Advent Capital (Holdings) LTD

Consolidated Report and Financial Statements

Year ended 31 December 2020

CONTENTS **Page**

DIRECTORS, ADVISORS AND AUDITORS

Directors	Trevor J Ambridge	Chairman
	Andrew R Creed	Director
	Ian Hewitt	Director
	Luke Tanzer	Director
Company Secretary	N M Ewing ACII	(Resigned 11th December 2020)
	N P Johnson	(Appointed 11th December 2020)
Registered Office	2nd Floor 2 Minster Court Mincing Lane London EC3R 7BB	
Bankers	The Royal Bank of Scotland plc 5-10 Great Tower Street London EC3P 3HX	
Independent Auditors	PricewaterhouseCoopers LLP Chartered Accountants and Statutory Auditors 7 More London Riverside London SE1 2RT	
Company Registration Number	03033609	

GROUP STRATEGIC REPORT

The directors present their group strategic report for the year ended 31 December 2020. The prior year financial statements have been restated from millions to thousands to align the financial statements with the other companies in the Riverstone (Barbados) Ltd group of companies.

FINANCIAL SUMMARY

	2020 $'000s	2019 $'000s	2018 $'000s	2017 $'000s	2016 $'000s	2015 $'000s
Gross premiums written	8,309	44,044	247,447	271,171	257,785	240,488
Net premiums written	4,224	9,712	88,198	184,382	177,001	174,760
Net premiums earned	7,175	61,200	110,027	185,110	185,106	159,399
Underwriting profit (loss)	12,415	12,254	(27,991)	(48,665)	500	864
Profit (loss) before tax	2,125	15,625	(71,903)	(15,301)	(419)	(41,789)
Profit (loss) after tax	(3,715)	15,397	(65,145)	(11,521)	(2,678)	(32,338)
Return on equity (1)	(3.4%)	13.8%	(56.7%)	(7.8%)	(1.8%)	(17.7%)
Per share amounts						
Profit (loss)	(6.3c)	26.1c	(110.2c)	(19.5c)	(4.5c)	(56.9c)
Net assets	$1.53	$1.58	$1.33	$2.44	$2.63	$2.69
Net tangible assets	$1.53	$1.58	$1.33	$2.37	$2.56	$2.64
Operating ratios						
Claims Ratio (2)	(167.4%)	40.2%	48.0%	80.9%	58.1%	53.5%
Expense Ratio (3)	94.4%	39.7%	77.5%	45.4%	41.6%	45.9%
Combined Ratio (4)	(73.0%)	79.9%	125.5%	126.3%	99.7%	99.4%

(1) Return on equity is calculated on opening shareholders' funds adjusted for the weighted average shares issued and dividends paid during the year.
(2) Claims ratio is claims incurred divided by net premiums earned.
(3) Expense ratio is operating expenses and acquisition costs divided by net premiums earned.
(4) Combined ratio is the sum of (2) and (3).

BUSINESS REVIEW
Overview of the Company

Advent Capital (Holdings) LTD ("Advent Group", "The Company" or "ACH") a limited company, incorporated in the United Kingdom and 100% owned by Riverstone (Barbados) Ltd which is registered in Barbados.

The Company's principal activity was the underwriting of general insurance and reinsurance business at Lloyd's until 31 December 2020 at which time Syndicate 780 closed its final underwriting year by way of a reinsurance to close into Syndicate 3500.

On 11 July 2018, ACH announced the integration of its profitable Lloyd's underwriting portfolios into other Fairfax UK affiliates, in response to the considerable strategic challenges facing Syndicate 780, in an extremely competitive market place, while placing the remaining parts of its portfolio into run off under the management of RiverStone Managing Agency Limited ("RiverStone Managing Agency"). Syndicate 780 permanently ceased underwriting at the end of the 2018 YOA on 31st December 2018.

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.

On 1 January 2019, the Managing Agency contract for Syndicate 780 ("Managing Agency Contract") novated to RiverStone Managing Agency. Also effective from 1 January 2019 the Company entered into a Funds at Lloyd's ("FAL") inter-availability agreement with RiverStone Corporate Capital Ltd "(RiverStone Corporate") to make its excess capital available to Syndicate 3500 to enable it to acquire additional Lloyd's run off businesses. RiverStone Corporate is paying the

GROUP STRATEGIC REPORT (continued)

Company a fee for the use of its capital and has indemnified the Company from any loss arising from the use of its excess capital.

On 27 March 2020, the Company sold its 50% shareholding in Blend Insurance Services for a price equal to original cost.

On 7 December 2020, the company also entered into a loan agreement with RiverStone Corporate, under which its surplus funds have been loaned to RiverStone Corporate. RiverStone Corporate is only permitted to use these funds to support its own underwriting at Lloyd's.

2020 Results
For the year ended 31 December 2020, the Company had a profit before tax of $2.1 million (2019: $15.6 million), comprising an underwriting profit of $12.4 million, net investment and foreign exchange losses of $8.6 million, corporate and other income of $2.8 million and debt interest of $4.5 million (2019: underwriting profit of $12.3 million, investment and foreign exchange gains of $5.5 million, corporate and other income of $3.7 million and debt interest of $5.9 million). The Company has incurred a tax charge of $5.8 million (2019: $0.2 million) primarily due to a deferred tax asset write down which has led to an after-tax loss.

Sources of income

	2020	2019	2018	2017	2016	2015
	$'000s	$'000s	$'000s	$'000s	$'000s	$'000s
Underwriting profit (loss)	12,415	12,254	(27,991)	(48,665)	500	864
Investment gain (loss)	(9,909)	7,098	(23,602)	38,592	(979)	(40,204)
Interest on debt	(4,489)	(5,845)	(5,594)	(4,830)	(4,191)	(4,086)
Corporate and other income(costs)	2,796	3,698	(15,086)	1,337	352	(558)
Profit (loss) on exchange	1,312	(1,580)	370	(1,735)	3,899	2,195
Pre-tax (loss) profit	2,125	15,625	(71,903)	(15,301)	(419)	(41,789)

The Company has historically primarily derived its pre-tax profit or loss from activities related to its underwriting business.

Underwriting Review
Gross premiums written for 2020 were $8.3 million, down from $44.0 million in 2019. The reduction from 2019 represents the decision to place Syndicate 780 into run off in 2018. Net premiums written decreased to $4.2 million in 2020 (2019: $9.7 million). The main driver of the decrease in net premiums written is the reduction in Gross premiums written. Net premiums earned decreased to $7.2 million (2019: $61.2 million), primarily due to the reasons above. The total expense ratio increased to 94.4% in 2020 from 39.7% in 2019. This is driven by the reduction in net premiums earned as the expenses have reduced compared to the prior year.

Insurance Segment Review
All classes of business shown below are now in run off and the presentation of the underwriting results set out below reflect historic segmentation.

31 December 2020	**Consumer Products**	**Speciality**	**Property**	**Reinsurance**	**Discontinued**	**Affiliate Reinsurances & Other**	**Total**
	$'000s	**$'000s**	**$'000s**	**$'000s**	**$'000s**	**$'000s**	**$'000s**
Gross premiums written	1,674	3,203	2,530	1,090	(188)	0	8,309
Net premiums written	1,105	2,714	2,421	752	(188)	(2,580)	4,224
Net premiums earned	4,001	2,963	3,945	1,799	(188)	(5,345)	7,175
Net claims incurred	(6,045)	721	(2,181)	20,554	1,016	(2,056)	12,009
Acquisition costs	(544)	(971)	(1,159)	(307)	-	1,333	(1,648)
Operating expenses	(2,206)	(1,660)	(2,177)	(988)	-	1,910	(5,121)
Underwriting profit (loss)	**(4,794)**	**1,053**	**(1,572)**	**21,058**	**828**	**(4,158)**	**12,415**
Claims ratio	151.1%	(24.3%)	55.3%	(1142.5%)	-	-	(167.4%)
Acquisition cost ratio	13.6%	32.8%	29.4%	17.0%	-	-	23.0%
Operating cost ratio	55.1%	56.0%	55.2%	54.9%	-	-	71.4%
Combined ratio	219.8%	64.5%	139.9%	(1070.6%)	-	-	(73.0%)
Unearned premium net of deferred acquisition costs and reinsurance	-	-	-	-	-	-	-

GROUP STRATEGIC REPORT (continued)

31 December 2019	Consumer Products $'000s	Speciality $'000s	Property $'000s	Reinsurance $'000s	Discontinued $'000s	Affiliate Reinsurances & Other $'000s	Total $'000s
Gross premiums written	20,993	8,768	13,944	277	62	0	44,044
Net premiums written	19,859	7,900	12,242	(767)	(177)	(29,345)	9,712
Net premiums earned	45,574	18,078	30,455	10,582	(177)	(43,312)	61,200
Net claims incurred	(31,090)	5,074	(13,527)	(2,171)	(1,043)	18,141	(24,616)
Acquisition costs	(11,219)	(5,495)	(10,385)	(1,544)	3	10,641	(17,999)
Operating expenses	(3,922)	(1,556)	(2,622)	(911)	(100)	2,780	(6,331)
Underwriting profit (loss)	**(657)**	**16,101**	**3,921**	**5,956**	**(1,317)**	**(11,750)**	**12,254**
Claims ratio	68.2%	(28.1%)	44.4%	20.5%	-	-	40.2%
Acquisition cost ratio	24.6%	30.4%	34.2%	14.2%	-	-	29.4%
Operating cost ratio	8.6%	8.8%	8.6%	8.5%	-	-	10.3%
Combined ratio	**101.4%**	**11.2%**	**87.2%**	**43.2%**	**-**	**-**	**79.9%**
Unearned premium net of deferred acquisition costs and reinsurance	2,538	174	1,097	891	-	(1,997)	2,703

Net Assets

The company's net assets at 31 December 2020 are $90.5 million (2019: $93.4 million).

Consumer Products

The Consumer Products segment comprised the Accident & Health and Bespoke Products classes, which was focused on delivering income from the Fairfax network of companies. The Consumer Products segment recorded a combined ratio of 219.8% for 2020 (2019: 101.4%), due to reserve strengthening for US medical insurance business and reductions in premium estimates.

Specialty

The Specialty segment comprised the Marine, Energy and Terrorism classes, with business having been written on both an open market and delegated basis. The segment recorded a combined ratio of 64.5% (2019: 10.9%) due to lower net earned premiums and reserve releases on Marine.

Property

The Property segment comprised the D&F and Binders classes, which targeted primarily US domiciled property risks, with the D&F class having been written on an open market basis and Binders on a delegated basis. The segment recorded a combined ratio of 139.9% (2019: 87%), due to lower net premiums earned.

Reinsurance

The Reinsurance segment comprised the Casualty and Property Treaty classes. The combined ratio is a negative 1070.6% (2019: 43.5%) due to reserve releases on Casualty and lower Net premium earned.

Discontinued

The discontinued segment comprised the classes of business discontinued in 2015 and prior years. Combined ratio components are not disclosed as they do not provide meaningful information.

Affiliate Reinsurance

The Affiliate Reinsurance segment shows the outward reinsurance transactions on a line by line basis.

GROUP STRATEGIC REPORT (continued)

Investment Performance

	2020				2019			
	Total	Company	Syndicate	Other Subs	Total	Company	Syndicate	Other Subs
	$'000s	$'000s	$'000s	$'000s	$'000s	$'000s	$'000s	$'000s
Fixed income investments	168,616	-	114,771	53,845	149,814	-	117,941	31,873
Equity Fund	59,849	-	-	59,849	71,342	-	-	71,342
Other investments	-	-	-	-	172	-	-	172
Cash	31,969	2,386	24,862	4,721	85,173	6,837	49,947	28,389
Total investments and cash	260,434	2,386	139,633	118,415	306,501	6,837	167,888	131,776
Investment return	(9,909)	15	1,058	(10,982)	7,098	173	5,851	1,074
Interest on debt	(4,489)	(4,489)	-	-	(5,845)	(5,845)	-	-
Net investment gain (loss)	(14,398)	(4,474)	1,058	(10,982)	1,253	(5,672)	5,851	1,074

The investment result declined to a loss of $14.4 million (2019: gains of $1.3 million). The 2020 investment return includes interest and dividends of $3.4 million (2019: $4.7 million), net realised and unrealised losses of $12.7 million (2019: gains of $2.5 million) and investment management expenses of $0.6 million (2019: $0.3 million).

