Accounts disclaimer

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Syndicate 435 Annual Report 2016

FARADAY

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Directors and administration
31 December 2016

Managing Agent

Managing Agent
Faraday Underwriting Limited

Directors
Ian Geden, *Chairman and non-executive Director*

Thomas Bolt, *non-executive Director*

Andrew D'Arcy

Stephen Michael

Martin Pike, *Senior non-executive Director*

Mark Rayner

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
New England Asset Management Inc.
New England Asset Management Limited

Registered Auditor
Deloitte LLP, London

Report of the Directors of the Managing Agent

31 December 2016

The Directors of Faraday Underwriting Limited ('the Managing Agent') present their Report for the year ended 31 December 2016.

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 and applicable United Kingdom Accounting Standards, including Financial Reporting Standard 102: The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland ('FRS102') and Financial Reporting Standard 103: Insurance Contracts ('FRS103'). 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 2016 calendar year is a profit of £44,990,000 (2015: a profit of £54,451,000).

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 2016 were as follows:

Thomas Bolt, *non-executive Director (appointed 3 October 2016)*

Paul Ceurvorst, *Chief Executive to 15 January 2016 Head of Risk from 15 January 2016 (resigned 30 April 2016)*

Andrew D'Arcy, *Chief Financial Officer*

Ian Geden, *Senior non-executive Director to 28 July 2016, Chairman and non-executive Director with effect from 19 August 2016*

Stephen Michael, *Chief Executive (appointed 22 December 2016)*

Martin Pike, *non-executive Director and Senior non-executive Director from 28 July 2016*

Mark Rayner, *Active Underwriter*

Allen Thomas, *non-executive Director (resigned 28 April 2016)*

Pietro Toffanello, *Chief Executive from 15 January 2016 to his resignation on 1 October 2016*

Damon Vocke, *Chairman and non-executive Director (resigned 13 May 2016)*

Restructuring of the Faraday business

The restructuring of the Faraday business is now complete. In September 2014 Faraday announced the move to one platform having operated through Syndicate 435 and Faraday Reinsurance Co. Limited (Faraday Re) since 2001. With effect from 1 January 2015 the

Report of the Directors of the Managing Agent (continued)

31 December 2016

insurance business previously written through Faraday Re was renewed into Syndicate 435. Following a formal Part VII transfer on 1 December 2015, the 2014 and prior reserves associated with that business transferred to the Syndicate. The reinsurance business previously written through Faraday Re was renewed into the Syndicate with effect from 1 January 2016. Faraday Re was dissolved on 15 December 2015.

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 2016 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 2014 to 2017 years of account has been provided in full by Faraday Capital Limited, a wholly owned subsidiary of Faraday Holdings Limited. The capacity was set at £325m from 2014 to 2016 inclusive.

Capacity for 2017 has been set at £325m.

Faraday Capital Limited has exercised its right to waive the requirement to prepare separate accounts for the 2014 closed year of account.

Future developments

Future developments at the Syndicate are described in the Strategic Report on page 8.

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
7 March 2017

Strategic Report
31 December 2016

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 2016, 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. The key challenge from a business perspective continues to be the competitive market conditions in most, if not all, lines of business. Following the introduction of the Solvency II regulatory regime on 1 January 2016 appropriate policies and procedures now form part of the daily activities ensuring that we meet the Solvency II tests and standards. We maintain a regular dialogue with the Prudential Regulatory Authority, Lloyd's and Financial Conduct Authority which enables the Managing Agent to build on its understanding of the detailed requirements of the new enhanced regulatory regime.

The Board strives to maintain a robust business model being mindful of regulatory requirements and the need to assess and manage the risk profile on a continuous basis.

The 2016 Property results were impacted by wildfires in Canada at the start of 2016, Hurricane Matthew, severe storms in Texas and surrounding states as well as the earthquake in New Zealand. However, despite losses from these events the Property team was profitable in part due to favourable development which has resulted in releases from prior year reserves. The continued surplus of capacity, despite the significant market losses from these catastrophe events, has led to the difficult market conditions. Although a slowing of the rate of reductions noted at the start of 2016 was not sustained throughout 2016.

US Casualty business has faced difficult market conditions for some years, however, technical rates on our portfolio remain favourable; Faraday's loss experience continues to be relatively benign. This book has performed well and it has been possible again to release reserves from prior years.

The Aviation market remains very competitive despite the significant losses in the airline sector in recent years. The oversupply of insurance and reinsurance 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 is actively considering new opportunities in other lines of aviation business.

The Syndicate's EL/PL book experienced a small loss on the calendar year's result despite being able to achieve rate increases in 2016.

The Syndicate's Underwriters remain focused on the profitability of the business being written.

We have been able to participate in some new programmes in 2017 and we will continue to review any risks that meet our underwriting and risk criteria. Certain classes of business are showing signs of improvement in the underlying rates or a reduction in the rate of decline. It is too early to state that this relatively weak trend will continue throughout 2017. Absent significant loss activity, we expect a modest increase in premium volumes in 2017 compared with 2016.

Strategic Report (continued)

31 December 2016

Principal risks and uncertainties

A formal risk strategy and set of risk policies have been put in place, which are consistent with our business strategy. The risk policies are supported by a series of risk appetites which set out our propensity for risk. Faraday's strategy was subject to a detailed review by senior management in 2016 and all members of staff were consulted. This exercise resulted in a refreshed and enhanced vision for Faraday although work continues to address current market conditions.

