

COMPANY NO. 3253305

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

RiverStone Managing Agency Limited

2009 Annual Report

RiverStone Managing Agency Limited (Company No. 3253305)
Annual Report
For the year ended 31st December 2009

Contents	Page
Directors and Administration	3
Directors' Report	4
Independent Auditors' Report to the Members	7
Profit and Loss Account	9
Balance Sheet	10
Notes to the Financial Statements	11

RiverStone Managing Agency Limited (Company No. 3253305)
Directors and Administration
For the year ended 31st December 2009

Directors

N. C. Bentley - Managing Director
D. C. Gibbs - Non-Executive Director
W. F. Goodier - Non-Executive Chairman
L. A. Hemsley - Finance Director
L. R. Tanzer - Director

Secretary

F. Henry

Registered Office

Park Gate
161-163 Preston Road
Brighton
BN1 6AU

Auditors

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

RiverStone Managing Agency Limited (Company No. 3253305)

Directors' Report

For the year ended 31st December 2009

The Directors present the Annual Report of RiverStone Managing Agency Limited, ("RiverStone Managing Agency") comprising the Directors' Report together with the audited financial statements for the year ended 31st December 2009.

Ownership

RiverStone Managing Agency 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 Activities and Business Review

RiverStone Managing Agency is a Lloyd's Managing Agent whose principal business is the management of Syndicate 3500. Syndicate 3500 was formed for the purpose of accepting the reinsurance to close of the 2000 and prior years of account of Syndicate 271 and the 2001 and prior years of account of Syndicate 506 respectively. All of the capital support for Syndicate 3500 continues to be provided through its affiliate, RiverStone Corporate Capital Limited, a wholly owned subsidiary of RiverStone Holdings. As a consequence of reinsurance arrangements entered into immediately prior to the formation of Syndicate 3500, its liabilities are fully reinsured by RiverStone Insurance (UK) Limited ("RiverStone Insurance").

RiverStone Managing Agency delegates most of its day-to-day management functions under an outsource agreement with RiverStone Management Limited ("RiverStone Management"), a fellow subsidiary of RiverStone Holdings. Provision of services under this agreement is monitored by regular reporting to the Board of directors of RiverStone Managing Agency ("the Board"), which includes analysis of performance against key performance indicators.

RiverStone Managing Agency has made continued progress throughout 2009 in relation to key elements of its strategy. The Board monitors the progress of Syndicate 3500 by particular reference to the reduction in gross loss reserves and reduction in reinsurance recoverables. Excluding foreign exchange movements, gross loss reserves and third party reinsurance recoverables (excluding group reinsurance protection from RiverStone Insurance) both fell by 13%. However, changes in foreign exchange rates, primarily the strengthening of Pound sterling against the US dollar, contributed to a net decrease of 23% in both gross loss reserves and third party reinsurance recoverables. The Board regard this performance as satisfactory.

Results and Dividends

The result for the year amounted to nil (2008: nil). The Directors do not recommend the payment of a dividend (2008: nil).

RiverStone Corporate Capital Limited has agreed that RiverStone Managing Agency may recharge all of its net operating costs to Syndicate 3500. RiverStone Managing Agency's affiliate, RiverStone Insurance, which also provides unlimited reinsurance protection on the net reserves of Syndicate 3500, has provided a guarantee of up to £1 million in support of RiverStone Managing Agency's solvency. Additionally, RiverStone Managing Agency has received a letter of support from RiverStone Holdings, whereby funds will be made available to RiverStone Managing Agency to ensure liabilities are met as they fall due for payment.

RiverStone Managing Agency Limited (Company No. 3253305)

Directors' Report

For the year ended 31st December 2009

Strategy and Future Outlook

As well as continuing to manage the existing run-off of Syndicate 3500, in 2009 RiverStone Managing Agency began to actively pursue opportunities to reinsure-to-close further run-off portfolios into Syndicate 3500.

A substantial proportion of Syndicate 3500's liabilities relate to the events of 11th September 2001. These remain outstanding whilst certain disputes are resolved. When these have been settled, and assuming that no further business has been reinsured-to close into Syndicate 3500, RiverStone Managing Agency will develop a strategy for the closure of Syndicate 3500 by the way of a reinsurance-to-close of the remaining liabilities.

