

COMPANY NO 05983321

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

RiverStone Corporate Capital 2 Limited

2012 Annual Report



RiverStone Corporate Capital 2 Limited (Company No. 05983321)
Annual Report
For the year ended 31st December 2012

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RiverStone Corporate Capital 2 Limited (Company No. 05983321)
Directors and Administration
For the year ended 31st December 2012

Directors

N C Bentley
L A Hemsley
L R Tanzer

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 Corporate Capital 2 Limited (Company No. 05983321)

Directors' Report

For the year ended 31st December 2012

The Directors have pleasure in presenting the Annual Report of RiverStone Corporate Capital 2 Limited ("RiverStone Corporate Capital 2" or "the Company") comprising the Directors' Report together with the audited financial statements for the year ended 31st December 2012

Ownership

RiverStone Corporate Capital 2 is a wholly owned subsidiary of RiverStone Holdings Limited ("RiverStone Holdings"), a company registered in England and Wales

The ultimate parent company is Fairfax Financial Holdings Limited, 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 Corporate Capital 2 is the sole member of Syndicate 2112. Syndicate 2112 a run-off syndicate which wrote business from 2007 to 2009, 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. The capital support for Syndicate 2112 is provided by RiverStone Insurance (UK) Limited ("RiverStone Insurance UK"), a wholly owned subsidiary of RiverStone Holdings, which also reinsures all of the liabilities of Syndicate 2112

Effective 1st January 2012, the liabilities of Syndicate 2112 were reinsured-to-close into Syndicate 3500, which is under the management of the same managing agent, RiverStone Managing Agency Limited. Gross and net reserves of £7.3 million and nil, respectively, were transferred to Syndicate 3500 for a premium of nil

Business Review

Results and Performance

The profit for the year after taxation was £358,000 (2011: £nil) and represented an amount receivable for the surrender of group relief tax. Shareholders' funds have increased by the profit for the year from Nil as at the end of 2011 to £358,000 at the end of 2012. The Directors do not recommend the payment of a dividend (2011: Nil)

As a result of the reinsurance-to-close of Syndicate 2112 there are minimal profit and loss account movements and minimal assets and liabilities remaining at 31st December 2012.

Strategy and Future Outlook

It is intended that RiverStone Corporate Capital 2 will remain dormant for the foreseeable future

Directors

Directors holding office during the year were as follows

N C Bentley
L A Hemsley
L R Tanzer

RiverStone Corporate Capital 2 Limited (Company No. 05983321)
Directors' Report
For the year ended 31st December 2012

RiverStone Corporate Capital 2 has provided an indemnity for its directors which is a qualifying third party indemnity provision for the purposes of Section 234 of the Companies Act 2006

Directors' Responsibilities Statement

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

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

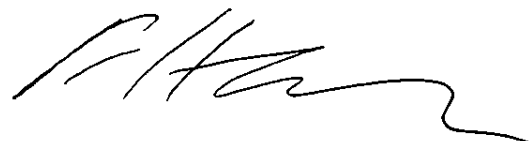
- select suitable accounting policies and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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 Corporate Capital 2'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 Corporate Capital 2's auditors are aware of that information.

By Order of the Board



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

F. Henry
Company Secretary
6th March 2013

RiverStone Corporate Capital 2 Limited (Company No. 05983321)
Independent Auditors' Report to the Members of RiverStone Corporate Capital 2 Limited
For the year ended 31st December 2012

We have audited the financial statements of RiverStone Corporate Capital 2 Limited for the year ended 31st December 2012 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 set out on Page 5 the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

Scope of the Audit of the Financial Statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs as at 31st December 2012 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on Other Matter Prescribed by the Companies Act 2006

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

RiverStone Corporate Capital 2 Limited (Company No. 05983321)
Independent Auditors' Report to the Members of RiverStone Corporate Capital
2 Limited
For the year ended 31st December 2012

Matters on which we are required to Report by Exception

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

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



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

RiverStone Corporate Capital 2 Limited (Company No. 05983321)
Profit and Loss Account
For the year ended 31st December 2012

