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Syndicate 435 Annual Report 2019

# FARADAY





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## Directors and Administration

31 December 2019

### Managing Agent

#### **Managing Agent**

Faraday Underwriting Limited

#### **Directors**

Martin Pike, *Chairman and non-executive director*

Andrew D'Arcy, *non-executive director*

Kevin Harker

Terry Masters, *Senior non-executive director*

Stephen Michael, *non-executive director*

Tom Shelley

Chris Thorne

#### **Company Secretary**

Elisabeth Richardson

#### **Managing Agent's registered office**

Corn Exchange  
55 Mark Lane  
London  
EC3R 7NE

#### **Managing Agent's registered number**

1682486

#### **Website**

[www.faraday.com](http://www.faraday.com)

### Syndicate

#### **Active Underwriter**

Chris Thorne

#### **Investment Managers**

New England Asset Management Limited

#### **Registered Auditor**

Deloitte LLP  
Statutory Auditor  
London  
United Kingdom

## Report of the Directors of the Managing Agent

31 December 2019

The directors of Faraday Underwriting Limited ('the managing agent') present their report for the year ended 31 December 2019.

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 2019 calendar year is a profit of £23,834,000 (2018: £24,948,000).

### Going concern

After making enquiries, the directors have a reasonable expectation that Syndicate 435 ('the syndicate') has adequate resources to continue in operational existence for the foreseeable future. Moreover, the directors expect that continued capital support will be in place in order to do so. 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 2019 were as follows:

**Andrew D'Arcy**, *non-executive director from 1 May 2019, Chief Executive prior to that date*

**Kevin Harker**, *Finance Director*

**Terry Masters**, *non-executive director, Senior non-executive director*

**Stephen Michael**, *non-executive director*

**Martin Pike**, *Chairman and non-executive director*

**Tom Shelley**, *Chief Executive from 1 May 2019, joint Active underwriter to 30 April*

**Chris Thorne**, *Active underwriter from 1 May 2019, joint Active underwriter prior to that date.*

### Expansion of the Faraday business

Although Syndicate 435 is Faraday's main platform, its capabilities have been enhanced by the formation of Faraday MGA Limited ('the MGA'). This vehicle provides a means to accommodate our clients' needs when the Lloyd's platform does not. The MGA has a binding authority to write business on behalf of Berkshire Hathaway International Insurance Limited (BHIL).

As noted in the 2018 Annual Report a reinsurance to close arrangement of Syndicate 2255 was carried out as at 31 December 2017; its assets and liabilities were transferred to Syndicate 435 on 1 January 2018. This transaction added £83.8m to premiums written and to claims incurred in the Technical account for 2018 with no overall impact on the Profit and Loss Account; note 20 gives additional background.

## Report of the Directors of the Managing Agent (continued)

31 December 2019

### 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 2019 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. 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 2017 to 2020 years of account has been provided in full by Faraday Capital Limited, a wholly owned subsidiary of Faraday Holdings Limited. The capacity in recent years is as follows, 2017: £336m and 2018 and 2019: £400m.

Capacity for 2020 has been set at £435m.

Faraday Capital Limited has exercised its right to waive the requirement to prepare separate accounts for the 2017 closed year of account.

Faraday is composed of Faraday Holdings Limited and its subsidiaries Faraday Underwriting Limited, Faraday Capital Limited, Faraday MGA Limited and GRF Services Limited.

### Future developments

Future developments at the syndicate are described in the Strategic Report on page 8. The managing agent continues to assess the implications of Brexit and has been using Lloyd's Brussels for European business written since January 2019. Work is underway preparing for the Part VII transfer, date to be confirmed, of any European business that had been written through Lloyd's from 1993. Whilst less than 15% of the premium income is derived from EU territories, a robust review of the likely impact of Brexit indicates that the business will not be adversely affected. More detail is provided in note 21.

The directors continue to assess the financial risks to the business from climate change in the near and longer term.

### 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

4 March 2020

## Strategic Report

31 December 2019

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 2019, 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.

Underlying gross written premium income for Syndicate 435 increased by 16% in 2019; this is calculated after deducting the additional premium in 2018 reflecting accounting for the acquisition of Syndicate 2255, following the reinsurance to close arrangement. More detail is given in note 20. Much of the underlying increase in 2019 was derived from the improved rating environment for the Commercial Lines portfolio and new Travel & Accident business.

Faraday continues to be a market leading provider of (re)insurance in windstorm and earthquake prone areas and therefore expects to incur losses from such events when they occur. The 2019 result was impacted by several significant catastrophe events. Of particular note in the year were Hurricane Dorian and Typhoons Faxai and Hagibis. Losses from these events were within modelled expectations.

Our reserving process and philosophy for such events is well established having developed significant expertise over many years in this market. Reserves are established following a review of all available information and after taking a conservative

view of the potential for development of losses. The loss reserves therefore reflect Faraday's minimal appetite for any deterioration in its reported loss position. Reserves established in 2017 and 2018 in respect of the Atlantic basin hurricanes, Californian wildfires and Japanese typhoons have, in aggregate, proved to be broadly adequate. Adverse development on Hurricane Michael and Typhoon Jebi has been offset by favourable development elsewhere. Much of the adverse development has been absorbed into the retrocession in place; some of the reductions have delivered a net benefit.

The 2019 gross catastrophe losses have been reduced by the reinsurance programme, however, the Property Treaty team generated a loss in the year. Rates in this class remain under pressure and currently we see limited opportunity for growth.

The Commercial Lines portfolio improved considerably in 2019 having been re-underwritten following poor performance in 2017 and 2018, as well as benefitting from significant rate increases. We continue to grow this business, given the current profitability levels, and explore further opportunities in the class.

