COMPANY NO. 2763688

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

# RiverStone Insurance Limited

# 2017 Annual Report

**Contents**

# RiverStone Insurance Limited (Company No. 2763688)
## Directors and Administration
## For the year ended 31st December 2017

### Directors

M. J. Bannister
N. C. Bentley
C. J. W. Czapiewski - Independent Non-Executive Director
L. A. Hemsley
A. J. E. Masterson - Independent Non-Executive Chairman
T. A. Riddell - 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

### Independent Auditors

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

### Website

www.trg.com

The Directors have pleasure in presenting the Strategic Report of RiverStone Insurance Limited ("RiverStone Insurance" or "the Company") for the year ended 31st December 2017.

### Ownership

RiverStone Insurance 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 ceased writing new business during the course of 2012 and has since been in runoff. RiverStone Insurance is authorised to carry on all classes of general insurance business and is engaged in the runoff of the assets and liabilities associated with the insurance and reinsurance business previously written.

The operations of RiverStone Insurance are administered by RiverStone Management Limited ("RiverStone Management"), which is a fellow subsidiary of RiverStone Holdings.

### 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 £18.2 million (2016: £14 million loss).

Following the decision to cease writing new business during 2012, RiverStone Insurance's primary focus has been the settlement of its policyholder obligations and recovery of reinsurance assets in an efficient and economic manner.

The balance on the technical account for general business for the year amounts to a loss of £5.1 million (2016: £10.8 million gain). The loss comprises a decrease to net premiums written of £899,000 and net operating expenses of £5.4 million, less a release of net technical provisions of £734,000 and technical write offs of £496,000.

The profit before tax amounts to £22.4 million (2016: £18.7 million loss) and comprises the loss on the technical account for general business plus net investment gains of £55.5 million and foreign exchange losses of £28 million. Taxation amounts to a charge of £4.2 million (2016: £4.7 million credit) for the year.

Total shareholders' funds have increased to £258.1 million from £241.9 million at the end of 2016. The increase in total shareholders' funds from the end of 2016 includes the gain for the financial year of £18.2 million, actuarial losses recognised in the year in respect of the defined benefit pension plan of £2.3 million, and the associated deferred tax credit of £394,000.

#### *Performance Measurement*

RiverStone Insurance 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 17% and reinsurance recoverables have reduced by 22%. RiverStone Insurance's Solvency II own funds capital as at the end of the year is £220 million (2016: £183 million).

***Strategy and Future Developments***

RiverStone Insurance's primary focus is to conduct a timely and efficient run-off of its liabilities and it will work towards a strategy to settle all outstanding liabilities and recover its insurance reinsurance assets.

The Board of RiverStone Insurance has agreed to transfer all of the liabilities of RiverStone Insurance into RiverStone Insurance (UK) Limited ("RiverStone Insurance (UK)") by way of a Part VII transfer under the Financial Services and Markets Act 2000, as amended. RiverStone Insurance (UK) is a fellow subsidiary of RiverStone Holdings. This transaction is anticipated to complete in 2018, subject to regulatory and High Court approval.

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

**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 ("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. 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 and all other risks and that controls operate effectively.

RiverStone Insurance 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'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's capital is adequate to meet its business needs under the regulatory capital regime.

The principal risks faced by RiverStone Insurance 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'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
6th March 2018

# RiverStone Insurance Limited (Company No. 2763688)
## Directors' Report
## For the year ended 31st December 2017

The Directors have pleasure in presenting their report and the audited financial statements for RiverStone Insurance Limited (Company No. 2763688) (RiverStone Insurance or "the Company") for the year ended 31st December 2017.

### Directors

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

M. J. Bannister
N. C. Bentley
C. J. W Czapiewski - Independent Non-Executive Director
L. A. Hemsley
A. J. E Masterson - Independent Non-Executive Chairman
T. A. Riddell - Independent Non-Executive Director
L. R. Tanzer

RiverStone Insurance 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 are discussed in the Strategic Report.

### Dividends

RiverStone Insurance 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 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 is exposed to are interest rate risk, equity risk, currency risk, credit risk and liquidity risk. RiverStone Insurance 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 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

**F Henry**
Company Secretary
6th March 2018

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

## Report on the audit of the financial statements

### Opinion

In our opinion, RiverStone Insurance Limited (RIL)'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.

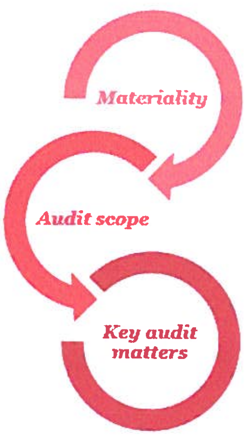
*Independence*

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: RIL GBP 5.07m, 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).

*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.

| ***Key audit matter*** | ***How our audit addressed the key audit matter*** |
|---|---|
| *Valuation of claims outstanding*<br>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.<br>Areas of particular focus are:<br>• 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 81% of the total IBNR loss reserve component of claims outstanding and netted this down for reinsurance.<br>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. |

