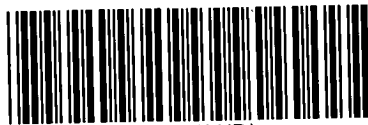


Faraday Capital Limited
Annual Report and Financial Statements
Year ended 31 December 2016

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Faraday Capital Limited

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Faraday Capital Limited

Corporate Information

Directors:

Thomas Bolt (appointed 14 October 2016)

Paul Ceurvorst (resigned 30 April 2016)

Andrew D'Arcy

Stephen Michael (appointed 14 October 2016)

Pietro Toffanello (appointed 18 January and
resigned 14 October 2016)

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

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 Financial Statements for Faraday Capital Limited ("the Company") for the year ended 31 December 2016. 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, a related company.

Results

As shown in the Company's Profit and Loss Account on pages 10 and 11, the profit on ordinary activities for the year before tax was £51,519,000 (2015: profit before tax of £52,045,000). The profit after tax amounts to £29,606,000 for the financial year (2015: £32,362,000).

The Balance Sheet on pages 12 and 13 shows that total equity shareholder's funds increased to £142,358,000 in 2016 from £131,511,000 in 2015. This was due to the payment of a dividend of US\$55,000,000 (equivalent to £43,993,000) to its immediate parent company, Faraday Holdings Limited on 17 November 2016 (2015: US\$90,000,000 equivalent to £59,773,000).

The Company provided capacity of £325,000,000 to the Syndicate for the 2014 to 2016 years of account. Capacity amounting to £325,000,000 is being provided for the 2017 year of account. The 2014 year of account was closed into the 2015 year of account at 31 December 2016 at a profit of 13.5% on capacity. The Managing Agent of the Syndicate is currently forecasting a range of -2.11 to 2.89 for the 2015 year of account. The Directors consider that it is too early to make a prediction as to the eventual outcome of the 2016 year of account. The Company has provided 100% of the stamp capacity on the Syndicate since the 2003 year of account.

No significant events have arisen since the balance sheet date.

Basis of presentation

The Accounting policy note on page 15 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; each served throughout the year except where noted.

Going concern

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 7.

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.



Faraday Capital Limited

Directors Report (continued)

Statement of disclosure of information to Auditors

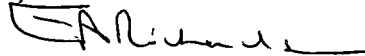
Each of the Directors at the date of this report confirms that:

- 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 2016 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 s418(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.

By order of the Board



E A Richardson
Company Secretary

5 July 2017



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 2016, 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 designate, in conjunction with the Chief Financial Officer, is responsible for reserve risk. The Chief Financial Officer manages all aspects of market risk and credit risk. The Chief Operating Officer is responsible for the oversight of operational risks, as they relate to processes and systems. The Chief Risk Officer is responsible for risk management and regulatory compliance. The Chief Executive Officer is responsible for the strategic risk, risk related to personnel and group risk.

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

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 84.1% (2015: 70.5%) which was better than target.

Future developments

As noted in the Report of the Directors the restructuring of the Faraday business is now complete; this has been an opportunity to refresh the mission, vision and overall strategy. Much work continues to be undertaken to ensure the optimum outcome for policyholders as well as adding strength to the Faraday brand.

As stated above, no change to the Company's principal activity is anticipated.

By order of the board



E A Richardson
Company Secretary

5 July 2017



Faraday Capital Limited

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

We have audited the Financial Statements of Faraday Capital Limited for the year ended 31 December 2016 which comprise the Profit and Loss account, the Statement of Comprehensive Income, the Balance Sheet, the Statement of 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 (United Kingdom Generally Accepted Accounting Practice).

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

Respective responsibilities of Directors and Auditor

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. Our responsibility is to audit and express an opinion on the Financial Statements in accordance with applicable law and International Standards on Auditing (United Kingdom and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the Financial Statements

An audit involves obtaining evidence about the amounts and disclosures in the Financial Statements sufficient to give reasonable assurance that the Financial Statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the Financial Statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited Financial Statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our Report.

Opinion on Financial Statements

In our opinion the Financial Statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.



Faraday Capital Limited

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

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Directors' report and the Strategic report for the financial year for which the Financial Statements are prepared is consistent with the Financial Statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you 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.



