

Important information about Syndicate Reports and Accounts

Access to this document is restricted to persons who have given the certification set forth below. If this document has been forwarded to you and you have not been asked to give the certification, please be aware that you are only permitted to access it if you are able to give the certification.

The syndicate reports and accounts set forth in this section of the Lloyd's website, which have been filed with Lloyd's in accordance with the Syndicate Accounting Byelaw (No. 8 of 2005), are being provided for informational purposes only. The syndicate reports and accounts have not been prepared by Lloyd's, and Lloyd's has no responsibility for their accuracy or content. Access to the syndicate reports and accounts is not being provided for the purposes of soliciting membership in Lloyd's or membership on any syndicate of Lloyd's, and no offer to join Lloyd's or any syndicate is being made hereby. Members of Lloyd's are reminded that past performance of a syndicate in any syndicate year is not predictive of the related syndicate's performance in any subsequent syndicate year.

You acknowledge and agree to the foregoing as a condition of your accessing the syndicate reports and accounts. You also agree that you will not provide any person with a copy of any syndicate report and accounts without also providing them with a copy of this acknowledgment and agreement, by which they will also be bound.

Syndicate 3500

2015 Annual Report

Syndicate 3500
Annual Report
For the year ended 31st December 2015

Contents	Page
Directors and Administration	3
Managing Director's Report	4
Managing Agent's Report	7
Independent Auditors' Report to the Member of Syndicate 3500	9
Profit and Loss Account	11
Balance Sheet	12
Statement of Changes in Members' Balances	13
Cash Flow Statement	14
Notes to the Financial Statements	15

Syndicate 3500
Directors and Administration
For the year ended 31st December 2015

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

Website

www.rsml.co.uk

Syndicate 3500

Managing Director's Report

For the year ended 31st December 2015

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 remaining losses are related to World Trade Centre and Banco de la Republica.

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 ("RiverStone Managing Agency") is the managing agent for Syndicate 3500 and its 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 2015

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 2015 financial year, on an annual accounting basis, is nil (2014: nil).

Total outstanding claims, gross of reinsurance, were £102 million as at 31st December 2015 (2014: £110 million). Total cash, deposits and investments were £60 million at 31st December 2015 (2014: £60 million).

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 Risk 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 Solvency II based principles to manage capital requirements and to ensure that there is sufficient financial strength and capital adequacy to support the obligations to policyholders, regulators and other stakeholders. Syndicate 3500 has implemented the European Solvency II Directive, which came into force on 1st 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 contracts with RiverStone Insurance (UK) indemnify 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 agreements, 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 2015

Performance Measurements

RiverStone Managing Agency has made continued progress throughout 2015 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, both gross loss reserves and third party reinsurance recoverables (excluding group reinsurance protection from RiverStone Insurance (UK)) decreased by 8%. The Board regards this performance as satisfactory.



L. R. Tanzer
Managing Director
11th March 2016

Syndicate 3500

Managing Agent's Report

For the year ended 31st December 2015

The Directors of the managing agent, RiverStone Managing Agency, present their report and the audited financial statements for the year ended 31st December 2015.

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 2015 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.

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.

Syndicate 3500

Managing Agent's Report

For the year ended 31st December 2015

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 2008 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 2015 of which the auditors are unaware; and
- 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
11th March 2016

Syndicate 3500

Independent Auditors' Report to the Member of Syndicate 3500 For the year ended 31st December 2015

Report on the Syndicate annual accounts

Our opinion

In our opinion, syndicate annual accounts (the "syndicate annual accounts"):

- give a true and fair view of the state of the syndicate's affairs as at 31 December 2015 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 31 December 2015, included within the Annual Report comprise:

- the Balance sheet as at 31 December 2015;
- the Profit and loss account for the year then ended;
- the cash flow statement;
- the statement of changes in members' balances; and
- the notes to the syndicate annual accounts, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the syndicate annual accounts is United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law (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 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 2015

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 the 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 and Ireland) ("ISAs (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 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

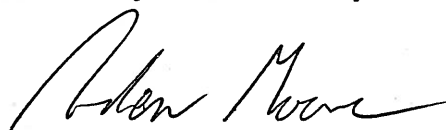
We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the syndicate annual accounts sufficient to give reasonable assurance that the syndicate annual accounts are free from material misstatement, whether caused by fraud 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 11th March 2016

Syndicate 3500
Profit and Loss Account
For the year ended 31st December 2015

	Note	2015 £'000	2014 £'000
Technical Account – General Business			
Gross premiums written and earned	6	(602)	354
Outward reinsurance premiums		<u>602</u>	<u>(354)</u>
Written and earned premiums net of reinsurance		<u>-</u>	<u>-</u>
Gross claims paid		(6,077)	(19,890)
Reinsurers' share		<u>7,860</u>	<u>19,217</u>
Net claims paid		<u>1,783</u>	<u>(673)</u>
Change in the gross provision for claims		13,593	27,766
Reinsurers' share		<u>(13,593)</u>	<u>(27,766)</u>
Change in the net provision for claims		<u>-</u>	<u>-</u>
Claims incurred, net of reinsurance		<u>1,783</u>	<u>(673)</u>
Net operating expenses	6,7	<u>-</u>	<u>-</u>
Other technical charges, net of reinsurance		<u>1,783</u>	<u>(673)</u>
Balance on the technical account for general business		1,783	(673)
Non-Technical Account			
Investment income	9	875	813
Unrealised losses on investments		(1,351)	(615)
Unrealised gains on investments		-	1,079
Realised losses on investments		(1,157)	(411)
Investment expenses and charges	10	<u>(150)</u>	<u>(193)</u>
Result for the financial year		£ <u>-</u>	£ <u>-</u>

The results above are all derived from continuing operations.

