

Syndicate 435 Annual Report 2021

# FARADAY





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## Directors and Administration

31 December 2021

### 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 2021

The directors of Faraday Underwriting Limited ('the managing agent') present their report for the year ended 31 December 2021.

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 2021 calendar year is a profit of £51,048,000 (2020: £49,930,000).

### 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 2021 and to the date of signing this report were as follows:

**Andrew D'Arcy**, *non-executive director*

**Kevin Harker**, *Finance Director*

**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, 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) and with General Reinsurance AG (GRAG), both are related companies.

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

31 December 2021

### 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 2021 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 2019 to 2022 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 2019: £400m, 2020 and 2021: £435m.

Capacity for 2022 has been set at £480m.

Faraday Capital Limited has exercised its right to waive the requirement to prepare separate accounts for the 2019 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 5. The managing agent continues to monitor the implications of Brexit and has been using Lloyd's Europe for EU business written since January 2019. Lloyd's completed a Part VII transfer on 30 December 2020 covering European business written through Lloyd's from 1993 to 2018. Whilst less than 5% of the premium income was derived from EU territories in 2021, a robust review of the likely impact of Brexit indicates that the business will not be adversely affected. More detail is provided in note 20.

### 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

1 March 2022

## Strategic Report

31 December 2021

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 2021, 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.

Although COVID-19 continued to impact Faraday throughout 2021 this was predominantly from an operational perspective with staff working from home for much of the year. Reserves established at the end of 2020 in relation to losses directly attributable to the pandemic increased a modest amount in 2021. There remains considerable uncertainty in the ultimate cost of these losses but we believe we have currently reserved prudently in line with Faraday's standard reserving philosophy.

Underlying gross written premium income for Syndicate 435 increased by 11.2% in 2021 notably due to the addition of the Financial Lines team and continued growth in our Commercial Lines business tempered by depressed premiums in our Travel and Airlines accounts due to COVID-19 and Property Treaty business being poorly priced against increasing climate change risk.

During much of 2021 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

portfolio. Mid-year the managing agent requested and obtained an increase in the approved volumes from Lloyd's for Commercial Lines and for the new Financial Lines business. Rate increases for certain areas slowed in the last quarter of 2021; the overall rate increase was consequently marginally below the plan for the year.

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. 2021 was impacted by a greater incidence of natural catastrophes compared with priced expectations. The syndicate was affected by Winterstorm Uri in Texas, the Bernd Floods in Europe and Hurricane Ida which made landfall in Louisiana.

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 2021 events although some team-specific reinsurances are expected to respond.

The Property Treaty team was loss making due to the above average natural catastrophe activity in 2021 tempered by reductions in prior years' loss estimates. The team maintains some potential

## Strategic Report (continued)

31 December 2021

exposure to COVID-19 business interruption losses. Rates were less positive than in some other areas and being mindful of the inherent underwriting discipline, the 2021 income forecast for this book was not achieved.

The Commercial Lines portfolio has continued to perform well in 2021 due to further rate increases as well as generally favourable experience net of the team's catastrophe excess of loss reinsurance. 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. The market is, however, attracting additional capacity which is expected to slow further rate increases.

Actions to strengthen the pricing and reserving of the US Casualty business taken in recent years appear to have been adequate during 2021. 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 is now some evidence of a slowdown in rates. The book generated a profit in 2021 aided by minimum premium clauses being triggered for certain 2020 year of account arrangements due to a lack of flying activity.

The EL/PL book was profitable in 2021, it continues to benefit from re-underwriting of the book implemented over the past few years and favourable loss activity over the year.

The International Casualty and Motor books were profitable in the year due to favourable claims run-off.

The Accident & Health and the Agriculture teams, new to Faraday in 2019 and 2020 respectively, are building up portfolios of business. In 2021 a Financial Lines team joined Faraday, it has performed well writing £30m of premium in its first year.

Over the past few years action has been taken to improve and, where necessary, limit areas of the business not delivering to target. This continued in 2021 with Property Treaty writing below planned volumes due to poor market pricing. Volumes remained low in some areas, most notably Travel and UK EL/PL as COVID-19 continued to impact the risk environment.

We continued to grow into new and existing lines where rates are sufficient for the risk being taken on, most notably in Commercial Lines and the new Financial Lines team. 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.

## Strategic Report (continued)

31 December 2021

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. During 2021 an additional Group was established specifically to address matters relating to climate change.

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 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 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

## Strategic Report (continued)

31 December 2021

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 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 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. 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.

## Strategic Report (continued)

31 December 2021

### 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 2021, which saw several significant catastrophe events and COVID-19, the syndicate generated a profit of £51,048,000 (2020: £49,930,000) at a combined ratio of 86.5% (2020: 93.7%).

