COMPANY NO 1167327

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

RiverStone Insurance (UK) Limited

2013 Annual Report

RiverStone Insurance (UK) Limited (Company No. 1167327)
Annual Report
For the year ended 31st December 2013

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RiverStone Insurance (UK) Limited (Company No. 1167327)
Directors and Administration
For the year ended 31st December 2013

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)
Strategic Report
For the year ended 31st December 2013

The Directors have pleasure in presenting the Strategic Report of RiverStone Insurance (UK) Limited ("RiverStone Insurance (UK)" or the "the Company") for the year ended 31st December 2013

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 for the financial year of $49 7 million (2012· $202 7 million)

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

On 8th November 2013, High Court approval was granted for a transfer of liabilities from the Eagle Star Insurance group of companies into RiverStone Insurance (UK) under Part VII of the Financial Services and Markets Act 2000 This transfer became effective on 31st December 2013 There is no impact of this transaction on the 2013 profit and loss account of RiverStone Insurance (UK) as all of the liabilities were transferred to RiverStone Insurance (UK) by way of a reinsurance agreement that was entered into on 21st December 2012

The balance on the technical account for general business for the year was a gain of $17 6 million (2012 $157 7 million) This gain comprises releases of $28 3 million from net technical provisions less net operating expenses of $10 7 million

The profit on ordinary activities before taxation amounts to $62 1 million and comprises the gain on the technical account for general business plus net investment income of $44 5 million

Shareholders' funds have increased to $392 million from $341 million at the end of 2012 The increase in shareholders' funds comprises the profit for the financial year of $49 7 million and unrealised investment gains on available for sale investments of $1 2 million

Performance Measurements

RiverStone Insurance (UK) has made continued progress throughout 2013 in relation to key elements of its strategy, through continued reduction in gross loss reserves and reinsurance recoverables RiverStone Insurance (UK)'s admitted capital and capital cover are as follows

	2013	**2012**
Admitted capital	$283 million	$231 million
Capital cover against Enhanced Capital Requirement	2 9 times	1 3 times

Strategy and Future Developments

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 financial position at the end of the year and the remaining risks and level of volatility inherent in its business

Principal Risks and Uncertainties

The process of risk acceptance and risk management is addressed through a framework of policies, procedures and internal controls All policies are subject to approval by the board of directors of RiverStone Insurance (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

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)

By Order of the Board

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

F. Henry
Company Secretary
6th March 2014

RiverStone Insurance (UK) Limited (Company No. 1167327)
Directors' Report
For the year ended 31st December 2013

The Directors have pleasure in presenting their report and the audited financial statements for RiverStone Insurance (UK) Limited ("RiverStone Insurance (UK)" or the "the Company") for the year ended 31st December 2013

Directors

Directors holding office during the period from 1st January 2013 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) 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

Future Developments

Likely future developments in the business of RiverStone Insurance (UK) are discussed in the Strategic Report

Dividends

RiverStone Insurance (UK) paid no interim dividend during 2013 (2012 $188 2 million) The Directors do not recommend the payment of a final dividend (2012 nil)

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

Directors' Responsibilities Statement

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

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

The Company's auditor is PricewaterhouseCoopers LLP Each person who is a Director at the date of approval of this Report confirms that

- so far as the Director is aware, there is no information relevant to the audit of the Company's financial statements for the year ended 31st December 2013 of which the auditors are unaware, and
- the Director has taken all steps that he/she ought to have taken in his/her duty as a director in order to make himself or herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information

By Order of the Board

F. Henry
Company Secretary
6th March 2014

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

Report on the Financial Statements

Our opinion

In our opinion the financial statements, defined below

- give a true and fair view of the state of the company's affairs as at 31st December 2013 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

This opinion is to be read in the context of what we say in the remainder of this report

What we have audited

The financial statements, which are prepared by RiverStone Insurance (UK) Limited, comprise

- the balance sheet as at 31st December 2013
- the profit and loss account for the year then ended, and
- the statement of total recognised gains and losses for the year then ended, and
- the notes to the financial statements, which include a summary of significant accounting policies

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)

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

What an audit of financial statements involves

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)") An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of

- whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed
- the reasonableness of significant accounting estimates made by the directors, and
- the overall presentation of the financial statements

