Accounts disclaimer

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Syndicate 435 Annual Report 2014

FARADAY

Contents

Directors and administration
31 December 2014

Managing agent

Managing agent
Faraday Underwriting Limited

Directors
Damon Vocke, *chairman and non-executive director*

Paul Ceurvorst

Andrew D'Arcy *(appointed 20 August 2014)*

Ian Geden, *non-executive director*

Michael O'Dea *(resigned 15 August 2014)*

Mark Rayner

Allen Thomas, *non-executive director*

Company secretary
Elisabeth Richardson

Managing agent's registered office
Corn Exchange
55 Mark Lane
London
EC3R 7NE

Managing agent's registered number
1682486

Website
www.faraday.com

Syndicate

Active underwriter
Mark Rayner

Investment managers
General Re-New England Asset Management Inc.
GR-NEAM Limited

Registered auditor
Deloitte LLP, London

Report of the directors of the managing agent

31 December 2014

The directors of Faraday Underwriting Limited ('the managing agent') present their report for the year ended 31 December 2014.

This annual report is prepared using the annual basis of accounting as required by Statutory Instrument No 1950 of 2008, the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. The Strategic report on page 5 contains the information required to be disclosed under the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013.

Results

The result for the 2014 calendar year is a profit of £103,006,000 (2013: a profit of £114,672,000).

Going concern

After making enquiries, the directors have a reasonable expectation that Syndicate 435 has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the going concern basis continues to be adopted in preparing the annual report.

Directors

The directors of the managing agent who served during the year ended 31 December 2014 were as follows:

Damon Vocke, *chairman and non-executive director*

Paul Ceurvorst

Andrew D'Arcy *(appointed 20 August 2014)*

Ian Geden, *non-executive director*

Michael O'Dea *(resigned 15 August 2014)*

Mark Rayner, *active underwriter*

Allen Thomas, *non-executive director*

The board of the managing agency is being enhanced by the addition of another non-executive director. Regulatory approval is currently being sought before the formal appointment is made.

Post balance sheet event - restructuring of the Faraday business

Faraday has operated through two platforms, Syndicate 435 and Faraday Reinsurance Co. Limited (Faraday Re) since 2001. Following a formal announcement on 17 September 2014 Faraday is moving to one platform and working towards closing Faraday Re by the end of 2015. With effect from 1 January 2015 the insurance business previously written through Faraday Re was renewed into Syndicate 435. Subject to Court and regulatory approval, the reserves associated with that business will transfer to the syndicate under a formal Part VII Transfer in December 2015.

Post balance sheet event - restructuring of the Faraday business (continued)

As part of the restructuring exercise and subject to regulatory approval, it is expected that Faraday Re's reinsurance business will renew into the syndicate on or before 1 January 2016.

Statement of disclosure of information to auditors

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

(a) so far as each of them is aware, there is no information relevant to the audit of the syndicate's financial statements for the year ended 31 December 2014 of which the auditors are unaware; and

(b) the director has taken all the steps that he ought to have taken in his duty as a director to make him aware of any relevant audit information and to establish that the syndicate's auditors are aware of that information.

Management and capacity

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

Syndicate capacity for the 2012 to 2015 years of account has been provided in full by Faraday Capital Limited, a wholly owned subsidiary of Faraday Holdings Limited. The capacity amounted to £325 million for 2012 to 2014. Faraday Capital Limited has exercised its right to waive the requirement to prepare separate accounts for the 2012 closed year of account. Capacity for 2015 remains unchanged from 2014 at £325 million.

Auditors and syndicate meeting

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

By order of the board

Elisabeth Richardson
Company Secretary
London
12 March 2015

Strategic report
31 December 2014

The Strategic report as required under the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013 contains a review of the business including an analysis of its performance during the year ended 31 December 2014, as well as the principal risks and uncertainties facing the business and future developments.

Principal activity and review of the business

The principal activity of the business remains the transaction of general insurance and reinsurance business as part of the Lloyd's market in London. As noted last year, the key challenge from a business perspective remains the competitive market conditions in most, if not all, lines of business. Secondly, the (re)insurance industry is ensuring that it is fully prepared for the introduction of the Solvency II regulatory regime on 1 January 2016. We continue to develop our internal model; this includes embedding further changes in our governance structure, and carrying out policies and procedures on a business as usual basis. We maintain a regular dialogue with both Lloyd's and the Prudential Regulatory Authority as we make progress toward compliance with the formal tests and standards to ensure we meet the requirements of the new enhanced regulatory regime at all times.

