

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.

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Syndicate 3500

2020 Annual Report

Syndicate 3500

Annual Report

For the year ended 31st December 2020

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Syndicate 3500

Directors and Administration

For the year ended 31st December 2020

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
M. J. Bannister
N. C. Bentley (resigned 22 May 2020)
A. R. Creed
I. Hewitt
T. A. Riddell – Independent Non-Executive Director
K. Shah – Independent Non-Executive Chairman
N. Smith – Independent Non-Executive Director
L. R. Tanzer

Independent Auditors

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

Website

<https://www.rsml.co.uk>

Syndicate 3500

Managing Director's Report

For the year ended 31st December 2020

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.

Effective 1st January 2021, Syndicate 3500 entered into the following transactions:

- the reinsurance to close of the 2018 and prior underwriting years of account liabilities of Syndicate 780. This transaction results in the transfer to Syndicate 3500 of gross and net technical provisions of £132.1 million and £84.6 million, respectively;
- the reinsurance to close of the 2018 and prior underwriting years of account liabilities of Syndicate 1897. This transaction results in the transfer to Syndicate 3500 of gross and net technical provisions of £58.1 million and £54.1 million, respectively;

Syndicate 3500

Managing Director's Report

For the year ended 31st December 2020

- the loss portfolio transfer reinsurance of the 2019 underwriting year of account liabilities of Syndicate 1897. This transaction results in the transfer to Syndicate 3500 of gross and net technical provisions of £13 million and £12.8 million respectively;
- the reinsurance to close of the 2017 and prior underwriting years of account liabilities and the reinsurance to close of the 2018 and prior underwriting years of two separate third party Lloyd's syndicates. These transactions result in the transfer to Syndicate 3500 of gross and net technical provisions of £818.5 million and £632.8 million, respectively.

On 31st March 2020, Fairfax sold 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 its immediate parent company RiverStone Holdings. Upon completion of the transaction, OMERs and Fairfax have joint control of the European Run-off group. Accordingly, Fairfax have deconsolidated the European Run-off group and have applied the equity method of accounting for its remaining equity interest.

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.

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 RiverStone Barbados Limited ("RiverStone Barbados"), is the parent of RiverStone Corporate Capital, RiverStone Managing Agency and RiverStone Insurance (UK).

Business Review

Results and Performance

The loss for the 2020 financial year, on an annual accounting basis, is £2.6 million (2019: profit of £12.1 million).

The balance on the technical account for general business for the year was a profit of £1 million (2019: profit of £6.1 million). This comprises net earned premiums of £94.2 million, partially offset by net incurred claims of £92.7 million and net operating expenses of £0.5 million.

The loss for the financial year of £2.6 million (2019: £12.1 million profit) comprises net investment gains of £200,000 (2019: gain of £7.1 million), foreign exchange losses of £3.9 million (2019: losses of £1.1 million) and the gain on the technical account for general business.

Syndicate 3500

Managing Director's Report

For the year ended 31st December 2020

Member's balances decreased to a surplus of £15 million at 31st December 2020 (2019: £17.6 million) due to the 2020 total comprehensive loss.

Total outstanding claims, gross of reinsurance, were £563.6 million as at 31st December 2020 (2019: £587 million). Total cash, deposits and investments were £306 million at 31st December 2020 (2019: £262.7 million). Movements in outstanding claims and cash balances predominantly arise as a result of transactions entered into during 2020 less activity in 2020 such as paying claims.

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.

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.

2020 has been dominated by the impact on society of the novel coronavirus, COVID-19. This disease has forced numerous economies to impose significant restrictions on free movement, with the UK requiring large numbers of workers to remain at home. Syndicate 3500, RiverStone Managing Agency and RiverStone Management have continued to perform business as usual activities efficiently and effectively despite these restrictions and will continue to remain fully operational while these conditions remain in force. Syndicate 3500 does not have material insurance exposure to COVID-19 related claims and its 2020 financial results have not been meaningfully impacted by this pandemic.

Strategy and Future Developments

The Board's strategy for Syndicate 3500 is the efficient and economic management of all existing liabilities. The Board intends to continue to actively pursue run-off acquisition opportunities for Syndicate 3500 through reinsurance to close or retroactive reinsurance transactions.

On 20th December 2020, Fairfax entered into a binding agreement with CVC Capital Partners to sell all of its equity interest in the European Run-off group to CVC Strategic Opportunities Fund II. OMERS has also agreed to sell all its interests the European Run-off group as part of the transaction. 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.

Syndicate 3500
Managing Director's Report
For the year ended 31st December 2020

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 2020 which is described above, gross loss reserves decreased by 24% and third party reinsurance recoverables (excluding group reinsurance protection) decreased by 20%. The movements are in line with Board's expectations and the performance is considered to be satisfactory.

L. R. Tanzer
Managing Director
16 February 2021

Syndicate 3500

Managing Agent's Report

For the year ended 31st December 2020

The Directors of the managing agent, RiverStone Managing Agency, present their report and the audited financial statements for the year ended 31st December 2020.

