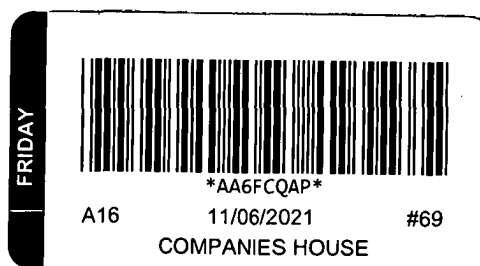


Advent Capital (No.3) Limited

Annual Report and Financial Statements

Year ended 31 December 2020



ADVENT CAPITAL (No.3) LIMITED

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ADVENT CAPITAL (No.3) LIMITED

**DIRECTORS, ADVISORS AND
AUDITORS**

Directors

T J Ambridge
A R Creed
I M Hewitt
L R Tanzer

Company Secretary

N Ewing (Resigned 11 December 2020)
N Johnson (Appointed 11 December 2020)

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

Company Registration Number

5528808

ADVENT CAPITAL (No.3) LIMITED

STRATEGIC REPORT

The Directors present their Strategic Report for the year ended 31 December 2020.

On 31 March 2020, Fairfax Financial Holdings Limited ("Fairfax") sold a 40% equity interest in its wholly owned European Run-off group to Ontario Municipal Employees Retirement System ("OMERs"), the pension plan manager for government employees in the province of Ontario. The European Run-off group includes RiverStone Corporate Capital Limited (RiverStone Corporate) and its immediate parent company RiverStone Holdings Limited. Upon completion of the transaction, OMERs and Fairfax have joint control of the European Run-off group. Accordingly, Fairfax have deconsolidated the European Run-off group and have applied the equity method of accounting for its remaining equity interest.

Advent Capital (No.3) Limited ("the Company") is a wholly owned subsidiary of Advent Capital (Holdings) LTD ("Advent" or "ACH") which is registered in England and Wales.

The ultimate parent company and controlling party is RiverStone (Barbados) Ltd ("RiverStone Barbados") which is registered in Barbados. The registered office of RiverStone Barbados is 12 Pine Commercial, The Pine, St. Michael Barbados BB11103.

Principal Activity

The Company has historically acted as the Corporate Member underwriting at Lloyd's supporting 100% of Syndicate 780's capacity on the 2018 Year of Account ("YOA"). The Company ceased underwriting on 31 December 2020 when the 2018 year of account of Syndicate 780 closed.

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

On 1 January 2019, the Managing Agency contract for Syndicate 780 ("Managing Agency Contract") novated to RiverStone Managing Agency. Also effective from 1 January 2019 the Company entered into a Funds at Lloyd's ("FAL") inter-availability agreement with RiverStone Corporate to make its excess capital available to Syndicate 3500 to enable it to acquire additional Lloyd's run-off businesses. RiverStone Corporate is paying the Company a fee for the use of its capital and has indemnified the Company from any loss arising from the use of its excess capital. On 7th December 2020, the company also entered into a loan agreement with RiverStone Corporate, under which its surplus funds have been loaned to RiverStone Corporate. RiverStone Corporate is only permitted to use these funds to support its own underwriting at Lloyd's.

Business Review

Results and Performance

For the year ended 31 December 2020, the Company had a profit before tax of \$6.7 million (2019: profit of \$62.0 million) comprising balance on technical account for general business of \$15.0 million, non-technical investment losses of \$10.9 million and other income of \$2.6 million (2019: balance on technical account for general business of \$16.6 million, non-technical investment gains of \$1.2 million, other income of \$44.2 million).

Performance Measurements

RiverStone Managing Agency has made continued progress throughout 2020 in relation to key elements of its strategy, through the continued proactive management of its existing liabilities.

The Board monitors the progress of Syndicate 780's existing run-off portfolio by reference to the reduction in gross loss reserves and reduction in reinsurance recoverables, in a timely and economic manner. Syndicate 780 gross loss reserves decreased by 27.8% and third-party reinsurance recoverables (excluding group reinsurance protection) decreased by 23.4% during 2020. The movements are in line with Board's expectations and the performance is considered to be satisfactory.

Strategy and Future Developments

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

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

ADVENT CAPITAL (No.3) LIMITED

STRATEGIC REPORT (continued)

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

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

On 5 February 2021, the Company issued 8,150,835 new \$0.40 ordinary shares to ACH in exchange for an asset value loan note.

Principal Risks and Uncertainties

The risks that Syndicate 780 were exposed to and their impact on economic capital have been assessed. This process was risk based and used Solvency II based principles to manage capital requirements and to ensure that there was sufficient financial strength and capital adequacy to support the obligations to policyholders, regulators and other stakeholders.

The principal risks faced by Syndicate 780 arose from fluctuations in the severity of claims compared with expectations, late reporting of claims, inadequate reserving and inadequate reinsurance protection (including the credit worthiness of major reinsurers). Syndicate 780's assets and liabilities were also exposed to market risk, including the impact of changes to interest rates, equity price fluctuations and adverse changes in exchange rates.

2020 has been dominated by the impact on society of the novel coronavirus, COVID-19. This disease has forced numerous economies to impose significant restrictions on free movement, with the UK requiring large numbers of workers to remain at home. Syndicate 780, RiverStone Managing Agency and RiverStone Management Limited ("RiverStone Management") have continued to perform business as usual activities efficiently and effectively despite these restrictions and will continue to remain fully operational while these conditions remain in force. Syndicate 780 does not have material insurance exposure to COVID-19 related claims and its 2020 financial results have not been meaningfully impacted by this pandemic.

