

^W_R Berkley

**Financial Statements
2009**



W. R. BERKLEY INSURANCE (EUROPE), LIMITED

FINANCIAL STATEMENTS

2009

W. R. BERKLEY INSURANCE (EUROPE), LIMITED

**FINANCIAL STATEMENTS
For the year ended 31 December 2009**

<u>Contents</u>	<u>Page</u>
Directors' report	3
Statement of directors' responsibilities	7
Report of the independent auditors	8
Profit and loss account – technical account – general business	10
Profit and loss account – non-technical account	11
Statement of total recognised gains & losses	12
Balance sheet	13
Notes to the financial statements	15

W. R. BERKLEY INSURANCE (EUROPE), LIMITED

Directors' Report

The directors present their report and the audited financial statements for the year ended 31 December 2009.

Business review and primary activities

The primary activity of the Company is the transaction of professional liability, construction, accident and marine insurance and certain reinsurance business in accordance with the Company's authorisation by the Financial Services Authority ("FSA") and other regulators. This business is underwritten in London and UK regions, through the Company's branches in Spain, Ireland, Norway and Australia, and through approved coverholders, principally in the UK and Australia.

With effect from 1 January 2009, the Company entered into an underwriting management agreement with a fellow subsidiary company to underwrite certain offshore energy insurance and reinsurance business. This business is 100% retroceded to a combination of external third party reinsurers and another fellow subsidiary company so that the Company retains no insurance risk thereon.

During 2009, the Company established a new branch of the Company in Norway. The branch received the relevant approvals by the UK and Norwegian insurance regulatory authorities, and began underwriting in July 2009. The Norwegian branch will specialise in the underwriting of marine hull, marine cargo and property commercial package insurance business.

Principal risks and uncertainties

The management of the business and the execution of the Company's strategy are subject to a number of risks. These risks relate primarily to underwriting and, in particular, the adequacy of premium rates. The ultimate adequacy of premium rates is not known with certainty at the time an insurance policy is issued because premiums are determined before claims are reported and paid. The ultimate adequacy of premium rates is affected mainly by the severity and frequency of claims, which are influenced by many factors, including regulatory measures and court decisions which define and change the extent of coverage, as well as the effect of economic inflation on the amount of claims settlements. The Company operates a number of management controls over premium pricing to mitigate, as far as possible, the risk of claims and related underwriting costs being greater than premiums.

The Company seeks to alleviate a proportion of its gross claims liabilities through the purchase of suitable reinsurance protection. The ultimate recoverability of the Company's claims under that reinsurance protection is subject to credit risks arising from both the ability and the willingness of the reinsurer to pay claims submitted by the Company. The Company mitigates its risk of non-recovery from reinsurers through the operation of a stringent reinsurer security vetting process and close monitoring of underwriting criteria to ensure that risks written fall within reinsurers' risk acceptance criteria.

The Company's profitability is also affected by its investment income. The Company's invested assets, which are generated from its own capital plus cash flow from underwriting activities, are invested in fixed interest securities and cash. The net return on fixed interest securities is affected chiefly by changes in general interest rates, the credit quality and duration of the securities held and changes in exchange rates ruling in respect of the currencies held by the Company.

Results for the year and key performance indicators

The results of the Company for the year ended 31 December 2009 are set out in the profit and loss account on pages 10 and 11. The result for the current year of trading was a net profit after tax of £5,714,000 (2008: £23,693,000). The directors have not declared a dividend in 2009 (2008: £7,200,000).

As at 31 December 2009, the Company had total assets of £399,285,000 (2008: £390,132,000) and the Company's net capital and surplus amounted to £132,710,000 (2008: £126,946,000).

W. R. BERKLEY INSURANCE (EUROPE), LIMITED

Directors' Report (continued)

Results for the year and key performance indicators (continued)

The Company's result before tax comprises an underwriting profit, or surplus on the Technical Account-General Business, of £2,363,000 (2008: £715,000) and net investment and related income of £5,695,000 (2008: £32,794,000).

Gross written premiums written in 2009 were £106,562,000 (2008: £80,231,000). £11million of the increase in gross written premium is attributable to the offshore energy business written (and 100% retroceded) for the first time in 2009. The balance of the increase derives from continuing increases in the volume of business written through the Company's non-UK branches which, in 2009, also benefitted from the effect of the weakening in Sterling against the Euro and Australian Dollar, in particular.

The adequacy of margins in premium rates achieved on all business written by the Company, both new and renewal, is assessed by benchmarking current pricing levels against rating matrices which the Company has established for each of its lines of business. Most of the Company's lines of business, and the Professional Liability account, in particular, continued to experience some downward pressure on premium rates in 2009. Despite this pressure, cautious risk selection, combined with continued enhancement of the Company's underwriting portfolio management processes, enabled the Company to achieve a very small overall net increase in rates achieved on the business it underwrote in 2009 compared to prior year.

The Company's combined operating ratio for 2009 was 96.9% (2008: 98.9%). A combined operating ratio represents a measure of underwriting profitability, excluding investment income. A combined ratio below 100% indicates an underwriting profit and a ratio over 100% represents an underwriting loss. As indicated by the combined ratio, the Company achieved an underwriting profit, or surplus on the Technical Account-General Business, of £2,363,000 (2008: £715,000).

