

Appendix 8

Accounts disclaimer

The disclaimer on the following page is to be included at the front of each set of pdf accounts submitted to Lloyd's.

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

2019 Annual Report

Syndicate 3500
Annual Report
For the year ended 31st December 2019

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Syndicate 3500

Directors and Administration

For the year ended 31st December 2019

Managing Agent

RiverStone Managing Agency Limited
Park Gate
161 – 163 Preston Road
Brighton
East Sussex
United Kingdom
BN1 6AU

Directors of Managing Agent

T. Ambridge (appointed 29th April 2019)
M. J. Bannister
N. C. Bentley
A. R. Creed
L. A. Hemsley (resigned 14th March 2019)
I. Hewitt (appointed 29th April 2019)
T. A. Riddell – Independent Non-Executive Director
K. Shah – Independent Non-Executive Chairman
N. Smith – Independent Non-Executive Director (appointed 14th March 2019)
L. R. Tanzer

Independent Auditors

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

Website

www.trg.com

Syndicate 3500

Managing Director's Report

For the year ended 31st December 2019

Principal Activity

Syndicate 3500 was originally formed in 2003 to accept the reinsurance to close of the 2000 and prior years of account of Syndicate 271 and the 2001 and prior years of account of Syndicate 506, respectively.

In 2011, Syndicate 3500 accepted the reinsurance to close of the liabilities of Syndicate 376, a runoff syndicate with underwriting years of 2001 and prior.

In 2012, Syndicate 3500 accepted the reinsurance to close of the liabilities of Syndicate 2112 and Syndicate 3330 (formerly and now referred to as Syndicate 2) and 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.

The liabilities accepted by Syndicate 3500 in 2012 and prior calendar years are all subject to unlimited protection under reinsurance protection agreements with RiverStone Insurance (UK) Limited ("RiverStone Insurance (UK)"), a wholly owned subsidiary of RiverStone Holdings Limited ("RiverStone Holdings").

On 30th November 2018, Syndicate 3500 entered into a loss portfolio transfer reinsurance with Syndicate 2987 for certain lines of discontinued business with underwriting years of 2017 and prior. This transaction resulted in an increase to Syndicate 3500's gross and net technical provisions of £135.6 million. Also, effective 30th November 2018, Syndicate 3500 entered into a reinsurance protection agreement with an affiliate to retrocede 50% of these liabilities.

On 21st December 2018, Syndicate 3500 entered into a loss portfolio transfer reinsurance with another Lloyd's syndicate for certain lines of discontinued business with underwriting years of 2017 and prior. This transaction resulted in an increase to Syndicate 3500's gross and net technical provisions of £63.8 million. Also, effective 21st December 2018, Syndicate 3500 entered into a reinsurance protection agreement with an affiliate to retrocede 50% of these liabilities.

On 1st January 2019, Syndicate 3500 accepted the reinsurance to close of the liabilities of another Lloyd's syndicate, a runoff syndicate with underwriting years of 2016 and prior. This transaction results in the transfer to Syndicate 3500 of gross and net technical provisions of approximately £560 million and £419 million, respectively. Also, effective 1st January 2019, Syndicate 3500 entered into a reinsurance protection agreement with an affiliate to retrocede 50% of these liabilities.

Effective 1st January 2020, Syndicate 3500 accepted the reinsurance to close of the 2017 and prior underwriting years of account liabilities of another Lloyd's syndicate. This transaction results in the transfer to Syndicate 3500 of gross and net technical provisions of £180.3 million and £116.7 million, respectively. Also, effective 1st January 2020, Syndicate 3500 entered into an adverse development cover with an affiliate to provide downside protection over these liabilities.

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 all reinsurers. Additionally, RiverStone Managing Agency actively pursues opportunities to acquire further run-off portfolios for Syndicate 3500 through reinsurance to close or retroactive reinsurance transactions.

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.

Syndicate 3500

Managing Director's Report

For the year ended 31st December 2019

The sole corporate member for Syndicate 3500 is RiverStone Corporate Capital Limited ("RiverStone Corporate Capital"). In addition to capital held at RiverStone Corporate Capital, additional capital support for Syndicate 3500 is currently provided by RiverStone Insurance (UK), Advent Capital No.3 Limited and by way of a third party letter of credit.

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 comprehensive income for the 2019 financial year, on an annual accounting basis, is £12.1 million (2018: £5.6 million).

The balance on the technical account for general business for the year was a profit of £6.1 million (2018: £6 million). This comprises net earned premiums of £219.2 million, partially offset by net incurred claims of £207.7 million and net operating expenses of £5.4 million.

The total comprehensive income for the financial year of £12.1 million (2018: £5.6 million) comprises net investment gains of £7.1 million (2018: gain of £9,000), foreign exchange losses of £1.1 million (2018: £137,000), the gain on the technical account for general business, less currency translation losses of nil (2018: £301,000).

Member's balances increased to a surplus of £17.6 million at 31st December 2019 (2018: £5.6 million) due to the 2019 total comprehensive income.

Total outstanding claims, gross of reinsurance, were £587 million as at 31st December 2019 (2018: £260 million). Total cash, deposits and investments were £262.7 million at 31st December 2019 (2018: £103 million). Increases in outstanding claims and cash balances predominantly arise as a result of transactions entered into during 2019.

Effective 1st January 2019, following a reassessment of its currency exposure after the completion of the above noted reinsurance to close transaction completed on the same date, Syndicate 3500 changed its functional currency from US Dollars to Pound Sterling.

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, legal and finance departments of RiverStone Management take on an important oversight role in this regard. The Board is responsible for ensuring that a proper internal control framework exists to manage financial risks and that controls operate effectively; it is assisted in discharging these responsibilities by the RiverStone Holdings Group Risk Committee.

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

Managing Director's Report

For the year ended 31st December 2019

The principal risks faced by Syndicate 3500 arise from fluctuations in the severity of claims compared with expectations, late reporting of claims, inadequate reserving and inadequate reinsurance protection (including the credit worthiness of major reinsurers). Syndicate 3500's assets and liabilities are also exposed to market risk, including the impact of changes to interest rates, equity price fluctuations and adverse changes in exchange rates.

