

COMPANY NO. 2763688

REGISTERED OFFICE: Park Gate, 161-163 Preston Road, Brighton, BN1 6AU

# **RiverStone Insurance Limited**

## **2014 Annual Report**

**RiverStone Insurance Limited (Company No. 2763688)**  
**Annual Report**  
**For the year ended 31<sup>st</sup> December 2014**

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<b>Contents</b>	<b>Page</b>
Directors and Administration	3
Strategic Report	4
Directors' Report	6
Independent Auditors' Report to the Members of RiverStone Insurance Limited	8
Profit and Loss Account	10
Balance Sheet	12
Notes to the Financial Statements	13

**RiverStone Insurance Limited (Company No. 2763688)**  
**Directors and Administration**  
**For the year ended 31<sup>st</sup> December 2014**

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**Directors**

J. J. Bator  
N. C. Bentley  
L. A. Hemsley  
A. J. Keys – Independent Non-Executive Director  
A. J. Masterson – Independent Non-Executive Chairman  
T. Riddell – Independent Non-Executive Director  
L. R. Tanzer

**Company Secretary**

F. Henry

**Registered Office**

Park Gate  
161-163 Preston Road  
Brighton  
BN1 6AU

**Independent Auditors**

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

# **RiverStone Insurance Limited (Company No. 2763688)**

## **Strategic Report**

### **For the year ended 31<sup>st</sup> December 2014**

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The Directors have pleasure in presenting the Strategic Report of RiverStone Insurance Limited (“RiverStone Insurance” or “the Company”) for the year ended 31<sup>st</sup> December 2014.

#### **Ownership**

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

#### **Principal Activity**

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

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

Prior to the acquisition by RiverStone Holdings of RiverStone Insurance in October 2012, the operations of RiverStone Insurance were administered by Brit Group Services Limited (“Brit Group Services”). A transitional services agreement remained in place between RiverStone Management and Brit Group Services under which certain administration assistance and systems were provided by Brit Group Services until 30<sup>th</sup> September 2014.

#### **Business Review**

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

The results for the year set out in the profit and loss account show a profit for the financial year of £48.2 million (2013: £27.2 million).

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

In October 2012, RiverStone Insurance entered into a new quota share agreement with Brit Insurance Gibraltar (PCC) Limited (“Brit Insurance Gibraltar”) to reinsure 100% of certain classes of business. Effective August 2014 this agreement was novated from Brit Insurance Gibraltar to an affiliated company of RiverStone Insurance. No changes were made to the terms of the agreement as a result of the novation. On the effective date of the novation, the amount of net reserves reinsured was £187 million. This novation transaction has resulted in a change from a non-affiliated reinsurer to an affiliated reinsurer for RiverStone Insurance and has had no impact on the Profit and Loss Account.

Effective 1<sup>st</sup> January 2015, all of the employees of RiverStone Insurance transferred to RiverStone Management.

The balance on the technical account for general business for the year amounts to a profit of £20.6 million (2013: £21.2 million). The gain comprises an increase to net premiums written of £9.2 million, a release of net technical balances payable of £7.1 million, a release from provisions for irrecoverable premium balances of £1.9 million, a release from the equalisation provision of £13.7 million, less net operating expenses of £11.3 million.

# RiverStone Insurance Limited (Company No. 2763688)

## Strategic Report

For the year ended 31<sup>st</sup> December 2014

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The profit on ordinary activities before tax amounts to £59.9 million (2013: £33.3 million) and comprises the gain on the technical account for general business plus net investment return of £33.6 million and foreign exchange gains of £5.7 million.

Shareholders' funds have increased to £265.3 million from £217.1 million at the end of 2013. The increase in shareholders' funds comprises the profit for the financial year of £48.2 million.

### *Performance Measurement*

RiverStone Insurance has made good progress in relation to key elements of its strategy, through significant reduction in gross loss reserves. RiverStone Insurance's admitted capital and capital cover are as follows:

	2014	2013
Admitted capital	£239 million	£214 million
Capital cover against Enhanced Capital Requirement	2.7 times	2.6 times

### *Strategy and Future Developments*

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

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

### **Principal Risks and Uncertainties**

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

RiverStone Insurance has developed a framework for identifying the risks that it is exposed to and their impact on economic capital. This process is risk based and uses Individual Capital Assessment principles to manage RiverStone Insurance's capital requirements and to ensure that it has the financial strength and capital adequacy to support the continued run off of the business and to meet the obligations to policyholders and regulators. RiverStone Insurance is prepared for the implementation of the European Solvency II Directive, which comes into force on 1 January 2016. The Directors consider that RiverStone Insurance's capital is adequate to meet its business needs both under the current and future Solvency II regulatory capital regimes.

The principal risks faced by RiverStone Insurance arise from fluctuations in the severity of claims compared with expectations, late reporting of claims, inadequate reserving and inadequate reinsurance protection (including the credit worthiness of major reinsurers).

By Order of the Board

Park Gate  
161-163 Preston Road  
Brighton, BN1 6AU



**F. Henry**  
Company Secretary  
4 March 2015

# **RiverStone Insurance Limited (Company No. 2763688)**

## **Directors' Report**

### **For the year ended 31<sup>st</sup> December 2014**

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The Directors have pleasure in presenting their report and the audited financial statements for RiverStone Insurance Limited (Company No. 2763688) (RiverStone Insurance or "the Company") for the year ended 31<sup>st</sup> December 2014.

