

Important information about Syndicate Reports and Accounts

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Syndicate 3500

2014 Annual Report

Syndicate 3500

Annual Report

For the year ended 31st December 2014

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Syndicate 3500
Directors and Administration
For the year ended 31st December 2014

Managing Agent

RiverStone Managing Agency Limited
Park Gate
161 – 163 Preston Road
Brighton
BN1 6AU

Directors of Managing Agent

N. C. Bentley – Director
W. F. Goodier – Independent Non-Executive Chairman
L. A. Hemsley – Finance Director
A. J. Masterson – Independent Non-Executive Director
L. R. Tanzer – Managing Director

Independent Auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
7 More London Riverside
London
SE1 2RT

Syndicate 3500

Managing Director's Report

For the year ended 31st December 2014

Principal Activity

Syndicate 3500 was created in late 2003 to accept the reinsurance-to-close of the 2000 and prior years of account of Syndicates 271 and 506 and the subsequent reinsurance-to-close in 2005 of the 2001 year of account of Syndicate 506.

Prior to effecting the reinsurance-to-close transaction for the 2000 and prior years of account, Syndicates 271 and 506 entered into reinsurance protection agreements with RiverStone Insurance (UK) Limited ("RiverStone Insurance (UK)"), a wholly owned subsidiary of RiverStone Holdings Limited ("RiverStone Holdings"), along with CRC (Bermuda) Reinsurance Limited as a joint and several co-reinsurer. Under these agreements, Syndicates 271 and 506 obtained unlimited protection for all liabilities related to the 2000 and prior years of account. The 2001 year of account of Syndicate 506 was also subject to unlimited protection from RiverStone Insurance (UK). In addition, reimbursement of all operating expenses is covered by the agreements. In November 2013 the participation of CRC (Bermuda) Reinsurance Limited (which by that time had been named CRC Reinsurance Limited) in these arrangements was commuted. All reinsurance protection in respect of Syndicates 271 and 506 is now provided solely by RiverStone Insurance (UK).

Effective 1st January 2011, the 2005 year of account of Syndicate 3500 was closed into a new 2011 year of account.

Effective 1st January 2011, Syndicate 3500 accepted the reinsurance to close of the liabilities of Syndicate 376, a runoff syndicate with underwriting years of 2001 and prior. Also effective 1st January 2011, Syndicate 3500 entered into a reinsurance protection agreement with RiverStone Insurance (UK) to reinsure 50% of the liabilities that were transferred from Syndicate 376.

Effective 1st January 2012, the following transactions occurred resulting in the transfer of additional liabilities into a new 2012 year of account of Syndicate 3500:

Syndicate 3500 accepted the reinsurance to close of the remaining liabilities of Syndicate 2112, comprising business written from 2007 to 2009 covering housebuilders' commercial general liability, marine employer's liability and US auto-trucking physical damage. Syndicate 2112 had unlimited protection for all of its liabilities from RiverStone Insurance (UK).

Syndicate 3500 accepted the reinsurance-to-close of the liabilities of Syndicate 3330, a runoff syndicate with underwriting years of 2002 and prior. This syndicate primarily wrote marine and aviation business, within which the major losses are related to World Trade Centre and Erika.

Syndicate 3500 entered into a transaction to accept the novation of the contracts under which the 2001 and prior years of Syndicate 535 and the 1999 and prior years of Syndicate 1204 were previously closed into Centrewrite Limited. These syndicates primarily wrote engineering and liability business.

Also effective 1st January 2012, Syndicate 3500 entered into reinsurance protection agreements with RiverStone Insurance (UK) to reinsure all of the liabilities that were transferred from Syndicates 3330, 535 and 1204, and to increase the reinsurance of liabilities related to Syndicate 376 from 50% to 100%. As a result of these transactions all of Syndicate 3500's liabilities are fully reinsured by RiverStone Insurance (UK).

RiverStone Managing Agency Limited's ("RiverStone Managing Agency") overall strategic objective in administering the run-off of the portfolios under its management remains the payment of all valid claims in a timely manner within the Lloyd's structure and to collect as soon as possible amounts due from third party reinsurers and under the unlimited reinsurance protection agreement with its affiliate RiverStone Insurance (UK). Additionally, RiverStone Managing Agency actively pursues opportunities to reinsure-to-close further run-off portfolios into Syndicate 3500.

Syndicate 3500

Managing Director's Report

For the year ended 31st December 2014

RiverStone Managing Agency delegates most of its day-to-day management functions under an outsource agreement with RiverStone Management Limited ("RiverStone Management"), a fellow subsidiary of RiverStone Holdings. Provision of services under this agreement is monitored by regular reporting to the board of directors of RiverStone Managing Agency ("the Board"), which includes analysis of performance against key performance indicators.

