

Faraday Capital Limited
Annual Report and Financial Statements
Year ended 31 December 2019

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Faraday Capital Limited

Contents

	Page
Corporate information	2
Directors' Report	3
Strategic Report	6
Independent Auditor's Report	10
Profit and Loss Account: technical account – general business	13
Profit and Loss Account: non-technical account	14
Statement of Comprehensive Income	14
Balance Sheet	15
Statement of Changes in Equity	17
Notes to the Financial Statements	18

Faraday Capital Limited
Corporate Information

Directors:

Andrew D'Arcy

Kevin Harker

Stephen Michael

Tom Shelley (appointed 7 June 2019)

Company Secretary:

Elisabeth Richardson

Registered office:

Corn Exchange
55 Mark Lane
London
EC3R 7NE

Company number:

2982540

Faraday Capital Limited

Directors' Report

The Directors submit their Annual Report and audited Financial Statements for Faraday Capital Limited ("the Company") for the year ended 31 December 2019. The Strategic Report on page 6 contains the information required to be disclosed under the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013.

The Company is a wholly owned indirect subsidiary of Berkshire Hathaway Inc. and operates as part of the worldwide reinsurance and insurance operations of General Re Corporation. The Company is a corporate member of Lloyd's participating solely on Syndicate 435 ("the Syndicate"), which is managed by Faraday Underwriting Limited, itself a related company. The Company is a private company limited by shares.

Results

As shown in the Company's Profit and Loss Account on pages 13 and 14, the profit on ordinary activities for the year before tax was £36,817,000 (2018: £14,188,000). The profit after tax amounts to £30,723,000 for the financial year (2018: £9,370,000). The Balance Sheet on pages 15 and 16 shows that total equity shareholder's funds increased to £74,896,000 in 2019 from £55,709,000 in 2018. This was due to the profit generated in Syndicate 435 in 2019.

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

The Company provided capacity of £336,000,000 to the Syndicate for the 2017 year of account; this increased to £400,000,000 for the 2018 year of account and £400,000,000 for the 2019 year of account. Capacity amounting to £435,000,000 is being provided for the 2020 year of account. The 2017 year of account was closed into the 2018 year of account at 31 December 2019 at a loss of 3.47% on capacity. The Managing Agent of the Syndicate is currently forecasting a range of (21.75%) to (26.75%) for the 2018 year of account. The Directors consider it is too early to make a prediction as to the eventual outcome of the 2018 year of account. The Company has provided 100% of the stamp capacity on the Syndicate since the 2003 year of account.

At the time of this Report, COVID-19 has meant remote working is required for all staff. More detail is given in Note 23 to the Financial Statements.

Basis of presentation

The basis of preparation note on page 18 states that the Financial Statements have been prepared under the provision of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 ("SI2008/410") relating to insurance companies. In presenting the Financial Statements in this way, the Balance Sheet and Profit and Loss Account reflect not only the Company's own transactions, but also its share of the Syndicate's activities on which it participates. This, in turn, may provide the readers of the Financial Statements with the impression that the Company has access to and control over the assets, liabilities, income and expenses of the Syndicate, which is not the case.

The inclusion of the Syndicate's balances reflects the application of the accounting convention followed by private and public limited insurance companies, where all Directors are normally also responsible for management of the company. The application of this convention to these Financial Statements should not be interpreted as evidence that the Directors have, in any way, the right or obligation to exercise their influence on the activities of the Syndicate in their capacity as Directors of the Company.

Faraday Capital Limited

Directors' Report (continued)

Directors

The names of the Directors are shown on page 2. All served throughout the period under review, except where noted, and remain in office as at the signing of this Annual Report.

Going concern

The world is experiencing a global pandemic at this time. The principal activity of the Company is to act as corporate member of Syndicate 435 at Lloyd's. The insurance business of Syndicate 435 is not expected to be significantly affected by COVID-19. Notes 1 and 23 to the Financial Statements provides more information in relation to the Company. After making enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the going concern basis continues to be adopted in preparing the Annual Report and Financial Statements.

Future developments

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

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report and the Financial Statements in accordance with applicable laws and regulations.

Company law requires the Directors to prepare Financial Statements for each financial year. Under the law the Directors have elected to prepare the Financial Statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice). Company law requires the Directors to ensure that the Financial Statements give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that year. In preparing these Financial Statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable United Kingdom Accounting Standards have been followed, subject to any material departures disclosed and explained in the Financial Statements; and
- prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records which disclose with reasonable accuracy at any time the financial position of the Company and which enable them to ensure that the Financial Statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence, for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Financial risk management objectives and policies

The Company's approach to Financial risk management is detailed in Note 17.

