

COMPANY NO. 2709527

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

RiverStone Holdings Limited

2017 Annual Report

RiverStone Holdings Limited (Company No. 2709527)
Annual Report
For the year ended 31st December 2017

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RiverStone Holdings Limited (Company No. 2709527)
Directors and Administration
For the year ended 31st December 2017

Directors

N. C. Bentley
L. A. Hemsley
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

RiverStone Holdings Limited (Company No. 2709527)

Strategic Report

For the year ended 31st December 2017

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

Ownership

RiverStone Holdings’ ultimate parent company is Fairfax Financial Holdings Limited (“Fairfax”) which is registered in Canada and is 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

The main activity of RiverStone Holdings is that of a U.K. holding company for subsidiary undertakings (together “the Group”) primarily engaged in the run-off of insurance and reinsurance business and the performance of related services. RiverStone Holding’s primary focus is the settlement of its subsidiaries’ policyholder obligations and recovery of reinsurance assets in an efficient and economic manner. Additionally, RiverStone Holdings continues to pursue opportunities to acquire further run-off portfolios.

RiverStone Holdings has two primary run-off insurance subsidiaries, RiverStone Insurance (UK) Limited (“RiverStone Insurance (UK)”) and RiverStone Insurance Limited (“RiverStone Insurance”).

In addition, RiverStone Holdings participates in the Lloyd’s market through RiverStone Corporate Capital Limited, which is the sole corporate member of Syndicate 3500.

RiverStone Holdings’ operations are administered by two managing agents. RiverStone Holdings’ non-Lloyd’s business is managed by RiverStone Management Limited. Lloyd’s related business is managed by RiverStone Managing Agency Limited.

On 14th June 2016, RiverStone Insurance (UK) established a subsidiary in Luxembourg called RiverStone Luxembourg S.à.r.l. This company is currently dormant and was established as part of RiverStone Insurance (UK)’s contingency planning for Brexit.

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 £78.4 million (2016: £67.1 million loss).

Total shareholders’ funds have increased to £508 million from £474 million at the end of 2016. The increase in total shareholders’ funds comprises the profit for the financial year of £78.4 million, offset by unrealised foreign exchange gains of £45 million.

RiverStone Holdings has made good progress in relation to key elements of its strategy, through continued reduction in gross loss reserves and reinsurance recoverables of its insurance subsidiaries during the year.

RiverStone Holdings Limited (Company No. 2709527)

Strategic Report

For the year ended 31st December 2017

Strategy and Future Developments

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

Over the past several years, RiverStone Holdings and its subsidiaries have acquired a number of run-off portfolios of business either associated with certain Fairfax operations in Europe or from unaffiliated parties. RiverStone Holdings' main focus continues to be the run-off of these portfolios, together with actively seeking to acquire further portfolios of run-off business.

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

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

RiverStone Holdings is intending to simplify its group structure and in 2018 it is anticipated that all of the liabilities of RiverStone Insurance will be transferred into RiverStone Insurance (UK) by way of a Part VII transfer under the Financial Services and Markets Act 2000, as amended. This transaction is subject to regulatory and High Court approval.

The board of directors of RiverStone Holdings ("the Board") considers that its insurance operations 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 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 Holdings. 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 Holdings 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 the Group's capital requirements and to ensure that it has the financial strength and capital adequacy for its insurance subsidiaries 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 Holdings' capital is adequate to meet its business needs under the regulatory capital regime.

RiverStone Holdings Limited (Company No. 2709527)

Strategic Report

For the year ended 31st December 2017

The principal risks faced by RiverStone Holdings arise from fluctuations in the severity of claims within its subsidiaries compared with expectations, late reporting of claims and inadequate reinsurance protection (including the credit worthiness of major reinsurers) and inadequate reserving. The assets and liabilities of RiverStone Holdings and its subsidiaries 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 Holdings Limited (Company No. 2709527)

Directors' Report

For the year ended 31st December 2017

The Directors have pleasure in presenting their report and the audited financial statements for RiverStone Holdings Limited (Company No. 2709527) ("RiverStone Holdings" 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 as follows:

N. C. Bentley
L. A. Hemsley
L. R. Tanzer

RiverStone Holdings 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 Holdings are discussed in the Strategic Report.