US Casualty business has experienced some poor performance in 2019 particularly in General Liability and to a lesser extent the Medical Malpractice portfolios. This is consistent with general market experience. We have materially strengthened the reserves in those areas and our pricing bases are under review. Rates have begun to respond; we achieved rates in excess of the initial 2019 business plan. The overall loss from this business was mitigated by continued favourable experience in the Workers' Compensation business.



## Strategic Report (continued)

31 December 2019

The Aviation market has seen significant rate increases over 2019. The market has seen considerable change over 2019, likely driven by years of overcapacity and poor rating. The book generated a profit, despite the losses from the 737 Max aircraft events, the year having benefitted from better than expected performance on prior years and a relatively low level of new loss activity in the year.

The EL/PL book was profitable in 2019 benefitting from reserve releases from prior years. This business was impacted by the positive movement in the UK Personal Injury Discount Rate in 2019.

The International Casualty and Motor books also include business that is reserved using the UK Personal Injury Discount Rate. Having adopted the revised rate and carefully reviewed other underlying assumptions, this business was profitable overall in 2019.

The Accident & Health team, new to Faraday in 2019, is building up a portfolio of business.

Over the past few years we have taken action to improve and, where necessary, limit areas of the portfolio that were not delivering to target. This is now evidenced in improved results which, coupled with a generally improving rate environment, means we are able to underwrite profitably in all areas whilst growing into new lines. We have taken decisive action to strengthen reserves where we have seen poor experience which leaves us in a strong position to weather any deteriorating trends. We continue to optimise the portfolio to those areas which are now delivering excess returns whilst maintaining strict underwriting discipline.

### 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 overall appetite for risk. The business strategy and risk appetites are subject to frequent review to ensure Faraday is able to respond to any changes in 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; the latter reports to the board.

The Executive Management Committee is responsible for the execution of the business strategy and manages the business from an operational perspective. It is supported by formal groups responsible for day-to-day underwriting, investment review, overseeing the larger transactions, 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, reporting to the Audit & Risk Committee, oversees the risk profile of the syndicate.

The Audit & Risk Committee is composed entirely of non-executive directors; this body provides independent oversight and challenge to the way in which 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

## Strategic Report (continued)

31 December 2019

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 an operational perspective, the Chief Executive Officer is responsible for strategic risk, risk related to personnel and group risk. 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, in conjunction with the Finance Director, is responsible for reserve risk. The Finance Director 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. Risk and control owners are responsible for assessing and managing the risks for which they are held accountable using a series of key performance and key risk indicators. The former are reported at the Executive Management Committee and the latter are the responsibility of the Risk & Capital Committee. Where an indicator triggers pre-set criteria, an escalation to the board is implemented 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 (reserve risk). The board 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

## Strategic Report (continued)

31 December 2019

balance sheet items, such as claims reserves. These risks are managed through the adoption of a prudent investment strategy with respect to the duration and credit quality of the 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. 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 Finance Director 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.

### Operational risk

Operational risk arises from errors caused by people, processes or systems, to include cyber issues, that could lead to losses to the syndicate. It includes the impact from external bodies, such as outsourced

service providers and related companies. This risk is managed 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

The syndicate's underwriting strategy is focused on the profitability of business, a key performance indicator being the level of absolute profit achieved. In 2019, which saw several significant catastrophe events, the syndicate generated a profit of £23,834,000 (2018: £24,948,000) at a combined ratio of 99.8% (2018: 97.9%).

The other key financial performance indicator is the investment return achieved compared with 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 2019 calendar year investment return on this portfolio was 3.60% (2018: 1.67%), compared with a benchmark of 3.55% (2018: 1.58%).

### Future developments

The impact on the business from climate change continues to be assessed. The managing agent is mindful of its corporate and social responsibilities in the global market place in which the syndicate is active. Specific resource has been dedicated to climate change with an on-going review of the risk factors from a financial and an operational

## Strategic Report (continued)

31 December 2019

perspective; all relevant data is considered and action taken as appropriate.

There have been some rate increases at the start of 2020 but, with the continued surplus of capacity, it is likely that the difficult market conditions will continue. Faraday continues to work with Lloyd's to ensure that we are positioned for long term success as well as supporting the Lloyd's franchise. The managing agent remains mindful that Faraday's primary platform continues to be the syndicate. However, in certain circumstances this may not be suitable and Faraday MGA Limited, our second platform, would provide a means to accommodate Faraday's clients' needs. Our MGA binds business on behalf of Berkshire Hathaway International Insurance Limited, a related group company.

Faraday continues to review its vision and overall strategy. We strive to ensure the optimum outcome for policyholders as well as adding strength to the Faraday brand. We will investigate other classes of business where appropriate. An example of our proactive attitude are our new teams: Accident & Health and Agricultural, the latter writing business from 2020. Faraday maintains its strong underwriting discipline across all lines of business and is prepared to take tough decisions should the underlying risk not pass strict criteria. Underwriters remain focused on the profitability of the business being written. We are actively looking to enhance our market presence during the coming year through participation in further new lines of business and large individual arrangements.

By order of the board

**Elisabeth Richardson**

*Company Secretary*

London

4 March 2020

## Statement of Managing Agent's responsibilities

31 December 2019

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

### Report on the audit of the syndicate annual financial statements

#### Opinion

In our opinion the syndicate annual financial statements:

- give a true and fair view of the state of the syndicate's affairs as at 31 December 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

We have audited the syndicate annual financial statements of Syndicate 435 (the 'syndicate') 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 21.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

#### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs(UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the syndicate annual financial statements section of our report.

