

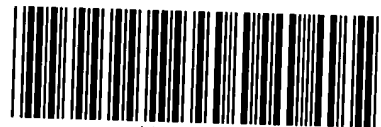
Company Registration No. 00462838  
Registered in England & Wales

**RIVER THAMES INSURANCE COMPANY LIMITED**

**Annual Report and Financial Statements**

**For the year ended 31 December 2021**

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**RIVER THAMES INSURANCE COMPANY LIMITED**  
**REPORT AND FINANCIAL STATEMENTS 2021**

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# **RIVER THAMES INSURANCE COMPANY LIMITED**

## **OFFICERS AND PROFESSIONAL ADVISORS**

### **DIRECTORS**

The Directors and Officers who served during the year are shown below:

D S Truman  
A Slade

|                |                           |                          |
|----------------|---------------------------|--------------------------|
| J H Riley      | Independent Non-Executive |                          |
| K P Murphy     | Independent Non-Executive |                          |
| C D Forbes     | Independent Non-Executive | Resigned 7 March 2022    |
| B R A Merriman | Non-Executive             | Resigned 31 October 2021 |

### **SECRETARY**

S M Hextall  
F M Brook

### **REGISTERED OFFICE**

3 Guildford Business Park  
Guildford  
Surrey GU2 8XG

### **MANAGERS**

Enstar (EU) Limited  
3 Guildford Business Park  
Guildford  
Surrey GU2 8XG

### **AUDITOR**

KPMG LLP  
Chartered Accountants and Statutory Auditors  
London, United Kingdom

# RIVER THAMES INSURANCE COMPANY LIMITED

## STRATEGIC REPORT

### REVIEW OF THE BUSINESS

River Thames Insurance Company Limited (“the Company”) is ultimately owned by Enstar Group Limited, a company domiciled in Bermuda. The principal activity of the Company, and that of the Enstar Group, is the conduct of general insurance and reinsurance business. The Company is in run-off, having voluntarily ceased to underwrite new business in 1997. The Company has outsourced the operational management of its business to Enstar (EU) Limited (“Enstar”), a specialist provider of insurance claims and administrative services and a fellow indirect subsidiary of Enstar Group Limited. The Company does not directly employ its own staff.

The Company’s run-off is conducted in a sound and prudent manner with the objective of efficiently discharging liabilities and obligations as they fall due to both existing policyholders and new policyholders acquired through future business transfers. Management actions taken may include, where appropriate, negotiating with insureds and reinsureds to buyback and/or commute their insurance or reinsurance agreements. In most cases, policy buybacks and commutations involve the settlement of all claims each party has against the other and are therefore a mechanism to extinguish liabilities for inwards insurance and reinsurance in addition to collecting outwards reinsurance recoveries, thereby eliminating uncertainty to the Company over the amount of future claims and reinsurance recoveries.

The Company understands the need to manage its risks by constantly analysing changes and settling claims with the assistance of Enstar’s experienced claims adjusters, together with in-house and external legal counsel. The Company determines which claims are valid through the use of such experts.

The Company’s results for the year are shown in the profit and loss account on page 18. The profit for the year after taxation amounted to \$7.4m (2020: \$21.1m) which is mainly due to profits on investment returns and technical income. The run-off has proceeded satisfactorily during the year and the Company continues to conduct an orderly run-off of its business. All business has been classified as continuing operations.

#### ***Solvency II:***

The Company has continued to comply, in all material respects, with the requirements of the Solvency II Regulations throughout the financial year.

Based on capital modelling analysis conducted to date, the Directors anticipate that the Company will continue to meet the solvency requirements of Solvency II for the foreseeable future.

#### ***Manage Capital Prudently:***

The Company complies with the Prudential Regulation Authority (“PRA”) solvency requirements and, where necessary, reviews its solvency needs in conjunction with the PRA as its loss reserves reduce over time. The Company adopts conventional actuarial and other methods to assess the risks to its solvency. The Company’s capital management strategy is to deploy capital efficiently and to maintain adequate loss reserves to protect against future adverse developments.

#### ***Performance Management:***

The Company operates within a performance management framework that encompasses business planning and ongoing monitoring, as appropriate to a company in run-off.

Key performance indicators (“KPIs”) are used primarily to compare actual performance to the business plan. For the year ended 31 December 2021 KPIs include:

##### ***Financial KPIs:***

Percentage reduction in net reserves of 11.4% (2020: 44.2%)

Investment return of 1.7% (2020: 3.3%)

Operating profit before tax of \$7.2m (2020: \$23.0m)

# RIVER THAMES INSURANCE COMPANY LIMITED

## STRATEGIC REPORT (continued)

### *Non-Financial KPIs:*

#### Operation of the Risk Management Framework

- Setting and monitoring of risk appetite
- Risk management attestation by risk owners
- Monitoring of outsource providers

Risk appetite and tolerance is reviewed annually to align with the business plan and considers the principal risks and uncertainties as identified in the relevant section below. Each principal risk area has assigned risk metrics with thresholds that are monitored regularly.

#### Operation of the Internal Control System

- Maintenance of policies and procedures
- Control attestation by control owners
- Monitoring actions to improve control effectiveness

The Company has an effective internal control system that is monitored regularly and which operates alongside the risk management system.

Forward-looking assessment of own risks as monitored through the Company's Own Risk & Solvency Assessment ("ORSA").

## FUTURE DEVELOPMENTS

The Company continues to monitor the appropriateness of various strategies to achieve complete finality and conclude its run-off. Possible exit strategies include a solvent scheme of arrangement whereby a UK court-sanctioned scheme, approved by the applicable statutory majorities of voting creditors, provides for a one-time full and final settlement of an insurance or reinsurance company's obligations to its policyholders. However, solvent schemes of arrangement may no longer be available to the same extent in light of the Supervisory Statement issued by the PRA in April 2014 which indicated that the PRA may require policyholders to be offered continuity of cover as part of a solvent scheme of arrangement proposal. There are other strategies which management can pursue to bring finality to the business more quickly than the settlement of claims as and when they fall due.

## IDENTIFICATION AND MANAGEMENT OF PRINCIPAL RISKS AND UNCERTAINTIES

### *Strategic Risk:*

If the Company is unable to implement business plans and strategies, its business and financial condition may be adversely affected. The experience of the management team supported by a robust risk management framework will continue to allow the Company to manage the run-off of the business efficiently, while mitigating the likelihood and impact of the associated risks.

### *Reserving Risk:*

There is a risk that the Company does not hold adequate loss reserves to protect it against future claims liabilities.

To help manage this risk, the Company uses statistical methods including industry benchmarking methodologies to estimate appropriate Incurred But Not Reported ("IBNR") reserves for the Company's various exposures and engages independent, external actuaries to perform an appropriate peer review. These methods are based on comparisons of the Company's loss experience on its various exposures relative to industry loss experience for comparable exposures.

### *Claims Management and Commutation Risk:*

The Company has implemented effective claims management and administration procedures. To ensure that claims are appropriately handled and reported accordingly (including in compliance with the Financial Conduct Authority Handbook and other relevant regulatory requirements), all claims matters are reviewed regularly, with all material matters reviewed and authorised by management prior to any action being taken.

When appropriate, the Company negotiates with insureds to commute or buyback policies either on favourable terms or to mitigate against existing and/or potential future indemnity exposures and legal costs in an uncertain and constantly evolving legal environment.

The Company also pursues commutations on favourable terms with ceding companies of reinsurance business.

# RIVER THAMES INSURANCE COMPANY LIMITED

## STRATEGIC REPORT (continued)

A disciplined approach is followed throughout the commutation and policy buyback process to minimise risk and increase the probability of a positive outcome.

### *Liquidity Risk:*

The Company follows an appropriately conservative investment strategy designed to emphasise the preservation of its invested assets and provide sufficient liquidity for the prompt payment of claims as they fall due and settlement of commutation and policy buyback payments.

### *Credit Risk:*

The Company has purchased reinsurance to manage its existing liabilities. There is therefore credit risk that a counterparty will be unable to pay amounts in full when due. The Company places limits on its exposure to a single counterparty, or groups of counterparties, and to geographical and industry segments. Where necessary the Company will establish provisions against any bad or doubtful debts.

### *Foreign Currency Risk:*

The Company currently does not use foreign currency hedges to manage its foreign currency exchange risk. The Company manages its exposure to foreign currency exchange risk by broadly matching its non-U.S. dollar denominated assets against its non-U.S. dollar denominated liabilities. This matching process is done quarterly in arrears and therefore any mismatches occurring in the period may give rise to foreign exchange losses, which could adversely affect the Company's operating results. The assets backing shareholders' funds are largely kept in U.S. Dollars, the Enstar Group's functional currency.

### *Outsourcing and Conduct Risk:*

Those business activities / services that are outsourced via Service Level Agreements (including to Enstar Group Companies) are reviewed on a regular basis to ensure that they are appropriate for the requirements of the business. Conduct risk is the risk that the Company's activities result in poor outcomes for policyholders.

Although the Company's claims and administrative activities are outsourced, the Board remains fully accountable for the risks inherent in the business in accordance with the Outsourcing Policy. Regular review of outsource providers is a control that is attested to quarterly.

### *Climate Risk:*

Given the Company is in run-off, exposure to climate-related risks emanates from existing insurance liabilities and the assets that back those liabilities.

Our Enterprise Risk Management (ERM) framework defines the roles and responsibilities for effective oversight and management of environmental, social and governance (ESG) and climate-related risks and opportunities at the Board and senior management levels.

The UK's PRA stipulated several requirements related to climate change. A dedicated Climate Change Oversight Group, chaired by the European CRO, was established to oversee the implementation of the UK's PRA requirements for managing the climate-related financial risks.

Climate change presents risks and opportunities to the sustainability of our business. The Company's business strategy is exposed to the following risks over the short (<2030), medium (<2040) and longer (≥2040) term time horizons, across three major types of climate risk:

- Physical risks (Short to Longer term) are the first order risks arising from weather-related events, such as floods and storms. Their impact may be felt directly through property damage, or indirectly through subsequent events such as disruption of global supply chains or resource scarcity. Our operations may be impacted by physical risks affecting key supporting infrastructure and/or our outsourced service providers. The impact and likelihood of this risk is considered low.
- Transition risks (Short to Medium Term) include financial risks deriving from the transition to a carbon net zero economy, and for Enstar include potential swift, adverse repricing of carbon-intensive financial assets. Scenario analysis undertaken during 2021 to assess the impact of transition risk concluded a relatively modest impact to the investment portfolio.

# RIVER THAMES INSURANCE COMPANY LIMITED

## STRATEGIC REPORT (continued)

- Liability risks (Short to Medium Term) include third-party exposures such as claimants who have suffered climate-change related losses and damage, and seek compensation. Liability risks also include the unknown and potentially high costs of dealing with losses or damage from physical or transition risk factors. Liability risks are particularly high for those directors and officers who do not properly manage and report climate-related risks and commit errors and omissions. Scenario analysis undertaken during 2021 to assess the impact of liability risk concluded a low impact to the liabilities.

### ***Brexit:***

The UK formally left the European Union on 31 January 2020 (commonly referred to as “Brexit”). The 11-month transition period, during which time existing EU rules remained in force, ended on 31 December 2020. On 24 December 2020, the UK and EU announced a Trade and Cooperation Agreement which took effect from 1 January 2021. On 26 March 2021, HM Treasury announced that the UK government had concluded discussions with the EU on a Memorandum of Understanding in relation to financial services which, once signed, will sit alongside the Trade and Cooperation Agreement. However, it remains the case that there has been, in effect, a “hard” Brexit in respect of financial services. All contracts entered into prior to Brexit are expected to remain valid in the post-Brexit period.

The Company had freedom of services passports in all EEA states covering all classes of business and considers that the main area affected by Brexit is the continued payment of claims to policyholders. The Company had investigated the relevant post-Brexit requirements in each EEA state in the event of a loss of passporting rights and had communicated its position to all EEA state regulators for the continued payment of claims accordingly. The Company also commenced an insurance business transfer under Part VII of the Financial Services and Markets Act 2000 (“Part VII Transfer”), on a precautionary basis, in order to transfer the small number of EEA policies that could need to be transferred in the event of a hard Brexit. We are progressing this Part VII Transfer to completion, with such policies being transferred to an indirect subsidiary of Enstar Group Limited established in Belgium. We expect the transfer to be effective from 1 July 2022.

It is expected that there will continue to be volatility in the financial and foreign exchange markets which the Company will continue to monitor. The anticipated impact on solvency position continues to be minimal as a result of the Company’s asset liability duration and currency matching process. There has been no other direct impact on the Company arising from Brexit.

The Solvency II framework sets out requirements on capital adequacy and risk management for insurers. To the extent that Solvency II was already adopted by UK legislation, it remains in force post-Brexit. The UK government announced in mid-2020 that it would undertake a review of Solvency II as it applies in the UK. HM Treasury initiated the review by publishing a call for evidence on 18 October 2020. HM Treasury published a response to the call for evidence on 1 July 2021. In light of this, HM Treasury and the PRA are understood to be developing a package of reforms to Solvency II which they are expected to provide further detail on during 2022. The Company will continue to monitor and comply, where appropriate, with all legislation and reporting requirements.

### ***Coronavirus:***

The Company continues to monitor the COVID-19 outbreak and to assess the potential impact to all stakeholders. The Company has a formal business continuity plan which continues to be reviewed in light of current developments and will be actively deployed as events require.

Following the removal of working from home restrictions in 2021 Enstar has adopted an agile working environment and has fully engaged with all staff during the transition and will continue to assess the working approach on a regular basis and considering government guidelines.

