

COMPANY NO. 1167327

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

RiverStone Insurance (UK) Limited

2012 Annual Report

RiverStone Insurance (UK) Limited (Company No. 1167327)
Annual Report
For the year ended 31st December 2012

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RiverStone Insurance (UK) Limited (Company No. 1167327)
Directors and Administration
For the year ended 31st December 2012

Directors

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

Company Secretary

F. Henry

Registered Office

Park Gate
161-163 Preston Road
Brighton
BN1 6AU

Management Company

RiverStone Management Limited

Independent Auditors

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

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

Directors' Report

For the year ended 31st December 2012

The Directors have pleasure in presenting the Annual Report of RiverStone Insurance (UK) Limited ("RiverStone Insurance (UK)") comprising the Directors' Report together with the audited financial statements for the year ended 31st December 2012.

Ownership

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

Principal Activity

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

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

Business Review

Results and Performance

The results for the year set out in the profit and loss account show a profit before and after taxation of \$202.7 million (2011: \$53.2 million). RiverStone Insurance (UK) paid an interim dividend of \$188.2 million during 2012 (2011: nil). The Directors do not recommend the payment of a final dividend (2011: Nil).

During several years of consolidating various European based run-off portfolios of its parent, Fairfax, and acquiring other run-off portfolios, RiverStone Insurance (UK)'s primary focus has been the settlement of its policyholder obligations and recovery of reinsurance assets in an efficient and economic manner. Additionally, RiverStone Insurance (UK) continues to pursue opportunities to acquire further run-off portfolios. As part of this strategy, effective during 2012 RiverStone Insurance (UK) effected a number of transactions which resulted in the acquisition of further run-off business.

Effective 1st January 2012, Syndicate 3500 entered into a transaction to novate contracts related to the liabilities of Syndicates 535 and 1204, run-off syndicates with underwriting years of 2001 and prior and 1999 and prior, respectively.

Also effective 1st January 2012, Syndicate 3500 accepted the reinsurance-to-close of the liabilities of Syndicate 3330, a run-off syndicate with underwriting years of 2002 and prior. The sole corporate member of Syndicate 3330 was Advent Capital (No.3) Limited whose ultimate parent company is also Fairfax.

RiverStone Insurance (UK) accepted the reinsurance from Syndicate 3500 of all of the underlying liabilities for the relevant years of account of Syndicates 535, 1204 and 3330, effective 1st January 2012 and provided the additional Funds at Lloyd's capital related to these transactions. These transactions resulted in the addition of \$112.5 million to the gross technical provisions of RiverStone Insurance (UK) as at 1st January 2012, for a premium of the same amount.

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

Directors' Report

For the year ended 31st December 2012

Also effective 1st January 2012, RiverStone Insurance (UK) agreed with Syndicate 3500 to increase the reinsurance of the liabilities relating to Syndicate 376 from 50% to 100%. This resulted in the addition of \$60.6 million to the gross technical provisions of RiverStone Insurance (UK) as at 1st January 2012 for a premium of the same amount.

Effective 21st December 2012, RiverStone Insurance (UK) entered into an agreement to acquire the UK run-off portfolio of the Eagle Star Insurance group of companies. This is in the form of a reinsurance contract to be followed by a transfer of the business under Part VII of the Financial Services and Markets Act 2000, with the latter being subject to regulatory and court approval. The reinsurance contract transfers the risk of the Eagle Star portfolio to RiverStone Insurance (UK) effectively from 1st July 2012, with a roll forward mechanism to adjust the price for movements through to the contract inception date. RiverStone Insurance (UK) received a premium of \$183.5 million for the reinsurance of this business and has recorded the value of the net liabilities taken on at its best estimate of \$130.9 million on its balance sheet.

Effective 1st January 2012, RiverStone Insurance (UK) commuted all reinsurance arrangements with an affiliated reinsurer. RiverStone Insurance (UK) has recorded a profit of \$51.5 million in its profit and loss account in respect of this transaction.