The weighted average interest rate on outstanding debt at 31 December 2020 was 4.22% (2019: 5.9%).

Capital Management

The Company's objective is to have sufficient capital to support its operations going forward. Shareholders' equity at 31 December 2020 was $90.1 million (2019: $93.4 million).

Syndicate 780's underwriting is supported by Funds at Lloyd's ("FAL") of $114.4 million at 31 December 2020 (2019: $103.6 million) and provides capital for Syndicate 780's run off and to pay uncalled Syndicate losses.

The Company's subsidiary, AC3, has entered into a FAL inter-availability agreement with RiverStone Corporate to make its excess capital available to Syndicate 3500 to enable it to acquire additional Lloyd's run off businesses. RiverStone Corporate will pay the Company a fee for use of its capital and has indemnified the Company from any loss arising from the use of its excess capital.

The Company has provided capital to its operating subsidiaries using permanent capital and unsecured long-term debt financing. The long-term debt has no financial covenants other than the quarterly payment of interest and payment of principal on maturity. In the case of the Company's US dollar and Euro denominated subordinated debt due 3 June 2035, amounting to an aggregate of $47.5 million at 31 December 2020 (2019: $46.3 million), the Company can defer interest payable for 20 consecutive quarters without causing an event of default.

Strategy and Future Developments

Effective 1st January 2021, the liabilities of Syndicate 780 were reinsured to close into Syndicate 3500, which is also under the management of RiverStone Managing Agency.

The reinsurance to close of the 2018 and prior underwriting years of account liabilities of Syndicate 780 results in the transfer to Syndicate 3500 of gross and net technical provisions of $180.6 million and $115.6 million, respectively, being 100% of the technical provisions of the Group

The Company's future strategy is intended to focus on providing capital to the affiliate Lloyd's corporate member capital providers, notably Riverstone Corporate Capital Limited (RCCL), to support to the financing requirements of ongoing underwriting and acquisition activity of the wider European Run-off group.

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.

GROUP STRATEGIC REPORT (continued)

On 5th February 2021, the company issued 4,075,417 new $0.80 ordinary shares to RiverStone (Barbados) Ltd in exchange for an asset value loan note. The Company immediately contributed the asset value loan note to Advent Capital (No.3) Limited in exchange for 8,150,834 new $0.40 ordinary shares

Effective 1st January 2021, the company intends to change from reporting under IFRS to UK GAAP to be consistent with rest of the Riverstone (Barbados) Ltd group of companies.

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.

The Board monitored the progress of Syndicate 780's existing run-off portfolio by reference to the reduction in gross loss reserves and reduction in reinsurance recoverables, in a timely and economic manner. Syndicate 780 gross loss reserves decreased by 27.8% and third-party reinsurance recoverables (excluding group reinsurance protection) decreased by 23.4%. The movements are in line with Board's expectations and the performance is considered to be satisfactory.

The Board also note that it has successfully completed the reinsurance to close transaction of Syndicate 780's final underwriting year of account, concluding the Advent's group history of underwriting at Lloyd's.

Principal Risks and Uncertainties

The key risks to which the Company was exposed, including through the operations of its subsidiaries, related to its participation in Syndicate 780. The Company continues to face risks arising from its provision of inter-available FAL to RiverStone Corporate. The process of risk acceptance and risk management is addressed through a framework of policies, procedures and internal controls. All policies related to Syndicate 780 were subject to approval by the board of directors of Syndicate 780's managing agent, RiverStone Managing Agency. Compliance with regulatory, legal and ethical standards is a high priority for Advent Capital Holdings. The compliance, legal and finance departments of RiverStone Management Limited, to whom RiverStone Managing Agency outsources its day to day activities, 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.

The principal risk faced by Advent Capital Holdings arose 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). Advent Capital Holding's assets and liabilities continue to be 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 780, 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. The Group does not have material insurance exposure to COVID-19 related claims and its 2020 financial results have not been meaningfully impacted by this pandemic.

Section 172(1) of the Companies Act 2006

The board of directors of Advent Capital Holdings consider, in good faith, that they have had appropriate regard to the matters set out in section 172(1)(a) to (f) when performing their duty under section 172.

Consequences of any decision in the long term **–** having made the decision to place Syndicate 780 into run-off during 2018, the Board's activity during 2020 has been focused on delivering this future strategy. The Board has worked towards securing a reinsurance to close into Syndicate 3500 effective 1 January 2021 and will continue to review the next stage of the group strategy during 2021.

Business relationships – the Board recognises that relationships with our stakeholders are key to the delivery of our strategy. During 2020, several members of the Board have had the opportunity to meet with representatives of Lloyd's, which continues to refresh and facilitate an understanding of their needs and expectations. The Board regularly engages with the Managing Director of RiverStone Management, the services provider to RiverStone Managing Agency. The Board ensures that its debtholders are appropriately informed of activity through filings with the Channel Islands Stock Exchange.

Community and environment – the Board engages via RiverStone Managing Agency actively with RiverStone Management, the key services provider overseeing the run-off of Syndicate 780, to encourage, support and foster a positive

GROUP STRATEGIC REPORT (continued)

relationship with the community and the environment. In the current year, through this engagement, the Board has supported charitable giving, infrastructure improvements to leased offices to support a reduction in our carbon footprint and the establishment of a diversity and inclusion forum. The Board note that while it has no employees that it supports RiverStone Management's policy of matching employee charitable donations and of allowing time to be available to support others in our communities.

Business conduct – the Board recognises that a commitment to a high standard of business conduct is critical to the delivery of our strategy and aspires to complete honesty and transparency in all activity.

Shareholder Engagement - the Board is committed to an open engagement with our shareholder.

Employees – the Board acknowledges people are essential to the delivery of our strategy. While the Company has no immediate employees, the Board ensures that the interests of the employees of RiverStone Management, the services provider to RiverStone Managing Agency, are appropriately considered when taking decisions. The Board is aware through its engagement with RiverStone Managing Agency, that there exists a well-established structure at RiverStone

Management through which it supports engagement regularly with its employees. During 2020 this included quarterly staff presentations. Other activity in 2020 included technology surveys, the initiation of a diversity and inclusion forum and regular training for our employees.

On behalf of the Board

Luke Tanzer
Director
26 May 2021

REPORT OF THE DIRECTORS

The Directors present their Report together with the audited consolidated Company Financial Statements for the year ended 31 December 2020.

The Board

The directors are listed on page 3.

Directors and their Interests in Shares

The Directors have no interests in the ordinary voting shares of the Company, which are held by RiverStone (Barbados) Ltd either directly or via its subsidiaries.

Dividends

No dividends have been paid or proposed in relation to the financial year (2019: $nil).

Political and charitable donations

The company did not donate to any political party or charities in the year to 31 December 2020 (2019: $nil).

Future developments

Future developments of the company are set out in the Group Strategic Report.

Financial Instruments and risk management

Information on the use of financial instruments by the Company and its management of financial risk is disclosed in the Group Strategic Report and in notes 6 and 7 to the financial statements.

Employees

The Company has no direct employees as the employees that service the company are employed by Riverstone Management Limited (RSML). RSML gives full and fair consideration to applications for employment made by disabled persons, acknowledging their aptitude and skills. RSML continues the employment of and arranges appropriate training for any employee who has become disabled during the period of their employment.

RSML maintains procedures by which all employees are systematically encouraged to express matters that may affect them and are provided with information on matters of concern.

Fairfax's Employee Share Ownership Programme is open to all eligible staff employed by RSML.

Corporate Social Responsibility

The Company undertakes to act fairly, honestly and with integrity in its relationships with its various stakeholders including employees, the shareholder, clients and the wider community. The Code of Business Conduct and Ethics adopted by the Company sets out the values and standards of conduct expected of its employees and the Company takes into account its responsibilities due to, and impact on, each of these stakeholders in its policies and procedures.

With respect to the environment, the Company continues to seek to reduce the impact of its business by the use of various energy saving and recycling initiatives.

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the group and company financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006.

REPORT OF THE DIRECTORS (continued)

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and company and of the profit or loss of the group and company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether, for the group and company, international accounting standards in conformity with the requirements of the Companies Act 2006;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and company will continue in business.

The directors are also responsible for safeguarding the assets of the group and company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group's and company's transactions and disclose with reasonable accuracy at any time the financial position of the group and company and enable them to ensure that the financial statements comply with the Companies Act 2006.

Directors' confirmations

In the case of each director in office at the date the Directors' Report is approved:

- so far as the director is aware, there is no relevant audit information of which the group and 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 group and company's auditors are aware of that information.

Statement of disclosure of information to auditors

Each of the persons who is a director at the date of this report confirms that:

1) So far as the director is aware, there is no relevant audit information of the Company's consolidated financial statements for the year ended 31 December 2020 of which the auditors are unaware; and

2) The director has taken all steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

On behalf of the Board

Luke Tanzer

Luke Tanzer
Director
26 May 2021

Independent auditors' report to the members of Advent Capital (Holdings) LTD

Report on the audit of the financial statements

Opinion

In our opinion, Advent Capital (Holdings) LTD's group financial statements and company financial statements (the "financial statements"):

- give a true and fair view of the state of the group's and of the company's affairs as at 31 December 2020 and of the group's loss and the group's and company's cash flows for the year then ended;
- have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Consolidated Report and Financial Statements (the "Annual Report"), which comprise: the consolidated and parent company statement of financial position as at 31 December 2020; the consolidated statement of comprehensive income, the consolidated and parent company statement of changes in equity, and the consolidated and parent company statement of cash flows for the year then ended; and the notes to the financial statements, 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 applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements 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 group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our audit approach

Overview

Audit scope

- For the purposes of the group financial statements audit we have performed a full scope audit of the following components of the group:
  1) Advent Capital (Holdings) LTD; and
  2) Advent Capital (No. 3) Limited

Key audit matters

- Appropriateness of the methodologies and assumptions applied in estimation of IBNR reserves (gross and net) within outstanding claims (group)
- Impact of COVID-19 Pandemic (group and parent)

Materiality

- Overall group materiality: US$3,882,000 (2019: US$4,600,000) based on 1% of total assets.

- Overall company materiality: US$1,619,000 (2019: US$1,700,000) based on 1% of total assets.
- Performance materiality: US$2,911,000 (group) and US$1,209,000 (company).

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

Capability of the audit in detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined in the Auditors' responsibilities for the audit of the financial statements section, 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 group and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of insurance regulations, such as those issued by the Prudential Regulation Authority, the Financial Conduct Authority and the Council of Lloyd's, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (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 the incurred but not reported ('IBNR') component of outstanding claims, and posting inappropriate journal entries. Audit procedures performed by the engagement team included:

- Challenging assumptions and judgements made by management in their valuation of the incurred but not reported ('IBNR') component 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 key regulators such as, the Prudential Regulation Authority, the Financial Conduct Authority and the Council of Lloyd's 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 financial statements. 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.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

This is not a complete list of all risks identified by our audit.

The Impact of Covid-19 Pandemic is a new key audit matter this year. Otherwise, the key audit matters below are consistent with last year.

