

COMPANY NO. 2709527

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

RiverStone Holdings Limited

2018 Annual Report

RiverStone Holdings Limited (Company No. 2709527)

Annual Report

For the year ended 31st December 2018

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RiverStone Holdings Limited (Company No. 2709527)

Directors and Administration

For the year ended 31st December 2018

Directors

N. C. Bentley
L. A. Hemsley
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 2018

The Directors have pleasure in presenting the Strategic Report of RiverStone Holdings Limited (“RiverStone Holdings” or “the Company”) for the year ended 31st December 2018.

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 U.K. 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 loss for the financial year of £12.5 million (2017: £78.4 million profit).

Effective 28th September 2018, following sanction by the High Court, all of the liabilities and the majority assets of RiverStone Insurance Limited (“RiverStone Insurance”), a subsidiary of RiverStone Holdings, were transferred to RiverStone Insurance (UK) by way of a Part VII transfer under the Financial Services and Markets Act 2000, as amended. Under this transfer, net assets of £169.4 million were transferred to RiverStone Insurance (UK) in return for a Promissory Note of the same amount. The Promissory Note was transferred to RiverStone Holdings by RiverStone Insurance as a dividend in specie and the balance payable by RiverStone Insurance (UK) to RiverStone Holdings of £169.4 million was reduced by an existing intercompany balance payable by RiverStone Holdings to RiverStone Insurance (UK), to result in a net balance due from RiverStone Insurance (UK) of £139.4 million. RiverStone Holdings agreed to waive its rights to the receipt of this net balance and this expense is recorded in other operating charges in the 2018 Profit and Loss Account of RiverStone Holdings.

RiverStone Holdings Limited (Company No. 2709527)
Strategic Report
For the year ended 31st December 2018

Effective 1st October 2018, following sanction by the High Court, the 2001 and prior employer's liability and public liability policies issued by a UK insurer were transferred into RiverStone Insurance (UK) by way of a Part VII transfer under the Financial Services and Markets Act 2000, as amended. Under this transfer, net liabilities of £396.4 million were transferred to RiverStone Insurance (UK). Also effective 1st October 2018, certain disease claims related to policies issued by the same UK insurer between 1st January 2002 and 31st December 2014 were reinsured into RiverStone Insurance (UK). This resulted in the addition of £28.8 million to the gross technical provisions of RiverStone Insurance (UK). In connection to this transfer, an additional 38 staff were taken on by RiverStone Management.

Also effective 1st October 2018, RiverStone Insurance (UK) reinsured 50% of the total liabilities transferred from the UK insurer by way of the Part VII transfer and the reinsurance agreement to an affiliated reinsurer.

Also effective 1st October 2018, and following a reassessment of its currency exposure after the completion of the Part VII transfers of the UK insurer liabilities into RiverStone Insurance (UK), RiverStone Holdings changed its functional currency from US Dollars to Sterling.

Effective 30th November 2018, Syndicate 3500 entered into a loss portfolio transfer reinsurance with Syndicate 2987 for certain lines of discontinued business with underwriting years of 2017 and prior. This transaction resulted in an increase to Syndicate 3500's gross and net technical provisions of £135.6 million. Also, effective 30th November 2018, Syndicate 3500 entered into a reinsurance protection agreement with an affiliated reinsurer to retrocede 50% of these liabilities.

Effective 20th December 2018, RiverStone Insurance (UK) entered into an agreement with a UK insurer to reinsure its portfolio of direct and reinsurance asbestos, health hazard and pollution claims. This resulted in the addition of £14.7 million to the gross technical provisions of RiverStone Insurance (UK). Also effective 20th December 2018, RiverStone Insurance (UK) entered into a legal agreement with this UK insurer to transfer this portfolio of liabilities by way of a Part VII transfer under the Financial Services and Markets Act 2000, as amended. This transaction is anticipated to complete in 2020, subject to regulatory and High Court approval, and will result in the legal transfer of these policies to RiverStone Insurance (UK), in addition to the economic transfer achieved via the reinsurance.

Effective 21st December 2018, Syndicate 3500 entered into a loss portfolio transfer reinsurance with another Lloyd's syndicate for certain lines of discontinued business with underwriting years of 2017 and prior. This transaction resulted in an increase to Syndicate 3500's gross and net technical provisions of £63.8 million. Also, effective 21st December 2018, Syndicate 3500 entered into a reinsurance protection agreement with an affiliate reinsurer to retrocede 50% of these liabilities.