	Note	2012 £'000	2011 £'000
Technical Account – General Business			
Gross premiums written and earned	2	-	(283)
Outward reinsurance premiums		-	283
Written and earned premiums net of reinsurance		-	-
Gross claims paid	3	-	(155)
Reinsurers' share	3	-	(356)
Net claims paid		-	(511)
Change in the gross provision for claims		-	11,605
Reinsurers' share		-	(11,605)
Change in the net provision for claims		-	-
Claims incurred, net of reinsurance		-	(511)
Net operating expenses	4	-	-
Total technical charges		-	(511)
Balance on the technical account for general business		-	(511)
Non-Technical Account – General Business			
Investment income	5	-	136
Investment expenses		-	(40)
Unrealised investment gains		-	415
Profit on ordinary activities before taxation		-	-
Taxation on profit on ordinary activities	6	358	-
Profit for the financial year		£ 358	£ -

RiverStone Corporate Capital 2 has no recognised gains and 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 profit on ordinary activities before taxation and the profit for the financial year reported above and the historical cost equivalent

RiverStone Corporate Capital 2 Limited (Company No. 05983321)

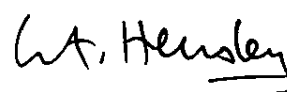
Balance Sheet

As at 31st December 2012

	Note	2012 £'000	2011 £'000
Assets			
Investments			
Other financial investments	7	-	17,025
Reinsurers' share of technical provisions			
Claims outstanding	3	-	7,304
Debtors			
Debtors arising out of reinsurance operations	8	-	96
Other debtors	9	358	-
		358	96
Other assets			
Cash at bank and in hand		-	1,077
Overseas deposits		-	202
		-	1,279
Prepayments and accrued income			
Prepayment and accrued interest		-	82
		<u>-</u>	<u>82</u>
Total assets		£ 358	£ 25,786
Liabilities			
Capital and reserves			
Called up share capital	10	10,285	10,285
Capital contribution		8,628	8,628
Profit and loss account		(18,555)	(18,913)
Total shareholders' funds	11	358	-
Technical provisions			
Claims outstanding	3	-	7,304
Creditors			
Creditors arising out of reinsurance operations	12	-	18,284
Other creditors including taxation and social security	13	-	138
		-	18,422
Accruals and deferred income			
		<u>-</u>	<u>60</u>
Total liabilities		£ 358	£ 25,786

The financial statements on pages 8 to 16 were approved by the Board of Directors on 6th March 2013 and were signed on its behalf by


L. R. Tanzer
Managing Director


L. A. Hemsley
Finance Director

RiverStone Corporate Capital 2 Limited (Company No. 05983321)
Notes to the Financial Statements
For the year ended 31st December 2012

1. Accounting Policies

(a) Basis of Preparation

The financial statements of RiverStone Corporate Capital 2 Limited ("RiverStone Corporate Capital 2") have been prepared under the provisions of The Large and Medium-Sized Companies and Groups (Accounts and Reports) Regulations 2009 (SI 2009/410), applicable accounting standards, 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, and Technical Release 1/99 "Accounting by Lloyd's Corporate Capital Vehicles"

(b) Basis of Accounting

The technical result has been determined by recognising RiverStone Corporate Capital 2's 100% share of all the transactions undertaken by the Lloyd's syndicate in which it participates, Syndicate 2112. All of Syndicate 2112's underwriting transactions, investment return and operating expenses have been reflected within RiverStone Corporate Capital 2's profit and loss account and balance sheet, using an annual basis of accounting. The liabilities of Syndicate 2112 were reinsured to close into Syndicate 3500 effective 1st January 2012.

(c) Premiums Written

Premiums, written relate solely to adjustments made in the year to estimates of premiums written in prior years. Premiums are shown gross of commission payable and exclude taxes and duties levied on them. Estimates are made for pipeline premiums, including amounts due to Syndicate 2112 not yet notified.

(d) Claims Incurred and Reinsurers' Share

Gross claims incurred comprise claims and settlement expenses (both internal and external) occurring during the year and the movement in provision for outstanding claims and settlement expenses brought forward. Allowance is made for the cost of claims incurred by the balance sheet date but not reported until after the year-end. Incurred claims outstanding are reduced by anticipated salvage and other recoveries from third parties.

The provision for claims outstanding comprises amounts set aside for claims notified and claims incurred but not yet reported (IBNR). The amount included in respect of IBNR is based on statistical techniques of estimation. These techniques generally involve projecting from past experience of the development of claims over time to form a view of the likely ultimate claims to be experienced for more recent underwriting, having regard to variations in the business accepted and the underlying terms and conditions. The provision for claims also includes amounts in respect of internal and external claims handling costs.

