



^W_R Berkley

**Financial Statements
2008**

W. R. BERKLEY INSURANCE (EUROPE), LIMITED

FINANCIAL STATEMENTS

2008

W. R. BERKLEY INSURANCE (EUROPE), LIMITED

**FINANCIAL STATEMENTS
For the year ended 31 December 2008**

<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 2008.

Business review and primary activities

The primary activity of the Company is the transaction of professional risks and liability 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 and Australia, and through approved coverholders, principally in the UK and Australia.

On 24th December 2008, the Company completed its acquisition of the net assets and premium renewal rights of Irish Professional Risks Limited, a managing general agent based in Dublin, Ireland. This business, together with a planned expansion of the Company's existing product lines, will, from that date, be written through the Company's new Irish branch, the establishment of which has been approved by the UK and Irish Financial Services regulators.

In March 2009, the Company announced its intention to establish a new branch of the Company in Norway. Subject to the relevant approvals by the UK and Norwegian insurance regulatory authorities, the branch is expected to begin underwriting in the second half of 2009.

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 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 2008 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 before tax of £33,509,000 (2007: £16,106,000). On 5th February 2008, the directors declared a dividend of £7,200,000 which was paid on 22nd February 2008 (2007: Nil).

W. R. BERKLEY INSURANCE (EUROPE), LIMITED

Directors' Report (continued)

Results for the year and key performance indicators (continued)

As at 31 December 2008, the Company had total assets of £390,132,000 (2007: £344,657,000) and the Company's net capital and surplus amounted to £126,946,000 (2007: £111,994,000).

The Company's result before tax comprises an underwriting profit, or surplus on the Technical Account-General Business, of £715,000 (2007: £428,000) and net investment and related income of £32,794,000 (2007: £15,678,000).

Gross written premiums written in 2008 were £80,231,000 (2007: £103,022,000). The decrease from 2007 was largely a result of the discontinuation, with effect from 31 December 2007, of the Company's property catastrophe reinsurance consortium managed by Kiln Limited. Excluding the property catastrophe reinsurance account, underlying gross premium revenue grew slightly in 2008 through increased income in the Company's Accident & Health and Engineering & Construction portfolios, continued development of the Company's branch in Spain, offset by a reduction in the contribution from the Company's professional liability lines.

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. All of the Company's lines of business, and the Professional Liability account, in particular, continued to experience significant downward pressure on premium rates in 2008. Despite this pressure, cautious risk selection, combined with continued enhancement of the Company's underwriting portfolio management processes, limited premium rate decreases in this account to less than 10%.

The Company's combined operating ratio for 2008 was 98.9% (2007: 99.3%). 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 £715,000 (2007: £428,000). The Company's combined ratio in 2008, whilst showing a slight improvement on 2007, continued to be affected by the pressure on premium rates.

The Company earned net investment and related income of £32,794,000 in 2008 (2007: £15,678,000). The improvement in net investment return in 2008 arises from the Company's success in investing conservatively in highly-rated fixed interest securities as well as effective foreign currency exposure management which took advantage of the relative strength of the US Dollar and Euro against Sterling in the year. The Company's holdings of US Dollar and Euro in the period resulted in Sterling-denominated foreign exchange gains of £16,223,000 (2007: £2,450,000 gains).

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 2008, the Company recorded unrealised valuation gains of £4,769,000 on its gilt and bond portfolio (2007: gain of £2,789,000). Excluding unrealised gains on fixed interest securities and foreign exchange gains and losses, the Company's net investment return in 2008 was £11,802,000 (2007: £10,439,000). The main reason for the increase in underlying investment return was positive net cash flow generated by the business which offset falling interest rates.

W. R. BERKLEY INSURANCE (EUROPE), LIMITED

Directors' Report (continued)

Future outlook

The markets in which the Company operates were very competitive during 2008 and this situation is expected to continue into 2009. Although the directors expect some strengthening of premium rates during 2009 and 2010, 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 and Australian branches and continued development of distribution channels, the Company achieved its plan for 2008. The Company will seek to continue this development strategy in 2009, whilst maintaining close control over the adequacy of rates achieved in its core portfolios.