Dividends

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

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.

RiverStone Holdings Limited (Company No. 2709527)

Directors' Report

For the year ended 31st December 2017

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

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

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

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

By Order of the Board



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

F Henry
Company Secretary
6th March 2018

RiverStone Holdings Limited (Company No. 2709527)
Independent Auditors' Report to the Members of RiverStone Holdings Limited
For the year ended 31st December 2017

Report on the Audit of the Financial Statements

Opinion

In our opinion, RiverStone Holdings Limited'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 for the year then ended, the Statement of Comprehensive Income for the year then ended, the Statement of Changes in Equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions Relating to Going Concern

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.

RiverStone Holdings Limited (Company No. 2709527)
Independent Auditors' Report to the Members of RiverStone Holdings Limited
For the year ended 31st December 2017

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 set out on page 7, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

RiverStone Holdings Limited (Company No. 2709527)
Independent Auditors' Report to the Members of RiverStone Holdings Limited
For the year ended 31st December 2017

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.



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

RiverStone Holdings Limited (Company No. 2709527)
Profit and Loss Account
For the year ended 31st December 2017

	Note	2017 £'000	2016 £'000
Change in value of subsidiaries		78,465	(67,138)
Other operating charges		<u>(2)</u>	<u>(71)</u>
Operating profit (loss)		78,463	(67,209)
Foreign exchange (losses) gains		<u>(63)</u>	<u>103</u>
Profit (loss) before tax		78,400	(67,106)
Tax on profit (loss)	7	<u>-</u>	<u>-</u>
Profit (loss) for the financial year		£ <u>78,400</u>	£ <u>(67,106)</u>

The results above are all derived from continuing operations.

RiverStone Holdings Limited (Company No. 2709527)**Balance Sheet****As at 31st December 2017**

	Note	2017 £'000	2016 £'000
Assets			
Fixed Assets			
Investments	8	538,349	507,519
Current Assets			
Debtors	9	-	9
Cash at bank and in hand		170	188
		170	197
Total assets		£ 538,519	£ 507,716
Capital, Reserves and Liabilities			
Capital and reserves			
Called up share capital	10	348,674	377,303
Share premium		75,383	82,382
Profit and loss account		83,575	14,273
Total shareholders' funds		507,632	473,958
Creditors: Amounts falling due within one year	11	30,887	33,758
Total capital, reserves and liabilities		£ 538,519	£ 507,716

The financial statements on pages 12 to 24 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
Finance Director

RiverStone Holdings Limited (Company No. 2709527)
Statement of Comprehensive Income
For the year ended 31st December 2017

	Note	2017 £'000	2016 £'000
Profit (loss) for the financial year		78,400	(67,106)
Foreign exchange (losses) gains		<u>(44,726)</u>	<u>82,047</u>
Total comprehensive income for the year		£ <u>33,674</u>	£ <u>14,941</u>

RiverStone Holdings Limited (Company No. 2709527)
Statement of Changes in Equity
For the year ended 31st December 2017