Strategy and Future Developments

The Board's strategy for Syndicate 3500 is to continue to actively pursue opportunities to acquire further run-off portfolios for Syndicate 3500, along with the efficient and economic management of all existing liabilities.

On 20th December 2019, Fairfax entered into an agreement to sell a 40% equity interest in its wholly owned European Run-off group to Ontario Municipal Employees Retirement System ("OMERS"), the pension plan manager for government employees in the province of Ontario. The European Run-off group includes RiverStone Managing Agency and RiverStone Corporate Capital and their immediate parent company RiverStone Holdings. Upon completion of the transaction, OMERS and Fairfax will have joint control of the European Run-off group. Accordingly, Fairfax will deconsolidate the European Run-off group from its Run-off reporting segment and apply the equity method of accounting for its remaining equity interest. The transaction is subject to regulatory approval and is expected to close in the first quarter of 2020.

Performance Measurements

RiverStone Managing Agency has made continued progress throughout 2020 in relation to key elements of its strategy, through the continued proactive management of its existing liabilities and through the acquisition of further run-off portfolios.

The Board monitors the progress of Syndicate 3500's existing run-off portfolios by reference to the reduction in gross loss reserves and reduction in reinsurance recoverables, in a timely and economic manner. Excluding the portfolio acquired during 2019 which is described above, gross loss reserves decreased by 30% and third party reinsurance recoverables (excluding group reinsurance protection) decreased by 33%. The movements are in line with Board's expectations and the performance is considered to be satisfactory.



L. R. Tanzer
Managing Director
13th February 2020

Syndicate 3500

Managing Agent's Report

For the year ended 31st December 2019

The Directors of the managing agent, RiverStone Managing Agency, present their report and the audited financial statements for the year ended 31st December 2019.

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 financial statements 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 acquire further run-off portfolios for 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 2019 to the date of this report were as follows:

T. Ambridge (appointed 29th April 2019)
M. J. Bannister
N. C. Bentley
A. R. Creed
L. A. Hemsley (resigned 14th March 2019)
I. Hewitt (appointed 29th April 2019)
T. A. Riddell – Independent Non-Executive Director
K. Shah – Independent Non-Executive Chairman
N. Smith – Independent Non-Executive Director (appointed 14th March 2019)
L. R. Tanzer

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.

Financial Instruments

As described in Note 5 to the financial statements, 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, equity risk and currency risk), credit risk and liquidity risk.

Syndicate 3500

Managing Agent's Report

For the year ended 31st December 2019

Syndicate 3500 manages this risk within its overall risk management framework.

Statement of Managing Agent's Responsibilities

The 2008 Regulations require RiverStone Managing Agency to prepare Syndicate Annual Accounts at 31st December each year which give 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.


It is also responsible for the maintenance and integrity of the business' website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

In the case of each person who is a director of RiverStone Managing Agency at the date this Managing Agent's Report is approved:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

By Order of the Board

Park Gate, 161 Preston Road
Brighton, East Sussex
United Kingdom, BN1 6AU


L. R. Tanzet
Managing Director
13th February 2020

Syndicate 3500

Independent Auditors' Report to the Member of Syndicate 3500 For the year ended 31st December 2019

Report on the Syndicate Annual Accounts

Opinion

In our opinion, Syndicate 3500's syndicate annual accounts (the "syndicate annual accounts"):

- give a true and fair view of the state of the syndicate's affairs as at 31st December 2019 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Accounting Standards comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

We have audited the syndicate annual accounts included within the Annual Report (the "Annual Report"), which comprise: the Balance Sheet as at 31st December 2019; the Profit and Loss Account, the Statement of Comprehensive Income, the Statement of Cash Flows, the Statement of Changes in Members' Balances for the year then ended; and the notes to the syndicate annual accounts, which include a description of the significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, as amended by The Statutory Auditors and Third Country Auditors Regulations 2017 and other applicable law.

Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the syndicate annual accounts section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the syndicate in accordance with the ethical requirements that are relevant to our audit of the syndicate annual accounts in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

ISAs (UK) require us to report to you when:

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

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the syndicate's ability to continue as a going concern. For example, the terms of the United Kingdom's withdrawal from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the syndicate's business and the wider economy.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the syndicate annual accounts and our auditors' report thereon. The Managing Agent is responsible for the other information. Our opinion on the syndicate annual accounts does not cover the other information and, accordingly, we do not express an audit opinion or any form of assurance thereon.

Syndicate 3500

Independent Auditors' Report to the Member of Syndicate 3500 For the year ended 31st December 2019

In connection with our audit of the syndicate annual accounts, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the syndicate annual accounts or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the syndicate annual accounts or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Managing Director's Report and the Managing Agent's Report, we also considered whether the disclosures required by The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Managing Director's Report and Managing Agent's Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Managing Director's Report and the Managing Agent's Report for the year ended 31st December 2019 is consistent with the syndicate annual accounts and has been prepared in accordance with The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

In light of the knowledge and understanding of the syndicate and its environment obtained in the course of the audit, we did not identify any material misstatements in the Managing Director's Report and the Managing Agent's Report.

Responsibilities for the syndicate annual accounts and the audit

Responsibilities of the Managing Agent for the syndicate annual accounts

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 in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Managing Agent is also responsible for such internal control as they determine is necessary to enable the preparation of syndicate annual accounts that are free from material misstatement, whether due to fraud or error.

In preparing the syndicate annual accounts, the Managing Agent is responsible for assessing the syndicate's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless it is intended for the syndicate to cease operations, or it has no realistic alternative but to do so.

Auditors' responsibilities for the audit of the syndicate annual accounts

Our objectives are to obtain reasonable assurance about whether the syndicate annual accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these syndicate annual accounts.

A further description of our responsibilities for the audit of the syndicate annual accounts is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinion, has been prepared for and only for the syndicate's member in accordance with part 2 of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, as amended by The Statutory Auditors and Third Country Auditors Regulations 2017 and for no other

Syndicate 3500

Independent Auditors' Report to the Member of Syndicate 3500 For the year ended 31st December 2019

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.

