COMPANY NO. 1167327

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

RiverStone Insurance (UK) Limited

2009 Annual Report

Contents

Directors

N. C. Bentley
L. A. Hemsley
A. J. Keys (Non-Executive Director)
L. R. Tanzer

Secretary

F. Henry

Registered Office

Park Gate
161-163 Preston Road
Brighton
BN1 6AU

Management Company

RiverStone Management Limited

Auditors

PricewaterhouseCoopers LLP
Hay's Galleria
1 Hay's Lane
London
SE1 2RD

RiverStone Insurance (UK) Limited (Company No. 1167327)
Directors' Report
For the year ended 31st December 2009

The Directors have pleasure in presenting the Annual Report of RiverStone Insurance (UK) Limited ("RiverStone Insurance") comprising the Directors' Report together with the audited financial statements for the year ended 31st December 2009. The presentational currency of the Annual Report and audited financial statements has been changed from Pounds Sterling to US dollars, as the US dollar is the functional currency of RiverStone Insurance.

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 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 are administered by RiverStone Management Limited which is a fellow subsidiary of RiverStone Holdings. RiverStone Insurance is also involved in the Lloyd's market through the reinsurance protection of Syndicate 3500, the sole corporate member of which is RiverStone Corporate Capital Limited, 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 after taxation of $4,838,000 (2008: $32,274,000). The Directors do not recommend the payment of a dividend (2008: Nil).

Following several years of consolidating various European based run-off portfolios of its parent, Fairfax, and acquiring other run-off portfolios, RiverStone Insurance's primary focus has been the settlement of its policyholder obligations and recovery of reinsurance assets in an efficient and economic manner. Since its last major consolidation effort in 2004, RiverStone Insurance has reduced its gross loss reserves by over 55% from $1.1 billion to $490 million. In addition, RiverStone Insurance has reduced its reinsurance recoverables by 67% from $896 million to $296 million over the same period. During 2009, gross loss reserves and reinsurance recoverables were reduced by 12% and 20%, respectively, from amounts at the prior year end. RiverStone Insurance's liquid resources decreased by $52 million during the year to total cash and investment balances of $279 million as a result of net claims payments.

The majority of RiverStone Insurance's net technical provisions are protected against future deterioration by reinsurance arrangements with an affiliated reinsurer.

The balance on the technical account for general business for the year was a gain of $1,789,000 (2008: $10,785,000 loss). This gain represents net retained operating expenses credit after reimbursement of expenses under RiverStone Insurance's reinsurance contracts.

The profit on ordinary activities before and after taxation of $4,838,000 comprises the gain on the technical account for gross business plus net investment income of $1,318,000 and foreign exchange gains of $1,731,000.

Shareholders' funds have increased to $259,273,000 from $248,171,000 at the end of 2008. The increase in shareholders' funds comprises unrealised investment gains on available for sale investments of $6,264,000 and the profit after taxation of $4,838,000.

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, 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 Board 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 requirements of policyholders and regulators. The Directors consider that RiverStone Insurance's capital is adequate to meet its business needs.

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

Financial Instruments

As described in Note 2 to the financial statements, RiverStone Insurance is exposed to financial risk through its financial assets, liabilities, reinsurance assets and policyholder liabilities. In particular, a key financial risk is that the proceeds from financial and reinsurance assets are not sufficient to fund the obligations arising from policies as they fall due. The most important components of this financial risk that RiverStone Insurance is exposed to are interest rate risk, currency risk, credit risk and liquidity risk. RiverStone Insurance manages these risks within its overall risk management framework. RiverStone Insurance does not operate a hedging strategy as it receives protection from currency risk under its reinsurance arrangements with an affiliated reinsurer.

Strategy and Future Outlook

RiverStone Insurance's primary focus has been to conduct a timely and efficient run off of its existing portfolios and it is currently working towards a strategy to settle all outstanding liabilities and recover its reinsurance assets. The Board considers that its insurance operations are adequately capitalized based on the remaining risks and level of volatility inherent in its business.