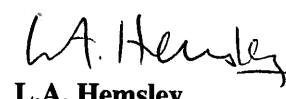
Syndicate 3500 has no recognised gains or losses other than those included in the Profit and Loss Account above and therefore no Statement of Comprehensive Income has been presented.

Syndicate 3500
Balance Sheet
As at 31st December 2015

	Note	2015 £'000	2014 £'000
Assets			
Investments			
Other financial investments	11	48,502	49,272
Reinsurers' share of technical provisions			
Claims outstanding	12	101,514	110,055
Debtors			
Debtors arising out of direct insurance operations	13	180	190
Debtors arising out of reinsurance operations	14	12,210	13,087
Other debtors	15	2	-
		12,392	13,277
Other assets			
Cash at bank and in hand		9,691	8,339
Overseas deposits		2,288	2,620
		11,979	10,959
Prepayments and accrued income			
Accrued interest		<u>114</u>	<u>109</u>
Total Assets		£ <u>174,501</u>	£ <u>183,672</u>
Liabilities			
Capital and reserves			
Members' balances		-	-
Technical provisions			
Claims outstanding		101,514	110,055
Creditors			
Creditors arising out of reinsurance operations	16	72,183	72,937
Other creditors including taxation and social security	17	658	534
		72,841	73,471
Accruals and deferred income			
		<u>146</u>	<u>146</u>
Total Liabilities		£ <u>174,501</u>	£ <u>183,672</u>

The financial statements on pages 11 to 32 were approved by the Board of RiverStone Managing Agency Limited on 11th March 2016 and were signed on its behalf by:-


L. R. Tanzer
 Managing Director


L.A. Hemsley
 Finance Director

Syndicate 3500
Statement of Changes in Members' Balances
For the year ended 31st December 2015

	Members' balances	Profit and Loss Account	Total
	£'000	£'000	£'000
Balance at 1st January 2014	3,749	-	3,749
Result for the year	<u>-</u>	<u>-</u>	<u>-</u>
Total comprehensive income for the year	<u>-</u>	<u>-</u>	<u>-</u>
Distribution to corporate member	<u>(3,749)</u>	<u>-</u>	<u>(3,749)</u>
Total transactions with owners, recognised directly in equity	<u>(3,749)</u>	<u>-</u>	<u>(3,749)</u>
Balance at 31st December 2014	£ <u>-</u>	£ <u>-</u>	£ <u>-</u>
Balance at 1st January 2015			
Result for the year	<u>-</u>	<u>-</u>	<u>-</u>
Total comprehensive income for the year	<u>-</u>	<u>-</u>	<u>-</u>
Distribution to corporate member	<u>-</u>	<u>-</u>	<u>-</u>
Total transactions with owners, recognised directly in equity	<u>-</u>	<u>-</u>	<u>-</u>
Balance at 31st December 2015	£ <u>-</u>	£ <u>-</u>	£ <u>-</u>

Syndicate 3500
Cash Flow Statement
For the year ended 31st December 2015

	Note	2015 £'000	2014 £'000
Reconciliation of operating profit to net cash inflow from operating activities			
Operating profit for the financial year		-	-
Decrease in gross technical provisions		(8,541)	(22,296)
Decrease in reinsurers' share of gross technical provisions		8,541	22,296
Decrease in debtors		880	28,618
Decrease in creditors		(630)	(45,377)
Investment return		1,783	(673)
Net cash outflow from operating activities		2,033	(17,432)
Purchase of equity and debt instruments		(38,028)	(38,264)
Sale of equity and debt instruments		28,844	49,073
Investment income received		(281)	(1,456)
FX on cash and cash equivalents		(450)	(300)
Distribution profit		-	(3,749)
Net cash outflow from investing activities		(7,882)	(12,128)
Cash and cash equivalents at beginning of year		17,961	30,089
Cash and cash equivalents at end of year		£ 10,079	£ 17,961
Cash and cash equivalents consist of:			
Cash at bank and in hand	19	9,691	8,339
Short term deposits with credit institutions		388	9,622
Cash and cash equivalents		£ 10,079	£ 17,961

Syndicate 3500

Notes to the Financial Statements

For the year ended 31st December 2015

1. General Information

Syndicate 3500 was established in 2003 to reinsure to close 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. Syndicate 3500 has also accepted the reinsurance to close of Syndicate 376 (in 2011), Syndicate 2112 (in 2012), Syndicate 3330 (in 2012) and, in 2012, 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. All of Syndicate 3500's liabilities are reinsured by RiverStone Insurance (UK) Limited ("RiverStone Insurance (UK)"). Syndicate 3500 is managed by RiverStone Managing Agency Limited ("the Managing Agent"), whose registered office address is Park Gate, 161-163 Preston Road, Brighton BN1 6AU.

