

Syndicate 435 Annual Report 2022

FARADAY



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Directors and Administration

31 December 2022

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

01682486

Website

www.faraday.com

Syndicate

Active Underwriter

Chris Thorne

Investment Managers

New England Asset Management Limited

Registered Auditor

Deloitte LLP
Statutory Auditor
2 New Street Square
London
EC4A 3BZ
United Kingdom

Report of the Directors of the Managing Agent

31 December 2022

The directors of Faraday Underwriting Limited ('the managing agent') present their report for the year ended 31 December 2022.

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 2022 calendar year is a profit of £38,356,000 (2021: £51,048,000).

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 2022 and to the date of signing this report were as follows:

Andrew D'Arcy, *non-executive director*

Kevin Harker, *Chief Financial Officer*

Terry Masters, *Senior non-executive director*

Stephen Michael, *non-executive director*

Martin Pike, *Chairman and non-executive director*

Tom Shelley, *Chief Executive*

Chris Thorne, *Active Underwriter*

Expansion of the Faraday business

Although Syndicate 435 is Faraday's main platform, Faraday MGA Limited ('the MGA') 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 General Reinsurance AG (GRAG) and with Berkshire Hathaway International Insurance Limited (BHIL), both of which are related companies.

Report of the Directors of the Managing Agent (continued)

31 December 2022

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 2022 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 2020 to 2023 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 2020 and 2021: £435m, 2022: £480m.

Capacity for 2023 has been set at £600m.

Faraday Capital Limited has exercised its right to waive the requirement to prepare separate accounts for the 2020 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 11.

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

23 February 2023

Strategic Report

31 December 2022

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 2022, 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.

2022 began with fewer restrictions arising from COVID-19 and a hybrid working regime was introduced for staff enabling face to face interaction to resume. There remains considerable uncertainty in the ultimate cost of losses from the pandemic but we believe we have reserved prudently in line with Faraday's standard reserving philosophy.

Although the global economy was, in the main, emerging from the pandemic in 2022, there has been a global impact from Russia's invasion of Ukraine in February 2022. Beyond the devastating human impact the wider fallout has had worldwide repercussions from energy supply issues, new sanctions, heightened inflation and supply chain difficulties. For the wider industry 2022 has again been an 'above average' year for natural catastrophes; weather events notably Hurricane Ian have been prominent.

Inflationary conditions increased during 2022; these are a significant factor in both pricing and reserving. There have been some indications that the pace of acceleration is slowing although prices

remain high due to the cumulative effect of recent issues and events. The expected future impact of inflation varies widely by both region and business class. This had led to enhanced and more frequent reviews of the drivers of inflation to prudently allow for its impact within pricing and reserving. Foreign exchange movements during 2022 were wide ranging too.

Underlying gross written premium income for Syndicate 435 increased by 20.7% in 2022 notably due to the contributions from the newer teams and continued growth in our Commercial Lines business, tempered by depressed premiums in our Property Treaty business which was poorly priced against increasing climate change risk. Other lines of business have grown as the world has re-opened following the pandemic.

During 2022 the syndicate achieved rate increases slightly in excess of the initial business plan. Of particular note was the continuing improved rating environment for the Commercial Lines book. Within the portfolio there are certain areas in which rate increases did not meet the plan's expectations, however, pricing levels in these lines remain adequate. Whilst rate increases for certain areas slowed in the last quarter of 2022 the overall rate increase was slightly above the plan for the year driven by Aviation, Commercial Lines and Property Treaty.

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. 2022 was impacted by the notable events of Hurricane Ian, Typhoon Nanmadol and floods in the Sydney area

Strategic Report (continued)

31 December 2022

and in South Africa, however, natural catastrophe losses overall were generally consistent with Faraday's priced expectations. Our Underwriters have worked hard to ensure the book of business is not overly exposed to any series of events. 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 recent years in respect of other natural catastrophe events have, in aggregate, proved to be adequate. The syndicate's whole account catastrophe excess of loss reinsurance is not expected to be triggered by any of the 2022 events although some team-specific reinsurances are expected to respond.

The Property Treaty team was loss making following the above average natural catastrophe activity in 2022 despite benefitting from reductions in prior years' loss estimates. Rates were less positive than in some other areas and, due to the inherent underwriting discipline, the 2022 income forecast for this book was not achieved.

The Commercial Lines portfolio has continued to perform well in 2022 due to further rate increases as well as generally favourable experience. We continue to grow the direct and facultative areas of this business, given the current profitability levels, and further opportunities in the class are being explored.

Actions to strengthen the pricing and reserving of the US Casualty business taken in recent years appear to have been well founded with actual loss experience developing in line with expectations.

Rates for this business are increasing although claims costs in part due to general and social inflationary pressures are also increasing. Workers' Compensation business continues to perform well.

