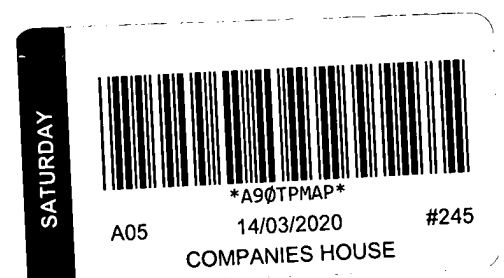


COMPANY NO. 1268308

REGISTERED OFFICE: Park Gate, 161-163 Preston Road, Brighton, East Sussex, United Kingdom, BN1 6AU

RiverStone Management Limited

2019 Annual Report



RiverStone Management Limited (Company No. 1268308)
Annual Report
For the year ended 31st December 2019

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RiverStone Management Limited (Company No. 1268308)
Directors and Administration
For the year ended 31st December 2019

Directors

M. J. Bannister
N. C. Bentley
A. R. Creed (appointed 14th March 2019)
L. A. Hemsley (resigned 14th March 2019)
F. Henry
I. Hewitt (appointed 14th March 2019)
S. C. Roberts
L. R. Tanzer
A. C. Tilley

Company Secretaries

F. Henry
S. L. Garrod

Registered Office

Park Gate
161-163 Preston Road
Brighton
East Sussex
United Kingdom
BN1 6AU

Independent Auditors

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

Website

www.trg.com

RiverStone Management Limited (Company No. 1268308)

Strategic Report

For the year ended 31st December 2019

The Directors have pleasure in presenting the Strategic Report of RiverStone Management Limited (“RiverStone Management” or “the Company”) for the year ended 31st December 2019.

Ownership

RiverStone Management 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

The principal activities of RiverStone Management continues to be that of a run-off agent and manager of insurance related entities within its affiliated group. Service fees charged to the entities are set so as to recover related costs on a net cost basis. RiverStone Management primarily operates in the London insurance market and is authorised by the Financial Conduct Authority.

Review of Business

Results and Performance

The results for the year set out in the profit and loss account show a loss for the financial year of £72,000 (2018: profit of £10,000). This represents an operating loss of £135,000, offset by foreign exchange gains of £63,000.

Over the past number of years, RiverStone Holdings and its subsidiaries have acquired several run-off portfolios of business, either associated with certain Fairfax operations in Europe or from unaffiliated parties. RiverStone Management continues to review resource levels to ensure they are appropriate to the business under its management. On 1st January 2019, RiverStone Managing Agency Limited, a wholly owned subsidiary of RiverStone Holdings, completed the novation of the management of Syndicate 780, from Advent Underwriting Limited, an affiliate Fairfax group company. In connection with this transfer, an additional 52 staff were taken on by RiverStone Management. A further 4 staff were also transferred to RiverStone Management in July 2019 in connection with a further acquisition made by RiverStone Managing Agency Limited.

Headcount at the end of the year was 226 (2018: 169).

RiverStone Management’s total operating charges are higher than the prior year, mainly due to the increase in headcount and the associated rent, occupancy and information technology costs.

Total shareholders’ funds have decreased by the loss for the financial year to £790,000 from £862,000. The Directors consider that the financial position at the year-end remains satisfactory.

Performance Measurements

RiverStone Management monitors its performance through adherence to service level standards set out in the agreements it has with the companies that it administers. Throughout the year these standards have been assessed as being met.

RiverStone Management meets the minimum capital requirement under Financial Conduct Authority rules at 31st December 2019 of £10,000.

RiverStone Management Limited (Company No. 1268308)

Strategic Report

For the year ended 31st December 2019

Strategy and Future Developments

RiverStone Management's primary focus is to continue to manage the timely and efficient run-off of the insurance related entities within its affiliated group.

On 20th December 2019, Fairfax entered into an agreement to sell a 40% equity interest in its wholly owned European Run-off group to Ontario Municipal Employees Retirement System ("OMERs"), the pension plan manager for government employees in the province of Ontario. The European Run-off group includes RiverStone Management Limited and its immediate parent company RiverStone Holdings. Upon completion of the transaction, OMERs and Fairfax will have joint control of the European Run-off group. Accordingly, Fairfax will deconsolidate the European Run-off group from its run-off reporting segment and apply the equity method of accounting for its remaining equity interest. The transaction is subject to regulatory approval and is expected to close in the first quarter of 2020.