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 7.

Directors

The Directors of RiverStone Managing Agency holding office during the period from 1st January 2020 to the date of this report were as follows:

T. Ambridge
M. J. Bannister
N. C. Bentley (resigned 22 May 2020)
A. R. Creed
I. Hewitt
T. A. Riddell – Independent Non-Executive Director
K. Shah – Independent Non-Executive Chairman
N. Smith – Independent Non-Executive Director
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 manages this risk within its overall risk management framework.

Syndicate 3500

Managing Agent's Report

For the year ended 31st December 2020

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. Tanzer
Managing Director
16 February 2021

Syndicate 3500

Independent Auditors' Report to the Member of Syndicate 3500

For the year ended 31st December 2020

Report on the audit of the syndicate account accounts

Opinion

In our opinion, Syndicate 3500's syndicate annual accounts:

- give a true and fair view of the state of the syndicate's affairs as at 31 December 2020 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); 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 2020 Annual Report (the "Annual Report"), which comprise: the Balance Sheet as at 31 December 2020; the Profit and Loss Account, the Statement of Cash Flows, and 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.

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 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

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the syndicate's ability to continue as a going concern for a period of at least twelve months from when the syndicate annual accounts are authorised for issue.

In auditing the syndicate annual accounts, we have concluded that the Managing Agent's use of the going concern basis of accounting in the preparation of the syndicate annual accounts is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the syndicate's ability to continue as a going concern.

Our responsibilities and the responsibilities of the Managing Agent with respect to going concern are described in the relevant sections of this report.

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, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

Syndicate 3500

Independent Auditors' Report to the Member of Syndicate 3500

For the year ended 31st December 2020

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 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 our work undertaken in the course of the audit, The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 requires us also to report certain opinions and matters as described below.

Managing Agent's Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Managing Agent's Report for the year ended 31 December 2020 is consistent with the syndicate annual accounts and has been prepared in accordance with applicable legal requirements.

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 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, 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 the syndicate is unable to continue to realise its assets and discharge its liabilities in the ordinary course of business.

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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the syndicate and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of UK and European regulatory principles, such as

Syndicate 3500

Independent Auditors' Report to the Member of Syndicate 3500

For the year ended 31st December 2020

those governed by the Prudential Regulation Authority and the Financial Conduct Authority, and those regulations set by the Council of Lloyd's, and we considered the extent to which non-compliance might have a material effect on the syndicate annual accounts. We also considered those laws and regulations that have a direct impact on the syndicate annual accounts such as The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. We evaluated management's incentives and opportunities for fraudulent manipulation of the syndicate annual accounts (including the risk of override of controls), and determined that the principal risks were related to management bias in accounting estimates and judgemental areas of the financial statements such as the valuation of claims outstanding, and posting inappropriate journal entries.

Audit procedures performed by the engagement team included:

- Challenging assumptions and judgements made by management in their valuation of claims outstanding, including deriving independent estimates for some classes of business;
- Discussions with management and those involved in the risk and compliance functions, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Reading key correspondence with the Prudential Regulation Authority and the Financial Conduct Authority in relation to compliance with laws and regulations; and
- Identifying and testing journal entries posted with unusual account combinations.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the syndicate annual accounts. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

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 opinions, 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 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.

Other required reporting

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 obtained 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.

Stewart Paterson (Senior statutory auditor)

for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
16 February 2021

Syndicate 3500
Profit and Loss Account
For the year ended 31st December 2020

	Note	2020 £'000	2019 £'000
Technical Account – General Business			
Gross premiums written	6	118,210	430,858
Outward reinsurance premiums		<u>(3,418)</u>	<u>(211,679)</u>
Net premiums written		<u>114,792</u>	<u>219,179</u>
Change in provision for unearned premium			
Gross amount		(15,065)	-
Reinsurers' share		<u>(5,508)</u>	<u>-</u>
Change in net provision for unearned premium		(20,573)	-
Written and earned premiums net of reinsurance		<u>94,219</u>	<u>219,179</u>
Gross claims paid	7	(171,854)	(204,711)
Reinsurers' share	7	<u>80,596</u>	<u>131,310</u>
Net claims paid		<u>(91,258)</u>	<u>(73,401)</u>
Change in the gross provision for claims		31,459	(352,787)
Reinsurers' share		<u>(32,863)</u>	<u>218,521</u>
Change in the net provision for claims		<u>(1,404)</u>	<u>(134,266)</u>
Claims incurred, net of reinsurance		(92,662)	(207,667)
Net operating expenses	6,8	<u>(521)</u>	<u>(5,448)</u>
Total technical credit, net of reinsurance		<u>1,036</u>	<u>6,064</u>
Balance on the technical account for general business		1,036	6,064
Non-Technical Account			
Investment income	10	3,717	7,005
Unrealised gains on investments		2,081	1,504
Unrealised losses on investments		(460)	(436)
Realised (losses) gains on investments		(4,124)	162
Investment expenses and charges	11	(1,015)	(1,121)
Foreign Exchange loss	12	<u>(3,873)</u>	<u>(1,121)</u>
(Loss) / Profit for the financial year		£ <u>(2,638)</u>	£ <u>12,057</u>

The results above are all derived from continuing operations.