The Company earned net investment and related income of £5,695,000 in 2009 (2008: £32,794,000). Compared to 2008, current year investment return was adversely affected by generally lower overall interest rates achieved on the Company's cash and fixed interest security holdings coupled with the reversal of a small proportion of the exchange and unrealised investment gains recorded in 2008.

UK accounting rules for insurance companies require the Company to follow a policy of mark-to-market valuation of its investments and to account for any unrealised valuation gains or loss movements within the Profit & Loss account. The Company invests only in cash, UK gilts and minimum A-rated corporate or supranational bonds. In 2009, the Company recorded unrealised valuation losses of £1,651,000 on its gilt and bond portfolio (2008: gain of £4,769,000).

Future outlook

The markets in which the Company operates were very competitive during 2009 and this situation is expected to continue into 2010. Although the directors expect some strengthening of premium rates during 2010 and 2011, this potential uplift is tempered by the likely effect of the wider economic downturn on the Company's clients and the insurance products they will purchase. Nevertheless, through the introduction of new products, the diversification available through the Company's Spanish, Irish, Norwegian and Australian branches and continued development of distribution channels, the Company achieved its plan for 2009.

In 2010, the Company will continue to leverage its existing, and develop new, distribution channels in the markets in which the Company operates whilst maintaining close control over the adequacy of premium rates achieved. The Company also intends to enhance its underwriting activities by expanding both its product offering and geographic spread of markets serviced, where opportunities for profitable underwriting are identified. The Company is resolved to maintain underwriting discipline and will not underwrite business where premium rates are considered inadequate over the short to medium term.

W. R. BERKLEY INSURANCE (EUROPE), LIMITED

Directors' Report (continued)

Future outlook (continued)

The Directors remain confident that the Company should continue to make positive returns. This assumes that, in particular, the provisions for gross claims and related reinsurance recoveries will continue to develop and be settled on the basis of information currently available. However, the ultimate liability may vary as a result of subsequent information and events, such as changes in the legal environment, effects of inflation, the impact of large losses and movements in industry benchmarks. This may result in significant adjustments to the amounts provided, with a consequent impact on the results of future periods.

Directors

The directors who, unless otherwise stated, held office throughout the year are listed below:

W. R. Berkley Sr.*
W. R. Berkley Jr.*
I. S. Lederman **
R. C. Hewitt **
S. W. Taylor
E. G. Creasy **
R. D. Chase
S. Wright
P. J. Hosking
G. H. C. Wakefield

* Directors of the ultimate holding company, W. R. Berkley Corporation.

** Directors of the immediate holding company, W. R. Berkley London Holdings, Limited

Other than as disclosed in Note 7 – Directors' Emoluments, the directors did not receive any fees in respect of their services during the period.

The ultimate holding company, W. R. Berkley Corporation, maintains liability cover on behalf of the Directors and Officers of the Company.

Research and development

The Company has regard to its general obligation to Treat Customers Fairly ("TCF"). The Company has adopted a policy on TCF which encompasses the various stages in the lifecycle of an insurance product; namely design, implementation, post-sales administration and claims handling.

Creditor payment policy

The Company's policy on the payment of creditors is to conform to London insurance market practises in respect of its underwriting activities and to comply with any specific terms agreed with other suppliers. The Company had 11 days average creditors outstanding at 31 December 2009 (2008: 11).

Political and charitable donations

The Company made no political or charitable donations during the year (2008: Nil).

W. R. BERKLEY INSURANCE (EUROPE), LIMITED

Directors' Report (continued)

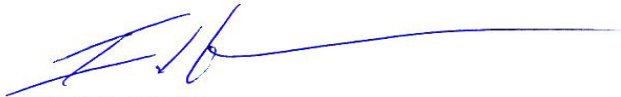
Auditors

Pursuant to the Companies Act 2006, the auditors, KPMG Audit Plc, have signified their willingness to continue in office and are deemed to be reappointed.

Disclosure of information to auditors

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware; and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

By order of the Board



I. S. Lederman
Secretary and Director
23 March 2010

40 Lime Street
London
EC3M 7AW
Registered Number 4681277

W. R. BERKLEY INSURANCE (EUROPE), LIMITED

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

Statement of Directors' Responsibilities

The directors, with the assistance of management, are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors, with the assistance of management, elect to prepare the company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

The company financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss for the period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures which are disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group will continue in business.

The directors, with the assistance of management, are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF W. R. BERKLEY INSURANCE (EUROPE), LIMITED

We have audited the financial statements of W.R. Berkley Insurance (Europe) Limited for the year ended 31 December 2009 set out on pages 10 to 29. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 7 the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Our evaluation of the presentation of information in the financial statements has regard to statutory requirement for insurance companies to maintain equalisation reserves. The nature of equalisation provisions, the amount set aside at 31 December 2009, and the effect of the movement in those provisions during the year on shareholders' funds, the balance on the general business technical result and profit before tax, are disclosed in note 16.