We are independent of the syndicate in accordance with the ethical requirements that are relevant to our audit of the syndicate annual financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

- the managing agent's use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the managing agent has not disclosed in the syndicate annual financial statements any identified material uncertainties that may cast significant doubt about the syndicate's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the syndicate annual financial statements are authorised for issue.

We have nothing to report in respect of these matters.

## Independent Auditor's Report to the Member of Syndicate 435 (continued)

### Other information

The managing agent is responsible for the other information. The other information comprises the information included in the annual report, other than the syndicate annual financial statements and our auditor's report thereon. Our opinion on the syndicate annual financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the syndicate annual financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the syndicate annual financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the syndicate annual financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

### Responsibilities of managing agent

As explained more fully in the managing agent's responsibilities statement, the managing agent is responsible for the preparation of the syndicate annual financial statements and for being satisfied that they give a true and fair view, and for such internal control as the managing agent determines is necessary to enable the preparation of syndicate

annual financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the syndicate annual financial statements, the managing agent is responsible for assessing the syndicate's ability to continue in operation, disclosing, as applicable, matters related to the syndicate's ability to operate and using the going concern basis of accounting unless the managing agent intends to cease the syndicate's operations, or has no realistic alternative but to do so.

### Auditor's responsibilities for the audit of the syndicate annual financial statements

Our objectives are to obtain reasonable assurance about whether the syndicate annual financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these syndicate annual financial statements.

A further description of our responsibilities for the audit of the syndicate annual financial statements is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

## Independent Auditor's Report to the Member of Syndicate 435 (continued)

### Use of our report

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.

### Report on other legal and regulatory requirements

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

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Report of the Directors of the Managing Agent for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Report of the Directors of the Managing Agent have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the syndicate and its environment obtained in the course of the audit, we have not identified any

material misstatements in the Strategic Report and the Report of the Directors of the Managing Agent.

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

Under The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 we are required to report in respect of the following matters if, in our opinion:

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

We have nothing to report in respect of these matters.

**Andrew Downes** (*Senior statutory auditor*)  
For and on behalf of Deloitte LLP  
Statutory Auditor  
London, United Kingdom  
4 March 2020



## Profit and Loss Account

for the year ended 31 December 2019

	Note	2019		2018	
		£'000	£'000	£'000	£'000
<b>Technical account - general business</b>					
<b>Earned premiums, net of reinsurance</b>					
Gross premiums written	4		<b>447,821</b>		469,621
Outward reinsurance premiums			<b>(43,518)</b>		(41,215)
Net premium written			<b>404,303</b>		428,406
Change in the provision for unearned premiums					
Gross amount			<b>(4,417)</b>		(4,326)
Reinsurers' share			<b>(1,183)</b>		(1,260)
Change in the net provision for unearned premiums			<b>(5,600)</b>		(5,586)
<b>Earned premiums, net of reinsurance</b>			<b>398,703</b>		422,820
<b>Allocated investment return transferred from the non-technical account</b>			<b>25,310</b>		11,529
<b>Claims incurred, net of reinsurance</b>					
Claims paid					
Gross amount			<b>(240,893)</b>		(327,502)
Reinsurers' share			<b>38,587</b>		103,429
Net claims paid			<b>(202,306)</b>		(224,073)
Change in the provision for the claims					
Gross amount			<b>(51,688)</b>		(159,572)
Reinsurers' share			<b>(21,240)</b>		67,016
Change in the provision for the claims			<b>(72,928)</b>		(92,556)
<b>Claims incurred, net of reinsurance</b>			<b>(275,234)</b>		(316,629)
<b>Net operating expenses</b>	4,6		<b>(122,580)</b>		(97,169)
<b>Balance on the technical account - general business</b>			<b>26,199</b>		20,551

## Profit and Loss Account (continued)

for the year ended 31 December 2019

	<i>Note</i>	<b>2019</b>	2018
		<b>£'000</b>	£'000
<b>Non-technical account</b>			
<b>Balance on the technical account - general income</b>		<b>26,199</b>	20,551
Investment income	9	<b>21,937</b>	13,401
Movement in unrealised gains/(losses) on investments	9	<b>3,893</b>	(1,467)
Investment expenses and charges	9	<b>(520)</b>	(405)
Allocated investment return transferred to the technical account - general business		<b>(25,310)</b>	(11,529)
Foreign exchange		<b>(2,365)</b>	4,397
<b>Profit for the financial year</b>		<b><u>23,834</u></b>	<u>24,948</u>

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

## Statement of Comprehensive Income

for the year ended 31 December 2019

Profit for the financial year	<b>23,834</b>	24,948
Foreign currency translation	<b>4,702</b>	(10,761)
Total recognised gains since the last annual report	<b><u>28,536</u></b>	<u>14,187</u>

## Balance Sheet

at 31 December 2019

	Note	2019		2018	
		£'000	£'000	£'000	£'000
<b>Assets</b>					
<b>Investments</b>					
Financial investments	10		<b>907,852</b>		893,867
<b>Reinsurers' share of technical provisions</b>					
Provision for unearned premiums		<b>4,339</b>		4,082	
Claims outstanding		<b>295,576</b>		323,599	
			<b>299,915</b>		327,681
<b>Debtors</b>					
Debtors arising out of direct insurance operations	11	<b>48,447</b>		38,762	
Debtors arising out of reinsurance operations		<b>79,065</b>		92,973	
Other debtors		-		-	
			<b>127,512</b>		131,735
<b>Other assets</b>					
Cash at bank and in hand			<b>49,929</b>		20,641
<b>Prepayments and accrued income</b>					
Accrued interest		<b>4,591</b>		4,457	
Deferred acquisition costs		<b>35,065</b>		31,446	
			<b>39,656</b>		35,903
<b>Total assets</b>			<b>1,424,864</b>		<b>1,409,827</b>

