Advent Capital (No.3) Limited

Annual Report and Financial Statements

Year ended 31 December 2018

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DIRECTORS AND ADVISORS

Directors	T J Ambridge I M Hewitt
Company Secretary	N M Ewing ACII
Registered Office	2nd Floor 2 Minster Court London EC3R 7BB
Independent Auditors	PricewaterhouseCoopers LLP Chartered Accountants and Statutory Auditors 7 More London Riverside London SE1 2RT
Solicitors	Clyde & Co LLP The St Botolph Building 138 Houndsditch London EC3A 7AR
Company Registration Number	5528808

STRATEGIC REPORT

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

The Directors present their Strategic Report for the year ended 31 December 2018.

Business Review

On 11 July 2018, the Company's parent, Advent Capital (Holdings) LTD ("Advent" or "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 (RSMA). Syndicate 780 permanently ceased underwriting at the end of the 2018 Year of Account (YOA) on 31 December 2018. As of 1 January 2019, the Managing Agency contract for Syndicate 780 (Managing Agency Contract) to RSMA. The Company expects that the 2018 and prior YOA of Syndicate 780 will be closed into RSMA's Syndicate 3500 in the normal course of closure as of 31 December 2020. The Company has entered a 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 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.

Advent Capital (No.3) Limited (the Company), a company incorporated in the United Kingdom, is the Corporate Member underwriting at Lloyd's supporting 100% of Syndicate 780's capacity through the 2018 YOA.

Strategic Report

The key disclosures required by the Strategic Report have been considered in the sections below, being results of the business for the calendar year, future outlook and principal risks and uncertainties.

2018 Results

For the year ended 31 December 2018, the Company had a loss before tax of $48.5 (2017: loss of $20.9) comprising an underwriting loss of $25.4, investment losses of $26.2 and corporate and other income of $3.1 (2017: underwriting loss of $48.2, investment gains of $36.0 and corporate and other charges of $8.7).

The underwriting loss of $25.4 and combined ratio of 123.0% (2017: underwriting loss of $48.7 and combined ratio of 125.9%) is after a 25% quota share reinsurance agreement of Syndicate 780's net reserves and net unearned premium as of 1 October 2018 with Wentworth Insurance Company, an affiliated reinsurer, (Wentworth Reinsurance) pursuant to which Syndicate 780 ceded written premium of $89,4 and earned premium of $78.2. Excluding the Wentworth Reinsurance, the Company's combined ratio was 115.7% for 2018. The 2018 results and combined ratio reflect the following effects of the decision to put Syndicate 780 into run off (Run Off Decision):

- Gross written premiums were $57.9 below the 2018 Plan, including the cancellation and replacement of Treaty Casualty gross premiums written of $19.1 to facilitate renewal of the business with an affiliate. The net earned premium and combined ratio (CoR) impact of the shortfall was $34.0 and 4.2 CoR points, including $14.4 and 2.1 CoR points for the Treaty Casualty business.
- Termination of Partner Re (10%) and Wentworth (5.5%) corporate member quota share reinsurance agreements for Syndicate 780's 2018 YOA (1.9 CoR points).

Excluding the impact of these effects of placing Syndicate 780 into run off, the combined ratio would have been 109.6%.

The 2018 underwriting result before Wentworth Reinsurance included major catastrophe losses (Hurricanes Florence and Michael and California Wildfires) of $14.7 and 7.8 CoR points, $13.5 of large individual non-catastrophe losses (7.2 CoR points), partially offset by prior year's' reserve releases of $20.7 or 11.0 CoR points (2017: $1.5, 0/8 CoR points).
Gross premiums written for 2018 were $247.4, down from $271.2 in 2017 due to the Run Off Decision. Net premiums written decreased to $88.2 in 2018 (2017 - $184.4) and net premiums earned decreased to $110.2 (2017: $185.3) due to the Wentworth Reinsurance and the Run Off Decision. For the same reasons, the total expense ratio increased to 75.6% in 2018 from 45.1% in 2017. The Company incurred restructuring costs of $11.1 associated with the Run Off Decision.

2019 Business Plans and Outlook

Syndicate 780 ceased underwriting as of 31 December 2018. The Company will continue to record its participation in the 2018 and prior YOA of Syndicate 780 until its closure in the normal course as of 31 December 2020 but will not support any further underwriting in this syndicate.

Internal Control and Risk Management

Overview

The Board of Directors ("Board") is responsible for the oversight of the Company's systems of internal control, for reviewing their effectiveness at least annually and for reporting on the effectiveness of controls in the Company's Annual Report and Financial Statements. Executive management is responsible for the implementation and satisfactory maintenance of systems of internal controls over financial reporting and for compliance with laws and regulations.

STRATEGIC REPORT

Every employee is responsible for internal control and is informed of their role through detailed job descriptions, policies, procedures manuals and communications from senior management and the Board.
The Company's systems of internal control consist of a number of interrelated components as outlined below:

Control Environment
The control environment sets the tone of the business influencing the control consciousness of its directors and employees, sometimes referred to as the "tone at the top". It provides structure and discipline for the other four components, incorporating factors such as integrity, ethical values, management's philosophy and operating style; assignment of authority and responsibility; employee competence; organisational structure; and the attention and direction provided by the Board.

The control environment is communicated to employees through the following key documents and policies approved by the Board:

- Corporate objectives and risk appetite
- Code of Business Conduct and Ethics
- Conduct Policy
- Whistle Blower Policy
- Confidentiality and Trading Responsibilities regarding Fairfax
- Financial Crime Policy

As a small organisation, the Company's culture is hands-on with extensive interaction between directors, senior management and employees and one which takes pride in maintaining strong underwriting disciplines throughout the insurance cycle while acknowledging the potential volatility in short term results arising from catastrophe events.

1. Risk Assessment
The Company faces a variety of risks from both internal and external sources that require identification, assessment and management. Risk management is the process that enables a business to:

- Identify and understand the risks that it faces in the pursuit of its business objectives;
- Assess the risks against risk appetite;
- Where possible and commercially desirable, reduce the probability and impact of those risks;
- Regularly review, monitor and report on those risks in order to take informed actions; and
- Ensure that any new risks, or changes to existing risks, are captured and assessed.

As the environment in which the Company is operating changes, the risk assessment process needs to be dynamic and updated on an on-going basis.

The key risks, as assessed by the Company, are set out below:

Insurance risk:

- ***Underwriting and risk selection:*** The Company is exposed to risk when underwriters select and price insurance and reinsurance business as there is uncertainty over the ultimate loss ratios.

- ***Extreme losses***: Insurance costs are not fixed and known at the time a policy is issued, so claims can significantly exceed premiums received in any period. Although the frequency and severity of claims may have been priced accurately, in extreme circumstances, claims may be sufficiently large to threaten the Company's capital base.
- ***Reserving:*** The Company has a provision on its balance sheet for the estimated ultimate cost of claims. Some of these claims are long tailed in nature and as such, they are susceptible to adverse development (e.g. due to latent exposures, legal reform and unforeseen deterioration of known losses).

Other financial risks:

- ***Credit risk:*** The Company is exposed to the risk that a counterparty will be unable to pay amounts in full when due. The Company is exposed to credit risk through reinsurance recoverables and amounts due from intermediaries and policyholders. There remains an increased risk of counterparty failure in a challenging economic climate.
- ***Market risk:***
  - ***Matching*** – Mismatches in the duration of the Company's assets and liabilities to movements in interest rates may lead to an increase in capital requirements while a mismatch in assets and liabilities denominated in foreign currencies may lead to losses from changes in exchange rates.

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  - ***Asset*** – The Company's investments (comprising individual holdings in sovereign and corporate fixed interest securities as well as equities, derivatives, real estate and cash) are also exposed to the risk of default and/or fluctuations in market prices.

- *Liquidity risk* – The Company may not have cash available to pay obligations when due at a reasonable cost, particularly for major catastrophe events where it has to post US situs funds on gross incurred claims or where it has to pay gross claims before collecting the related reinsurance.