2. Statement of Compliance

The financial statements of Syndicate 3500 have been prepared in accordance with Regulations 5 of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, and in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS102") and Financial Reporting Standard 103, "Insurance Contracts" (FRS103).

3. Summary of Significant Accounting Policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. FRS102 and FRS103 have been adopted for the first time in 2015. There is no material impact on the financial statements as a result of the adoption of FRS102 and FRS103, other than certain additional disclosure requirements.

(a) Basis of Preparation

The preparation of financial statements in conformity with FRS102 and FRS103 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the accounting policies of Syndicate 3500. The areas involving a higher degree of judgement or complexity or areas where assumptions and estimates are significant to the financial statements, are disclosed further below.

These financial statements are prepared on a going concern basis under the historical cost convention.

(b) Going Concern

Having addressed the principal risks, the directors of the Managing Agent considers it appropriate to adopt the going concern basis of accounting in preparing these financial statements. 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 includes Funds at Lloyd's, which are further explained in Note 22.

(c) Exemptions for Qualifying Entities under FRS102

FRS102 allows a qualifying entity certain disclosure exemptions, subject to certain conditions, which have been complied with, including notification of, and no objection to the use of exemptions by the corporate member of Syndicate 3500. Syndicate 3500 has taken advantage of the exemption from disclosing key management personnel compensation, as required by FRS102 paragraph 33.7.

Syndicate 3500

Notes to the Financial Statements

For the year ended 31st December 2015

(d) Insurance Contracts

(i) 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.

(ii) Claims Incurred and Reinsurers' Share

Claims incurred comprise claims and related claims handling expenses paid in the year and changes in provisions for outstanding claims, including provisions for claims incurred but not reported and related expenses, together with any other adjustments to claims from previous years. Where applicable, reductions are made for salvage and other recoveries.

Provisions for outstanding claims and related reinsurance recoveries are established based on estimates of the ultimate net cost of settlement along with actuarial and statistical projections. Claims provisions are determined based upon previous claims experience, knowledge of events and the terms and conditions of the relevant policies and on interpretation of circumstances. Particularly relevant is experience with similar cases and historical claims payment trends. The approach also includes the consideration of the development of loss payment trends, levels of unpaid claims, judicial decisions and economic conditions.

Whilst the board of directors of Syndicate 3500 ("the Board") believes that the provisions for outstanding claims and related reinsurance recoveries including bad debt provisions are fairly stated, these estimates inevitably contain inherent uncertainties because significant periods of time may elapse between the occurrence of an incurred loss, the reporting of that loss to Syndicate 3500, Syndicate 3500's payment of the loss and the receipt of reinsurance recoveries. These uncertainties are inherent in much of the business previously underwritten and assumed by Syndicate 3500. The estimates made are based upon current facts available to Syndicate 3500 and the prevailing legal environment and are subjected to continual review, with any resulting adjustments reported in current earnings. Anticipated reinsurance recoveries are disclosed separately as assets on the balance sheet.

As discussed in Note 4 to the financial statements, Syndicate 3500 has utilised a number of other estimation techniques in order to arrive at reserves in respect of the claims arising from the terrorist attacks on 11th September 2001.

(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

Syndicate 3500

Notes to the Financial Statements

For the year ended 31st December 2015

account distributions or cash calls according to the cash flow of a particular year of account and subject to Lloyd's requirements.

(g) Translation of Foreign Currencies

The financial statements are presented in Pounds Sterling and, unless otherwise stated, are rounded to thousands. Items included in RiverStone Managing Agency's financial statements are measured using the currency of the primary economic environment in which it operates. Syndicate 3500's functional currency is the US Dollar. The Sterling to US Dollar rate at year end was 1.4739.

Foreign currency transactions are translated into the functional currency using the average rate of exchange during the year. At each period end foreign currency monetary items are translated using the year end rate of exchange. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Profit and Loss Account for the period. All exchange differences arising from the translation from functional currency to presentation currency are recognised through the Statement of Comprehensive Income as a separate component of equity.

(h) Taxation

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.

(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.

(j) Investments

Other Financial Investments

Syndicate 3500 has chosen to apply the recognition and measurement provisions of IAS 39 (as adopted for use in the EU) and the disclosure requirements of FRS 102 in respect of the financial statements.

Syndicate 3500 classifies all of its investments as financial assets at fair value through profit and loss. Management determines the classification of its investments at initial recognition and re-evaluates this at every reporting date.

Syndicate 3500

Notes to the Financial Statements

For the year ended 31st December 2015

A financial asset is classified as fair value through profit and loss at inception if it is acquired principally for the purpose of selling in the short term, if it forms part of a portfolio of financial assets in which there is evidence of short-term profit-taking, or if so designated by management to minimise any measurement or recognition inconsistency with the associated liabilities. All derivatives are classified as at fair value through profit and loss.