The Board retains responsibility for the design of the risk management framework and approval of the risk appetites. It has delegated other aspects of risk management to the Risk & Capital Committee and the Audit & Risk Committee; both report to the board.

The 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. It is supported by formal Groups which are responsible for day-to-day Underwriting, Investment Review, management of the Syndicate's counterparty exposures, Data Analytics and Information Technology; these Groups report directly to the Executive Management Committee.

The Risk & Capital Committee oversees the risk profile of the Syndicate. Risk and control owners 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, monitored and reported within the Syndicate. It considers any changes to risk appetite ensuring 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 provide input to the Audit & Risk Committee.

From a day to day operational perspective, the Chief Underwriting Officer monitors underwriting risk, including the oversight of catastrophe exposures and reinsurance protections. The Head of Claims is responsible for claims management and the Chief Actuary designate, in conjunction with the Chief Financial Officer, is responsible for reserve risk. The Chief Financial Officer manages all aspects of market risk and credit risk. The Chief Operating Officer is responsible for the oversight of operational risks, as they relate to processes and systems. The Chief Risk Officer is responsible for risk management and regulatory compliance. The Chief Executive Officer is responsible for the strategic risk, risk related to personnel and group risk.

Key performance and key risk indicators have been established and allocated to risk owners. Each indicator is monitored, and where an indicator triggers pre-set criteria, an escalation to the Board is implemented to support effective management of the Syndicate's risk profile. Key performance indicators are reported at the Executive Management Committee and the key risk indicators are the responsibility of the Risk & Capital Committee.

Strategic Report (continued)
31 December 2016

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 (reserve risk). The Board of the Managing Agent manages insurance risk by agreeing its underwriting appetite at least annually. This includes catastrophe appetites, combined ratio targets and line size guidelines. Underwriting performance is monitored against the business plan throughout the year by the Executive Management Committee. Licensed catastrophe models are 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 or reinsurers. The risk of default by issuers of investment holdings is captured in market risk. The Syndicate conducts business only with brokers and coverholders that have been approved by the Security 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.

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 the 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 re-balancing of the foreign exchange position and exposures to match closely the liability currency profile.

In relation to investment holdings, the Investment Group 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.

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 liquid assets. To mitigate this risk, the level of short-term investment holdings is monitored by the Chief Financial Officer and the Executive Management and Risk & Capital Committees. The Syndicate's conservative investment guidelines also help to ensure that its portfolio has the necessary liquidity to respond quickly to short-term funding needs.

Strategic Report (continued)
31 December 2016

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 the Risk, Compliance and Internal Audit departments. This is overseen by the Executive Management and Risk & Capital Committees.

Financial Key Performance Indicators

As noted above, the Syndicate's underwriting strategy is focused on the profitability of business, with a key performance indicator being the level of absolute profit achieved. In this respect, the Syndicate continues to perform very well, as a result of underwriting discipline and the favourable loss experience referred to earlier. This has led to the reported profit of £44,990,000 (£54,451,000 in 2015) or a combined ratio of 84.1% in 2016 (70.6% in 2015) which was better than our targeted returns.

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, 69% of its investment portfolio is denominated in US dollars. The 2016 calendar year investment return on this portfolio was 1.24% (2015: 0.95%), compared with a benchmark of 0.88% (2015: 0.54%).

Future developments

As noted in the Report of the Directors, following a formal announcement in September 2014, Faraday moved to one platform in December 2015.

Faraday views the One Platform initiative as an enhancement to its operating capabilities and this has been an opportunity to refresh its mission, vision and overall strategy. Much work continues to be undertaken to ensure the optimum outcome for policyholders as well as adding strength to the Faraday brand.

As stated above, we continue to investigate other classes of business where appropriate. Despite many enquiries, the opportunities considered acceptable during 2016 were limited. However, we have written some new lines for 2017 and we are actively looking to enhance our market presence during the coming year.

By order of the Board

Elisabeth Richardson
Company Secretary
London
7 March 2017

Statement of Managing Agent's responsibilities

31 December 2016

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 2016 which comprise the Profit and Loss Account, the Statement of Comprehensive Income, the Balance Sheet, the Statement of Cash Flows, the Statement of Changes in Equity and the related Notes 1 to 19. 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), including FRS 102 the Financial Reporting Standard applicable in the UK and Republic of Ireland.