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, 70% of its investment portfolio is denominated in US dollars. The 2021 calendar year investment return on this portfolio was 0% (2020: 2.54%), compared with a benchmark of -0.56% (2020: 2.58%).

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.

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.
- 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 to these 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.

## Strategic Report (continued)

31 December 2021

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. As 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. Working from home was in operation for much of 2021, following Government guidance. Whilst a staggered return to the office was in place when possible last year and the office has now reopened, there has been a significant reduction in the use of general office consumables since March 2020. Specific attention is now being given to the broad reach of climate change from both a business and operational perspective.

### COVID-19

The directors continue to consider the impact of COVID-19 on the syndicate's financial strength, taking into account a number of factors including the ability to access and transact business being mindful of our robust underwriting criteria. The organisation has adapted well to the changes and staff are operating efficiently whether office based or following Government advice and working from home. Management maintains contact with staff with regular updates on all business and operational matters.

The managing agent has concluded that Syndicate 435 continues to operate effectively and does not anticipate any change to the ability to continue operating on a going concern basis.

### 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 continue to be seen across various lines of business in 2022. There are on-going challenges with surplus capacity in particular areas. Faraday continues to work with Lloyd's to ensure

## Strategic Report (continued)

31 December 2021

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. Our MGA binds 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

1 March 2022

## Statement of Managing Agent's Responsibilities

31 December 2021

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 2021 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 cash flow statement;
- the statement of changes in equity; and
- the related notes 1 to 20.

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 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 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](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)

### 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, internal audit and legal counsel 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

1 March 2022

## Profit and Loss Account

for the year ended 31 December 2021

	Note	2021		2020	
		£'000	£'000	£'000	£'000
<b>Technical account - general business</b>					
<b>Earned premiums, net of reinsurance</b>					
Gross premiums written	4		<b>449,639</b>		404,358
Outward reinsurance premiums			<b>(37,967)</b>		(49,347)
Net premiums written			<b>411,672</b>		355,011
Change in the provision for unearned premiums					
Gross amount			<b>(32,844)</b>		3,808
Reinsurers' share			<b>1,530</b>		(272)
Change in the net provision for unearned premiums			<b>(31,314)</b>		3,536
<b>Earned premiums, net of reinsurance</b>			<b>380,358</b>		358,547
<b>Allocated investment return transferred from the non-technical account</b>			<b>(19)</b>		24,221
<b>Claims incurred, net of reinsurance</b>					
Claims paid					
Gross amount			<b>(214,206)</b>		(229,753)
Reinsurers' share			<b>18,822</b>		28,598
Net claims paid			<b>(195,384)</b>		(201,155)
Change in the provision for claims					
Gross amount			<b>(8,411)</b>		17,348
Reinsurers' share			<b>(15,991)</b>		(37,293)
Change in the provision for claims			<b>(24,402)</b>		(19,945)
<b>Claims incurred, net of reinsurance</b>			<b>(219,786)</b>		(221,100)
<b>Net operating expenses</b>	4,6		<b>(109,231)</b>		(114,971)
<b>Balance on the technical account - general business</b>			<b>51,322</b>		46,697

## Profit and Loss Account (continued)

for the year ended 31 December 2021

		2021	2020
	<i>Note</i>	<b>£'000</b>	<b>£'000</b>
<b>Non-technical account</b>			
<b>Balance on the technical account - general income</b>		<b>51,322</b>	46,697
Investment income	9	<b>10,239</b>	19,356
Movement in unrealised (losses)/gains on investments	9	<b>(9,706)</b>	5,343
Investment expenses and charges	9	<b>(552)</b>	(478)
Allocated investment return transferred to the technical account - general business		<b>19</b>	(24,221)
Foreign exchange		<u><b>(274)</b></u>	<u>3,233</u>
<b>Profit for the financial year</b>		<u><b>51,048</b></u>	<u>49,930</u>

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

## Statement of Comprehensive Income

for the year ended 31 December 2021

Profit for the financial year	<b>51,048</b>	49,930
Foreign currency translation	<u><b>1,741</b></u>	<u>(3,740)</u>
Total recognised gains since the last annual report	<u><b>52,789</b></u>	<u>46,190</u>

