

COMPANY NO. 1167327

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

# **RiverStone Insurance (UK) Limited**

## **2014 Annual Report**

**RiverStone Insurance (UK) Limited (Company No. 1167327)**  
**Annual Report**  
**For the year ended 31<sup>st</sup> December 2014**

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**RiverStone Insurance (UK) Limited (Company No. 1167327)**  
**Directors and Administration**  
**For the year ended 31<sup>st</sup> December 2014**

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**Directors**

N. C. Bentley  
L. A. Hemsley  
A. J. Keys - 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

**Management Company**

RiverStone Management Limited

**Independent Auditors**

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

# **RiverStone Insurance (UK) Limited (Company No. 1167327)**

## **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 (UK) Limited (“RiverStone Insurance (UK)” or the “the Company”) for the year ended 31<sup>st</sup> December 2014.

#### **Ownership**

RiverStone Insurance (UK) 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 (UK) is authorised to carry on all classes of general insurance business and is engaged in the run-off of the assets and liabilities associated with its various portfolios of insurance and reinsurance.

The operations of RiverStone Insurance (UK) are administered by RiverStone Management Limited which is a fellow subsidiary of RiverStone Holdings. RiverStone Insurance (UK) is also involved in the Lloyd’s market through the reinsurance protection of Syndicate 3500. Syndicate 3500 is managed by RiverStone Managing Agency Limited, a fellow subsidiary of RiverStone Holdings. The sole corporate member of Syndicate 3500 is RiverStone Corporate Capital Limited which is a fellow subsidiary of RiverStone Holdings.

#### **Business Review**

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

The results for the year set out in the profit and loss account show a profit for the financial year of \$14.9 million (2013: \$49.7 million).

During several years of consolidating various European based run-off portfolios of its parent, Fairfax, and acquiring other run-off portfolios, RiverStone Insurance (UK)’s primary focus has been the settlement of its policyholder obligations and recovery of reinsurance assets in an efficient and economic manner. Additionally, RiverStone Insurance (UK) continues to pursue opportunities to acquire further run-off portfolios.

Effective 4<sup>th</sup> December 2014, RiverStone Insurance (UK) entered into an agreement to reinsure a portfolio primarily comprised of medical malpractice liabilities arising from direct policies issued to hospitals in Italy between 2007 and 2010. This resulted in the addition of \$65.5 million to the gross technical provisions of RiverStone Insurance (UK). Also effective 4<sup>th</sup> December 2014, RiverStone Insurance (UK) entered into an agreement with an affiliated company to reinsure all of these liabilities.

On 27<sup>th</sup> June 2014, RiverStone Insurance (UK) paid a dividend of \$65 million to its parent RiverStone Holdings.

The balance on the technical account for general business for the year was a loss of \$16.4 million (2013: \$17.6 million gain). This comprises \$7 million strengthening of net technical provisions and operating expenses of \$14 million, less net premiums earned of \$1.9 million and a release of net technical balances receivable and provisions for irrecoverable reinsurance of \$2.7 million.

# RiverStone Insurance (UK) Limited (Company No. 1167327)

## 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 \$19.1 million and comprises net investment income of \$31.4 million, foreign exchange gains of \$4.1 million, less the loss on the technical account for general business.

Shareholders' funds have decreased to \$342.1 million from \$392 million at the end of 2013. The decrease in shareholders' funds reflects the dividend of \$65 million, less the profit for the financial year of \$14.9 million and unrealised investment gains on available for sale investments of \$232,000.

#### *Performance Measurements*

RiverStone Insurance (UK) has made continued progress throughout 2014 in relation to key elements of its strategy, through continued reduction in gross loss reserves and reinsurance recoverables. RiverStone Insurance (UK)'s admitted capital and capital cover are as follows:

	2014	2013
Admitted capital	\$221 million	\$283 million
Capital cover against Enhanced Capital Requirement	2.6 times	2.9 times

#### *Strategy and Future Developments*

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

Over the past number of years, RiverStone Insurance (UK) has acquired a number of run-off portfolios of business either associated with certain Fairfax operations in Europe or from unaffiliated parties. RiverStone Insurance (UK)'s main focus continues to be the run-off of these portfolios together with actively seeking to acquire further portfolios of run-off business.

The Board considers that the insurance operations of RiverStone Insurance (UK) are adequately capitalized 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 (UK) ("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 (UK). 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 (UK) 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 (UK)'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 (UK) is prepared for the implementation of the European Solvency II Directive, which comes into force on 1<sup>st</sup> January 2016. The Directors consider that RiverStone Insurance (UK)'s capital is adequate to meet its business needs both under the current and future Solvency II regulatory capital regimes.