Syndicate 3500
Balance Sheet
For the year ended 31st December 2020

	Note	2020 £'000	2019 £'000
Assets			
Investments			
Other financial investments	13	227,799	200,293
Reinsurers' share of technical provisions			
Claims outstanding	7	317,881	366,688
Provision for unexpired risk		2,640	-
Provision for unearned premium		4,871	-
		325,392	366,688
Debtors			
Debtors arising out of direct insurance operations	14	6,132	5,937
Debtors arising out of reinsurance operations	15	30,953	34,245
Other debtors	16	648	3,794
		37,733	43,976
Other assets			
Cash at bank and in hand		40,819	31,291
Overseas Deposits		37,374	31,161
		78,193	62,452
Prepayments and accrued income			
Accrued interest		711	770
Deferred Acquisition costs		3,156	-
		3,867	770
Total assets		£ 672,984	£ 674,179
Capital, Reserves and Liabilities			
Capital and reserves			
Member's balances		15,004	17,642
Technical provisions			
Claims outstanding		563,615	586,971
Provision for unexpired risk		2,640	-
Provision for unearned premium		15,363	-
		581,618	586,971
Creditors			
Creditors arising out of direct insurance operations	17	40	-
Creditors arising out of reinsurance operations	18	73,638	63,921
Other creditors including taxation and social security	19	2,684	5,645
		76,362	69,566
Total capital, reserves and liabilities		£ 672,984	£ 674,179

The financial statements on pages 13 to 39 were approved by the Board of RiverStone Managing Agency Limited on 9 February 2021 and were signed on its behalf by the Directors on 16 February 2021:

L. R. Tanzer
Managing Director

A. R. Creed
Finance Director

Syndicate 3500
Statement of Changes in Members' Balances
For the year ended 31st December 2020

	Member's Balances £'000
Balance at 1st January 2019	5,585
Profit for the financial year	<u>12,057</u>
Balance at 31st December 2019	£ <u>17,642</u>
Balance at 1st January 2020	17,642
(Loss) for the financial year	<u>(2,638)</u>
Balance at 31st December 2020	£ <u>15,004</u>

Syndicate 3500
Statement of Cash Flows
For the year ended 31st December 2020

	Note	2020 £'000	2019 £'000
Reconciliation of (loss) / profit for the year to net cash inflow from operating activities			
(Loss) Profit for the financial year		(2,638)	12,057
(Decrease) Increase in gross technical provisions		(5,353)	327,181
Increase (decrease) in reinsurers' share of gross technical provisions		41,295	(206,749)
Decrease in debtors		6,302	31,927
Increase (decrease) in creditors		588	(34,986)
Investment return		(198)	(7,114)
Net cash inflow from operating activities		39,996	122,316
Purchase of equity and debt instruments		(617,243)	(902,545)
Sale of equity and debt instruments		582,074	790,272
Investment income received		3,717	7,005
Foreign exchange relating to investing activities		789	7,443
Net cash outflow from investing activities		(30,663)	(97,825)
Cash and cash equivalents at beginning of year		32,060	7,746
Foreign exchange on cash and cash equivalents		226	(177)
Cash and cash equivalents at end of year		£ 41,619	£ 32,060
Cash and cash equivalents consist of:			
Cash at bank and in hand	21	40,819	31,291
Short term deposits with credit institutions		800	769
Cash and cash equivalents		£ 41,619	£ 32,060

Syndicate 3500

Notes to the Financial Statements

For the year ended 31st December 2020

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. The reinsurance to close premium is grossed up for any reinsurer's share of unearned premium and deferred acquisition costs acquired under any reinsurance to close transaction.

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

Syndicate 3500

Notes to the Financial Statements

For the year ended 31st December 2020

levied on them. Estimates are made for pipeline premiums, including amounts due to Syndicate 3500 not yet notified.

Premiums are accreted to the income statement on a pro-rata basis over the term of the related policy, except for those contracts where the period of risk differs significantly from the contract period. In these cases, premiums are recognised over the period of risk in proportion to the amount of insurance protection provided.

Unearned premiums represent the proportion of premiums written that relate to unexpired terms of policies in force at the balance sheet date. The unearned premium reserve is translated to Sterling at closing rates of exchange.

Acquisition costs, which represent commission and other related expenses, are allocated over the period in which the related premiums are earned.

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.

Provisions for unexpired risks are established based on estimates of the cost of all claims and expenses in connection with insurance contracts in force after the end of the financial year where these costs are estimated to be in excess of the related unearned premiums and any premiums receivable on those contracts.

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 acquisition costs and any members' expenses, are shown as net operating expenses.

Syndicate 3500

Notes to the Financial Statements

For the year ended 31st December 2020

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

(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.

Syndicate 3500

Notes to the Financial Statements

For the year ended 31st December 2020

(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.

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

Notes to the Financial Statements

For the year ended 31st December 2020

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.

