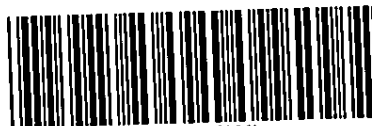


STRONGHOLD INSURANCE COMPANY LIMITED

**ANNUAL REPORT AND FINANCIAL STATEMENTS
2007**

Company Registration No 736581

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STRONGHOLD INSURANCE COMPANY LIMITED

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STRONGHOLD INSURANCE COMPANY LIMITED

Directors and Management

Directors

J M Massey - Chairman
A M Duffy
H Sopher
K F Watkins

Managing Director

K F Watkins

Secretary

A M Duffy

Auditors

Ernst & Young LLP
1 More London Place
London
SE1 2AF

Registered Office

P O Box 3068 Rose Lane Business Centre Rose Lane Norwich NR1 1ZG England

STRONGHOLD INSURANCE COMPANY LIMITED

Report of the Directors

The Directors present their report and the financial statements of the Company for the year ended 31 December 2007

Principal activity and business review

The Company ceased to write new business in 1987 accordingly the DTI withdrew its authority for the Company to accept contracts of insurance and reinsurance

Nature of Business

The Company is in solvent run-off The Company's main activity is the settlement and administration of claims and the collection of reinsurance The majority of the liabilities outstanding relate to Asbestos and Environmental Pollution related claims

Risks and Uncertainties

There are fundamental uncertainties in the provision for claims outstanding This is in part due to the long term nature of the claims and in part due to the vagaries of the American legal system The Company constantly assesses the exposures and wherever possible will seek to make favourable settlements

When it is commercially viable to do so commutations of both inwards and outwards claims risks are agreed with the relevant parties The company will continue to seek commutation opportunities in the future

Staff

The retention of key employees has been achieved through flexible working conditions Staff turnover is negligible

Environment Impact

The Company considers that its impact on the environment is minimal

Key Performance Indicators

	2007	2006
	US\$'000	US\$'000
Gross outstanding claims (including claims handling expenses) after discount	176,636	187,711
Asbestos and pollution related gross outstanding claims (including claims handling expenses) after discount	156,841	164,521
Reinsurance recoveries on gross outstanding claims after discount	102,770	109,741
Discount provided on net outstanding claims (excluding claims handling expenses)	9,162	9,625

STRONGHOLD INSURANCE COMPANY LIMITED

Report of the Directors (continued)

Results and dividends

There was a profit on ordinary activities after taxation for the year of US\$311,000 (2006 - profit US\$160,000) The Directors do not recommend the payment of a dividend for the year (2006 - Nil)

Directors

The names of the Directors at the date of this Report appear on page 2 All of the Directors served throughout the year

The Directors at 31 December 2007 had the following interests in the share capital of the holding company, Stronghold Holdings Limited

	At 31 December 2007 Ordinary shares	At 31 December 2006 Ordinary shares
A M Duffy	40	40
H Sopher	40	40
K F Watkins	20	20

Disclosure of information to Auditors

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware Having made enquiries of fellow directors and the company's auditor, each director has taken all the steps that he/she is obliged to take as a director in order to make himself/herself aware of any relevant audit information and to establish that the auditor is aware of that information

Charitable and political donations

No donations were made for charitable or political purposes during the year

Auditors

Ernst & Young LLP will be re-appointed as the Company's Auditors in accordance with the elective resolution passed by the Company under Section 386 of the Companies Act 1985

By Order of the Board



K F WATKINS
Director

20 March 2008

STRONGHOLD INSURANCE COMPANY LIMITED

Statement of Directors' Responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to

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

The directors are responsible for keeping proper accounting records that 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 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

STRONGHOLD INSURANCE COMPANY LIMITED

Independent Auditors' Report to the Shareholders of Stronghold Insurance Company Limited

We have audited the company's financial statements for the year ended 31 December 2007 which comprise the Profit and Loss Account, Statement of Total Recognised Gains and Losses, Reconciliation of Movements in Shareholder's Funds, Balance Sheet, Cash Flow Statement and the related notes 1 to 24. These financial statements have been prepared under the accounting policies set out therein. This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) as set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2007 and of the Company's profit for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements.