## Balance Sheet (continued)

at 31 December 2019

	Note	2019		2018	
		£'000	£'000	£'000	£'000
<b>Liabilities</b>					
<b>Capital and reserves</b>					
Member's balances	19		(45,284)		288
<b>Technical provisions</b>					
Provision for unearned premiums		161,035		158,250	
Claims outstanding	5	1,242,427		1,215,834	
			1,403,462		1,374,084
<b>Creditors due within one year</b>					
Creditors arising out of direct insurance operations	13	9,181		2,840	
Creditors arising out of reinsurance operations		34,743		8,688	
Other creditors		1,994		1,826	
			45,918		13,354
<b>Creditors due after one year</b>					
Creditors arising out of reinsurance operations			20,768		21,273
<b>Accruals and deferred income</b>					
	17		-		828
<b>Total liabilities</b>			<b>1,424,864</b>		<b>1,409,827</b>

The financial statements on pages 14 to 35 were approved by the board of Faraday Underwriting Limited on 4 March 2020 and were signed on its behalf by

**Kevin Harker**

Director

Faraday Underwriting Limited

## Statement of Cash Flows

for the year ended 31 December 2019

	2019	2018
	£'000	£'000
<b>Net cash flows from operating activities</b>		
Operating profit	23,834	24,948
Adjustment for:		
Increase in gross technical provisions	29,378	213,801
Decrease/(increase) in reinsurers' share of gross technical provisions	27,766	(77,745)
Investment return	(25,310)	(11,529)
Foreign exchange loss/(gain)	11,961	(28,009)
Operating cash flow before movement in working capital	67,629	121,466
Decrease/(increase) in debtors	4,223	(9,991)
Increase in creditors	32,059	24,669
Movement in other assets/liabilities	(4,581)	(4,455)
<b>Net cash flows from operating activities</b>	<b>99,330</b>	<b>131,689</b>
<b>Cash flows from investing activities</b>		
Purchase of equity and debt instruments	(702,003)	(435,957)
Proceeds from sale of equity and debt instruments	660,665	349,876
Investment income received	21,937	13,401
Other	(5,357)	(1,670)
<b>Net cash flows used in investing activities</b>	<b>(24,758)</b>	<b>(74,350)</b>
<b>Cash flows from financing activities</b>		
Distribution	(71,715)	(19,528)
Other	213	534
<b>Net cash flows from financing activities</b>	<b>(71,502)</b>	<b>(18,994)</b>
<b>Net increase in cash and cash equivalents</b>	<b>3,070</b>	<b>38,345</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>49,376</b>	<b>10,955</b>
Net increase in cash and cash equivalents	3,070	38,345
Effect of foreign exchange rate changes	(673)	76
<b>Cash and cash equivalents at end of year</b>	<b>51,773</b>	<b>49,376</b>
<b>Reconciliation to cash at bank and in hand</b>		
Cash at bank and in hand	49,929	20,641
Cash equivalents	1,844	28,735
<b>Cash and cash equivalents</b>	<b>51,773</b>	<b>49,376</b>

## Statement of Changes in Equity

for the year ended 31 December 2019

	<b>2019</b>	2018
	<b>£'000</b>	£'000
Member's balances brought forward at 1 January	<b>288</b>	(4,764)
Profit for the financial year	<b>23,834</b>	24,948
Foreign currency translation	<b>2,096</b>	(902)
Payment of profit to member's personal reserves	<b>(71,715)</b>	(19,528)
Increase in member's non-cash balances	<b>213</b>	534
Member's balances carried forward	<b><u>(45,284)</u></b>	<u>288</u>

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

# Notes to the Financial Statements

at 31 December 2019

## 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 policies 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 policies 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 considered to be US dollar (USD) because that is the currency of the primary economic environment in which the syndicate operates. 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.



## 2 Accounting policies (continued)

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.

### 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 assets 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 since 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.

## 2 Accounting policies (continued)

### 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

There are no critical judgements, apart from those involving estimations (which are dealt with separately below), in the process of applying the syndicate's accounting policies.

### 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.

### Gross premiums written

Gross premiums written includes estimates for pipeline premiums together with adjustments to premiums written in prior accounting periods; these are key estimates. Gross premiums written include pipeline premiums calculated using actuarial projection techniques on the key assumption that historical development is representative of future development. In the syndicate, premiums written is initially based on the estimated premium income ('EPI') of each contract, adjusted by actuarial projection techniques where appropriate. EPI is adjusted as the year of account matures. Gross premiums written are disclosed in note 4.