Faraday Capital Limited

Directors' Report (continued)

Statement of disclosure of information to Auditors

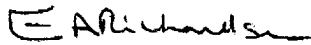
Each of the Directors at the date of this Report confirms that:

- so far as each of them is aware, there is no information relevant to the audit of the Company's Financial Statements for the year ended 31 December 2019 of which the auditors are unaware; and
- the Director has taken all the steps that he ought to have taken in his duty as a Director to make himself aware of any relevant audit information and to establish that the Company's Auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418(2) of the Companies Act 2006.

The Company hereby gives formal notification of a proposal to re-appoint Deloitte LLP as auditor for a further year.

Approved and issued by order of the Board



Elisabeth Richardson
Company Secretary

23 July 2020

Faraday Capital Limited

Strategic Report

The Strategic Report as required under the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013 contains a review of the business including an analysis of its performance during the year ended 31 December 2019, as well as the principal risks and uncertainties facing the business and future developments.

Principal activity and review of the business

The Company is a corporate member of Lloyd's participating solely on Syndicate 435 ("the Syndicate"), which is managed by Faraday Underwriting Limited, a related company.

The Directors are not aware, as of the date of this report, of any changes in the Company's activities in the next financial year.

Principal risks and uncertainties

As a corporate vehicle at Lloyd's participating as a fully aligned Name on the Syndicate, the Directors believe that the two key risks facing the Company are the availability of capital to continue to provide support to the Syndicate and the management of the affairs of the Syndicate.

With respect to the first risk, the Directors are satisfied that liquidity and other financial support will continue to be forthcoming from its intermediate parent company, General Re Corporation and a related group company National Indemnity Company.

With respect to the second risk, the main financial risks in relation to the Syndicate are insurance risk, market risk and credit risk through its underwriting and investment activities. The Syndicate's exposures to these risks are controlled through the application of rigorous pricing techniques, a conservative reserving approach, prudent investment policies and proactive credit control procedures. Exposure to liquidity or cash flow risk is minimal given the quality and duration of the Syndicate's investment portfolio. The controls of these risks are discussed in further detail in the Annual Report of the Syndicate, a copy of which can be obtained from Corn Exchange, 55 Mark Lane, London, EC3R 7NE.

The Board of the Managing Agent retains responsibility for the design of the risk management framework of the Syndicate and approval of the risk appetites. A formal risk strategy and set of risk policies have been put in place which are consistent with the Syndicate's business strategy. They are supported by a series of risk appetites which set out the Board's desire for risk. The risk management system includes a Risk & Capital Committee which reports to the Board through the Audit & Risk Committee.

The Executive Management Committee is responsible for the execution of the business strategy and meets on a regular basis to manage the business from an operational perspective. It is supported by formal Groups which are responsible for day-to-day Underwriting, Investment Review, management of the Syndicate's counterparty exposures, data analytics and information technology; these Groups report directly to the Executive Management Committee.

The Risk & Capital Committee oversees the risk profile of the Syndicate. Risk and control owners are responsible for assessing and managing the risks for which they are held accountable, using a series of key metrics on both a quantitative and qualitative basis.

Faraday Capital Limited

Strategic Report (continued)

Principal risks and uncertainties (continued)

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

From a day to day operational perspective, the Chief Underwriting Officer monitors underwriting risk, including the oversight of catastrophe exposures and reinsurance protections. The Head of Claims is responsible for claims management and the Chief Actuary, in conjunction with the Financial 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. The Chief Executive Officer is responsible for the strategic risk, risk related to personnel and group risk.

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

Going concern has been considered by the Directors and the relevant conclusions can be found in the 'Basis of Preparation' accounting policy in these Financial Statements.

Financial Key Performance Indicators

A key performance indicator for the Company is the achieved combined ratio compared with the targets set for Syndicate 435 by the board of the Managing Agent. In this respect, the Syndicate continues to perform well, as a result of the favourable loss experience. This has led to the reported combined ratio for the Company of 99.8% (2018: 97.9%) which was better than target.

Key stakeholders and the Company's responsibilities

The directors are fully aware of their ongoing 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 board acts in good faith to promote the success of the Company for the benefit of the members as a whole. Decision making is made in an informed manner, having regard to the impact on stakeholders and matters set out in section 172 of the Companies Act 2006. The requirements of section 172 are not new to the board, the impact of any change in the strategic direction of the business is considered for all stakeholders. 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 board 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

Faraday Capital Limited

Strategic Report (continued)

Key stakeholders and the Company's responsibilities (continued)

- Employees are fundamental to the success of the business. The directors strive 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 Company. 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 are 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 the regulatory requirements and guidelines as well as the legal framework and Risk and Compliance aspects of the (re)insurance industry. The Company 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. High business standards are promoted throughout the organisation. The board revisits the overall strategy at a formal off-site 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 board is conscious of its environmental and social responsibilities. Care is taken to minimise any adverse impact the business might have on the wider environment. All staff are encouraged to reduce waste and recycle what remains. A significant reduction in the use of plastic was achieved during 2019.