The Aviation market had seen on-going rate increases since 2018 following several years of overcapacity and poor rating, however, there has been a marked slowdown in rates in 2022. This market has been particularly impacted by actions taken in Russia and Faraday is mindful of on-going issues and litigation that affects certain elements of the airline business. The syndicate is not exposed to the potential war losses and considers there is minimal exposure to other aviation losses arising from Russia's actions. The book generated a profit in 2022.

The EL/PL book was profitable in 2022; it continues to benefit from re-underwriting of the book implemented over the past few years and favourable loss activity in the year.

The International Casualty and Motor books benefitted from favourable prior year development but they were adversely impacted by increases in the Annual Survey of Hours and Earnings (ASHE) due to heightened inflation in the UK. The syndicate has considered the expected movements in the UK Personal Injury Discount Rate and has reserved for these accordingly.

Each year since 2019 an underwriting team has been added. The Agriculture and Financial Lines teams, new to Faraday in 2020 and 2021 respectively, are building up portfolios of business. In 2022 an Energy team joined Faraday.

Strategic Report (continued)

31 December 2022

We continue to take action to improve and where necessary limit areas of the business not delivering to target. In 2022 Property Treaty did not reach planned volumes due to poor market pricing although very significant improvements are now being seen. Volumes that were low in some areas, most notably Travel and UK EL/PL as COVID-19 continued to impact the risk environment, have seen improvements during 2022.

We continued to grow into new and existing lines where rates are sufficient for the risk being taken on, most notably in Commercial Lines. Faraday will continue to optimise the portfolio to those areas which are now delivering good 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, climate change, data analytics, operational resilience 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 framework, the operation of the internal model and the internal control system. The Risk 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, in conjunction with the Chief Executive Officer, reinsurance protections. The Head of Claims is responsible for claims management and the Chief Actuary, 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.

Strategic Report (continued)

31 December 2022

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 on 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 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

Strategic Report (continued)

31 December 2022

concentration parameters are set which properly control the syndicate's exposure to investment risk. The syndicate makes no use of financial derivatives in the management of its risk exposures.

Liquidity risk

This is the risk that the syndicate will not be able to meet its liabilities as they fall due, because of a shortfall of 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.

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. A specific workstream has now been added to address operational resilience. Operational 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. 2022 saw several catastrophe events, however, these were offset by favourable development in catastrophe reserves for events in prior years. The syndicate generated a profit of £38,356,000 (2021: £51,048,000) at a combined ratio of 91.3% (2021: 86.5%).

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, 75% of its investment portfolio is denominated in US dollars. The 2022 calendar year investment return on this portfolio was -0.12% (2021: 0%) compared with a benchmark of -3.41% (2021: -0.56%). Following increases in global interest rates these are now working through into the syndicate's investment returns.

The managing agent is establishing metrics in relation to climate change being mindful of the diverse areas that this matter covers.

Key stakeholders and responsibilities

The managing agent is fully aware of on-going responsibilities. Accordingly, attention is given to key stakeholders. These include clients, regulators, staff employed by the group, third party suppliers, local communities, the environment and Berkshire Hathaway Inc. the ultimate parent company.

Strategic Report (continued)

31 December 2022

The managing agent acts in good faith to promote the success of the syndicate for the benefit of the member as a whole. Decision making is made in an informed manner, having regard to the impact on stakeholders and matters set out in s.172 of the Companies Act 2006.

Of particular note:

- The directors, in making decisions have considered the long term prospects of Syndicate 435. A review of the business is given above.
- The managing agent takes pride in all business relationships. The organisation looks to engage with clients, outsourcers, professional advisers, staff and other stakeholders in a straightforward and professional manner. Treating all stakeholders fairly is of paramount importance.
- Employees are fundamental to the success of the business. The managing agent strives to make Faraday an enjoyable and rewarding place to work. Regular meetings are held to update staff on the performance and operational aspects of the syndicate. The open style of management adopted by the directors encourages employees to raise any issues and appropriate steps can be taken. The directors regard this style as one of the core strengths; it assists with staff retention. Training and development of staff is another important factor of the board's focus; a skilled and content workforce is crucial to the success of the business. Particular attention is now being given to culture in its broadest sense and open debate on the topic is welcomed.
- The directors monitor developments in the wider business and financial arenas. In particular these include regulatory requirements and guidelines as well as legal frameworks and Risk and Compliance aspects of the (re)insurance industry. Faraday would adapt to any revisions as they arise having regard to our diverse stakeholders. Market conditions underpin the ever-changing needs of key stakeholders. The directors endeavour to react to the circumstances in a timely manner. High business standards are promoted throughout the organisation. The board revisits the overall strategy at a formal meeting each year. Work continues on an on-going basis to increase the quality of business being underwritten. When necessary, difficult decisions will be taken.
- The robust client focus assists with maintaining and improving relationships with clients, outsourcers and suppliers. Every effort is made by the directors, following recommendations from the Underwriters, to meet the changing needs of our customers. Products are regularly reviewed to ensure they meet the requirements and are acceptable to all parties in the distribution chain; revisions are made as necessary.
- The directors value market perception. Every effort is made to meet the wide range of financial responsibilities. Payment terms will be met and enquiries are always made where service levels are queried by any of the stakeholders.
- Finally, the managing agent is conscious of its environmental and social responsibilities. Care is taken to minimise any adverse impact the business might have on the wider environment. A hybrid working regime has been in operation during 2022; this continues to be monitored to

Strategic Report (continued)

31 December 2022

achieve the best outcome for the business. It is pleasing to note that colleagues are now able to undertake face to face meetings in person. Work continues to maintain the reduction in the use of general office consumables that was achieved during the lockdown imposed in March 2020. Specific attention is now being given to the broad reach of climate change from both a business and operational perspective.