### 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. Technical provisions are disclosed in note 12.

#### 4 Segmental analysis

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

	Gross premiums written £'000	Gross premiums earned £'000	Gross claims incurred £'000	Net operating expenses £'000	Reinsurance balance £'000	Total £'000
<b>2019</b>						
<b>Direct insurance</b>						
Accident and Health	43,388	35,422	(21,690)	(14,492)	22	<b>(738)</b>
Motor (third party liability)	450	21,560	(10,286)	(5,839)	(995)	<b>4,440</b>
Motor (other classes)	29,895	27,486	(12,446)	(9,648)	(2,183)	<b>3,209</b>
Marine, aviation and transport	14,708	13,064	(5,917)	(2,973)	(1,210)	<b>2,964</b>
Fire and other damage to property	65,624	60,399	(23,575)	(20,647)	(7,153)	<b>9,024</b>
Third party liability	50,837	49,016	(27,618)	(20,595)	(181)	<b>622</b>
Other direct	1,612	1,101	(79)	(220)	(63)	<b>739</b>
Total direct	206,514	208,048	(101,611)	(74,414)	(11,763)	<b>20,260</b>
<b>Reinsurance</b>	<u>241,307</u>	<u>235,356</u>	<u>(190,970)</u>	<u>(48,166)</u>	<u>(15,591)</u>	<b><u>(19,371)</u></b>
	<u>447,821</u>	<u>443,404</u>	<u>(292,581)</u>	<u>(122,580)</u>	<u>(27,354)</u>	<b><u>889</u></b>
<b>2018</b>						
<b>Direct insurance</b>						
Accident and Health	3,383	145	(129)	(329)	(131)	<b>(444)</b>
Motor (third party liability)	44,478	31,956	(26,830)	(7,622)	666	<b>(1,830)</b>
Motor (other classes)	16,219	21,686	(47,661)	(8,268)	36,914	<b>2,671</b>
Marine, aviation and transport	9,270	12,071	(8,484)	(2,507)	(1,535)	<b>(455)</b>
Fire and other damage to property	53,205	51,931	(38,656)	(15,085)	2,470	<b>660</b>
Third party liability	55,204	50,695	(31,790)	(15,551)	8,911	<b>12,265</b>
Other direct	226	204	(1,713)	(94)	94	<b>(1,509)</b>
Total direct	181,985	168,688	(155,263)	(49,456)	47,389	<b>11,358</b>
<b>Reinsurance</b>	<u>287,636</u>	<u>296,607</u>	<u>(331,811)</u>	<u>(47,713)</u>	<u>80,581</u>	<b><u>(2,336)</u></b>
	<u>469,621</u>	<u>465,295</u>	<u>(487,074)</u>	<u>(97,169)</u>	<u>127,970</u>	<b><u>9,022</u></b>

Acquisition costs on direct insurance gross premiums written during 2019 were £58,954,000 (2018:£41,234,000).

All premiums were concluded in the UK.

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

	2019 Gross premiums written £'000	2018 Gross premiums written £'000
UK	<b>35,138</b>	89,635
Other EU countries	<b>56,528</b>	64,092
US	<b>254,872</b>	249,286
Australia and New Zealand	<b>40,675</b>	11,958
Other	<b>60,608</b>	54,650
Total	<b><u>447,821</u></b>	<u>469,621</u>

## 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 £53,232,000 arising from Property business, as well as releases of £4,028,000 from Casualty business. In total there was a net release of £57,260,000 during 2019 in respect of claims outstanding at 31 December 2018 (2018: a net release of £86,411,000).

## 6 Net operating expenses

	<b>2019</b>	<i>2018</i>
	<b>£'000</b>	<i>£'000</i>
Acquisition costs	<b>98,243</b>	70,920
Reinsurance commissions and profit participations	<b>(10)</b>	72
Change in deferred acquisition costs	<b>(4,140)</b>	(2,162)
Administrative expenses	<b>28,487</b>	28,339
	<b><u>122,580</u></b>	<u>97,169</u>

Administrative expenses include:

Fees payable to the syndicate's auditor for the audit of the syndicate's annual financial statements	<b><u>277</u></b>	<u>262</u>
Other audit related fees	<b><u>78</u></b>	<u>74</u>
Non-audit fees	<b><u>-</u></b>	<u>-</u>
Member's standard personal expenses (Lloyd's subscriptions, New Central Fund contributions and managing agent's fees) are included within administrative expenses	<b><u>4,685</u></b>	<u>5,082</u>

## 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:

	<b>2019</b>	<i>2018</i>
	<b>£'000</b>	<i>£'000</i>
Wages and salaries	<b>12,016</b>	13,929
Social security costs	<b>2,129</b>	2,529
Other pension costs	<b>710</b>	813
	<b><u>14,855</u></b>	<u>17,271</u>

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

	<b>2019</b>	<i>2018</i>
	<b>Number</b>	<i>Number</i>
Administration and finance	<b>56</b>	64
Underwriting	<b>31</b>	30
Claims	<b>12</b>	11
	<b><u>99</u></b>	<u>105</u>

## 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:

	<b>2019</b>	<i>2018</i>
	<b>£'000</b>	<i>£'000</i>
Emoluments	<b><u>1,564</u></b>	<u>2,144</u>

In 2019 the role of Active underwriter was joint until 1 May; it was a sole appointment from that date. Throughout 2018 the role was carried out by two persons. The disclosure below reflects this.

Emoluments	<b><u>705</u></b>	<u>1,170</u>
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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 £17,000 (2018 - £29,000). Of this £3,000 (2018 - £10,000) related to the position of Active Underwriter.

## 9 Investment return

	<b>2019</b>	<i>2018</i>
	<b>£'000</b>	<i>£'000</i>
Net investment income	<b>18,998</b>	15,801
Net investment expenses	<b>(520)</b>	(405)
Gains/(losses) on the realisation of investments	<b>2,939</b>	(2,400)
Change in carried value	<b>3,893</b>	(1,467)
Impairment	<b>-</b>	-
	<b><u>25,310</u></b>	<u>11,529</u>

Investment return is generated by bonds.