## Balance Sheet

at 31 December 2021

	Note	2021		2020	
		£'000	£'000	£'000	£'000
<b>Assets</b>					
<b>Investments</b>					
Financial investments	10		<b>963,757</b>		924,293
Deposits with ceding undertakings			<b>1,824</b>		-
<b>Reinsurers' share of technical provisions</b>					
Provision for unearned premiums			<b>5,738</b>		4,165
Claims outstanding			<b>238,141</b>		253,154
			<b>243,879</b>		257,319
<b>Debtors</b>					
Debtors arising out of direct insurance operations	11		<b>65,245</b>		46,367
Debtors arising out of reinsurance operations			<b>76,431</b>		76,705
Other debtors			-		-
			<b>141,676</b>		123,072
<b>Other assets</b>					
Cash at bank and in hand			<b>33,023</b>		16,379
<b>Prepayments and accrued income</b>					
Accrued interest			<b>3,222</b>		4,637
Deferred acquisition costs			<b>36,447</b>		30,899
			<b>39,669</b>		35,536
<b>Total assets</b>			<b>1,423,828</b>		<b>1,356,599</b>

## Balance Sheet (continued)

at 31 December 2021

	Note	2021		2020	
		£'000	£'000	£'000	£'000
<b>Liabilities</b>					
<b>Capital and reserves</b>					
Member's balances	19		<b>(45,875)</b>		(61,655)
<b>Technical provisions</b>					
Provision for unearned premiums		<b>188,132</b>		154,199	
Claims outstanding	5	<b>1,217,437</b>		1,203,196	
			<b>1,405,569</b>		1,357,395
<b>Creditors due within one year</b>					
Creditors arising out of direct insurance operations	13	<b>7,946</b>		10,735	
Creditors arising out of reinsurance operations		<b>30,522</b>		25,193	
Other creditors		<b>249</b>		1,547	
			<b>38,717</b>		37,475
<b>Creditors due after one year</b>					
Creditors arising out of reinsurance operations			<b>20,351</b>		20,137
<b>Accruals and deferred income</b>					
	17		<b>5,066</b>		3,247
<b>Total liabilities</b>			<b>1,423,828</b>		<b>1,356,599</b>

The financial statements on pages 18 to 39 were approved by the board of Faraday Underwriting Limited on 1 March 2022 and were signed on its behalf by

**Kevin Harker**

*Director*

*Faraday Underwriting Limited*

## Statement of Cash Flows

for the year ended 31 December 2021

	2021	2020
	£'000	£'000
<b>Net cash flows from operating activities</b>		
Operating profit	51,048	49,930
Adjustment for:		
Increase/(decrease) in gross technical provisions	48,174	(46,067)
Decrease in reinsurers' share of gross technical provisions	13,440	42,596
Investment return	19	(24,221)
Foreign exchange loss	1,844	14,701
	<u>114,525</u>	<u>36,939</u>
Operating cash flow before movement in working capital	114,525	36,939
(Increase)/decrease in debtors	(18,604)	4,440
Increase/(decrease) in creditors	1,456	(9,074)
Movement in other assets/liabilities	(2,314)	7,367
	<u>95,063</u>	<u>39,672</u>
<b>Net cash flows from operating activities</b>	<b>95,063</b>	<b>39,672</b>
<b>Cash flows from investing activities</b>		
Purchase of equity and debt instruments	(431,236)	(377,411)
Proceeds from sale of equity and debt instruments	377,058	344,275
Investment income received	10,239	19,356
Other	2,023	1,375
	<u>(41,916)</u>	<u>(12,405)</u>
<b>Net cash flows from investing activities</b>	<b>(41,916)</b>	<b>(12,405)</b>
<b>Cash flows from financing activities</b>		
Distribution	(37,068)	(62,691)
Other	59	130
	<u>(37,009)</u>	<u>(62,561)</u>
<b>Net cash flows from financing activities</b>	<b>(37,009)</b>	<b>(62,561)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>16,138</b>	<b>(35,294)</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>18,125</b>	<b>51,773</b>
Net increase/(decrease) in cash and cash equivalents	16,138	(35,294)
Effect of foreign exchange rate changes	(264)	1,646
	<u>33,999</u>	<u>18,125</u>
<b>Cash and cash equivalents at end of year</b>	<b>33,999</b>	<b>18,125</b>
<b>Reconciliation to cash at bank and in hand</b>		
Cash at bank and in hand	33,023	16,379
Cash equivalents	976	1,746
	<u>33,999</u>	<u>18,125</u>
<b>Cash and cash equivalents</b>	<b>33,999</b>	<b>18,125</b>

## Statement of Changes in Equity

for the year ended 31 December 2021

	2021	2020
	<i>£'000</i>	<i>£'000</i>
Member's balances brought forward at 1 January	<b>(61,655)</b>	(45,284)
Profit for the financial year	<b>51,048</b>	49,930
Foreign currency translation	<b>1,741</b>	(3,740)
Payment of profit to member's personal reserves	<b>(37,068)</b>	(62,691)
Increase in member's non-cash balances	<b>59</b>	130
Member's balances carried forward	<b><u>(45,875)</u></b>	<b><u>(61,655)</u></b>

