COMPANY NO. 2763688

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

RiverStone Insurance Limited

2015 Annual Report

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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 Secretaries

F. Henry
S. L. Davey

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

Website

www.rsml.co.uk

The Directors have pleasure in presenting the Strategic Report of RiverStone Insurance Limited ("RiverStone Insurance" or "the Company") for the year ended 31st December 2015.

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 has since been 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.

Business Review

Results and Performance

The results for the year set out in the profit and loss account show a loss for the financial year of £3.6 million (2014 (restated): £46.6 million profit).

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.

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

The balance on the technical account for general business for the year amounts to a profit of £17.1 million (2014 (restated): £19.5 million). The gain comprises an increase to net premiums written of £2.6 million, a release of net technical provisions of £14.8 million, a release from the equalisation provision of £7.7 million, less net operating expenses of £8 million.

The loss on ordinary activities before tax amounts to £4.1 million (2014 (restated): £58.7 million profit) and comprises the gain on the technical account for general business plus net investment losses of £27.4 million and foreign exchange gains of £6.2 million. Taxation amounts to a credit of £522,000 (2014 (restated): £12.2 million charge) for the year.

Shareholders' funds have decreased to £258.4 million from the originally reported amount of £265.3 million at the end of 2014. The decrease in shareholders' funds includes a prior period adjustment of £3.1 million associated with the transition to Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS102"). Under FRS102, the RiverStone group's defined benefit pension plan is required to be accounted for in the financial statements of the entities to whom the associated costs are recharged, as opposed to the financial statements of the entity with the legal responsibility (RiverStone Holdings). The prior year adjustment of £3.1 million represents the impact on the 2014 year end shareholders' funds of reflecting RiverStone Insurance share of the defined benefit pension plan costs less deferred tax, with effect from 1st January 2014. The decrease in shareholders' funds from the end of 2014 also includes the loss for the financial year of £3.6 million, actuarial losses recognised in 2015 in respect of the defined benefit pension plan of £100,000, and the associated deferred tax credit of £19,000.

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 as at the end of the year are as follows:

	2015	**2014**
Admitted capital	£247 million	£239 million
Capital cover against Enhanced Capital Requirement	4.6 times	2.7 times

Strategy and Future Developments

RiverStone Insurance's primary focus is to conduct a timely and efficient run-off 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 Risk 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, regulators and other stakeholders. RiverStone Insurance has implemented the European Solvency II Directive, which came into force on 1st January 2016. The Directors consider that RiverStone Insurance's capital is adequate to meet its business needs under the Solvency II regulatory capital regime.

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
11th March 2016

RiverStone Insurance Limited (Company No. 2763688)
Directors' Report
For the year ended 31st December 2015

The Directors have pleasure in presenting their report and the audited financial statements for RiverStone Insurance Limited (Company No. 2763688) (RiverStone Insurance or "the Company") for the year ended 31st December 2015.

Directors

Directors holding office during the period from 1st January 2015 to the date of this report were:

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

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

Future Developments

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

Dividends

RiverStone Insurance paid no interim dividends during 2015 (2014: nil). The Directors do not recommend a final dividend for the year ended 31st December 2015 (2014: nil).

Financial Instruments

As described in Note 5 to the financial statements, RiverStone Insurance is exposed to financial risk through its financial assets, liabilities, reinsurance assets and policyholder liabilities. In particular, a key financial risk is that the proceeds from financial and reinsurance assets are not sufficient to fund the obligations arising from policies as they fall due. The most important components of this financial risk that RiverStone Insurance is exposed to are interest rate risk, currency risk, credit risk and liquidity risk. RiverStone Insurance manages these risks within its overall risk management framework. The overall risk management framework is detailed in note 5 to the financial statements.

Directors' Responsibilities Statement

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view if 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 31st December 2015 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
11th March 2016

Report on the financial statements

Our opinion

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

- give a true and fair view of the state of the company's affairs as at 31 December 2015 and of its loss 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

The financial statements, included within the Annual Report, comprise:

- the Balance Sheet as at 31 December 2015;
- the Profit and loss account and Statement of Comprehensive Income for the year then ended;
- the Statement of Changes in Equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and having regard for the statutory requirement for insurance companies to maintain equalisation provisions. The amounts of equalisation provisions set aside as at 31 December 2015 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 22.

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

Opinion on other matters prescribed by the Companies Act 2006

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

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

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 International Standards on Auditing (UK and 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

Andrew Moore (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London 11th March 2016

RiverStone Insurance Limited (Company No. 2763688)
Profit and Loss Account
For the year ended 31st December 2015

	Note	2015 £'000	2014 Restated £'000
Technical Account - General Business			
Earned premiums, net of reinsurance			
Gross premiums written		4,599	(1,026)
Outward reinsurance premiums		(1,969)	10,272
Net premiums written and earned		**2,630**	**9,246**
Gross claims paid		(111,178)	(189,532)
Reinsurers' share		54,841	99,140
Net claims paid		(56,337)	(90,392)
Change in the provision for gross claims		132,043	201,111
Reinsurers' share		(60,937)	(101,715)
Change in the net provision for claims		71,106	99,396
Claims incurred, net of reinsurance		**14,769**	**9,004**
Net operating expenses	8	(8,020)	(12,451)
Change in the equalisation provision	22	7,722	13,659
Other technical charges, net of reinsurance		**(298)**	**1,208**
Balance on the technical account for general business		**17,101**	**19,458**
Non-Technical Account			
Investment income	13	7,471	5,988
Realised (losses) gains on investments	13	(17,409)	19,417
Unrealised gains on investments		14,451	45,083
Unrealised losses on investments		(20,829)	(23,447)
Losses on derivative contracts	16	(9,779)	(11,834)
Investment expenses and charges	14	(1,286)	(1,604)
Foreign exchange gains		6,154	5,666
(Loss) profit on ordinary activities before tax		**(4,126)**	**58,727**
Tax on (loss) profit on ordinary activities	15	522	(12,152)
(Loss) profit for the financial year		**£ (3,604)**	**£ 46,575**

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 (loss) profit on ordinary activities before tax or the (loss) profit for the financial year stated above and their historical cost equivalents.