The balance on the technical account for general business for the year was a gain of \$157.7 million (2011: \$29.2 million). This gain comprises the gain on the commutation of the affiliated reinsurance arrangement of \$51.5 million, releases of \$100.3 million from net technical provisions and \$8.6 million from provisions on irrecoverable reinsurance less net operating expenses of \$2.7 million.

The profit on ordinary activities before and after taxation of \$202.7 million comprises the gain on the technical account for general business plus net investment income of \$46 million, partly offset by foreign exchange losses of \$1 million.

Shareholders' funds have increased to \$341 million from \$328.7 million at the end of 2011. The increase in shareholders' funds comprises the profit after taxation of \$202.7 million less the dividend of \$188.2 million and unrealised investment losses on available for sale investments of \$2.2 million.

On 22nd August 2012, RiverStone Insurance (UK) reduced its share capital by the cancellation of 6,999,990 'A' Ordinary Shares of £1 each and 59,684,519 ordinary shares of £1 each (of which 6,000,000 were partly paid).

Principal Risks and Uncertainties

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

RiverStone Insurance (UK) has developed a framework for identifying the risks that it is exposed to and their impact on economic capital. This process is risk based and uses Individual Capital Assessment principles to manage RiverStone Insurance (UK)'s capital requirements and to ensure that it has the financial strength and capital adequacy to support the continued run off of the business and to meet the obligations to policyholders and regulators. The Directors consider that RiverStone Insurance (UK)'s capital is adequate to meet its business needs.

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

Directors' Report

For the year ended 31st December 2012

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

Financial Instruments

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

Strategy and Future Outlook

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

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

The Board considers that the insurance operations of RiverStone Insurance (UK) are adequately capitalized based on the remaining risks and level of volatility inherent in its business.

Performance Measurements

RiverStone Insurance (UK) has made continued progress throughout 2012 in relation to key elements of its strategy. The Board monitors the progress of RiverStone Insurance (UK) by reference to the reduction of gross loss reserves and reinsurance recoverables, as detailed earlier in this report. RiverStone Insurance (UK)'s admitted capital and capital cover are as follows:

	2012	2011
Admitted capital	\$231 million	\$146 million
Capital cover against Enhanced Capital Requirement	1.3 times	1.8 times

Policy on the Payment of Creditors

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

Directors

Directors holding office during the period from 1st January 2012 to the date of this report were:

N. C. Bentley
L. A. Hemsley
A. J. Keys – Independent Non-Executive Chairman
L. R. Tanzer

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

Directors' Report

For the year ended 31st December 2012

RiverStone Insurance (UK) has provided an indemnity for its directors which is a qualifying third party indemnity provision for the purposes of Section 234 of the Companies Act 2006.

Directors' Responsibilities Statement

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- 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

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 (UK)'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 (UK)'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
6th March 2013

RiverStone Insurance (UK) Limited (Company No. 1167327)
Independent Auditors' Report to the Members of RiverStone Insurance
(UK) Limited
For the year ended 31st December 2012

We have audited the financial statements of RiverStone Insurance (UK) Limited for the year ended 31st December 2012 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 set out on page 7 the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK 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. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

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 2012 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.

RiverStone Insurance (UK) Limited (Company No. 1167327)
Independent Auditors' Report to the Members of RiverStone Insurance
(UK) Limited
For the year ended 31st December 2012

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
- 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.



Andrew Moore (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
6th March 2013

RiverStone Insurance (UK) Limited (Company No. 1167327)
Profit and Loss Account
For the year ended 31st December 2012