Other required reporting

Other matters on which we are required to report by exception

Under The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, as amended by The Statutory Auditors and Third Country Auditors Regulations 2017, 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
- adequate accounting records have not been kept by the Managing Agent in respect of the syndicate; or
- certain disclosures of Managing Agent remuneration specified by law are not made; or
- the syndicate annual accounts are not in agreement with the accounting records.

We have no exceptions to report arising from this responsibility.



Robert Cordock (Senior statutory auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
17 February 2020

Syndicate 3500
Profit and Loss Account
For the year ended 31st December 2019

	Note	2019 £'000	2018 £'000
Technical Account – General Business			
Gross premiums written and earned	6	430,858	206,586
Outward reinsurance premiums		<u>(211,679)</u>	<u>(100,738)</u>
Written and earned premiums net of reinsurance		<u>219,179</u>	<u>105,848</u>
Gross claims paid	7	(204,711)	(8,101)
Reinsurers' share	7	<u>131,310</u>	<u>8,369</u>
Net claims paid		<u>(73,401)</u>	<u>268</u>
Change in the gross provision for claims		(352,787)	(213,353)
Reinsurers' share		<u>218,521</u>	<u>113,782</u>
Change in the net provision for claims		<u>(134,266)</u>	<u>(99,571)</u>
Claims incurred, net of reinsurance		<u>(207,667)</u>	<u>(99,303)</u>
Net operating expenses	6,8	<u>(5,448)</u>	<u>(531)</u>
Total technical credit (charges), net of reinsurance		<u>6,064</u>	<u>6,014</u>
Balance on the technical account for general business		6,064	6,014
Non-Technical Account			
Investment income	10	7,005	531
Unrealised gains on investments		1,504	17
Unrealised losses on investments		(436)	(1,270)
Realised gains on investments		162	835
Investment expenses and charges	11	(1,121)	(104)
Foreign exchange loss	12	<u>(1,121)</u>	<u>(137)</u>
Profit for the financial year		£ <u>12,057</u>	£ <u>5,886</u>

The results above are all derived from continuing operations.

Syndicate 3500
Statement of Comprehensive Income
For the year ended 31st December 2019


	2019	2018
	£'000	£'000
Profit for the financial year	12,057	5,886
Currency translation differences	<u>-</u>	<u>(301)</u>
Total comprehensive income for the year	£ 12,057	£ 5,585

Syndicate 3500
Balance Sheet
As at 31st December 2019

	Note	2019 £'000	2018 £'000
Assets			
Investments			
Other financial investments	13	200,293	94,680
Reinsurers' share of technical provisions			
Claims outstanding	7	366,688	159,939
Debtors			
Debtors arising out of direct insurance operations	14	5,937	254
Debtors arising out of reinsurance operations	15	34,245	76,400
Other debtors	16	3,794	-
		43,976	76,654
Other assets			
Cash at bank and in hand		31,291	7,474
Overseas deposits		31,161	863
		62,452	8,337
Prepayments and accrued income			
Accrued interest		770	19
Total assets		£ 674,179	£ 339,629
Capital, Reserves and Liabilities			
Capital and reserves			
Member's balances		17,642	5,585
Technical provisions			
Claims outstanding		586,971	259,790
Creditors			
Creditors arising out of direct insurance operations	17	-	1,077
Creditors arising out of reinsurance operations	18	63,921	72,436
Other creditors including taxation and social security	19	5,645	741
		69,566	74,254
Total capital, reserves and liabilities		£ 674,179	£ 339,629

The financial statements on pages 12 to 38 were approved by the Board of RiverStone Managing Agency Limited on 13th February 2020 and were signed on its behalf by:


L. R. Tanzer
 Managing Director


A. R. Creed
 Finance Director

Syndicate 3500
Statement of Changes in Member's Balances
For the year ended 31st December 2019

	Member's Balances £'000
Balance at 1st January 2018	-
Profit for the financial year	5,886
Other comprehensive expense for the year	<u>(301)</u>
Total comprehensive income for the year	<u>5,585</u>
Balance at 31st December 2018	£ <u>5,585</u>
Balance at 1st January 2019	5,585
Profit for the financial year	12,057
Other comprehensive expense for the year	<u>-</u>
Total comprehensive income for the year	<u>12,057</u>
Balance at 31st December 2019	£ <u>17,642</u>

Syndicate 3500
Statement of Cash Flows
For the year ended 31st December 2019

	Note	2019 £'000	Restated 2018 £'000
Reconciliation of operating profit to net cash inflow from operating activities			
Profit for the financial year		12,057	5,886
Increase in gross technical provisions		327,181	216,991
Increase in reinsurers' share of gross technical provisions		(206,749)	(117,140)
Decrease (increase) in debtors		31,927	(73,749)
(Decrease) increase in creditors		(34,986)	23,110
Investment return		(7,114)	(9)
Net cash inflow from operating activities		122,316	55,089
Purchase of equity and debt instruments		(902,545)	(129,336)
Sale of equity and debt instruments		790,272	78,103
Investment income received		7,005	531
Foreign exchange relating to investing activities		7,443	(3,041)
Net cash inflow from investing activities		97,825	53,743
Cash and cash equivalents at beginning of year		7,746	6,276
Foreign exchange on cash and cash equivalents		(177)	124
Cash and cash equivalents at end of year		£ 32,060	£ 7,746
Cash and cash equivalents consist of:			
Cash at bank and in hand	21	31,291	7,474
Short term deposits with credit institutions		769	272
Cash and cash equivalents		£ 32,060	£ 7,746

Syndicate 3500

Notes to the Financial Statements

For the year ended 31st December 2019

1. General Information

Syndicate 3500 is engaged in the runoff of the assets and liabilities associated with previously written insurance and reinsurance business in the Lloyd's of London general insurance market. Additionally, Syndicate 3500 seeks to acquire new portfolios of run-off business.

Syndicate 3500 is managed by RiverStone Managing Agency Limited ("the Managing Agent"), whose registered office address is Park Gate, 161-163 Preston Road, Brighton, East Sussex, United Kingdom, BN1 6AU.

