

COMPANY NO. 2763688

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

# **RiverStone Insurance Limited**

## **2013 Annual Report**

**RiverStone Insurance Limited (Company No. 2763688)**  
**Annual Report**  
**For the year ended 31<sup>st</sup> December 2013**

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**RiverStone Insurance Limited (Company No. 2763688)**  
**Directors and Administration**  
**For the year ended 31<sup>st</sup> December 2013**

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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 2013**

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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 2013.

#### **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 administration assistance and systems were provided by Brit Group Services until 30<sup>th</sup> September 2013. Parts of this agreement were extended during 2013 to ensure Brit Group Services continue to provide the support and use of certain systems 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 £27.2 million (2012: £17.4 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.

The balance on the technical account for general business for the year amounts to a profit of £21.2 million (2012: loss £26.7 million). The gain comprises an increase to net premiums written of £13 million, a release of net technical provisions of £6.7 million, a release from provisions for irrecoverable premium balances of £2.2 million, a release from the equalisation provision of £13.4 million, less administrative expenses of £14.1 million. The provision for unearned premiums and balance for deferred acquisition costs held at 31<sup>st</sup> December 2012 were fully earned in 2013, with a net impact on the technical account for general business of nil after the related increase to net technical provisions.

The profit on ordinary activities before taxation amounts to £33.3 million (2012: £21.6 million) and comprises the gain on the technical account for general business plus net investment income of £16 million, partly offset by foreign exchange losses of £3.9 million.

Shareholders’ funds have increased to £217.1 million from £189.9 million at the end of 2012. The increase in shareholders’ funds comprises the profit for the financial year of £27.2 million.

**RiverStone Insurance Limited (Company No. 2763688)**  
**Strategic Report**  
**For the year ended 31<sup>st</sup> December 2013**

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***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:

	2013	2012
Admitted capital	£214 million	£187.7 million
Capital cover against Enhanced Capital Requirement	2.6 times	2 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. The Directors consider that RiverStone Insurance's capital is adequate to meet its business needs.

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  
6<sup>th</sup> March 2014

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

## **Directors' Report**

### **For the year ended 31<sup>st</sup> December 2013**

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The Directors have pleasure in presenting their report and the audited financial statements for RiverStone Insurance Limited (RiverStone Insurance or "the Company") for the year ended 31<sup>st</sup> December 2013.

#### **Directors**

Directors holding office during the period from 1<sup>st</sup> January 2013 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.

#### **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 2013 (2012: £183.1 million). The Directors do not recommend a final dividend for the year ended 31<sup>st</sup> December 2013 (2012: £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.

#### **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 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:

# RiverStone Insurance Limited (Company No. 2763688)

## Directors' Report

### For the year ended 31<sup>st</sup> December 2013

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- 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 auditor is 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 2013 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  
6<sup>th</sup> March 2014

**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 2013**

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**Report on the financial statements**

*Our opinion*

In our opinion the financial statements, defined below:

- give a true and fair view of the state of the company's affairs as at 31 December 2013 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.

This opinion is to be read in the context of what we say in the remainder of this report.

*What we have audited*

The financial statements, which are prepared by RiverStone Insurance Limited, comprise:

- the balance sheet as at 31 December 2013
- 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

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 December 2013, 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 21.

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.

*What an audit of financial statements involves*

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & 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

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.



**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 2013**

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

In our opinion the information given in the Directors' Report and Strategic 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.

*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 page 6, 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 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.



**Andrew Moore** (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
London  
6<sup>th</sup> March 2014

**RiverStone Insurance Limited (Company No. 2763688)**  
**Profit and Loss Account - Technical Account**  
**For the year ended 31<sup>st</sup> December 2013**