	Note	2012 \$'000	2011 \$'000
Technical Account – General Business			
Gross premium written and earned		<u>356,581</u>	<u>79,669</u>
Written and earned premiums, net of reinsurance		<u>356,581</u>	<u>79,669</u>
Gross claims paid		(68,499)	(52,384)
Reinsurers' share		<u>90,770</u>	<u>37,172</u>
Net claims received (paid)		<u>22,271</u>	<u>(15,212)</u>
Change in the gross provision for claims		(187,636)	35,471
Reinsurers' share		<u>(39,461)</u>	<u>(74,414)</u>
Change in the net provision for claims		<u>(227,097)</u>	<u>(38,943)</u>
Claims incurred, net of reinsurance		<u>(204,826)</u>	<u>(54,155)</u>
Change in provision for uncollectible unpaid reinsurance		8,600	3,000
Net operating expenses	6	<u>(2,662)</u>	<u>703</u>
Total technical charges		<u>(198,888)</u>	<u>(50,452)</u>
Balance on the technical account for general business		157,693	29,217
Non-Technical Account – General Business			
Investment income	8	18,677	19,978
Realised investment gains	8	13,423	2,161
Unrealised investment gains	10(d)	19,942	560
Unrealised investment losses	10(d)	(6,030)	(239)
Foreign exchange (losses) gains		<u>(1,012)</u>	<u>1,565</u>
Profit on ordinary activities before taxation		202,693	53,242
Taxation on profit on ordinary activities	9	<u>-</u>	<u>-</u>
Profit for the financial year		\$ <u>202,693</u>	\$ <u>53,242</u>

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 2012

	Note	2011 \$'000	2010 \$'000
Profit for the financial year		202,693	53,242
Movement on available for sale investment reserve	10(d)	<u>(2,172)</u>	<u>779</u>
Total gains recognised during the year		\$ <u>200,521</u>	\$ <u>54,021</u>

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


Balance Sheet

As at 31st December 2012

	Note	2012 \$'000	2011 \$'000
Assets			
Financial Assets			
Other financial investments	10	295,571	285,326
Reinsurers' share of technical provisions			
Claims outstanding	3, 11	26,998	66,005
Debtors			
Debtors arising out of direct insurance operations	12	498	464
Debtors arising out of reinsurance operations	13	286,777	173,826
Other debtors	14	117,147	123,967
		404,422	298,257
Other assets			
Cash at bank and in hand		129,438	28,371
Prepayments and accrued income			
Accrued interest		<u>740</u>	<u>2,868</u>
Total Assets		\$ <u>857,169</u>	\$ <u>680,827</u>
Liabilities			
Capital and reserves			
Called up share capital	16	157,062	256,033
Other reserves	17	(3,435)	(1,263)
Profit and loss account	17	187,410	73,946
Total shareholders' funds	17	341,037	328,716
Technical provisions			
Gross claims outstanding	3	509,600	317,575
Creditors			
Creditors arising out of direct insurance operations	18	101	96
Creditors arising out of reinsurance operations	19	6,059	28,834
Other creditors including taxation and social security	20	372	5,606
		<u>6,532</u>	<u>34,536</u>
Total Liabilities		\$ <u>857,169</u>	\$ <u>680,827</u>

The financial statements on pages 10 to 30 were approved by the Board of Directors on 6th March 2013 and were signed on its behalf by:-


L. R. Tanzer
Managing Director


L. A. Hemsley
Finance Director

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

Notes to the Financial Statements

For the year ended 31st December 2012

1. Accounting Policies

(a) Basis of Preparation and Accounting Practice

The financial statements of RiverStone Insurance (UK) Limited ("RiverStone Insurance (UK)") have been prepared under the provisions of The Large and Medium-Sized Companies and Groups (Accounts and Reports) Regulations 2009 (SI 2009/410), 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) 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) Premiums written relate to business incepted during the year, together with any difference between recorded premiums for prior years and those previously accrued and include estimates of premiums due but not yet receivable or notified to RiverStone Insurance (UK) less an allowance for cancellations. Premiums written are shown gross of commission payable to intermediaries and exclude related taxes.
- ii) Claims incurred comprise claims and related claims handling expenses paid in the year and changes in provisions for outstanding claims, including provisions for claims incurred but not reported and related expenses, together with any other adjustments to claims from previous years. Where applicable, reductions are made for salvage and other recoveries.

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

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

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

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

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

Notes to the Financial Statements

For the year ended 31st December 2012

(c) Cash flows

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

(d) Investments

Other Financial Investments

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

i) Financial assets at fair value through profit and loss

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

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

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

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

ii) Available for sale financial assets

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

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

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

Notes to the Financial Statements

For the year ended 31st December 2012

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

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

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

(e) Treasury Bills

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

(f) Impairment of Financial Assets

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

(g) 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.