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

Performance Measurements

RiverStone Insurance has made continued progress throughout 2009 in relation to key elements of its strategy. The Board monitors the progress of RiverStone Insurance by reference to the reduction of gross loss reserves and reinsurance recoverables, as detailed earlier in this report. RiverStone Insurance's admitted capital and capital cover are as follows:

	2009	**2008**
Admitted capital	\$223 million	\$220 million
Capital cover against Enhanced Capital Requirement	4.5 times	4.4 times

Policy on the Payment of Creditors

It is the policy of RiverStone Insurance to accept and abide by London insurance market practices or the terms of trade established by its suppliers unless otherwise mutually agreed. Settlements with fellow subsidiaries are governed by intra-group agreements.

Directors

Directors holding office during the period from 1st January 2009 to the date of this report were:

N. C. Bentley
L. A. Hemsley
A. J. Keys - Non-Executive Director (appointed 23rd December 2009)
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.

Directors' Responsibilities Statement

Company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of RiverStone Insurance and of the profit or loss of RiverStone Insurance for that period. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently, subject to changes arising on the adoption of new accounting standards in the year;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that RiverStone Insurance will continue in business.

The Directors confirm that they have complied with the above requirements in preparing the financial statements.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of RiverStone Insurance and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of RiverStone Insurance and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Statement of Disclosure of Information to Auditors

So far as each person who is noted on page 3 as being a Director at the date of this report is aware, there is no relevant audit information of which RiverStone Insurance's auditors are unaware. Each person noted on page 3 as being a Director at the date of this report has taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that RiverStone Insurance's auditors are aware of that information.

By Order of the Board

F. Henry
Secretary
23rd March 2010

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

RiverStone Insurance (UK) Limited (Company No. 1167327)
Independent Auditors' Report to the Members
For the year ended 31st December 2009

We have audited the financial statements of RiverStone Insurance (UK) Limited for the year ended 31st December 2009 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Total Recognised Gains and Losses and the related notes. 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).

Respective Responsibilities of Directors and Auditors

As explained more fully in the Directors' Responsibilities Statement 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 the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinion, 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.

Scope of the Audit of the Financial Statements

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.

Opinion on Financial Statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31st December 2009 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.

Opinion on Other Matter Prescribed by the Companies Act 2006

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

Matters on which we are required to Report by Exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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

N J D Terry

Nigel Terry (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
25 March 2010

RiverStone Insurance (UK) Limited (Company No. 1167327)
Profit and Loss Account
For the year ended 31st December 2009

	Note	2009 $'000	2008 $'000
Technical Account – General Business			
Gross claims paid		(44,029)	(103,861)
Reinsurers' share		42,889	120,263
Net claims paid		(1,140)	16,402
Change in the gross provision for claims		86,182	130,752
Reinsurers' share		(85,042)	(147,154)
Change in the net provision for claims		1,140	(16,402)
Claims incurred, net of reinsurance		-	-
Net operating expenses	6	1,789	(10,785)
Total technical charges		**1,789**	**(10,785)**
Balance on the technical account for general business		**1,789**	**(10,785)**
Non-Technical Account – General Business			
Investment income	8	7,669	11,022
Realised investment gains	8	885	28,354
Unrealised investment gains		-	3,216
Unrealised investment losses	10(d)	(7,236)	-
Foreign exchange gains (losses)		1,731	(193)
Profit on ordinary activities before taxation		**4,838**	**31,614**
Taxation on profit on ordinary activities	9	-	660
Profit for the financial year		$ **4,838**	$ **32,274**

The results above are all derived from continuing operations.

RiverStone Insurance (UK) Limited (Company No. 1167327)
Statement of Total Recognised Gains and Losses
For the year ended 31st December 2009

		2009 $'000	2008 $'000
Profit for the financial year		4,838	32,274
Movement on available for sale investment reserve	10(d)	6,264	(16,308)
Foreign exchange gains (losses)	17	-	-
Total gains recognised during the year		**$ 11,102**	**$ 15,966**

RiverStone Insurance (UK) Limited (Company No. 1167327)
Balance Sheet
As at 31st December 2009