**RiverStone Insurance (UK) Limited (Company No. 1167327)**  
**Strategic Report**  
**For the year ended 31<sup>st</sup> December 2014**

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The principal risks faced by RiverStone Insurance (UK) 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 (UK) Limited (Company No. 1167327)**

## **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 (UK) Limited (Company No. 1167327) ("RiverStone Insurance (UK)" or the "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:

N. C. Bentley  
L. A. Hemsley  
A. J. Keys – Independent Non-Executive Chairman  
T. Riddell - Independent Non-Executive Director (appointed 5<sup>th</sup> March 2014)  
L. R. Tanzer

RiverStone Insurance (UK) 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 (UK) are discussed in the Strategic Report.

#### **Dividends**

An interim dividend of \$65 million was paid during 2014 (2013: nil). The Directors do not recommend the payment of a final dividend (2013: nil).

#### **Financial Instruments**

As described in Note 2 to the financial statements, RiverStone Insurance (UK) 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 (UK) is exposed to are interest rate risk, currency risk, credit risk and liquidity risk. RiverStone Insurance (UK) 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

**RiverStone Insurance (UK) Limited** (Company No. 1167327)  
**Directors' Report**  
**For the year ended 31<sup>st</sup> December 2014**

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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:

- 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 (UK) Limited** (Company No. 1167327)  
**Independent Auditors' Report to the Members of RiverStone Insurance (UK) 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 (UK) 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 (UK) Limited's financial statements comprise:

- the balance sheet as at 31<sup>st</sup> December 2014
- the profit and loss account and the statement of total recognised gains and losses 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 is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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 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.

**RiverStone Insurance (UK) Limited (Company No. 1167327)**  
**Independent Auditors' Report to the Members of RiverStone Insurance (UK)**  
**Limited**  
**For the year ended 31<sup>st</sup> December 2014**

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**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 7 and 8, 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*

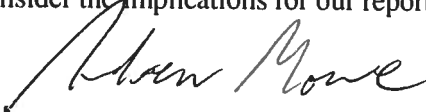
We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. 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  
London  
4 March 2015

**RiverStone Insurance (UK) Limited** (Company No. 1167327)  
**Profit and Loss 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		66,500	-
Outward reinsurance premiums		(64,603)	-
<b>Net premiums written and earned</b>		<b>1,897</b>	<b>-</b>
Gross claims paid		(95,270)	(133,880)
Reinsurers' share		20,543	868
Net claims paid		(74,727)	(133,012)
Change in the gross provision for claims		86,053	162,003
Reinsurers' share		(15,646)	(668)
Change in the net provision for claims		70,407	161,335
<b>Claims incurred, net of reinsurance</b>		<b>(4,320)</b>	<b>28,323</b>
Net operating expenses	6	(14,008)	(10,726)
<b>Other technical charges, net of reinsurance</b>		<b>(18,328)</b>	<b>17,597</b>
<b>Balance on the technical account for general business</b>		<b>(16,431)</b>	<b>17,597</b>
<b>Non-Technical Account</b>			
Investment income	8	13,278	12,021
Realised gains on investments	8	18,105	2,294
Unrealised gains on investments		16,500	35,464
Unrealised losses on investments		(16,462)	(5,278)
Foreign exchange gains		4,086	5
<b>Profit on ordinary activities before tax</b>		<b>19,076</b>	<b>62,103</b>
Tax on profit on ordinary activities	9	(4,129)	(12,384)
<b>Profit for the financial year</b>	16	<b>\$ 14,947</b>	<b>\$ 49,719</b>

The results above are all derived from continuing operations.

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 (UK) Limited** (Company No. 1167327)  
**Statement of Total Recognised Gains and Losses**  
**For the year ended 31<sup>st</sup> December 2014**

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	<b>Note</b>	<b>2014</b> <b>\$'000</b>	<b>2013</b> <b>\$'000</b>
Profit for the financial year		14,947	49,719
Movement on available for sale investment reserve	16	<u>232</u>	<u>1,200</u>
<b>Total gains recognised during the year</b>		<b>\$ <u>15,179</u></b>	<b>\$ <u>50,919</u></b>

