STRONGHOLD INSURANCE COMPANY LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS 2016

Company Registration No.
00736581

Contents

	Page
Corporate Information	2
Strategic Report	3 - 4
Directors' Report	5 - 6
Directors' Responsibilities Statement	7
Independent Auditor's Report	8 - 9
Income statement	10
Statement of Comprehensive Income	11
Statement of Changes in Equity	11
Statement of Financial Position	12 - 13
Statement of Cash Flows	14
Notes to the Financial Statements	15 - 34

Corporate Information

Directors

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

Secretaries

A M Duffy
A J Gregory

Auditors

Ernst & Young LLP
25 Churchill Place
Canary Wharf
London
E14 5EY

Registered office

46 Rose Lane, Norwich, NR1 1PN, England

Strategic Report

The Directors present their strategic report of the Company for the year ended 31 December 2016.

Review of the business

Principal activities
The Company ceased to write new and renewal business in 1985 and entered into 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.

Review of the business

	2016	2015	Change
	US$'000	US$'000	%
Balance on technical account – general business	**(54)**	53	-202%
(Loss) / Profit for the financial year	**(54)**	53	-202%
Capital and reserves	**9,365**	9,419	-1%
Investment Income	**2,447**	574	+326%
Gross Paid Claims	**15,361**	13,229	+16%
Gross reserves before discount	**58,899**	72,932	-19%
Asbestos and pollution related gross outstanding claims before discount	**55,232**	68,652	-20%
Reinsurance reserves before discount	**5,238**	6,896	-24%
Discount provided	**14,729**	17,582	-16%

There is a small loss in the current financial year compared to a small profit in the previous year. Whilst investment income was a great improvement on the previous year the effect on this year's result was negated by the significant discounting adjustment ostensibly arising from greater than expected claims payments during the year.

The Company's information systems provide the ability to analyse claims. The Company continues to seek ways to ensure that its processes and administration are performed more efficiently and this has resulted in a relatively stable level of operating expenses over the last few years.

The capital and reserves of the Company at 31 December 2016 are US$9.4m (2015: US$9.4 m)

Principal risks and uncertainties
The principal risks and uncertainties facing the Company are broadly grouped as: insurance, regulatory and financial instrument risk.
The risk management objectives and policies are driven by the need to protect the Company's regulatory capital position, to meet obligations to policyholders when they fall due and to have the adequate capital to run-off in an orderly fashion.

Strategic Report (continued)

Principal risks and uncertainties (continued)

Insurance risk

The principal risk the Company faces under insurance risk is that actual claims payments or the timing thereof differ from expectation. This is influenced by frequency of claims, severity of claims, actual benefits paid and subsequent development of claims.

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

Reinsurance recoverables, representing 10% of technical provisions, are reviewed on a regular basis and where it is commercially viable to do so commutations are agreed with reinsurers. Such commutations convert long term reinsurance recoveries into present day cash and investments. The Company discounts its claims liabilities relating to "long-tail" North American liability business, including the run-off provision. Future investment income is expected to at least equal the discount provided.

Regulatory risk

The Company is subject to regulation by the Prudential Regulation Authority ("PRA"). The PRA rules stipulate that sufficient margins of regulatory solvency be maintained and that customers are treated fairly. The Company did not meet the capital requirements under Solvency II at any time during the year to 31/12/2016. The Company has submitted a plan to the regulator setting how it intends to meet capital requirements in the future.

Financial instrument risk

The Company has established a risk and financial management framework, the primary objective of which is the protection of the Company from potential events that may hinder its performance.

The main risks facing the Company are:

- Price risk: Reduction in fair value of investments through market fluctuations will restrict assets available to meet policyholders' entitlements. The risk is mitigated by investments held with a maturity profile which matches the estimated claims settlement pattern by currency in order to minimise exchange and reinvestment risk.
- Interest rate risk: Movements in interest rates will impact the value of future guarantees and the value of fixed interest securities relative to the value of the related liabilities. This risk is managed by an effective asset liability management strategy.
- Cash flow risk: Cash flow risk is the risk of exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability such as future interest payments on a variable debt rate. The Company manages this risk by holding cash and investments with a maturity profile which matches the estimated claims settlement pattern by currency.
- Liquidity risk: Liquidity risk is the risk that an insurance Company will encounter difficulties in meeting obligations associated with financial liabilities. The Company aims to mitigate liquidity risk by monitoring cash generation from its operations. In addition, illiquidity in market trading may bring about an inability to close out a particular position resulting in less liquid assets to meet obligations. This is mitigated by investing primarily in listed investments
- Credit risk: Credit risk is the risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge an obligation. Company policies are aimed at minimising such losses through careful selection and monitoring of third parties. The main credit risk the Company faces is from the inability of reinsurers to meet the obligations assumed under reinsurance arrangements. This is mitigated by placing reinsurance with reputable reinsurers and monitoring limits and receivables at regular intervals.

These risks are covered in substantial detail in note 15 to the financial statements.

By Order of the Board

Andy Gregory

A J GREGORY
Director

20 April 2017

Directors' Report

The Directors present their report and the financial statements of the Company for the year ended 31 December 2016.

Results and dividends

There was a loss on ordinary activities after taxation for the year of US$(54,000) (2015 - profit US$53,000). The Directors do not recommend the payment of a dividend for the year (2015 - Nil).

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 1.2 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 the 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.

The Directors at 31 December 2016 had the following interests in the share capital of the holding company, Stronghold Holdings Limited:

	At 31 December 2016 Ordinary shares	At 31 December 2015 Ordinary shares
A M Duffy	40	40
H Sopher	40	40
K F Watkins	20	20

Financial Instruments

Details of financial instruments are provided in the Strategic Report.

Research And Development

The Company has not undertaken any research and development activities during the year.

Charitable and political donations

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

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.

Future Development

The Company's long term objective is to ensure that it will continue to be able to pay all current and future valid claims as and when they fall due. The Company will continue to carry out it's existing strategies of closely monitoring claims developments and minimising relevant risks as outlined above. There are no known changes to the American legal system or other outside factors that might affect the way claims are currently being assessed. There are no known new major claim types anticipated that could impact the Company.

Directors' Report (continued)

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.

Auditors

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

By Order of the Board

Andy Gregory

A J Gregory
Director

20 April 2017

Directors' Responsibilities Statement

The Directors are responsible for preparing the Strategic Report, 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 2016 which comprise the Income Statement, the Statement of Comprehensive Income, the Statement of Changes in Equity, the Statement of Financial Position, the Statement of Cash Flow and the related notes 1 to 22. 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), including FRS 102 "The Financial Reporting standard applicable in the UK and Republic of Ireland" and FRS 103 "Insurance Contracts".

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 Directors' Responsibilities Statement set out on page 7, 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 & Financial Statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. 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 2016 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 102 "The Financial Reporting standard applicable in the UK and Republic of Ireland" and FRS 103 "Insurance Contracts"; 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 disclosure made in note 1.2 to the financial statements concerning the company's ability to continue as a going concern. The conditions explained in note 1.3 and 14 indicate the existence of material uncertainties 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.

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

Opinion on other matter prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have identified no material misstatements in the Strategic Report or Directors' Report.

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.

Ernst & Young LLP

Ed Jervis (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
24 April 2017

Income Statement
for the year ended 31 December 2016

	Notes	2016 US$'000	2016 US$'000	2015 US$'000	2015 US$'000
Technical account - General business					
Discontinued operations					
Gross premiums written			(7)		29
Outwards reinsurance premiums			(24)		(3)
Earned premiums, net of reinsurance			(31)		26
Investment income	8	2,638		2,665	
Unrealised gains/(losses) on investments	8	(39)		(1,920)	
Investment expenses and charges		(152)		(171)	
			2,447		574
Total technical income			2,416		600
Claims incurred net of reinsurance					
Gross claims and claims handling expenses paid		15,361		13,229	
Reinsurers' share of claims paid		(1,144)		(3,872)	
Net claims and claims handling expenses paid	3	14,217		9,357	
Gross change in provision for claims		(12,983)		(11,116)	
Reinsurers' share		1,236		2,306	
Net change in the provision for claims	3	(11,747)		(8,810)	
Claims and claims handling expenses incurred net of reinsurance	3	2,470		547	
Total charges			2,470		547
Balance on the general business technical account			(54)		53
Non-technical account					
Balance on the general business technical account			(54)		53
(Loss)/profit on ordinary activities before taxation			(54)		53
Tax on ordinary activities	9		-		-
(Loss)/profit for the financial year			(54)		53

The notes on pages 15 - 34 form part of these financial statements.