Key audit matter	How our audit addressed the key audit matter
Appropriateness of the methodologies and assumptions applied in estimation of IBNR reserves (gross and net) within outstanding claims (group)	
The valuation of the Incurred But Not Reported ("IBNR") loss reserves component of outstanding claims is the most material estimate in the financial statements and their valuation involves a significant degree of judgment. The assumptions and methodologies applied by management	Using our actuarial specialists we have independently estimated gross and net IBNR reserves for certain higher risk classes of business. For other less complex classes, we have tested the methodology and assumptions used in calculating the reserve. For the remaining classes, we examined key ratios and indicators to identify any

<table>
<tr><td>are therefore an area of focus for us as any errors or bias could lead to material misstatement. Areas of focus are:
• The use of appropriate reserving methodologies and assumptions and the consistency of their application from year to year;
• The consideration by management of alternative assumptions and inherent bias when developing an estimate;
• Prior year development and the appropriateness of prior year estimates; and
• The degree of caution in IBNR estimates in relation to areas of uncertainty.
Outstanding claims are included in note 6 to the financial statements.</td><td>anomalies and assessed whether there was any audit evidence that was inconsistent with our knowledge of these classes. In addition to the above, we have considered prior year run-off, management's assessment of estimation uncertainty and any indication of management bias.
We have sample tested the underlying claims paid and case estimate balances supporting the testing above, including the reconciliation of claims data used in the actuarial reserving exercise.
Based on the work performed we found that the valuation of booked reserves were supported by the evidence we obtained.</td></tr>
<tr><td>Impact of Covid-19 Pandemic (group and parent)
The Covid-19 pandemic has had a significant impact on the wider insurance sector including the impact from the insured and investment losses, and impact on the operations. The Group is running off its insurance portfolio and has minimal insurance exposure to Covid-19 related losses. The directors have considered the appropriateness of the going concern basis of preparation in the Group's financial statements and have considered the impact of Covid-19 on operational, insurance, investment, market, credit, solvency, and liquidity risks, and how the Group managed those risks. Management’s ways of working, including the operation of controls, has been impacted as a result of a large number of staff having to work remotely.

The going concern basis of preparation is included in note 2 (b) to the financial statements.</td><td>In response to the areas identified as being impacted by Covid-19, we performed the following procedures:
• We have reviewed management’s assessment of solvency and liquidity as part of their going concern assessment; and
• We have made enquiries of management, including IT, to assess any control implications arising from the impact of Covid-19, including inquiries of IT to assess the impact of remote working.
Through our testing of controls during the audit we have concluded that the controls have operated effectively, and we have not identified any materially adverse impact on the overall control environment of the company.
Based on the work performed, we did not identify any risks to going concern in relation to Covid-19.</td></tr>
</table>

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the group and the company, the accounting processes and controls, and the industry in which they operate.

Advent Capital (Holdings) LTD ('ACH') is the group parent company which is a limited company incorporated in the United Kingdom. ACH's financial results are primarily derived from Syndicate 780, a Lloyd's of London Syndicate. Advent Capital (No.3) Limited is the Corporate Member providing capital to Syndicate 780.

For the purposes of the group financial statements audit we have performed a full scope audit of the following components of the group:

- Advent Capital (Holdings) LTD; and.

- Advent Capital (No.3) Limited.

Based on the group materiality we scoped out the components that did not have any material balances or transactions, this includes Advent Underwriting Limited, Advent Capital Limited, Advent Capital (No.2) Limited and Advent Group Services Limited.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Financial statements - group	Financial statements - company
Overall materiality	US$3,882,000 (2019: US$4,600,000).	US$1,619,000 (2019: US$1,700,000).
How we determined it	1% of total assets	1% of total assets
Rationale for benchmark applied	We have determined that the total assets is appropriate given the run-off nature of the group's operations.	Given the nature of the Company's operations, which are those of a holding company, we have determined total assets to be an appropriate benchmark.

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across components was US$1.6m and US$3.6m. Certain components were audited to a local statutory audit materiality that was also less than our overall group materiality.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% of overall materiality, amounting to US$2,911,000 for the group financial statements and US$1,214,000 for the company financial statements.

In determining the performance materiality, we considered a number of factors - the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls - and concluded that an amount in the middle of our normal range was appropriate.

We agreed with those charged with governance that we would report to them misstatements identified during our audit above US$194,000 (group audit) (2019: US$234,000) and US$80,000 (company audit) (2019: US$86,000) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

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 group's and the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

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

Our responsibilities and the responsibilities of the directors 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 financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements 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.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements 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 financial statements 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 Strategic report and Report of the Directors, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and Report of the Directors

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Report of the Directors for the year ended 31 December 2020 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the group and company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Report of the Directors.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities in respect of the financial statements, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the company'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 directors either intend to liquidate the group or the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements 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 financial statements.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report. In our engagement letter, we also agreed to describe our audit approach, including communicating key audit matters.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 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

Companies Act 2006 exception reporting

Under the Companies Act 2006 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 company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or

- the company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

S. Paterson

Stewart Paterson (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
27 May 2021

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2020

	Note	2020	2019
		$'000s	**$'000s**
Income			
Gross premiums earned		14,217	136,560
Reinsurance premiums ceded		(7,042)	(75,360)
Net premiums earned	6	7,175	61,200
Investment (loss) gain	7	(9,909)	7,098
Other Income		2,796	3,698
Total Income		**62**	**71,996**
Expenses			
Claims incurred	6	18,356	(59,962)
Reinsurance recoveries	6	(6,347)	35,346
Acquisition costs	6	(1,648)	(17,999)
Underwriting expenses	5	(5,121)	(6,331)
Profit (Loss) on exchange		1,312	(1,580)
Total Expenses		**6,552**	**(50,526)**
Operating profit		**6,614**	**21,470**
Interest expense		(4,489)	(5,845)
Profit before tax		**2,125**	**15,625**
Income tax credit / (charge)	9	(5,840)	(228)
(Loss)/ Profit for the year attributable to shareholders		**(3,715)**	**15,397**
Exchange differences on translation of foreign operations		**476**	**(867)**
Total comprehensive (loss) income		**(3,239)**	**14,530**
Earnings (loss) per ordinary share			
Basic and diluted (cents) per share		**(5.6)**	**26.1**
Dividends per ordinary share		**-**	**-**

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes on pages 22 to 46 of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2020

	Note	2020	2019
		$'000s	$'000s
Assets			
Cash and cash equivalents	7	31,969	85,173
Financial investments at fair value	7	228,465	221,328
Other assets	7	48,131	20,912
Insurance and reinsurance assets			
- Reinsurers' share of outstanding claims	6	64,951	102,935
- Reinsurers' share of unearned premiums	6	-	2,957
- Debtors arising from insurance and reinsurance operations	6	12,636	23,361
- Deferred acquisition costs	6	-	1,682
Deferred tax asset	9	2,051	9,817
Intangible assets	10	-	80
Property and equipment		-	6
Total assets		**388,203**	**468,251**
Shareholders' Equity			
Ordinary share capital	8	47,269	47,269
Share premium		141,351	141,351
Capital redemption reserve		33,690	33,690
Other reserves		7,707	7,231
Accumulated deficit		(139,881)	(136,166)
Total equity		**90,136**	**93,375**
Liabilities			
Insurance and reinsurance liabilities			
- Outstanding claims	6	180,641	250,154
- Unearned premiums	6	-	5,980
- Creditors arising out of insurance and reinsurance operations		2,138	14,431
Trade and other payables	11	22,608	12,952
Long term debt	8	92,680	91,359
Total liabilities		**298,067**	**374,876**
Total shareholders' equity and liabilities		**388,203**	**468,251**

The above consolidated statement of financial position should be read in conjunction with the accompanying notes on pages 22 to 46 of these financial statements.

The financial statements on pages 18 to 46 were approved by the Board of Directors on 26 May 2021 and signed on its behalf by:

AMCreed

Andrew Creed
Director

Luke Tanzer
Director

Company Registration Number: 03033609

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2020

	Ordinary share capital $'000s	Share premium $'000s	Capital redemption reserve $'000s	Other reserves $'000s	Currency translation reserve $'000s	Accumulated deficit $'000s	Total $'000s
Balance, 1 January 2019	47,269	141,351	33,690	(4,928)	13,026	(151,563)	78,845
Profit for the year	-	-	-	-	-	15,397	15,397
Other comprehensive income	-	-	-	-	(867)	-	(867)
Balance, 31 December 2019	47,269	141,351	33,690	(4,928)	12,159	(136,166)	93,375
Loss for the year	-	-	-	-	-	(3,715)	(3,715)
Other comprehensive income	-	-	-	-	476	-	476
Balance, 31 December 2020	**47,269**	**141,351**	**33,690**	**(4,928)**	**12,635**	**(139,881)**	**90,136**

Share premium account is the excess of proceeds from issue of shares over the par value of the ordinary shares.

Capital redemption reserve was transferred from share capital on the reduction in par value of ordinary shares from 25p to 5p per share in June 2005.

Other reserves include grandfathered merger reserves.

The currency translation reserve arises due to the change in functional currency from 1 October 2009 and from the retranslation of Sterling functional currency subsidiaries.

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes on pages 22 to 46 of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 December 2020

	Note	2020	2019
		$'000s	**$'000s**
Cash flows from operating activities			
Cash used in operations	14	(49,278)	(71,345)
Interest paid		(4,560)	(5,517)
Tax received		10,364	2,600
Net cash used in operating activities		(43,474)	(74,262)
Cash flows from investing activities			
Investment income received		3,211	5,658
Net purchases and sales of investments		(13,309)	112,473
Net cash (used in) generated from investing activities		(10,098)	118,131
Net increase (decrease) in cash and cash equivalents		(53,572)	43,869
Foreign exchange movements on opening cash and cash equivalents		368	(714)
Cash and cash equivalents at the beginning of year		85,173	42,018
Cash and cash equivalents at the end of year	7	31,969	85,173

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes on pages 22 to 46 of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. General information and Subsequent Events

The Company's principal activity was the underwriting of general insurance and reinsurance business at Lloyd's until 31 December 2018 at which time Syndicate 780 ceased underwriting. The Managing Agency contract of Syndicate 780 was novated from Advent Underwriting Limited (AUL) to RiverStone Managing Agency Limited (RSMA) on 1 January 2019. Effective 1st January 2019, the Company's subsidiary, Advent Capital (No.3) Limited also participates in the Lloyd's market through the provision of Funds at Lloyd's to RiverStone Corporate Capital Limited, an affiliate company.

Effective 1st January 2021, the liabilities of Syndicate 780 were reinsured to close into Syndicate 3500, which is also under the management of RiverStone Managing Agency.

2. Summary of significant accounting policies and basis of preparation

a) Basis of preparation

These financial statements have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006, using the historic cost convention with the revaluation of financial assets at fair value through the consolidated income statement.

The consolidated financial statements include the assets, liabilities and results of the Parent Company and its subsidiaries. The Company participates in insurance business as an underwriting member at Lloyd's. The Company includes its share of the assets and liabilities arising as a result of underwriting activities in these financial statements. All intercompany transactions and balances are eliminated on consolidation.

The prior year financial statements have been restated from millions to thousands to align the financial statements with the other companies in the Riverstone (Barbados) Ltd group of companies.

Effective 1st January 2021, the company intends to change from reporting under IFRS to UK GAAP to be consistent with rest of the Riverstone (Barbados) Ltd group of companies.

b) Going concern

Following the successful reinsurance to close of Syndicate 780 the Company has lost its primary source of day-to-day working capital requirements which were through the underwriting activities of Syndicate 780. However, the Company's forecasts and projections show that the Company should be able to operate and have the resources available to meet members' and Lloyd's capital requirements through the income generated from the FAL inter-availability agreement with Riverstone Corporate Capital Limited (RCCL) which is in place until the end of 2022 and on the $25m loan to RCCL which accrues interest at 4.5% + 1 Year USD EIOPA risk free rate per annum. The company has the appetite to enter into further transactions of this type once the FAL pledged at Lloyd's supporting Syndicate 780 is released. Finally, if the decision is made to stop pledging assets to support the underwriting of RCCL the company has the resources to repay the outstanding debt. After making enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence and to meet its liabilities as they come due, for the foreseeable future. Having addressed the principal risks, the directors consider it appropriate to adopt the going concern basis of accounting in preparing these financial statements.

c) Financial investments

The Company holds securities which have been classified as "fair value through profit and loss" on acquisition. Purchases and sales of investments are recognised on the trade date, being the date at which a commitment to buy or sell the asset has been made. Investments are initially recognised at fair value and are subsequently re-measured at fair value based upon quoted bid prices. Changes to the fair value are included in the income statement for the period in which they arise.

d) Foreign currency translation

The Company's functional currency is the US dollar. Foreign currency transactions are translated into US dollars using the exchange rate at the date of the transactions. Monetary assets and liabilities in foreign currencies are translated into US dollars at the closing rates of exchange at the balance sheet date. Non-monetary assets and liabilities, including unearned premiums and deferred acquisition costs, are translated into US dollars at historic rates of exchange. Resulting foreign exchange gains and losses are recognised in operating expenses. The group's presentational currency is US Dollar, any foreign exchange arising on translation of consolidated entities is with a non-US Dollar functional currency is recorded in OCI.

e) Derivatives

The Company uses forward exchange contracts to mitigate the exchange risk associated with claims in currencies other than its principal settlement currencies and to manage its currency balance sheet. The forward contracts are initially recognised at fair value on the date that the contract is entered into, any gains or losses on forward exchange contracts are recorded in the income statement within profit / losses on exchange. The fair value of the forward exchange contracts is determined by reference to quoted period end exchange rates.