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.

Syndicate 3500

Notes to the Financial Statements

For the year ended 31st December 2020

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.

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.

Syndicate 3500 is judged not to have material insurance exposure to COVID-19 related claims and has experienced limited claims notifications in this regard during 2020. The 31st December 2020 technical provisions make allowance for potential claims arising in relation to this pandemic based on the detailed knowledge of business written and the expert judgements of actuarial and claims subject matter experts. While the final outcome of any potential claims is subject to uncertainty and is unlikely to be known for some time, the current provisions are deemed sufficient.

Syndicate 3500

Notes to the Financial Statements

For the year ended 31st December 2020

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 2020, Syndicate 3500 accepted the reinsurance to close of the 2017 and prior underwriting years of account liabilities of a third party Lloyd's syndicate. 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 2020 inception.

On 1st January 2019, Syndicate 3500 accepted the reinsurance to close of the liabilities of another third party Lloyd's 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.

Claims Outstanding (Gross)

Underwriting Year	2011 £'000	2012 £'000	2013 £'000	2014 £'000	2015 £'000	2016 £'000	2017 £'000	2018 £'000	Total £'000
Estimate of cumulative gross claims									
At the end of the first year	76,430	105,488	156,130	154,186	156,899	180,913	127,479	192,223	1,149,748
- One year later	173,814	229,115	321,713	337,502	410,920	457,266	219,477	190,571	2,340,378
- Two years later	152,239	215,723	307,523	372,886	444,722	521,306	243,979	166,769	2,425,147
- Three years later	150,414	209,161	293,853	392,413	446,043	535,378	250,085	-	2,277,347
- Four years later	143,814	209,138	294,534	418,840	458,102	547,619	-	-	2,072,047
- Five years later	141,790	216,007	280,112	420,524	461,815	-	-	-	1,520,248
- Six years later	143,971	208,272	279,451	441,771	-	-	-	-	1,073,465
- Seven years later	136,796	210,212	271,244	-	-	-	-	-	618,252
- Eight years later	139,985	209,230	-	-	-	-	-	-	349,215
- Nine years later	143,034	-	-	-	-	-	-	-	143,034
Current estimate of cumulative claims	143,034	209,230	271,244	441,771	461,815	547,619	250,085	166,769	2,491,567
Cumulative payments to date	133,615	189,541	247,909	383,219	369,212	407,335	203,268	49,515	1,983,614
Liability recognised in the balance sheet	£9,419	£19,689	£23,335	£58,552	£92,603	£140,284	£46,817	£117,254	£507,953
Reserve in respect of prior years									55,662
Total reserve included in the balance sheet									£563,615

Syndicate 3500

Notes to the Financial Statements

For the year ended 31st December 2020

Claims Outstanding (Net)

Underwriting Year	2011 £'000	2012 £'000	2013 £'000	2014 £'000	2015 £'000	2016 £'000	2017 £'000	2018 £'000	Total £'000
Estimate of cumulative gross claims									
At the end of the first year	69,947	96,463	139,456	143,389	143,697	157,869	61,187	95,999	908,007
- One year later	163,327	209,075	266,860	307,806	339,362	383,276	139,637	95,173	1,904,516
- Two years later	146,133	202,015	266,216	335,462	356,180	421,154	147,243	82,294	1,956,697
- Three years later	144,555	194,200	256,382	341,954	370,840	429,727	156,998	-	1,894,656
- Four years later	136,165	188,859	258,863	343,554	380,574	421,671	-	-	1,729,686
- Five years later	134,417	194,418	241,816	353,580	389,270	-	-	-	1,313,501
- Six years later	135,770	184,278	242,316	372,706	-	-	-	-	935,070
- Seven years later	128,751	186,056	253,096	-	-	-	-	-	567,903
- Eight years later	130,701	189,418	-	-	-	-	-	-	320,119
- Nine years later	137,728	-	-	-	-	-	-	-	137,728
Current estimate of cumulative claims	137,728	189,418	253,096	372,706	389,270	421,671	156,998	82,294	2,003,181
Cumulative payments to date	133,551	181,346	244,308	340,660	351,278	361,183	129,054	25,012	1,766,392
Liability recognised in the balance sheet	£4,177	£8,072	£8,788	£32,046	£37,992	£60,488	£27,944	£57,282	£236,789

Reserve in respect of prior years 8,945

Total reserve included in the balance sheet **£245,734**

The figures shown above exclude the unexpired risk provision of £2.6 million held in both the gross and ceded technical provisions.