Operational risk:

- The Company is exposed to a range of operational risks, some of which could have a direct financial impact such as:
  - inaccurate **management information** (e.g. through staff error, inadequate processes or loss of IT systems) causing inadequate pricing, reserving or exposure management;
  - loss of office **facilities** (though fire, flood, terrorism, etc.);
  - **outsourcing** issues;
  - **cyber events;** and
  - **fraud.**

- Other operational risks may not have direct financial losses,but may be equally damaging to the Company's business model if not managed effectively. These include:

  - **Reputational**: Advent's business model relies on the maintenance of its good reputation. For example, Advent's ability to attract and retain staff or business from brokers will be undermined if it suffers reputational damage from the actions of the company itself or indirectly due to the actions of employees.

  - **Conduct**: Advent has a duty to ensure that the process and outcome from doing business with the Company is fair for policyholders.

  - **Regulatory**: AUL, our primary operating subsidiary, is regulated by the Prudential Regulation Authority (PRA), the Financial Conduct Authority (FCA) and Lloyd's. The Company is at risk of censure, fine or restriction of business if it fails to run the business in compliance with the applicable rules and regulations.

  - **Cultural**: There is a risk that Advent fails to ensure it has a culture that promotes an effective and efficient working environment which encourages teamwork from all members of staff.

  - **Political changes**: There is a risk that Advent's business model is impacted by changes to the economic landscape, for example, changes to the tax regime or the legal framework.

Other Risks:

- **Group** – The risk of the Fairfax group being unable to support Advent, particularly in the provision of new capital if it is required.

- **Strategic** – Advent faces the risk of loss through the setting of an inappropriate strategy or the ineffective execution of an appropriate strategy.

- **Capital** – Advent has to ensure that it has sufficient capital from a regulatory perspective in order to trade at Lloyd's within the PRA's regulatory regime.

Ownership of risks and controls within the Company is clearly defined. The Risk Function coordinates an assessment of all risks through a quarterly risk review, carried out in line with policies and procedures, to ensure that risks remain relevant and up-to-date.

The Company's risk appetite is recommended by the Risk and Compliance Director to the Board for their approval. When any risk falls outside the Company's risk appetite, action plans are agreed, implemented and monitored. Risk mitigation actions have clearly defined owners and implementation timescales.

STRATEGIC REPORT

2. Control Activities

Control activities are the policies and procedures that are set by the Executive Committee to manage risk and support the delivery of the Company's objectives.

The Company maintains and updates policies and procedures addressing all key areas throughout the business.

3. Information, Communication and Key Performance Indicators

Appropriate information must be identified, captured and communicated in a form and timeframe that enables directors and employees to carry out their responsibilities. The Company has an established management information system for the production of operational, financial and compliance reports which allow the Executive Committee and the Board to run and control the business.

The Company has established corporate objectives and risk appetite. The key performance data required for management and control purposes has been identified as combined ratio 123.1% (2017: 126.1%), reserve surplus 3.8% of net reserves (2017: 3.5%), exposure to catastrophe losses on a gross and net basis. Management reports are produced monthly for the Executive Committee and reported to the Board quarterly. Decision making is made at the appropriate level, within pre-agreed parameters, and communicated throughout the Company as required.

The Company maintains pro-active channels of communication with all key stakeholders including existing and prospective clients, staff, brokers, reinsurers, the shareholder, and regulators.

4. Monitoring
Internal control systems need to be monitored to assess the quality of the system over time. The Company achieves this through a combination of day-to-day operational monitoring conducted by management, such as the review of exception and data quality reports, together with a comprehensive risk based internal audit programme.

The audit programme is risk focussed with the majority of the activity centred upon those areas which are considered to generate the largest risks namely underwriting, reinsurance and claims.

The Company believes it has implemented an effective system of internal control.

The Directors' view is that it is not necessary for the understanding of the business to disclose its policies on environmental matters, employee matters or social, community and human rights issues, other than to the extent that such matters are covered elsewhere in the Annual Report.

On behalf of the Board

Ian Hewitt

Ian Hewitt FCII
Director
18 February 2019

REPORT OF THE DIRECTORS

The Directors present their report and the audited financial statements of the Company for the year ended 31 December 2018.

Future Outlook

The future outlook of the Company is discussed in the Strategic Report.

Dividends

The directors do not propose the payment of a dividend (2017: $Nil).

Political and charitable donations

The company did not donate to any political party or charities in the year to 31 December 2018.

Directors

The names of the current directors are listed on page 2.

Advent Underwriting Limited (AUL) has provided an indemnity for its directors which is a qualifying third party indemnity provision for the purposes of Section 236 of the Companies Act 2006. The indemnity was in force during the financial year and also at the date of this report.

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 financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law). 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 company and of the profit or loss of the 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 applicable United Kingdom Accounting Standards, comprising FRS 102, have been followed, subject to any material departures disclosed and explained in the financial statements;
- 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 company will continue in business.

The directors are also responsible for safeguarding the assets of the 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 company's transactions and disclose with reasonable accuracy at any time the financial position of the 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 company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Independent auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution concerning their re-appointment will be proposed at the Annual General Meeting.

Independent auditors' report to the members of Advent Capital (No.3) Limited

Report on the audit of the financial statements

Opinion

In our opinion, Advent Capital (No.3) Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2018 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the statement of financial position as at 31 December 2018; the statement of income and retained earnings 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 company 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.

Conclusions relating to going concern

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

the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or

the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

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

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union, which is currently due to occur on 29 March 2019, are not clear, and it is difficult to evaluate all of the potential implications on the company's trade, customers, suppliers and the wider economy.

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

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 2018 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 company and its 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 set out on page 7, 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 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 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.

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.

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

We have no exceptions to report arising from this responsibility.

R. P. Lord

Robert Cordock (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
18 February 2019

Approved by the Board and signed on its behalf by:

Ian Hewitt

Ian Hewitt FCII
Director
18 February 2019

STATEMENT OF INCOME AND RETAINED EARNINGS
For the year ended 31 December 2018

	Note	2018 $	2017 $
Net premiums earned			
Gross premiums written	6	247.4	271.2
Reinsurance premiums ceded		(159.2)	(86.8)
Net premiums written		88.2	184.4
Change in the provision for unearned premiums			
- gross amount		9.5	(2.1)
- reinsurers' share		12.6	3.0
Change in the net provision for unearned premiums		22.1	0.9
Net premiums earned		**110.3**	**185.3**
Allocated investment return transferred from the non-technical account		1.6	2.2
Total technical income		**111.9**	**187.5**
Claims incurred, net of reinsurance			
Claims paid			
- gross amount		(202.8)	(179.6)
- reinsurers' share		70.6	50.9
Net claims paid		(132.2)	(128.7)
Change in the provision for claims			
- gross amount		31.8	(77.7)
- reinsurers' share		47.6	56.6
Change in the net provision for claims		79.4	(21.1)
Claims incurred, net of reinsurance		**(52.8)**	**(149.8)**
Net operating expenses	10	(82.9)	(83.7)
Total technical charges		**(135.7)**	**(233.5)**
Balance on the technical account for general Business		**(23.8)**	**(46.0)**

The Notes on pages 15 to 40 are an integral part of these financial statements.

STATEMENT OF INCOME AND RETAINED EARNINGS
For the year ended 31 December 2018

	Note	2018 $	2017 $
Balance on the technical account for general business		**(23.8)**	**(46.0)**
Investment income (loss)	9	(12.5)	24.6
Unrealised gains on investments	9	1.4	40.1
Unrealised losses on investments	9	(14.2)	(27.1)
Investment management expenses	9	(0.9)	(1.6)
Allocated investment return transferred to the general business technical account		(1.6)	(2.2)
Other income and (charges)		3.1	(8.7)
Profit (loss) before tax		**(48.5)**	**(20.9)**
Tax provision	12	9.4	5.2
Profit (loss) for the year		**(39.1)**	**(15.7)**
Accumulated losses at 1 January		(135.4)	(119.7)
Accumulated losses at 31 December		**(174.5)**	**(135.4)**

The income and expenses all relate to continuing operations.