COVID-19

The world is currently experiencing an unprecedented pandemic with a negative impact on the global economy. The Directors have considered the impact of COVID-19 on the Company's financial strength, taking into account a number of factors. More information is given in Notes 1 and 23 to the Financial Statements.

Climate change

The impact on the business from climate change continues to be assessed. The Company is mindful of its corporate and social responsibilities in the global market place in which the Syndicate is active. There is an on-going review of the risk factors from a financial and an operational perspective; all relevant data is considered and action taken as appropriate.

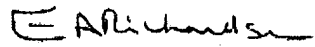
Future developments

As stated above, no change to the Company's principal activity is anticipated; however, much work continues to be undertaken to ensure the optimum outcome for policyholders as well as adding strength to the Faraday brand.

Faraday Capital Limited

Strategic Report (continued)

Approved and issued by order of the Board

A handwritten signature in black ink, appearing to read 'E Richardson', written in a cursive style.

Elisabeth Richardson
Company Secretary

23 July 2020

Faraday Capital Limited

Independent Auditor's Report to the Member of Faraday Capital Limited

Report on the audit of the financial statements

Opinion

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31st December 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Faraday Capital Limited (the 'company') which comprise:

- the profit and loss account;
- the balance sheet;
- the statement of changes in equity; and
- the related notes 1 to 23.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including 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 financial statements section of our report.

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

Conclusions relating to going concern

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

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

We have nothing to report in respect of these matters.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the 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.

Faraday Capital Limited

Independent Auditor's Report to the Member of Faraday Capital Limited (continued)

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

We have nothing to report in respect of these matters.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the 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 financial statements.

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

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company'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 company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Faraday Capital Limited
Independent Auditor's Report to the Member of Faraday Capital Limited (continued)

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

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

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.



Andrew Downes (Senior statutory auditor)
for and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
23 July 2020

Faraday Capital Limited

Profit and Loss Account: Technical Account – general business

For the year ended 31 December	Notes	2019 £000	2018 £000
Earned premiums, net of reinsurance			
Gross premiums written	18	447,821	469,621
Outward reinsurance premiums ceded		(43,518)	(41,215)
Net premiums written		<u>404,303</u>	<u>428,406</u>
Change in provision for unearned premiums			
Gross amount		(4,417)	(4,326)
Reinsurers' share		(1,183)	(1,260)
Change in provision for unearned premiums, net		<u>(5,600)</u>	<u>(5,586)</u>
Earned premiums, net of reinsurance		<u>398,703</u>	<u>422,820</u>
Claims incurred, net of reinsurance			
Claims paid			
Gross amount		(240,893)	(327,502)
Reinsurers' share		38,587	103,429
Net claims paid		<u>(202,306)</u>	<u>(224,073)</u>
Change in provision for claims			
Gross amount		(51,688)	(159,572)
Reinsurers' share		(21,240)	67,016
Change in provision for claims, net		<u>(72,928)</u>	<u>(92,556)</u>
Claims incurred, net of reinsurance		<u>(275,234)</u>	<u>(316,629)</u>
Net operating expenses	4,18	(122,580)	(97,169)
Total technical charges		<u>(397,814)</u>	<u>(413,798)</u>
Balance on the technical account - general business	18	<u>889</u>	<u>9,022</u>

Notes 1 to 23 form part of these Financial Statements

Faraday Capital Limited

Profit and Loss Account: Non-Technical Account

For the year ended 31 December	Notes	2019 £000	2018 £000
Balance on the technical account - general business	18	889	9,022
Investment income	10	23,332	18,051
Movement in unrealised gains on investments	10	4,003	(5,624)
Investment expenses and charges	10	(554)	(417)
Investment return	10	26,781	12,010
Foreign exchange	7	9,231	(6,221)
Other charges	8	(84)	(623)
Profit on ordinary activities before taxation	5	36,817	14,188
Tax credit on profit/loss on ordinary activities	9	(6,094)	(4,818)
Profit for the financial year		30,723	9,370

All profits arise from continuing operations.