#### **Directors**

Directors holding office during the period from 1<sup>st</sup> January 2014 to the date of this report were:

J. J. Bator

N. C. Bentley

L. A. Hemsley

A. J. Keys – Independent Non-Executive Director

A. J. Masterson – Independent Non-Executive Chairman

T. Riddell – Independent Non-Executive Director

L. R. Tanzer

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

#### **Future Developments**

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

#### **Dividends**

RiverStone Insurance paid no interim dividends during 2014 (2013: nil). The Directors do not recommend a final dividend for the year ended 31<sup>st</sup> December 2014 (2013: nil).

#### **Financial Instruments**

As described in Note 2 to the financial statements, RiverStone Insurance is exposed to financial risk through its financial assets, liabilities, reinsurance assets and policyholder liabilities. In particular, a key financial risk is that the proceeds from financial and reinsurance assets are not sufficient to fund the obligations arising from policies as they fall due. The most important components of this financial risk that RiverStone Insurance is exposed to are interest rate risk, currency risk, credit risk and liquidity risk. RiverStone Insurance manages these risks within its overall risk management framework. The overall risk management framework is detailed in note 2 to the financial statements.

#### **Directors' Responsibilities Statement**

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 the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view

# RiverStone Insurance Limited (Company No. 2763688)

## Directors' Report

### For the year ended 31<sup>st</sup> December 2014

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of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting 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;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

#### Statement of Disclosure of Information to Auditors

The Company's auditors are PricewaterhouseCoopers LLP. Each person who is a Director at the date of approval of this Report confirms that:

- so far as the Director is aware, there is no information relevant to the audit of the Company's financial statements for the year ended 31<sup>st</sup> December 2014 of which the auditors are unaware; and
- the Director has taken all steps that he/she ought to have taken in his/her duty as a director in order to make himself or herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

By Order of the Board

Park Gate  
161-163 Preston Road  
Brighton, BN1 6AU



**F. Henry**  
Company Secretary  
4 March 2015

**RiverStone Insurance Limited (Company No. 2763688)**  
**Independent Auditors' Report to the Members of RiverStone Insurance Limited**  
**For the year ended 31<sup>st</sup> December 2014**

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**Report on the financial statements**

*Our opinion*

In our opinion, RiverStone Insurance Limited's financial statements (the "financial statements):

- give a true and fair view of the state of the company's affairs as at 31<sup>st</sup> December 2014 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

*What we have audited*

RiverStone Insurance Limited's financial statements, comprise:

- the balance sheet as at 31<sup>st</sup> December 2014
- the profit and loss account for the year then ended, and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in their preparation comprises applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), having regard to the statutory requirement for insurance companies to maintain equalisation provisions. The nature of equalisation provisions, the amounts set aside at 31<sup>st</sup> December 2014, and the effect of the movement in those provisions during the year on shareholders' funds, the balance on the general business technical account and profit before tax, are disclosed in note 20.

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

**Opinion on other matters prescribed by the Companies Act 2006**

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

**Other matters on which we are required to report by exception**

*Adequacy of accounting records and information and explanations received*

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

- we have not received all the information and explanations we require for our audit, or
- adequate accounting records have not been kept, 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

We have no exceptions to report arising from this responsibility.



**RiverStone Insurance Limited (Company No. 2763688)**  
**Independent Auditors' Report to the Members of RiverStone Insurance Limited**  
**For the year ended 31<sup>st</sup> December 2014**

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*Directors' remuneration*

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility

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

*Our responsibilities and those of the directors*

As explained more fully in the Directors' Responsibilities Statement set out on pages 6 and 7, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK & Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

*What an audit of financial statements involves*

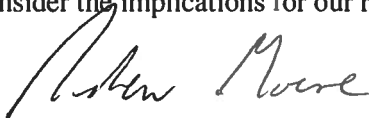
We conducted our audit in accordance with ISAs (UK and Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors, and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.



**Andrew Moore** (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
4 March 2015

**RiverStone Insurance Limited (Company No. 2763688)**  
**Profit and Loss Account - Technical Account**  
**For the year ended 31<sup>st</sup> December 2014**

	Note	2014 £'000	2013 £'000
<b>Technical Account - General Business</b>			
<b>Earned premiums, net of reinsurance</b>			
Gross premiums written		(1,026)	10,950
Outward reinsurance premiums		<u>10,272</u>	<u>2,100</u>
<b>Net premiums written</b>		<b>9,246</b>	<b>13,050</b>
Change in the gross provision for unearned premiums		-	68,285
Change in the provision for unearned premiums, reinsurers' share		<u>-</u>	<u>(31,247)</u>
<b>Net change in the provision for unearned premiums</b>		<b>-</b>	<b>37,038</b>
<b>Earned premiums, net of reinsurance</b>		<b>9,246</b>	<b>50,088</b>
<b>Gross claims paid</b>			
Gross claims paid		(189,532)	(286,255)
Reinsurers' share		<u>99,140</u>	<u>114,999</u>
<b>Net claims paid</b>		<b>(90,392)</b>	<b>(171,256)</b>
Change in the provision for gross claims		201,111	327,751
Reinsurers' share		<u>(101,715)</u>	<u>(161,272)</u>
Change in the net provision for claims		<u>99,396</u>	<u>166,479</u>
<b>Claims incurred, net of reinsurance</b>		<b>9,004</b>	<b>(4,777)</b>
Net operating expenses	5	(11,276)	(37,568)
Change in the equalisation provision	20	<u>13,659</u>	<u>13,434</u>
<b>Other technical charges, net of reinsurance</b>		<b>11,387</b>	<b>(28,911)</b>
<b>Balance on the technical account for general business</b>		<b>£ 20,633</b>	<b>£ 21,177</b>

