

COMPANY NO. 1167327

REGISTERED OFFICE: Park Gate, 161-163 Preston Road, Brighton, East Sussex, United Kingdom, BN1 6AU

# **RiverStone Insurance (UK) Limited**

## **2017 Annual Report**

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**RiverStone Insurance (UK) Limited (Company No. 1167327)**  
**Annual Report**  
**For the year ended 31<sup>st</sup> December 2017**

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**RiverStone Insurance (UK) Limited (Company No. 1167327)**  
**Directors and Administration**  
**For the year ended 31<sup>st</sup> December 2017**

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**Directors**

M. J. Bannister  
N. C. Bentley  
L. A. Hemsley  
T. A. Riddell - Independent Non-Executive Chairman  
J. S. Saggu - Independent Non-Executive Director  
K. Shah - Independent Non-Executive Director  
L. R. Tanzer

**Company Secretaries**

F. Henry  
S. L. Garrod

**Registered Office**

Park Gate  
161-163 Preston Road  
Brighton  
East Sussex  
United Kingdom  
BN1 6AU

**Management Company**

RiverStone Management Limited

**Independent Auditors**

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

**Website**

[www.trg.com](http://www.trg.com)

# **RiverStone Insurance (UK) Limited (Company No. 1167327)**

## **Strategic Report**

### **For the year ended 31<sup>st</sup> December 2017**

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The Directors have pleasure in presenting the Strategic Report of RiverStone Insurance (UK) Limited (“RiverStone Insurance (UK)” or “the Company”) for the year ended 31<sup>st</sup> December 2017.

#### **Ownership**

RiverStone Insurance (UK) is a wholly owned subsidiary of RiverStone Holdings Limited (“RiverStone Holdings”) which is registered in England and Wales. The ultimate parent company is Fairfax Financial Holdings Limited (“Fairfax”) which is registered in Canada and listed on the Toronto Stock Exchange. The registered office of Fairfax is 95 Wellington Street West, Suite 800, Toronto, Ontario, Canada, M5J 2N7.

#### **Principal Activity**

RiverStone Insurance (UK) is authorised to carry on all classes of general insurance business and is engaged in the run-off of the assets and liabilities associated with its various portfolios of insurance and reinsurance.

The operations of RiverStone Insurance (UK) are administered by RiverStone Management Limited which is a fellow subsidiary of RiverStone Holdings. RiverStone Insurance (UK) is also involved in the Lloyd’s market through the reinsurance protection of Syndicate 3500. Syndicate 3500 is managed by RiverStone Managing Agency Limited, a fellow subsidiary of RiverStone Holdings. The sole corporate member of Syndicate 3500 is RiverStone Corporate Capital Limited which is a fellow subsidiary of RiverStone Holdings.

RiverStone Insurance (UK) has a wholly owned subsidiary, RiverStone Luxembourg S.à.r.l, domiciled in Luxembourg. This company is currently dormant.

#### **Business Review**

##### ***Results and Performance***

The results for the year set out in the profit and loss account show a profit for the financial year of \$52.3 million (2016: loss of \$4.3 million).

During several years of consolidating various European based run-off portfolios of its parent, Fairfax, and acquiring other run-off portfolios, RiverStone Insurance (UK)’s primary focus has been the settlement of its policyholder obligations and recovery of reinsurance assets in an efficient and economic manner. Additionally, RiverStone Insurance (UK) continues to pursue opportunities to acquire further run-off portfolios.

The balance on the technical account for general business for the year was a profit of \$15.3 million (2016: loss of \$13.5 million). This comprises a release of net technical provisions of \$24.2 million and technical balance write offs of \$2.1 million, a reduction in the net premium asset of \$3.1 million less operating expenses of \$7.9 million.

The profit before tax amounts to \$63.9 million (2016: loss of \$7.5 million) and comprises net investment gains of \$52.2 million (2016: gain of \$11.5 million), foreign exchange losses of \$3.6 million (2016: loss of \$5.5 million), plus the gain on the technical account for general business.

Total shareholders’ funds have increased to \$377 million from \$326.6 million at the end of 2016. The increase in total shareholders’ funds from the end of 2016 includes the profit for the financial year of \$52.3 million, unrealised investment gains on available for sale investments of \$1.5 million, actuarial losses recognised in 2017 in respect of the defined benefit pension plan of \$4.1 million and the associated deferred tax credit of \$702,000.

**RiverStone Insurance (UK) Limited (Company No. 1167327)**  
**Strategic Report**  
**For the year ended 31<sup>st</sup> December 2017**

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***Performance Measurements***

RiverStone Insurance (UK) has made continued progress throughout 2017 in relation to key elements of its strategy through continued reduction in gross loss reserves and reinsurance recoverables. During the year, gross loss reserves have reduced by 10% and reinsurance recoverables have reduced by 4%. RiverStone Insurance (UK)'s Solvency II own funds capital as at the end of the year is \$283 million (2016: \$261 million).

***Strategy and Future Developments***

RiverStone Insurance (UK)'s primary focus has been, and continues to be, to conduct a timely and efficient run off of its existing portfolios. RiverStone Insurance (UK) continues to work towards a strategy to settle all outstanding liabilities and recover its reinsurance assets.

Over the past number of years, RiverStone Insurance (UK) has acquired a number of run-off portfolios of business either associated with certain Fairfax operations in Europe or from unaffiliated parties. RiverStone Insurance (UK)'s main focus continues to be the run-off of these portfolios together with actively seeking to acquire further portfolios of run-off business.

In April 2017, RiverStone Insurance (UK) entered into legal agreements to transfer the 2001 and prior employer's liability and public liability policies issued by a UK insurer into RiverStone Insurance (UK) by way of a Part VII transfer under the Financial Services and Markets Act 2000, as amended, and to reinsure certain disease claims related to policies issued between 1<sup>st</sup> January 2002 and 31<sup>st</sup> December 2014. The transfer of all of these liabilities is subject to the completion of the Part VII transfer of the 2001 and prior liabilities. This is anticipated to complete in 2018, subject to regulatory and High Court approval. Shortly after entering into these agreements, RiverStone Insurance (UK) entered into legal agreements with an affiliated reinsurer to reinsure 50% of the liabilities being transferred from the UK insurer. This reinsurance will take effect on completion of the Part VII transfer.

In November 2017, RiverStone Insurance (UK) entered into a legal agreement with an overseas insurer to transfer a portfolio of liabilities primarily comprising asbestos, pollution and health exposures by way of a Part VII transfer under the Financial Services and Markets Act 2000, as amended. This transaction is anticipated to complete in 2019, subject to regulatory and High Court approval.

The Board of RiverStone Insurance (UK) has agreed to a transfer into RiverStone Insurance (UK) of liabilities of RiverStone Insurance Limited ("RiverStone Insurance") by way of a Part VII transfer under the Financial Services and Markets Act 2000, as amended. RiverStone Insurance is a fellow subsidiary of RiverStone Holdings and its liabilities comprise a variety of both direct and assumed reinsurance business written between 2002 and 2012. This transaction is anticipated to complete in 2018, subject to regulatory and High Court approval.

The Board of RiverStone Insurance (UK) has undertaken contingency planning to prepare for the UK leaving the European Union, with the primary potential impact on RiverStone Insurance (UK) being its ability to continue to service policies relating to EU cedants. RiverStone Luxembourg S.a.r.l. was established to provide an EU "base" if required. This company is dormant and there is currently no intention to activate it. The Board continues to monitor and review the impact of Brexit in the light of further progress and clarification on the UK's future relationship with the EU.

The Board considers that the insurance operations of RiverStone Insurance (UK) are adequately capitalized based on the financial position at the end of the year and the remaining risks and level of volatility inherent in its business.

**RiverStone Insurance (UK) Limited (Company No. 1167327)**  
**Strategic Report**  
**For the year ended 31<sup>st</sup> December 2017**

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**Principal Risks and Uncertainties**

The process of risk acceptance and risk management is addressed through a framework of policies, procedures and internal controls. All policies are subject to approval by the board of directors of RiverStone Insurance (UK) (“the Board”) and ongoing review by the Board, executive committees, risk management (including compliance) and assurance. Compliance with regulatory, legal and ethical standards is a high priority for RiverStone Insurance (UK). Its compliance and finance departments take on an important oversight role in this regard. The RiverStone Holdings Group Risk Committee is responsible for satisfying itself and the Board that a proper internal control framework exists to manage financial risks and that controls operate effectively.

RiverStone Insurance (UK) has developed a framework for identifying the risks that it is exposed to and their impact on economic capital. This process uses risk based principles to manage RiverStone Insurance (UK)’s capital requirements and to ensure that it has the financial strength and capital adequacy to support the continued run off of the business and to meet the obligations to policyholders, regulators and other stakeholders. The Directors consider that RiverStone Insurance (UK)’s capital is adequate to meet its business needs under the regulatory capital regime.

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



By Order of the Board  
Park Gate, 161-163 Preston Road  
Brighton, East Sussex  
United Kingdom, BN1 6AU

**F Henry**  
Company Secretary  
6<sup>th</sup> March 2018

# **RiverStone Insurance (UK) Limited (Company No. 1167327)**

## **Directors' Report**

### **For the year ended 31<sup>st</sup> December 2017**

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The Directors have pleasure in presenting their report and the audited financial statements for RiverStone Insurance (UK) Limited (Company No. 1167327) ("RiverStone Insurance (UK)" or the "the Company") for the year ended 31<sup>st</sup> December 2017.

#### **Directors**

Directors holding office during the period from 1<sup>st</sup> January 2017 to the date of this report were:

M. J. Bannister  
N. C. Bentley  
L. A. Hemsley  
T. A. Riddell - Independent Non-Executive Chairman  
J. S. Saggi – Independent Non-Executive Director  
K. Shah - Independent Non-Executive Director  
L. R. Tanzer

RiverStone Insurance (UK) has provided an indemnity for its directors which is a qualifying third party indemnity provision for the purposes of Section 234 of the Companies Act 2006. This indemnity was in force during the financial year and also at the date of this report.

#### **Future Developments**

Likely future developments in the business of RiverStone Insurance (UK) are discussed in the Strategic Report.

#### **Dividends**

RiverStone Insurance (UK) paid no interim dividends during the year (2016: nil). The Directors do not recommend a final dividend (2016: nil).

#### **Financial Instruments**

As described in Note 5 to the financial statements, RiverStone Insurance (UK) is exposed to financial risk through its financial assets, liabilities, reinsurance assets and policyholder liabilities. In particular, a key financial risk is that the proceeds from financial and reinsurance assets are not sufficient to fund the obligations arising from policies as they fall due. The most important components of this financial risk that RiverStone Insurance (UK) is exposed to are interest rate risk, equity risk, currency risk, credit risk and liquidity risk. RiverStone Insurance (UK) manages these risks within its overall risk management framework.