# RiverStone Insurance (UK) Limited (Company No. 1167327)


## Balance Sheet

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

	Note	2014 \$'000	2013 \$'000
<b>Assets</b>			
<b>Investments</b>			
Other financial investments	10	307,696	408,496
<b>Reinsurers' share of technical provisions</b>			
Claims outstanding	3,11	112,165	64,970
<b>Debtors</b>			
Debtors arising out of direct insurance operations	12	392	320
Debtors arising out of reinsurance operations	13	169,944	269,778
Other debtors	14	115,295	114,976
		<b>285,631</b>	<b>385,074</b>
<b>Other assets</b>			
Cash at bank and in hand		141,419	27,954
<b>Prepayments and accrued income</b>			
Accrued interest and rent		970	1,000
<b>Total Assets</b>		<b>\$ 847,881</b>	<b>\$ 887,494</b>
<b>Liabilities</b>			
<b>Capital and reserves</b>			
Called up share capital	15	157,062	157,062
Other reserves	16	(2,003)	(2,235)
Profit and loss account	16,17	187,076	237,129
<b>Total shareholders' funds</b>	16	<b>342,135</b>	<b>391,956</b>
<b>Technical provisions</b>			
Claims outstanding	3	434,999	473,108
<b>Creditors</b>			
Creditors arising out of direct insurance operations	18	-	101
Creditors arising out of reinsurance operations	19	70,747	8,898
Other creditors including tax and social security	20	-	13,431
		<b>70,747</b>	<b>22,430</b>
<b>Total Liabilities</b>		<b>\$ 847,881</b>	<b>\$ 887,494</b>

The financial statements on pages 11 to 31 were approved by the Board of Directors on 4 March 2015 and were signed on its behalf by:

  
**L. R. Tanzer**  
 Managing Director

  
**L. A. Hemsley**  
 Finance Director

**RiverStone Insurance (UK) Limited (Company No. 1167327)**  
**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 (UK) Limited (“RiverStone Insurance (UK)”) 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

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 (UK) less an allowance for cancellations. Premiums written are shown gross of commission payable to intermediaries and exclude related taxes.

ii) Claims Incurred and Reinsurers’ Share

Claims incurred comprise claims and related claims handling expenses paid in the year and changes in provisions for outstanding claims, including provisions for claims incurred but not reported and related expenses, together with any other adjustments to claims from previous years. Where applicable, reductions are made for salvage and other recoveries.

Provisions for outstanding claims and related reinsurance recoveries are established based on estimates of the ultimate net cost of settlement along with actuarial and statistical projections. Claims provisions are determined based upon previous claims experience, knowledge of events and the terms and conditions of the relevant policies and on interpretation of circumstances. Particularly relevant is experience with similar cases and historical claims payment trends. The approach also includes the consideration of the development of loss payment trends, levels of unpaid claims, judicial decisions and economic conditions.

Whilst the board of directors of RiverStone Insurance (UK) (“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 (UK), RiverStone Insurance (UK)’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 (UK). The estimates made are based upon current facts available to RiverStone Insurance (UK) 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.

As discussed in note 5 to the financial statements, RiverStone Insurance (UK) has utilised a number of other estimation techniques in order to arrive at reserves in respect of the claims arising from the terrorist attacks on 11<sup>th</sup> September 2001.

**RiverStone Insurance (UK) Limited** (Company No. 1167327)  
**Notes to the Financial Statements**  
**For the year ended 31<sup>st</sup> December 2014**

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- iii) The costs incurred by RiverStone Insurance (UK) 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 (UK).

(c) Cash Flows

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

(d) Investments

Other Financial Investments

RiverStone Insurance (UK) classifies its investments into the following categories: financial assets at fair value through profit and loss, and available for sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this at every reporting date.

i) Financial assets at fair value through profit and loss

A financial asset is classified into this category 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 (UK)’s key management personnel. RiverStone Insurance (UK)’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.

ii) Available for Sale Financial Assets

Available for sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories.

Purchases and sales of investments are recognised on the trade date i.e. the date on which RiverStone Insurance (UK) commits to purchase or sell the asset. Investments are initially recognised at fair value plus, in the case of all financial assets not carried at fair value through profit and loss, transaction costs that are directly attributable to their acquisition. Financial assets are derecognised when the rights to receive cash flows from the investments have expired

# RiverStone Insurance (UK) Limited (Company No. 1167327)

## Notes to the Financial Statements

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

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or where they have been transferred and RiverStone Insurance (UK) has also transferred substantially all risks and rewards of ownership.

Changes in the fair value of financial assets classified as available for sale are recognised in equity. When financial assets classified as available for sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the Profit and Loss Account within net realised gains on investments.

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

- (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) Impairment of Financial Assets

At each balance sheet date RiverStone Insurance (UK) assesses whether there is objective evidence that an available for sale financial asset is impaired, including in the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost. If any such evidence exists for available for sale financial assets, the cumulative loss (measured as the difference between the acquisition cost and current fair value, less any impairment loss on the financial asset previously recognised in the Profit and Loss Account) is removed from equity and recognised in the Profit and Loss Account for the period. Impairment losses recognised in the Profit and Loss Account in respect of equity instruments are not subsequently reversed. The impairment loss is reversed through the Profit and Loss Account, if in a subsequent period the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit and loss.

### (f) Investment Return

Investment return comprises all investment income, realised investment gains and losses and movements in unrealised gains and losses, net of investment expenses.