STRONGHOLD INSURANCE COMPANY LIMITED

Independent Auditors' Report to the Shareholders of Stronghold Insurance Company Limited (continued)

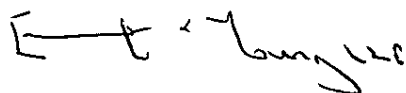
Emphasis of matter – claims provision, claims handling expense provision and going concern

In forming our opinion on the financial statements, which is not qualified, we have considered the following

The adequacy of the disclosures concerning the Company's exposure to future claims and related reinsurance recoveries arising from environmental pollution and asbestos related claims. The level of the provisions for these claims and recoveries has been set on the basis of projections of the ultimate losses using information that is currently available. As set out in note 17, the Directors consider that the Company's gross liabilities and the related reinsurance recoveries are fairly stated. However as described in notes 1(a) and 17 considerable uncertainty exists regarding the ultimate settlement of these liabilities and recoveries and this may require material adjustments to be made to the provisions for these claims.

The adequacy of the disclosures concerning the claims handling expense provision as described in note 17. The financial statements include the estimated future operational costs for claims handling, net of anticipated investment income. The ultimate cost of claims handling expenses is dependent on future events and could be materially different from the amount provided.

The adequacy of the disclosures concerning the Company's ability to continue as a going concern as described in note 1(a). The Directors consider that the going concern basis of accounting is appropriate. However, these conditions, along with the other matters in relation to future claims, related reinsurance recoveries and the claims handling expense provision explained above indicate the existence of a material uncertainty which may cast significant doubt on the company's ability to continue as a going concern. The financial statements do not include the adjustments that would arise if the company was unable to continue as a going concern.



ERNST & YOUNG LLP
Registered Auditor
London

20 March 2008

STRONGHOLD INSURANCE COMPANY LIMITED

Profit and Loss Account for the year ended 31 December 2007

	Notes	2007		2006	
		US\$'000	US\$'000	US\$'000	US\$'000
Technical account - General business					
<i>Discontinued operations</i>					
Gross premiums written	2		7		799
Outwards reinsurance premiums			<u>182</u>		<u>341</u>
Earned premiums, net of reinsurance			(175)		458
Gross claims and claims handling expenses paid		26,340		103,104	
Reinsurers' share of claims paid		<u>18,175</u>		<u>85,069</u>	
Net claims and claims handling expenses paid		8,165		18,035	
Gross change in the provision for claims		(11,786)		(86,351)	
Reinsurers' share		<u>(7,042)</u>		<u>(69,251)</u>	
Net change in the provision for claims		(4,744)		(17,100)	
Claims and claims handling expenses incurred net of reinsurance	4,5	3,421		935	
Net operating expenses	6	<u>2</u>		<u>(9)</u>	
Total technical charges			3,423		926
Balance on the general business technical account			<u>(3,598)</u>		<u>(468)</u>
Non-technical account					
Balance on the general business technical account			(3,598)		(468)
Investment income	9	4,345		3,241	
Investment expenses and charges	10	<u>(432)</u>		<u>(2,588)</u>	
Unrealised losses on investments		<u>(3)</u>		<u>(25)</u>	
			3,909		628
Profit on ordinary activities before taxation			<u>311</u>		<u>160</u>
Tax on ordinary activities	11		-		-
Profit on ordinary activities after taxation			<u>311</u>		<u>160</u>

STRONGHOLD INSURANCE COMPANY LIMITED

Statement of Total Recognised Gains and Losses for the year ended 31 December 2007

	2007 US\$'000	2006 US\$'000
Profit on ordinary activities after taxation	311	160
Currency translation differences on foreign currency net investment	253	1,049
Total recognised profits related to the year	<u>564</u>	<u>1,209</u>

Historical Cost Profits and Losses

The inclusion of unrealised gains and losses in the profit and loss account to reflect the marking to market of investments in the balance sheet is not deemed to be a departure from the unmodified historical cost basis of accounting. Accordingly, a separate note of historical cost profits and losses is not given.