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 Management ("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 Management. Its compliance, legal and finance departments take on an important oversight role in this regard. The Board is responsible for ensuring that a proper internal control framework exists to manage financial risks and that controls operate effectively; it is assisted in discharging these responsibilities by the RiverStone Holdings Group Risk Committee.

The principal risks faced by RiverStone Management arise from its ability to continue to meet the service standards in place with the entities for which it acts.

Section 172(1) of the Companies Act 2006

The Board of directors of RiverStone Management consider, in good faith, that they have had appropriate regard to the matters set out in section 172(1)(a) to (f) when performing their duty under section 172.

Consequences of any Decision in the Long Term

The Board undertakes a detailed review of the Company's strategy annually. The company's role as a services provider is closely aligned to those of the companies to which it provides those services and the Board is cognisant of this. The service level standards and services agreements under which the Board deliver these services are designed to ensure long-term value is core to the decision-making process.

Employees

The Board acknowledges that our people are essential to delivery of our strategy and has a well-established structure through which it supports engagement regularly with employees. During 2019 this included quarterly staff presentations including a full day off-site at which relevant business speakers presented to our employees. Other activity in 2019 included technology surveys, the initiation of a diversity and inclusion forum and regular training for our employees.

Business Relationships

The Board recognises that relationships with our stakeholders are vital to the delivery of our strategy and continuously monitors the Company's performance against key performance metrics. During 2019, the Board has regularly engaged with our key stakeholders, RiverStone Managing Agency and RiverStone Insurance

RiverStone Management Limited (Company No. 1268308)
Strategic Report
For the year ended 31st December 2019

(UK). Certain of the Board are also regularly engaged with RiverStone US for whom RiverStone Management also provides services under an outsourcing agreement.

Community and Environment

The Board actively supports and fosters a positive relationship with the community and the environment. In the current year, the Board has supported charitable giving, infrastructure improvements to leased offices to support a reduction in our carbon footprint and the establishment of a diversity and inclusion forum. The Board has a policy of matching employee charitable donations and of allowing time to be available to support others in our communities.

Business Conduct

The Board recognises that a commitment to a high standard of business conduct is critical to the delivery of our strategy and aspires to complete honesty and transparency in all activity. Among key documents reviewed and approved by the Board annually are the Conduct Risk Strategy and Financial Crime Policy. The Board is further committed to maintaining the higher ethical standards.

Shareholder Engagement

The Board is committed to an open engagement with our shareholders and has had the opportunity to regularly meet with the directors of the immediate holding company throughout the year.

By Order of the Board



Park Gate
161-163 Preston Road
Brighton, East Sussex
United Kingdom, BN1 6AU

F Henry
Company Secretary
3rd March 2020

RiverStone Management Limited (Company No. 1268308)

Directors' Report

For the year ended 31st December 2019

The Directors have pleasure in presenting their report and the audited financial statements for RiverStone Management Limited (Company No. 1268308) ("RiverStone Management") for the year ended 31st December 2019.

Directors

Directors holding office during the period from 1st January 2019 to the date of this report were as follows:

M. J. Bannister
N. C. Bentley
A. R. Creed (appointed 14th March 2019)
L. A. Hemsley (resigned 14th March 2019)
F. Henry
I. Hewitt (appointed 14th March 2019)
S. C. Roberts
L. R. Tanzer
A. C. Tilley

RiverStone Management 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. This indemnity was in force during the financial year and also at the date of this report.

Future Developments

Likely future developments in the business of RiverStone Management are discussed in the Strategic Report.

Dividends

RiverStone Management paid no interim dividends during the year (2018: nil). The Directors do not recommend a final dividend (2018: nil).

Financial Investments

RiverStone Management is exposed to financial risk through its financial assets and liabilities. The most important components of this financial risk are market risk (including currency risk), credit risk and liquidity risk. RiverStone Management manages these risk within its overall risk management framework.

