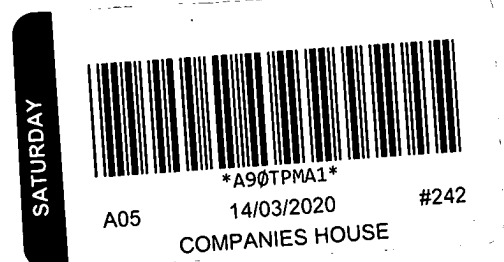


COMPANY NO. 2709527

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

RiverStone Holdings Limited

2019 Annual Report



RiverStone Holdings Limited (Company No. 2709527)

Annual Report

For the year ended 31st December 2019

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RiverStone Holdings Limited (Company No. 2709527)

Directors and Administration

For the year ended 31st December 2019

Directors

N. C. Bentley

A. R. Creed (appointed 14th March 2019)

L. A. Hemsley (resigned 14th March 2019)

L. R. Tanzer

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 Holdings Limited (Company No. 2709527)

Strategic Report

For the year ended 31st December 2019

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

Ownership

RiverStone Holdings’ ultimate parent company is Fairfax Financial Holdings Limited (“Fairfax”) which is registered in Canada and is 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 main activity of RiverStone Holdings is that of a UK holding company for subsidiary undertakings (together “the Group”) primarily engaged in the run-off of insurance and reinsurance business and the performance of related services. RiverStone Holding’s primary focus is the settlement of its subsidiaries’ policyholder obligations and recovery of reinsurance assets in an efficient and economic manner. Additionally, RiverStone Holdings continues to pursue opportunities to acquire further run-off portfolios.

RiverStone Holdings has one primary run-off insurance subsidiary, RiverStone Insurance (UK) Limited (“RiverStone Insurance (UK)”).

In addition, RiverStone Holdings participates in the Lloyd’s market through RiverStone Corporate Capital Limited, which is the sole corporate member of Syndicate 3500.

RiverStone Holdings’ operations are administered by two managing agents. RiverStone Holdings’ non-Lloyd’s business is managed by RiverStone Management Limited. Lloyd’s related business is managed by RiverStone Managing Agency Limited.

On 14th June 2016, RiverStone Insurance (UK) established a subsidiary in Luxembourg called RiverStone Luxembourg S.à.r.l. This company is currently dormant.

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 £52.8 million (2018: £12.5 million loss).

Total shareholders’ funds have increased to £643.8 million from £514.1 million at the end of 2019. The increase in total shareholders’ funds comprises share capital issuance of 85 million new \$1 ordinary shares, the profit for the financial year of £52.8 million, past service gains on the initial recognition of the defined benefit pension scheme of £1.5 million and defined benefit pension scheme past deficit funding contributions paid by RiverStone Management Limited of £12.5 million, offset by the unrealised foreign exchange losses of £1.4 million recognised through other comprehensive income and actuarial losses recognised in 2019 in respect of the defined benefit pension plan of £1.2 million.

On 1st January 2019, RiverStone Managing Agency was appointed by Advent Capital No. 3 Limited (“Advent Capital No. 3”) to manage Syndicate 780. This managing agency contract was novated to RiverStone Managing Agency from Advent Underwriting Limited (“Advent Underwriting”). This followed the decision by Advent Capital (Holdings) Limited during 2018 to transfer the profitable portfolios of Syndicate 780 to other Fairfax UK affiliates and to place the remaining parts of the portfolio into run-off under the management of RiverStone Managing Agency. In connection to this transfer, an additional 52 staff were taken on by RiverStone Management from Advent Underwriting. Advent Capital No. 3 and Advent Underwriting are both affiliate Fairfax group companies.

RiverStone Holdings Limited (Company No. 2709527)

Strategic Report

For the year ended 31st December 2019

With effect from 1st January 2019, Funds at Lloyd's held at both RiverStone Corporate Capital and Advent Capital No. 3 were made inter-available, allowing surplus capital held at Advent Capital No. 3 to be deployed to support ongoing run-off acquisition activity in Syndicate 3500 in accordance with the Board's strategy. Additional capital supporting Syndicate 3500 is provided by RiverStone Insurance (UK).

On 1st January 2019, Syndicate 3500 accepted the reinsurance to close of the liabilities of another Lloyd's syndicate with underwriting years of 2016 and prior. This transaction results in the transfer to Syndicate 3500 of gross and net technical provisions of £560 million and £419 million, respectively. Also, effective 1st January 2019, Syndicate 3500 entered into a reinsurance protection agreement with an affiliate to retrocede 50% of these liabilities.