#### **Statement of Directors' Responsibilities in Respect of the Financial Statements**

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the

**RiverStone Insurance (UK) Limited (Company No. 1167327)**  
**Directors' Report**  
**For the year ended 31<sup>st</sup> December 2017**

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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 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 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 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.

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.

By Order of the Board

Park Gate  
161-163 Preston Road  
Brighton, East Sussex  
United Kingdom, BN1 6AU



**F Henry**  
Company Secretary  
6<sup>th</sup> March 2018



**RiverStone Insurance (UK) Limited (Company No. 1167327)**  
**Independent Auditors' Report to the Members of RiverStone Insurance (UK)**  
**Limited**  
**For the year ended 31<sup>st</sup> December 2017**

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**Report on the audit of the financial statements**

**Opinion**

In our opinion, RiverStone Insurance (UK) Limited (RIUK)'s financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2017 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, which comprise: the Balance Sheet as at 31 December 2017; the Profit and Loss Account, the Statement of Comprehensive Income, 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.

Our opinion is consistent with our reporting to the Audit Committee.

**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.

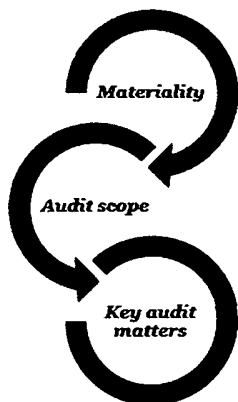
*Independence*

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, as applicable to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the company.

Other than those disclosed in note 9 to the financial statements, we have provided no non-audit services to the company in the period from 1 January 2017 to 31 December 2017.

**Our audit approach**

*Overview*



- Overall materiality: RIUK USD 7.78m, based on 1% of total assets.
- The company is a single business within the wider Fairfax Financial Holdings Limited Group.
- There is a single finance function for the company and no other branches or locations that required scoping. As a single business there are no group scoping considerations.
- Valuation of claims outstanding.
- Reinsurance recoverability.
- Pipeline premium (including fraud in revenue recognition).

**RiverStone Insurance (UK) Limited (Company No. 1167327)**  
**Independent Auditors' Report to the Members of RiverStone Insurance (UK)**  
**Limited**  
**For the year ended 31<sup>st</sup> December 2017**

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*The scope of our audit*

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

We gained an understanding of the legal and regulatory framework applicable to the company and the industry in which it operates, and considered the risk of acts by the company which were contrary to applicable laws and regulations, including fraud. We designed audit procedures to respond to the risk, recognising that 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. We focused on laws and regulations that could give rise to a material misstatement in the company's financial statements, including, but not limited to, the Companies Act 2006, the Financial Conduct Authority's regulations, the Prudential Regulation Authority's regulations, UK tax legislation. Our tests included, but were not limited to, review of the financial statement disclosures to underlying supporting documentation, review of correspondence with the regulators, review of correspondence with legal advisors, enquiries of management, and review of internal audit reports in so far as they related to the financial statements. There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it.

We did not identify any key audit matters relating to irregularities, including fraud. As in all of our audits we also addressed the risk of management override of internal controls, including testing journals and evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

*Key audit matters*

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

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***Key audit matter***

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***How our audit addressed the key audit matter***

***Valuation of claims outstanding***

The valuation of the Incurred But Not Reported ("IBNR") loss reserves component of claims outstanding is the most material estimate in the financial statements and their valuation involves a significant degree of judgment. The assumptions and methodologies applied by management are therefore an area of focus for us as any errors or bias could lead to material misstatement.

Areas of particular focus are:

- The use of appropriate reserving methodologies and assumptions and the consistency of their application from year to year;

In order to challenge management's assumptions and methodologies, we developed an independent actuarial point estimate for classes of business considered to be higher risk covering 28% of the total IBNR loss reserve component of claims outstanding and netted this down for reinsurance.

For these classes we considered the appropriateness of the estimates by considering the sensitivity of the reserves to the key actuarial methods and assumptions used by management. We also considered the development of the historical estimates to assess the settlement pattern for these claims.

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**RiverStone Insurance (UK) Limited** (Company No. 1167327)  
**Independent Auditors' Report to the Members of RiverStone Insurance (UK) Limited**  
**For the year ended 31<sup>st</sup> December 2017**

<i>Key audit matter</i>	<i>How our audit addressed the key audit matter</i>
<ul style="list-style-type: none"> <li>• The consideration by management of alternative assumptions and inherent bias when developing an estimate;</li> <li>• Prior year development and the appropriateness of prior year estimates;</li> <li>• The degree of caution in IBNR estimates in relation to areas of uncertainty; and</li> <li>• The timing of changes to IBNR estimates.</li> </ul>	<p>For 59% of the IBNR loss reserve we tested the methodology and assumptions used in calculating the reserve.</p> <p>For the remaining classes we examined key ratios and indicators to identify any anomalies and assessed whether there was any audit evidence that was inconsistent with our knowledge of these claims from the independent projections noted above.</p> <p>We have sample tested the underlying claims data supporting the testing above.</p> <p>Based on the work performed we found that the assumptions used were supported by the evidence we obtained.</p>
<p><i>Reinsurance recoverability</i></p> <p>The valuation of reinsurance assets, both debtors arising out of reinsurance operations and the reinsurers' share of claims outstanding, are material estimates in the financial statements and their valuation involves a significant degree of judgement around valuation and recoverability.</p> <p>The valuation of the reinsurers' share of claims outstanding involves actuarial methodologies which are subject to uncertainty around certain assumptions. There is a risk these assumptions or the methodologies used could be inappropriate and the reinsurance asset calculated incorrectly.</p> <p>Due to reinsurance disputes or the inability or the unwillingness of reinsurers to pay, there is a risk that the reinsurance assets may not be fully recoverable, or a risk that delays in payment could increase the cost of recovering the reinsurance assets.</p> <p>A further risk arises from the concentration of a significant proportion of the reinsurance assets with an affiliated reinsurer.</p>	<p>We have reviewed the methodologies and assumptions around the IBNR component of the reinsurers' share of claims outstanding, taking into consideration the effects of intercompany reinsurance protection.</p> <p>We have tested management's analysis of the recoverability of the reinsurance assets. We have also independently assessed the recoverability of reinsurance assets and the status of reinsurance disputes, including testing the creditworthiness of external reinsurers.</p> <p>We have tested management's assessment of credit risk with affiliated reinsurers and performed testing to confirm the security in place for the affiliated reinsurance assets.</p> <p>Based on the work performed we found that the assumptions used were supported by the evidence we obtained.</p>
<p><i>Pipeline premium (including fraud in revenue recognition)</i></p>	<p>We have tested the design and operating effectiveness of management's controls in place in respect of:</p> <p>The accuracy and completeness of information received from delegated authorities and the resultant premium bookings; and</p> <p>The setting and monitoring development of EPI estimates, and updating EPI estimates when appropriate.</p> <p>We have tested revenue transactions and adjustments to revenue back to supporting documentation on a sample basis.</p> <p>Based on the work performed we found that the assumptions used were supported by the evidence we obtained.</p>

**RiverStone Insurance (UK) Limited (Company No. 1167327)**  
**Independent Auditors' Report to the Members of RiverStone Insurance (UK)**  
**Limited**  
**For the year ended 31<sup>st</sup> December 2017**

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*How we tailored the audit scope*

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

The company is a single business within the wider Fairfax Financial Holdings Limited Group. There is a single finance function for the company and no other branches or locations that required scoping. The company operates solely in the UK. As a single business there are no group scoping considerations and the company is audited on a full scope basis hence testing has been performed over all material financial statement line items.

No work is performed by component auditors in support of the audit opinion.

*Materiality*

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

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

<b><i>Overall materiality</i></b>	USD 7.8m.
<b><i>How we determined it</i></b>	1% of Total assets.
<b><i>Rationale for benchmark applied</i></b>	For RIUK we assess materiality in the context of the company's total assets given the run-off nature of the company's operations.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above USD: 389,000 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

**Conclusions relating to going concern**

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

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

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

**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

**RiverStone Insurance (UK) Limited (Company No. 1167327)**  
**Independent Auditors' Report to the Members of RiverStone Insurance (UK)**  
**Limited**  
**For the year ended 31<sup>st</sup> December 2017**

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financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

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

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

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

*Strategic Report and Directors' Report*

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2017 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 Directors' Report.

**Responsibilities for the financial statements and the audit**

*Responsibilities of the directors for the financial statements*

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

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

*Auditors' responsibilities for the audit of the financial statements*

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

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditors' report.

**RiverStone Insurance (UK) Limited (Company No. 1167327)**  
**Independent Auditors' Report to the Members of RiverStone Insurance (UK)**  
**Limited**  
**For the year ended 31<sup>st</sup> December 2017**

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*Use of this report*

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

**Other required reporting**

**Companies Act 2006 exception reporting**

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

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

We have no exceptions to report arising from this responsibility.

**Appointment**

Following the recommendation of the audit committee, we were appointed by the directors on 4 May 1988 to audit the financial statements for the year ended 31 December 1988 and subsequent financial periods. The period of total uninterrupted engagement is 29 years, covering the years ended 31 December 1988 to 31 December 2017.



**Mark Bolton** (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
London  
6<sup>th</sup> March 2018

**RiverStone Insurance (UK) Limited** (Company No. 1167327)  
**Profit and Loss Account**  
**For the year ended 31<sup>st</sup> December 2017**

	Note	2017 \$'000	2016 \$'000
<b>Technical Account – General Business</b>			
<b>Earned premiums, net of reinsurance</b>			
Gross premiums written		(662)	-
Outward reinsurance premiums		455	-
<b>Net premiums written and earned</b>		<b>(207)</b>	<b>-</b>
Gross claims paid		(32,751)	(35,898)
Reinsurers' share		11,228	15,931
Net claims paid		(21,523)	(19,967)
Change in the gross provision for claims		55,966	38,345
Reinsurers' share		(10,973)	(19,665)
Change in the net provision for claims		44,993	18,680
<b>Claims incurred, net of reinsurance</b>		<b>23,470</b>	<b>(1,287)</b>
Net operating expenses	8	(7,912)	(12,217)
<b>Total technical charges, net of reinsurance</b>		<b>15,558</b>	<b>(13,504)</b>
<b>Balance on the technical account for general business</b>		<b>15,351</b>	<b>(13,504)</b>
<b>Non-Technical Account</b>			
Investment income	11	13,583	16,390
Realised gains (losses) on investments	11	21,404	(5,195)
Unrealised gains on investments		20,527	20,778
Unrealised losses on investments		(5,033)	(10,300)
Gain (losses) on derivative contracts	15	3,024	(8,887)
Foreign exchange losses		(3,625)	(5,523)
Investment expenses and charges	12	(1,339)	(1,239)
<b>Profit (loss) before tax</b>		<b>63,892</b>	<b>(7,480)</b>
Tax on profit (loss)	13	(11,549)	3,160
<b>Profit (loss) for the financial year</b>		<b>\$ 52,343</b>	<b>\$ (4,320)</b>

The results above are all derived from continuing operations.