Statement of Directors' Responsibilities in Respect of the Financial Statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

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, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", 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 the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 102, have been followed, subject to any material departures disclosed and explained in the financial statements;

RiverStone Management Limited (Company No. 1268308)

Directors' Report

For the year ended 31st December 2019

- make judgements and accounting estimates that are reasonable and prudent; and
- 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 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 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.

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.

Directors' Confirmations

In the case of each director in office at the date the Directors' Report is approved:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- they have 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 the company's auditors are aware of that information.

By Order of the Board



Park Gate
161-163 Preston Road
Brighton, East Sussex
United Kingdom, BN1 6AU

F Henry
Company Secretary
3rd March 2020

RiverStone Management Limited (Company No. 1268308)
Independent Auditors' Report to the Members of RiverStone Management Limited
For the year ended 31st December 2019

Report on the Audit of the Financial Statements

Opinion

In our opinion, RiverStone Management Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31st December 2019 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report, which comprise: the Balance Sheet as at 31st December 2019; the Profit and Loss Account and the Statement of Changes in Equity for the year then ended; and the Notes to the Financial Statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions Relating to Going Concern

ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern. For example, the terms of the United Kingdom's withdrawal from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the company's trade, customers, suppliers and the wider economy.

RiverStone Management Limited (Company No. 1268308)
Independent Auditors' Report to the Members of RiverStone Management Limited
For the year ended 31st December 2019

Reporting on Other Information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report

Responsibilities for the Financial Statements and the audit

Responsibilities of the Directors for the Financial Statements

As explained more fully in the Statement of Directors' Responsibilities in Respect of the Financial Statements, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise

RiverStone Management Limited (Company No. 1268308)
Independent Auditors' Report to the Members of RiverStone Management Limited
For the year ended 31st December 2019

from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

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.

Other Required Reporting

Companies Act 2006 Exception Reporting

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 by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.



Robert Cordock (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
6 March 2020

RiverStone Management Limited (Company No. 1268308)
Profit and Loss Account
For the year ended 31st December 2019

| | Note | 2019 £'000 | 2018 £'000 |
|---|------|---------------|---------------|
| Turnover | 4 | 53,610 | 31,707 |
| Staff costs | 5 | (41,461) | (22,077) |
| Other operating expenses | | (12,754) | (8,358) |
| Other operating charges | | (135) | - |
| Realised gains on investments | | 6 | 133 |
| Unrealised gains (losses) on investments | | 600 | (1,405) |
| Investment income | 10 | <u>-</u> | <u>-</u> |
| Operating loss | | (135) | - |
| Other expense – foreign exchange profits (losses) | | <u>63</u> | <u>(10)</u> |
| Loss before tax | 10 | (72) | (10) |
| Tax on loss | 11 | <u>-</u> | <u>-</u> |
| Loss for the financial year | | £ (72) | £ (10) |

The results above are all derived from continuing operations.

RiverStone Management has no recognised gains or losses other than those included in the Profit and Loss Account above and therefore no Statement of Comprehensive Expense has been presented.

RiverStone Management Limited (Company No. 1268308)

Balance Sheet

As at 31st December 2019

| | Note | 2019 £'000 | 2018 £'000 |
|--|------|-----------------|-----------------|
| Assets | | | |
| Fixed assets | | | |
| Tangible assets | 12 | 466 | 562 |
| Other financial investments | 13 | 9,101 | 6,739 |
| | | 9,567 | 7,301 |
| Current assets | | | |
| Debtors | 14 | 9,755 | 6,879 |
| Cash at bank and in hand | | 1,963 | 1,083 |
| | | 11,718 | 7,962 |
| Total assets | | £ 21,285 | £ 15,263 |
| Capital, Reserves and Liabilities | | | |
| Capital and reserves | | | |
| Called up share capital | 16 | 100 | 100 |
| Profit and loss account | | 690 | 762 |
| Total shareholders' funds | | 790 | 862 |
| Creditors: Amounts falling due within one year | 17 | 20,495 | 14,401 |
| | | 20,495 | 14,401 |
| Total capital, reserves and liabilities | | £ 21,285 | £ 15,263 |

The financial statements on pages 12 to 26 were approved by the Board of Directors on 3rd March 2020 and were signed on its behalf by:



L. R. Tanzer
Managing Director



A. R. Creed
Finance Director

RiverStone Management Limited (Company No. 1268308)**Statement of Changes in Equity****For the year ended 31st December 2019**

| | Called up Share Capital £'000 | Profit and Loss Account £'000 | Total Share- Holders' Funds £'000 |
|---|--|--|--|
| Balance at 1st January 2018 | 100 | 772 | 872 |
| (Loss) for the financial year | <u>-</u> | <u>(10)</u> | <u>(10)</u> |
| Total comprehensive income for the year | <u>-</u> | <u>(10)</u> | <u>(10)</u> |
| Balance at 31st December 2018 | £ 100 | £ 762 | £ 862 |
| Balance at 1st January 2019 | 100 | 762 | 862 |
| Profit for the financial year | <u>-</u> | <u>(72)</u> | <u>(72)</u> |
| Total comprehensive expense for the year | <u>-</u> | <u>(72)</u> | <u>(72)</u> |
| Balance at 31st December 2019 | £ 100 | £ 690 | £ 790 |

RiverStone Management Limited (Company No. 1268308)
Notes to the Financial Statements
For the year ended 31st December 2019

1. General Information

RiverStone Management Limited (“RiverStone Management” or “the Company”) is a run-off agent and manager of affiliated insurance related entities. Service fees charged to the entities are set out as to recover related costs on a net cost basis. RiverStone Management is a private company limited by shares and is incorporated in England. The address of its registered office is Park Gate, 161-163 Preston Road, Brighton, East Sussex, United Kingdom, BN1 6AU.

2. Statement of Compliance

The financial statements of RiverStone Management have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, “The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland” (“FRS102”) and the Companies Act 2006.

3. Summary of Significant Accounting Policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Basis of Preparation

These financial statements are prepared on a going concern basis under the historical cost convention.

(b) Going Concern

Having addressed the principal risks, the directors consider it appropriate to adopt the going concern basis of accounting in preparing these financial statements.

(c) Exemptions for Qualifying Entities under FRS102

FRS102 allows a qualifying entity certain disclosure exemptions, subject to certain conditions, which have been complied with, including notification of, and no objection to the use of exemptions by RiverStone Management’s shareholders.

RiverStone Management has taken advantage of the following exemptions:

- i) from preparing a statement of cash flows, on the basis that it is a qualifying entity and the consolidated statement of cash flows, included in the financial statements of Fairfax Financial Holdings Limited (“Fairfax”) includes RiverStone Management’s cash flows
- ii) from disclosing key management personnel compensation, as required by FRS102 paragraph 33.7.
- iii) from the requirement to disclose transactions with related parties within the same group as provided by FRS102, Section 33.1A. This exemption is available for RiverStone Management as consolidated financial statements are publicly available for Fairfax.

RiverStone Management Limited (Company No. 1268308)

Notes to the Financial Statements

For the year ended 31st December 2019

(d) Translation of Foreign Currencies

The financial statements are presented in Pounds Sterling and, unless otherwise stated, are rounded to thousands. Items included in RiverStone Management's financial statements are measured using the currency of the primary economic environment in which it operates. RiverStone Management's functional currency is Pounds Sterling.

Foreign currency transactions are translated into the functional currency using the average rate of exchange during the year. At each year end foreign currency monetary items are translated using the year end rate of exchange. 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 year.

(e) Tax

Tax expense for the year comprises current and deferred tax recognised in the reporting period. Tax is recognised in the profit and loss account, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case tax is also recognised in other comprehensive income or directly in equity respectively.

i) Current Tax

Current tax is the amount of income tax payable in respect of the taxable profit for the year or prior years. Tax is calculated on the basis of tax rates and laws that have been enacted or substantially enacted by the year end.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

ii) Tax Rate Changes – Confirm requirement to disclose potential

The tax rate for the current year is 19%. Changes to the UK corporation tax rates were substantively enacted as part of Finance Bill 2016 (on 6 September 2016). These include reductions to the main rate to reduce the rate to 17% from 1st April 2020. Deferred taxes at the balance sheet date have been measured using these enacted tax rates and reflected in these financial statements.