Section 172(1) of the Companies Act 2006

The board of directors of Advent Capital (No.3) Limited consider, in good faith, that they have had appropriate regard to the matters set out in section 172(1)(a) to (f) when performing their duty under section 172.

Consequences of any decision in the long term – until the successful reinsurance to close of the 2018 & Prior underwriting years of Syndicate 780, the Board was focussed on ensuring that sufficient capital was available to support Syndicate 780, the management of which is performed by RiverStone Managing Agency with effect from 1 January 2019, the managing agency contract having novated from Advent Underwriting Limited. The Board considered that the novation was in the long-term best interest of the company given RiverStone Management's expertise in managing run-off liabilities. Equally, the Board considered that the decision to make the excess capital available to RiverStone Corporate under an inter-available FAL agreement was an appropriate decision while the run-off proceeds. The Board is considering the future strategy of the company now that Syndicate 780 has ceased underwriting.

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

Community and environment – the Board engages via RiverStone Managing Agency actively with RiverStone Management, the key services provider overseeing the run-off of Syndicate 780, to encourage, support and foster a positive relationship with the community and the environment. In the current year, through this engagement, the Board has supported charitable giving, infrastructure improvements to leased offices to support a reduction in our carbon footprint and the establishment of a diversity and inclusion forum. The Board note that while it has no employees that it supports RiverStone Management's policy of matching employee charitable donations and of allowing time to be available to support others in our communities.

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

Shareholder Engagement - the Board is committed to an open engagement with our shareholders and has had the opportunity to regularly meet with the directors of the immediate holding company throughout the year.

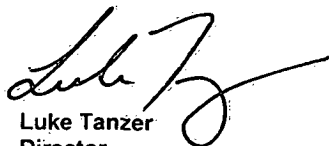
Employees – the Board acknowledges people are essential to the delivery of our strategy. While the Company has no immediate employees, the Board ensures that the interests of the employees of RiverStone Management, the services provider to RiverStone Managing Agency, are appropriately considered when taking decisions. The Board is aware through its engagement with RiverStone Managing Agency, that there exists a well-established structure at RiverStone Management through which it supports engagement regularly with its employees. During 2020 this included quarterly staff presentations including a full day off-site at

ADVENT CAPITAL (No.3) LIMITED

STRATEGIC REPORT (continued)

which relevant business speakers presented to our employees. Other activity in 2020 included technology surveys, the initiation of a diversity and inclusion forum and regular training for our employees.

Approved by the Board and signed on its behalf by:

A handwritten signature in black ink, appearing to read 'Luke Tanzer', with a stylized flourish extending from the end.

Luke Tanzer
Director
26 May 2021

ADVENT CAPITAL (No.3) LIMITED

REPORT OF THE DIRECTORS

The Directors present their report and the audited financial statements of the Company for the year ended 31 December 2020.

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 (2019: \$nil).

Political and charitable donations

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

Directors

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

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, 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.

The directors are responsible for the maintenance and integrity of the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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, will not be re-appointed and will be replaced by Deloitte LLP for the 2021 audit.

Approved by the Board and signed on its behalf by:



Luke Tanzer
Director
26 May 2021

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 2020 and of its profit 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 Balance Sheet as at 31 December 2020; the Profit and Loss Account and the Statement of Changes in Equity 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

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

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

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

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

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

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

ADVENT CAPITAL (No.3) LIMITED

With respect to the Strategic report and Report of the Directors, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

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

Strategic report and Report of the Directors

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

In light of the knowledge and understanding of the 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, 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.

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

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of UK and European regulatory principles, such as those governed by the Prudential Regulation Authority and the Financial Conduct Authority, and those regulations set by the Council of Lloyd's, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to management bias in accounting estimates and judgemental areas of the financial statements such as the valuation of claims outstanding, and posting inappropriate journal entries. Audit procedures performed included:

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

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

ADVENT CAPITAL (No.3) LIMITED

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.

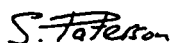
Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not obtained all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.



Stewart Paterson (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

London

27 May 2021

ADVENT CAPITAL (No.3) LIMITED
PROFIT AND LOSS ACCOUNT

For the year ended 31 December 2020

	Note	2020 \$'000	2019 \$'000
Net premiums earned			
Gross premiums written	6	8,309	44,044
Reinsurance premiums ceded		(4,085)	(34,332)
Net premiums written		4,224	9,712
Change in the provision for unearned premiums			
- gross amount		5,873	92,062
- reinsurers' share		(2,957)	(41,030)
Change in the net provision for unearned premiums		2,916	51,032
Net premiums earned		7,140	60,744
Other technical income, net of reinsurance		649	-
Allocated investment return transferred from the non-technical account		1,058	5,790
Total technical income		8,847	66,534
Claims incurred, net of reinsurance			
Claims paid			
- gross amount	6	(51,808)	(173,238)
- reinsurers' share	6	32,451	83,184
Net claims paid		(19,357)	(90,054)
Change in the provision for claims			
- gross amount	6	70,140	113,300
- reinsurers' share	6	(38,798)	(47,838)
Change in the net provision for claims		31,342	65,462
Claims incurred, net of reinsurance		11,985	(24,592)
Net operating expenses	10	(5,788)	(25,287)
Total technical charges		6,197	(49,879)
Balance on the technical account for general business		15,044	16,655

The Notes on pages 14 to 33 are an integral part of these financial statements.