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 2016 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
7 March 2017

Profit and Loss Account
for the year ended 31 December 2016

	Note	2016 £'000	2016 £'000	2015 £'000	2015 £'000
Technical account - general business					
Earned premiums, net of reinsurance					
Gross premiums written	4		**275,360**		226,814
Outward reinsurance premiums			**(32,592)**		(36,164)
Net premiums written			**242,768**		190,650
Change in the provision for unearned premiums					
Gross amount			**(19,040)**		(10,807)
Reinsurers' share			**(2,662)**		1,619
Change in the net provision for unearned premiums			**(21,702)**		(9,188)
Earned premiums, net of reinsurance			**221,066**		181,462
Allocated investment return transferred from the non-technical account			**8,217**		5,152
Claims incurred, net of reinsurance					
Claims paid					
Gross amount		**(123,535)**		(44,578)	
Reinsurers' share		**9,049**		22,253	
Net claims paid		**(114,486)**		(22,325)	
Change in the provision for claims					
Gross amount		**7,398**		(42,565)	
Reinsurers' share		**282**		1,079	
Change in net provision for claims		**7,680**		(41,486)	
Claims incurred, net of reinsurance			**(106,806)**		(63,811)
Net operating expenses	4,6		**(79,183)**		(64,352)
Balance on the technical account - general business			**43,294**		58,451

Profit and Loss Account (continued)

for the year ended 31 December 2016

	Note	2016 £'000	2015 £'000
Non-technical account			
Balance on the technical account - general business		**43,294**	58,451
Investment income	9	**10,138**	8,308
Movement in unrealised losses on investments	9	**(1,516)**	(2,825)
Investment expenses and charges	9	**(405)**	(331)
Allocated investment return transferred to the technical account - general business		**(8,217)**	(5,152)
Foreign exchange		**1,696**	(4,000)
Profit for the financial year		**44,990**	54,451

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

Statement of Comprehensive Income

for the year ended 31 December 2016

	2016 £'000	2015 £'000
Profit for the financial year	**44,990**	54,451
Foreign currency translation	**2,805**	970
Total recognised gains since the last annual report	**47,795**	55,421

Balance Sheet
at 31 December 2016

	Note	2016 £'000	2016 £'000	2015 £'000	2015 £'000
Assets					
Investments					
Financial investments	10		**697,264**		620,548
Reinsurers' share of technical provisions					
Provision for unearned premiums		**2,743**		2,921	
Claims outstanding		**97,110**		86,902	
			99,853		89,823
Debtors					
Debtors arising out of direct insurance operations	11	**8,080**		7,449	
Debtors arising out of reinsurance operations		**89,101**		56,431	
Other debtors		**1,190**		75	
			98,371		63,955
Other assets					
Cash at bank and in hand			**13,159**		17,526
Prepayments and accrued income					
Accrued interest		**2,627**		2,489	
Deferred acquisition costs		**20,327**		16,401	
			22,954		18,890
Total assets			**931,601**		810,742

Balance Sheet (continued)
at 31 December 2016

	Note	2016 £'000	2016 £'000	2015 £'000	2015 £'000
Liabilities					
Capital and reserves					
Member's balances	19		**49,116**		56,696
Technical provisions					
Provision for unearned premiums		**120,748**		85,307	
Claims outstanding	5	**743,418**		651,880	
			864,166		737,187
Creditors					
Creditors arising out of direct insurance operations	13	**914**		997	
Creditors arising out of reinsurance operations		**7,872**		6,532	
Other creditors		**9,262**		9,112	
			18,048		16,641
Accruals and deferred income	17		**271**		218
Total liabilities			**931,601**		810,742

The Financial Statements on pages 12 to 33 were approved by the Board of Faraday Underwriting Limited on 7 March 2017 and were signed on its behalf by

Andrew D'Arcy
Director
Faraday Underwriting Limited

Statement of Cash Flows
for the year ended 31 December 2016

	2016	2015
	£'000	£'000
Net cash flows from operating activities		
Operating profit	**44,990**	54,451
Adjustment for:		
Increase in gross technical provisions	**126,979**	74,301
Increase in reinsurers' share of gross technical provisions	**(10,030)**	(4,947)
Investment return	**(8,217)**	(5,152)
Foreign exchange gain	**(87,852)**	(17,125)
Operating cash flow before movement in working capital	**65,870**	101,528
Increase in debtors	**(34,416)**	(2,177)
Increase in creditors	**1,407**	647
Movement in other assets/liabilities	**(4,011)**	(4,805)
Net cash flows from operating activities	**28,850**	95,193
Cash flows from investing activities		
Purchase of equity and debt instruments	**(272,903)**	(367,411)
Proceeds from sale of equity and debt instruments	**292,021**	318,198
Investment income received	**10,138**	8,308
Other	**(7,143)**	3,453
Net cash flows from investing activities	**22,113**	(37,452)
Cash flows from financing activities		
Distribution profit	**(55,673)**	(83,389)
Other	**298**	1,427
Net cash flows from financing activities	**(55,375)**	(81,962)
Net decrease in cash and cash equivalents	**(4,412)**	(24,221)
Cash and cash equivalents at beginning of year	**17,958**	42,258
Net decrease in cash and cash equivalents	**(4,412)**	(24,221)
Effect of foreign exchange rate changes	**2,227**	(79)
Cash and cash equivalents at end of year	**15,773**	17,958
Reconciliation to cash at bank and in hand		
Cash at bank and in hand	**13,159**	17,526
Cash equivalents	**2,614**	432
Cash and cash equivalents	**15,773**	17,958

Statement of Changes in Equity
for the year ended 31 December 2016

	2016	2015
	£'000	£'000
Member's balances brought forward at 1 January	**56,696**	83,237
Profit for the financial year	**44,990**	54,451
Foreign currency translation	**2,805**	970
Payment of profit to Member's personal reserves	**(55,673)**	(83,389)
Increase in Member's non-cash balances	**298**	1,427
Member's balances carried forward	**49,116**	56,696

The Member participates on the Syndicate by reference to years of account and their ultimate result.