NOTES TO THE FINANCIAL STATEMENTS

2. Summary of significant accounting policies and basis of preparation (continued)

f) Cash and cash equivalents
Cash and cash equivalents consist of cash at bank, short term bank deposits and any highly liquid short-term investments with original maturity dates of three months or less.

g) Intangible assets
Intangible assets related to the renewal rights of business purchased by Blend Insurance Services.

h) Long term debt
Long term debt is initially recognised at fair value, net of transaction costs incurred. Subsequently, long term debt is stated at amortised cost using the effective interest rate method. Any difference between the amortised cost and the redemption value is recognised in the income statement over the period of the debt.

i) Insurance and reinsurance business
The results for insurance and reinsurance business written are determined on an annual basis whereby the incurred cost of claims, commission and related expenses are charged against net earned premium.

(i) Gross premiums
All insurance and reinsurance contracts are accounted for as insurance under IFRS 4. Premiums written relate to business incepted during the year, together with any differences between booked premiums for prior years and those previously accrued and include estimates of premiums due but not yet receivable or notified to the Company, less an allowance for cancellations.

Premiums are accreted to the income statement on a pro-rata basis over the term of the related policy.

(ii) 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 US Dollars at closing rates of exchange.

All premiums are stated gross of acquisition costs, which represent commission and other related expenses, which are expensed over the period in which the related premiums are earned.

(iii) Reinsurance premiums ceded comprise the cost of reinsurance arrangements placed and are generally recognised over the period in which related gross written premiums are earned. “Losses occurring during” policies are charged over the period for which coverage is provided.

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

Provision is also made, where necessary, for any deficiencies arising when unearned premiums, net of associated acquisition costs, are insufficient to meet expected claims and expenses after taking into account future investment return on the investments supporting the unearned premiums reserve and unexpired risks provision. The expected claims are calculated based on information available at the balance sheet date. Unexpired risk surpluses and deficits are offset where business classes are managed together and a provision is made if an aggregate deficit arises.

(v) Reinsurance recoveries represent the reinsurers’ share of the claims incurred in the period, adjusted for any provisions for bad debt.

(vi) Outstanding claims represent the ultimate cost of settling all claims (including direct and indirect claims settlement costs) arising from events which have occurred up to the balance sheet date, including provision for IBNR, less any amounts paid in respect of those claims. Outstanding claims are reduced by anticipated salvage and other recoveries.

Provision is made at the year-end for the estimated costs of claims incurred but not settled at the balance sheet date, including the cost of IBNR to the Company. The estimated cost of claims includes expenses to be incurred in settling claims and a deduction for the value of salvage and other recoveries. The Company 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.

(vii) Reinsurance assets include amounts recoverable from reinsurance companies for paid and unpaid losses and loss adjustment expenses and ceded unearned premiums. Amounts receivable from reinsurers are calculated with reference to the claims liability associated with the reinsured risks. Any impairment to a reinsurance asset is immediately recognised in the Income Statement.

NOTES TO THE FINANCIAL STATEMENTS

2. Summary of significant accounting policies and basis of preparation (continued)

j) Receivables and payables
Debtors and creditors, valued at cost, include the totals of the Company's share of the syndicates' outstanding debit and credit transactions as processed by XChanging Ins-sure Services Ltd. Since there is no legal right of offset, no account has been taken of any offsets which may be applicable in calculating the net amounts due between the syndicates and their counterparty insureds, reinsurers or intermediaries as appropriate.

k) Deferred tax
Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated and parent company only financial statements. Deferred tax is determined using tax rates that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit within all of the UK subsidiaries of the RiverStone (Barbados) Ltd Group will be available against which the temporary differences can be utilised. Deferred tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the Group controls the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

l) Share based payments
Share option schemes are accounted using a fair value method where the cost of providing the option is based upon the fair value of the option at each reporting date. The fair value is calculated using an option pricing model, with the corresponding expense being charged to the income statement over the vesting period. These options are considered to be "cash-settled" options and therefore the accrued liability is recognised within trade and other payables.

m) Dividends
Dividends to the Company's shareholders are recognised as a liability in the period in which the dividends are approved by the Company's shareholders.

n) Joint Operations
The Company had historically entered into a Joint Operation in an Australian domiciled service company which commenced writing business from 1 January 2017. The Company's share of each asset, liability, income and expenditure item of the Joint Operation were fully consolidated in accordance with IFRS 11, Joint Arrangements and IFRS 3, Business Combinations. This joint operation shareholding was disposed in 2020.

o) Contributed equity
Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

p) Earnings per share
Basic earnings per share Basic earnings per share is calculated by dividing:

- the profit attributable to owners of the company, excluding any costs of servicing equity other than ordinary shares
- by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares.

q) New standards and interpretations not yet adopted
Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2020 reporting periods and have not been early adopted by the group. These standards including IFRS 17 are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions due to the company not having any subsidiaries undertaking insurance transactions after 31 December 2020.

NOTES TO THE FINANCIAL STATEMENTS

3. Critical accounting judgements and estimation uncertainty

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

i) *Claims reserves*

The establishment of claims reserves represents the area of greatest uncertainty in preparing the Company financial statements. Reserves for future anticipated claims are made based on information available at the time of preparation of the financial statements. Any “best estimate” of ultimate claims needs to be viewed as a point value within a likely range of outcomes. The nature of each insurer’s business, and the reinsurance arrangements in place, influence how wide that likely range of outcomes will be.

Significant areas requiring estimation and judgment include;

- Estimates of the amount of any liability in respect of claims notified but not settled and incurred but not reported claims (IBNR) to be included within provisions for inward insurance and reinsurance contracts.

- The corresponding estimate of the amount of outwards reinsurance recoveries which will become due as a result of the estimated claims on inwards business.

- The recoverability of amounts due from reinsurers.

The estimation of IBNR is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Company, where more information about the claim event is generally available. Claims IBNR may often not be apparent to the insured until many years after the event giving rise to the claims has happened. Classes of business where the IBNR proportion of the total reserve is high, such as casualty, will typically display greater variations between initial estimates and final outcomes because of the greater degree of difficulty of estimating these reserves.

Classes where claims are typically reported relatively quickly after the claim event tend to display lower levels of volatility. In calculating the estimated cost of unpaid claims, the Company uses a variety of estimation techniques, generally based upon statistical analyses of historical experience, which assumes that the development pattern of the current claims will be consistent with past experience.

Allowance is made, however, for changes or uncertainties which may create distortions in the underlying statistics or which might cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims including:

- changes in the Company’s claims processes which might accelerate or slow down the development and/or recording of paid or incurred claims compared with the statistics from previous years;
- changes in the legal environment;
- the effects of inflation;
- changes in mix of business;
- the impact of large losses; and
- movements in industry benchmarks.

A component of these estimation techniques is usually the estimation of the cost of notified but not paid claims. In estimating the cost of these claims the Syndicate has regard to the claim circumstance as reported, any information available from cedants and information on the cost of settling claims with similar characteristics in previous years.

Large claims impacting each relevant business class are generally assessed separately, being measured on a case-by-case basis or projected separately to allow for the possible distortive effect of the development and incidence of these large claims.

For major natural catastrophe events, the original loss estimates for all ‘on risk’ exposures are analysed using computer simulation to ascertain those accounts likely to be impacted. From the initial output, modelled loss estimates, per account, are generated.

Where possible, the Company adopts multiple techniques to estimate the required level of provisions. This assists in giving greater understanding of the trends inherent in the data being projected. The projections resulting from the various methodologies also assist in setting the range of possible outcomes. The most appropriate estimation technique is selected taking into account the characteristics of the business class and the extent of the development of each accident year.

NOTES TO THE FINANCIAL STATEMENTS

3. Critical accounting judgements and estimation uncertainty (continued)

Provisions are calculated gross of any reinsurance recoveries. A separate estimate is made of the amounts that will be recoverable from reinsurers based upon the gross provisions and having due regard to collectability.

Actual claims experience will always differ from projected estimates. Such differences in relation to risks previously earned are recognised in the income statement in the accounting period during which the difference is identified.

ii) *Pipeline premiums*

Written premiums include pipeline premiums which represent future premiums receivable on in-force insurance contracts. Pipeline premium estimates are typically based on the knowledge and experience of the contracts being written and are updated regularly based on actual cash received versus estimate.

iii) *Valuation of the deferred tax asset*

In determining the recoverability of deferred tax assets, the Company primarily considers current and expected profitability of applicable operating companies and their ability to utilise any recorded tax assets. The Company reviews its deferred income tax assets on a regular basis, taking into consideration the underlying operations' performance as compared to plan, the outlook for the business going forward, the impact of enacted and proposed changes to tax law and the availability of tax planning strategies, including Group Relief with other UK affiliated companies.

iv) *Provisions and contingencies*

Restructuring provisions are recognised when the group has a detailed, formal plan for the restructuring and has raised a valid expectation in those affected by either starting to implement the plan or announcing its main features to those affected, and therefore has a legal or constructive obligation to carry out the restructuring.

NOTES TO THE FINANCIAL STATEMENTS

4. Foreign exchange risk management

The Company's operations are conducted in a number of currencies, the principal ones of which are US $, GBP £, CAD $, Euro € and $ AUD. The Company's policy is that it is not in the business of taking or speculating on foreign currency risk. Its objective is to match each principal currency position.

Monthly, the Company reviews its consolidated foreign currency balance sheet, prepared in its principal currencies. Action is taken to reduce or mitigate foreign currency mismatches through the purchase or sale of the appropriate currencies or the use of forward exchange transactions where necessary.

The Company makes use of a currency translation service from Xchanging, whereby premiums and claims receivable in currencies outside the Syndicate's principal currencies are translated at the spot rate of exchange to Sterling (or in some cases US$) at the date of payment of the claim or receipt of the premium. The Company has used forward exchange contracts to hedge the expected settlement cost of claims in non-settlement currencies where required.

The principal exchange rates used in translating foreign currency assets, liabilities, income and expenditure in the preparation of these financial statements were:

	2020		**2019**	
	Period average Rate $	**Period end Rate $**	**Period average Rate $**	**Period end Rate $**
Sterling	0.7792	0.7316	0.7830	0.7549
Euro	0.8757	0.8173	0.8933	0.8909
Australian Dollar	1.4475	1.2959	1.4382	1.4226
Canadian dollar	1.3404	1.2740	1.3268	1.2968

The Company's gross premiums were written in the following currencies:

	2020		**2019**	
	$'000s	**%**	**$'000s**	**%**
US dollar	6,976	84.0	25,664	58.3
£ sterling	347	4.2	6,631	15.1
Australian dollar	1,059	12.7	2,801	6.3
Canadian dollar	397	4.8	3,858	8.8
Euro	(470)	(5.7)	5,090	11.5
	8,309	**100.0**	**44,044**	**100.0**

The Company's asset and liability positions in its major foreign currencies were as follows:

31 December 2020	**US$'000s**	**£'000s**	**CAD$'000s**	**€'000s**	**AU$'000s**
Total assets	300,611	10,400	20,259	15,789	8,004
Total liabilities	(219,427)	(14,466)	(7,342)	(16,299)	(1,529)
Net assets (net liabilities)	81,184	(4,066)	12,916	(510)	6,474

31 December 2019	**US$'000s**	**£'000s**	**CAD$'000s**	**€'000s**	**AU$'000s**
Total assets	367,588	19,302	24,763	4,356	16,800
Total liabilities	(252,134)	(35,476)	(14,146)	(19,403)	(4,195)
Net assets (net liabilities)	115,454	(16,174)	10,617	(15,047)	12,605

At 31 December 2020, the Company is committed to sell AUD$3.1 million and CAD$10.3 million and buy £10.3 million and €2.2 million for exchange of US dollars.