In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

RiverStone Insurance (UK) Limited (Company No. 1167327)
Independent Auditors' Report to the Members of RiverStone Insurance (UK) Limited
For the year ended 31st December 2013

Opinion on other matters prescribed by the Companies Act 2006

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

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

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

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

We have no exceptions to report arising from this responsibility

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made We have no exceptions to report arising from this responsibility

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Directors' Responsibilities Statement set out on page 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing

Andrew Moore (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
6th March 2014

RiverStone Insurance (UK) Limited (Company No. 1167327)
Profit and Loss Account
For the year ended 31st December 2013

	Note	2013 $'000	2012 $'000
Technical Account – General Business			
Gross premium written and earned		-	356,581
Written and earned premiums, net of reinsurance		**-**	**356,581**
Gross claims paid		(133,880)	(68,499)
Reinsurers' share		868	90,770
Net claims (paid) received		(133,012)	22,271
Change in the gross provision for claims		162,003	(187,636)
Reinsurers' share		(668)	(39,461)
Change in the net provision for claims		161,335	(227,097)
Claims incurred, net of reinsurance		**28,323**	**(204,826)**
Change in provision for uncollectible unpaid reinsurance		-	8,600
Net operating expenses	6	(10,726)	(2,662)
Total technical charges		**17,597**	**(198,888)**
Balance on the technical account for general business		**17,597**	**157,693**
Non-Technical Account			
Investment income	8	12,021	18,677
Realised gains on investments	8	2,294	13,423
Unrealised gains on investments		35,464	19,942
Unrealised losses on investments		(5,278)	(6,030)
Foreign exchange gains (losses)		5	(1,012)
Profit on ordinary activities before taxation		**62,103**	**202,693**
Taxation on profit on ordinary activities	9	(12,384)	-
Profit for the financial year		**$ 49,719**	**$ 202,693**

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 2013

	Note	2013 $'000	2012 $'000
Profit for the financial year		49,719	202,693
Movement on available for sale investment reserve		1,200	(2,172)
Total gains recognised during the year		**$ 50,919**	**$ 200,521**

Neither gains and losses of an insurance company arising on the holding or disposal of investments, nor the effect of fair value accounting for financial instruments are required to be included in a note of historical profits and losses There are no other differences between the profit on ordinary activities before tax or the profit for the financial year stated above and their historical cost equivalents

RiverStone Insurance (UK) Limited (Company No. 1167327)
Balance Sheet
As at 31st December 2013

	Note	2013 $'000	2012 $'000
Assets			
Financial Assets			
Other financial investments	10	**408,496**	**295,571**
Reinsurers' share of technical provisions			
Claims outstanding	3	**64,970**	**26,998**
Debtors			
Debtors arising out of direct insurance operations	11	320	498
Debtors arising out of reinsurance operations	12	269,778	286,777
Other debtors	13	114,976	117,147
		385,074	**404,422**
Other assets			
Cash at bank and in hand		**27,954**	**129,438**
Prepayments and accrued income			
Accrued income		**1,000**	**740**
Total Assets		**$ 887,494**	**$ 857,169**
Liabilities			
Capital and reserves			
Called up share capital	15	157,062	157,062
Other reserves	16	(2,235)	(3,435)
Profit and loss account	16	237,129	187,410
Total shareholders' funds	16	**391,956**	**341,037**
Technical provisions			
Gross claims outstanding	3	**473,108**	**509,600**
Creditors			
Creditors arising out of direct insurance operations	17	101	101
Creditors arising out of reinsurance operations	18	8,898	6,059
Other creditors including taxation and social security	19	13,431	372
		22,430	6,532
Total Liabilities		**$ 887,494**	**$ 857,169**

The financial statements on pages 10 to 30 were approved by the Board of Directors on 6th March 2014 and were signed on its behalf by -

L. R. Tanzer
Managing Director

L. A. Hemsley
Finance Director

1. Accounting Policies

(a) Basis of Preparation and Accounting Practice

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

(b) Basis of Accounting

i) Premiums

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

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)

(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

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 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

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 2013 is an approximate $7 2 million loss (2012 $4 4 million) to the profit and loss account Similarly, a 100 basis point decrease in interest rates would give rise to an approximate $8 4 million gain (2012 $5 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 comprise unlisted and listed investments Listed investments are those that are traded on recognised stock exchanges, primarily in Europe, North America and Asia