The board strives to maintain a robust business model being mindful of regulatory requirements and the need continually to assess and manage the risk profile.

The 2014 Property results benefited from a lack of major loss events during the calendar year, as well as favourable loss development which resulted in releases from prior year reserves. The limited loss activity, in part, has led to the difficult market conditions referred to above. Premium rates declined during 2014 and we have seen further reductions early in 2015.

US Casualty business has faced difficult market conditions for some time as loss experience has been relatively benign in recent years. The book continues to perform very well and it has been possible again to release reserves from prior years.

The Aviation market also remains very competitive, despite the losses in the airline sector in 2014 most notably the loss of two Malaysian Airlines aircraft and the recent Air Asia crash, all with significant loss of life. The oversupply of insurance capacity, particularly in the airline sector and airports business, continues. Faraday has reviewed its Aviation book and, subject to adequate rates and acceptable terms and conditions, the syndicate would consider new opportunities which may arise in other lines of aviation business.

The syndicate's underwriters remain focused on the profitability of the business being written, with no premium volume targets.

Principal risks and uncertainties

In preparation for the formal introduction of the Solvency II regime, the board of the managing agent continues to enhance its risk management framework. A formal risk strategy and set of risk policies have been put in place which are consistent with our business strategy. They are supported by a series of risk appetites which set out our desire for risk. The current risk management system includes Risk Committees and the Audit & Risk Committee which report to the board.

In addition to this, an Executive Management Committee is responsible for the execution of the business strategy and meets on a regular basis to manage the business from an operational perspective.

The board retains responsibility for the design of the risk management framework and setting the risk appetites. At present it has delegated other aspects of risk management to the various Committees as noted below.

The Risk Committees (Underwriting, Reserving, Financial and Operational) oversee the risk profile of the syndicate. They are responsible for assessing and managing the risks for which they are held accountable, using a series of key metrics on both a quantitative and qualitative basis.

The Audit & Risk Committee is composed entirely of non-executive directors and this body provides independent oversight and challenge to the way in which the risk is managed and monitored within the syndicate. It considers any changes to the risk appetite ensuring there is consistency with the syndicate's risk strategy. In addition this Committee reviews, amongst other matters, the risk management framework, the operation of the internal model and the internal control system. The Risk Management and Compliance functions report to the Audit & Risk Committee.

The Underwriting Risk Committee monitors underwriting risk, including the oversight of catastrophe exposures and reinsurance protections. The Reserving Risk Committee is responsible for claims management and reserving risk. The Financial Risk Committee manages all aspects of market risk and credit risk. The Operational Risk Committee is responsible for the oversight of operational risks, as they relate to processes, personnel and systems.

A series of key performance and risk indicators have been established for each Risk Committee and these are monitored, and if necessary escalated to the board to support effective management of the syndicate's risk profile.

The principal risks and uncertainties facing the syndicate are as follows:

Insurance risk

There are three different elements to Insurance risk, being the risk of losses from catastrophe events (catastrophe risk), the risk that business will prove to be inadequately priced given the coverage being provided (premium risk), and the risk that claims reserves prove to be insufficient (reserving risk). The board of the managing agent manages insurance risk by agreeing its underwriting appetite at least annually through its business plan, which sets out a number of key criteria, including catastrophe appetites, combined ratio targets and line size guidelines. Underwriting performance is monitored against the business plan throughout the year by the Underwriting Risk Committee. Catastrophe modelling software is also used to model maximum probable losses from natural catastrophe exposed business for significant perils in key areas and to monitor exposures against pre-determined appetites. Reserve adequacy is monitored through a regular review of loss development and reserving analyses carried out by the actuarial department.

Credit risk

This represents the risk of default by one or more of the syndicate's counterparties, be they brokers, coverholders, reinsurers or issuers of investment holdings. The syndicate conducts business only with brokers and coverholders that have been approved by the Broker and Reinsurer Review Group, which reviews the financial position and other information in respect of these entities on at least an annual basis. A similar process is followed with respect to the use of reinsurers on the syndicate's reinsurance programmes.