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

5 July 2017



Faraday Capital Limited

Profit and Loss Account: Technical Account – general business

For the year ended 31 December	Notes	2016 £000	2015 £000
Earned premiums, net of reinsurance			
Gross premiums written	19	275,360	226,814
Outward reinsurance premiums ceded		<u>(32,592)</u>	<u>(36,164)</u>
Net premiums written		<u>242,768</u>	<u>190,650</u>
Change in provision for unearned premiums			
Gross amount		(19,040)	(10,807)
Reinsurers' share		<u>(2,662)</u>	<u>1,619</u>
Change in provision for unearned premiums, net		<u>(21,702)</u>	<u>(9,188)</u>
Earned premiums, net of reinsurance		<u>221,066</u>	<u>181,462</u>
Claims incurred, net of reinsurance			
Claims paid			
Gross amount		(123,535)	(44,578)
Reinsurers' share		<u>9,049</u>	<u>22,253</u>
Net claims paid		<u>(114,486)</u>	<u>(22,325)</u>
Change in provision for claims			
Gross amount		7,398	(42,565)
Reinsurers' share		<u>282</u>	<u>1,079</u>
Change in provision for claims, net		<u>7,680</u>	<u>(41,486)</u>
Claims incurred, net of reinsurance		<u>(106,806)</u>	<u>(63,811)</u>
Net operating expenses	4,19	(79,183)	(64,352)
Total technical charges		<u>(185,988)</u>	<u>(128,163)</u>
Balance on the technical account - general business	19	<u>35,077</u>	<u>53,299</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	2016 £000	2015 £000
Balance on the technical account - general business	19	35,077	53,299
Investment income		11,754	9,067
Movement in unrealised losses on investments		(2,592)	(2,513)
Investment expenses and charges		(469)	(396)
Investment return		8,693	6,158
Foreign exchange	7	12,162	(4,796)
Other charges	8	(4,413)	(2,616)
Profit on ordinary activities before tax	5	51,519	52,045
Tax charge on profit on ordinary activities	9	(21,913)	(19,683)
Profit for the financial year		29,606	32,362

All profits arise from continuing operations.

Statement of Other Comprehensive Income

For the year ended 31 December

Profit for the financial year	29,606	32,362
Foreign currency translation	25,234	10,299
Total recognised gains since the last annual report	54,840	42,661

Notes 1 to 23 form part of these Financial Statements



Faraday Capital Limited

Balance Sheet

As at 31 December	Notes	2016 £000	2015 £000
ASSETS			
Intangible assets			
Renewal rights	10	-	2,541
Financial investments			
Debt and fixed income securities	12	766,208	687,450
Deposits with credit institutions	12	35,012	22,783
		801,220	710,233
Reinsurers' share of technical provisions			
Provision for unearned premiums		2,743	2,921
Claims outstanding		97,110	86,902
		99,853	89,823
Debtors			
Debtors arising out of direct insurance operations		8,080	7,449
Debtors arising out of reinsurance operations	13	89,101	56,431
Other debtors	14	1,190	75
		98,371	63,955
Other assets			
Cash at bank		20,988	26,512
Prepayments and accrued income			
Accrued interest		3,031	2,749
Deferred acquisition costs		20,327	16,401
		23,358	19,150
Total assets		1,043,790	912,214

Notes 1 to 23 form part of these Financial Statements




Faraday Capital Limited

Balance Sheet (continued)

As at 31 December	Notes	2016 £000	2015 £000
LIABILITIES			
Capital and reserves			
Called up share capital		1,500	1,500
Profit and loss account		140,858	130,011
Total equity shareholder's funds		142,358	131,511
Technical provisions			
Provision for unearned premiums		120,748	85,307
Claims outstanding		743,418	651,880
		864,166	737,187
Creditors: amounts falling due within one year			
Creditors arising out of direct insurance operations		914	997
Creditors arising out of reinsurance operations		7,872	6,532
Other creditors	15	9,263	15,455
Accruals and deferred income		461	414
		18,510	23,398
Creditors amounts falling due after more than one year			
Other creditors	16	18,756	20,118
		18,756	20,118
Total liabilities		1,043,790	912,214

These Financial Statements were approved by the Board of Directors and authorised for issue on 5 July 2017 and were signed on its behalf by


 Andrew D'Arcy
 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

	2016 £000	2015 £000
Equity shareholder's funds at 1 January	131,511	148,623
Profit for the financial year	54,840	42,661
Dividend paid	(43,993)	(59,773)
Equity shareholder's funds at 31 December	142,358	131,511



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 ('FRS102') and Financial Reporting Standard 103: Insurance Contracts ('FRS103').