	Note	2009 $'000	2008 $'000
Assets			
Financial Assets			
Other financial investments	10	**261,684**	**316,392**
Reinsurers' share of technical provisions			
Claims outstanding	3, 11	**296,390**	**370,254**
Debtors			
Debtors arising out of direct insurance operations	12	657	719
Debtors arising out of reinsurance operations	13	214,092	157,060
Other debtors	14	-	490
		214,749	**158,269**
Other assets			
Cash at bank and in hand		**17,297**	**15,042**
Prepayments and accrued income			
Accrued interest		**3,058**	**2,404**
Total Assets		$ **793,178**	$ **862,361**
Liabilities			
Capital and reserves			
Called up share capital	16	259,905	248,624
Other reserves	17	(2,501)	13,270
Profit and loss account	17	1,869	(10,298)
Total shareholders' funds	17	**259,273**	**251,596**
Technical provisions			
Gross claims outstanding	3	**489,547**	**553,411**
Provisions for other risks and charges	18	**498**	**4,888**
Creditors			
Creditors arising out of direct insurance operations	19	178	151
Creditors arising out of reinsurance operations	20	40,161	49,435
Other creditors including taxation and social security	21	3,521	2,880
		43,860	**52,466**
Total Liabilities		$ **793,178**	$ **862,361**

The financial statements on pages 10 to 31 were approved by the Board of Directors on 25th March, 2010 and were signed on its behalf by:-

L.A. Hemsley

N. C. Bentley
Managing Director

L. A. Hemsley
Finance Director

1. Accounting Policies

(a) Basis of Preparation and Accounting Practice

The financial statements of RiverStone Insurance (UK) Limited ("RiverStone Insurance") have been prepared under the provisions of The Large and Medium-Sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008/410), applicable accounting standards 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.

(b) Change in Presentational Currency

RiverStone Insurance has changed the presentational currency of these financial statements from pounds sterling to US dollars, which is RiverStone Insurance's functional currency. All comparative amounts have been represented in US dollars using the applicable exchange rates for the prior year. As a consequence of this change in presentational currency the Available for Sale Revaluation Reserve has been restated, resulting in a decrease to the reserve as at 1st January 2009 of $22,035,000 and a corresponding increase to the Profit and Loss Account Reserve.

(c) Basis of Accounting

The technical result is determined on an annual basis whereby the incurred cost of claims, commission and related expenses are charged against the earned proportion of premiums, net of reinsurance, as follows:

i) 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.

As discussed in note 5 to the financial statements, RiverStone Insurance 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 11th September 2001.

ii) The costs incurred by RiverStone Insurance associated with running off the business are as a result of services provided by RiverStone Management Limited, an affiliated company and managing agent for RiverStone Insurance. Such costs are charged to RiverStone Insurance and reimbursed by an affiliated company under the terms of two reinsurance protection contracts.

(d) Cash flows

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

(e) Investments

Other Financial Investments

RiverStone Insurance 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'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.

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 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 or where they have been transferred and RiverStone Insurance 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 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).

(f) Treasury Bills

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

(g) Impairment of Financial Assets

At each balance sheet date RiverStone Insurance 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.

(h) 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.

(i) Derivative Financial Instruments

RiverStone Insurance currently has credit default swap derivative financial instruments. These are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. Changes in the fair value are recognised immediately in the Profit and Loss Account. Fair values are obtained from quoted market prices in active markets. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. RiverStone Insurance does not have any derivatives for which the fair value can fall below zero.

(j) Translation of Foreign Currencies

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

(k) Deferred Taxation

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

2. Management of Financial Risk

Financial Risk Management Objectives

RiverStone Insurance 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 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.

The reinsurance protection that RiverStone Insurance has from an affiliated company covers the majority of its policyholder liabilities and also covers foreign currency fluctuations. Consequently the primary risk faced by RiverStone Insurance is credit risk in respect of this affiliated reinsurer. RiverStone Insurance has a joint and several guarantee from its ultimate parent and an intermediate parent which guarantees the performance of the affiliated company under the reinsurance contracts.

(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. This is covered by the affiliated reinsurance protection. RiverStone Insurance works closely with its investment manager to review the duration of the investment portfolio in relation to the estimated mean duration of the liabilities.