2. Statement of Compliance

The financial statements of Syndicate 3500 have been prepared in accordance with Regulation 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.

(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 consider 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 24.

(c) Insurance Contracts

(i) Premiums Written

Premiums written comprise the reinsurance to close premium and the loss portfolio transfer reinsurance premiums on contracts inception during the financial year.

Premiums written also relate 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.

Syndicate 3500

Notes to the Financial Statements

For the year ended 31st December 2019

(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 the Managing Agent ("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.

(d) 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.

(e) 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.

(f) Translation of Foreign Currencies

The financial statements are presented in Pounds Sterling and, unless otherwise stated, are rounded to thousands. Items included in Syndicate 3500's financial statements are measured using the currency of the primary economic environment in which it operates. Syndicate 3500's functional currency is the Pound Sterling.

Foreign currency transactions are translated into the functional currency using the average rate of exchange during the year. At each year 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 year. All exchange differences arising from

Syndicate 3500

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For the year ended 31st December 2019

the translation from functional currency to presentation currency are recognised through the Statement of Comprehensive Income as a separate component of equity.

Effective 1st January 2019 Syndicate 3500 changed its functional currency from US Dollars to Pound Sterling. The reinsurance to close transaction completed on the same date led to a reassessment of the underlying currencies in Syndicate 3500's books and this resulted in the change in functional currency from US Dollars to Pound Sterling.

(g) Tax

No amount has been provided in these financial statements 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.

(h) 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 year.

(i) 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.

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.

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Notes to the Financial Statements

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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 year in which they arise.

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

- (i) Level 1 – the unadjusted quoted price in an active market for identical assets or liabilities that the entity can access at the measurement date;
- (ii) Level 2 – inputs other than quoted prices included within Level 1 that are observable (i.e. developed using market data) for the asset or liability, either directly or indirectly
- (iii) Level 3 – inputs are unobservable (i.e. for which market data is unavailable) for the asset or liability

(j) 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.

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 year in which the adjustments are made. The methods used, and the estimates made, are reviewed regularly.

Syndicate 3500

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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.

(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 materially affected by a change in any subset of the portfolio. Syndicate 3500 has a diversified portfolio of insurance risks, which predominantly relate to business originally written previously.

Syndicate 3500 mitigates insurance risk through the use of reinsurance, both in the form of third party reinsurance associated with the business originally written and reinsurance with affiliated reinsurers.

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.

Syndicate 3500

Notes to the Financial Statements

For the year ended 31st December 2019

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.

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 gross and net technical provisions are those that affect the expected level of claims in the liability and professional indemnity classes. The largest sensitivities on these classes are in respect of uncertainties around future numbers and amounts of claims. The reserves for these classes will be paid out over several years.

iv) Claims Development Tables

The following table presents the comparison of actual claims incurred to previous estimates for the last 10 years.

On 1st January 2019, Syndicate 3500 accepted the reinsurance to close of the liabilities of another Lloyd's syndicate, a runoff syndicate with underwriting years of 2016 and prior. These liabilities are shown in the below triangles in their original underwriting years. The affiliate reinsurance of these liabilities is shown in the lead diagonal only of the net triangle, reflecting 1st January 2019 inception.

On 30th November 2018, Syndicate 3500 entered into a loss portfolio transfer reinsurance with another Lloyd's syndicate for certain lines of discontinued business with underwriting years of 2017 and prior. On 21st December 2018, Syndicate 3500 entered into a loss portfolio transfer reinsurance with another Lloyd's syndicate for certain lines of discontinued business with underwriting years of 2017 and prior. Both of these inwards reinsurances are shown in the 2018 year of account as are the affiliate reinsurances of these liabilities.

There was no business reinsured or acquired in 2017 and this year is excluded from the triangles.

Syndicate 3500
Notes to the Financial Statements
For the year ended 31st December 2019

Claims Outstanding (Gross)

Underwriting Year	2011 £'000	2012 £'000	2013 £'000	2014 £'000	2015 £'000	2016 £'000	2018 £'000	Total £'000
Estimate of cumulative gross claims								
At the end of the first year	69,665	80,100	117,187	108,825	114,163	118,249	192,223	800,412
- One year later	159,792	172,664	229,262	223,255	300,620	274,146	190,571	1,550,310
- Two years later	139,087	159,420	209,520	238,660	325,597	317,094	-	1,389,378
- Three years later	137,715	149,509	200,154	252,279	318,101	326,280	-	1,384,038
- Four years later	131,547	145,045	202,158	274,298	332,849	-	-	1,085,897
- Five years later	130,112	152,121	188,970	276,286	-	-	-	747,489
- Six years later	132,619	141,427	184,160	-	-	-	-	458,206
- Seven years later	125,463	143,535	-	-	-	-	-	268,998
- Eight years later	128,687	-	-	-	-	-	-	128,687
Current estimate of cumulative claims	128,687	143,535	184,160	276,286	332,849	326,280	190,571	1,582,368
Cumulative payments to date	117,392	126,449	150,104	214,548	241,721	194,618	40,096	1,085,738
Liability recognised in the balance sheet	£11,295	£17,086	£34,056	£61,738	£91,128	£131,662	£149,665	£496,630
Reserve in respect of prior years								90,341
Total reserve included in the balance sheet								£586,971

Claims Outstanding (Net)

Underwriting Year	2011 £'000	2012 £'000	2013 £'000	2014 £'000	2015 £'000	2016 £'000	2018 £'000	Total £'000
Estimate of cumulative net claims								
At the end of the first year	63,443	74,323	104,910	102,220	107,793	106,967	95,999	655,655
- One year later	149,763	157,902	193,672	209,830	244,645	252,078	95,173	1,303,063
- Two years later	133,493	150,237	186,815	225,648	255,372	276,894	-	1,228,459
- Three years later	132,412	140,912	180,261	235,505	264,206	285,207	-	1,238,503
- Four years later	124,391	134,584	183,501	234,501	273,984	-	-	950,961
- Five years later	123,229	140,524	167,460	244,577	-	-	-	675,790
- Six years later	124,908	128,561	166,858	-	-	-	-	420,327
- Seven years later	117,908	130,477	-	-	-	-	-	248,385
- Eight years later	119,894	-	-	-	-	-	-	119,894
Current estimate of cumulative claims	119,894	130,477	166,858	244,577	273,984	285,207	95,173	1,316,170
Cumulative payments to date	114,580	124,533	157,227	220,620	242,404	236,648	20,619	1,116,631
Liability recognised in the balance sheet	£5,314	£5,944	£9,631	£23,957	£31,580	£48,559	£74,554	£199,539
Reserve in respect of prior years								20,744
Total reserve included in the balance sheet								£220,283