Legislation amending the Finance Bill 2016 to reverse proposed reductions to the UK corporation tax rate from 19% to 17% are anticipated to be enacted in March 2020.

iii) Deferred Tax

Deferred tax assets and liabilities are established for differences between amounts reported in the financial statements and amounts reported in RiverStone Management'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 using tax rates and laws that have been enacted or substantively enacted by the year end. Deferred tax assets are recognised to the extent that they are regarded as more likely than not recoverable. 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 Comprehensive Income.

RiverStone Management Limited (Company No: 1268308)

Notes to the Financial Statements

For the year ended 31st December 2019

(f) Financial Instruments

RiverStone Management has chosen to adopt Sections 11 and 12 of FRS102 in respect of financial instruments.

Basic financial assets, including trade and other receivables and cash and bank balances are initially recognised at transaction price. Such assets are subsequently carried at amortised cost using the effective interest method.

Other financial assets, being investments in preference shares are initially measured at fair value, which is normally the transaction price. Such assets are subsequently carried at fair value and the changes in fair value are recognised in profit or 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 year in which they arise.

(g) Tangible Assets and Depreciation

Tangible assets are valued at cost less accumulated depreciation. Cost includes the original purchase price, costs directly attributable to bringing the asset to its intended use, dismantling and restoration costs. Assets are depreciated on a straight line basis from the time when they are available for use over the estimated useful lives as follows:

- i) Fixtures and fittings (primarily computer equipment) - 20% to 33% per annum
- ii) Motor vehicles - 25% per annum
- iii) Leasehold improvements - amortised over lease period

(h) Leased Assets

RiverStone Management assesses agreements that transfer the right to use assets. The assessment considers whether the arrangement is, or contains, a lease based on the substance of the arrangement.

Leases of assets that transfer substantially all the risks and rewards incidental to ownership are classified as finance leases. Leases that do not transfer all the risks and rewards of ownership are classified as operating leases.

(i) Finance Leases

Assets under finance leases are capitalised in the balance sheet and amortised over their estimated useful life. The capital element of the leasing commitments is shown as obligations under finance leases. The lease rentals consist only of a capital element and are applied to reduce the outstanding obligations.

(ii) Operating Leases

Costs in respect of operating leases are charged to profit and loss as incurred over the lease term.

RiverStone Management Limited (Company No. 1268308)

Notes to the Financial Statements

For the year ended 31st December 2019

(i) Employee Benefits

RiverStone Management provides a range of benefits to employees, including annual bonus arrangements, paid holiday arrangements and defined benefit and defined contribution pension plans.

i) Short-term benefits

Short term benefits, including holiday pay and other similar non-monetary benefits, are recognised as an expense in the period in which the service is received.

ii) Defined Benefit Pension Scheme

RiverStone Management is a participating employer in a defined benefit pension scheme. A defined benefit plan defines the pension benefit that the employee will receive on retirement, usually dependent upon several factors including age, length of service and remuneration.

RiverStone Management recognises the costs of the pension scheme in its profit and loss account as staff costs. As RiverStone Holdings Limited, the principal employer of the Defined Benefit Pension Scheme, has adopted FRS 102 within the group, any funding surpluses or deficits that may arise in respect of the scheme, are recorded in the financial statements of the group parent. Full disclosure of pension costs relating to this scheme is made in accordance with FRS102 in the financial statements of RiverStone Holdings Limited.

iii) Defined Contribution Pension Scheme

A defined contribution plan is a pension plan under which RiverStone Management pays fixed contributions into a separate entity. Once the contributions have been paid RiverStone Management has no further payment obligations. The contributions are recognised as an expense when they are due. Amounts not paid are shown in accruals in the balance sheet. The assets of the plan are held separately from RiverStone Management in independently administered funds.

Further details of RiverStone Management's pension schemes are given in Note 9.

iv) Annual Bonus Plan

RiverStone Management operates annual bonus plans for employees. An expense is recognised in the profit and loss account when RiverStone Management has a legal or constructive obligation to make payments under the plans as a result of past events and a reliable estimate of the obligation can be made

(j) Cash Settled Share Based Payments

RiverStone Management has granted options to acquire shares in its parent, Fairfax, to certain employees. Services received, and the liability to pay for those services, are recognised at fair value in the Profit and Loss Account over the vesting period of the options that have been granted. Until the option is exercised and the liability is settled, the fair value of the liability is re-measured at the end of each year and at the date of settlement, with any changes in fair value being recognised in the Profit and Loss Account for the year. Fair value is determined by reference to the market share price of the underlying shares as at the valuation date.