ADVENT CAPITAL (No.3) LIMITED

PROFIT AND LOSS ACCOUNT (Continued)
For the year ended 31 December 2020

	Note	2020	2019
		\$'000	Restated \$'000
Balance on the technical account for general business		15,044	16,655
Non-Technical account			
Investment Income ⁽¹⁾	9	3,588	5,174
Unrealised gains on investments	9	1,083	8,963
Unrealised losses on investments	9	(12,267)	(521)
Investment expenses and charges ⁽¹⁾	9	(2,281)	(6,654)
Allocated investment return transferred to the general business technical account		(1,058)	(5,790)
Other income	11	2,590	44,208
Profit before tax		6,699	62,035
Tax provision	13	(5,792)	(1,297)
Profit for the year		907	60,738
Accumulated losses at 1 January		(113,600)	(174,338)
Accumulated losses at 31 December		(112,693)	(113,600)

(1) The prior year figures have been restated due to a presentation error which is explained in note 9.

The income and expenses all relate to continuing operations.


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

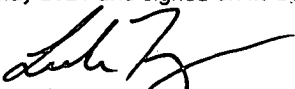
The Notes on pages 14 to 33 are an integral part of these financial statements.

ADVENT CAPITAL (No.3) LIMITED
BALANCE SHEET
As at 31 December 2020

	Note	2020 \$'000	2019 \$'000
Assets			
Financial investments	7	228,465	221,328
Reinsurers' share of technical provisions			
Provision for unearned premiums	6	-	2,957
Outstanding claims	6	64,951	102,935
		64,951	105,892
Debtors			
Debtors arising out of direct insurance operations	6	508	4,415
Debtors arising out of reinsurance operations	6	12,128	18,713
Deferred taxation	13	1,742	8,812
Current taxation	13	1,293	11,188
Other assets	7	23,445	769
		39,116	43,897
Cash and equivalents		29,435	78,200
Prepayments and accrued income			
Accrued interest		86	487
Deferred acquisition costs	6	-	1,460
Total Assets		362,053	451,264
Liabilities and reserves			
Capital and reserves			
Called up share capital	15	80	80
Share premium account		131,400	131,400
Accumulated losses		(112,693)	(113,600)
Total shareholder's funds		18,787	17,880
Technical provisions			
Provision for unearned premiums	6	-	5,985
Outstanding claims	6	180,641	250,154
		180,641	256,139
Creditors			
Creditors arising out of (re)insurance operations		2,138	14,431
Amounts owed to group undertakings		136,745	158,103
Other creditors	14	23,742	2,434
		162,625	174,968
Accruals and deferred income		-	2,277
Total liabilities and Total Shareholder's funds		362,053	451,264

The financial statements on pages 10 to 33 were approved by the Board of Directors on 26 May 2021 and signed on its behalf by:


A R Creed Director


L R Tanzer Director

Company Registration Number: 5528808

The Notes on pages 14 to 33 are an integral part of these financial statements.

ADVENT CAPITAL (No.3) LIMITED**STATEMENT OF CHANGES IN EQUITY**
For the year ended 31 December 2020

	Ordinary share capital \$'000	Share Premium \$'000	Accumulated deficit \$'000	Total \$'000
Balance, 1 January 2019	80	131,400	(174,338)	(42,858)
Profit for the year	-	-	60,738	60,738
Balance, 31 December 2019	80	131,400	(113,600)	17,880
Profit for the year	-	-	907	1,363
Balance, 31 December 2020	80	131,400	(112,693)	19,243

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

The notes on pages 14 to 33 form an integral part of these financial statements.

ADVENT CAPITAL (No.3) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1. General Information

The Company participated 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 on 1 January 2019. The Company is a private company limited by shares and is incorporated in England. The Company registration number is 5528808. The address of its registered office is 2nd Floor, 2 Minster Court, London, EC3R 7BB.

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

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

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

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

(b) Going concern

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

(c) 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

The financial statements are presented in United States Dollars and, unless otherwise stated, are rounded to thousands. Items included in the Company's financial statements are measured using the currency of the primary economic environment in which it operates. The Company's functional currency is the United States Dollar.

ADVENT CAPITAL (No.3) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

3. Summary of significant accounting policies (continued)

(d) Foreign currency (continued)

(ii) Transactions and balances (continued)

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

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

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

(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.

ADVENT CAPITAL (No.3) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

3. Summary of significant accounting policies (continued)

(f) Investment return (continued)

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.

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.

ADVENT CAPITAL (No.3) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

3. Summary of significant accounting policies (continued)

(j) Cash and cash equivalents

Cash and cash equivalents include 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

The Company has chosen to apply the recognition and measurement provisions of IAS 39 (as adopted for use in the EU) and the disclosure requirements of FRS 102 in respect of the financial statements. The Company classifies all its investments as financial assets at fair value through profit and loss. Management determines the classification of its investments at initial recognition and re-evaluates this at every reporting date.

i) *Financial assets*

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

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

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

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

The Company discloses its investments in accordance with a fair value hierarchy with the following levels:

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

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.

ADVENT CAPITAL (No.3) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

3. Summary of significant accounting policies (continued)

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

i) Claims reserves

The establishment of claims reserves represents the area of greatest uncertainty in preparing 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.