## 10 Financial investments

	<i>Carried value</i>		<i>Cost</i>	
	<b>2019</b>	<i>2018</i>	<b>2019</b>	<i>2018</i>
	<b>£'000</b>	<i>£'000</i>	<b>£'000</b>	<i>£'000</i>
Debt securities and other fixed income securities	<b>862,921</b>	830,373	<b>859,105</b>	832,147
Deposits with credit institutions	<b>1,844</b>	28,735	<b>1,844</b>	28,735
Overseas deposits	<b>41,536</b>	34,759	<b>41,536</b>	34,759
Shares and other variable yield securities	<b>1,551</b>	-	<b>1,551</b>	-
	<b><u>907,852</u></b>	<u>893,867</u>	<b><u>904,036</u></b>	<u>895,641</u>

Debt securities and other fixed income securities which are listed total £831,342,000 (2018: £773,820,000). 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**

	<b>2019</b>	<i>2018</i>
	<b>£'000</b>	<i>£'000</i>
Due from intermediaries	<b><u>48,447</u></b>	<u>38,762</u>

**12 Technical provisions**

	<i>Provision for unearned premium £'000</i>	<i>Claims outstanding £'000</i>	<b>Total £'000</b>
Gross amount			
As at beginning of year	158,250	1,215,834	<b>1,374,084</b>
Movement in provision	4,417	51,688	<b>56,105</b>
Foreign exchange	<u>(1,632)</u>	<u>(25,095)</u>	<b><u>(26,727)</u></b>
As at end of year	<b><u>161,035</u></b>	<b><u>1,242,427</u></b>	<b><u>1,403,462</u></b>
Reinsurance amount			
As at beginning of year	4,082	323,599	<b>327,681</b>
Movement in provision	1,183	(21,240)	<b>(20,057)</b>
Foreign exchange	<u>(926)</u>	<u>(6,783)</u>	<b><u>(7,709)</u></b>
As at end of year	<b><u>4,339</u></b>	<b><u>295,576</u></b>	<b><u>299,915</u></b>
Net technical provisions			
As at 31 December 2019	<u>156,696</u>	<u>946,851</u>	<b><u>1,103,547</u></b>
As at 31 December 2018	<u>154,168</u>	<u>892,235</u>	<b><u>1,046,403</u></b>

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

	<b>2019</b>	<i>2018</i>
	<b>£'000</b>	<i>£'000</i>
Due to intermediaries	<b><u>9,181</u></b>	<u>2,840</u>

**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.

### 15 (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			Sub-total fair value £'000
	Level 1 £'000	Level 2 £'000	Level 3 £'000	
<b>2019</b>				
Debt securities and other fixed income securities	502,754	360,167	-	<b>862,921</b>
Deposits with credit institutions	7,909	35,471	-	<b>43,380</b>
Shares and other variable yield securities	-	-	1,551	<b>1,551</b>
Total	<u>510,663</u>	<u>395,638</u>	<u>1,551</u>	<b><u>907,852</u></b>
<b>2018</b>				
Debt securities and other fixed income securities	465,567	364,806	-	<b>830,373</b>
Deposits with credit institutions	36,901	26,593	-	<b>63,494</b>
Shares and other variable yield securities	-	-	-	<b>-</b>
Total	<u>502,468</u>	<u>391,399</u>	<u>-</u>	<b><u>893,867</u></b>

Shares and other variable yield securities classified as Level 3 are related to regulatory requirements of the Lloyds market and valued in accordance with our accounting policy as fair value.

### 15 (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.

## 15 Financial risk management (continued)

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

### 1. Foreign currency exposure

	<i>USD</i> <b>2019</b> <i>£'000</i>	<i>USD</i> <i>2018</i> <i>£'000</i>	<i>CAD</i> <b>2019</b> <i>£'000</i>	<i>CAD</i> <i>2018</i> <i>£'000</i>
Assets	<b>969,039</b>	942,316	<b>55,444</b>	50,094
Liabilities	<b>928,234</b>	914,509	<b>40,356</b>	36,897
Net Assets	<b>40,805</b>	27,807	<b>15,088</b>	13,197

The following table details the syndicate's sensitivity to a 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.

	<i>USD</i> <b>2019</b> <i>£'000</i>	<i>USD</i> <i>2018</i> <i>£'000</i>	<i>CAD</i> <b>2019</b> <i>£'000</i>	<i>CAD</i> <i>2018</i> <i>£'000</i>
Change in exchange against GBP				
Weakens by 20%	<b>8,161</b>	5,561	<b>3,018</b>	2,639
Weakens by 10%	<b>4,081</b>	2,781	<b>1,509</b>	1,320
Strengthens by 10%	<b>(4,081)</b>	(2,781)	<b>(1,509)</b>	(1,320)
Strengthens by 20%	<b>(8,161)</b>	(5,561)	<b>(3,018)</b>	(2,639)

### 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.

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.

	<b>2019</b> <i>£'000</i>	<i>2018</i> <i>£'000</i>
<b>Interest rate risk</b>		
Impact of 50 basis point increase on result	<b>(8,125)</b>	(6,520)
Impact of 50 basis point decrease on result	<b>8,227</b>	6,586
Impact of 50 basis point increase on net assets	<b>(8,125)</b>	(6,520)
Impact of 50 basis point decrease on net assets	<b>8,227</b>	6,586

#### 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	-	-



## 15 Financial risk management (continued)

### 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
<b>2019</b>							
Debt securities	142,311	560,782	159,696	132	-	-	<b>862,921</b>
Deposits with credit institutions	-	-	1,844	-	-	-	<b>1,844</b>
Overseas deposits as investments	26,211	5,384	6,137	3,042	268	494	<b>41,536</b>
Shares and other variable yield securities	-	-	1,551	-	-	-	<b>1,551</b>
Reinsurer' share of claims outstanding	-	220,685	69,236	126	-	5,529	<b>295,576</b>
Reinsurance debtors	-	211	603	-	-	-	<b>814</b>
Cash at bank and in hand	-	-	49,929	-	-	-	<b>49,929</b>
Total credit risk	<u>168,522</u>	<u>787,062</u>	<u>288,996</u>	<u>3,300</u>	<u>268</u>	<u>6,023</u>	<b><u>1,254,171</u></b>