To provide additional capital support to the above transaction on 7th February 2019 RiverStone Holdings issued 85 million new \$1 ordinary shares to its parent for cash, also on the 7th February RiverStone Corporate Capital issued 65 million new £1 ordinary shares to RiverStone Holdings.

On 1st July 2019, RiverStone Holdings 100% owned subsidiaries, RiverStone Insurance Limited and Sphere Drake Leasing Limited, each passed special resolutions to place the companies into member's voluntary liquidation. This action is aligned to RiverStone Holdings core strategy to simplify legacy structures.

Effective 1st January 2020, Syndicate 3500 accepted the reinsurance to close of the 2017 and prior underwriting years of account liabilities of another Lloyd's syndicate. This transaction results in the transfer to Syndicate 3500 of gross and net technical provisions of £180.3 million and £116.7 million, respectively. Also effective 1st January 2020, Syndicate 3500 entered into an adverse development cover with an affiliate to provide downside protection over these liabilities.

Effective 31st January 2020, following sanction by the High Court, a portfolio of liabilities primarily comprising asbestos, pollution and health exposures policies issued by a Japanese insurer were transferred into RiverStone Insurance (UK) by way of a Part VII transfer. Under this transfer, net liabilities of £102.4 million were transferred to RiverStone Insurance (UK).

Performance Measurements

RiverStone Holdings has made continued progress throughout 2018 in relation to key elements of its strategy, through the continued proactive management by its primary operating subsidiaries of their existing liabilities and through the acquisition of further run-off portfolios. The Board monitors the progress of RiverStone Holdings' existing run-off operations by reference to the reduction in gross loss reserves and reduction in reinsurance recoverables, in a timely and economic manner.

For RiverStone Insurance (UK), gross loss reserves have decreased by 20% and reinsurance recoverables have decreased by 19%. For Syndicate 3500, excluding portfolios acquired during 2019 which are described above, Syndicate 3500 gross loss reserves decreased by 30% and third party reinsurance recoverables (excluding group reinsurance protection) decreased by 33%. The movements are in line with Board's expectations and the performance is considered to be satisfactory.

Strategy and Future Developments

RiverStone Holdings' primary focus has been, and continues to be, to conduct a timely and efficient run-off of its existing portfolios. RiverStone Holdings continues to work towards a strategy to settle all of the Group's outstanding liabilities and recover its reinsurance assets.

Over the past several years, RiverStone Holdings and its subsidiaries have acquired a number of run-off portfolios of business either associated with certain Fairfax operations in Europe or from unaffiliated parties. RiverStone Holdings' main focus continues to be the run-off of these portfolios, together with actively seeking to acquire further portfolios of run-off business.

RiverStone Holdings Limited (Company No. 2709527)

Strategic Report

For the year ended 31st December 2019

The Board of directors of RiverStone Holdings (“the Board”) considers that its insurance operations are adequately capitalised based on the financial position at the end of the year and the remaining risks and level of volatility inherent in its business.

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 Holdings and its subsidiaries. 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 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 Holdings. 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.

RiverStone Holdings has developed a framework for identifying the risks that it is exposed to and their impact on economic capital. This process uses risk based principles to manage the Group’s capital requirements and to ensure that it has the financial strength and capital adequacy for its insurance subsidiaries to support the continued run off of the business and to meet the obligations to policyholders, regulators and other stakeholders. The Directors consider that RiverStone Holdings’ capital is adequate to meet its business needs under the regulatory capital regime.

The principal risks faced by RiverStone Holdings arise from fluctuations in the severity of claims within its subsidiaries compared with expectations, late reporting of claims and inadequate reinsurance protection (including the credit worthiness of major reinsurers) and inadequate reserving. The assets and liabilities of RiverStone Holdings and its subsidiaries are also exposed to market risk, including the impact of changes to interest rates, equity price fluctuations and adverse changes in exchange rates.

Section 172(1) of the Companies Act 2006

The Board of directors of RiverStone Holdings 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 and is actively involved in reviewing and approving the acquisitions policy and any acquisitions which ultimately drive the future of the business, whether these are made by the company’s subsidiaries or directly through company purchase. All acquisitions are considered as part of an overarching governance process and set of risk appetite statements which actively ensure that all risks associated with the strategy are considered and long-term value is core to the decision-making process.