RiverStone Insurance Limited (Company No. 2763688)
Statement of Comprehensive Income
For the year ended 31st December 2015

	Note	2015	2014 Restated
		£'000	£'000
(Loss) profit for the financial year		(3,604)	46,575
Re-measurements of net defined benefit obligation	11	(100)	(1,647)
Total tax credit on components of other comprehensive income		19	313
Total comprehensive income for the year		**£ (3,685)**	**£ 45,241**

RiverStone Insurance Limited (Company No. 2763688)
Balance Sheet
As at 31st December 2015

	Note	2015 £'000	2014 Restated £'000
Assets			
Investments			
Other financial investments	16	**366,773**	**488,765**
Reinsurers' share of technical provisions			
Claims outstanding	6, 17	**189,195**	**250,134**
Debtors			
Debtors arising out of direct insurance operations	18	431	525
Debtors arising out of reinsurance operations	19	32,851	41,048
Other debtors	20	20,287	15,193
		53,569	**56,766**
Other assets			
Cash at bank and in hand		69,381	52,593
Prepayments and accrued income			
Accrued interest and rent		2,458	2,048
Total assets before Pension Asset		**681,376**	**850,306**
Pension asset	11	2,072	650
Total Assets after Pension Asset		**£ 683,448**	**£ 850,956**
Liabilities			
Capital and reserves			
Called up share capital	21	100,000	100,000
Profit and loss account		158,429	162,114
Total shareholders' funds		**258,429**	**262,114**
Technical provisions			
Claims outstanding	6	400,421	537,240
Equalisation provision	6, 22	5,784	13,506
		406,205	**550,746**
Provision for other risks			
Deferred taxation	26	**394**	**124**
Creditors: Amounts falling due within one year			
Creditors arising out of direct insurance operations	23	16	17
Creditors arising out of reinsurance operations	24	7,468	21,723
Derivative financial instruments	16	10,030	7,181
Other creditors including tax and social security	25	906	9,051
		18,420	**37,972**
Total Liabilities		**£ 683,448**	**£ 850,956**

The financial statements on pages 10 to 41 were approved by the Board of Directors on 11th March 2016 and were signed on its behalf by:

L. R. Tanzer
Director

L. A. Hemsley
Director

RiverStone Insurance Limited (Company No. 2763688)
Statement of Changes in Equity
For the year ended 31st December 2015

		Called Up Share Capital £'000		Profit & Loss Account Restated £'000		2014 Restated Total £'000
As at 1st January 2014		100,000		117,073		217,073
Prior year adjustment		-		(200)		(200)
As at 1st January 2014 – restated		100,000		116,873		216,873
Profit for the financial year		-		46,575		46,575
Other comprehensive income for the year		-		(1,334)		(1,334)
Total comprehensive income for the year		**-**		**45,241**		**45,241**
As at 31st December 2014	**£**	**100,000**	**£**	**162,114**	**£**	**262,114**

		Called Up Share Capital £'000		Profit & Loss Account £'000		2015 Total £'000
As at 1st January 2015		100,000		162,114		262,114
Loss for the financial year		-		(3,604)		(3,604)
Other comprehensive income for the year		-		(81)		(81)
Total comprehensive income for the year		**-**		**(3,685)**		**(3,685)**
As at 31st December 2015	**£**	**100,000**	**£**	**158,429**	**£**	**258,429**

1. General Information

RiverStone Insurance Limited ("RiverStone Insurance" or "the Company") is engaged in the runoff of the assets and liabilities associated with previously written insurance and reinsurance business.

The company is a private company limited by shares and is incorporated in England. The address of its registered office is Park Gate, 161-163 Preston Road, Brighton BN1 6AU.

2. Statement of Compliance

The financial statements of RiverStone Insurance have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS102"), Financial Reporting Standard 103, "Insurance Contracts" (FRS103) and the Companies Act 2006. The financial statements have been prepared in compliance with the provisions of the Large and Medium-sized Companies and Groups (Accounting and Reports) Regulations relating to insurance groups.

3. Summary of Significant Accounting Policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. Details of the transition to FRS102 and FRS103 are disclosed in Note 27.

(a) Basis of Preparation

The preparation of financial statements in conformity with FRS102 and FRS103 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company accounting policies. The areas involving a higher degree of judgement or complexity or areas where assumptions and estimates are significant to the financial statements, are disclosed further below.

(b) Going Concern

Having addressed the principal risks, the directors consider it appropriate to adopt the going concern basis of accounting in preparing these financial statements.

(c) Exemptions for Qualifying Entities under FRS102

FRS102 allows a qualifying entity certain disclosure exemptions, subject to certain conditions, which have been complied with, including notification of, and no objection to the use of exemptions by RiverStone Insurance's shareholders.

RiverStone Insurance has taken advantage of the following exemptions:-

i) from preparing a statement of cash flows, on the basis that it is a qualifying entity and the consolidated statement of cash flows, included in the financial statements of Fairfax Financial Holdings Limited ("Fairfax") includes RiverStone Insurance's cash flows

ii) from disclosing key management personnel compensation, as required by FRS102 paragraph 33.7.

(d) Insurance Contracts

i) Premiums Written

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) 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 ("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.

iii) Equalisation Provision

Amounts are set aside in accordance with the requirements of the PRA's Handbook 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.

iv) The costs incurred by RiverStone Insurance associated with running off the business are as a result of services provided by RiverStone Management Limited ("RiverStone Management"), an affiliated company and managing agent for RiverStone Insurance.

(e) Translation of Foreign Currencies

The financial statements are presented in Pounds Sterling and, unless otherwise stated, are rounded to thousands. Items included in RiverStone Insurance's financial statements are measured using the currency of the primary economic environment in which it operates. RiverStone Insurance's functional currency is Pounds Sterling.

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

(f) Taxation

Taxation expense for the period comprises current and deferred tax recognised in the reporting period. Tax is recognised in the profit and loss account, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case tax is also recognised in other comprehensive income or directly in equity respectively.

i) Current Tax

Current tax is the amount of income tax payable in respect of the taxable profit for the year or prior years. Tax is calculated on the basis of tax rates and laws that have been enacted or substantially enacted by the period end.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

ii) Deferred 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 using tax rates and laws that have been enacted or substantively enacted by the period end. Deferred tax assets are recognised to the extent that they are regarded as more likely than not recoverable. Movements on deferred tax assets and liabilities are recognised in the profit and loss account, except to the extent that they arise in relation to movements in the Statement of Comprehensive Income.