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,

	2020		2019	
	Gross £'000	Net £'000	Gross £'000	Net £'000
Casualty reinsurance	25,703	14,302	18,517	6,181
Credit and suretyship	9,090	4,333	289	143
Fire and other damage to property	55,853	15,324	50,618	15,845
General liability	304,408	144,387	294,763	118,912
Health insurance	905	587	936	360
Income protection	6,461	5,152	2,865	1,096
Marine, aviation and transport	72,750	24,404	98,026	30,342
Medical expenses	178	167	91	44
Motor vehicle liability	1,462	284	2,431	418
Other motor	10,207	1,122	16,541	1,140
Property reinsurance	21,771	7,875	16,592	5,338
Worker's compensation	48,017	22,735	74,023	35,488
Claims expense reserve	9,450	5,062	11,279	4,976
Total technical provisions	£ 566,255	£ 245,734	£ 586,971	£ 220,283

Syndicate 3500

Notes to the Financial Statements

For the year ended 31st December 2020

(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 2020 is an approximate £900,000 loss (2019: loss £1,300,000) to the profit and loss account. Similarly, a 100 basis point decrease in interest rates would give rise to an approximate £900,000 gain (2019: gain £800,000) to the profit and loss account, prior to cessations 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.

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 2020 represent 100.0% 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 £300,000 (2019: £200,000) to the profit and loss account, prior to cessations 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 and 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 2020, if the US Dollar had weakened by 10% more in 2020 against the Pound Sterling with all other variables held constant, profit for the year would have been £1.2 million lower (2019: £7.5 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.

Syndicate 3500

Notes to the Financial Statements

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At 31st December 2020, if the Euro had weakened by 10% more in 2020 against the Pound Sterling with all other variables held constant, profit for the year would have been £1.4 million higher (2019: £241,000 higher), mainly as a result of net foreign exchange gains on the translation of Pound Sterling denominated financial assets, and Pound Sterling denominated liabilities.

At 31st December 2020, if the Australian Dollar had weakened by 10% more in 2020 against the Pound Sterling with all other variables held constant, profit for the year would have been £130,000 million lower (2019: £1.6 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.

(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 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) :

	2020	2019
	£'000	£'000
Derivative Financial Instruments	544	2,007
Debt securities	219,804	187,995
Deposits with credit institutions	800	712
Assets arising from reinsurance contracts held	362,478	406,869
Cash at bank and in hand	40,819	31,291
Overseas deposits	37,374	31,161
Total assets bearing credit risk	£ 661,819	£ 660,035

Syndicate 3500
Notes to the Financial Statements
For the year ended 31st December 2020

	2020	2019
	£'000	£'000
A++	71,493	69,580
A+	68,258	63,836
A, A-	244,207	199,451
B++ and below or not rated	<u>277,861</u>	<u>327,168</u>
Total assets bearing credit risk	£ 661,819	£ 660,035

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

	2020	2019
	£'000	£'000
Performing	356,518	402,379
Past due	6,460	4,490
Impaired	-	-
Provision for irrecoverable amounts	<u>(500)</u>	<u>-</u>
	£ 362,478	£ 406,869

(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'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 2020							
Creditors	-	68,424	1,566	3,121	1,305	1,946	76,362
Claims outstanding	<u>-</u>	<u>95,469</u>	<u>92,829</u>	<u>184,971</u>	<u>77,353</u>	<u>115,633</u>	<u>566,255</u>
Financial liabilities and outstanding claims	£ -	£ 163,893	£ 94,395	£ 188,092	£ 78,658	£ 117,579	£ 642,617

	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	<u>-</u>	<u>90,741</u>	<u>90,741</u>	<u>117,427</u>	<u>157,546</u>	<u>130,516</u>	<u>586,971</u>
Financial liabilities and outstanding claims	£ -	£ 151,783	£ 92,300	£ 119,444	£ 160,252	£ 132,758	£ 656,537

Syndicate 3500

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For the year ended 31st December 2020

(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.

6. Segmental Analysis

	Gross premiums written 2020 £'000	Gross premiums earned 2020 £'000	Gross claims incurred 2020 £'000	Gross operating expenses 2020 £'000	Re- insurance balance 2020 £'000
Direct Insurance					
Accident and health	3,861	3,886	(4,215)	(413)	(2,096)
Motor	-	-	8,036	-	(7,472)
Marine, aviation and transport	7,761	7,782	(15,615)	(2,250)	(1,184)
Credit and surety	24,963	11,314	(5,257)	2,500	2,407
Fire and other damage to property	8,663	7,817	(39,068)	(3,250)	26,048
Third party liability	57,275	56,455	(69,402)	(11,500)	28,657
	<u>102,523</u>	<u>87,254</u>	<u>(125,521)</u>	<u>(14,913)</u>	<u>46,360</u>
Reinsurance acceptances	15,687	15,891	(14,874)	(1,511)	8,349
Total	£ 118,210	£ 103,145	£ (140,395)	(16,424)	£ 54,709
	2019 £'000	2019 £'000	2019 £'000	2019 £'000	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	72,116	72,116	(63,366)	(1,843)	(218)
Total	£ 430,858	£ 430,858	£ (557,498)	(16,217)	£ 148,921

Syndicate 3500

Notes to the Financial Statements

For the year ended 31st December 2020

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 2020, Syndicate 3500 entered into a reinsurance protection agreement with an affiliate to retrocede 50% of these liabilities.