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.

FRS102.33.1A 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.

2 Accounting policies

Premiums

Premiums written comprise premiums on policies inception 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.



Faraday Capital Limited

Notes to the Financial Statements (continued)

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.

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.



Faraday Capital Limited

Notes to the Financial Statements (continued)

Claims provisions (continued)

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.

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 A) and the lowest priority to unobservable inputs (Level C). 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



Faraday Capital Limited

Notes to the Financial Statements (continued)

Investment fair value hierarchy (continued)

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.

Intangible assets

Intangible assets represent the renewal rights to the business previously written by Faraday Reinsurance Co. Limited. The value of these renewal rights is written off on the first renewal date for each risk.

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.



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

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

Taxation

Current and deferred tax is recognised in respect of all timing differences that have originated but not reversed at the Balance Sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the Balance Sheet date, as set out in the Accounting policy stated in Note 2.

Unrelieved tax losses and other deferred tax assets are recognized only to the extent that, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

The carrying amount of deferred taxation assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Impairment of reinsurance assets

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

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



Faraday Capital Limited

Notes to the Financial Statements (continued)

Key sources of estimation uncertainty

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

Valuation of assets and liabilities of non-life insurance contracts

Estimates are made for both the expected ultimate cost of claims reported and claims 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.

Valuation of financial instruments

The Directors use their judgement in selecting an appropriate valuation technique. Where possible, financial instruments are marked at prices quoted in active markets. In certain instances, such price information is not available for all instruments and the 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 all parameters the Company estimates the non-market observable inputs used in its valuation models.

4 Net operating expenses

	2016	2015
	£000	£000
Acquisition costs	44,146	39,231
Change in deferred acquisition costs	(1,119)	(4,327)
	43,027	34,904
Administration expenses	36,156	29,448
	79,183	64,352

5 Profit on ordinary activities before tax

	2016	2015
	£000	£000
Profit on ordinary activities before tax is stated after taking into account:		
Amortisation of renewal rights	2,541	1,121
Fees payable to the Company's auditors for the audit of the Company's Financial Statements	10	11



Faraday Capital Limited

Notes to the Financial Statements (continued)

6 Staff costs

The Company had no employees in the current or preceding year. Directors receive no remuneration for their services to this Company. They are employees of a related Company, GRF Services Limited, which remunerates the Directors for their services to this Company and related companies. Disclosures regarding Directors' emoluments are contained in the Financial Statements of GRF Services Limited.

7 Other income

	2016 £000	2015 £000
Foreign currency exchange	12,162	(4,796)

8 Other charges

	2016 £000	2015 £000
Other corporate expenses	4	5
Letter of credit fees	1,868	1,490
Renewal rights	2,541	1,121
	4,413	2,616



Faraday Capital Limited

Notes to the Financial Statements (continued)

9 Taxation

	2016 £000	2015 £000
(a) Analysis of charge in year:		
Current tax:		
United Kingdom corporation tax	(11,413)	(16,282)
Overseas tax	(12,075)	(12,760)
Adjustments in respect of prior years	(1,196)	(488)
Current tax charge for the year	(24,684)	(29,530)
Deferred tax:		
Current year	5,427	10,817
Adjustments in respect of prior years	(2,656)	(970)
	2,771	9,847
Tax charge on profit on ordinary activities	(21,913)	(19,683)

Faraday Capital Limited has made an election under Section 953(d) of the United States Internal Code of 1986 to be a United States taxpayer.