Reconciliation of Movements in Shareholders' Funds for the year ended 31 December 2007

	2007 US\$'000	2006 US\$'000
Opening shareholders' funds	6,321	5,112
Total recognised profits related to the year	564	1,209
Closing shareholders' funds	<u>6,885</u>	<u>6,321</u>

STRONGHOLD INSURANCE COMPANY LIMITED**Balance Sheet
as at 31 December 2007**

	Notes	2007 US\$'000	2006 US\$'000
Assets			
Tangible fixed assets			
Land and buildings	14	1,375	-
Investments			
Other financial investments	13(a)	56,963	49,723
Deposits with ceding undertakings		<u>1,154</u>	<u>1,073</u>
		<u>58,117</u>	<u>50,796</u>
Reinsurers' share of technical provisions			
Claims outstanding	16	102,770	109,741
Debtors			
Debtors arising out of reinsurance operations		8,143	37,330
Other debtors		<u>24</u>	<u>42</u>
		<u>8,167</u>	<u>37,372</u>
Other assets			
Cash at bank and in hand	13(b)	25,650	14,210
Prepayments and accrued income			
Accrued interest and rent		406	721
Other prepayments and accrued income		<u>46</u>	<u>195</u>
		<u>452</u>	<u>916</u>
Total assets		<u>196,531</u>	<u>213,035</u>

STRONGHOLD INSURANCE COMPANY LIMITED**Balance Sheet
as at 31 December 2007**

	Notes	2007 US\$'000	2006 US\$'000
Liabilities			
Capital and Reserves			
Called up share capital	15	48,079	48,079
Profit and loss account		(41,194)	(41,758)
Shareholders' funds attributable to equity interests	16	<u>6,885</u>	<u>6,321</u>
Technical provisions			
Claims outstanding	17	176,636	187,711
Deposits received from reinsurers		8,776	13,822
Creditors			
Arising out of reinsurance operations		3,669	4,155
Other creditors including taxation and social security		<u>138</u>	<u>190</u>
		<u>3,807</u>	<u>4,345</u>
Accruals and deferred income		427	836
Total liabilities and shareholders' funds		<u>196,531</u>	<u>213,035</u>

Signed on behalf of the Board

**K F WATKINS**
Managing Director

20 March 2008

STRONGHOLD INSURANCE COMPANY LIMITED**Statement of Cash Flows
for the year ended 31 December 2007**

	Notes	2007 US\$'000	2006 US\$'000
Net cash inflow/(outflow) from operating activities	18	18,915	(25,785)
Capital expenditure and financial investment			
Payments to acquire freehold property		(1,375)	-
		<u>17,540</u>	<u>(25,785)</u>
Cash flows were invested as follows:			
Increase in cash holdings	19	23,412	15,073
Net portfolio investment			
Decrease in portfolio investments	19	(5,872)	(40,858)
Net investment of cash flows	19	<u>17,540</u>	<u>(25,785)</u>
Movement in opening and closing cash and portfolio investments			
		2007 US\$'000	2006 US\$'000
Net cash inflow for the period	19	23,412	15,073
Cash flow portfolio investments	19	(5,872)	(40,858)
Movement arising from cash flows	19	<u>17,540</u>	<u>(25,785)</u>
Changes in market values and exchange rates	19	1,140	1,044
Total movement in cash and portfolio investments	19	<u>18,680</u>	<u>(24,741)</u>
Cash and portfolio investments net of financing at 1 January	19	63,933	88,674
Cash and portfolio investments net of financing at 31 December	19	<u>82,613</u>	<u>63,933</u>

STRONGHOLD INSURANCE COMPANY LIMITED

Notes to the Financial statements

1 Accounting policies

(a) Basis of preparation

These financial statements are prepared in compliance with section 255 of, and Schedule 9A to, the Companies Act 1985 and in accordance with applicable accounting standards. They also comply with the Statement of Recommended Practice on Accounting for Insurance Business issued by the Association of British Insurers in December 2005 (as amended in December 2006).

