business. 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 is not being charged by the managing agent for the 2008 and subsequent years of account. It was charged on the 2007 year of account, subject to a deficit clause, and charged to the syndicate as incurred.

### 3 Segmental analysis

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

	<i>Gross premiums written</i>	<i>Gross premiums earned</i>	<i>Gross claims incurred</i>	<i>Net operating expenses</i>	<i>Reinsurance balance</i>	<i>Total</i>	<i>Net technical provisions</i>
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>2010</b>							
<b>Direct insurance</b>							
Accident and health	(43)	(43)	124	42	-	123	(622)
Motor (third party liability)	138	20	1,505	7	-	1,532	(52)
Motor (other classes)	(195)	(195)	(1,588)	197	-	(1,586)	(1,344)
Marine, aviation and transport	16,797	13,864	(5,251)	(1,896)	(2,148)	4,569	(31,916)
Fire and other damage to property	18,606	19,726	2,689	(3,153)	(2,721)	16,541	(38,617)
Third party liability	13,967	13,185	20,646	(3,785)	(1,202)	28,844	(175,436)
Other direct	41	42	520	(36)	(95)	431	(1,936)
Total direct	49,311	46,599	18,645	(8,624)	(6,166)	50,454	(249,923)
<b>Reinsurance</b>	<u>172,387</u>	<u>198,651</u>	<u>(122,783)</u>	<u>(40,629)</u>	<u>(10,244)</u>	<u>24,995</u>	<u>(573,145)</u>
	<u>221,698</u>	<u>245,250</u>	<u>(104,138)</u>	<u>(49,253)</u>	<u>(16,410)</u>	<u>75,449</u>	<u>(823,068)</u>
<b>2009</b>							
<b>Direct insurance</b>							
Accident and health	2	2	(77)	-	-	(75)	(748)
Motor (third party liability)	(1)	(3)	(23)	(5)	-	(31)	(839)
Motor (other classes)	(22)	(22)	(851)	-	-	(873)	(1,325)
Marine, aviation and transport	14,614	14,250	(5,306)	(2,821)	(3,303)	2,820	(33,662)
Fire and other damage to property	26,662	28,946	(16,449)	(7,571)	(4,615)	311	(55,035)
Third party liability	14,210	15,597	9,342	(5,318)	3,946	23,567	(215,247)
Other direct	196	207	14	(89)	(133)	(1)	(2,280)
Total direct	55,661	58,977	(13,350)	(15,804)	(4,105)	25,718	(309,136)
<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>(559,038)</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>

Acquisition costs on direct insurance gross premiums written during 2010 were £5,471,000 (2009: £10,794,000). All premiums were concluded in the UK.

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

	2010	2009
	£'000	£'000
UK	7,816	15,903
Other EU countries	18,961	24,773
US	143,937	203,981
Other	<u>50,984</u>	<u>59,245</u>
Total	<u>221,698</u>	<u>303,902</u>

## 4 Claims outstanding

There has been no material change to the method of reserving during the year under review.

Overall loss development was lower than anticipated across the majority of years and business classes. In particular there were reserve releases of £79,381,000 arising from Property business, as well as releases of £16,643,000 from Corporate Liability business. In total there was a net release of £133,427,000 during 2010 in respect of claims outstanding at 31 December 2009 (2009: a net release of £74,305,000).

## 5 Net operating expenses

	2010 £'000	2009 £'000
Acquisition costs	18,979	41,281
Reinsurance commissions and profit participations	598	(6,977)
Change in deferred acquisition costs	3,529	458
Administrative expenses	<u>26,147</u>	<u>42,562</u>
	<u>49,253</u>	<u>77,324</u>
Administrative expenses include:		
Auditors' remuneration		
Audit services	<u>184</u>	<u>180</u>
Member's standard personal expenses (Lloyd's subscriptions, New Central Fund contributions and managing agent's fees) are included within administrative expenses.	<u>4,665</u>	<u>16,863</u>

2009 also included profit commission of £11,585,000 in respect of the closure of the 2007 year of account.

## 6 Staff numbers and costs

All staff who provide services to the syndicate are employed by GRF Services Limited, a related company of the managing agent. The following amounts were recharged to the syndicate in respect of salary costs:

	2010 £'000	2009 £'000
Wages and salaries	11,122	15,729
Social security costs	1,337	1,905
Other pension costs	<u>797</u>	<u>1,039</u>
	<u>13,256</u>	<u>18,673</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	58	61
Underwriting	25	26
Claims	9	10
Investments	<u>1</u>	<u>1</u>
	<u>93</u>	<u>98</u>

## 7 Emoluments of the directors of Faraday Underwriting Limited

The directors of Faraday Underwriting Limited received the following aggregate emoluments which are included within net operating expenses:

	2010 £'000	2009 £'000
Emoluments	<u>2,811</u>	<u>2,068</u>

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

Emoluments	<u>1,092</u>	<u>1,094</u>
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Emoluments include salaries, fees and bonuses and the estimated monetary value of any other benefits received by the directors other than in cash.