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 2021

## 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:

	<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>
<b>2021</b>						
<b>Direct insurance</b>						
Accident and Health	3,158	5,946	(5,097)	(2,666)	159	<b>(1,658)</b>
Motor (third party liability)	1,767	2,853	1,654	(586)	(2,371)	<b>1,550</b>
Motor (other classes)	25,247	21,110	(12,077)	(8,164)	(2,414)	<b>(1,545)</b>
Marine, aviation and transport	14,178	13,409	(8,035)	(3,103)	(1,196)	<b>1,075</b>
Fire and other damage to property	114,795	98,641	(60,220)	(21,341)	9,525	<b>26,605</b>
Third party liability	71,285	60,558	(29,343)	(21,979)	(3,461)	<b>5,775</b>
Other direct	3,505	3,643	(5,893)	(817)	1,649	<b>(1,418)</b>
Total direct	233,935	206,160	(119,011)	(58,656)	1,891	<b>30,384</b>
<b>Reinsurance</b>	<u>215,704</u>	<u>210,635</u>	<u>(103,606)</u>	<u>(50,575)</u>	<u>(35,497)</u>	<u><b>20,957</b></u>
	<u>449,639</u>	<u>416,795</u>	<u>(222,617)</u>	<u>(109,231)</u>	<u>(33,606)</u>	<u><b>51,341</b></u>
<b>2020</b>						
<b>Direct insurance</b>						
Accident and Health	1,660	8,539	(3,635)	(5,156)	(583)	<b>(835)</b>
Motor (third party liability)	2,974	1,316	(4,616)	(998)	4,603	<b>305</b>
Motor (other classes)	22,727	23,354	(10,998)	(9,180)	(1,541)	<b>1,635</b>
Marine, aviation and transport	12,194	12,058	(7,115)	(3,573)	(876)	<b>494</b>
Fire and other damage to property	88,082	77,344	(66,507)	(15,923)	3,934	<b>(1,152)</b>
Third party liability	51,536	53,348	(51,388)	(18,208)	5,653	<b>(10,595)</b>
Other direct	2,841	1,850	8,572	(464)	(1,894)	<b>8,064</b>
Total direct	182,014	177,809	(135,687)	(53,502)	9,296	<b>(2,084)</b>
<b>Reinsurance</b>	<u>222,344</u>	<u>230,357</u>	<u>(76,718)</u>	<u>(61,469)</u>	<u>(67,610)</u>	<u><b>24,560</b></u>
	<u>404,358</u>	<u>408,166</u>	<u>(212,405)</u>	<u>(114,971)</u>	<u>(58,314)</u>	<u><b>22,476</b></u>

Acquisition costs on direct insurance gross premiums written during 2021 were £51,855,000 (2020: £45,818,000).

All premiums were concluded in the UK.

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

	<b>2021 Gross premiums written £'000</b>	<i>2020 Gross premiums written £'000</i>
UK	<b>31,754</b>	25,327
EU countries	<b>19,533</b>	16,559
US	<b>275,719</b>	276,772
Australia and New Zealand	<b>21,646</b>	12,158
Other	<b>100,987</b>	73,542
Total	<u><b>449,639</b></u>	<u>404,358</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 £48,807,000 arising from Property business, as well as releases of £29,825,000 from Casualty business. In total there was a net release of £78,632,000 during 2021 in respect of claims outstanding at 31 December 2020 (2020: a net release of £85,828,000).

## 6 Net operating expenses

	<b>2021</b>	2020
	<b>£'000</b>	£'000
Acquisition costs	<b>85,040</b>	81,264
Reinsurance commissions and profit participations	<b>(1,329)</b>	(435)
Change in deferred acquisition costs	<b>(4,906)</b>	4,117
Administrative expenses	<b>30,426</b>	30,025
	<b><u>109,231</u></b>	<u>114,971</u>
Administrative expenses include:		
Fees payable to the syndicate's auditor for the audit of the syndicate's annual financial statements	<b><u>288</u></b>	<u>277</u>
Audit related assurance services	<b><u>78</u></b>	<u>78</u>
Member's standard personal expenses are included within administrative expenses	<b><u>5,848</u></b>	<u>5,735</u>

Fees payable to Deloitte LLP for the audit of the annual financial statements of the managing agent, Faraday Underwriting Limited, are £67,000 (2020: £65,000). Fees payable for audit related assurance services provided to the managing agent are £5,000 (2020: £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:

	<b>2021</b>	2020
	<b>£'000</b>	£'000
Wages and salaries	<b>13,468</b>	12,541
Social security costs	<b>2,253</b>	2,167
Other pension costs	<b>906</b>	706
	<b><u>16,627</u></b>	<u>15,414</u>

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

	<b>2021</b>	2020
	<b>Number</b>	Number
Administration and finance	<b>61</b>	52
Underwriting	<b>33</b>	28
Claims	<b>11</b>	12
	<b><u>105</u></b>	<u>92</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>2021</b>	2020
	<b>£'000</b>	£'000
Emoluments	<b><u>1,579</u></b>	<u>1,270</u>

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

Emoluments	<b><u>643</u></b>	<u>519</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 £19,000 (2020 - £9,000). Of this £nil (2020 - £nil) related to the position of Active Underwriter.

## 9 Investment return

	<b>2021</b>	2020
	<b>£'000</b>	£'000
Net investment income	<b>14,615</b>	18,009
Net investment expenses	<b>(552)</b>	(478)
(Losses)/gains on the realisation of investments	<b>(4,376)</b>	1,347
Change in carried value	<b>(9,706)</b>	5,343
Impairment	<u>-</u>	<u>-</u>
	<b><u>(19)</u></b>	<u>24,221</u>

Investment return is generated by bonds.

## 10 Financial investments

	<i>Carried value</i>		<i>Cost</i>	
	<b>2021</b>	2020	<b>2021</b>	2020
	<b>£'000</b>	£'000	<b>£'000</b>	£'000
Debt securities and other fixed income securities	<b>920,227</b>	874,768	<b>930,181</b>	869,904
Deposits with credit institutions	<b>976</b>	1,746	<b>976</b>	1,746
Overseas deposits	<b>35,604</b>	40,829	<b>35,604</b>	40,829
Shares and other variable yield securities	<b>6,950</b>	6,950	<b>6,950</b>	6,950
	<b><u>963,757</u></b>	<u>924,293</u>	<b><u>973,711</u></b>	<u>919,429</u>

Debt securities and other fixed income securities which are listed total £867,084,000 (2020: £834,584,000). 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>2021</b>	2020
	<b>£'000</b>	£'000
Due from intermediaries	<b><u>65,245</u></b>	<u>46,367</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	154,199	1,203,196	<b>1,357,395</b>
Movement in provision	32,844	8,411	<b>41,255</b>
Foreign exchange	1,089	5,830	<b>6,919</b>
As at end of year	<b><u>188,132</u></b>	<b><u>1,217,437</u></b>	<b><u>1,405,569</u></b>
Reinsurance amount			
As at beginning of year	4,165	253,154	<b>257,319</b>
Movement in provision	(1,530)	(15,991)	<b>(17,521)</b>
Foreign exchange	3,103	978	<b>4,081</b>
As at end of year	<b><u>5,738</u></b>	<b><u>238,141</u></b>	<b><u>243,879</u></b>
Net technical provisions			
As at 31 December 2021	<u>182,394</u>	<u>979,296</u>	<b><u>1,161,690</u></b>
As at 31 December 2020	<u>150,034</u>	<u>950,042</u>	<b><u>1,100,076</u></b>

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

	<b>2021</b>	2020
	<b>£'000</b>	£'000
Due to intermediaries	<b><u>7,946</u></b>	<u>10,735</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>			<b>Sub-total fair value £'000</b>
	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	
<b>2021</b>				
Debt securities and other fixed income securities	795,779	124,448	-	<b>920,227</b>
Loans and deposits with credit institutions	8,171	28,409	-	<b>36,580</b>
Shares and other variable yield securities	-	-	6,950	<b>6,950</b>
Total	<u>803,950</u>	<u>152,857</u>	<u>6,950</u>	<b><u>963,757</u></b>
<b>2020</b>				
Debt securities and other fixed income securities	622,959	251,809	-	<b>874,768</b>
Loans and deposits with credit institutions	8,902	33,673	-	<b>42,575</b>
Shares and other variable yield securities	-	-	6,950	<b>6,950</b>
Total	<u>631,861</u>	<u>285,482</u>	<u>6,950</u>	<b><u>924,293</u></b>

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> <b>2021</b> <i>£'000</i>	<i>USD</i> 2020 <i>£'000</i>	<i>CAD</i> <b>2021</b> <i>£'000</i>	<i>CAD</i> 2020 <i>£'000</i>
Assets	<b>981,880</b>	927,458	<b>97,405</b>	71,627
Liabilities	<b>957,101</b>	909,261	<b>62,350</b>	48,824
Net Assets	<b>24,779</b>	18,197	<b>35,055</b>	22,803