In preparing the financial statements for the year ended 31 December 2007, the Directors, having regard to the uncertainties expressed in Note 17 as to the amounts at which the Company's technical provisions will ultimately be settled, consider that the Company has adequate financial resources to meet its day to day obligations as they fall due. Accordingly the financial statements have been prepared on a going concern basis, without including any adjustments that would be required should the financial resources of the Company prove inadequate. This basis could be invalidated if the resources of the Company were exhausted by adverse adjustments arising from the resolution of the uncertainties referred to in Note 17.

(b) Technical account

- (i) Premiums are accounted for and recorded in the technical account in the year of notification.
- (ii) Provision for claims outstanding comprises provisions for the estimated ultimate cost of claims notified but not settled at the date of the balance sheet and for claims incurred but not notified at that date, the provision reflects anticipated reinsurance and other recoveries, and takes into account future claims handling costs.

The provision for claims outstanding for environmental and asbestos losses, and other losses for Casualty classes, together with related claims handling expenses, are included after taking into account the future attributable investment earnings.

(c) Investment return

Investment return comprises interest and dividends on an accruals basis, together with realised and unrealised investment gains and losses. Realised investment gains and losses are calculated as the difference between net proceeds on disposal and their purchase price. Unrealised investment gains and losses are calculated as the difference between the valuation at the balance sheet date and their valuation at the last balance sheet date or purchase price, if acquired during the year. Unrealised investment gains and losses include adjustments in respect of unrealised gains and losses recorded in prior years which have been realised during the year and are reported as realised gains and losses in the current profit and loss account.

(d) Investments

Financial investments are stated at mid market value. Unrealised gains and losses are taken to the profit and loss account.

(e) Foreign currencies

Foreign currency transactions are translated to United States dollars at the rate applicable when recorded in the books, with the exception of transactions in sterling and Canadian dollars, which are translated at the year end rate. Assets and liabilities other than fixed assets which are converted at the rate ruling at the date of purchase, are shown in the balance sheet at rates ruling at the balance sheet date.

Exchange differences on foreign currency net investment are taken to Statement of Total Recognised Gains and Losses.

STRONGHOLD INSURANCE COMPANY LIMITED

Notes to the Financial Statements

1 Accounting policies (continued)

(f) Deferred taxation

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more, or a right to pay less, tax in the future have occurred at the balance sheet. Deferred tax assets are recognised only to the extent that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

g) Tangible fixed assets and depreciation

Land and Buildings

Land and buildings are stated at cost less depreciation. Depreciation is calculated from when the asset is brought into use so as to write off the cost of the asset less its estimated residual value over its useful estimated life of 25 years. Depreciation is not charged on freehold land.

2 Premiums

Premium income substantially relates to reinstatement premiums and is attributable to discontinued operations.

3 Segmental information

	2007 US\$'000	2006 US\$'000
<i>Technical account</i>		
Gross premiums earned	7	799
Gross claims and claims handling expenses incurred	(14,554)	(16,753)
Gross operating expenses	-	-
Gross technical result	(14,547)	(15,954)
Reinsurance balance	10,949	15,486
Net technical result	(3,598)	(468)

All premiums relate to general reinsurance business concluded in the United Kingdom.

4 Net claims incurred and claims handling expenses

	Gross US\$'000	Reinsurance US\$'000	Net US\$'000
2007			
Claims paid	22,175	18,175	4,000
Claims handling expenses paid	4,165	-	4,165
	26,340	18,175	8,165
Outstanding claims carried forward	176,636	102,770	73,866
Outstanding claims brought forward	188,422	109,812	78,610
	(11,786)	(7,042)	(4,744)
Claims incurred	14,554	11,133	3,421
2006			
Claims paid	98,845	85,069	13,776
Claims handling expenses paid	4,259	-	4,259
	103,104	85,069	18,035
Outstanding claims carried forward	187,711	109,741	77,970
Outstanding claims brought forward	274,062	178,992	95,070
	(86,351)	(69,251)	(17,100)
Claims incurred	16,753	15,818	935