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

The impact of a 100 basis point increase in interest rates on the value of RiverStone Insurance's investments held at 31st December 2009 is an approximate $9.2 million loss (2008: $4.2 million) to the available for sale revaluation reserve. Similarly, a 100 basis point decrease in interest rates would give rise to an approximate $10.8 million gain (2008: $3.5 million) to the available for sale revaluation reserve.

ii) Currency risk

RiverStone Insurance manages its foreign exchange risk against its functional currency, which is the US Dollar. RiverStone Insurance 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 seeks to mitigate the risk by matching the estimated foreign currency denominated liabilities with assets denominated in the same currency. The exposure of RiverStone Insurance to foreign exchange risk is mitigated by the fact that an affiliated reinsurer protects the main insurance entity, RiverStone Insurance, from foreign exchange rate fluctuations.

At 31st December 2009, if the Pound had weakened by 20% against the US Dollar with all other variables held constant, profit for the year would have been $10.8 million higher (2008: $15 million), mainly as a result of foreign exchange gains on the translation of US Dollar denominated financial assets, carried at fair value through profit or loss and foreign exchange gains on translation of US Dollar denominated liabilities.

(b) Credit Risk

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

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

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

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 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 specifically monitors its exposure to the credit risk of its primary affiliated reinsurer. RiverStone Insurance reviews the financial performance of the reinsurer on a quarterly basis and regularly updates a detailed credit and liquidity analysis on the reinsurer to confirm that the financial and liquidity position of the reinsurer is adequate.

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

	2009 $'000	2008 $'000
Derivative financial instruments	3,698	15,303
Debt securities	146,435	98,917
Treasury bills	111,455	202,086
Assets arising from reinsurance contracts held	89,293	101,748
Cash at bank and in hand	17,297	15,042
Affiliated reinsurance asset	367,207	384,628
Total assets bearing credit risk	$ **735,385**	$ **817,724**
A++	216,147	289,984
A+	17,159	27,100
A, A-	37,346	15,272
B++ and below or not rated (including affiliated reinsurance asset)	464,733	485,368
Total assets bearing credit risk	$ **735,385**	$ **817,724**

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

	2009 $'000	2008 $'000
Performing	67,507	84,231
Past due	46,117	43,709
Impaired	12,406	17,372
Provision for irrecoverable amounts	(36,737)	(43,564)
Total	$ **89,293**	$ **101,748**

(c) Liquidity Risk

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

(d) Capital Management

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

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

RiverStone Insurance considers not only the traditional sources of capital funding but the alternative sources of capital including reinsurance and securitisation, as appropriate, when assessing its deployment and usage of capital. RiverStone Insurance manages as capital all items that are eligible to be treated as capital for regulatory purposes. RiverStone Insurance is regulated by the Financial Services 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 FSA's individual capital adequacy regime. RiverStone Insurance has complied with all externally imposed capital requirements throughout the year.

3. Reconciliation of Technical Provisions

A reconciliation of the changes to RiverStone Insurance's gross, ceded and net loss reserves from 31st December 2008 to 31st December 2009 is as follows:

	Gross $'000	Ceded $'000	Net $'000
Amounts at 1st January 2009	553,411	370,254	183,157
Amounts paid during the year	(44,029)	(42,889)	(1,140)
Change in estimate of reserves	(42,153)	(42,153)	-
Foreign exchange	22,318	11,178	11,140
Amounts at 31st December 2009	**$ 489,547**	**$ 296,390**	**$ 193,157**

4. Analysis of Gross Business

	Gross claims incurred 2009 $'000	Gross operating expenses 2009 $'000	Re-insurance balance 2009 $'000
Direct Insurance			
Marine, aviation and transport	4,357	(1,556)	(3,387)
Property	3,928	(1,403)	(3,053)
Third-party liability	(1,372)	-	1,372
Miscellaneous	4	(1)	(3)
	6,917	(2,960)	(5,071)
Reinsurance acceptances	35,236	(4,956)	(27,377)
Total	**$ 42,153**	**$ (7,916)**	**$ (32,448)**

	2008 $'000	2008 $'000	2008 $'000
Direct Insurance			
Marine, aviation and transport	11,779	(4,600)	(8,742)
Property	(7,758)	-	7,758
Third-party liability	(1,572)	(636)	1,991
Miscellaneous	37	(33)	(13)
	2,486	(5,269)	994
Reinsurance acceptances	24,405	(26,472)	(6,929)
Total	**$ 26,891**	**$ (31,741)**	**$ (5,935)**

5. Claims Reserves

Asbestos Related and Environmental Pollution Claims

RiverStone Insurance 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 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 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 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.

