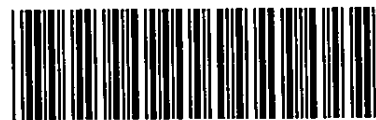


STRONGHOLD INSURANCE COMPANY LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS
2011

Company Registration No 736581

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STRONGHOLD INSURANCE COMPANY LIMITED

Contents

| | Page |
|---|-------------|
| Directors and Management | 2 |
| Report of the Directors | 3-4 |
| Statement of Directors' Responsibilities in respect of the Financial Statements | 5 |
| Independent Auditor's Report | 6 - 7 |
| Profit and Loss Account | 8 |
| Statement of Total Recognised Gains and Losses | 9 |
| Reconciliation of Movements in Shareholders' Funds | 9 |
| Balance Sheet | 10 - 11 |
| Statement of Cash Flows | 12 |
| Notes to the Financial Statements | 13 - 21 |

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

Secretaries

A M Duffy
A J Gregory

Auditors

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

Registered Office

46 Rose Lane, Norwich, NR1 1PN 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 2011

Principal activity and business review

The Company ceased to write new business in 1987 accordingly the FSA 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

As the Company is in run-off the Company's key performance indicators are based on claims which remain outstanding both at the gross and reinsurance level. Gross outstandings have reduced mainly as a result of payments made in the year.

| | 2011 US\$'000 | 2010 US\$'000 |
|--|------------------|------------------|
| Gross outstanding claims (including claims handling expenses) after discount | 119,233 | 126,445 |
| Asbestos and pollution related gross outstanding claims (including claims handling expenses) after discount | 108,237 | 114,052 |
| Reinsurance recoveries on gross outstanding claims after discount | 16,862 | 17,436 |

Results and dividends

There was a loss on ordinary activities after taxation for the year of US\$1,995,000 (2010 - profit US\$2,319,000). The Directors do not recommend the payment of a dividend for the year (2010 - Nil).

STRONGHOLD INSURANCE COMPANY LIMITED

Report of the Directors (continued)

Going Concern

The financial statements have been prepared on the going concern basis. The Directors gave due consideration to the going concern and liquidity risk guidance issued by the Financial Reporting Council.

As described in note 1(a) there are material uncertainties which cast significant doubt on the Company's ability to continue as a going concern. The uncertainties derive principally from the long term nature of the company's insurance liabilities comprising reserves for asbestos, pollution and other health hazards, rather than their short term cash issues. These reserves have significant reinsurance assets that reduce the ultimate liabilities.

Following their assessment of the uncertainties described above and in more detail in the notes to the accounts, the Directors and the Company have a reasonable expectation that the Company has adequate resources that enable it to continue in existence for the foreseeable future. For these reasons they continue to adopt the going concern basis in preparing the financial statements.

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 2011 had the following interests in the share capital of the holding company, Stronghold Holdings Limited:

| | At 31 December 2011 Ordinary shares | At 31 December 2010 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.

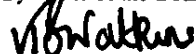
Charitable and political donations

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

Auditors

Ernst & Young LLP are deemed to be reappointed as the Company's auditors in accordance with Section 487(2) of the Companies Act 2006.

By Order of the Board



K F Watkins
Director

28 March 2012

STRONGHOLD INSURANCE COMPANY LIMITED

Statement of Directors' Responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and 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 accounting estimates that are reasonable and prudent, and
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements

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

Independent Auditor's Report to the Members of Stronghold Insurance Company Limited

We have audited the financial statements of Stronghold Insurance Company Limited for the year ended 31 December 2011 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Reconciliation of Movements in Shareholders' Funds, the Balance Sheet, the Statement of Cash Flows and the related notes 1 to 23. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 auditor's 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 auditor

As explained more fully in the Statement of Directors' Responsibilities set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2011 and of its loss for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Emphasis of matter – Going concern

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosures made in notes 1a and 16 to the financial statements concerning the company's ability to continue as a going concern. The conditions explained in note 1a and 16 indicate the existence of a material uncertainty which may cast significant doubt about the company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the company was unable to continue as a going concern.