STRONGHOLD INSURANCE COMPANY LIMITED

Notes to the Financial Statements

5 Claims handling expenses paid

Claims handling expenses include

	2007 US\$'000	2006 US\$'000
Auditors' remuneration - audit services	194	147
Depreciation	-	-

6 Net operating expenses

	2007 US\$'000	2006 US\$'000
Acquisition costs	-	-
- gross	(2)	9
- reinsurance	2	(9)
- net		

7 Staff costs

	2007 US\$'000	2006 US\$'000
Wages and salaries	685	650
Social security costs	112	73
Other pension costs	100	95
	897	818

The average monthly number of employees employed during the year was made up as follows

Management	1	1
Claims	7	7

8 Directors' emoluments

The total remuneration received by the Directors for the year is as follows

	2007 US\$	2006 US\$
Fees	425,000	201,875
Other emoluments	7,659	458,150
	432,659	660,025

The highest paid director received emoluments of US\$320,000 (2006 - US\$465,870)

9 Investment income

	2007 US\$'000	2006 US\$'000
Income from listed investments	1,180	1,987
Income from other investments	2,425	1,200
Other interest receivable	417	54
Gains on the realisation of investments	323	-
	4,345	3,241

STRONGHOLD INSURANCE COMPANY LIMITED

Notes to the Financial Statements

10 Investment expenses and charges

	2007 US\$'000	2006 US\$'000
Investment management expenses	54	78
Interest payable - on reinsurance balances	378	357
Losses on the realisation of investments	-	2,153
	<u>432</u>	<u>2,588</u>

11 Taxation

(a) No provision has been made in the financial statements for UK corporation tax on the assessable profits for the year as they have been set off against losses of previous years

The charge for taxation in the profit and loss account comprises the following

	2007 US\$'000	2006 US\$'000
Overseas taxation	-	-

(b) Factors affecting current tax charge

The tax assessed for the period is lower than the standard rate of corporation tax in the UK of 30% (2006 - 30%)
The differences are explained below

	2007 US\$'000	2006 US\$'000
Profit on ordinary activities before tax	<u>311</u>	<u>160</u>
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2006 - 30%)	93	48
Expenses not deductible for tax purposes	493	228
Tax on currency translation differences	27	110
Additional (expenses)/receipt for General Insurance Reserves Regulations	(193)	1,238
Utilisation of tax losses	<u>(420)</u>	<u>(1,624)</u>
	<u>-</u>	<u>-</u>

(c) Factors that may affect future tax charges

The company has tax losses arising in the UK of £9 552m (2006 - £10 348m) that are available indefinitely for offset against future taxable profits of the company

STRONGHOLD INSURANCE COMPANY LIMITED

Notes to the Financial Statements

12 Deferred taxation

No provision has been made in the financial statements for deferred taxation

Details of the deferred tax asset not included in the financial statements is given below

	2007 US\$'000	2006 US\$'000
Short-term timing differences	(830)	(394)
Accelerated capital allowances	(6)	(8)
Trading losses available for carry forward	<u>(5,444)</u>	<u>(6,053)</u>
	<u>(6,280)</u>	<u>(6,455)</u>

13 (a) Investments

	Current value		Historical cost	
	2007 US\$'000	2006 US\$'000	2007 US\$'000	2006 US\$'000
Other financial investments				
Shares and other variable-yield securities and shares in unit trusts (listed)	2,459	4,626	2,282	4,318
Shares and other variable-yield securities and shares in unit trusts (unlisted)	-	-	556	293
Debt securities and other fixed income securities (listed)	25,560	28,170	25,851	28,828
Deposits with credit institutions	28,944	16,927	28,944	16,927
	<u>56,963</u>	<u>49,723</u>	<u>57,633</u>	<u>50,366</u>

(b) Cash at bank and in hand

The facility provided to the Company in respect of its letter of credit liabilities, amounting to US\$13 661m (2006 - US\$10 393m) is secured by a charge over a bank account of an equal amount