**RiverStone Insurance (UK) Limited** (Company No. 1167327)  
**Statement of Comprehensive Income**  
**For the year ended 31<sup>st</sup> December 2017**

	Note	2017 \$'000	2016 \$'000
Profit (loss) for the financial year		52,343	(4,320)
Movement on other reserves		1,475	383
Re-measurements of net defined benefit obligation	10	(4,130)	(5,751)
Total tax credit on components of other comprehensive income	13	<u>702</u>	<u>977</u>
<b>Total comprehensive income for the year</b>		<b>\$ <u>50,390</u></b>	<b>\$ <u>(8,711)</u></b>




# RiverStone Insurance (UK) Limited (Company No. 1167327)


## Balance Sheet

As at 31<sup>st</sup> December 2017

	Note	2017 \$'000	2016 \$'000
<b>Assets</b>			
<b>Fixed Assets</b>			
Investments in subsidiary undertakings	14	15	13
<b>Investments</b>			
Other financial investments	15	406,544	344,648
<b>Reinsurers' share of technical provisions</b>			
Claims outstanding	6,16	113,315	118,300
<b>Debtors</b>			
Debtors arising out of direct insurance operations	17	117	37
Debtors arising out of reinsurance operations	18	89,795	111,829
Other debtors	19	149,053	154,217
		<b>238,965</b>	<b>266,083</b>
<b>Other assets</b>			
Cash at bank and in hand		17,675	37,184
Deferred taxation	23	97	-
		<b>17,772</b>	<b>37,184</b>
<b>Prepayments and accrued income</b>			
Accrued interest and rent		1,190	1,330
<b>Total assets before pension asset</b>		<b>777,801</b>	<b>767,558</b>
Pension asset	10	-	583
<b>Total assets after pension asset</b>		<b>\$ 777,801</b>	<b>\$ 768,141</b>
<b>Capital, Reserves and Liabilities</b>			
<b>Capital and reserves</b>			
Called up share capital	20	157,062	157,062
Other reserves		(368)	(1,843)
Profit and loss account		220,260	171,345
<b>Total shareholders' funds</b>		<b>376,954</b>	<b>326,564</b>
<b>Technical provisions</b>			
Claims outstanding	6	337,774	376,012
<b>Provisions for other risks</b>			
Deferred taxation	23	-	99
<b>Creditors: Amounts falling due within one year</b>			
Creditors arising out of reinsurance operations	21	55,315	62,960
Derivative financial instruments	15	236	2,086
Other creditors including tax and social security	22	6,949	420
		<b>62,500</b>	<b>65,466</b>
<b>Total capital, reserves and liabilities before pension liability</b>		<b>777,228</b>	<b>768,141</b>
Pension liability	10	573	-
<b>Total capital, reserves and liabilities after pension liability</b>		<b>\$ 777,801</b>	<b>\$ 768,141</b>

The financial statements on pages 15 to 46 were approved by the Board of Directors on 6<sup>th</sup> March 2018 and were signed on its behalf by:

  
**L. R. Tanzer**  
 Managing Director

  
**L. A. Hemsley**  
 Finance Director

**RiverStone Insurance (UK) Limited** (Company No. 1167327)  
**Statement of Changes in Equity**  
**For the year ended 31<sup>st</sup> December 2017**

	Called Up Share Capital \$'000	Other Reserves \$'000	Profit and Loss Account \$'000	Total Share- holders' Funds \$'000
<b>Balance at 1<sup>st</sup> January 2016</b>	157,062	(2,226)	180,439	335,275
Loss for the financial year	-	-	(4,320)	(4,320)
Other comprehensive income (expense) for the year	-	383	(4,774)	(4,391)
<b>Total comprehensive income for the year</b>	-	383	(9,094)	(8,711)
<b>Balance at 31<sup>st</sup> December 2016</b>	<b>\$ 157,062</b>	<b>\$ (1,843)</b>	<b>\$ 171,345</b>	<b>\$ 326,564</b>
<b>Balance at 1<sup>st</sup> January 2017</b>	157,062	(1,843)	171,345	326,564
Profit for the financial year	-	-	52,343	52,343
Other comprehensive income (expense) for the year	-	1,475	(3,428)	(1,953)
<b>Total comprehensive income for the year</b>	-	1,475	48,915	50,390
<b>Balance at 31<sup>st</sup> December 2017</b>	<b>\$ 157,062</b>	<b>\$ (368)</b>	<b>\$ 220,260</b>	<b>\$ 376,954</b>

**RiverStone Insurance (UK) Limited (Company No. 1167327)**  
**Notes to the Financial Statements**  
**For the year ended 31<sup>st</sup> December 2017**

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**1. General Information**

RiverStone Insurance (UK) Limited (“RiverStone Insurance (UK)” or “the Company”) is engaged in the runoff of the assets and liabilities associated with previously written insurance and reinsurance business. Additionally, RiverStone Insurance (UK) seeks to acquire new portfolios of run-off business.

RiverStone Insurance (UK) is a private company limited by shares and is incorporated in England. The address of its registered office is Park Gate, 161-163 Preston Road, Brighton, East Sussex, United Kingdom, BN1 6AU.

**2. Statement of Compliance**

The financial statements of RiverStone Insurance (UK) 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” (“FRS102”), Financial Reporting Standard 103, “Insurance Contracts” (FRS103) and the Companies Act 2006. The financial statements have been prepared in compliance with the provisions of the Large and Medium-sized Companies and Groups (Accounting and Reports) Regulations relating to insurance groups.

**3. Summary of Significant Accounting Policies**

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

**(a) Basis of Preparation**

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

**Restatement reclassification of comparatives**

Certain comparative amounts have been adjusted to conform to changes in accounting policies and presentation in the current year.

**(b) Going Concern**

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 FRS102**

FRS102 allows a qualifying entity certain disclosure exemptions, subject to certain conditions, which have been complied with, including notification of, and no objection to the use of exemptions by RiverStone Insurance (UK)’s shareholders.

RiverStone Insurance (UK) has taken advantage of the following exemptions:

**RiverStone Insurance (UK) Limited (Company No. 1167327)**  
**Notes to the Financial Statements**  
**For the year ended 31<sup>st</sup> December 2017**

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- i) from preparing a statement of cash flows, on the basis that it is a qualifying entity and the consolidated statement of cash flows, included in the financial statements of Fairfax Financial Holdings Limited (“Fairfax”) includes RiverStone Insurance (UK)’s cash flows
- ii) from disclosing key management personnel compensation, as required by FRS102 paragraph 33.7.
- iii) from the requirement to disclose transactions with related parties within the same group as provided by FRS102, Section 33.1A. This exemption is available for RiverStone Insurance (UK) as consolidated financial statements are publicly available for Fairfax.

**(d) Insurance Contracts**

i) Premiums Written

Premiums written relate to business incepted during the year, together with any difference between recorded premiums for prior years and those previously accrued and include estimates of premiums due but not yet receivable or notified to RiverStone Insurance (UK) less an allowance for cancellations. Premiums written are shown gross of commission payable to intermediaries and exclude related taxes.

ii) Claims Incurred and Reinsurers’ Share

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

Provisions for outstanding claims and related reinsurance recoveries are established based on estimates of the ultimate net cost of settlement along with actuarial and statistical projections. Claims provisions are determined based upon previous claims experience, knowledge of events and the terms and conditions of the relevant policies and on interpretation of circumstances. Particularly relevant is experience with similar cases and historical claims payment trends. The approach also includes the consideration of the development of loss payment trends, levels of unpaid claims, judicial decisions and economic conditions.

Whilst the board of directors of RiverStone Insurance (UK) (“the Board”) believes that the provisions for outstanding claims and related reinsurance recoveries including bad debt provisions are fairly stated, these estimates inevitably contain inherent uncertainties because significant periods of time may elapse between the occurrence of an incurred loss, the reporting of that loss to RiverStone Insurance (UK), RiverStone Insurance (UK)’s payment of the loss and the receipt of reinsurance recoveries. These uncertainties are inherent in much of the business previously underwritten and assumed by RiverStone Insurance (UK). The estimates made are based upon current facts available to RiverStone Insurance (UK) and the prevailing legal environment and are subjected to continual review, with any resulting adjustments reported in current earnings. Anticipated reinsurance recoveries are disclosed separately as assets on the balance sheet.

- iii) The costs incurred by RiverStone Insurance (UK) associated with running off the business are as a result of services provided by RiverStone Management Limited (“RiverStone Management”), an affiliated company which manages the day to day operations of RiverStone Insurance (UK).

**RiverStone Insurance (UK) Limited (Company No. 1167327)**  
**Notes to the Financial Statements**  
**For the year ended 31<sup>st</sup> December 2017**

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**(e) Translation of Foreign Currencies**

The financial statements are presented in US Dollars and, unless otherwise stated, are rounded to thousands. Items included in RiverStone Insurance (UK)'s financial statements are measured using the currency of the primary economic environment in which it operates. RiverStone Insurance UK's functional currency is the US Dollar. The Sterling to US Dollar rate at year end was 1.3528.

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.

**(f) Tax**

Tax expense for the year comprises current and deferred tax recognised in the reporting period. Tax is recognised in the profit and loss account, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case tax is also recognised in other comprehensive income or directly in equity respectively.

**i) Current Tax**

Current tax is the amount of income tax payable in respect of the taxable profit for the year or prior years. Tax is calculated on the basis of tax rates and laws that have been enacted or substantially enacted by the year 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 assets and liabilities are established for differences between amounts reported in the financial statements and amounts reported in RiverStone Insurance (UK)'s annual corporation tax returns, including revaluation gains and losses on investments. Deferred taxes are calculated at the rates at which it is expected that the tax liability or benefit will arise using tax rates and laws that have been enacted or substantively enacted by the year end. Deferred tax assets are recognised to the extent that they are regarded as more likely than not recoverable. Movements on deferred tax assets and liabilities are recognised in the profit and loss account, except to the extent that they arise in relation to movements in the Statement of Comprehensive Income.

**(g) Investment in Subsidiary Undertakings**

Unlisted investments in subsidiary undertakings are recorded at cost.

**(h) Other Financial Investments**

RiverStone Insurance (UK) has chosen to apply the recognition and measurement provisions of IAS 39 (as adopted for use in the EU) and the disclosure requirements of FRS102 in respect of the financial statements.