| *Key audit matter* | *How our audit addressed the key audit matter* |
|---|---|
| • The consideration by management of alternative assumptions and inherent bias when developing an estimate:<br>• Prior year development and the appropriateness of prior year estimates;<br>• The degree of caution in IBNR estimates in relation to areas of uncertainty; and<br>• The timing of changes to IBNR estimates. | For 16% of the IBNR loss reserve we tested the methodology and assumptions used in calculating the reserve.<br>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.<br>We have sample tested the underlying claims data supporting the testing above.<br>Based on the work performed we found that the assumptions used were supported by the evidence we obtained. |
| *Reinsurance recoverability*<br>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.<br>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.<br>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.<br>A further risk arises from the concentration of a significant proportion of the reinsurance assets with an affiliated reinsurer. | 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.<br>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.<br>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.<br>Based on the work performed we found that the assumptions used were supported by the evidence we obtained. |
| *Pipeline premium (including fraud in revenue recognition)*<br>Under auditing standards there is rebuttable presumption that fraud within revenue recognition is a significant risk on all audits.<br>There remains a significant level of estimated premium receivable ("EPI") and any adjustment in the estimation of this receivable will represent an adjustment to revenue. This is deemed to be a key audit matter due to the level of judgement involved and the potential for overestimation of the value of business being written. | We have tested the design and operating effectiveness of management's controls in place in respect of:<br>The accuracy and completeness of information received from delegated authorities and the resultant premium bookings; and<br>The setting and monitoring development of EPI estimates, and updating EPI estimates when appropriate.<br>We have tested revenue transactions and adjustments to revenue back to supporting documentation on a sample basis.<br>Based on the work performed we found that the assumptions used were supported by the evidence we obtained. |

*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:

| | |
|---|---|
| ***Overall materiality*** | GBP 5.1m |
| ***How we determined it*** | 1% of Total assets. |
| ***Rationale for benchmark applied*** | For RIL 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 GBP 253,000 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 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. This description forms part of our auditors' report.

*Use of this report*

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

### Other required reporting

### Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

### Appointment

Following the recommendation of the audit committee, we were appointed by the directors on 10 July 2013 to audit the financial statements for the year ended 31 December 2013 and subsequent financial periods. The period of total uninterrupted engagement is 5 years, covering the years ended 31 December 2013 to 31 December 2017.

Mark Bolton

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

# RiverStone Insurance Limited (Company No. 2763688)
## Profit and Loss Account
## For the year ended 31st December 2017

| Technical Account - General Business | Note | 2017 £'000 | 2016 £'000 |
|---|---|---|---|
| **Earned premiums, net of reinsurance** | | | |
| Gross premiums written | | 78 | (295) |
| Outward reinsurance premiums | | (977) | (354) |
| **Net premiums written and earned** | | **(899)** | **(649)** |
| Gross claims paid | | (46,258) | (111,590) |
| Reinsurers' share | | 26,235 | 45,683 |
| Net claims paid | | (20,023) | (65,907) |
| Change in the provision for gross claims | | 59,756 | 102,851 |
| Reinsurers' share | | (38,503) | (28,468) |
| Change in the net provision for claims | | 21,253 | 74,383 |
| **Claims incurred, net of reinsurance** | | **1,230** | **8,476** |
| Net operating expenses | 8 | (5,444) | (2,792) |
| Change in the equalisation provision | 20 | - | 5,784 |
| **Total technical charges, net of reinsurance** | | **(4,214)** | **11,468** |
| **Balance on the technical account for general business** | | **(5,113)** | **10,819** |
| **Non-Technical Account** | | | |
| Investment income | 11 | 5,760 | 6,046 |
| Realised gains (losses) on investments | 11 | 2,115 | (494) |
| Unrealised gains on investments | | 30,752 | 19,533 |
| Unrealised losses on investments | | (2,680) | (17,534) |
| Gains (losses) on derivative contracts | 14 | 20,511 | (69,800) |
| Investment expenses and charges | 12 | (921) | (1,061) |
| Foreign exchange (losses) gains | | (28,040) | 33,741 |
| **Profit (loss) before tax** | | **22,384** | **(18,750)** |
| Tax on profit (loss) | 13 | (4,220) | 4,749 |
| **Profit (loss) for the financial year** | | **£ 18,164** | **£ (14,001)** |

The results above are all derived from continuing operations.

# RiverStone Insurance Limited (Company No. 2763688)
## Statement of Comprehensive Income
## For the year ended 31st December 2017

| | Note | 2017 £'000 | 2016 £'000 |
|---|---|---|---|
| Profit (loss) for the financial year | | 18,164 | (14,001) |
| Re-measurements of net defined benefit obligation | 10 | (2,320) | (3,074) |
| Total tax credit on components of other comprehensive income | | 394 | 523 |
| **Total comprehensive income for the year** | | **£ 16,238** | **£ (16,552)** |

# RiverStone Insurance Limited (Company No. 2763688)
## Balance Sheet
## As at 31st December 2017

| | Note | 2017 £'000 | 2016 £'000 |
|---|---|---|---|
| **Assets** | | | |
| **Investments** | | | |
| Other financial investments | 14 | **320,172** | **299,822** |
| **Reinsurers' share of technical provisions** | | | |
| Claims outstanding | 6, 15 | **134,728** | **172,450** |
| **Debtors** | | | |
| Debtors arising out of direct insurance operations | 16 | 380 | 342 |
| Debtors arising out of reinsurance operations | 17 | 28,137 | 38,145 |
| Other debtors | 18 | 20,848 | 27,284 |
| | | **49,365** | **65,771** |
| **Other assets** | | | |
| Cash at bank and in hand | | 27,818 | 49,693 |
| Deferred taxation | 23 | 52 | - |
| | | **27,870** | **49,693** |
| **Prepayments and accrued income** | | | |
| Accrued interest and rent | | 772 | 1,388 |
| **Total assets before pension asset** | | **532,907** | **589,124** |
| Pension asset | 10 | - | 342 |
| **Total assets after pension asset** | | £ 532,907 | £ 589,466 |
| **Capital, Reserves and Liabilities** | | | |
| **Capital and reserves** | | | |
| Called up share capital | 19 | 100,000 | 100,000 |
| Profit and loss account | | 158,115 | 141,877 |
| **Total shareholders' funds** | | **258,115** | **241,877** |
| **Technical provisions** | | | |
| Claims outstanding | 6 | **267,703** | **324,406** |
| **Provision for other risks** | | | |
| Deferred taxation | 23 | - | **58** |
| **Creditors: Amounts falling due within one year** | | | |
| Creditors arising out of reinsurance operations | 21 | 3,940 | 5,006 |
| Derivative financial instruments | 14 | 767 | 17,989 |
| Other creditors including tax and social security | 22 | 2,075 | 130 |
| | | **6,782** | **23,125** |
| **Total capital, reserves and liabilities before pension liability** | | **532,600** | **589,466** |
| Pension liability | 10 | 307 | - |
| **Total capital, reserves and liabilities after pension liability** | | £ 532,907 | £ 589,466 |