In relation to investment holdings, the Financial Risk Committee recommends to the board the syndicate's investment strategy, having due regard to investment results, economic conditions and developments in financial markets. Benchmarks are set each year with reference to this strategy in order to monitor the performance of the syndicate's investment managers. Further, credit quality and asset concentration parameters are set which properly control the syndicate's exposure to investment risk.

Market risk

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

Liquidity risk

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

Operational risk

Operational risk arises from errors caused by people, processes or systems that could lead to losses to the syndicate. This includes the impact from external bodies, such as outsourced service providers and related companies. The managing agent manages this risk through a combination of robust service level agreements with external service providers, the implementation of detailed procedures and controls in all areas of its business and a structured programme of testing of processes and systems by both the Compliance and Internal Audit departments. This is overseen by the Operational Risk Committee.

Updating the risk management framework

As part of the continual monitoring of the governance and risk management framework the Risk Committee structure, as detailed above, is being reviewed and it is subject to revision. The new format will undergo operational testing before formal adoption. In brief there will be no change to the roles of the board and the Audit & Risk Committee although it is expected that the Compliance function will report to the former, not the latter. The main change will be the introduction of a Management Risk Committee which will be responsible for the key risk indicators for those areas of risk currently addressed by the Underwriting, Reserving, Financial and Operational Risk Committees. The key performance indicators will continue to be reported on at the Executive Management Committee.

Financial key performance indicators

As noted above, the syndicate's underwriting strategy is focused on the profitability of business, rather than on premium volumes, with a key performance indicator being the achieved combined ratio compared with the targets set by the board. In this respect, the syndicate continues to perform very well, as a result of the favourable loss experience referred to earlier. This has led to the reported combined ratio of 45.3% in 2014 (43.6% in 2013) which was better than target.

The other key financial performance indicator is the investment return achieved compared to the benchmark set by the board. Given the nature of the syndicate's business, 82% of its investment portfolio is denominated in US dollars. The 2014 calendar year investment return on this portfolio was 1.08% (2013: 0.31%), compared with a benchmark of 0.62% (2013: 0.36%).

Future developments

The Faraday brand has been composed of two operating platforms, Syndicate 435 and Faraday Reinsurance Co. Limited (Faraday Re). As noted in the Report of the directors, following a formal announcement on 17 September 2014, Faraday is moving to one platform and working towards closing Faraday Re before the end of 2015. With effect from 1 January 2015 the insurance business previously written through Faraday Re renewed into the syndicate. In the main this is a book of Employers' and Public Liability business with estimated premium for 2015 of £22m which until 2005 had been written in the syndicate.

Subject to regulatory approval, and as part of a formal Part VII Transfer, it is envisaged that the reserves for this business will transfer to the syndicate before the end of 2015.

As part of the restructuring exercise and subject to regulatory approval, the reinsurance business currently written through Faraday Re will be renewed into the syndicate on or before 1 January 2016.

Faraday views this as an exciting development and it will enable the business to concentrate on one business platform. It is expected that this will bring operational benefits to the organisation and strengthen the Faraday brand. Much work continues to be undertaken to ensure the optimum outcome for policyholders. We are working closely with the Regulators and Faraday Re has appointed an Independent Expert to report on the Part VII transfer.

As stated in previous reports, opportunities to write new classes of business are investigated where appropriate.

By order of the board

Elisabeth Richardson
Company Secretary
London
12 March 2015

Statement of managing agent's responsibilities
31 December 2014

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

The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 ('the 2008 Regulations') require the managing agent to prepare syndicate financial statements for each financial year. Under that law the managing agent has elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the managing agent must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the syndicate and of the profit or loss of the syndicate for that period.

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

(a) select suitable accounting policies and then apply them consistently;

(b) make judgments and accounting estimates that are reasonable and prudent;

(c) state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and

(d) prepare the syndicate financial statements on the going concern basis unless it is inappropriate to presume that the syndicate will continue to write business.