Notes to the Financial Statements
at 31 December 2016

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 and applicable United Kingdom Accounting Standards, including Financial Reporting Standard 102: The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland ('FRS102') and Financial Reporting Standard 103: Insurance Contracts ('FRS103').

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.

The Financial Statements have been prepared under the historical cost convention, modified to include certain items at fair value as specified in the accounting polices below.

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 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.

2 Accounting policies (continued)

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
The Syndicate's functional currency is US dollar (USD). The Syndicate's chosen presentational currency is sterling (GBP).

Underwriting transactions denominated in currencies other than USD, GBP or Canadian dollars (CAD) are predominantly converted to GBP at the rate of exchange ruling at the date the transaction is processed. Thereafter, GBP and CAD transactions are converted to the functional currency using the USD exchange rates prevailing at the respective month end.

Under FRS 102 and FRS 103, monetary assets and liabilities (which include unearned premiums and deferred acquisition costs) denominated in foreign currencies are retranslated into the functional currency at the exchange rate ruling on the reporting date. Non-monetary items denominated in foreign currencies, measured at fair value, are translated into the functional currency using the exchange rate ruling at the date when the fair value was determined.

Exchange differences arising from translation to functional currency are recorded in the Profit and Loss Account, Non-technical account. Exchange differences arising from translation from functional currency to presentational currency are shown in the Statement of Comprehensive Income.

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.

Investment fair value hierarchy
We have adopted FRS 102 section 11.27 which establishes a fair value hierarchy that prioritises the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical asset

2 Accounting policies (continued)

or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are as follows:

Level 1 – Quoted prices for an identical asset in an active market. Quoted in an active market in this context means quoted prices are readily and regularly available and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Level 2 – When quoted prices are unavailable, the price of a recent transaction for an identical asset provides evidence of fair value as long as there has not been a significant change in economic circumstances or a significant lapse of time since the transaction took place. If it can be demonstrated that the last transaction price is not a good estimate of fair value (e.g. because it reflects the amount that an entity would receive or pay in a forced transaction, involuntary liquidation or distress sale), that price is adjusted.

Level 3 – If the market for the asset is not active and recent transactions of an identical asset on their own are not a good estimate of fair value, the fair value is estimated by using a valuation technique. The objective of using a valuation technique is to estimate what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal business considerations.

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 Critical accounting judgments and key sources of estimation uncertainty

In the application of the Syndicate's accounting policies, which are described in Note 2, the Directors are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying the Syndicate's accounting policies
The following are the critical judgements, apart from those involving estimations (which are dealt with separately below), that the Directors have made in the process of applying the Syndicate's accounting policies and that have the most significant effect on the amounts recognised in Financial Statements.

Impairment of reinsurance assets
Reinsurance assets include balances due from reinsurance companies for paid and unpaid losses. Reinsurance assets are measured in accordance with the accounting policy stated in Note 2.

Reinsurance assets are subject to impairment testing and the carrying amount is reduced to its recoverable amount. The asset is impaired if objective evidence is available to suggest that it is probable that the Syndicate will not be able to collect the amounts due from reinsurers. We consider the extent of impairment assumed to be a critical judgement.

Key sources of estimation uncertainty
The key assumptions concerning the future, and other key sources of estimation uncertainty at the Balance Sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Valuation of assets and liabilities of non-life insurance contracts
Estimates are made for both the expected ultimate cost of claims reported and claims IBNR at the Balance Sheet date. The estimate of IBNR is generally subject to a greater degree of uncertainty than that for reported claims. In calculating the estimated liability, the Syndicate uses a variety of estimation techniques based upon statistical analyses of historical experience which assumes past trends can be used to project future developments. The estimation of the reinsurer's share of technical provisions, particularly IBNR, is subject to the same estimation uncertainty since its valuation is dependent on the gross estimate.

Valuation of financial instruments
The Directors use their judgement in selecting an appropriate valuation technique. Where possible, financial instruments are marked at prices quoted in active markets. In certain instances, such price information is not available for all instruments and the Syndicate uses valuation techniques to measure such instruments. These techniques use 'market observable inputs' where available, derived from similar assets in similar and active markets, from recent transaction prices for comparable items or from other observable market data. For positions where observable reference data are not available for some or all parameters the Syndicate estimates the non-market observable inputs used in its valuation models.