RiverStone Management Limited (Company No. 1268308)
Notes to the Financial Statements
For the year ended 31st December 2019

(k) Related Party Transactions

RiverStone Management discloses transactions with related parties which are not wholly owned within the same group. Where appropriate, transactions of a similar nature are aggregated unless, in the opinion of the directors, separate disclosure is necessary to understand the effect of the transactions on the financial statements.

(l) Critical Accounting Judgements and Estimation Uncertainty

RiverStone Management's financial statements do not contain any elements of significant accounting estimates or judgements requiring disclosure.

4. Turnover

The turnover is attributable to the principal activity, that of managing insurance companies in the UK, and represents the revenue earned by RiverStone Management for run-off, administrative and accounting services.

5. Staff Costs

| | 2019 | 2018 |
|--------------------------------------|-----------------|-----------------|
| | £'000 | £'000 |
| Wages and salaries | 21,279 | 13,302 |
| Social security costs | 2,947 | 1,908 |
| Other pension costs (Note 9) | 15,261 | 7,027 |
| Share based payment expense (income) | 1,974 | (160) |
| | <u>£ 41,461</u> | <u>£ 22,077</u> |

The average monthly number of employees, by main activity, during the year was made up as follows:

| | 2019 | 2018 |
|-------------------------|-------------|-------------|
| | No. | No. |
| Office and management | 29 | 21 |
| Claims | 92 | 49 |
| Operations | 29 | 23 |
| Services | 42 | 29 |
| Financial and actuarial | 31 | 22 |
| | <u>223</u> | <u>144</u> |

6. Auditors' Remuneration

| | 2019 | 2018 |
|-------|--------------|--------------|
| | £'000 | £'000 |
| Audit | £ 30 | £ 17 |

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7. Directors' Remuneration

Emoluments paid by RiverStone Management to the Directors in respect of their services as directors of RiverStone Management are summarised below. These amounts represent emoluments based on an apportionment of the Directors' time.

| | 2019 £'000 | 2018 £'000 |
|--|---------------|---------------|
| Aggregate emoluments | 965 | 663 |
| Amounts paid to defined contribution pension plans | <u>24</u> | <u>6</u> |
| | £ <u>989</u> | £ <u>669</u> |

During the year the following number of Directors:

| | 2019 No. | 2018 No. |
|--|-------------|-------------|
| Accrued benefits under money purchase pension schemes | 5 | 2 |
| Accrued benefits under defined benefit pension schemes | 4 | 5 |

During the year no active directors and one former director exercised share options (2018: none).

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

| | 2019 £'000 | 2018 £'000 |
|----------------------|---------------|---------------|
| Aggregate emoluments | £ <u>292</u> | £ <u>308</u> |

As at 31st December 2019 a pension of £66,000 per annum (2018: £60,900) was accrued under a defined benefit pension scheme for the highest paid Director.

8. Share Based Payments

RiverStone Management participates in a Fairfax group share plan whereby options to acquire shares in Fairfax at a nil exercise price have been granted to certain of its employees. The vesting period of options currently granted but not exercised ranges from five to ten years and once the options have vested they are required to be exercised within five years. Options vest in full on the retirement of the employee and vest in part on a pro rata basis on death or as a result of the employee becoming unable to fulfil his employment obligations due to a disability. Options lapse if an employee ceases to be employed by RiverStone Management, or another company within the Fairfax group, for any reason other than retirement, death or disability.

Details of options granted by RiverStone Management which remain outstanding at the end of the year are as follows:

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| | 2019 | 2018 |
|--|---------------|---------------|
| | No. | No. |
| Outstanding 1 st January | 19,506 | 17,682 |
| Granted during the year | 3,128 | 2,824 |
| Forfeited during the year | - | - |
| Exercised during the year | (3,239) | (1,000) |
| Transfers from other group company | 6,255 | - |
| | <u>25,650</u> | <u>19,506</u> |
| Outstanding 31 st December | | |
| | <u>9,011</u> | <u>7,587</u> |
| Exercisable at 31 st December | | |
| | <u>0.3</u> | <u>0.8</u> |
| | Years | Years |
| Weighted average remaining contractual life of options outstanding at 31 st December | | |

The fair value of the compensation expense for the services received recorded in the Profit and Loss Account and the liability incurred is determined by reference to the market share price of the underlying Fairfax shares. The total compensation expense for 2019 was £1,974,000 (2018: income of £160,000). The total liability at the end of the year, which is included within Other Creditors on the balance sheet, was £6,397,000 (2018: £4,807,000). Of this amount £3,197,000 (2018: £2,621,000) relates to shares that have fully vested.