The sole corporate member for Syndicate 3500 is RiverStone Corporate Capital Limited ("RiverStone Corporate Capital"). All of the capital support is provided by RiverStone Insurance (UK). RiverStone Holdings, whose ultimate parent is Fairfax Financial Holdings Limited ("Fairfax"), is the parent of RiverStone Corporate Capital, RiverStone Managing Agency and RiverStone Insurance (UK).

Business Review

Results and Performance

The result for the 2014 financial year, on an annual accounting basis, is nil (2013: nil).

Total outstanding claims, gross of reinsurance, were £110 million as at 31st December 2014 (2013: £132 million). Total cash, deposits and investments were £60 million at 31st December 2014 (2013: £81 million).

On 10 April 2014 a distribution of £3,749,000 related to the 2011 year of account was made to the corporate member.

Principal Risks and Uncertainties

The process of risk acceptance and risk management is addressed through a framework of policies, procedures and internal controls. All policies are subject to approval by the Board and ongoing review by the Board, executive committees, risk management and internal audit. Compliance with regulatory, legal and ethical standards is a high priority for Syndicate 3500 and RiverStone Managing Agency. The compliance and finance departments of RiverStone Management take on an important oversight role in this regard. The Group Audit Committee of RiverStone Holdings is responsible for satisfying itself that a proper internal control framework exists to manage financial risks and that controls operate effectively.

The risks that Syndicate 3500 is exposed to and their impact on economic capital have been assessed. This process is risk based and uses Individual Capital Assessment principles to manage capital requirements and to ensure that there is sufficient financial strength and capital adequacy to support the obligations to policyholders and regulators. Syndicate 3500 is prepared for the implementation of the European Solvency II Directive, which comes into force on 1 January 2016.

The principal risk to Syndicate 3500 is the failure of the reinsurer of the reinsurance protection agreements. The Board monitors this risk carefully and on a regular basis. The contract with RiverStone Insurance (UK) indemnifies Syndicate 3500 against all losses, including those arising from the failure of third party reinsurers and loss of any other asset. Although protected by RiverStone Insurance (UK) under the reinsurance protection agreement, Syndicate 3500 is managed on a standalone basis, as if this contract was not in place.

Strategy and Future Developments

The Board's strategy for Syndicate 3500 is to continue to actively pursue opportunities to reinsure-to-close further run-off portfolios into Syndicate 3500, along with the efficient and economic management of all existing liabilities. In the event that further reinsurance-to-close transactions do not materialise in the future, and depending on the level of uncertainty surrounding the remaining reserves, the Board will develop a strategy for the closure of Syndicate 3500 by way of a reinsurance-to-close of the remaining liabilities.

Syndicate 3500

Managing Director's Report

For the year ended 31st December 2014

Performance Measurements

RiverStone Managing Agency has made continued progress throughout 2014 in relation to key elements of its strategy. The Board monitors the progress of Syndicate 3500 by particular reference to the reduction in gross loss reserves and reduction in reinsurance recoverables, in a timely and economic manner. During the year, gross loss reserves fell by 17% and third party reinsurance recoverables (excluding group reinsurance protection from RiverStone Insurance (UK)) decreased by 17%. The Board regards this performance as satisfactory.



L. R. Tanzer
Managing Director
4 March 2015

Syndicate 3500

Managing Agent's Report

For the year ended 31st December 2014

The Directors of the managing agent, RiverStone Managing Agency, present their report and the audited financial statements for the year ended 31st December 2014.

The Directors are responsible for preparing the Directors' report and the financial statements in accordance with applicable law and regulations.

Reporting Basis

These Syndicate Annual Accounts are prepared using the annual basis of accounting as required by Statutory Instrument 1950 of 2008, the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 ("the 2008 Regulations").

Principal Activity

The principal activity of Syndicate 3500 is the run-off of its existing liabilities. Additionally, RiverStone Managing Agency actively pursues opportunities to reinsure-to-close further run-off portfolios into Syndicate 3500.

The Business Review is included in the Managing Director's report on pages 4 to 6.

Directors

The Directors of RiverStone Managing Agency holding office during the period from 1st January 2014 to the date of this report were as follows:

N. C. Bentley – Director
W. F. Goodier – Independent Non-Executive Chairman
L. A. Hemsley – Finance Director
A. J. Masterson – Independent Non-Executive Director
L. R. Tanzer – Managing Director

Annual General Meeting

The Directors do not propose to hold an annual general meeting for Syndicate 3500. A meeting will be convened should the sole direct corporate member of Syndicate 3500 request one.