	Note	2013 £'000	2012 £'000
<b>Technical Account - General Business</b>			
<b>Earned premiums, net of reinsurance</b>			
Gross premiums written		10,950	230,762
Outward reinsurance premiums		<u>2,100</u>	<u>(519,366)</u>
<b>Net premiums written</b>		<b>13,050</b>	<b>(288,604)</b>
Change in the gross provision for unearned premiums		68,285	170,852
Change in the provision for unearned premiums, reinsurers' share		<u>(31,247)</u>	<u>(39,870)</u>
<b>Net change in the provision for unearned premiums</b>		<b>37,038</b>	<b>130,982</b>
<b>Earned premiums, net of reinsurance</b>		<b>50,088</b>	<b>(157,622)</b>
<b>Gross claims paid</b>			
Gross claims paid		(286,255)	(387,572)
Reinsurers' share		<u>114,999</u>	<u>312,598</u>
<b>Net claims paid</b>		<b>(171,256)</b>	<b>(74,974)</b>
Change in the provision for gross claims		327,751	204,567
Reinsurers' share		<u>(161,272)</u>	<u>132,868</u>
<b>Net change in the provision for claims</b>		<b>166,479</b>	<b>337,435</b>
<b>Claims incurred, net of reinsurance</b>		<b>(4,777)</b>	<b>262,461</b>
Net operating expenses	5	(37,568)	(132,062)
Change in the equalisation provision	21	<u>13,434</u>	<u>556</u>
<b>Total technical charges</b>		<b>(28,911)</b>	<b>130,955</b>
<b>Balance on the technical account for general business</b>		<b>£ <u>21,177</u></b>	<b>£ <u>(26,667)</u></b>

**RiverStone Insurance Limited (Company No. 2763688)**  
**Profit and Loss Account - Non-Technical Account**  
**For the year ended 31<sup>st</sup> December 2013**

	Note	2013 £'000	2012 £'000
<b>Balance on the technical account for general business</b>		<b>21,177</b>	<b>(26,667)</b>
Investment income	10	2,692	24,743
Unrealised gains on investments		31,442	4,214
Unrealised losses on investments		(21,371)	(5,403)
Realised gains on investments	10	9,835	14,775
Return on derivative contracts	15(c)	(6,563)	(905)
Interest payable and similar charges	11	-	(1)
Other income	12	-	29,898
Foreign exchange losses	13	<u>(3,939)</u>	<u>(19,044)</u>
<b>Profit on ordinary activities before taxation</b>		<b>33,273</b>	<b>21,610</b>
Taxation on profit on ordinary activities	14	<u>(6,118)</u>	<u>(4,204)</u>
<b>Profit for the financial year</b>		<b>£ <u>27,155</u></b>	<b>£ <u>17,406</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.

Neither gains and losses of an insurance company arising on the holding or disposal of investments; nor the effect of fair value accounting for financial instruments are 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.

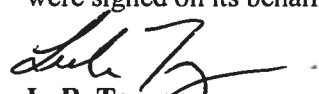
# RiverStone Insurance Limited (Company No. 2763688)


## Balance Sheet

As at 31<sup>st</sup> December 2013

	Note	2013 £'000	2012 £'000
<b>Assets</b>			
<b>Financial Assets</b>			
Other financial investments	15	552,749	634,843
<b>Reinsurers' share of technical provisions</b>			
Provision for unearned premiums	3	-	31,247
Claims outstanding	3	354,050	516,898
		<b>354,050</b>	<b>548,145</b>
<b>Debtors</b>			
Debtors arising out of direct insurance operations	16	4,394	68,671
Debtors arising out of reinsurance operations	17	56,214	65,826
Other debtors	18	15,945	12,976
		<b>76,553</b>	<b>147,473</b>
<b>Other assets</b>			
Cash at bank and in hand		66,209	127,381
<b>Prepayments and accrued income</b>			
Deferred acquisition costs		-	21,475
Accrued income		4,242	5,442
		<b>4,242</b>	<b>5,442</b>
<b>Total Assets</b>		<b>£ 1,053,803</b>	<b>£ 1,484,759</b>
<b>Liabilities</b>			
<b>Capital and reserves</b>			
Called up share capital	19	100,000	100,000
Profit and loss account	20	117,073	89,918
<b>Total shareholders' funds</b>	20	<b>217,073</b>	<b>189,918</b>
<b>Technical provisions</b>			
Provision for unearned premiums	3	-	68,285
Claims outstanding	3	744,888	1,065,875
Equalisation provision	3, 21	27,165	40,599
		<b>772,053</b>	<b>1,174,759</b>
<b>Creditors: Amounts falling due within one year</b>			
Creditors arising out of direct insurance operations	22	318	6,458
Creditors arising out of reinsurance operations	23	56,146	106,738
Derivative financial instruments	15	1,350	2,233
Other creditors including taxation and social security	24	6,863	4,031
		<b>64,677</b>	<b>119,460</b>
Accruals and deferred income	25	-	622
		<b>-</b>	<b>622</b>
<b>Total Liabilities</b>		<b>£ 1,053,803</b>	<b>£ 1,484,759</b>

The financial statements on pages 10 to 29 were approved by the Board of Directors on 6<sup>th</sup> March 2014 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 2013**

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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 (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 2013

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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, 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 2013**

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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) **Treasury Bills**

Treasury bills consist of highly liquid short term investments with original maturity dates of less than one year. Treasury bills are valued at cost due to their short-term nature and insignificant risk of changes in value.