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

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

Independent auditor's report to the member of Syndicate 435

We have audited the syndicate annual financial statements of Syndicate 435 for the year ended 31 December 2014 which comprise the profit and loss account, the statement of total recognised gains and losses, the balance sheet, the statement of cash flows and the related notes 1 to 18. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the syndicate's member, as a body, in accordance with regulation 10 of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. Our audit work has been undertaken so that we might state to the syndicate's member those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the syndicate's member as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the managing agent and the auditor

As explained more fully in the Statement of managing agent's responsibilities, the managing agent is responsible for the preparation of syndicate annual financial statements which give a true and fair view. Our responsibility is to audit and express an opinion on the syndicate annual financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the syndicate annual financial statements

An audit involves obtaining evidence about the amounts and disclosures in the syndicate annual financial statements sufficient to give reasonable assurance that the syndicate annual financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the syndicate's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the managing agent; and the overall presentation of the syndicate annual financial statements. In addition, we read all the financial and non-financial information in the syndicate annual report to identify material inconsistencies with the audited syndicate financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on syndicate annual financial statements

In our opinion the syndicate annual financial statements:

(a) give a true and fair view of the syndicate's affairs as at 31 December 2014 and of its profit for the year then ended;

(b) have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and

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

(c) have been prepared in accordance with the requirements of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

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

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

Matters on which we are required to report by exception

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

(a) the managing agent in respect of the syndicate has not kept adequate accounting records; or

(b) the syndicate annual financial statements are not in agreement with the accounting records; or

(c) we have not received all the information and explanations we require for our audit.

Andrew Downes
Senior statutory auditor, for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom
12 March 2015

Profit and loss account

for the year ended 31 December 2014

	Note	2014 £'000	2014 £'000	2013 £'000	2013 £'000
Technical account - general business					
Earned premiums, net of reinsurance					
Gross premiums written	3		**207,554**		234,186
Outward reinsurance premiums			**(34,475)**		(49,781)
Net premiums written			**173,079**		184,405
Change in the provision for unearned premiums					
Gross amount			**6,290**		10,640
Reinsurers' share			**(3,123)**		(1,800)
Change in the net provision for unearned premiums			**3,167**		8,840
Earned premiums, net of reinsurance			**176,246**		193,245
Allocated investment return transferred from the non-technical account			**6,681**		5,631
Claims incurred, net of reinsurance					
Claims paid					
Gross amount		**(109,688)**		(162,406)	
Reinsurers' share		**40,336**		24,756	
Net claims paid		**(69,352)**		(137,650)	
Change in the provision for claims					
Gross amount		**90,426**		135,544	
Reinsurers' share		**(39,669)**		(22,002)	
Change in net provision for claims		**50,757**		113,542	
Claims incurred, net of reinsurance			**(18,595)**		(24,108)
Net operating expenses	3, 5		**(61,326)**		(60,096)
Balance on the technical account - general business			**103,006**		114,672

Profit and loss account

for the year ended 31 December 2014

	Note	**2014**	2013
		£'000	£'000
Non-technical account			
Balance on the technical account - general business		**103,006**	114,672
Investment income	8	**9,618**	13,880
Movement in unrealised losses on investments		**(2,606)**	(7,880)
Investment expenses and charges		**(331)**	(369)
Allocated investment return transferred to the technical account - general business		**(6,681)**	(5,631)
Profit for the financial year	11, 13	**103,006**	114,672

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

Statement of total recognised gains and losses

for the year ended 31 December 2014

Profit for the financial year	11, 13	**103,006**	114,672
Foreign currency translation	11, 13	**1,704**	(6,864)
Total recognised gains since the last annual report		**104,710**	107,808

Balance sheet
at 31 December 2014

	Note	2014 £'000	2014 £'000	2013 £'000	2013 £'000
Assets					
Investments					
Financial investments	9, 14		**585,842**		575,764
Reinsurers' share of technical provisions					
Provision for unearned premiums		**1,626**		4,639	
Claims outstanding		**83,250**		119,502	
			84,876		124,141
Debtors					
Debtors arising out of direct insurance operations	10	**5,727**		4,581	
Debtors arising out of reinsurance operations		**55,970**		55,207	
Other debtors		**81**		1,120	
			61,778		60,908
Other assets					
Cash at bank and in hand	14		**15,754**		35,360
Prepayments and accrued income					
Accrued interest		**2,327**		2,698	
Deferred acquisition costs		**11,706**		11,889	
			14,033		14,587
Total assets			**762,283**		810,760