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>2021</b> <i>£'000</i>	<i>USD</i> 2020 <i>£'000</i>	<i>CAD</i> <b>2021</b> <i>£'000</i>	<i>CAD</i> 2020 <i>£'000</i>
Change in exchange against GBP				
Weakens by 20%	<b>4,956</b>	3,639	<b>7,011</b>	4,561
Weakens by 10%	<b>2,478</b>	1,820	<b>3,506</b>	2,280
Strengthens by 10%	<b>(2,478)</b>	(1,820)	<b>(3,506)</b>	(2,280)
Strengthens by 20%	<b>(4,956)</b>	(3,639)	<b>(7,011)</b>	(4,561)

### 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>2021</b> <i>£'000</i>	2020 <i>£'000</i>
<b>Interest rate risk</b>		
Impact of 50 basis point increase on result	<b>(2,506)</b>	(5,013)
Impact of 50 basis point decrease on result	<b>1,937</b>	3,018
Impact of 50 basis point increase on net assets	<b>(2,506)</b>	(5,013)
Impact of 50 basis point decrease on net assets	<b>1,937</b>	3,018

#### 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>2021</b>							
Debt securities	91,360	721,956	103,095	3,816	-	-	<b>920,227</b>
Loans and deposits with credit institutions	-	-	976	-	-	-	<b>976</b>
Overseas deposits as investments	26,616	1,670	2,722	1,807	96	2,693	<b>35,604</b>
Shares and other variable yield securities	-	-	6,950	-	-	-	<b>6,950</b>
Deposits with ceding undertakings	-	-	1,824	-	-	-	<b>1,824</b>
Reinsurer' share of claims outstanding	-	136,986	95,112	20	-	6,023	<b>238,141</b>
Reinsurance debtors	-	1,862	4,034	11	-	244	<b>6,151</b>
Cash at bank and in hand	-	-	33,023	-	-	-	<b>33,023</b>
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>	<b><u>1,242,896</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>2020</b>							
Debt securities	133,312	582,165	154,545	4,746	-	-	<b>874,768</b>
Loans and deposits with credit institutions	-	-	1,746	-	-	-	<b>1,746</b>
Overseas deposits as investments	21,543	4,217	8,982	3,200	441	2,446	<b>40,829</b>
Shares and other variable yield securities	-	-	6,950	-	-	-	<b>6,950</b>
Deposits with ceding undertakings	-	-	-	-	-	-	<b>-</b>
Reinsurer' share of claims outstanding	-	169,591	79,749	61	-	3,753	<b>253,154</b>
Reinsurance debtors	-	5,540	3,641	-	-	-	<b>9,181</b>
Cash at bank and in hand	-	-	16,379	-	-	-	<b>16,379</b>
Total credit risk	<u>154,855</u>	<u>761,513</u>	<u>271,992</u>	<u>8,007</u>	<u>441</u>	<u>6,199</u>	<b><u>1,203,007</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>2021</b>							
Debt securities	920,227	-	-	-	-	-	<b>920,227</b>
Deposits with credit institutions	976	-	-	-	-	-	<b>976</b>
Overseas deposits as investments	35,604	-	-	-	-	-	<b>35,604</b>
Shares and other variable yield securities	6,950	-	-	-	-	-	<b>6,950</b>
Deposits with ceding undertakings	1,824	-	-	-	-	-	<b>1,824</b>
Reinsurer' share of claims outstanding	238,141	-	-	-	-	-	<b>238,141</b>
Reinsurance debtors	6,151	-	-	-	-	-	<b>6,151</b>
Cash at bank and in hand	33,023	-	-	-	-	-	<b>33,023</b>
Insurance debtors	65,245	-	-	-	-	-	<b>65,245</b>
Other debtors	97,186	12,293	4,667	892	649	-	<b>115,687</b>
Total credit risk	<u>1,405,327</u>	<u>12,293</u>	<u>4,667</u>	<u>892</u>	<u>649</u>	<u>-</u>	<b><u>1,423,828</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>2020</b>							
Debt securities	874,768	-	-	-	-	-	<b>874,768</b>
Deposits and loans with credit institutions	1,746	-	-	-	-	-	<b>1,746</b>
Overseas deposits as investments	40,829	-	-	-	-	-	<b>40,829</b>
Shares and other variable yield securities	6,950	-	-	-	-	-	<b>6,950</b>
Deposits with ceding undertakings	-	-	-	-	-	-	<b>-</b>
Reinsurer' share of claims outstanding	253,154	-	-	-	-	-	<b>253,154</b>
Reinsurance debtors	9,181	-	-	-	-	-	<b>9,181</b>
Cash at bank and in hand	16,379	-	-	-	-	-	<b>16,379</b>
Insurance debtors	46,367	-	-	-	-	-	<b>46,367</b>
Other debtors	72,020	26,131	4,427	659	3,988	-	<b>107,225</b>
Total credit risk	<u>1,321,394</u>	<u>26,131</u>	<u>4,427</u>	<u>659</u>	<u>3,988</u>	<u>-</u>	<b><u>1,356,599</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 £'000</i>	<i>0-1 year £'000</i>	<i>1-3 years £'000</i>	<i>3-5 years £'000</i>	<i>&gt;5 years £'000</i>	<b>Total £'000</b>
<b>2021</b>						
Claims outstanding	-	372,366	433,370	127,543	284,158	<b>1,217,437</b>
Creditors	-	38,717	20,351	-	-	<b>59,068</b>
Other	-	5,066	-	-	-	<b>5,066</b>
Total		<u>416,149</u>	<u>453,721</u>	<u>127,543</u>	<u>284,158</u>	<b><u>1,281,571</u></b>
<b>2020</b>						
Claims outstanding	-	379,541	427,998	116,318	279,339	<b>1,203,196</b>
Creditors	-	37,475	20,137	-	-	<b>57,612</b>
Other	-	3,247	-	-	-	<b>3,247</b>
Total		<u>420,263</u>	<u>448,135</u>	<u>116,318</u>	<u>279,339</u>	<b><u>1,264,055</u></b>