RiverStone Insurance (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 2013 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 $4 5 million (2012 $3 2 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 2013, if the Pound had weakened by 10% against the US Dollar with all other variables held constant, profit for the year would have been $2 4 million lower (2012 $0 9 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

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)

	2013 $'000	2012 $'000
Derivative financial instruments	-	38
Debt securities	97,568	50,065
Treasury bills	221,588	181,445
Assets arising from reinsurance contracts held	78,068	45,014
Premium receivable	35,595	34,000
Cash at bank and in hand	27,954	129,438
Affiliated loan receivable	114,629	117,119
Total assets bearing credit risk	$ 575,402	$ 557,119
A++	280,897	319,169
A+	15,469	37,845
A, A-	104,131	37,889
B++ and below or not rated (including affiliated assets)	174,905	162,216
Total assets bearing credit risk	$ 575,402	$ 557,119

Assets arising from reinsurance contracts held, including premium receivable are further analysed as follows

	2013 $'000	2012 $'000
Performing	109,955	61,619
Past due	19,178	32,899
Impaired	45,166	2,678
Provision for irrecoverable amounts	(60,636)	(18,182)
Total	$ 113,663	$ 79,014

(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 comprising only its 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 Prudential Regulation Authority ("the PRA") and Financial Conduct Authority ("FCA") 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 PRA'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 2012 to 31st December 2013 is as follows

	Gross $'000	Ceded $'000	Net $'000
Amounts at 1st January 2013	509,600	26,998	482,602
Eagle Star Part VII transfer	121,300	36,700	84,600
Amounts paid during the year	(133,880)	(868)	(133,012)
Change in estimate of reserves	(28,123)	200	(28,323)
Foreign exchange	4,211	1,940	2,271
Amounts at 31st December 2013	**$ 473,108**	**$ 64,970**	**$ 408,138**

On 8th November 2013, High Court approval was granted for a transfer of liabilities from the Eagle Star Insurance group of companies into RiverStone Insurance (UK) Under Part VII of the Financial Services and Markets Act 2000 this transfer became effective on 31st December 2013 There is no impact of this transaction on the 2013 profit and loss account of RiverStone Insurance (UK) as all of the liabilities were transferred to RiverStone Insurance (UK) by way of a reinsurance agreement that was entered into on 21st December 2012

Gross amounts paid in the year include $94 3 million in respect of settlement of the reinsurance arrangement on Eagle Star

4. Analysis of Gross Business

	Gross premiums written 2013 $'000	Gross premiums earned 2013 $'000	Gross claims incurred 2013 $'000	Gross operating expenses 2013 $'000	Re-insurance balance 2013 $'000
Direct Insurance					
Marine, aviation and transport	-	-	(2,266)	(4,351)	-
Fire and other damage to property	-	-	254	(27)	-
Third-party liability	-	-	(996)	(456)	-
Miscellaneous	-	-	(178)	(6)	-
			(3,186)	(4,840)	-
Reinsurance acceptances	-	-	31,309	(5,886)	200
Total	**$ -**	**$ -**	**$ 28,123**	**$ (10,726)**	**$ 200**

	2012 $'000	2012 $'000	2012 $'000	2012 $'000	2012 $'000
Direct Insurance					
Marine, aviation and transport	-	-	2,695	28	(2,524)
Fire and other damage to property	-	-	(135)	(1)	127
Third-party liability	-	-	(636)	-	587
Miscellaneous	-	-	19	-	(18)
	-	-	1,943	27	(1,828)
Reinsurance acceptances	356,581	356,581	(258,078)	(2,689)	53,137
Total	**$ 356,581**	**$ 356,581**	**$ (256,135)**	**$ (2,662)**	**$ 51,309**

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 insured losses incurred in 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

At the commencement of 2013 there were only three 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

In 2013, the claim brought by Cantor Fitzgerald was settled This settlement has now also been approved by the United States District Court for the Southern District of New York

The two remaining actions are those brought by World Trade Centre Properties LLC and by Cedar and Washington Although the Aviation Defendants have been successful in both of these actions in the Court of first instance, both actions are being appealed The final resolution of these claims pending the outcome of the appeals and potentially further litigation is not expected for some time

At 31st December 2013, the remaining underlying reserves of Syndicate 3500 in connection with the events of 11th September are estimated to be $114 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