(g) Other Financial Investments

RiverStone Insurance has chosen to apply the recognition and measurement provisions of IAS 39 (as adopted for use in the EU) and the disclosure requirements of FRS 102 in respect of the financial statements.

RiverStone Insurance classifies all of its investments 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:

(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 based on prices of recent transactions of identical instrument; and

(iii) Level 3 - inputs for the asset or liability that are based on observable market data and unobservable market data

(h) 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

(i) Pensions

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

The actuarial gains and losses which arise from a valuation and from updating the latest actuarial valuation to reflect conditions at the balance sheet date are taken to the Statement of Comprehensive Income for the period. The attributable deferred tax is shown separately in the Statement of Comprehensive Income. The pension surplus or deficit recognised in the balance sheet is RiverStone Insurance's share of the value of the pension scheme's assets less the present value of the scheme's liabilities.

Further details of the pension scheme are given in Note 11.

(j) Related Party Transactions

RiverStone Insurance discloses transactions with related parties which are not wholly owned within the same group. Where appropriate, transactions of a similar nature are aggregated unless, in the opinion of the directors, separate disclosure is necessary to understand the effect of the transactions on the financial statements.

4. Critical Accounting Judgements and Estimation Uncertainty

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

RiverStone Insurance makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

i) The Ultimate Liability Arising from Claims made under Insurance Contracts

The estimation of the ultimate liability arising from claims made under insurance contracts is RiverStone Insurance's most critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimate of the liability that RiverStone Insurance will ultimately pay for such claims.

The most significant assumptions made relate to the level of future claims, the level of future claims settlements and the legal interpretation of insurance policies. Whilst the directors consider that the gross provision for claims and the related reinsurance recoveries are fairly stated on the basis of the information currently available to them, the ultimate liability will vary as a result of subsequent information and events and may result in adjustments to the amount provided. Adjustments to the amounts of provision are reflected in the financial statements for the period in which the adjustments are made. The methods used, and the estimates made, are reviewed regularly.

ii) Defined Benefit Pension Scheme

RiverStone Insurance has obligations to pay pension benefits through the outsource arrangement that is in place with RiverStone Management Limited. The cost of these benefits and the present value of the obligation depend on a number of factors, including life expectancy, salary increases, asset valuations and the discount rate on corporate bonds. Management estimates these factors in determining the net pension obligation in the balance sheet. The assumptions reflect historical experience and current trends. Note 11 contains the disclosures relating to the defined benefit pension scheme.

iii) Pipeline Premium

RiverStone Insurance makes an estimate of premiums written that have not yet been notified by the financial year end ("pipeline premiums") end based on prior year experience and current year business volumes. The pipeline premium is booked as written and earned and an estimate of claims incurred but not reported is recorded in the period that changes to the estimate is made.

5. Management of Insurance and Financial Risk

Financial Risk Management Objectives

RiverStone Insurance is exposed to insurance risk through the insurance contracts that it has written and to financial risk 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 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) Insurance Risk

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty over the amount of the resulting ultimate claim. By the very nature of an insurance contract, this risk is unpredictable at the outset.

The principal risk that RiverStone Insurance faces under its insurance contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency or severity of claims and benefits are greater than estimated. The actual number and amount of claims and benefits arising from insurance contracts will vary from year to year from the level established using statistical techniques.

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected by a change in any subset of the portfolio. RiverStone Insurance has a diversified portfolio of insurance risks, all of which relate to policies written in prior years and which are relatively mature in nature, in that policy periods have expired and primary civil limitation (with particular reference to UK limitation where the majority of policies and claims reside) has lapsed in respect of property claims for accident years 2010 and prior and for all accident years on other classes of business. The last full underwriting year for RIL was 2012.

RiverStone Insurance mitigates insurance risk through the use of reinsurance, both in the form of third party reinsurance associated with the business originally written and reinsurance with an affiliate reinsurer.

i) Process for Assessment of Technical Provisions

RiverStone Insurance adopts a consistent process to the calculation of an appropriate provision for the exposures arising from the business it has written. A full reserving analysis is conducted at least annually and the technical provisions recorded on the balance sheet are in line with the Board's view of the best estimate value of the underlying liabilities.

The technical provisions recorded at the reporting date comprise the estimated ultimate cost of settlement of all claims incurred in respect of events up to that date, whether reported or not, together with related claims handling expenses, less amounts already paid. The estimated cost of claims includes direct expenses to be incurred in settling claims, net of the expected subrogation value and other recoveries. RiverStone Insurance takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. The provision is based on known facts at the balance sheet date. The provision is reviewed as part of a regular ongoing reserving process as the loss experience develops, certain claims are settled and further claims are reported. The cash flow, paid claims, outstanding claims, claims counts and incurred movement are compared with the actuaries' expected development of the account by class and year and where statistically significant, large loss or loss type. Where necessary, revisions are made to the ultimate expected loss on a best estimate basis.

RiverStone Insurance uses assumptions based on a mixture of claims information, internal historical data and market data to measure its claims liabilities. This information is used to project the ultimate expected number and value of claims, by major class of business, using recognised statistical estimation techniques.

Assumptions are reviewed and tested regularly in light of actual claims development and general market movements and trends.

ii) Sources of Uncertainty in the Estimation of Future Claim Payments

The sources of estimation uncertainty in establishing the ultimate liability arising from claims made under insurance contracts is discussed in Note 4.

RiverStone Insurance takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the future looking nature of outstanding claims and latency involved with certain classes of claims, for example disease claims in the employers' liability book, it is likely that the final outcome, on a claim by claim basis, will prove to be different from the original assessed reserve for any given claim, although in aggregate, for known claims, the expected outcome is intended to be close to a breakeven, on a best estimate basis, with neither surplus or loss being generated over time. This is an aspect of executive and actuarial review which is closely monitored. In respect of latent claims (those that have yet to be notified), care is taken to assess historical notification patterns and the propensity of the underlying classes to produce losses (for example some policy classes are on a claims made form and no new notifications are able to be made post expiry). The estimation of future losses will be cross referred to industry benchmarks and adjusted for actual experience over time.