4 Segmental analysis

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

2016	Gross premiums written £'000	Gross premiums earned £'000	Gross claims incurred £'000	Net operating expenses £'000	Reinsurance balance £'000	**Total £'000**
Direct insurance						
Accident and health	(2)	(2)	2	-	(7)	**(7)**
Motor (third party liability)	-	-	23	-	-	**23**
Motor (other classes)	(16)	(16)	1,115	-	11	**1,110**
Marine, aviation and transport	5,413	5,687	4,767	(678)	(1,524)	**8,252**
Fire and other damage to property	36,911	33,010	(31,667)	(7,623)	(5,622)	**(11,902)**
Third party liability	38,190	41,192	(12,731)	(17,764)	(624)	**10,073**
Other direct	196	175	(2,326)	(55)	475	**(1,731)**
Total direct	80,692	80,046	(40,817)	(26,120)	(7,291)	**5,818**
Reinsurance	194,668	176,274	(75,320)	(53,063)	(18,632)	**29,259**
	275,360	256,320	(116,137)	(79,183)	(25,923)	**35,077**
2015						
Direct insurance						
Accident and health	(78)	(78)	7	51	5	**(15)**
Motor (third party liability)	-	-	3	-	(2)	**1**
Motor (other classes)	-	-	100	-	(75)	**25**
Marine, aviation and transport	6,744	6,913	(2,493)	(779)	(672)	**2,969**
Fire and other damage to property	27,390	29,475	(10,886)	(6,843)	(4,511)	**7,235**
Third party liability	40,113	23,844	(15,221)	(14,625)	(273)	**(6,275)**
Other direct	87	81	31	(40)	(17)	**55**
Total direct	74,256	60,235	(28,459)	(22,236)	(5,545)	**3,995**
Reinsurance	152,558	155,772	(58,684)	(42,116)	(5,668)	**49,304**
	226,814	216,007	(87,143)	(64,352)	(11,213)	**53,299**

Acquisition costs on direct insurance gross premiums written during 2016 were £20,003,000 (2015: £18,403,000).
All premiums were concluded in the UK.

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

	2016 Gross premiums written £'000	*2015 Gross premiums written £'000*
UK	**45,543**	23,935
Other EU countries	**20,416**	16,226
US	**156,632**	143,895
Other	**52,769**	42,758
Total	**275,360**	226,814

5 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 £20,787,000 arising from Property business, as well as releases of £64,586,000 from Casualty business. In total there was a net release of £85,373,000 during 2016 in respect of claims outstanding at 31 December 2015 (2015: a net release of £62,421,000).

6 Net operating expenses

	2016 £'000	*2015 £'000*
Acquisition costs	**43,970**	39,093
Reinsurance commissions and profit participations	**176**	138
Change in deferred acquisition costs	**(1,119)**	(4,327)
Administrative expenses	**36,156**	29,448
	79,183	64,352

Administrative expenses include:

Fees payable to the Syndicate's Auditor for the audit of the Syndicate's Annual Financial Statements and Regulatory Returns	**285**	295
Non-audit fees: other services pursuant to legislation	**145**	140
Member's standard personal expenses (Lloyd's subscriptions, New Central Fund contributions and Managing Agent's fees) are included within administrative expenses	**3,797**	3,108

7 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:

	2016 £'000	*2015 £'000*
Wages and salaries	**20,444**	17,834
Social security costs	**3,351**	2,130
Other pension costs	**957**	951
	24,752	20,915

7 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:

	2016 Number	2015 Number
Administration and finance	**84**	74
Underwriting	**34**	32
Claims	**15**	9
	133	115

8 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:

	2016 £'000	2015 £'000
Emoluments	**2,694**	1,828

The Active Underwriter role received the following emoluments charged as a Syndicate expense:

Emoluments	**1,022**	763

Emoluments includes 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 £28,000 (2015: £59,000). Of this £7,500 (2015: £23,000) related to the position of Active Underwriter.

9 Investment return

	2016 £'000	2015 £'000
Net investment income	**11,050**	10,985
Net investment expense	**(405)**	(331)
Losses on the realisation of investments	**(912)**	(2,677)
Change in carried value	**(1,516)**	(2,825)
Impairment	**-**	-
	8,217	5,152

The Investment return is generated by bonds.

10 Financial investments

	Carried value		Cost	
	2016 £'000	2015 £'000	**2016 £'000**	2015 £'000
Debt securities and other fixed income securities	**662,252**	597,765	**663,600**	600,699
Deposits with credit institutions	**2,614**	432	**2,614**	432
Overseas deposits	**32,398**	22,351	**32,398**	22,351
	697,264	620,548	**698,612**	623,482

Debt securities and other fixed income securities which are listed total £578,572,000 (2015: £455,928,000). Where a valuation is used, the Syndicate's investment advisers select the most reliable source of data, including observable market data where possible.

11 Debtors arising out of direct insurance operations

	2016 £'000	2015 £'000
Due from intermediaries	**8,080**	7,449

12 Technical provisions

	Provision for unearned premium £'000	Claims outstanding £'000	**Total £'000**
Gross amount			
As at beginning of year	85,307	651,880	**737,187**
Movement in provision	19,040	(7,398)	**11,642**
Foreign exchange	16,401	98,936	**115,337**
As at end of year	120,748	743,418	**864,166**
Reinsurance amount			
As at beginning of year	2,921	86,902	**89,823**
Movement in provision	(2,662)	(282)	**(2,944)**
Foreign exchange	2,484	10,490	**12,974**
As at end of year	2,743	97,110	**99,853**
Net technical provisions			
As at 31 December 2016	118,005	646,308	**764,313**
As at 31 December 2015	82,386	564,978	**647,364**

13 Creditors arising out of direct insurance operations

	2016 £'000	2015 £'000
Due to intermediaries	**914**	997

14 Capital management

The objective of the Syndicate in managing its Member's balance is to ensure that it will be able to continue as a going concern and comply with the regulators' requirements of the markets in which the Syndicate operates. The capital structure of the Syndicate consists of retained profit or loss for each underwriting year. Reinsurance is used in the management of the Syndicate's risk and capital.