For these reasons, RiverStone Insurance 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 believes that the reserves carried for these exposures are adequate based on known facts and current interpretation of applicable laws. The ultimate liabilities for these exposures are fully protected under RiverStone Insurance's reinsurance protection arrangements with affiliates.

Claims Relating to Terrorist Attacks of 11th September 2001

RiverStone Insurance, primarily through its reinsurance of Syndicate 3500 has exposure to the terrorist attacks in the United States of America on 11th September 2001. With the exception of the amounts assumed from the 2001 year of account of Syndicate 506, these are fully reinsured with an affiliated company under a reinsurance protection contract. At 31st December 2009, the underlying reserves of Syndicate 3500 in connection with these losses, including amounts assumed from the 2001 year of account of Syndicate 506, are estimated to be $219 million gross and $72 million net. The gross reserves, which are subject to uncertainty depending on the outcome of court action in the US, are principally on the aviation classes and have been estimated in most instances on a case-by-case basis. Under the terms of the reinsurance assumed, RiverStone Insurance would also be exposed if any of Syndicate 3500's underlying reinsurance failed. However, with the exception of the amounts assumed from the 2001 year of account of Syndicate 506, under the retrocession contract with the affiliated company, any movement in these amounts would fall to the account of the affiliated reinsurer.

6. Net Operating Expenses

	2009 $'000	2008 $'000
Administrative expenses	$ (1,789)	$ 10,785

The management and administration of RiverStone Insurance is carried out by RiverStone Management Limited, a fellow subsidiary, which also provides these services to other group companies. Operating expenses are net of reimbursement of costs under RiverStone Insurance's reinsurance contracts with an affiliated reinsurer. Operating costs for the year were $7.9 million and $9.7 million was recharged under RiverStone Insurance's reinsurance contracts with an affiliated reinsurer (2008: $31.7 million and $21 million, respectively), resulting in a net credit of $1.8 million retained expenses for the year (2008: net expense of $10.8 million).

The Directors receive no emoluments from RiverStone Insurance. The contracts of employment of the U.K. executive Directors and employees are with the managing agents which make charges to RiverStone Insurance for the services described above. Emoluments paid by the managing agents 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.

	2009 $'000	2008 $'000
Emoluments	314	787
Amounts receivable under long term incentive schemes	102	-
	$ 416	$ 787

Retirement benefits are accruing to three directors (2008: three) under a defined benefit pension scheme.

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

	2009 $'000	2008 $'000
Emoluments	129	370
Amounts receivable under long term incentive schemes	56	-
	$ 185	$ 370

As at 31st December 2009 a pension of $46,800 per annum (2008: $61,000) was accrued under a defined benefit pension scheme for the highest paid Director.

7. Auditors' Remuneration

	2009 $'000	2008 $'000
Audit services		
Fees payable to RiverStone Insurance's auditor for the audit of the financial statements	375	368
Non audit services		
Other services pursuant to legislation, including the audit of the regulatory return	50	125
Taxation services	20	-
Other services not covered above	3	-
	$ **448**	$ **493**

8. Investment Return

	2009 $'000	2008 $'000
Investment income		
Income from available for sale financial assets	5,329	8,921
Income from financial assets at fair value through profit and loss – designated upon initial recognition	2,098	25
Deposit interest	44	691
Income from treasury bills	236	1,550
Interest on deposits withheld	834	624
Other income	-	20
	8,541	11,831
Investment management expenses	(872)	(809)
	$ **7,669**	$ **11,022**
Realised gains		
Financial assets at fair value through profit and loss:		
Held for trading	867	9,366
Available for sale financial assets	18	18,988
	$ **885**	$ **28,354**

9. Taxation Charge on Profit on Ordinary Activities

		2009 $'000		2008 $'000
Current taxation				
UK corporation tax at 28% (2008: 28.5%) based on the results for the year		1,823		383
Receipt for group tax relief		-		(660)
Group relief claimed		(561)		-
Losses brought forward		(1,262)		(383)
	$	-	$	(660)

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 28% (2008: 28.5%). The differences are explained below:

		2009 $'000		2008 $'000
Profit on ordinary activities before taxation	$	4,838	$	31,614
Profit on ordinary activities before taxation multiplied by the UK corporation tax rate of 28% (2008: 28.5%)		1,355		9,009
Available for sale investment movements		1,754		(4,648)
Timing differences and disallowed expenses		(1,286)		(3,978)
Utilisation of tax losses		(1,823)		(1,043)
Current tax charge for the year	$	-	$	(660)

10. Other Financial Investments

(a) Other Financial Investments by Category

	Carrying Value		Purchase Price	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
At fair value through profit and loss				
Debt securities and other fixed-income securities designated at fair value through profit or loss upon initial recognition	66,478	551	67,624	579
Derivative financial instruments at fair value through profit or loss, held for trading	3,698	15,303	8,026	8,233
	70,176	**15,854**	**75,650**	**8,812**
Available for sale				
Equity shares	96	86	88	84
Debt securities and other fixed-income securities	79,957	98,366	81,703	85,098
	80,053	**98,452**	**81,791**	**85,182**
Sub total	**150,229**	**114,306**	**157,441**	**93,994**
Treasury bills	**111,455**	**202,086**	**112,406**	**191,186**
	$ 261,684	**$ 316,392**	**$ 269,847**	**$ 285,180**

(b) Derivative Financial Instruments

Derivative financial instruments comprise credit default swap investments which RiverStone Insurance has purchased. The credit default swaps held as at 31st December 2009 have a maturity date of 2013, a notional amount of $229 million and a fair value as shown in the table above.

(c) Listed Investments

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

	2009 $'000	2008 $'000
At fair value through profit and loss		
Debt securities and other fixed-income securities designated at fair value through profit or loss upon initial recognition	**65,895**	**-**
Available for sale		
Equity shares	28	22
Debt securities and other fixed-income securities	47,447	76,261
	47,475	**76,283**
Total listed investments	**$ 113,370**	**$ 76,283**

(d) Movements on Available for Sale and At Fair Value Through Profit and Loss Investments

	2009 Available for Sale $'000	2009 At Fair Value through Profit and Loss $'000
At 1st January 2009	**98,452**	**15,854**
Additions at cost	20,744	76,780
Disposals (sale and redemptions) at cost	(46,002)	(12,901)
Fair value net gains (excluding net realised gains):		
- Classified as held for trading	-	(6,444)
- Designated at fair value through profit and loss on initial recognition	-	(792)
Revaluation gains on available for sale	6,264	-
Exchange movements	595	(2,321)
At 31st December 2009	**$ 80,053**	**$ 70,176**

(e) **Other Financial Investments by Fair Value Hierarchy**

	Level 1 2009 $'000	Level 2 2009 $'000	Level 3 2009 $'000	Total 2009 $'000
A fair value through profit and loss				
Debt securities and other fixed-income securities designated at fair value through profit or loss upon initial recognition	-	66,478	-	66,478
Derivative financial instruments at fair value through profit or loss, held for trading	-	3,698	-	3,698
Available for sale				
Equity shares	28	-	68	96
Debt securities and other fixed-income securities	-	47,756	32,201	79,957
Total	$ **28**	$ **117,932**	$ **32,269**	$ **150,229**

Movements on Level 3 Available for Sale Assets

	$'000
At 1st January 2009	21,764
Purchase during the year	5,697
Total gains in profit or loss	4,808
At 31st December 2009	$ **32,269**

	2009 $'000
Total gains on Level 3 available for sale assets included in profit or loss for the period (all held at the balance sheet date)	4,808

(f) **Collateralised Investments**

The insurer has outstanding letters of credit, guarantees and deposits of $123,903,000 (2008: $145,093,000) issued in favour of cedants and certain other creditors collateralised by investments and cash with a market value of $125,497,000 and a cost of $124,423,000 (2008: market value $146,350,000; cost $146,367,000).

11. **Reinsurer's Share of Technical Provisions – Claims Outstanding**

Included within reinsurer's share of technical provisions – claims outstanding are amounts recoverable from an affiliated company of $236,780,000 (2008: $297,033,399) in respect of loss portfolio reinsurance contracts and stop loss contracts.