There are no material differences between the profit (loss) before tax and the profit (loss) for the year stated above and their historical cost equivalents.

The Notes on pages 15 to 40 are an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION: ASSETS
As at 31 December 2018

	Note	2018 $	2017 $
Assets			
Financial investments	7	**305.5**	**462.8**
Reinsurers' share of technical provisions			
Provision for unearned premiums		44.0	31.5
Claims outstanding		150.6	103.3
		194.6	**134.8**
Debtors			
Debtors arising out of direct insurance operations		56.8	76.9
Debtors arising out of reinsurance operations		24.8	36.2
Deferred taxation	12	17.9	16.1
Current taxation		1.2	-
Other assets		8.8	50.3
		109.5	**179.5**
Cash and equivalents		**40.4**	**38.6**
Prepayments and accrued income			
Accrued interest		0.7	0.8
Deferred acquisition costs		26.1	28.5
Total Assets		**676.8**	**845.0**

The Notes on pages 15 to 40 are an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION: LIABILITIES
As at 31 December 2018

	Note	2018 $	2017 $
Liabilities and reserves			
Capital and reserves			
Called up share capital	14	0.1	0.1
Share premium account		131.4	131.4
Accumulated losses		(174.5)	(135.4)
Total shareholder's (deficit) funds		**(43.0)**	**(3.9)**
Technical provisions			
Provision for unearned premiums		98.2	109.1
Claims outstanding		362.2	397.9
		460.4	**507.0**
Creditors			
Creditors arising out of (re)insurance operations		34.8	53.7
Amounts owed to group undertakings		212.6	272.0
Other creditors		0.3	6.9
		247.7	**332.6**
Accruals and deferred income		**11.7**	**9.3**
Total liabilities		**676.8**	**845.0**

The financial statements on pages 11 to 40 were approved by the Board of Directors on 14 February 2019 and signed on its behalf by:

T J Ambridge, FCPA, FCA Director

I M Hewitt Director

Company Registration Number: 5528808

The Notes on pages 15 to 40 are an integral part of these financial statements.

ADVENT CAPITAL (No.3) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1. General Information and Subsequent Events

The Company participates in insurance business as an underwriting member at Lloyd's until 31 December 2018 at which time Syndicate 780 ceased underwriting. The assets and liabilities arising as a result of the underwriting activities are held under various Lloyd's trust deeds for the benefit of policyholders.

The management of Syndicate 780 novated from Advent Underwriting Limited (AUL) to RiverStone Managing Agency (RSMA) on 1st January 2019.

2. Statement of compliance

The financial statements of the Company have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102"), Financial Reporting Standard 103, Insurance Contracts and the Companies Act 2006, under the provision of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI2008/410). The Company has also adopted Technical Release 1/99 "Accounting by Lloyd's Corporate Capital Vehicles" issued by the Institute of Chartered Accountants in England and Wales.

3. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The Company has adopted FRS 102 and FRS 103 in these financial statements.

(a) Basis of Preparation

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

The preparation of financial statements in conformity with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 4.

(b) Going concern

The Company meets its day-to-day working capital requirements through the underwriting activities of Syndicate 780. 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. 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. The Company therefore continues to adopt the going concern basis in preparing its financial statements.

(c) Exemptions for qualifying entities under FRS 102

The Company has taken advantage of the exemption, under FRS 102 paragraph 1.12 (b), from preparing a statement of cash flows, on the basis that it is a qualifying entity and its parent Company, Advent Capital (Holdings) LTD (Advent), includes the Company's cash flows in its own consolidated financial statements.

(d) Foreign currency

(i) Functional and presentation currency

The Company's functional and presentational currency is US dollars.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using an average rate of exchange for the year. At each period end foreign currency monetary and non-monetary items are translated using the closing rate. Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period-end exchange rates of monetary and non-monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account.

Foreign exchange gains and losses are presented in the income statement within "Net operating expenses" in the Balance on the technical account for general business.

Foreign exchange differences on non-syndicate transactions are reported in other charges in the non-technical account.

3. Summary of significant accounting policies (continued)

(d) Foreign currency (continued)

The Company uses forward exchange trades contracts to mitigate the exchange risk associated with claims in currencies other than its principle settlement currencies and to manage its currency balance sheet. Gains or losses are recorded within profit on exchange. The fair value of the forward exchange contracts is determined by reference to quoted period end exchange rates.

(e) General insurance business

The results for general insurance business written are determined on an annual basis whereby the incurred cost of claims, commission and related expenses are charged against the earned proportion of premiums, net of reinsurance, as follows:

i) 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 shown net of premium taxes and other levies on premiums.

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

iii) 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 at closing rates of exchange.

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

v) Reinsurance premium costs of "losses occurring during" policies are charged over the period for which coverage is provided. Other reinsurance premium costs are deferred over the period in which the premiums relating to business written are earned.

vi) 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.

vii) Claims outstanding 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. Claims outstanding are reduced by anticipated salvage and other recoveries.

viii) 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.

ix) 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.

(f) Investment Return

Investment return comprises all investment income, realised investment gains and losses and movements in unrealised gains and losses, net of investment expenses, charges and interest.

Dividends are recorded on the date on which the shares are quoted ex-dividend. Interest income is recognized using the effective interest rate method.

Realised gains and losses on investments carried at current value are calculated as the difference between net sales proceeds and purchase price. Movements in unrealised gains and losses on investment represent the difference between the valuation at the balance sheet date and their purchase price or, if they have been previously valued, their valuation at the last balance sheet date, together with the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current period.

3. Summary of significant accounting policies (continued)

(f) Investment Return (continued)

Investment return is initially recorded in the non-technical account. A transfer is made from the non-technical account to the technical account of the investment return on investments supporting the insurance technical provisions and related shareholder's funds.

(g) Taxation

Taxation expense for the year comprises current and deferred tax recognised in the reporting period. Tax is recognised in the income statement.

Current or deferred tax liabilities are not discounted.

(i) Current tax

Current tax is the amount of income tax payable in respect of the taxable profit for the current or prior years. Tax is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the period end.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(ii) Deferred tax

Deferred tax arises from timing differences that are differences between taxable profits and total comprehensive income as stated in the financial statements. These timing differences arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements.

Deferred tax is recognised on all timing differences at the reporting date except for certain exceptions. Unrelieved tax losses and other deferred tax assets are only recognised when it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Deferred tax is measured using tax rates and laws that have been enacted or substantively enacted by the period end and that are expected to apply to the reversal of the timing difference.

(h) Impairment of non-financial assets

At each balance sheet date, non-financial assets not carried at fair value are assessed to determine whether there is an indication that the asset may be impaired. If there is such an indication the recoverable amount of the asset is compared to the carrying amount of the asset.

The recoverable amount of the asset is the higher of the fair value less costs to sell and value in use. Value in use is defined as the present value of the future pre-tax and interest cash flows obtainable as a result of the asset's continued use. The pre-tax and interest cash flows are discounted using a pre-tax discount rate that represents the current market risk-free rate and the risks inherent in the asset.

If the recoverable amount of the asset is estimated to be lower than the carrying amount, the carrying amount is reduced to its recoverable amount. An impairment loss is recognised in the income statement, unless the asset has been revalued when the amount is recognised in other comprehensive income to the extent of any previously recognised revaluation. Thereafter any excess is recognised in income.

If an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to the extent that the revised carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised in prior periods. A reversal of an impairment loss is recognised in the income statement.

(i) Other assets and creditors

Other assets and creditors comprise inter-group receivables and other receivables and payables valued at cost.

3. Summary of significant accounting policies (continued)

(j) Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

(k) Financial Instruments

i) Financial assets

Basic financial assets, including trade and other receivables, cash and bank balances and investments in commercial paper, are initially recognized at transaction price, unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest.