## 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 2021 £'000</b>	<i>Gross technical provisions 2020 £'000</i>	<b>Reinsurance technical provisions 2021 £'000</b>	<i>Reinsurance technical provisions 2020 £'000</i>	<b>Net technical provisions 2021 £'000</b>	<i>Net technical provisions 2020 £'000</i>
<b>Direct insurance</b>						
Accident & health	2,573	3,579	340	287	2,233	3,292
Motor (third party liability)	5,327	6,219	1,942	2,379	3,385	3,840
Motor (other classes)	18,998	14,724	1,341	1,134	17,657	13,590
Marine, aviation and transport	60,804	50,826	24,893	21,206	35,911	29,620
Fire and other damage to property	155,831	122,186	12,380	14,112	143,451	108,074
Third party liability	186,295	167,388	10,272	10,915	176,023	156,473
Other direct	4,089	3,360	193	354	3,896	3,006
Total direct	433,917	368,282	51,361	50,387	382,556	317,895
<b>Reinsurance</b>	971,652	989,113	192,518	206,932	779,134	782,181
	1,405,569	1,357,395	243,879	257,319	1,161,690	1,100,076

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

UK	412,241	403,491	169,272	186,685	242,969	216,806
EU countries	109,804	97,113	11,808	10,953	97,996	86,160
US	650,230	651,308	45,907	48,263	604,323	603,045
Other	233,294	205,483	16,892	11,418	216,402	194,065
Total	1,405,569	1,357,395	243,879	257,319	1,161,690	1,100,076

**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>2021 £'000</b>	<i>2020 £'000</i>
5% increase in loss ratio - gross	(20,840)	(20,408)
5% increase in loss ratio - net	(19,018)	(17,927)
5% decrease in loss ratio - gross	20,840	20,408
5% decrease in loss ratio - net	19,018	17,927
5% increase in expenses ratio - gross	(20,840)	(20,408)
5% increase in expenses ratio - net	(19,018)	(17,927)
5% decrease in expenses ratio - gross	20,840	20,408
5% decrease in expenses ratio - net	19,018	17,927

## 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 2021 year rates.

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

	2011 and prior £'000	2012 £'000	2013 £'000	2014 £'000	2015 £'000	2016 £'000	2017 £'000	2018 £'000	2019 £'000	2020 £'000	2021 £'000	Total £'000
Estimated of claims incurred												
At end of underwriting year	-	175,691	104,349	90,448	81,322	122,731	410,759	246,666	214,468	170,512	194,024	-
After one year	-	243,566	163,384	152,446	150,038	239,213	517,958	383,090	340,614	302,360	-	-
After two years	-	211,912	155,298	141,554	141,958	240,493	496,714	367,312	315,892	-	-	-
After three years	-	199,257	138,470	137,059	133,472	223,635	465,832	326,212	-	-	-	-
After four years	-	190,712	130,473	131,731	129,548	215,521	450,501	-	-	-	-	-
After five years	-	183,159	131,652	130,351	126,966	209,091	-	-	-	-	-	-
After six years	-	182,304	121,844	133,016	123,645	-	-	-	-	-	-	-
After seven years	-	180,142	121,202	132,003	-	-	-	-	-	-	-	-
After eight years	-	176,420	118,312	-	-	-	-	-	-	-	-	-
After nine years	-	175,005	-	-	-	-	-	-	-	-	-	-
Cumulative payments	-	158,767	103,913	109,608	94,983	136,853	338,937	203,386	153,665	90,070	27,766	-
Gross claims reserves	288,340	16,238	14,399	22,395	28,662	72,238	111,564	122,826	162,227	212,290	166,258	1,217,437