(f) **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

(g) **Deferred Taxation**

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.

(h) **Pension Scheme Contributions**

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

(i) **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.

**RiverStone Insurance Limited (Company No. 2763688)**  
**Notes to the Financial Statements**  
**For the year ended 31<sup>st</sup> December 2013**

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**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 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 repriced at market interest rates on an ongoing basis.

The impact of a 100 basis point increase in interest rates on the value of RiverStone Insurance's investments held at 31<sup>st</sup> December 2013 is an approximate £14 million loss (2012: £29.3 million) to the profit and loss account. Similarly, a 100 basis point decrease in interest rates would give rise to an approximate £12.9 million gain (2012: £27.3 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 2013 represent 69% 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 £5.2 million (2012: £4.5 million).



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**For the year ended 31<sup>st</sup> December 2013**

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 2013, if the Pound had weakened by 10% against the US Dollar with all other variables held constant, profit for the year would have been £13.4 million higher (2012: £24.7 million higher), mainly as a result of net foreign exchange gains on the translation of US Dollar denominated financial assets, and US Dollar denominated liabilities.

(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):

	2013 £'000	2012 £'000
Derivative financial instruments	10,685	-
Debt securities	330,574	514,109
Treasury bills	60,306	11,073
Assets arising from reinsurance and insurance contracts held	414,658	672,867
Cash at bank and in hand	66,209	127,381
Affiliated loan receivable	11,605	11,855
<b>Total assets bearing credit risk</b>	<b>£ 894,037</b>	<b>£ 1,337,285</b>

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	2013 £'000	2012 £'000
A++	196,791	332,760
A+	169,025	169,300
A, A-	167,020	281,855
B++ and below or not rated (including affiliated assets)	<u>361,201</u>	<u>553,370</u>
<b>Total assets bearing credit risk</b>	<b>£ <u>894,037</u></b>	<b>£ <u>1,337,285</u></b>

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

	2013 £'000	2012 £'000
Performing	404,548	662,165
Past due	7,963	10,702
Impaired	4,472	4,967
Provision for irrecoverable amounts	<u>(2,325)</u>	<u>(4,967)</u>
	<b>£ <u>414,658</u></b>	<b>£ <u>672,867</u></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 2013

#### 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 2012 to 31<sup>st</sup> December 2013 is as follows:

	Gross £'000	Ceded £'000	Net £'000
Amounts at 1 <sup>st</sup> January 2013	1,174,759	548,145	626,614
Amounts paid during the year	(286,255)	(114,999)	(171,256)
Earning of provision for unearned premium	(68,285)	(31,247)	(37,038)
Change in estimate of claims outstanding	(41,496)	(46,273)	4,777
Change in equalisation provision	(13,434)	-	(13,434)
Foreign exchange	6,764	(1,576)	8,340
<b>Amounts at 31<sup>st</sup> December 2013</b>	<b>£ 772,053</b>	<b>£ 354,050</b>	<b>£ 418,003</b>

#### 4. Analysis of Gross Business

	Gross premiums written 2013 £'000	Gross premiums earned 2013 £'000	Gross claims incurred 2013 £'000	Gross operating expenses 2013 £'000	Re- insurance balance 2013 £'000
<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)
	<u>8,546</u>	<u>75,601</u>	<u>56,635</u>	<u>(36,052)</u>	<u>(108,639)</u>
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>
	<b>2012 £'000</b>	<b>2012 £'000</b>	<b>2012 £'000</b>	<b>2012 £'000</b>	<b>2012 £'000</b>
<b>Direct Insurance</b>					
Accident and health	4,392	5,271	3,647	(1,444)	4,624
Motor	31,662	55,607	(43,151)	(13,088)	10,787
Marine, aviation and transport	363	8,155	2,852	(3,546)	2,877
Legal expenses	65,386	80,641	(37,857)	(36,419)	(7,420)
Credit and surety	(172)	3,415	(2,704)	(326)	(547)
Fire and other damage to property	82,293	140,870	(78,451)	(48,522)	(8,437)
Third party liability	41,075	69,641	(33,209)	(15,191)	(66,823)
	<u>224,999</u>	<u>363,600</u>	<u>(188,873)</u>	<u>(118,536)</u>	<u>(64,939)</u>
Reinsurance acceptances	5,763	38,014	5,870	(5,877)	(44,245)
Corporate	-	-	-	(7,649)	-
<b>Total</b>	<b>£ 230,762</b>	<b>£ 401,614</b>	<b>£ (183,003)</b>	<b>£ (132,062)</b>	<b>£ (109,184)</b>