Statement of Comprehensive Income
for the year ended 31 December 2016

	2016 US$'000	2015 US$'000
(Loss)/profit for the financial year	**(54)**	53
Total Comprehensive Income for the year	**(54)**	53

Statement of Changes in Equity
for the year ended 31 December 2016

	Share capital US$'000	Profit and loss account US$'000	Total US$'000
At 1 January 2016	**48,079**	**(38,660)**	**9,419**
Total Comprehensive Income for the year	-	**(54)**	**(54)**
At 31 December 2016	**48,079**	**(38,714)**	**9,365**
At 1 January 2015	48,079	(38,713)	9,366
Total Comprehensive Income for the year	-	53	53
At 31 December 2015	48,079	(38,660)	9,419

The notes on pages 15 - 34 form part of these financial statements.

Statement of Financial Position
as at 31 December 2016

	Notes	2016 US$'000	2015 US$'000
Assets			
Investments			
Financial investments	11	**58,957**	68,240
Deposits with ceding undertakings		**597**	549
		59,554	68,789
Reinsurers' share of technical provisions			
Claims outstanding	14	**4,023**	5,325
Debtors			
Debtors arising out of reinsurance operations		**1,337**	811
Other debtors		**11**	17
		1,348	828
Other assets			
Land and buildings	12	**710**	859
Cash at bank and in hand	22	**7,974**	13,261
		8,684	14,120
Prepayments and accrued income			
Accrued interest and rent		**705**	757
Other prepayments and accrued income		**-**	20
		705	777
Total assets		**74,314**	89,839

Statement of Financial Position
as at 31 December 2016

	Notes	2016 US$'000	2015 US$'000
Equity and Liabilities			
Shareholder's Equity			
Called up share capital	13	**48,079**	48,079
Profit and loss account		**(38,714)**	(38,660)
Total capital and reserves		**9,365**	9,419
Liabilities			
Technical provisions			
Claims outstanding	14	**60,895**	76,340
Deposits received from reinsurers		**1,399**	1,721
Creditors			
Arising out of reinsurance operations		**2,443**	2,090
Other creditors including taxation and social security		**5**	11
		2,448	2,101
Accruals and deferred income		**207**	258
Total liabilities		**64,949**	80,420
Total equity and liabilities		**74,314**	89,839

The financial statements on pages 10 - 34 were approved by the Board of Directors and were signed on its behalf by:

Andy Gregory.

A J GREGORY
Director

20 April 2017

Statement of Cash Flows
for the year ended 31 December 2016

	Notes	2016 US$'000	2015 US$'000
(Loss)/profit on ordinary activities before tax		**(54)**	53
Realised investment losses		**369**	524
Unrealised investment losses		**2,231**	2,530
Movement in general insurance outstanding claims		**(15,445)**	(11,835)
Movement in reinsurers' share of outstanding claims		**1,302**	2,329
(Increase)/decrease in debtors, prepayments and accrued income		**(448)**	529
Increase in creditors, accruals and deferred income		**296**	612
(Increase)/decrease in deposits with ceding undertakings		**(48)**	75
Decrease in deposits received from reinsurers		**(322)**	(934)
-Revaluation / Depreciation		**149**	276
Net cash outflow from operating activities		**(11,970)**	(5,841)
Investing activities			
Purchases of debt and equity instruments		**(10,156)**	(19,118)
Sales of debt and equity instruments		**17,151**	23,734
Net cash inflow from investing activities		**6,995**	4,616
Increase in cash and cash equivalents		**(4,975)**	(1,225)
Cash and cash equivalents at 1 January		**13,261**	14,609
Exchange differences on opening cash		**(312)**	(123)
Cash and cash equivalents at 31 December	22	**7,974**	13,261

The notes on pages 15 - 34 form part of these financial statements.

Notes to the Financial Statements

1 Accounting policies

1.1 ***Statement of compliance***

Stonghold Insurance Company Limited is a limited liability company incorporated in England. The Registered Office is 46 Rose Lane, Norwich NR1 1PN. The financial statements cover those of the individual entity and are prepared as at 31 December 2016 and for the year ended 31 December 2016.