(h) Derivative Financial Instruments

RiverStone Insurance (UK) 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.

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

Notes to the Financial Statements

For the year ended 31st December 2012

All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. RiverStone Insurance (UK) does not have any derivatives for which the fair value can fall below zero.

(i) Translation of Foreign Currencies

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

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

(j) Deferred Taxation

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

2. Management of Financial Risk

Financial Risk Management Objectives

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

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

(a) Market Risk

i) Interest rate risk

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

RiverStone Insurance (UK) Limited (Company No. 1167327)
Notes to the Financial Statements
For the year ended 31st December 2012

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

The impact of a 100 basis point increase in interest rates on the value of RiverStone Insurance (UK)'s investments held at 31st December 2012 is an approximate \$4.4 million loss (2011: \$11.4 million) to the profit and loss account. Similarly, a 100 basis point decrease in interest rates would give rise to an approximate \$5 million gain (2011: \$8.7 million) to the profit and loss account.

ii) Equity price risk

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

Investments held are listed and traded on recognised stock exchanges, primarily in Europe and North America.

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

Listed equity securities held at 31st December 2012 represent 99.9% of total equity investments. If equity market indices had increased/decreased by 5%, with all other variables held constant, and all RiverStone Insurance (UK)'s equity investments moving according to the historical correlation with the index, the profit for the year would increase/decrease by \$3.2 million (2011: \$3.3 million).

iii) Currency risk

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

At 31st December 2012, if the Pound had weakened by 10% against the US Dollar with all other variables held constant, profit for the year would have been \$0.9 million lower (2011: \$5.2 million higher), mainly as a result of net foreign exchange gains on the translation of US Dollar denominated financial assets, and US Dollar denominated liabilities.

(b) Credit Risk

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

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

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

RiverStone Insurance (UK) reduces its exposure to credit risk in relation to investments by entering into transactions with counterparties that are reputable and by settling trades through recognized exchanges. RiverStone Insurance (UK) maintains strict control limits on open derivative positions. The amount subject to credit risk at any one time is limited to the current fair value of derivative financial assets.

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

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

	2012 \$'000	2011 \$'000
Derivative financial instruments	38	2,869
Debt securities	50,065	117,345
Treasury bills	181,445	99,141
Assets arising from reinsurance contracts held	45,014	43,210
Premium receivable	34,000	-
Cash at bank and in hand	129,438	28,371
Affiliated reinsurance asset	-	45,984
Affiliated loan receivable	<u>117,119</u>	<u>123,967</u>
Total assets bearing credit risk	\$ <u>557,119</u>	\$ <u>460,887</u>

	2012 \$'000	2011 \$'000
A++	319,169	118,663
A+	37,845	7,047
A, A-	37,889	77,746
B++ and below or not rated (including affiliated assets)	<u>162,216</u>	<u>257,431</u>
Total assets bearing credit risk	\$ <u>557,119</u>	\$ <u>460,887</u>

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

	2012 \$'000	2011 \$'000
Performing	61,619	38,361
Past due	32,899	32,674
Impaired	2,678	2,662
Provision for irrecoverable amounts	<u>(18,182)</u>	<u>(30,487)</u>
Total	\$ <u>79,014</u>	\$ <u>43,210</u>

(c) Liquidity Risk

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

(d) Capital Management

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

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

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

3. Reconciliation of Technical Provisions

A reconciliation of the changes to RiverStone Insurance (UK)'s gross, ceded and net loss reserves from 31st December 2011 to 31st December 2012 is as follows:

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	Gross \$'000	Ceded \$'000	Net \$'000
Amounts at 1 st January 2012	317,575	66,005	251,570
Reinsurance of new net liabilities	356,581	-	356,581
Amounts paid during the year	(68,499)	(90,770)	22,271
Change in estimate of reserves	(100,446)	51,309	(151,755)
Foreign exchange	4,389	454	3,935
Amounts at 31st December 2012	\$ 509,600	\$ 26,998	\$ 482,602

