

COMPANY NO. 3253305

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

RiverStone Managing Agency Limited

2011 Annual Report

RiverStone Managing Agency Limited (Company No. 3253305)
Annual Report
For the year ended 31st December 2011

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RiverStone Managing Agency Limited (Company No. 3253305)
Directors and Administration
For the year ended 31st December 2011

Directors

N. C. Bentley – Director
W. F. Goodier - Independent Non-Executive Chairman
L. A. Hemsley - Finance Director
A. J. Masterson – Independent Non-Executive Director
L. R. Tanzer – Managing Director

Company Secretary

F. Henry

Registered Office

Park Gate
161-163 Preston Road
Brighton
BN1 6AU

Independent Auditors

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

RiverStone Managing Agency Limited (Company No. 3253305)

Directors' Report

For the year ended 31st December 2011

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 2011.

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 and Syndicate 2112.

Syndicate 3500 was originally 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. As a consequence of reinsurance arrangements entered into immediately prior to the formation of Syndicate 3500, its liabilities related to Syndicate 271 and Syndicate 506 are fully reinsured by RiverStone Insurance (UK) Limited ("RiverStone Insurance").

Effective 1st January 2011, Syndicate 3500 accepted the reinsurance to close of the liabilities of Syndicate 376, a runoff syndicate with underwriting years of 2001 and prior. This transaction resulted in the transfer to Syndicate 3500 of gross and net technical provisions of £133 million and £79 million, respectively. Also effective 1st January 2011, Syndicate 3500 entered into a reinsurance protection agreement with RiverStone Insurance to reinsure 50% of the liabilities that were transferred from Syndicate 376.

The capital support for Syndicate 3500 is provided through its sole corporate member, RiverStone Corporate Capital Limited and RiverStone Insurance.

Syndicate 2112 wrote business from 2007 to 2009, whilst under the management of Renaissance Re Syndicate Management Limited, comprising homebuilders' commercial general liability, marine employers' liability, US auto-trucking physical damage and UK credit card protection insurance. The UK credit card protection insurance liabilities were all commuted in 2009.

Syndicate 2112 has unlimited protection for all of its remaining liabilities under a reinsurance protection agreement with RiverStone Insurance. RiverStone Insurance also provides the capital support for Syndicate 2112 on behalf of Syndicate 2112's sole corporate member, RiverStone Corporate Capital 2 Limited.

RiverStone Insurance, RiverStone Corporate Capital Limited and RiverStone Corporate Capital 2 Limited are all wholly owned subsidiaries of RiverStone Holdings.

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 2011 in relation to key elements of its strategy.

RiverStone Managing Agency Limited (Company No. 3253305)

Directors' Report

For the year ended 31st December 2011

The Board monitors the progress of Syndicate 3500 by particular reference to the reduction in gross loss reserves and reduction in reinsurance recoverable, in a timely and economic manner. After accounting for the increase in these amounts as a result of the reinsurance to close of Syndicate 376 at the start of the year, gross loss reserves and third party reinsurance recoverables (excluding group reinsurance protection from RiverStone Insurance) fell by 17% and 22%, respectively, during 2011.

The Board monitors the progress of Syndicate 2112 by particular reference to the reduction in gross loss reserves, in a timely and economic manner. During 2011, gross loss reserves fell by 61%.

The Board regards the performance in respect of both Syndicate 3500 and Syndicate 2112 as satisfactory.

Effective 1st January 2012, the following transactions occurred resulting in the transfer of additional liabilities into a new 2012 year of account of Syndicate 3500:

Syndicate 3500 accepted the reinsurance to close of the liabilities of Syndicate 2112.

Syndicate 3500 accepted the reinsurance to close of the liabilities of Syndicate 3330, a runoff syndicate with underwriting years of 2002 and prior. This syndicate primarily wrote marine and aviation business, within which the major losses are related to World Trade Centre and Erika. This transaction results in the transfer to Syndicate 3500 of gross and net technical provisions of £49.9 million and £40 million, respectively.

Syndicate 3500 entered into a transaction to accept the novation of the contracts under which the 2001 and prior years of Syndicate 535 and the 1999 years of Syndicate 1204 were previously closed into Centrewrite Limited. These syndicates primarily wrote engineering and liability business. This transaction results in the transfer to Syndicate 3500 of gross and net technical provisions of £16.1 million and £7.5 million, respectively.

Also effective 1st January 2012, Syndicate 3500 entered into reinsurance protection agreements with RiverStone Insurance to reinsure all of the liabilities that have been transferred from Syndicates 3330, 535 and 1204, and to increase the reinsurance of liabilities related to Syndicate 376 from 50% to 100%. As a result of these transactions all of Syndicate 3500's liabilities as at 1st January 2012 are fully reinsured by RiverStone Insurance.

Results and Dividends

The result for the year amounted to nil (2010: nil). The Directors do not recommend the payment of dividend (2010: nil).

RiverStone Managing Agency recharges all of its net operating costs to the syndicates under its management. RiverStone Managing Agency's affiliate, RiverStone Insurance, 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.