**RiverStone Insurance Limited (Company No. 2763688)**  
**Profit and Loss Account - Non-Technical Account**  
**For the year ended 31<sup>st</sup> December 2014**

	Note	2014 £'000	2013 £'000
<b>Balance on the technical account for general business</b>		<b>20,633</b>	<b>21,177</b>
Investment income	10	4,400	2,692
Realised gains on investments	10	19,417	9,835
Unrealised gains on investments		45,083	31,442
Unrealised losses on investments		(23,447)	(21,371)
Return on derivative contracts	13(c)	(11,834)	(6,563)
Investment expenses and charges	11	(16)	-
Foreign exchange gains (losses)		<u>5,666</u>	<u>(3,939)</u>
<b>Profit on ordinary activities before tax</b>		<b>59,902</b>	<b>33,273</b>
Tax on profit on ordinary activities	12	<u>(11,715)</u>	<u>(6,118)</u>
<b>Profit for the financial year</b>	19	<b>£ <u>48,187</u></b>	<b>£ <u>27,155</u></b>

RiverStone Insurance's income and expenses all relate to continuing operations.

RiverStone Insurance has no recognised gains or losses other than those included in the Profit and Loss Account above and therefore no Statement of Total Recognised Gains and Losses has been presented.

Gains and losses of an insurance company arising on the holding or disposal of investments and the effect of fair value accounting for financial instruments are not required to be included in a note of historical profits and losses. There are no other differences between the profit on ordinary activities before tax or the profit for the financial year stated above and their historical cost equivalents.


# RiverStone Insurance Limited (Company No. 2763688)

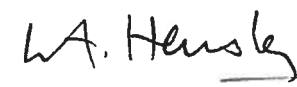
## Balance Sheet

As at 31<sup>st</sup> December 2014

	Note	2014 £'000	2013 £'000
<b>Assets</b>			
<b>Investments</b>			
Other financial investments	13	488,765	552,749
<b>Reinsurers' share of technical provisions</b>			
Claims outstanding	3, 14	250,134	354,050
<b>Debtors</b>			
Debtors arising out of direct insurance operations	15	525	4,394
Debtors arising out of reinsurance operations	16	41,048	56,214
Other debtors	17	18,865	15,945
		<b>60,438</b>	<b>76,553</b>
<b>Other assets</b>			
Cash at bank and in hand		52,593	66,209
<b>Prepayments and accrued income</b>			
Accrued interest and rent		2,048	4,242
<b>Total Assets</b>		<b>£ 853,978</b>	<b>£ 1,053,803</b>
<b>Liabilities</b>			
<b>Capital and reserves</b>			
Called up share capital	18	100,000	100,000
Profit and loss account	19	165,260	117,073
<b>Total shareholders' funds</b>	19	<b>265,260</b>	<b>217,073</b>
<b>Technical provisions</b>			
Claims outstanding	3	537,240	744,888
Equalisation provision	3, 20	13,506	27,165
		<b>550,746</b>	<b>772,053</b>
<b>Creditors: Amounts falling due within one year</b>			
Creditors arising out of direct insurance operations	21	17	318
Creditors arising out of reinsurance operations	22	21,723	56,146
Derivative financial instruments	13	7,181	1,350
Other creditors including tax and social security	23	9,051	6,863
		<b>37,972</b>	<b>64,677</b>
<b>Total Liabilities</b>		<b>£ 853,978</b>	<b>£ 1,053,803</b>

The financial statements on pages 10 to 29 were approved by the Board of Directors on 4 March 2015 and were signed on its behalf by:

  
**L. R. Tanzer**  
 Director

  
**L. A. Hemsley**  
 Director

# RiverStone Insurance Limited (Company No. 2763688)

## Notes to the Financial Statements

### For the year ended 31<sup>st</sup> December 2014

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#### 1 Accounting Policies

##### (a) Basis of Preparation and Accounting Practice

The financial statements of RiverStone Insurance Limited (“RiverStone Insurance”) have been prepared under the provisions of The Large and Medium-Sized Companies and Groups (Accounts and Reports) Regulations 2008 relating to insurance companies (SI 2008/410), applicable accounting standards in the United Kingdom and the Statement of Recommended Practice on Accounting for Insurance Business issued by the Association of British Insurers dated December 2005, as amended in December 2006 (“the ABI SORP”).