The financial statements have been prepared in compliance with FRS 102 and FRS 103, being applicable UK GAAP accounting standards, and in accordance with the provisions of Schedule 3 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations relating to insurance companies.

The financial statements are prepared under the historical cost convention except for land and buildings and certain financial instruments which are measured at fair value.

1.2 ***Basis of preparation***

The financial statements for the year ended 31 December 2016 were approved for issue by the Board of Directors on 20 April 2017.

The financial statements are prepared in US dollars which is the presentation and functional currency of the company and rounded to the nearest US$'000.

The financial statements present information about the company as an individual undertaking and not about its group. The company has not prepared group accounts as it is exempt from the requirement to do so by section 400 of the Companies Act 2006 as it is a subsidiary undertaking of Stronghold Holdings Limited, a company incorporated and registered in England and Wales, and is included in the consolidated accounts of that company.

In preparing the financial statements for the year ended 31 December 2016, 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 14 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 14.

1.3 ***Judgements and key sources of estimation uncertainty***

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates. The following are the company's key sources of estimation uncertainty:

1 Accounting policies (continued)

Insurance contract technical provisions

For insurance contracts, estimates have to be made both for the expected ultimate cost of claims reported at the reporting date and for the expected ultimate cost of claims incurred, but not yet reported, at the reporting date (IBNR). It can take a significant period of time before the ultimate claims cost can be established with certainty and in total, IBNR claims form the majority of the liability in the statement of financial position.

The ultimate cost of outstanding claims is estimated by using a range of standard actuarial claims projection techniques.

The main assumption underlying these techniques is that past claims development experience can be used to project future claims development and hence ultimate claims costs. As such, these methods extrapolate the development of paid and incurred losses, average costs per claim and claim numbers based on the observed development of earlier years and expected loss ratios. Historical claims development is analysed by underwriting years, but can also be further analysed by geographical area, as well as by significant business lines and claim types. Large claims are usually separately addressed, either by being reserved at the face value of loss adjuster estimates or separately projected in order to reflect their future development. In most cases, no explicit assumptions are made regarding future rates of claims inflation or loss ratios. Instead, the assumptions used are those implicit in the historical claims development data on which the projections are based. Additional qualitative judgement is used to assess the extent to which past trends may not apply in future, (e.g. to reflect one-off occurrences, changes in external or market factors such as public attitudes to claiming, economic conditions, levels of claims inflation, judicial decisions and legislation, as well as internal factors such as portfolio mix, policy features and claims handling procedures) in order to arrive at the estimated ultimate cost of claims that present the likely outcome from the range of possible outcomes, taking account of all the uncertainties involved.

Further details are given in Note 14.

Revaluation of property for own use

As required by Schedule 3 the property is measured at fair value, with changes in fair value being recognised in the income statement. The company engaged independent valuation specialists to determine fair value at 31 December 2015. The valuer used a valuation technique based on an open market basis. The key assumptions used to determine the fair value of the property are further explained in Note 12.

Taxation

The company establishes provisions based on reasonable estimates.

Management estimation is required to determine the amount of deferred tax assets that can be recognised, based upon likely timing and level of future taxable profits. Further details are contained in Note 9.

Notes to the Financial Statements

1 Accounting policies (continued)

1.4 ***Significant accounting policies***

Insurance contracts

Product classification

Insurance contracts are those contracts when the insurer has accepted significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholders. As a general guideline, the company determines whether it has significant insurance risk, by comparing benefits paid with benefits payable if the insured event did not occur. Insurance contracts can also transfer financial risk.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire.

Claims

Claims include all claims occurring during the year, whether reported or not, related internal and external claims handling costs that are directly related to the processing and settlement of claims, a reduction for the value of salvage and other recoveries, and any adjustments to claims outstanding from previous years.

Reinsurance claims are recognised when the related gross insurance claim is recognised according to the terms of the relevant contract.

Claims outstanding

The provision for claims outstanding (note 14) is based on the estimated ultimate cost of all claims notified but not settled by the balance sheet date, claims incurred but not reported together with the provision for related claims handling costs. Provisions are calculated allowing for reinsurance recoveries and a separate asset is recorded for the reinsurers' share, having regard to collectability.