Realised gains and losses on investments carried at fair value through profit and loss are calculated as the difference between net sales proceeds and purchase price. Movements in unrealised gains and losses on investments represent the difference between the fair value at the balance sheet date and their purchase price or their fair value at the last balance sheet date, together with the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current period.

### (g) Derivative Financial Instruments

Derivative financial instruments comprise foreign currency forward contracts. 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 exchange rates.



**RiverStone Insurance (UK) Limited (Company No. 1167327)**  
**Notes to the Financial Statements**  
**For the year ended 31<sup>st</sup> December 2014**

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(h) Translation of Foreign Currencies

Items included in RiverStone Insurance (UK)'s financial statements are measured and presented using the currency of the primary economic environment in which it operates. RiverStone Insurance (UK)'s functional currency is the US Dollar.

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.

(i) Deferred Tax

Deferred tax assets and liabilities are established for differences between amounts reported in the financial statements and amounts reported in RiverStone Insurance (UK)'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.

**2. Management of Financial Risk**

**Financial Risk Management Objectives**

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

RiverStone Insurance (UK) 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 (UK) 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 (UK), it is not exposed to significant interest rate risk since maturing short term investments are repriced at market interest rates on an ongoing basis.

# RiverStone Insurance (UK) Limited (Company No. 1167327)

## Notes to the Financial Statements

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

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The impact of a 100 basis point increase in interest rates on the value of RiverStone Insurance (UK)'s investments held at 31<sup>st</sup> December 2014 is an approximate \$7.5 million loss (2013: \$7.2 million) to the profit and loss account. Similarly, a 100 basis point decrease in interest rates would give rise to an approximate \$8.6 million gain (2013: \$8.4 million) to the profit and loss account.

### ii) Equity Price Risk

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

Listed equity securities held at 31<sup>st</sup> December 2014 represent 72.1% of total equity investments. If equity market indices had increased/decreased by 5%, with all other variables held constant, and all RiverStone Insurance (UK)'s equity investments moving according to the historical correlation with the index, the profit for the year would increase/decrease by \$4.7 million (2013: \$4.5 million).

### iii) Currency Risk

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

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 \$3.2 million lower (2013: \$2.4 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 (UK) 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 (UK) is in runoff its exposures to reinsurers and insurance intermediaries are determined by contracts previously written. RiverStone Insurance (UK) manages the levels of credit risk from reinsurers and insurance intermediaries by quarterly review of receivable balances by

# RiverStone Insurance (UK) Limited (Company No. 1167327)

## Notes to the Financial Statements

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

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 (UK)'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 (UK) 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 (UK) maintains strict control limits on open derivative positions. The amount subject to credit risk at any one time is limited to the current fair value of derivative financial assets.

RiverStone Insurance (UK) specifically monitors its exposure to the credit risk of the loan receivable that it has from an affiliated company. RiverStone Insurance (UK) reviews the financial performance of the affiliated entity on a quarterly basis.

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	3,203	-
Debt securities	174,225	319,156
Assets arising from reinsurance contracts held	135,420	78,068
Premium receivable	-	35,595
Cash at bank and in hand	141,419	27,954
Affiliated loan receivable	114,646	114,629
<b>Total assets bearing credit risk</b>	<b>\$ 568,913</b>	<b>\$ 575,402</b>
A++	30,518	280,897
A+	109,043	15,469
A, A-	185,077	104,131
B++ and below or not rated (including affiliated assets)	244,275	174,905
<b>Total assets bearing credit risk</b>	<b>\$ 568,913</b>	<b>\$ 575,402</b>

Assets arising from reinsurance contracts held, including premium receivable are further analysed as follows:

	2014 \$'000	2013 \$'000
Performing	145,454	109,955
Past due	17,189	19,178
Impaired	20,352	45,166
Provision for irrecoverable amounts	(47,575)	(60,636)
<b>Total</b>	<b>\$ 135,420</b>	<b>\$ 113,663</b>

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(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 (UK) is the obligation to pay claims to policy holders as they fall due. RiverStone Insurance (UK) 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 (UK)'s financial liabilities are all payable within one year.

(d) Capital Management

RiverStone Insurance (UK) 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 (UK)'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 (UK) 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 (UK) manages as capital all items that are eligible to be treated as capital for regulatory purposes. RiverStone Insurance (UK) is regulated by the Prudential Regulation Authority ("the PRA") and Financial Conduct Authority ("FCA") and is subject to insurance solvency regulations which specify the minimum amount and type of capital that must be held in addition to the insurance liabilities. RiverStone Insurance (UK) manages capital in accordance with these rules and performs the necessary tests to ensure continuous and full compliance with such regulations. RiverStone Insurance (UK) 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 (UK) has complied with all externally imposed capital requirements throughout the year. RiverStone Insurance (UK) is progressing with the implementation of the new Solvency II regulatory regime.