		2013 $'000		2012 $'000
Administrative expenses	$	10,726	$	2,662

RiverStone Insurance (UK) has no employees The administration of RiverStone Insurance (UK) is carried out by RiverStone Management Limited, a fellow subsidiary, which also provides these services to other group companies

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

		2013 $'000		2012 $'000
Aggregate emoluments		548		707
Amounts receivable under long term incentive schemes		-		-
	$	548	$	707

Retirement benefits are accruing to three directors (2012 three) under a defined benefit pension scheme

During the year no directors exercised share options (2012 none)

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

		2013 $'000		2012 $'000
Aggregate emoluments		267		374
Amounts receivable under long term incentive schemes		-		-
	$	267	$	374

As at 31st December 2013 a pension of $66,000 per annum (2012 $56,000) was accrued under a defined benefit pension scheme for the highest paid Director

7. Auditors' Remuneration

	2013 $'000	2012 $'000
Audit	379	471
Audit related assurance services	24	126
Taxation compliance services	14	14
Other taxation advisory services	28	28
Other assurance services	124	-
	$ 569	$ 639

8. Investment Return

	2013 $'000	2012 $'000
Investment income		
Income from available for sale financial assets	1,191	3,062
Income from financial assets at fair value through profit and loss – designated upon initial recognition	1,781	2,922
Deposit interest	33	83
Income from treasury bills	166	177
Interest on deposits withheld	451	500
Interest from affiliated company	9,499	13,053
	13,121	19,797
Investment management expenses	(1,100)	(1,120)
	$ 12,021	$ 18,677

	2013 $'000	2012 $'000
Realised gains on investments		
Financial assets at fair value through profit and loss		
Held for trading	2,294	8,682
Available for sale financial assets	-	4,741
	$ 2,294	$ 13,423

9. Taxation on Profit on Ordinary Activities

	2013 $'000	2012 $'000
Current taxation		
UK corporation tax at 23 25% (2012 24 5%) based on the profit for the year	14,805	49,172
Losses brought forward	(2,421)	(49,172)
	$ 12,384	$ -

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 23 25% (2012 24 5%) The differences are explained below

	2013 $'000	2012 $'000
Profit on ordinary activities before taxation	$ 62,103	$ 202,693
Profit on ordinary activities before taxation multiplied by the UK corporation tax rate of 23 25% (2012 24 5%)	14,439	49,660
Non-taxable dividend income	(75)	-
Expenses not deductible for tax purposes	162	-
Available for sale investment movements	279	(488)
Utilisation of tax losses	(2,421)	(49,172)
Current tax charge for the year	$ 12,384	$ -

10. Other Financial Investments

(a) Other Financial Investments by Category

	Carrying Value		Purchase Price	
	2013 $'000	2012 $'000	2013 $'000	2012 $'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	84,789	35,554	80,273	27,284
Equity shares	89,274	63,960	56,065	59,647
Derivative financial instruments at fair value through profit or loss, held for trading	-	38	-	6,875
	174,063	99,552	136,338	93,806
Available for sale				
Equity shares	66	63	48	48
Debt securities and other fixed-income securities	12,779	14,511	14,428	17,773
	12,845	14,574	14,476	17,821
Sub total	186,908	114,126	150,814	111,627
Treasury bills	221,588	181,445	221,483	181,427
	$ 408,496	$ 295,571	$ 372,297	$ 293,054

(b) Listed Investments

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

	2013 $'000	2012 $'000
At fair value through profit and loss		
Debt securities and other fixed-income securities designated at fair value through profit or loss upon initial recognition	72,633	35,554
Equity shares	71,856	63,960
	144,489	**99,514**
Available for sale		
Debt securities and other fixed-income securities	5,183	7,304
Total listed investments	**$ 149,672**	**$ 106,818**

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

	Level 1 2013 $'000	Level 2 2013 $'000	Level 3 2013 $'000	Total 2013 $'000
A fair value through profit and loss				
Debt securities and other fixed-income securities designated at fair value through profit or loss upon initial recognition	-	79,789	5,000	84,789
Equity shares	71,856	12,449	4,969	89,274
Derivative financial instruments at fair value through profit or loss, held for trading	-	-	-	-
Available for sale				
Equity shares	-	-	66	66
Debt securities and other fixed-income securities	-	12,779	-	12,779
Total	**$ 71,856**	**$ 105,017**	**$ 10,035**	**$ 186,908**