Financial assets designated as at fair value through profit and loss at inception are those that are managed and whose performance is evaluated on a fair value basis. Information about these financial assets is provided internally on a fair value basis to Syndicate 3500's key management personnel. Syndicate 3500's investment strategy is to invest in listed and unlisted equity securities and fixed interest rate debt securities and derivatives designated upon initial recognition at fair value through profit and loss.

The fair values of listed investments are based on current bid prices on the balance sheet date. Unlisted investments for which a market exists are also stated at the current bid price on the balance sheet date or the last trading day before that date.

Net gains or losses arising from changes in the fair value of financial assets at fair value through profit and loss are presented in the Profit and Loss Account within 'Unrealised gains on investments' or 'Unrealised losses on investments' in the period in which they arise.

Syndicate 3500 discloses its investments in accordance with a fair value hierarchy with the following levels:

- (i) Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities;
- (ii) Level 2 - inputs other than quoted prices included within Level 1 that are observable for the asset or liability based on prices of recent transactions of identical instrument; and
- (iii) Level 3 - inputs for the asset or liability that are based on observable market data and unobservable market data.

(k) Related Party Transactions

Syndicate 3500 discloses transactions with related parties which are not wholly owned within the same group. Where appropriate, transactions of a similar nature are aggregated unless, in the opinion of the directors, separate disclosure is necessary to understand the effect of the transactions on the financial statements.

4. Critical Accounting Judgements and Estimation Uncertainty

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Syndicate 3500 makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimation of the ultimate liability arising from claims made under insurance contracts is Syndicate 3500's most critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimate of the liability that Syndicate 3500 will ultimately pay for such claims. Some of these claims are not expected to be settled for several years and there is uncertainty as to the amounts at which they will be settled. The level of provision has been set on the basis of the information that is currently available, including potential outstanding loss advices, experience of development of similar claims and case law.

Syndicate 3500

Notes to the Financial Statements

For the year ended 31st December 2015

The most significant assumptions made relate to the level of future claims, the level of future claims settlements and the legal interpretation of insurance policies. Whilst the directors consider that the gross provision for claims and the related reinsurance recoveries are fairly stated on the basis of the information currently available to them, the ultimate liability will vary as a result of subsequent information and events and may result in adjustments to the amount provided. Adjustments to the amounts of provision 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.

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.

There is now one remaining action 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 action was brought by World Trade Centre Properties LLC ("WTCP"). The Aviation Defendants have been successful in this action in the Court of first instance, it was subsequently appealed to the Second Circuit.

The ruling by the Second Circuit Appeal Court reverted the claim back to the District Court for assessment of the quantum of potential damages. If the quantum is assessed at greater than \$4.1 billion, then a further trial will be required to determine whether the aviation defendants owed a duty of care to WTCP. Therefore there may still be a significant amount of litigation before this loss is resolved.

At 31st December 2015, 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.

5. Management of Insurance and Financial Risk

Financial Risk Management Objectives

Syndicate 3500 is exposed to insurance risk through the insurance contracts that it has written and to financial risk through its financial assets, reinsurance assets and policyholder liabilities. In particular, the key financial risk is that the proceeds from financial 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, equity price risk and currency risk), credit risk and liquidity risk.

Syndicate 3500 has established an overall risk management policy which focuses on the main risks to which it is exposed, paying particular attention to key risks which impact on the overall operation of the business. A risk register is maintained which is updated at least quarterly. All risks on the register are reviewed with key management personnel and the Board reviews the key risks on a quarterly basis.

Syndicate 3500

Notes to the Financial Statements

For the year ended 31st December 2015

(a) Insurance Risk

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty over the amount of the resulting ultimate claim. By the very nature of an insurance contract, this risk is unpredictable at the outset.

The principal risk that Syndicate 3500 faces under its insurance contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency or severity of claims and benefits are greater than estimated. The actual number and amount of claims and benefits arising from insurance contracts will vary from year to year from the level established using statistical techniques.

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected by a change in any subset of the portfolio. Syndicate 3500 has a diversified portfolio of insurance risks, all of which relate to business originally written previously, and which are mature in nature.

Syndicate 3500 mitigates insurance risk through the 100% reinsurance with an affiliate reinsurer RiverStone Insurance (UK).

i) Process for Assessment of Technical Provisions

Syndicate 3500 adopts a consistent process to the calculation of an appropriate provision for the exposures arising from the business it has written. A full reserving analysis is conducted at least annually and the technical provisions recorded on the balance sheet are in line with the Board's view of the best estimate value of the underlying liabilities.

The technical provisions recorded at the reporting date comprise the estimated ultimate cost of settlement of all claims incurred in respect of events up to that date, whether reported or not, together with related claims handling expenses, less amounts already paid. This is estimated based on known facts at the balance sheet date. The provision is revised as part of a regular ongoing process as claims experience develops, certain claims are settled and further claims are reported.