The Syndicate was in compliance with capital requirements imposed by Lloyd's of London throughout the financial year. The Syndicate is capitalised by its sole corporate Member, Faraday Capital Limited.

15 Financial risk management

The Syndicate monitors and manages the financial risks relating to the operations of the Syndicate through internal risk reports which analyse exposures by degree and magnitude of risks. These risks include market risk (currency risk, interest rate risk and price risk), credit risk and liquidity risk.

(a) Fair value

Fair value is the amount for which an asset or liability could be exchanged between willing parties in an arm's length transaction. Fair values are determined at prices quoted in active markets. In some instances, such price information is not available for all instruments and the Managing Agent applies valuation techniques to measure such instruments. These valuation techniques make maximum use of market observable data but in some cases management estimates as well as observable market inputs are used within the valuation model. There is no standard model and different assumptions would generate different results.

Fair values are subject to a control framework designed to ensure that input variables and output are assessed independent of the risk taker. These inputs and outputs are provided to us by our investment managers who derive them through a formal valuation committee.

The table below shows financial assets and liabilities carried at fair value through profit or loss (as disclosed in Note 10) grouped into the level in the fair value hierarchy into which each fair value measurement is categorised:

	Fair value hierarchy			
	Level 1 *£'000*	*Level 2* *£'000*	*Level 3* *£'000*	*Sub-total fair value* *£'000*
2016				
Debt securities and other fixed income securities	287,363	374,889	-	662,252
Loans and deposits with credit institutions	9,617	25,395	-	35,012
Total	296,980	400,284	-	697,264
2015				
Debt securities and other fixed income securities	203,994	393,771	-	597,765
Loans and deposits with credit institutions	17,743	5,040	-	22,783
Total	221,737	398,811	-	620,548

15 Financial risk management (continued)

(b) Market risk

Market risk is the risk of adverse financial impact as a consequence of market movements such as currency exchange rates, interest rates and other price changes. Market risk arises due to fluctuations in both the value of assets held and the value of liabilities. The objective of the Syndicate in managing its market risk is to ensure risk is managed in line with the Syndicate's risk appetite.

The Syndicate undertakes certain transactions denominated in foreign currencies and has minimal exposure to currency risk as the Syndicate's financial assets are primarily matched to the same currencies as its insurance contract liabilities. As a result, foreign exchange risk arises only to the extent that assets and liabilities denominated in other currencies are not precisely matched.

Carrying amounts of the Syndicate's foreign currency denominated assets and liabilities:

1. Foreign currency exposure

	USD 2016 £'000	*USD 2015 £'000*	***CAD 2016 £'000***	*CAD 2015 £'000*
Assets	**603,701**	557,563	**58,847**	37,350
Liabilities	**572,993**	502,704	**38,010**	22,120
Net Assets	**30,708**	54,859	**20,837**	15,230

The following table details the Syndicate's sensitivity to an increase and decrease in the value of GBP against the relevant foreign currencies. For each sensitivity the impact of change in a single factor is shown, with other assumptions unchanged:

	USD 2016 £'000	*USD 2015 £'000*	***CAD 2016 £'000***	*CAD 2015 £'000*
Change in exchange against GBP				
Weakens by 20%	**6,142**	10,972	**4,167**	3,046
Weakens by 10%	**3,071**	5,486	**2,084**	1,523
Strengthens by 10%	**(3,071)**	(5,486)	**(2,084)**	(1,523)
Strengthens by 20%	**(6,142)**	(10,972)	**(4,167)**	(3,046)

2. Interest rate risk management

Interest rate risk is the risk that the value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Syndicate is exposed to interest rate risk as it invests in long term debt at both fixed and floating interest rates. The risk is managed by the Syndicate by maintaining an appropriate mix of asset duration such that the duration of liabilities is closely matched by our asset portfolio.

15 Financial risk management (continued)

The sensitivity analyses below have been determined based on the exposure to interest rates. A 0.5% increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

	2016 £'000	2015 £'000
Interest rate risk		
Impact of 50 basis point increase on result	**(4,415)**	(5,292)
Impact of 50 basis point decrease on result	**4,446**	4,861
Impact of 50 basis point increase on net assets	**(4,415)**	(5,292)
Impact of 50 basis point decrease on net assets	**4,446**	4,861
Price risk		
Impact on result of 5% increase in Stock Market Prices	**-**	-
Impact on result of 5% decrease in Stock Market Prices	**-**	-
Impact on net assets of 5% increase in Stock Market Prices	**-**	-
Impact on net assets of 5% decrease in Stock Market Prices	**-**	-

3. Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Syndicate. The key areas of exposure to credit risk for the Syndicate are in relation to its investment portfolio, reinsurance programme and to a lesser extent amounts due from policyholders and intermediaries.

The objective of the Syndicate in managing its credit risk is to ensure risk is managed in line with the Syndicate's risk appetite. The Syndicate has established policies and procedures in order to manage credit risk and methods to measure it.