Employees

The Board acknowledges people are essential to the delivery of our strategy. While the Company has no immediate employees, the Board ensures that the interests of the employees of RiverStone Management, our outsources services provider, are appropriately considered when taking decisions. The Board is aware through

RiverStone Holdings Limited (Company No. 2709527)
Strategic Report
For the year ended 31st December 2019

its engagement with RiverStone Management, that there exists a well-established structure through which RiverStone Management supports engagement regularly with its 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 key to the delivery of our strategy. During 2019, all members of the Board have had the opportunity to meet with our key regulator, the Prudential Regulation Authority, which continues to refresh and facilitate an understanding of their needs and expectations. The Board regularly engages with the Managing Director of RiverStone Management, the Group services provider.

Community and Environment

The Board engages actively with RiverStone Management, the Group services provider, to encourage, support and foster a positive relationship with the community and the environment. In the current year, through this engagement, 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 note that while it has no employees that it supports RiverStone Management's 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 further monitors the performance of the group subsidiaries through regular reporting from the Executive Committee.

Shareholder Engagement

The Board is committed to an open engagement with our shareholder. The Chair of the Board has had the opportunity to regularly meet with the Executive Committee of our ultimate parent company during the year and other directors have all attended the 2019 Fairfax Annual General Meeting.

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 Holdings Limited (Company No. 2709527)

Directors' Report

For the year ended 31st December 2019

The Directors have pleasure in presenting their report and the audited financial statements for RiverStone Holdings Limited (Company No. 2709527) 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:

N. C. Bentley
A. R. Creed (appointed 14th March 2019)
L. A. Hemsley (resigned 14th March 2019)
L. R. Tanzer

RiverStone Holdings 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 Holdings are discussed in the Strategic Report.

Dividends

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

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;
- 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.

RiverStone Holdings Limited (Company No. 2709527)
Directors' Report
For the year ended 31st December 2019

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 Holdings Limited (Company No. 2709527)
Independent Auditors' Report to the Members of RiverStone Holdings Limited
For the year ended 31st December 2019

Report on the Audit of the Financial Statements

Opinion

In our opinion, RiverStone Holdings 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 profit 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, the Statement of Comprehensive Income 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 Holdings Limited (Company No. 2709527)
Independent Auditors' Report to the Members of RiverStone Holdings 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 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.

RiverStone Holdings Limited (Company No. 2709527)
Independent Auditors' Report to the Members of RiverStone Holdings Limited
For the year ended 31st December 2019

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 Holdings Limited (Company No. 2709527)
Profit and Loss Account
For the year ended 31st December 2019

	Note	2019 £'000	2018 £'000
Change in value of subsidiaries		52,685	(133,731)
Income from shares in group undertakings		-	254,627
Other operating income	7	1,131	-
Other operating charges	8	<u>(1,048)</u>	<u>(133,400)</u>
Operating profit (loss)		52,768	(12,504)
Foreign exchange gains		<u>12</u>	<u>33</u>
Profit (loss) before tax		52,780	(12,471)
Tax on profit (loss)	9	<u>-</u>	<u>-</u>
Profit (loss) for the financial year		£ <u>52,780</u>	£ <u>(12,471)</u>

The results above are all derived from continuing operations.

RiverStone Holdings Limited (Company No. 2709527)
Statement of Comprehensive Income
For the year ended 31st December 2019

	Note	2019 £'000	2018 £'000
Profit (loss) for the financial year		52,780	(12,471)
Foreign exchange (losses) gains		(1,357)	18,894
Defined benefit pension scheme past deficit funding		12,488	-
Re-measurements of net defined benefit obligation	6	(1,193)	-
Past service gain on initial recognition of defined benefit pension scheme		1,480	-
Total comprehensive income for the year		£ 64,198	£ 6,423


RiverStone Holdings Limited (Company No. 2709527)**Balance Sheet****As at 31st December 2019**