In June 2018 RiverStone Holdings received a dividend from its subsidiary, RiverStone Insurance Limited ("RiverStone Insurance") of £90 million, which was immediately paid as a capital contribution to RiverStone Insurance (UK) in exchange for 90,000,000 new £1 ordinary shares. In November 2018, RiverStone Holdings received a further dividend from RiverStone Insurance of £3.3 million which was immediately paid as a capital contribution to RiverStone Corporate Capital Limited in exchange for 3,300,000 new £1 ordinary shares.

Total shareholders' funds have increased to £514 million from £508 million at the end of 2017. The increase in total shareholders' funds comprises unrealised foreign exchange gains of £18.9 million, offset by the loss for the financial year of £12.5 million.

RiverStone Managing Agency has made continued progress throughout 2018 in relation to key elements of its strategy, through the continued proactive management of its existing liabilities and through the acquisition of further run-off portfolios.

RiverStone Holdings Limited (Company No. 2709527)

Strategic Report

For the year ended 31st December 2018

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), excluding portfolios taken on during the year, gross loss reserves have decreased by 13% and reinsurance recoverables have decreased by 44%. Including portfolios taken on during the year. For Syndicate 3500, excluding portfolios acquired during 2018, gross loss reserves increased by 30% and third-party reinsurance recoverables (excluding group reinsurance protection) decreased by 9%. These movements are in line with Board's expectations, with the increase to gross loss reserves at Syndicate 3500 relating to one specific loss, 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.

In November 2017, RiverStone Insurance (UK) entered into a legal agreement with an overseas insurer to transfer a portfolio of liabilities primarily comprising asbestos, pollution and health exposures by way of a Part VII transfer under the Financial Services and Markets Act 2000, as amended. This transaction is anticipated to complete in 2020, subject to regulatory and High Court approval.

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.

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).

Effective 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.

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 Limited.

RiverStone Holdings Limited (Company No. 2709527)

Strategic Report

For the year ended 31st December 2018

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.

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.

By Order of the Board



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

F Henry
Company Secretary
13th March 2019

RiverStone Holdings Limited (Company No. 2709527)

Directors' Report

For the year ended 31st December 2018

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 2018.

Directors

Directors holding office during the period from 1st January 2018 to the date of this report were as follows:

N. C. Bentley
L. A. Hemsley
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 (2017: nil). The Directors do not recommend the payment of a final dividend (2017: 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 2018

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
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United Kingdom, BN1 6AU

F Henry
Company Secretary
13th March 2019

RiverStone Holdings Limited (Company No. 2709527)
Independent Auditors' Report to the Members of RiverStone Holdings Limited
For the year ended 31st December 2018

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 31 December 2018 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 31 December 2018; the Profit and Loss Account for the year then ended, the Statement of Comprehensive Income for the year then ended, 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 on which the United Kingdom may withdraw from the European Union, which is currently due to occur on 29 March 2019, 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 2018

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 2018 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 set out on pages 8 and 9, 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 2018

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
13 March 2019

RiverStone Holdings Limited (Company No. 2709527)
Profit and Loss Account
For the year ended 31st December 2018

	Note	2018 £'000	2017 £'000
Change in value of subsidiaries		(133,731)	78,465
Income from shares in group undertakings		254,627	-
Other operating charges	7	<u>(133,400)</u>	<u>(2)</u>
Operating (loss) profit		(12,504)	78,463
Foreign exchange gains (losses)		<u>33</u>	<u>(63)</u>
(Loss) profit before tax		(12,471)	78,400
Tax on (loss) profit	8	<u>-</u>	<u>-</u>
(Loss) profit for the financial year		£ <u>(12,471)</u>	£ <u>78,400</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 2018

	Note	2018 £'000	2017 £'000
(Loss) profit for the financial year		(12,471)	78,400
Foreign exchange gains (losses)		<u>18,894</u>	<u>(44,726)</u>
Total comprehensive income for the year		£ <u>6,423</u>	£ <u>33,674</u>


RiverStone Holdings Limited (Company No. 2709527)**Balance Sheet****As at 31st December 2018**