**3. Reconciliation of Technical Provisions**

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

	<b>Gross \$'000</b>	<b>Ceded \$'000</b>	<b>Net \$'000</b>
Amounts at 1 <sup>st</sup> January 2014	473,108	64,970	408,138
Reinsurance of new liabilities	65,484	65,484	-
Amounts paid during the year	(95,270)	(20,543)	(74,727)
Change in estimate of reserves	9,217	4,897	4,320
Foreign exchange	(17,540)	(2,643)	(14,897)
<b>Amounts at 31<sup>st</sup> December 2014</b>	<b>\$ 434,999</b>	<b>\$ 112,165</b>	<b>\$ 322,834</b>

**RiverStone Insurance (UK) Limited** (Company No. 1167327)  
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**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>					
Marine, aviation and transport	-	-	(631)	(1,367)	(4,086)
Fire and other damage to property	-	-	(11)	16	(72)
Motor	-	-	(432)	(162)	(2,801)
Third-party liability	-	-	(13)	(18)	(81)
Miscellaneous	-	-	(14)	(17)	(93)
	-	-	(1,101)	(1,548)	(7,133)
<b>Reinsurance acceptances</b>	<b>66,500</b>	<b>66,500</b>	<b>(8,116)</b>	<b>(12,461)</b>	<b>(52,573)</b>
<b>Total</b>	<b>\$ 66,500</b>	<b>\$ 66,500</b>	<b>\$ (9,217)</b>	<b>\$ (14,009)</b>	<b>\$ (59,706)</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>					
Marine, aviation and transport	-	-	(2,266)	(4,351)	-
Fire and other damage to property	-	-	254	(27)	-
Third-party liability	-	-	(996)	(456)	-
Miscellaneous	-	-	(178)	(6)	-
	-	-	(3,186)	(4,840)	-
<b>Reinsurance acceptances</b>	<b>-</b>	<b>-</b>	<b>31,309</b>	<b>(5,886)</b>	<b>200</b>
<b>Total</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 28,123</b>	<b>\$ (10,726)</b>	<b>\$ 200</b>

**5. Claims Reserves**

**Asbestos Related and Environmental Pollution Claims**

RiverStone Insurance (UK) establishes case reserves for reported asbestos related and environmental pollution claims and future legal and associated expenses for such reported claims. It also establishes reserves for unreported claims and legal and associated expenses for such unreported claims. RiverStone Insurance (UK) regularly reviews the adequacy of its loss reserves for asbestos related and environmental pollution claims and claim expenses. These exposures do not lend themselves to traditional methods of loss reserve estimation. Reserving for asbestos related and environmental pollution claims is subject to significant uncertainties that are not generally present for other types of claims. These claims differ from almost all others in that it is often not clear that an insurable loss has occurred, which policy years apply and which insurers may be liable. These uncertainties prevent identification of applicable policies and policy limits until after a claim is reported to RiverStone Insurance (UK) and substantial time is spent (over many years in some cases) resolving contract issues and determining facts necessary to evaluate the claim. While the nature and extent of insurance and reinsurance coverage for these types of claims has widened in recent years, there has been no final judgement which would apply to all cases which would result in the wholesale transfer of these types of claims from insureds to insurers and reinsurers.

RiverStone Insurance (UK) expects asbestos related and environmental pollution claims to continue to be reported for the foreseeable future. The claims to be paid and timing of any such payments depend on the resolution of uncertainties associated with them and could extend over many years.

# RiverStone Insurance (UK) Limited (Company No. 1167327)

## Notes to the Financial Statements

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

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For these reasons, RiverStone Insurance (UK) estimates that the possible ultimate liabilities for these exposures could be substantially different from the amounts currently provided in the financial statements. Nevertheless, RiverStone Insurance (UK) believes that the reserves carried for these exposures are adequate based on known facts and current interpretation of applicable laws.

### Claims Relating to Terrorist Attacks of 11<sup>th</sup> September 2001

RiverStone Insurance (UK), primarily through its reinsurance of Syndicate 3500, has exposure to insured losses incurred in the terrorist attacks in the United States of America on 11<sup>th</sup> September 2001. Syndicate 3500 was a first tier reinsurer of American Airlines and a direct insurer of losses related to property and contingency coverage. Syndicate 3500 also has assumed reserves for excess of loss reinsurances of other insurers and reinsurers.

At the beginning of 2014 there were three remaining actions against American Airlines, United Airlines and the airlines' security contractors (Globe and Huntleigh) ("the Aviation Defendants") in the United States District Court for the Southern District of New York.

The claim brought by Cantor Fitzgerald was finalised early in 2014 and was approved by the United States District Court for the Southern District of New York.