	Note	2019 £'000	2018 Restated £'000
Assets			
Fixed Assets			
Investments in subsidiary undertakings	10	631,619	514,771
Current Assets			
Cash at bank and in hand		132	180
		<u>132</u>	<u>180</u>
Total asset before pension asset		631,751	514,951
Pension asset	6	19,870	-
		<u>19,870</u>	<u>-</u>
Total assets after pension asset		£ 651,621	£ 514,951
Capital, Reserves and Liabilities			
Capital and reserves			
Called up share capital	11	425,478	359,957
Share premium		78,141	78,141
Other reserves		(7,450)	9,327
Profit and loss account		147,605	66,630
Total shareholders' funds		643,774	514,055
Creditors: Amounts falling due within one year	12	<u>7,847</u>	<u>896</u>
Total capital, reserves and liabilities		£ 651,621	£ 514,951

The financial statements on pages 13 to 27 were approved by the Board of Directors on 3rd March 2020 and were signed on its behalf by:



L. R. Tanzer
Director



A. R. Creed
Finance Director

RiverStone Holdings Limited (Company No. 2709527)

Statement of Changes in Equity

For the year ended 31st December 2019

	Called Up Share Capital Restated £'000	Share Premium Account Restated £'000	Other Reserves Restated £'000	Profit and Loss Account Restated £'000	Total Share- Holders' Funds Restated £'000
Balance at 1st January 2019	359,957	78,141	9,327	66,630	514,055
Profit for the financial year	-	-	-	52,780	52,780
Other comprehensive income for the year	-	-	(16,777)	28,195	11,418
Total comprehensive income for the year	-	-	(16,777)	80,975	64,198
New share capital issued	65,521	-	-	-	65,521
Balance at 31st December 2019	£ 425,478	£ 78,141	£ (7,450)	£ 147,605	£ 643,774

	Called Up Share Capital Restated £'000	Share Premium Account Restated £'000	Other Reserves Restated £'000	Profit and Loss Account Restated £'000	Total Share- Holders' Funds Restated £'000
Balance at 1st January 2018	348,674	75,383	-	83,575	507,632
Loss for the financial year	-	-	-	(12,471)	(12,471)
Other comprehensive income for the year	11,283	2,758	9,327	(4,474)	18,894
Total comprehensive income for the year	11,283	2,758	9,327	(16,945)	6,423
Balance at 31st December 2018	£ 359,957	£ 78,141	£ 9,327	£ 66,630	£ 514,055

RiverStone Holdings Limited (Company No. 2709527)

Notes to the Financial Statements

For the year ended 31st December 2019

1. General Information

RiverStone Holdings Limited (“RiverStone Holdings” or “the Company”) is a U.K. holding company of subsidiary undertakings (together “the Group”) primarily engaged in the runoff of insurance and reinsurance business and the performance of related services.

RiverStone Holdings 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 Holdings 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 as modified by the revaluation of investments in subsidiary undertakings.

These financial statements contain information about RiverStone Holdings as an individual company and do not contain consolidated financial information as the parent of a group. RiverStone Holdings is exempt under Section 401 of the Companies Act 2006 from the requirement to prepare consolidated financial statements as it and its subsidiary undertakings are included by full consolidation in the consolidated financial statements of its parent, Fairfax Financial Holdings Limited (“Fairfax”), a company incorporated in Canada.

(b) Prior period error

Following the change in functional currency from US Dollars to Pound Sterling effective 1st October 2018, non-functional currency Share Capital was incorrectly translated at the 31st December 2018 closing rates rather than the rate prevailing at the time of the functional currency change.

	Called Up Share Capital Restated £'000	Share Premium Account Restated £'000	Other Reserves Restated £'000	Profit and Loss Account Restated £'000	Total Share- Holder's Funds Restated £'000
Balance at 31 st December 2018	367,451	79,974	-	66,630	514,055
Other comprehensive income	(7,494)	(1,833)	9,327	-	-
Balance at 31 st December 2018	£ 359,957	£ 78,141	£ 9,327	£ 66,630	£ 514,055

RiverStone Holdings Limited (Company No. 2709527)
Notes to the Financial Statements
For the year ended 31st December 2019

(c) 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.

(d) 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 Holding's shareholders.

RiverStone Holdings 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 includes RiverStone Holdings' 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 Holdings as consolidated financial statements are publicly available for Fairfax.

(e) Translation of Foreign Currencies

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

(f) 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.

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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 Holdings' 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.