Opinion on other matter prescribed by the Companies Act 2006

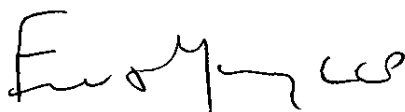
In our opinion the information given in the Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements.

STRONGHOLD INSURANCE COMPANY LIMITED

Matters on which we are required to report by exception

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

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



Clifford Houghton (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London

28 March 2012

STRONGHOLD INSURANCE COMPANY LIMITED

**Profit and Loss Account
for the year ended 31 December 2011**

| | Notes | 2011 | | 2010 | |
|---|-------|----------|----------|----------|----------|
| | | US\$'000 | US\$'000 | US\$ 000 | US\$ 000 |
| Technical account - General business | | | | | |
| <i>Discontinued operations</i> | | | | | |
| Gross premiums written | 2 | | 141 | | 20 |
| Outwards reinsurance premiums | | | (16) | | (73) |
| Earned premiums net of reinsurance | | | 125 | | (53) |
| Gross claims and claims handling expenses paid | | 14,193 | | 21,701 | |
| Reinsurers' share of claims paid | | (3,252) | | (7,584) | |
| Net claims and claims handling expenses paid | | 10,941 | | 14,117 | |
| Gross change in the provision for claims | | (7,153) | | (13,897) | |
| Reinsurers' share | | 571 | | 4,370 | |
| Net change in the provision for claims | | (6,582) | | (9,527) | |
| Claims and claims handling expenses incurred net of reinsurance | 4,5 | 4,359 | | 4,590 | |
| Net operating expenses | | (1) | | - | |
| Total technical charges | | | 4,358 | | 4,590 |
| Balance on the general business technical account | | | (4,233) | | (4,643) |
| Non-technical account | | | | | |
| Balance on the general business technical account | | | (4,233) | | (4,643) |
| Investment income | 8 | 4,894 | | 5,821 | |
| Unrealised gains/(losses) on investments | | (2,405) | | 1,219 | |
| Investment expenses and charges | 9 | (251) | | (78) | |
| | | | 2,238 | | 6,962 |
| (Loss)/profit on ordinary activities before taxation | | | (1,995) | | 2,319 |
| Tax on ordinary activities | 10 | | - | | - |
| (Loss)/profit for the financial year | | | (1,995) | | 2,319 |

STRONGHOLD INSURANCE COMPANY LIMITED

**Statement of Total Recognised Gains and Losses
for the year ended 31 December 2011**

| | 2011 US\$'000 | 2010 US\$'000 |
|--|------------------|------------------|
| (Loss)/profit for the financial year | (1,995) | 2 319 |
| Currency translation differences on foreign currency net investment | (35) | (349) |
| Total recognised gains and losses relating to the year | <u>(2,030)</u> | <u>1,970</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 2011**

| | 2011 US\$'000 | 2010 US\$'000 |
|--|------------------|------------------|
| Opening shareholders' funds | 9,433 | 7,463 |
| Total recognised gains and losses relating to the year | (2,030) | 1,970 |
| Closing shareholders' funds | <u>7,403</u> | <u>9,433</u> |

STRONGHOLD INSURANCE COMPANY LIMITED

Balance Sheet as at 31 December 2011

| | Notes | 2011 US\$'000 | 2010 US\$'000 |
|--|-------|------------------|------------------|
| Assets | | | |
| Tangible fixed assets | | | |
| Land and buildings | 13 | 1,255 | 1,295 |
| Investments | | | |
| Other financial investments | 12(a) | 78,666 | 104,313 |
| Deposits with ceding undertakings | | <u>767</u> | <u>973</u> |
| | | <u>79,433</u> | <u>105,286</u> |
| Reinsurers' share of technical provisions | | | |
| Claims outstanding | 16 | 16,862 | 17,436 |
| Debtors | | | |
| Debtors arising out of reinsurance operations | | 1,668 | 3,191 |
| Other debtors | | <u>19</u> | <u>27</u> |
| | | <u>1,687</u> | <u>3,218</u> |
| Other assets | | | |
| Cash at bank and in hand | 12(b) | 33,680 | 16,348 |
| Prepayments and accrued income | | | |
| Accrued interest and rent | | 905 | 1,156 |
| Other prepayments and accrued income | | <u>24</u> | <u>-</u> |
| | | <u>929</u> | <u>1,156</u> |
| Total assets | | <u>133,846</u> | <u>144,739</u> |