ADVENT CAPITAL (No.3) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

4. Critical accounting judgements and estimation uncertainty (continued)

i) *Claims reserves (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. 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 Consortium Relief with other UK affiliates 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.

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

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

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

ADVENT CAPITAL (No.3) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

5. Foreign exchange risk management (continued)

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

	2020		2019	
	\$'000	%	\$'000	%
US dollar	6,976	84.0	25,664	58.3
£ sterling	347	4.2	6,631	15.0
Australian dollar	1,059	12.7	2,801	6.4
Canadian dollar	397	4.8	3,858	8.8
Euro	(470)	(5.7)	5,090	11.6
	<u>8,309</u>	<u>100.0</u>	<u>44,044</u>	<u>100.0</u>

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

31 December 2020	US\$	£	CAD\$	€	AU\$
Total assets / (liabilities)	199,654	10,584	20,259	3,908	5,639
Total liabilities	(145,455)	(14,329)	(7,342)	(4,562)	(1,529)
Net assets (net liabilities)	<u>54,199</u>	<u>(3,745)</u>	<u>12,917</u>	<u>(654)</u>	<u>4,110</u>

31 December 2019	US\$	£	CAD\$	€	AU\$
Total assets / (liabilities)	221,393	(4,100)	24,783	(6,404)	16,753
Total liabilities	(173,885)	(20,487)	(14,146)	(7,675)	(4,195)
Net assets (net liabilities)	<u>47,508</u>	<u>(24,587)</u>	<u>10,637</u>	<u>(14,079)</u>	<u>12,558</u>

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

The effect on profit before tax of a 5% increase or decrease in the closing exchange rates on the foreign currency balance sheet at 31 December 2020 is approximately \$(0.4) million (2019: \$1.6 million) given the Company's policy of minimising foreign currency mismatches on a quarterly basis.

6. Insurance Risk Management

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

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

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be materially affected by a change in any subset of the portfolio. The Company has a diversified portfolio of insurance risks.

The Company mitigates insurance risk through the use of reinsurance, both in the form of third-party reinsurance associated with the business originally written and reinsurance with affiliated reinsurers

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

- The Reinsurance segment consisted of the Company's property and casualty treaty reinsurance classes. The casualty treaty class provided excess of loss coverage for general casualty classes such as auto liability, medical malpractice, workers compensation and associated exposures, with an emphasis on clash business. The majority of the account was written in the United States and no business was written on an unlimited basis. The property treaty class offered 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.
- The Specialty segment included 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

ADVENT CAPITAL (No.3) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

6. Insurance Risk Management (continued)

insurance. Most risks were written on an excess or limited conditions basis with the objective of avoiding exposure to attritional losses.

- c) The Consumer Products segment consisted of the accident & health (A&H) insurance and bespoke products classes. The A&H account provided a wide range of medical and accident coverage, primarily through binding authorities, whilst the bespoke products class offered a wide-ranging portfolio from trucking physical damage to credit card enhancement schemes.
- d) The Property segment consisted of the Property D&F and Property Binders classes and includes commercial property, personal lines and commercial automobile physical damage insurance written in the open market and through bidding authorities on both a lead and following basis, either through underwriting facilities or on an individual risk basis.
- e) The Discontinued segment included 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 2020	Consumer Products	Speciality	Property	Reinsurance	Discontinued	Affiliate Reinsurance & Other	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Gross premiums written	1,674	3,203	2,530	1,090	(188)	-	8,309
Net premiums written	1,105	2,714	2,421	752	(188)	(2,580)	4,224
Net premiums earned	3,982	2,948	3,925	1,791	(188)	(5,318)	7,140
Net claims incurred	(6,045)	720	(2,181)	20,531	1,016	(2,056)	11,985
Acquisition (costs) / income	(1,110)	(932)	(1,104)	(279)	-	1,333	(2,092)
Operating (expenses) / income	(1,762)	(1,338)	(1,720)	(785)	-	1,910	(3,695)
Underwriting (loss) / profit	(4,935)	1,398	(1,080)	21,258	828	(4,131)	13,338
Claims ratio	151.8%	(24.4%)	55.6%	(1146.5%)	-	-	(167.9%)
Acquisition cost ratio	27.8%	31.6%	28.1%	15.6%	-	-	29.3%
Operating cost ratio	44.2%	45.4%	43.8%	43.8%	-	-	51.8%
Combined ratio	223.8%	52.6%	127.5%	(1087.1%)	-	-	(86.8%)
Balance sheet accounts							
Reinsurers' share of outstanding claims	1,839	1,756	8,921	4,953	3,579	43,903	64,951
Reinsurers' share of unearned premium	-	-	-	-	-	-	-
Deferred acquisition costs	-	-	-	-	-	-	-
Other assets	-	-	-	-	-	297,557	297,557
Total assets	1,839	1,756	8,921	4,953	3,579	341,460	362,508
Outstanding claims	(5,640)	(27,220)	(20,078)	(120,092)	(7,611)	-	(180,641)
Unearned premium	-	-	-	-	-	-	-
RI deferred acquisition costs	-	-	-	-	-	-	-
Other liabilities	-	-	-	-	-	(181,867)	(181,867)
Total liabilities	(5,640)	(27,220)	(20,078)	(120,092)	(7,611)	(181,867)	(362,508)

ADVENT CAPITAL (No.3) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

6. Insurance Risk Management (continued)

i) Segmental analysis (continued)