Investment Policy and Management

All assets continue to be invested in a manner to maximize return within agreed investment policies established by RiverStone Managing Agency. These investments are managed within the risk constraints and credit guidelines agreed by the Board. The investment policy and performance of funds are reviewed regularly by the Board. Syndicate 3500 has not been involved in the lending of investments to the securities market.

Syndicate 3500

Managing Agent's Report

For the year ended 31st December 2014

Reinsurance Protection Agreements

All of Syndicate 3500's liabilities are covered by unlimited reinsurance protection agreements with RiverStone Insurance (UK).

Financial Instruments

Syndicate 3500 is exposed to financial risk through its financial assets and liabilities, including its reinsurance assets and policyholder liabilities. In particular, a key financial risk is that the proceeds from financial and reinsurance assets are not sufficient to fund the obligations arising from insurance policies as they fall due. The most important components of this financial risk are market risk (including interest rate risk, pricing risk and currency risk), credit risk and liquidity risk.

Syndicate 3500 manages this risk within its overall risk management framework. Syndicate 3500 does not operate a hedging strategy as all of Syndicate 3500's are protected under its reinsurance arrangements with RiverStone Insurance (UK).

Statement of Managing Agent's Responsibilities

The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 requires RiverStone Managing Agency to prepare Syndicate Annual Accounts at 31st December each year which gives a true and fair view of the state of affairs of Syndicate 3500 and of its profit or loss for that year.

In preparing those Syndicate Annual Accounts, RiverStone Managing Agency is required to:

- select suitable accounting policies, and then apply them consistently, subject to changes arising on the adoption of new accounting standards in the year;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the Syndicate Annual Accounts; and
- prepare the Syndicate Annual Accounts on a going concern basis, unless it is inappropriate to do so.

RiverStone Managing Agency confirms that it has complied with the above requirements in preparing the financial statements.

RiverStone Managing Agency is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of Syndicate 3500 and enable it to ensure that the Syndicate Annual Accounts comply with the 2009 Regulations. It is also responsible for safeguarding the assets of Syndicate 3500 and hence for taking reasonable steps for prevention and detection of fraud and other irregularities.

Statement of Disclosure of Information to Auditors

The Syndicate's auditors are PricewaterhouseCoopers LLP. Each person who is a Director of RiverStone Managing Agency at the date of approval of this Report confirms that:

- so far as the Director is aware, there is no information relevant to the audit of the Syndicate's financial statements for the year ended 31st December 2014 of which the auditors are unaware; and

Syndicate 3500
Managing Agent's Report
For the year ended 31st December 2014

- the Director has taken all steps that he/she ought to have taken in his/her duty as a director in order to make himself or herself aware of any relevant audit information and to establish that the Syndicate's auditors are aware of that information.

By Order of the Board



Park Gate
161-163 Preston Road
Brighton, BN1 6AU

L. R. Tanzer
Managing Director
4 March 2015

Syndicate 3500

Independent Auditors' Report to the Member of Syndicate 3500

For the year ended 31st December 2014

Report on the Syndicate Annual Accounts

Our opinion

In our opinion the syndicate annual accounts, defined below:

- give a true and fair view of the state of the syndicate's affairs as at 31st December 2014 and of its result and cash flows 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 Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008

What we have audited

The syndicate annual accounts for the year ended 31st December 2014, which are prepared by the Managing Agent, comprise:

- the Balance Sheet as at 31 December 2014;
- the Profit and Loss account for the year then ended;
- the cash flow statement, and
- the related notes to the syndicate annual accounts, which include other explanatory information

The financial reporting framework that has been applied in the preparation of the syndicate annual accounts is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the Managing Agent has made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

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

In our opinion the information given in the Managing Agent's Report for the financial year for which the syndicate annual accounts are prepared is consistent with the syndicate annual accounts.

Other matters on which we are required to report by exception

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

- we have not received all the information and explanations we require for our audit, or
- the Managing Agent in respect of the syndicate has not kept adequate accounting records; or
- the syndicate annual accounts are not in agreement with the accounting records.

We have no exceptions to report arising from this responsibility.

Syndicate 3500

Independent Auditors' Report to the Member of Syndicate 3500

For the year ended 31st December 2014

Responsibilities for the Syndicate Annual Accounts and the audit

Our responsibilities and those of the Managing Agent

As explained more fully in the Statement of Managing Agent's Responsibilities set out on page 8, the Managing Agent is responsible for the preparation of syndicate annual accounts and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the syndicate annual accounts in accordance with applicable law and International Standards on Auditing (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the syndicate's members as a body in accordance with section 10 of part 2 of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of syndicate annual accounts involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the syndicate annual accounts sufficient to give reasonable assurance that the syndicate annual accounts are free from material misstatement, whether caused by fraud or error.