Credit rating relating to financial assets that are neither past due nor impaired:

	AAA £'000	*AA £'000*	*A £'000*	*BBB £'000*	*<BBB £'000*	*Not rated £'000*	***Total £'000***
2016							
Debt securities	82,391	377,987	200,657	409	808	-	**662,252**
Deposits with credit institutions	-	-	2,614	-	-	-	**2,614**
Overseas deposits as investments	20,849	5,054	4,249	1,459	-	787	**32,398**
Reinsurer' share of claims outstanding	-	43,615	50,222	-	-	3,273	**97,110**
Reinsrance debtors	-	488	1,318	1	36	-	**1,843**
Cash at bank and in hand	-	-	13,159	-	-	-	**13,159**
Total credit risk	103,240	427,144	272,219	1,869	844	4,060	**809,376**
2015							
Debt securities	167,941	217,403	206,587	5,834	-	-	**597,765**
Deposits with credit institutions	-	-	432	-	-	-	**432**
Overseas deposits as investments	9,360	3,926	6,180	2,480	23	382	**22,351**
Reinsurer' share of claims outstanding	888	37,108	44,637	702	1,653	1,914	**86,902**
Reinsurance debtors	-	644	1,479	1	75	-	**2,199**
Cash at bank and in hand	-	-	17,526	-	-	-	**17,526**
Total credit risk	178,189	259,081	276,841	9,017	1,751	2,296	**727,175**

15 Financial risk management (continued)

The following table shows the carrying value of assets that are neither past due nor impaired, the ageing of assets that are past due but not impaired and assets that have been impaired. The factors considered in determining that the value of the assets have been impaired were: analysis of impairment, ageing of balances, past loss experience, current economic conditions and other relevant circumstances.

	Neither past due nor impaired £'000	*Past due less than 30 Days £'000*	*Past due 31 to 60 Days £'000*	*Past due 61 to 90 Days £'000*	*Past due more than 90 Days £'000*	*Past due and impaired £'000*	*Carrying amount £'000*
2016							
Debt securities	662,252	-	-	-	-	-	662,252
Deposits with credit institutions	2,614	-	-	-	-	-	2,614
Overseas deposits as investments	32,398	-	-	-	-	-	32,398
Reinsurer' share of claims outstanding	97,110	-	-	-	-	-	97,110
Reinsurance debtors	1,843	-	-	-	-	-	1,843
Cash at bank and in hand	13,159	-	-	-	-	-	13,159
Insurance and Reinsurance debtors	8,080	-	-	-	-	-	8,080
Other debtors	104,019	8,683	723	522	198	-	114,145
Total credit risk	921,475	8,683	723	522	198	-	931,601
2015							
Debt securities	597,765	-	-	-	-	-	597,765
Deposits with credit institutions	432	-	-	-	-	-	432
Overseas deposits as investments	22,351	-	-	-	-	-	22,351
Reinsurer' share of claims outstanding	86,902	-	-	-	-	-	86,902
Reinsurance debtors	2,199	-	-	-	-	-	2,199
Cash at bank and in hand	17,526	-	-	-	-	-	17,526
Insurance and Reinsurance debtors	7,449	-	-	-	-	-	7,449
Other debtors	68,406	6,400	683	407	222	-	76,118
	803,030	6,400	683	407	222	-	810,742

15 Financial risk management (continued)

4. Liquidity risk management

Liquidity risk is the risk that the Syndicate cannot meet its obligations associated with financial liabilities as they fall due. The Syndicate has adopted an appropriate liquidity risk management framework for the management of the Syndicate's liquidity requirements. The Syndicate is exposed to liquidity risk arising from clients on its insurance and investment contracts.

The following table shows details of the expected maturity profile of the Syndicate's creditors excluding insurance obligations.

	No stated maturity £'000	*0-1 year £'000*	*1-3 years £'000*	*3-5 years £'000*	*>5 years £'000*	***Total £'000***
2016						
Claims outstanding	-	230,898	285,528	103,400	123,592	**743,418**
Creditors	-	18,048	-	-	-	**18,048**
Other	-	271	-	-	-	**271**
	-	249,217	285,528	103,400	123,592	**761,737**
2015						
Claims outstanding	-	213,046	248,504	63,999	126,331	**651,880**
Creditors	-	16,641	-	-	-	**16,641**
Other	-	218	-	-	-	**218**
	-	229,905	248,504	63,999	126,331	**668,739**

16 Insurance risk management

The Syndicate accepts insurance risk through its insurance contracts where it assumes the risk of loss from persons or organisations that are directly subject to the underlying loss. The Syndicate is exposed to the uncertainty surrounding the timing, frequency and severity of claims under these contracts.

The Syndicate manages its risk via its underwriting and reinsurance strategy within an overall risk management framework. Pricing is based on assumptions which have regard to trends and past experience. Exposures are managed by having documented underwriting limits and criteria. Reinsurance is purchased to mitigate the effect of potential loss to the Syndicate from individual large or catastrophic events and also to provide access to specialist risks and to assist in managing capital. Reinsurance policies are written with approved reinsurers on either a proportional or excess of loss treaty basis.

Concentration

The Syndicate writes Property, Liability and Aviation risks primarily over a twelve month duration. The most significant risks arise from natural disasters and other catastrophes (i.e. high severity, low frequency events). A concentration of risk may also arise from a single insurance contract issued to a particular demographic type of policyholder, within a geographical location or to types of commercial business. The relative variability of the outcome is mitigated if there is a large portfolio of similar risks.