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

	2011 and prior £'000	2012 £'000	2013 £'000	2014 £'000	2015 £'000	2016 £'000	2017 £'000	2018 £'000	2019 £'000	2020 £'000	2021 £'000	Total £'000
Estimated of claims incurred												
At end of underwriting year	-	122,075	96,984	89,222	79,037	115,121	244,875	176,430	197,381	164,828	189,823	-
After one year	-	185,436	143,882	143,990	144,798	228,308	348,453	286,006	304,540	268,086	-	-
After two years	-	156,290	137,877	134,953	133,822	229,195	338,907	283,526	287,616	-	-	-
After three years	-	142,941	121,523	128,791	123,595	213,246	329,188	263,718	-	-	-	-
After four years	-	134,665	115,908	123,026	121,350	205,261	321,622	-	-	-	-	-
After five years	-	127,056	116,501	120,970	118,500	198,977	-	-	-	-	-	-
After six years	-	127,396	113,037	120,007	117,348	-	-	-	-	-	-	-
After seven years	-	125,877	113,430	118,654	-	-	-	-	-	-	-	-
After eight years	-	122,749	110,587	-	-	-	-	-	-	-	-	-
After nine years	-	121,394	-	-	-	-	-	-	-	-	-	-
Cumulative payments	-	105,603	97,697	99,996	90,627	131,503	227,678	169,985	150,669	83,546	26,081	-
Net claims reserves	164,856	15,791	12,890	18,658	26,721	67,474	93,944	93,733	136,947	184,540	163,742	979,296

## 17 Accruals and deferred income

Included within these amounts are £778,000 (2020: £324,000) in respect of reinsurance deferred acquisition costs.

## 18 Related parties

In 2021, managing agency fees of £2,175,000 (2020: £2,175,000) were paid by the syndicate to Faraday Underwriting Limited. In addition to this, expenses of £25,673,000 (2020: £24,959,000) 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 (2020: £nil). In respect of other transactions, Faraday Underwriting Limited was charged £1,639,000 for expenses (2020: £1,650,000). The amount due to Faraday Underwriting Limited at the year end was £nil (2020: £40,000).

## 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 members' FAL to meet liquidity requirements or to settle losses.

## 20 Brexit

The United Kingdom officially left the EU on 31 January 2020 and, as a syndicate at Lloyd's, any business written in the EU since that date is now placed through to Lloyd's Insurance Company S.A, ('Lloyd's Europe'), the carrier established specifically for that purpose. A transition period was in operation during the balance of 2020 whilst a formal Brexit deal was negotiated; EU business already written by the syndicate was subject to processes in place to ensure policyholders continue to benefit from our support. Following High Court approval of the Scheme of Transfer on 25 November 2020 the syndicate transferred all relevant policies and related liabilities for 1993 and later years of account to Lloyd's Europe on 30 December 2020 in accordance with Part VII of the Financial Services and Markets Act 2000. On the same date the syndicate's member entered a 100% quota share reinsurance agreement whereby Lloyd's Europe reinsured all risks on the same policies back to the relevant open years of account of the syndicate and the sum of USD 65,119,000 was transferred from the syndicate to Lloyd's Europe. The combined impact of the two transactions had no economic effect on the syndicate and accordingly there is no impact on the syndicate's Profit and Loss Account or Balance Sheet.

2020 underwriting year results for the transferred policies have been reported in the same classes of business as in prior years, as the effective date of the transfer was 30 December 2020. In accordance with guidance from Lloyd's no movements were processed on these policies on 31 December 2020. With effect from 2021, results relating to these risks are reported under the inwards reinsurance class of business reflecting the new contractual relationship with Lloyd's Europe. From an operational perspective Faraday continues to monitor and assess the information that is available and arises from all policies and the managing agent considers that Brexit will not cause a significant impact on the future of the business or have a material effect on the financial statements. Faraday continues to work closely with Lloyd's to ensure our systems are reporting mechanisms comply with all requirements remaining mindful of the wider regulatory issues surrounding Brexit.