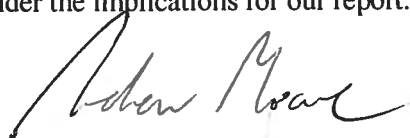
This includes an assessment of:

- whether the accounting policies are appropriate to the syndicate's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Managing Agent; and
- the overall presentation of the syndicate annual accounts.

We primarily focus our work in these areas by assessing the Managing Agent's judgements against available evidence, forming our own judgements, and evaluating the disclosures in the syndicate annual accounts.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited syndicate annual accounts 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.



Andrew Moore (Senior statutory auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
4 March 2015

Syndicate 3500
Profit and Loss Account
For the year ended 31st December 2014

	Note	2014 £'000	2013 £'000
Technical Account – General Business			
Gross premiums written and earned	2	354	169
Outward reinsurance premiums		<u>(354)</u>	<u>(169)</u>
Written and earned premiums net of reinsurance		<u>-</u>	<u>-</u>
Gross claims paid		(19,890)	(34,517)
Reinsurers' share		<u>19,217</u>	<u>30,239</u>
Net claims paid		<u>(673)</u>	<u>(4,278)</u>
Change in the gross provision for claims		27,766	63,183
Reinsurers' share		<u>(27,766)</u>	<u>(63,183)</u>
Change in the net provision for claims		<u>-</u>	<u>-</u>
Claims incurred, net of reinsurance		<u>(673)</u>	<u>(4,278)</u>
Net operating expenses	2, 3	<u>-</u>	<u>-</u>
Other technical charges, net of reinsurance		<u>(673)</u>	<u>(4,278)</u>
Balance on the technical account for general business		(673)	(4,278)
Non-Technical Account			
Investment income	5	813	911
Unrealised losses on investments		(615)	(315)
Unrealised gains on investments		1,079	-
Realised (losses) gains on investments		(411)	3,983
Investment expenses and charges	6	<u>(193)</u>	<u>(301)</u>
Result for the financial year		£ <u>-</u>	£ <u>-</u>

The results above are all derived from discontinued operations.


Syndicate 3500 has no recognised gains or losses other than those included in the Profit and Loss Account above and therefore no Statement of Total Recognised Gains and Losses has been presented.

Syndicate 3500
Balance Sheet
As at 31st December 2014

	Note	2014 £'000	2013 £'000
Assets			
Investments			
Other financial investments	7	49,272	54,906
Reinsurers' share of technical provisions			
Claims outstanding	8	110,055	132,351
Debtors			
Debtors arising out of reinsurance operations	9	13,277	41,646
Other debtors	10	-	2
		13,277	41,648
Other assets			
Cash at bank and in hand		8,339	22,774
Overseas deposits		2,620	3,059
		10,959	25,833
Prepayments and accrued income			
Accrued interest		109	356
Total Assets		£ 183,672	£ 255,094
Liabilities			
Capital and reserves			
Members' balances	11	-	3,749
Technical provisions			
Claims outstanding		110,055	132,351
Creditors			
Creditors arising out of reinsurance operations	12	72,937	118,360
Other creditors including taxation and social security	13	534	406
		73,471	118,766
Accruals and deferred income			
		146	228
Total Liabilities		£ 183,672	£ 255,094

The financial statements on pages 12 to 23 were approved by the Board of RiverStone Managing Agency Limited on 4 March 2015 and were signed on its behalf by:-


L. R. Tanzer
 Managing Director


L.A. Hemsley
 Finance Director

Syndicate 3500
Cash Flow Statement
For the year ended 31st December 2014

	Note	2014 £'000	2013 £'000
Reconciliation of operating profit to net cash inflow from operating activities			
Operating profit for the financial year		-	-
Transfer to corporate member in respect of underwriting participations		(3,749)	-
Realised and unrealised investment gains	14	(3,002)	(2,044)
Decrease in debtors		28,618	1,978
Decrease in creditors		<u>(45,377)</u>	<u>(14,118)</u>
Net cash outflow from operating activities		(23,510)	(14,184)
Financing:			
Cash calls received		<u>-</u>	<u>-</u>
Net cash outflow		£ <u>(23,510)</u>	£ <u>(14,184)</u>
Cash flows were invested as follows:			
(Decrease) increase in cash holdings	14	(14,704)	10,043
Decrease in overseas deposits	14	(478)	(13,785)
Net portfolio disinvestment	14	(8,328)	(15,687)
Deposits received from reinsurers	14	<u>-</u>	<u>5,245</u>
Net investment of cash flows		£ <u>(23,510)</u>	£ <u>(14,184)</u>