Opinion on financial statements

In our opinion the financial statements:

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

Opinion on other matter prescribed by the Companies Act 2006

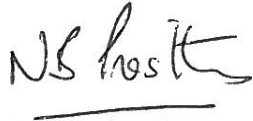
In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

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

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
W. R. BERKLEY INSURANCE (EUROPE), LIMITED (continued)**

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



N B Priestley (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
8 Salisbury Square
London
EC4Y 8BB

23 March, 2010

W. R. BERKLEY INSURANCE (EUROPE), LIMITED

**PROFIT AND LOSS ACCOUNT
TECHNICAL ACCOUNT – GENERAL BUSINESS
For the year ended 31 December 2009**

	Notes	2009 £'000	2009 £'000	2008 £'000	2008 £'000
Earned premiums, net of reinsurance					
Gross premiums written	2	106,562		80,231	
Outward reinsurance premiums		<u>(24,988)</u>		<u>(10,234)</u>	
Net premiums written			81,574		69,997
Change in the gross provision for unearned premiums		(11,176)		2,218	
Change in the provision for unearned premiums, reinsurers' share		<u>5,739</u>		<u>(4,416)</u>	
			<u>(5,437)</u>		<u>(2,198)</u>
Earned premiums, net of reinsurance			76,137		67,799
Claims incurred, net of reinsurance					
Claims paid					
Gross amount		(43,736)		(36,125)	
Reinsurers' share		<u>9,304</u>		<u>6,448</u>	
Net claims paid		<u>(34,432)</u>		<u>(29,677)</u>	
Change in the provision for claims					
Gross amount		(9,004)		(9,075)	
Reinsurers' share		<u>(178)</u>		<u>(3,093)</u>	
Change in the net provision for claims		<u>(9,182)</u>		<u>(12,168)</u>	
Claims incurred, net of reinsurance			(43,614)		(41,845)
Net operating expenses	3		<u>(30,160)</u>		<u>(25,239)</u>
Balance on technical account – general business	2		<u>2,363</u>		<u>715</u>

The results above are all derived from continuing operations.

The notes set out on pages 15 to 29 form part of these accounts.

W. R. BERKLEY INSURANCE (EUROPE), LIMITED

PROFIT AND LOSS ACCOUNT NON-TECHNICAL ACCOUNT For the year ended 31 December 2009

	Notes	2009 £'000	2008 £'000
Balance on technical account – general business		2,363	715
Investment income	4	9,604	11,992
Foreign exchange (losses)/gains		(2,065)	16,223
Unrealised (losses)/gains on investments		(1,651)	4,769
Investment expenses and charges	5	<u>(193)</u>	<u>(190)</u>
Profit on ordinary activities before tax	8	8,058	33,509
Tax on profit on ordinary activities	9	(2,344)	(9,816)
Profit on ordinary activities after tax	15	<u>5,714</u>	<u>23,693</u>

In accordance with the amendments to Financial Reporting Standard ('FRS') 3 'Reporting financial performance' in relation to the revaluation of investments, no note of historical cost profits or losses has been prepared as the group's only material gains and losses on assets relate to the holding and disposal of investments.

The results above are all derived from continuing operations.

The notes set out on pages 15 to 29 form part of these accounts.

W. R. BERKLEY INSURANCE (EUROPE), LIMITED

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
For the year ended 31 December 2009

	Note	2009 £'000	2008 £'000
Profit on ordinary activities after taxation		5,714	23,693
Movement in foreign exchange		<u>50</u>	<u>41</u>
Total recognised gains for the year	15	<u>5,764</u>	<u>23,734</u>

The notes set out on pages 15 to 29 form part of these accounts.

W. R. BERKLEY INSURANCE (EUROPE), LIMITED
BALANCE SHEET
As at 31 December 2009

	Notes	2009 £'000	2008 £'000
ASSETS			
Intangible fixed assets	10	587	880
Investments			
Other financial investments	11	276,159	249,020
Reinsurers' share of technical provisions			
Provisions for unearned premiums		10,565	5,070
Claims outstanding		27,083	28,693
		<u>37,648</u>	<u>33,763</u>
Debtors			
Debtors arising out of direct insurance operations – intermediaries		36,982	31,134
Debtors arising out of reinsurance operations		2,275	725
Other debtors	13a, 13b	2,526	2,966
		<u>41,783</u>	<u>34,825</u>
Other Assets			
Tangible fixed assets	12	1,563	1,318
Cash at bank		27,828	56,782
		<u>29,391</u>	<u>58,100</u>
Prepayments and accrued income			
Accrued interest and rent		2,425	2,002
Deferred acquisition costs		11,068	11,404
Other prepayments and accrued income		224	138
		<u>13,717</u>	<u>13,544</u>
TOTAL ASSETS		<u>399,285</u>	<u>390,132</u>

The notes set out on pages 15 to 29 form part of these accounts.