##### (b) Basis of Accounting

- i) Premiums written relate to business incepted during the year, together with any difference between recorded premiums for prior years and those previously accrued and include estimates of premiums due but not yet receivable or notified to RiverStone Insurance less an allowance for cancellations. Premiums written are shown gross of commission payable to intermediaries and exclude related taxes.
- ii) Commission and other acquisition costs incurred during the financial period that are related to securing new insurance contracts and/or renewing existing insurance contracts, but which relate to subsequent financial periods, are deferred to the extent that they are recoverable out of future revenue margins. Deferred acquisition costs are capitalised and amortised over the life of the policy to which they relate on a basis consistent with the earnings pattern of that policy.
- iii) Claims incurred comprise claims and related claims handling expenses paid in the year and changes in provisions for outstanding claims, including provisions for claims incurred but not reported and related expenses, together with any other adjustments to claims from previous years. Where applicable, reductions are made for salvage and other recoveries.
- iv) Provisions for outstanding claims and related reinsurance recoveries are established based on estimates of the ultimate net cost of settlement along with actuarial and statistical projections. Claims provisions are determined based upon previous claims experience, knowledge of events and the terms and conditions of the relevant policies and on interpretation of circumstances. Particularly relevant is experience with similar cases and historical claims payment trends. The approach also includes the consideration of the development of loss payment trends, levels of unpaid claims, judicial decisions and economic conditions.

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

- v) The proportion of written premiums that relate to unexpired terms of policies in force at the balance sheet date is deferred as a provision for unearned premiums, generally calculated on a time apportioned basis. The movement in the provision is taken to the Technical Account in order that revenue is recognised over the period of the risk.

# RiverStone Insurance Limited (Company No. 2763688)

## Notes to the Financial Statements

For the year ended 31<sup>st</sup> December 2014

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- vi) Amounts are set aside in accordance with the requirements of section 1.5 of the Prudential Sourcebook for Insurers for the purpose of mitigating exceptionally high loss ratios in future years. The amounts reserved are not liabilities because they are in addition to the provisions required to meet the anticipated ultimate cost of settlement of outstanding claims at the balance sheet date. Notwithstanding this, it is required to be included within technical provisions by the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 pursuant to section 396 of the Companies Act 2006. The movement in the equalisation provision for the year is taken to the Technical Account – general business.
- vii) The costs incurred by RiverStone Insurance associated with running off the business are as a result of services provided by RiverStone Management Limited (“RiverStone Management”) , an affiliated company and managing agent for RiverStone Insurance.

### (c) Cash flows

RiverStone Insurance is a wholly owned subsidiary of Fairfax Financial Holdings Limited (“Fairfax”) and the cash flows of RiverStone Insurance are included in the consolidated group cash flow statement of Fairfax which is publicly available. Consequently RiverStone Insurance is exempt under the terms of Financial Reporting Standard No. 1 (Revised 1996) ‘Cash flow Statements’ from publishing a cash flow statement.

### (d) Other Financial Investments

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

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

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

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

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

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

# RiverStone Insurance Limited (Company No. 2763688)

## Notes to the Financial Statements

For the year ended 31<sup>st</sup> December 2014

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- (i) Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities;
- (ii) Level 2 - inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (ie. as prices) or indirectly (ie. derived from prices); and
- (iii) Level 3 - inputs for the asset or liability that are not based on observable market data (unobservable inputs).

(e) Derivative Financial Investments

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

(f) Deferred Tax

Deferred tax assets and liabilities are established for differences between amounts reported in the financial statements and amounts reported in RiverStone Insurance's annual corporation tax returns, including revaluation gains and losses on investments. Deferred taxes are calculated at the rates at which it is expected that the tax liability or benefit will arise. Deferred tax assets are recognised to the extent that they are regarded as more likely than not recoverable. Deferred tax balances are not discounted. Movements on deferred tax assets and liabilities are recognised in the profit and loss account, except to the extent that they arise in relation to movements in the Statement of Total Recognised Gains and Losses.

(g) Pension Scheme Contributions

RiverStone Insurance's employees are members of a defined contribution plan operated by RiverStone Management. The costs of providing pensions for employees are charged to the profit and loss account as incurred.

(h) Translation of Foreign Currencies

Items included in RiverStone Insurance's financial statements are measured and presented using the currency of the primary economic environment in which it operates. RiverStone Insurance's functional currency is the Pound Sterling.

Foreign currency transactions are translated into the functional currency using the average rate of exchange during the year. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Profit and Loss Account for the period.

## 2. Management of Financial Risk

### Financial Risk Management Objectives

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

# RiverStone Insurance Limited (Company No. 2763688)

## Notes to the Financial Statements

For the year ended 31<sup>st</sup> December 2014

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

(a) Market Risk

i) Interest Rate Risk

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

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

The impact of a 100 basis point increase in interest rates on the value of RiverStone Insurance's investments held at 31<sup>st</sup> December 2014 is an approximate £14.8 million loss (2013: £14 million) to the profit and loss account. Similarly, a 100 basis point decrease in interest rates would give rise to an approximate £13.1 million gain (2013: £12.9 million) to the profit and loss account.

ii) Equity Price Risk

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

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

RiverStone Insurance has a defined investment policy which sets limits on its exposure to equities, both in aggregate terms and by counterparty. This policy of diversification is used to manage RiverStone Insurance's price risk arising from its investments in equity securities.

Listed equity securities held at 31<sup>st</sup> December 2014 represent 62% of total equity investments. If equity market indices had increased/decreased by 5%, with all other variables held constant, and all RiverStone Insurance's equity investments moving according to the historical correlation with the index, the profit for the year would increase by £8.5 million (2013: £5.2 million).

iii) Currency Risk

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

At 31<sup>st</sup> December 2014, if the Pound had weakened by 10% against the US Dollar with all other variables held constant, profit for the year would have been £29.5 million higher (2013: £13.4



**RiverStone Insurance Limited (Company No. 2763688)**  
**Notes to the Financial Statements**  
**For the year ended 31<sup>st</sup> December 2014**

million higher), mainly as a result of net foreign exchange gains on the translation of US Dollar denominated financial assets, and US Dollar denominated liabilities.