On 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. The reinsurance to close premium is included in gross premiums written and this premium is grossed up for the reinsurer's share of unearned premium and deferred acquisition costs acquired under any reinsurance to close transaction. Also, effective 1st January 2020, Syndicate 3500 entered into an adverse development cover with an affiliate to provide downside protection over these liabilities.

On 30 December 2020, the Members and former Members of the Syndicate, as comprised for each of the relevant years of account between 1993 and April 2019 (or October 2020 in the case of German reinsurance), transferred all relevant policies (and related liabilities) underwritten by them for those years of account to Lloyd's Insurance Company S.A. ('Lloyd's Brussels'), in accordance with Part VII of the Financial Services and Markets Act 2000. On the same date, the Members of the Syndicate entered into a 100% Quota Share Reinsurance Agreement whereby Lloyd's Brussels reinsured all risks on the same policies back to the relevant open years of account of the Syndicate which wrote the transferring policies and/or inherited liabilities on transferring policies through Reinsurance to Close of earlier years of account.

Following the sanction of the scheme by the High Court on 25 November 2020, the scheme took effect on 30 December 2020 and the Members and former Members of the Syndicate transferred the impacted EEA policies and related liabilities to Lloyd's Brussels, together with cash of \$5.5 million. On the same date, under the Reinsurance Agreement, Lloyd's Brussels reinsured the same risks back, together with an equal amount of cash of £5.5 million. The combined effect of the two transactions had no economic impact for the Syndicate, and accordingly there is no impact on the Syndicate's income statement or balance sheet.

Current year underwriting results for the transferred policies have been reported in the same classes of business as in prior years, as the effective date of the transfer was 30 December 2020, and in line with Society of Lloyd's guidance no movements were processed on these policies on 31 December 2020. In future years, results relating to these risks will be reported under the Inwards Reinsurance class of business, reflecting the new contractual arrangement with Lloyd's Brussels

Syndicate 3500
Notes to the Financial Statements
For the year ended 31st December 2020

7. Technical Provisions – Claims Outstanding

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

	2020			2019		
	Gross £'000	Reinsurers' Share £'000	Net £'000	Gross £'000	Reinsurers' Share £'000	Net £'000
Claims outstanding at 1 January	586,971	366,688	220,283	259,790	159,939	99,851
Reinsurance of new liabilities	156,366	53,841	102,525	552,752	122,657	430,095
New ceded reinsurance entered into	-	1,700	(1,700)	-	198,572	(198,572)
Change in estimates of technical provision provisions, including foreign exchange	(5,228)	(21,112)	15,884	(20,860)	16,830	(37,690)
Paid claims	(171,854)	(80,596)	(91,258)	(204,711)	(131,310)	(73,401)
Claims outstanding at 31 December	£ 566,255	£ 320,521	£ 245,734	£ 586,971	£ 366,688	£ 220,283

Included within reinsurers' share of technical provisions – claims outstanding are amounts recoverable from affiliated companies of £193,517,464 (2019: £256,260,073)

	2020		
	Gross £'000	Reinsurers' Share £'000	Net £'000
Unearned Premium at 1 January	-	-	-
Reinsurance of new liabilities	26,326	10,324	16,002
New ceded Reinsurance entered into	-	2,800	(2,800)
Earned Premiums	(15,065)	(8,308)	(6,757)
Foreign Exchange	4,102	55	4,047
Unearned Premium at 31 December	£ 15,363	£ 4,871	£ 10,492

The initial recognition of reinsurer's share of unearned premium associated with the reinsurance of new liabilities is recognised in the profit and loss account as a gross up to gross premiums written.

There were no unearned premium reserves held at the end of 2019.

Syndicate 3500
Notes to the Financial Statements
For the year ended 31st December 2020

8. Net Operating Expenses

Syndicate operating expenses included within net operating expenses comprise:

	2020	2019
	£'000	£'000
Administrative expenses	12,947	15,917
Gross profit commission payable	(8,015)	300
Deferred Acquisition Costs	3,477	-
Less: recovered under reinsurance protection agreements	<u>(7,888)</u>	<u>(10,769)</u>
	£ 521	£ 5,448

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 £17,449,000 (2019: £13,944,000).

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

	2020	2019
	£'000	£'000
Total emoluments: Directors, run off manager and key management personnel	£ 1,096	£ 603
Run-off Manager	£ 209	£ 188

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

9. Auditors' Remuneration

	2020	2019
	£'000	£'000
Audit	224	222
Audit related assurance services	55	52
Non-audit related actuarial and valuation services	<u>133</u>	<u>108</u>
	£ 412	£ 382

Syndicate 3500
Notes to the Financial Statements
For the year ended 31st December 2020

10. Investment Income

	2020 £'000	2019 £'000
Income from financial assets at fair value through profit and loss	£ <u>3,717</u>	£ <u>7,005</u>

11. Investment Expenses and Charges

	2020 £'000	2019 £'000
Investment expenses	£ <u>1,015</u>	£ <u>1,121</u>

12. (Loss) / Profit for the year

	2020 £'000	2019 £'000
The (Loss)/Profit for the year is stated after charging:		
Foreign exchange loss	£ <u>3,873</u>	£ <u>1,121</u>