The liability for insurance contracts comprises a provision for claims incurred but not yet reported and a provision for reported claims not yet paid. The estimation of claims incurred but not reported is generally subject to a greater degree of uncertainty than the estimates of claims that have already been notified, for which there is more information available.

iii) Key Assumptions and Sensitivities

The assumptions that have the greatest impact on technical provisions are those that affect the expected value of claims. The most material liabilities for RiverStone Insurance relate to:

- Significant injury claims arising in motor, public and employers' liability classes which were the largest classes by premium income. Injury claims may have uncertain medical outcomes and can settle on either a lump sum or Periodical Payment basis leading to a potential for inflation type risks, for example medical and litigation inflation risks.

- Financial loss arising from negligence and fraud in the professional indemnity and financial institutions classes where programmes may be layered and reserves held below our participation by other insurers or where evidence recommending a defence of the claim is not preferred in litigation and on a best estimate basis a reserve proves inadequate

- Casualty treaty reinsurance where RIL is reliant upon the reinsured / retro-cedant notifying timeously and where our participation may be on high excess layers of reinsurance coverage which may not appear to be impacted by initial loss advices

The most sensitive assumptions in respect of the assessment of the ultimate liability for RiverStone Insurance's are, therefore:

- longevity risk – that claims take longer to settle than expected
- inflation risk – that the cost of inflationary factors (particularly medical inflation and court ordered commercial rates and general inflationary factors) are greater by value than expected
- reserving risk – driven by the potential to under or overestimate liability leading to an incorrect best estimate
- latency risk – assumptions relating to the number and severity of long tail exposures, particularly disease and pollution exposures (pollution potentially arising in the PL class albeit generally written on a claims made basis if the pollution risk was assessed as material at the time of writing)
- ENIDs – events not in the data which could affect the account and of which we are currently unaware
- Jurisdiction risk – that a change in legislation of jurisprudence has negative or retrospective effect on a class of claims or in respect of costs generally

iv) Claims Development Tables

The following tables present the comparison of actual claims incurred to previous estimates.

Claims outstanding (gross) **Underwriting year**	**2006** **£'000**	**2007** **£'000**	**2008** **£'000**	**2009** **£'000**	**2010** **£'000**	**2011** **£'000**	**2012** **£'000**	**Total** **£'000**
Estimate of ultimate claims costs:								
- At end of reporting year							99,000	99,000
- One year later						361,000	108,000	469,000
- Two years later					448,000	344,000	90,000	882,000
- Three years later				478,000	402,000	366,000	91,000	1,337,000
- Four years later			574,000	447,000	412,500	368,000		1,801,500
- Five years later		469,000	590,000	466,000	415,000			1,940,000
- Six years later	407,000	467,000	580,000	465,000				1,919,000
- Seven years later	401,000	451,000	583,000					1,435,000
- Eight years later	392,000	448,000						840,000
- Nine years later	388,000							388,000
Current estimate of cumulative claims	388,000	448,000	583,000	465,000	415,000	368,000	91,000	2,758,000
Cumulative payments to date	(374,000)	(403,000)	(467,000)	(422,000)	(367,000)	(287,000)	(67,000)	(2,387,000)
Liability recognised in the balance sheet	**£ 14,000**	**£ 45,000**	**£ 116,000**	**£ 43,000**	**£ 48,000**	**£ 81,000**	**£ 24,000**	**£ 371,000**
Reserve in respect of prior years								29,421
Total reserve included in balance sheet								**£ 400,421**

Claims outstanding (net) **Underwriting year**	**2006** **£'000**	**2007** **£'000**	**2008** **£'000**	**2009** **£'000**	**2010** **£'000**	**2011** **£'000**	**2012** **£'000**	**Total** **£'000**
Estimate of ultimate claims costs:								
- At end of reporting year							57,000	57,000
- One year later						332,000	63,000	395,000
- Two years later					327,000	251,000	62,000	640,000
- Three years later				389,000	257,000	269,000	62,000	977,000
- Four years later			534,000	318,000	262,000	244,000		1,358,000
- Five years later		468,000	477,000	327,000	241,000			1,513,000
- Six years later	390,000	421,000	469,000	301,000				1,581,000
- Seven years later	361,000	403,000	441,000					1,205,000
- Eight years later	353,000	373,000						726,000
- Nine years later	347,000							347,000
Current estimate of cumulative claims	347,000	373,000	441,000	301,000	241,000	244,000	62,000	2,009,000
Cumulative payments to date	(334,000)	(359,000)	(372,000)	(293,000)	(222,000)	(197,000)	(46,000)	(1,823,000)
Liability recognised in the balance sheet	**£ 13,000**	**£ 14,000**	**£ 69,000**	**£ 8,000**	**£ 19,000**	**£ 47,000**	**£ 16,000**	**£ 186,000**
Reserve in respect of prior years								25,226
Total reserve included in balance sheet								**£ 211,226**

It is not practicable for RiverStone Insurance to prepare claims development information for 2011 and prior reporting years, as a result of the level of relevant data available for the period prior to RiverStone Insurance being acquired by RiverStone Holdings, and therefore the tables above cover 2012 and post reporting years only.

v) Insurance Risk Concentrations

The concentration of insurance risk before and after reinsurance by the most material classes of business is summarised below, with reference to the carrying amount of outstanding claims (gross and net of reinsurance) arising from insurance contracts:

	2015		2014	
	Gross £ millions	**Net £ millions**	**Gross £ millions**	**Net £ millions**
Casualty treaty	56	-	71	-
Employers' and Public Liability	108	64	162	94
Italian Medical Malpractice	51	51	53	53
Motor	28	11	42	23
Professional Indemnity/ Financial Institutions	92	41	93	50
Other	57	39	102	56
Claims expense reserve	8	5	14	11
Total	£ **400**	£ **211**	£ **537**	£ **287**

(b) Market Risk

i) Interest Rate Risk

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

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

The impact of a 100 basis point increase in interest rates on the value of RiverStone Insurance's investments held at 31st December 2015 is an approximate £11.5 million loss (2014: £14.8 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 (2014: £13.1 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 31st December 2015 represent 67% of total equity investments. If equity market indices had increased/decreased by 5%, and all RiverStone Insurance's equity investments moved according to the historical correlation with the index, the profit for the year would increase/decrease by £2.8 million (2014: £8.5 million).

iii) Currency Risk

RiverStone Insurance manages its foreign exchange risk against its functional currency, which is the Pound Sterling. RiverStone Insurance has a proportion of its assets and liabilities denominated in currencies other that the Pound Sterling, the most significant being the 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 31st December 2015, if the Pound had weakened by 10% against the US Dollar with all other variables held constant, profit for the year would have been £40.1 million higher (2014: £29.5 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.