Employee wellbeing continues to be a key focus for Enstar with support provided directly and through various employee assistance programs. Enstar regularly and proactively interacts with staff covering all aspects of wellbeing from mental health awareness to maintaining good health through diet and exercise.

The Company regularly assesses the impact on solvency capital in line with established risk metrics and in compliance with the Company’s risk appetite, including the impact of volatility in the financial markets.

The Directors have considered the Company’s forecast income and financial position and the potential impact of COVID-19:

- The Company is forecasted to operate profitably and continue to meet solvency requirements for the foreseeable future;

# RIVER THAMES INSURANCE COMPANY LIMITED

## STRATEGIC REPORT (continued)

- The Company performs stress testing including severe but plausible downside scenarios on a regular basis as part of the ORSA;
- The Company is in run-off and has limited exposure to the impact of COVID-19 related losses. There has been no recorded financial loss, including outwards reinsurance programmes;
- The Company has a 50% whole account quota share reinsurance arrangement with a fellow indirect subsidiary undertaking, Enhanced Reinsurance Limited (refer to Note 17) and regularly monitors, against agreed thresholds, various KPIs which have remained above target at all times during the year. The quota share agreement is collateralised at 120% through a combination of funds withheld and additional security.
- The Company's investment return during the year was \$10.3m (refer to Note 5);
- The Company follows an appropriately conservative investment strategy designed to emphasise the preservation of its invested assets and provide sufficient liquidity for the prompt payment of claims as they fall due.

### *Russia – Ukraine conflict:*

On 24 February 2022, Russia launched an invasion of Ukraine. Following the invasion, the United Kingdom, European Union, United States, Australia, Canada and Japan announced punitive sanctions and export controls including blocking sanctions on significant Russian financial institutions and members of Russia's government and elite and trading restrictions on Russia's sovereign debt. The sanctions do not only apply to direct payments to named individuals or entities, they apply to any payments or financial services that would lead to a benefit to these parties. Payments of claims are covered by the sanctions. River Thames does not have any known underwriting exposure and it is too early to estimate the possible impact of the invasion from an investment risk perspective but the Board remains confident that the Company's future performance should not be materially impacted.

## PROMOTING THE SUCCESS OF THE COMPANY

The Directors have complied with their responsibilities under Section 172 of the Companies Act 2006 to act in good faith and promote the success of the company for the benefit of shareholders as a whole. In so doing, the Directors have considered the broader matters as set out below.

### *The likely consequences of any decision in the long term*

The Company has a strategy to conduct the run-off of business in a disciplined and professional manner to efficiently discharge the liabilities associated with the business while preserving and maximising its assets for the benefit of the shareholder.

The Company has an appropriate system of Governance in place along with an established risk management framework and internal control system to ensure the long-term success of the Company for the benefit of all stakeholders. A business plan is prepared annually and progress is monitored throughout the year against objectives. The Company has an ORSA policy within which a forward-looking assessment of the Company is maintained and strategic decisions, including capital needs, are assessed in accordance with the risk management framework.

### *The interests of the Company's employees*

The Company, via its outsource provider Enstar, employs and develops a diverse, high calibre workforce. Enstar's success is directly attributable to having a working environment that is collaborative, inclusive and respectful. Enstar actively seeks to understand employees values and what motivates them and reflect this in the way they operate. Oversight of performance and development is managed on an ongoing basis and formalised at least annually. The strategic priorities are cascaded down to individuals within the business through objective setting and monitoring. Enstar's culture, as adopted by the Company, is defined in the Code of Conduct which is provided to all employees.

### *The need to foster the Company's business relationships with suppliers, customers and others*

The Company aims to manage claims in a professional and disciplined manner, drawing on in-house expertise to settle claims efficiently. The Company strives to pay valid claims to policyholders on a timely basis and has a robust compliance framework which ensures the Company maintains the highest standards of conduct such that policyholders are treated in a fair and honest manner.



## **RIVER THAMES INSURANCE COMPANY LIMITED**

### **STRATEGIC REPORT (continued)**

The Company works closely with reinsurers, brokers and professional advisors to manage reinsurance recoverables and achieve fair and prompt payment of reinsured claims.

The Company continually analyses insurance exposures and reinsurance receivables on a policyholder-by-policyholder basis to identify those we wish to approach to discuss commutation. In addition, policyholders and reinsurers often approach us requesting commutation. We then carry out a full analysis of the underlying exposures in order to determine the attractiveness of a proposed commutation. From the initial analysis of the underlying exposures, it may take several months, or even years, before a commutation is complete. In certain cases, if we and the policyholder or reinsurer are unable to reach a commercially acceptable settlement the commutation may not be achievable, in which case we will continue to settle valid claims from the policyholder, or collect reinsurance receivables from the reinsurer as they arise or become due.

The Company has a 50% whole account quota share reinsurance arrangement with a fellow indirect subsidiary of Enstar Group Limited, Enhanced Reinsurance Limited ("Enhanced Re"). The Company works closely with Enhanced Re to ensure compliance with the reinsurance arrangement and that the Company is able to fulfil obligations, as they fall due, to policyholders.

#### ***The impact of the Company's operations on the community and the environment***

Through the outsourcing arrangement with Enstar, the Company, has a strong culture of supporting its staff in both individual and group volunteering and fundraising initiatives. We believe that our success as a business is based on the need to make a positive investment in both staff and the community. The Company has fully adopted the Corporate & Social Responsibility (CSR) framework which is how Enstar contributes to and actively makes a difference in both the local and wider community. The aim is to promote staff engagement in working with Enstar to make a positive difference, through engagement with charities and causes that our people have an affinity with; local communities; and the environment as a whole.

#### ***The desirability of the Company maintaining a reputation for high standards of business conduct***

As a regulated entity, authorised by the PRA and regulated by the PRA and Financial Conduct Authority (FCA), the Company complies with mandated regulatory requirements and best practice recommendations. Over and above this the Company seeks to achieve and maintain a reputation for demonstrating a high standard of business conduct. The Company maintains an open dialogue with regulators and key executives actively engage in regular update meetings.

#### ***The need to act fairly between members of the Company***

As a wholly owned subsidiary of Enstar Group Limited, the Company provides regular reporting to and communication with its ultimate parent, Enstar Group Limited. The strategic direction of the Company is aligned with group objectives.

Approved by the Board of Directors and signed on behalf of the Board by:



A Slade  
Director  
29 March 2022

# **RIVER THAMES INSURANCE COMPANY LIMITED**

## **DIRECTORS' REPORT**

The Directors present their annual report and the audited financial statements of the Company for the year ended 31 December 2021.

### **Principal Activity**

The principal activity of the Company is to run-off liabilities on legacy general insurance and reinsurance business. The Company voluntarily ceased to underwrite new business in 1997.

### **Going Concern**

The Directors regularly review the Company's own funds, solvency capital requirement and run-off plans. Senior Management work alongside the local regulatory authorities to ensure sufficient capital remains within the Company as required under current regulations. Any capital extractions require the prior approval of the PRA to ensure the Company continues to retain sufficient adequate resources in order to conduct an orderly, solvent run-off. Having reviewed the run-off plans and solvency calculations for the Company, safe in the knowledge the Company has ceased underwriting, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

The adoption of the going concern basis can also be found in the Statement of Accounting Policies in the financial statements.

### **Dividends**

The Directors have not declared or paid a dividend during the year (2020: \$Nil). During March 2022 the Directors are anticipating to make a dividend of \$100m.

### **Directors**

The present membership of the Board of Directors and the changes in the composition of the Board up to and including the date of approval of these financial statements are shown on page 1.

### **Other information**

Future developments and business relationships are discussed in the Strategic Report. Information on the financial instruments held by the Company are disclosed in Note 14 to the financial statements, with further information on the management of financial risk in Note 15.

### **Disclosure of information to auditor**

The Directors who were in office on the date of approval of these financial statements have confirmed, as far as they are aware, that there is no relevant audit information of which the auditor is unaware. Each of the Directors have confirmed that they have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that it has been communicated to the auditor.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

## **RIVER THAMES INSURANCE COMPANY LIMITED**

### **DIRECTORS' REPORT**

#### **Auditor**

It is intended that KPMG LLP will cease to be auditors of the Company for the audit of the accounts for the year ended 31 December 2022. In accordance with section 485(A) of the Companies Act 2006, the Audit Committee will make a recommendation to the Board for the appointment of auditor for the year ended 31 December 2022 within 28 days of signing these Financial Statements.

Approved by the Board of Directors and signed on behalf of the Board by:



**A Slade**  
Director  
29 March 2022

## **RIVER THAMES INSURANCE COMPANY LIMITED**

### **STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE STRATEGIC REPORTS, THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS**

The Directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

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 its result for that period. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

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 its financial statements comply with the Companies Act 2006. They are 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, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.



# Independent auditor's report

## to the members of River Thames Insurance Company Limited

### 1. Our opinion is unmodified

We have audited the financial statements of River Thames Insurance Company Limited ("the Company") for the year ended 31 December 2021 which comprise the Profit and Loss Account and Other Comprehensive Income, Balance Sheet, Statement of Changes in Equity, and the related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of Company's affairs as at 31 December 2021 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

#### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were first appointed as auditor by the directors on 21 June 2012. The period of total uninterrupted engagement is for the 10 financial years ended 31 December 2021. We have fulfilled our ethical responsibilities under, and we remain independent

of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to public interest entities. No non-audit services prohibited by that standard were provided.

#### Overview

|                                 |                                   |
|---------------------------------|-----------------------------------|
| <b>Materiality:</b>             | \$4.3m (2020:\$4.4m)              |
| financial statements as a whole | 0.5% (2020: 0.6%) of Total Assets |

#### Key audit matters vs 2020

|                        |                                                       |    |
|------------------------|-------------------------------------------------------|----|
| <b>Recurring risks</b> | Valuation of gross incurred but not reported ("IBNR") | ◀▶ |
|                        | Valuation of level C investments                      | ◀▶ |

## 2. Emphasis of matter – uncertainty over gross incurred but not reported (“IBNR”) claims in respect of asbestos and environmental liabilities and the related reinsurance recoveries

We draw attention to the disclosure made in note 2 and note 16 of the financial statements concerning the Company’s technical provisions for gross IBNR claims in respect of asbestos and environmental liabilities and the related reinsurer’s share of these technical provisions. These amounts are included within the gross claims outstanding of \$144.7m as at 31 December 2021 (2020: \$157.8m), and the reinsurer’s share of these technical provisions of \$74.7m (2020: \$82.1m) disclosed in note 2. Note 2 discloses that significant uncertainty exists regarding the ultimate settlement amount of these liabilities, and therefore the associated related reinsurer’s share of these technical provisions. Consequently, the actual outturn may be materially different to the amounts currently recognised. As stated in note 2, it is not possible to quantify the potential effects on the financial statements from the resolution of these uncertainties. This emphasis of matter is specifically related to a significant portion of one of the key audit matters identified below in section 3 of this report, being the valuation of gross incurred but not reported (“IBNR”) claims. Our opinion is not modified in respect of this matter.

## 3. Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, 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. We summarise below the key audit matters (unchanged from 2020), in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

|                                                                                                                                                                                                                                                                            | The risk                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | Our response                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
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| <p><b>Valuation of gross incurred but not reported (“IBNR”) claims</b></p> <p>This is included in the balance of gross claims outstanding of (\$259.6 million; 2020: \$291.9m)</p> <p><i>Refer to page 22 (accounting policy) and page 25 (financial disclosures).</i></p> | <p><b>Subjective valuation:</b></p> <p>Incurred but not reported claims represent a significant portion of the liabilities for the company. Valuation of these liabilities is highly judgemental, and requires a number of assumptions to be made that have high estimation uncertainty and can have material impacts on the valuation.</p> <p>Key assumptions include expected loss ratios and estimates of the frequency and severity of claims, used to value the liabilities, particularly those relating to the amount and timing of future claims.</p> <p>These judgemental and complex calculations for IBNR claims are also used to derive the valuation of the related reinsurance assets.</p> <p>The effect of these matters is that, as part of our risk assessment, we determined that the valuation of IBNR claims has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount.</p> <p><b>Completeness and accuracy of data:</b></p> <p>The valuation of IBNR claims depends on complete and accurate data about the volume, amount and pattern of current and historical claims since they are often used to form expectations about future claims. If the data used in calculating the IBNR claims, or for forming judgements over key assumptions, is not complete and accurate then material impacts on the valuation of IBNR claims may arise.</p> | <p>We used our own actuarial specialists to assist us in performing our procedures in this area.</p> <p>Our procedures included:</p> <p><b>Controls performance</b></p> <ul style="list-style-type: none"> <li>— We tested the design, implementation, and operating effectiveness of key controls around review and approval of reserves as well as completeness and accuracy of the data used in the reserving process.</li> </ul> <p><b>Methodology assessment</b></p> <ul style="list-style-type: none"> <li>— We made enquiries with the Company’s Chief Actuary and relevant directors as well as with the Directors’ appointed external experts, to assess the rationale behind the methodology and assumptions used in deriving year end reserves, with special emphasis on ultimate loss selection; and</li> <li>— We assessed the reserving assumptions and methodology (on a gross basis and net of outwards reinsurance) adopted by the Directors’ appointed external experts for reasonableness using our professional and sector experience and for consistency year on year.</li> </ul> <p><b>Independent performance</b></p> <ul style="list-style-type: none"> <li>— We applied our own assumptions, across segments with the largest reserves, to perform re-projections on the insurance contract liabilities comparing these to the Company’s results. Where there were material differences in the results, we challenged the Company’s assumptions.</li> </ul> |