The effect on profit before tax of a 5% increase or decrease in the closing exchange rates on the foreign currency balance sheet at 31 December 2020 is approximately $0.8 million (2019: $0.6 million) given the Company's policy of minimising foreign currency mismatches quarterly.

NOTES TO THE FINANCIAL STATEMENTS

5. Underwriting expenses

Underwriting expenses include the following:

	2020	2019
	$'000s	$'000s
Audit services		
Fees payable to the Company's auditors for the audit of the Company and consolidated Financial Statements	109.0	102.6
The audit of the Company's subsidiaries	20.6	19.4
Fees payable to the Company's auditors for the audit of Syndicate 780	176.0	176.3
Non-audit services		
Fees payable to the Company's auditors and its associates for other services:		
Other services	71.5	68.7
Actuarial – Statement of Actuarial Opinion	147.3	145.7
	524.4	**512.7**

6. Insurance risk management

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 The Company 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. The Company has a diversified portfolio of insurance risks.

The Company 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.

The Company reports its underwriting activities on a line of business basis with the six segments having the following insurance risk characteristics:

a) The Reinsurance segment consists of the property and casualty treaty reinsurance classes. The casualty treaty class provides excess of loss coverage for general casualty classes such as auto liability, medical malpractice, workers compensation and associated exposures, with an emphasis on clash business. The majority of the account was written in the United States and no business was written on an unlimited basis. The property treaty class offers property catastrophe and individual risk cover for insurance and reinsurance contracts written predominantly on a "losses occurring during policy period" basis with generally no risks in excess of 12 months and with a large proportion of risks expiring at 31 December each year.

b) The Specialty segment includes a broad range of products including terrorism, marine, offshore energy portfolios with coverage provided for individual risk and catastrophe accumulations and specie, marine hull & machinery, liability and cargo insurance. Most risks were written on an excess or limited conditions basis with the objective of avoiding exposure to attritional losses.

c) The Consumer Products segment consists of the accident & health (A&H) insurance and bespoke products classes. The A&H account provided a wide range of medical and accident coverage, primarily through binding authorities, whilst the bespoke products class offered a wide-ranging portfolio from trucking physical damage to credit card enhancement schemes.

NOTES TO THE FINANCIAL STATEMENTS

6. Insurance risk management (continued)

d) The Property segment consisted of the Property D&F and Property Binders classes and includes commercial property, personal lines and commercial automobile physical damage insurance written in the open market and through binding authorities on both a lead and following basis, either through underwriting facilities or on an individual risk basis

e) The Discontinued segment includes classes of business written prior to 2015.

f) The Affiliate Reinsurance segment shows the outward reinsurance transactions on a line by line basis.

i) Segmental analysis

The tables below detail the company's underwriting performance by segment. Acquisition costs, consisting of direct brokerage commissions, are allocated to each segment on a direct basis while operating costs, including underwriting costs, where they cannot be specifically attributed, are either allocated based on gross premiums written or gross premiums earned. The Company does not prepare a segmented balance sheet by line of business and accordingly, has presented key insurance account balances only.

31 December 2020	**Consumer Products**	**Speciality**	**Property**	**Reinsurance**	**Discontinued**	**Affiliate Reinsurances & Other**	**Total**
	$'000s	**$'000s**	**$'000s**	**$'000s**	**$'000s**	**$'000s**	**$'000s**
Gross premiums written	1,674	3,203	2,530	1,090	(188)	0	8,309
Net premiums written	1,105	2,714	2,421	752	(188)	(2,580)	4,224
Net premiums earned	4,001	2,963	3,945	1,799	(188)	(5,345)	7,175
Net claims incurred	(6,045)	721	(2,181)	20,554	1,016	(2,056)	12,009
Acquisition (costs) / income	(544)	(971)	(1,159)	(307)	-	1,333	(1,648)
Operating (expenses) / income	(2,206)	(1,660)	(2,177)	(988)	-	1,910	(5,121)
Underwriting profit (loss)	**(4,794)**	**1,053**	**(1,572)**	**21,058**	**828**	**(4,158)**	**12,415**
Claims ratio	151.1%	(24.3%)	55.3%	(1142.5%)	-	-	(167.4%)
Acquisition cost ratio	13.6%	32.8%	29.4%	17.0%	-	-	23.0%
Operating cost ratio	55.1%	56.0%	55.2%	54.9%	-	-	71.4%
Combined ratio	219.8%	64.5%	139.9%	(1070.6%)	-	-	(73.0%)
Balance sheet accounts							
Reinsurers' share of outstanding claims	1,839	1,755	8,918	4,953	3,580	43,906	64,951
Reinsurers' share of unearned premium	-	-	-	-	-	-	-
Deferred acquisition costs	-	-	-	-	-	-	-
Other assets						323,652	323,652
Total assets	**1,839**	**1,755**	**8,918**	**4,953**	**3,580**	**367,558**	**388,603**
Outstanding claims	(5,640)	(27,220)	(20,078)	(120,092)	(7,611)	-	(180,641)
Unearned premium	-	-	-	-	-	-	-
RI deferred acquisition costs	-	-	-	-	-	-	-
Other liabilities						(117,424)	(117,424)
Total liabilities	**(5,640)**	**(27,220)**	**(20,078)**	**(120,092)**	**(7,611)**	**(117,424)**	**(298,065)**

NOTES TO THE FINANCIAL STATEMENTS

6. Insurance risk management (continued)

31 December 2019	Consumer Products	Speciality	Property	Reinsurance	Discontinued	Affiliate Reinsurances & Other	Total
	$'000s	$'000s	$'000s	$'000s	$'000s	$'000s	$'000s
Gross premiums written	20,994	8,768	13,944	277	62	-	44,044
Net premiums written	19,859	7,900	12,242	(767)	(177)	(29,345)	9,712
Net premiums earned	45,574	18,078	30,455	10,582	(177)	(43,312)	61,200
Net claims incurred	(31,090)	5,074	(13,527)	(2,171)	(1,043)	18,141	(24,616)
Acquisition (costs) / income	(11,219)	(5,495)	(10,385)	(1,544)	3	10,641	(17,999)
Operating (expenses) / income	(3,922)	(1,556)	(2,622)	(911)	(100)	2,780	(6,331)
Underwriting profit (loss)	**(657)**	**16,101**	**3,921**	**5,956**	**(1,317)**	**(11,750)**	**12,254**
Claims ratio	68.2%	(28.1%)	44.4%	20.5%	-	-	40,2%
Acquisition cost ratio	24.6%	30.4%	34.2%	14.2%	-	-	29,4%
Operating cost ratio	8.6%	8.8%	8.6%	8.5%	-	-	10,3%
Combined ratio	**101.4%**	**11.1%**	**87.2%**	**43.2%**	-	-	**79.9%**
Balance sheet accounts							
Reinsurers' share of outstanding claims	5,944	2,127	29,460	5,519	4,111	55,774	102,935
Reinsurers' share of unearned premium	149	1	41	-	-	2,766	2,957
Deferred acquisition costs	924	83	517	158	-	-	1,682
Other assets						360,677	360,677
Total assets	**7,017**	**2,211**	**30,018**	**5,677**	**4,111**	**419,217**	**468,251**
Outstanding claims	(4,482)	(35,496)	(41,828)	(159,184)	(9,164)	-	(250,154)
Unearned premium	(3,048)	(253)	(1,632)	(1,047)	-	-	(5,980)
RI deferred acquisition costs	(366)	-	-	-	-	(754)	(1,120)
Other liabilities						(117,622)	(117,622)
Total liabilities	**(7,896)**	**(35,749)**	**(43,460)**	**(160,231)**	**(9,164)**	**(118,376)**	**(374,876)**

All premiums are concluded in the United Kingdom.

On 30 December 2020, the Company, 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 Company 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 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 Company 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 Company, and accordingly there is no impact on the Company'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.

NOTES TO THE FINANCIAL STATEMENTS

6. Insurance risk management (continued)

The geographical analysis of gross premiums written by location is as follows:

	2020	2019
	$'000s	$'000s
US and Canada	284	24,706
UK	1,922	10,539
Other	4,564	7,389
Other EU	1,539	1,410
	8,309	**44,044**

ii) Outstanding claims

The movement in the Company's claims reserves for the year ended 31 December 2020 is set out below:

	Provision for unearned premiums $'000s	Outstanding claims $'000s	Total $'000s
Gross			
At 1 January 2020	5,980	250,154	256,134
Exchange adjustments	-	862	862
Movements in provisions			
- Current year	(5,980)	3,034	(2,946)
- Prior years	-	(21,601)	(21,601)
- Paid claims	-	(51,808)	(51,808)
At 31 December 2020	**-**	**180,641**	**180,641**
Reinsurers' share			
At 1 January 2020	2,957	102,935	105,892
Exchange adjustments	-	414	414
Movements in provisions			
- Current year	(2,957)	761	(2,196)
- Prior years	-	(6,708)	(6,708)
- Paid recoveries	-	(32,451)	(32,451)
At 31 December 2020	**-**	**64,951**	**64,951**
Gross			
At 1 January 2019	98,603	362,151	460,754
Exchange adjustments	-	1,314	1,314
Movements in provisions			
- Current year	(92,623)	60,156	(32,467)
- Prior years	-	(229)	(229)
- Paid claims	-	(173,238)	(173,238)
At 31 December 2019	**5,980**	**250,154**	**256,134**
Reinsurers' share			
At 1 January 2019	43,986	150,620	194,606
Exchange adjustments		149	149
Movements in provisions			
- Current year	(41,029)	25,143	(15,886)
- Prior years	-	10,207	10,207
- Paid recoveries	-	(83,184)	(83,184)
At 31 December 2019	**2,957**	**102,935**	**105,892**
Net			
At 31 December 2020	-	115,690	115,690
At 31 December 2019	3,023	147,219	150,242

NOTES TO THE FINANCIAL STATEMENTS

6. Insurance risk management (continued)

For the year ended 31 December 2020, prior years' reserve releases, net of reinstatement premiums and reinsurance recoveries, amounted to $14.9 million (2019: $10.2 million).

The claims balance is further analysed between notified outstanding claims and IBNR outstanding below:

	2020		2019	
	Gross $'000s	Net $'000s	Gross $'000s	Net $'000s
Notified outstanding claims	102,203	64,432	118,878	67,578
IBNR	78,438	51,258	131,276	79,641
Outstanding claims	**180,641**	**115,690**	**250,154**	**147,219**
Percentage of IBNR to notified outstanding claims	**77%**	**80%**	**110%**	**118%**

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 $'000s	Net $'000s	Gross $'000s	Net $'000s
Property Binder	21,430	5,497	42,983	6,676
Accident and Health	1,838	-	(540)	(5,434)
Casualty	62,882	46,222	85,627	64,164
Marine	18,868	12,938	23,598	16,387
Terrorism	1,487	932	2,671	1,387
Other Liability	15,842	11,645	21,771	16,317
Property Reinsurance	15,030	6,041	20,018	7,129
Casualty Treaty	28,095	21,043	34,643	25,752
Other	15,169	11,372	19,383	14,841
Total technical provisions	**$ 180,641**	**$ 115,690**	**$ 250,154**	**$ 147,219**

iii) Reserve Sensitivity

The potential uncertainty in outstanding claims has been estimated based on the volatility seen in historical development patterns. This indicates that at the 25th and 75th percentile the reserve variability is +/- $21.5 million of the estimated reserve. This analysis assumes that the historical volatility, excluding major losses, is representative of future uncertainty in outstanding claims. A significant part of the outstanding claims relates to major losses. The basis on which these claims will be settled is still uncertain, and may be influenced by future legal proceedings, which adds to the uncertainty in these reserve estimates.

The projected payout of the ultimate gross and net claims reserves at 31 December 2020 is as follows:

Payment within	1 year	2 years	3 years	4 years	5 years	More than 5 years
	$	$	$	$	$	$
Gross	53,349	34,498	24,736	17,900	12,701	37,457
Net	29,327	22,170	16,479	12,320	8,703	26,691

The pay-out patterns have been estimated based on the historical payment patterns at a class of business level. Future payment patterns are inherently uncertain.

The following table shows the adverse or favourable development of claims, on a gross and net basis, determined on an accident year basis, from the amounts originally estimated at the end of the preceding year. Claims in currencies other than US dollars have been reconverted at 31 December 2020 exchange rates for all accident years.