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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:

	2019		Restated 2018	
	Gross £'000	Net £'000	Gross £'000	Net £'000
Casualty reinsurance	18,517	6,181	25,603	-
Credit and suretyship	289	143	359	173
Fire and other damage to property	50,618	15,845	429	140
General liability	294,763	118,912	186,261	86,158
Health insurance	936	360	343	-
Income protection	2,865	1,096	1,139	118
Marine, aviation and transport	98,026	30,342	20,343	1,166
Medical expenses	91	44	1	-
Motor vehicle liability	2,431	418	180	82
Other motor	16,541	1,140	477	239
Property reinsurance	16,592	5,338	109	-
Worker's compensation	74,023	35,488	20,682	10,061
Claims expense reserve	11,279	4,976	3,864	1,714
Total technical provisions	£ 586,971	£ 220,283	£ 259,790	£ 99,851

(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 2019 is an approximate £1.3 million loss (2018: £400,000) to the profit and loss account. Similarly, a 100 basis point decrease in interest rates would give rise to an approximate £800,000 gain (2018: £400,000) to the profit and loss account, prior to cessions to 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.

Syndicate 3500

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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 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 2019 represent 47.7% 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, there would be a gain/loss of £200,000 (2018: £200,000) to the profit and loss account, prior to cessions to RIUK.

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 US Dollar, Euro Australian 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 2019, if the US Dollar had weakened by 10% more in 2019 against the Pound Sterling with all other variables held constant, profit for the year would have been £7.5 million lower (2018: £6.6 million higher), mainly as a result of net foreign exchange gains on the translation of Pound Sterling denominated financial assets, and Pound Sterling denominated liabilities.

At 31st December 2019, if the Euro had weakened by 10% more in 2019 against the Pound Sterling with all other variables held constant, profit for the year would have been £241,000 higher (2018: £2.9 million lower), mainly as a result of net foreign exchange gains on the translation of Pound Sterling denominated financial assets, and Pound Sterling denominated liabilities.

At 31st December 2019, if the Australian Dollar had weakened by 10% more in 2019 against the Pound Sterling with all other variables held constant, profit for the year would have been £1.6 million higher (2018: £23,000 higher), mainly as a result of net foreign exchange gains on the translation of Pound Sterling denominated financial assets, and Pound Sterling denominated liabilities.

(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;
- counterparty risk with respect to derivative transactions; and
- cash at bank and in hand.

As Syndicate 3500 is in runoff its exposures to other 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

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For the year ended 31st December 2019

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 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), 2018 is restated to include premium receivable in assets arising from reinsurance contracts held:

	2019	Restated
	£'000	2018
		£'000
Derivative Financial Instruments	2,007	-
Debt securities	187,995	84,518
Deposits with credit institutions	712	740
Assets arising from reinsurance contracts held	406,869	236,593
Cash at bank and in hand	31,291	7,474
Overseas deposits	31,161	863
	<u> </u>	<u> </u>
Total assets bearing credit risk	£ 660,035	£ 330,188

	2019	2018
	£'000	£'000
A++	69,580	82,662
A+	63,836	3,476
A, A-	199,451	70,587
B++ and below or not rated	327,168	173,463
	<u> </u>	<u> </u>
Total assets bearing credit risk	£ 660,035	£ 330,188

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

	2019	Restated
	£'000	2018
		£'000
Performing	402,379	236,593
Past due	4,490	-
Impaired	-	-
Provision for irrecoverable amounts	-	-
	<u> </u>	<u> </u>
	£ 406,869	£ 236,593

(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 a combination of operational cash flow forecasting and 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

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For the year ended 31st December 2019

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.

	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 31st December 2019							
Creditors	-	61,042	1,559	2,017	2,706	2,242	69,566
Claims outstanding	-	90,741	90,741	117,427	157,546	130,516	586,971
Financial liabilities and outstanding claims	£ -	£ 151,783	£ 92,300	£ 119,444	£ 160,252	£ 132,758	£ 656,537
At 31st December 2018							
Creditors	-	73,526	98	150	291	189	74,254
Claims outstanding	-	30,808	30,808	47,106	91,592	59,476	259,790
Financial liabilities and outstanding claims	£ -	£ 104,334	£ 30,906	£ 47,256	£ 91,883	£ 59,665	£ 334,044

(e) Capital Management

Syndicate 3500 maintains an efficient capital structure comprising only its members' balances, 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 is regulated by the Prudential Regulation Authority, the Financial Conduct Authority and Lloyd's 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 has complied with all of its capital requirements throughout the year.

The minimum capital required to support Syndicate 3500 is required to be provided by the corporate member, either by assets held in trust by Lloyd's specifically for that member ("Funds at Lloyd's"), held within, and managed within, a syndicate (Funds in Syndicate) or as the member's share of the members' balances on each syndicate on which it participates. Accordingly, all of the assets less liabilities of the Syndicate, as represented in the member balances reported on the Balance Sheet, represent resources available to meet member and Lloyd's capital requirements.