Statement of Comprehensive Income

For the year ended 31 December

Profit for the financial year	30,723	9,370
Foreign currency translation	(11,536)	10,306
Total recognised gains since the last annual report	19,187	19,676

Notes 1 to 23 form part of these Financial Statements

Faraday Capital Limited

Balance Sheet

As at 31 December	Notes	2019 £000	2018 £000
ASSETS			
Financial investments			
Debt and fixed income securities	11	950,376	850,147
Deposits with credit institutions	11	43,380	63,494
Shares and other variable yield securities	11	1,551	-
		995,307	913,641
Reinsurers' share of technical provisions			
Provision for unearned premiums		4,339	4,082
Claims outstanding		295,576	323,599
		299,915	327,681
Debtors			
Debtors arising out of direct insurance operations		48,447	38,762
Debtors arising out of reinsurance operations	12	79,065	92,973
Other debtors:			
Amounts falling due within one year	13	2,777	-
Amounts falling due after one year	13	28,437	36,799
		158,726	168,534
Other assets			
Cash at bank and in hand		51,318	21,111
Prepayments and accrued income			
Accrued interest		4,833	4,564
Deferred acquisition costs		35,065	31,446
		39,898	36,010
Total assets		1,545,164	1,466,977

Notes 1 to 23 form part of these Financial Statements

Faraday Capital Limited

Balance Sheet (continued)

As at 31 December	Notes	2019 £000	2018 £000
LIABILITIES			
Capital and reserves			
Called up share capital	19	1,500	1,500
Profit and loss account		73,396	54,209
Total equity shareholder's funds		74,896	55,709
Technical provisions			
Provision for unearned premiums		161,035	158,250
Claims outstanding		1,242,427	1,215,834
		1,403,462	1,374,084
Creditors: amounts falling due within one year			
Creditors arising out of direct insurance operations		9,181	2,840
Creditors arising out of reinsurance operations		34,743	8,688
Other creditors	14	2,073	3,553
Accruals and deferred income		41	830
		46,038	15,911
Creditors amounts falling due after more than one year			
Creditors arising out of reinsurance operations		20,768	21,273
Other creditors	15	-	-
		20,768	21,273
Total liabilities		1,545,164	1,466,977

These Financial Statements were approved by the Board of Directors and authorised for issue on 23 July 2020 and were signed on its behalf by



Kevin Harker
Director

Registered in England and Wales number 2982540

Notes 1 to 23 form part of these Financial Statements

Faraday Capital Limited

Statement of Changes in Equity

For the year ended 31 December	2019 £000	2018 £000
Equity shareholder's funds at 1 January	55,709	36,033
Total comprehensive income		
Profit for the financial year	19,187	19,676
Dividend paid	-	-
Equity shareholder's funds at 31 December	74,896	55,709

Faraday Capital Limited

Notes to the Financial Statements

1 Basis of preparation

The Financial Statements have been prepared under the provision of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 ("SI2008/410") relating to insurance companies and in accordance with applicable United Kingdom Accounting Standards, including Financial Reporting Standard 102: The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland ('FRS 102') and Financial Reporting Standard 103: Insurance Contracts ('FRS 103'). The Financial Statements have been prepared under the historical cost convention.

Having taken into account the risks and uncertainties and the performance of the business as disclosed in the Directors' Report and making inquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Annual Report and Financial Statements.

The Company meets the definition of a qualifying entity under FRS 102 and has therefore taken advantage of the disclosure exemptions available to it in respect of its separate Financial Statements, which are presented alongside the consolidated Financial Statements. Exemptions have been taken in relation to presentation of a Cash flow Statement and intra-group transactions.

FRS 102.33.1A exempts the reporting of transactions between group companies in the Financial Statements of companies that are wholly owned within the group. The Company has taken advantage of this exemption. There are no other transactions requiring disclosure.

Basis of accounting for underwriting activities

All classes of business are accounted for under the annual accounting basis.

The results of the Company's underwriting activities are included in the technical account, which has been prepared based upon the Company's share of transactions of Syndicate 435 ("the Syndicate") on which the Company participates.

Substantially all items in the technical account result from transactions in the premium trust funds. The majority of the assets and liabilities in the Balance Sheet are held in the premium trust funds of the Syndicate.

Going concern

The principal activity of the Company is to act as the corporate member of Syndicate 435 at Lloyd's. The insurance business of Syndicate 435 is not expected to be significantly affected by COVID-19.

The Directors have considered the impact of COVID-19 on the Company's financial strength, taking into account a number of factors. These include the impact the pandemic is having on the global economy, the effect on the Company with remote working and operation of the Company. The organisation has adapted well to the changes and staff are coping. Management maintains contact with staff with regular updates on all business and operational matters.

Faraday Capital Limited

Notes to the Financial Statements (continued)

Going concern (continued)

Having taken into account the risks and uncertainties and the performance of the underlying subsidiaries' businesses as disclosed in the Directors' report and after making appropriate enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future and do not anticipate any change to the ability to continue operating on a going concern basis.

Accordingly, they continue to adopt the going concern basis in preparing the Annual Report and Financial Statements.

2 Accounting policies

Premiums

Premiums written comprise premiums on policies inceptioned 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.

Reinsurance premiums ceded

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

Unearned premiums

Unearned premiums represent the proportion of premiums written prior to the end of 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.