STRONGHOLD INSURANCE COMPANY LIMITED

**Balance Sheet
as at 31 December 2011**

| | Notes | 2011 US\$'000 | 2010 US\$ 000 |
|--|-------|------------------|------------------|
| Liabilities | | | |
| Capital and Reserves | | | |
| Called up share capital | 14 | 48,079 | 48,079 |
| Profit and loss account | | <u>(40,676)</u> | <u>(38,646)</u> |
| Shareholders' funds | 15 | <u>7,403</u> | <u>9,433</u> |
| Technical provisions | | | |
| Claims outstanding | 16 | 119,233 | 126,445 |
| Deposits received from reinsurers | | 4,317 | 4,791 |
| Creditors | | | |
| Arising out of reinsurance operations | | 2,682 | 4,034 |
| Amounts due to parent undertaking | | <u>7</u> | <u>7</u> |
| | | <u>2,689</u> | <u>4,041</u> |
| Accruals and deferred income | | 204 | 29 |
| Total liabilities and shareholders' funds | | <u>133,846</u> | <u>144,739</u> |

Signed on behalf of the Board

**K F WATKINS**
Director

28 March 2012

STRONGHOLD INSURANCE COMPANY LIMITED**Statement of Cash Flows
for the year ended 31 December 2011**

| | Notes | 2011 US\$'000 | 2010 US\$'000 |
|---|-------|------------------|------------------|
| Net cash outflow from operating activities | 17 | <u>(6,991)</u> | <u>(12,429)</u> |
| Cash flows were invested as follows | | | |
| Increase/(decrease) in cash holdings | 18 | 17,093 | (35,942) |
| Net portfolio investment | | | |
| (Decrease)/increase in portfolio investments | 18 | (24,084) | 23,513 |
| Net investment of cash flows | 18 | <u>(6,991)</u> | <u>(12,429)</u> |
| Movement in opening and closing cash and portfolio investments | | | |
| | | 2011 US\$'000 | 2010 US\$'000 |
| Net cash inflow/(outflow) for the period | 18 | 17,093 | (35,942) |
| Cash flow portfolio investments | 18 | (24,084) | 23,513 |
| Movement arising from cash flows | 18 | <u>(6,991)</u> | <u>(12,429)</u> |
| Changes in market values and exchange rates | 18 | (1,324) | 2,247 |
| Total movement in cash and portfolio investments | 18 | <u>(8,315)</u> | <u>(10,182)</u> |
| Cash and portfolio investments net of financing at 1 January | 18 | 120,661 | 130,843 |
| Cash and portfolio investments net of financing at 31 December | 18 | <u>112,346</u> | <u>120,661</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 Paragraph 6 and Schedule 3 of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 relating to insurance companies 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 2011, the Directors, having regard to the material uncertainties which cast significant doubt about the company's ability to continue as a going concern expressed in Note 16 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 16.

(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 bid market value. Unrealised gains and losses are taken to the profit and loss account.

(e) Foreign currencies

Foreign currency transactions in the year 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 the 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 date. 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

| <i>Technical account</i> | 2011 US\$'000 | 2010 US\$'000 |
|--|------------------|------------------|
| Gross premiums earned | 141 | 20 |
| Gross claims and claims handling expenses incurred | (7,040) | (7,804) |
| Gross technical result | (6,899) | (7,784) |
| Reinsurance balances | 2,665 | 3,141 |
| Net operating expenses | 1 | - |
| Net technical result | (4,233) | (4,643) |

All premiums relate to general reinsurance business concluded in the United Kingdom. The Company ceased underwriting in 1987 and since that date the Company's business has been discontinued. In the opinion of the Directors the Company is only involved in one activity, the settlement and administration of claims, and accordingly no detailed analysis has been prepared.