### 3. Key audit matters: our assessment of risks of material misstatement

|                                                                                                                                                                                                                                                                            | The risk                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | Our response                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
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| <p><b>Valuation of gross incurred but not reported ("IBNR") claims</b></p> <p>This is included in the balance of gross claims outstanding of (\$259.6 million; 2020: \$291.9m)</p> <p><i>Refer to page 22 (accounting policy) and page 25 (financial disclosures).</i></p> | <p><b>Subjective valuation:</b></p> <p>Incurred but not reported claims represent a significant portion of the liabilities for the company. Valuation of these liabilities is highly judgemental, and requires a number of assumptions to be made that have high estimation uncertainty and can have material impacts on the valuation.</p> <p>Key assumptions include expected loss ratios and estimates of the frequency and severity of claims, used to value the liabilities, particularly those relating to the amount and timing of future claims.</p> <p>These judgemental and complex calculations for IBNR claims are also used to derive the valuation of the related reinsurance assets.</p> <p>The effect of these matters is that, as part of our risk assessment, we determined that the valuation of IBNR claims has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount.</p> <p><b>Disclosure quality:</b></p> <p>The financial statements (note 2 and note 16) discloses the uncertainty regarding the adequacy of reserves for asbestos and environmental issues identified by the Company.</p> <p>The directors' assessment of the extent of the disclosure is based on an evaluation of the inherent risks to the valuation, including the long latency period between asbestos exposure and disease manifestation, and inconsistencies in court decisions, judicial and legislative interpretations.</p> <p>The risk for our audit is whether or not those disclosures adequately address the uncertainties within the valuation, and if so, whether those uncertainties are fundamental to the users' understanding of the financial statements. If so, we draw attention to the disclosure in our audit report by the inclusion of an "emphasis of matter" paragraph.</p> | <p>Our procedures included <i>(cont'd.)</i></p> <p><b>Benchmarking assumptions</b></p> <ul style="list-style-type: none"> <li>— We inspected actuarial analysis results prepared by the Directors' internal actuarial experts considering variances above a de-minimis level in actual vs expected incurred movement during the year. This analysis excluded balances commuted during the year, as such movements are not predictable; and</li> <li>— We critically assessed the actuarial analysis prepared by the Directors' internal actuarial experts considering experience in prior years.</li> </ul> <p><b>Historical experience</b></p> <ul style="list-style-type: none"> <li>— We inspected the actuarial analysis prepared by the Directors' internal actuarial experts considering whether there were any variances above a de-minimis level in prior year leading to restatement of brought forward reserves; and</li> <li>— We performed an analysis of claims development since prior year end to assess the reasonableness of the movement ultimate losses compared to the movement in the incurred losses.</li> </ul> <p><b>Data reconciliations</b></p> <ul style="list-style-type: none"> <li>— We assessed the completeness and accuracy of the data used within the reserving process by reconciling the actuarial source data to the Company's financial systems and agreeing a sample of data elements to source documents.</li> </ul> <p><b>Assessing Transparency</b></p> <ul style="list-style-type: none"> <li>— We have considered the adequacy of the Company's disclosures, particularly with regards to the uncertainty in the asbestos and environmental reserves.</li> </ul> <p><b>Our results</b></p> <ul style="list-style-type: none"> <li>— We found the resulting valuation of gross IBNR claims and the related disclosures to be acceptable (2020 result: acceptable). We have drawn attention to the disclosures in respect of the asbestos and environmental liabilities in the emphasis of matter paragraph in section 2 of our report (2020: included an emphasis of matter).</li> </ul> |

### 3. Key audit matters: our assessment of risks of material misstatement

|                                                                                                                                                                   | The risk                                                                                                                                                                                                                                                                                                                                                                                                  | Our response                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Valuation of Level C investments</b><br>(\$31.9million; 2020: \$26.9m)<br><br><i>Refer to page 22 (accounting policy) and page 32 (financial disclosures).</i> | <b>Valuation of Level C investments:</b><br><br>The Company holds a significant amount of investments to meet its obligations under insurance contracts and for shareholder investment purposes.<br><br>The key issue which increases the level of judgement and subjectivity inherent in the valuation of Level C investments is the use of third party pricing sources in the valuation of investments. | <p>A significant part of our response was focused on the recognition and measurement of investments and disclosures in the financial statements.</p> <p>Our procedures included:</p> <p><b>Controls reperformance</b></p> <p>We performed tests of design and implementation and operating effectiveness on the following controls:</p> <ul style="list-style-type: none"> <li>— Quarterly review of accounting and reporting information received from custodians and investment accounting service providers; and</li> <li>— Quarterly independent security pricing source comparison.</li> </ul> <p><b>Tests of details</b></p> <p>We performed the following procedures:</p> <ul style="list-style-type: none"> <li>— Agreed the completeness, existence and valuation of investments to third party custodian confirmations;</li> <li>— Re-priced the investments portfolio through the use of our internal valuation specialists;</li> <li>— On a sample basis, we checked the realised and unrealised gains and losses have been calculated and recorded correctly;</li> <li>— Critically assessed the results of the allocation of assets into the fair value hierarchies; and</li> <li>— Assessed whether the disclosures in relation to the valuation of level C investments are compliant with the relevant accounting requirements.</li> </ul> <p><b>Our results</b></p> <ul style="list-style-type: none"> <li>— We found the resulting valuation of Level C investments to be acceptable (2020 result: acceptable).</li> </ul> |



#### 4. Our application of materiality and an overview of the scope of our audit

As the Company is in run-off materiality for the financial statements as a whole was set at \$4.3m (2020: \$4.4m), determined with reference to a benchmark of total assets, of which it represents 0.5% (2020: 0.6%).

In line with our audit methodology, our procedures on individual account balances and disclosures were performed to a lower threshold, performance materiality, so as to reduce to an acceptable level the risk that individually immaterial misstatements in individual account balances add up to a material amount across the financial statements as a whole. Performance materiality was set at 75% (2020: 75%) of materiality for the financial statements as a whole, which equates to \$3.2m (2020: \$3.3m). We applied this percentage in our determination of performance materiality because we did not identify any factors indicating an elevated level of risk.

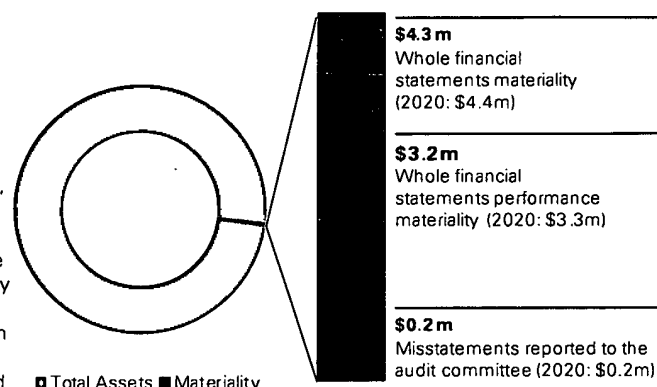
We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding \$0.2m (2020: \$0.2m), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Our audit of the company was undertaken to the materiality and performance materiality levels specified above.

We were able to rely upon the Company's internal control over financial reporting in all areas of our audit, and where our controls testing supported this approach, this enabled us to reduce the scope of our substantive audit work.

**Total Assets**  
\$778.9m (2020: \$794.2m)

**Materiality**  
\$4.3m (2020: \$4.4m)



#### 5. Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or to cease its operations, and as they have concluded that the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We used our knowledge of the Company, its industry, and the general economic environment to identify the inherent risks to its business model, and analysed how those risks might affect the Company's financial resources or ability to continue operations over the going concern period. The risk that we considered most likely to adversely affect the Company's available financial resources over this period was:

- a deterioration in the valuation of the Company's investments arising from a significant change in the economic environment.
- The uncertainty associated with the valuation of the Company's gross IBNR claims regarding the reserves held for asbestos and environmental issues.

We also considered less predictable but realistic second order impacts and developments such as a prolonged coronavirus pandemic as well as the resulting wider impacts and macroeconomic events, which could result in a rapid reduction of available financial resources.

We considered whether these risks could plausibly affect the liquidity in the going concern period by comparing severe, but plausible downside scenarios that could arise from these risks individually and collectively against the level of available financial resources indicated by the Company's financial forecasts.

We considered whether the going concern disclosure in note 1 to the financial statements gives a full and accurate description of the Directors' assessment of going concern, including the identified risks and related sensitivities.

Our conclusions based on this work:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for the going concern period; and
- we found the going concern disclosure on page 21 to be acceptable.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Company will continue in operation.

## 6. Fraud and breaches of laws and regulations – ability to detect

### *Identifying and responding to risks of material misstatement due to fraud*

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of directors, the audit committee, internal audit and inspection of policy documentation as to the Company's high-level policies and procedures to prevent and detect fraud, including the internal audit function, and the Company's channel for "whistleblowing", as well as whether they have knowledge of any actual, suspected or alleged fraud;
- Reading Board and audit committee minutes;
- Considering remuneration incentive schemes and performance targets for management and directors; and
- Using analytical procedures to identify any unusual or unexpected relationships.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, and taking into account recent revisions to guidance and our overall knowledge of the control environment, we perform procedures to address the risk of management override of controls, in particular the risk that management may be in a position to make inappropriate accounting entries, and the risk of bias in accounting estimates and judgements such as the valuation of gross IBNR claims. There is no fraud risk related to revenue as the Company, due to its nature of being in run-off does not have any revenue.

We did not identify any additional fraud risks.

Further detail in respect of the valuation of gross IBNR claims is set out in the key audit matter disclosures in section 3 of this report.

In determining the audit procedures we took into account the results of our evaluation and testing of the operating effectiveness of some of the Company-wide fraud risk management controls.

We also performed procedures including:

- Identifying journal entries to test based on risk criteria and comparing the identified entries to supporting documentation. These included those posted by senior finance management; those posted containing key words; and those posted to unusual accounts; and
- Assessing significant accounting estimates for bias.

### *Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations*

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience and through discussion with the directors and management (as required by auditing standards), and from inspection of the Company's regulatory and legal correspondence and discussed with the directors and management the policies and procedures regarding compliance with laws and regulations.

As the Company is regulated, our assessment of risks involved gaining an understanding of the control environment including the entity's procedures for complying with regulatory requirements.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Company is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Company is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of the Company's license to operate. We identified the following areas as those most likely to have such an effect: financial conduct regulations, healthcare provision conduct regulations, and regulatory capital and liquidity recognising the financial and regulated nature of certain Company's activities. Auditing standards limit the required audit procedures to enquiry of the Directors and other management and inspection of regulatory and legal correspondence, if any. Therefore, if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

### *Context of the ability of the audit to detect fraud or breaches of law or regulation*

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

## **7. We have nothing to report on the strategic report and the directors' report**

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in those reports;
- in our opinion the information given in the strategic report and the directors' report for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

## **8. We have nothing to report on the other matters on which we are required to report by exception**

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

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

We have nothing to report in these respects.

## **9. Respective responsibilities**

### *Directors' responsibilities*

As explained more fully in their statement set out on page 10, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; 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; 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 they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

### *Auditor's responsibilities*

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 our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities).

## **10. The purpose of our audit work and to whom we owe our responsibilities**

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.



**David Maddams**

**(Senior Statutory Auditor)**

**for and on behalf of KPMG LLP, Statutory Auditor**

*Chartered Accountants*

15 Canada Square

London, E14 5GL

29 March 2022

**RIVER THAMES INSURANCE COMPANY LIMITED**  
**PROFIT AND LOSS ACCOUNT AND OTHER COMPREHENSIVE INCOME**

**For the year ended 31 December 2021**

|                                                          |              | <b>2021</b>         | <b>2020</b>          |
|----------------------------------------------------------|--------------|---------------------|----------------------|
| <b>TECHNICAL ACCOUNT – GENERAL BUSINESS</b>              | <b>Notes</b> | <b>US\$000</b>      | <b>US\$000</b>       |
| <b>EARNED PREMIUMS, NET OF REINSURANCE</b>               |              |                     |                      |
| Gross premiums written                                   |              | 416                 | 550                  |
| Outward reinsurance premiums                             |              | (208)               | (140,582)            |
| Earned premiums, net of reinsurance                      |              | <u>208</u>          | <u>(140,032)</u>     |
| <b>CLAIMS INCURRED, NET OF REINSURANCE</b>               |              |                     |                      |
| Claims paid - gross amount                               | 3            | (22,037)            | (22,056)             |
| - reinsurers' share                                      |              | <u>12,010</u>       | <u>65,706</u>        |
|                                                          |              | <u>(10,027)</u>     | <u>43,650</u>        |
| Change in the provision for claims                       |              |                     |                      |
| - gross amount                                           |              | 28,210              | 35,421               |
| - reinsurers' share                                      |              | <u>(15,688)</u>     | <u>67,903</u>        |
| Net change in the provision for claims                   |              | <u>12,522</u>       | <u>103,324</u>       |
| Claims incurred, net of reinsurance                      |              | <u>2,495</u>        | <u>146,974</u>       |
| Other technical income, net of reinsurance               |              | 622                 | 804                  |
| Net operating expenses                                   | 4            | <u>(6,292)</u>      | <u>(4,329)</u>       |
| <b>BALANCE ON THE GENERAL BUSINESS TECHNICAL ACCOUNT</b> |              | <u>(2,967)</u>      | <u>3,417</u>         |
| <b>NON-TECHNICAL ACCOUNT</b>                             |              |                     |                      |
| Balance on the general business technical account        |              | <u>(2,967)</u>      | <u>3,417</u>         |
| Investment income                                        | 5            | 55,933              | 20,108               |
| Other income                                             | 6            | -                   | 13                   |
| Unrealised investment loss                               | 5            | (45,438)            | (388)                |
| Investment expenses and charges                          | 5            | <u>(154)</u>        | <u>(117)</u>         |
|                                                          |              | <u>10,341</u>       | <u>19,616</u>        |
| Other charges, including valuation adjustments           | 6            | <u>(166)</u>        | <u>(74)</u>          |
| <b>PROFIT ON ORDINARY ACTIVITIES BEFORE TAX</b>          |              | <u>7,208</u>        | <u>22,959</u>        |
| Tax credit / (charge) on profit on ordinary activities   | 9            | <u>217</u>          | <u>(1,853)</u>       |
| <b>PROFIT FOR THE YEAR AFTER TAX</b>                     |              | <u><u>7,425</u></u> | <u><u>21,106</u></u> |

There are no items of other comprehensive income in any of the periods for which the financial statements are presented. Accordingly, no statement of total other comprehensive income is required.