Syndicate 3500 uses assumptions based on a mixture of internal and market data to measure its claims liabilities. This information is used to project the ultimate number and value of claims, by major class of business, using recognised statistical estimation techniques.

Assumptions are reviewed and tested regularly in the light of actual claims development and general market movements and trends.

ii) Sources of Uncertainty in the Estimation of Future Claim Payments

The sources of estimation uncertainty in establishing the ultimate liability arising from claims made under insurance contracts is discussed in Note 4.

The estimated cost of claims includes direct expenses to be incurred in settling claims, net of the expected subrogation value and other recoveries. Syndicate 3500 takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established.

Syndicate 3500

Notes to the Financial Statements

For the year ended 31st December 2015

The liability for insurance contracts comprises a provision for claims incurred but not yet reported and a provision for reported claims not yet paid. The estimation of claims incurred but not reported is generally subject to a greater degree of uncertainty than the estimates of claims that have already been notified, for which there is more information available.

iii) Key Assumptions and Sensitivities

The assumptions that have the greatest impact on technical provisions are those that affect the expected level of claims. The insurance risk profile of Syndicate 3500 on a gross basis is dominated by its exposure to the remaining claims in respect of the terrorist attacks in the USA on 11 September 2001. Whilst uncertainty in the resolution of the remaining litigation is becoming clearer, the range of outcomes in response to the possible final settlement amount far exceed any other category of reserves.

A segment of the portfolio is exposed to liability business in several markets, this segment carries potential exposure to substantial claims with an extended reporting tail.

Since the Syndicate is fully reinsured with affiliate company RiverStone Insurance (UK), the net uncertainty is minimal.

iv) Claims Development Tables

The following table presents the comparison of actual claims incurred to previous estimates. No net table is produced as all of Syndicate 3500's business is fully reinsured.

Claims outstanding (gross)

Underwriting year	2006 £'000	2007 £'000	2008 £'000	2009 £'000	2010 £'000	Total £'000
Estimate of ultimate claims costs:						
At end of reporting year	-	-	-	-	-	-
- One year later	-	-	-	-	-	-
- Two years later	-	-	-	-	-	-
- Three years later	-	-	-	682	-	682
- Four years later	-	-	2,835	653	-	3,488
- Five years later	-	4,133	3,164	268	-	7,565
- Six years later	-	2,908	4,326	1,333	-	8,567
- Seven years later	-	4,085	4,565	-	-	8,650
- Eight years later	-	3,718	-	-	-	3,718
- Nine years later	-	-	-	-	-	-
Current estimate of cumulative claims	-	3,718	4,565	1,333	-	9,616
Cumulative payments to date	-	(2,550)	(3,465)	(176)	-	(6,191)
Liability recognised in the balance sheet	£ -	£ 1,168	£ 1,100	£ 1,157	£ -	£ 3,425
Reserve in respect of prior years						98,089
Total reserve included in balance sheet						£ 101,514

Syndicate 3500
Notes to the Financial Statements
For the year ended 31st December 2015

v) Insurance Risk Concentrations

The concentration of insurance risk before and after reinsurance by the most material classes of business is summarised below, with reference to the carrying amount of outstanding claims (gross and net of reinsurance) arising from insurance contracts:

	2015		2014	
	Gross £'000	Net £'000	Gross £'000	Net £'000
WTC	65,283	-	66,013	-
Banco de la Republica	7,366	-	7,048	-
Aviation	3,396	-	2,992	-
Professional Indemnity	2,780	-	3,592	-
All other loss reserves	21,996	-	28,478	-
Claims expense reserve	693	-	1,932	-
Total technical provisions	£ 101,514	£ -	£ 110,055	£ -

(b) Market Risk

i) Interest Rate Risk

Interest rate risk arises primarily from investments in fixed interest securities. In addition, to the extent that claims inflation is correlated to interest rates, liabilities to policyholders are exposed to interest rate risk. Syndicate 3500 works closely with its investment manager to review the duration of the investment portfolio in relation to the estimated mean duration of the liabilities.

Given the short term nature of the cash and investments of Syndicate 3500, it is not exposed to significant interest rate risk since maturing short term investments are repriced at market interest rates on an ongoing basis.

The impact of a 100 basis point increase in interest rates on the value of Syndicate 3500's investments held at 31st December 2015 is an approximate £1.2 million loss (2014: £1.2 million) to the profit and loss account. Similarly, a 100 basis point decrease in interest rates would give rise to an approximate £1.3 million gain (2014: £1.3 million) to the profit and loss account.

Syndicate 3500 mitigates interest rate risk through the 100% reinsurance with an affiliate reinsurer, RiverStone Insurance (UK).

ii) Equity Price Risk

Syndicate 3500 is exposed to equity securities price risk as a result of its holdings in equity investments, classified as financial assets at fair value through profit or loss. Exposures to individual companies and to equity shares in aggregate are monitored in order to ensure compliance with the relevant regulatory limits for solvency.

Investments held comprise unlisted and listed investments. Listed investments are those that are traded on recognised stock exchanges, primarily in Europe, North America and Asia.