14 Tangible fixed assets

	Freehold land and buildings US\$'000
Cost	
Purchase in the year	1,375
As at 31 December 2007	<u>1,375</u>
Depreciation	
Charge in the year	-
As at 31 December 2007	<u>-</u>
Net book value	
As at 31 December 2007	<u>1,375</u>

STRONGHOLD INSURANCE COMPANY LIMITED

Notes to the Financial Statements

15 Share capital

	2007 US\$'000	2006 US\$'000
<i>Authorised</i>		
30,000,000 ordinary shares of £1 each	<u>53,445</u>	<u>53,445</u>
<i>Issued and fully paid</i>		
27,000,000 ordinary shares of £1 each	<u>48,079</u>	<u>48,079</u>

16 Shareholders' funds

	Share capital US\$'000	Profit & loss a/c US\$'000	Total US\$'000
2007			
Balance at 1 January	48,079	(41,758)	6,321
Currency translation differences on foreign currency net investment	-	253	253
Retained profit for the financial year	-	311	311
Balance at 31 December	<u>48,079</u>	<u>(41,194)</u>	<u>6,885</u>
2006			
Balance at 1 January	48,079	(42,967)	5,112
Currency translation differences on foreign currency net investment	-	1,049	1,049
Retained profit for the financial year	-	160	160
Balance at 31 December	<u>48,079</u>	<u>(41,758)</u>	<u>6,321</u>

17 Claims outstanding

	Gross US\$'000	Reinsurance US\$'000	Net US\$'000
2007			
Provision before discounting	202,597	149,563	53,034
Discounting adjustment	(55,955)	(46,793)	(9,162)
	<u>146,642</u>	<u>102,770</u>	<u>43,872</u>
Claims handling expenses	37,733	-	37,733
Discounting adjustment	(7,739)	-	(7,739)
	<u>29,994</u>	<u>-</u>	<u>29,994</u>
	<u>176,636</u>	<u>102,770</u>	<u>73,866</u>
2006			
Provision before discounting	218,789	161,930	56,859
Discounting adjustment	(61,814)	(52,189)	(9,625)
	<u>156,975</u>	<u>109,741</u>	<u>47,234</u>
Claims handling expenses	39,848	-	39,848
Discounting adjustment	(9,112)	-	(9,112)
	<u>30,736</u>	<u>-</u>	<u>30,736</u>
	<u>187,711</u>	<u>109,741</u>	<u>77,970</u>

STRONGHOLD INSURANCE COMPANY LIMITED

Notes to the Financial Statements

17 Claims outstanding (continued)

The company's reserves comprise primarily estimates of asbestos and environmental exposures. In the opinion of the directors estimates of these liabilities are subject to greater variability than other categories. Estimates are usually difficult because of issues such as a general lack of sufficiently detailed data, additional unresolved issues such as whether coverage exists, definition of an occurrence and determination and allocation of damage to financially responsible parties. Where appropriate, individual exposures are assessed using ground up methods and further reserves have been established to cover additional exposures on both known and unknown claims. Other variables which impact the ultimate exposure to asbestos-related claims include the effect of bankruptcies, the extent to which non impaired claimants can be precluded from making claims and strategies to broaden the population of defendant companies.

The level of the related reinsurance recoveries is dependent upon both the accuracy of the estimated gross technical provisions and the ultimate ability to pay of the underlying security. The reinsurance recoveries are stated net of the provision for estimated irrecoverable amounts. The level of the provision for claims handling expenses is dependent upon the settlement of gross technical provisions, collection of related reinsurance recoveries and changes in the factors influencing these.

Whilst the Directors consider that the gross provision for claims and the related reinsurance recoveries, together with the provision for claims handling expenses, are fairly stated on the basis of the information currently available to them, the ultimate liability will vary as a result of subsequent information and events and may result in significant adjustments to the amounts provided. Adjustments to the technical provisions are reflected in the financial statements for the period in which the adjustments are made.