The notes on pages 21 to 44 form an integral part of these financial statements.

All amounts arise from continuing activities.

**RIVER THAMES INSURANCE COMPANY LIMITED**  
**BALANCE SHEET**

**As at 31 December 2021**

|                                                      | Notes | 2021<br>US\$000 | 2020<br>US\$000 |
|------------------------------------------------------|-------|-----------------|-----------------|
| <b>ASSETS</b>                                        |       |                 |                 |
| <b>Investments</b>                                   |       |                 |                 |
| Other financial investments                          | 10    | 593,906         | 588,521         |
| Deposits with ceding undertakings                    |       | 11,083          | 12,712          |
| <b>Reinsurers' share of technical provisions</b>     |       |                 |                 |
| Claims outstanding                                   | 3     | 148,000         | 165,887         |
| <b>Debtors</b>                                       |       |                 |                 |
| Debtors arising out of direct insurance operations   |       | 1,165           | 1,870           |
| Debtors arising out of reinsurance operations        |       | 5,362           | 6,906           |
| Amounts owed by group undertakings                   |       | 5               | -               |
| Other debtors including taxation                     |       | 2,113           | 2,797           |
| <b>Other assets</b>                                  |       |                 |                 |
| Cash at bank and in hand                             |       | 16,100          | 14,376          |
| Deferred Tax Asset                                   |       | 57              | -               |
| <b>Prepayments and accrued income</b>                |       |                 |                 |
| Accrued interest                                     |       | 1,062           | 1,141           |
| Other prepayments and accrued income                 |       | 3               | 15              |
| <b>TOTAL ASSETS</b>                                  |       | <b>778,856</b>  | <b>794,225</b>  |
| <b>LIABILITIES</b>                                   |       |                 |                 |
| <b>CAPITAL AND RESERVES</b>                          |       |                 |                 |
| Called up share capital                              | 12    | 22,189          | 22,189          |
| Profit and loss account                              |       | 338,998         | 331,573         |
| <b>Equity shareholder's funds</b>                    |       | <b>361,187</b>  | <b>353,762</b>  |
| <b>Technical provisions</b>                          |       |                 |                 |
| Claims outstanding – gross amount                    | 3     | 259,586         | 291,860         |
| <b>Deposits received from Reinsurers</b>             |       | <b>145,315</b>  | <b>133,144</b>  |
| <b>Creditors</b>                                     |       |                 |                 |
| Creditors arising out of direct insurance operations |       | 10,181          | 12,297          |
| Creditors arising out of reinsurance operations      |       | 2,194           | 2,506           |
| Amounts owed to group undertakings                   |       | 89              | 367             |
|                                                      |       | 12,464          | 15,170          |
| <b>Accruals and deferred income</b>                  |       | <b>304</b>      | <b>289</b>      |
| <b>TOTAL LIABILITIES</b>                             |       | <b>778,856</b>  | <b>794,225</b>  |

Notes on pages 21 to 44 form an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 29 March 2022 and were signed on its behalf by:



A Slade  
Director

Company registration no 00462838

**RIVER THAMES INSURANCE COMPANY LIMITED**  
**STATEMENT OF CHANGES IN EQUITY**

**As at 31 December 2021**

|                               | <b>Called-up share<br/>capital<br/>US\$000</b> | <b>Profit and loss<br/>account<br/>US\$000</b> | <b>Total<br/>US\$000</b> |
|-------------------------------|------------------------------------------------|------------------------------------------------|--------------------------|
| <b>At 31 December 2019</b>    | <b>22,189</b>                                  | <b>310,467</b>                                 | <b>332,656</b>           |
| Profit for the financial year | -                                              | 21,106                                         | 21,106                   |
| <b>At 31 December 2020</b>    | <b>22,189</b>                                  | <b>331,573</b>                                 | <b>353,762</b>           |
| Profit for the financial year | -                                              | 7,425                                          | 7,425                    |
| <b>At 31 December 2021</b>    | <b>22,189</b>                                  | <b>338,998</b>                                 | <b>361,187</b>           |

Notes on pages 21 to 44 form an integral part of these financial statements.

# **RIVER THAMES INSURANCE COMPANY LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS**

**Year ended 31 December 2021**

### **1. ACCOUNTING POLICIES**

#### **General Information**

The Company is limited by shares and incorporated and domiciled in the UK. The financial statements are presented for the year ended 31 December 2021.

#### **Basis of Preparation**

The financial statements have been prepared in accordance with the provisions of Section 396 of the Companies Act 2006 and Schedule 3 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008.

The financial statements have been prepared under the historical cost convention, modified to include certain items at fair value, and in accordance with Financial Reporting Standard 102 ("FRS 102"). FRS 102 requires the application of Financial Reporting Standard 103 ("FRS 103") in relation to insurance contracts.

The presentational and functional currency of the financial statements is US Dollars. All amounts in the financial statements have been rounded to the nearest \$1,000.

The Company's ultimate parent undertaking, Enstar Group Limited includes the Company in its consolidated financial statements. The consolidated financial statements of Enstar Group Limited are prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP") and are available to the public and may be obtained from the US Securities and Exchange Commission ([www.sec.gov](http://www.sec.gov)). In these financial statements, the Company is considered to be a qualifying entity (for the purposes of FRS 102) and has applied the exemptions available under FRS 102 in respect of the Cash Flow Statement and related notes and reconciliation of the number of shares outstanding.

The significant accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

The principal risks and uncertainties of the business have been addressed within the Strategic Report on pages 2 to 7. Judgements made by the Directors, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 2.

#### **Going Concern**

Having reviewed the capital resources and cash available to the Company along with forecast results for future periods, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for at least 12 months from the date of approval of these financial statements. The Company is in run-off and has limited exposure to the impact of COVID-19 related losses and the Directors have considered the results of stress testing and monitored the security of significant reinsurers as part of their assessment. Further details on going concern and Coronavirus are provided in the Strategic Report. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

#### **Premiums**

Written premiums comprise of adjustments arising in the financial year to premiums receivable in respect of business written in previous years and are therefore immediately earned.

#### **Underwriting**

Full provision is made for outstanding losses, irrecoverable reinsurances and the costs of settling claims, on the basis of information currently available and anticipating trends of future settlements.

# **RIVER THAMES INSURANCE COMPANY LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS**

**Year ended 31 December 2021**

### **1. ACCOUNTING POLICIES (continued)**

#### **Claims Incurred**

Claims incurred include all claims and claims settlement expense payments made in respect of the financial period, the movement in the provision for outstanding claims and claims settlement expenses, and movement in claims incurred but not reported.

Outward reinsurance recoveries are accounted for in the same period as the claims for the related direct or inward reinsurance business being reinsured.

#### **Claims Outstanding**

The provision for claims outstanding is made on an individual case basis and is based on the estimated ultimate cost of all claims notified but not settled by the balance sheet date, together with the provision for related claims handling. The provision also includes the estimated costs of claims incurred but not reported at the balance sheet date based on statistical methods.

The provision for claims outstanding is based on information available at the balance sheet date. Significant delays may be experienced in the notification and settlement of certain claims and accordingly the ultimate cost of such claims cannot be known with certainty at the balance sheet date. Subsequent information and events may result in the ultimate liability being less than, or greater than, the amount provided. Any differences between provisions and subsequent settlements are dealt with in the general business technical account in the year in which they arise.

#### **Commutations**

Commutations are accounted for as a cancellation of the relevant outstanding claims reserves and reinsurance recoveries along with the net settlement.

#### **Expenditure**

All expenses are charged to the technical account in the year in which they are incurred except investment management expenses, which are charged to the non-technical account, in the year in which they are incurred.

#### **Run-off Costs Provision**

Run-off costs are the future costs of managing the Company, including claims handling costs. Provision is made for run-off costs to the extent that they are expected to exceed future investment income.

#### **Basic Financial Instruments**

Cash and cash equivalents comprise cash balances and call deposits.

#### **Other Financial Instruments**

Other financial instruments (not basic financial instruments) are recognised initially at fair value. Subsequent to initial recognition other financial instruments are measured at fair value with changes recognised in profit or loss.

#### **Investment Income**

All investment returns are recognised in the non-technical account.

Investment earnings include dividends and interest income receivable in the year, interest on an accrual basis and realised profits and losses on the sale of investments. Realised gains or losses on disposal is the difference between the net proceeds and original cost. Unrealised gains or losses represent the difference between the carrying value at the financial year end and the carrying value at the previous financial year end or purchase value during the year, less the reversal of previously recognised unrealised gains and losses in respect of disposals during the financial year.



# **RIVER THAMES INSURANCE COMPANY LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS**

**Year ended 31 December 2021**

### **1. ACCOUNTING POLICIES (continued)**

#### **Currency Translation**

Transactions in foreign currencies during the year are translated into US dollars at average rates of exchange for the period. Monetary assets and liabilities are translated into US dollars at the rate ruling at the balance sheet date. All differences arising from the translation of assets and liabilities are dealt with in the non-technical account. In accordance with FRS103 all assets and liabilities arising from an insurance contract are classified as monetary items.

#### **Taxation**

The charge for taxation is based on the result for the year at rates enacted or substantively enacted by the balance sheet date, taking into account deferred tax.

Deferred tax is provided on timing differences at the reporting date, except as otherwise indicated. Deferred tax assets are only recognised to the extent that the Directors consider that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits. Deferred tax is calculated using the tax rates and laws that have been enacted or substantively enacted by the reporting date that are expected to apply to the reversal of the timing difference. Deferred tax assets and liabilities are not discounted.

### **2. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY**

In the application of the Company's accounting policies, which are described in note 1, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

#### **Estimation Techniques**

The provision for outstanding claims comprises an estimate of the cost of settling all notified outstanding claims including claims handling costs, and an estimate of the cost of settling IBNR claims including claims handling costs.

The notified outstanding claims are based on advices from policyholders, intermediaries and assessors. IBNR claims are estimated using a variety of statistical techniques including:

- The development of previously settled claims
- The development of previously notified claims

In addition, reference is made to external reviews and industry data. The methods are predominantly deterministic, however, where possible, stochastic methods are used to produce a range of possible outcomes. The reinsurers' share of the provision for outstanding claims is then estimated based on the gross provisions having due regard to collectability, and contract terms and conditions.

The estimation of the provisions for the ultimate cost of asbestos, environmental pollution and other latent health hazards is subject to a larger range of uncertainties than those in other classes of business. This is largely due to the long delay between the exposure to the harmful conditions and the notification of a claim to the insurer. As a consequence traditional claims estimation techniques cannot wholly be relied on, and estimates are made using the specialised knowledge of both internal and external experts and professional advisors.

The establishment of outstanding claims provisions is subject to a significant degree of variability, in that, notwithstanding every effort to make appropriate provision, the eventual cost of settling outstanding claims may vary significantly from the initial estimate.

#### **Uncertainties regarding the adequacy of reserves for asbestos and environmental issues**

The uncertainties relating to asbestos and environmental claims on insurance policies written many years ago are exacerbated by inconsistent court decisions and judicial and legislative interpretations of coverage that in some cases have tended to erode the clear and express intent of such policies and in others have expanded theories of liability. The industry as a whole is engaged in extensive litigation over these coverage and liability issues and is thus confronted with a continuing uncertainty in its effort to quantify these exposures.

# RIVER THAMES INSURANCE COMPANY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2021

### 2. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Asbestos remains the most significant and difficult mass tort for the insurance industry in terms of claims volume and exposure value. Based on published projections, it is expected that the Company will continue receiving asbestos claims.

Significant uncertainty remains as to the ultimate settlement amount of the Company related to asbestos related claims due to such factors as the long latency period between asbestos exposure and disease manifestation and the resulting potential for involvement of multiple policy periods for individual claims as well as the increase in the volume of claims by plaintiffs claiming exposure but with no symptoms of asbestos related disease.

Outstanding claims provisions for asbestos and environmental claims cannot be estimated with traditional loss reserving techniques that rely on historical accident year loss development factors. Notified outstanding claims including claims handling costs have been established where sufficient information has been developed to indicate the involvement of a specific insurance policy. In addition, IBNR claims including claims handling costs have been established to cover additional exposures on both known and unasserted claims.

The outstanding claims provisions carried for asbestos and environmental claims at 31 December 2021 is management's best estimate of the ultimate settlement amount based upon known facts and current law. However, the conditions surrounding the final resolution of these claims continue to change. Because of future unknowns, the ultimate settlement amount may be materially in excess of the current outstanding claims provisions.

The range of possible outcomes cannot now be reasonably estimated, and could result in a settlement amount that is different to the outstanding claims provisions by an amount that could be material to the Company's results and shareholders' funds in a future period.

The Company uses retrocessional agreements to reduce its exposure to the risk of reinsurance assumed. The Company remains liable to the extent that certain quota share reinsurances are finite or that the retrocessionaires do not meet their obligation under these agreements, and therefore the Company evaluates and monitors concentration of credit risk. Provisions are made for amounts considered potentially uncollectible.