The financial statements on pages 14 to 43 were approved by the Board of Directors on 6th March 2018 and were signed on its behalf by:

**L. R. Tanzer**
Director

**L. A. Hemsley**
Director

# RiverStone Insurance Limited (Company No. 2763688)
## Statement of Changes in Equity
## For the year ended 31st December 2017

| | Called Up Share Capital £'000 | Profit And Loss Account £'000 | Total Share-holders' Funds £'000 |
|---|---|---|---|
| **Balance at 1st January 2016** | 100,000 | 158,429 | 258,429 |
| Loss for the financial year | - | (14,001) | (14,001) |
| Other comprehensive expense for the year | - | (2,551) | (2,551) |
| **Total comprehensive expense for the year** | - | **(16,552)** | **(16,552)** |
| **Balance at 31st December 2016** | **£ 100,000** | **£ 141,877** | **£ 241,877** |
| | | | |
| **Balance at 1st January 2017** | 100,000 | 141,877 | 241,877 |
| Profit for the financial year | - | 18,164 | 18,164 |
| Other comprehensive expense for the year | - | (1,926) | (1,926) |
| **Total comprehensive income for the year** | - | **16,238** | **16,238** |
| **Balance at 31st December 2017** | **£ 100,000** | **£ 158,115** | **£ 258,115** |

### 1. General Information

RiverStone Insurance Limited ("RiverStone Insurance" or "the Company") is engaged in the runoff of the assets and liabilities associated with previously written insurance and reinsurance business.

The company 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 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's shareholders.

RiverStone Insurance has taken advantage of the following exemptions:

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'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 FRS 102, Section 33.1A. This exemption is available for RiverStone Insurance as consolidated financial statements are publicly available for Fairfax.

**(d) Insurance Contracts**

i) Premiums Written

Premiums written relate to differences 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 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 ("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, RiverStone Insurance'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. The estimates made are based upon current facts available to RiverStone Insurance 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.

iv) The costs incurred by RiverStone Insurance 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 RiverStone Insurance.

**(e) Translation of Foreign Currencies**

The financial statements are presented in Pounds Sterling and, unless otherwise stated, are rounded to thousands. Items included in RiverStone Insurance's financial statements are measured using the currency of the primary economic environment in which it operates. RiverStone Insurance's functional currency is Pounds Sterling.

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

**(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'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) Other Financial Investments**

RiverStone Insurance has chosen to apply the recognition and measurement provisions of IAS 39 (as adopted for use in the EU) and the disclosure requirements of FRS 102 in respect of the financial statements.

RiverStone Insurance classifies all of its investments as financial assets at fair value through profit and loss. Management determines the classification of its investments at initial recognition and re-evaluates this at every reporting date.

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

Financial assets designated as at fair value through profit and loss at inception are those that are managed and whose performance is evaluated on a fair value basis. Information about these financial assets is provided internally on a fair value basis to RiverStone Insurance's key management personnel. RiverStone Insurance'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.

RiverStone Insurance discloses its investments in accordance with a fair value hierarchy with the following levels:

(i) Level 1 – the unadjusted quoted price in an active market for identical assets or liabilities that the entity can access at the measurement date;

(ii) Level 2 – inputs other than quoted prices included within Level 1 that are observable (i.e. developed using market data) for the asset or liability, either directly or indirectly

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

**(h) Derivative Financial Investments**

Derivative financial instruments comprise foreign currency forward contracts, long equity index total return swaps, inflation linked swaps 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

**(i) 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.

**(j) Pensions**

RiverStone Holdings Limited ("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 Limited and RiverStone Insurance (UK) Limited ("RiverStone Insurance (UK)"), 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 and RiverStone Insurance (UK) 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 period in which the increase in benefits vest.

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'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.

**(k) Related Party Transactions**

RiverStone Insurance 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 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'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 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.

ii) Defined Benefit Pension Scheme

RiverStone Insurance has obligations to pay pension benefits through the outsource arrangement that is in place with RiverStone Management Limited. 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 historical experience and current trends. Note 10 contains the disclosures relating to the defined benefit pension scheme.

iii) Pipeline Premium

RiverStone Insurance makes an estimate of premiums written that have not yet been notified by the financial year end ("pipeline premiums") end based on prior year experience and current year business volumes. The pipeline premium is booked as written and earned and an estimate of claims incurred but not reported is recorded in the year that changes to the estimate is made.

## 5. Management of Insurance and Financial Risk

### Financial Risk Management Objectives

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

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

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be materially affected by a change in any subset of the portfolio. RiverStone Insurance has a diversified portfolio of insurance risks, all of which relate to policies written in prior years and which are relatively mature in nature, in that policy periods have expired and primary civil limitation (with particular reference to UK limitation where the majority of policies and claims reside) has lapsed in respect of property claims for accident years 2010 and prior and for all accident years on other classes of business. The last underwriting year for RiverStone Insurance was 2012.