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.

In 2009, the Company will continue to leverage its existing, and develop new, distribution channels in the markets in which the Company operates. The Company 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. In addition, the Company is resolved to maintain underwriting discipline and will not underwrite business where premium rates are inadequate.

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.

W. R. BERKLEY INSURANCE (EUROPE), LIMITED

Directors' Report (continued)

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 2008 (2007: 45).

Political and charitable donations

The Company made no political or charitable donations during the year (2007: Nil).

Auditors

In accordance with Section 386 of the Companies Act 1985, the directors have taken advantage of the elective regime to dispense with the obligation to appoint auditors annually. The auditors, KPMG Audit Plc, have signified their willingness to continue in office.

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

A handwritten signature in blue ink, appearing to read 'I. S. Lederman', with a long horizontal flourish extending to the right.

I. S. Lederman
Secretary and Director
25 March 2009

40 Lime Street
London
EC3M 7AW

W. R. BERKLEY INSURANCE (EUROPE), LIMITED

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

Statement of Directors' Responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors 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 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 1985. 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 2008 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet and the related notes.

These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. 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 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 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

The directors' responsibilities for preparing the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 7.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Equalisation reserves

Our evaluation of the presentation of information in the financial statements has regard to the statutory requirement for insurance companies to maintain equalisation reserves. The nature of equalisation reserves, the amounts set aside at 31 December 2008, and the effect of the movement in those reserves during the year on the general business technical result and profit before tax, are disclosed in note 16.

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

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 December 2008 and of its profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information in the Directors' Report is consistent with the financial statements.

KPMG Audit Plc
Chartered Accountants
Registered Auditor
8 Salisbury Square
London EC4Y 8BB

25 March 2009

W. R. BERKLEY INSURANCE (EUROPE), LIMITED

**PROFIT AND LOSS ACCOUNT
TECHNICAL ACCOUNT – GENERAL BUSINESS
For the year ended 31 December 2008**

	Notes	2008 £'000	2008 £'000	2007 £'000	2007 £'000
Earned premiums, net of reinsurance					
Gross premiums written	2	80,231		103,022	
Outward reinsurance premiums		<u>(10,234)</u>		<u>(33,449)</u>	
Net premiums written			69,997		69,573
Change in the gross provision for unearned premiums		2,218		(6,443)	
Change in the provision for unearned premiums, reinsurers' share		<u>(4,416)</u>		<u>(328)</u>	
			<u>(2,198)</u>		<u>(6,771)</u>
Earned premiums, net of reinsurance			67,799		62,802
Claims incurred, net of reinsurance					
Claims paid					
Gross amount		(36,125)		(24,814)	
Reinsurers' share		<u>6,448</u>		<u>10,036</u>	
Net claims paid		<u>(29,677)</u>		<u>(14,778)</u>	
Change in the provision for claims					
Gross amount		(9,075)		(26,957)	
Reinsurers' share		<u>(3,093)</u>		<u>(1,640)</u>	
Change in the net provision for claims		<u>(12,168)</u>		<u>(28,597)</u>	
Claims incurred, net of reinsurance			(41,845)		(43,375)
Net operating expenses	3		<u>(25,239)</u>		<u>(18,999)</u>
Balance on technical account – general business	2		<u>715</u>		<u>428</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 2008**

	Notes	2008 £'000	2007 £'000
Balance on technical account – general business		715	428
Investment income	4	11,992	10,660
Foreign exchange gains		16,223	2,450
Unrealised gains on investments		4,769	2,789
Investment expenses and charges	5	<u>(190)</u>	<u>(221)</u>
Profit on ordinary activities before tax	8	33,509	16,106
Tax on profit on ordinary activities	9	(9,816)	(4,613)
Profit on ordinary activities after tax	15	<u><u>23,693</u></u>	<u><u>11,493</u></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 2008**

	Note	2008 £'000	2007 £'000
Profit on ordinary activities after taxation		23,693	11,493
Movement in foreign exchange		<u>41</u>	<u>(39)</u>
Total recognised gains for the year	15	<u><u>23,734</u></u>	<u><u>11,454</u></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 2008