NOTES TO THE FINANCIAL STATEMENTS

All amounts are in millions of United States dollars, unless otherwise stated

6. Insurance risk management (continued)

Earned gross claims

Accident year	2010 and prior	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Total
	$'000s	$'000s	$'000s	$'000s	$'000s	$'000s	$'000s	$'000s	$'000s	$'000s	$'000s	$'000s
At the end of accident year	2,905,000	360,000	128,000	119,443	112,918	132,437	152,266	252,736	200,818	60,066	6,781	
One year later	2,915,000	365,000	136,673	119,078	109,264	143,964	174,471	253,417	204,493	49,043		
Two years later	2,893,000	349,234	131,292	111,850	105,416	149,684	166,960	255,207	207,151			
Three years later	2,867,931	327,676	128,983	102,554	97,535	124,730	169,598	261,540				
Four years later	2,820,121	369,451	126,914	95,448	98,621	125,978	162,299					
Five years later	2,813,173	361,418	126,426	95,879	95,291	123,295						
Six years later	2,810,240	366,145	130,166	95,086	95,584							
Seven years later	2,885,158	348,754	129,626	88,790								
Eight years later	2,872,862	355,691	135,657									
Nine years later	2,831,123	354,049										
Ten Years later	2,836,639											
Estimate of cumulative claims	**2,836,639**	**354,049**	**135,657**	**88,790**	**95,584**	**123,295**	**162,299**	**261,540**	**207,151**	**49,043**	**6,781**	**4,320,828**
Cumulative paid claims	**2,824,570**	**346,187**	**117,990**	**83,052**	**84,526**	**109,602**	**144,965**	**233,680**	**162,253**	**29,858**	**3,503**	**4,140,186**
Gross claims liability	**12,069**	**7,862**	**17,667**	**5,738**	**11,058**	**13,693**	**17,334**	**27,860**	**44,898**	**19,186**	**3,279**	**180,641**

Earned net claims

Accident year	2010 and prior	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Total
	$'000s	$'000s	$'000s	$'000s	$'000s	$'000s	$'000s	$'000s	$'000s	$'000s	$'000s	$'000s
At the end of accident year	2,194,961	232,615	117,974	117,974	96,681	107,776	131,558	151,247	123,306	50,163	6,781	
One year later	2,211,017	237,926	120,008	120,008	92,610	111,185	145,356	151,108	143,174	39,066		
Two years later	2,192,766	243,237	114,923	114,923	89,318	115,056	123,630	162,228	136,672			
Three years later	2,185,536	226,242	112,889	112,889	82,648	99,299	132,525	167,864				
Four years later	2,194,603	220,931	110,654	110,654	77,178	107,172	124,948					
Five years later	2,188,561	211,365	111,761	111,761	78,972	104,348						
Six years later	2,188,425	216,903	106,458	106,458	79,142							
Seven years later	2,167,608	192,037	111,602	77,880								
Eight years later	2,146,420	199,118	117,498									
Nine years later	2,047,856	196,303										
Ten Years later	2,050,502											
Estimate of cumulative claims	**2,050,502**	**196,303**	**117,498**	**77,880**	**79,142**	**104,348**	**124,948**	**167,864**	**136,672**	**39,066**	**6,781**	**3,101,005**
Cumulative paid claims	**2,045,388**	**192,414**	**99,971**	**72,231**	**68,195**	**90,964**	**109,402**	**156,466**	**124,397**	**22,385**	**3,503**	**2,985,315**
Net claims liability	**5,114**	**3,889**	**17,527**	**5,649**	**10,948**	**13,385**	**15,546**	**11,398**	**12,275**	**16,681**	**3,279**	**115,690**

NOTES TO THE FINANCIAL STATEMENTS

6. Insurance risk management (continued)

iv) Reinsurance recoverable

At 31 December 2020, the Company's reinsurance recoverable on outstanding claims amounted to $65.0 million (2019: $102.9 million) with reinsurers who had the following risk ratings by AM Best (or equivalent S&P rating in the absence of an AM Best rating):

Risk Rating	$'000s	%
A+	7,070	10.9%
Lloyd's	2,027	3.1%
A	2,837	4.4%
BBB	892	1.4%
Not rated	1,459	2.2%
Affiliates	50,666	78.0%
Total	**64,951**	**100.0%**

Trust funds of $1.5 million are held as security for balances due from unrated carriers.

The Company reviews amounts due from reinsurers on paid losses, amounts recoverable from reinsurers on outstanding losses and amounts in dispute to determine if a provision for bad debts is required. The Company's policy is 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.

The Company entered a 100% quota share reinsurance agreement of its net unearned premium on the Property Binder, Property Insurance and Terrorism classes of business as of 31 March 2019 with Brit Re (Bermuda), an affiliated reinsurer, pursuant to which Syndicate 780 ceded written premium of $1.0 million (2019:$26.2 million) and earned premium of $2.8 million (2019:$24.5 million). At 31 December 2020, the amount recoverable from Brit Re (Bermuda) was $5.3 million (2019: $8.9 million).

v) Debtors arising from insurance and reinsurance operations

The table below sets out the analysis of the debtors arising from insurance and reinsurance operations, at cost and fair value.

	2020	2019
	$'000s	$'000s
Insurance and reinsurance premiums due	508	1,542
Pipeline premium	8,189	5,934
Reinsurance recoveries on paid claims	3,939	15,885
	12,636	23,361

Pipeline premium represents amounts receivable in respect of premiums incepted on binder business for which notification from the broker has not yet been received, together with reinstatement premiums on claims. The estimate of the likely settlement date for reinstatement premiums due is intrinsically related to the estimate of the likely settlement dates for the major losses.

Of the total balance, $6.8 million (2019: $17.2 million) is due within one year.

The reinsurance recoveries accruals on paid claims is further analysed below:

	2020	2019
	$'000s	$'000s
Fully performing	3,544	15,885
Past due	395	-
	3,939	15,885

NOTES TO THE FINANCIAL STATEMENTS

Of the remaining debtor balances, it is expected that substantially all of the insurance and reinsurance premiums due and will be received within one year.

7. Financial risk management

i) Investment gain (loss)

	2020	2019
	$'000s	**$'000s**
Interest and dividends	3,360	5,017
Investment management expenses	(550)	(321)
Net investment income	2,810	4,696
Gain on sale of investments	196	293
Loss on sale of investments	(1,731)	(6,333)
Net loss on sale of investments	(1,535)	(6,040)
Unrealised gains on investments	1,083	8,963
Unrealised losses on investments	(12,267)	(521)
Net unrealised gains (losses) on investments	(11,184)	8,442
Investment return	**(9,909)**	**7,098**

ii) Financial Instruments

	2020	2019
	$'000s	**$'000s**
Carrying value		
Debt securities and other fixed income securities	161,050	139,600
Equity Fund	59,849	71,342
Syndicate overseas deposits	6,913	10,023
Derivatives and forward exchange contracts	653	363
	228,465	**221,328**
Cost	**$'000s**	**$'000s**
Debt securities and other fixed income securities	156,747	133,219
Equity Fund	78,771	78,771
Syndicate overseas deposits	6,913	10,023
Derivatives and forward exchange contracts	259	559
	242,690	**222,572**

At 31 December 2020, investments of $96.6 million (2019: $95.9 million) were held in US situs and other regulatory deposits available for the payment of claims in those jurisdictions and which are not available for the payment of other claims and obligations.

At 31 December 2020, cash and investments of $114.4 million were pledged as security to Lloyd's within the Funds at Lloyd's (FAL) account (2019: FAL of $103.6 million) to support Syndicate 780's underwriting activities and for uncalled losses. As of 1 January 2020, the Company's subsidiary, Advent Capital (No,3) Limited had made excess capital of $106.1 million inter-available with RiverStone Corporate Capital Ltd (RiverStone Corporate). RiverStone Corporate pays the Company a fee for its use of the Company's excess capital and has indemnified the Company from loss from its use of the excess capital.

Overseas deposits are lodged as a condition of conducting underwriting business in certain countries.

NOTES TO THE FINANCIAL STATEMENTS

7. Financial risk management (continued)

CASH AND CASH EQUIVALENTS

	2020	2019
	$'000s	$'000s
Company	2,386	6,837
Syndicate	24,862	49,947
Other subsidiaries	4,721	28,389
	31,969	**85,173**

At 31 December 2020, the cash and cash equivalents were held with Royal Bank of Scotland, Barclays Bank, Citibank, RBC Dexia and Bank of New York which are rated A-, A-, AA- by Standard & Poor's.

OTHER ASSETS

	2020	2019
	$'000s	$'000s
Other assets at cost and fair value comprise:		
- prepayments	551	316
- accrued income	86	487
- receivable for securities sold	22,135	-
- other debtors	1,096	15,670
- due from affiliated companies	24,263	923
- other	-	3,516
	48,131	**20,912**
Categorised as due:		
- within 12 months	48,131	20,912
- after more than 12 months	-	-
	48,131	**20,912**

iii) Investments analysed by type, maturity and IFRS 7 pricing category

IFRS 7 requires the Company to categorise its investment portfolio in terms of the quality of the pricing information used to value the asset. The Company has categorised all short-dated government debt as Level 1, as there is an active market and prices are available from multiple sources. The Company has also designated its equity portfolio as Level 1 as all holdings are listed on recognised exchanges with observable prices. The Syndicate's overseas deposits are split between Levels 1 and 2 based upon information provided by Lloyd's.

Determinations to classify fair value measures within Level 3 of the valuation hierarchy are generally based on the significance of the unobservable factors to the overall fair value measurement. Included in the Level 3 classification are deflation derivatives. The Company has categorised the deflation derivatives as Level 3 due to the pricing being model derived from a single broker.

The remainder of the portfolio is considered to be Level 2, as these assets are valued based upon prices quoted in markets that are less active, have fewer sources or are derived from prices quoted in an active market.

NOTES TO THE FINANCIAL STATEMENTS

7. Financial risk management (continued)

The tables below present the Company's assets that are measured at fair value, together with an analysis of when they mature:

At 31 December 2020	Total $'000s	Less than 1 year $'000s	1 to 2 years $'000s	2 to 3 years $'000s	More than 3 years $'000s	No Maturity $'000s
Level 1						
Debt and other fixed income securities	133,379	133,379	-	-	-	-
Equity Fund	60,490	1,965	-	-	-	58,525
Overseas deposits	2,255	1,465	790	-	-	-
	196,124	136,809	790	-	-	58,525
Level 2						
Debt securities and other fixed income securities	15,972	15,972	-	-	-	-
Corporate Bonds	-	-	-	-	-	-
State and Municipal Bonds	11,699	-	-	-	11,699	-
Equity Fund	(641)	(641)	-	-	-	-
Interest treasury locks	93	93	-	-	-	-
Forward Exchange contracts	548	548	-	-	-	-
Overseas deposits	4,658	-	1,820	1,053	1,785	-
	32,329	15,972	1,820	1,053	13,484	-
Level 3						
Derivatives	12	12	-	-	-	-
Equity Fund	-	-	-	-	-	-
	12	12	-	-	-	-
	228,465	**152,793**	**2,610**	**1,053**	**13,484**	**58,525**

At 31 December 2019	Total $'000s	Less than 1 year $'000s	1 to 2 years $'000s	2 to 3 years $'000s	More than 3 years $'000s	No Maturity $'000s
Level 1						
Debt and other fixed income securities	41,957	41,957	-	-	-	-
Equity Fund	70,387	70,387	-	-	-	-
Overseas deposits	2,284	1,087	900	297	-	-
	114,628	113,431	900	297	-	-
Level 2						
Debt securities and other fixed income securities	74,170	74,170	-	-	-	-
Corporate Bonds	13,091	12,604	487	-	-	-
State and Municipal Bonds	10,382	-	-	-	10,382	-
Equity Fund	1,012	1,012	-	-	-	-
Interest treasury locks	(54)	(54)	-	-	-	-
Forward Exchange contracts	334	334	-	-	-	-
Overseas deposits	7,738	1,575	2,542	1,989	1,632	-
	106,673	89,641	3,029	1,989	12,014	-
Level 3						
Derivatives	84	84	-	-	-	-
Equity Fund	(57)	(57)	-	-	-	-
	27	27	-	-	-	-
	221,328	**203,098**	**3,929**	**2,286**	**12,014**	-

NOTES TO THE FINANCIAL STATEMENTS

7. Financial risk management (continued)

Level 3 investment movements are summarised as follows:

	2020	2019
	$'000s	$'000s
Balance at 1 January	27	1,196
Sale of investments	-	(666)
Loss (profit) recognised in the income statement	(15)	(503)
Balance at 31 December	**12**	**27**

iv) Financial risk

The Company is exposed to financial risk through its financial assets and liabilities. The key financial risk is that proceeds from financial assets are not sufficient to fund the obligations arising from policies as they fall due. The most important components of financial risk are interest rate risk, equity risk, credit risk, liquidity risk and foreign exchange risk.