RiverStone Insurance 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 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 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 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 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 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 disease claims in the employers' liability book, 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 value of claims. The most material liabilities for RiverStone Insurance relate to:

- Significant injury claims arising in motor, public and employers' liability classes which were the largest classes by premium income. Injury claims may have uncertain medical outcomes and can settle on either a lump sum or Periodical Payment basis leading to a potential for inflation type risks, for example medical and litigation inflation risks.

- Financial loss arising from negligence and fraud in the professional indemnity and financial institutions classes where programmes may be layered and reserves held below our participation by other insurers or where evidence recommending a defence of the claim is not preferred in litigation and on a best estimate basis a reserve proves inadequate

- Casualty treaty reinsurance where RiverStone Insurance is reliant upon the reinsure/retro-cedant notifying timeously and where our participation may be on high excess layers of reinsurance coverage which may not appear to be impacted by initial loss advices

The most sensitive assumptions in respect of the assessment of the ultimate liability for RiverStone Insurance's technical provisions are, therefore:

- longevity risk – that claims take longer to settle than expected
- inflation risk – that the cost of inflationary factors (particularly medical inflation and court ordered commercial rates and general inflationary factors) are greater by value than expected
- reserving risk – driven by the potential to under or overestimate liability leading to an incorrect best estimate
- latency risk – assumptions relating to the number and severity of long tail exposures, particularly disease and pollution exposures (pollution potentially arising in the PL class albeit generally written on a claims made basis if the pollution risk was assessed as material at the time of writing)
- ENIDs – events not in the data which could affect the account and of which we are currently unaware
- Jurisdiction risk – that a change in legislation of jurisprudence has negative or retrospective effect on a class of claims or in respect of costs generally

iv) Claims Development Tables

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

**Claims outstanding (gross)**

| **Underwriting year** | | **2008** | | **2009** | | **2010** | | **2011** | | **2012** | | **Total** |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | **£'000** | | **£'000** | | **£'000** | | **£'000** | | **£'000** | | **£'000** |
| **Estimate of ultimate claims costs:** | | | | | | | | | | | | |
| - At end of reporting year | | | | | | | | | | 99,000 | | 99,000 |
| - One year later | | | | | | | | 361,000 | | 108,000 | | 469,000 |
| - Two years later | | | | | | 448,000 | | 344,000 | | 90,000 | | 882,000 |
| - Three years later | | | | 478,000 | | 402,000 | | 366,000 | | 91,000 | | 1,337,000 |
| - Four years later | | 574,000 | | 447,000 | | 412,500 | | 368,000 | | 82,379 | | 1,883,879 |
| - Five years later | | 590,000 | | 466,000 | | 415,000 | | 372,965 | | 81,974 | | 1,925,939 |
| - Six years later | | 580,000 | | 465,000 | | 419,964 | | 366,075 | | | | 1,831,039 |
| - Seven years later | | 583,000 | | 483,587 | | 414,884 | | | | | | 1,481,471 |
| - Eight years later | | 630,138 | | 480,808 | | | | | | | | 1,110,946 |
| - Nine years later | | 618,429 | | | | | | | | | | 618,429 |
| Current estimate of cumulative claims | | 618,429 | | 480,808 | | 414,884 | | 366,075 | | 81,974 | | 1,962,170 |
| Cumulative payments to date | | (516,796) | | (448,758) | | (394,382) | | (337,562) | | (79,061) | | (1,776,559) |
| **Liability recognised in the balance sheet** | **£** | **101,633** | **£** | **32,050** | **£** | **20,502** | **£** | **28,513** | **£** | **2,913** | **£** | **185,611** |
| Reserve in respect of prior years | | | | | | | | | | | | 82,092 |
| **Total reserve included in balance sheet** | | | | | | | | | | | **£** | **267,703** |

**Claims outstanding (net)**

| **Underwriting year** | | **2008** | | **2009** | | **2010** | | **2011** | | **2012** | | **Total** |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | **£'000** | | **£'000** | | **£'000** | | **£'000** | | **£'000** | | **£'000** |
| **Estimate of ultimate claims costs:** | | | | | | | | | | | | |
| - At end of reporting year | | | | | | | | | | 57,000 | | 57,000 |
| - One year later | | | | | | | | 332,000 | | 63,000 | | 395,000 |
| - Two years later | | | | | | 327,000 | | 251,000 | | 62,000 | | 640,000 |
| - Three years later | | | | 389,000 | | 257,000 | | 269,000 | | 62,000 | | 977,000 |
| - Four years later | | 534,000 | | 318,000 | | 262,000 | | 244,000 | | 58,534 | | 1,416,534 |
| - Five years later | | 477,000 | | 327,000 | | 241,000 | | 211,136 | | 58,661 | | 1,314,797 |
| - Six years later | | 469,000 | | 301,000 | | 220,251 | | 211,983 | | | | 1,202,234 |
| - Seven years later | | 441,000 | | 282,756 | | 220,247 | | | | | | 944,003 |
| - Eight years later | | 366,616 | | 281,780 | | | | | | | | 648,396 |
| - Nine years later | | 359,590 | | | | | | | | | | 359,590 |
| Current estimate of cumulative claims | | 359,590 | | 281,780 | | 220,247 | | 211,983 | | 58,661 | | 1,132,261 |
| Cumulative payments to date | | (295,109) | | (271,932) | | (211,671) | | (199,518) | | (56,428) | | (1,034,658) |
| **Liability recognised in the balance sheet** | **£** | **64,481** | **£** | **9,848** | **£** | **8,576** | **£** | **12,465** | **£** | **2,233** | **£** | **97,603** |
| Reserve in respect of prior years | | | | | | | | | | | | 35,372 |
| **Total reserve included in balance sheet** | | | | | | | | | | | **£** | **132,975** |

RiverStone Insurance has not written any business since 2012 and therefore only columns for 2012 and prior years are presented in the above tables.