(b) Factors affecting the tax charge for year:

Profit on ordinary activities before tax	51,519	52,045
United Kingdom corporation tax of 20.00% (2015: 20.25%)	(10,304)	(10,537)
Excess overseas tax, above United Kingdom rates:		
In respect of the current year	(9,259)	(7,854)
Effect of disallowable expenses	1,502	166
Adjustments in respect of prior years	(3,852)	(1,458)
Current tax charge for year	(21,913)	(19,683)

(c) Deferred Tax

The deferred tax liability of £18,756,000 (2015: £20,118,000) comprises reported profits that are not assessable to tax until a future year. As the profits are primarily assessed to US tax, the change in the rate of UK corporation tax has no effect on deferred tax.

10 Intangible assets

	2016 £000	2015 £000
Net book value at 1 January	2,541	-
Additions for the year	-	3,662
Amortisation for the year	(2,541)	(1,121)
Net book value at 31 December	-	2,541



Faraday Capital Limited

Notes to the Financial Statements (continued)

11 Investment return

	2016 £000	2015 £000
Net investment income	13,044	13,200
Net investment expenses	(469)	(396)
Losses on the realisation of investments	(1,290)	(4,133)
Change in carried value	(2,592)	(2,561)
Investment return	8,693	6,110

The investment return is generated by bonds

12 Financial investments

	Carried value		Purchase cost	
	2016 £000	2015 £000	2016 £000	2015 £000
Debt securities and other fixed income securities	766,208	687,450	758,266	682,858
Deposits with credit institutions	35,012	22,783	35,012	22,783
	801,220	710,233	793,278	705,641

Debt securities and other fixed income securities which are listed total £672,311,000 (2015: £455,928,000). Where a valuation is used, the Company's investment advisers select the most reliable source of data, including observable market data where possible.

13 Debtors arising out of reinsurance operations

	2016 £000	2015 £000
Company's share of balances due from intermediaries	89,101	56,431

14 Other debtors

	2016 £000	2015 £000
Amounts falling due within 1 year: Company's share of other debtors	1,190	75



Faraday Capital Limited

Notes to the Financial Statements (continued)

15 Other creditors:

Amounts falling due within one year	2016 £000	2015 £000
Company's share of other creditors	4,893	9,111
Current taxation liability	4,370	6,344
	<u>9,263</u>	<u>15,455</u>

16 Other creditors:

Amounts falling due after more than one year	2016 £000	2015 £000
Deferred taxation liability	18,756	20,118
	<u>18,756</u>	<u>20,118</u>

17 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.

18 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)

18 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 12) grouped into the level in the fair value hierarchy into which each fair value measurement is categorised.

2016

	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Government bonds	312,126	147,876	-	460,002
Corporate bonds	-	269,688	-	269,688
States and Municipalities		-		-
Mortgage and asset-backed securities	-	36,518	-	36,518
Total	312,126	454,082	-	766,208

2015

Government bonds	214,435	142,917	-	357,352
Corporate bonds	-	271,190	-	271,190
Mortgage and asset-backed securities	-	58,908	-	58,908
Total	214,435	473,015	-	687,450

(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.

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

1. Foreign currency exposure

	USD 2016 £'000	USD 2015 £'000	CAD 2016 £'000	CAD 2015 £'000
Assets	738,303	651,868	58,847	37,350
Liabilities	606,384	501,652	38,010	22,120
Net Assets	131,919	150,216	20,837	15,230



Notes to the Financial Statements (continued)

1. Foreign currency exposure (continued)

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> 2016 <i>£'000</i>	<i>USD</i> 2015 <i>£'000</i>	<i>CAD</i> 2016 <i>£'000</i>	<i>CAD</i> 2015 <i>£'000</i>
Change in exchange against GBP				
Weakens by 20%	26,383	30,043	4,167	3,046
Weakens by 10%	13,192	15,021	2,084	1,523
Strengthens by 10%	(13,192)	(15,021)	(2,084)	(1,523)
Strengthens by 20%	(26,383)	(30,043)	(4,167)	(3,046)

2. Interest rate risk management

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

The 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.

	2016 £000	2015 £000
Interest rate risk		
Impact of 50 basis point increase on result	(4,845)	(3,855)
Impact of 50 basis point decrease on result	4,881	3,575
Impact of 50 basis point increase on net assets	(4,845)	(3,855)
Impact of 50 basis point decrease on net assets	4,881	3,575

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.