The two other actions are those brought by World Trade Centre Properties LLC and by Cedar and Washington Associates LLC. The Aviation Defendants had been successful in both of these actions in the Court of first instance. Both actions were subsequently appealed. Cedar & Washington Associates LLC were not successful and have now exhausted all avenues for appeal. The action involving World Trade Centre Properties LLC has now been heard by the Court of Appeal and a decision is expected later in 2015. The final resolution of this claim, including potentially further litigation, is not expected for some time.

At 31<sup>st</sup> December 2014, the remaining underlying reserves of Syndicate 3500 in connection with the events of 11<sup>th</sup> September are estimated to be \$101 million gross and \$45 million net. The gross reserves, which remain subject to uncertainty depending on the outcome of court actions in the US, are principally on the aviation classes and have been assessed on a case-by-case 'best estimate' basis.

## 6. Net Operating Expenses

	2014	2013
	\$'000	\$'000
Administrative expenses	\$ <u>14,008</u>	\$ <u>10,726</u>

RiverStone Insurance (UK) has no employees. The administration of RiverStone Insurance (UK) is carried out by RiverStone Management, a fellow subsidiary, which also provides these services to other group companies.

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

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	2014 \$'000	2013 \$'000
Aggregate emoluments	633	548
Amounts receivable under long term incentive schemes	<u>-</u>	<u>-</u>
	<b>\$ <u>633</u></b>	<b>\$ <u>548</u></b>

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

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:

	2014 \$'000	2013 \$'000
Aggregate emoluments	308	267
Amounts receivable under long term incentive schemes	<u>-</u>	<u>-</u>
	<b>\$ <u>308</u></b>	<b>\$ <u>267</u></b>

As at 31<sup>st</sup> December 2014 a pension of \$72,600 per annum (2013: \$66,000) was accrued under a defined benefit pension scheme for the highest paid Director.

**7. Auditors' Remuneration**

	2014 \$'000	2013 \$'000
Audit	411	379
Audit related assurance services	25	24
Tax compliance services	-	14
Other tax advisory services	-	28
Other assurance services	31	124
Other non-audit services	<u>36</u>	<u>-</u>
	<b>\$ <u>503</u></b>	<b>\$ <u>569</u></b>

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**8. Investment Return**

	<b>2014</b>	<b>2013</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Investment income</b>		
Income from available for sale financial assets	1,700	1,191
Income from financial assets at fair value through profit and loss – designated upon initial recognition	2,664	1,781
Deposit interest	11	33
Income from treasury bills	163	166
Interest on deposits withheld	569	451
Interest from affiliated company	9,729	9,499
	<u>14,836</u>	<u>13,121</u>
Investment management expenses	<u>(1,558)</u>	<u>(1,100)</u>
	<b>\$ 13,278</b>	<b>\$ 12,021</b>

	<b>2014</b>	<b>2013</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Realised gains on investments</b>		
Financial assets at fair value through profit and loss:		
Held for trading	18,018	2,294
Available for sale financial assets	<u>87</u>	<u>-</u>
	<b>\$ 18,105</b>	<b>\$ 2,294</b>

**9. Tax on Profit on Ordinary Activities**

	<b>2014</b>	<b>2013</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Current tax</b>		
UK corporation tax at 21.5% (2013: 23.25%) based on the profit for the year	4,297	14,805
Losses brought forward	-	(2,421)
Prior year adjustment	<u>(168)</u>	<u>-</u>
	<b>\$ 4,129</b>	<b>\$ 12,384</b>

**Factors affecting the tax charge for the year**

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

	<b>2014</b>	<b>2013</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Profit on ordinary activities before tax</b>	<b>\$ 19,076</b>	<b>\$ 62,103</b>



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	2014 \$'000	2013 \$'000
Profit on ordinary activities before tax multiplied by the UK corporation tax rate of 21.5% (2013: 23.25%)	4,101	14,439
Non-taxable dividend income	(36)	(75)
Expenses not deductible for tax purposes	182	162
Available for sale investment movements	50	279
Utilisation of tax losses	-	(2,421)
Prior year adjustment	(168)	-
<b>Current tax charge for the year</b>	<b>\$ 4,129</b>	<b>\$ 12,384</b>

**10. Other Financial Investments**

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

	<u>Carrying Value</u>		<u>Purchase Price</u>	
	2014 \$'000	2013 \$'000	2014 \$'000	2013 \$'000
<b>At fair value through profit and loss</b>				
Debt securities and other fixed-income securities designated at fair value through profit or loss upon initial recognition	162,217	306,377	149,609	301,756
Equity shares	130,210	89,274	114,768	56,065
Derivative financial instruments at fair value through profit or loss, held for trading	3,203	-	-	-
	<u>295,630</u>	<u>395,651</u>	<u>264,377</u>	<u>357,821</u>
<b>Available for sale</b>				
Equity shares	58	66	48	48
Debt securities and other fixed-income securities	12,008	12,779	14,429	14,428
	<u>12,066</u>	<u>12,845</u>	<u>14,477</u>	<u>14,476</u>
	<b>\$ 307,696</b>	<b>\$ 408,496</b>	<b>\$ 278,854</b>	<b>\$ 372,297</b>