	Level 1 2012 $'000	Level 2 2012 $'000	Level 3 2012 $'000	Total 2012 $'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	-	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

Level 3 investments valuations are based on third party broker quotes

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

	At Fair Value Through Profit and Loss		Available for Sale		
	Debt Securities 2013 $'000	Equity Shares 2013 $'000	Debt Securities 2013 $'000	Equity Shares 2013 $'000	Total 2013 $'000
At 1 January	-	-	-	63	63
Total gains recognised in the profit and loss account	-	-	(33)	3	(30)
Purchases	-	-	5,000	-	5,000
Sales	-	-	-	-	-
Reclassification	-	-	5,002	-	5,002
Total	$ -	$ -	$ 9,969	$ 66	$ 10,035

	At Fair Value Through Profit and Loss		Available for Sale		
	Debt Securities 2012 $'000	**Equity Shares 2012 $'000**	**Debt Securities 2012 $'000**	**Equity Shares 2012 $'000**	**Total 2012 $'000**
At 1 January	-	-	38,992	62	39,054
Total gains recognised in the profit and loss account	-	-	-	1	1
Purchases	-	-	-	-	-
Sales	-	-	-	-	-
Reclassification	-	-	(38,992)	-	(38,992)
Total	$ -	$ -	$ -	$ 63	$ 63

(e) Collateralised Investments

RiverStone Insurance (UK) has outstanding letters of credit, guarantees and deposits of $89,447,000 (2012 $94,704,000) issued in favour of cedants and certain other creditors collateralised by investments and cash with a market value of $120,629,000 and a cost of $115,694,000 (2012 market value $122,320,000, cost $115,116,000)

11. Debtors Arising Out of Direct Insurance Operations

	2013 $'000	**2012 $'000**
Amounts owed by intermediaries	$ 320	$ 498

12. Debtors Arising Out of Reinsurance Operations

	2013 $'000	**2012 $'000**
Amounts owed by cedants and intermediaries	48,371	51,518
Amounts owed by group undertakings	221,407	235,259
	$ 269,778	$ 286,777

13. Other Debtors

	2013 $'000	2012 $'000
Amounts owed from group undertakings	114,733	117,119
Other debtors	243	28
	$ 114,976	$ 117,147

14. 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

	2013 $'000	2012 $'000
Trading losses available to carry forward	$ -	$ 2,389

15. Called up Share Capital

	2013	2012
Allotted		
10 Ordinary Shares of £1 - fully paid	£ 10	£ 10
10 'A' Ordinary Shares of £1 - fully paid	£ 10	£ 10
157,062,215 Ordinary Shares of $1 - fully paid	$ 157,062,215	$ 157,062,215

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

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

	2013 $'000	2012 $'000
10 Ordinary Shares of £1 - fully paid	-	-
10 'A' Ordinary Shares of £1 - fully paid	-	-
157,062,215 Ordinary Shares of $1 - fully paid	157,062	157,062
	$ 157,062	$ 157,062

16. Reconciliation of Movements in Total Shareholders' Funds

	Called Up Share Capital $'000	Available for Sale Revaluation Reserve $'000	Profit & Loss Account $'000	2013 Total $'000	2012 Total $'000
As at 1st January	157,062	(3,435)	187,410	341,037	328,716
Profit for the financial year	-	-	49,719	49,719	202,693
Net revaluation to available for sale investments	-	1,200	-	1,200	(2,172)
Dividend	-	-	-	-	(188,200)
As at 31st December	**$ 157,062**	**$ (2,235)**	**$ 237,129**	**$ 391,956**	**$ 341,037**

17. Creditors Arising Out of Direct Insurance Operations

	2013 $'000	2012 $'000
Other	$ 101	$ 101

18. Creditors Arising Out of Reinsurance Operations

	2013 $'000	2012 $'000
Balances owed to intermediaries	8,898	5,969
Amounts owed to group undertaking	-	90
	$ 8,898	**$ 6,059**

19. Other Creditors Including Taxation and Social Security

	2013 $'000	2012 $'000
Taxation	3,715	-
Amounts owed to group undertaking	9,370	-
Other creditors	346	372
	$ 13,431	**$ 372**

20. 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 7 million

21. 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