(b) Credit Risk

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

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

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

RiverStone Insurance reduces its exposure to credit risk in relation to investments by entering into transactions with counterparties that are reputable and by settling trades through recognized exchanges. RiverStone Insurance maintains strict control limits on the maximum notional amount of derivative positions.

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

	2014 £'000	2013 £'000
Derivative financial instruments	10,022	10,685
Debt securities	308,511	390,880
Assets arising from reinsurance and insurance contracts held	291,707	414,658
Cash at bank and in hand	52,593	66,209
Affiliated loan receivable	<u>12,342</u>	<u>11,605</u>
<b>Total assets bearing credit risk</b>	<b>£ <u>675,175</u></b>	<b>£ <u>894,037</u></b>
	2014 £'000	2013 £'000
A++	147,544	196,791
A+	118,548	169,025
A, A-	143,500	167,020
B++ and below or not rated (including affiliated assets)	<u>265,583</u>	<u>361,201</u>
<b>Total assets bearing credit risk</b>	<b>£ <u>675,175</u></b>	<b>£ <u>894,037</u></b>

**RiverStone Insurance Limited (Company No. 2763688)**  
**Notes to the Financial Statements**  
**For the year ended 31<sup>st</sup> December 2014**

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

	2014 £'000	2013 £'000
Performing	284,757	404,548
Past due	6,705	7,963
Impaired	500	4,472
Provision for irrecoverable amounts	<u>(255)</u>	<u>(2,325)</u>
	<b>£ 291,707</b>	<b>£ 414,658</b>

(c) Liquidity Risk

Liquidity risk is the risk that cash may not be available to pay obligations when due at a reasonable cost. The primary liquidity risk of RiverStone Insurance is the obligation to pay claims to policy holders as they fall due. RiverStone Insurance monitors its liquidity needs through monthly cash flow forecasts and the projected settlement of insurance liabilities is modelled, on a regular basis, using actuarial techniques. RiverStone Insurance's financial liabilities are all payable within one year.

(d) Capital Management

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

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

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

**RiverStone Insurance Limited** (Company No. 2763688)  
**Notes to the Financial Statements**  
**For the year ended 31<sup>st</sup> December 2014**

**3. Reconciliation of Technical Provisions**

A reconciliation of the changes to RiverStone Insurance's gross, ceded and net loss reserves from 31<sup>st</sup> December 2013 to 31<sup>st</sup> December 2014 is as follows:

	Gross £'000	Ceded £'000	Net £'000
Amounts at 1 <sup>st</sup> January 2014	772,053	354,050	418,003
Amounts paid during the year	(189,532)	(99,140)	(90,392)
Change in estimate of claims outstanding	(11,579)	(2,575)	(9,004)
Change in equalisation provision	(13,659)	-	(13,659)
Foreign exchange	(6,537)	(2,201)	(4,336)
<b>Amounts at 31<sup>st</sup> December 2014</b>	<b>£ 550,746</b>	<b>£ 250,134</b>	<b>£ 300,612</b>

**4. Analysis of Gross Business**

	Gross premiums written 2014 £'000	Gross premiums earned 2014 £'000	Gross claims incurred 2014 £'000	Gross operating expenses 2014 £'000	Re- insurance balance 2014 £'000
<b>Direct Insurance</b>					
Accident and health	-	-	(69)	(2)	(46)
Motor	(47)	(47)	6,484	(1,408)	4,310
Marine, aviation and transport	-	-	1,038	(166)	690
Legal expenses	3,126	3,126	(901)	(836)	(599)
Credit and surety	-	-	-	-	-
Fire and other damage to property	(121)	(121)	45,103	(527)	29,982
Third party liability	(2,902)	(2,902)	(36,569)	(5,623)	(24,309)
	56	56	15,086	(8,562)	10,028
Reinsurance acceptances	(1,082)	(1,082)	(3,507)	(4,045)	(1,000)
<b>Total</b>	<b>£ (1,026)</b>	<b>£ (1,026)</b>	<b>£ 11,579</b>	<b>£ (12,607)</b>	<b>£ 9,028</b>
	<b>2013 £'000</b>	<b>2013 £'000</b>	<b>2013 £'000</b>	<b>2013 £'000</b>	<b>2013 £'000</b>
<b>Direct Insurance</b>					
Accident and health	(6)	(6)	(1,196)	(4)	2,631
Motor	(31)	6,313	(29,312)	(4,000)	7,113
Marine, aviation and transport	315	315	(10,135)	(782)	(723)
Legal expenses	7,757	29,797	9,694	(10,506)	(19,049)
Credit and surety	-	-	-	-	-
Fire and other damage to property	735	22,827	(18,396)	(9,596)	(4,004)
Third party liability	(224)	16,355	105,980	(11,164)	(94,607)
	8,546	75,601	56,635	(36,052)	(108,639)
Reinsurance acceptances	2,404	3,634	(15,139)	(1,516)	33,219
<b>Total</b>	<b>£ 10,950</b>	<b>£ 79,235</b>	<b>£ 41,496</b>	<b>£ (37,568)</b>	<b>£ (75,420)</b>