**RiverStone Insurance (UK) Limited (Company No. 1167327)**  
**Notes to the Financial Statements**  
**For the year ended 31<sup>st</sup> December 2017**

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RiverStone Insurance (UK) classifies its investments into the following categories: financial assets at fair value through profit and loss and available for sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this at every reporting date.

i) **Financial Assets at Fair Value through Profit and Loss**

A financial asset is classified into this category 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.

ii) **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 RiverStone Insurance (UK)'s key management personnel. RiverStone Insurance (UK)'s investment strategy is to invest in listed and unlisted equity securities and fixed interest rate debt securities and derivatives designated upon initial recognition at fair value through profit and loss.**

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

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

iii) **Available for Sale Financial Assets**

Available for sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories.

Purchases and sales of investments are recognised on the trade date i.e. the date on which RiverStone Insurance (UK) commits to purchase or sell the asset. Investments are initially recognised at fair value plus, in the case of all financial assets not carried at fair value through profit and loss, transaction costs that are directly attributable to their acquisition. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or where they have been transferred and RiverStone Insurance (UK) has also transferred substantially all risks and rewards of ownership.

Changes in the fair value of financial assets classified as available for sale are recognised in equity. When financial assets classified as available for sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the Profit and Loss Account within net realised gains on investments.

RiverStone Insurance (UK) 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**

**RiverStone Insurance (UK) Limited (Company No. 1167327)**  
**Notes to the Financial Statements**  
**For the year ended 31<sup>st</sup> December 2017**

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(iii) Level 3 – inputs are unobservable (i.e. for which market data is unavailable) for the asset or liability

**(i) Impairment of Financial Assets**

At each balance sheet date RiverStone Insurance (UK) assesses whether there is objective evidence that an available for sale financial asset is impaired, including in the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost. If any such evidence exists for available for sale financial assets, the cumulative loss (measured as the difference between the acquisition cost and current fair value, less any impairment loss on the financial asset previously recognised in the Profit and Loss Account) is removed from equity and recognised in the Profit and Loss Account for the year. Impairment losses recognised in the Profit and Loss Account in respect of equity instruments are not subsequently reversed. The impairment loss is reversed through the Profit and Loss Account, if in a subsequent period the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit and loss.

**(j) Derivative Financial Instruments**

Derivative financial instruments comprise foreign currency forward contracts and equity index and US government bond total return swaps. Derivatives are initially and subsequently measured at their fair value with movements in the fair value being immediately recognised in the profit and loss account. Fair values are obtained from quoted market prices, discounted cash flow models, risk models and option pricing models as appropriate.

**(k) Investment Return**

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

Realised gains and losses on investments carried at fair value through profit and loss are calculated as the difference between net sales proceeds and purchase price. Movements in unrealised gains and losses on investments represent the difference between the fair value at the balance sheet date and their purchase price or their fair value 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 year.

**(l) Pensions**

RiverStone Holdings is the principal employer for the RiverStone group's defined benefit pension scheme. RiverStone Management Limited ("RiverStone Management") is the primary participating employer and all costs associated with the defined benefit scheme are recharged to RiverStone Insurance (UK) and RiverStone Insurance Limited ("RiverStone Insurance"), a fellow subsidiary of RiverStone Holdings, through the administration outsource agreements that are in place with these entities. In accordance with FRS102, the defined benefit pension scheme is accounted for in RiverStone Insurance (UK) and RiverStone Insurance in proportion to the allocation of overall costs that are recharged from RiverStone Management in respect of the outsourcing arrangement. The cost of the pension scheme is analysed between current service cost, past service cost and net return on the pension scheme. Current service cost is the actuarially calculated present value of the benefits earned by the active employees in each year. Past service costs, relating to employee service in prior periods arising as a result of the introduction of, or improvement to, retirement benefits, are recognised on a straight-line basis over the year in which the increase in benefits vest.

**RiverStone Insurance (UK) Limited (Company No. 1167327)**  
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The actuarial gains and losses which arise from a valuation and from updating the latest actuarial valuation to reflect conditions at the balance sheet date are taken to the Statement of Comprehensive Income for the year. The attributable deferred tax is shown separately in the Statement of Comprehensive Income. The pension surplus or deficit recognised in the balance sheet is RiverStone Insurance (UK)'s share of the value of the pension scheme's assets less the present value of the scheme's liabilities.

Further details of the pension scheme are given in Note 10.

**(m) Related Party Transactions**

RiverStone Insurance (UK) discloses transactions with related parties which are not wholly owned within the same group. Where appropriate, transactions of a similar nature are aggregated unless, in the opinion of the directors, separate disclosure is necessary to understand the effect of the transactions on the financial statements.

**4. Critical Accounting Judgements and Estimation Uncertainty**

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

RiverStone Insurance (UK) 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) The Ultimate Liability Arising from Claims made under Insurance Contracts**

The estimation of the ultimate liability arising from claims made under insurance contracts is RiverStone Insurance (UK)'s most critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimate of the liability that RiverStone Insurance (UK) will ultimately pay for such claims.

The most significant assumptions made relate to the level of future claims, the level of future claims settlements and the legal interpretation of insurance policies. Whilst the directors consider that the gross provision for claims and the related reinsurance recoveries are fairly stated on the basis of the information currently available to them, the ultimate liability will vary as a result of subsequent information and events and may result in adjustments to the amount provided. Adjustments to the amounts of provision are reflected in the financial statements for the year in which the adjustments are made. The methods used, and the estimates made, are reviewed regularly.

**Asbestos Related and Environmental Pollution Claims**

RiverStone Insurance (UK) establishes case reserves for reported asbestos related and environmental pollution claims and future legal and associated expenses for such reported claims. It also establishes reserves for unreported claims and legal and associated expenses for such unreported claims. RiverStone Insurance (UK) regularly reviews the adequacy of its loss reserves for asbestos related and environmental pollution claims and claim expenses. These exposures do not lend themselves to traditional methods of loss reserve estimation. Reserving for asbestos related and environmental pollution claims is subject to significant uncertainties that are not generally present for other types of claims. These claims differ from almost all others in that it is



**RiverStone Insurance (UK) Limited (Company No. 1167327)**  
**Notes to the Financial Statements**  
**For the year ended 31<sup>st</sup> December 2017**

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often not clear that an insurable loss has occurred, which policy years apply and which insurers may be liable. These uncertainties prevent identification of applicable policies and policy limits until after a claim is reported to RiverStone Insurance (UK) and substantial time is spent (over many years in some cases) resolving contract issues and determining facts necessary to evaluate the claim. While the nature and extent of insurance and reinsurance coverage for these types of claims has widened in recent years, there has been no final judgement which would apply to all cases which would result in the wholesale transfer of these types of claims from insureds to insurers and reinsurers.

RiverStone Insurance (UK) expects asbestos related and environmental pollution claims to continue to be reported for the foreseeable future. The claims to be paid and timing of any such payments depend on the resolution of uncertainties associated with them and could extend over many years.

For these reasons, RiverStone Insurance (UK) estimates that the possible ultimate liabilities for these exposures could be substantially different from the amounts currently provided in the financial statements. Nevertheless, RiverStone Insurance (UK) believes that the reserves carried for these exposures are adequate based on known facts and current interpretation of applicable laws.

**Claims Relating to Terrorist Attacks of 11<sup>th</sup> September 2001**

RiverStone Insurance (UK), primarily through its reinsurance of Syndicate 3500, has exposure to insured losses incurred in the terrorist attacks in the United States of America on 11<sup>th</sup> September 2001. Syndicate 3500 was a first-tier reinsurer of American Airlines and a direct insurer of losses related to property and contingency coverage. Syndicate 3500 also has assumed reserves for excess of loss reinsurances of other insurers and reinsurers. These claims are fully reinsured with unaffiliated reinsurers and with an affiliated company under a reinsurance contract.

In December 2017, the direct claim brought by World Trade Centre Properties LLC (“WTCP”), against American Airlines, United Airlines and the airlines’ security contractors (Globe and Huntleigh) (“the Aviation Defendants”) was settled by agreement, for \$97 million for 100% of Aviation Defendants’ interests. The prior reserves of Syndicate 3500 had been based on a market reserve of \$865 million.

The settlement of WTC aviation losses is now inherently certain within the loss settlement noted above and the majority of the claim payments and reinsurance recoveries will be concluded in 2018.

At 31<sup>st</sup> December 2017, the remaining reserves of Syndicate 3500 in connection with the events of 11<sup>th</sup> September are estimated to be a total of \$18.6 million gross and \$11.2 million net. Of these amounts, \$13.8 million gross and \$7.6 million net relate to aviation losses and the remainder is in respect of non-aviation losses. RiverStone Insurance (UK)’s gross and net reserves in respect of amounts ceded from Syndicate 3500 is \$10.9 million, reflecting net premiums receivable as well as loss reserves.

ii) **Defined Benefit Pension Scheme**

RiverStone Insurance (UK) has obligations to pay pension benefits through the outsource arrangement that is in place with RiverStone Management. The cost of these benefits and the present value of the obligation depend on a number of factors, including life expectancy, salary increases, asset valuations and the discount rate on corporate bonds. Management estimates these factors in determining the net pension obligation in the balance sheet. The assumptions reflect

**RiverStone Insurance (UK) Limited (Company No. 1167327)**  
**Notes to the Financial Statements**  
**For the year ended 31<sup>st</sup> December 2017**

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historical experience and current trends. Note 10 contains the disclosures relating to the defined benefit pension scheme.

**5. Management of Insurance and Financial Risk**

**Financial Risk Management Objectives**

RiverStone Insurance (UK) is exposed to insurance risk through the insurance contracts that it has written, or which have been legally transferred to it, and to financial risk through its financial assets, reinsurance assets and policyholder liabilities. In particular, the key financial risk is that the proceeds from financial assets are not sufficient to fund the obligations arising from insurance policies as they fall due. The most important components of this financial risk are market risk (including interest rate risk, equity price risk and currency risk), credit risk and liquidity risk.

RiverStone Insurance (UK) has established an overall risk management policy which focuses on the main risks to which it is exposed, paying particular attention to key risks which impact on the overall operation of the business. A risk register is maintained which is updated at least quarterly. All risks on the register are reviewed with key management personnel and the Board reviews the key risks on a quarterly basis.

**(a) Insurance Risk**

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

The principal risk that RiverStone Insurance (UK) 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 materially be affected by a change in any subset of the portfolio. RiverStone Insurance (UK) has a diversified portfolio of insurance risks, all of which relate to business originally written previously, and which are mature in nature.

RiverStone Insurance (UK) 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 an affiliate reinsurer.