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6. Segmental Analysis

	Gross premiums written 2019 £'000	Gross premiums earned 2019 £'000	Gross claims incurred 2019 £'000	Gross operating expenses 2019 £'000	Re- insurance balance 2019 £'000
Direct Insurance					
Accident and health	1,879	1,879	(3,895)	(113)	1,582
Motor	16,129	16,129	(16,478)	(479)	2,770
Marine, aviation and transport	51,724	51,724	(105,165)	(3,059)	42,810
Credit and surety	82	82	(58)	(2)	-
Fire and other damage to property	65,804	65,804	(88,828)	(2,584)	25,320
Third party liability	223,124	223,124	(279,708)	(8,137)	76,657
	<u>358,742</u>	<u>358,742</u>	<u>(494,132)</u>	<u>(14,374)</u>	<u>149,139</u>
Reinsurance acceptances	<u>72,116</u>	<u>72,116</u>	<u>(63,366)</u>	<u>(1,843)</u>	<u>(218)</u>
Total	£ 430,858	£ 430,858	£ (557,498)	(16,217)	£ 148,921
	2018 £'000	2018 £'000	2018 £'000	2018 £'000	2018 £'000
Direct Insurance					
Accident and health	-	-	31	-	(31)
Motor	-	-	(8)	-	8
Marine, aviation and transport	-	-	37	-	(37)
Credit and surety	-	-	18	-	(18)
Fire and other damage to property	-	-	2	-	(2)
Third party liability	<u>2</u>	<u>2</u>	<u>(19,354)</u>	<u>(341)</u>	<u>19,928</u>
	<u>2</u>	<u>2</u>	<u>(19,274)</u>	<u>(341)</u>	<u>19,848</u>
Reinsurance acceptances	<u>206,584</u>	<u>206,584</u>	<u>(202,180)</u>	<u>(3,569)</u>	<u>4,944</u>
Total	£ 206,586	£ 206,586	£ (221,454)	£ (3,910)	£ 24,792

All premiums written were in respect of insurance contracts concluded in the UK.

On 30th November 2018, Syndicate 3500 entered into a loss portfolio transfer reinsurance with another Lloyd's syndicate for certain lines of discontinued business with underwriting years of 2017 and prior. Gross written premiums and gross claims incurred include £136.7 million and £135.6 million respectively, representing the premium receivable and net loss reserves recorded in respect of this transaction. Also, effective 30th November 2018, Syndicate 3500 entered into a reinsurance protection agreement with an affiliate to retrocede 50% of these liabilities.

On 21st December 2018, Syndicate 3500 entered into a loss portfolio transfer reinsurance with another Lloyd's syndicate for certain lines of discontinued business with underwriting years of 2017 and prior. Gross written premiums and gross claims incurred include £69.8 million and £63.8 million respectively, representing the premium receivable and net loss reserves recorded in respect of this transaction. Also, effective 21st December 2018, Syndicate 3500 entered into a reinsurance protection agreement with an affiliate to retrocede 50% of these liabilities.

On 1st January 2019, Syndicate 3500 accepted the reinsurance to close of the liabilities of another Lloyd's syndicate, a runoff syndicate with underwriting years of 2016 and prior. This transaction results in the transfer to Syndicate 3500 of gross and net technical provisions of approximately £560 million and £419 million, respectively. Also, effective 1st January 2019, Syndicate 3500 entered into a reinsurance protection agreement with an affiliate to retrocede 50% of these liabilities.

Syndicate 3500

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The reinsurance balance includes £210.4 million of reserves that were reinsured with affiliate reinsurers under these arrangements offset by premium payable of £211.7 million.

7. Technical Provisions – Claims Outstanding

The change in the provisions for claims outstanding during the year was as follows:

	2019			2018		
	Gross £'000	Reinsurers' Share £'000	Net £'000	Gross £'000	Reinsurers' Share £'000	Net £'000
Claims outstanding at 1 January	259,790	159,939	99,851	42,799	42,799	-
Reinsurance of new liabilities	552,752	122,657	430,095	199,935	-	199,935
New ceded reinsurance entered into	-	198,572	(198,572)	-	100,084	(100,084)
Change in estimates of technical provision provisions, including foreign exchange	(20,860)	16,830	(37,690)	25,157	25,425	(268)
Paid claims	<u>(204,711)</u>	<u>(131,310)</u>	<u>(73,401)</u>	<u>(8,101)</u>	<u>(8,369)</u>	<u>268</u>
Claims outstanding at 31 December	£ 586,971	£ 366,688	£ 220,283	£ 259,790	£ 159,939	£ 99,851

Included within reinsurers' share of technical provisions – claims outstanding are amounts recoverable from affiliated companies of £256,260,073 (2018: £150,271,033)

8. Net Operating Expenses

Syndicate operating expenses included within net operating expenses comprise:

	2019 £'000	2018 £'000
Administrative expenses	15,917	2,849
Gross profit commission payable	300	1,061
Less: recovered under reinsurance protection agreements	<u>(10,769)</u>	<u>(3,379)</u>
	£ 5,448	£ 531

The management and administration of RiverStone Managing Agency is carried out by 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 to Syndicate 3500. Certain costs are recovered by Syndicate 3500 under the reinsurance protection agreements it has entered into with affiliated reinsurers.

Operating costs charged to Syndicate 3500 by RiverStone Managing Agency during the year were £13,944,000 (2018: £2,480,000).

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 key management personnel of Syndicate 3500

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in respect of their services in relation to Syndicate 3500 are summarised below. These amounts represent emoluments based on an apportionment of time.

	2019 £'000	2018 £'000
Total emoluments: Directors, run off manager and key management personnel	£ <u>603</u>	£ <u>725</u>
Run-off Manager	£ <u>188</u>	£ <u>120</u>

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

9. Auditors' Remuneration

	2019 £'000	2018 £'000
Audit	222	136
Audit related assurance services	52	31
Non-audit related actuarial and valuation services	<u>108</u>	<u>-</u>
	£ <u>382</u>	£ <u>167</u>

10. Investment Income

	2019 £'000	2018 £'000
Income from financial assets at fair value through profit and loss	£ <u>7,005</u>	£ <u>531</u>

11. Investment Expenses and Charges

	2019 £'000	2018 £'000
Investment expenses	£ <u>1,121</u>	£ <u>104</u>

12. Result for the year

	2019 £'000	2018 £'000
The result for the year is stated after charging:		
Foreign exchange loss	£ <u>1,121</u>	£ <u>137</u>