	Called Up Share Capital £'000	Share Premium Account £'000	Profit and Loss Account £'000	Total Share- holders' Funds £'000
Balance at 1st January 2016	323,846	69,313	65,858	459,017
Loss for the financial year	-	-	(67,106)	(67,106)
Other comprehensive income for the year	<u>53,457</u>	<u>13,069</u>	<u>15,521</u>	<u>82,047</u>
Total comprehensive income for the year	<u>53,457</u>	<u>13,069</u>	<u>(51,585)</u>	<u>14,941</u>
Balance at 31st December 2016	£ <u>377,303</u>	<u>82,382</u>	<u>14,273</u>	£ <u>473,958</u>
Balance at 1st January 2017	377,303	82,382	14,273	473,958
Profit for the financial year	-	-	78,400	78,400
Other comprehensive income for the year	<u>(28,629)</u>	<u>(6,999)</u>	<u>(9,098)</u>	<u>(44,726)</u>
Total comprehensive income for the year	<u>(28,629)</u>	<u>(6,999)</u>	<u>69,302</u>	<u>33,674</u>
Balance at 31st December 2017	£ <u>348,674</u>	<u>75,383</u>	<u>83,575</u>	£ <u>507,632</u>

RiverStone Holdings Limited (Company No. 2709527)
Notes to the Financial Statements
For the year ended 31st December 2017

1. General Information

RiverStone Holdings Limited (“RiverStone Holdings” or “the Company”) is a U.K. holding company of subsidiary undertakings (together “the Group”) primarily engaged in the runoff of insurance and reinsurance business and the performance of related services.

RiverStone Holdings 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 Holdings 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”) and the Companies Act 2006.

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

These financial statements are prepared on a going concern basis under the historical cost convention as modified by the revaluation of investments in subsidiary undertakings.

These financial statements contain information about RiverStone Holdings as an individual company and do not contain consolidated financial information as the parent of a group. RiverStone Holdings is exempt under Section 401 of the Companies Act 2006 from the requirement to prepare consolidated financial statements as it and its subsidiary undertakings are included by full consolidation in the consolidated financial statements of its parent, Fairfax Financial Holdings Limited (“Fairfax”), a company incorporated in Canada.

(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 Holding’s shareholders.

RiverStone Holdings 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 includes RiverStone Holdings’ cash flows.

RiverStone Holdings Limited (Company No. 2709527)

Notes to the Financial Statements

For the year ended 31st December 2017

- ii) from disclosing key management personnel compensation, as required by FRS102 paragraph 33.7.
- iii) from the requirement to disclose transactions with related parties within the same group as provided by FRS102, Section 33.1A. This exemption is available for RiverStone Holdings as consolidated financial statements are publicly available for Fairfax.

(d) Translation of Foreign Currencies

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

Foreign currency transactions are translated into the functional currency using the average rate of exchange during the year. At each year end foreign currency monetary items are translated using the year end rate of exchange. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Profit and Loss Account for the year. All exchange differences arising from the translation from functional currency to presentation currency are recognised through the Statement of Comprehensive Income as a separate component of equity.

(e) 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 Holdings' 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.

RiverStone Holdings Limited (Company No. 2709527)
Notes to the Financial Statements
For the year ended 31st December 2017

(f) Pensions

RiverStone Holdings is the principal employer for the Group's defined benefit pension scheme. RiverStone Management Limited ("RiverStone Management") is the primary participating employer and all costs associated with the defined benefit scheme are recharged to RiverStone Insurance (UK) Limited ("RiverStone Insurance (UK)") and RiverStone Insurance Limited ("RiverStone Insurance"), through the administration outsource agreements that are in place with these entities. In accordance with FRS102, the defined benefit pension scheme is accounted for in RiverStone Insurance (UK) and RiverStone Insurance in proportion to the allocation of overall costs that are recharged from RiverStone Management in respect of the outsourcing arrangement. The cost of the pension scheme is analysed between current service cost, past service cost and net return on the pension scheme. Current service cost is the actuarially calculated present value of the benefits earned by the active employees in each year. Past service costs, relating to employee service in prior periods arising as a result of the introduction of, or improvement to, retirement benefits, are recognised on a straight-line basis over the 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 sheets of RiverStone Insurance (UK) and RiverStone Insurance is their shares 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 6.

(g) Dividend Income

Dividends receivable from subsidiary undertakings are recognised in the Profit and Loss Account when declared.