Environment, Social & Governance: Climate change

The impact on the business from climate change continues to be assessed; all relevant data is considered and action taken as appropriate. 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 evaluating climate change with an on-going review of the risk factors from a financial and an operational perspective.

Future developments

Rate increases are being seen across various lines of business in 2023 despite on-going challenges with surplus capacity in particular areas. Faraday continues to work with Lloyd's to ensure we are positioned for long term success as well as supporting the Lloyd's franchise with engagement in the roll-out of The Future at Lloyd's, Blueprint 2. 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. In 2022 our MGA has

bound business on behalf of Berkshire Hathaway International Insurance Limited and General Reinsurance AG, both are related group companies.

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 and Financial Lines writing business from 2021. Energy business has been added for 2022. 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

23 February 2023

Statement of Managing Agent's Responsibilities

31 December 2022

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 of Syndicate 435 (the 'syndicate'):

- give a true and fair view of the state of the syndicate's affairs as at 31 December 2022 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 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, 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 Financial Reporting Council's (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

In auditing the financial statements, we have concluded that the managing agent's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the syndicate's ability to continue in operations for a period of at least twelve months from when the syndicate financial statements are authorised for issue.

Our responsibilities and the responsibilities of the managing agent with respect to going concern are described in the relevant sections of this report.

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

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. The managing agent is responsible for the other information contained within the annual report. 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.

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 course of 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 this gives rise to a material misstatement themselves. 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 this regard.

Responsibilities of managing agent

As explained more fully in the statement of managing agent's responsibilities, 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 continue in operation and to use 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 FRC's website at: 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)

Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

We considered the nature of the syndicate and its control environment, and reviewed the syndicate's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management, about their own identification and assessment of the risks of irregularities.

We obtained an understanding of the legal and regulatory frameworks that the syndicate operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the financial statements. These included the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and the Lloyd's Syndicate Accounting Byelaw (no. 8 of 2005); and
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the syndicate's ability to operate or to avoid a material penalty. These included the requirements of Solvency II.

We discussed among the audit engagement team including relevant internal specialists such as actuarial and IT regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

As a result of performing the above, we identified the greatest potential for fraud in the following areas, and our specific procedures performed to address them are described below:

- Estimation of pipeline premiums requires significant management judgement and therefore there is potential for management bias through manipulation of core assumptions. In response our testing included, on a sample basis, comparing management's estimates on prior year contracts against actual premiums received as well as to historical experience on similar contracts.
- Valuation of technical provisions includes assumptions and methodology requiring significant management judgement and involves complex calculations, and therefore there is potential for management bias. There is also a risk of overriding controls by making late adjustments to the technical provisions. In response to these risks we involved our actuarial specialists to develop independent estimates of the technical provisions and we tested the late journal entries to technical provisions.

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

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

In addition to the above, our procedures to respond to the risks identified included the following:

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management and internal audit concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with Lloyd's.

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 managing agent's report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the managing agent's report 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 or the managing agent's report.

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

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

- 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.

Use of our report

This report is made solely to the syndicate's members, 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 members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the syndicate's members as a body, for our audit work, for this report, or for the opinions we have formed.

Adam Ely FCA (*Senior statutory auditor*)

For and on behalf of Deloitte LLP

Statutory Auditor

London, United Kingdom

23 February 2023

Profit and Loss Account

for the year ended 31 December 2022

	Note	2022		2021	
		£'000	£'000	£'000	£'000
Technical account - general business					
Earned premiums, net of reinsurance					
Gross premiums written	4		542,817		449,639
Outward reinsurance premiums			(43,140)		(37,967)
Net premiums written			499,677		411,672
Change in the provision for unearned premiums					
Gross amount			(27,960)		(32,844)
Reinsurers' share			1,608		1,530
Change in the net provision for unearned premiums			(26,352)		(31,314)
Earned premiums, net of reinsurance			473,325		380,358
Allocated investment return transferred from the non-technical account	9		(2,497)		(19)
Claims incurred, net of reinsurance					
Claims paid					
Gross amount			(259,351)		(214,206)
Reinsurers' share			35,648		18,822
Net claims paid			(223,703)		(195,384)
Change in the provision for claims					
Gross amount			(38,178)		(8,411)
Reinsurers' share			(35,312)		(15,991)
Change in the provision for claims			(73,490)		(24,402)
Claims incurred, net of reinsurance			(297,193)		(219,786)
Net operating expenses	4,6		(135,008)		(109,231)
Balance on the technical account - general business			38,627		51,322