4. Analysis of Gross Business

	Gross premiums written 2012 \$'000	Gross premiums earned 2012 \$'000	Gross claims incurred 2012 \$'000	Gross operating expenses 2012 \$'000	Re- insurance balance 2012 \$'000
Direct Insurance			2,695	28	(2,524)
Marine, aviation and transport	-	-	(135)	(1)	127
Property	-	-	(636)	-	587
Third-party liability	-	-	-	-	-
Miscellaneous	-	-	19	-	(18)
	-	-	1,943	27	(1,828)
Reinsurance acceptances	356,581	356,581	(258,078)	(2,689)	53,137
Total	\$ 356,581	\$ 356,581	\$ (256,135)	\$ (2,662)	\$ 51,309
	2011 \$'000	2011 \$'000	2011 \$'000	2011 \$'000	2011 \$'000
Direct Insurance			1,412	1,228	(3,108)
Marine, aviation and transport	-	-	529	460	(1,164)
Property	-	-	(359)	-	359
Third-party liability	-	-	10	9	(23)
Miscellaneous	-	-	1,592	1,697	(3,936)
	-	-	(18,505)	(16,097)	(18,203)
Reinsurance acceptances	79,669	79,669	(18,505)	(16,097)	(18,203)
Total	\$ 79,669	\$ 79,669	\$ (16,913)	\$ (14,400)	\$ (22,139)

Effective 1st January 2012, RiverStone Insurance (UK) agreed with Syndicate 3500 to increase the insurance of the liabilities relating to the former Syndicate 376 from 50% to 100%. This resulted in the addition of \$60.6 million to the gross technical provisions of RiverStone Insurance (UK) as at 1st January 2012 for a premium of the same amount.

Also effective 1st January 2012, RiverStone Insurance (UK) entered into reinsurance protection agreements covering the liabilities of former Syndicates 535, 1204 and 3330. This resulted in the addition of \$112.5 million to the gross technical provisions of RiverStone Insurance (UK), for a premium of the same amount.

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Effective 21st December 2012, RiverStone Insurance (UK) entered into a reinsurance protection agreement covering the UK run-off portfolio of the Eagle Star Insurance group of companies. RiverStone Insurance (UK) received a premium of \$183.5 million for the reinsurance of this business and has recorded the value of the net liabilities taken on at its best estimate of \$130.9 million on its balance sheet.

2012 gross claims incurred of negative \$256,135 include \$356.6 million of reserves which were assumed by RiverStone Insurance (UK) under these reinsurance protection agreements.

5. Claims Reserves

Asbestos Related and Environmental Pollution Claims

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

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

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

Claims Relating to Terrorist Attacks of 11th September 2001

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

Following the settlement agreement with subrogated property insurers and other companies which had businesses in or around the North and South Towers of WTC (the "Property Damage Settlement") which was signed on the 23rd February 2010, there were only four remaining actions against American Airlines, United Airlines and the airlines' security contractors (Globe and Huntleigh) ("the Aviation Defendants") in the United States District Court for the Southern District of New York.

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One of these four market actions was settled in 2012. The Syndicate received funds in 2012 in respect of their share of the settlement amount for the Property Damage Settlement. The receipt of these funds was being challenged by WTCP but has now been settled with WTCP.

The remaining three actions are those brought by World Trade Centre Properties LLC ("WTCP"), Cedar and Washington and Cantor Fitzgerald. These actions are still awaiting resolution.

At 31st December 2012, the remaining underlying reserves of Syndicate 3500 in connection with the events of 11th September, including amounts assumed in 2012 from the reinsurance of Syndicate 3330 liabilities, are estimated to be \$123 million gross and \$48 million net. The gross reserves, which remain subject to uncertainty depending on the outcome of court action in the US, are principally on the aviation classes and have been assessed on a case-by-case 'best estimate' basis. Under the terms of the reinsurance assumed, RiverStone Insurance (UK) would also be exposed if any of Syndicate 3500's underlying reinsurance failed.