W. R. BERKLEY INSURANCE (EUROPE), LIMITED
BALANCE SHEET
As at 31 December 2009

	Notes	2009 £'000	2008 £'000
LIABILITIES			
Capital and reserves			
Called up share capital	14,15	80,000	80,000
Profit and loss account	15	54,242	48,528
Foreign currency translation reserve	15	(1,532)	(1,582)
Equity shareholders' funds	15	<u>132,710</u>	<u>126,946</u>
Technical provisions			
Provisions for unearned premiums		60,595	49,880
Claims outstanding	16	185,211	176,339
		<u>245,806</u>	<u>226,219</u>
Creditors			
Creditors arising out of reinsurance operations		12,119	24,395
Other creditors including taxation and social security	17	4,496	11,713
		<u>16,615</u>	<u>36,108</u>
Accruals and deferred income		4,154	859
TOTAL LIABILITIES		<u>399,285</u>	<u>390,132</u>

Approved by the Board on 23 March 2010 and signed on its behalf by:



Stuart Wright
Director



Paul J. Hosking
Director

The notes set out on pages 15 to 29 form part of these accounts.

W. R. BERKLEY INSURANCE (EUROPE), LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

1. Accounting policies

(a) Basis of preparation

The accounts have been prepared under the historical cost convention, as modified by the revaluation of investments, in accordance with Section 396 of, and the regulations made under Section 96, 404 and 444 of the Companies Act 2006, and in accordance with applicable UK financial reporting standards and statements of standard accounting practice. The Company has adopted the recommendations of the Statement of Recommended Practice revised by the Association of British Insurers (ABI SORP (revised)) in December 2006.

(b) Going concern

The directors consider that the Company is well placed to manage its business risks successfully despite the current uncertain economic outlook. After making enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the directors continue to adopt the going concern basis in preparing the annual report.

(c) Cash flow statement and related parties

The Company is a wholly-owned subsidiary of W. R. Berkley London Holdings, Limited and is included in the consolidated financial statements of that company which are publicly available. Consequently, the Company has taken advantage of the exemption from preparing a cash flow statement under the terms of FRS 1 (revised). The Company is also exempt under the terms of FRS 8 from disclosing related party transactions with entities that are related parties of the W. R. Berkley London Holdings, Limited group.

(d) Underwriting result

The underwriting result is determined using an annual basis of accounting, whereby the incurred cost of claims, commission and expenses are charged against the earned proportion of premiums, net of reinsurance, as follows:

(i) Premiums

Gross premiums written represent premiums on business incepted during the year together with adjustments to premiums written in previous accounting periods and changes in estimates for "pipeline" premiums. Gross premiums written are stated gross of commission but net of taxes and duties levied on premiums.

Earned premiums represent premiums written adjusted for the change in the provision for unearned premiums.

Outward reinsurance premiums are accounted for on an earned basis in the same accounting period as inward business.

(ii) Unearned premiums

Unearned premiums represent the proportion of premiums written in the year that relates to the unexpired terms of policies in force at the balance sheet date, calculated on a time apportionment basis. In the opinion of the directors, the resulting provision is not materially different from one based on the pattern of incidence of risk.

W. R. BERKLEY INSURANCE (EUROPE), LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2009

(d) Underwriting result (continued)

(iii) Acquisition costs

Acquisition costs represent commission and other indirect expenses incurred in the acquisition of insurance policies written during the financial year. The proportion of acquisition costs incurred in respect of unearned premiums is deferred at the balance sheet date and amortised over the later periods in which the related premiums are earned.

(iv) Claims

Claims incurred comprise claims indemnity and claims handling expenses (both internal and external) paid in the year and the movement in provision for outstanding claims and settlement expenses, including the change in the provision for the cost of claims incurred by the balance sheet date but not reported until after the year end (IBNR).

The provision for claims outstanding comprises amounts reserved for claims notified but not settled by the balance sheet date plus IBNR and related claims handling expenses.

Case estimates are established by experienced claims personnel who apply their specialist knowledge to the particulars of each individual case. The adequacy of outstanding claims provisions, including IBNR, is assessed by projecting to ultimate claims arising in respect of each underwriting year. During the assessment of ultimate claims, management also consider analysis of premium rating trends, market benchmarks of business accepted and other assessments of underwriting conditions. All projections and management assessments of ultimate claims provisions are reviewed by the Company's actuary and W. R. Berkley Corporation's group corporate actuary. The Board also obtain an opinion on the adequacy of outstanding claims provisions, including IBNR, from external consulting actuaries on an annual basis.

Reinsurers' share of provisions for claims is based on calculated amounts for claims notified and projections for IBNR, net of irrecoverable amounts which are estimated by reference to the particular reinsurance programme in place, the claims experience for the period and the current security of the reinsurance companies involved.

The provisions for gross claims and related reinsurance recoveries are stated on the basis of information currently available. However, ultimate liability may vary as a result of subsequent information and events, such as changes in the wider economy, legal environment, effects of inflation, the impact of large losses and movements in industry benchmarks; all of which may have the effect of changing materially expected claim values and/or frequency. This may result in significant adjustments to the amounts provided. Adjustments to the amounts of claims provisions established in prior years are reflected in the financial statements for the period in which the adjustments are made. Management regularly review the reserving methods used to ensure that the procedures adopted best reflect the Company's ability to analyse loss development patterns, claims payments and related data available.

An equalisation provision, in respect of the Company's direct and facultative property business, is established in accordance with the requirements of FSA INSPRU 1.4. This provision, which is in addition to management's estimate of the provisions required to meet the ultimate cost of settlement of claims outstanding as at the balance sheet date, is included within gross technical provisions disclosed in the balance sheet, notwithstanding that it did not represent a liability as at the balance sheet date.