**i) Process for Assessment of Technical Provisions**

RiverStone Insurance (UK) adopts a consistent process to the calculation of an appropriate provision for the exposures arising from the business it has written. A full reserving analysis is conducted at least annually and the technical provisions recorded on the balance sheet are in line with the Board's view of the best estimate value of the underlying liabilities.

The technical provisions recorded at the reporting date comprise the estimated ultimate cost of settlement of all claims incurred in respect of events up to that date, whether reported or not, together with related claims handling expenses, less amounts already paid. The estimated cost of claims includes direct expenses to be incurred in settling claims, net of the expected subrogation

**RiverStone Insurance (UK) Limited (Company No. 1167327)**  
**Notes to the Financial Statements**  
**For the year ended 31<sup>st</sup> December 2017**

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value and other recoveries. RiverStone Insurance takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. The provision is based on known facts at the balance sheet date. The provision is reviewed as part of a regular ongoing reserving process as the loss experience develops, certain claims are settled and further claims are reported. The cash flow, paid claims, outstanding claims, claims counts and incurred movement are compared with the actuaries' expected development of the account by class and year and where statistically significant, large loss or loss type. Where necessary, revisions are made to the ultimate expected loss on a best estimate basis.

RiverStone Insurance (UK) uses assumptions based on a mixture of claims information, internal historical data and market data to measure its claims liabilities. This information is used to project the ultimate expected number and value of claims, by major class of business, using recognised statistical estimation techniques.

Assumptions are reviewed and tested regularly in the light of actual claims development and general market movements and trends.

ii) Sources of Uncertainty in the Estimation of Future Claim Payments

The sources of estimation uncertainty in establishing the ultimate liability arising from claims made under insurance contracts is discussed in Note 4.

RiverStone Insurance (UK) takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the future looking nature of outstanding claims and latency involved with certain classes of claims, for example asbestos exposures, it is likely that the final outcome, on a claim by claim basis, will prove to be different from the original assessed reserve for any given claim, although in aggregate, for known claims, the expected outcome is intended to be close to a breakeven, on a best estimate basis, with neither surplus or loss being generated over time. This is an aspect of executive and actuarial review which is closely monitored. In respect of latent claims (those that have yet to be notified) care is taken to assess historical notification patterns and the propensity of the underlying classes to produce losses (for example some policy classes are on the claims made basis and no new notifications are able to be made post expiry). The estimation of future losses will be cross referred to industry benchmarks and adjusted for actual experience over time.

The liability for insurance contracts comprises a provision for claims incurred but not yet reported and a provision for reported claims not yet paid. The estimation of claims incurred but not reported is generally subject to a greater degree of uncertainty than the estimates of claims that have already been notified, for which there is more information available.

iii) Key Assumptions and Sensitivities

The assumptions that have the greatest impact on technical provisions are those that affect the expected level of claims. The most material liabilities and uncertainties for RiverStone Insurance (UK) relate to asbestos and European motor claims. Both the asbestos exposures and those of the European motor book are of a long-tailed nature and involve the resolution and settlement of claims arising from severe bodily injury.

The most sensitive assumptions in respect of the assessment of the ultimate liability for European motor exposures are long-term assumptions on the cost of continuing care and related inflationary factors. Since the claims are paid over an extended period, the final outcome is highly geared to the longer term inflation, mortality and interest rate valuation assumptions.

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The underlying sensitivity of the technical provisions in respect of asbestos claims is driven by large individual bodily injury claims and their cost of closure through the US court systems and other mechanisms. The claims have a long latency period and their emergence is also dependent on the efficiency with which the US legal system identifies and processes these claims. Direct insurance exposures have proved over the previous 5 years to have developed largely as anticipated, in a stable manner. Where RiverStone Insurance (UK) acts as a high excess or reinsurance writer, then the residual variability is inherently greater and appropriate provisions are carried in recognition of this.

iv) Claims Development Tables

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

<b>Claims outstanding (gross)</b>					
<b>Underwriting year</b>	<b>2011</b>	<b>2012</b>	<b>2014</b>	<b>2015</b>	<b>Total</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<b>Estimate of ultimate claims costs:</b>					
At end of reporting year	108,617	236,323	56,909	82,256	484,105
- One year later	83,748	219,637	58,150	79,130	440,665
- Two years later	68,961	212,954	54,734	80,281	416,930
- Three years later	67,295	205,974	61,727		334,996
- Four years later	63,036	201,372			264,408
- Five years later	60,423	191,048			251,471
- Six years later	52,188				52,188
- Seven years later					-
- Eight years later					-
- Nine years later					-
Current estimate of cumulative claims	52,188	191,048	61,727	80,281	385,244
Cumulative payments to date	(33,793)	(109,209)	(20,194)	(27,096)	(190,292)
<b>Liability recognised in the balance sheet</b>	<b>\$ 18,395</b>	<b>\$ 81,839</b>	<b>\$ 41,533</b>	<b>\$ 53,185</b>	<b>\$ 194,952</b>
Reserve in respect of prior years					142,822
<b>Total reserve included in balance sheet</b>					<b>\$ 337,774</b>

<b>Claims outstanding (net)</b>					
<b>Underwriting year</b>	<b>2011</b>	<b>2012</b>	<b>2014</b>	<b>2015</b>	<b>Total</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<b>Estimate of ultimate claims costs:</b>					
At end of reporting year	108,617	197,675	-	-	306,292
- One year later	83,748	180,989	-	-	264,737
- Two years later	68,961	181,460	-	-	250,421
- Three years later	67,295	175,611	-	-	242,906
- Four years later	63,036	170,714	-	-	233,750
- Five years later	60,423	163,469	-	-	223,892
- Six years later	52,188				52,188
- Seven years later					-
- Eight years later					-
- Nine years later					-
Current estimate of cumulative claims	52,188	163,469	-	-	215,657
Cumulative payments to date	(33,793)	(94,487)	-	-	(128,280)
<b>Liability recognised in the balance sheet</b>	<b>\$ 18,395</b>	<b>\$ 68,982</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 87,377</b>
Reserve in respect of prior years					137,082
<b>Total reserve included in balance sheet</b>					<b>\$ 224,459</b>

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RiverStone Insurance (UK) did not write any business between 2008 and 2011, in 2013 or after 2015 and therefore these columns are not presented in the above tables.

v) Insurance Risk Concentrations

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

	2017		2016	
	Gross \$'000	Net \$'000	Gross \$'000	Net \$'000
Asbestos	74,805	41,121	83,329	48,986
European Motor/ Third Party Liability	75,505	75,496	70,595	70,588
Asbestos structured settlements	40,983	26,530	45,350	29,305
Italian Medical Malpractice	40,721	-	41,301	-
WTC	10,942	10,942	37,352	37,352
Pollution	17,651	10,128	20,990	12,066
All other loss reserves	67,831	52,345	65,559	49,381
Claims expense reserve	9,336	7,897	11,536	10,034
<b>Total technical provisions</b>	<b>\$ 337,774</b>	<b>\$ 224,459</b>	<b>\$ 376,012</b>	<b>\$ 257,712</b>

(b) Market Risk

i) Interest Rate Risk

Interest rate risk arises primarily from investments in fixed interest securities. In addition, to the extent that claims inflation is correlated to interest rates, liabilities to policyholders are exposed to interest rate risk. RiverStone Insurance (UK) works closely with its investment manager to review the duration of the investment portfolio in relation to the estimated mean duration of the liabilities.

Given the short term nature of the cash and investments of RiverStone Insurance (UK), it is not exposed to significant interest rate risk since maturing short term investments are repriced at market interest rates on an ongoing basis.

The impact of a 100 basis point increase in interest rates on the value of RiverStone Insurance (UK)'s investments held at 31<sup>st</sup> December 2017 is an approximate \$3 million loss (2016: \$5.9 million loss) to the profit and loss account. Similarly, a 100 basis point decrease in interest rates would give rise to an approximate \$1.7 million gain (2016: \$5 million gain) to the profit and loss account.

ii) Equity Price Risk

RiverStone Insurance (UK) is exposed to equity securities price risk as a result of its holdings in equity investments, classified as financial assets at fair value through profit or loss. Exposures to individual companies and to equity shares in aggregate are monitored in order to ensure compliance with the relevant regulatory limits for solvency.

Investments held comprise unlisted and listed investments. Listed investments are those that are traded on recognised stock exchanges, primarily in Europe, North America and Asia.

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RiverStone Insurance (UK) has a defined investment policy which sets limits on its exposure to equities, both in aggregate terms and by counterparty. This policy of diversification is used to manage RiverStone Insurance (UK)'s price risk arising from its investments in equity securities. Listed equity securities held at 31<sup>st</sup> December 2017 represent 68.4% of total equity investments. If equity market indices had increased/decreased by 5%, with all other variables held constant, and all RiverStone Insurance (UK)'s equity investments moved according to the historical correlation with the index, the profit for the year would increase/decrease by \$4.6 million (2016: \$3.4 million).

iii) **Currency Risk**

RiverStone Insurance (UK) manages its foreign exchange risk against its functional currency, which is the US Dollar. RiverStone Insurance (UK) 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. RiverStone Insurance (UK) seeks to mitigate the risk by matching the estimated foreign currency denominated liabilities with assets denominated in the same currency and by the utilisation of forward currency contracts.

At 31<sup>st</sup> December 2017, if the Euro had weakened by 10% more than the actual 2017 movement against the US Dollar with all other variables held constant, profit for the year would have been \$234,000 lower (2016: \$4.2 million lower), mainly as a result of net foreign exchange gains on the translation of US Dollar denominated financial assets, and US Dollar denominated liabilities, after forward currency contracts are taken into account.

At 31<sup>st</sup> December 2017, if the Pound had weakened by 10% more than the actual 2017 movement against the US Dollar with all other variables held constant, profit for the year would have been \$1.4 million higher (2016: \$3.7 million higher), mainly as a result of net foreign exchange gains on the translation of US Dollar denominated financial assets, and US Dollar denominated liabilities, after forward currency contracts are taken into account.

(c) **Credit Risk**

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due. Key areas where RiverStone Insurance (UK) is exposed to credit risk are:

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

As RiverStone Insurance (UK) is in runoff its exposures to reinsurers and insurance intermediaries are determined by contracts previously written. RiverStone Insurance (UK) manages the levels of credit risk from reinsurers and insurance intermediaries by quarterly review of receivable balances by counterparty. Management assesses the creditworthiness of all reinsurers and intermediaries by reviewing credit grades provided by rating agencies and other publicly available financial information. It is RiverStone Insurance (UK)'s policy to provide for reinsurer bad debts in situations where it does not expect to collect the full amount outstanding due to the financial position of the reinsurer or due to disputes over coverage. In certain circumstances, collateral is held in order to mitigate RiverStone Insurance (UK)'s credit risk exposure. This collateral is in the form of security accounts, deposits and letters of credit from reinsurers.