(g) Pensions

RiverStone Holdings is the principal employer for the RiverStone group's defined benefit pension scheme. RiverStone Management Limited ("RiverStone Management") is the primary participating employer. Effective 1st January 2019, RiverStone Holdings adopted a change in accounting policy in respect of the group's defined benefit pension scheme. This change followed an internal group reorganisation which has resulted in a change in the entities with employees who are members of the scheme and a change in the financial policy for recharging pension costs between these entities. As a consequence, this change in accounting policy has been applied prospectively. Simultaneous to this change, the defined benefit pension scheme is no longer accounted for in RiverStone Insurance (UK) and was transferred to RiverStone Holdings for book value net of an associated deferred tax liability on 1st January 2019. The defined benefit pension scheme is accounted for under FRS 102 in RiverStone Holdings from this date.

The cost of the pension scheme is analysed between current service cost, past service cost and net return on the pension scheme. Current service cost is the actuarially calculated present value of the benefits earned by the active employees in each year. Past service costs, relating to employee service in prior periods arising as a result of the introduction of, or improvement to, retirement benefits, are recognised on a straight-line basis over the year in which the increase in benefits vest. All the costs of the group defined benefit pension scheme are paid by RiverStone Management and are recognised as an expense in the Profit and Loss Accounts of RiverStone Management. In accordance with FRS102 (IAS19), where contributions into a defined benefit pension scheme are paid by a third-party, in this case RiverStone Management, these either reduce service cost, if they are linked to service, or affect the remeasurements of the net defined benefit liability, if they are not linked to service. RiverStone Holdings therefore recognises contributions paid by RiverStone Management that are not linked to service directly in the Statement of Comprehensive Income and contributions paid by RiverStone Management that are linked to service directly in the Profit and Loss Account.

The actuarial gains and losses which arise from a valuation and from updating the latest actuarial valuation to reflect conditions at the balance sheet date are taken to the Statement of Comprehensive Income for the year. The attributable deferred tax is shown separately in the Statement of

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Comprehensive Income. The pension surplus or deficit recognised in the balance sheet of RiverStone Holdings is the value of the pension scheme's assets less the present value of the scheme's liabilities.

Further details of the pension scheme are given in Note 6.

(h) Dividend Income

Dividends receivable from subsidiary undertakings are recognised in the Profit and Loss Account when declared.

(i) Investment in Subsidiary Undertakings

Unlisted investments in subsidiary undertakings are initially recorded at cost and subsequently carried stated at current net asset value. Any changes in value are recognised in the profit and loss account in the year in which they occur.

(j) Financial Instruments

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

(k) Related Party Transactions

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

4. Auditors' Remuneration

	2019	2018
	£'000	£'000
Audit	17	10
Audit related assurance services	-	-
	<u>17</u>	<u>10</u>
	£ 17	£ 10

5. Directors and Employees

No emoluments were paid by RiverStone Holdings to any Directors or other key management personnel during the year (2018: nil). The emoluments of the Directors and other key management personnel are paid by a fellow subsidiary undertaking, RiverStone Management Limited. The services of the Directors and other key management personnel to RiverStone Holdings 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.

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6. Pension Costs

RiverStone Holdings is the principal employer for the Group's defined benefit scheme ("the Plan"). The Plan was closed to new entrants with effect from 1st January 2003 and its funds are administered by trustees. The Plan is non-contributory for members. The Plan's statutory funding objective is to hold sufficient and appropriate assets to cover its technical provisions. Company contributions are paid to the Plan in accordance with the recommendations of an independent actuarial advisor. As the Plan is closed to new entrants, under the method used to calculate pension costs in accordance with FRS102, the cost as a percentage of covered pensionable payroll will tend to increase as the average age of the membership increases.

The last full actuarial valuation of the Plan was carried out as at 31st March 2017. The results from the 31st March 2017 actuarial valuation have been updated to 31st December 2019, in line with the requirements of FRS102, and to reflect changes in market conditions, in order to measure the defined benefit obligation as at 31st December 2019. The principal actuarial assumptions used in the measurement of the defined benefit obligation as at 31st December 2019 are as follows:

	31 st December 2019	31 st December 2018
RPI inflation	2.9%	3.3%
CPI inflation	2.1%	2.2%
Discount rate	2.2%	3.0%
Rate of increase in salaries	3.8%	3.8%
Pension increases in payment (RPI capped at 5%)	2.8%	3.1%
Pension increases in payment (RPI capped at 2.5%)	2.0%	2.1%
Pension increases in payment (CPI capped at 5%)	2.1%	2.2%
Pension increases in payment (CPI capped at 3%)	1.9%	2.0%