Syndicate 3500

Notes to the Financial Statements

For the year ended 31st December 2014

1. Accounting Policies

(a) Basis of Preparation

These Annual Accounts have been prepared in accordance with Regulations 5 of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, and applicable Accounting Standards in the United Kingdom, and comply with the Statement of Recommended Practice on Accounting for Insurance Business issued by the Association of British Insurers in December 2005, as amended in December 2006 ("the ABI SORP"), as applicable.

The directors of the Managing Agent have prepared the financial statements on the basis that Syndicate 3500 will continue to meet its obligations as they fall due. The ability of Syndicate 3500 to meet its obligations as they fall due is underpinned by the support provided by Lloyd's solvency process and its chain of security for any members who are unable to meet their underwriting liabilities. This chain of security included Funds at Lloyd's, which are further explained in Note 18.

(b) Basis of Accounting

Under the annual basis of accounting, the incurred cost of claims, commission and related expenses are charged against the earned proportion of premiums, net of reinsurance.

(c) Premiums Written

Premiums written relate solely to adjustments made in the year to estimates of premiums written in prior years. Premiums are shown gross of commission payable and exclude taxes and duties levied on them. Estimates are made for pipeline premiums, including amounts due to Syndicate 3500 not yet notified.

(d) Claims Incurred and Reinsurers' Share

Gross claims incurred comprise claims and settlement expenses (both internal and external) occurring during the year and the movement in provision for outstanding claims and settlement expenses brought forward. Allowance is made for the cost of claims incurred by the balance sheet date but not reported until after the year-end. Incurred claims outstanding are reduced by anticipated salvage and other recoveries from third parties.

The provision for claims outstanding comprises amounts set aside for claims notified and claims incurred but not yet reported (IBNR). The amount included in respect of IBNR is based on statistical techniques of estimation. These techniques generally involve projecting from past experience of the development of claims over time to form a view of the likely ultimate claims to be experienced for more recent underwriting, having regard to variations in the business accepted and the underlying terms and conditions. The provision for claims also includes amounts in respect of internal and external claims handling costs.

As discussed in Note 19 to the financial statements, a number of other estimation techniques have been used in order to arrive at reserves in respect of the claims arising from the terrorist attacks on 11th September 2001.

The reinsurers' share of provisions for claims is based on calculated amounts of outstanding claims and projections for IBNR, net of estimated irrecoverable amounts, having regard to the reinsurance programme in place for the class of business, the claims experience for the year and the current security rating of the reinsurance companies involved. Syndicate 3500 uses a number of statistical techniques to assist in making these estimates.

Syndicate 3500

Notes to the Financial Statements

For the year ended 31st December 2014

The directors consider that the provisions for gross claims and related reinsurance recoveries are fairly stated on the basis of the information currently available to them. However, 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 years are reflected in the financial statements for the period in which the adjustments are made. The provisions are not discounted for the investment earnings that may be expected to arise in the future on the funds retained to meet the future liabilities. The methods used, and the estimates made, are reviewed regularly.

(e) Syndicate Operating Expenses

All costs relating to the administration and handling of claims are shown as part of gross claims paid. All other administrative costs of Syndicate 3500, including any members' expenses, are shown as net operating expenses. With the exception of members' expenses all other costs are covered under the reinsurance protection agreement, and hence no provision for run-off costs has been booked.

(f) Distribution of Profits and Collection of Losses

Lloyd's operates a detailed set of regulations regarding solvency and the distribution of profits and payment of losses between Syndicates and their members. Lloyd's continues to require membership of Syndicates to be on an underwriting year of account basis and profits and losses accrue to members according to their membership of a year of account. Normally profits and losses are settled between Syndicate 3500 and members after results for a year of account are finalised after 36 months. This period may be extended if a year of account goes into run-off. Syndicate 3500 may make earlier on account distributions or cash calls according to the cash flow of a particular year of account and subject to Lloyd's requirements.

(g) Foreign Currencies

Assets and liabilities denominated in foreign currencies are translated to sterling at the rates of exchange ruling at the end of the financial year. Transactions in foreign currencies are translated at the average rate of exchange during the year. Exchange differences arising from the retranslation of opening foreign currency denominated net assets of US dollars, Euros and Canadian dollars are taken to reserves and reported in the Statement of Total Recognised Gains and Losses. Other foreign exchange differences are reported in the non-technical account.