Directors

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

N. C. Bentley - Managing Director
D. C. Gibbs - Non-Executive Director
W. F. Goodier - Non-Executive Chairman
L. A. Hemsley – Finance Director
A. J. Keys - Non-Executive Director (resigned 30th November 2009)
L. R. Tanzer – Director

RiverStone Managing Agency 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 Managing Agency and of the profit or loss of RiverStone Managing Agency 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 judgments 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 Managing Agency 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 Managing Agency 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 Managing Agency and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

RiverStone Managing Agency Limited (Company No. 3253305)
Directors' Report
For the year ended 31st December 2009

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 Managing Agency'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 Managing Agency'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
15th March 2010

RiverStone Managing Agency Limited (Company No. 3253305)

Independent Auditors' Report to the Members

For the year ended 31st December 2009

We have audited the financial statements of RiverStone Managing Agency Limited for the year ended 31st December 2009 which comprise the Profit and Loss Account, the Balance Sheet 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 31 December 2009 and of its result 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 Managing Agency Limited (Company No. 3253305)
Independent Auditors' Report to the Members
For the year ended 31st December 2009

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 S D Terry

Nigel Terry (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
15th March 2010

RiverStone Managing Agency Limited (Company No. 3253305)
Profit and Loss Account
For the year ended 31st December 2009

	Note	2009 £	2008 £
Turnover - agency fees	1(d)	-	-
Administrative expenses	2	-	(99)
Operating loss on ordinary activities	2	-	(99)
Interest receivable (and similar activity)		-	99
Result on ordinary activities before taxation		-	-
Taxation on result on ordinary activities	4	-	-
Result for the financial year	7	£ -	£ -

The results above are all derived from continuing operations.

RiverStone Managing Agency has no recognised gains or losses other than those included in the Profit and Loss Account above and therefore no separate Statement of Total Recognised Gains and Losses has been presented.

There is no difference between the result on ordinary activities before taxation and the result for the financial year reported above and the historical cost equivalent.

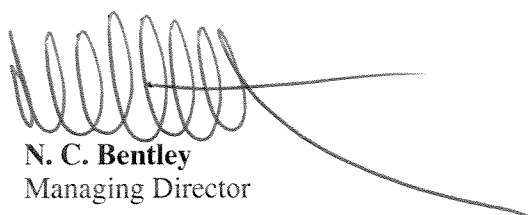
RiverStone Managing Agency Limited (Company No. 3253305)


Balance Sheet

As at 31st December 2009

	Note	2009 £	2008 £
Assets			
Current Assets			
Debtors	5	397,562	713,728
Cash at bank and in hand		<u>3,329</u>	<u>3,577</u>
Total Assets		£ <u>400,891</u>	£ <u>717,305</u>
Liabilities			
Capital and Reserves			
Called-up share capital	6	599,138	599,138
Profit and loss account		(588,162)	(588,162)
Total shareholders' funds	7	10,976	10,976
Creditors			
Amounts falling due within one year	8	<u>389,915</u>	<u>706,329</u>
Total Liabilities		£ <u>400,891</u>	£ <u>717,305</u>

The financial statements on pages 9 to 14 were approved by the Board of Directors on 15th March 2010 and signed on its behalf by:


N. C. Bentley
Managing Director


L. A. Hemsley
Finance Director

RiverStone Managing Agency Limited (Company No. 3253305)
Notes to the Financial Statements
For the year ended 31st December 2009

1. Accounting Policies

(a) Accounting convention

The financial statements of RiverStone Managing Agency Limited (“RiverStone Managing Agency” or “the Company”) have been prepared under the historical cost convention and in accordance with the Companies Act 2006 and applicable accounting standards. The principal accounting policies adopted by RiverStone Managing Agency are set out below and are consistent with those adopted in previous years.

(b) Going Concern

The financial statements have been prepared on a going concern basis. RiverStone Corporate Capital Limited has agreed that RiverStone Managing Agency may recharge all of its net operating costs to Syndicate 3500. RiverStone Managing Agency’s affiliate, RiverStone Insurance (UK) Limited, which also provides unlimited reinsurance protection on the net reserves of Syndicate 3500, has provided a guarantee of up to £1 million in support of RiverStone Managing Agency’s solvency. RiverStone Managing Agency has received a letter of support from its parent, RiverStone Holdings Limited, whereby funds will be made available to RiverStone Managing Agency to ensure liabilities are met as they fall due for payment.