Acquisition costs

Acquisition costs, comprising commission and brokerage, are incurred on insurance and reinsurance contracts written during the financial year. They are earned over the policy period to which the premiums on the underlying business relate. Deferred acquisition costs represent the proportion of acquisition costs incurred in respect of unearned premiums at the Balance Sheet date. Deferred acquisitions costs are shown net of any deferred acquisition costs in respect of unearned reinsurance premiums ceded.

Claims paid

Claims paid comprise claims and claims handling expenses paid during the financial year.

Claims provisions

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 from 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 arises from projections, estimates may be based in part on output from rating and other models of the business accepted and assessments of underwriting conditions.

Faraday Capital Limited

Notes to the Financial Statements (continued)

Claims provisions (continued)

The reinsurers' share of claims outstanding is based on the amounts of 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 in making these estimates.

The two most critical assumptions as regards 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. 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 outstanding 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.

Foreign currencies

The Company's functional currency is US dollar (USD). The Company's chosen presentational currency is sterling (GBP); this achieves consistency with prior year reporting.

Transactions in currencies other than the functional currency are initially recorded at rates approximating to the rate of exchange at the date of the transaction.

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

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

Investments

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

The Directors use their judgement in selecting an appropriate valuation technique. Where possible, financial instruments are marked at prices quoted in active markets. In certain instances, such price information is not available for all instruments and the Company 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

Faraday Capital Limited

Notes to the Financial Statements (continued)

Investments (continued)

all parameters the Company 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.

Taxation

Current tax, including United Kingdom corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the Balance Sheet date.

In accordance with 'FRS 102.29', deferred tax is provided in full on timing differences which result in an obligation at the Balance Sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in Financial Statements. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

Faraday Capital Limited

Notes to the Financial Statements (continued)

3 Critical accounting and key sources of estimation uncertainty

In the application of Company'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 and key sources of estimation uncertainty in applying the Company's accounting policies

There are no critical judgements, apart from those involving estimates (which are dealt with separately below), in the process of applying the Company'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 18.

Valuation of assets and liabilities of non-life insurance contracts

Estimates are made for both the expected ultimate cost of claims reported and claims incurred but not reported (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.

Faraday Capital Limited

Notes to the Financial Statements (continued)

4 Net operating expenses

	2019 £000	2018 £000
Acquisition costs	98,233	70,992
Change in deferred acquisition costs	(4,140)	(2,162)
	94,103	68,830
Administration expenses	28,487	28,339
	122,580	97,169

5 Profit/(loss) on ordinary activities before tax

	2019 £000	2018 £000
Profit/(loss) on ordinary activities before tax is stated after taking into account:		
Fees payable to the Company's auditors for the audit of the Company's Financial Statements	13	12

6 Staff numbers and costs

Company's share of staff:

	2019 £000	2018 £000
Wages and Salaries	12,016	13,929
Social Security Costs	2,129	2,529
Other Pension Costs	710	813
	14,855	17,271

Company's share of average number of employees:

	2019 Number	2018 Number
Administration and Finance	56	64
Underwriting	31	30
Claims	12	11
	99	105

Faraday Capital Limited

Notes to the Financial Statements (continued)

6 Staff numbers and costs (continued)

The Directors received remuneration in relation to the management of Faraday Capital Limited as follows:

	2019 £000	2018 £000
Emoluments (excluding pension contributions)	7	3
Directors' money purchase scheme pension contributions	-	-

7 Other income

	2019 £000	2018 £000
Foreign currency exchange	9,231	(6,221)

8 Other charges

	2019 £000	2018 £000
Other corporate expenses	(84)	(623)
	(84)	(623)

Faraday Capital Limited

Notes to the Financial Statements (continued)

9 Taxation

	2019 £000	2018 £000
(a) Analysis of charge in year:		
Current tax:		
United Kingdom corporation tax	-	(3,625)
Overseas tax	1,697	(598)
Adjustments in respect of prior years	571	(1,716)
Current tax charge for the year	<u>2,268</u>	<u>(5,939)</u>
Deferred tax:		
Current year	(8,365)	1,121
Adjustments in respect of prior years	3	-
US tax rate change	-	-
	<u>(8,362)</u>	<u>1,121</u>
Tax (charge)/credit on profit/loss on ordinary activities	<u>(6,094)</u>	<u>(4,818)</u>

Faraday Capital Limited has made an election under Section 953(d) of the United States Internal revenue Code to be a United States taxpayer.

(b) Factors affecting the tax charge for year:

Profit/(loss) on ordinary activities before tax	<u>36,817</u>	<u>14,188</u>
United Kingdom corporation tax of 19% (2018: 19%)	(6,995)	(2,696)
Excess overseas tax, above United Kingdom rates:		
In respect of the current year	1,697	(406)
UK Tax benefit not recognised	(574)	-
Adjustments in respect of prior years	574	(1,716)
Impact of US Tax Rate Change on deferrals	(797)	-
Tax (charge)/credit on profit/loss on ordinary activities	<u>(6,094)</u>	<u>(4,818)</u>

(c) Deferred Tax

The deferred tax asset of £28,437,000 (2018: £36,799,000) comprises reported losses that are not assessable to tax until a future year. As the losses are primarily assessed to US tax, the change in the rate of UK corporation tax has no effect on deferred tax.