As noted above, the Company's loss portfolio includes long-tail risks, some of which relate to exposure to losses arising from claims for latent disease and environmental pollution. Claims outstanding at 31 December 2021 in respect of such risks are as follows:

|                    | 2021<br>US\$000 | 2020<br>US\$000 |
|--------------------|-----------------|-----------------|
| Claims outstanding |                 |                 |
| Gross amount       | 144,730         | 157,756         |
| Reinsurers' share  | (74,681)        | (82,074)        |
| Net amount         | <u>70,049</u>   | <u>75,682</u>   |

#### Valuation of financial instruments

The Directors use their judgement in selecting an appropriate valuation technique. Where possible, financial instruments are marked at prices quoted in active markets. In certain instances, such price information is not available for all instruments and the Company uses valuation techniques to measure such instruments. These techniques use "market observable inputs" where available, derived from similar assets in similar and active markets, from recent transaction prices for comparable items or from other observable market data. For positions where observable reference data are not available for some or all parameters the Company estimates the non-market observable inputs used in its valuation models.

**RIVER THAMES INSURANCE COMPANY LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**

**Year ended 31 December 2021**

**3. CLAIMS INCURRED NET OF REINSURANCE**

| <b>2021</b>                        | <b>Gross<br/>US\$000</b> | <b>Reinsurance<br/>US\$000</b> | <b>Net<br/>US\$000</b> |
|------------------------------------|--------------------------|--------------------------------|------------------------|
| Claims paid                        | 22,037                   | (12,010)                       | 10,027                 |
| Outstanding claims brought forward | 291,860                  | (165,887)                      | 125,973                |
| Foreign currency revaluation       | (4,064)                  | 2,199                          | (1,865)                |
| Reduction in outstanding claims    | (28,210)                 | 15,688                         | (12,522)               |
|                                    | <hr/>                    | <hr/>                          | <hr/>                  |
| Outstanding claims carried forward | 259,586                  | (148,000)                      | 111,586                |
|                                    | <hr/>                    | <hr/>                          | <hr/>                  |
| <b>Claims Incurred</b>             | <b>(6,173)</b>           | <b>3,678</b>                   | <b>(2,495)</b>         |
|                                    | <hr/> <hr/>              | <hr/> <hr/>                    | <hr/> <hr/>            |
|                                    |                          |                                |                        |
| <b>2020</b>                        | <b>Gross<br/>US\$000</b> | <b>Reinsurance<br/>US\$000</b> | <b>Net<br/>US\$000</b> |
| Claims paid                        | 22,056                   | (65,706)                       | (43,650)               |
| Outstanding claims brought forward | 321,725                  | (95,837)                       | 225,888                |
| Foreign currency revaluation       | 5,556                    | (2,147)                        | 3,409                  |
| Reduction in outstanding claims    | (35,421)                 | (67,903)                       | (103,324)              |
|                                    | <hr/>                    | <hr/>                          | <hr/>                  |
| Outstanding claims carried forward | 291,860                  | (165,887)                      | 125,973                |
|                                    | <hr/>                    | <hr/>                          | <hr/>                  |
| <b>Claims Incurred</b>             | <b>(13,365)</b>          | <b>(133,609)</b>               | <b>(146,974)</b>       |
|                                    | <hr/> <hr/>              | <hr/> <hr/>                    | <hr/> <hr/>            |

The provision for outstanding claims has been set on the basis of information that is currently available, including estimates of incurred but not reported claims, and has been calculated in accordance with accounting policy for Estimation Techniques as set out in Note 2. The process of estimating outstanding claims is inherently subjective and the resultant calculation of the provision is a best estimate within a range of possible outcomes. Whilst the Directors consider that the gross provision for claims and the related reinsurance recoveries are fairly stated on the basis of information currently available to them, the ultimate settlement amount is uncertain and may materially vary as a result of subsequent information and events as these provisions include claims in respect of long-tail risks. This may result in material adjustments in future periods to the gross and net amounts provided.

The Directors believe that the uncertainties have been appropriately considered in estimating ultimate losses and that the provision included to meet all unknown outstanding liabilities is adequate to cover claims and losses which have occurred including future developments on known claims as well as those yet to be reported.

**RIVER THAMES INSURANCE COMPANY LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**

**Year ended 31 December 2021**

**4. NET OPERATING EXPENSES**

The analysis of the auditor's remuneration is as follows:

|                                                                                          | 2021<br>US\$000 | 2020<br>US\$000 |
|------------------------------------------------------------------------------------------|-----------------|-----------------|
| Fees payable to the Company's auditor for the audit of:<br>the Company's annual accounts | 354             | 338             |

**5. INVESTMENT INCOME**

|                                        | Net<br>investment<br>income<br>2021<br>US\$000 | Net<br>investment<br>expense<br>2021<br>US\$000 | Net realised<br>gains and<br>losses<br>2021<br>US\$000 | Changes in<br>fair value<br>2021<br>US\$000 | Net<br>investment<br>result<br>2021<br>US\$000 |
|----------------------------------------|------------------------------------------------|-------------------------------------------------|--------------------------------------------------------|---------------------------------------------|------------------------------------------------|
| <i>Measured through profit or loss</i> |                                                |                                                 |                                                        |                                             |                                                |
| - At fair value                        | 2,325                                          | (154)                                           | 53,557                                                 | (45,438)                                    | 10,290                                         |
| - At cost                              | (42)                                           | -                                               | -                                                      | -                                           | (42)                                           |
| - At undiscounted amount<br>receivable | 93                                             | -                                               | -                                                      | -                                           | 93                                             |
|                                        | 2,376                                          | (154)                                           | 53,557                                                 | (45,438)                                    | 10,341                                         |

|                                        | Net<br>investment<br>income<br>2020<br>US\$000 | Net<br>investment<br>expense<br>2020<br>US\$000 | Net realised<br>gains and<br>losses<br>2020<br>US\$000 | Changes in<br>fair value<br>2020<br>US\$000 | Net<br>investment<br>result<br>2020<br>US\$000 |
|----------------------------------------|------------------------------------------------|-------------------------------------------------|--------------------------------------------------------|---------------------------------------------|------------------------------------------------|
| <i>Measured through profit or loss</i> |                                                |                                                 |                                                        |                                             |                                                |
| - At fair value                        | 347                                            | (117)                                           | 19,459                                                 | (388)                                       | 19,301                                         |
| - At cost                              | (21)                                           | -                                               | -                                                      | -                                           | (21)                                           |
| - At undiscounted amount<br>receivable | 323                                            | -                                               | -                                                      | -                                           | 323                                            |
|                                        | 649                                            | (117)                                           | 19,459                                                 | (388)                                       | 19,603                                         |

**RIVER THAMES INSURANCE COMPANY LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**

**Year ended 31 December 2021**

**6. OTHER INCOME AND (CHARGES)**

|                                         | <b>2021</b><br><b>US\$000</b> | <b>2020</b><br><b>US\$000</b> |
|-----------------------------------------|-------------------------------|-------------------------------|
| Loss on translation of foreign currency | (166)                         | (74)                          |
| Other Income                            | -                             | 13                            |
|                                         | <u>(166)</u>                  | <u>(61)</u>                   |

**7. EMPLOYEES**

The Company has no employees (2020: nil). Management services to the Company were provided by Enstar (EU) Limited, a fellow subsidiary company, for which a management fee is charged.

**8. DIRECTORS' EMOLUMENTS**

|                             | <b>2021</b><br><b>US\$000</b> | <b>2020</b><br><b>US\$000</b> |
|-----------------------------|-------------------------------|-------------------------------|
| Total Directors' emoluments | <u>166</u>                    | <u>133</u>                    |

There is no accrued benefit under any defined benefit pension scheme.

C D Forbes, J H Riley and K P Murphy receive fees in their role as non-executive directors. The remaining Directors are employees of Enstar (EU) Limited and remunerated by member companies within the Enstar Group for their services to the group. They receive no remuneration as Directors of the Company. Disclosures regarding Directors' emoluments and staff costs are contained in the financial statements of Enstar (EU) Limited.

**RIVER THAMES INSURANCE COMPANY LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**

**Year ended 31 December 2021**

**9. TAX CHARGE ON PROFIT ON ORDINARY ACTIVITIES**

**(a) The tax (credit) / charge is based on the result for the year and represents:**

|                                                        | <b>2021</b><br><b>US\$000</b> | <b>2020</b><br><b>US\$000</b> |
|--------------------------------------------------------|-------------------------------|-------------------------------|
| UK corporation tax charge on profit for the year       | -                             | 3,513                         |
| Adjustments in respect of prior periods                | (289)                         | (1,668)                       |
| Deferred tax charge                                    | 12                            | -                             |
| Foreign Tax                                            | 60                            | 8                             |
|                                                        | <hr/>                         | <hr/>                         |
| Tax (credit) / charge on profit on ordinary activities | <u>(217)</u>                  | <u>1,853</u>                  |

**(b) Factors affecting the tax charge for the year:**

The tax charge for the period is different from the standard rate of corporation tax in the UK of 19% (2020: 19%). The differences are explained below:

|                                                                                                                           | <b>2021</b><br><b>US\$000</b> | <b>2020</b><br><b>US\$000</b> |
|---------------------------------------------------------------------------------------------------------------------------|-------------------------------|-------------------------------|
| Profit on ordinary activities before taxation                                                                             | <u>7,208</u>                  | <u>22,959</u>                 |
| Profit on ordinary activities multiplied by the standard rate of corporation tax in the United Kingdom of 19% (2020: 19%) | 1,369                         | 4,362                         |
| <i>Factors affecting the charge for the period:</i>                                                                       |                               |                               |
| Income not taxable for tax purposes                                                                                       | -                             | (66)                          |
| Utilisation of unrecognised losses                                                                                        | (161)                         | (783)                         |
| Change in deferred tax rate                                                                                               | 3                             | -                             |
| Group relief claimed for nil consideration                                                                                | (1,199)                       | -                             |
| Foreign Tax                                                                                                               | 60                            | 8                             |
| Prior year adjustments                                                                                                    | (289)                         | (1,668)                       |
|                                                                                                                           | <hr/>                         | <hr/>                         |
| Tax (credit) / charge on profit on ordinary activities                                                                    | <u>(217)</u>                  | <u>1,853</u>                  |

**(c) Factors that may affect future tax charges: -**

The Company has gross tax losses arising in the UK of \$126.4m (2020: \$127.4m) that are only available for offset against future taxable profits of a specific trade, and as such are not recognised for tax purposes given the uncertainty in their recoverability. The unrecognised deferred tax asset in respect of these losses, valued at the substantively enacted rate of corporation tax for 2021 of 25% is \$31.6m (2020: \$24.2m).

In the Spring Budget 2021, the Government announced that from 1 April 2023 the corporation tax rate would rise to 25%. The impact on the tax position is minimal, while the unrecognised deferred tax asset increased by \$7.7m.

**RIVER THAMES INSURANCE COMPANY LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**

**Year ended 31 December 2021**

**10. OTHER FINANCIAL INVESTMENTS**

(a) The Company's investments, which are shown at market value are as follows:

|                                                                       | <b>2021</b>    | <b>2020</b>    |
|-----------------------------------------------------------------------|----------------|----------------|
|                                                                       | <b>US\$000</b> | <b>US\$000</b> |
|                                                                       | <b>Fair</b>    | <b>Fair</b>    |
|                                                                       | <b>Value</b>   | <b>Value</b>   |
| <i>Measured at fair value through profit or loss</i>                  |                |                |
| - Shares and other variable yield securities and units in unit trusts | 406,158        | 386,459        |
| - Debt securities and other fixed income securities                   | 187,748        | 202,062        |
|                                                                       | <u>593,906</u> | <u>588,521</u> |

All investments are measured at fair value through profit or loss and are assessed using bid price.

(b) Collateral deposits

Investments amounting to \$12.2m (2020: \$12.5m) have been deposited with a third party to secure certain overseas liabilities.

Investments amount to \$49.7m (2020: \$49.9m) are held in a US trust fund required by virtue of the Company's accredited reinsurer status in a number of US jurisdictions.

**11. INDEMNITIES, CONTINGENT LIABILITIES AND COMMITMENTS**

In the normal course of business, letters of credit to the value of \$22.8m (2020: \$23.7m) have been issued to policyholders against insurance liabilities. The letters of credit have been collateralised with bank deposits of \$3.1m (2020: \$1.7m) and investments of \$20.8m (2020: \$23.3m).