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RiverStone Insurance (UK) reduces its exposure to credit risk in relation to investments by entering into transactions with counterparties that are reputable and by settling trades through recognized exchanges. RiverStone Insurance (UK) maintains strict control limits on open derivative positions. The amount subject to credit risk at any one time is limited to the current fair value of derivative financial assets. RiverStone Insurance (UK) specifically monitors its exposure to the credit risk of the loan receivable that it has from an affiliated company. RiverStone Insurance (UK) reviews the financial performance of the affiliated entity on a quarterly basis.

The assets bearing credit risk are summarized below, together with an analysis by credit rating (AM Best or equivalent):

	2017 \$'000	2016 \$'000
Derivative financial instruments	458	152
Debt securities	272,250	231,873
Assets arising from reinsurance contracts held	203,110	230,129
Cash at bank and in hand	17,675	37,184
Affiliated loan receivable	114,646	114,646
<b>Total assets bearing credit risk</b>	<b>\$ 608,139</b>	<b>\$ 613,984</b>
A++	249,299	180,307
A+	8,609	20,192
A, A-	11,139	150,191
B++ and below or not rated (including affiliated assets)	339,092	263,294
<b>Total assets bearing credit risk</b>	<b>\$ 608,139</b>	<b>\$ 613,984</b>

Assets arising from reinsurance contracts held, including premium receivable are further analysed as follows:

	2017 \$'000	2016 \$'000
Performing	201,804	226,934
Past due	1,306	3,195
Impaired	8,772	9,869
Provision for irrecoverable amounts	(8,772)	(9,869)
<b>Total</b>	<b>\$ 203,110</b>	<b>\$ 230,129</b>

### (d) Liquidity Risk

The primary liquidity risk is the obligation to pay claims to policy holders as they fall due. The projected settlement of these liabilities is modelled, on a regular basis, using actuarial techniques. The Board sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of borrowing facilities that should be in place to cover anticipated liabilities and unexpected levels of demand. The table below analyses the maturity of RiverStone Insurance (UK)'s financial liabilities and outstanding claims. All liabilities are presented on a contractual cash flow basis except for the insurance liabilities, which are presented in their expected cash flows.

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	No Contractual Maturity Date £'000	< 6 months or on demand £'000	Between 6 months and 1 year £'000	Between 1 year and 2 years £'000	Between 2 years and 5 years £'000	> 5 Years £'000	Carrying Value £'000
<b>At 31<sup>st</sup> December 2017</b>							
Financial liabilities under investment contracts	-	236	-	-	-	-	236
Creditors	-	16,694	4,047	7,926	20,507	13,663	62,837
	-	16,930	4,047	7,926	20,507	13,663	63,073
Claims outstanding	-	19,209	19,209	26,662	68,880	203,814	337,774
<b>Financial liabilities and outstanding claims</b>	<b>\$ -</b>	<b>\$ 36,139</b>	<b>\$ 23,256</b>	<b>\$ 34,588</b>	<b>\$ 89,387</b>	<b>\$ 217,477</b>	<b>\$ 400,847</b>
<b>At 31<sup>st</sup> December 2016</b>							
Financial liabilities under investment contracts	-	2,086	-	-	-	-	2,086
Creditors	-	10,546	3,431	5,833	13,222	30,348	63,380
	-	12,632	3,431	5,833	13,222	30,348	65,466
Claims outstanding	-	46,830	46,830	30,872	72,868	178,612	376,012
<b>Financial liabilities and outstanding claims</b>	<b>\$ -</b>	<b>\$ 59,462</b>	<b>\$ 50,261</b>	<b>\$ 36,705</b>	<b>\$ 86,090</b>	<b>\$ 208,960</b>	<b>\$ 441,478</b>

**(e) Capital Management**

RiverStone Insurance (UK) maintains an efficient capital structure comprising only its equity shareholders' funds, consistent with its risk profile and the regulatory and market requirements of its business. RiverStone Insurance (UK)'s objectives in managing its capital are:

- to satisfy the requirements of its policyholders, regulators and other stakeholders;
- to match the profile of its assets and liabilities, taking account of the risks inherent in the business;
- to retain financial flexibility by maintaining adequate liquidity

RiverStone Insurance (UK) considers not only the traditional sources of capital funding but the alternative sources of capital including reinsurance and securitisation, as appropriate, when assessing its deployment and usage of capital. RiverStone Insurance (UK) manages as capital all items that are eligible to be treated as capital for regulatory purposes. RiverStone Insurance (UK) is regulated by the Prudential Regulation Authority and Financial Conduct Authority ("FCA") and is subject to insurance solvency regulations which specify the minimum amount and type of capital that must be held in addition to the insurance liabilities. RiverStone Insurance (UK) manages capital in accordance with these rules and performs the necessary tests to ensure continuous and full compliance with such regulations. RiverStone Insurance (UK) manages its own regulatory capital by reference to both minimum capital requirements and also self-assessed risk-based capital determined under EU Directive. RiverStone Insurance (UK) has complied with all of its capital requirements throughout the year.

At the end of the year, RiverStone Insurance (UK) held Solvency II own funds capital of \$283 million (2016: \$261 million).



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**6. Reconciliation of Technical Provisions**

A reconciliation of the changes to RiverStone Insurance (UK)'s gross, ceded and net loss reserves from 1<sup>st</sup> January 2017 to 31<sup>st</sup> December 2017 is as follows:

	Gross \$'000	Ceded \$'000	Net \$'000
Amounts at 1 <sup>st</sup> January 2017	376,012	118,300	257,712
Amounts paid during the year	(32,751)	(11,228)	(21,523)
Change in estimate of reserves	(21,112)	255	(21,367)
Technical balances write off	(2,103)	-	(2,103)
Foreign exchange	17,728	5,988	11,740
<b>Amounts at 31<sup>st</sup> December 2017</b>	<b>\$ 337,774</b>	<b>\$ 113,315</b>	<b>\$ 224,459</b>

**7. Analysis of Gross Business**

	Gross premiums written 2017 \$'000	Gross premiums earned 2017 \$'000	Gross claims incurred 2017 \$'000	Gross operating expenses 2017 \$'000	Re- insurance balance 2017 \$'000
<b>Direct Insurance</b>					
Motor	18	18	(803)	(92)	(34)
Marine, aviation and transport	(8)	(8)	473	26	(247)
Fire and other damage to property	41	41	8	(24)	-
Third-party liability	(398)	(398)	44,332	(2,849)	(44,057)
Miscellaneous	10	10	(10)	(7)	22
	(337)	(337)	44,000	(2,946)	(44,316)
<b>Reinsurance acceptances</b>	(325)	(325)	(20,782)	(6,156)	46,216
<b>Total</b>	<b>\$ (662)</b>	<b>\$ (662)</b>	<b>\$ 23,215</b>	<b>\$ (9,102)</b>	<b>\$ 1,900</b>
	2016 \$'000	2016 \$'000	2016 \$'000	2016 \$'000	2016 \$'000
<b>Direct Insurance</b>					
Motor	-	-	510	(48)	1
Marine, aviation and transport	-	-	(1,187)	(247)	(40)
Fire and other damage to property	-	-	(57)	(5)	(40)
Third-party liability	-	-	1,770	(6,568)	(418)
Miscellaneous	-	-	293	(48)	-
	-	-	1,329	(6,916)	(497)
<b>Reinsurance acceptances</b>	-	-	1,118	(6,943)	(1,594)
<b>Total</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 2,447</b>	<b>\$ (13,859)</b>	<b>\$ (2,091)</b>

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**8. Net Operating Expenses**

	2017 \$'000	2016 \$'000
Administrative expenses	\$ <u>7,912</u>	\$ <u>12,217</u>

RiverStone Insurance (UK) has no employees. The administration of RiverStone Insurance (UK) is carried out by RiverStone Management, a fellow subsidiary, which also provides these services to other group companies.

The Directors receive no emoluments from RiverStone Insurance (UK). The contracts of employment of the U.K. executive Directors and employees are with RiverStone Management which makes charges to RiverStone Insurance (UK) for the services described above. Emoluments paid by RiverStone Management to the Directors of RiverStone Insurance (UK) in respect of their services as directors of RiverStone Insurance (UK) are summarised below. These amounts represent emoluments based on an apportionment of the Directors' time.

	2017 \$'000	2016 \$'000
Aggregate emoluments	\$ <u>835</u>	\$ <u>814</u>

Retirement benefits are accruing to four directors (2016: four) under a defined benefit pension scheme.

During the year no directors exercised share options (2016: none).

The Directors' remuneration disclosed above includes the following amounts paid to the highest paid Director:

	2017 \$'000	2016 \$'000
Aggregate emoluments	\$ <u>319</u>	\$ <u>321</u>

As at 31<sup>st</sup> December 2017 a pension of \$72,829 per annum (2016: \$71,100) was accrued under a defined benefit pension scheme for the highest paid Director.

**9. Auditors' Remuneration**

	2017 \$'000	2016 \$'000
Audit	320	332
Audit related assurance services	73	92
Tax compliance services	-	6
Other assurance services	-	102
Other non-audit services	<u>15</u>	<u>62</u>
	\$ <u>408</u>	\$ <u>594</u>

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**10. Pension Costs**

RiverStone Holdings Limited (“RiverStone Holdings”) is the principal employer for the RiverStone group’s defined benefit scheme (“the Plan”). The Plan was closed to new entrants with effect from 1<sup>st</sup> January 2003 and its funds are administered by trustees. The Plan is non-contributory for members. The Plan’s statutory funding objective is to hold sufficient and appropriate assets to cover its technical provisions. Company contributions are paid to the Plan in accordance with the recommendations of an independent actuarial advisor. As the Plan is closed to new entrants, under the method used to calculate pension costs in accordance with FRS102, the cost as a percentage of covered pensionable payroll will tend to increase as the average age of the membership increases.

RiverStone Management is the primary participating employer of the Plan. RiverStone Management pays contributions into the Plan and these are recharged to RiverStone Insurance (UK) and RiverStone Insurance in accordance with the administration outsource agreements that are in place. The amount of contribution to be paid by each entity is determined by reference to the allocation of overall costs for the year in accordance with the outsource agreements.

In accordance with FRS102, the Plan is accounted for in the financial statements of RiverStone Insurance (UK) and RiverStone Insurance, in proportion to the allocation of the contributions that are recharged from RiverStone Management.