16 Insurance risk management (continued)

The concentration of non-life insurance by type of contract is summarised below by reference to liabilities.

	Gross technical provisions 2016 £'000	*Gross technical provisions 2015 £'000*	**Reinsurance technical provisions 2016 £'000**	*Reinsurance technical provisions 2015 £'000*	**Net technical provisions 2016 £'000**	*Net technical provisions 2015 £'000*
Direct insurance						
Accident and health	**57**	52	**1**	2	**56**	50
Motor (third party liability)	**3**	24	**1**	13	**2**	11
Motor (other classes)	**637**	1,820	**277**	988	**360**	832
Marine, aviation and transport	**25,354**	30,631	**5,524**	6,847	**19,830**	23,784
Fire and other damage to property	**52,045**	31,972	**3,286**	1,722	**48,759**	30,250
Third party liability	**148,315**	150,004	**9,283**	8,853	**139,032**	141,151
Other direct	**348**	297	**33**	20	**315**	277
Total direct	**226,759**	214,800	**18,405**	18,445	**208,354**	196,355
Reinsurance	**637,407**	522,387	**81,448**	71,378	**555,959**	451,009
	864,166	737,187	**99,853**	89,823	**764,313**	647,364

The concentration of non-life insurance by the location of the underlying risk is summarised below by reference to liabilities.

UK	**190,082**	167,289	**36,387**	35,529	**153,695**	131,760
Other EU countries	**53,659**	48,846	**9,028**	7,995	**44,631**	40,851
US	**447,876**	396,814	**29,936**	25,481	**417,940**	371,333
Other	**172,549**	124,238	**24,502**	20,818	**148,047**	103,420
Total	**864,166**	737,187	**99,853**	89,823	**764,313**	647,364

Assumptions and sensitivities

Some results of sensitivity testing are set out below, showing the impact on profit before tax and shareholders' equity gross net of reinsurance. For each sensitivity the impact of a change in a single factor is shown, measured against earned premium in the year, with other assumptions unchanged.

	2016 £'000	*2015 £'000*
5% increase in loss ratio – Gross	**(12,816)**	(10,800)
5% increase in loss ratio – Net	**(11,053)**	(9,073)
5% decrease in loss ratio – Gross	**12,816**	10,800
5% decrease in loss ratio – Net	**11,053**	9,073
5% increase in expenses ratio – Gross	**(12,816)**	(10,800)
5% increase in expenses ratio – Net	**(11,053)**	(9,073)
5% decrease in expenses ratio – Gross	**12,816**	10,800
5% decrease in expenses ratio – Net	**11,053**	9,073

16 Insurance risk management (continued)

Claims development tables

The following tables show the development of claims over a period of time on both a gross and net of reinsurance basis for each underwriting year and are translated into GBP at the December 2016 year rates.

	2010 and prior £'000	*2011 £'000*	*2012 £'000*	*2013 £'000*	*2014 £'000*	*2015 £'000*	*2016 £'000*	***Total £'000***
An analysis of the claims development – gross								
Estimated of claims incurred								
At end of underwriting year	-	185,546	188,763	109,217	95,487	86,231	128,945	**-**
After one year	-	264,915	260,456	171,528	161,791	159,550	-	**-**
After two years	-	230,825	226,423	163,953	150,496	-	-	**-**
After three years	-	211,155	213,676	145,786	-	-	-	**-**
After four years	-	206,289	204,451	-	-	-	-	**-**
After five years	-	200,743	-	-	-	-	-	**-**
Cumulative payments	-	165,328	143,549	74,826	71,742	32,733	12,369	**-**
Gross claims reserves	253,994	35,415	60,902	70,960	78,754	126,817	116,576	**743,418**

	2010 and prior £'000	*2011 £'000*	*2012 £'000*	*2013 £'000*	*2014 £'000*	*2015 £'000*	*2016 £'000*	***Total £'000***
An analysis of the claims development – net								
Estimated of claims incurred								
At end of underwriting year	-	162,907	130,782	101,664	94,260	83,841	120,806	**-**
After one year	-	236,719	197,634	150,930	152,864	154,172	-	**-**
After two years	-	207,472	166,234	145,470	143,424	-	-	**-**
After three years	-	187,522	152,742	127,778	-	-	-	**-**
After four years	-	182,492	143,790	-	-	-	-	**-**
After five years	-	176,937	-	-	-	-	-	**-**
Cumulative payments	-	143,021	89,747	70,491	70,647	32,420	12,369	**-**
Net claims reserves	198,096	33,916	54,043	57,287	72,777	121,752	108,437	**646,308**

17 Accruals and deferred income

Included within these amounts are £Nil (2015: £Nil) in respect of reinsurance deferred acquisition costs.

18 Related parties

In 2016, managing agency fees of £1,600,000 (2015: £1,625,000) were paid by the Syndicate to Faraday Underwriting Limited. In addition to this, expenses of £34,467,000 (2015: £28,524,000) 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 £9,258,000 (2015: £9,061,000). In respect of other transactions, Faraday Underwriting Limited was charged £1,200,000 for expenses (2015: £1,200,000). The amount due from Faraday Underwriting Limited at the year end was £1,105,000 (2015: £Nil).

19 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 Member's FAL to meet liquidity requirements or to settle losses.