4 Net claims incurred and claims handling expenses

| | Gross US\$ 000 | Reinsurance US\$ 000 | Net US\$ 000 |
|---|-------------------|-------------------------|-----------------|
| 2011 | | | |
| Claims paid | 10,951 | 3,252 | 7,699 |
| Claims handling expenses paid | 3,242 | - | 3,242 |
| | <u>14,193</u> | <u>3,252</u> | <u>10,941</u> |
| Outstanding claims carried forward | 119,233 | 16,862 | 102,371 |
| Outstanding claims brought forward | (126,445) | (17,436) | (109,009) |
| Revaluation of outstanding claims brought forward | 59 | 3 | 56 |
| | <u>(7,153)</u> | <u>(571)</u> | <u>(6,582)</u> |
| Claims incurred | <u>7,040</u> | <u>2,681</u> | <u>4,359</u> |
| 2010 | | | |
| Claims paid | 18,438 | 7,584 | 10,854 |
| Claims handling expenses paid | 3,263 | - | 3,263 |
| | <u>21,701</u> | <u>7,584</u> | <u>14,117</u> |
| Outstanding claims carried forward | 126,445 | 17,436 | 109,009 |
| Outstanding claims brought forward | (140,854) | (21,826) | (119,028) |
| Revaluation of outstanding claims brought forward | 512 | 20 | 492 |
| | <u>(13,897)</u> | <u>(4,370)</u> | <u>(9,527)</u> |
| Claims incurred | <u>7,804</u> | <u>3,214</u> | <u>4,590</u> |

STRONGHOLD INSURANCE COMPANY LIMITED**Notes to the Financial Statements****5 Claims handling expenses paid**

Claims handling expenses include

| | 2011 US\$'000 | 2010 US\$ 000 |
|--|------------------|------------------|
| Auditors' remuneration | | |
| - audit of financial statements | 116 | 110 |
| - other services pursuant to legislation including the audit of the regulatory return | 25 | 25 |
| Depreciation | <u>40</u> | <u>40</u> |

6 Staff costs

| | 2011 US\$'000 | 2010 US\$'000 |
|-----------------------|------------------|------------------|
| Wages and salaries | 553 | 546 |
| Social security costs | 66 | 62 |
| Other pension costs | <u>75</u> | <u>75</u> |
| | <u>694</u> | <u>683</u> |

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

| | | |
|------------|---|---|
| Management | 1 | 1 |
| Claims | 5 | 6 |

7 Directors' emoluments

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

| | 2011 US\$ | 2010 US\$ |
|------------------|----------------|----------------|
| Fees | 473,465 | 474,485 |
| Other emoluments | <u>6,833</u> | <u>25,452</u> |
| | <u>480,298</u> | <u>499,937</u> |

The highest paid director received emoluments of US\$324,030 (2010 - US\$324,870)

8 Investment income

| | 2011 US\$'000 | 2010 US\$ 000 |
|---|------------------|------------------|
| Income from listed investments | 3,465 | 3,882 |
| Income from other investments | 249 | 301 |
| Other interest receivable | 48 | 13 |
| Gains on the realisation of investments | <u>1,132</u> | <u>1,625</u> |
| | <u>4,894</u> | <u>5,821</u> |

STRONGHOLD INSURANCE COMPANY LIMITED

Notes to the Financial Statements

9 Investment expenses and charges

| | 2011 US\$'000 | 2010 US\$'000 |
|--|------------------|------------------|
| Investment management expenses | 230 | 59 |
| Interest payable - on reinsurance balances | 21 | 19 |
| | <u>251</u> | <u>78</u> |

10 Taxation

(a) No provision has been made in the financial statements for UK corporation tax on the results for the year as a tax loss arises

(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 26.5% (2010 – 28%)

The differences are explained below

| | 2011 US\$'000 | 2010 US\$'000 |
|---|------------------|------------------|
| (Loss)/profit on ordinary activities before tax | <u>(1,995)</u> | <u>2,319</u> |
| (Loss)/profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 26.5% (2010 – 28%) | (529) | 649 |
| Expenses not deductible for tax purposes | (29) | 41 |
| Tax on currency translation differences | (3) | (48) |
| Unrelieved losses carried forward | 561 | - |
| Utilisation of tax losses | <u>-</u> | <u>(642)</u> |
| | <u>-</u> | <u>-</u> |