The net amount included in the balance sheet of RiverStone Holdings arising from the Group's obligations in respect of the Plan is as follows for 2019. The comparative figures are representative of the Group's obligation prior to the change in accounting policy and such amounts were actually recognised in the balance sheet of RiverStone Insurance (UK), a subsidiary of RiverStone Holdings limited at the 31st December 2018:

	31 st December 2019 £'000	31 st December 2018 £'000
Present value of defined benefit obligation	(117,052)	(106,763)
Fair value of plan assets	<u>136,922</u>	<u>115,338</u>
Surplus included in balance sheet	£ 19,870	£ 8,575

As set out above in Note 3, the defined benefit pension scheme asset was transferred to RiverStone Holdings from RiverStone Insurance (UK) Limited, a subsidiary undertaking, at book value net of the associated deferred tax liability recorded by RiverStone Insurance (UK) Limited on 1st January 2019, following a change in accounting policy of RiverStone Holdings. Consequently, there are no comparative figures disclosed in RiverStone Holdings in respect of the plan.

Changes in the present value of the total Plan defined benefit obligation are as follows:

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	2019
	Total
	£'000
Opening defined benefit obligation	-
Transferred from RiverStone Insurance (UK)	105,210
Employer's part of current service cost	1,222
Interest expense	3,100
Contributions from plan members	-
Actuarial loss	12,185
Benefits paid	(4,665)
Past Service costs/plan amendments	-
Closing defined benefit obligation	£ 117,052

Changes in the fair value of the total Plan assets are as follows:

	2019
	Total
	£'000
Opening fair value of plan assets	-
Transferred from RiverStone Insurance (UK)	113,785
Interest income	3,592
Plan administration expenses	(265)
Actuarial loss	10,992
Contributions by the employer	13,483
Contributions by plan members	-
Benefits paid	(4,665)
Closing fair value of plan assets	£ 136,922

The total amounts recognised in the Profit and Loss Account of RiverStone Holdings in 2019 are as follows. The comparative figures are representative of the Group's obligation prior to the change in accounting policy and such amounts were actually recognised in the balance sheet of RiverStone Insurance (UK), a subsidiary of RiverStone Holdings limited at the 31st December 2018:

	2019	2018
	£'000	£'000
Employer's part of current service cost	1,222	1,786
Employer's part of past service cost	-	129
Gain on settlements and curtailments	-	-
Net interest income	(492)	15
Plan administration expenses	265	271
Total expense included in profit and loss account	£ 995	£ 2,201

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The current allocation of the Plan's assets is as follows:

	31st December 2019
Equity instruments	70%
Cash and short-term	<u>30%</u>
	<u>100%</u>

The Plan does not have any employer-related investments.

The total actual return on the Plan's assets over the year was a gain of £14.6 million (2018: £505,000 loss).

7. Other operating income

	2019 £'000	2018 £'000
Defined benefit pension scheme current service cost paid by group undertaking	995	-
Other	<u>136</u>	<u>-</u>
	£ 1,131	£ -

8. Other operating charges

	2019 £'000	2018 £'000
Waiving of amount receivable from group undertaking	-	133,400
Defined benefit pension scheme current service cost	(995)	-
Other	<u>(53)</u>	<u>-</u>
	£ (1,048)	£ 133,400

9. Tax on Profit (Loss)

	2019 £'000	2018 £'000
(a) Current tax		
UK corporation tax at 19% (2018: 19%) based on the profit (loss) for the year	(8)	6
Group relief surrendered (claimed) for nil consideration	8	(6)
	<u>-</u>	<u>-</u>
Total tax (credit) charge	£ -	£ -

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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 £'000	2018 £'000
Profit (loss) before tax	£ <u>52,780</u>	£ <u>(12,471)</u>
Profit (loss) before tax multiplied by the UK corporation tax rate of 19% (2018: 19%)	10,028	(2,369)
Non-taxable change in value of subsidiaries	(10,010)	25,409
Non-taxable dividend income	(26)	(48,379)
Write off of intercompany receivable not deductible	-	25,346
Group relief surrendered (claimed) for nil consideration	<u>8</u>	<u>(6)</u>
Total tax charge for the year	£ <u>-</u>	£ <u>-</u>

(d) 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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10. Investments in subsidiary undertakings

RiverStone Holdings directly owns all of the ordinary issued share capital of the following companies (none of which are listed). In the opinion of the directors, the carrying value of the investments in subsidiary undertakings on the balance sheet of RiverStone Holdings is supported by the underlying net assets.