Such assets are subsequently carried at amortised cost using the effective interest rate method.

At the end of each reporting period financial assets measured at amortised cost are assessed for objective evidence of impairment. If an asset is impaired the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognized in income.

If there is a decrease in the impairment loss arising from an event occurring after the impairment was recognized the impairment is reversed. The reversal is such that the current carrying amount does not exceed what the carrying amount would have been had the impairment not previously been recognized. The impairment reversal is recognized in income.

Other financial assets, including investments in equity instruments which are not subsidiaries, associates or joint ventures, are initially measured at fair value, which is normally the transaction price. Such assets are subsequently carried at fair value whereby:

a) listed investments are stated at market value on the balance sheet date,
b) unlisted investments for which a market exists are stated at the average price at which they were traded on the balance sheet date or the last trading day before that date,
c) for investments where market quotes are unavailable, the Company uses estimation techniques to determine fair value.

Changes in fair value are recognized in income, except that investments in equity instruments that are not publicly traded and whose fair values cannot be measured reliably are measured at cost less impairment.

ii) Financial liabilities

Basic financial liabilities, including trade and other payables are initially recognised at transaction price.

Creditors arising out of reinsurance operations, amounts owed to other group companies and other creditors are obligations to pay for services that have been acquired in the ordinary course of business. These obligations are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Derivatives, including forward exchange contracts, are not basic financial instruments.

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. Changes in the fair value of derivatives are recognized in in finance costs or income as appropriate.

The Company does not currently apply hedge accounting for interest rate and foreign exchange derivatives.

Financial liabilities are derecognized when the liability is extinguished, that is when the contractual obligation is discharged, cancelled or expires.

iii) Offsetting

Financial assets and liabilities are offset and the net amounts presented in the financial statements when there is an enforceable right to set off the recognized amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

(l) Share capital

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

(m) Distributions to equity holders

Dividends and other distributions to the Company's shareholder are recognised as a liability in the period in which the dividends are approved. These amounts are recognised in the statement of changes in equity.

(n) Related party transactions

The Company discloses transactions with related parties which are not wholly owned with the same group. It does not disclose transactions with members of the same group that are wholly owned.

4. Critical accounting judgements and estimation uncertainty

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, be 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 insurance 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 claims incurred but not reported (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 underwriting and 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
- 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 Company 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.

4. Critical accounting judgements and estimation uncertainty (continued)

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

For major natural catastrophe events, the original loss estimate for all 'on risk' exposures is analysed using computer simulation to ascertain those accounts likely to be impacted. From the initial output, modelled loss estimates, per account, are generated. An underwriting review of the account, by cedant, is then conducted to validate the individual loss estimates and, where applicable, amend the model driven estimates with underwriter input relevant to the particular features of the loss and its anticipated impact on an account. Where accounts cannot be analysed, using catastrophe-modelling software, benchmark analysis is conducted, again on an account-by-account basis, to generate loss estimates. As more specific client information becomes available the ultimate loss estimates are updated from the initial forecast to reflect the client specific data.

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.

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.

The Company's claims reserves are calculated by the Company's Head of Reserving with input from the Head of Claims and underwriters. These reserves are reviewed and approved monthly by the Reserve Group and quarterly by the Board. Annually, the reserves of the Syndicate are reviewed by external actuaries who issue a valuation opinion on the adequacy of reserves.

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 underwriter 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 utilize 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 subsidiaries of Fairfax Financial Holdings Limited (Fairfax).

5. Foreign exchange risk management

The Company's operations are conducted in a number of currencies, the principal ones of which are US $, GBP £, AUD $, 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.

On a monthly basis 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 settlement currencies (currently US$, £, CDN$, Euro and AUD$) are translated at the spot rate of exchange to Sterling (or in some cases US$) at the date of payment of the claim or receipt of the premium. Advent 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:

	2018		2017	
	Period average rate $	**Period end rate $**	**Period average rate $**	**Period end rate $**
Sterling	0.7488	0.7852	0.7758	0.7392
Euro	0.8467	0.8748	0.8850	0.8328
Australian Dollar	1.3376	1.4205	1.3038	1.2785
Canadian dollar	1.2956	1.3658	1.2970	1.2529

NOTES TO THE FINANCIAL STATEMENTS (Continued)

5. Foreign exchange risk management (continued)

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

	2018		2017	
	$	**%**	**$**	**%**
US dollar	189.1	76.5	222.3	82.0
£ sterling	31.0	12.5	31.7	11.7
Australian dollar	9.4	3.8	3.3	1.2
Canadian dollar	7.0	2.8	7.4	2.7
Euro	10.9	4.4	6.5	2.4
	247.4	100.0	271.2	100.0

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

31 December 2018	**US$**	**£**	**CDN$**	**€**	**NZ$**	**JPY**	**AU$**
Total assets	390.5	3.8	31.6	(7.8)	0.0	0.0	15.3
Total liabilities	(337.7)	(27.2)	(20.4)	(18.8)	(1.6)	(306.6)	(9.7)
Net assets (net liabilities)	52.8	(23.4)	11.2	(26.6)	(1.6)	(306.6)	5.6

31 December 2017	US$	£	CDN	€	NZ$	JPY	AU$
Total assets	745.4	30.9	40.6	38.8	-	-	5.2
Total liabilities	(549.8)	(21.2)	(29.7)	(26.0)	(2.8)	(338.3)	(1.4)
Net assets (net liabilities)	195.7	9.7	10.9	12.8	(2.8)	(338.3)	3.8

At 31 December 2018, the Company is committed to sell €27.5.0 for exchange of Euros and CAD$13.0 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 2018 is approximately $2.5 (2017: $1.8) given the Company's policy of minimising foreign currency mismatches on a monthly basis.

6. Insurance Risk Management

The Company is exposed to insurance risk through its underwriting activities. Insurance risk includes the risks that a policy will be written for too low a premium or provide inappropriate cover (underwriting risk), that the frequency or severity of insured events will be higher than expected (claims risk), or that estimates of claims subsequently prove to be insufficient (reserving risk). The Board sets the Company's overall risk appetite for insurance and catastrophe risk with specific parameters for risk set out in the approved annual business plan. Management of insurance risk on an operational basis is the responsibility of the Chief Underwriting Officer of Advent Underwriting Limited (AUL).

The Company manages 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 Company's 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 is written in the United States and no business is 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 are written on an excess or limited conditions basis with the objective of avoiding exposure to attritional losses.

ADVENT CAPITAL (No.3) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

6. Insurance Risk Management (continued)

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

d) The Property segment consists 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 biding 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 transaction 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 2018	Consumer Products	Speciality	Property	Reinsurance	Discontinued	Affiliate Reinsurance & Other	Total
	$	$	$	$	$	$	$
Gross premiums written	103.3	42.9	65.5	36.4	(0.7)	-	247.4
Net premiums written	70.8	35.8	52.0	25.3	(0.8)	(95.0)	88.2
Net premiums earned	68.9	41.4	48.9	30.0	(0.7)	(78.2)	110.2
Net claims incurred	(44.1)	(38.2)	(44.0)	(5.6)	0.4	78.7	(52.8)
Acquisition costs	(18.3)	(10.9)	(15.0)	(4.7)	0.2	1.9	(46.7)
Operating expenses	(12.1)	(10.6)	(7.6)	(6.8)	(0.0)	1.0	(36.2)
Underwriting profit (loss)	**(5.6)**	**(18.3)**	**(17.7)**	**12.9**	**(0.1)**	**3.4**	**(25.6)**
Claims ratio	64.0%	92.2%	90.1%	18.8%	-	-	47.9%
Acquisition cost ratio	26.5%	26.3%	30.7%	15.8%	-	-	42.4%
Operating cost ratio	17.6%	25.7%	15.6%	22.8%	-	-	32.9%
Combined ratio	**108.1%**	**144.2%**	**136.4%**	**57.3%**	**-**	**-**	**123.2%**
Balance sheet accounts							
Reinsurers' share of outstanding claims	15.9	3.9	46.0	10.6	3.9	70.3	150.6
Reinsurers' share of unearned premium	16.8	3.2	4.4	1.9	0.0	17.7	44.0