**12. SHARE CAPITAL**

|                                                                                                 | <b>2021</b>    | <b>2020</b>    |
|-------------------------------------------------------------------------------------------------|----------------|----------------|
|                                                                                                 | <b>US\$000</b> | <b>US\$000</b> |
| Authorised, called up and full paid:                                                            |                |                |
| 14,792,772 ordinary shares of US\$1.50 each (2020: 14,792,772 ordinary shares of US\$1.50 each) | 22,189         | 22,189         |
|                                                                                                 | <u>22,189</u>  | <u>22,189</u>  |

**RIVER THAMES INSURANCE COMPANY LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**

**Year ended 31 December 2021**

**13. FINANCIAL INSTRUMENTS**

The carrying values of the Company's financial assets and liabilities are summarised by category below:-

|                                                                       | 2021<br>US\$000      | 2020<br>US\$000      |
|-----------------------------------------------------------------------|----------------------|----------------------|
| <b>Financial assets</b>                                               |                      |                      |
| <i>Measured at fair value through profit or loss</i>                  |                      |                      |
| - Shares and other variable yield securities and units in unit trusts | 406,158              | 386,459              |
| - Debt securities and other fixed income securities                   | 187,748              | 202,062              |
|                                                                       | <hr/> 593,906        | <hr/> 588,521        |
| <i>Measured at cost</i>                                               |                      |                      |
| - Cash and cash equivalents                                           | 16,100               | 14,376               |
|                                                                       | <hr/> 16,100         | <hr/> 14,376         |
| <i>Measured at undiscounted amount receivable</i>                     |                      |                      |
| - Amounts owed by group undertaking                                   | 5                    | -                    |
| - Other debtors including taxation                                    | 2,113                | 2,797                |
| - Prepayments and accrued income                                      | 1,065                | 1,156                |
|                                                                       | <hr/> 3,183          | <hr/> 3,953          |
| <b>Total financial assets</b>                                         | <hr/> <b>613,189</b> | <hr/> <b>606,850</b> |
|                                                                       |                      |                      |
|                                                                       | 2021<br>US\$000      | 2020<br>US\$000      |
| <b>Financial liabilities</b>                                          |                      |                      |
| <i>Measured at undiscounted amount payable</i>                        |                      |                      |
| - Amounts due to group undertaking                                    | 89                   | 367                  |
| - Accruals and deferred income                                        | 304                  | 289                  |
|                                                                       | <hr/> 393            | <hr/> 656            |
| <b>Total financial liabilities</b>                                    | <hr/> <b>393</b>     | <hr/> <b>656</b>     |



# RIVER THAMES INSURANCE COMPANY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2021

### 14. CAPITAL MANAGEMENT

The Company complies with the regulatory solvency requirements and, where necessary, reviews its solvency needs in accordance with regulatory requirements as its loss reserves reduce over time. The Company adopts conventional actuarial and other methods to assess the risks to its solvency on a forward looking basis. The Company's capital management strategy is to deploy capital efficiently and to maintain adequate loss reserves to protect against future adverse developments and other risks. The capital structure of the Company consists of equity (Tier 1) attributable to the parent, comprising issued capital as disclosed in note 12, and retained earnings as disclosed in the Statement of Changes in Equity. Reinsurance is also used as part of risk mitigation and capital management.

The Company has been in compliance with the capital requirements imposed by regulators throughout the financial year.

The capital requirement of the Company is determined by its exposure to risk and the solvency criteria determined by the Directors and in accordance with Solvency II regulations. The table below sets out the solvency capital requirement and the Company's own funds in accordance with the Solvency II directive.

|                                      | 2021*   | 2020*   |
|--------------------------------------|---------|---------|
|                                      | US\$000 | US\$000 |
| Solvency Capital Requirement ("SCR") | 128,478 | 112,128 |
| Own Funds                            | 303,916 | 292,539 |
| Own Funds eligible to meet SCR       | 203,916 | 292,539 |
| Ratio of Eligible Own Funds to SCR   | 159%    | 261%    |

\* The Company falls within the definition of a small insurer and, as permitted by the PRA, the Board has elected to adopt the Solvency and Financial Condition Report "SFCR" audit exemption and therefore the table above is unaudited.

### 15. FINANCIAL RISK MANAGEMENT

The focus of financial risk management is ensuring that the proceeds from financial assets are sufficient to fund the obligations arising from insurance liabilities. The Company monitors and manages the financial risks relating to the operations of the Company through internal risk reports which analyse exposures by degree and magnitude of risks.

#### i. Fair Value

Fair value is the amount for which an asset or liability could be exchanged between willing parties in an arm's length transaction. Fair values are determined at prices quoted in active markets. In some instances, such price information is not available for all instruments and the Company applies valuation techniques to measure such instruments.

The table below shows financial assets carried at fair value through profit or loss grouped into the level of fair value hierarchy into which each fair value measurement is categorised.

Level A : Quoted prices for an identical asset in an active market (usually at bid price).

Level B : When quoted prices are unavailable, the price of a recent transaction for an identical asset provides evidence of fair value as long as there has not been a significant lapse of time since the transaction took place.

Level C : If the market for the asset is not active and recent transactions of an identical asset on their own are not a good estimate of fair value, the fair value is estimated by using a valuation technique.

**RIVER THAMES INSURANCE COMPANY LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**

**Year ended 31 December 2021**

**15. FINANCIAL RISK MANAGEMENT (continued)**

|                                                                       | <b>Level A<br/>2021<br/>US\$000</b> | <b>Level B<br/>2021<br/>US\$000</b> | <b>Level C<br/>2021<br/>US\$000</b> | <b>Total<br/>2021<br/>US\$000</b> |
|-----------------------------------------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|-----------------------------------|
| <i>Measured at fair value through profit or loss</i>                  |                                     |                                     |                                     |                                   |
| - Shares and other variable yield securities and units in unit trusts | 374,296                             | -                                   | 31,862                              | 406,158                           |
| - Debt securities and other fixed income securities                   | -                                   | 187,748                             | -                                   | 187,748                           |
| Financial Assets as at 31 December 2021                               | 374,296                             | 187,748                             | 31,862                              | 593,906                           |
|                                                                       |                                     |                                     |                                     |                                   |
|                                                                       | <b>Level A<br/>2020<br/>US\$000</b> | <b>Level B<br/>2020<br/>US\$000</b> | <b>Level C<br/>2020<br/>US\$000</b> | <b>Total<br/>2020<br/>US\$000</b> |
| <i>Measured at fair value through profit or loss</i>                  |                                     |                                     |                                     |                                   |
| - Shares and other variable yield securities and units in unit trusts | 359,558                             | -                                   | 26,901                              | 386,459                           |
| - Debt securities and other fixed income securities                   | -                                   | 202,062                             | -                                   | 202,062                           |
| Financial Assets as at 31 December 2020                               | 359,558                             | 202,062                             | 26,901                              | 588,521                           |

Information on the methods and assumptions used to determine fair values for each major category of financial instrument measured at fair value is provided below.

**Shares and other variable yield securities and units in unit trusts**

These investments primarily comprise holdings in UCITS and ICAV funds which are valued using the share price issued by the fund administrator.

For investments in private equities and private equity funds, fair value is measured by obtaining the most recently provided capital statement from the external fund manager or third-party administrator. The capital statements calculate the net asset value on a fair value basis. Where publicly-traded companies held within a fund can be identified the reported net asset value is adjusted and based on the latest share price.

**Debt securities and other fixed income securities**

Fair values for all securities in the fixed maturity investments portfolio are independently provided by the investment custodians, investment accounting service providers and investment managers, each of which utilise internationally recognised independent pricing services. The unadjusted price provided by the investment custodians, investment accounting service providers or the investment managers is recorded and the price is validated through a process that includes, but is not limited to: (i) comparison of prices against alternative pricing sources; (ii) quantitative analysis (eg comparing the quarterly return for each managed portfolio to its target benchmark); (iii) evaluation of methodologies used by external parties to estimate fair value, including a review of the inputs used for pricing; and (iv) comparing the price to our knowledge of the current investment market.

**RIVER THAMES INSURANCE COMPANY LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**

**Year ended 31 December 2021**

**15. FINANCIAL RISK MANAGEMENT (continued)**

**Debt securities and other fixed income securities continued**

The independent pricing services used by the investment custodians, investment accounting service providers and investment managers obtain actual transaction prices for securities that have quoted prices in active markets. For determining the fair value of securities that are not actively traded, in general, pricing services use “matrix pricing” in which the independent pricing service uses observable market inputs including, but not limited to, reported trades, benchmark yields, broker-dealer quotes, interest rates, prepayment speeds, default rates and such other inputs as are available from market sources to determine a reasonable fair value. In addition, pricing services use valuation models, using observable data, such as an Option Adjusted Spread model, to develop prepayment and interest rate scenarios. The Option Adjusted Spread model is commonly used to estimate fair value for securities such as mortgage-backed and asset-backed securities.

**ii. Credit Risk**

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. The key areas of exposure to credit risk for the Company are in relation to its investment portfolio, reinsurance programme and to a lesser extent amounts due from policyholders and intermediaries.

The objective of the Company in managing its credit risk is to ensure risk is managed in line with the Company’s risk appetite. The Company has established policies and procedures in order to manage credit risk and methods to measure it.

There were no material changes in the Company’s credit risk exposure in the financial year nor to the objectives, policies and processes for managing credit risk.

**Credit risk management**

The Company’s credit risk in respect of debt securities is managed by placing limits on its exposure to a single counterparty and by reference to the credit rating of the counterparty. Financial assets are graded according to current credit ratings issued by rating agencies such as Standard and Poor’s. The Company has a policy of investing in mainly investment grade assets (ie those rated BBB and above).

The Company limits the amount of cash and cash equivalents that can be deposited with a single counterparty and maintains an authorised list of acceptable cash counterparties.

**RIVER THAMES INSURANCE COMPANY LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**

**Year ended 31 December 2021**

**15. FINANCIAL RISK MANAGEMENT (continued)**

**Exposure to credit risk**

The carrying amount of financial assets and reinsurance assets represents the maximum credit risk exposure.

The following table analyses the credit rating by investment grade of financial investments, reinsurers' share of technical provisions (refer to Note 17), debtors arising out of direct insurance and reinsurance operations, cash and other debtors and accrued interest.

|                                                   | AAA          | AA            | A             | BBB<br>& below | Not rated      | Total          |
|---------------------------------------------------|--------------|---------------|---------------|----------------|----------------|----------------|
| Year 2021                                         | US\$000      | US\$000       | US\$000       | US\$000        | US\$000        | US\$000        |
| Financial investments:                            |              |               |               |                |                |                |
| Debt securities and other fixed income securities | 9,109        | 74,138        | 73,150        | 31,351         | -              | 187,748        |
| Deposits with ceding undertakings                 | -            | -             | -             | -              | 11,083         | 11,083         |
| Reinsurers' share of technical provisions         | -            | 18,727        | 6,307         | 105            | 122,861        | 148,000        |
| Insurance receivables                             | -            | 970           | 478           | 152            | 4,927          | 6,527          |
| Cash                                              | -            | 1,796         | 13,800        | 52             | 452            | 16,100         |
| Other debtors and accrued interest                | -            | -             | -             | -              | 3,183          | 3,183          |
| <b>Total</b>                                      | <b>9,109</b> | <b>95,631</b> | <b>93,735</b> | <b>31,660</b>  | <b>142,506</b> | <b>372,641</b> |

|                                                   | AAA          | AA             | A             | BBB<br>& below | Not rated      | Total          |
|---------------------------------------------------|--------------|----------------|---------------|----------------|----------------|----------------|
| Year 2020                                         | US\$000      | US\$000        | US\$000       | US\$000        | US\$000        | US\$000        |
| Financial investments:                            |              |                |               |                |                |                |
| Debt securities and other fixed income securities | 5,582        | 83,402         | 83,492        | 29,586         | -              | 202,062        |
| Deposits with ceding undertakings                 | -            | -              | -             | -              | 12,712         | 12,712         |
| Reinsurers' share of technical provisions         | -            | 19,704         | 3,618         | 3,128          | 139,437        | 165,887        |
| Insurance receivables                             | -            | (42)           | (220)         | 16             | 9,022          | 8,776          |
| Cash                                              | -            | 2,564          | 11,383        | 26             | 403            | 14,376         |
| Other debtors and accrued interest                | -            | -              | -             | -              | 3,953          | 3,953          |
| <b>Total</b>                                      | <b>5,582</b> | <b>105,628</b> | <b>98,273</b> | <b>32,756</b>  | <b>165,527</b> | <b>407,766</b> |

The Company has debtors arising from direct insurance and reinsurance operations and may make a provision for non-recovery after undertaking an assessment of the counterparty's financial position and likelihood of recoverability. Details of the Company's debtors arising from direct insurance and reinsurance operations both before and after provision for non-recoverability is shown below:

|                                                           | 2021<br>US\$000 | 2020<br>US\$000 |
|-----------------------------------------------------------|-----------------|-----------------|
| Debtors arising out of direct and reinsurance operations: |                 |                 |
| Before provision for non-recoverability                   | 58,871          | 61,779          |
| After provision for non-recoverability                    | 6,527           | 8,776           |

**RIVER THAMES INSURANCE COMPANY LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**

**Year ended 31 December 2021**

**15. FINANCIAL RISK MANAGEMENT (continued)**

**iii. Liquidity Risk**

Liquidity risk is the risk that the Company cannot dispose of its investments and other assets in order to meet its obligations associated with insurance contracts and financial liabilities as they fall due. The Company has adopted an appropriate liquidity risk appetite and monitoring process for the management of the Company's liquidity requirements. The Company manages liquidity risk by maintaining banking facilities and continuously monitoring forecast and actual cash flows and matching the maturity profiles of assets and liabilities such that it will always have sufficient liquidity to meet its liabilities when they fall due. In practice, most of the Company's assets are marketable securities which could be converted in to cash when required.

There were no material changes in the Company's liquidity risk exposure in the financial year nor to the objectives, policies and processes for managing liquidity risk.