**RiverStone Insurance Limited** (Company No. 2763688)  
**Notes to the Financial Statements**  
**For the year ended 31<sup>st</sup> December 2014**

**5. Net Operating Expenses**

	<b>2014</b>	<b>2013</b>
	<b>£'000</b>	<b>£'000</b>
Acquisition costs	-	2,346
Change in deferred acquisition costs	-	21,475
Administrative expenses	<u>11,134</u>	<u>14,060</u>
	11,134	37,881
Reinsurance commissions payable (receivable)	<u>142</u>	<u>(313)</u>
	<b>£ 11,276</b>	<b>£ 37,568</b>

The administration of RiverStone Insurance is carried out by RiverStone Management, a fellow subsidiary, which also provides these services to other group companies.

**6. Auditors' Remuneration**

	<b>2014</b>	<b>2013</b>
	<b>£'000</b>	<b>£'000</b>
Audit	263	281
Audit related assurance services	66	37
Other assurance services	19	30
Other non-audit services	<u>4</u>	<u>-</u>
	<b>£ 352</b>	<b>£ 348</b>

**7. Staff Costs**

	<b>2014</b>	<b>2013</b>
	<b>£'000</b>	<b>£'000</b>
Wages and salaries	1,585	2,262
Social Security costs	191	239
Other pension costs	<u>275</u>	<u>292</u>
	<b>£ 2,051</b>	<b>£ 2,793</b>

# RiverStone Insurance Limited (Company No. 2763688)

## Notes to the Financial Statements For the year ended 31<sup>st</sup> December 2014

The average monthly number of employees, by main activity, during the year was made up as follows:

	2014 No.	2013 No.
Claims	24	26
Financial	-	2
Operations	2	3
	<u>26</u>	<u>31</u>

### 8. Other Pension Costs

RiverStone Insurance's employees are members of a defined contribution pension scheme operated by RiverStone Management. All employees are eligible to join this scheme and company contributions are a percentage of salary which varies according to the age of the employee concerned.

Outstanding company pension contributions payable at 31<sup>st</sup> December 2014 were £22,751 (2013: £17,707). These contributions have since been paid.

### 9. Directors' Remuneration

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

	2014 £'000	2013 £'000
Aggregate emoluments under RiverStone ownership	471	545
Amounts receivable under long term incentive schemes	-	-
	<u>£ 471</u>	<u>£ 545</u>

Retirement benefits are accruing to three directors (2013: three) under a defined benefit pension plan.

During the year no directors exercised share options (2013: none).

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

	£'000	£'000
Aggregate emoluments	219	250
Amounts receivable under long term incentive schemes	-	-
	<u>£ 219</u>	<u>£ 250</u>

As at 31<sup>st</sup> December 2014 a pension of £44,100 (2013: £39,700) was accrued under a defined benefit pension scheme for the highest paid director.

**RiverStone Insurance Limited (Company No. 2763688)**  
**Notes to the Financial Statements**  
**For the year ended 31<sup>st</sup> December 2014**

**10. Investment Return**

	2014 £'000	2013 £'000
<b>Investment income</b>		
Income from financial assets at fair value through profit and loss – designated upon initial recognition	5,186	3,657
Deposit interest	135	144
Interest from affiliated company	684	702
	<u>6,005</u>	<u>4,503</u>
Investment management expenses	<u>(1,605)</u>	<u>(1,811)</u>
	<b>£ 4,400</b>	<b>£ 2,692</b>
<b>Realised gains on investments</b>		
Financial assets at fair value through profit and loss, held for trading	<b>£ 19,417</b>	<b>£ 9,835</b>

**11. Investment Expenses and Charges**

	2014 £'000	2013 £'000
Other interest payable	<b>£ 16</b>	<b>£ -</b>

**12. Tax on Profit on Ordinary Activities**

	2014 £'000	2013 £'000
<b>Current tax</b>		
UK corporation tax at 21.5% (2013: 23.25%) based on the profit for year	12,743	7,344
Group relief claimed for nil consideration	(1,103)	(1,239)
Prior year adjustment	75	13
	<u>11,715</u>	<u>6,118</u>
	<b>£ 11,715</b>	<b>£ 6,118</b>

# RiverStone Insurance Limited (Company No. 2763688)

## Notes to the Financial Statements

### For the year ended 31<sup>st</sup> December 2014

#### Factors affecting tax charge for the year

The corporation tax assessed for the year differs to the standard rate of corporation tax in the UK of 21.5% (2013: 23.25%). The differences are explained below:

	2014 £'000	2013 £'000
<b>Profit on ordinary activities before tax</b>	£ <u>59,902</u>	£ <u>33,273</u>
Profit on ordinary activities before tax multiplied by the UK corporation tax rate of 21.5% (2013: 23.25%)	12,879	7,736
Non-taxable dividend income	(63)	(330)
Expenses not deductible for tax purposes	(73)	(62)
Group relief claimed for nil consideration	(1,103)	(1,239)
Prior year adjustment	<u>75</u>	<u>13</u>
<b>Current tax charge for the year</b>	£ <u>11,715</u>	£ <u>6,118</u>