Deferred acquisition costs	13.2	3.9	6.4	2.6	0.0	0.0	26.1
Other assets	-	-	-	-	-	456.1	456.1
Total assets	**45.9**	**11.0**	**56.8**	**15.1**	**3.9**	**544.1**	**676.8**
Outstanding claims	(21.8)	(68.9)	(80.0)	(183.2)	(8.2)	-	(362.1)
Unearned premium	(45.3)	(13.9)	(24.4)	(14.6)	(0.0)	-	(98.2)
RI deferred acquisition costs	(5.6)	(0.5)	(0.1)	(0.4)	0.0	(3.6)	(10.1)
Other liabilities	-	-	-	-	-	(206.3)	(206.3)
Total liabilities	**(72.7)**	**(83.3)**	**(104.5)**	**(198.2)**	**(8.2)**	**(209.9)**	**(676.8)**

NOTES TO THE FINANCIAL STATEMENTS (Continued)

6. Insurance Risk Management (continued)

31 December 2017	**Consumer Products**	**Speciality**	**Property**	**Reinsurance**	**Discontinued**	**Affiliate Reinsurance & Other**	**Total**
	$	**$**	**$**	**$**	**$**	**$**	**$**
Gross premiums written	115.8	50.6	54.5	49.6	0.7	-	271.2
Net premiums written	65.2	39.8	36.2	43.1	0.1	-	184.4
Net premiums earned	60.6	42.6	38.0	43.6	0.5	-	185.3
Net claims incurred	(43.3)	(40.3)	(49.7)	(20.5)	4.0	-	(149.8)
Acquisition costs	(15.6)	(11.6)	(13.1)	(4.4)	(0.1)	-	(44.8)
Operating expenses	(11.4)	(12.3)	(9.4)	(6.0)	0.2	-	(38.9)
Underwriting profit (loss)	(9.7)	(21.6)	(34.2)	12.7	4.6	-	(48.2)
Claims ratio	71.5%	94.6%	130.8%	47.0%	-	-	80.8%
Acquisition cost ratio	25.7%	27.2%	34.5%	10.1%	-	-	24.2%
Operating cost ratio	18.8%	28.9%	24.7%	13.8%	-	-	20.9%
Combined ratio	**116.0%**	**150.7%**	**190.0%**	**70.9%**	**-**	**-**	**125.9%**
Balance sheet accounts							
Reinsurers' share of outstanding claims	15.7	3.8	66.1	13.4	4.3	-	103.3
Reinsurers' share of unearned premium	22.1	3.4	5.1	0.8	0.1	-	31.5

Deferred acquisition costs	15.2	5.2	5.4	2.3	0.4	-	28.5
Other assets	-	-	-	-	-	681.7	681.7
Total assets	**53.0**	**12.4**	**76.6**	**16.5**	**4.8**	**681.7**	**845.0**
Outstanding claims	(18.8)	(71.5)	(103.2)	(189.0)	(15.4)	-	(397.9)
Unearned premium	(49.2)	(19.8)	(21.9)	(16.9)	(1.3)	-	(109.1)
RI deferred acquisition costs	(7.8)	(0.6)	-	(0.1)	-	-	(8.5)
Other liabilities	-	-	-	-	-	(329.5)	(329.5)
Total liabilities	**(75.8)**	**(91.9)**	**(125.1)**	**(206.0)**	**(16.7)**	**(329.5)**	**(845.0)**

All premiums are concluded in the United Kingdom.

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

	2018	**2017**
	$	**$**
US and Canada	110.8	177.9
UK	55.1	59.1
Other	70.8	24.1
Other EU	10.7	10.1
	247.4	**271.2**

ADVENT CAPITAL (No.3) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

6. Insurance Risk Management (continued)

ii) Catastrophe Exposure

Lloyd's defines its own set of Realistic Disaster Scenarios (RDS) events for which all syndicates must report their exposures. The Company's pre-tax exposure, before and after reinsurance, to its major RDS scenarios are set out below:

Catastrophe event	Industry Loss US$Bn	1 January 2019 Gross loss $	1 January 2019 Net loss $	1 January 2018 Gross loss $	1 January 2018 Net loss $
Florida Windstorm – Miami	131	90	12.7	99.4	22.1
Florida Windstorm – Pinellas	134	73.1	10.5	88.5	22.2
Gulf of Mexico Windstorm	111	59.9	10.0	76.5	22.3
USA North East Windstorm	81	26.3	9.5	40.5	15.4
Los Angeles Earthquake	78	88.5	19.4	99.6	34.0
European Windstorm	26	1.2	0.9	2.8	1.2
Japan Earthquake	71	2.2	1.7	6.1	5.0

As the catastrophe element of the underwriting portfolio remains Property Insurance and Binders biased, we maintain a more traditional Catastrophe excess of loss reinsurance structure for the 2018 underwriting year. When this structure expires at 31 March 2019, the Syndicate has alternative reinsurance arrangements in place to protect its exposures, including the affiliated reinsurance contracts set out in note 6 (iv) below.

The Company's approach to underwriting is governed by key principles which run throughout the underwriting units and are continuously monitored by management. Strict underwriting guidelines are adopted in terms of class of business, line size and in terms of policy periods, which are preferably limited to 12 months (plus odd time). The Company's policy is that it does not write excess of loss reinsurance contracts on an unlimited basis in any business segment.

The Company uses reinsurance, including excess of loss and quota share reinsurance, to reduce the impact of probable maximum losses following major catastrophe events to levels within the Company's risk appetite for exposure to such catastrophe losses. The reinsurance programme is determined predominantly using the Company's 1:100 and 1:250 Exceedance Probability curves as a guide to the amount of cover required along with Advent's own perception of risk for the key areas and considers number of other factors including reinsurance security, availability of reinsurers and retrocessional reinsurers, pricing, terms and conditions and commercial relationships are reviewed prior to purchase. The key catastrophe protection is validated against prior year losses and the Company's Internal capital model to assess cost, benefits and efficiency of recoveries before confirming final purchase to the broker.

Specific protections are purchased to cover the major classes written and the programme is designed to provide significant vertical cover for major losses. The Company records all of its exposures and uses RDS analysis and industry accepted third party catastrophe modelling software to monitor and analyse its peak exposures and estimated losses, based on key concentrations of risk.

6. Insurance Risk Management (continued)

iii) Claims outstanding

The movement in the Company's claims reserves for the year ended 31 December 2018 is set out below:

31 December 2018	**Provision for unearned premiums**	**Claims outstanding**	**Total**
	$	**$**	**$**
Gross			
At 1 January 2018	109.1	397.9	507.0
Exchange adjustments	-	(4.0)	(4.0)
Movements in provisions			
- Current year	(10.9)	135.9	125.0
- Prior years	-	35.2	35.2
- Paid claims	-	(202.8)	(202.8)
At 31 December 2018	**98.2**	**362.2**	**460.4**
Reinsurers' share			
At 1 January 2018	31.5	103.3	134.8
Exchange adjustments	-	(0.4)	(0.4)
Movements in provisions			
- Current year	12.5	135.5	148.0
- Prior years	-	(17.2)	(17.2)
- Paid recoveries	-	(70.6)	(70.6)
At 31 December 2018	**44.0**	**150.6**	**194.6**
Net			
At 31 December 2018	**54.2**	**211.6**	**265.8**

31 December 2017	**Provision for unearned premiums**	**Claims outstanding**	**Total**
	$	**$**	**$**
Gross			
At 1 January 2017	105.1	313.8	418.9
Exchange adjustments	-	6.4	6.4
Movements in provisions			
- Current year	4.0	160.1	164.1
- Prior years	-	97.2	97.2
- Paid claims	-	(179.6)	(179.6)
At 31 December 2017	**109.1**	**397.9**	**507.0**

Reinsurers' share			
At 1 January 2017	28.4	45.3	73.7
Exchange adjustments	-	1.5	1.5
Movements in provisions			
- Current year	3.1	71.5	74.6
- Prior years	-	35.9	35.9
- Paid recoveries	-	(50.9)	(50.9)
At 31 December 2017	**31.5**	**103.3**	**134.8**
Net			
At 31 December 2017	**77.6**	**294.6**	**372.2**

NOTES TO THE FINANCIAL STATEMENTS (Continued)

6. Insurance Risk Management (continued)

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

	2018		2017	
	Gross	Net	Gross	Net
	$	$	$	$
Notified outstanding claims	162.7	95.3	155.9	148.8
IBNR	199.5	116.3	242.0	145.8
Outstanding claims	**362.2**	**211.6**	**397.9**	**294.6**
Percentage of IBNR to notified outstanding claims	122%	122%	155%	98%

The breakdown of the gross and net claims reserves by category of claims is set out below.