(c) 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
- cash at bank and in hand

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):

		2015 £'000		2014 £'000
Derivative financial instruments		8,195		10,022
Debt securities		274,858		308,511
Assets arising from reinsurance and insurance contracts held		222,046		291,182
Cash at bank and in hand		69,381		52,593
Affiliated loan receivable		13,057		12,342
Total assets bearing credit risk	£	**587,537**	£	**674,650**

		2015 £'000		2014 £'000
A++		53,087		147,544
A+		146,178		118,548
A, A-		157,986		143,500
B++ and below or not rated (including affiliated assets)		230,286		265,058
Total assets bearing credit risk	£	**587,537**	£	**674,650**

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

		2015 £'000		2014 £'000
Performing		220,426		284,232
Past due		1,620		6,705
Impaired		263		500
Provision for irrecoverable amounts		(263)		(255)
	£	**222,046**	£	**291,182**

Liquidity Risk

The primary liquidity risk is the obligation to pay claims to policy holders as they fall due. The projected settlement of these liabilities is modelled, on a regular basis, using actuarial techniques. The Board sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of borrowing facilities that should be in place to cover anticipated liabilities and unexpected levels of demand. The table below analyses the maturity of RiverStone Insurance's financial liabilities and outstanding claims. All liabilities are presented on a contractual cash flow basis except for the insurance liabilities, which are presented in their expected cash flows.

	No Contractual Maturity Date £'000	< 6 months or on demand £'000	Between 6 months and 1 year £'000	Between 1 year and 2 years £'000	Between 2 years and 5 years £'000	> 5 Years £'000	Carrying Value £'000
At 31 December 2015							
Financial liabilities under investment contracts	-	10,030	-	-	-	-	10,030
Creditors	-	3,557	965	1,266	1,797	805	8,390
	-	**13,587**	**965**	**1,266**	**1,797**	**805**	**18,420**
Claims outstanding	-	66,641	66,641	87,398	124,155	55,586	400,421
Financial liabilities and outstanding claims	**£ -**	**£ 80,228**	**£ 67,606**	**£ 88,664**	**£ 125,952**	**£ 56,391**	**£ 418,841**
At 31 December 2014							
Financial liabilities under investment contracts	-	7,181	-	-	-	-	7,181
Creditors	-	22,794	1,591	2,261	3,241	904	30,791
	-	**29,975**	**1,591**	**2,261**	**3,241**	**904**	**37,972**
Claims outstanding	-	89,163	89,163	126,690	181,589	50,649	537,254
Financial liabilities and outstanding claims	**£ -**	**£ 119,138**	**£ 90,754**	**£ 128,951**	**£ 184,830**	**£ 51,553**	**£ 575,226**

(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, regulators and other stakeholders
- 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 except that as at 30 June 2015 the amount of admissible capital held fell below the level of Individual Capital Guidance ("ICG") that was set for RiverStone Insurance in October 2012 by the then Financial Services Authority. This position was rectified in July 2015, such that thereafter RiverStone Insurance continued to meet the ICG requirement for the remainder of the year. RiverStone

Insurance has implemented all aspects of the new Solvency II regulatory regime, which came into effect on 1st January 2016.

6. Reconciliation of Technical Provisions

A reconciliation of the changes to RiverStone Insurance's gross, ceded and net loss reserves from 1st January 2015 to 31st December 2015 is as follows:

	Gross £'000	Ceded £'000	Net £'000
Amounts at 1st January 2015	550,746	250,134	300,612
Amounts paid during the year	(111,178)	(54,841)	(56,337)
Change in estimate of claims outstanding	(20,865)	(6,096)	(14,769)
Change in equalisation provision	(7,722)	-	(7,722)
Foreign exchange	(4,776)	(2)	(4,774)
Amounts at 31st December 2015	**£ 406,205**	**£ 189,195**	**£ 217,010**

7. Analysis of Gross Business

	Gross premiums written 2015 £'000	Gross premiums earned 2015 £'000	Gross claims incurred 2015 £'000	Gross operating expenses 2015 £'000	Re-insurance balance 2015 £'000
Direct Insurance					
Accident and health	-	-	155	10	60
Motor	(207)	(207)	1,888	(1,823)	(730)
Marine, aviation and transport	-	-	4,696	(215)	(1,815)
Legal expenses	4,115	4,115	434	(487)	(168)
Credit and surety	-	-	9,179	(4)	(3,548)
Fire and other damage to property	(170)	(170)	1,153	(174)	(446)
Third party liability	(272)	(272)	(6,495)	(4,667)	2,510
	3,466	3,466	11,010	(7,359)	(4,256)
Reinsurance acceptances	1,133	1,133	9,855	(2,072)	(3,809)
Total	**£ 4,599**	**£ 4,599**	**£ 20,865**	**£ (9,431)**	**£ (8,065)**

	2014 £'000	2014 £'000	2014 £'000	2014 £'000	2014 £'000
Direct Insurance					
Accident and health	-	-	(69)	(2)	(46)
Motor	(47)	(47)	6,484	(1,408)	4,310
Marine, aviation and transport	-	-	1,038	(166)	690
Legal expenses	3,126	3,126	(901)	(836)	(599)
Credit and surety	-	-	-	-	-
Fire and other damage to property	(121)	(121)	45,103	(527)	29,982
Third party liability	(2,902)	(2,902)	(36,569)	(5,623)	(24,309)
	56	56	15,086	(8,562)	10,028
Reinsurance acceptances	(1,082)	(1,082)	(3,507)	(4,045)	(1,000)
Total	**£ (1,026)**	**£ (1,026)**	**£ 11,579**	**£ (12,607)**	**£ 9,028**

8. Net Operating Expenses

	2015 £'000	2014 Restated £'000
Administrative expenses	8,414	12,309
Commissions payable	(394)	142
	£ 8,020	£ 12,451

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

9. Auditors' Remuneration

	2015 £'000	2014 £'000
Audit	263	263
Audit related assurance services	61	66
Taxation compliance services	5	-
Other assurance services	-	19
Other non-audit services	63	4
	£ 392	£ 352

10. Staff Costs

	2015 £'000	2014 £'000
Wages and salaries	-	1,585
Social Security costs	-	191
Other pension costs	-	275
	£ -	£ 2,051

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

	2015 No.	2014 No.
Claims	-	24
Operations	-	2
	-	26

All employees were transferred to RiverStone Management on 1st January 2015.