(h) Investments

Investments are stated at current market 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.

(i) Investment Return

Investment return comprises all investment income, realised investment gains and losses and movements in unrealised gains and losses, net of investment expenses and charges. Realised gains and losses on investments carried at market value are calculated as the difference between sale proceeds and purchase price. Movements in unrealised gains and losses on investments represent the difference between the valuation at the balance sheet date, together with the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current period.

Syndicate 3500
Notes to the Financial Statements
For the year ended 31st December 2014

(j) Tax

No amount has been provided in these accounts for tax on trading income. Under Schedule 19 of the Finance Act 1993, managing agents are not required to deduct basic rate income tax from trading income. In addition, all UK basic rate income tax deducted from syndicate investment income is recoverable by managing agents and consequently the distribution made to members or their members' agents is gross of tax. Capital appreciation falls within trading income and is also distributed gross of tax.

No provision has been made for any United States Federal Income Tax payable on underwriting results or investment earnings. Any payments on account made by Syndicate 3500 during the year have been included in the balance sheet under the heading 'other debtors'.

No provision has been made for any other overseas tax payable by members on underwriting results.

2. Segmental Analysis

	Gross premiums written 2014 £'000	Gross premiums earned 2014 £'000	Gross claims incurred 2014 £'000	Gross operating expenses 2014 £'000	Re- insurance balance 2014 £'000
Direct Insurance					
Accident and health	-	-	(108)	35	83
Motor	-	-	104	(34)	(79)
Marine, aviation and transport	10	10	2,149	(692)	(1,650)
Legal expenses	-	-	848	(273)	(648)
Credit and surety	1	1	859	(277)	(657)
Fire and other damage to property	-	-	263	(85)	(201)
Third party liability	7	7	(1,563)	503	1,186
	<u>18</u>	<u>18</u>	<u>2,552</u>	<u>(823)</u>	<u>(1,966)</u>
Reinsurance acceptances	<u>336</u>	<u>336</u>	<u>5,324</u>	<u>(1,714)</u>	<u>(4,400)</u>
Total	£ 354	£ 354	£ 7,876	£ (2,537)	£ (6,366)
	2013 £'000	2013 £'000	2013 £'000	2013 £'000	2013 £'000
Direct Insurance					
Accident and health	-	-	36	(3)	(38)
Motor	-	-	(28)	2	31
Marine, aviation and transport	-	-	691	(60)	(734)
Legal expenses	-	-	(520)	45	552
Credit and surety	-	-	431	(37)	(458)
Fire and other damage to property	-	-	153	(13)	(163)
Third party liability	3	3	(2,224)	193	2,360
	<u>3</u>	<u>3</u>	<u>(1,461)</u>	<u>127</u>	<u>1,550</u>
Reinsurance acceptances	<u>166</u>	<u>166</u>	<u>30,127</u>	<u>(2,618)</u>	<u>(32,172)</u>
Total	£ 169	£ 169	28,666	£ (2,491)	£ (30,622)

Syndicate 3500

Notes to the Financial Statements

For the year ended 31st December 2014

Syndicate 3500 is in run-off and premiums earned during the year are in respect of premiums and adjustments made in the year to estimates of premiums written in prior years. All premiums written were in respect of insurance contracts concluded in the UK.

The reinsurance balance includes £31 million (2013: £5 million) in respect of recoveries made from RiverStone Insurance (UK) under the reinsurance protection agreements.

3. Net Operating Expenses

Syndicate operating expenses included within net operating expenses comprise:

	2014 £'000	2013 £'000
Administrative expenses	2,537	2,491
Less: recovered under reinsurance protection agreement	<u>(2,537)</u>	<u>(2,491)</u>
	£ <u>-</u>	£ <u>-</u>

The management and administration of RiverStone Managing Agency is carried out by RiverStone Management Limited ("RiverStone Management"), a fellow subsidiary, which also provides these services to other group companies. RiverStone Management recharges these costs to RiverStone Managing Agency, which in turn recharges them substantially to Syndicate 3500. These costs are ultimately recovered from RiverStone Insurance Limited under the reinsurance protection agreement.

Operating costs charged to Syndicate 3500 by RiverStone Managing Agency during the year were £2,137,000 (2013: £2,245,000).

The Directors and the Run-off Manager of Syndicate 3500 receive no emoluments from RiverStone Managing Agency. The contracts of employment of the U.K. executive Directors and employees are with RiverStone Management which makes charges for the services described above. Emoluments paid by RiverStone Management to the Directors of RiverStone Managing Agency and the Run-off Manager in respect of their services in relation to Syndicate 3500 are summarised below. These amounts represent emoluments based on an apportionment of time.