	2018		2017	
	Gross	Net	Gross	Net
	$	$	$	$
Large catastrophe provisions	66.9	8.0	119.8	39.5
All other short tail provisions	144.4	91.3	123.0	100.0
Long-tail casualty provisions	150.9	112.3	155.1	155.1
Total	362.2	211.6	397.9	294.6

Large catastrophe provisions include major hurricanes and earthquakes. All other short tail provisions represent coverages where the majority of claims are expected to be reported within two years of the occurrence of the claim. Long tail provisions consist of Syndicate 780's casualty and personal accident accounts.

ADVENT CAPITAL (No.3) LIMITED

The projected pay out of the ultimate gross and net claims reserves at 31 December 2018 is as follows:

Payment within	1 year	2 years	3 years	4 years	5 years	More than 5 years
	$	$	$	$	$	$
Gross	132.6	72.5	42.1	29.4	21.4	64.1
Net	77.5	42.4	24.6	17.2	12.5	37.5

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

Unearned premiums are expected to be earned approximately 88% in 2019 and the balance in 2020.

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 2018 exchange rates for all accident years.

6. Insurance risk management (continued)

Earned gross claims

Accident year	2009 and prior	2010	2011	2012	2013	2014	2015	2016	2017	2018	Total
	$'m	$'m	$'m	$'m	$'m	$'m	$'m	$'m	$'m	$'m	$'m
At the end of accident year	2,682	223	360	128	119	113	132	152	253	201	
One year later	2,711	204	365	137	119	109	144	174	253		
Two years later	2,694	199	349	131	112	105	150	167			
Three years later	2,673	195	328	129	103	98	125				
Four years later	2,627	193	369	127	95	99					
Five years later	2,602	211	361	126	96						
Six years later	2,599	211	366	130							
Seven years later	2,678	207	349								
Eight years later	2,669	204									
Nine years later	2,621										
Estimate of cumulative claims	2,621	204	349	130	96	99	125	167	253	201	4,244
Cumulative paid claims	2,601	198	337	106	84	79	98	137	181	67	3,889
Gross claims liability *	20	5	12	24	12	20	27	30	72	133	356

Earned net claims

Accident year	2009 and prior	2010	2011	2012	2013	2014	2015	2016	2017	2018	Total
	$'m	$'m	$'m	$'m	$'m	$'m	$'m	$'m	$'m	$'m	$'m
At the end of accident year	2,043	152	233	118	109	97	108	132	151	123	
One year later	2,074	137	238	120	113	93	111	145	151		
Two years later	2,051	141	243	115	106	89	115	124			
Three years later	2,047	138	226	113	97	83	99				
Four years later	2,055	139	221	111	93	77					
Five years later	2,048	140	211	112	82						
Six years later	2,050	138	217	108							
Seven years later	2,033	134	192								
Eight years later	2,024	123									
Nine years later	1,921										
Estimate of cumulative claims	1,921	123	192	106	82	77	99	124	151	123	2,998
Cumulative paid claims	1,906	119	185	88	73	62	80	104	122	51	2,791
Net claims liability *	15	3	7	18	9	15	20	20	29	72	208

6. Insurance Risk Management (continued)

iv) Outwards reinsurance

Ceded reinsurance written:
The Company's reinsurance costs as a percentage of gross written premiums are set out below:

	2018	2017
	$	$
Gross premiums written (GPW)	247.4	271.2
Ceded reinsurance premiums (third party)	(26.8)	(27.7)
Ceded reinsurance premiums (affiliates)	(132.4)	(59.1)
Net premiums written	88.2	184.4
Third party reinsurance premiums as a percentage of GPW	10.8%	10.2%

The security of the Company's proposed and existing reinsurers is reviewed and approved by the Strategic Underwriting Risk Committee, to ensure that the outward placements are with reinsurers of an acceptable level of security. The core list of approved reinsurers currently consists of 22 (2017: 18) Lloyd's syndicates and 26 (2017: 19) reinsurance companies all of which are rated A- or higher, or where policy limits are fully collateralised.

Reinsurers are selected depending on their rating by either AM Best or Standard & Poors. No reinsurer is selected with a rating below A except in specific circumstances and with the prior approval of the Advent's Outwards Reinsurance Committee or where the policy limits are fully collateralised by acceptable security, currently US Treasury bills or equivalent funds. For the 2018 reinsurance programme, the Company's reinsurance exposure is provided by reinsurers rated as follows:

Reinsurers	Exposure $
A++	20.1
A+ Companies	40.7
A+ Lloyd's syndicates	27.3
A Companies	68.0
A- Companies	6.3
Not rated – fully collateralised limits	-
Total exposure	**162.3**

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 25% quota share reinsurance agreement of its net reserves and net unearned premium as of 1 October 2018 with Wentworth Insurance Company, an affiliated reinsurer, (Wentworth Reinsurance) pursuant to which Syndicate 780 ceded written premium of $95.0 and earned premium of $78.2. At 31 December 2018, the amount recoverable from Wentworth was $78.3.

Subsequent to year end, the Company reinsured with an affiliate on a 100% quota share basis its net provision for unearned premiums for the property binders, direct and faculty property and terrorism classes of business as of 1 April 2019 upon expiry of the Syndicate's external reinsurance program.

Reinsurance recoverable:
At 31 December 2018, the Company's reinsurance recoverable on outstanding claims amounted to $150.6 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	$	%
A+	21.7	22.9
Lloyd's	5.7	10.6
A	20.8	15.4
Not rated	4.6	19.4
Affiliates	97.9	31.7
Total	150.6	100.0

Trust funds of $4.8 are held as security for certain balances due from non-rated entities.

6. Insurance Risk Management (continued)

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.

	2018	2017
	$	$
Insurance and reinsurance premiums due	28.6	28.5
Pipeline premium	24.8	69.3
Reinsurance recoveries on paid claims	18.6	6.0
	72.0	103.8

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, $53.8 is due within one year, with the balance due after one year.

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

	2018	2017
	$	$
Fully performing	18.6	6.0
Past due	-	-
	18.6	6.0

Of the remaining debtor balances, it is expected that substantially all of the insurance and reinsurance premiums due and approximately 88% of the deferred acquisition costs will be received or expensed within one year. Other than reinsurance recoveries as noted above all of these debtors are fully performing.

vi) Sensitivity analysis

The Company is subject to Insurance risk from three sources, underwriting risk, claims risk and reserve risk.

<u>Underwriting risk:</u>

The risk that a policy will be written for too low a premium or provide inappropriate cover. The Company is exposed to general market trends around the pricing of (re) insurance, consequently premiums received for a given level of cover can vary from plan.

The table below shows the impact on the Company's result further to the general pricing environment varying by 5% and 10% compared to actual experience. This impact is assumed to result in net earned premiums increasing or decreasing in proportion to the pricing variance, whilst claims experience remains constant.