6. Net Operating Expenses

	2012 \$'000	2011 \$'000
Administrative expenses	\$ <u>2,662</u>	\$ <u>(703)</u>

The management and administration of RiverStone Insurance (UK) is carried out by RiverStone Management Limited, a fellow subsidiary, which also provides these services to other group companies. Operating costs for the year were \$2.7 million. Operating costs for 2011 were a net credit of \$703,000, comprising operating costs of \$14.4 million less reimbursement of costs under RiverStone Insurance (UK)'s previous reinsurance arrangements with an affiliated reinsurer of \$15.1 million.

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

	2012 \$'000	2011 \$'000
Aggregate emoluments	707	444
Amounts receivable under long term incentive schemes	<u>-</u>	<u>54</u>
	\$ <u>707</u>	\$ <u>498</u>

Retirement benefits are accruing to three directors (2011: three) under a defined benefit pension scheme.

During the year no directors exercised share options (2011: none).

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

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	2012 \$'000	2011 \$'000
Aggregate emoluments	374	229
Amounts receivable under long term incentive schemes	<u>-</u>	<u>30</u>
	\$ <u>374</u>	\$ <u>259</u>

As at 31st December 2012 a pension of \$56,000 per annum (2011: \$51,000) was accrued under a defined benefit pension scheme for the highest paid Director.

7. Auditors' Remuneration

	2012 \$'000	2011 \$'000
Audit	471	382
Audit related assurance services	126	72
Taxation compliance services	14	8
Other taxation advisory services	<u>28</u>	<u>5</u>
	\$ <u>639</u>	\$ <u>467</u>

8. Investment Return

	2012 \$'000	2011 \$'000
Investment income		
Income from available for sale financial assets	3,062	6,551
Income from financial assets at fair value through profit and loss – designated upon initial recognition	2,922	3,237
Deposit interest	83	136
Income from treasury bills	177	132
Interest on deposits withheld	500	612
Interest from affiliated company	<u>13,053</u>	<u>10,500</u>
	19,797	21,168
Investment management expenses	<u>(1,120)</u>	<u>(1,190)</u>
	\$ <u>18,677</u>	\$ <u>19,978</u>

RiverStone Insurance (UK) Limited (Company No. 1167327)**Notes to the Financial Statements****For the year ended 31st December 2012**

	2012	2011
	\$'000	\$'000
Realised gains		
Financial assets at fair value through profit and loss:		
Held for trading	8,682	1,332
Available for sale financial assets	<u>4,741</u>	<u>829</u>
	\$ <u>13,423</u>	\$ <u>2,161</u>

9. Taxation on Profit on Ordinary Activities

	2012	2011
	\$'000	\$'000
Current taxation		
UK corporation tax at 24.5% (2011: 26.5%) based on the profit for the year	49,172	14,316
Losses brought forward	<u>(49,172)</u>	<u>(14,316)</u>
	\$ <u>-</u>	\$ <u>-</u>

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 24.5% (2011: 26.5%). The differences are explained below:

	2012	2011
	\$'000	\$'000
Profit on ordinary activities before taxation	\$ <u>202,693</u>	\$ <u>53,242</u>
Profit on ordinary activities before taxation multiplied by the UK corporation tax rate of 24.5% (2011: 26.5%)	49,660	14,109
Available for sale investment movements	(488)	207
Utilisation of tax losses	<u>(49,172)</u>	<u>(14,316)</u>
Current tax charge for the year	\$ <u>-</u>	\$ <u>-</u>

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10. Other Financial Investments

(a) Other Financial Investments by Category

	<u>Carrying Value</u>		<u>Purchase Price</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>
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	35,554	47,572	27,284	40,420
Equity shares	63,960	65,909	59,647	71,971
Derivative financial instruments at fair value through profit or loss, held for trading	<u>38</u>	<u>2,869</u>	<u>6,875</u>	<u>6,875</u>
	<u>99,552</u>	<u>116,350</u>	<u>93,806</u>	<u>119,266</u>
Available for sale				
Equity shares	63	62	48	48
Debt securities and other fixed-income securities	<u>14,511</u>	<u>69,773</u>	<u>17,773</u>	<u>71,776</u>
	<u>14,574</u>	<u>69,835</u>	<u>17,821</u>	<u>71,824</u>
Sub total	114,126	186,185	111,627	191,090
Treasury bills	<u>181,445</u>	<u>99,141</u>	<u>181,427</u>	<u>101,090</u>
	<u>\$ 295,571</u>	<u>\$ 285,326</u>	<u>\$ 293,054</u>	<u>\$ 292,180</u>