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**5. Net Operating Expenses**

	<b>2013</b>	<b>2012</b>
	<b>£'000</b>	<b>£'000</b>
Acquisition costs	2,346	65,726
Change in deferred acquisition costs	21,475	41,076
Administrative expenses	<u>14,060</u>	<u>29,846</u>
	37,881	136,648
Reinsurance commissions receivable	<u>(313)</u>	<u>(4,586)</u>
	<b>£ 37,568</b>	<b>£ 132,062</b>

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

**6. Auditors' Remuneration**

	<b>2013</b>	<b>2012</b>
	<b>£'000</b>	<b>£'000</b>
Audit	281	140
Audit related assurance services	37	40
Other assurance services	30	-
Taxation compliance services	-	6
Services relating to corporate finance	<u>-</u>	<u>110</u>
	<b>£ 348</b>	<b>£ 296</b>

**7. Staff Costs**

	<b>2013</b>	<b>2012</b>
	<b>£'000</b>	<b>£'000</b>
Wages and salaries	2,262	1,794
Social Security costs	239	109
Pension costs	<u>292</u>	<u>135</u>
	<b>£ 2,793</b>	<b>£ 2,038</b>

**RiverStone Insurance Limited (Company No. 2763688)**  
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The average monthly number of employees, by main activity, during the year was made up as follows:

	2013 No.	2012 No.
Claims	26	28
Financial	2	4
Operations	3	-
	<u>31</u>	<u>32</u>

**8. Pension Costs**

RiverStone Insurance's employees are members of a defined contribution pension scheme operated by RiverStone Management Limited. 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 2013 were £17,707 (2012: nil). 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 the managing agent which makes charges to RiverStone Insurance. Emoluments paid by the managing agent 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.

	2013 £'000	2012 £'000
Aggregate emoluments under Brit ownership	-	52
Aggregate emoluments under RiverStone ownership	545	132
Amounts receivable under long term incentive schemes	-	-
	<u>£ 545</u>	<u>£ 184</u>

Retirement benefits are accruing to three directors (2012: two) under a defined benefit pension plan.

During the year no directors exercised share options (2012: none).

The Directors remuneration disclosed above for 2013 includes the following amounts paid to the highest paid director:

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

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

**10. Investment Return**

	<b>2013</b>	<b>2012</b>
	<b>£'000</b>	<b>£'000</b>
<b>Investment income</b>		
Income from financial assets at fair value through profit and loss – designated upon initial recognition	3,657	25,255
Deposit interest	144	304
Interest from affiliated company	702	427
	<u>4,503</u>	<u>25,986</u>
Investment management expenses	<u>(1,811)</u>	<u>(1,243)</u>
	<b>£ 2,692</b>	<b>£ 24,743</b>
<b>Realised gains on investments</b>		
Financial assets at fair value through profit and loss, held for trading	<u>£ 9,835</u>	<u>£ 14,775</u>

**11. Interest Payable and Similar Charges**

	<b>2013</b>	<b>2012</b>
	<b>£'000</b>	<b>£'000</b>
Other interest payable	<u>£ -</u>	<u>£ (1)</u>

**12. Other Income**

	<b>2013</b>	<b>2012</b>
	<b>£'000</b>	<b>£'000</b>
<b>Sale of UK renewal rights to QBE</b>		
Sale proceeds	-	38,538
Deal costs	-	(1,608)
Other Direct costs	-	(927)
Recharged costs	-	(6,105)
	<u>-</u>	<u>(6,105)</u>
<b>Profit on sale of UK renewal rights</b>	<b>£ -</b>	<b>£ 29,898</b>

**RiverStone Insurance Limited (Company No. 2763688)**  
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**13. Foreign Exchange Losses**

	<b>2013</b> <b>£'000</b>	<b>2012</b> <b>£'000</b>
Foreign exchange losses	£ <u>3,939</u>	£ <u>19,044</u>