	Notes	2008 £'000	2007 £'000
ASSETS			
Intangible fixed assets	10	880	-
Investments			
Other financial investments	11	249,020	203,993
Reinsurers' share of technical provisions			
Provisions for unearned premiums		5,070	9,137
Claims outstanding		28,693	26,897
		<u>33,763</u>	<u>36,034</u>
Debtors			
Debtors arising out of direct insurance operations – intermediaries		31,134	25,025
Debtors arising out of reinsurance operations		725	6,151
Other debtors	13	2,966	1,134
		<u>34,825</u>	<u>32,310</u>
Other Assets			
Tangible fixed assets	12	1,318	826
Cash at bank		56,782	60,619
		<u>58,100</u>	<u>61,445</u>
Prepayments and accrued income			
Accrued interest and rent		2,002	2,112
Deferred acquisition costs		11,404	8,730
Other prepayments and accrued income		138	33
		<u>13,544</u>	<u>10,875</u>
TOTAL ASSETS		<u><u>390,132</u></u>	<u><u>344,657</u></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 2008

	Notes	2008 £'000	2007 £'000
LIABILITIES			
Capital and reserves			
Called up share capital	14,15	80,000	80,000
Profit and loss account	15	<u>46,946</u>	<u>31,994</u>
Equity shareholders' funds	15	<u>126,946</u>	<u>111,994</u>
Technical provisions			
Provisions for unearned premiums		49,880	48,621
Claims outstanding	16	<u>176,339</u>	<u>155,237</u>
		<u>226,219</u>	<u>203,858</u>
Creditors			
Creditors arising out of direct insurance operations		-	4,213
Creditors arising out of reinsurance operations		24,395	19,396
Other creditors including taxation and social security	17	<u>11,713</u>	<u>4,545</u>
		<u>36,108</u>	<u>28,154</u>
Accruals and deferred income		859	651
TOTAL LIABILITIES		<u>390,132</u>	<u>344,657</u>

Approved by the Board on 25 March 2009 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 2008****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 255 of, and Schedule 9A to, the Companies Act 1985, 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 group 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 and the group have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they 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 2008

(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 2008

(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(d)).

(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 2008

(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 differences arising on the translation of non-monetary assets denominated in foreign currencies are recorded in a foreign currency translation reserve and are not recorded 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 2008**

(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-subsiary 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 and Australian 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 2008**

2. Segmental reporting

	2008	2007
	£'000	£'000
(a) Gross written premium by region		
Direct and facultative reinsurance – Professional Liability		
- risks located in the UK	39,081	48,758
- risks located in Europe	21,385	16,456
- risks located in Australasia	7,244	5,186
- risks located in the Rest of the World	46	110
	<hr/> 67,756	<hr/> 70,510
Direct and facultative reinsurance – Personal Accident and Health		
- risks located in the UK	3,012	2,317
- risks located in Europe	697	71
- risks located in Australasia	17	2
- risks located in the Rest of the World	935	62
	<hr/> 4,661	<hr/> 2,452
Direct and facultative reinsurance – Property		
- risks located in the UK	1,576	1,059
- risks located in Europe	1,574	370
- risks located in Australasia	939	1,691
- risks located in the Rest of the World	4,966	3,117
	<hr/> 9,055	<hr/> 6,237
Reinsurance gross premiums written		
- Worldwide risks written in the London Market	(1,241)	23,823
	<hr/>	<hr/>
Total gross written premium	<hr/> 80,231	<hr/> 103,022