13. Other Financial Investments

(a) Other Financial Investments by Category

	Market Value 2020 £'000	Market Value 2019 £'000	Historic Cost 2020 £'000	Historic Cost 2019 £'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	6,651	9,579	5,745	8,691
Debt securities and other fixed interest securities designated at fair value through profit and loss on initial recognition	219,804	187,995	225,186	194,285
Derivative financial instruments - at fair value through profit and loss, held for trading	544	2,007	-	-
Deposits with credit institutions	800	712	800	712
	£ <u>227,799</u>	£ <u>200,293</u>	£ <u>231,731</u>	£ <u>203,688</u>

Financial Liabilities

Derivative financial instruments - at fair value through profit and loss, held for trading	£ <u>797</u>	£ <u>479</u>	£ <u>-</u>	£ <u>-</u>
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Syndicate 3500
Notes to the Financial Statements
For the year ended 31st December 2020

(b) Listed Investments

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

	2020	2019
	£'000	£'000
At fair value through profit and loss		
Shares and other variable yield securities and units in unit trusts	6,651	4,570
Debt securities and other fixed interest securities	<u>62,613</u>	<u>52,265</u>
Total listed investments	£ 69,264	£ 56,835

Derivative Financial Instruments at Fair Value through Profit and Loss

	Market Value	Market Value
	2020	2019
	£'000	£'000
Derivative financial instruments assets		
Foreign currency forward contracts	<u>£ 544</u>	<u>£ 2,007</u>

	Market Value	Market Value
	2020	2019
	£'000	£'000
Derivative financial instruments liabilities		
Foreign currency forward contracts	<u>£ 797</u>	<u>£ 479</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.

	Market Value		Contract/Notional Amount	
	2020	2019	2020	2019
	£'000	£'000	£'000	£'000
Foreign currency forward contracts	<u>£ 544</u>	<u>£ 2,007</u>	<u>£ 89,796</u>	<u>£ 155,258</u>

Syndicate 3500
Notes to the Financial Statements
For the year ended 31st December 2020

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

	Level 1 2020 £'000	Level 2 2020 £'000	Level 3 2020 £'000	Total 2020 £'000
Shares and other variable yield securities and units in unit trusts	6,651	-	-	6,651
Debt securities and other fixed interest securities	141,299	78,505	-	219,804
Derivative financial instruments at fair value through profit or loss, held for trading	-	-	544	544
Deposits with credit institutions	800	-	-	800
	£ 148,750	£ 78,505	£ 544	£ 227,799
	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	712	-	-	712
	£ 129,256	£ 64,021	£ 7,016	£ 200,293

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).

Syndicate 3500
Notes to the Financial Statements
For the year ended 31st December 2020

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

	At Fair Value Through Profit and Loss			
	Debt Securities	Equity Shares	Derivatives	Total
	2020	2020	2020	2020
	£'000	£'000	£'000	£'000
At 1 st January	-	5,009	2,007	7,016
Total losses recognised in the profit and loss account	-	(1,724)	(1,463)	(3,187)
Sales	-	(3,285)	-	(3,285)
Total	£ -	£ -	£ 544	£ 544

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

Total losses of £3.2 million (2019: gains £2.3 million) comprise realised losses of £1.7 million, and unrealised losses of £1.5 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 2020 was £98.8 million (2019: £77.2 million).

14. Debtors Arising Out of Direct Insurance Operations

	2020	2019
	£'000	£'000
Amount owed from intermediaries	£ 6,132	£ 5,937

Syndicate 3500
Notes to the Financial Statements
For the year ended 31st December 2020

15. Debtors Arising Out of Reinsurance Operations

	2020	2019
	£'000	£'000
Amount owed from intermediaries	27,734	25,600
Due from group undertakings	-	6,223
Premiums receivable	3,219	2,422
	<u>£ 30,953</u>	<u>£ 34,245</u>

16. Other Debtors

	2020	2019
	£'000	£'000
Receivable for securities sold	-	3,093
Insurance premium taxes	648	701
	<u>£ 648</u>	<u>£ 3,794</u>

17. Creditors Arising out of Direct Insurance Operations

	2020	2019
	£'000	£'000
Amounts owed to cedants	£ 40	£ -

18. Creditors Arising out of Reinsurance Operations

	2020	2019
	£'000	£'000
Amounts owed to group undertakings	44,763	48,619
Amounts owed to cedants and intermediaries	28,875	15,302
	<u>£ 73,638</u>	<u>£ 63,921</u>

19. Other Creditors Including Taxation and Social Security

	2020	2019
	£'000	£'000
Amounts owed to group undertakings	1,732	5,166
Other Creditors	155	-
Derivative liabilities	797	479
	<u>£ 2,684</u>	<u>£ 5,645</u>

Syndicate 3500
Notes to the Financial Statements
For the year ended 31st December 2020