Sums paid by way of pension contributions for the directors amounted to £92,000 (2009: £272,000). Of this £34,000 (2009: £32,000) related to the joint active underwriters.

## 8 Investment return

	2010 £'000	2009 £'000
Income from investments	28,106	32,406
(Losses)/gains on the realisation of investments	<u>(1,141)</u>	<u>9,620</u>
	<u>26,965</u>	<u>42,026</u>

## 9 Financial investments

	Market value		Cost	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000
Debt securities and other fixed income securities	718,621	748,405	716,227	737,963
Deposits with credit institutions	67,949	67,672	67,949	67,672
Overseas deposits	<u>37,169</u>	<u>36,204</u>	<u>37,169</u>	<u>36,204</u>
	<u>823,739</u>	<u>852,281</u>	<u>821,345</u>	<u>841,839</u>

Unlisted debt securities of £12,878,000 (2009: £12,588,000) are stated at 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**

	<b>2010</b>	2009
	<b>£'000</b>	£'000
Due from intermediaries	<b><u>6,163</u></b>	<u>9,609</u>

**11 Reconciliation of member's balances**

	<b>2010</b>	2009
	<b>£'000</b>	£'000
Member's balances brought forward at 1 January	<b>91,591</b>	95,253
Profit for the financial year	<b>104,228</b>	134,590
Foreign currency translation	<b>1,893</b>	5,556
Payment of profit to member's personal reserves	<b>(103,384)</b>	(143,808)
Member's balances carried forward	<b><u>94,328</u></b>	<u>91,591</u>

The member participates on the syndicate 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.

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

	<b>2010</b>	2009
	<b>£'000</b>	£'000
Due to intermediaries	<b><u>210</u></b>	<u>4,311</u>

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

	<b>2010</b>	2009
	<b>£'000</b>	£'000
Operating profit on ordinary activities	<b>104,228</b>	134,590
Changes in market value and exchange rates	<b>(19,045)</b>	53,529
Decrease in net technical provisions	<b>(45,106)</b>	(101,200)
Decrease in debtors	<b>21,105</b>	6,712
Decrease in creditors	<b>(31,539)</b>	(12,388)
Foreign currency translation	<b>1,893</b>	5,556
Net cash inflow from operating activities	<b><u>31,536</u></b>	<u>86,799</u>

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

	<b>2010</b>	2009
	<b>£'000</b>	£'000
Net cash outflow for the year	<b>(22,082)</b>	(14,482)
Cash flow - net sale of portfolio investments	<b>(47,587)</b>	(41,235)
Movement arising from cash flows	<b>(69,669)</b>	(55,717)
Changes in market value and exchange rates	<b>19,045</b>	(53,529)
Total movement in portfolio investments	<b>(50,624)</b>	(109,246)
Portfolio investments at 1 January	<b>886,990</b>	996,236
Portfolio investments at 31 December	<b><u>836,366</u></b>	<u>886,990</u>

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

	At 1 Jan 2010	Cash flow	Changes in market value & currencies	At 31 Dec 2010
	£'000	£'000	£'000	£'000
Cash at bank and in hand	34,709	(22,082)	-	<b>12,627</b>
Portfolio investments				
Debt securities and other fixed income securities	748,405	(47,960)	18,176	<b>718,621</b>
Deposits with credit institutions	67,672	277	-	<b>67,949</b>
Overseas deposits	36,204	96	869	<b>37,169</b>
Total portfolio investments	852,281	(47,587)	19,045	<b>823,739</b>
Total cash, portfolio investments and financing	<b>886,990</b>	<b>(69,669)</b>	<b>19,045</b>	<b>836,366</b>

## 15 Net cash inflow on portfolio investments

	<b>2010</b>	2009
	<b>£'000</b>	£'000
Purchase of debt securities and other fixed income securities	<b>(710,189)</b>	(1,595,317)
Net movement of deposits with credit institutions	<b>(277)</b>	(4,633)
Net movement of overseas deposits	<b>(96)</b>	12,278
Sale of debt securities and other fixed income securities	<b>758,149</b>	1,628,907
Net cash inflow on portfolio investments	<b>47,587</b>	41,235

## 16 Accruals and deferred income

Included within accruals and deferred income is an amount of £1,302,000 (2009: £1,814,000) 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.

No profit commission is due to Faraday Underwriting Limited for the 2008 and subsequent years of account. Profit commission had been accrued by the syndicate in respect of the result for the 2007 year of account amounting to £11,585,000, this was paid to Faraday Underwriting Limited in 2010. In respect of other transactions, the amount due from Faraday Underwriting Limited at the year end was £526,000 (2009: £282,000).

In 2010, managing agency fees of £2,437,000 (2009: £1,875,000) were paid by the syndicate to Faraday Underwriting Limited. In addition to this, expenses of £26,515,000 (2009: £26,709,000) 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 £nil (2009: £4,977,000).

## 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.