31 December 2019	Consumer Products	Speciality	Property	Reinsurance	Discontinued	Affiliate Reinsurance & Other	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Gross premiums written	20,993	8,768	13,944	277	62	-	44,044
Net premiums written	19,859	7,900	12,242	(767)	(177)	(29,345)	9,712
Net premiums earned	45,373	18,038	30,280	10,542	(177)	(43,312)	60,744
Net claims incurred	(31,066)	5,074	(13,527)	(2,171)	(1,043)	18,141	(24,592)
Acquisition (costs) / income	(11,249)	(5,495)	(10,385)	(1,544)	3	10,641	(18,029)
Operating (expenses) / income	(4,456)	(1,689)	(2,881)	(1,011)	-	2,779	(7,258)
Underwriting (loss) / profit	(1,398)	15,928	3,487	5,816	(1,217)	(11,751)	10,865
Claims ratio	68.5%	(28.3%)	44.6%	21.0%	-	-	40.5%
Acquisition cost ratio	24.7%	30.6%	34.3%	14.3%	-	-	29.7%
Operating cost ratio	9.9%	9.4%	9.6%	9.5%	-	-	12.0%
Combined ratio	103.1%	11.7%	88.5%	44.8%	-	-	82.2%
Balance sheet accounts							
Reinsurers' share of outstanding claims	5,944	2,127	29,464	5,519	4,111	55,770	102,935
Reinsurers' share of unearned premium	150	-	41	-	-	2,766	2,957
Deferred acquisition costs	736	79	494	151	-	-	1,460
Other assets	-	-	-	-	-	343,912	343,912
Total assets	6,830	2,206	29,999	5,670	4,111	402,448	451,264
Outstanding claims	(4,482)	(35,496)	(41,828)	(159,184)	(9,164)	-	(250,154)
Unearned premium	(3,058)	(253)	(1,632)	(1,042)	-	-	(5,985)
RI deferred acquisition costs	(366)	-	-	-	-	(769)	(1,135)
Other liabilities	-	-	-	-	-	(193,990)	(193,990)
Total liabilities	(7,906)	(35,749)	(43,460)	(160,226)	(9,164)	(194,759)	(451,264)

All premiums are concluded in the United Kingdom.

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

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

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

ADVENT CAPITAL (No.3) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

6. Insurance Risk Management (continued)

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

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

ii) Outstanding claims

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

31 December 2020	Provision for unearned premiums	Outstanding claims	Total
	\$'000	\$'000	\$'000
Gross			
At 1 January 2020	5,985	250,154	256,139
Exchange adjustments	(112)	627	515
Movements in provisions			
- Current year	(5,873)	3,269	(2,604)
- Prior years	-	(21,601)	(21,601)
- Paid claims	-	(51,808)	(51,808)
At 31 December 2020	-	180,641	180,641
Reinsurers' share			
At 1 January 2020	2,957	102,935	105,892
Exchange adjustments	-	414	414
Movements in provisions			
- Current year	(2,957)	761	(2,196)
- Prior years	-	(6,708)	(6,708)
- Paid recoveries	-	(32,451)	(32,451)
At 31 December 2020	-	64,951	64,951
Net			
At 31 December 2020	-	115,690	115,690

31 December 2019	Provision for unearned premiums	Outstanding claims	Total
	\$'000	\$'000	\$'000
Gross			
At 1 January 2019	98,185	362,151	460,336
Exchange adjustments	(138)	1,314	1,176
Movements in provisions			
- Current year	(92,062)	60,156	(31,906)
- Prior years	-	(229)	(229)
- Paid claims	-	(173,238)	(173,238)
At 31 December 2019	5,985	250,154	256,139
Reinsurers' share			
At 1 January 2019	43,986	150,620	194,606
Exchange adjustments	1	149	150
Movements in provisions			
- Current year	(41,030)	25,143	(15,887)
- Prior years	-	10,207	10,207
- Paid recoveries	-	(83,184)	(83,184)
At 31 December 2019	2,957	102,935	105,892
Net			
At 31 December 2019	3,028	147,219	150,247

ADVENT CAPITAL (No.3) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

6. Insurance Risk Management (continued)

ii) Outstanding claims (continued)

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

	2020		2019	
	Gross \$'000	Net \$'000	Gross \$'000	Net \$'000
Notified outstanding claims	102,203	64,432	118,878	67,578
IBNR	78,438	51,258	131,276	79,641
Outstanding claims	180,641	115,690	250,154	147,219
Percentage of IBNR to notified outstanding claims	76.7%	79.6%	110.4%	117.9%

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

	2020		2019	
	Gross \$'000	Net \$'000	Gross \$'000	Net \$'000
Property Binder	21,430	5,497	42,983	6,676
Accident and Health	1,838	-	(540)	(5,434)
Casualty	62,882	46,222	85,627	64,164
Marine	18,868	12,938	23,598	16,387
Terrorism	1,487	932	2,671	1,387
Other Liability	15,842	11,645	21,771	16,317
Property Reinsurance	15,030	6,041	20,018	7,129
Casualty Treaty	28,095	21,043	34,643	25,752
Other	15,169	11,372	19,383	14,841
Total technical provisions	180,641	115,690	250,154	147,219

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

Payment within	1 year \$'000	Between 1 and 2 years \$'000	Between 2 and 5 years \$'000	More than 5 years \$'000
Gross	53,344	59,236	39,639	28,422
Net	31,164	37,937	25,386	21,203

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

All premium was earned in 2020, therefore there is no unearned premium to earn beyond 31 December 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 2020 exchange rates for all accident years.