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

	2020	2019
	£'000	£'000
Net cash inflow for the year	9,303	24,805
Increase in overseas deposits	5,234	31,051
Net portfolio investment	<u>34,878</u>	<u>105,576</u>
Movement arising from cash flows	49,415	161,432
Changes in market value and exchange rates	<u>(6,168)</u>	<u>(1,704)</u>
Total movement in portfolio investments, net of financing	43,247	159,728
Balance brought forward at 1 st January, net of financing	<u>262,745</u>	<u>103,017</u>
Balance carried forward at 31st December, net of financing	£ 305,992	£ 262,745

21. Movement in Cash, Portfolio Investments and Financing

	At		Changes to	At 31
	1 January	Cash	Market	December
	2020	Flow	Value and	2020
	£'000	£'000	Currencies	£'000
			£'000	
Cash at bank and in hand	31,291	9,303	225	40,819
Overseas deposits	<u>31,161</u>	<u>5,234</u>	<u>979</u>	<u>37,374</u>
	62,452	14,537	1,204	78,193
Portfolio investments:				
Shares and other variable yield securities	9,579	-	(2,928)	6,651
Debt and other fixed income	187,995	38,586	(6,777)	219,804
Derivative financial instruments	2,007	(3,825)	2,362	544
Deposits with credit institutions	<u>712</u>	<u>117</u>	<u>(29)</u>	<u>800</u>
Total portfolio investments	200,293	34,878	(7,372)	227,799
Total cash, portfolio investments and financing	£ 262,745	£ 49,415	£ (6,168)	£ 305,992

22. Net Cash Inflow (Outflow) on Portfolio Investments

	2020	2019
	£'000	£'000
Shares and other variable yield securities	-	-
Debt and other fixed income securities	38,586	103,569
Derivative financial instruments	(3,825)	2,007
Deposits with credit institutions	<u>-</u>	<u>-</u>
Net cash inflow/ (outflow) on portfolio investments	£ 34,761	£ 105,576

Syndicate 3500

Notes to the Financial Statements

For the year ended 31st December 2020

23. Commitments and Contingent Liabilities

As at 31st December 2020, there were no outstanding commitments or contingent liabilities (2019: 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 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 RiverStone Barbados Limited ("RiverStone Barbados") which is registered in Barbados.

RiverStone Holdings is the smallest and largest group of undertakings to consolidate these financial statements and its registered office is Park Gate, 161-163 Preston Road, Brighton, East Sussex, United Kingdom, BN1 6AU. The financial statements of RiverStone Holdings can be obtained from the Corporate Secretary at this address or from the website at www.rsml.co.uk.

Exemption has been taken under FRS102 section 33.1A to not disclose group related balances.

The table below sets out the related party transactions and balances during and at the end of 2020:

	Inwards Premium		Outwards Premium		Reinsurance Recoveries	
	2020 £'000	2019 £'000	2020 £'000	2019 £'000	2020 £'000	2019 £'000
Wentworth Insurance Company Ltd	-	-	-	-	14,520	14,022
TIG Insurance (Barbados) Ltd	-	-	2,815	211,679	50,275	57,080
Total	£ -	£ -	£ 2,815	£ 211,679	64,795	£ 71,102

Syndicate 3500
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	Reinsurer's Share of Technical Provisions		Other Amounts (Owed)/Due	
	2020	2019	2020	2019
	£'000	£'000	£'000	£'000
Wentworth Insurance Company Ltd	43,359	51,454	7,262	6,223
TIG Insurance (Barbados) Ltd	134,351	180,920	(25,105)	(25,403)
Total	£ 177,710	£ 232,374	£ (17,843)	£ (19,180)

26. Subsequent Events

On 20th December 2020, Fairfax entered into a binding agreement with CVC Capital Partners to sell all of its equity interest in the European Run-off group to CVC Strategic Opportunities Fund II. OMERS has also agreed to sell all its interests the European Run-off group as part of the transaction. The transaction is subject to regulatory approval and is expected to close in the first quarter of 2020.

Effective 1st January 2021, Syndicate 3500 entered into the following transactions:

- the reinsurance to close of the 2018 and prior underwriting years of account liabilities of Syndicate 780. This transaction results in the transfer to Syndicate 3500 of gross and net technical provisions of £132.1 million and £84.6 million, respectively;
- the reinsurance to close of the 2018 and prior underwriting years of account liabilities of Syndicate 1897. This transaction results in the transfer to Syndicate 3500 of gross and net technical provisions of £58.1 million and £54.1 million, respectively;
- the loss portfolio transfer reinsurance of the 2019 underwriting year of account liabilities of Syndicate 1897. This transaction results in the transfer to Syndicate 3500 of gross and net technical provisions of £13 million and £12.8 million respectively;
- the reinsurance to close of the 2017 and prior underwriting years of account liabilities and the reinsurance to close of the 2018 and prior underwriting years of two separate third party Lloyd's syndicates. These transactions result in the transfer to Syndicate 3500 of gross and net technical provisions of £818.5 million and £632.8 million, respectively.

Directors' Interests

All of the directors of RiverStone Managing Agency listed on page 8 hold, or held in the year, directorships of other companies within the Fairfax group.