It is not practicable for RiverStone Insurance to prepare claims development information for 2011 and prior reporting years, as a result of the level of relevant data available for the period prior to RiverStone Insurance being acquired by RiverStone Holdings, and therefore the tables above cover 2012 and post reporting years only.

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** |
| Casualty treaty | 38,747 | - | 47,068 | - |
| Employers' and Public Liability | 44,549 | 14,614 | 66,240 | 21,314 |
| Italian Medical Malpractice | 61,075 | 61,095 | 58,731 | 58,731 |
| Motor | 7,029 | 1,502 | 12,176 | 3,523 |
| Professional Indemnity/ Financial Institutions | 75,544 | 25,212 | 85,643 | 27,831 |
| Other | 37,556 | 28,468 | 49,124 | 37,745 |
| Claims expense reserve | 3,203 | 2,104 | 5,424 | 2,812 |
| **Total** | £ **267,703** | £ **132,995** | £ **324,406** | £ **151,956** |

## (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 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, it is not exposed to significant interest rate risk since maturing short term investments are re-priced 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's investments held at 31st December 2017 is an approximate £7.1 million loss (2016: £12.9 million) to the profit and loss account. Similarly, a 100 basis point decrease in interest rates would give rise to an approximate £5.5 million gain (2016: £12.5 million) to the profit and loss account.

ii) Equity Price Risk

RiverStone Insurance 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.

RiverStone Insurance 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's price risk arising from its investments in equity securities.

Listed equity securities held at 31st December 2017 represent 78% of total equity investments. If equity market indices had increased/decreased by 5%, and all RiverStone Insurance's equity investments moved according to the historical correlation with the index, the profit for the year would increase by £4.5 million (2016: £3.7 million).

iii) Currency Risk

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

At 31st December 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 £532,000 higher (2016: £1.1 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.

**(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 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 is in runoff its exposures to reinsurers and insurance intermediaries are determined by contracts previously written. RiverStone Insurance 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'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's credit risk exposure. This collateral is in the form of security accounts, deposits and letters of credit from reinsurers.

RiverStone Insurance 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 maintains strict control limits on the maximum notional amount of derivative positions.

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

| | | 2017 £'000 | | 2016 £'000 |
|---|---|---|---|---|
| Derivative financial instruments | | 2,882 | | 1,225 |
| Debt securities | | 203,411 | | 198,337 |
| Assets arising from reinsurance and insurance contracts held | | 162,865 | | 210,595 |
| Cash at bank and in hand | | 27,818 | | 49,693 |
| Affiliated loan receivable | | 14,226 | | 15,574 |
| **Total assets bearing credit risk** | £ | **411,202** | £ | **475,424** |

| | | 2017 £'000 | | 2016 £'000 |
|---|---|---|---|---|
| A++ | | 108,791 | | 53,778 |
| A+ | | 55,001 | | 86,803 |
| A, A- | | 122,747 | | 180,840 |
| B++ and below or not rated (including affiliated assets) | | 124,663 | | 154,003 |
| **Total assets bearing credit risk** | £ | **411,202** | £ | **475,424** |

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

| | | 2017 £'000 | | 2016 £'000 |
|---|---|---|---|---|
| Performing | | 162,841 | | 210,287 |
| Past due | | 24 | | 308 |
| | £ | **162,865** | £ | **210,595** |

## (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'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.

| At 31st December 2017 | 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 |
|---|---|---|---|---|---|---|---|
| Financial liabilities under investment contracts | - | 767 | - | - | - | - | 767 |
| Creditors | - | 3,352 | 656 | 571 | 906 | 837 | 6,322 |
| | | **4,119** | **656** | **571** | **906** | **837** | **7,089** |
| Claims outstanding | - | 63,951 | 63,951 | 38,014 | 56,027 | 45,760 | 267,703 |
| **Financial liabilities and outstanding claims** | £ - | £ **67,652** | £ **64,607** | £ **38,585** | £ **56,933** | £ **46,589** | £ **274,366** |

| At 31st December 2016 | 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 |
|---|---|---|---|---|---|---|---|
| Financial liabilities under investment contracts | - | 17,989 | - | - | - | - | 17,989 |
| Creditors | - | 1,463 | 543 | 2,126 | 551 | 453 | 5,136 |
| | - | 19,452 | 543 | 2,126 | 551 | 453 | 23,125 |
| Claims outstanding | - | 41,796 | 41,796 | 163,595 | 42,371 | 34,848 | 324,406 |
| **Financial liabilities and outstanding claims** | £ - | £ 61,248 | £ 42,339 | £ 165,721 | £ 42,922 | £ 35,301 | £ 347,531 |

### (e) Capital Management

RiverStone Insurance 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'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 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 manages as capital all items that are eligible to be treated as capital for regulatory purposes. RiverStone Insurance 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 manages capital in accordance with these rules and performs the necessary tests to ensure continuous and full compliance with such regulations. RiverStone Insurance 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 has complied with all of its capital requirements throughout the year.

At the end of the year, RiverStone Insurance held Solvency II own funds capital of £220 million (2016: £183 million).