There is no discounting of claims provisions.

W. R. BERKLEY INSURANCE (EUROPE), LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2009

(d) Underwriting result (continued)

(v) Unexpired risk provisions

Provision for unexpired risks is made where the cost of claims and expenses arising after the balance sheet date from contracts concluded before that date is expected to exceed the provision for unearned premiums and claims, net of deferred acquisition costs, after taking into account future investment return on the investments supporting the unearned premiums provision and unexpired risk provision.

Expected claims are calculated having regard to events which have occurred prior to the balance sheet date.

Unexpired risk surpluses and deficits are offset where classes of business are managed together and a provision is made if an aggregate deficit arises.

(e) Operating expenses

Underwriting acquisition costs, general overheads and other expenses are charged as incurred to the profit and loss – technical account, net of any change in deferred acquisition costs.

(f) Administrative service expenses

Certain key management and administration services are provided to the Company by W. R. Berkley London Staff, Limited, a fellow subsidiary undertaking. Administration expenses recharged by W. R. Berkley London Staff, Limited, to the Company and those incurred directly by the Company are accounted for in accordance with the Company's accounting policy in respect of operating expenses (see Note 1(e)).

(g) Investment income and unrealised gains and losses

Investment income comprises interest and similar income receivable for the period and realised gains and losses. Investment income and investment expenses are recognised in full in the profit and loss-non-technical account as the Company does not differentiate between investment funds supporting technical reserves and investment funds supporting shareholders' funds.

Realised investment gains and losses represent the difference between net sales proceeds and purchase price and are recognised in the profit and loss-non-technical account.

Unrealised gains and losses represent the difference between the valuation of investments at the balance sheet date and their purchase price, or if they have previously been valued, their valuation at the previous balance sheet date. Unrealised gains and losses on investments are recognised in the profit and loss non-technical account.

(h) Investments

Listed investments are stated at their market value at the balance sheet date.

Other investments are stated at the lower of cost or net realisable value, the directors having prudent regard to their likely realisable value.

W. R. BERKLEY INSURANCE (EUROPE), LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2009

(i) Tangible fixed assets

Fixed assets are capitalised and are depreciated in equal annual instalments over their expected useful lives, as follows:

Furniture and fittings	-	Ten years
Leasehold improvements	-	Period of the lease
Computer equipment	-	Three to five years

(j) Operating leases

Rental charges relating to operating leases are charged to operating expenses on a straight line basis over the lease term.

(k) Taxation

The charge for taxation is based on the result for the year adjusted for disallowable items.

Under UK tax legislation, insurance companies may be subject to additional tax charges in future years in respect of claims incurred but not yet paid. Those charges will be provided for as they arise. Such tax charges may be reduced by postponing tax relief for claims incurred.

Deferred taxation is provided in full on all timing differences at the rate at which it is expected that the tax liability or benefit will arise. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that there will be suitable future taxable profits from which the reversal of the underlying timing differences can be deducted.

(l) Foreign currency translation

Transactions denominated in foreign currencies are translated into Sterling at the rates of exchange ruling at the time of the transactions or at the contracted date if the transaction is covered by a forward exchange contract. Monetary assets and liabilities denominated in foreign currencies are translated into Sterling at the rates of exchange ruling at the balance sheet date.

Exchange gains or losses arising from translation of transactions, or monetary balances denominated in foreign currency, are recognised in the profit and loss non-technical account.

Exchange gains or losses arising on the translation of non-monetary assets denominated in foreign currencies are recorded in a foreign currency translation reserve and are not included in the profit and loss non-technical account.

The results of foreign branches are translated into Sterling at average rates of exchange for the period. Assets and liabilities of foreign branches are translated into Sterling at rates of exchange ruling at the balance sheet date. The net exchange differences arising on the retranslation of branches' opening balance sheets and profit and loss accounts to the balance sheet date rate of exchange are included in the statement of total recognised gains and losses.

W. R. BERKLEY INSURANCE (EUROPE), LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) For the year ended 31 December 2009

(m) Pension costs

The Company does not employ any staff in the UK and, accordingly, does not participate in any pension scheme arrangements in the UK.

W. R. Berkley London Staff, Limited, a fellow-subsiidiary undertaking, operates a defined contribution pension scheme for its employees in the UK. Details of that pension scheme can be found in the financial statements of W. R. Berkley London Staff, Limited.

The Company employs staff in its Spanish, Irish, Australian and Norwegian branches and operates defined contribution pension schemes for those employees. The pension entitlement of those employees is secured through contributions by the Company to separately administered pension funds. Contributions are charged to the profit and loss technical account as they become payable in accordance with the rules of the schemes.