The maturity analysis presented in the table below shows the remaining contractual maturities for the Company's insurance contracts and financial instruments. For insurance contracts, the contractual maturity is estimated by the actuarial assessment of future cash flows.

| <b>Year 2021</b>                                                    | <b>Carrying<br/>amount<br/>US\$000</b> | <b>Total cash<br/>flows<br/>US\$000</b> | <b>&lt;1 year<br/>US\$000</b> | <b>1 – 2<br/>years<br/>US\$000</b> | <b>2 – 5<br/>years<br/>US\$000</b> | <b>5 years +<br/>US\$000</b> |
|---------------------------------------------------------------------|----------------------------------------|-----------------------------------------|-------------------------------|------------------------------------|------------------------------------|------------------------------|
| Financial investments:                                              |                                        |                                         |                               |                                    |                                    |                              |
| Shares and other variable yield securities and units in unit trusts | 406,158                                | 406,914                                 | 406,065                       | 18                                 | 546                                | 285                          |
| Debt securities and other fixed income securities                   | 187,748                                | 221,690                                 | 23,623                        | 35,930                             | 61,926                             | 100,211                      |
| Deposits with ceding undertakings                                   | 11,083                                 | 11,083                                  | 834                           | 758                                | 1,902                              | 7,589                        |
| Reinsurers' share of technical provisions                           | 148,000                                | 148,000                                 | 11,138                        | 10,123                             | 25,398                             | 101,341                      |
| Debtors                                                             | 8,645                                  | 8,645                                   | 8,645                         | -                                  | -                                  | -                            |
| Other Assets                                                        | 16,157                                 | 16,157                                  | 16,157                        | -                                  | -                                  | -                            |
| Prepayments and accrued income                                      | 1,065                                  | 1,065                                   | 1,065                         | -                                  | -                                  | -                            |
| <b>Total assets</b>                                                 | <b>778,856</b>                         | <b>813,554</b>                          | <b>467,527</b>                | <b>46,829</b>                      | <b>89,772</b>                      | <b>209,426</b>               |
| Technical provisions                                                | 259,586                                | 259,586                                 | 19,536                        | 17,755                             | 44,548                             | 177,747                      |
| Deposits received from reinsurers                                   | 145,315                                | 145,315                                 | 10,936                        | 9,940                              | 24,937                             | 99,502                       |
| Creditors                                                           | 12,464                                 | 12,464                                  | 12,464                        | -                                  | -                                  | -                            |
| Accrued and deferred income                                         | 304                                    | 304                                     | 304                           | -                                  | -                                  | -                            |
| <b>Total liabilities</b>                                            | <b>417,669</b>                         | <b>417,669</b>                          | <b>43,240</b>                 | <b>27,695</b>                      | <b>69,485</b>                      | <b>277,249</b>               |
| <b>Net assets</b>                                                   | <b>361,187</b>                         | <b>395,885</b>                          | <b>424,287</b>                | <b>19,134</b>                      | <b>20,287</b>                      | <b>(67,823)</b>              |

**RIVER THAMES INSURANCE COMPANY LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**

**Year ended 31 December 2021**

**15. FINANCIAL RISK MANAGEMENT (continued)**

| <b>Year 2020</b>                                                    | <b>Carrying amount<br/>US\$000</b> | <b>Total cash flows<br/>US\$000</b> | <b>&lt;1 year<br/>US\$000</b> | <b>1 – 2 years<br/>US\$000</b> | <b>2 – 5 years<br/>US\$000</b> | <b>5 years +<br/>US\$000</b> |
|---------------------------------------------------------------------|------------------------------------|-------------------------------------|-------------------------------|--------------------------------|--------------------------------|------------------------------|
| <b>Financial investments:</b>                                       |                                    |                                     |                               |                                |                                |                              |
| Shares and other variable yield securities and units in unit trusts | 386,459                            | 386,541                             | 385,931                       | 288                            | 28                             | 294                          |
| Debt securities and other fixed income securities                   | 202,062                            | 228,910                             | 32,991                        | 37,436                         | 62,720                         | 95,763                       |
| Deposits with ceding undertakings                                   | 12,712                             | 12,712                              | 954                           | 870                            | 2,205                          | 8,683                        |
| Reinsurers' share of technical provisions                           | 165,887                            | 165,887                             | 12,443                        | 11,353                         | 28,772                         | 113,319                      |
| Debtors                                                             | 11,573                             | 11,573                              | 11,573                        | -                              | -                              | -                            |
| Other Assets                                                        | 14,376                             | 14,376                              | 14,376                        | -                              | -                              | -                            |
| Prepayments and accrued income                                      | 1,156                              | 1,156                               | 1,156                         | -                              | -                              | -                            |
| <b>Total assets</b>                                                 | <b>794,225</b>                     | <b>821,155</b>                      | <b>459,424</b>                | <b>49,947</b>                  | <b>93,725</b>                  | <b>218,059</b>               |
| Technical provisions                                                | 291,860                            | 291,860                             | 21,892                        | 19,975                         | 50,621                         | 199,372                      |
| Deposits received from reinsurers                                   | 133,144                            | 133,144                             | 9,987                         | 9,112                          | 23,093                         | 90,952                       |
| Creditors                                                           | 15,170                             | 15,170                              | 15,170                        | -                              | -                              | -                            |
| Accrued and deferred income                                         | 289                                | 289                                 | 289                           | -                              | -                              | -                            |
| <b>Total liabilities</b>                                            | <b>440,463</b>                     | <b>440,463</b>                      | <b>47,338</b>                 | <b>29,087</b>                  | <b>73,714</b>                  | <b>290,324</b>               |
| <b>Net assets</b>                                                   | <b>353,762</b>                     | <b>380,692</b>                      | <b>412,086</b>                | <b>20,860</b>                  | <b>20,011</b>                  | <b>(72,265)</b>              |

**iv. Market Risk**

Market risk is the risk that the fair value or future cash flows of a financial instrument or insurance contract will fluctuate because of changes in market prices. Market risk comprises interest rate risk, currency risk and other price risk.

The objective of the Company in managing its market risk is to ensure risk is managed in line with the Company's risk profile and risk appetite.

The Company manages market risk using a Value at Risk ('VaR') approach that reflects interdependencies between market risk types across the entire investment portfolio. The basis of VaR calculation is the MSCI RiskMetrics risk modelling platform and the Company interprets the Bank of England guidance to consider 'normal' VaR and 'stressed' VaR ('sVaR') market conditions to provide a total VaR for market risk. In addition the Company uses MSCI RiskMetrics to provide a number of stress scenarios and their impact on the Company's investment portfolio.

The Company's policies and procedures for managing market risk have been developed within the Solvency II regulatory framework which requires sensitivities to risk to be measured.

**Interest Rate Risk**

Interest rate risk is the risk that the market value of a financial instrument will fluctuate as a result of changes in market interest rates.

The Company is exposed to interest rate risk primarily from financial investments, cash and deposits. The risk of changes in the fair value of these assets is managed by investing in a diversified portfolio of securities.

The Company does not invest in derivative instruments.

**RIVER THAMES INSURANCE COMPANY LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**

**Year ended 31 December 2021**

**15. FINANCIAL RISK MANAGEMENT (continued)**

**Currency Risk**

The orderly run off of business is conducted primarily in US dollars, Sterling and Euros and is therefore exposed to currency risk arising from fluctuations in the exchange rates of US dollars against these currencies.

The foreign exchange policy is to maintain assets in the currency in which the cash flows from liabilities are to be settled in order to match the currency risk.

The table below summarises the carrying value of the assets and liabilities at the reporting date:

| <b>Year 2021</b>                                                    | <b>US Dollar<br/>US\$000</b> | <b>Sterling<br/>US\$000</b> | <b>Euro<br/>US\$000</b> | <b>Other<br/>US\$000</b> | <b>Total<br/>US\$000</b> |
|---------------------------------------------------------------------|------------------------------|-----------------------------|-------------------------|--------------------------|--------------------------|
| <b>Financial investments:</b>                                       |                              |                             |                         |                          |                          |
| Shares and other variable yield securities and units in unit trusts | 387,351                      | 1,865                       | 16,942                  | -                        | 406,158                  |
| Debt securities and other fixed income securities                   | 154,020                      | 30,567                      | -                       | 3,161                    | 187,748                  |
| Deposits with ceding undertakings                                   | (2,171)                      | (948)                       | 13,271                  | 931                      | 11,083                   |
| Reinsurers' share of technical provisions                           | 84,486                       | 40,457                      | 14,084                  | 8,973                    | 148,000                  |
| Debtors                                                             | 5,370                        | 1,169                       | 423                     | 1,683                    | 8,645                    |
| Other Assets                                                        | 5,640                        | 238                         | 614                     | 9,665                    | 16,157                   |
| Prepayments and accrued income                                      | 747                          | 304                         | -                       | 14                       | 1,065                    |
| <b>Total assets</b>                                                 | <b>635,443</b>               | <b>73,652</b>               | <b>45,334</b>           | <b>24,427</b>            | <b>778,856</b>           |
| Technical provisions                                                | 164,350                      | 49,802                      | 27,969                  | 17,465                   | 259,586                  |
| Deposits received from reinsurers                                   | 112,180                      | 8,239                       | 15,450                  | 9,446                    | 145,315                  |
| Creditors                                                           | 8,594                        | 253                         | 1,071                   | 2,546                    | 12,464                   |
| Accrued and deferred income                                         | 173                          | 124                         | 1                       | 6                        | 304                      |
| <b>Total liabilities</b>                                            | <b>285,297</b>               | <b>58,418</b>               | <b>44,491</b>           | <b>29,463</b>            | <b>417,669</b>           |
| <b>Net assets</b>                                                   | <b>350,146</b>               | <b>15,234</b>               | <b>843</b>              | <b>(5,036)</b>           | <b>361,187</b>           |

**RIVER THAMES INSURANCE COMPANY LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**

**Year ended 31 December 2021**

**15. FINANCIAL RISK MANAGEMENT (continued)**

| <b>Year 2020</b>                                                    | <b>US Dollar<br/>US\$000</b> | <b>Sterling<br/>US\$000</b> | <b>Euro<br/>US\$000</b> | <b>Other<br/>US\$000</b> | <b>Total<br/>US\$000</b> |
|---------------------------------------------------------------------|------------------------------|-----------------------------|-------------------------|--------------------------|--------------------------|
| Financial investments:                                              |                              |                             |                         |                          |                          |
| Shares and other variable yield securities and units in unit trusts | 364,732                      | 1,442                       | 20,285                  | -                        | 386,459                  |
| Debt securities and other fixed income securities                   | 163,873                      | 34,873                      | -                       | 3,316                    | 202,062                  |
| Deposits with ceding undertakings                                   | (2,046)                      | (882)                       | 14,482                  | 1,158                    | 12,712                   |
| Reinsurers' share of technical provisions                           | 94,437                       | 43,527                      | 17,310                  | 10,613                   | 165,887                  |
| Debtors                                                             | 5,905                        | 2,976                       | 743                     | 1,949                    | 11,573                   |
| Other Assets                                                        | 5,028                        | 257                         | 1,084                   | 8,007                    | 14,376                   |
| Prepayments and accrued income                                      | 822                          | 324                         | -                       | 10                       | 1,156                    |
| <b>Total assets</b>                                                 | <b>632,751</b>               | <b>82,517</b>               | <b>53,904</b>           | <b>25,053</b>            | <b>794,225</b>           |
| Technical provisions                                                | 182,375                      | 54,398                      | 34,366                  | 20,721                   | 291,860                  |
| Deposits received from reinsurers                                   | 93,589                       | 9,805                       | 18,925                  | 10,825                   | 133,144                  |
| Creditors                                                           | 8,777                        | 1,693                       | 1,655                   | 3,045                    | 15,170                   |
| Accrued and deferred income                                         | 171                          | 108                         | 6                       | 4                        | 289                      |
| <b>Total liabilities</b>                                            | <b>284,912</b>               | <b>66,004</b>               | <b>54,952</b>           | <b>34,595</b>            | <b>440,463</b>           |
| <b>Net assets</b>                                                   | <b>347,839</b>               | <b>16,513</b>               | <b>(1,048)</b>          | <b>(9,542)</b>           | <b>353,762</b>           |

**Other Price Risk (Equity and Spread Risk)**

The Company is exposed to price risk arising from fluctuations in the value of financial instruments as a result of changes in the market prices and the risks inherent in all investments. The Company has no significant concentration of price risk. The risk is managed by the Company by maintaining an appropriate mix of investment instruments.



**RIVER THAMES INSURANCE COMPANY LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**

**Year ended 31 December 2021**

**15. FINANCIAL RISK MANAGEMENT (continued)**

**Sensitivity analysis to market risks for financial instruments**

An analysis of the Company's sensitivity to interest rate, currency and other price risk is presented in the table below. The table shows the estimated effect on profit or loss of reasonably possible changes in the relevant risk variable, assuming all other variables remain constant, if that change had occurred at the end of the reporting period and had been applied to the risk exposures at that date.

|                                              | <b>2021</b>          | <b>2020</b>          |
|----------------------------------------------|----------------------|----------------------|
|                                              | <b>Profit/(loss)</b> | <b>Profit/(loss)</b> |
|                                              | <b>for the year</b>  | <b>for the year</b>  |
|                                              | <b>US\$000</b>       | <b>US\$000</b>       |
| <b>Interest rate risk</b>                    |                      |                      |
| 0.5% increase in (US\$) interest rates       | (15,494)             | (16,065)             |
| 0.5% decrease in (US\$) interest rates       | 16,784               | 17,480               |
| <b>Currency risk</b>                         |                      |                      |
| 25% increase in GBP/US dollar exchange rate  | 3,808                | 4,128                |
| 25% decrease in GBP/US dollar exchange rate  | (3,808)              | (4,128)              |
| 25% increase in Euro/US dollar exchange rate | 211                  | (262)                |
| 25% decrease in Euro/US dollar exchange rate | (211)                | 262                  |
| <b>Market rate risk</b>                      |                      |                      |
| 5% increase in fair value                    | 29,695               | 29,426               |
| 5% decrease in fair value                    | (29,695)             | (29,426)             |

The impact of the reasonably possible changes in the risk variables on Shareholders' Equity would be the same, since the Company recognises all changes in recognised assets and liabilities in the profit or loss.

The sensitivity analysis demonstrates the effect of a change in a key variable while other assumptions remain unchanged. However, the occurrence of a change in a single market factor may lead to changes in other market factors as a result of correlations.