W. R. BERKLEY INSURANCE (EUROPE), LIMITED

**NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2008**

2. Segmental Reporting (continued)

	2008 £'000	2007 £'000
(b) Net technical result by region		
Direct and facultative reinsurance – Professional Liability		
- risks located in the UK	348	(1,099)
- risks located in Europe	191	1,135
- risks located in Australasia	65	1,434
- risks located in the Rest of the World	0	3
	<u>604</u>	<u>1,473</u>
Direct and facultative reinsurance – Personal Accident and Health		
- risks located in the UK	27	(751)
- risks located in Europe	6	(37)
- risks located in Australasia	0	(29)
- risks located in the Rest of the World	8	(14)
	<u>41</u>	<u>(831)</u>
Direct and facultative reinsurance – Property		
- risks located in the UK	14	(105)
- risks located in Europe	14	(35)
- risks located in Australasia	8	(286)
- risks located in the Rest of the World	44	(396)
	<u>80</u>	<u>(822)</u>
Reinsurance		
- Worldwide risks written in the London Market	(10)	608
	<u>715</u>	<u>428</u>
(c) Net technical provisions		
- Professional Liability	175,290	160,456
- Personal Accident and Health	7,068	2,092
- Property	10,098	5,275
- Reinsurance	-	-
Total net technical provisions	<u><u>192,456</u></u>	<u><u>167,823</u></u>

The total net technical provisions in respect of the reinsurance business written are nil as this business is retroceded 100% to 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.

W. R. BERKLEY INSURANCE (EUROPE), LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2008

3. Net operating expenses

	2008	2007
	£'000	£'000
Acquisition costs	22,804	19,601
Changes in deferred acquisition costs	(1,915)	(1,259)
Administrative expenses	5,110	5,432
Reinsurance commissions and profit participation	(760)	(4,775)
	<u>25,239</u>	<u>18,999</u>

Acquisition costs include £14,344,000 (2007: £10,132,000) in respect of commissions incurred in respect of direct insurance business written.

4. Other interest and similar income

	2008	2007
	£'000	£'000
Interest received	11,501	11,155
Gains /(losses) on realisation of investments	491	(495)
	<u>11,992</u>	<u>10,660</u>

5. Other charges

	2008	2007
	£'000	£'000
Investment management expenses	<u>190</u>	<u>221</u>

6. Staff costs

Total employee costs for the year were:	2008	2007
	£'000	£'000
Wages and salaries	1,047	531
Social security costs	105	46
Other pension costs	57	13
	<u>1,209</u>	<u>590</u>

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

	2008	2007
	Number	Number
Underwriting	9	3
Claims	2	3
Administration	5	4
	<u>16</u>	<u>10</u>

W. R. BERKLEY INSURANCE (EUROPE), LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2008

7. Directors' emoluments

	2008	2007
	£'000	£'000
Emoluments (excluding pension contributions)	944	643
Contributions to money purchase pension schemes	62	58
	Number	Number
Number of directors who are members of a money purchase pension scheme	2	2
	2008	2007
	£'000	£'000
Highest paid director:		
Emoluments	564	372
Company contributions to money purchase pension schemes	35	32

8. Profit on ordinary activities before tax

	2008	2007
	£'000	£'000
Profit on ordinary activities before tax is stated after charging:		
Auditors' remuneration for: : - Audit services	110	105
Auditors' remuneration for: : - Services in relation to legislation	26	13
Payments under operating leases : - Land and buildings	481	120
Depreciation charge in period	<u>422</u>	<u>370</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 2008

9. Taxation on profit on ordinary activities

	2008	2007
	£'000	£'000
<i>UK Corporation tax</i>		
UK corporation tax on profits of the year	9,494	4,928
Adjustments in respect of previous periods	(8)	(128)
	<u>9,486</u>	<u>4,800</u>
<i>Foreign Tax</i>		
On profits of the current year	146	(168)
Adjustments in respect of previous periods	178	-
	<u>324</u>	<u>(168)</u>
Total Current Tax	<u>9,810</u>	<u>4,632</u>
<i>Deferred tax</i>		
Origination and reversal of timing differences (See Note 13)	6	5
Adjustments in respect of previous periods	-	(30)
Effect of change of tax rate	-	6
	<u>6</u>	<u>(19)</u>
Tax on profit on ordinary activities	<u>9,816</u>	<u>4,613</u>