Balance sheet
at 31 December 2014

	Note	2014 £'000	2014 £'000	2013 £'000	2013 £'000
Liabilities					
Capital and reserves					
Member's balances	11, 18		**83,237**		62,171
Technical provisions					
Provision for unearned premiums		**72,112**		74,075	
Claims outstanding	4	**590,774**		655,895	
			662,886		729,970
Creditors					
Creditors arising out of direct insurance operations	12	**483**		268	
Creditors arising out of reinsurance operations		**6,490**		10,874	
Other creditors		**9,021**		6,744	
			15,994		17,886
Accruals and deferred income	16		**166**		733
Total liabilities			**762,283**		810,760

The financial statements on pages 12 to 22 were approved by the board of Faraday Underwriting Limited on 12 March 2015 and were signed on its behalf by

Andrew D'Arcy
Director
Faraday Underwriting Limited

Statement of cash flows
for the year ended 31 December 2014

	Note	2014 £'000	2013 £'000
Net cash inflow from operating activities	13	**50,888**	22,085
Transfer to member in respect of underwriting participations	11	**(83,753)**	(53,203)
	14	**(32,865)**	(31,118)
Cash flows were invested as follows:			
(Decrease)/increase in cash holdings	14	**(21,141)**	20,522
Net sale of portfolio investments	14, 15	**(11,724)**	(51,640)
Net investment of cash flows		**(32,865)**	(31,118)

Notes to the financial statements

at 31 December 2014

1 Basis of preparation

The financial statements have been prepared in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 ('the 2008 Regulations') and applicable Accounting Standards in the United Kingdom. The recommendations of the Statement of Recommended Practice on Accounting for Insurance Business issued in December 2005 (as amended in December 2006) by the Association of British Insurers have been adopted in all material respects.

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

2 Accounting policies

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

Unearned premiums
Unearned premiums represent the proportion of premiums written in the financial year that relate to unexpired terms of policies in force at the balance sheet date, calculated on the basis of established earnings patterns or time apportionment as appropriate.

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

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

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

These methods generally involve the projection from past experience of the development of claims over time to form a view of the likely ultimate claims to be incurred, having regard to variations in the business accepted and the underlying terms and conditions. For the most recent years, where a high degree of volatility can arise from projections, estimates may be based in part on output from rating and other models of the business accepted and assessments of underwriting conditions.

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

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

The directors consider that the provisions for gross claims and related reinsurance recoveries are fairly stated on the basis of the information currently available to them. However, the ultimate liability will vary as a result of subsequent information and events and this may result in significant adjustments to the amounts provided. Adjustments to the amounts of claims provisions established in prior financial years are reflected in the financial statements for the period in which the adjustments are made. The methods used, and the estimates made, are reviewed regularly.

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

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

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

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

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

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

Investments
Investments are stated at current value at the balance sheet date. For this purpose listed investments are stated at market value and deposits with credit institutions and overseas deposits are stated at cost. Unlisted investments for which a market exists are stated at the average price at which they are traded on the balance sheet date or the last trading day before that date. Unlisted investments for which a market does not exist, where the investment is held to maturity, are stated at cost.

2 Accounting policies (continued)

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

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

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

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

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

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

Pension costs
Staff who provide services to the syndicate are employed by GRF Services Limited, a wholly owned subsidiary of Faraday Holdings Limited. GRF Services Limited operates a defined contribution pension scheme. Pension contributions relating to syndicate staff are charged to the syndicate and included within net operating expenses.

Profit commission
Profit commission is not being charged by the managing agent.