W. R. BERKLEY INSURANCE (EUROPE), LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) For the year ended 31 December 2009

2. Segmental reporting

	2009 £'000	2008 £'000
(a) Gross written premium by region		
Direct and facultative reinsurance – Liability		
- risks located in the UK	36,666	39,081
- risks located in Europe	24,783	21,385
- risks located in Australasia	9,569	7,244
- risks located in the Rest of the World	123	46
	<u>71,141</u>	<u>67,756</u>
Direct and facultative reinsurance – Accident and Health		
- risks located in the UK	3,587	3,012
- risks located in Europe	363	697
- risks located in Australasia	17	17
- risks located in the Rest of the World	939	935
	<u>4,906</u>	<u>4,661</u>
Direct and facultative reinsurance – Property		
- risks located in the UK	1,134	1,576
- risks located in Europe	628	1,574
- risks located in Australasia	2,400	939
- risks located in the Rest of the World	10,215	4,966
	<u>14,377</u>	<u>9,055</u>
Direct and facultative reinsurance – Marine		
- risks located in the UK	816	0
- risks located in Europe	6,623	0
- risks located in Australasia	0	0
- risks located in the Rest of the World	7,246	0
	<u>14,685</u>	<u>0</u>
Direct and facultative reinsurance – Goods in Transit		
- risks located in the UK	0	0
- risks located in Europe	1,861	0
- risks located in Australasia	0	0
- risks located in the Rest of the World	0	0
	<u>1,861</u>	<u>0</u>
Reinsurance gross premiums written		
- Worldwide risks written in the London Market	(408)	(1,241)
	<u>106,562</u>	<u>80,231</u>
Total gross written premium	<u>106,562</u>	<u>80,231</u>

W. R. BERKLEY INSURANCE (EUROPE), LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) For the year ended 31 December 2009

2. Segmental Reporting (continued)

	2009 £'000	2008 £'000
(b) Net technical result by region		
Direct and facultative reinsurance – Liability		
- risks located in the UK	(367)	348
- risks located in Europe	2,639	191
- risks located in Australasia	354	65
- risks located in the Rest of the World	5	0
	<u>2,631</u>	<u>604</u>
Direct and facultative reinsurance – Accident and Health		
- risks located in the UK	1	27
- risks located in Europe	0	6
- risks located in Australasia	0	0
- risks located in the Rest of the World	0	8
	<u>1</u>	<u>41</u>
Direct and facultative reinsurance – Property		
- risks located in the UK	25	14
- risks located in Europe	14	14
- risks located in Australasia	53	8
- risks located in the Rest of the World	226	44
	<u>318</u>	<u>80</u>
Direct and facultative reinsurance – Marine		
- risks located in the UK	(8)	0
- risks located in Europe	(68)	0
- risks located in Australasia	0	0
- risks located in the Rest of the World	(74)	0
	<u>(150)</u>	<u>0</u>
Direct and facultative reinsurance – Goods in Transit		
- risks located in the UK	0	0
- risks located in Europe	(437)	0
- risks located in Australasia	0	0
- risks located in the Rest of the World	0	0
	<u>(437)</u>	<u>0</u>
Reinsurance		
- Worldwide risks written in the London Market	0	(10)
	<u>0</u>	<u>(10)</u>
Total net technical result	<u><u>2,363</u></u>	<u><u>715</u></u>

W. R. BERKLEY INSURANCE (EUROPE), LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2009

2. Segmental Reporting (continued)

(c) Net technical provisions

- Liability	181,854	175,290
- Accident and Health	5,318	7,068
- Property	17,594	10,098
- Marine	2,570	0
- Goods in Transit	822	0
Total net technical provisions	208,158	192,456

The total net technical provisions in respect of the reinsurance business written are nil as this business is retroceded 100% to a combination of third party reinsurers and a fellow subsidiary company.

The Company does not present an allocation of net assets by line of business or operating unit because net assets, other than net technical provisions, are regarded as central resources which support the general corporate activities of the Company as a whole.

3. Net operating expenses

	2009	2008
	£'000	£'000
Acquisition costs	26,562	22,804
Changes in deferred acquisition costs	208	(1,915)
Administrative expenses	7,442	5,110
Reinsurance commissions and profit participation	(4,052)	(760)
	<u>30,160</u>	<u>25,239</u>

Acquisition costs include £18,968,000 (2008: £14,344,000) in respect of commissions incurred in respect of direct insurance business written.

4. Investment income

	2009	2008
	£'000	£'000
Interest received	8,731	11,501
Gains on realisation of investments	873	491
	<u>9,604</u>	<u>11,992</u>

5. Investment expenses and charges

	2009	2008
	£'000	£'000
Investment management expenses	<u>193</u>	<u>190</u>

W. R. BERKLEY INSURANCE (EUROPE), LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2009

6. Staff costs

Total employee costs for the year were:

	2009	2008
	£'000	£'000
Wages and salaries	2,372	1,047
Social security costs	156	105
Other pension costs	195	57
	<u>2,723</u>	<u>1,209</u>

The average number of staff employed by the Company during the year was:

	2009	2008
	Number	Number
Underwriting	19	9
Claims	3	2
Administration	10	5
	<u>32</u>	<u>16</u>

7. Directors' emoluments

	2009	2008
	£'000	£'000
Emoluments (excluding pension contributions)	815	944
Contributions to money purchase pension schemes	66	62

	Number	Number
Number of directors who are members of a money purchase pension scheme	2	2

	2009	2008
	£'000	£'000
Highest paid director:		
Emoluments	496	564
Company contributions to money purchase pension schemes	39	35

8. Profit on ordinary activities before tax

	2009	2008
	£'000	£'000
Profit on ordinary activities before tax is stated after charging:		
Auditors' remuneration for: : - Audit services	100	110
Auditors' remuneration for: : - Services in relation to legislation	26	26
Payments under operating leases : - Land and buildings	594	481
Depreciation charge in period	574	422
Amortisation of intangible fixed assets	<u>293</u>	<u>-</u>

All expenses, where applicable, exclude associated irrecoverable VAT.