#### 13. Other Financial Investments

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

	Market Value 2014 £'000	Market Value 2013 £'000	Historic Cost 2014 £'000	Historic Cost 2013 £'000
<b>Financial Assets – at fair value through profit and loss</b>				
Shares and other variable-yield securities and units in unit trusts - designated at fair value through profit and loss on initial recognition	170,232	151,184	158,245	124,702
Debt securities and other fixed interest securities designated at fair value through profit and loss on initial recognition	308,511	390,880	304,305	414,408
Derivative financial instruments - at fair value through profit and loss, held for trading	<u>10,022</u>	<u>10,685</u>	<u>15,719</u>	<u>9,188</u>
	£ <u>488,765</u>	£ <u>552,749</u>	£ <u>478,269</u>	£ <u>548,298</u>
<b>Financial Liabilities – at fair value through profit and loss</b>				
Derivative financial instruments - at fair value through profit and loss, held for trading	£ <u>7,181</u>	£ <u>1,350</u>	£ -	£ -

**RiverStone Insurance Limited** (Company No. 2763688)  
**Notes to the Financial Statements**  
**For the year ended 31<sup>st</sup> December 2014**

**(b) Listed Investments**

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

	2014 £'000	2013 £'000
<b>At fair value through profit and loss</b>		
Shares and other variable yield securities and units in unit trusts	104,708	104,892
Debt securities and other fixed interest securities	<u>211,763</u>	<u>321,517</u>
<b>Total listed investments</b>	<b>£ 316,471</b>	<b>£ 426,409</b>

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

	Market Value 2014 £'000	Market Value 2013 £'000	Historic Cost 2014 £'000	Historic Cost 2013 £'000
<b>Derivative financial instruments assets</b>				
Foreign currency forward contracts	875	5,009	-	-
Inflation linked swap contracts	9,147	5,579	15,719	9,188
Equity call options	<u>-</u>	<u>97</u>	<u>-</u>	<u>-</u>
	<b>£ 10,022</b>	<b>£ 10,685</b>	<b>£ 15,719</b>	<b>£ 9,188</b>
<b>Derivative financial instruments liabilities</b>				
Foreign currency forward contracts	2,434	-	-	-
Short equity index total return swap contracts	2,968	1,350	-	-
Long equity total return swap contracts	<u>1,779</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<b>£ 7,181</b>	<b>£ 1,350</b>	<b>£ -</b>	<b>£ -</b>

A US dollar foreign currency forward contract was first effected in 2013 to provide protection against the impact of potential adverse fluctuations in the GBP:USD exchange rate on RiverStone Insurance's US dollar net asset position. This contract has subsequently been rolled over to sell \$175 million for £110 million.

During 2014, RiverStone Insurance entered into a further foreign currency forward contract to buy \$31.6 million for €25 million. This contract has been entered into to protect RiverStone Insurance's euro net asset balances against falls in the EUR:USD exchange rate.



# RiverStone Insurance Limited (Company No. 2763688)

## Notes to the Financial Statements

### For the year ended 31<sup>st</sup> December 2014

In 2012, RiverStone Insurance purchased a short equity index total return swap on the Citibank iShares Russell 2000 index which it continues to hold at 31<sup>st</sup> December 2014. Total return swaps require no initial investment and, at inception, their fair value is zero. RiverStone Insurance's short equity index total return swaps contain contractual reset provisions requiring counterparties to cash-settle on a monthly or quarterly basis any fair value movements arising subsequent to the contract being entered into. Any cash amounts paid or received are recorded in the profit and loss account. To the extent that the contractual reset date of the derivative instrument does not correspond to the balance sheet date, RiverStone Insurance records the return on these contracts in the profit and loss account to adjust the carrying value of the derivative asset or liability associated with the total return swap.

During 2014, RiverStone Insurance purchased a long equity total return swap on IBM shares. This is treated as per the short equity index total return swap.

During 2013, RiverStone Insurance purchased inflation linked swap contracts with the initial premium paid for these derivatives recorded as a derivative financial instrument asset. These derivatives continue to be held at 31<sup>st</sup> December 2014 with subsequent unrealised fair value gains and losses on these contracts having been recorded through the profit and loss account.

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

	Level 1 2014 £'000	Level 2 2014 £'000	Level 3 2014 £'000	Total 2014 £'000
Shares and other variable yield securities and units in unit trusts	104,706	44,605	20,921	170,232
Debt securities and other fixed interest securities	96,752	198,934	12,825	308,511
Derivative financial instruments	-	-	10,022	10,022
	<b>£ 201,458</b>	<b>£ 243,539</b>	<b>£ 43,768</b>	<b>£ 488,765</b>
	2013 £'000	2013 £'000	2013 £'000	2013 £'000
Shares and other variable yield securities and units in unit trusts	104,892	30,774	15,518	151,184
Debt securities and other fixed interest securities	60,306	321,517	9,057	390,880
Derivative financial instruments	97	-	10,588	10,685
	<b>£ 165,295</b>	<b>£ 352,291</b>	<b>£ 35,163</b>	<b>£ 552,749</b>

**RiverStone Insurance Limited (Company No. 2763688)**  
**Notes to the Financial Statements**  
**For the year ended 31<sup>st</sup> December 2014**