3 Segmental analysis

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

	Gross premiums written	*Gross premiums earned*	*Gross claims incurred*	*Net operating expenses*	*Reinsurance balance*	*Total*	*Net technical provisions*
	£'000	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*
2014							
Direct insurance							
Accident and health	4	4	53	(2)	3	58	(57)
Motor (third party liability)	-	-	17	-	(13)	4	(27)
Motor (other classes)	11	11	160	(2)	(127)	42	(1,850)
Marine, aviation and transport	6,340	6,808	(3,404)	(889)	(178)	2,337	(22,539)
Fire and other damage to property	30,890	30,610	(7,202)	(7,859)	(10,447)	5,102	(28,876)
Third party liability	10,918	10,450	(450)	(3,387)	277	6,890	(65,568)
Other direct	98	94	101	(42)	(69)	84	(1,069)
Total direct	48,261	47,977	(10,725)	(12,181)	(10,554)	14,517	(119,986)
Reinsurance	159,293	165,867	(8,537)	(49,145)	(26,377)	81,808	(458,024)
	207,554	213,844	(19,262)	(61,326)	(36,931)	96,325	(578,010)
2013							
Direct insurance							
Accident and health	-	-	72	-	(3)	69	(166)
Motor (third party liability)	3	3	62	(1)	3	67	(16)
Motor (other classes)	7	7	3	(5)	13	18	(536)
Marine, aviation and transport	7,025	8,443	1,394	(1,071)	(583)	8,183	(22,189)
Fire and other damage to property	32,164	30,330	(13,526)	(6,934)	(3,896)	5,974	(31,799)
Third party liability	10,951	10,985	12,538	(3,205)	(860)	19,458	(68,489)
Other direct	100	99	787	(64)	(119)	703	(350)
Total direct	50,250	49,867	1,330	(11,280)	(5,445)	34,472	(123,545)
Reinsurance	183,936	194,959	(28,192)	(48,816)	(43,382)	74,569	(482,284)
	234,186	244,826	(26,862)	(60,096)	(48,827)	109,041	(605,829)

Acquisition costs on direct insurance gross premiums written during 2014 were £10,090,000 (2013: £10,382,000).
All premiums were concluded in the UK.

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

	2014	*2013*
	£'000	*£'000*
UK	7,224	9,105
Other EU countries	15,109	17,470
US	140,483	153,224
Other	44,738	54,387
Total	207,554	234,186

4 Claims outstanding

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

Overall loss development was lower than anticipated across the majority of years and business classes. In particular there were reserve releases of £42,433,000 arising from Property business, as well as releases of £56,123,000 arising from Casualty business. In total there was a net release of £98,556,000 during 2014 in respect of claims outstanding at 31 December 2013 (2013: a net release of £123,550,000).

5 Net operating expenses

	2014 £'000	*2013 £'000*
Acquisition costs	**33,034**	35,390
Reinsurance commissions and profit participations	**(56)**	(3,629)
Change in deferred acquisition costs	**140**	88
Administrative expenses	**28,208**	28,247
	61,326	60,096
Administrative expenses include:		
Fees payable to the syndicate's auditor for the audit of the syndicate's annual financial statements and regulatory returns	230	221
Non-audit fees	138	313
Member's standard personal expenses: (Lloyd's subscriptions, New Central Fund contributions and managing agent's fees) are included within administrative expenses	**2,586**	3,549

6 Staff numbers and costs

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

	2014 £'000	*2013 £'000*
Wages and salaries	15,178	14,720
Social security costs	1,974	1,903
Other pension costs	815	859
	17,967	17,482

6 Staff numbers and costs (continued)

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

	2014 Number	*2013 Number*
Administration and finance	**64**	61
Underwriting	**28**	28
Claims	**9**	9
	101	98

7 Emoluments of the directors of Faraday Underwriting Limited

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

	2014 £'000	*2013 £'000*
Emoluments	1,939	2,085

The role of active underwriter was a joint position from 1 January 2013 to 16 May 2013, thereafter it was a sole appointment. The emoluments disclosed below reflect this.

The active underwriter role received the following emoluments charged as a syndicate expense:

Emoluments	757	828

Emoluments include salaries, fees and bonuses and the estimated monetary value of any other benefits received by the directors other than in cash.

Sums paid by way of pension contributions for the directors amounted to £54,000 (2013: £57,000). Of this £23,000 (2013: £28,000) related to the position of active underwriter.