Profit and Loss Account (continued)

for the year ended 31 December 2022

		2022	2021
	<i>Note</i>	£'000	£'000
Non-technical account			
Balance on the technical account - general income		38,627	51,322
Investment income	9	8,428	10,239
Movement in unrealised losses on investments	9	(10,204)	(9,706)
Investment expenses and charges	9	(721)	(552)
Allocated investment return transferred to the technical account - general business		2,497	19
Foreign exchange		<u>(271)</u>	<u>(274)</u>
Profit for the financial year		<u>38,356</u>	<u>51,048</u>

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

Statement of Comprehensive Income

for the year ended 31 December 2022

Profit for the financial year	38,356	51,048
Foreign currency translation	<u>6,722</u>	<u>1,741</u>
Total recognised gains since the last annual report	<u>45,078</u>	<u>52,789</u>

Balance Sheet

at 31 December 2022

	Note	2022		2021	
		£'000	£'000	£'000	£'000
Assets					
Investments					
Financial investments	10		1,073,954		963,757
Deposits with ceding undertakings			1,095		1,824
Reinsurers' share of technical provisions					
Provision for unearned premiums			10,214		5,738
Claims outstanding			218,236		238,141
			228,450		243,879
Debtors					
Debtors arising out of direct insurance operations	11		85,538		65,245
Debtors arising out of reinsurance operations			88,336		76,431
			173,874		141,676
Other assets					
Cash at bank and in hand			72,573		33,023
Prepayments and accrued income					
Accrued interest			6,610		3,222
Deferred acquisition costs			46,574		36,447
			53,184		39,669
Total assets			1,603,130		1,423,828

Balance Sheet (continued)

at 31 December 2022

	Note	2022		2021	
		£'000	£'000	£'000	£'000
Liabilities					
Capital and reserves					
Member's balances	19		(31,396)		(45,875)
Technical provisions					
Provision for unearned premiums		236,042		188,132	
Claims outstanding	5	1,331,277		<u>1,217,437</u>	
			1,567,319		1,405,569
Creditors due within one year					
Creditors arising out of direct insurance operations	13	6,921		7,946	
Creditors arising out of reinsurance operations		32,566		30,522	
Other creditors		46		<u>249</u>	
			39,533		38,717
Creditors due after one year					
Creditors arising out of reinsurance operations			22,283		20,351
Accruals and deferred income					
	17		5,391		<u>5,066</u>
Total liabilities			<u>1,603,130</u>		<u>1,423,828</u>

The financial statements on pages 18 to 39 were approved by the board of Faraday Underwriting Limited on 23 February 2023 and were signed on its behalf by

Kevin Harker

Director

Faraday Underwriting Limited

Statement of Cash Flows

for the year ended 31 December 2022

	2022	2021
	£'000	£'000
Net cash flows from operating activities		
Operating profit	38,356	51,048
Adjustment for:		
Increase in gross technical provisions	161,750	48,174
Decrease in reinsurers' share of gross technical provisions	15,429	13,440
Investment return	2,497	19
Foreign exchange (profit)/loss	<u>(55,826)</u>	<u>1,844</u>
Operating cash flow before movement in working capital	162,206	114,525
Increase in debtors	(32,198)	(18,604)
Increase in creditors	2,748	1,456
Movement in other assets/liabilities	<u>(13,190)</u>	<u>(2,314)</u>
Net cash flows from operating activities	<u>119,566</u>	<u>95,063</u>
Cash flows from investing activities		
Purchase of equity and debt instruments	(997,633)	(431,236)
Proceeds from sale of equity and debt instruments	944,493	377,058
Investment income received	8,428	10,239
Other	<u>(6,358)</u>	<u>2,023</u>
Net cash flows from investing activities	<u>(51,070)</u>	<u>(41,916)</u>
Cash flows from financing activities		
Distribution	(30,867)	(37,068)
Other	268	59
Net cash flows from financing activities	<u>(30,599)</u>	<u>(37,009)</u>
Net increase in cash and cash equivalents	<u>37,897</u>	<u>16,138</u>
Cash and cash equivalents at beginning of year	33,999	18,125
Net increase in cash and cash equivalents	37,897	16,138
Effect of foreign exchange rate changes	1,299	(264)
Cash and cash equivalents at end of year	<u>73,195</u>	<u>33,999</u>
Reconciliation to cash at bank and in hand		
Cash at bank and in hand	72,573	33,023
Cash equivalents	622	976
Cash and cash equivalents	<u>73,195</u>	<u>33,999</u>

Statement of Changes in Equity

for the year ended 31 December 2022

	2022	2021
	<i>£'000</i>	<i>£'000</i>
Member's balances brought forward at 1 January	(45,875)	(61,655)
Profit for the financial year	38,356	51,048
Foreign currency translation	6,722	1,741
Payment of profit to member's personal reserves	(30,867)	(37,068)
Increase in member's non-cash balances	268	59
Member's balances carried forward	<u>(31,396)</u>	<u>(45,875)</u>

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

Notes to the Financial Statements

for the year ended 31 December 2022

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.