ADVENT CAPITAL (No.3) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

6. Insurance Risk Management (continued)

Earned gross claims

Accident year	2010 and prior \$'000	2011 \$'000	2012 \$'000	2013 \$'000	2014 \$'000	2015 \$'000	2016 \$'000	2017 \$'000	2018 \$'000	2019 \$'000	2020 \$'000	Total \$'000
At the end of accident year	2,905,000	360,000	128,000	119,443	112,918	132,437	152,266	252,736	200,818	60,066	6,781	
One year later	2,915,000	365,000	136,673	119,078	109,264	143,864	174,471	253,417	204,493	49,043		
Two years later	2,893,000	349,234	131,292	111,850	105,416	149,884	166,860	255,207	207,151			
Three years later	2,867,931	327,676	128,983	102,554	97,535	124,730	169,598	261,540				
Four years later	2,820,121	369,451	126,914	95,448	98,621	125,978	162,299					
Five years later	2,813,173	361,418	126,426	95,879	95,291	123,295						
Six years later	2,810,240	366,145	130,166	95,086	95,584							
Seven years later	2,885,158	348,754	129,626	88,780								
Eight years later	2,872,882	355,691	135,657									
Nine years later	2,831,123	354,049										
Ten Years later	2,836,639											
Estimate of cumulative claims	2,836,639	354,049	135,657	88,780	95,584	123,295	162,299	261,540	207,151	49,043	6,781	4,320,828
Cumulative paid claims	2,824,570	346,187	117,990	83,052	84,526	109,602	144,965	233,680	162,253	29,858	3,503	4,140,186
Gross claims liability	12,069	7,862	17,667	5,738	11,058	13,693	17,334	27,850	44,898	19,186	3,279	180,641

Earned net claims

Accident year	2010 and prior \$'000	2011 \$'000	2012 \$'000	2013 \$'000	2014 \$'000	2015 \$'000	2016 \$'000	2017 \$'000	2018 \$'000	2019 \$'000	2020 \$'000	Total \$'000
At the end of accident year	2,184,961	232,615	117,974	117,074	96,681	107,776	131,558	151,247	123,306	50,163	6,781	
One year later	2,211,017	237,926	120,008	120,008	92,610	111,185	145,358	151,108	143,174	39,066		
Two years later	2,182,766	243,237	114,923	114,923	89,318	115,056	123,630	162,228	136,672			
Three years later	2,185,536	226,242	112,889	112,889	82,648	99,289	132,525	167,884				
Four years later	2,194,603	220,931	110,654	110,654	77,178	107,172	124,948					
Five years later	2,188,561	211,365	111,761	111,761	78,972	104,348						
Six years later	2,188,425	216,903	106,458	106,458	78,142							
Seven years later	2,167,608	192,037	111,602	77,880								
Eight years later	2,146,420	199,118	117,498									
Nine years later	2,047,856	196,303										
Ten Years later	2,050,502											
Estimate of cumulative claims	2,050,502	196,303	117,498	77,880	79,142	104,348	124,948	167,884	136,672	39,066	6,781	3,101,005
Cumulative paid claims	2,045,388	192,414	99,971	72,231	68,195	90,964	109,402	158,466	124,397	22,385	3,503	2,985,315
Net claims liability	5,114	3,889	17,527	5,649	10,948	13,385	15,546	11,398	12,275	16,681	3,279	115,690

ADVENT CAPITAL (No.3) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

6. Insurance Risk Management (continued)

iii) Reinsurance Recoverable

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

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

Trust funds of \$1.5 million are held as security for certain balances due from non-rated entities.

The Company reviews amounts due from reinsurers on paid losses, amounts recoverable from reinsurers on outstanding losses and amounts in dispute to determine if a provision for bad debts is required. The Company's policy is to provide for reinsurer bad debts in situations where it does not expect to collect the full amount outstanding due to the financial position of the reinsurer or due to disputes over coverage.

The Company entered a 100% quota share reinsurance agreement of its net unearned premium on the Property Binder, Property Insurance and Terrorism classes of business as of 31 March 2019 with Brit Re (Bermuda), an affiliated reinsurer. At 31 December 2020, the amount recoverable from Brit Re (Bermuda) was \$5.3 million.

iv) Debtors arising from insurance and reinsurance operations

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

	2020	2019
	\$'000	\$'000
Insurance and reinsurance premiums due	508	1,308
Pipeline premium	8,189	5,934
Reinsurance recoveries on paid claims	3,939	15,886
	<u>12,636</u>	<u>23,128</u>

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

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

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

	2020	2019
	\$'000	\$'000
Fully performing	3,544	15,886
Past due	395	-
	<u>3,939</u>	<u>15,886</u>

Other than reinsurance recoveries as noted above all of these debtors are fully performing.