(c) Factors that may affect future tax charges

The company has tax losses arising in the UK of £8,097m (2010 - £6,726m) that are available indefinitely for offset against future taxable profits of the company

11 Deferred taxation

No provision has been made in the financial statements for deferred taxation. The deferred tax asset is not recognised due to the uncertainty of its recovery. The unrecognised deferred tax is as follows

| | 2011 US\$'000 | 2010 US\$'000 |
|--|------------------|------------------|
| Short-term timing differences | (684) | (724) |
| Accelerated capital allowances | (12) | (14) |
| Trading losses available for carry forward | <u>(3,123)</u> | <u>(2,809)</u> |
| | <u>(3,819)</u> | <u>(3,547)</u> |

STRONGHOLD INSURANCE COMPANY LIMITED

Notes to the Financial Statements

12 (a) Investments

| | Current value | | Historical cost | |
|---|---------------|----------------|-----------------|----------------|
| | 2011 | 2010 | 2011 | 2010 |
| | US\$'000 | US\$ 000 | US\$'000 | US\$'000 |
| Other financial investments | | | | |
| Shares and other variable-yield securities and shares in unit trusts (listed) | 10,978 | 14,114 | 12,459 | 14,314 |
| Shares and other variable-yield securities and shares in unit trusts (unlisted) | - | - | 430 | 430 |
| Debt securities and other fixed income securities (listed) | 64,614 | 86,884 | 65,970 | 87,116 |
| Deposits with credit institutions | 3,074 | 3,315 | 3,074 | 3,315 |
| | <u>78,666</u> | <u>104,313</u> | <u>81,933</u> | <u>105,175</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\$8 709m (2010 - US\$9 283) is secured by a charge over a bank account of an equal amount

13 Tangible fixed assets

| | Freehold land and buildings US\$'000 |
|------------------------|--|
| Cost | |
| As at 1 January 2011 | 1,375 |
| As at 31 December 2011 | <u>1,375</u> |
| Depreciation | |
| As at 1 January 2011 | 80 |
| Charge for year | 40 |
| As at 31 December 2011 | <u>120</u> |
| Net book value | |
| As at 31 December 2011 | <u>1,255</u> |
| As at 31 December 2010 | <u>1,295</u> |

STRONGHOLD INSURANCE COMPANY LIMITED

Notes to the Financial Statements

14 Share capital

| | 2011 US\$'000 | 2010 US\$'000 |
|--|------------------|------------------|
| <i>Authorised</i> | | |
| 30,000 000 ordinary shares of £1 each | <u>53,445</u> | <u>53,445</u> |
| <i>Allotted called up and fully paid</i> | | |
| 27,000,000 ordinary shares of £1 each | <u>48,079</u> | <u>48,079</u> |

15 Shareholders' funds

| | Share capital US\$ 000 | Profit & loss a/c US\$ 000 | Total US\$ 000 |
|--|------------------------------|----------------------------------|-------------------|
| 2011 | | | |
| Balance at 1 January | 48,079 | (38,646) | 9,433 |
| Currency translation differences on foreign currency net investment | - | (35) | (35) |
| Retained profit for the financial year | - | (1,995) | (1,995) |
| Balance at 31 December | <u>48,079</u> | <u>(40,676)</u> | <u>7,403</u> |
| 2010 | | | |
| Balance at 1 January | 48,079 | (40 616) | 7 463 |
| Currency translation differences on foreign currency net investment | - | (349) | (349) |
| Retained profit for the financial year | - | 2,319 | 2 319 |
| Balance at 31 December | <u>48,079</u> | <u>(38,646)</u> | <u>9,433</u> |