	Shareholders' Equity at 1 st Jan 2019	Profit And Loss	Other Comprehensive Income	New Share Capital Issued	Dividend	Foreign Exchange	Shareholders' Equity at 31 st Dec 2019
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
RiverStone Management Limited							
Run-off Agency	862	(72)	-	-	-	(1)	789
Sphere Drake Leasing Limited							
Leasing Company	227	-	-	-	-	-	227
RiverStone Corporate Capital Limited							
Corporate member at Lloyd's	7,988	6,603	-	65,000	-	(1)	79,590
RiverStone Corporate Capital 2 Limited							
Corporate member at Lloyd's	358	-	-	-	-	-	358
RiverStone Insurance (UK) Limited							
General Insurance	505,325	44,805	503	-	-	11	550,644
RiverStone Managing Agency Limited							
Lloyd's Agency	11	-	-	-	-	-	11
RiverStone Insurance Limited							
General Insurance	-	-	-	-	-	-	-
	514,771	51,336	503	65,000	-	9	631,619

All of the directly owned subsidiaries noted above are registered in England and Wales and their registered address is Park Gate, 161-163 Preston Road, Brighton, East Sussex BN1 6AU.

Additionally, through RiverStone Insurance (UK), RiverStone Holdings indirectly owns all of the ordinary share capital of RiverStone Luxembourg S.a.r.l. RiverStone Luxembourg S.a.r.l is a dormant company which was incorporated on 14th June 2016. Its registered address is 20 Rue Eugene Ruppert, L-2453 Luxembourg.

On 1st July 2019, RiverStone Holdings 100% owned subsidiaries, RiverStone Insurance Limited and Sphere Drake Leasing Limited, each passed special resolutions to place the companies into member's voluntary liquidation. This action is aligned to RiverStone Holdings core strategy to simplify legacy structures.

11. Called up Share Capital

	2019	2018
46,606,341 (2018: 46,606,341) Ordinary Shares of £1	£ <u>46,606,341</u>	£ <u>46,606,341</u>
433,404,620 (2018: 348,404,620) Ordinary Shares of \$1	\$ <u>433,404,620</u>	\$ <u>348,404,620</u>
68,432,731 (2018: 68,432,731) Ordinary Shares of \$0.88	\$ <u>60,220,803</u>	\$ <u>60,220,803</u>

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In all respects Ordinary US Dollar Shares of \$1 each and Ordinary US Dollar Shares of \$0.88 each rank pari passu with the Ordinary Sterling Shares.

	2019	2018
	£'000	Restated £'000
<u>Total allotted and fully paid</u>		
46,606,341 (2018: 46,606,341) Ordinary Shares of £1	46,606	46,606
433,404,620 (2018: 348,404,620) Ordinary Shares of \$1	332,692	267,171
68,432,731 (2018: 68,432,731) Ordinary Shares of \$0.88	46,180	46,180
	£ 425,478	£ 359,957

On 7th February 2019, 85,000,000 new \$1 ordinary shares were issued for cash.

12. Creditors: Amounts falling due within one year

	2019	2018
	£'000	£'000
Amounts owed to group undertakings	£ 7,847	£ 896

RiverStone Holdings has no creditors which are subject to security arrangements

13. Litigation and Contingent Liabilities

RiverStone Holdings has provided letters of support to RiverStone Management and RiverStone Managing Agency Limited whereby funds will be made available to this company to ensure liabilities are met as they fall due for payment. RiverStone Holdings has also provided a guarantee to a third party financial institution, in respect of letters of credit provided to RiverStone Corporate Capital.

14. Related Party Transactions and Immediate and Ultimate Parent Company

RiverStone Holdings is a wholly owned subsidiary of FFHL Group Limited, which is registered in Canada. The ultimate parent company and controlling party is 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 Holdings 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.

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15. Subsequent Events

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 Holdings and its subsidiaries. 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.

Effective 31st January 2020, following sanction by the High Court, a portfolio of liabilities primarily comprising asbestos, pollution and health exposures attaching to policies issued by a Japanese (re)insurer were transferred into RiverStone Insurance (UK) by way of a Part VII transfer. Under this transfer, net liabilities of £102.4 million were transferred to RiverStone Insurance (UK).