ADVENT CAPITAL (No.3) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

7. Financial Risk Management

i) Financial Instruments

	Market value		Cost	
	2020	2019	2020	2019
	\$'000	\$'000	\$'000	\$'000
Debt securities and other fixed income securities	161,050	139,600	156,747	133,218
Equity Fund	59,849	71,342	78,771	78,771
Other investments	653	363	259	559
Overseas deposits	6,913	10,023	6,913	10,023
	228,465	221,328	242,690	222,571

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

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

At 31 December 2020, cash and investments of \$114.4 million were pledged as security to Lloyd's within the Funds at Lloyd's (FAL) account (2019: FAL of \$103.6 million) to support the Syndicate's underwriting activities and for uncalled losses. At 31 December 2020, the Company had made excess capital of \$106.1 million (2019: \$46.4 million) inter-available with RiverStone Corporate. RiverStone Corporate pays the Company a fee for its use of the Company's excess capital and has indemnified the Company from loss from its use of the excess capital.

OTHER ASSETS

	2020	2019
	\$'000	\$'000
Other assets at cost and fair value comprise:		
Prepayments	551	310
Coupon Income	191	-
Receivable for closed FX trades	94	-
LCA Debtors	-	321
Federal Income Tax	94	-
Receivable for securities sold	21,850	11
Other	665	127
	23,445	769

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 element of the QAIF 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. The Company has categorised the deflation derivatives as Level 3 due to the pricing being model derived from a single broker.

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

ADVENT CAPITAL (No.3) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

7. Financial Risk Management (continued)

ii) Fair value estimation (continued)

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 2020		Less than 1 year	1 to 2 years	2 to 3 years	More than 3 years	No Maturity
	Total \$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Level 1						
Debt securities and other fixed income securities	133,379	133,379	-	-	-	-
Equity Fund	60,490	1,965	-	-	-	58,525
Overseas deposits	2,255	1,465	790	-	-	-
	<u>196,124</u>	<u>136,809</u>	<u>790</u>	<u>-</u>	<u>-</u>	<u>58,795</u>
Level 2						
Debt securities and other fixed income securities	27,671	15,972	-	-	11,699	-
Equity Fund	(641)	(641)	-	-	-	-
Derivatives	641	641	-	-	-	-
Overseas deposits	4,658	-	1,820	1,053	1,785	-
	<u>32,329</u>	<u>15,972</u>	<u>1,820</u>	<u>1,053</u>	<u>13,484</u>	<u>-</u>
Level 3						
Derivatives	12	12	-	-	-	-
Equity Fund	-	-	-	-	-	-
	<u>12</u>	<u>12</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>228,465</u>	<u>152,793</u>	<u>2,610</u>	<u>1,053</u>	<u>13,484</u>	<u>58,525</u>

At 31 December 2019		Less than 1 year	1 to 2 years	2 to 3 years	More than 3 years	No Maturity
	Total \$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Level 1						
Debt securities and other fixed income securities	41,957	41,957	-	-	-	-
Equity Fund	70,387	70,387	-	-	-	-
Overseas deposits	2,284	1,087	900	297	-	-
	<u>114,628</u>	<u>113,431</u>	<u>900</u>	<u>297</u>	<u>-</u>	<u>-</u>
Level 2						
Debt securities and other fixed income securities	97,643	86,774	487	-	10,382	-
Equity Fund	1,012	1,012	-	-	-	-
Derivatives	279	279	-	-	-	-
Overseas deposits	7,739	1,576	2,542	1,989	1,632	-
	<u>106,673</u>	<u>89,641</u>	<u>3,029</u>	<u>1,989</u>	<u>12,014</u>	<u>-</u>
Level 3						
Derivatives	84	84	-	-	-	-
Equity Fund	(57)	(57)	-	-	-	-
	<u>27</u>	<u>27</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>221,328</u>	<u>203,099</u>	<u>3,929</u>	<u>2,286</u>	<u>12,014</u>	<u>-</u>

Level 3 investment movements are summarised as follows:

	2020	2019
	\$'000	\$'000
Balance at 1 January	27	1,196
Sales of investments	-	(666)
Loss recognised in the income statement	(15)	(503)
Balance at 31 December	<u>12</u>	<u>27</u>

ADVENT CAPITAL (No.3) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

7. Financial Risk Management (continued)

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)	\$'000
+200	(3,555)
+100	(1,918)
-100	2,408
-200	5,258

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 2020	Total \$'000	Less than 1 year \$'000	1 to 2 Years \$'000	2 to 3 Years \$'000	More than 3 years \$'000
Derivatives	653	653	-	-	-
Outstanding Claims	180,641	53,344	59,236	39,639	28,422
Creditors	25,879	24,373	701	469	336
Other	136,745	-	-	-	136,745
	343,918	78,370	59,937	40,108	165,503

At 31 December 2019	Total \$'000	Less than 1 year \$'000	1 to 2 Years \$'000	2 to 3 Years \$'000	More than 3 years \$'000
Derivatives	567	567	-	-	-
Outstanding Claims	250,154	88,052	42,788	28,392	90,922
Creditors	16,298	13,898	695	385	1,320
Other	158,103	-	-	-	158,103
	425,122	102,517	43,483	28,777	250,345

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:

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

ADVENT CAPITAL (No.3) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

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 2020

	AAA \$'000	AA \$'000	A \$'000	BBB \$'000	Below BBB \$'000	Not Rated \$'000	Total \$'000
Debt securities and other fixed income securities	144,993	4,209	149	11,699	-	-	161,050
Equity Fund	-	1,965	-	-	-	57,884	59,849
Overseas deposits	2,648	535	611	436	1,218	1,465	6,913
Other investments	-	653	-	-	-	-	653
Reinsurers' share of outstanding claims	-	-	62,600	892	-	1,459	64,951
Other debtors	-	-	-	-	-	39,657	39,657
Cash at bank, deposit institutions and in hand	-	1,159	28,276	-	-	-	29,435
Total	147,641	8,521	91,636	13,027	1,218	100,465	362,508