The sensitivity analyses do not take into consideration that the Company's investments are actively managed. Additionally, the sensitivity analysis is based on the Company's financial position at the reporting date and may vary at the time that any actual market movement occurs. As investment markets move past pre-determined trigger points, action would be taken which would alter the Company's position.

# RIVER THAMES INSURANCE COMPANY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2021

### 16. INSURANCE RISK MANAGEMENT

#### i. Management of insurance risk

The Company's run-off is conducted in a sound and prudent manner with the objective of efficiently discharging liabilities and obligations to policyholders as they fall due.

When appropriate, the Company negotiates with direct insureds to commute or buyback policies either on favourable terms or to mitigate against existing and/or potential future indemnity exposures and legal costs in an uncertain and constantly evolving legal environment. The Company also pursues commutations on favourable terms with ceding companies of reinsurance business.

In most cases, policy buybacks and commutations involve the settlement of all claims each party has against the other and are therefore a mechanism to extinguish liabilities for inwards insurance and reinsurance in addition to collecting outwards reinsurance recoveries, thereby eliminating uncertainty to the Company over the amount of future claims and reinsurance recoveries.

A disciplined approach is followed throughout the commutation and policy buyback process to minimise risk and increase the probability of a positive outcome.

The Company uses statistical methods including industry benchmarking methodologies to estimate appropriate Incurred But Not Reported ("IBNR") reserves for the Company's various exposures and engages independent external actuaries to perform an appropriate peer review. These methods are based on comparisons of the Company's loss experience on its various exposures relative to industry loss experience for comparable exposures.

#### ii. Concentration of insurance risk

The Company is in run-off and does not underwrite new risks, therefore it is not exposed to future catastrophe claims. Risks for the Company arise from a possible deterioration in known claims or the emergence of a completely new latent class of claim. The following table shows the concentration of the Company's gross reserves across different classes of business.

|                                                             | 2021<br>Gross Reserves<br>US\$000 | 2020<br>Gross Reserves<br>US\$000 |
|-------------------------------------------------------------|-----------------------------------|-----------------------------------|
| Non-proportional casualty reinsurance                       | 101,198                           | 115,431                           |
| Credit and suretyship insurance                             | 417                               | 458                               |
| Fire and other damage to property insurance                 | 5,272                             | 9,440                             |
| General liability insurance                                 | 90,771                            | 96,769                            |
| Non-proportional health reinsurance                         | 3,825                             | 5,094                             |
| Income protection insurance                                 | 4,098                             | 5,407                             |
| Marine, aviation and transport insurance                    | 8,618                             | 9,778                             |
| Non-proportional marine, aviation and transport reinsurance | 7,170                             | 8,718                             |
| Medical expense insurance                                   | 291                               | 401                               |
| Motor vehicle liability insurance                           | 29,171                            | 30,934                            |
| Non-proportional property reinsurance                       | 7,860                             | 8,931                             |
| Workers compensation insurance                              | 895                               | 499                               |
| <b>Total Gross Reserves</b>                                 | <b>259,586</b>                    | <b>291,860</b>                    |

**RIVER THAMES INSURANCE COMPANY LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**

**Year ended 31 December 2021**

**16. INSURANCE RISK MANAGEMENT (continued)**

**iii. Sensitivity to insurance risk**

The liabilities established could be significantly lower or higher than the ultimate cost of settling the claims arising. This level of uncertainty varies between the classes of business and the nature of the risks involved.

To demonstrate the sensitivity, a five percent increase or decrease in total claims liabilities (or any higher or lower multiple thereof) would have the following effect on profit or loss and equity:

|                                                            | <b>2021</b>          | <b>2020</b>          |
|------------------------------------------------------------|----------------------|----------------------|
|                                                            | <b>Profit/(loss)</b> | <b>Profit/(loss)</b> |
|                                                            | <b>for the year</b>  | <b>for the year</b>  |
|                                                            | <b>US\$000</b>       | <b>US\$000</b>       |
| <b>Insurance rate risk</b>                                 |                      |                      |
| 5% increase in total claims liabilities before reinsurance | (12,979)             | (14,593)             |
| 5% decrease in total claims liabilities before reinsurance | 12,979               | 14,593               |

Any change in the above total claims liabilities would have an equal increase/decrease effect on the reinsurers' share asset in line with the quota share reinsurance arrangements held.

**iv. Claims development table**

Claims development is shown in the tables below, both gross and net of reinsurance ceded, on an underwriting year basis. Balances have been translated at exchange rates prevailing at 31 December 2021 in all cases.

| <b>Underwriting year</b>                                              | <b>2012</b>    | <b>2013</b>    | <b>2014</b>    | <b>2015</b>    | <b>2016</b>    | <b>2017</b>    | <b>2018</b>    | <b>2019</b>    | <b>2020</b>    | <b>2021</b>    | <b>Total</b>   |
|-----------------------------------------------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
|                                                                       | <b>US\$000</b> | <b>US\$000</b> | <b>US\$000</b> | <b>US\$000</b> | <b>US\$000</b> | <b>US\$000</b> | <b>US\$000</b> | <b>US\$000</b> | <b>US\$000</b> | <b>US\$000</b> | <b>US\$000</b> |
| Estimate of ultimate gross claims at end of current underwriting year | 82             | 372            | 2,014          | 544            | 49             | 63             | 4              | 207            | 236            | 202            |                |
| One year later                                                        | 73             | 111            | 2,263          | 1,123          | 962            | 132            | 123            | 223            | 1,269          | -              |                |
| Two years later                                                       | 73             | 334            | 1,219          | 689            | 845            | 93             | 96             | 41             | -              | -              |                |
| Three years later                                                     | 73             | 342            | 1,099          | 689            | 845            | 93             | 32             | -              | -              | -              |                |
| Four years later                                                      | 73             | 341            | 1,051          | 689            | 670            | 93             | -              | -              | -              | -              |                |
| Five years later                                                      | 73             | 127            | 1,035          | 689            | 91             | -              | -              | -              | -              | -              |                |
| Six years later                                                       | 73             | 127            | 1,032          | 689            | -              | -              | -              | -              | -              | -              |                |
| Seven years later                                                     | 73             | 127            | 1,032          | -              | -              | -              | -              | -              | -              | -              |                |
| Eight years later                                                     | 73             | 127            | -              | -              | -              | -              | -              | -              | -              | -              |                |
| Nine years later                                                      | 73             | -              | -              | -              | -              | -              | -              | -              | -              | -              |                |
| Less gross claims paid                                                | 73             | 127            | 1,032          | 689            | 91             | 93             | 32             | 41             | 450            | 81             |                |
| Gross ultimate claims reserve                                         | -              | -              | -              | -              | -              | -              | -              | -              | 819            | 121            | 940            |
| Gross ultimate claims reserve: 2011 and prior                         |                |                |                |                |                |                |                |                |                |                | 258,256        |
| Premium deficiency reserve                                            |                |                |                |                |                |                |                |                |                |                | 390            |
| Gross claims reserves                                                 |                |                |                |                |                |                |                |                |                |                | 259,586        |

**RIVER THAMES INSURANCE COMPANY LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**

**Year ended 31 December 2021**

**16. INSURANCE RISK MANAGEMENT (continued)**

| Underwriting year                                                   | 2012<br>US\$000 | 2013<br>US\$000 | 2014<br>US\$000 | 2015<br>US\$000 | 2016<br>US\$000 | 2017<br>US\$000 | 2018<br>US\$000 | 2019<br>US\$000 | 2020*<br>US\$000 | 2021*<br>US\$000 | Total<br>US\$000 |
|---------------------------------------------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|------------------|------------------|------------------|
| Estimate of ultimate net claims at end of current underwriting year | 82              | 372             | 2,014           | 544             | 49              | 63              | 4               | 207             | 146              | 101              |                  |
| One year later                                                      | 73              | 111             | 2,263           | 1,123           | 962             | 132             | 123             | 123             | 662              | -                |                  |
| Two years later                                                     | 73              | 334             | 1,219           | 689             | 845             | 93              | 64              | 32              | -                | -                |                  |
| Three years later                                                   | 73              | 342             | 1,099           | 689             | 845             | 93              | 32              | -               | -                | -                |                  |
| Four years later                                                    | 73              | 341             | 1,051           | 689             | 381             | 93              | -               | -               | -                | -                |                  |
| Five years later                                                    | 73              | 127             | 1,035           | 689             | 91              | -               | -               | -               | -                | -                |                  |
| Six years later                                                     | 73              | 127             | 987             | 689             | -               | -               | -               | -               | -                | -                |                  |
| Seven years later                                                   | 73              | 127             | 987             | -               | -               | -               | -               | -               | -                | -                |                  |
| Eight years later                                                   | 73              | 127             | -               | -               | -               | -               | -               | -               | -                | -                |                  |
| Nine years later                                                    | 73              | -               | -               | -               | -               | -               | -               | -               | -                | -                |                  |
| Less net claims paid                                                | 73              | 127             | 987             | 689             | 91              | 93              | 32              | 32              | 253              | 40               |                  |
| Net ultimate claims reserve                                         | -               | -               | -               | -               | -               | -               | -               | -               | 409              | 61               | 470              |
| Net ultimate claims reserve: 2011 and prior                         |                 |                 |                 |                 |                 |                 |                 |                 |                  |                  | 110,921          |
| Premium deficiency reserve                                          |                 |                 |                 |                 |                 |                 |                 |                 |                  |                  | 195              |
| Net claims reserves                                                 |                 |                 |                 |                 |                 |                 |                 |                 |                  |                  | <u>111,586</u>   |

\* Effective 1 April 2020, the Company entered into a 50% whole account quota share reinsurance arrangement with Enhanced Re (refer to Note 17).

# RIVER THAMES INSURANCE COMPANY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2021

### 17. RELATED PARTY TRANSACTIONS

The Company has taken advantage of the exemption granted in FRS 102, available to members of a wholly owned group, not to disclose:

- Key management personnel compensation (also refer to Note 7);
- Transactions entered into with other wholly owned group companies.

The Company has a 50% quota share reinsurance arrangement with a fellow indirect subsidiary, Enhanced Reinsurance Limited ("Enhanced Re").

Amount included in the financial statements, for the year ended 31 December 2021 in respect of the Enhanced Re quota share agreement are as follows:

| <b>Profit and Loss Account</b>                                 | <b>2021</b>    | <b>2020</b>    |
|----------------------------------------------------------------|----------------|----------------|
|                                                                | <b>US\$000</b> | <b>US\$000</b> |
| <b>Technical Account</b>                                       |                |                |
| Outwards reinsurance premiums                                  | (208)          | (140,584)      |
| Claims paid – reinsurers' share                                | 10,028         | 11,657         |
| Change in provision for claims – reinsurers' share             | (12,522)       | 124,905        |
| Other technical income, net of reinsurance                     | (622)          | (804)          |
| Net operating expenses                                         | 2,894          | 2,619          |
|                                                                | <b>(430)</b>   | <b>(2,207)</b> |
| <b>Non-technical Account</b>                                   |                |                |
| Investment income                                              | (3,139)        | (2,528)        |
| Unrealised investment loss                                     | (17)           | -              |
| Other income: foreign currency translation                     | 29             | -              |
|                                                                | <b>(3,557)</b> | <b>(4,735)</b> |
| <b>Balance Sheet</b>                                           | <b>2021</b>    | <b>2020</b>    |
|                                                                | <b>US\$000</b> | <b>US\$000</b> |
| <b>Assets</b>                                                  |                |                |
| Other financial investments                                    | 27,017         | -              |
| Reinsurers' share of technical provisions – claims outstanding | 111,586        | 125,974        |
| Debtors arising out of reinsurance operations                  | 6,151          | 6,297          |
|                                                                | <b>144,754</b> | <b>132,271</b> |
| <b>Liabilities</b>                                             |                |                |
| Deposits received from reinsurers                              | 117,808        | 132,650        |
| Deposits received from reinsurers – additional security        | 27,017         | -              |
|                                                                | <b>(71)</b>    | <b>(379)</b>   |
| <b>Net Liabilities</b>                                         |                |                |

The Enhanced Re quota share reinsurance arrangement is on a funds withheld basis whereby the Company has retained the assets supporting the net loss reserves transferred under the reinsurance arrangement. The quota share arrangement also provides for additional security, which as at 31 December 2021 was held by the Company, at a value of \$27.0m as identified in table above (2020: \$26.6m held in the form of a collateral pledged by Enhanced Re to the Company).

**RIVER THAMES INSURANCE COMPANY LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**

**Year ended 31 December 2021**

**18. EVENTS AFTER THE END OF THE REPORTING PERIOD**

On 24 February 2022, Russia launched an invasion of Ukraine. Following the invasion, the United Kingdom, European Union, United States, Australia, Canada and Japan announced punitive sanctions and export controls including blocking sanctions on significant Russian financial institutions and members of Russia's government and elite and trading restrictions on Russia's sovereign debt. The sanctions do not only apply to direct payments to named individuals or entities, they apply to any payments or financial services that would lead to a benefit to these parties. Payments of claims are covered by the sanctions. River Thames does not have any known underwriting exposure and it is too early to estimate the possible impact of the invasion from an investment risk perspective but the Board remains confident that the Company's future performance should not be materially impacted.

**19. ULTIMATE PARENT COMPANY**

The Company's ultimate parent company and controlling entity is Enstar Group Limited, incorporated in Bermuda.

The immediate parent company is Kenmare Holdings Limited, also incorporated in Bermuda.

The annual U.S. Securities and Exchange Commission filing of Enstar Group Limited may be obtained from:

U.S. Securities and Exchange Commission  
450 Fifth Street, NW  
Washington, D.C. 20549  
U.S.A.

[www.sec.gov](http://www.sec.gov)