## 6. Reconciliation of Technical Provisions

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

| | Gross £'000 | Ceded £'000 | Net £'000 |
|---|---|---|---|
| Amounts at 1st January 2017 | 324,406 | 172,450 | 151,956 |
| Amounts paid during the year | (46,258) | (26,235) | (20,023) |
| Change in estimate of claims outstanding | (13,002) | (12,268) | (734) |
| Technical balances write off | (496) | - | (496) |
| Foreign exchange | 3,053 | 781 | 2,272 |
| **Amounts at 31st December 2017** | **£ 267,703** | **£ 134,728** | **£ 132,975** |

## 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 |
|---|---|---|---|---|---|
| **Direct Insurance** | | | | | |
| Accident and health | 21 | 21 | (146) | (34) | (14) |
| Motor | 13 | 13 | 2,563 | (384) | (1,984) |
| Marine, aviation and transport | 1,704 | 1,704 | (1,956) | 144 | (12) |
| Legal expenses | (1,441) | (1,441) | (732) | (380) | (13) |
| Credit and surety | 124 | 124 | 547 | 1 | (547) |
| Fire and other damage to property | (241) | (241) | (246) | (93) | (345) |
| Third party liability | (1,473) | (1,473) | 60,299 | (5,292) | 4,373 |
| | (1,293) | (1,293) | 60,329 | (6,038) | 1,458 |
| Reinsurance acceptances | 1,371 | 1,371 | (46,831) | (1,632) | (12,477) |
| **Total** | **£ 78** | **£ 78** | **£ 13,498** | **£ (7,670)** | **£ (11,019)** |

| | Gross premiums written 2016 £'000 | Gross premiums earned 2016 £'000 | Gross claims incurred 2016 £'000 | Gross operating expenses 2016 £'000 | Re-insurance balance 2016 £'000 |
|---|---|---|---|---|---|
| **Direct Insurance** | | | | | |
| Accident and health | - | - | - | - | - |
| Motor | (4) | (4) | 7,128 | (377) | (272) |
| Marine, aviation and transport | 40 | 40 | (356) | (33) | 114 |
| Legal expenses | 800 | 800 | (3,013) | (377) | (3,585) |
| Credit and surety | 1,336 | 1,336 | 686 | - | (1,635) |
| Fire and other damage to property | 240 | 240 | 979 | (45) | 688 |
| Third party liability | (1,020) | (1,020) | (4,685) | (2,082) | 14,931 |
| | 1,392 | 1,392 | 739 | (2,914) | 10,241 |
| Reinsurance acceptances | (1,687) | (1,687) | (9,478) | (1,734) | 8,476 |
| **Total** | **£ (295)** | **£ (295)** | **£ (8,739)** | **£ (4,648)** | **£ 18,717** |

### 8. Net Operating Expenses

| | 2017 £'000 | 2016 £'000 |
|---|---|---|
| Administrative expenses | 5,681 | 3,664 |
| Commissions payable | (237) | (872) |
| | £ 5,444 | £ 2,792 |

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

| | 2017 £'000 | 2016 £'000 |
|---|---|---|
| Aggregate emoluments | £ 667 | £ 625 |

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

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 | £ 289 | £ 276 |

As at 31st December 2017 a pension of £56,500 (2016: £52,500) was accrued under a defined benefit pension scheme for the highest paid director.

### 9. Auditors' Remuneration

| | 2017 £'000 | 2016 £'000 |
|---|---|---|
| Audit | 262 | 258 |
| Audit related assurance services | 54 | 70 |
| Taxation compliance services | - | 5 |
| Other assurance services | - | 70 |
| Other non-audit services | 16 | 45 |
| | £ 332 | £ 448 |

## 10. Pension Costs

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 1st 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 and RiverStone Insurance (UK) 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 and RiverStone Insurance (UK), 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 31st March 2017. The results from the 31st March 2017 actuarial valuation have been updated to 31st 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 31st December 2017. The principal actuarial assumptions used in the measurement of the defined benefit obligation as at 31st December 2017 are as follows:

| | 31st December 2017 | 31st December 2016 |
|---|---|---|
| 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 share.

| | 31st December 2017 | | 31st December 2016 | |
|---|---|---|---|---|
| | Total £'000 | Share £'000 | Total £'000 | Share £'000 |
| Present value of defined benefit obligation | (114,236) | (47,448) | (108,099) | (45,402) |
| Fair value of plan assets | 113,506 | 47,141 | 108,913 | 45,744 |
| Surplus (deficit) included in balance sheet | (730) | (307) | 814 | 342 |
| Related deferred tax asset (liability) recognised | 124 | 52 | (138) | (58) |
| **Asset (liability) net of deferred tax** | **£ (606)** | **£ (255)** | **£ 676** | **£ 284** |

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

| | **2017 Total £'000** |
|---|---|
| Opening defined benefit obligation | 108,099 |
| Employer's part of current service cost | 1,831 |
| Interest expense | 3,097 |
| Contributions from plan members | - |
| Actuarial loss | 5,316 |
| Benefits paid | (4,107) |
| Curtailment result | - |
| **Closing defined benefit obligation** | **£ 114,236** |

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

| | **2017 Total £'000** |
|---|---|
| Opening fair value of plan assets | 108,913 |
| Interest income | 3,186 |
| Plan administration expenses | (318) |
| Actuarial loss | (208) |
| Contributions by the employer | 6,040 |
| Contributions by plan members | - |
| Benefits paid | (4,107) |
| **Closing fair value of plan assets** | **£ 113,506** |

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's share, are as follows:

| | **2017 Total Plan £'000** | **2017 Share £'000** | **2016 Total Plan £'000** | **2016 Share £'000** |
|---|---|---|---|---|
| Employer's part of current service cost | 1,831 | 649 | 1,443 | 606 |
| Gain on settlements and curtailments | - | - | - | - |
| Net interest income | (89) | (37) | (284) | (119) |
| Plan administration expenses | 318 | 134 | 189 | 79 |
| **Total expense included in profit and loss account** | **£ 2,060** | **£ 746** | **£ 1,348** | **£ 566** |

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's share, are as follows:

| | 2017 Total Plan $'000 | 2017 Share $'000 | 2016 Total Plan $'000 | 2016 Share $'000 |
|---|---|---|---|---|
| Actuarial loss on defined benefit obligation | 5,316 | 2,232 | 23,132 | 9,716 |
| Actuarial loss (gain) on fair value of Plan assets | 208 | 87 | (15,814) | (6,642) |
| **Re-measurements of net defined benefit obligation** | **£ 5,524** | **£ 2,320** | **£ 7,318** | **£ 3,074** |

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

| | 31st December 2017 | 31st December 2016 |
|---|---|---|
| Equity instruments | 70% | 46% |
| Debt instruments | 0% | 54% |
| Cash | 30% | 0% |
| | **100%** | **100%** |

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 million (2016: £19.4 million gain).