31 December 2018	-10%	-5%	Actual result	+5%	+10%
	$	$	$	$	$
Net premiums earned	99.2	104.7	110.2	115.8	121.3
Net claims incurred	(52.8)	(52.8)	(52.8)	(52.8)	(52.8)
Profit (loss) before tax	**(59.6)**	**(54.1)**	**(48.6)**	**(43.1)**	**(37.5)**
Combined ratio	**136.8%**	**129.6%**	**123.1%**	**117.2%**	**111.9%**

31 December 2017	-10%	-5%	Actual result	+5%	+10%
	$	$	$	$	$
Net premiums earned	166.7	176.0	185.3	194.5	203.8
Net claims incurred	(149.8)	(149.8)	(149.8)	(149.8)	(149.8)
Profit (loss) before tax	**(38.9)**	**(29.6)**	**(20.9)**	**(11.1)**	**(1.8)**
Combined ratio	**140.1%**	**132.7%**	**126.0%**	**120.1%**	**114.6%**

6. Insurance Risk Management (continued)

Claims risk:

The risk that the frequency or severity of insured events will be higher than expected.

The table below shows the impact on the Company' s results further to claims experience in the year varying by 5% and 10% compared to actual experience. This impact is assumed to result in net claims incurred increasing or decreasing proportionately, whilst all other balances remain constant.

31 December 2018	-10%	-5%	Actual result	+5%	+10%
	$	$	$	$	$
Net premiums earned	110.2	110.2	110.2	110.2	110.2
Net claims incurred	(47.6)	(50.2)	(52.8)	(55.5)	(58.1)
Profit (loss)	**(43.3)**	**(45.9)**	**(48.6)**	**(51.2)**	**(53.8)**
Combined ratio	**118.3%**	**120.7%**	**123.1%**	**125.5%**	**127.9%**

31 December 2017	-10%	-5%	Actual result	+5%	+10%
	$	$	$	$	$
Net premiums earned	185.3	185.3	185.3	185.3	185.3
Net claims incurred	(134.8)	(142.4)	(149.8)	(157.3)	(164.8)
Profit (loss)	**(5.4)**	**(12.9)**	**(20.9)**	**(27.8)**	**(35.3)**
Combined ratio	**118.0%**	**122.0%**	**126.0%**	**130.1%**	**134.1%**

Reserve risk:

The risk that estimates of claims subsequently prove to be insufficient.

The table below shows the impact on the Company's results further to an additional deterioration (negative) or improvement in the Company's opening net reserves of 5% and 10% compared to actual experience.

31 December 2018	-10%	-5%	Actual result	+5%	+10%
	$	$	$	$	$
Net premiums earned	110.2	110.2	110.2	110.2	110.2
Net claims incurred	(74.0)	(63.4)	(52.8)	(42.3)	(31.7)
Profit (loss)	**(69.7)**	**(59.1)**	**(48.6)**	**(38.0)**	**(27.4)**
Combined ratio	**142.3%**	**132.7%**	**123.1%**	**113.5%**	**103.9%**

31 December 2017	-10%	-5%	Actual result	+5%	+10%
	$	$	$	$	$
Net premiums earned	185.3	185.3	185.3	185.3	185.3
Net claims incurred	(176.6)	(163.2)	(149.8)	(136.4)	(122.9)
Profit (loss)	**(47.2)**	**(33.8)**	**(20.9)**	**(6.9)**	**6.5**
Combined ratio	**140.6%**	**133.3%**	**126.0%**	**118.8%**	**111.6%**

7. Financial Risk Management

i) Financial Instruments

	Market value		Cost	
	2018	**2017**	**2018**	**2017**
	$	**$**	**$**	**$**
Equities	-	112.2	-	135.7
Debt securities and other fixed income securities	126.2	315.1	124.2	306.2
Special Investment Fund (UCITS)	163.0	-	175.5	-
Other investments	0.3	0.6	0.3	22.8
Overseas deposits	9.9	11.7	9.9	11.7
Investment pools	6.1	23.2	6.1	23.3
	305.5	**462.8**	**316.0**	**499.7**

7. Financial Risk Management (continued)

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

At 31 December 2018, investments of $140.4 (2017: $135.7) were held in US situs and other regulatory deposits available for the payment of claims in those jurisdictions and are not available for the payment of other claims and obligations.

At 31 December 2018, cash and investments of $163.0 were pledged as security to Lloyd's within the Funds at Lloyd's (FAL) account (2017: Funds in Syndicate of $312.3) to support the Syndicate's underwriting activities and for uncalled losses. During the year, the Company transferred its FIS to an Unit Trust investment in FAL. As of 1 January 2019, it had made excess capital of $40.0 inter-available with RiverStone Corporate Capital Ltd (RiverStone Corporate). RiverStone Corporate will pay 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.

ii) Fair value estimation

FRS 102 requires the Company to categorise its investment portfolio in terms of the quality of the pricing information used to value the individual assets. The different levels have been defined as follows:

All short dated government debt is classified 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 Company's participation in overseas deposits is 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 and investments in convertible debentures. The Company has categorised the deflation derivatives as Level 3 due to the pricing being model derived from a single broker. The Company has categorised the convertible debentures as Level 3as they are unrated and not frequently traded.

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.

The following table presents the Company's assets that are measured at fair value, together with an analysis of when they mature.

At 31 December 2018	Total	Less than 1 year	1 to 2 years	2 to 3 years	More than 3 years
	$	$	$	$	$
Level 1					
Equities	-	-	-	-	-
Debt securities and other fixed income securities	3.9	3.9	-	-	-
Special Investment Fund (UCITS)	35.9	35.9	-	-	-
Overseas deposits	7.4	2.1	3.2	1.3	0.8
	47.2	41.9	3.2	1.3	0.8
Level 2					
Equities	-	-	-	-	-
Debt securities and other fixed income securities	122.3	2.8	111.8	-	7.7
Special Investment Fund (UCITS)	126.5	2.5	116.0	-	8.0
Derivatives	(0.3)	(0.3)	-	-	-
Overseas deposits	2.5	0.6	0.6	0.6	0.7
Holdings in collective investment schemes	6.1	-	-	-	
	257.1	5.6	228.4	0.6	16.4
Level 3					
Derivatives	0.6	0.6	-	-	-
Special Investment Fund	0.6	0.6	-	-	-
	1.2	1.2	-	-	-
	305.5	48.7	231.6	1.9	17.2

7. **Financial Risk Management (continued)**

At 31 December 2017	Total $	Less than 1 year $	1 to 2 years $	2 to 3 years $	More than 3 years $
Level 1					
Equities	66.6	-	-	-	-
Debt securities and other fixed income securities	226.9	226.9	-	-	-
Overseas deposits	4.0	3.3	0.6	0.1	-
	297.5	230.2	0.6	0.1	-
Level 2					
Equities	45.5	-	-	-	-
Debt securities and other fixed income securities	69.4	-	-	-	69.4
Overseas deposits	7.7	3.0	2.0	1.7	1.0
Holdings in collective investment schemes	20.8	-	-	-	-
	143.4	3.0	2.0	1.7	70.4
Level 3					
Deflation derivatives	0.6	-	(0.3)	-	0.9
Convertible debentures	18.8	-	-	-	18.8
Holdings in collective investment schemes	2.5	-	-	-	-
	21.9	-	(0.3)	-	19.7
	462.8	**233.2**	**2.3**	**1.8**	**89.8**

	2018 $	2017 $
Balance at 1 January	21.9	16.5
Purchase of investments	0.6	-
Sales of investments	(20.0)	-
Profit (loss) recognised in the income statement	(1.3)	5.4
Balance at 31 December	1.2	21.9

iii) **Interest rate risk**

The table below sets out the sensitivity of the Company's fixed income portfolio to unexpected changes in interest rates.