The provision for claims outstanding for environmental and asbestos losses, and other losses for Casualty classes together with related claims handling expenses, are included after taking into account the future attributable investment earnings at an assumed compound discount rate of 4.50% (2006 – 4.50%) per annum. The discount rate is calculated taking account of the fact that the company has a mixed portfolio of US Dollar and Sterling investments and cash holdings and future claims will be settled mainly in US Dollars and future claims handling expenses will be settled mainly in Sterling. The assumed settlement pattern for gross claim payments results in an average term for the liabilities of 8.11 years (2006 – 8.40 years). This settlement pattern has been derived from the historic development of claims payments appropriate for the types of claims within these classes, in particular those relating to environmental and asbestos losses. The effect of discounting, included within claims incurred net of reinsurance, during the year amounted to a loss of \$2.0m (2006 - loss \$5.4m).

An excess of loss arrangement was entered into with European International Reinsurance Company on 1 October 1996 and a provision for reinsurance recoveries under this arrangement has been included within the provision for claims outstanding as shown above. This arrangement has been partially commuted in accordance with the contract terms.

18 Reconciliation of result before tax to net cash flow from operating activities

	2007 US\$'000	2006 US\$'000
Profit on ordinary activities before tax	311	160
Realised investment (gains)/losses	(323)	2,153
Unrealised investment losses	3	25
Decrease in provision for claims outstanding	(4,743)	(17,100)
Decrease/(increase) in debtors, prepayments and accrued income	29,703	(17,849)
(Decrease)/increase in creditors, accruals and deferred income	(975)	3,870
Decrease in deposits with ceding undertakings	13	325
(Decrease)/increase in deposits received from reinsurers	(5,064)	2,631
Realised exchange losses	(10)	-
Net cash inflow/(outflow) from operating activities	18,915	(25,785)

STRONGHOLD INSURANCE COMPANY LIMITED

Notes to the Financial Statements

19 Movement in cash and portfolio investments

	At 1 Jan 2007	Cash Flow	Changes in market values and exchange rates	At 31 Dec 2007
	US\$'000	US\$'000	US\$'000	US\$'000
Cash at bank and in hand and deposits with credit institutions	31,137	23,412	45	54,594
Shares and other variable-yield securities and shares in unit trusts	4,626	(2,180)	13	2,459
Debt securities and other fixed income securities	28,170	(3,692)	1,082	25,560
	<u>63,933</u>	<u>17,540</u>	<u>1,140</u>	<u>82,613</u>

20 Related parties

Companies treated as related parties of the Company for disclosure purposes under Financial Reporting Standard 8, together with the nature of the relationship, are listed below

Parent undertaking
Stronghold Holdings Limited

Companies related to the Directors
Isis Consulting, Inc

21 Related party transactions

Details of the emoluments paid to Directors can be found in note 8

Ms A M Duffy and Mr H Sopher, directors of Stronghold Insurance Company Limited, are also directors of Isis Consulting Inc. During 2007 Isis provided Stronghold with consultancy services for fees totalling US\$666,800 (2006 - US\$825,050), of which US\$25,800 (2006 - US\$300,950) was outstanding at 31 December 2007

As at 31 December 2007 a balance of US\$5,494 (2006 - US\$7,907) was due to the parent undertaking

22 Pension scheme

Employees are members of a defined contribution personal pension scheme to which the Company contributes

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23 Financial Services Authority Regulatory Reporting

The statutory financial statements include outstanding claims and future claims handling expenses on a discounted basis. For regulatory reporting purposes, to the Financial Services Authority, discounting is no longer allowed and the regulatory reporting requirement for a company to maintain capital resources equivalent to its capital resource requirement is not met by the company as a result. The Financial Services Authority have indicated they do not intend to take any action in respect of this matter.

24 Holding company

The Company is a subsidiary undertaking of Stronghold Holdings Limited, the ultimate parent undertaking, which is registered in England. Copies of the financial statements of the parent undertaking can be obtained from Clifford Chance, 10 Upper Bank Street, London, E14 5JJ, England.