Faraday Capital Limited

Notes to the Financial Statements (continued)

10 Investment return

	2019	2018
	£000	£000
Net investment income	20,258	16,368
Net investment expenses	(554)	(417)
Gains on the realisation of investments	3,074	1,683
Change in carried value	4,003	(5,624)
Investment return	26,781	12,010

The investment return is generated by bonds.

11 Financial investments

	Carried value		Purchase cost	
	2019	2018	2019	2018
	£000	£000	£000	£000
Debt securities and other fixed income securities	950,376	850,147	946,472	851,434
Deposits with credit institutions	43,380	63,494	43,380	63,494
Shares and other variable yield securities	1,551	-	1,551	-
	995,307	913,641	991,403	914,928

Debt securities and other fixed income securities which are listed total £918,755,000 (2018: £792,555,000). Where a valuation is used, the Company's investment advisers select the most reliable source of data, including observable market data where possible.

12 Debtors arising out of reinsurance operations

	2019	2018
	£000	£000
Company's share of balances due from intermediaries	79,065	92,973

13 Other debtors

	2019	2018
	£000	£000
Amounts falling due within 1 year:		
Company's share of other debtors	2,777	-
Amounts falling due after more than 1 year:		
Deferred taxation asset	28,437	36,799

Faraday Capital Limited

Notes to the Financial Statements (continued)

14 Other creditors:

Amounts falling due within one year	2019 £000	2018 £000
Company's share of other creditors	2,073	1,904
Current taxation liability	-	1,649
	<u>2,073</u>	<u>3,553</u>

15 Other creditors:

Amounts falling due after more than one year	2019 £000	2018 £000
Deferred taxation liability	-	-
Other creditors	-	-
	<u>-</u>	<u>-</u>

16 Capital management

The objective of the Company in managing its capital is to ensure that it will be able to continue as a going concern and comply with the regulators' requirements of the markets in which the Company operates. The capital structure of the Company consists of issued capital and retained earnings.

The Company was in compliance with capital requirements imposed by Lloyd's throughout the financial year in relation to the Syndicate.

17 Financial risk management

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

(a) Fair value

Fair value is the amount for which an asset or liability could be exchanged between willing parties in an arm's length transaction. Fair values are determined at prices quoted in active markets. In some instances, such price information is not available for all instruments and the Company applies valuation techniques to measure such instruments. These valuation techniques make maximum use of market observable data; 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 independently of the risk taker. These inputs and outputs are provided to us by our investment managers who derive them through a formal valuation committee.

Faraday Capital Limited

Notes to the Financial Statements (continued)

17 Financial risk management (continued)

(a) Fair value (continued)

The table below shows financial assets and liabilities carried at fair value through profit or loss (as disclosed in Note 11) grouped into the level in the fair value hierarchy into which each fair value measurement is categorised.

2019

	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Government bonds	585,556	181,314	-	766,870
Corporate bonds	-	174,493	-	174,493
Mortgage and asset-backed securities	-	9,013	-	9,013
Shares and other variable yield securities	-	-	1,551	1,551
Total	585,556	364,820	1,551	951,927

2018

Government bonds	478,652	160,324	-	638,976
Corporate bonds	-	195,559	-	195,559
Mortgage and asset-backed securities	-	15,612	-	15,612
Shares and other variable yield securities	-	-	-	-
Total	478,652	371,495	-	850,147

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

(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 Company in managing its market risk is to ensure risk is managed in line with the Company's risk appetite.

The Company undertakes certain transactions denominated in foreign currencies and has minimal exposure to currency risk as the Company'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.

Faraday Capital Limited

Notes to the Financial Statements (continued)

(b) Market risk (continued)

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

1. Foreign currency exposure

	<i>USD</i> 2019 <i>£'000</i>	<i>USD</i> <i>2018</i> <i>£'000</i>	<i>CAD</i> 2019 <i>£'000</i>	<i>CAD</i> <i>2018</i> <i>£'000</i>
Assets	1,057,698	942,316	55,444	50,094
Liabilities	1,003,842	914,509	40,356	36,897
Net Assets	53,856	27,807	15,088	13,197

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

	<i>USD</i> 2019 <i>£'000</i>	<i>USD</i> <i>2018</i> <i>£'000</i>	<i>CAD</i> 2019 <i>£'000</i>	<i>CAD</i> <i>2018</i> <i>£'000</i>
Change in exchange against GBP				
Weakens by 20%	10,771	8,132	3,018	2,639
Weakens by 10%	5,356	4,066	1,509	1,320
Strengthens by 10%	(5,386)	(4,066)	(1,509)	(1,320)
Strengthens by 20%	(10,771)	(8,132)	(3,018)	(2,639)

2. Interest rate risk management

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

The Company 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 Company 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; this represents management's assessment of the reasonably possible change in interest rates after tax.