The claims provision includes amounts in respect of potential claims relating to environmental pollution and asbestos related claims. These claims are not expected to be settled for many years and there is considerable uncertainty as to the amounts at which they will be settled. Legislative and judicial actions to date concerning environmental pollution have failed to determine the basis of liability to indemnify losses.

The level of the provisions for these losses has been set on the basis of the information which is currently available including potential outstanding claims advices and case law. The methods used, and the estimates made, are reviewed regularly. The level of related reinsurance recoveries is dependent upon both the accuracy of the estimated gross technical provisions and the ultimate ability to pay off the underlying security.

The claims incurred but not reported amount is based on estimates calculated using statistical techniques. The techniques generally use projections, based on past experience of the development of claims over time, to form a view on the likely ultimate claims to be experienced. In addition factors such as knowledge of specific events and terms and conditions of policies are taken into account. The critical assumption used when estimating claims provisions is that past experience is a reasonable predictor of likely future claims development.

Whilst the directors consider that the gross provision for claims and the related reinsurance recoveries are fairly stated on the basis of the information currently available to them, there exists considerable uncertainty in respect of the ultimate liability as this will vary as a result of subsequent information and events and may result in material adjustments to the amount provided. Any difference between provisions at the balance sheet date and settlements and provisions in the following year is included in the underwriting result for that year.

1 **Accounting policies (continued)**

Reinsurance assets

The company cedes insurance risk in the normal course of business for all of its businesses. Reinsurance assets represent balances due from reinsurance companies. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsurer's policies and are in accordance with the related reinsurance contract.

Reinsurance assets are reviewed for impairment at each reporting date, or more frequently, when an indication of impairment arises during the reporting year. Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the reinsurance asset that the company may not receive all outstanding amounts due under the terms of the contract and the event has a reliably measurable impact on the amounts that the Company will receive from the reinsurer. The impairment loss is recorded in the statement of profit or loss.

Ceded reinsurance arrangements do not relieve the Company from its obligations to policyholders.

Insurance Receivables

Insurance receivables are recognised when due and measured on initial recognition at the fair value of the consideration received or receivable. Subsequent to initial recognition, insurance receivables are measured at amortised cost, using the effective interest rate method. The carrying value of insurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in the statement of profit or loss.

Insurance receivables are derecognised when the derecognition criteria for financial assets have been met.

Insurance Payables

Insurance payables are recognised when due and measured on initial recognition at the fair value of the consideration received less directly attributable transaction costs.

Subsequent to initial recognition, they are measured at amortised cost using the effective interest rate method. Insurance payables are derecognised when the obligation under the liability is settled, cancelled or expired.

Foreign Currencies

The company's functional currency and presentational currency is United States dollars.

Transactions in sterling are translated at the average rate of exchange during the year. Transactions in other foreign currencies are translated at the rate of exchange ruling at the date of the transaction.

All assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the end of the year.

Exchange differences are included in the Income Statement.

Impairment of non-financial assets

The company assesses at each reporting date whether an asset may be impaired. If any such indication exists the company estimates recoverable amount of the asset. If it is not possible to estimate the recoverable amount of the individual asset, the company estimates, the recoverable amount of the cash-generating unit to which the asset belongs. The recoverable amount of an asset or cash-generating unit is the higher of its fair value less costs to sell and its value in use. If the recoverable amount is less than its carrying amount, the carrying amount of the asset is impaired and it is reduced to its recoverable amount through an impairment in profit and loss unless the asset is carried at a revalued amount where the impairment loss of a revalued asset is a revaluation decrease.

An impairment loss recognised for all assets, including goodwill, is reversed in a subsequent period if and only if the reasons for the impairment loss have ceased to apply.

Notes to the Financial Statements

1 Accounting policies (continued)

Land and buildings held for own use

Land and buildings occupied by the company is initially recognised at cost which includes costs directly attributable to making the asset capable of operating as intended. Subsequently, it is recognised at fair value less accumulated depreciation and impairment losses. Fair value movements are recognised in other comprehensive income and taken to a non-distributable reserve within equity.