**RiverStone Insurance (UK) Limited (Company No. 1167327)**  
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**(b) Listed Investments**

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

	<b>2014</b>	<b>2013</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>At fair value through profit and loss</b>		
Debt securities and other fixed-income securities designated at fair value through profit or loss upon initial recognition	87,850	72,633
Equity shares	93,904	71,856
Derivative financial instruments at fair value through profit or loss, held for trading	<u>3,203</u>	<u>-</u>
	<b>184,957</b>	<b>144,489</b>
<b>Available for sale</b>		
Debt securities and other fixed-income securities	<u>4,856</u>	<u>5,183</u>
<b>Total listed investments</b>	<b>\$ <u>189,813</u></b>	<b>\$ <u>149,672</u></b>

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

	<b>Market Value</b>	<b>Market Value</b>	<b>Historic Cost</b>	<b>Historic Cost</b>
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<b>Derivative financial instruments assets</b>				
Foreign currency forward contracts	<u>\$ 3,203</u>	<u>£ -</u>	<u>£ -</u>	<u>£ -</u>

During 2014, RiverStone Insurance (UK) entered into a foreign currency forward contract to buy \$49.6 million for €38.3 million. This contract has been entered into to protect RiverStone Insurance (UK)'s euro net asset balances against falls in the EUR:USD exchange rate.

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(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
<b>A fair value through profit and loss</b>				
Debt securities and other fixed-income securities designated at fair value through profit or loss upon initial recognition	74,367	81,184	6,666	162,217
Equity shares	93,904	25,173	11,133	130,210
Derivative financial instruments at fair value through profit or loss, held for trading	-	-	3,203	3,203
<b>Available for sale</b>				
Equity shares	-	-	58	58
Debt securities and other fixed-income securities	-	12,008	-	12,008
<b>Total</b>	<b>\$ 168,271</b>	<b>\$ 118,365</b>	<b>\$ 21,060</b>	<b>\$ 307,696</b>
	Level 1 2013 Restated \$'000	Level 2 2013 \$'000	Level 3 2013 \$'000	Total 2013 Restated \$'000
<b>A fair value through profit and loss</b>				
Debt securities and other fixed-income securities designated at fair value through profit or loss upon initial recognition	221,588	79,789	5,000	306,377
Equity shares	71,856	12,449	4,969	89,274
Derivative financial instruments at fair value through profit or loss, held for trading	-	-	-	-
<b>Available for sale</b>				
Equity shares	-	-	66	66
Debt securities and other fixed-income securities	-	12,779	-	12,779
<b>Total</b>	<b>\$ 293,444</b>	<b>\$ 105,017</b>	<b>\$ 10,035</b>	<b>\$ 408,496</b>

Level 3 investments valuations are based on third party broker quotes.

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

	At Fair Value Through Profit and Loss			Available for Sale		Total 2014 \$'000
	Debt Securities	Equity Shares	Derivatives	Debt Securities	Equity Shares	
	2014 \$'000	2014 \$'000	2014 \$'000	2014 \$'000	2014 \$'000	
At 1 January (restated)	5,000	4,969	-	-	66	10,035
Total gains recognised in the profit and loss account	1,666	269	3,203	-	(8)	5,130
Purchases	-	5,895	-	-	-	5,895
<b>Total</b>	<b>\$ 6,666</b>	<b>\$ 11,133</b>	<b>\$ 3,203</b>	<b>\$ -</b>	<b>\$ 58</b>	<b>\$ 21,060</b>

	At Fair Value Through Profit and Loss		Available for Sale		Total 2013 \$'000
	Debt Securities	Equity Shares	Debt Securities	Equity Shares	
	2013 Restated \$'000	2013 Restated \$'000	2013 Restated \$'000	2013 \$'000	
At 1 January	-	-	-	63	63
Total gains recognised in the profit and loss account	-	(33)	-	3	(30)
Purchases	5,000	-	-	-	5,000
Reclassification	-	5,002	-	-	5,002
<b>Total (restated)</b>	<b>\$ 5,000</b>	<b>\$ 4,969</b>	<b>\$ -</b>	<b>\$ 66</b>	<b>\$ 10,035</b>

**(f) Collateralised Investments**

RiverStone Insurance (UK) has outstanding letters of credit, guarantees and deposits of \$164,828,000 (2013: \$89,447,000) issued in favour of cedants and certain other creditors collateralised by investments and cash with a market value of \$188,862,000 and a cost of \$189,214,000 (2013: market value \$120,629,000; cost \$115,694,000).

**11. 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 \$63.4 million (2013: nil) in respect of a quota share reinsurance contract.