At 31 December 2019

	AAA \$'000	AA \$'000	A \$'000	BBB \$'000	Below BBB \$'000	Not Rated \$'000	Total \$'000
Debt securities and other fixed income securities	106,613	-	9,912	23,075	-	-	139,600
Equity Fund	-	1,360	-	-	-	69,982	71,342
Overseas deposits	5,804	1,089	1,141	540	257	1,192	10,023
Other investments	-	-	-	-	-	363	363
Reinsurers' share of outstanding claims	-	-	100,661	-	-	2,274	102,935
Other debtors	-	-	-	-	-	48,801	48,801
Cash at bank, deposit institutions and in hand	20,000	3,539	54,661	-	-	-	78,200
Total	132,417	5,988	166,375	23,615	257	122,612	451,264

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

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

8. Profit before tax

Profit is stated after charging:

	2020 \$'000	2019 \$'000
Audit fees payable to the Company's auditors	20	19

ADVENT CAPITAL (No.3) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

9. Investment income

	2020	2019
	\$'000	Restated \$'000
Investment Income ⁽¹⁾		
Income from financial investments	3,392	4,881
Gains on the realisation of investments	196	293
	<u>3,588</u>	<u>5,174</u>
Investment expenses and charges ⁽¹⁾		
Losses on the realisation of investments	(1,731)	(6,333)
Investment management expenses	(550)	(321)
	<u>(2,281)</u>	<u>(6,654)</u>
Unrealised gains on investments	1,083	8,963
Unrealised losses on investments	(12,267)	(521)
	<u>(11,184)</u>	<u>8,442</u>
Total investment return	<u>(9,877)</u>	<u>6,962</u>

(1) The prior year figures have been restated due to a presentation error. Losses on realisation of investments were presented in investment income rather than investment expenses and charges.

10. Net Operating Expenses

	2020	2019
	\$'000	\$'000
Acquisition costs	1,475	2,853
Change in deferred acquisition costs	617	15,176
Administrative expenses	3,696	7,258
	<u>5,788</u>	<u>25,287</u>

11. Other Income

	2020	2019
	\$'000	\$'000
FAL fee from RiverStone Corporate	1,571	3,698
Write off payable due to ACH	-	43,000
Profit /(loss) on exchange	1,019	(2,490)
	<u>2,590</u>	<u>44,208</u>

12. Employees & Directors

The Company does not have any employees (2019: nil).

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

ADVENT CAPITAL (No.3) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

13. Tax provision

	2020	2019
	\$'000	\$'000
Tax expense included in profit and loss		
Current tax:		
Profit multiplied by		
standard rate of corporation tax in the UK		
of 19% (2018: 19%)	1,272	3,599
Effects of:		
Results not yet taxed	(3,236)	(3,002)
Effect of transfer pricing adjustment	(852)	(1,110)
Other adjustments	1,250	(5,426)
Prior years' adjustment	694	(2,999)
Write off US Tax	-	1,199
Total current tax	(872)	(7,739)
Deferred tax:		
Origination and reversal of timing difference	8,383	9,036
Effect of tax rate change on opening balance	(1,110)	-
Prior years' adjustment	(609)	-
Total deferred tax	6,664	9,036
Tax on profit	5,792	1,297

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.

During the year US Tax of \$0.1 million (2019: \$1.1 million) was received as a repayment from the US Tax authorities, subsequent to this \$nil (2019: \$1.2 million) of US Tax was written off due to the reassessment of the amount recoverable from the US Tax authorities.

Deferred tax is provided on the technical account in respect of open YOA which remain undistributed at 31 December 2020, namely the 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.

The government announced on 16 March 2016 as part of its Budget that a rate of 17% will apply from 1 April 2020. On 11 March 2020, it was announced (and substantively enacted on 17 March 2020), that the UK corporation tax rate would remain at 19% and not reduce to 17% (the previously enacted rate) from 1 April 2020.

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

14. Other creditors

	2020	2019
	\$'000	\$'000
Trade and other payables at cost and fair value		
LCA Creditors	1,398	1,867
Payable for closed FX forwards	8	-
Derivative Liabilities	447	567
Payable for securities purchased	21,842	-
Other	47	-
	23,742	2,434

ADVENT CAPITAL (No.3) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

15. Called up share capital

	2020 \$'000	2019 \$'000
Allotted and fully paid 200,001 (2019: 200,001) Ordinary shares of \$0.40 each	80	80

16. Related parties and parent Company

The immediate parent undertaking is Advent Capital (Holdings) LTD (Advent). Advent is the parent undertaking of the smallest and largest 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 company and controlling party is RiverStone (Barbados) Ltd ("RiverStone Barbados") which is registered in Barbados.

The Company has carried out transactions with affiliated companies during the year. Inwards reinsurance premiums from related parties are set out below.

	2020 \$'000	2019 \$'000
Zenith National Insurance Corp.	-	5
Brit Syndicate 2987	-	6
Hudson Insurance Group	-	84
	-	95

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

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

The Company paid investment management fees to Hamblin Watsa Investment Counsel of \$0.6 million (2019: \$0.3 million).

17. Subsequent Events

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

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

On 5 February 2021, the Company issued 8,150,835 new \$0.40 ordinary shares to ACH in exchange for an asset value loan note.