	Note	2018 £'000	2017 £'000
Assets			
Fixed Assets			
Investments in subsidiary undertakings	9	514,771	538,349
Current Assets			
Cash at bank and in hand		180	170
		180	170
Total assets		£ 514,951	£ 538,519
Capital, Reserves and Liabilities			
Capital and reserves			
Called up share capital	10	367,451	348,674
Share premium		79,974	75,383
Profit and loss account		66,630	83,575
Total shareholder's funds		514,055	507,632
Creditors: Amounts falling due within one year	11	896	30,887
Total capital, reserves and liabilities		£ 514,951	£ 538,519

The financial statements on pages 13 to 26 were approved by the Board of Directors on 13th March 2019 and were signed on its behalf by:



L. R. Tanzer
Director



L. A. Hemsley
Finance Director

RiverStone Holdings Limited (Company No. 2709527)
Statement of Changes in Equity
For the year ended 31st December 2018

	Called Up Share Capital £'000	Share Premium Account £'000	Profit and Loss Account £'000	Total Share- Holder's Funds £'000
Balance at 1st January 2017	377,303	82,382	14,273	473,958
Profit for the financial year	-	-	78,400	78,400
Other comprehensive income for the year	<u>(28,629)</u>	<u>(6,999)</u>	<u>(9,098)</u>	<u>(44,726)</u>
Total comprehensive income for the year	<u>(28,629)</u>	<u>(6,999)</u>	<u>69,302</u>	<u>33,674</u>
Balance at 31st December 2017	£ <u>348,674</u>	£ <u>75,383</u>	£ <u>83,575</u>	£ <u>507,632</u>
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	<u>18,777</u>	<u>4,591</u>	<u>(4,474)</u>	<u>18,894</u>
Total comprehensive income for the year	<u>18,777</u>	<u>4,591</u>	<u>(4,474)</u>	<u>6,423</u>
Balance at 31st December 2018	£ <u>367,451</u>	£ <u>79,974</u>	£ <u>66,630</u>	£ <u>514,055</u>

RiverStone Holdings Limited (Company No. 2709527)
Notes to the Financial Statements
For the year ended 31st December 2018

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) 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 Holdings' 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.

RiverStone Holdings Limited (Company No. 2709527)

Notes to the Financial Statements

For the year ended 31st December 2018

- 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.

(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 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.

Effective 1st October 2018 RiverStone Holdings changed its functional currency from US Dollars to Pound Sterling.

During the first nine months of the year, up to 30th September 2018, RiverStone Holdings' profit and loss account was translated to US Dollars using the average rate for that period. For the last quarter of 2018, 1st October 2018 to 31st December 2018, the profit and loss account was translated to Pound Sterling using the average rate for this fourth quarter period.

(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) 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

RiverStone Holdings Limited (Company No. 2709527)
Notes to the Financial Statements
For the year ended 31st December 2018

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.

(f) 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 and, prior to 28th September 2018, all costs associated with the defined benefit scheme were recharged to RiverStone Insurance (UK) Limited ("RiverStone Insurance (UK)") and RiverStone Insurance Limited ("RiverStone Insurance"), a fellow subsidiary of RiverStone Holdings, through the administration outsource agreements that are in place with these entities. In accordance with FRS102, prior to 28th September 2018, the defined benefit pension scheme was accounted for in RiverStone Insurance (UK) and RiverStone Insurance in proportion to the allocation of overall costs that were recharged from RiverStone Management in respect of the outsourcing arrangement. Following the completion of the Part VII transfer of all of the liabilities and the majority of the assets of RiverStone Insurance to RiverStone Insurance (UK) on 28th September 2018, all of the costs associated with the defined benefit pension plan are recharged to RiverStone Insurance (UK) and all of the defined benefit pension plan is accounted for in RiverStone Insurance (UK).

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.

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 Comprehensive Income. The pension surplus or deficit recognised in the balance sheets of RiverStone Insurance (UK) 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.

(g) Dividend Income

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

(h) 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.

(i) Financial Instruments

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

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Notes to the Financial Statements

For the year ended 31st December 2018

(j) 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.

(k) 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

	2018 £'000	2017 £'000
Audit	10	1
Audit related assurance services	-	17
	<u>£ 10</u>	<u>£ 18</u>

5. Directors and Employees

No emoluments were paid by RiverStone Holdings to any Directors or other key management personnel during the year (2017: 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.

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.