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
<b>2018</b>							
Debt securities	115,816	543,291	167,204	4,062	-	-	<b>830,373</b>
Deposits with credit institutions	-	-	28,735	-	-	-	<b>28,735</b>
Overseas deposits as investments	21,778	4,983	3,909	2,194	113	1,782	<b>34,759</b>
Shares and other variable yield securities	-	-	-	-	-	-	-
Reinsurer' share of claims outstanding	-	191,323	101,017	-	-	31,259	<b>323,599</b>
Reinsurance debtors	-	14,913	1,062	1	-	33	<b>16,009</b>
Cash at bank and in hand	-	-	20,641	-	-	-	<b>20,641</b>
Total credit risk	<u>137,594</u>	<u>754,510</u>	<u>322,568</u>	<u>6,257</u>	<u>113</u>	<u>33,074</u>	<b><u>1,254,116</u></b>

**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.

	<i>Neither past due nor unpaired £'000</i>	<i>Past due less than 30 Days £'000</i>	<i>Past due 31 to 60 Days £'000</i>	<i>Past due 61 to 90 Days £'000</i>	<i>Past due more than 90 Days £'000</i>	<i>Past due and impaired £'000</i>	<b>Carrying amount £'000</b>
<b>2019</b>							
Debt securities	862,921	-	-	-	-	-	<b>862,921</b>
Deposits with credit institutions	1,844	-	-	-	-	-	<b>1,844</b>
Overseas deposits as investments	41,536	-	-	-	-	-	<b>41,536</b>
Shares and other variable yield securities	1,551	-	-	-	-	-	<b>1,551</b>
Reinsurer' share of claims outstanding	295,576	-	-	-	-	-	<b>295,576</b>
Reinsurance debtors	814	-	-	-	-	-	<b>814</b>
Cash at bank and in hand	49,929	-	-	-	-	-	<b>49,929</b>
Insurance debtors	48,447	-	-	-	-	-	<b>48,447</b>
Other debtors	97,229	19,641	3,360	1,284	732	-	<b>122,246</b>
Total credit risk	<u>1,399,847</u>	<u>19,641</u>	<u>3,360</u>	<u>1,284</u>	<u>732</u>	<u>-</u>	<b><u>1,424,864</u></b>

	<i>Neither past due nor unpaired £'000</i>	<i>Past due less than 30 Days £'000</i>	<i>Past due 31 to 60 Days £'000</i>	<i>Past due 61 to 90 Days £'000</i>	<i>Past due more than 90 Days £'000</i>	<i>Past due and impaired £'000</i>	<b>Carrying amount £'000</b>
<b>2018</b>							
Debt securities	830,373	-	-	-	-	-	<b>830,373</b>
Deposits with credit institutions	28,735	-	-	-	-	-	<b>28,735</b>
Overseas deposits as investments	34,759	-	-	-	-	-	<b>34,759</b>
Shares and other variable yield securities	-	-	-	-	-	-	<b>-</b>
Reinsurer' share of claims outstanding	323,599	-	-	-	-	-	<b>323,599</b>
Reinsurance debtors	16,009	-	-	-	-	-	<b>16,009</b>
Cash at bank and in hand	20,641	-	-	-	-	-	<b>20,641</b>
Insurance debtors	38,762	-	-	-	-	-	<b>38,762</b>
Other debtors	94,365	19,105	2,301	316	862	-	<b>116,949</b>
Total credit risk	<u>1,387,243</u>	<u>19,105</u>	<u>2,301</u>	<u>316</u>	<u>862</u>	<u>-</u>	<b><u>1,409,827</u></b>

## 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.

	<i>No stated maturity</i> £'000	<i>0-1 year</i> £'000	<i>1-3 years</i> £'000	<i>3-5 years</i> £'000	<i>&gt;5 years</i> £'000	<b>Total</b> £'000
<b>2019</b>						
Claims outstanding	-	380,931	361,530	145,369	354,597	<b>1,242,427</b>
Creditors	-	45,918	20,768	-	-	<b>66,686</b>
Other	-	-	-	-	-	-
Total		<u>426,849</u>	<u>382,298</u>	<u>145,369</u>	<u>354,597</u>	<u><b>1,309,113</b></u>
<b>2018</b>						
Claims outstanding	-	445,444	379,994	100,022	290,374	<b>1,215,834</b>
Creditors	-	13,354	21,273	-	-	<b>34,627</b>
Other	-	828	-	-	-	<b>828</b>
Total		<u>459,626</u>	<u>401,267</u>	<u>100,022</u>	<u>290,374</u>	<u><b>1,251,289</b></u>

## 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.

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

**16 Insurance risk management (continued)**

	<b>Gross technical provisions 2019 £'000</b>	<i>Gross technical provisions 2018 £'000</i>	<b>Reinsurance technical provisions 2019 £'000</b>	<i>Reinsurance technical provisions 2018 £'000</i>	<b>Net technical provisions 2019 £'000</b>	<i>Net technical provisions 2018 £'000</i>
<b>Direct insurance</b>						
Accident & health	17,946	613	904	30	17,042	583
Motor (third party liability)	30,011	45,992	10,066	9,824	19,945	36,168
Motor (other classes)	17,252	14,965	2,249	1,783	15,003	13,182
Marine, aviation and transport	60,554	64,152	25,403	25,800	35,151	38,352
Fire and other damage to property	78,504	94,960	12,272	21,017	66,232	73,943
Third party liability	157,316	155,733	11,656	16,362	145,660	139,371
Other direct	13,314	12,990	3,179	4,300	10,135	8,690
Total direct	374,897	389,405	65,729	79,116	309,168	310,289
<b>Reinsurance</b>	1,028,565	984,679	234,186	248,565	794,379	736,114
	1,403,462	1,374,084	299,915	327,681	1,103,547	1,046,403

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

UK	392,763	375,683	132,525	123,164	260,238	252,519
Other EU countries	107,821	150,574	11,064	6,265	96,757	144,309
US	678,522	672,269	135,588	158,628	542,934	513,641
Other	224,356	175,558	20,738	39,624	203,618	135,934
Total	1,403,462	1,374,084	299,915	327,681	1,103,547	1,046,403

**Assumptions and sensitivities**

Some results of sensitivity testing are set out below, showing the impact on profit before tax and shareholders' equity gross and 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.