## 11. Investment Return

| | 2017 £'000 | 2016 £'000 |
|---|---|---|
| **Investment income** | | |
| Income from financial assets at fair value through profit and loss – designated upon initial recognition | 4,781 | 5,185 |
| Deposit interest | 124 | 47 |
| Interest from affiliated company | 855 | 814 |
| | **£ 5,760** | **£ 6,046** |
| **Realised gains (losses) on investments** | | |
| Financial assets at fair value through profit and loss held for trading | **£ 2,115** | **£ (494)** |

## 12. Investment Expenses and Charges

| | 2017 £'000 | 2016 £'000 |
|---|---|---|
| Investment management expenses | £ 921 | £ 1,061 |

## 13. Tax

| | 2017 £'000 | 2016 £'000 |
|---|---|---|
| **(a) Tax on Profit (Loss)** | | |
| **Current tax** | | |
| UK corporation tax at 19.25% (2016: 20%) based on the profit (loss) for year | 3,876 | (4,158) |
| Withholding tax | 42 | 126 |
| Prior year adjustment | 18 | (904) |
| Total current tax | 3,936 | (4,936) |
| **Deferred tax** | | |
| Origination and reversal of timing differences | 284 | 187 |
| **Total tax charge (credit)** | **£ 4,220** | **£ (4,749)** |

### (b) Tax expense included in other comprehensive income

| | | |
|---|---|---|
| **Deferred tax** | | |
| Origination and reversal of timing differences | **£ (394)** | **£ (523)** |

### (c) Factors affecting tax charge for the year

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 |
|---|---|---|
| **Profit (loss) before tax** | **£ 22,384** | **£ (18,750)** |
| Profit (loss) before tax multiplied by the UK corporation tax rate of 19.25% (2016: 20%) | 4,309 | (3,750) |
| Non-taxable dividend income | (60) | (122) |
| Expenses not deductible for tax purposes | (51) | (16) |
| Tax effect of rate changes | (38) | (83) |
| Withholding tax | 42 | 126 |
| Prior year adjustment | 18 | (904) |
| **Total tax charge (credit) for the year** | **£ 4,220** | **£ (4,749)** |

**(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 1st April 2017. Changes to the UK corporation tax rates were substantively enacted as part of Finance Bill 2016 (on 6th September 2016). These include reductions to the main rate to reduce the rate to 17% from 1st April 2020. Deferred taxes at the balance sheet date have been measured using these enacted tax rates and reflected in these financial statements.

## 14. 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 |
|---|---|---|---|---|
| **Financial Assets – at fair value through profit and loss** | | | | |
| Shares and other variable-yield securities and units in unit trusts - designated at fair value through profit and loss on initial recognition | 113,879 | 100,260 | 94,135 | 93,026 |
| Debt securities and other fixed interest securities designated at fair value through profit and loss on initial recognition | 203,411 | 198,337 | 196,483 | 184,916 |
| Derivative financial instruments - at fair value through profit and loss, held for trading | 2,882 | 1,225 | 16,304 | 16,081 |
| | **£ 320,172** | **£ 299,822** | **£ 306,922** | **£ 294,023** |
| **Financial Liabilities** | | | | |
| Derivative financial instruments - at fair value through profit and loss, held for trading | **£ 767** | **£ 17,989** | **£ -** | **£ -** |

### (b) Listed Investments

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

| | 2017 £'000 | 2016 £'000 |
|---|---|---|
| **At fair value through profit and loss** | | |
| Shares and other variable yield securities and units in unit trusts | 89,081 | 73,473 |
| Debt securities and other fixed interest securities | 90,566 | 137,941 |
| **Total listed investments** | **£ 179,647** | **£ 211,414** |

### (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 |
|---|---|---|---|---|---|---|---|---|
| **Derivative financial instruments assets** | | | | | | | | |
| Foreign currency forward contracts | | 2,512 | | - | | - | | - |
| Inflation linked swap contracts | | 190 | | 1,225 | | 16,081 | | 16,081 |
| Equity Warrant Contracts | | 180 | | - | | 223 | | - |
| | £ | **2,882** | £ | **1,225** | £ | **16,304** | £ | **16,081** |
| **Derivative financial instruments liabilities** | | | | | | | | |
| Foreign currency forward contracts | | 477 | | 17,614 | | - | | - |
| Long equity total return swap contract | | 59 | | 21 | | - | | - |
| Short forward Government bonds | | 231 | | 354 | | - | | - |
| | £ | **767** | £ | **17,989** | £ | **-** | £ | **-** |

The functional currency of RiverStone Insurance is Pounds Sterling and consequently is exposed to foreign exchange movements in currencies other than Pounds Sterling. RiverStone Insurance has foreign currency forward contracts in place to provide protection against the impact of potential adverse fluctuations in exchange rates on RiverStone Insurance'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 GBP:USD, EUR:GBP and GBP:CAD.