Notes to the Financial Statements (continued)

3. Credit risk (continued)

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

	AAA £'000	AA £'000	A £'000	BBB £'000	<BBB £'000	Not rated £'000	Total £'000
2016							
Debt Securities	106,616	418,993	225,556	6,870	2,479	5,694	766,208
Deposits with credit institutions	-	-	2,614	-	-	-	2,614
Overseas deposits as investments	20,849	5,054	4,249	1,459	-	787	32,398
Reinsurer share of claims outstanding	-	43,615	50,222	-	-	3,273	97,110
Reinsurance debtors	-	488	1,318	1	36	-	1,843
Cash at bank and in hand	-	-	20,988	-	-	-	20,988
Total credit risk	<u>127,465</u>	<u>468,150</u>	<u>304,947</u>	<u>8,330</u>	<u>2,515</u>	<u>9,754</u>	921,161
2015							
Debt Securities	200,501	241,094	238,104	7,690	61	-	687,450
Deposits with credit institutions	-	-	432	-	-	-	432
Overseas deposits as investments	9,360	3,926	6,180	2,480	23	382	22,351
Reinsurer share of claims outstanding	888	37,108	44,637	702	1,653	1,914	86,902
Reinsurance debtors	-	644	1,479	1	75	-	2,199
Cash at bank and in hand	-	-	26,512	-	-	-	26,512
Total credit risk	<u>210,749</u>	<u>282,128</u>	<u>315,865</u>	<u>10,872</u>	<u>1,737</u>	<u>2,296</u>	823,647

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

	Neither past due nor impaired £'000	Past due less than 30 days £'000	Past due 31 to 60 days £'000	Past due 61 to 90 days £'000	Past due more than 90 days £'000	Past due and impaired £'000	Carrying amount £'000
2016							
Debt Securities	766,208	-	-	-	-	-	766,208
Deposits with credit institutions	2,614	-	-	-	-	-	2,614
Overseas deposits as investments	32,398	-	-	-	-	-	32,398
Reinsurer share of claims outstanding	97,110	-	-	-	-	-	97,110
Reinsurance debtors	1,843	-	-	-	-	-	1,843
Cash at bank and in hand	20,988	-	-	-	-	-	26,512
Insurance and Reinsurance debtors	8,080	-	-	-	-	-	8,080
Other debtors	104,019	8,683	723	522	198	-	114,145
Total credit risk	<u>1,033,260</u>	<u>8,683</u>	<u>723</u>	<u>522</u>	<u>198</u>	<u>-</u>	1,043,386



Faraday Capital Limited

Notes to the Financial Statements (continued)

2015							
Debt Securities	687,450	-	-	-	-	-	687,450
Deposits with credit institutions	432	-	-	-	-	-	432
Overseas deposits as investments	22,351	-	-	-	-	-	22,351
Reinsurer share of claims outstanding	86,902	-	-	-	-	-	86,902
Reinsurance debtors	2,199	-	-	-	-	-	2,199
Cash at bank and in hand	26,512	-	-	-	-	-	26,512
Insurance and Reinsurance debtors	7,449	-	-	-	-	-	7,449
Other debtors	68,406	6,400	683	407	222	-	76,118
Total credit risk	<u>901,701</u>	<u>6,400</u>	<u>683</u>	<u>407</u>	<u>222</u>	<u>-</u>	<u>909,413</u>

4. 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	0-1 year	1-3 years	3-5 years	>5 years	Carrying amount
	2016	2016	2016	2016	2016	
	£'000	£'000	£'000	£'000	£'000	£'000
2016						
Creditors	-	9,263	18,756	-	-	28,019
Other	-	461	-	-	-	461
	-	<u>9,724</u>	<u>18,756</u>	<u>-</u>	<u>-</u>	<u>28,480</u>
2015						
Creditors	-	15,455	20,118	-	-	35,573
Other	-	414	-	-	-	414
	-	<u>15,869</u>	<u>20,118</u>	<u>-</u>	<u>-</u>	<u>35,987</u>

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

Maturity	2016 £000	2015 £000
Within 1 year	332,465	122,176
1 – 5 years	396,132	499,410
5 - 10 Years	-	5,965
Due after 10 years	1,093	991
Asset Backed/Mortgage backed	36,518	58,908
	<u>766,208</u>	<u>687,450</u>