The reinsurers' share of provisions for claims is based on calculated amounts of outstanding claims and projections for IBNR, net of estimated irrecoverable amounts, having regard to the reinsurance programme in place for the class of business, the claims experience for the year and the current security rating of the reinsurance companies involved. Syndicate 2112 uses a number of statistical techniques to assist in making these estimates.

RiverStone Corporate Capital 2 Limited (Company No. 05983321)
Notes to the Financial Statements
For the year ended 31st December 2012

The directors consider that the provisions for gross claims and related reinsurance recoveries are fairly stated on the basis of the information currently available to them. However, ultimate liability will vary as a result of subsequent information and events and this may result in significant adjustments to the amounts provided. Adjustments to the amounts of claims provisions established in prior years are reflected in the financial statements for the period in which the adjustments are made. The provisions are not discounted for the investment earnings that may be expected to arise in the future on the funds retained to meet the future liabilities. The methods used, and the estimates made, are reviewed regularly.

(e) Cash flows

RiverStone Corporate Capital 2 is a wholly owned subsidiary of Fairfax Financial Holdings Limited ("Fairfax") and the cash flows of RiverStone Corporate Capital 2 are included in the consolidated group cash flow statement of Fairfax which is publicly available. Consequently, RiverStone Corporate Capital 2 is exempt under the terms of Financial Reporting Standard No 1 (Revised 1996) 'Cash flow Statements' from publishing a cash flow statement.

(f) Deferred Taxation

Deferred tax assets and liabilities are established for differences between amounts reported in the financial statements and amounts reported in RiverStone Corporate Capital 2'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.

(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 and charges. Realised gains and losses on investments carried at market value are calculated as the difference between sale proceeds and purchase price. Movements in unrealised gains and losses on investments represent the difference between the valuation at the 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) Translation of Foreign Currencies

Assets and liabilities denominated in foreign currencies are translated to sterling at the rates of exchange ruling at the end of the financial year. Transactions in foreign currencies are translated at the average rate of exchange during the year. Exchange differences arising from the retranslation of opening foreign currency denominated net assets of US dollars, Euros and Canadian dollars are taken to reserves and reported in the Statement of Total Recognised Gains and Losses. Other foreign exchange differences are reported in the non-technical account.

RiverStone Corporate Capital 2 Limited (Company No. 05983321)
Notes to the Financial Statements
For the year ended 31st December 2012

2. Segmental Analysis

	Gross premiums written 2012 £'000	Gross premiums earned 2012 £'000	Gross claims incurred 2012 £'000	Gross operating expenses 2012 £'000	Re- insurance balance 2012 £'000
Direct Business					
Third-party liability	-	-	-	-	-
Marine, aviation and transport	-	-	-	-	-
Total	£ -	£ -	£ -	£ -	£ -

	2011 £'000	2011 £'000	2011 £'000	2011 £'000	2011 £'000
Direct Business					
Third-party liability	(283)	(283)	11,422	385	(12,035)
Marine, aviation and transport	-	-	28	-	(28)
Total	£ (283)	£ (283)	£ 11,450	£ 385	£ (12,063)

Syndicate 2112 is in run-off and premiums earned during the year are in respect of premiums and adjustments made in the year to estimates of premiums written in prior years. All premiums written were in respect of insurance contracts concluded in the UK and all relate to insurance risks in the USA and the UK.

The reinsurance balance includes £nil (2011 £12,063,000) in respect of recoveries made from RiverStone Insurance (UK) Limited under the reinsurance protection agreement.

3. Technical Provisions

The change in the provisions for claims outstanding during the period was as follows:

	2012			2011		
	Gross £'000	Reinsurers' Share £'000	Net £'000	Gross £'000	Reinsurers' Share £'000	Net £'000
Claims outstanding at 1 January	7,304	7,304	-	19,140	19,140	-
Transferred to Syndicate 3500	(7,304)	(7,304)	-	-	-	-
Change in estimates of technical provisions, including foreign exchange	-	-	-	(11,681)	(12,192)	511
Paid claims	-	-	-	(155)	356	(511)
Claims outstanding at 31 December	£ -	£ -	£ -	£ 7,304	£ 7,304	£ -

The table above refers to RiverStone Corporate Capital 2's 100% share of Syndicate 2112.