Syndicate 3500

Notes to the Financial Statements

For the year ended 31st December 2015

Syndicate 3500 has a defined investment policy which sets limits on its exposure to equities, both in aggregate terms and by counterparty. This policy of diversification is used to manage Syndicate 3500's price risk arising from its investments in equity securities.

Listed equity securities held at 31st December 2015 represent 84.6% of total equity investments. If equity market indices had increased/decreased by 5%, with all other variables held constant, and all Syndicate 3500's equity investments moved according to the historical correlation with the index, the profit for the year would increase by £0.6 million (2014: £0.1 million).

Syndicate 3500 mitigates equity price risk through the 100% reinsurance with an affiliate reinsurer, RiverStone Insurance (UK).

iii) Currency Risk

Syndicate 3500 manages its foreign exchange risk against its functional currency, which is the Pound Sterling. Syndicate 3500 has a proportion of its assets and liabilities denominated in currencies other than the Pound Sterling, the most significant being the Euro and US Dollar. Syndicate 3500 seeks to mitigate the risk by matching the estimated foreign currency denominated liabilities with assets denominated in the same currency, and by the utilisation of forward currency contracts.

At 31st December 2015, if the Pound had weakened by 10% against the US Dollar with all other variables held constant, profit for the year would have remained nil (2014: nil), as a result of the 100% reinsurance with RiverStone Insurance (UK).

At 31st December 2015, if the Pound had weakened by 10% against the Euro with all other variables held constant, profit for the year would have remained nil (2014: nil), as a result of the 100% reinsurance with RiverStone Insurance (UK).

(c) Credit Risk

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due. Key areas where Syndicate 3500 is exposed to credit risk are:

- reinsurers' share of insurance liabilities;
- amounts due from reinsurers in respect of claims already paid;
- amounts due from insurance intermediaries;
- amounts due from corporate bond issuers; and
- counterparty risk with respect to derivative transactions
- cash at bank and in hand

As Syndicate 3500 is in runoff its exposures to reinsurers and insurance intermediaries are determined by contracts previously written. Syndicate 3500 manages the levels of credit risk from reinsurers and insurance intermediaries by quarterly review of receivable balances by counterparty. Management assesses the creditworthiness of all reinsurers and intermediaries by reviewing credit grades provided by rating agencies and other publicly available financial information. It is Syndicate 3500's policy to provide for reinsurer bad debts in situations where it does not expect to collect the full amount outstanding due to the financial position of the reinsurer or due to disputes over coverage. In certain circumstances, collateral is held in the form of either deposits or letters of credit from reinsurers.

Syndicate 3500

Notes to the Financial Statements

For the year ended 31st December 2015

Syndicate 3500 reduces its exposure to credit risk in relation to investments by entering into transactions with counterparties that are reputable and by settling trades through recognised exchanges. Syndicate 3500 maintains strict control limits on the maximum notional amount of derivative positions. The assets bearing credit risk are summarized below, together with an analysis by credit rating (AM Best or equivalent):

	2015	2014
	£'000	£'000
Debt securities	34,373	43,773
Deposits with credit institutions	745	690
Assets arising from reinsurance contracts held	109,888	118,419
Premium receivable	3,836	4,723
Cash at bank and in hand	9,691	8,339
Overseas deposits	<u>2,288</u>	<u>2,620</u>
Total assets bearing credit risk	£ <u>160,821</u>	£ <u>178,564</u>
A++	23,114	25,278
A+	15,908	136
A, A-	41,586	48,086
B++ and below or not rated (including affiliated assets)	<u>80,213</u>	<u>105,064</u>
Total assets bearing credit risk	£ <u>160,821</u>	£ <u>178,564</u>

Assets arising from reinsurance and insurance contracts held are further analysed as follows:

	2015	2014
	£'000	£'000
Performing	92,809	115,969
Past due	6,969	(469)
Impaired	14,596	7,979
Provision for irrecoverable amounts	<u>(4,486)</u>	<u>(5,060)</u>
	£ <u>109,888</u>	£ <u>118,419</u>

(d) Liquidity Risk

The primary liquidity risk is the obligation to pay claims to policy holders as they fall due. The projected settlement of these liabilities is modelled, on a regular basis, using actuarial techniques. The Board sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of borrowing facilities that should be in place to cover anticipated liabilities and unexpected levels of demand. The table below analyses the maturity of Syndicate 3500's financial liabilities and outstanding claims. All liabilities are presented on a contractual cash flow basis except for the insurance liabilities, which are presented in their expected cash flows.