The weighted average fair value of options granted in the year is £346 (2018: £351).

During the year, 6,255 options were transferred to RiverStone Management for net book value from an affiliate group company as part of the novation of the management of Syndicate 780 to RiverStone Managing Agency and the associated transfer of staff to RiverStone Management as disclosed in the Strategic Report.

9. Other Pension Costs

RiverStone Management operates two pension schemes, a defined benefit scheme and a defined contribution scheme.

Defined Benefit Scheme

RiverStone Management is a participating employer in a defined benefit pension scheme (“the Plan”) which was closed to new employees with effect from 1 January 2003. The Plan’s funds are administered by trustees. The Plan is non-contributory for members. Company contributions are paid into the Plan in accordance with the recommendations of an independent actuarial adviser.

RiverStone Management’s contributions during the year and the charge to the Profit and Loss Account amounted to £13,483,000 (2018: £6,124,000).

Full disclosures relating to this scheme are made in the financial statements of the principal employer, RiverStone Holdings Limited.

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Defined Contribution Scheme

With effect from 1st January 2003, all new staff are eligible to join a new defined contribution scheme. Company contributions under this scheme are a percentage of salary. This percentage varies according to the age of the member of staff concerned.

The costs incurred by RiverStone Management under the scheme during the year were £1,778,000 (2018: £903,000). Outstanding company contributions payable at 31st December 2019 were £148,000 (2018: £87,000). These contributions have since been paid.

10. Loss before Tax

| | 2019 £'000 | 2018 £'000 |
|--|---------------|---------------|
| The loss before tax is stated after charging (crediting): | | |
| Hire of plant and machinery – operating leases | 23 | 9 |
| Hire of other assets – operating leases | 507 | 622 |
| Realised foreign exchange loss | 123 | 27 |
| Depreciation – owned | 163 | 151 |
| Depreciation - leased | - | 3 |

11. Tax on loss

| | 2019 £'000 | 2018 £'000 |
|---|---------------|---------------|
| (a) Current tax | | |
| UK corporation tax at 19% (2018: 19%) based on the loss for the year | 953 | 193 |
| Group relief claimed for nil consideration | (953) | (193) |
| Withholding tax | - | - |
| Adjustment related to prior year | - | - |
| | <u>£ -</u> | <u>£ -</u> |

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(b) 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 19% (2018: 19%). The differences are explained below:

| | 2019 | 2018 |
|---|---------------|--------------|
| | £'000 | £'000 |
| (Loss) profit before tax | £ <u>(72)</u> | £ <u>10</u> |
| (Loss) profit before tax multiplied by the UK corporation tax rate of 19% (2018: 19%) | (14) | (2) |
| Non-taxable investment income and investment gains | (115) | 267 |
| Expenses not deductible for tax purposes | 1,244 | 23 |
| Capital allowances claim | (162) | (95) |
| Group relief claimed for nil consideration | (953) | (193) |
| Withholding tax | - | - |
| Adjustment related to prior year | <u>-</u> | <u>-</u> |
| Total tax charge for the year | £ <u>-</u> | £ <u>-</u> |

(c) Tax rate changes

Changes to the UK corporation tax rates were substantively enacted as part of Finance Bill 2016 (on 6th September 2016). These include reductions to the main rate to reduce the rate to 17% from 1st April 2020. Deferred taxes at the balance sheet date have been measured using these enacted tax rates and reflected in these financial statements.

Legislation amending the Finance Bill 2016 to reverse proposed reductions to the UK corporation tax rate from 19% to 17% are anticipated to be enacted in March 2020.