8 Investment return

	2014 £'000	*2013 £'000*
Income from investments	**11,717**	15,239
Losses on the realisation of investments	**(2,099)**	(1,359)
	9,618	13,880

9 Financial investments

	Carried value		Cost	
	2014	2013	**2014**	2013
	£'000	£'000	**£'000**	£'000
Debt securities and other fixed income securities	**533,113**	505,221	**535,860**	512,700
Deposits with credit institutions	**26,504**	39,257	**26,504**	39,257
Overseas deposits	**26,225**	31,286	**26,225**	31,286
	585,842	575,764	**588,589**	583,243

Debt securities and other fixed income securities which are listed total £318,852,000 (2014: £269,848,000). Where a valuation is used, the syndicate's investment advisers select the most reliable source of data, including observable market data where possible.

10 Debtors arising out of direct insurance operations

	2014	2013
	£'000	£'000
Due from intermediaries	**5,727**	4,581

11 Reconciliation of member's balances

	2014	2013
	£'000	£'000
Member's balances brought forward at 1 January	**62,171**	5,676
Profit for the financial year	**103,006**	114,672
Foreign curency translation	**1,704**	(6,864)
Payment of profit to member's personal reserves	**(83,753)**	(53,203)
Increase in member's non-cash balances	**109**	1,890
Member's balances carried forward	**83,237**	62,171

The member participates on the syndicate by reference to years of account and their ultimate result.

12 Creditors arising out of direct insurance operations

	2014	2013
	£'000	£'000
Due to intermediaries	**483**	268

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

	2014	2013
	£'000	£'000
Profit for the financial year	**103,006**	114,672
Changes in market value and exchange rates	**(23,337)**	20,524
Decrease in net technical provisions	**(27,819)**	(134,660)
(Increase)/decrease in debtors	**(316)**	25,299
(Decrease)/increase in creditors	**(2,459)**	1,224
Increase in member's non-cash balances	**109**	1,890
Foreign currency translation	**1,704**	(6,864)
Net cash inflow from operating activities	**50,888**	22,085

14 Movement in opening and closing portfolio investments net of financing

	2014	2013
	£'000	£'000
Net cash (outflow)/inflow for the year	**(21,141)**	20,522
Cash flow - net portfolio investments	**(11,724)**	(51,640)
Movement arising from cash flows	**(32,865)**	(31,118)
Changes in market value and exchange rates	**23,337**	(20,524)
Total movement in portfolio investments	**(9,528)**	(51,642)
Portfolio investments at 1 January	**611,124**	662,766
Portfolio investments at 31 December	**601,596**	611,124

Movement in cash, portfolio investments and financing

	At 1 Jan 2014	Cash flow	Changes in market value & currencies	**At 31 Dec 2014**
	£'000	£'000	£'000	**£'000**
Cash at bank and in hand	35,360	(21,141)	1,535	**15,754**
Portfolio investments				
Debt securities and other fixed income securities	505,221	6,796	21,096	**533,113**
Deposits with credit institutions	39,257	(12,924)	171	**26,504**
Overseas deposits	31,286	(5,596)	535	**26,225**
Total portfolio investments	575,764	(11,724)	21,802	**585,842**
Total cash, portfolio investments and financing	611,124	(32,865)	23,337	**601,596**

15 Net cash inflow on portfolio investments

	2014	2013
	£'000	£'000
Purchase of debt securities and other fixed income securities	**(375,795)**	(361,084)
Net movement of deposits with credit institutions	**12,924**	8,229
Net movement of overseas deposits	**5,596**	14,143
Sale of debt securities and other fixed income securities	**368,999**	390,352
Net cash inflow on portfolio investments	**11,724**	51,640

16 Accruals and deferred income

Accruals and deferred income amount to £166,000 (2013: £733,000); of this reinsurance deferred acquisition costs amounted to £nil (2013: £733,000).

17 Related parties

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

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

In 2014, managing agency fees of £1,625,000 (2013: £1,625,000) were paid by the syndicate to Faraday Underwriting Limited. In addition to this, expenses of £26,122,000 (2013: £26,038,000) were paid to GRF Services Limited for expenses paid on behalf of the syndicate. At the year end, the amount owing to GRF Services Limited was £8,997,000 (2013: £6,721,000). In respect of other transactions, Faraday Underwriting Limited was charged £1,200,000 for expenses (2013: £1,200,000). The amount due from Faraday Underwriting Limited at the year end was £nil (2013: £1,025,000).

18 Funds at Lloyd's

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