11. Pension Costs

Defined Contribution Scheme

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

There were no company pension contributions payable outstanding at 31st December 2015 (2014: £22,751).

Defined Benefit Scheme

RiverStone Holdings is the principal employer for the RiverStone group's defined benefit scheme ("the Plan"). The Plan was closed to new entrants with effect from 1st January 2003 and its funds are administered by trustees. The Plan is non-contributory for members. The Plan's statutory funding objective is to hold sufficient and appropriate assets to cover its technical provisions. Company contributions are paid to the Plan in accordance with the recommendations of an independent actuarial advisor. As the Plan is closed to new entrants, under the method used to calculate pension costs in accordance with FRS102, the cost as a percentage of covered pensionable payroll will tend to increase as the average age of the membership increases.

RiverStone Management is the primary participating employer of the Plan. RiverStone Management pays contributions into the Plan and these are recharged to RiverStone Insurance and RiverStone Insurance (UK) in accordance with the administration outsource agreements that are in place. The amount of contribution to be paid by each entity is determined by reference to the allocation of overall costs for the year in accordance with the outsource agreements.

In accordance with FRS102, the Plan is accounted for in the financial statements of RiverStone Insurance and RiverStone Insurance (UK), in proportion to the allocation of the contributions that are recharged from RiverStone Management.

The last full actuarial valuation of the Plan was carried out as at 31st March 2014. The results from the 31st March 2014 actuarial valuation have been updated to 31st December 2015, in line with the requirements of FRS102, and to reflect changes in market conditions, in order to measure the defined benefit obligation as at 31st December 2015. The principal actuarial assumptions used in the measurement of the defined benefit obligation as at 31st December 2015 are as follows:

	31st December 2015	**31st December 2014**
RPI inflation	3.1%	3.1%
CPI inflation	2.1%	2.1%
Discount rate	4.0%	3.9%
Rate of increase in salaries	3.8%	3.8%
Pension increases in payment (RPI capped at 5%)	3.0%	3.0%
Pension increases in payment (RPI capped at 2.5%)	2.1%	2.1%
Pension increases in payment (CPI capped at 5%)	2.1%	2.1%
Pension increases in payment (CPI capped at 3%)	1.9%	1.9%

The net amounts included in the balance sheet arising from the obligations in respect of the Plan are as follows. These comprise the amounts in respect of the total Plan and those in respect of RiverStone Insurance share.

	31st December 2015		31st December 2014	
	Total	**Share**	**Total**	**Share**
	£'000	**£'000**	**£'000**	**£'000**
Present value of defined benefit obligation	(82,368)	(35,436)	(83,916)	(28,483)
Fair value of plan assets	87,184	37,508	85,831	29,133
Surplus included in balance sheet	4,816	2,072	1,915	650
Related deferred tax liability recognised	(915)	(394)	(383)	(130)
Pro forma asset net of deferred tax	**£ 3,901**	**£ 1,678**	**£ 1,532**	**£ 520**

Changes in the present value of the total Plan defined benefit obligation are as follows:

	2015 Total £'000
Opening defined benefit obligation	83,916
Employer's part of current service cost	1,477
Interest expense	3,202
Contributions from plan members	-
Actuarial gain	(3,218)
Benefits paid	(3,009)
Curtailment result	-
Closing defined benefit obligation	**£ 82,368**

Changes in the fair value of the total Plan assets are as follows:

	2015 Total £'000
Opening fair value of plan assets	85,831
Interest income	3,379
Plan administration expenses	(195)
Actuarial loss	(3,450)
Contributions by the employer	4,628
Contributions by plan members	-
Benefits paid	(3,009)
Closing fair value of plan assets	**£ 87,184**

The total amounts recognised in the Profit and Loss Accounts of RiverStone Insurance and RiverStone Insurance (UK) for the Plan are as follows:

	2015 Total Plan £'000	2014 Total Plan £'000
Employer's part of current service cost	1,477	1,277
Gain on settlements and curtailments	-	-
Net interest income	(177)	(67)
Plan administration expenses	195	243
Total expense included in profit and loss account	**£ 1,495**	**£ 1,453**

The current allocation of the Plan's assets is as follows:

	31st December 2015	31st December 2014
Equity instruments	50%	50%
Debt instruments	50%	50%
	100%	**100%**

The Plan does not invest in any employer-related investments or employer-related properties.

The total actual return on the Plan's assets over the year was a loss of £71,000 (2014: £4,100,000).

12. Directors' Remuneration

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

	2015 £'000	2014 £'000
Aggregate emoluments	£ **562**	£ **471**

Retirement benefits are accruing to three directors (2014: three) under a defined benefit pension plan.

During the year no directors exercised share options (2014: none).

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

		£'000		£'000
Aggregate emoluments	£	266	£	219

As at 31st December 2015 a pension of £48,400 (2014: £44,100) was accrued under a defined benefit pension scheme for the highest paid director.

13. Investment Return

		2015 £'000		2014 £'000 Restated
Investment income				
Income from financial assets at fair value through profit and loss – designated upon initial recognition		6,679		5,170
Deposit interest		71		135
Interest from affiliated company		721		683
	£	7,471	£	5,988
Realised gains (losses) on investments				
Financial assets at fair value through profit and loss held for trading	£	(17,409)	£	19,417

14. Investment Expenses and Charges

		2015 £'000		2014 £'000
Investment management expenses	£	(1,286)	£	(1,604)

15. Taxation

		2015 £'000		2014 £'000
Taxation on (Loss) Profit on Ordinary Activities				
Current tax				
UK corporation tax at 20.25% (2014: 21.5%) based on the (loss) profit for year		(1,404)		12,743
Group relief claimed for nil consideration		-		(1,103)
Prior year adjustment		593		75
Total current tax		(811)		11,715
Deferred tax				
Origination and reversal of timing differences		289		437
Total deferred tax		289		437
Tax on profit on ordinary activities	£	**(522)**	£	**12,152**

Tax credit included in other comprehensive income

		2015 £'000		2014 £'000
Deferred tax				
Origination and reversal of timing differences	£	**(19)**	£	**(313)**