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.

2 Accounting policies (continued)

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.

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.

2 Accounting policies (continued)

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.

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.

2 Accounting policies (continued)

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 accounting judgements.

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. Sensitivities have been run on the pipeline premium balance. A decrease in the pipeline premium of 20% would impact gross written premium by £34m and conversely an increase would add £34m to gross written premium. Neither movement would give rise to a material change in the overall result. 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:

	<i>Gross premiums written £'000</i>	<i>Gross premiums earned £'000</i>	<i>Gross claims incurred £'000</i>	<i>Net operating expenses £'000</i>	<i>Reinsurance balance £'000</i>	<i>Total £'000</i>
2022						
Direct insurance						
Accident and Health	27,042	14,700	(9,825)	(6,452)	841	(736)
Motor (third party liability)	2,764	2,530	(3,923)	(814)	(23)	(2,230)
Motor (other classes)	20,840	25,559	(12,580)	(11,416)	(9)	1,554
Marine, aviation and transport	14,386	14,397	(12,187)	(4,471)	(890)	(3,151)
Fire and other damage to property	173,810	155,042	(99,738)	(38,897)	(5,191)	11,216
Third party liability	77,151	72,932	(42,451)	(21,274)	(2,348)	6,859
Other direct	4,805	4,236	(1,860)	(1,419)	732	1,689
Total direct	320,798	289,396	(182,564)	(84,743)	(6,888)	15,201
Reinsurance	222,019	225,461	(114,965)	(50,265)	(34,308)	25,923
	542,817	514,857	(297,529)	(135,008)	(41,196)	41,124
2021						
Direct insurance						
Accident and Health	3,158	5,946	(5,097)	(2,666)	159	(1,658)
Motor (third party liability)	1,767	2,853	1,654	(586)	(2,371)	1,550
Motor (other classes)	25,247	21,110	(12,077)	(8,164)	(2,414)	(1,545)
Marine, aviation and transport	14,178	13,409	(8,035)	(3,103)	(1,196)	1,075
Fire and other damage to property	114,795	98,641	(60,220)	(21,341)	9,525	26,605
Third party liability	71,285	60,558	(29,343)	(21,979)	(3,461)	5,775
Other direct	3,505	3,643	(5,893)	(817)	1,649	(1,418)
Total direct	233,935	206,160	(119,011)	(58,656)	1,891	30,384
Reinsurance	215,704	210,635	(103,606)	(50,575)	(35,497)	20,957
	449,639	416,795	(222,617)	(109,231)	(33,606)	51,341

Acquisition costs on direct insurance gross premiums written during 2022 were £69,578,000 (2021:£51,855,000).

All premiums were concluded in the UK.

The geographical analysis of premiums by reference to the situs of the risk is given below. The 2021 disclosure has been revised to reflect more accurately the underlying location of the risk.

	2022 Gross premiums written £'000	2021 Gross premiums written £'000
UK	61,279	65,275
EU countries	26,251	23,981
US	295,934	231,319
Australia and New Zealand	47,396	19,784
Other	111,957	109,280
Total	542,817	449,639

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 £29,625,000 arising from Property business, as well as releases of £18,588,000 from Casualty business. In total there was a net release of £48,213,000 during 2022 in respect of claims outstanding at 31 December 2021 (2021: a net release of £78,632,000).

6 Net operating expenses

	2022	2021
	£'000	£'000
Acquisition costs	101,856	85,040
Reinsurance commissions and profit participations	(2,651)	(1,329)
Change in deferred acquisition costs	(6,261)	(4,906)
Administrative expenses	42,064	30,426
	<u>135,008</u>	<u>109,231</u>

Administrative expenses include:

Fees payable to the syndicate's auditor for the audit of the syndicate's annual financial statements	<u>306</u>	<u>288</u>
Audit related assurance services	<u>67</u>	<u>78</u>
Member's standard personal expenses are included within administrative expenses	<u>6,327</u>	<u>5,848</u>

Fees payable to Deloitte LLP for the audit of the annual financial statements of the managing agent, Faraday Underwriting Limited, are £73,000 (2021: £67,000). Fees payable for audit related assurance services provided to the managing agent are £5,000 (2021: £5,000). There were no other fees payable for the provision of other non audit services.

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:

	2022	2021
	£'000	£'000
Wages and salaries	20,329	13,468
Social security costs	3,540	2,253
Other pension costs	1,020	906
	<u>24,889</u>	<u>16,627</u>

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

	2022	2021
	Number	Number
Administration and finance	66	61
Underwriting	35	33
Claims	12	11
	<u>113</u>	<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:

	2022 £'000	2021 £'000
Emoluments	<u>1,713</u>	<u>1,579</u>

The role of Active Underwriter received the following emoluments charged as a syndicate expense.