The last full actuarial valuation of the Plan was carried out as at 31<sup>st</sup> March 2017. The results from the 31<sup>st</sup> March 2017 actuarial valuation have been updated to 31<sup>st</sup> December 2017, in line with the requirements of FRS102, and to reflect changes in market conditions, in order to measure the defined benefit obligation as at 31<sup>st</sup> December 2017. The principal actuarial assumptions used in the measurement of the defined benefit obligation as at 31<sup>st</sup> December 2017 are as follows:

	<b>31<sup>st</sup> December 2017</b>	<b>31<sup>st</sup> December 2016</b>
RPI inflation	3.2%	3.3%
CPI inflation	2.1%	2.2%
Discount rate	2.6%	2.9%
Rate of increase in salaries	3.8%	3.8%
Pension increases in payment (RPI capped at 5%)	3.1%	3.1%
Pension increases in payment (RPI capped at 2.5%)	2.1%	2.1%
Pension increases in payment (CPI capped at 5%)	2.1%	2.2%
Pension increases in payment (CPI capped at 3%)	1.9%	2.0%

The net amounts included in the balance sheet arising from the obligations in respect of the Plan are as follows. These comprise the amounts in respect of the total Plan and those in respect of RiverStone Insurance (UK)’s share.

	<b>31<sup>st</sup> December 2017</b>		<b>31<sup>st</sup> December 2016</b>	
	<b>Total</b>	<b>Share</b>	<b>Total</b>	<b>Share</b>
	<b>\$’000</b>	<b>\$’000</b>	<b>\$’000</b>	<b>\$’000</b>
Present value of defined benefit obligation	(154,538)	(88,640)	(133,578)	(77,475)
Fair value of plan assets	<u>153,551</u>	<u>88,067</u>	<u>134,584</u>	<u>78,058</u>
Surplus (deficit) included in balance sheet	(987)	(573)	1,006	583
Related deferred tax asset (liability) recognised	<u>168</u>	<u>97</u>	<u>(171)</u>	<u>(99)</u>
<b>Asset (liability) net of deferred tax</b>	<b>\$ (819)</b>	<b>\$ (476)</b>	<b>\$ 835</b>	<b>\$ 484</b>

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Changes in the present value of the total Plan defined benefit obligation are as follows:

	<b>2017 Total Plan \$'000</b>
Opening defined benefit obligation	133,578
Employer's part of current service cost	2,360
Interest expense	3,992
Contributions from plan members	-
Actuarial loss	6,852
Benefits paid	(5,294)
Curtailement result	-
Foreign exchange	13,050
<b>Closing defined benefit obligation</b>	<b>\$ <u>154,538</u></b>

Changes in the fair value of the total Plan assets are as follows:

	<b>2017 Total Plan \$'000</b>
Opening fair value of plan assets	134,584
Interest income	4,107
Plan administration expenses	(410)
Actuarial loss	(268)
Contributions by the employer	7,786
Contributions by plan members	-
Benefits paid	(5,294)
Foreign exchange	13,046
<b>Closing fair value of plan assets</b>	<b>\$ <u>153,551</u></b>

The total amounts recognised in the Profit and Loss Accounts of RiverStone Insurance and RiverStone Insurance (UK) for the Plan, together with those in respect of RiverStone Insurance (UK)'s share, are as follows:

	<b>2017 Total Plan \$'000</b>	<b>2017 Share \$'000</b>	<b>2016 Total Plan \$'000</b>	<b>2016 Share \$'000</b>
Employer's part of current service cost	2,360	1,156	1,955	1,134
Gain on settlements and curtailments	-	-	-	-
Net interest income	(115)	(67)	(385)	(223)
Plan administration expenses	410	237	256	148
<b>Total expense included in profit and loss account</b>	<b>\$ <u>2,655</u></b>	<b>\$ <u>1,326</u></b>	<b>\$ <u>1,826</u></b>	<b>\$ <u>1,059</u></b>

# RiverStone Insurance (UK) Limited (Company No. 1167327)

## Notes to the Financial Statements

### For the year ended 31<sup>st</sup> December 2017

The amounts recognised as re-measurements of net defined benefit obligation in the Statements of Other Comprehensive Income of RiverStone Insurance and RiverStone Insurance (UK) for the Plan, together with those in respect of RiverStone Insurance (UK)'s share, are as follows:

	<b>2017</b>		<b>2016</b>	
	<b>Total</b>	<b>2017</b>	<b>Total</b>	<b>2016</b>
	<b>Plan</b>	<b>Share</b>	<b>Plan</b>	<b>Share</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Actuarial loss on defined benefit obligation	6,852	3,974	31,335	18,176
Actuarial loss (gain) on fair value of Plan assets	<u>268</u>	<u>156</u>	<u>(21,422)</u>	<u>(12,425)</u>
<b>Re-measurements of net defined benefit obligation</b>	<b>\$ <u>7,120</u></b>	<b>\$ <u>4,130</u></b>	<b>\$ <u>9,913</u></b>	<b>\$ <u>5,751</u></b>

The current allocation of the Plan's assets is as follows:

	<b>31<sup>st</sup> December</b>	<b>31<sup>st</sup> December</b>
	<b>2017</b>	<b>2016</b>
Equity instruments	70%	46%
Debt instruments	0%	54%
Cash	<u>30%</u>	<u>0%</u>
	<b><u>100%</u></b>	<b><u>100%</u></b>

The Plan does not invest in any employer-related investments or employer-related properties.

The total actual return on the Plan's assets over the year was a gain of \$3.8 million (2016: \$26.2 million gain).

#### 11. Investment Return

	<b>2017</b>	<b>2016</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Investment income</b>		
Income from available for sale financial assets	1,623	4,027
Income from financial assets at fair value through profit and loss – designated upon initial recognition	493	2,078
Deposit interest	22	47
Income from treasury bills	1,927	460
Interest on deposits withheld	-	464
Interest from affiliated company	9,712	9,712
Income ceded under reinsurance contract	<u>(194)</u>	<u>(398)</u>
	<b>\$ <u>13,583</u></b>	<b>\$ <u>16,390</u></b>
<b>Realised gains(losses) on investments</b>		
Financial assets at fair value through profit and loss:		
Held for trading	21,417	(5,367)
Available for sale financial assets	<u>(13)</u>	<u>172</u>
	<b>\$ <u>21,404</u></b>	<b>\$ <u>(5,195)</u></b>

**RiverStone Insurance (UK) Limited** (Company No. 1167327)  
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**12. Investment Expenses and Charges**

	2017 \$'000	2016 \$'000
Investment Expenses	\$ <u>1,339</u>	\$ <u>1,239</u>

**13. Tax**

	2017 \$'000	2016 \$'000
<b>(a) Tax on Profit (Loss)</b>		
<b>Current tax</b>		
UK corporation tax at 19.25% (2016: 20%) based on the profit (loss) for the year	11,946	(2,320)
Group relief claimed for nil consideration	(646)	-
Withholding tax	48	59
Prior year adjustment	<u>(305)</u>	<u>(1,279)</u>
Total current tax charge (credit)	<u>11,043</u>	<u>(3,540)</u>
<b>Deferred tax</b>		
Origination and reversal of timing differences	<u>506</u>	<u>380</u>
<b>Total tax charge (credit)</b>	<b>\$ <u>11,549</u></b>	<b>\$ <u>(3,160)</u></b>
<b>(b) Tax expense included in Other Comprehensive Income</b>		
<b>Deferred tax</b>		
Origination and reversal of timing differences	<b>\$ <u>(702)</u></b>	<b>\$ <u>(977)</u></b>
<b>(c) Factors affecting the tax charge for the year</b>		

The corporation tax assessed for the year differs to the standard rate of corporation tax in the UK of 19.25% (2016: 20%). The differences are explained below:

	2017 \$'000	2016 \$'000
<b>Profit (loss) before tax</b>	<b>\$ <u>63,892</u></b>	<b>\$ <u>(7,480)</u></b>
Profit (loss) before tax multiplied by the UK corporate tax rate of 19.25% (2016: 20%)	12,299	(1,496)
Non-taxable dividend income	(155)	(283)
Expenses not deductible for tax purposes	172	(233)
Available for sale investment movements	106	179
Tax effect of rate changes	(67)	(153)
Withholding tax	48	59
Tax on overseas earnings	97	46
Group relief claimed for nil consideration	(646)	-
Prior year adjustment	<u>(305)</u>	<u>(1,279)</u>
<b>Total tax charge (credit) for the year</b>	<b>\$ <u>11,549</u></b>	<b>\$ <u>(3,160)</u></b>

**RiverStone Insurance (UK) Limited (Company No. 1167327)**  
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**(d) Tax rate changes**

The tax rate for the current year is lower than the prior year, due to changes in the UK corporation tax rate, which decreased from 20% to 19% from 1<sup>st</sup> April 2017. Changes to the UK corporation tax rates were substantively enacted as part of Finance Bill 2016 (on 6<sup>th</sup> September 2016). These include reductions to the main rate to reduce the rate to 17% from 1<sup>st</sup> April 2020. Deferred taxes at the balance sheet date have been measured using these enacted tax rates and reflected in these financial statements.

**14. Investments in Subsidiary Undertakings**

RiverStone Insurance (UK) directly owns all of the ordinary issued share capital of RiverStone Luxembourg S.à.r.l., which is valued at cost.

	Cost 2016 \$'000	Cost 2017 \$'000	Shareholders' Equity at 31 Dec 2016 \$'000	Profit And Loss \$'000	Shareholders' Equity at 31 Dec 2017 \$'000
RiverStone Luxembourg S.à.r.l					
Dormant	\$ 15	\$ 13	\$ 8	\$ (8)	\$ -

RiverStone Luxembourg S.à.r.l was incorporated on 14<sup>th</sup> June 2016. Its registered address is 20 Rue Eugene Ruppert, L-2453 Luxembourg.