(b) Listed Investments

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

	<u>2012</u>	<u>2011</u>
	<u>\$'000</u>	<u>\$'000</u>
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	35,554	47,572
Equity shares	<u>63,960</u>	<u>65,909</u>
	99,514	113,481
Available for sale		
Debt securities and other fixed-income securities	<u>7,304</u>	<u>30,781</u>
Total listed investments	<u>\$ 106,818</u>	<u>\$ 144,262</u>

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(c) Derivative Financial Instruments

Derivative financial instruments comprise credit default swap investments which RiverStone Insurance (UK) has purchased. The credit default swaps held as at 31st December 2012 have a maturity date of 2013, a notional amount of \$185 million and a fair value as shown in the table above.

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

	2012 Available for Sale \$'000	2012 At Fair Value through Profit and Loss \$'000	2011 Available for Sale \$'000	2011 At Fair Value through Profit and Loss \$'000
Opening	69,835	116,350	85,584	44,914
Additions at cost	35,802	87,962	17,378	71,971
Disposals (sale and redemptions) at costs	(88,710)	-	(34,146)	(1,886)
Disposals (sale and redemptions at carrying value)	-	(114,675)	-	-
Fair value net gains (excluding net realised gains)				
- Classified as held for trading	-	(2,696)	-	(239)
- Designated at fair value through profit and loss on initial recognition	-	12,328	-	560
Revaluation gains on available for sale	(2,172)	-	779	-
Exchange movements	(181)	283	240	1,030
Closing	\$ 14,574	\$ 99,552	\$ 69,835	\$ 116,350

(e) Other Financial Investments by Fair Value Hierarchy

	Level 1 2012 \$'000	Level 2 2012 \$'000	Level 3 2012 \$'000	Total 2012 \$'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	-	35,554	-	35,554
Equity shares	63,960	-	-	63,960
Derivative financial instruments at fair value through profit or loss, held for trading	-	38	-	38
Available for sale				
Equity shares	-	-	63	63
Debt securities and other fixed-income securities	-	14,511	-	14,511
Total	\$ 63,960	\$ 50,103	\$ 63	\$ 114,126

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	Level 1 2011 \$'000	Level 2 2011 \$'000	Level 3 2011 \$'000	Total 2011 \$'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	-	47,572	-	47,572
Equity shares	65,909	-	-	65,909
Derivative financial instruments at fair value through profit or loss, held for trading	-	2,869	-	2,869
Available for sale				
Equity shares	-	-	62	62
Debt securities and other fixed-income securities	-	30,781	38,992	69,773
Total	\$ 65,909	\$ 81,222	\$ 39,054	\$ 186,185

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

Movements on Level 3 Available for Sale Assets

	2012 \$'000	2011 \$'000
Opening	39,054	35,551
Purchase during the year	-	-
Total gains in profit or loss	-	3,503
Reclassification debt securities and other fixed income securities	(38,992)	-
Closing	\$ 62	\$ 39,054
Total gains on Level 3 available for sale assets included in profit or loss for the year (all held at the balance sheet date)	\$ -	\$ 3,503

(f) Collateralised Investments

The insurer has outstanding letters of credit, guarantees and deposits of \$94,704,000 (2011: \$126,211,000) issued in favour of cedants and certain other creditors collateralised by investments and cash with a market value of \$122,320,000 and a cost of \$115,116,000 (2011: market value \$134,338,000; cost \$124,379,000).

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 \$nil (2011: \$34,025,000) in respect of loss portfolio reinsurance contracts and stop loss contracts.