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

	Debt Securities 2014 £'000	Shares and Other Variable Yield Securities 2014 £'000	Derivative Financial Instruments 2014 £'000	Total 2014 £'000
At 1 January	9,057	15,518	10,588	35,163
Total gains recognised in the profit and loss account	3,768	(348)	(7,097)	(3,677)
Purchases	-	691	6,531	7,222
Transfers into Level 3 from Level 2	-	5,938	-	5,938
Sales	-	(878)	-	(878)
<b>At 31 December</b>	<b>£ 12,825</b>	<b>£ 20,921</b>	<b>£ 10,022</b>	<b>£ 43,768</b>
	2013 £'000	2013 £'000	2013 £'000	2013 £'000
At 1 January	-	15,391	-	15,391
Total gains recognised in the profit and loss account	(334)	224	10,737	10,627
Purchases	9,391	13,093	9,188	31,672
Sales	-	(13,190)	(9,337)	(22,527)
<b>At 31 December</b>	<b>£ 9,057</b>	<b>£ 15,518</b>	<b>£ 10,588</b>	<b>£ 35,163</b>

Total losses of £3,677,000 (2013: gains of £10,627,000) comprise unrealised gains of £652,000 (2013: gains of £460,000) and realised losses of £4,329,000 (2013: gains of £10,167,000) on Level 3 financial investments held during the year, all of which are presented in the net investment return in the profit and loss account.

There was one transfer from Level 2 to Level 3 during the year with a market value of £5,937,987. There were no transfers between Level 3 and Levels 1, or between Levels 1 and 2 during the year (2013: none).

**(f) Collateralised Cash and Investments**

RiverStone Insurance maintains a letter of credit facility in respect of its contractual obligations under which RiverStone Insurance is obliged to collateralise its liabilities. The total amount of collateral provided at 31<sup>st</sup> December 2014 was £27.1 million (2013: £38.2 million).

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

Included within reinsurer's share of technical provisions – claims outstanding are amounts recoverable from an affiliated company of £170.7 million (2013: nil) in respect of a quota share reinsurance contract.

**RiverStone Insurance Limited (Company No. 2763688)**  
**Notes to the Financial Statements**  
**For the year ended 31<sup>st</sup> December 2014**

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

	<b>2014</b>	<b>2013</b>
	<b>£'000</b>	<b>£'000</b>
Amounts owed from intermediaries	525	1,365
Premiums receivable from intermediaries	-	3,029
	<u>£ 525</u>	<u>£ 4,394</u>

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

	<b>2014</b>	<b>2013</b>
	<b>£'000</b>	<b>£'000</b>
Amounts owed from reinsurers and intermediaries	12,021	12,525
Premiums receivable from cedants	29,027	43,689
	<u>£ 41,048</u>	<u>£ 56,214</u>

**17. Other Debtors**

	<b>2014</b>	<b>2013</b>
	<b>£'000</b>	<b>£'000</b>
Amounts owed from group undertakings	18,774	15,399
Other debtors	91	546
	<u>£ 18,865</u>	<u>£ 15,945</u>

**18. Called up Share Capital**

	<b>2014</b>	<b>2013</b>
	<b>£'000</b>	<b>£'000</b>
Allotted, called up and fully paid: 100,000,000 (2013: 100,000,000) Ordinary Shares of £1 each	<u>£ 100,000</u>	<u>£ 100,000</u>

**RiverStone Insurance Limited (Company No. 2763688)**  
**Notes to the Financial Statements**  
**For the year ended 31<sup>st</sup> December 2014**

**19. Reconciliation of Movements on Total Shareholder's Funds**

	Called Up Share Capital £'000	Profit & Loss Account £'000	2014 Total £'000	2013 Total £'000
As at 1 <sup>st</sup> January	100,000	117,073	217,073	189,918
Profit for the financial year	-	48,187	48,187	27,155
<b>As at 31<sup>st</sup> December</b>	<b>£ 100,000</b>	<b>£ 165,260</b>	<b>£ 265,260</b>	<b>£ 217,073</b>

**20. Equalisation Provision**

	2014 £'000	2013 £'000
At 1 January	27,165	40,599
Transfer to profit and loss account	(13,659)	(13,434)
<b>At 31 December</b>	<b>£ 13,506</b>	<b>£ 27,165</b>

**21. Creditors Arising Out of Direct Insurance Operations**

	2014 £'000	2013 £'000
Amounts owed to cedants and intermediaries	£ 17	£ 318

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

	2014 £'000	2013 £'000
Amounts owed to cedants and intermediaries	2,538	25,116
Premiums payable to reinsurers	12,613	31,030
Amounts owed to other group undertakings	6,572	-
<b></b>	<b>£ 21,723</b>	<b>£ 56,146</b>

**RiverStone Insurance Limited (Company No. 2763688)**  
**Notes to the Financial Statements**  
**For the year ended 31<sup>st</sup> December 2014**

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

	<b>2014</b>	<b>2013</b>
	<b>£'000</b>	<b>£'000</b>
Amounts owed to other group undertakings	6,524	-
Tax	2,119	6,180
Other	408	683
	<u>£ 9,051</u>	<u>£ 6,863</u>

**24. Related Party Transactions and Ultimate Parent Company**

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

Advantage has been taken of the exemption from the requirement to disclose transactions with wholly owned related parties within the same group as provided by Financial reporting Standard No. 8 "Related Party Disclosures". This exemption is available for RiverStone Insurance Limited as consolidated financial statements are publicly available for Fairfax

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