	2014 £'000	2013 £'000
Directors of the Managing Agent	£ <u>163</u>	£ <u>276</u>
Run-off Manager	£ <u>88</u>	£ <u>133</u>

Further information in respect of the directors of RiverStone Managing Agency is provided in that company's financial statements.

Syndicate 3500
Notes to the Financial Statements
For the year ended 31st December 2014

4. Auditors' Remuneration

	2014 £'000	2013 £'000
Audit	123	120
Audit related assurance services	25	25
	<u>£ 148</u>	<u>£ 145</u>

5. Investment Income

	2014 £'000	2013 £'000
Income from investment accounts	<u>£ 813</u>	<u>£ 911</u>

6. Investment Expenses and Charges

	2014 £'000	2013 £'000
Interest payable on deposits withheld	-	65
Investment expenses	193	236
	<u>£ 193</u>	<u>£ 301</u>

7. Other Financial Investments

	2014		2013	
	Market Value £'000	Historical Cost £'000	Market Value £'000	Historical Cost £'000
Shares and other variable yield securities	4,809	5,188	-	-
Listed debt securities and other fixed income securities	43,773	41,221	54,137	53,849
Deposits with credit institutions	690	690	769	769
	<u>£ 49,272</u>	<u>£ 47,099</u>	<u>£ 54,906</u>	<u>£ 54,618</u>

8. Reinsurers' Share of Technical Provisions – Claims Outstanding

Included within reinsurers' share of technical provisions – claims outstanding are amounts recoverable from an affiliated company of £63,118,395 (2013: £93,592,320)

Syndicate 3500
Notes to the Financial Statements
For the year ended 31st December 2014

9. Debtors Arising Out of Reinsurance Operations

	2014	2013
	£'000	£'000
Amount owed from intermediaries	8,554	33,476
Premiums receivable from cedants	<u>4,723</u>	<u>8,170</u>
	£ 13,277	£ 41,646

10. Other Debtors

	2014	2013
	£'000	£'000
Names	<u>£ -</u>	<u>£ 2</u>

11. Members' Balances

	2014	2013
	£'000	£'000
Members' balances at 1 st January	3,749	3,749
Total gains recognised during the year	-	-
Distribution to corporate member	<u>(3,749)</u>	<u>-</u>
Members' balances carried forward at 31 st December	£ -	£ 3,749

On 10 April 2014 a distribution of £3,749,000 related to the 2011 year of account was made to the corporate member.

Members participate on syndicates by reference to years of account and their ultimate result, assets and liabilities are assessed with reference to policies incepting in that year of account in respect of their membership of a particular year.

As part of the distribution process in 2014 unpaid cash calls of £2,000 were written off (2013: £2,000 included in Other Debtors). These related to cash calls outstanding in respect of the original members of Syndicates 271 and 506 prior to the reinsurance-to-close.

12. Creditors Arising out of Reinsurance Operations

	2014	2013
	£'000	£'000
Intermediaries	5,227	8,228
Amounts owed to group undertakings	<u>67,710</u>	<u>110,132</u>
	£ 72,937	£ 118,360

Syndicate 3500
Notes to the Financial Statements
For the year ended 31st December 2014

13. Other Creditors Including Taxation and Social Security

	2014 £'000	2013 £'000
Amounts owed to group undertakings	£ <u>534</u>	£ <u>406</u>

14. Movement in Opening and Closing Portfolio Investments Net of Financing

	2014 £'000	2013 £'000
Net cash (outflow) inflow for the year	(14,704)	10,043
Decrease in overseas deposits	(478)	(13,785)
Net portfolio disinvestments	(8,328)	(15,687)
Decrease in deposits from reinsurers	-	5,245
Movement arising from cash flows	(23,510)	(14,184)
Changes in market value and exchange rates	3,002	2,044
Total movement in portfolio investments, net of financing	(20,508)	(12,140)
Balance brought forward at 1 st January, net of financing	80,739	92,879
Balance carried forward at 31st December, net of financing	£ <u>60,231</u>	£ <u>80,739</u>