Factors affecting tax charge for the year

The corporation tax assessed for the year differs to the standard rate of corporation tax in the UK of 20.25% (2014: 21.5%). The differences are explained below:

		2015 £'000		2014 Restated £'000
(Loss) profit on ordinary activities before tax	£	**(4,126)**	£	**58,727**
(Loss) profit on ordinary activities before tax multiplied by the UK corporation tax rate of 20.25% (2014: 21.5%)		(836)		12,626
Non-taxable dividend income		(348)		(63)
Expenses not deductible for tax purposes		(220)		180
Group relief claimed for nil consideration		-		(1,103)
Prior year adjustment		593		75
Current tax (credit) charge for the year	£	**(811)**	£	**11,715**

16. Other Financial Investments

(a) Other Financial Investments by Category

	Market Value 2015 £'000	Market Value 2014 £'000	Historic Cost 2015 £'000	Historic Cost 2014 £'000
Financial Assets – at fair value through profit and loss				
Shares and other variable-yield securities and units in unit trusts - designated at fair value through profit and loss on initial recognition	83,720	170,232	85,811	158,245
Debt securities and other fixed interest securities designated at fair value through profit and loss on initial recognition	274,858	308,511	261,245	304,305
Derivative financial instruments - at fair value through profit and loss, held for trading	8,195	10,022	15,719	15,719
	£ 366,773	£ 488,765	£ 362,775	£ 478,269
Derivative financial instruments - at fair value through profit and loss, held for trading	£ 10,030	£ 7,181	£ -	£ -

(b) Listed Investments

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

	2015 £'000	2014 £'000
At fair value through profit and loss		
Shares and other variable yield securities and units in unit trusts	55,904	104,708
Debt securities and other fixed interest securities	200,760	211,763
Total listed investments	£ 256,664	£ 316,471

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

	Market Value 2015 £'000	Market Value 2014 £'000	Historic Cost 2015 £'000	Historic Cost 2014 £'000
Derivative financial instruments assets				
				-
Foreign currency forward contracts	-	875	-	-
Inflation linked swap contracts	7,727	9,147	15,719	15,719
Short equity index total return swap contracts	468	-	-	-
	£ **8,195**	£ **10,022**	£ **15,719**	£ **15,719**
Derivative financial instruments liabilities				
Foreign currency forward contracts	9,019	2,434	-	-
Short equity index total return swap contracts	-	2,968	-	-
Long equity total return swap contracts	1,011	1,779	-	-
	£ **10,030**	£ **7,181**	£ -	£ -

RiverStone Insurance has a US dollar foreign currency forward contract in place to provide protection against the impact of potential adverse fluctuations in the GBP: USD exchange rate on RiverStone Insurance's US dollar net asset position. This contract has subsequently been rolled over and increased to sell $337.6 million for £220 million, as at 31st December 2015.

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 31st December 2015. Total return swaps require no initial investment and, at inception, their fair value is zero. RiverStone Insurance's short equity index total return swaps contain contractual reset provisions requiring counterparties to cash-settle on a monthly or quarterly basis any fair value movements arising subsequent to the contract being entered into. Any cash amounts paid or received are recorded in the profit and loss account. To the extent that the contractual reset date of the derivative instrument does not correspond to the balance sheet date, RiverStone Insurance records the return on these contracts in the profit and loss account to adjust the carrying value of the derivative asset or liability associated with the total return swap.

During 2014, RiverStone Insurance purchased a long equity total return swap on IBM shares. This is accounted for in a similar manner as the short equity index total return swap.

During 2013, RiverStone Insurance purchased inflation linked swap contracts with the initial premium paid for these derivatives recorded as a derivative financial instrument asset. These derivatives continue to be held at 31st December 2015 with subsequent unrealised fair value gains and losses on these contracts having been recorded through the profit and loss account.

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

	Level 1 2015 £'000	Level 2 2015 £'000	Level 3 2015 £'000	Total 2015 £'000
Shares and other variable yield securities and units in unit trusts	55,904	26,056	1,760	83,720
Debt securities and other fixed interest securities	74,098	189,386	11,374	274,858
Derivative financial instruments	-	-	8,195	8,195
	£ 130,002	£ 215,442	£ 21,329	£ 366,773

	2014 £'000	2014 £'000	2014 £'000	2014 £'000
Shares and other variable yield securities and units in unit trusts	104,706	44,605	20,921	170,232
Debt securities and other fixed interest securities	96,752	198,934	12,825	308,511
Derivative financial instruments	-	-	10,022	10,022
	£ 201,458	£ 243,539	£ 43,768	£ 488,765

(e) Level 3 Pricing

Level 3 valuation techniques are used by RiverStone Insurance's investment manager's independent pricing service providers and third party broker-dealers and include comparisons with similar instruments where observable market prices exist, discounted cash flow analysis, option pricing models, and other valuation techniques commonly used by market participants. RiverStone Insurance's investment manager assesses the reasonableness of pricing received from these third party sources by comparing the fair values received to recent transaction prices for similar assets where available, to industry accepted discounted cash flow models (that incorporate estimates of the amount and timing of future cash flows and market observable inputs such as credit spreads and discount rates) and to option pricing models (that incorporate market observable inputs including the quoted price, volatility and dividend yield of the underlying security and the risk free rate).

RiverStone Insurance's investment manager employs dedicated personnel responsible for the valuation of the investment portfolio. Detailed valuations are performed for those financial instruments that are priced internally, while external pricing received from independent pricing service providers and third party broker-dealers are evaluated by the company for reasonableness. RiverStone Insurance's investment manager's Chief Financial Officer oversees the valuation function and regularly reviews valuation processes and results, including at each quarterly reporting period. Significant valuation matters, particularly those requiring extensive judgment, are communicated to RiverStone Insurance investment manager's Audit Committee and to RiverStone Insurance.