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12. Debtors Arising Out of Direct Insurance Operations

	2012 \$'000	2011 \$'000
Amounts due from intermediaries	\$ <u>498</u>	\$ <u>464</u>

13. Debtors Arising Out of Reinsurance Operations

	2012 \$'000	2011 \$'000
Amounts due from cedants and intermediaries	51,518	10,766
Amounts due from group undertakings	<u>235,259</u>	<u>163,060</u>
	\$ <u>286,777</u>	\$ <u>173,826</u>

14. Other Debtors

	2012 \$'000	2011 \$'000
Amounts due from group undertakings	\$ <u>117,147</u>	\$ <u>123,967</u>

15. Deferred Taxation

No deferred tax asset has been recognised in these financial statements as the Directors cannot be certain of an actual tax benefit crystallizing. The potential deferred tax asset not recognised amounts to:

	2012 \$'000	2011 \$'000
Trading losses available to carry forward	\$ <u>2,389</u>	\$ <u>52,632</u>

16. Called up Share Capital

	2012	2011
<u>Allotted</u>		
Nil Ordinary Shares of £1 - 50p paid (2011: 6,000,000)	£ <u>-</u>	£ <u>3,000,000</u>
10 Ordinary Shares of £1 - fully paid (2011: 53,684,529)	£ <u>10</u>	£ <u>53,684,529</u>
10 'A' Ordinary Shares of £1 - fully paid (2011: 7,000,000)	£ <u>10</u>	£ <u>7,000,000</u>
157,062,215 Ordinary Shares of \$1 - fully paid	\$ <u>157,062,215</u>	\$ <u>157,062,215</u>

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

On 22nd August 2012, 6,999,990 'A' Ordinary Shares of £1 each and 59,684,519 ordinary shares of £1 each (of which 6,000,000 were partly paid) were cancelled.

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

	2012 \$'000	2011 \$'000
Nil Ordinary Shares of £1 - 50p paid (2011: 6,000,000)	-	4,662
10 Ordinary Shares of £1 - fully paid (2011: 53,684,529)	-	83,432
10 'A' Ordinary Shares of £1 - fully paid (2011: 7,000,000)	-	10,877
157,062,215 Ordinary Shares of \$1 - fully paid	<u>157,062</u>	<u>157,062</u>
	\$ <u>157,062</u>	\$ <u>256,033</u>

17. Reconciliation of Movements in Total Shareholders' Funds

	Share Capital \$'000	Available for Sale Revaluation Reserve \$'000	Profit and Loss Account \$'000	2012 Total \$'000	2011 Total \$'000
As at 1 st January	256,033	(1,263)	73,946	328,716	274,695
Profit for the financial year	-	-	202,693	202,693	53,242
Net revaluation to available for sale investments	-	(2,172)	-	(2,172)	779
Reduction in shares	(103,518)	-	103,518	-	-
Dividend	-	-	(188,200)	(188,200)	-
Exchange movements	<u>4,547</u>	<u>-</u>	<u>(4,547)</u>	<u>-</u>	<u>-</u>
As at 31st December	\$ <u>157,062</u>	\$ <u>(3,435)</u>	\$ <u>187,410</u>	\$ <u>341,037</u>	\$ <u>328,716</u>

18. Creditors Arising Out of Direct Insurance Operations

	2012 \$'000	2011 \$'000
Other	<u>\$ 101</u>	<u>\$ 96</u>

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19. Creditors Arising Out of Reinsurance Operations

	2012	2011
	\$'000	\$'000
Balances due to intermediaries	5,969	28,834
Amounts due to group undertaking	90	-
	<u>6,059</u>	<u>28,834</u>
	\$ 6,059	\$ 28,834

20. Other Creditors Including Taxation and Social Security

	2012	2011
	\$'000	\$'000
Amounts due to group undertakings	-	2,714
Other creditors	372	2,892
	<u>372</u>	<u>5,606</u>
	\$ 372	\$ 5,606

21. Litigation and Contingent Liabilities

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

22. Related Party Transactions and Ultimate Parent Company

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

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

The financial statements of Fairfax 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