Syndicate 3500

Notes to the Financial Statements

For the year ended 31st December 2015

	No Contractual Maturity Date £'000	< 6 months or on demand £'000	Between 6 months and 1 year £'000	Between 1 year and 2 years £'000	Between 2 years and 5 years £'000	> 5 Years £'000	Carrying Value £'000
At 31 December 2015							
Creditors	-	69,108	103	2,935	154	541	72,841
Claims outstanding	-	2,720	2,720	77,679	4,077	14,318	101,514
Financial liabilities and outstanding claims	£ -	£ 71,828	£ 2,823	£ 80,614	£ 4,231	£ 14,859	£ 174,355
At 31 December 2014							
Creditors	-	69,082	334	528	2,863	664	73,471
Claims outstanding	-	7,790	7,790	12,292	66,705	15,478	110,055
Financial liabilities and outstanding claims	£ -	£ 76,872	£ 8,124	£ 12,820	£ 69,568	£ 16,142	£ 183,526

(e) Capital Management

Syndicate 3500 maintains an efficient capital structure comprising only its equity shareholders' funds, consistent with its risk profile and the regulatory and market requirements of its business. Syndicate 3500's objectives in managing its capital are:

- to match the profile of its assets and liabilities, taking account of the risks inherent in the business
- to satisfy the requirements of its policyholders and regulators
- to retain financial flexibility by maintaining adequate liquidity

Syndicate 3500 considers not only the traditional sources of capital funding but the alternative sources of capital including reinsurance and securitisation, as appropriate, when assessing its deployment and usage of capital. Syndicate 3500 manages as capital all items that are eligible to be treated as capital for regulatory purposes. Syndicate 3500 is regulated by the Prudential Regulation Authority ("PRA") and the Financial Conduct Authority and is subject to insurance solvency regulations which specify the minimum amount and type of capital that must be held in addition to the insurance liabilities. Syndicate 3500 manages capital in accordance with these rules and performs the necessary tests to ensure continuous and full compliance with such regulations. Syndicate 3500 manages its own regulatory capital by reference to both minimum capital requirements based on EU Directive and also self-assessed risk-based capital determined under the PRA's individual capital adequacy regime. Syndicate 3500 has complied with all externally imposed capital requirements throughout the year. Syndicate 3500 has implemented all aspects of the new Solvency II regulatory regime which came into effect on 1st January 2016.

Syndicate 3500
Notes to the Financial Statements
For the year ended 31st December 2015

6. Segmental Analysis

	Gross premiums written 2015 £'000	Gross premiums earned 2015 £'000	Gross claims incurred 2015 £'000	Gross operating expenses 2015 £'000	Re- insurance balance 2015 £'000
Direct Insurance					
Accident and health	-	-	(106)	39	42
Motor	-	-	53	(20)	(20)
Marine, aviation and transport	(1)	(1)	232	(86)	(90)
Legal expenses	-	-	-	-	-
Credit and surety	-	-	95	(35)	(37)
Fire and other damage to property	-	-	134	(50)	(52)
Third party liability	(1)	(1)	1,159	(429)	(454)
	(2)	(2)	1,567	(581)	(611)
Reinsurance acceptances	(600)	(600)	5,949	(2,203)	(1,736)
Total	£ (602)	£ (602)	£ 7,516	£ (2,784)	£ (2,347)
	2014 £'000	2014 £'000	2014 £'000	2014 £'000	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
	18	18	2,552	(823)	(1,966)
Reinsurance acceptances	336	336	5,324	(1,714)	(4,400)
Total	£ 354	£ 354	£ 7,876	£ (2,537)	£ (6,366)

S3500 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 £1.2 million (2014: £31 million) in respect of recoveries made from Syndicate 3500 (UK) under the reinsurance protection agreements with RiverStone Insurance (UK).

Syndicate 3500
Notes to the Financial Statements
For the year ended 31st December 2015

7. Net Operating Expenses

Syndicate operating expenses included within net operating expenses comprise:

	2015	2014
	£'000	£'000
Administrative expenses	2,784	2,537
Less: recovered under reinsurance protection agreement	<u>(2,784)</u>	<u>(2,537)</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 Syndicate 3500 Limited under the reinsurance protection agreement.

Operating costs charged to Syndicate 3500 by RiverStone Managing Agency during the year were £2,684,000 (2014: £2,137,000).

The Directors, Run-off Manager and other key management personnel 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.

	2015	2014
	£'000	£'000
Directors of the Managing Agent	£ <u>210</u>	£ <u>163</u>
Run-off Manager	£ <u>68</u>	£ <u>88</u>

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

8. Auditors' Remuneration

	2015	2014
	£'000	£'000
Audit	127	123
Audit related assurance services	<u>26</u>	<u>25</u>
	£ <u>153</u>	£ <u>148</u>

Syndicate 3500
Notes to the Financial Statements
For the year ended 31st December 2015

9. Investment Income

	2015 £'000	2014 £'000
Income from financial assets at fair value through profit and loss	873	790
Interest receivable on deposits	<u>2</u>	<u>23</u>
	£ 875	£ 813

10. Investment Expenses and Charges

	2015 £'000	2014 £'000
Investment expenses	<u>150</u>	<u>193</u>

11. Other Financial Investments

(a) Other Financial Investments by Category

	Market Value 2015 £'000	Market Value 2014 £'000	Historic Cost 2015 £'000	Historic Cost 2014 £'000
Financial Assets – at fair value through profit and loss				
Shares and other variable-yield securities and units in unit trusts - designated at fair value through profit and loss on initial recognition	13,384	4,809	14,078	5,188
Debt securities and other fixed interest securities designated at fair value through profit and loss on initial recognition	34,373	43,773	32,251	41,221
Deposits with credit institutions	<u>745</u>	<u>690</u>	<u>745</u>	<u>690</u>
	£ 48,502	£ 49,272	£ 47,074	£ 47,099