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

	2014 \$'000	2013 \$'000
Amounts owed by intermediaries	\$ <u>392</u>	\$ <u>320</u>

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

	2014 \$'000	2013 \$'000
Amounts owed by reinsurers and intermediaries	22,889	48,371
Amounts owed by group undertakings	<u>147,055</u>	<u>221,407</u>
	\$ <u>169,944</u>	\$ <u>269,778</u>

**14. Other Debtors**

	2014 \$'000	2013 \$'000
Amounts owed from group undertakings	114,697	114,733
Other debtors	-	243
Tax	<u>598</u>	<u>-</u>
	\$ <u>115,295</u>	\$ <u>114,976</u>

**15. Called up Share Capital**

	2014	2013
<u>Allotted</u>		
10 (2013: 10) Ordinary Shares of £1 - fully paid	£ <u>10</u>	£ <u>10</u>
10 (2013: 10) 'A' Ordinary Shares of £1 - fully paid	£ <u>10</u>	£ <u>10</u>
157,062,215 (2013: 157,062,215) Ordinary Shares of \$1 - fully paid	\$ <u>157,062,215</u>	\$ <u>157,062,215</u>

In all respects Ordinary US Dollar Shares rank pari passu with the Ordinary Sterling Shares.

**RiverStone Insurance (UK) Limited (Company No. 1167327)**  
**Notes to the Financial Statements**  
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Allotted, issued and called up share capital presented in US dollars as adopted in the Financial Statements:

	2014 \$'000	2013 \$'000
10 (2013: 10) Ordinary Shares of £1 - fully paid	-	-
10 (2013: 10) 'A' Ordinary Shares of £1 - fully paid	-	-
157,062,215 (2013: 157,062,215) Ordinary Shares of \$1 - fully paid	<u>157,062</u>	<u>157,062</u>
	<b>\$ <u>157,062</u></b>	<b>\$ <u>157,062</u></b>

**16. Reconciliation of Movements in Total Shareholders' Funds**

	Called Up Share Capital \$'000	Available for Sale Revaluation Reserve \$'000	Profit & Loss Account \$'000	2014 Total \$'000	2013 Total \$'000
As at 1 <sup>st</sup> January	157,062	(2,235)	237,129	391,956	341,037
Profit for the financial year	-	-	14,947	14,947	49,719
Net revaluation to available for sale investments	-	232	-	232	1,200
Dividend	-	-	(65,000)	(65,000)	-
<b>As at 31<sup>st</sup> December</b>	<b>\$ <u>157,062</u></b>	<b>\$ <u>(2,003)</u></b>	<b>\$ <u>187,076</u></b>	<b>\$ <u>342,135</u></b>	<b>\$ <u>391,956</u></b>

**17. Dividends**

	2014 \$'000	2013 \$'000
<b>Ordinary Shares</b>		
Final paid	-	-
Interim paid	<u>65,000</u>	<u>-</u>
	<b>\$ <u>65,000</u></b>	<b>\$ <u>-</u></b>

The directors do not recommend the payment of a final dividend.

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

	2014 \$'000	2013 \$'000
Other	<u>\$ -</u>	<u>\$ 101</u>

**RiverStone Insurance (UK) Limited** (Company No. 1167327)  
**Notes to the Financial Statements**  
**For the year ended 31<sup>st</sup> December 2014**

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

	2014 \$'000	2013 \$'000
Balances owed to cedants and intermediaries	8,187	8,898
Amounts owed to group undertaking	<u>62,560</u>	<u>-</u>
	<b>\$ <u>70,747</u></b>	<b>\$ <u>8,898</u></b>

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

	2014 \$'000	2013 \$'000
Tax	-	3,715
Amounts owed to group undertaking	-	9,370
Other creditors	<u>-</u>	<u>346</u>
	<b>\$ <u>-</u></b>	<b>\$ <u>13,431</u></b>

**21. Litigation and Contingent Liabilities**

- (a) RiverStone Insurance (UK) is regularly involved, directly or indirectly, in litigation in the ordinary course of conducting its business including certain cases relating to asbestos and environmental pollution claims, as more fully described in note 5. In the judgment of the Directors, none of these cases, individually or collectively, are likely to result in judgments for amounts which, net of loss and loss adjustment expense reserves previously established and reinsurance recoverables which RiverStone Insurance (UK) believes are probable of realisation, would have a material effect on the financial position of RiverStone Insurance (UK).
- (b) RiverStone Insurance (UK) has provided a guarantee of the solvency of its affiliate, RiverStone Managing Agency Limited, of up to \$1.6 million.

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

RiverStone Insurance (UK) 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 related parties within the same group as provided by Financial Reporting Standard No. 8 "Related Party Disclosures". This exemption is available for RiverStone Insurance (UK) 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).