15. Movement in Cash, Portfolio Investments and Financing

	At 1 January 2014 £'000	Cash Flow £'000	Changes to Market Value and Currencies £'000	At 31 December 2014 £'000
Cash at bank and in hand	22,774	(14,704)	269	8,339
Overseas deposits	3,059	(478)	39	2,620
	<u>25,833</u>	<u>(15,182)</u>	<u>308</u>	<u>10,959</u>
Portfolio investments:				
Shares and other variable yield securities	-	5,188	(379)	4,809
Debt and other fixed income	54,137	(13,390)	3,026	43,773
Deposits with credit institutions	769	(126)	47	690
Total portfolio investments	<u>54,906</u>	<u>(8,328)</u>	<u>2,694</u>	<u>49,272</u>
Total cash, portfolio investments and financing	£ <u>80,739</u>	£ <u>(23,510)</u>	£ <u>3,002</u>	£ <u>60,231</u>

Syndicate 3500
Notes to the Financial Statements
For the year ended 31st December 2014

16. Net Cash Outflow on Portfolio Investments

	2014 £'000	2013 £'000
Shares and other variable yield securities	5,188	-
Debt and other fixed income securities	(13,390)	(15,525)
Deposit with credit institutions	(126)	(162)
Net cash outflow on portfolio investments	£ (8,328)	£ (15,687)

17. Commitments and Contingent Liabilities

As at 31st December 2014, there were no outstanding commitments or contingent liabilities (2013: nil).

18. Funds at Lloyd's

Every member of Lloyd's is required to hold capital at Lloyd's which is held in trust and known as Funds at Lloyd's (FAL). These funds are required primarily in case syndicate assets prove insufficient to meet members' underwriting liabilities. The level of FAL that Lloyd's requires a member to maintain is determined by Lloyd's according to the nature and the amount of risk to be underwritten by the member and the assessment of the reserving risk in respect of that business. FAL is not hypothecated to any specific syndicate participation by a member, therefore there are no specific funds available to a Syndicate which can be precisely identified as its capital. Consequently no amount has been shown in these accounts by way of capital reserves. In addition to the FAL and any additional funds a member may introduce to meet losses, there is a Central Guarantee Fund controlled by Lloyd's which they may utilise to meet any syndicate liabilities that are not met by a member.

19. Claims Relating to Terrorist Attacks of 11th September 2001

Syndicate 3500 has exposure to insured losses incurred in the terrorist attacks in the United States of America on 11th September 2001. Syndicate 3500 was a first tier reinsurer of American Airlines and a direct insurer of losses related to property and contingency coverage. Syndicate 3500 also has assumed reserves for excess of loss reinsurances of other insurers and reinsurers. These claims are fully reinsured with unaffiliated reinsurers and with an affiliated company under a reinsurance contract.

At the beginning of 2014 there were three remaining actions against American Airlines, United Airlines and the airlines' security contractors (Globe and Huntleigh) ("the Aviation Defendants") in the United States District Court for the Southern District of New York.

The claim brought by Cantor Fitzgerald was finalised early in 2014 and was approved by the United States District Court for the Southern District of New York.

The two other actions are those brought by World Trade Centre Properties LLC and by Cedar and Washington Associates LLC. The Aviation Defendants had been successful in both of these actions in the Court of first instance. Both actions were subsequently appealed. Cedar & Washington Associates LLC were not successful and have now exhausted all avenues for appeal. The action involving World Trade Centre Properties LLC has now been heard by the Court of Appeal and a decision is expected later in 2015. The final resolution of this claim, including potentially further litigation, is not expected for some time.

Syndicate 3500

Notes to the Financial Statements

For the year ended 31st December 2014

At 31st December 2014, the remaining underlying reserves of Syndicate 3500 in connection with the events of 11th September are estimated to be £65 million gross and £29 million net, before consideration of reinsurance from Syndicate 3500's affiliated reinsurer. The gross reserves, which remain subject to uncertainty depending on the outcome of court actions in the US, are principally on the aviation classes and have been assessed on a case-by-case 'best estimate' basis.

20. Related Parties

The managing agent of the syndicate, RiverStone Managing Agency, and the corporate member that provides capital to the syndicate are wholly owned subsidiaries of RiverStone Holdings Limited which is registered in England and Wales. The ultimate parent company and controlling party is Fairfax Financial Holdings Limited ("Fairfax") which is registered in Canada and listed on the Toronto Stock Exchange.

Copies of the consolidated financial statements of Fairfax, which is the smallest and largest group of undertakings to consolidate these financial statements, can be obtained from the Corporate Secretary, Fairfax Financial Holdings Limited, 95 Wellington Street West, Suite 800, Toronto, Ontario, Canada, M5J 2N7 or from the website at www.fairfax.ca.

Directors' Interests

With the exception of W. F. Goodier, all of directors of RiverStone Managing Agency listed on page 7 hold, or held in the year, directorships of other companies within the Fairfax group.