RiverStone Management is the primary participating employer of the Plan. RiverStone Management pays contributions into the Plan and these were recharged to RiverStone Insurance and RiverStone Insurance (UK) in accordance with the administration outsource agreements that are in place. The amount of contribution to be paid by each entity is determined by reference to the allocation of overall costs for the year in accordance with the outsource agreements.

In accordance with FRS102, the Plan is accounted for in the financial statements of RiverStone Insurance and RiverStone Insurance (UK), in proportion to the allocation of the contributions that are recharged from RiverStone Management.

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Notes to the Financial Statements
For the year ended 31st December 2018

Effective 28th September 2018, following sanction by the High Court, all of the liabilities and the majority assets of RiverStone Insurance were transferred to RiverStone Insurance by way of a Part VII transfer under the Financial Services and Markets Act 2000, as amended. Subsequently, all of the costs associated with the defined benefit pension plan are recharged to RiverStone Insurance (UK) only and all of the defined benefit pension plan is accounted for in RiverStone Insurance (UK).

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 2018, 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 2018. The principal actuarial assumptions used in the measurement of the defined benefit obligation as at 31st December 2018 are as follows:

	31st December 2018	31st December 2017
RPI inflation	3.3%	3.2%
CPI inflation	2.2%	2.1%
Discount rate	3.0%	2.6%
Rate of increase in salaries	3.8%	3.8%
Pension increases in payment (RPI capped at 5%)	3.1%	3.1%
Pension increases in payment (RPI capped at 2.5%)	2.1%	2.1%
Pension increases in payment (CPI capped at 5%)	2.2%	2.1%
Pension increases in payment (CPI capped at 3%)	2.0%	1.9%

The net amount included in the balance sheets of RiverStone Insurance (UK) and RiverStone Insurance arising from the Group's obligations in respect of the Plan is as follows:

	31st December 2018 £'000	31st December 2017 £'000
Present value of defined benefit obligation	(106,763)	(114,236)
Fair value of plan assets	<u>115,338</u>	<u>113,506</u>
Surplus (deficit) included in balance sheet	8,575	(730)
Related deferred tax (liability) asset	<u>(1,458)</u>	<u>124</u>
Asset (liability) net of deferred tax	£ <u>7,117</u>	£ <u>(606)</u>

RiverStone Holdings Limited (Company No. 2709527)
Notes to the Financial Statements
For the year ended 31st December 2018

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

	2018
	Total
	£'000
Opening defined benefit obligation	114,236
Employer's part of current service cost	1,786
Interest expense	2,940
Contributions from plan members	-
Actuarial loss	(8,523)
Benefits paid	(3,805)
Past Service costs/plan amendments	129
	<u>129</u>
Closing defined benefit obligation	£ 106,763

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

	2018
	Total
	£'000
Opening fair value of plan assets	113,506
Interest income	2,925
Plan administration expenses	(271)
Actuarial loss	(3,430)
Contributions by the employer	6,413
Contributions by plan members	-
Benefits paid	(3,805)
	<u>(3,805)</u>
Closing fair value of plan assets	£ 115,338

The total amounts recognised in the Profit and Loss Accounts of RiverStone Insurance (UK), RiverStone Insurance, and the other participating employer are as follows:

	2018	2017
	£'000	£'000
Employer's part of current service cost	1,786	1,831
Employer's part of past service cost	129	-
Gain on settlements and curtailments	-	-
Net interest income	15	(89)
Plan administration expenses	271	318
	<u>271</u>	<u>318</u>
Total expense included in profit and loss account	£ 2,201	£ 2,060

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Notes to the Financial Statements
For the year ended 31st December 2018

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

	31st December 2018	31st December 2017
Equity instruments	70%	70%
Cash	30%	30%
	<u>100 %</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 £505,000 (2017: £3 million gain).

7. Other operating charges

	2018 £'000	2017 £'000
Waiving of amount receivable from group undertaking	£ <u>133,400</u>	£ <u>-</u>

Other operating charges comprises the waiving by RiverStone Holdings of an intercompany balance payable by Riverstone Insurance (UK).