(c) Cash flow Statement

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

(d) Turnover

Turnover from agency fees represents amounts charged for the year to RiverStone Corporate Capital Limited, the sole capital provider of RiverStone Managing Agency’s managed syndicate.

(e) Translation of Foreign Currencies

All profit and loss transactions are translated at average exchange rates over the accounting period. Monetary assets and liabilities are translated using the closing rate method. Gains and losses arising from the translation of the opening foreign currency assets and liabilities into sterling at current year-end exchange rates, together with an adjustment arising on the translation of the Profit and Loss Account from average rate to closing rate, are taken to the Profit and Loss Account.

(f) Deferred Tax

Deferred tax assets and liabilities are established for differences between amounts reported in the financial statements and amounts reported in the Company’s annual corporate 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 the Directors regard the deferred tax assets as more likely than not recoverable. Deferred tax balances are not discounted.

RiverStone Managing Agency Limited (Company No. 3253305)
Notes to the Financial Statements
For the year ended 31st December 2009

2. Administrative Expenses

The management and administration of RiverStone Managing Agency is carried out by RiverStone Management Limited ("RiverStone Management"), a fellow subsidiary, which also provides these services to other group companies. Administrative costs and amounts incurred for staff and related costs were recharged to Syndicate 3500, the syndicate under RiverStone Managing Agency's management. Operating costs charged by RiverStone Management during the year were £1,709,197 (2008: £2,451,792), all of which was recharged to Syndicate 3500.

The directors receive no emoluments from RiverStone Managing Agency. The contracts of employment of the U.K. executive directors and employees are with RiverStone Management, which makes charges to RiverStone Managing Agency for services described above. Emoluments paid by RiverStone Management to the directors of RiverStone Managing Agency in respect of their services as directors of RiverStone Managing Agency are summarised below.

	2009	2008
	£	£
Emoluments	331,000	242,000
Amounts receivable under long-term incentive schemes	69,000	8,000
Compensation for loss of office	-	17,000
Contributions to money purchase pension schemes	-	3,000
	£ 400,000	£ 270,000

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

	2009	2008
	£	£
Emoluments	187,000	100,000
Amounts receivable under long-term incentive schemes	49,000	-
Emoluments	£ 236,000	£ 100,000

As at 31st December 2009, £26,600 was accrued under a defined benefit pension scheme for the highest paid Director (2008: nil).

During the period benefits under pensions schemes operated by RiverStone Management Limited accrued to the following number of Directors:

	2009	2008
	No.	No.
Accrued benefits under money purchase pension schemes	-	1
Accrued benefits under defined benefit pension schemes	3	3

RiverStone Managing Agency Limited (Company No. 3253305)
Notes to the Financial Statements
For the year ended 31st December 2009

3. Auditors' Remuneration

	2009 £	2008 £
Audit services		
Fees payable to RiverStone Managing Agency's auditor for the audit of the financial statements	4,000	2,000
Non audit services		
Other services pursuant to legislation, including the audit of the regulatory return	1,000	-
	£ 5,000	£ 2,000

The charge for the audit fee has been borne by another company in the RiverStone Holdings group.

4. Taxation on Result on Ordinary Activities

	2009 £	2008 £
Current taxation		
UK corporation tax at 28% (2008: 28.5%) based on the results for the year	-	-
	£ -	£ -

5. Debtors: Amounts falling due within one year

	2009 £	2008 £
Amounts due from other group companies	36,492	36,492
Amounts due from managed syndicates	361,070	677,236
	£ 397,562	£ 713,728

6. Share Capital

	2009 £	2008 £
<u>Allotted, Called-up and Fully Paid</u>		
599,138 Ordinary Shares of £1	£ 599,138	£ 599,138

RiverStone Managing Agency Limited (Company No. 3253305)
Notes to the Financial Statements
For the year ended 31st December 2009

7. Reconciliation of Movement in Total Shareholders' Funds

	2009 £	2008 £
At 1 st January	10,976	10,976
Result for the financial year	-	-
At 31 st December	<u>£ 10,976</u>	<u>£ 10,976</u>

8. Creditors: Amounts falling due within one year

	2009 £	2008 £
Amounts due to other group companies	<u>£ 389,915</u>	<u>£ 706,329</u>

9. Related Party Transactions and Ultimate Parent Company

RiverStone Managing Agency 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 Managing Agency 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