Change in Interest rates (Basis points)	$
+200	(6.0)
+100	(3.1)
-100	3.6
-200	7.6

iv) **Liquidity risk**

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

At 31 December 2018	Total $	Less than 1 year $	1 to 2 Years $	2 to 3 Years $	More than 3 years $
Derivatives	0.3	0.3	-	-	-
Claims Outstanding	362.2	132.6	114.6	50.8	64.1
Creditors	37.0	37.0	-	-	-
Other	212.6	-	-	-	212.6
	612.1	**172.9**	**114.6**	**50.8**	**276.7**

At 31 December 2017	Total $	Less than 1 year $	1 to 2 Years $	2 to 3 Years $	More than 3 years $
Derivatives	0.3	0.3	-	-	-
Claims Outstanding	397.9	165.4	123.2	48.1	61.2
Creditors	53.4	53.4	-	-	-
Other	272.0	-	-	-	272.0
	723.6	**219.1**	**123.2**	**48.1**	**333.2**

v) **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; and
- counterparty risk with respect to derivative transactions.

7. Financial Risk Management (continued)

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

At 31 December 2018	AAA $	AA $	A $	BBB $	Below BBB $	Not Rated $	Total $
Debt securities and other fixed income securities	89.9	0.0	16.0	20.2	0.0	0.0	126.1
Investment pools	0.0	0.0	0.0	0.0	0.0	6.1	6.1
Unit Trust	105.7	12.2	17.1	21.0	0.0	7.0	163.0
Overseas deposits	5.5	1.1	1.0	0.5	0.5	1.3	9.9
Other investments	0.0	0.0	0.0	0.0	0.0	0.3	0.3
Reinsurers' share of claims outstanding	-	-	146.0	-	-	4.6	150.6
Other debtors	0.0	0.0	0.0	0.0	0.0	8.6	8.6
Cash at bank, deposit institutions and in hand	11.2	13.4	15.8	0.0	0.0	0.0	40.4
Total	212.3	26.7	133.2	41.7	0.5	90.6	505.0

At 31 December 2017	AAA $	AA $	A $	BBB $	Below BBB $	Not Rated $	Total $
Debt securities and other fixed income securities	204.9	20.9	1.2	44.4	25.0	18.7	315.1
Investment pools	-	4.2	16.6	-	-	2.4	23.2
Special Investment Fund	-	-	-	-	-	-	-
Overseas deposits	5.4	1.3	1.2	1.3	0.1	2.4	11.7
Other investments	-	-	-	-	-	0.6	0.6
Reinsurers' share of claims outstanding	-	-	103.3	-	-	-	103.3
Other debtors	-	-	6	-	-	44.2	50.2
Cash at bank, deposit institutions and in hand	-	-	38.6	-	-	-	38.6
Total	210.3	26.4	166.9	45.7	25.1	68.3	542.7

Collateral is provided to the Company as security over reinsurance recoverable balances due from some reinsurers. At 31 December 2018, no collateral (2017: $5.4)was available to the Company

Debtors arising from insurance and reinsurance operations comprise premiums due from insureds and reinsureds, but not paid at 31 December 2018. The balance includes reinstatement premiums due on losses, which will be collected when the associated claims are paid.

8. Profit (loss) before tax

Profit (loss) is stated after charging:

	2018	2017
	$	$
Audit fees payable to the Company's auditors	0.2	0.3

In accordance with SI 2008/489 the Company has not disclosed the fees payable to the Company's auditors for 'Other services' as this information is included in Advent's financial statements.

9. Investment income

	2018	2017
	$	$
Investment income		
Income from financial investments	10.4	6.2
Gains on the realisation of investments	36.6	23.2
Losses on the realisation of investments	(59.5)	(4.8)
	(12.5)	24.6
Investment expenses and charges		
Investment management expenses	(0.9)	(1.6)
	(0.9)	(1.6)
Unrealised gains on investments	1.4	40.1
Unrealised losses on investments	(14.2)	(27.1)
	(12.8)	13.0
Total investment return	(26.2)	36.0

10. Net Operating Expenses

	2018	2017
	$	$
Acquisition costs	45.3	45.9
Change in deferred acquisition costs	1.8	(0.9)
Administrative expenses	35.8	38.7
	82.9	83.7

11. Employees & Directors

The Company does not have any employees. The Company is charged a single management charge by Advent based on the total actual expenses of the group companies that employ staff, which is included in net operating expenses. The specific element of the costs of employees or Directors are therefore not identified. The Executive Directors' emoluments are included in the key management emoluments as disclosed in Advent's financial statements.

12. Tax provision

	2018 $	2017 $
Tax expense included in profit and loss		
Current tax:		
Profit (loss) multiplied by standard rate of corporation tax in the UK of 19% (2017: 19.25%)	(9.2)	(4.0)
Effects of:		
Results not yet taxed	3.9	9.3
Effect of transfer pricing adjustment	(1.0)	(0.9)
Other adjustments	(2.3)	1.1
Prior years' adjustment	(5.6)	0.1
Loss carry back	5.8	-
Total current tax	**(7.6)**	**5.6**
Deferred tax:		
Origination and reversal of timing difference	(2.1)	(10.8)
Effect of tax rate change on opening balance	-	-
Prior years' adjustment	0.3	-
Total deferred tax	**(1.8)**	**(10.8)**
Tax on profit (loss)	**(9.4)**	**(5.2)**

Factors that may affect future tax charges

Deferred tax is provided on the annually accounted technical result of each underwriting YOA. A deferred tax asset is only recognised where forecasts show that the taxable loss will be utilised in the foreseeable future.

The Company incurs 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 years of account (YOA). Some US tax incurred will be irrecoverable due to the differences between UK and US tax rates and the timing of US and UK syndicate profits for tax purposes.

Deferred tax is provided on the technical account in respect of open YOA which remain undistributed at 31 December 2018, namely the 2016, 2017 and 2018 YOA. As the functional currency of the Company is US dollars, the assets/liabilities provided are based on the dollar reported value of the open YOA result. As final distribution of the relevant years of account will be determined in Sterling, the ultimate taxation liability of open YOA may therefore change as a result of valuation changes between US dollar and Sterling in the interim period.

Deferred tax has been calculated on balances expected to reverse in 2019 and 2020 at 19%, and at 17% for those expected to reverse thereafter.

13. Called up share capital

	2018 $	2017 $
Allotted and fully paid		
200,001 (2017: 200,001) Ordinary shares of $0.40 each	0.1	0.1

14. Related parties and parent Company

The immediate parent undertaking is Advent Capital (Holdings) Ltd (Advent). Advent is the parent undertaking of the smallest group of undertakings to consolidate these financial statements. The consolidated financial statements of Advent can be obtained from 2nd Floor, 2 Minster Court, Mincing Lane, London EC3R 7BB.

The ultimate parent undertaking and controlling party is Fairfax Financial Holdings Limited (Fairfax), a Company incorporated in Canada. Fairfax is the parent undertaking of the largest group of undertakings to consolidate these financial statements at 31 December 2018. The consolidated financial statements of Fairfax are available from 95 Wellington Street West, Suite 800, Toronto, Ontario, Canada, M5J 2N7.

The Company has carried out transactions with fellow subsidiaries of Fairfax during the year. Inwards reinsurance premiums from related parties are set out below.

	2018 $	2017 $
Zenith National Insurance Corp.	0.3	0.3
Brit Limited	0.1	1.1
Crum and Forster	0.3	-
Polish Re	-	0.2
Hudson Insurance Company	1.0	0.9
	1.7	2.5

Ceded outwards reinsurance premiums and related reinsurance recoveries to and from related parties are set out in the table below.

	Reinsurance Premiums		Reinsurance Recoveries	
	2018 $	2017 $	2018 $	2017 $
Wentworth Insurance Company Ltd	96.7	4.9	80.6	12.4
Polish Re	-	0.0	(0.1)	(0.7)
Odyssey Reinsurance Company	0.1	2.9	(1.9)	4.1
Allied World	1.2	-	-	-
Riverstone	-	-	(0.1)	-
Brit Limited	-	0.1	-	-
Crum and Forster	34.2	51.6	31.0	27.5
	132.4	59.5	109.5	43.3

The Company paid investment management fees to HWIC of $0.9 (2017: $1.4).