Interest rate risk

Interest rate risk arises primarily from investments in fixed rate securities. In addition, to the extent that claims inflation is correlated to interest rates, liabilities to policyholders are exposed to interest rate risk. The Company is also exposed to interest rate risk through its floating rate unsecured subordinated and senior loan notes which are linked to US LIBOR in the case of the US dollar dominated debt and EURIBOR in the case of the Euro denominated debt.

The table below sets out the sensitivity of the fixed income portfolio to changes in interest rates, by currency of investment.

Change in Interest rates (Basis points)	US $'000s
+200	(3,555)
+100	(1,918)
-100	2,408
-200	5,258

Equity risk

Equity risk arises from the Company's investments in equities. Equity risk is the risk that the value of an investment will fall because of market influences.

Credit risk

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due, Key areas where the Company is exposed to credit risk are:
- amounts due from corporate bondholders
- amounts due from reinsurers on paid and outstanding losses
- amounts due from policyholders and intermediaries
- counterparty risk with respect to derivative transactions

The Company places limits on its exposure to any single counterparty for investments and reinsurers and to geographical and industry segments.

Liquidity Risk

Liquidity risk is the risk that cash may not be available to pay obligations when due at a reasonable cost. The Company monitors its liquidity needs through monthly cash flow forecasts at syndicate and parent company level. The following table presents the Syndicate's liabilities that are measured at fair value, together with an analysis of when they fall due.

NOTES TO THE FINANCIAL STATEMENTS

7. Financial risk management (continued)

Foreign exchange risk

The functional currency of the company is USD. Foreign exchange risk arises from exchange rate movements in the non -USD principal currencies that the company operates in, these being GBP £, EUR €, CAD $ and AUD $. To minimise the effect of exchange rate movement is these currencies, forward FX contracts are entered into to match the balance Sheet asset and liability positions.

At 31 December 2020	Total $'000s	Less than 1 year $'000s	1 to 2 Years $'000s	2 to 3 Years $'000s	More than 3 years $'000s
Derivatives	447	447	-	-	-
Outstanding Claims	180,641	53,344	59,236	39,639	28,422
Creditors	24,299	22,793	350	351	805
Other	92,680	-	-	-	92,680
	298,067	**76,584**	**59,586**	**39,990**	**121,907**

At 31 December 2019	Total $'000s	Less than 1 year $'000s	1 to 2 Years $'000s	2 to 3 Years $'000s	More than 3 years $'000s
Derivatives	574	574	-	-	-
Outstanding Claims	250,154	88,049	42,762	28,415	90,928
Creditors	26,809	24,355	685	422	1,347
Other	91,359	-	-	-	91,359
	368,896	**112,978**	**43,447**	**28,837**	**183,634**

The tables below summarise the assets subject to credit risk by Standard & Poor's (S&P) credit rating, or equivalent where no S&P rating is available.

At 31 December 2020	AAA $'000s	AA $'000s	A $'000s	BBB $'000s	Below BBB $'000s	Not Rated $'000s	Total $'000s
Debt securities and other fixed income securities	144,993	4,209	149	11,699	-	-	161,050
Equity Fund	-	1,965	-	-	-	-	1,965
Overseas deposits	2,648	535	611	436	1,218	1,465	6,913
Derivatives and forwards contracts	-	653	-	-	-	-	653
Reinsurers' share of outstanding claims	-	-	62,598	892	-	1,461	64,951
Other debtors	-	-	-	-	-	48,327	48,327
Cash at bank, deposit institutions and in hand	-	943	28,640	-	2,386	-	31,969
Total	**147,641**	**8,305**	**91,998**	**13,027**	**3,604**	**51,253**	**315,828**

At 31 December 2019	AAA $'000s	AA $'000s	A $'000s	BBB $'000s	Below BBB $'000s	Not Rated $'000s	Total $'000s
Debt securities and other fixed income securities	106,613	-	9,912	23,075	0,0	0,0	139,600
Equity Fund	-	1,360	-	-	-	69,982	71,342
Overseas deposits	5,804	1,089	1,141	540	257	1,192	10,023
Derivatives and forwards contracts	-	-	-	-	-	363	363
Reinsurers' share of outstanding claims	-	-	100,604	-	-	2,331	102,935
Other debtors	-	-	-	-	-	20,912	20,912
Cash at bank, deposit institutions and in hand	20,000	3,539	54,797	-	-	6,837	85,173
Total	**132,417**	**5,988**	**166,454**	**23,615**	**257**	**101,617**	**430,348**

NOTES TO THE FINANCIAL STATEMENTS

7. Financial risk management (continued)

Collateral is provided to the Company as security over reinsurance recoverable balances due from some reinsurers. At 31 December 2020, $20.0 million was available to the Company (2019: $23.0 million).

Debtors arising from insurance and reinsurance operations comprise premiums due from insureds and reinsured, but not paid at 31 December 2020. The balance includes reinstatement premiums due on losses, which will be collected when the associated claims are paid.

No financial assets are past due or impaired at the reporting date and management expects no significant losses from non-performance by these counterparties.

8. Capital management

The Company's objective is to have sufficient capital to support its operations.

The Company has provided capital to its operating subsidiaries using permanent capital and unsecured long-term debt financing. The long-term debt issuances have no financial covenants other than the quarterly payment of interest and payment of principal on maturity. In the case of the Company's US dollar and Euro denominated subordinated debt due 3 June 2035, amounting to an aggregate of $47.5 million at 31 December 2020 (2019: $46.3 million), the Company can defer interest payable on the subordinated notes for 20 consecutive quarters without causing an event of default.

SHARE CAPITAL

	Authorised		**Allotted, Called Up and Fully Paid**	
	2020	**2019**	**2020**	**2019**
	$000's	**$000's**	**$000's**	**$000's**
Ordinary shares of $0.80 each	80,000	80,000	47,269	47,269
Number of shares (000s)	100,000	100,000	59,103	59,103

Share Schemes

Details of share options granted to senior employees and Directors of ACH to acquire Fairfax shares which remain outstanding at the end of the year are as follows:

Grant	**Number**
Outstanding at 1 January 2020	7,477
Exercised in year	(7,320)
Forfeited in year	-
Transferred to affiliates	(780)
Granted in year	623
Outstanding at 31 December 2020	0

Share options were exercised by one former director during 2020.

NOTES TO THE FINANCIAL STATEMENTS

8. Capital management (continued)

The weighted average remaining contractual life of options outstanding at 31 December 2020 is Nil years (2019: 0.25 years).

The compensation expense and the accrued liability are calculated by reference to the share price of the Fairfax shares. The total compensation recovery for 2020 was $0.4 million (2019: $1.6 million expense). The total liability at the end of the year was nil (2019: $4.8 million).

LONG TERM DEBT

Outstanding debt	Issue date	Due date	Callable by the Company after	2020 $'000s	2019 $'000s
Subordinated notes					
US$34	3/6/2005	3/6/2035	3/6/2010	33,161	33,136
Interest rate	3 months LIBOR + 3.90%				
Interest rate (31 December 2019)	6.02%				
€12	3/6/2005	3/6/2035	3/6/2010	14,308	13,114
Interest rate	3 months LIBOR + 3.85%				
Interest rate (31 December 2019)	3.43%				
				47,469	46,250
US$26	16/1/2006	15/1/2036	16/1/2011	25,545	25,482
Interest rate	3 months LIBOR + 4.50%				
Interest rate (31 December 2019)	6.62%				
U$20	15/12/2006	15/12/2026	15/12/2011	19,666	19,627
Interest rate	3 months LIBOR + 3.85%				
Interest rate (31 December 2019)	6.27%				
				45,211	45,109
Total debt at amortised cost				92,680	91,359
Weighted average interest rate, 31 December				4.22%	5.87%

The Subordinated Notes rank on a winding-up of the Company in priority to distributions on all classes of share capital and rank pari passu with each other but are subordinated in right of payment to the claims of all unsubordinated creditors of the Company (including, where applicable, all policyholders of the Syndicate).

NOTES TO THE FINANCIAL STATEMENTS

8. Capital management (continued)

The Senior Notes rank on a winding-up of the Company in priority to distributions on all classes of share capital and subordinated loan notes, and rank pari passu with each other but are subordinated in right of payment to the claims of all unsubordinated creditors of the Company (including, where applicable, all policyholders of the Syndicate).

The Subordinated Notes and Senior Notes are listed on the Channel Islands Stock Exchange.

9. Income tax charge / (recovery)

Charge in the year	**2020**	**2019**
	$'000s	**$'000s**
Current Tax		
Current tax – current year	(1,926)	8,608
Deferred Tax:		
Origination and reversal of timing differences	7,766	(8,380)
Tax on profit on ordinary activities	**5,840**	**228**
Factors affecting tax charge for the year		
Profit on ordinary activities before tax	2,125	15,625
Tax charge at the average standard rate of UK corporation tax of 19% (2019: 19%)	404	2,969
Effects of:		
Rate changes	(1,168)	(130)
Prior year adjustments	217	(3,769)
Permanent differences	46	(365)
Other differences	-	324
DTA not provided for	6,341	-
Write off US Tax	-	1,199
	5,840	**228**

Factors that may affect future tax charges

Deferred tax is provided on the annually accounted result of each YOA.

The Company transferred losses of $2.2 million (2019: profits of $6.4 million) to fellow UK affiliates.

There are unutilised losses of $33.3 million (2019: $nil) at 31 December 2020.

The Company is subject to US tax on its share of the Syndicate's deemed US underwriting profits. This tax is recoverable to the extent that UK tax arises on taxable Syndicate profits for the appropriate YOA. Provision has been made for the Company's liability to US tax. Some US tax suffered will be irrecoverable due to the difference between UK and US tax rates and the difference between the timing of US and UK Syndicate profits for tax purposes. During the year no US Tax has been written off (2019: $1.1 million).

The government announced on 16 March 2016 as part of its Budget that a rate of 17% will apply from 1 April 2020. On 11 March 2020, it was announced (and substantively enacted on 17 March 2020), that the UK corporation tax rate would remain at 19% and not reduce to 17% (the previously enacted rate) from 1 April 2020. The Company has an unrecognised deferred tax asset of $7.5 million (2019: $nil) in relation to underwriting timing differences.

NOTES TO THE FINANCIAL STATEMENTS

9. Income tax expense (continued)

In the Budget of 3 March 2021 it was announced that the corporation tax rate would be increasing to 25% for periods commencing 1 April 2023. This has not yet been substantively enacted. Therefore, the unrecognised deferred tax balances included within the accounts have been calculated with reference to the rate of 19% (2019: 17%).

Deferred Tax

	2020	2019
	$'000s	$'000s
Deferred tax asset in respect of underwriting results to be declared:	1,742	8,786
Deferred tax asset in respect of:		
Other timing differences	309	1,031
	2,051	**9,817**
Deferred tax asset at 1 January	9,817	18,197
Deferred tax charge in the income statement		
Origination and reversal of timing differences	(7,766)	(8,380)
Deferred tax asset at 31 December	**2,051**	**9,817**

The utilisation of the deferred tax asset is dependent on the Company making future taxable profits or through the tax sharing arrangements with other profitable UK affiliated companies. Management believe this asset will be fully recoverable based on the profits for 2021 of the Company. The Company has locked in profits on the Equity Fund held due to the Asset Value Loan Note (AVLN) and this instrument will also generate a 3% investment return.

10. Intangible assets

Intangible assets represent purchased capacity of $nil (2019: $0.1 million) which represent Blend underwriting renewal rights.