	2008	2007
	£'000	£'000
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 30% in 2007 and more than the standard rate of corporation tax in the UK of 28.5% in 2008. The differences are reconciled below:		
Profit on ordinary activities before tax	<u>33,509</u>	<u>16,106</u>
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% in 2007 and 28.5% for 2008.	9,550	4,832
<i>Effects of:</i>		
Expenses not deductible for tax purposes	31	18
Depreciation in excess of capital allowances	(5)	(5)
Adjustments in respect of prior periods	(8)	(128)
Higher taxes on overseas earnings	242	(85)
Total current taxation	<u>9,810</u>	<u>4,632</u>

W. R. BERKLEY INSURANCE (EUROPE), LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2008

10. Intangible fixed assets

	2008 £'000	2007 £'000
Goodwill at cost	880	-
Amortised in year	-	-
Net book value at 31 December	<u>880</u>	<u>-</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

	2008 Cost £'000	2008 Carrying value £'000	2007 Cost £'000	2007 Carrying value £'000
Debt securities, other fixed income securities and units in unit trusts	152,364	158,047	130,266	131,181
Deposits with credit institutions	90,973	90,973	72,812	72,812
	<u>243,337</u>	<u>249,020</u>	<u>203,078</u>	<u>203,993</u>

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

	2008 £'000	2007 £'000
Cost	152,364	130,266
Unrealised gain	<u>5,683</u>	<u>915</u>
Market value	<u>158,047</u>	<u>131,181</u>
Maturity value	<u>152,860</u>	<u>131,110</u>

W. R. BERKLEY INSURANCE (EUROPE), LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2008

12. Tangible fixed assets

	Leasehold improvements	Computer equipment	Fixtures, fittings and office equipment	Total
	£'000	£'000	£'000	£'000
Cost				
At 31 December 2007	336	1,974	192	2,502
Additions during year	28	859	39	926
At 31 December 2008	<u>364</u>	<u>2,833</u>	<u>231</u>	<u>3,428</u>
Depreciation				
At 31 December 2007	(123)	(1,504)	(49)	(1,676)
Charge for year	(72)	(340)	(22)	(434)
At 31 December 2008	<u>(195)</u>	<u>(1,844)</u>	<u>(71)</u>	<u>(2,110)</u>
Net book value at 31 December 2008	<u>169</u>	<u>989</u>	<u>160</u>	<u>1,318</u>
Net book value at 31 December 2007	<u>213</u>	<u>470</u>	<u>143</u>	<u>826</u>

13. Deferred taxation

	2008 £'000	2007 £'000
Deferred tax asset at start of year	92	74
Deferred tax debit in profit and loss account	(6)	(5)
Adjustments in respect of prior periods	-	30
Effect of change in tax rates	-	(7)
Deferred tax asset at end of year	<u>86</u>	<u>92</u>
Comprising:		
Decelerated capital allowances	86	92
Undiscounted net deferred tax asset	<u>86</u>	<u>92</u>

The net deferred tax asset 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.

14. Share capital

	2008 £'000	2007 £'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>

W. R. BERKLEY INSURANCE (EUROPE), LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2008

15. Reconciliation of movements in shareholders' funds

	Share capital	Foreign currency translation	Profit and loss account	Total
2008	£'000	£'000	£'000	£'000
Balance at beginning of year	80,000	-	31,994	111,994
Profit for the year	-	-	23,734	23,734
Foreign currency translation	-	(1,582)	-	(1,582)
Dividend declared and paid	-	-	(7,200)	(7,200)
Balance at 31 December 2008	80,000	(1,582)	48,528	126,946

(a) Foreign currency translation reserve

This 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.

(b) Going Concern

The directors consider that the group 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 and the group have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report.

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 2008, 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 2008
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 £366,000 (2007: £146,000), and resulted in a decrease of £220,000 in the general business technical account result (2007:£146,000).

17. Other creditors including taxation and social security

	2008	2007
	£'000	£'000
Amounts owed to group undertakings	2,946	985
Corporation tax	7,510	2,617
Other creditors	1,257	943
	<u>11,713</u>	<u>4,545</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 to five years	339	-	339
	<u>339</u>	<u>-</u>	<u>339</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 and Australian branches and operates defined contribution pension schemes for those employees. The Company incurred a cost of £57,000 in the year (2007: £13,000) 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 2008

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.