| | | Market Value | | | | Contract/Notional Amount | | |
|---|---|---|---|---|---|---|---|---|
| | | 2017 £'000 | | 2016 £'000 | | 2017 £'000 | | 2016 £'000 |
| Foreign currency contracts | £ | **2,036** | £ | **(17,614)** | £ | **336,082** | £ | **291,558** |

## (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 |
|---|---|---|---|---|
| Shares and other variable yield securities and units in unit trusts | 61,820 | 32,768 | 19,291 | 113,879 |
| Debt securities and other fixed interest securities | 112,844 | 70,544 | 20,023 | 203,411 |
| Derivative financial instruments | - | - | 2,882 | 2,882 |
| | £ 174,664 | £ 103,312 | £ 42,196 | £ 320,172 |

| | 2016 £'000 | 2016 £'000 | 2016 £'000 | 2016 £'000 |
|---|---|---|---|---|
| Shares and other variable yield securities and units in unit trusts | 47,059 | 32,200 | 21,001 | 100,260 |
| Debt securities and other fixed interest securities | 60,396 | 122,705 | 15,236 | 198,337 |
| Derivative financial instruments | - | - | 1,225 | 1,225 |
| | £ 107,455 | £ 154,905 | £ 37,462 | £ 299,822 |

## (e) Level 3 Pricing

Level 3 valuation techniques are used by RiverStone Insurance'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'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).

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

| | Debt Securities 2017 £'000 | Shares and Other Variable Yield Securities 2017 £'000 | Derivative Financial Instruments 2017 £'000 | Total 2017 £'000 |
|---|---|---|---|---|
| At 1 January 2017 | 15,236 | 21,001 | 1,225 | 37,462 |
| Total gains (losses) recognised in the profit and loss account | 4,787 | (2,538) | 1,657 | 3,906 |
| Purchases | - | 2,891 | - | 2,891 |
| Sales | - | (2,063) | - | (2,063) |
| **At 31 December 2017** | **£ 20,023** | **£ 19,291** | **£ 2,882** | **£ 42,196** |

| | 2016 £'000 | 2016 £'000 | 2016 £'000 | 2016 £'000 |
|---|---|---|---|---|
| At 1 January 2016 | 11,374 | 1,760 | 8,195 | 21,329 |
| Total gains (losses) recognised in the profit and loss account | (1,784) | 4,614 | (6,970) | (4,140) |
| Purchases | 18,711 | 15,146 | - | 33,857 |
| Sales | (13,065) | (519) | - | (13,584) |
| **At 31 December 2016** | **£ 15,236** | **£ 21,001** | **£ 1,225** | **£ 37,462** |

Total gains of £3,906,000 (2016: losses of £4,140,000) comprise unrealised gains of £3,710,000 (2016: losses of £2,771,000) and realised gains of £196,000 (2016: losses of £1,369,000) 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 between Level 3 and Levels 1, or between Levels 1 and 2, or between Levels 2 and 3 during the year (2016: none).

### (g) Collateralised Cash and Investments

RiverStone Insurance maintains a letter of credit facility in respect of its contractual obligations under which RiverStone Insurance is obliged to collateralise its liabilities. The total amount of collateral provided at 31st December 2017 was £11.2 million (2016: £14.6 million).

## 15. 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 £79.2 million (2016: £108.6 million) in respect of a quota share reinsurance contract.

## 16. Debtors Arising Out of Direct Insurance Operations

| | 2017 £'000 | 2016 £'000 |
|---|---|---|
| Amounts owed by intermediaries | £ 380 | £ 342 |

## 17. Debtors Arising Out of Reinsurance Operations

| | 2017 £'000 | 2016 £'000 |
|---|---|---|
| Amounts owed by reinsurers and intermediaries | 4,284 | 6,741 |
| Amounts owed by group undertakings | 5,342 | 10,073 |
| Premiums receivable from cedants | 18,511 | 21,331 |
| | £ 28,137 | £ 38,145 |

## 18. Other Debtors

| | 2017 £'000 | 2016 £'000 |
|---|---|---|
| Amounts owed by group undertakings | 19,724 | 23,203 |
| Tax | - | 2,369 |
| Other | 1,124 | 1,712 |
| | £ 20,848 | £ 27,284 |

## 19. Called up Share Capital

| | 2017 £'000 | 2016 £'000 |
|---|---|---|
| Allotted, called up and fully paid: | | |
| 100,000,000 (2016: 100,000,000) Ordinary Shares of £1 each | £ 100,000 | £ 100,000 |

## 20. Equalisation Provision

| | 2017 £'000 | 2016 £'000 |
|---|---|---|
| At 1st January | - | 5,784 |
| Transfer to profit and loss account | - | (5,784) |
| At 31st December | £ - | £ - |

## 21. Creditors Arising Out of Reinsurance Operations

| | 2017 £'000 | 2016 £'000 |
|---|---|---|
| Amounts owed to cedants and intermediaries | 344 | 470 |
| Premiums payable to reinsurers | 3,596 | 4,536 |
| | £ **3,940** | £ **5,006** |

## 22. Other Creditors Including Tax and Social Security

| | 2017 £'000 | 2016 £'000 |
|---|---|---|
| Tax | 2,002 | 130 |
| Other creditors | 73 | - |
| | £ **2,075** | £ **130** |

## 23. Deferred Tax

| | 2017 £'000 | 2016 £'000 |
|---|---|---|
| Liability at 1st January 2017 | (58) | (394) |
| Recognition of future timing differences | 110 | 336 |
| **Asset (liability) at 31st December 2017** | £ **52** | £ **(58)** |

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 has no unused tax losses or unused tax credits.

## 24. Related Party Transactions and Immediate and Ultimate Parent Company

RiverStone Insurance 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 FRS 102, Section 33.1A. This exemption is available for RiverStone Insurance 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.