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12. Tangible Assets

| | Fixtures and Fittings £'000 | Motor Vehicles £'000 | Leasehold Improvements £'000 | Total £'000 |
|---------------------------------|--|-------------------------------------|---|------------------------|
| Cost | | | | |
| At 1 January 2019 | 248 | 11 | 859 | 1,118 |
| Additions | 0 | 0 | 67 | 67 |
| Disposals | (109) | 0 | 0 | (109) |
| At 31 December 2019 | <u>139</u> | <u>11</u> | <u>926</u> | <u>1,076</u> |
| Accumulated depreciation | | | | |
| At 1 January 2019 | 141 | 9 | 406 | 556 |
| Charge for the year | 35 | 2 | 126 | 163 |
| Disposals | (109) | 0 | 0 | (109) |
| At 31 December 2019 | <u>67</u> | <u>11</u> | <u>532</u> | <u>610</u> |
| Net book value | | | | |
| At 31 December 2019 | £ <u>72</u> | £ <u>0</u> | £ <u>394</u> | £ <u>466</u> |
| At 31 December 2018 | £ <u>107</u> | £ <u>2</u> | £ <u>453</u> | £ <u>562</u> |

Assets held under finance leases (included above)

| | | | | |
|--|---|---|---|---|
| Net book value | | | | |
| At 31 December 2019 | - | - | - | - |
| At 31 December 2018 | - | - | - | - |
| Related depreciation charge for the year: | | | | |
| 2019 | - | - | - | - |
| 2018 | 3 | - | - | 3 |

13. Other Financial Investments

| | 2019 £'000 | 2018 £'000 |
|-------------------|-----------------------|-----------------------|
| Preference shares | £ <u>9,101</u> | £ <u>6,739</u> |

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14. Debtors

| | 2019 | 2018 |
|------------------------------------|----------------|----------------|
| | £'000 | £'000 |
| Amounts owed by group undertakings | 8,668 | 6,082 |
| Other debtors | 239 | 185 |
| Prepayments and accrued income | 848 | 612 |
| | <u>£ 9,755</u> | <u>£ 6,879</u> |

15. Deferred Tax

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:

| | 2019 | 2018 |
|--|----------------|----------------|
| | £'000 | £'000 |
| Excess capital allowances | 661 | 775 |
| Short term timing differences | 824 | 691 |
| Potential deferred tax asset not recognised | <u>£ 1,485</u> | <u>£ 1,465</u> |

16. Called up Share Capital

| | 2019 | 2018 |
|--|--------------|--------------|
| | £'000 | £'000 |
| <u>Allotted and fully paid</u> | | |
| 100,000 (2018: 100,000) ordinary shares of £1 each | <u>£ 100</u> | <u>£ 100</u> |

17. Creditors: Amounts Falling Due Within One Year

| | 2019 | 2018 |
|------------------------------------|-----------------|-----------------|
| | £'000 | £'000 |
| Trade creditors | 185 | 228 |
| Amounts owed to group undertakings | 6,750 | 4,442 |
| Other creditors | 6,396 | 4,807 |
| Tax and social security | 1,207 | 417 |
| Accruals and deferred income | 5,957 | 4,507 |
| | <u>£ 20,495</u> | <u>£ 14,401</u> |

RiverStone Management has no creditors which are subject to security arrangements.

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18. Other Financial Commitments

At 31st December 2019, RiverStone Management was committed to making the following minimum payments under non-cancellable operating leases for each of the following periods:

| | 2019 £'000 | 2018 £'000 |
|----------------------------|-----------------|----------------|
| Within one year | 1,660 | 633 |
| Between one and five years | 7,973 | 679 |
| Over five years | <u>10,538</u> | <u>646</u> |
| | £ 20,171 | £ 1,958 |

19. Related Party Transactions and Immediate and Ultimate Parent Company

RiverStone Management is a wholly owned subsidiary of RiverStone Holdings Limited which is registered in England and Wales. The ultimate parent company and controlling party 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 FRS102, Section 33.1A. This exemption is available for RiverStone Management as consolidated financial statements are publicly available for Fairfax.

Fairfax is the smallest and largest group of undertakings to consolidate these financial statements and its registered office is 95 Wellington Street West, Suite 800, Toronto, Ontario, Canada, M5J 2N7. The financial statements of Fairfax can be obtained from the Corporate Secretary at this address or from the website at www.fairfax.ca.