	2019 £000	2018 £000
Interest rate risk		
Impact of 50 basis point increase on result	(8,871)	(6,696)
Impact of 50 basis point decrease on result	8,234	6,764
Impact of 50 basis point increase on net assets	(8,871)	(6,696)
Impact of 50 basis point decrease on net assets	8,234	6,764

Faraday Capital Limited

Notes to the Financial Statements (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 Company. The key areas of exposure to credit risk for the Company are in relation to its investment portfolio, reinsurance programme and to a lesser extent amounts due from policyholders and intermediaries.

The objective of the Company in managing its credit risk is to ensure risk is managed in line with Company's risk appetite. The Company 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
2019							
Debt Securities	142,460	630,442	174,539	2,912	23	-	950,376
Deposits with credit institutions	-	-	1,844	-	-	-	1,844
Overseas deposits as investments	26,211	5,384	6,137	3,042	268	494	41,536
Shares and other variable yield securities	-	-	1,551	-	-	-	1,551
Reinsurer share of claims outstanding	-	220,685	69,236	126	-	5,529	295,576
Reinsurance debtors	-	211	603	-	-	-	814
Cash at bank and in hand	-	-	51,318	-	-	-	51,318
Total credit risk	168,671	856,722	305,228	6,080	291	6,023	1,343,015
2018							
Debt Securities	116,803	557,928	171,322	4,062	32	-	850,147
Deposits with credit institutions	-	-	28,735	-	-	-	28,735
Overseas deposits as investments	21,778	4,983	3,909	2,194	113	1,782	34,759
Reinsurer share of claims outstanding	-	191,323	101,017	-	-	31,259	323,599
Reinsurance debtors	-	14,913	1,062	1	-	33	16,009
Cash at bank and in hand	-	-	21,111	-	-	-	21,111
Total credit risk	138,581	769,147	327,156	6,257	145	33,074	1,274,360

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.

Faraday Capital Limited

Notes to the Financial Statements (continued)

4. Credit risk (continued)

	Neither past due nor impaired £'000	Past due less than 30 days £'000	Past due 31 to 60 days £'000	Past due 61 to 90 days £'000	Past due more than 90 days £'000	Past due and impaired £'000	Carrying amount £'000
2019							
Debt Securities	950,376						950,376
Deposits with credit institutions	1,844						1,844
Overseas deposits as investments	41,536						41,536
Shares and other variable yield securities	1,551						1,551
Reinsurer share of claims outstanding	295,576						295,576
Reinsurance debtors	814						814
Cash at bank and in hand	51,318						51,318
Insurance and Reinsurance debtors	48,447						48,447
Other debtors	97,229	19,641	3,360	1,284	732	-	122,246
Total credit risk	1,488,691	19,641	3,360	1,284	732	-	1,513,708
2018							
Debt Securities	850,147						850,147
Deposits with credit institutions	28,735						28,735
Overseas deposits as investments	34,759						34,759
Reinsurer share of claims outstanding	323,599						323,599
Reinsurance debtors	16,009						16,009
Cash at bank and in hand	21,111						21,111
Insurance and Reinsurance debtors	38,762						38,762
Other debtors	94,365	19,105	2,301	316	862	-	116,949
Total credit risk	1,407,486	19,105	2,301	316	862	-	1,430,070

3. Liquidity risk management

Liquidity risk is the risk that the Company cannot meet its obligations associated with financial liabilities as they fall due. The Company has adopted an appropriate liquidity risk management framework for the management of the Company's liquidity requirements. The Company 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 Company's creditors excluding insurance obligations.

	No stated maturity £'000	0-1 year £'000	1-3 years £'000	3-5 years £'000	>5 years £'000	Carrying amount £'000
2019						
Claims Outstanding	-	380,931	361,530	145,369	354,597	1,242,427
Creditors	-	2,073				2,073
Other	-	41				41
	-	383,045	361,530	145,369	354,597	1,244,541
2018						
Claims Outstanding	-	445,444	379,994	100,022	290,374	1,215,834
Creditors	-	4,302				4,302
Other	-	828				828
	-	450,574	379,994	100,022	290,374	1,220,964

Faraday Capital Limited

Notes to the Financial Statements (continued)

5. Liquidity risk management (continued)

The maturity of the Company's financial investments by market value is analysed below:

Maturity	2019 £000	2018 £000
Within 1 year	129,222	135,854
1 – 5 years	811,776	698,026
5 - 10 Years	-	-
Due after 10 years	365	655
Asset backed/mortgage backed	9,013	15,612
	<u>950,376</u>	<u>850,147</u>

Liquidity risk is not a significant risk as all financial investments are readily marketable.