**14. Taxation on Profit on Ordinary Activities**

	<b>2013</b> <b>£'000</b>	<b>2012</b> <b>£'000</b>
<b>Current taxation</b>		
UK corporation taxation at 23.25% (2012: 24.5%) based on the profit for year	7,344	4,774
Group relief claimed for nil consideration	(1,239)	(603)
Prior year adjustment	<u>13</u>	<u>33</u>
	£ <u>6,118</u>	£ <u>4,204</u>

**Factors affecting taxation charge for the year**

The corporation tax assessed for the year differs to the standard rate of corporation tax in the UK of 23.25% (2012: 24.5%). The differences are explained below:

	<b>2013</b> <b>£'000</b>	<b>2012</b> <b>£'000</b>
<b>Profit on ordinary activities before taxation</b>	£ <u>33,273</u>	£ <u>21,610</u>
Profit on ordinary activities before taxation multiplied by the UK corporation tax rate of 23.25% (2012: 24.5%)	7,736	5,294
Non-taxable dividend income	(330)	(472)
Expenses not deductible for tax purposes	(62)	(48)
Group relief claimed for nil consideration	(1,239)	(603)
Prior year adjustment	<u>13</u>	<u>33</u>
<b>Current taxation charge for the year</b>	£ <u>6,118</u>	£ <u>4,204</u>

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**15. Other Financial Investments**

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

	Market Value 2013 £'000	Market Value 2012 £'000	Historic Cost 2013 £'000	Historic Cost 2012 £'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	151,184	109,661	124,702	107,971
Debt securities and other fixed interest securities designated at fair value through profit and loss on initial recognition	330,574	514,109	353,095	511,378
Derivative financial instruments - at fair value through profit and loss, held for trading	10,685	-	9,188	-
<b>Sub total</b>	<b>492,443</b>	<b>623,770</b>	<b>486,985</b>	<b>619,349</b>
Treasury bills	60,306	11,073	61,313	11,020
	<b>£ 552,749</b>	<b>£ 634,843</b>	<b>£ 548,298</b>	<b>£ 630,369</b>

**Financial Liabilities – at fair value through profit and loss**

Derivative financial instruments - at fair value through profit and loss, held for trading	£ 1,350	£ 2,233	£ -	-
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**(b) Listed Investments**

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

	2013 £'000	2012 £'000
<b>At fair value through profit and loss</b>		
Shares and other variable yield securities and units in unit trusts	104,892	90,738
Debt securities and other fixed interest securities	321,517	514,109
<b>Total listed investments</b>	<b>£ 426,409</b>	<b>£ 604,847</b>



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

	Market Value 2013 £'000	Market Value 2012 £'000	Historic Cost 2013 £'000	Historic Cost 2012 £'000
<b>Derivative financial instruments assets</b>				
Foreign currency forward contracts	5,009	-	-	-
Inflation linked swap contracts	5,579	-	9,188	-
Short equity total return swap contracts	-	-	-	-
Equity call options	97	-	-	-
	<u>£ 10,685</u>	<u>£ -</u>	<u>£ 9,188</u>	<u>£ -</u>
<b>Derivative financial instruments liabilities</b>				
Foreign currency forward contracts	-	1,352	-	-
Short equity index total return swap contracts	1,350	881	-	-
	<u>£ 1,350</u>	<u>£ 2,233</u>	<u>£ -</u>	<u>£ -</u>

A Japanese Yen foreign currency forward contract was outstanding as at 31<sup>st</sup> December 2012, that was held to hedge the impact of Japanese Yen exposure resulting from the Japanese earthquake and tsunami. This contract was realised during 2013.

A US dollar foreign currency forward contract was effected in 2013 to sell \$225 million for £150 million 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 was subsequently rolled over to sell \$240 million for £150 million.

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 2013. 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 2013, RiverStone Insurance purchased inflation linked swap contracts with the initial premium paid for these derivatives recorded as a derivative financial instrument asset. Subsequent unrealised fair value losses on these contracts have been recorded through the profit and loss account.

RiverStone Insurance purchased an equity call option during 2013 with fair value movements taken to the profit and loss account.