**15. Other Financial Investments**

**(a) Other Financial Investments by Category**

	Market Value 2017 \$'000	Market Value 2016 \$'000	Historic Cost 2017 \$'000	Historic Cost 2016 \$'000
<b>Financial Assets – at fair value through profit and loss</b>				
Shares and other variable-yield securities and units in unit trusts - designated at fair value through profit and loss on initial recognition	133,779	112,573	122,392	118,663
Debt securities and other fixed interest securities designated at fair value through profit and loss on initial recognition	265,059	227,061	262,449	221,253
Derivative financial instruments - at fair value through profit and loss, held for trading	458	152	-	-
	<u>\$ 399,296</u>	<u>\$ 339,786</u>	<u>\$ 384,841</u>	<u>\$ 339,916</u>

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	Market Value 2017 \$'000	Market Value 2016 \$'000	Historic Cost 2017 \$'000	Historic Cost 2016 \$'000
<b>Available for sale</b>				
Equity shares	57	50	48	48
Debt securities and other fixed income securities	<u>7,191</u>	<u>4,812</u>	<u>8,274</u>	<u>8,292</u>
	<u>7,248</u>	<u>4,862</u>	<u>8,322</u>	<u>8,340</u>
	<u>\$ 406,544</u>	<u>\$ 344,648</u>	<u>\$ 393,163</u>	<u>\$ 348,256</u>

**Financial Liabilities**

Derivative financial instruments - at fair value through profit and loss, held for trading	<u>\$ 236</u>	<u>\$ 2,086</u>	<u>\$ -</u>	<u>\$ -</u>
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**(b) Listed Investments**

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

	2017 \$'000	2016 \$'000
<b>At fair value through profit and loss</b>		
Debt securities and other fixed-income securities designated at fair value through profit or loss upon initial recognition	42,146	70,816
Equity shares	<u>91,599</u>	<u>68,883</u>
	<u>133,745</u>	<u>139,699</u>
<b>Available for sale</b>		
Debt securities and other fixed-income securities	<u>7,191</u>	<u>4,812</u>
<b>Total listed investments</b>	<u>\$ 140,936</u>	<u>\$ 144,511</u>

**(c) Derivative Financial Instruments at Fair Value through Profit and Loss**

	Market Value 2017 \$'000	Market Value 2016 \$'000	Historic Cost 2017 \$'000	Historic Cost 2016 \$'000
<b>Derivative financial instruments assets</b>				
Foreign currency forward contracts	<u>\$ 458</u>	<u>\$ 152</u>	<u>\$ -</u>	<u>\$ -</u>



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	Market Value 2017 \$'000	Market Value 2016 \$'000	Historic Cost 2017 \$'000	Historic Cost 2016 \$'000
<b>Derivative financial instruments liabilities</b>				
Foreign currency forward contracts	-	1,437	-	-
Short forward – Government bonds	236	649	-	-
	<u>\$ 236</u>	<u>\$ 2,086</u>	<u>\$ -</u>	<u>\$ -</u>

The functional currency of RiverStone Insurance (UK) is US Dollar and consequently is exposed to foreign exchange movements in currencies other than US Dollar. RiverStone Insurance (UK) has foreign currency forward contracts in place to provide protection against the impact of potential adverse fluctuations in exchange rates on RiverStone Insurance (UK's) net asset positions.

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

	Market Value		Contract/Notional Amount	
	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000
Foreign currency contracts	<u>\$ 457</u>	<u>\$ (1,285)</u>	<u>\$ 26,200</u>	<u>\$ 85,000</u>

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

	Level 1 2017 \$'000	Level 2 2017 \$'000	Level 3 2017 \$'000	Total 2017 \$'000
<b>A fair value through profit and loss</b>				
Debt securities and other fixed-income securities designated at fair value through profit or loss upon initial recognition	222,914	42,145	-	265,059
Equity shares	91,599	37,427	4,753	133,779
Derivative financial instruments at fair value through profit or loss, held for trading	-	-	458	458
<b>Available for sale</b>				
Equity shares	-	-	57	57
Debt securities and other fixed-income securities	-	7,191	-	7,191
<b>Total</b>	<u><b>\$ 314,513</b></u>	<u><b>\$ 86,763</b></u>	<u><b>\$ 5,268</b></u>	<u><b>\$ 406,544</b></u>

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	Level 1 2016 \$'000	Level 2 2016 \$'000	Level 3 2016 \$'000	Total 2016 \$'000
<b>A fair value through profit and loss</b>				
Debt securities and other fixed-income securities designated at fair value through profit or loss upon initial recognition	156,245	70,816	-	227,061
Equity shares	64,665	36,757	11,151	112,573
Derivative financial instruments at fair value through profit or loss, held for trading	-	-	152	152
<b>Available for sale</b>				
Equity shares	-	-	50	50
Debt securities and other fixed-income securities	-	4,812	-	4,812
<b>Total</b>	<b>\$ 220,910</b>	<b>\$ 112,385</b>	<b>\$ 11,353</b>	<b>\$ 344,648</b>

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

**(e) Level 3 Pricing**

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

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

	At Fair Value Through Profit and Loss			Available for Sale	Total
	Debt Securities 2017 \$'000	Equity Shares 2017 \$'000	Derivatives 2017 \$'000	Equity Shares 2017 \$'000	
At 1 January	-	11,151	152	50	11,353
Total gains recognised in the profit and loss account	-	3,690	306	7	4,003
Purchases	-	580	-	-	580
Sales	-	(10,668)	-	-	(10,668)
Transfers from Level 2 to Level 3	-	-	-	-	-
<b>Total</b>	<b>\$ -</b>	<b>\$ 4,753</b>	<b>\$ 458</b>	<b>\$ 57</b>	<b>\$ 5,268</b>
	<b>2016 \$'000</b>	<b>2016 \$'000</b>	<b>2016 \$'000</b>	<b>2016 \$'000</b>	<b>2016 \$'000</b>
At 1 January	5,588	3,555	-	52	9,195
Total gains (losses) recognised in the profit and loss account	(588)	132	152	(2)	(306)
Purchases	-	2,106	-	-	2,106
Sales	(5,000)	(2,286)	-	-	(7,286)
Transfers from Level 2 to Level 3	-	7,644	-	-	7,644
<b>Total</b>	<b>\$ -</b>	<b>\$ 11,151</b>	<b>\$ 152</b>	<b>\$ 50</b>	<b>\$ 11,353</b>

Total gains of \$4,003,000 (2016: losses of \$306,000) comprise realised gains of \$3,024,000 (2016: nil) and unrealised gains of \$979,000 (2016: losses of \$306,000) on Level 3 financial investments held during the year, all of which are presented in the net investment return in the profit and loss account.

There were no transfers from Level 2 to Level 3 during the year (2016: transfer between Level 2 to 3, with a market value of \$7,644,000).

There were no transfers between Level 3 and Level 1, or between Levels 1 and 2 during the year.

**(g) Collateralised Investments**

RiverStone Insurance (UK) has outstanding letters of credit, guarantees and deposits of \$136,547,508 (2016: \$138,286,448) issued in favour of cedants and certain other creditors collateralised by investments and cash with a market value of \$151,181,000 and a cost of \$150,888,000 (2016: market value \$159,294,000; cost \$158,988,000).

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**16. Reinsurers' Share of Technical Provisions – Claims Outstanding**

Included within reinsurer's share of technical provisions – claims outstanding are amounts recoverable from an affiliated company of \$94.7 million (2016: \$97.2 million) in respect of a quota share reinsurance contract.

**17. Debtors Arising Out of Direct Insurance Operations**

	2017 \$'000	2016 \$'000
Amounts owed by intermediaries	\$ <u>117</u>	\$ <u>37</u>

**18. Debtors Arising Out of Reinsurance Operations**

	2017 \$'000	2016 \$'000
Amounts owed by reinsurers and intermediaries	24,415	39,611
Amounts owed by group undertakings	<u>65,380</u>	<u>72,218</u>
	\$ <u>89,795</u>	\$ <u>111,829</u>

**19. Other Debtors**

	2017 \$'000	2016 \$'000
Amounts owed by group undertakings	148,923	151,841
Tax	-	2,376
Other debtors	<u>130</u>	<u>-</u>
	\$ <u>149,053</u>	\$ <u>154,217</u>

**20. Called up Share Capital**

	2017	2016
<u>Allotted</u>		
10 (2016: 10) Ordinary Shares of £1 - fully paid	£ <u>10</u>	£ <u>10</u>
10 (2016: 10) 'A' Ordinary Shares of £1 - fully paid	£ <u>10</u>	£ <u>10</u>
157,062,215 (2016: 157,062,215) Ordinary Shares of \$1 - fully paid	\$ <u>157,062,215</u>	\$ <u>157,062,215</u>

In all respects Ordinary US Dollar Shares rank pari passu with the Ordinary Sterling Shares.

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Allotted, issued and called up share capital presented in US dollars as adopted in the Financial Statements:

	2017 \$'000	2016 \$'000
10 (2016: 10) Ordinary Shares of £1 - fully paid	-	-
10 (2016: 10) 'A' Ordinary Shares of £1 - fully paid	-	-
157,062,215 (2016: 157,062,215) Ordinary Shares of \$1 - fully paid	<u>157,062</u>	<u>157,062</u>
	<b>\$ 157,062</b>	<b>\$ 157,062</b>

**21. Creditors Arising Out of Reinsurance Operations**

	2017 \$'000	2016 \$'000
Balances owed to cedants and intermediaries	9,397	10,613
Amounts owed to group undertaking	<u>45,918</u>	<u>52,347</u>
	<b>\$ 55,315</b>	<b>\$ 62,960</b>

**22. Other Creditors Including Tax and Social Security**

	2017 \$'000	2016 \$'000
Tax	<u>6,949</u>	<u>420</u>

**23. Deferred Tax**

	2017 \$'000	2016 \$'000
Liability at 1 <sup>st</sup> January 2017	(99)	(768)
Recognition of future timing differences	<u>196</u>	<u>669</u>
<b>Asset (liability) at 31<sup>st</sup> December 2017</b>	<b>\$ 97</b>	<b>\$ (99)</b>

The deferred tax provision comprises the timing difference in respect of the net amount recorded on the balance sheet for the defined benefit pension scheme and is based on a future tax rate of 17% (2016: 17%). The amount of deferred tax asset that will reverse in 2018 is dependent on the movement in the net amount recorded on the balance sheet for the defined benefit pension scheme, which will be dependent on changes to the underlying assumptions. RiverStone Insurance (UK) has no unused tax losses or unused tax credits.

**24. Litigation and Contingent Liabilities**

- (a) RiverStone Insurance (UK) is regularly involved, directly or indirectly, in litigation in the ordinary course of conducting its business including certain cases relating to asbestos and environmental

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pollution claims, as more fully described in Note 4. In the judgment of the Directors, none of these cases, individually or collectively, are likely to result in judgments for amounts which, net of loss and loss adjustment expense reserves previously established and reinsurance recoverables which RiverStone Insurance (UK) believes are probable of realisation, would have a material effect on the financial position of RiverStone Insurance (UK).

- (b) RiverStone Insurance (UK) has provided a guarantee of the solvency of its affiliate, RiverStone Managing Agency Limited, of up to \$1.4 million.

**25. Related Party Transactions and Immediate and Ultimate Parent Company**

RiverStone Insurance (UK) is a wholly owned subsidiary of RiverStone Holdings Limited which is registered in England and Wales. The ultimate parent company and controlling party is Fairfax which is registered in Canada and listed on the Toronto Stock Exchange.

Advantage has been taken of the exemption from the requirement to disclose transactions with related parties within the same group as provided by FRS102, Section 33.1A. This exemption is available for RiverStone Insurance (UK) as consolidated financial statements are publicly available for Fairfax.

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