12. Debtors Arising Out of Direct Insurance Operations

	2009 $'000	2008 $'000
Amounts due from intermediaries	$ 657	$ 719

13. Debtors Arising Out of Reinsurance Operations

	2009 $'000	2008 $'000
Amounts due from intermediaries	29,026	27,808
Balances due from group undertakings	185,066	125,827
	$ 214,092	$ 153,635

14. Other Debtors

	2009 $'000	2008 $'000
Balances due from group undertakings	$ -	$ 490

15. Deferred Taxation

No deferred tax asset has been recognised in these financial statements as the Directors do not expect an actual tax benefit to crystallise in the foreseeable future. The potential deferred tax asset not recognised amounts to:

	2009 $'000	2008 $'000
Trading losses available to carry forward	78,818	56,538
Short term timing differences	143	1,300
Potential deferred taxation asset not recognised	$ 78,961	$ 57,838

16. Share Capital

		2009		2008
Allotted and called up				
6,000,000 Ordinary Shares of £1 - 50p paid	£	3,000,000	£	3,000,000
53,684,529 Ordinary Shares of £1 - fully paid	£	53,685,000	£	53,685,000
7,000,000 'A' Ordinary Shares of £1 - fully paid	£	7,000,000	£	7,000,000
157,062,215 Ordinary Shares of $1 - fully paid	$	157,062,000	$	157,062,000

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

Allotted, issued and called up share capital presented in US dollars as adopted in the Financial Statements:

	2009 $'000	2008 $'000
6,000,000 Ordinary Shares of £1 - 50p paid	4,845	4,313
53,684,529 Ordinary Shares of £1 - fully paid	86,695	77,185
7,000,000 'A' Ordinary Shares of £1 - fully paid	11,303	10,064
157,062,215 Ordinary Shares of $1 - fully paid	157,062	157,062
	$ 259,905	$ 248,624

17. Reconciliation of Movements in Total Shareholders' Funds

	Share Capital $'000	Available for Sale Revaluation Reserve $'000	Profit and Loss Account $'000	2009 Total $'000	2008 Total $'000
As at 1st January	248,624	13,270	(13,723)	248,171	232,205
Change in presentational currency to functional currency	-	(22,035)	22,035	-	-
As at 1st January restated	248,624	(8,765)	8,312	248,171	232,205
Profit for the financial year	-	-	4,838	4,838	32,274
Net revaluation to available for sale investments	-	6,264	-	6,264	(16,308)
Exchange movements	11,281	-	(11,281)	-	-
As at 31st December	$ 259,905	$ (2,501)	$ 1,869	$ 259,273	$ 248,171

18. Provisions for Other Risks and Charges

	2009 $'000	2008 $'000
Provision for costs relating to closure of Paris office		
At 1st January	4,888	2,194
Profit and loss account (release) charge	(3,625)	2,013
Paid in year	(1,194)	(298)
Refunds received allocated to provision	91	1,060
Foreign exchange	338	(81)
At 31st December	$ 498	$ 4,888

The provision for closure costs represents provision for costs associated with the closure of RiverStone Insurance's Paris operations which occurred at the end of 2005.

19. Creditors Arising Out of Direct Insurance Operations

	2009 $'000	2008 $'000
Other	$ 178	$ 151

20. Creditors Arising Out of Reinsurance Operations

	2009 $'000	2008 $'000
Balances due to intermediaries	$ 40,161	$ 49,435

21. Other Creditors Including Taxation and Social Security

	2009 $'000	2008 $'000
Amounts due to fellow subsidiary undertakings	$ 3,521	$ 2,880

22. Litigation and Contingent Liabilities

(a) RiverStone Insurance 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 believes are probable of realisation, would have a material effect on the financial position of RiverStone Insurance.

(b) RiverStone Insurance has provided a guarantee of the solvency of its affiliate, RiverStone Managing Agency Limited, of up to $1.6 million.

23. Related Party Transactions and Ultimate Parent Company

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

Advantage has been taken of the exemption from the requirement to disclose transactions with related parties within the same group as provided by Financial Reporting Standard No. 8 "Related Party Disclosures". This exemption is available for RiverStone Insuranced as consolidated accounts are publicly available for Fairfax.

The financial statements of Fairfax can be obtained from the Secretary, 95 Wellington Street West, Suite 800, Toronto, Ontario, Canada, M5J 2N7 or from the website at www.fairfax.ca