(h) Investment in Subsidiary Undertakings

Unlisted investments in subsidiary undertakings are initially recorded at cost and subsequently carried stated at current net asset value. Any changes in value are recognised in the profit and loss account in the year in which they occur.

(i) Financial Instruments

RiverStone Holdings has chosen to adopt Sections 11 and 12 of FRS102 in respect of financial instruments.

(j) Related Party Transactions

RiverStone Holdings 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.

(k) Critical Accounting Judgements and Estimation Uncertainty

RiverStone Holding's financial statements do not contain any elements of significant accounting estimates or judgements requiring disclosure.

RiverStone Holdings Limited (Company No. 2709527)

Notes to the Financial Statements

For the year ended 31st December 2017

4. Auditors' Remuneration

	2017 £'000	2016 £'000
Audit	1	1
Audit related assurance services	17	19
Other assurance services	-	5
Other non-audit services	-	70
	<u>£ 18</u>	<u>£ 95</u>

5. Directors and Employees

No emoluments were paid by RiverStone Holdings to any Directors or other key management personnel during the year (2016: nil). The emoluments of the Directors and other key management personnel are paid by a fellow subsidiary undertaking, RiverStone Management. The services of the Directors and other key management personnel to RiverStone Holdings are incidental and their emoluments are deemed to be wholly attributable to their services to other group companies. Accordingly, no disclosure of emoluments has been made in these financial statements.

6. Pension Costs

RiverStone Holdings is the principal employer for the 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:

RiverStone Holdings Limited (Company No. 2709527)
Notes to the Financial Statements
For the year ended 31st December 2017

	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 amount included in the balance sheets of RiverStone Insurance (UK) and RiverStone Insurance arising from the Group's obligations in respect of the Plan is as follows:

	31st December 2017 £'000	31st December 2016 £'000
Present value of defined benefit obligation	(114,236)	(108,099)
Fair value of plan assets	<u>113,506</u>	<u>108,913</u>
Surplus (deficit) included in balance sheet	(730)	814
Related deferred tax asset (liability)	<u>124</u>	<u>(138)</u>
Asset (liability) net of deferred tax	£ <u>(606)</u>	£ <u>676</u>

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	<u>-</u>
Closing defined benefit obligation	£ <u>114,236</u>

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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	<u>(4,107)</u>
Closing fair value of plan assets	£ 113,506

The total amounts recognised in the Profit and Loss Accounts of RiverStone Insurance (UK), RiverStone Insurance, and the other participating employer are as follows:

	2017 £'000	2016 £'000
Employer's part of current service cost	1,831	1,443
Gain on settlements and curtailments	-	-
Net interest income	(89)	(284)
Plan administration expenses	<u>318</u>	<u>189</u>
Total expense included in profit and loss account	£ 2,060	£ 1,348

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	<u>30%</u>	<u>0%</u>
	<u>100 %</u>	<u>100 %</u>

The Plan does not have any employer-related investments.

The total actual return on the Plan's assets over the year was a gain of £3 million (2016: £19.4 million gain).

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7. Tax on Profit (Loss)

	2017	2016
	£'000	£'000
(a) Current tax		
UK corporation tax at 19.25% (2016: 20%) based on the profit (loss) for the year	(12)	20
Group relief surrendered (claimed) for nil consideration	<u>12</u>	<u>(20)</u>
	£ -	£ -

(b) Factors affecting the 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	2016
	£'000	£'000
Profit (loss) before tax	£ 78,400	£ (67,106)
Profit (loss) before tax multiplied by the UK corporation tax rate of 19.25% (2016: 20%)	15,092	(13,421)
Non-taxable change in value of subsidiaries	(15,104)	13,427
Disallowed expenses	-	14
Group relief surrendered (claimed) for nil consideration	<u>12</u>	<u>(20)</u>
Total tax charge for the year	£ -	£ -

(c) 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.