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13. Other Financial Investments

(a) Other Financial Investments by Category

	Market Value 2019 £'000	Market Value 2018 £'000	Historic Cost 2019 £'000	Historic Cost 2018 £'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	9,579	9,422	8,691	8,901
Debt securities and other fixed interest securities designated at fair value through profit and loss on initial recognition	187,995	84,518	194,285	84,264
Derivative financial instruments - at fair value through profit and loss, held for trading	2,007	-	-	-
Deposits with credit institutions	712	740	712	740
	£ 200,293	£ 94,680	£ 203,688	£ 93,905

Financial Liabilities

Derivative financial instruments - at fair value through profit and loss, held for trading	£ 479	£ -	£ -	£ -
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(b) Listed Investments

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

	2019 £'000	2018 £'000
At fair value through profit and loss		
Shares and other variable yield securities and units in unit trusts	4,570	4,749
Debt securities and other fixed interest securities	52,265	64,874
Total listed investments	£ 56,835	£ 69,623

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Derivative Financial Instruments at Fair Value through Profit and Loss

	Market Value 2019 £'000	Market Value 2018 £'000
Derivative financial instruments assets		
Foreign currency forward contracts	£ <u>2,007</u>	£ <u>-</u>

The functional currency of Syndicate 3500 is Pound Sterling and consequently it is exposed to foreign exchange movements in currencies other than Pound Sterling. Syndicate 3500 has foreign currency forward contracts in place to provide protection against the impact of potential adverse fluctuations in exchange rates on Syndicate 3500's net asset positions.

The foreign currency forward contracts are measured at fair value, which is determined using valuation techniques that utilise observable inputs. The key inputs used in valuing the derivatives are the forward exchange rates for USD: GBP.

	<u>Market Value</u>		<u>Contract/Notional Amount</u>	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Foreign currency forward contracts	£ <u>2,007</u>	£ <u>-</u>	£ <u>155,258</u>	£ <u>-</u>

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

	Level 1 2019 £'000	Level 2 2019 £'000	Level 3 2019 £'000	Total 2019 £'000
Shares and other variable yield securities and units in unit trusts	-	4,570	5,009	9,579
Debt securities and other fixed interest securities	128,544	59,451	-	187,995
Derivative financial instruments at fair value through profit or loss, held for trading	-	-	2,007	2,007
Deposits with credit institutions	<u>712</u>	<u>-</u>	<u>-</u>	<u>712</u>
	£ <u>129,256</u>	£ <u>64,021</u>	£ <u>7,016</u>	£ <u>200,293</u>

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	Level 1 2018 £'000	Level 2 2018 £'000	Level 3 2018 £'000	Total 2018 £'000
Shares and other variable yield securities and units in unit trusts	-	4,749	4,673	9,422
Debt securities and other fixed interest securities	19,644	64,874	-	84,518
Deposits with credit institutions	740	-	-	740
	<u>£ 20,384</u>	<u>£ 69,623</u>	<u>£ 4,673</u>	<u>£ 94,680</u>

Level 3 investments valuations are based on third party broker quotes.

(d) Level 3 Pricing

Level 3 valuation techniques are used by Syndicate 3500's investment manager's independent pricing service providers and third party broker-dealers and include comparisons with similar instruments where observable market prices exist, discounted cash flow analysis, option pricing models, and other valuation techniques commonly used by market participants. Syndicate 3500's investment manager assesses the reasonableness of pricing received from these third party sources by comparing the fair values received to recent transaction prices for similar assets, where available, to industry accepted discounted cash flow models (that incorporate estimates of the amount and timing of future cash flows and market observable inputs such as credit spreads and discount rates) and to option pricing models (that incorporate market observable inputs including the quoted price, volatility and dividend yield of the underlying security and the risk free rate).

(e) Reconciliation of Movements in Level 3 Financial Investments Measured at Fair Value

	At Fair Value Through Profit and Loss			Available for Sale		Total 2019 £'000
	Debt Securities 2019 £'000	Equity Shares 2019 £'000	Derivatives 2019 £'000	Debt Securities 2019 £'000	Equity Shares 2019 £'000	
At 1 st January	-	4,673	-	-	-	4,673
Total gains recognised in the profit and loss account	-	336	2,007	-	-	2,343
Purchases	-	-	-	-	-	-
Total	<u>£ -</u>	<u>£ 5,009</u>	<u>£ 2,007</u>	<u>£ -</u>	<u>£ -</u>	<u>£ 7,016</u>

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	At Fair Value Through Profit and Loss			Available for Sale		Total 2018 £'000
	Debt Securities 2018 £'000	Equity Shares 2018 £'000	Derivatives 2018 £'000	Debt Securities 2018 £'000	Equity Shares 2018 £'000	
	At 1 st January	-	4,878	-	-	
Total losses recognised in the profit and loss account	-	(205)	-	-	-	(205)
Purchases	-	-	-	-	-	-
Total	£ -	£ 4,673	£ -	£ -	£ -	£ 4,673

Total gains of £2.3 million (2018: losses £205,000) comprise unrealised gains of £2.3 million on Level 3 financial investments held during the year, all of which are presented in the net investment return in the profit and loss account.

(f) 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 2019 was £77.2 million (2018: £8.3 million).