Emoluments	<u>704</u>	<u>643</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 £23,000 (2021: £19,000). Of this £nil (2021: £nil) related to the position of Active Underwriter.

9 Investment return

	2022 £'000	2021 £'000
Net investment income	14,015	14,615
Net investment expenses	(721)	(552)
Losses on the realisation of investments	(5,587)	(4,376)
Change in carried value	(10,204)	(9,706)
Impairment	-	-
	<u>(2,497)</u>	<u>(19)</u>

Investment return is generated by bonds.

10 Financial investments

	<i>Carried value</i>		<i>Cost</i>	
	2022 £'000	2021 £'000	2022 £'000	2021 £'000
Debt securities and other fixed income securities	1,023,162	920,227	1,033,536	930,181
Deposits with credit institutions	622	976	622	976
Overseas deposits	43,220	35,604	43,220	35,604
Shares and other variable yield securities	6,950	6,950	6,950	6,950
	<u>1,073,954</u>	<u>963,757</u>	<u>1,084,328</u>	<u>973,711</u>

Debt securities and other fixed income securities which are listed total £1,007,902,000 (2021: £867,084,000). 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

	2022 £'000	2021 £'000
Due from intermediaries	<u>85,538</u>	<u>65,245</u>

12 Technical provisions

	<i>Provision for unearned premium £'000</i>	<i>Claims outstanding £'000</i>	Total £'000
Gross amount			
As at beginning of year	188,132	1,217,437	1,405,569
Movement in provision	27,960	38,178	66,138
Foreign exchange	19,950	75,662	95,612
As at end of year	<u>236,042</u>	<u>1,331,277</u>	<u>1,567,319</u>
Reinsurance amount			
As at beginning of year	5,738	238,141	243,879
Movement in provision	(1,608)	(35,312)	(36,920)
Foreign exchange	6,084	15,407	21,491
As at end of year	<u>10,214</u>	<u>218,236</u>	<u>228,450</u>
Net technical provisions			
As at 31 December 2022	<u>225,828</u>	<u>1,113,041</u>	<u>1,338,869</u>
As at 31 December 2021	<u>182,394</u>	<u>979,296</u>	<u>1,161,690</u>

13 Creditors arising out of direct insurance operations

	2022 £'000	2021 £'000
Due to intermediaries	<u>6,921</u>	<u>7,946</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 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.

	<i>Fair value hierarchy</i>			Sub-total fair value £'000
	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	
2022				
Debt securities and other fixed income securities	1,008,845	14,317	-	1,023,162
Loans and deposits with credit institutions	2,428	41,414	-	43,842
Shares and other variable yield securities	-	-	6,950	6,950
Total	<u>1,011,273</u>	<u>55,731</u>	<u>6,950</u>	<u>1,073,954</u>
2021				
Debt securities and other fixed income securities	795,779	124,448	-	920,227
Loans and deposits with credit institutions	8,171	28,409	-	36,580
Shares and other variable yield securities	-	-	6,950	6,950
Total	<u>803,950</u>	<u>152,857</u>	<u>6,950</u>	<u>963,757</u>

Shares and other variable yield securities classified as Level 3 are loans to the Lloyd's Central Fund in respect of the 2019 and 2020 underwriting years; they are not tradeable. Their valuation, in accordance with our policy as fair value, recognises the credit and illiquidity risk of the loans and an element of subjectivity.

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> 2022 <i>£'000</i>	<i>USD</i> 2021 <i>£'000</i>	<i>CAD</i> 2022 <i>£'000</i>	<i>CAD</i> 2021 <i>£'000</i>
Assets	1,144,153	981,880	120,633	97,405
Liabilities	1,097,504	957,101	79,727	62,350
Net Assets	46,649	24,779	40,906	35,055

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> 2022 <i>£'000</i>	<i>USD</i> 2021 <i>£'000</i>	<i>CAD</i> 2022 <i>£'000</i>	<i>CAD</i> 2021 <i>£'000</i>
Change in exchange against GBP				
Weakens by 20%	9,330	4,956	8,181	7,011
Weakens by 10%	4,665	2,478	4,091	3,506
Strengthens by 10%	(4,665)	(2,478)	(4,091)	(3,506)
Strengthens by 20%	(9,330)	(4,956)	(8,181)	(7,011)

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.