Strategy and Future Outlook

The Board's strategy for Syndicate 3500 which is the remaining syndicate under its management as of 1st January 2012, is the efficient and economic management of all existing liabilities. The Board intends to continue to actively pursue opportunities to reinsure-to-close further run-off portfolios into Syndicate 3500. In the event that further reinsurance to close transactions do not materialise in the future, and depending on the level of uncertainty surrounding the remaining reserves, the Board will develop a strategy for the closure of Syndicate 3500 by way of a reinsurance-to-close of the remaining liabilities.

RiverStone Managing Agency Limited (Company No. 3253305)

Directors' Report

For the year ended 31st December 2011

Directors

Directors holding office during the period from 1st January 2011 to the date of this report were as follows:-

N. C. Bentley – Director
W. F. Goodier – Independent Non-Executive Chairman
L. A. Hemsley – Finance Director
A. J. Masterson – Independent Non-Executive Director (appointed 7th October 2011)
L. R. Tanzer – Managing 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

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, 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.

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
2nd March 2012

RiverStone Managing Agency Limited (Company No. 3253305)
Independent Auditors' Report to the Members of RiverStone Managing Agency Limited
For the year ended 31st December 2011

We have audited the financial statements of RiverStone Managing Agency Limited for the year ended 31st December 2011 which comprise the Profit and Loss Account, the Balance Sheet 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. 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 2011 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 of RiverStone Managing Agency Limited
For the year ended 31st December 2011

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.



Andrew Moore (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
2nd March 2012

RiverStone Managing Agency Limited (Company No. 3253305)
Profit and Loss Account
For the year ended 31st December 2011

	Note	2011 £	2010 £
Turnover - agency fees	1(d)	-	-
Administrative expenses	2	-	-
Operating result on ordinary activities	2	-	-
Interest receivable		-	-
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 2011

	Note	2011 £	2010 £
Assets			
Current Assets			
Debtors	5	4,957,104	752,302
Cash at bank and in hand		<u>-</u>	<u>3,057</u>
Total Assets		£ <u>4,957,104</u>	£ <u>755,359</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>4,946,128</u>	<u>744,383</u>
Total Liabilities		£ <u>4,957,104</u>	£ <u>755,359</u>

The financial statements on pages 9 to 14 were approved by the Board of Directors on 2nd March 2012 and signed on its behalf by:


L. R. Tanzer
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 2011

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 in the United Kingdom. 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 Managing Agency recharges all of its net operating costs to the syndicates under its management. 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) ‘Cashflow Statements’ from publishing a cash flow statement.

(d) Turnover

Turnover from agency fees represents amounts charged for the year to the capital providers of RiverStone Managing Agency’s managed syndicates.

(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 RiverStone Managing Agency’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 2011

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 wholly recharged to the syndicates under RiverStone Managing Agency's management. Operating costs charged by RiverStone Management during the year were £7,223,058 (2010: £1,870,284) in respect of Syndicate 3500 and £355,140 (2010: £268,834) in respect of Syndicate 2112.

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.

	2011	2010
	£	£
Aggregate emoluments	510,000	303,000
Amounts receivable under long-term incentive schemes	<u>67,000</u>	<u>-</u>
	£ 577,000	£ 303,000

Retirement benefits are accruing to three directors (2010: three) under a defined benefit pension scheme.

During the year no directors exercised share options (2010: one).

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

	2011	2010
	£	£
Aggregate emoluments	286,000	159,000
Amounts receivable under long-term incentive schemes	<u>38,000</u>	<u>-</u>
	£ 324,000	£ 159,000

As at 31st December 2011, £31,800 per annum was accrued under a defined benefit pension scheme for the highest paid Director (2010: £28,400).

RiverStone Managing Agency Limited (Company No. 3253305)
Notes to the Financial Statements
For the year ended 31st December 2011

3. Auditors' Remuneration

	2011 £	2010 £
Audit services		
Fees payable to RiverStone Managing Agency's auditor for the audit of the financial statements	4,000	4,000
Non audit services		
Other services pursuant to legislation, including the audit of the regulatory return	1,000	1,000
	<u>£ 5,000</u>	<u>£ 5,000</u>

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

4. Taxation on Result on Ordinary Activities

	2011 £	2010 £
Current taxation		
UK corporation tax at 26.5% (2010: 28%) based on the result for the year	£ -	£ -

5. Debtors: Amounts falling due within one year

	2011 £	2010 £
Amounts due from group undertakings	36,492	36,492
Amounts due from managed syndicates	4,920,612	715,810
	<u>£ 4,957,104</u>	<u>£ 752,302</u>

6. Called up Share Capital

	2011 £	2010 £
<u>Allotted and Fully Paid</u>		
599,138 Ordinary Shares of £1	<u>£ 599,138</u>	<u>£ 599,138</u>

RiverStone Managing Agency Limited (Company No. 3253305)
Notes to the Financial Statements
For the year ended 31st December 2011

7. Reconciliation of Movement in Total Shareholders' Funds

	2011 £	2010 £
At 1 st January	10,976	10,976
Result for the financial year	-	-
At 31 st December	£ 10,976	£ 10,976

8. Creditors: Amounts falling due within one year

	2011 £	2010 £
Amounts due to group undertakings	£ 4,946,128	£ 744,383

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 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