RiverStone Corporate Capital 2 Limited (Company No. 05983321)
Notes to the Financial Statements
For the year ended 31st December 2012

Included within reinsurers' share of technical provisions - claims outstanding are amounts recoverable from affiliated companies totalling of £nil (2011 £7,304,051)

4. Net Operating Expenses

	2012 £'000	2011 £'000
Administrative expenses	£ <u> -</u>	£ <u> -</u>

No emoluments were paid by RiverStone Corporate Capital 2 to any Directors during the year (2011 Nil) The emoluments of the Directors are paid by an associated company, RiverStone Management Limited Directors' services to RiverStone Corporate Capital 2 are incidental and their emoluments are deemed to be wholly attributable to their services to other group companies Accordingly no disclosure of emoluments has been made in these financial statements

The audit fee in respect of RiverStone Corporate Capital 2 has been borne by an associated company, RiverStone Management Limited The amounts incurred in respect of audit services in relation to RiverStone Corporate Capital 2 are as follows

	2012 £'000	2011 £'000
Audit	£ <u> 3</u>	£ <u> 3</u>

5. Investment Income

	2012 £'000	2011 £'000
Income from investment accounts	£ <u> -</u>	£ <u> 136</u>

6. Taxation on profit on ordinary activities

	2012 £'000	2011 £'000
Current Taxation		
UK corporation tax at 24.5% (2011 26.5%) based on the profit for the year	(1,015)	(2,738)
Group relief surrendered	-	2,738
Prior year adjustment	(358)	-
Losses carried forward	<u>1,015</u>	<u>-</u>
	£ <u> (358)</u>	£ <u> -</u>

RiverStone Corporate Capital 2 Limited (Company No. 05983321)
Notes to the Financial Statements
For the year ended 31st December 2012

Factors affecting the tax charge for the period

The corporation tax assessed for the year differs to the standard rate of corporation tax in the UK of 24.5% (2011: 26.5%). The differences are explained below:

	2012 £'000	2011 £'000
Profit on ordinary activities before tax	£ <u>-</u>	£ <u>-</u>
Profit on ordinary activities before taxation multiplied by the UK corporation tax rate of 24.5% (2011: 26.5%)	-	-
Timing differences and disallowed expenses	(1,015)	(2,738)
Prior year adjustment	(358)	-
Tax losses not recognised	<u>1,015</u>	<u>2,738</u>
Current tax (credit) charge for the year	£ <u>(358)</u>	£ <u>-</u>

7. Other Financial Investments

	2012		2011	
	Market Value £'000	Historical Cost £'000	Market Value £'000	Historical Cost £'000
Listed debt securities and other fixed income securities	£ <u>-</u>	£ <u>-</u>	£ <u>17,025</u>	£ <u>16,604</u>

8. Debtors Arising Out of Reinsurance Operations

	2012 £'000	2011 £'000
Amounts due from intermediaries	£ <u>-</u>	£ <u>96</u>

9. Other Debtors

	2012 £'000	2011 £'000
Amounts due from group undertakings	£ <u>358</u>	£ <u>-</u>

RiverStone Corporate Capital 2 Limited (Company No. 05983321)
Notes to the Financial Statements
For the year ended 31st December 2012

10. Called up Share Capital

	2012 £'000	2011 £'000
<u>Allotted and fully paid</u>		
16,102,728 Ordinary Shares of \$1 each	10,285	10,285
1 Ordinary share of £1	-	-
	<u>£ 10,285</u>	<u>£ 10,285</u>

11. Reconciliation of Movements in Total Shareholders' Funds

	2012 £'000	2011 £'000
As at 1 st January	-	-
Profit for the financial year	<u>358</u>	<u>-</u>
	<u>£ 358</u>	<u>£ -</u>

12. Creditors Arising Out of Reinsurance Operations

	2012 £'000	2011 £'000
Due to group undertakings	<u>£ -</u>	<u>£ 18,284</u>

13. Other Creditors Including Taxation and Social Security

	2012 £'000	2011 £'000
Due to group undertakings	<u>£ -</u>	<u>£ 138</u>

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

	2012 £'000	2011 £'000
Trading losses available to be carried forward	<u>£ 1,011</u>	<u>£ 63</u>

RiverStone Corporate Capital 2 Limited (Company No. 05983321)
Notes to the Financial Statements
For the year ended 31st December 2012

15. Related Party Transactions and Ultimate Parent Company

RiverStone Corporate Capital 2 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 Corporate Capital 2 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