8. Investments

RiverStone Holdings directly owns all of the ordinary issued share capital of the following companies (none of which are listed). In the opinion of the directors, the carrying value of the investments in subsidiary undertakings on the balance sheet of RiverStone Holdings is supported by the underlying net assets.

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	Shareholders' Equity at 31 Dec 2016 £'000	Profit And Loss £'000	Other Comprehensive Income £'000	Foreign Exchange £'000	Shareholders' Equity at 31 Dec 2017 £'000
RiverStone Management Limited Run-off Agency	681	191	-	-	872
Sphere Drake Leasing Limited Leasing Company	171	56	-	-	227
RiverStone Corporate Capital Limited Corporate member at Lloyd's	132	(5)	-	(18)	109
RiverStone Corporate Capital 2 Limited Corporate member at Lloyd's	358	-	-	-	358
RiverStone Insurance (UK) Limited General Insurance	264,289	40,607	(1,515)	(24,726)	278,655
RiverStone Managing Agency Limited Lloyd's Agency	11	-	-	-	11
RiverStone Insurance Limited General Insurance	241,877	18,166	(1,926)	-	258,117
	507,519	59,015	(3,441)	(24,744)	538,349

All of the directly owned subsidiaries noted above are registered in England and Wales and their registered address is Park Gate, 161-163 Preston Road, Brighton, East Sussex BN1 6AU.

Additionally, through RiverStone Insurance (UK), RiverStone Holdings indirectly owns all of the ordinary share capital of RiverStone Luxembourg S.a.r.l. RiverStone Luxembourg S.a.r.l is a dormant company which was incorporated on 14th June 2016. Its registered address is 20 Rue Eugene Ruppert, L-2453 Luxembourg.

9. Debtors

	2017 £'000	2016 £'000
Other debtors	£ <u>-</u>	£ <u>9</u>

10. Called up Share Capital

	2017	2016
46,606,341 (2016: 46,606,341) Ordinary Shares of £1	£ <u>46,606,341</u>	£ <u>46,606,341</u>
348,404,620 (2016: 348,404,620) Ordinary Shares of \$1	\$ <u>348,404,620</u>	\$ <u>348,404,620</u>
68,432,731 (2016: 68,432,731) Ordinary Shares of \$0.88	\$ <u>60,220,803</u>	\$ <u>60,220,803</u>

In all respects Ordinary US Dollar Shares of \$1 each and Ordinary US Dollar Shares of \$0.88 each rank pari passu with the Ordinary Sterling Shares.

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	2017 £'000	2016 £'000
<u>Total allotted and fully paid</u>		
46,606,341 (2016: 46,606,341) Ordinary Shares of £1	46,606	46,606
348,404,620 (2016: 348,404,620) Ordinary Shares of \$1	257,551	281,961
68,432,731 (2016: 68,432,731) Ordinary Shares of \$0.88	44,517	48,736
	<u>£ 348,674</u>	<u>£ 377,303</u>

11. Creditors: Amounts falling due within one year

	2017 £'000	2016 £'000
Amounts owed to group undertakings	<u>£ 30,887</u>	<u>£ 33,758</u>

RiverStone Holdings has no creditors which are subject to security arrangements

12. Litigation and Contingent Liabilities

RiverStone Holdings has provided letters of support to RiverStone Management and RiverStone Managing Agency Limited whereby funds will be made available to this company to ensure liabilities are met as they fall due for payment.

13. Related Party Transactions and Immediate and Ultimate Parent Company

RiverStone Holdings is a wholly owned subsidiary of FFHL Group Limited, which is registered in Canada. The ultimate parent company and controlling party is Fairfax which is registered in Canada and listed on the Toronto Stock Exchange.

Advantage has been taken of the exemption from the requirement to disclose transactions with related parties within the same group as provided by FRS102, Section 33.1A. This exemption is available for RiverStone Holdings 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.