Effective 28th September 2018, following sanction by the High Court, all of the liabilities and the majority assets of RiverStone Insurance Limited ("RiverStone Insurance"), a subsidiary of RiverStone Holdings, were transferred to RiverStone Insurance (UK) by way of a Part VII transfer under the Financial Services and Markets Act 2000, as amended. Under this transfer, net assets of £169.4 million were transferred to RiverStone Insurance (UK) in return for a Promissory Note of the same amount. The Promissory Note was transferred to RiverStone Holdings by RiverStone Insurance as a dividend in specie and the balance payable by RiverStone Insurance (UK) to RiverStone Holdings of £169.4 million was reduced by an existing intercompany balance payable by RiverStone Holdings to RiverStone Insurance (UK), to result in a net balance due from RiverStone Insurance (UK) of £139.4 million.

RiverStone Holdings agreed to waive its rights to the receipt of this net balance and this expense is recorded in other operating charges in the 2018 Profit and Loss Account of RiverStone Holdings, with the difference in amount representing foreign exchange on conversion to functional currency.

8. Tax on (Loss) Profit

	2018 £'000	2017 £'000
(a) Current tax		
UK corporation tax at 19% (2017: 19.25%) based on the (loss) profit for the year	6	(12)
Group relief surrendered (claimed) for nil consideration	<u>(6)</u>	<u>12</u>
	£ <u>-</u>	£ <u>-</u>

RiverStone Holdings Limited (Company No. 2709527)
Notes to the Financial Statements
For the year ended 31st December 2018

(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% (2017: 19.25%). The differences are explained below:

	2018 £'000	2017 £'000
(Loss) profit before tax	£ <u>(12,471)</u>	£ <u>78,400</u>
Profit (loss) before tax multiplied by		
the UK corporation tax rate of 19% (2017: 19.25%)	(2,369)	15,092
Non-taxable change in value of subsidiaries	25,409	(15,104)
Non-taxable dividend income	(48,379)	
Write off of intercompany receivable not deductible	25,346	-
Group relief surrendered (claimed) for nil consideration	<u>(6)</u>	<u>12</u>
Total tax charge for the year	£ <u>-</u>	£ <u>-</u>

(c) Tax rate changes

The tax rate for the current year is lower than the prior year, due to changes in the UK corporation tax rate, which decreased from 20% to 19% from 1st April 2017. 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.

9. 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.

RiverStone Holdings Limited (Company No. 2709527)
Notes to the Financial Statements
For the year ended 31st December 2018

	Shareholders' Equity at 31 Dec 2017 £'000	Profit And Loss £'000	Other Comprehensive Income £'000	New Share Capital Issued	Dividend £'000	Foreign Exchange £'000	Shareholders' Equity at 31 Dec 2018 £'000
RiverStone Management Limited Run-off Agency	872	(10)	-	-	-	-	862
Sphere Drake Leasing Limited Leasing Company	227	-	-	-	-	-	227
RiverStone Corporate Capital Limited Corporate member at Lloyd's	109	4,859	(301)	3,300	-	21	7,902
RiverStone Corporate Capital 2 Limited Corporate member at Lloyd's	358	-	-	-	-	-	358
RiverStone Insurance (UK) Limited General Insurance	278,655	121,430	15,240	90,000	-	-	505,325
RiverStone Managing Agency Limited Lloyd's Agency	11	-	-	-	-	-	11
RiverStone Insurance Limited General Insurance	258,117	422	4,161	-	(262,700)	-	-
	538,349	126,701	19,100	93,300	(262,700)	21	514,771

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.

10. Called up Share Capital

	2018	2017
46,606,341 (2017: 46,606,341) Ordinary Shares of £1	£ <u>46,606,341</u>	£ <u>46,606,341</u>
348,404,620 (2017: 348,404,620) Ordinary Shares of \$1	\$ <u>348,404,620</u>	\$ <u>348,404,620</u>
68,432,731 (2017: 68,432,731) Ordinary Shares of \$0.88	\$ <u>60,220,803</u>	\$ <u>60,220,803</u>

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.

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	2018	2017
	£'000	£'000
<u>Total allotted and fully paid</u>		
46,606,341 (2017: 46,606,341) Ordinary Shares of £1	46,606	46,606
348,404,620 (2017: 348,404,620) Ordinary Shares of \$1	273,561	257,551
68,432,731 (2017: 68,432,731) Ordinary Shares of \$0.88	47,284	44,517
	£ 367,451	£ 348,674

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

11. Creditors: Amounts falling due within one year

	2018	2017
	£'000	£'000
Amounts owed to group undertakings	£ 896	£ 30,887

RiverStone Holdings has no creditors which are subject to security arrangements

12. 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.

13. 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.