Depreciation is provided at rates calculated to write off the cost, less estimated residual value, of each asset on a straight-line basis over its expected useful life as follows:

Land – indefinite life

Buildings – 50 years

The carrying values of land and buildings are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

Land and buildings are derecognised on disposal or when no future economic benefits are expected from its use or disposal. There is no recycling of unrealised gains to profit or loss upon disposal.

The property was revalued in 2015 to comply with Schedule 3 with further details given in Note 12.

Financial Investments

As permitted by FRS 102, the company has elected to apply the recognition and measurement provisions of IAS 39 - Financial Instruments (as adopted for use in the EU) to account for all of its financial instruments.

The company classifies its financial investments as either financial assets at fair value through profit or loss, loans and receivables or available for sale. The company determines the classification of its financial assets at initial recognition. Financial assets are initially recognised at fair value plus, in the case of instruments not at fair value through profit or loss, directly attributable transaction costs.

The classification depends on the purpose for which the investments were acquired or originated. In general, financial assets are classified as fair value through profit or loss as the Company's documented investment strategy is to manage financial investments acquired on fair value basis. The available for sale category is used only in cases when the investments are passively managed.

All regular way purchases and sales of financial assets are recognised on the trade date i.e., the date the company commits to purchase or sell the asset. Regular way purchases or sales of financial assets require delivery of assets within the time frame generally established by regulation or convention in the market place.

Financial assets at fair value through profit or loss has two sub categories namely financial assets held for trading and those designated at fair value through profit or loss at inception. Investments typically bought with the intention to sell in the near future are classified as held for trading as are all derivatives, including embedded derivatives, that are not designated as hedging instruments. For investments designated as at fair value through profit or loss, the following criteria must be met:

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on a different basis; or
- the assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.

These investments are initially recorded at fair value. Subsequent to initial recognition, these investments are re-measured at fair value at each reporting date. Fair value adjustments and realised gains and losses are recognised in the profit and loss account.

Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash at banks and in hand and short term deposits with an original maturity date of three months or less. For the purpose of the cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

1 Accounting policies (continued)

Fair value of financial assets

The company uses the following hierarchy for determining the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.

Quoted in an active market in this context means quoted prices are readily and regularly available and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted price is usually the bid price.

- Level 2: when quoted prices are unavailable the instrument is valued using inputs that are observable either directly or indirectly including quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in inactive markets, inputs that are observable such as interest rates and yield curves observable at commonly quoted intervals, implied volatility or credit spreads and market-corroborated inputs.

- Level 3: when observable inputs are not available, unobservable inputs are used to measure fair value by use of valuation techniques. The objective of using the valuation technique is to estimate what the fair value would have been on the measurement date.

See Note 11 for details of financial instruments classified by fair value hierarchy.

Impairment of financial assets

For financial assets not held at fair value through profit or loss, the company assesses at each reporting date whether the financial asset or group of financial assets is impaired. The Company first assesses whether objective evidence of impairment exists for financial assets. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment.

If an available for sale financial asset is impaired, an amount comprising the difference between its cost (net of any principal repayment and amortisation) and its current fair value, less any impairment loss previously recognised in the profit and loss account, is transferred from other comprehensive income in equity to the profit and loss account. Impairment losses recognised in the profit and loss account in respect of an equity instrument are not subsequently reversed through the profit and loss account. Reversals of impairment losses on debt instruments classified as available for sale are reversed through the profit and loss account, if the increase in the fair value of the instruments can be objectively related to an event occurring after the impairment losses were recognised in the profit and loss account.

For assets carried at cost, if there is objective evidence that an impairment loss on an unquoted equity investment that is not carried at fair value, because its fair value cannot be reliably measured, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return of a similar asset.

Derecognition of financial assets

A financial asset or, when applicable, a part of a financial asset is derecognised when:

- The rights to the cash flows from the asset have expired; or
- The company retains the right to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass through' arrangement and either (a) the company has transferred substantially all the risks and rewards of the asset; or (b) the company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Notes to the Financial Statements

1 Accounting policies (continued)

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if:

- There is a currently enforceable legal right to offset the recognised amounts; and
- There is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

Investment return

Dividends are recognised when the investments to which they relate are declared 'ex-dividend'. Rent is recognised on an accrual basis. Interest income is recognised on a time proportionate basis taking into account effective interest yield. Unrealised and realised gains and losses on financial investments are recognised based on the appropriate classification of financial investments and are covered in detail under the accounting policy for financial investments.