(b) Listed Investments

Included in carrying values of financial assets above are amounts in respect of listed investments as follows:

	2015 £'000	2014 £'000
At fair value through profit and loss		
Shares and other variable yield securities and units in unit trusts	11,320	2,752
Debt securities and other fixed interest securities	<u>12,998</u>	<u>12,941</u>
Total listed investments	£ 24,318	£ 15,693

Syndicate 3500
Notes to the Financial Statements
For the year ended 31st December 2015

(c) Disclosures of Fair Values in Accordance with the Fair Value Hierarchy

	Level 1	Level 2	Level 3	Total
	2015	2015	2015	2015
	£'000	£'000	£'000	£'000
Shares and other variable yield securities and units in unit trusts	11,320	2,064	-	13,384
Debt securities and other fixed interest securities	21,375	12,998	-	34,373
Deposits with credit institutions	745	-	-	745
	£ 33,440	£ 15,062	£ -	£ 48,502
	2014	2014	2014	2014
	£'000	£'000	£'000	£'000
Shares and other variable yield securities and units in unit trusts	2,752	2,057	-	4,809
Debt securities and other fixed interest securities	30,833	12,940	-	43,773
Deposits with credit institutions	690	-	-	690
	£ 34,275	£ 14,997	£ -	£ 49,272

(d) Collateralised Cash and Investments

Syndicate 3500 maintains a letter of credit facility in respect of its contractual obligations under which Syndicate 3500 is obliged to collateralise its liabilities. The total amount of collateral provided at 31st December 2015 was £15.2 million (2014: £17.3 million).

12. Reinsurers' Share of Technical Provisions – Claims Outstanding

Included within reinsurers' share of technical provisions – claims outstanding are amounts recoverable from an affiliated company of £58,345,887 (2014: £63,118,395)

13. Debtors Arising Out of Direct Insurance Operations

	2015	2014
	£'000	£'000
Amount owed from intermediaries	£ 180	£ 190

Syndicate 3500
Notes to the Financial Statements
For the year ended 31st December 2015

14. Debtors Arising Out of Reinsurance Operations

	2015	2014
	£'000	£'000
Amount owed from intermediaries	8,374	8,364
Premiums receivable from cedants	<u>3,836</u>	<u>4,723</u>
	£ <u>12,210</u>	£ <u>13,087</u>

15. Other Debtors

	2015	2014
	£'000	£'000
Balance due from affiliates	<u>£ 2</u>	<u>£ -</u>

16. Creditors Arising out of Reinsurance Operations

	2015	2014
	£'000	£'000
Intermediaries	3,437	5,227
Amounts owed to group undertakings	<u>68,746</u>	<u>67,710</u>
	£ <u>72,183</u>	£ <u>72,937</u>

17. Other Creditors Including Taxation and Social Security

	2015	2014
	£'000	£'000
Amounts owed to group undertakings	<u>£ 658</u>	<u>£ 534</u>

Syndicate 3500
Notes to the Financial Statements
For the year ended 31st December 2015

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

	2015	2014
	£'000	£'000
Net cash inflow outflow for the year	1,101	(14,704)
Decrease in overseas deposits	(337)	(478)
Net portfolio investment disinvestments	636	(8,328)
Movement arising from cash flows	1,400	(23,510)
Changes in market value and exchange rates	(1,150)	3,002
Total movement in portfolio investments, net of financing	250	(20,508)
Balance brought forward at 1 st January, net of financing	60,231	80,739
Balance carried forward at 31st December, net of financing	£ 60,481	£ 60,231

19. Movement in Cash, Portfolio Investments and Financing

	At		Changes to	
	1 January	Cash	Market	At 31
	2015	Flow	Value and	December
	£'000	£'000	Currencies	2015
			£'000	£'000
Cash at bank and in hand	8,339	1,101	251	9,691
Overseas deposits	2,620	(337)	5	2,288
	10,959	764	256	11,979
Portfolio investments:				
Shares and other variable yield securities	4,809	9,046	(471)	13,384
Debt and other fixed income	43,773	(8,424)	(976)	34,373
Deposits with credit institutions	690	14	41	745
Total portfolio investments	49,272	636	(1,406)	48,502
Total cash, portfolio investments and financing	£ 60,231	£ 1,400	£ (1,150)	£ 60,481

20. Net Cash Inflow (Outflow) on Portfolio Investments

	2015	2014
	£'000	£'000
Shares and other variable yield securities	9,046	5,188
Debt and other fixed income securities	(8,424)	(13,390)
Deposits with credit institutions	14	(126)
Net cash inflow (outflow) on portfolio investments	£ 636	£ (8,328)

Syndicate 3500

Notes to the Financial Statements

For the year ended 31st December 2015

21. Commitments and Contingent Liabilities

As at 31st December 2015, there were no outstanding commitments or contingent liabilities (2014: nil).

22. 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.

23. 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.