W. R. BERKLEY INSURANCE (EUROPE), LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2009

9. Taxation on profit on ordinary activities

	2009 £'000	2008 £'000
<i>UK Corporation tax</i>		
UK corporation tax on profits of the year	1,790	9,494
Adjustments in respect of previous periods	(163)	(8)
	<u>1,627</u>	<u>9,486</u>
<i>Foreign Tax</i>		
On profits of the current year	715	146
Adjustments in respect of previous periods	-	178
	<u>715</u>	<u>324</u>
Total Current Tax	<u>2,342</u>	<u>9,810</u>
<i>Deferred tax</i>		
Origination and reversal of timing differences (See Note 13)	17	6
Adjustments in respect of previous periods	(15)	-
Effect of change of tax rate	-	-
	<u>2</u>	<u>6</u>
Tax on profit on ordinary activities	<u>2,344</u>	<u>9,816</u>

Factors affecting the tax charge for the year

The tax assessed on the profit on ordinary activities for the period is less than the standard rate of corporation tax in the UK of 28% in 2009 and 28.5% in 2008.

The differences are reconciled below:

	2009 £'000	2008 £'000
Profit on ordinary activities before tax	<u>8,058</u>	<u>33,509</u>
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 28% in 2009 and 28.5% for 2008.	2,256	9,550
<i>Effects of:</i>		
Expenses not deductible for tax purposes	20	31
Depreciation in excess of capital allowances	34	(5)
Adjustments in respect of prior periods	(163)	(8)
Higher taxes on overseas earnings after double tax relief	195	242
Total current taxation	<u>2,342</u>	<u>9,810</u>

W. R. BERKLEY INSURANCE (EUROPE), LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2009

10. Intangible fixed assets

	2009	2008
	£'000	£'000
Goodwill at cost	880	880
Amortised in year	(293)	-
Net book value at 31 December	<u>587</u>	<u>880</u>

Goodwill comprises the surplus value arising on the purchase on 24th December 2008 of the net assets and premium renewal rights of Irish Professional Risks Limited. This goodwill amount is to be amortised over a three year term; this being the period over which the Directors, having regard to prudent realisable value, expect the inherent value of this goodwill amount to be realised.

11. Other financial investments

	2009	2009	2008	2008
	Cost	Carrying	Cost	Carrying
	£'000	value	£'000	value
	£'000	£'000	£'000	£'000
Debt securities, other fixed income securities and units in unit trusts	232,926	236,958	152,364	158,047
Deposits with credit institutions	39,201	39,201	90,973	90,973
	<u>272,127</u>	<u>276,159</u>	<u>243,337</u>	<u>249,020</u>

The debt securities and other fixed income securities, which are shown at market value, are analysed below:

	2009	2008
	£'000	£'000
Cost	232,926	152,364
Unrealised gain	4,032	5,683
Market value	<u>236,958</u>	<u>158,047</u>
Maturity value	<u>230,286</u>	<u>152,860</u>

W. R. BERKLEY INSURANCE (EUROPE), LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2009

12. Tangible fixed assets

	Leasehold improvements	Computer equipment	Fixtures, fittings and office equipment	Total
	£'000	£'000	£'000	£'000
Cost				
At 31 December 2008	364	2,833	231	3,428
Additions during year	5	705	109	819
At 31 December 2009	<u>369</u>	<u>3,538</u>	<u>340</u>	<u>4,247</u>
Depreciation				
At 31 December 2008	(195)	(1,844)	(71)	(2,110)
Charge for year	(68)	(478)	(28)	(574)
At 31 December 2009	<u>(263)</u>	<u>(2,322)</u>	<u>(99)</u>	<u>(2,684)</u>
Net book value at 31 December 2009	<u>106</u>	<u>1,216</u>	<u>241</u>	<u>1,563</u>
Net book value at 31 December 2008	<u>169</u>	<u>989</u>	<u>160</u>	<u>1,318</u>

13a. Other debtors

	2009 £'000	2008 £'000
Deferred tax	88	86
Amounts due from group undertakings	2,016	2,357
Other debtors	422	523
Deferred tax asset at end of year	<u>2,526</u>	<u>2,966</u>

13b. Deferred taxation

	2009 £'000	2008 £'000
Deferred tax asset at start of year	86	92
Deferred tax debit in profit and loss account	17	(6)
Adjustments in respect of prior periods	(15)	-
Deferred tax asset at end of year	<u>88</u>	<u>86</u>
Comprising:		
Decelerated capital allowances	<u>88</u>	<u>86</u>
Undiscounted net deferred tax asset	<u>88</u>	<u>86</u>

The net deferred tax asset/liability is recognised on the basis that there is a reasonable likelihood of suitable profits being earned in the foreseeable future against which the current deferred tax asset balances can be utilised.