	<b>2019 £'000</b>	<i>2018 £'000</i>
5% increase in loss ratio - gross	(22,170)	(23,265)
5% increase in loss ratio - net	(19,935)	(21,141)
5% decrease in loss ratio - gross	22,170	23,265
5% decrease in loss ratio - net	19,935	21,141
5% increase in expenses ratio - gross	(22,170)	(23,265)
5% increase in expenses ratio - net	(19,935)	(21,141)
5% decrease in expenses ratio - gross	22,170	23,265
5% decrease in expenses ratio - net	19,935	21,141

## 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 pounds sterling at the Dec 2019 year rates.

#### An analysis of the claims development - gross

	2010 and prior £'000	2011 £'000	2012 £'000	2013 £'000	2014 £'000	2015 £'000	2016 £'000	2017 £'000	2018 £'000	2019 £'000	Total £'000
Estimated of claims incurred											
At end of underwriting year	-	178,734	178,834	105,601	91,734	82,478	124,146	418,004	250,540	219,663	-
After one year	-	255,936	247,762	165,622	154,671	152,260	241,626	526,135	388,362	-	-
After two years	-	223,246	215,592	157,453	143,692	143,955	242,863	504,636	-	-	-
After three years	-	204,819	202,719	140,308	139,063	135,369	225,978	-	-	-	-
After four years	-	199,627	194,013	132,225	133,620	131,362	-	-	-	-	-
After five years	-	194,338	186,311	133,401	132,184	-	-	-	-	-	-
After six years	-	191,542	185,458	123,448	-	-	-	-	-	-	-
After seven years	-	199,567	183,251	-	-	-	-	-	-	-	-
After eight years	-	198,768	-	-	-	-	-	-	-	-	-
Cumulative payments	-	171,981	157,331	98,111	99,877	85,197	108,256	288,935	140,004	36,312	-
Gross claims reserves	320,778	26,787	25,920	25,337	32,307	46,165	117,722	215,701	248,358	183,351	1,242,427

#### An analysis of the claims development - net

	2010 and prior £'000	2011 £'000	2012 £'000	2013 £'000	2014 £'000	2015 £'000	2016 £'000	2017 £'000	2018 £'000	2019 £'000	Total £'000
Estimated of claims incurred											
At end of underwriting year	-	156,944	124,173	98,194	90,508	80,168	116,412	248,789	178,894	202,247	-
After one year	-	228,618	188,507	145,859	146,103	146,987	230,573	353,252	289,332	-	-
After two years	-	200,599	158,876	139,779	136,979	135,771	231,406	343,679	-	-	-
After three years	-	181,884	145,297	123,108	130,681	125,431	215,459	-	-	-	-
After four years	-	176,500	136,860	117,454	124,801	123,110	-	-	-	-	-
After five years	-	171,209	129,116	118,043	122,690	-	-	-	-	-	-
After six years	-	167,222	129,465	114,556	-	-	-	-	-	-	-
After seven years	-	173,110	127,913	-	-	-	-	-	-	-	-
After eight years	-	172,470	-	-	-	-	-	-	-	-	-
Cumulative payments	-	149,701	103,055	93,397	95,896	81,120	103,362	184,332	113,930	36,312	-
Net claims reserves	196,498	22,769	24,858	21,159	26,794	41,990	112,097	159,347	175,402	165,935	946,851

## 17 Accruals and deferred income

Included within these amounts are £nil (2018: £nil) in respect of reinsurance deferred acquisition costs.

## 18 Related parties

In 2019, managing agency fees of £2,000,000 (2018: £2,055,000) were paid by the syndicate to Faraday Underwriting Limited. In addition to this, expenses of £23,744,000 (2018: £25,454,000) 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 £443,000 (2018: £491,000). In respect of other transactions, Faraday Underwriting Limited was charged £1,650,000 for expenses (2018: £1,650,000). The amount due from Faraday Underwriting Limited at the year end was £nil (2018: £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.

## 20 Syndicate 2255

The reinsurance to close arrangement of Syndicate 2255 into Syndicate 435 added £83.8m to the premiums written and claims incurred in the Technical account as at 1 January 2018. Assets, mainly investments of a similar quality to Syndicate 435's existing portfolio, were transferred over to cover the liabilities of Syndicate 2255, also on 1 January 2018. As with any reinsurance to close arrangement the accounting for the opening position involves one-off transactions with nil impact on the result at that time.

## 21 Brexit

At the time of writing this report, whilst the United Kingdom has officially left the EU, it is not possible to predict the outcome of the final Brexit arrangements, assuming a deal is reached. However, as a syndicate at Lloyd's any business written in the EU post Brexit is now being placed through Lloyd's Brussels, the carrier established specifically for that purpose. EU business already written by the syndicate will be subject to processes that are being put in place to ensure policyholders continue to benefit from our support. From an operational perspective Faraday continues to monitor and assess the information that is available. Having considered all likely eventualities, the managing agent considers that Brexit, in whatever form it may take, will not cause a significant impact on the future of the business or have a material effect on the financial statements.