	2022 <i>£'000</i>	2021 <i>£'000</i>
Interest rate risk		
Impact of 50 basis point increase on result	(5,850)	(2,506)
Impact of 50 basis point decrease on result	5,906	1,937
Impact of 50 basis point increase on net assets	(5,850)	(2,506)
Impact of 50 basis point decrease on net assets	5,906	1,937

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
2022							
Debt securities	109,438	896,840	16,884	-	-	-	1,023,162
Loans and deposits with credit institutions	-	-	622	-	-	-	622
Overseas deposits as investments	25,864	6,114	4,867	3,731	221	2,423	43,220
Shares and other variable yield securities	-	-	6,950	-	-	-	6,950
Deposits with ceding undertakings	-	-	1,095	-	-	-	1,095
Reinsurer' share of claims outstanding	-	118,153	95,159	39	-	4,885	218,236
Reinsurance debtors	-	2,422	3,197	13	-	655	6,287
Cash at bank and in hand	-	-	72,573	-	-	-	72,573
Total credit risk	<u>135,302</u>	<u>1,023,529</u>	<u>201,347</u>	<u>3,783</u>	<u>221</u>	<u>7,963</u>	<u>1,372,145</u>

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
2021							
Debt securities	91,360	721,956	103,095	3,816	-	-	920,227
Loans and deposits with credit institutions	-	-	976	-	-	-	976
Overseas deposits as investments	26,616	1,670	2,722	1,807	96	2,693	35,604
Shares and other variable yield securities	-	-	6,950	-	-	-	6,950
Deposits with ceding undertakings	-	-	1,824	-	-	-	1,824
Reinsurer' share of claims outstanding	-	136,986	95,112	20	-	6,023	238,141
Reinsurance debtors	-	1,862	4,034	11	-	244	6,151
Cash at bank and in hand	-	-	33,023	-	-	-	33,023
Total credit risk	<u>117,976</u>	<u>862,474</u>	<u>247,736</u>	<u>5,654</u>	<u>96</u>	<u>8,960</u>	<u>1,242,896</u>

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>	Carrying amount £'000
2022							
Debt securities	1,023,162	-	-	-	-	-	1,023,162
Deposits with credit institutions	622	-	-	-	-	-	622
Overseas deposits as investments	43,220	-	-	-	-	-	43,220
Shares and other variable yield securities	6,950	-	-	-	-	-	6,950
Deposits with ceding undertakings	1,095	-	-	-	-	-	1,095
Reinsurer' share of claims outstanding	218,236	-	-	-	-	-	218,236
Reinsurance debtors	6,287	-	-	-	-	-	6,287
Cash at bank and in hand	72,573	-	-	-	-	-	72,573
Insurance debtors	85,538	-	-	-	-	-	85,538
Other debtors	113,591	22,516	7,971	1,359	10	-	145,447
Total credit risk	<u>1,571,274</u>	<u>22,516</u>	<u>7,971</u>	<u>1,359</u>	<u>10</u>	<u>-</u>	<u>1,603,130</u>

	<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>	Carrying amount £'000
2021							
Debt securities	920,227	-	-	-	-	-	920,227
Deposits and loans with credit institutions	976	-	-	-	-	-	976
Overseas deposits as investments	35,604	-	-	-	-	-	35,604
Shares and other variable yield securities	6,950	-	-	-	-	-	6,950
Deposits with ceding undertakings	1,824	-	-	-	-	-	1,824
Reinsurer' share of claims outstanding	238,141	-	-	-	-	-	238,141
Reinsurance debtors	6,151	-	-	-	-	-	6,151
Cash at bank and in hand	33,023	-	-	-	-	-	33,023
Insurance debtors	65,245	-	-	-	-	-	65,245
Other debtors	97,186	12,293	4,667	892	649	-	115,687
Total credit risk	<u>1,405,327</u>	<u>12,293</u>	<u>4,667</u>	<u>892</u>	<u>649</u>	<u>-</u>	<u>1,423,828</u>

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>>5 years</i> £'000	Total £'000
2022						
Claims outstanding	-	369,766	430,454	154,616	376,441	1,331,277
Creditors	-	39,533	22,283	-	-	61,816
Other	-	5,391	-	-	-	5,391
Total		<u>414,690</u>	<u>452,737</u>	<u>154,616</u>	<u>376,441</u>	<u>1,398,484</u>
2021						
Claims outstanding	-	372,366	433,370	127,543	284,158	1,217,437
Creditors	-	38,717	20,351	-	-	59,068
Other	-	5,066	-	-	-	5,066
Total		<u>416,149</u>	<u>453,721</u>	<u>127,543</u>	<u>284,158</u>	<u>1,281,571</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)

	Gross technical provisions 2022 £'000	Gross technical provisions 2021 £'000	Reinsurance technical provisions 2022 £'000	Reinsurance technical provisions 2021 £'000	Net technical provisions 2022 £'000	Net technical provisions 2021 £'000
Direct insurance						
Accident & health	16,175	2,573	358	340	15,817	2,233
Motor (third party liability)	16,542	5,327	1	1,942	16,541	3,385
Motor (other classes)	16,280	18,998	155	1,341	16,125	17,657
Marine, aviation and transport	80,520	60,804	27,516	24,893	53,004	35,911
Fire and other damage to property	237,730	155,831	41,499	12,380	196,231	143,451
Third party liability	225,560	186,295	18,970	10,272	206,590	176,023
Other direct	12,392	4,089	3,820	193	8,572	3,896
Total direct	605,199	433,917	92,319	51,361	512,880	382,556
Reinsurance	962,120	971,652	136,131	192,518	825,989	779,134
	1,567,319	1,405,569	228,450	243,879	1,338,869	1,161,690

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

UK	328,127	412,241	95,830	169,272	232,297	242,969
EU countries	192,860	109,804	52,406	11,808	140,454	97,996
US	774,993	650,230	46,438	45,907	728,555	604,323
Other	271,339	233,294	33,776	16,892	237,563	216,402
Total	1,567,319	1,405,569	228,450	243,879	1,338,869	1,161,690

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.