11. Trade and other payables

	2020	2019
	$'000s	$'000s
Trade and other payables at cost and fair value		
- Accruals	254	327
- Amounts due to Group companies	159	293
- Payable for securities purchased	21,850	-
- Other	602	12,332
	22,608	**12,952**
Categorised as due		
- within 12 months	22,608	12,952
- after more than 12 months	-	-
	22,608	**12,952**

Other payables include amounts due to suppliers of goods or services to the Company. These balances will be paid in accordance with the Company's creditor payment policy.

NOTES TO THE FINANCIAL STATEMENTS

12. Commitments

(a) Capital commitments

There were no capital commitments or authorised but un-contracted commitments at the end of the financial year.

(b) FAL

The Company has committed funds to support its underwriting business at Lloyd's in the form of investments managed by Hamblin Watsa Investment Counsel (HWIC), an affiliate. These assets are not available to meet day to day cash flow requirements of the Company.

(c) Operating leases

The Company's land and buildings short-term operating leases were transferred to an affiliate entity during 2019, as such the company has used the exemption available due to the transfer and has not reported using IFRS 16 in these accounts.

13. Related parties

The Company accepted inwards reinsurance business from affiliated companies of $nil (2019: $0.1 million), All transactions with these parties were conducted at arm's length and at normal commercial terms as detailed below:

	2020	**2019**
	$'000s	**$'000s**
Zenith National Insurance Corp,	-	5
Brit Syndicate 2987	-	6
Crum and Forster Insurance Company	-	-
Hudson Insurance Group	-	84
	-	**95**

Ceded outwards reinsurance premiums and related reinsurance recoveries to and from affiliated companies are set out in the table below:

	Reinsurance Premiums		**Reinsurance Recoveries**	
	2020	**2019**	**2020**	**2019**
	$'000s	**$'000s**	**$'000s**	**$'000s**
Wentworth Insurance Company Limited	1,611	3,285	1,777	8,434
Odyssey Re holding Corp	24	85	194	(727)
Allied World Assurance Company Holdings, GmbH	-	207	-	500
Brit Re (Bermuda)	1,047	26,265	(1,920)	8,918
Crum and Forster Insurance Company	569	1,255	65	13,531
	3,251	**31,097**	**116**	**30,656**

The Company paid investment management fees to HWIC of $0.6 million (2019: $0.3 million).

NOTES TO THE FINANCIAL STATEMENTS

14. Reconciliation of profit (loss) before tax to cash used in operations

	2020	2019
	$'000s	**$'000s**
Profit (loss) before tax	2,125	15,625
Movement in:		
- insurance and reinsurance receivables	51,713	146,552
- other assets	(33,637)	34,871
- insurance and reinsurance payables	(87,721)	(232,554)
- trade and other payables	9,608	(19,276)
Interest expense and amortisation of debt costs	4,489	5,845
Investment result	7,113	(10,628)
Depreciation	-	-
Foreign exchange movements on opening cash and cash equivalents	(368)	714
Other foreign exchange movements	(2,600)	(12,494)
Cash used in operations	**(49,278)**	**(71,345)**

15. Staff costs (including Directors)

	2020	2019
	$'000s	**$'000s**
Wages and salaries	(241)	3,646
Social security costs	(11)	252
Other pension costs	-	57
	(252)	**3,955**

Favourable wages and salaries and social security costs incurred in 2020 reflect the release of prior year accruals held in the run-off restructuring provision. Other pension costs are in respect of former money purchase schemes and personal pension arrangements.

NOTES TO THE FINANCIAL STATEMENTS

15. Staff costs (including Directors) (continued)

The average number of persons, including executive directors, employed by the Company during the year was:

	2020	2019
By activity	Number	Number
Executive management	-	1
Finance and actuarial	-	-
Underwriting	-	3
Claims and Reinsurance	-	-
Compliance and non-executive directors	-	-
IT	-	-
Administration and other	-	1
	-	**5**

16. Key management emoluments

No emoluments were paid by the Company to any Directors or other key management personnel during the year (2019: $Nil). The emoluments of the Directors and other key management personnel are paid by an associated company, RiverStone Management Limited. The services of the Directors and other key management personnel to the Company are incidental and their emoluments are deemed to be wholly attributable to their services to other group companies. Accordingly, no disclosure of emoluments has been made in these financial statements.

PARENT COMPANY ONLY STATEMENT OF FINANCIAL POSITION
As at 31 December 2020

	Note	2020 $'000s	2019 Restated $'000s
Assets			
Cash and cash equivalents	19	2,386	6,837
Other assets:			
- Due from associated companies		158,019	156,529
- Deferred tax		309	1,005
- Other		591	4,163
Investments in subsidiaries	21	619	2,293
Total assets		**161,924**	**170,827**
Shareholders' Equity			
Ordinary share capital	8	47,269	47,269
Share premium account		141,351	141,351
Capital redemption reserve		33,690	33,690
Accumulated (losses)		(149,053)	(142,850)
Loss for the year		(4,596)	(6,203)
Total shareholders' equity		**68,661**	**73,257**
Liabilities			
Trade and other payables	20	583	6,211
Long term debt	8	92,680	91,359
Total liabilities		**93,263**	**97,570**
Total shareholders' equity and liabilities		**161,924**	**170,827**

The above parent only statement of financial position should be read in conjunction with the accompanying notes on pages 49 to 51 of these financial statements.

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The parent company only financial statements were approved by the Board on 26 May 2021 and signed on its behalf by:

Andrew Creed
Director

Luke Tanzer
Director

Company Registration Number: 03033609

PARENT COMPANY ONLY STATEMENT OF CHANGES IN EQUITY
Year ended 31 December 2020

	Share capital $'000s	Share premium $'000s	Capital redemption reserve $'000s	Accumulated Losses $'000s	Total shareholders' equity $'000s
Balance, at 1 January 2019 **(Restated)**	47,269	141,351	33,690	(142,850)	79,460
Loss and total comprehensive expenses for the year	-	-	-	(4,883)	(4,883)
Prior period adjustment	-	-	-	(1,320)	(1,320)
Balance, at 31 December 2019 **(Restated)**	47,269	141,351	33,690	(149,053)	73,257
Loss and total comprehensive expenses for the year	-	-	-	(4,596)	(4,596)
Balance, at 31 December 2020	**47,269**	**141,351**	**33,690**	**(153,649)**	**68,661**

The above parent only statement of changes in equity should be read in conjunction with the accompanying notes on pages 49 to 51 of these financial statements.

PARENT COMPANY ONLY STATEMENT OF CASH FLOWS
Year ended 31 December 2020

	Note	2020 $'000s	2019 Restated $'000s
Cash flows from operating activities			
Cash used in operations	23	56	(4,049)
Interest paid		(4,560)	(5,517)
Cash used in operating activities		(4,504)	(9,566)
Cash flows from investing activities			
Interest received		14	-
Proceeds from (purchase of) investments		-	-
Net cash used in financing activities		14	-
Cash flows from Financing activities			
Issue of shares		-	-
Net (decrease) increase in cash and cash equivalents		(4,490)	(9,566)
Exchange movement on opening cash and equivalents		39	303
Cash and cash equivalents at the beginning of year		6,837	16,100
Cash and cash equivalents at the end of year	17	**2,386**	**6,837**

The above parent only statement of cash flows should be read in conjunction with the accompanying notes on pages 49 to 51 of these financial statements.

NOTES TO THE PARENT COMPANY ONLY FINANCIAL STATEMENTS

ADDITIONAL PARENT COMPANY ONLY ACCOUNTING POLICIES

17. General Information

Advent Capital (Holdings) LTD is the ultimate parent company for the Advent Group. The Parent Company is domiciled in the United Kingdom.

18. Summary of significant accounting policies and basis of preparation

a) Basis of preparation

These financial statements have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006, using the historic cost convention with the revaluation of financial assets at fair value through the income statement. As permitted under section 408 of the Companies Act 2006, no separate income statement has been prepared.

The accounting policies used in the preparation of the consolidated financial statements have been consistently applied in the preparation of these separate Parent Company financial statements. In addition, the following policies have also been used.

The prior year financial statements have been restated from millions to thousands to align the financial statements with the other companies in the Riverstone (Barbados) Ltd group of companies.

Effective 1st January 2021, the company intends to change from reporting under IFRS to UK GAAP to be consistent with rest of the Riverstone (Barbados) Ltd group of companies.

b) Prior period error

The prior period retained losses were understated by $1.3 million and amounts due to group undertakings were overstated by the same amount due to the misallocation of the tax chargeable to entities in the prior year.

c) Investment in subsidiaries

Investments in the Parent Company's subsidiaries are initially stated at cost and are subsequently reviewed for impairment as circumstances indicate that the carrying value exceeds the realisable value.

d) Dividend Income

Dividend income from investments in subsidiaries is recognised when the right to receive payment has been established.

19. Cash and cash equivalents and investments

	2020 $'000s	2019 Restated $'000s
Cash at bank	2,386	6,837

20. Trade and other payables

	2020 $'000s	2019 Restated $'000s
Interest payable	254	327
Accruals	329	5,884
Total at cost and fair value	**583**	**6,211**

NOTES TO THE PARENT COMPANY ONLY FINANCIAL STATEMENTS

21. Investments in subsidiaries

	2020 $'000s	2019 Restated $'000s
As at 1 January	2,293	3,398
Sale of investment in Blend	(1,674)	-
Dividend received from AUL	-	(1,545)
Blend contribution	-	440
As at 31 December	**619**	**2,293**

The net investment balance consists of the following companies:

Company	Shareholding	Nature of Business	Country of Registration
Advent Underwriting Limited	100%	Lloyd's Managing Agent	England & Wales
Advent Group Services Limited	100%	Service Company	England & Wales
Advent Capital Limited	100%	Lloyd's Corporate Member	England & Wales
Advent Capital (No, 2) Limited	100%	Lloyd's Corporate Member	England & Wales
Advent Capital (No, 3) Limited	100%	Lloyd's Corporate Member	England & Wales

Amounts due to and from subsidiaries are non-interest bearing, have no fixed repayment terms and are recorded at cost which approximates fair value.

Intercompany receivables and payables due from or to each subsidiary or related undertaking are as follows:

	2020 $'000s	2019 Restated $'000s
Advent Underwriting Limited	(695)	(673)
Advent Group Services Limited	(613)	(594)
Advent Capital (No.2) Limited	(77)	(75)
Advent Capital (No.3) Limited	122,471	169,117

The registered addresses of all other subsidiaries are 2nd Floor, 2 Minster Court, Mincing Lane, London, EC3R 7BB.

22. Profit attributable to members of the Parent Company

As permitted by section 230 of the Companies Act 2006, the Parent Company's income statement has not been included in the Company's financial statements. The Parent Company's loss for 2020 was $4.6 million (2019 Restated: loss of $6.2 million).

NOTES TO THE PARENT COMPANY ONLY FINANCIAL STATEMENTS

23. Reconciliation of loss before tax to cash used in operations

	2020 $'000s	2019 Restated $'000s
Profit (loss) before tax	(4,487)	(4,899)
Movement in:		
- other assets, principally amounts due from affiliates	2,669	5,788
- trade and other payables	(5,628)	(12,514)
Debt interest	4,489	5,845
Investment in subsidiary undertakings	1,674	1,100
Investment (income) expense	(14)	(169)
Amortisation of share option costs	-	1,600
Foreign exchange movement on opening cash and cash equivalents	(39)	(303)
Other foreign exchange movements	1,392	(497)
	56	**(4,049)**

24. Company information

The Company is a private limited company registered and domiciled in the United Kingdom. The ultimate parent company and controlling party is RiverStone (Barbados) Ltd ("RiverStone Barbados") which is registered in Barbados.

25. Subsequent Events

Effective 1st January 2021, the liabilities of Syndicate 780 were reinsured to close into Syndicate 3500, which is also under the management of RiverStone Managing Agency.

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.

On 5th February 2021, the company issued 4,075,417 new $0.80 ordinary shares to RiverStone (Barbados) Ltd in exchange for an asset value loan note. The Company immediately contribute the asset value loan note to Advent Capital (No.3) Limited in exchange for 8,150,834 new $0.40 ordinary shares.