14. Debtors Arising Out of Direct Insurance Operations

	2019 £'000	2018 £'000
Amount owed from intermediaries	£ 5,937	£ 254

15. Debtors Arising Out of Reinsurance Operations

	2019 £'000	2018 £'000
Amount owed from intermediaries	25,600	204
Due from group undertakings	6,223	-
Premiums receivable	2,422	76,196
	£ 34,245	£ 76,400

16. Other Debtors

	2019 £'000	2018 £'000
Receivable for securities sold	3,093	-
Insurance premium taxes	701	-
	£ 3,794	£ -

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17. Creditors Arising out of Direct Insurance Operations

	2019	2018
	£'000	£'000
Amounts owed to group undertakings	£ -	£ 1,077

18. Creditors Arising out of Reinsurance Operations

	2019	2018
	£'000	£'000
Amounts owed to group undertakings	48,619	71,581
Amounts owed to cedants and intermediaries	15,302	855
	£ 63,921	£ 72,436

19. Other Creditors Including Taxation and Social Security

	2019	2018
	£'000	£'000
Amounts owed to group undertakings	5,166	741
Derivative liability	479	-
	£ 5,645	£ 741

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

	2019	2018
	£'000	£'000
Net cash inflow for the year	24,805	1,223
Increase (decrease) in overseas deposits	31,051	(526)
Net portfolio investment	105,576	51,222
Movement arising from cash flows	161,432	51,919
Changes in market value and exchange rates	(1,704)	2,364
Total movement in portfolio investments, net of financing	159,728	54,283
Balance brought forward at 1 st January, net of financing	103,017	48,734
Balance carried forward at 31st December, net of financing	£ 262,745	£ 103,017

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21. Movement in Cash, Portfolio Investments and Financing

	At 1 January 2019 £'000	Cash Flow £'000	Changes to Market Value and Currencies £'000	At 31 December 2019 £'000
Cash at bank and in hand	7,474	24,805	(988)	31,291
Overseas deposits	863	31,051	(753)	31,161
	<u>8,337</u>	<u>55,856</u>	<u>(1,741)</u>	<u>62,452</u>
Portfolio investments:				
Shares and other variable yield securities	9,422	-	157	9,579
Debt and other fixed income	84,518	103,569	(92)	187,995
Derivative financial instruments	-	2,007	-	2,007
Deposits with credit institutions	740	-	(28)	712
Total portfolio investments	<u>94,680</u>	<u>105,576</u>	<u>37</u>	<u>200,293</u>
Total cash, portfolio investments and financing	<u>£ 103,017</u>	<u>£ 161,432</u>	<u>£ (1,704)</u>	<u>£ 262,745</u>

22. Net Cash Inflow on Portfolio Investments

	2019 £'000	2018 £'000
Shares and other variable yield securities	-	(7,067)
Debt and other fixed income securities	103,569	58,299
Derivative financial instruments	2,007	-
Deposits with credit institutions	-	(10)
Net cash inflow on portfolio investments	<u>£ 105,576</u>	<u>£ 51,222</u>

23. Commitments and Contingent Liabilities

As at 31st December 2019, there were no outstanding commitments or contingent liabilities (2018: nil).

24. 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 financial

Syndicate 3500

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statements 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.

25. Related Parties

The managing agent of the syndicate, RiverStone Managing Agency, and the corporate member that provides capital to the syndicate, RiverStone Corporate Capital, 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.

Fairfax is the smallest and largest group of undertakings to consolidate these financial statements and its registered office is 95 Wellington Street West, Suite 800, Toronto, Ontario, Canada, M5J 2N7. The financial statements of Fairfax can be obtained from the Corporate Secretary at this address or from the website at www.fairfax.ca.

During the year, Syndicate 3500 had the following related party transactions and balances:

RiverStone Managing Agency undertakes the management of Syndicate 3500 and charged expenses of £13.9 million during the year (2018: £2.5 million). At the end of the year a balance of £5.2 million (2018: £714,000) was payable from Syndicate 3500 to RiverStone Managing Agency, which is payable on demand.

Syndicate 3500 places outwards reinsurance business with and accepts inwards reinsurance business from companies that are deemed to be related parties of RiverStone Managing Agency by virtue of the shareholding of Fairfax. All these transactions are considered at arm's length and at normal commercial terms.

The table below sets out the related party transactions and balances during and at the end of 2019:

	<u>Inwards Premium</u>		<u>Outwards Premium</u>		<u>Reinsurance Recoveries</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>
RiverStone Insurance (UK)	-	-	-	-	32,570	6,581
TIG Insurance (Barbados) Ltd	-	-	211,679	34,034	57,080	-
Wentworth Insurance Company Ltd	-	-	-	66,650	14,022	-
Brit Syndicate 2987	-	136,718	-	-	-	-
Total	£ -	£ 136,718	£ 211,679	£ 100,684	103,672	£ 6,581

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	Reinsurer's Share of Technical Provisions		Other Amounts Due/(Owed)	
	2019	2018	2019	2018
	£'000	£'000	£'000	£'000
RiverStone Insurance (UK)	18,602	50,187	(14,337)	(26,732)
TIG Insurance (Barbados) Ltd	180,920	31,900	(25,403)	(33,565)
Wentworth Insurance Company Ltd	51,454	68,186	6,223	5,558
Brit Syndicate 2987	-	-	-	(11,401)
Total	£ 250,976	£ 150,273	£ (33,517)	£ (66,140)

Syndicate 3500 has a balance payable to RiverStone Management Limited, a fellow subsidiary of RiverStone Holdings Limited, of £9,000 (2018: £27,000), which is payable on demand. There were no transactions in 2019 and the movement on the balance during the year is due to the changes in exchange rates.

26. Subsequent Events

On 20th December 2019, Fairfax entered into an agreement to sell a 40% equity interest in its wholly owned European Run-off group to Ontario Municipal Employees Retirement System (“OMERS”), the pension plan manager for government employees in the province of Ontario. The European Run-off group includes RiverStone Managing Agency and RiverStone Corporate Capital and their immediate parent company RiverStone Holdings. Upon completion of the transaction, OMERS and Fairfax will have joint control of the European Run-off group. Accordingly, Fairfax will deconsolidate the European Run-off group from its Run-off reporting segment and apply the equity method of accounting for its remaining equity interest. The transaction is subject to regulatory approval and is expected to close in the first quarter of 2020.

Effective 1st January 2020, Syndicate 3500 accepted the reinsurance to close of the 2017 and prior underwriting years of account liabilities of another Lloyd’s syndicate. This transaction results in the transfer to Syndicate 3500 of gross and net technical provisions of £180.3 million and £116.7 million, respectively. Also, effective 1st January 2020, Syndicate 3500 entered into an adverse development cover with an affiliate to provide downside protection over these liabilities.

Directors’ Interests

All of the directors of RiverStone Managing Agency listed on page 7 hold, or held in the year, directorships of other companies within the Fairfax group.