16 Claims outstanding

| | Gross US\$'000 | Reinsurance US\$ 000 | Net US\$'000 |
|------------------------------|-------------------|-------------------------|-----------------|
| 2011 | | | |
| Provision before discounting | 126,893 | 22,562 | 104,331 |
| Discounting adjustment | <u>(31,764)</u> | <u>(5,700)</u> | <u>(26,064)</u> |
| | <u>95,129</u> | <u>16,862</u> | <u>78,267</u> |
| Claims handling expenses | 30,086 | - | 30,086 |
| Discounting adjustment | <u>(5,982)</u> | <u>-</u> | <u>(5,982)</u> |
| | <u>24,104</u> | <u>-</u> | <u>24,104</u> |
| | <u>119,233</u> | <u>16,862</u> | <u>102,371</u> |
| 2010 | | | |
| Provision before discounting | 139,286 | 24,184 | 115,102 |
| Discounting adjustment | <u>(38 192)</u> | <u>(6,748)</u> | <u>(31,444)</u> |
| | <u>101,094</u> | <u>17,436</u> | <u>83 658</u> |
| Claims handling expenses | 32,625 | - | 32,625 |
| Discounting adjustment | <u>(7,274)</u> | <u>-</u> | <u>(7 274)</u> |
| | <u>25 351</u> | <u>-</u> | <u>25,351</u> |
| | <u>126,445</u> | <u>17,436</u> | <u>109,009</u> |

Notes to the Financial Statements

16 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 is considerably uncertain and will vary as a result of subsequent information and events which may result in material 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 3.50% (2010 – 3.80%) 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 9.2 years (2010 – 9.6 years). This settlement pattern has been derived from the historical 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 \$6.7m (2010 - loss \$2.7m).

STRONGHOLD INSURANCE COMPANY LIMITED

Notes to the Financial Statements

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

| | 2011 US\$'000 | 2010 US\$ 000 |
|--|------------------|------------------|
| (Loss)/profit on ordinary activities before tax | (1,995) | 2,319 |
| Realised investment gains | (1,132) | (1,625) |
| Unrealised investment losses/(gains) | 2,405 | (1,219) |
| Decrease in provision for claims outstanding | (6,582) | (9,527) |
| Decrease in debtors, prepayments and accrued income | 1,613 | 553 |
| Decrease in creditors, accruals and deferred income | (981) | (453) |
| Decrease/(increase) in deposits with ceding undertakings | 114 | (20) |
| Decrease in deposits received from reinsurers | (473) | (2,497) |
| Depreciation | 40 | 40 |
| Net cash outflow from operating activities | <u>(6,991)</u> | <u>(12,429)</u> |

18 Movement in cash and portfolio investments

| | At 1 Jan 2011 US\$'000 | Cash Flow US\$'000 | Changes in market values and exchange rates US\$'000 | At 31 Dec 2011 US\$'000 |
|--|---------------------------------|--------------------------|---|----------------------------------|
| Cash at bank and in hand and deposits with credit institutions | 19,663 | 17,093 | (2) | 36,754 |
| Shares and other variable-yield securities and shares in unit trusts | 14,114 | (2,434) | (702) | 10,978 |
| Debt securities and other fixed income securities | 86,884 | (21,650) | (620) | 64,614 |
| | <u>120,661</u> | <u>(6 991)</u> | <u>(1,324)</u> | <u>112,346</u> |

Gross investment cash flows

| | Purchases US\$ 000 | Sales US\$'000 | Total US\$'000 |
|--|-----------------------|-------------------|-------------------|
| Shares and other variable-yield securities and shares in unit trusts | 2,136 | (4,570) | (2,434) |
| Debt securities and other fixed income securities | 15,925 | (37,575) | (21,650) |
| | <u>18,061</u> | <u>(42,145)</u> | <u>(24,084)</u> |

STRONGHOLD INSURANCE COMPANY LIMITED

Notes to the Financial Statements

19 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

20 Related party transactions

Details of the emoluments paid to Directors can be found in note 7

Ms A M Duffy and Mr H Sopher, directors of Stronghold Insurance Company Limited, are also directors of Isis Consulting Inc. During 2011 Isis provided Stronghold with consultancy services for fees totalling US\$1 000,000 (2010 - US\$1 000 000), of which US\$ Nil (2010 – US\$ Nil) was outstanding at 31 December 2011

As at 31 December 2011 a balance of US\$6,664 (2010 - US\$4,595) was due to the parent undertaking

21 Pension scheme

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

22 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.

23 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 TMF Corporate Administration Services Limited, 5th Floor, 6 St Andrew Street, London, EC4A 3AE, England