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



Notes to the Financial Statements (continued)

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

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

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



Notes to the Financial Statements (continued)

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
2016						
Direct insurance						
Accident and health	(2)	(2)	2	-	(7)	(7)
Motor (third party liability)	-	-	23	-	-	23
Motor (other classes)	(16)	(16)	1,115	-	11	1,110
Marine, aviation and transport	5,413	5,687	4,767	(678)	(1,524)	8,252
Fire and other damage to property	36,911	33,010	(31,667)	(7,623)	(5,622)	(11,902)
Third party liability	38,190	41,192	(12,731)	(17,764)	(624)	10,073
Other direct	196	175	(2,326)	(55)	475	(1,731)
Total direct	80,692	80,046	(40,817)	(26,120)	(7,291)	5,819
Reinsurance	194,668	176,274	(75,320)	(53,063)	(18,632)	29,259
	275,360	256,320	(116,137)	(79,183)	(25,923)	35,077
2015						
Direct insurance						
Accident and health	(78)	(78)	7	51	5	(15)
Motor (third party liability)	-	-	3	-	(2)	1
Motor (other classes)	-	-	100	-	(75)	25
Marine, aviation and transport	6,744	6,913	(2,493)	(779)	(672)	2,969
Fire and other damage to property	27,390	29,475	(10,886)	(6,843)	(4,511)	7,235
Third party liability	40,113	23,844	(15,221)	(14,625)	(273)	(6,275)
Other direct	87	81	31	(40)	(17)	55
Total direct	74,256	60,235	(28,459)	(22,236)	(5,545)	3,995
Reinsurance	152,558	155,772	(58,684)	(42,116)	(5,668)	49,304
	226,814	216,007	(87,143)	(64,352)	(11,213)	53,299

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

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

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



Notes to the Financial Statements (continued)

3. Technical provisions

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

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

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

Overall loss development was lower than anticipated across the majority of years and business classes. In particular there were reserve releases of £20,787,000 arising from Property business, as well as releases of £64,586,000 arising from Casualty. In total there was a net release of £85,373,000 during 2016 in respect of claims outstanding at 31 December 2015 (2015: a net release of £62,421,000).

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.

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



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 2016 year rates.

	2010 and prior £'00	2011 £'000	2012 £'000	2013 £'000	2014 £'000	2015 £'000	2016 £'000	Total £'000
An analysis of the claims development – gross								
Estimated of claims incurred								
At end of underwriting year		185,546	188,763	109,217	95,487	86,231	128,945	
After one year		264,915	260,456	171,528	161,791	159,550		
After two years		230,825	226,423	163,953	150,496			
After three years		211,155	213,676	145,786				
After four years		206,289	204,451					
After five years		200,743						
Cumulative payments		165,328	143,549	74,826	71,742	32,733	12,369	
Gross claims reserves	253,994	35,415	60,902	70,960	78,754	126,817	116,576	743,418

An analysis of the development – net

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

20 Share capital

Ordinary shares:

Authorised, allotted, issued and fully paid:
1,500,000 (2015: 1,500,000) ordinary
shares of £1 each

2016 £000	2015 £000
1,500	1,500



Notes to the Financial Statements (continued)

21 Dividends on ordinary shares

A dividend of US\$55,000,000 equivalent to £43,993,000 was paid on 17 November 2016 (2015: US\$90,000,000 equivalent to £59,773,000).

22 Contingent liabilities and guarantees

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

- a) Assets of the 2014, 2015 and 2016 years of account of Syndicate 435 as at 31 December 2016 amounting to £931,601,000 (as at 31 December 2015, in respect of the 2013, 2014 and 2015 years of account: £810,742,000) 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. Sterling and US dollar letters of credit have been deposited with the Society of Lloyd's as security in respect of its underwriting business.

During 2016 the Letters of credit that had supported Funds at Lloyd's were replaced with third party capital from a related entity. At 31 December 2016 the equities were valued at US\$786,627,000 (£636,377,912). At 31 December 2015 the Letters of Credit amounted to US\$425,000,000 and £180,000,000. The Company also had a cash balance of US\$76,000 and US\$10,705,000 of its own investments lodged at Lloyd's at 31 December 2015.

23 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 accounts 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.