18 Insurance risk management

The Company 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 Company is exposed to the uncertainty surrounding the timing, frequency and severity of claims under these contracts.

The Company 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 Company 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.

1. Concentration

The Company 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.

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

Faraday Capital Limited

Notes to the Financial Statements (continued)

18 Insurance risk management (continued)

1. Concentration (continued)

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

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

2. Balance on the technical account - general business

The following business has all been underwritten in the Lloyd's Insurance Market, which has been treated as one geographical segment and class of business for the purpose of Statement of Standard Accounting Practice No.25 "Segmental Reporting". Segmental information in the format required by the Companies Act 2006, so far as it is available, is as follows:

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

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

Faraday Capital Limited

Notes to the Financial Statements (continued)

18 Insurance risk management (continued)

2. Balance on the technical account - general business (continued)

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

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

3. Technical provisions

The following table shows the analysis of Technical provisions through the year:

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

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

Overall loss development was lower than anticipated across the majority of years and business classes. In particular there were reserve releases of £53,232,000 arising from Property business, as well as releases of £4,028,000 arising from Casualty. In total there was a net release of £57,260,000 during 2019 in respect of claims outstanding at 31 December 2018 (2018: a net release of £86,411,000).

Notes to the Financial Statements (continued)

4. Assumptions and sensitivities

Some results of sensitivity testing are set out below, showing the impact on profit before tax for the financial year and member's balances, 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.

	2019 £000	2018 £000
5% increase in loss ratio - Gross	(22,170)	(23,265)
5% increase in loss ratio - Net	(19,935)	(21,141)
5% decrease in loss ratio - Gross	22,170	23,265
5% decrease in loss ratio - Net	19,935	21,141
	2019 £000	2018 £000
5% increase in expenses ratio - Gross	(22,170)	(23,265)
5% increase in expenses ratio - Net	(19,935)	(21,141)
5% decrease in expenses ratio - Gross	22,170	23,265
5% decrease in expenses ratio - Net	19,935	21,141

Faraday Capital Limited

Notes to the Financial Statements (continued)

5. Claims development tables

The following tables show the development of claims over a period of time on both a gross and net of reinsurance basis for each underwriting year and are translated into GBP at the December 2019 year rates.

An analysis of the claims development - gross

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

An analysis of the claims development - net

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

19 Share capital

	2019 £000	2018 £000
Ordinary shares:		
Authorised, allotted, issued and fully paid:		
1,500,000 (2018: 1,500,000) ordinary shares of £1 each	1,500	1,500

20 Dividends on ordinary shares

No dividends were paid in 2019 (2018: nil)

Faraday Capital Limited

Notes to the Financial Statements (continued)

21 Contingent liabilities and guarantees

The assets of the Company are subject to restrictions on use or transfer as follows:

- a) Assets of the 2017, 2018 and 2019 years of account of Syndicate 435 as at 31 December 2019 amounting to £1,424,864 (as at 31 December 2018, in respect of the 2016, 2017 and 2018 years of account: £1,409,827,000) are held subject to the Lloyd's Premiums Trust Deeds.
- b) The Company has entered into a Deposit Trust Deed with the Society of Lloyd's.

Funds at Lloyd's are composed of third party capital from a related entity. At 31 December 2019 the equities were valued at US\$852,078,000 (£643,403,000). At 31 December 2018 the equities were valued at US\$620,834,000 (£487,425,000).

22 Ultimate and controlling parent company

The ultimate and controlling holding company and parent of the largest holding company of which the Company is a member and for which group Financial Statements are prepared is Berkshire Hathaway Inc., a company incorporated and registered in the United States of America. Copies of their Financial Statements can be obtained from 3555 Farnam Street, Suite 1440, Omaha, NE 68131, USA.

The intermediate controlling company and parent of the smallest group of which the Company is a member to prepare consolidated Financial Statements is General Re Corporation, a company incorporated and registered in the United States of America. The consolidated Financial Statements of General Re Corporation can be obtained from 120 Long Ridge Road. Stamford, CT 06902, USA.

The controlling company and parent of the smallest group of which the Company is a member is Faraday Holdings Limited, a company incorporated in the United Kingdom and registered in England and Wales. Copies of their Financial Statements can be obtained from 55 Mark Lane, London, EC3R 7NE.

23 Subsequent events

The Directors have considered the impact of COVID-19 on the Company's financial strength, taking into account a number of factors. These include the impact the pandemic is having on the global economy, the effect on the Company with remote working and operation of the Company's subsidiaries. The organisation has adapted well to the changes and staff are coping. Management maintains contact with staff with regular updates on all business and operational matters.

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