W. R. BERKLEY INSURANCE (EUROPE), LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2009

14. Share capital

	2009 £'000	2008 £'000
Authorised		
100,000,000 ordinary shares of £1 each	<u>100,000</u>	<u>100,000</u>
Issued		
80,000,100 ordinary shares of £1 each	<u>80,000</u>	<u>80,000</u>

15. Reconciliation of movements in shareholders' funds

	Share capital	Foreign currency translation	Profit and loss account	Total
2009	£'000	£'000	£'000	£'000
Balance at beginning of year	80,000	(1,582)	48,528	126,946
Profit for the year	-	-	5,714	5,714
Foreign currency translation	-	50	-	50
Balance at 31 December 2009	<u>80,000</u>	<u>(1,532)</u>	<u>54,242</u>	<u>132,642</u>

Foreign currency translation reserve

This reserve is used to record exchange differences arising on the translation of non-monetary assets denominated in foreign currencies. All such exchange differences are recorded in the foreign currency translation reserve and are not recorded in the profit and loss non-technical account.

16. Claims outstanding

The Company commenced underwriting in July 2003 and, given the longer tail nature of its principal professional liability portfolio of business written, it has limited claims experience data for earlier years. Management regularly review the reserving methods used to ensure that the procedures adopted best reflect the Company's ability to analyse loss development patterns, claims payments and related data available.

At 31 December 2009, the ultimate cost of claims has been estimated by projecting forward ultimate results for earlier underwriting years using a combination of actuarial prediction techniques; including frequency and severity modelling, attritional and large claim development analysis, the Bornheutter-Ferguson projection methodology as well as benchmarking the Company's portfolio of business written against typical portfolio market data available in the UK and other markets in which the Company operates.

The Company believes that it has established provisions which, on the basis of information currently available, are a realistically conservative estimate. However, ultimate liability may vary as a result of subsequent information and events, such as changes in the wider economy, legal environment, effects of inflation, the impact of large losses and movements in industry benchmarks. This may result in significant adjustments to the amounts provided.

Case estimates for the claims notified to date are set by skilled claims handlers who apply their experience and knowledge to the circumstances of individual claims.

Provisions are calculated allowing for reinsurance recoveries and a separate asset is recorded for the reinsurers' share, after consideration of the risk of non-collectability of reinsurance.

W. R. BERKLEY INSURANCE (EUROPE), LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2009

16. Claims outstanding (continued)

The Company is required under INSPRU 1.4 to establish an equalisation provision respect of its direct and facultative property business. This provision is not a liability because it is in addition to management's estimate of the provisions required to meet the ultimate cost of settlement of claims outstanding as at the balance sheet date. This equalisation provision is required by the Company's Act to be included within gross technical provisions disclosed in the balance sheet. The equalisation provision at balance sheet date is £927,000 (2008: £366,000), and resulted in an increase of £561,000 in the general business technical account result (2008:£220,000).

17. Other creditors including taxation and social security

	2009	2008
	£'000	£'000
Amounts owed to group undertakings	-	2,946
Corporation tax	3,135	7,510
Other creditors	1,361	1,257
	<u>4,496</u>	<u>11,713</u>

18. Operating lease commitments

Annual commitments of the Company under operating leases are as follows:

	Premises	Office equipment	Total
	£'000	£'000	£'000
Leases which expire:			
- Within one year	67	-	67
- Between one and five years	500	-	500
	<u>567</u>	<u>-</u>	<u>567</u>

19. Pension costs

The management and administration of the Company is principally carried out by W. R. Berkley London Staff, Limited, a fellow subsidiary undertaking. The Company does not employ any staff in the UK and, accordingly, does not participate in any pension scheme arrangements in the UK.

W. R. Berkley London Staff, Limited operates a defined contribution pension scheme for its employees. Details of the pension scheme arrangements are disclosed in the accounts of W. R. Berkley London Staff, Limited along with the total amount of pension contributions paid.

The Company employs staff in its Spanish, Irish, Australian and Norwegian branches and operates defined contribution pension schemes for those employees. The Company incurred a cost of £189,000 in the year (2008: £57,000) in respect of pension contributions paid into those schemes. The assets of the schemes are held separately from the assets of the Company in separately administered pension funds. The Company has no exposure to any other post-retirement benefits for its employees.

20. Controlling party

The Company's immediate parent company is W. R. Berkley London Holdings, Limited which is incorporated in the United Kingdom.

W. R. BERKLEY INSURANCE (EUROPE), LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2009

21. Ultimate controlling party

The Company's ultimate parent undertaking and controlling entity is W. R. Berkley Corporation, which is incorporated in the USA. This company heads the largest group of undertakings into which the Company's accounts are consolidated.

The smallest group of undertakings into which the Company's accounts are consolidated is headed by W. R. Berkley London Holdings, Limited, which is incorporated in the United Kingdom.

Copies of the consolidated accounts for W. R. Berkley Corporation and W. R. Berkley London Holdings, Limited are available from the Company's offices at 2nd Floor, 40 Lime Street, London, EC3M 7AW.