RiverStone Insurance's long equity total return swaps allow it to receive the total return on a notional amount of an equity index or individual equity security (including dividends and capital gains or losses) in exchange for the payment of a floating rate of interest on the notional amount. Conversely, short equity total return swaps allow RiverStone Insurance to pay the total return on a notional amount of an equity index or individual equity security in exchange for the receipt of a floating rate of interest on the notional amount. RiverStone Insurance's equity and equity index total return swaps contain contractual reset provisions requiring counterparties to cash-settle on a quarterly basis any market value movements arising subsequent to the prior settlement. Any cash amounts paid to settle unfavourable market value changes and, conversely, any cash amounts received in settlement of favourable market value changes, are recorded as net gains (losses) on investments in the consolidated statement of earnings. To the extent that a contractual reset date of a contract does not correspond to the balance sheet date, RiverStone Insurance records net gains (losses) on investments in the Profit and Loss Account to adjust the carrying value of the derivative asset or liability associated with each total return swap contract to reflect its fair value at the balance sheet date. Total return swaps require no initial net investment, and at inception, their fair value is zero.

Included in Level 3 valuations are investments in CPI-linked derivatives that are valued using broker-dealer quotes which RiverStone Insurance's investment manager has determined utilizing market observable inputs, except for the inflation volatility input which is not market observable.

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

	Debt Securities 2015 £'000	Shares and Other Variable Yield Securities 2015 £'000	Derivative Financial Instruments 2015 £'000	Total 2015 £'000
At 1 January	12,825	20,921	10,022	43,768
Total gains recognised in the profit and loss account	(1,451)	1,338	(1,827)	(1,940)
Sales	-	(20,499)	-	(20,499)
At 31 December	**£ 11,374**	**£ 1,760**	**£ 8,195**	**£ 21,329**

	2014 £'000	2014 £'000	2014 £'000	2014 £'000
At 1 January	9,057	15,518	10,588	35,163
Total gains recognised in the profit and loss account	3,768	(348)	(7,097)	(3,677)
Purchases	-	691	6,531	7,222
Transfers into Level 3 from Level 2	-	5,938	-	5,938
Sales	-	(878)	-	(878)
At 31 December	**£ 12,825**	**£ 20,921**	**£ 10,022**	**£ 43,768**

Total losses of £1,940,000 (2014: gains of £3,677,000) comprise unrealised losses of £1,979,000 (2014: losses of £4,329,000) and realised gains of £39,000 (2014: gains of £653,000) 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 between Levels 1 and 2, or between Levels 2 and 3 during the year (2014: transfers into Level 3 from Level 2 with a market value of £5,937,987).

(g) 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 31st December 2015 was £19.3 million (2014: £27.1 million).

17. 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 £127.1 million (2014: £170.7 million) in respect of a quota share reinsurance contract.

18. Debtors Arising Out of Direct Insurance Operations

	2015 £'000	2014 £'000
Amounts owed by intermediaries	£ 431	£ 525

19. Debtors Arising Out of Reinsurance Operations

	2015 £'000	2014 £'000
Amounts owed by reinsurers and intermediaries	7,543	12,021
Amounts owed by group undertakings	273	-
Premiums receivable from cedants	25,035	29,027
	£ 32,851	£ 41,048

20. Other Debtors

	2015 £'000	2014 Restated £'000
Amounts owed by group undertakings	18,661	15,102
Tax	1,512	-
Other debtors	114	91
	£ 20,287	£ 15,193

21. Called up Share Capital

		2015 £'000		2014 £'000
Allotted, called up and fully paid:				
100,000,000 (2014: 100,000,000) Ordinary Shares of £1 each	£	**100,000**	£	**100,000**

22. Equalisation Provision

		2015 £'000		2014 £'000
At 1st January		13,506		27,165
Transfer to profit and loss account		(7,722)		(13,659)
At 31st December	£	**5,784**	£	**13,506**

23. Creditors Arising Out of Direct Insurance Operations

		2015 £'000		2014 £'000
Amounts owed to cedants and intermediaries	£	**16**	£	**17**

24. Creditors Arising Out of Reinsurance Operations

		2015 £'000		2014 £'000
Amounts owed to cedants and intermediaries		1,857		2,538
Premiums payable to reinsurers		5,611		12,613
Amounts owed to other group undertakings		-		6,572
	£	**7,468**	£	**21,723**

25. Other Creditors Including Tax and Social Security

		2015 £'000		2014 £'000
Amounts owed to other group undertakings		630		6,524
Tax		96		2,119
Other		180		408
	£	**906**	£	**9,051**

26. Deferred Tax

	2015 £'000	2014 £'000
At 1st January 2015	124	-
Recognition of future timing differences	270	124
At 31st December 2015	£ **394**	£ **124**

The deferred tax provision comprises the timing difference in respect of the defined benefit scheme pension asset.

27. Transition to FRS102 and FRS103

This is the first year that RiverStone Insurance has presented its results under FRS102 and FRS103. The effective date of transition to FRS102 and FRS103 was 1st January 2014 and RiverStone Insurance has reflected the requirements of FRS102 and FRS103 in these financial statements with effect from that date. The impact of the implementation of FRS103 on the financial statements is increased disclosure requirements over insurance contracts. Set out below are the changes in accounting policies which reconcile profit for the financial year ended 31st December 2014 and total shareholders' equity as at 1st January 2014 and 31st December 2014 between UK GAAP as previously reported and FRS102.

	Previously Reported £'000	Change £'000	Restated Under FRS102 £'000
2014 Profit and Loss Account			
Net Operating Expense	11,276	1,175	12,451
Taxation	11,715	437	12,152
Profit for the financial year	48,187	(1,612)	46,575
2014 Statement of Comprehensive Income			
Re-measurements of net defined benefit obligation	-	(1,647)	(1,647)
Total tax credit on components of other comprehensive income	-	313	313
Total comprehensive income for the year	48,187	(2,946)	45,241
Balance sheet at 31st December 2014			
Other debtors	18,865	(3,672)	15,193
Pension asset	-	650	650
Deferred tax liability	-	124	124
Total shareholders' funds	265,260	(3,146)	262,114
Balance sheet at 1st January 2014			
Pension liability	-	(200)	(200)
Total shareholders' funds	217,073	(200)	216,873

The above changes represent the impact of the requirement under FRS102 for the defined benefit pension scheme to be accounted for in the financial statements of RiverStone Insurance and RiverStone Insurance (UK), to whom the costs are ultimately charged, as opposed to the principal employer, RiverStone Holdings.

28. Related Party Transactions and Ultimate Parent Company

RiverStone Insurance is a wholly owned subsidiary of RiverStone Holdings Limited which is registered in England and Wales. The ultimate parent company and controlling party is Fairfax 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 FRS 102, Section 33.1A. This exemption is available for RiverStone Insurance 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