	2022 £'000	2021 £'000
5% increase in loss ratio - gross	(25,743)	(20,840)
5% increase in loss ratio - net	(23,666)	(19,018)
5% decrease in loss ratio - gross	25,743	20,840
5% decrease in loss ratio - net	23,666	19,018
5% increase in expenses ratio - gross	(25,743)	(20,840)
5% increase in expenses ratio - net	(23,666)	(19,018)
5% decrease in expenses ratio - gross	25,743	20,840
5% decrease in expenses ratio - net	23,666	19,018

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 December 2022 year end rates.

An analysis of the claims development - gross

	2012 and prior £'000	2013 £'000	2014 £'000	2015 £'000	2016 £'000	2017 £'000	2018 £'000	2019 £'000	2020 £'000	2021 £'000	2022 £'000	Total £'000
Estimated of claims incurred												
At end of underwriting year	-	110,677	96,813	87,055	130,043	446,043	265,722	224,751	183,105	209,302	216,057	-
After one year	-	174,534	163,487	161,167	251,486	557,871	409,145	359,587	326,029	336,755	-	-
After two years	-	166,024	152,121	151,939	252,570	535,413	393,117	333,182	319,318	-	-	-
After three years	-	147,634	146,960	142,956	235,551	501,898	348,511	314,169	-	-	-	-
After four years	-	139,207	141,097	138,644	227,529	485,586	341,604	-	-	-	-	-
After five years	-	140,360	139,471	135,940	221,200	480,687	-	-	-	-	-	-
After six years	-	129,843	141,904	132,499	223,430	-	-	-	-	-	-	-
After seven years	-	129,117	140,797	128,715	-	-	-	-	-	-	-	-
After eight years	-	125,995	138,235	-	-	-	-	-	-	-	-	-
After nine years	-	123,830	-	-	-	-	-	-	-	-	-	-
After ten years	-	-	-	-	-	-	-	-	-	-	-	-
Cumulative payments	-	112,941	118,561	106,470	158,864	389,507	236,758	185,953	152,076	106,223	26,376	-
Gross claims reserves	302,206	10,889	19,674	22,245	64,566	91,180	104,846	128,216	167,242	230,532	189,681	1,331,277

An analysis of the claims development - net

	2012 and prior £'000	2013 £'000	2014 £'000	2015 £'000	2016 £'000	2017 £'000	2018 £'000	2019 £'000	2020 £'000	2021 £'000	2022 £'000	Total £'000
Estimated of claims incurred												
At end of underwriting year	-	103,089	95,586	84,648	121,814	263,996	188,644	206,044	176,895	204,796	208,131	-
After one year	-	153,755	154,482	155,767	239,852	371,975	302,606	320,415	288,417	321,803	-	-
After two years	-	147,365	144,973	143,563	240,507	362,317	301,238	302,574	288,155	-	-	-
After three years	-	129,451	138,136	132,782	224,537	352,487	279,993	289,578	-	-	-	-
After four years	-	123,625	131,843	130,183	216,659	344,450	274,329	-	-	-	-	-
After five years	-	124,192	129,545	127,211	210,485	340,227	-	-	-	-	-	-
After six years	-	120,616	128,349	125,938	213,550	-	-	-	-	-	-	-
After seven years	-	121,028	126,902	122,722	-	-	-	-	-	-	-	-
After eight years	-	117,953	127,792	-	-	-	-	-	-	-	-	-
After nine years	-	116,436	-	-	-	-	-	-	-	-	-	-
After ten years	-	-	-	-	-	-	-	-	-	-	-	-
Cumulative payments	-	106,138	108,759	101,865	152,457	250,568	200,951	181,481	138,572	100,135	22,753	-
Net claims reserves	173,997	10,298	19,033	20,857	61,093	89,659	73,378	108,097	149,583	221,668	185,378	1,113,041

17 Accruals and deferred income

Included within these amounts are £1,382,000 (2021: £778,000) in respect of reinsurance deferred acquisition costs.

18 Related parties

In 2022, managing agency fees of £2,160,000 (2021: £2,175,000) were paid by the syndicate to Faraday Underwriting Limited. In addition to this, expenses of £35,214,000 (2021: £25,673,000) 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 £nil (2021: £nil). In respect of other transactions, Faraday Underwriting Limited was charged £1,667,000 for expenses (2021: £1,639,000). The amount due to Faraday Underwriting Limited at the year end was £nil (2021: £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.