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

	Level 1 2013 £'000	Level 2 2013 £'000	Level 3 2013 £'000	Total 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	-	321,517	9,057	330,574
Derivative financial instruments	97	-	10,588	10,685
	<b>£ 104,989</b>	<b>£ 352,291</b>	<b>£ 35,163</b>	<b>£ 492,443</b>
	2012 £'000	2012 £'000	2012 £'000	2012 £'000
Shares and other variable yield securities and units in unit trusts	75,348	18,922	15,391	109,661
Debt securities and other fixed interest securities	-	514,109	-	514,109
	<b>£ 75,348</b>	<b>£ 533,031</b>	<b>£ 15,391</b>	<b>£ 623,770</b>

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

	Debt Securities 2013 £'000	Specialised Investment Funds 2013 £'000	Shares and Other Variable Yield Securities 2013 £'000	Derivative Financial Instruments 2013 £'000	Total 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)
At 31 December	<b>£ 9,057</b>	<b>£ -</b>	<b>£ 15,518</b>	<b>£ 10,588</b>	<b>£ 35,163</b>

**RiverStone Insurance Limited (Company No. 2763688)**  
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	Debt Securities 2012 £'000	Specialised Investment Funds 2012 £'000	Shares and other Variable Yield Securities 2012 £'000	Derivative Financial Instruments 2012 £'000	Total 2012 £'000
At 1 January	267	77,031	-	-	77,298
Total gains recognised in the profit and loss account	-	16,949	(121)	-	16,828
Purchases	-	1,215	15,512	-	16,727
Sales	(267)	(95,195)	-	-	(95,462)
<b>At 31 December</b>	<b>£ -</b>	<b>£ -</b>	<b>£ 15,391</b>	<b>£ -</b>	<b>£ 15,391</b>

Total gains of £10,625,000 (2012: £16,828,000) comprise unrealised gains of £460,000 (2012: losses £121,000) and realised gains of £10,165,000 (2012: gains of £16,949,000) on Level 3 financial investments held during the year, all of which are presented in the net investment return in the profit and loss account.

There were no transfers between Level 3 and Levels 1 or 2, or between Levels 1 and 2 during the year (2012: 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 2013 was £38.2 million (2012: £32.7 million).

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

	2013 £'000	2012 £'000
Amounts owed from intermediaries	1,365	4,538
Premiums receivable from intermediaries	3,029	64,133
	<b>£ 4,394</b>	<b>£ 68,671</b>

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

	2013 £'000	2012 £'000
Amounts owed from cedants and intermediaries	12,525	30,366
Premiums receivable from cedants	43,689	35,460
	<b>£ 56,214</b>	<b>£ 65,826</b>

**RiverStone Insurance Limited (Company No. 2763688)**  
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**18. Other Debtors**

	2013 £'000	2012 £'000
Taxation	-	443
Amounts owed from group undertakings	15,399	11,855
Other debtors	546	678
	<u>£ 15,945</u>	<u>£ 12,976</u>

**19. Called up Share Capital**

	2013 £'000	2012 £'000
Allotted, called up and fully paid: 100,000,000 Ordinary Shares of £1 each	<u>£ 100,000</u>	<u>£ 100,000</u>

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

	Called Up Share Capital £'000	Profit & Loss Account £'000	2013 Total £'000	2012 Total £'000
As at 1 <sup>st</sup> January	100,000	89,918	189,918	355,585
Profit for the financial year	-	27,155	27,155	17,406
Equity dividends paid	-	-	-	(183,073)
As at 31 <sup>st</sup> December	<u>£ 100,000</u>	<u>£ 117,073</u>	<u>£ 217,073</u>	<u>£ 189,918</u>

**21. Equalisation Provision**

	2013 £'000	2012 £'000
At 1 January	40,599	41,155
Transfer to profit and loss account	<u>(13,434)</u>	<u>(556)</u>
At 31 December	<u>£ 27,165</u>	<u>£ 40,599</u>

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

	2013 £'000	2012 £'000
Amounts owed to intermediaries	<u>£ 318</u>	<u>£ 6,458</u>

**RiverStone Insurance Limited (Company No. 2763688)**  
**Notes to the Financial Statements**  
**For the year ended 31<sup>st</sup> December 2013**

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

	2013 £'000	2012 £'000
Amounts owed to intermediaries	25,116	-
Premiums payable to reinsurers	<u>31,030</u>	<u>106,738</u>
	<b>£ 56,146</b>	<b>£ 106,738</b>

**24. Other Creditors Including Taxation and Social Security**

	2013 £'000	2012 £'000
Amounts owed to other group undertakings	-	4,031
Taxation	6,180	-
Other	<u>683</u>	<u>-</u>
	<b>£ 6,863</b>	<b>£ 4,031</b>

**25. Accruals and Deferred Income**

	2013 £'000	2012 £'000
Reinsurance commissions	-	313
Accruals - other	<u>-</u>	<u>309</u>
	<b>£ -</b>	<b>£ 622</b>

**26. 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 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 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)