An allocation of actual investment return on investments supporting the general insurance technical provisions and associated equity is made from the non-technical account to the technical account. Investment return related to non-insurance business and shareholders' equity is attributed to the non-technical account.

Provisions

Provisions are recognised when the company has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Pension Costs

The Company operates a defined contribution scheme. Company contributions paid and accrued during the year are charged in the Income Statement.

Taxation

Current tax

Current tax liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the profit and loss account.

Deferred tax

Deferred tax is recognised in respect of all timing differences, which are differences between taxable profits and total comprehensive income that arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements, except that:

- where there are differences between amounts that can be deducted for tax for assets (other than goodwill) and liabilities compared with the amounts that are recognised for those assets and liabilities in a business combination a deferred tax liability/(asset) shall be recognised. The amount attributed to goodwill is adjusted by the amount of the deferred tax recognised; and
- unrelieved tax losses and other deferred tax assets are recognised only to the extent that the directors consider that it probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Dividends

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the shareholders. Interim dividends are deducted from equity when they are paid.

Notes to the Financial Statements

2 Analysis by Class of Business

The underwriting result is analysed as follows:

2016	Third party liability US$'000	Total US$'000
Gross Premium Written	(7)	(7)
Gross Premium Earned	(7)	(7)
Gross Claims Incurred	**2,378**	**2,378**
Reinsurance balance	**(92)**	**(92)**

2015	US$'000	US$'000
Gross Premium Written	29	29
Gross Premium Earned	29	29
Gross Claims Incurred	2,113	2,113
Reinsurance balance	1,566	1,566

The reinsurance balance is the aggregate total of all those items included in the technical account which relate to reinsurance outwards transactions including items recorded as reinsurance commissions and profit participation.

3 Net claims incurred and claims handling expenses

	Gross US$'000	Reinsurance US$'000	Net US$'000
2016			
Claims paid	**12,501**	**1,144**	**11,357**
Claims handling expenses paid	**2,860**	**-**	**2,860**
	15,361	**1,144**	**14,217**
Outstanding claims carried forward	**60,895**	**4,023**	**56,872**
Outstanding claims brought forward	**(76,340)**	**(5,325)**	**(71,015)**
Revaluation of outstanding claims brought forward	**2,462**	**66**	**2,396**
	(12,983)	**(1,236)**	**(11,747)**
Claims incurred	**2,378**	**(92)**	**2,470**
2015			
Claims paid	9,584	3,872	5,712
Claims handling expenses paid	3,645	-	3,645
	13,229	3,872	9,357
Outstanding claims carried forward	76,340	5,325	71,015
Outstanding claims brought forward	(88,175)	(7,654)	(80,521)
Revaluation of outstanding claims brought forward	719	23	696
	(11,116)	(2,306)	(8,810)
Claims incurred	2,113	1,566	547

Notes to the Financial Statements

4 Claims handling expenses paid

Claims handling expenses include:	**2016**	2015
	US$'000	US$'000
Depreciation	**-**	-

5 Auditors' remuneration

	2016	2015
	US$'000	US$'000
Audit of financial statements	**69**	108
Other fees to auditors :		
Other services pursuant to legislation, including the audit of the regulatory return	**59**	25
	128	133

6 Staff costs

	2016	2015
	US$'000	US$'000
Wages and salaries	**313**	385
Social security costs	**69**	81
Other pension costs	**48**	54
	430	520

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

Management	-	-
Claims	5	5

7 Directors' remuneration

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

	2016	2015
	US$'000	US$'000
Remuneration	**657**	838
	657	838

The highest paid Director received remuneration of US$317,976 (2015 - US$351,090).

Notes to the Financial Statements

8 Investment return

	2016 US$'000	2015 US$'000
Income from other financial investments	**2,713**	3,031
Income from other investments and cash at bank	**144**	155
Other interest receivable	**150**	3
Net loss on realisation of investments	**(369)**	(524)
Total investment income	**2,638**	2,665
Net unrealised loss on investments	**(39)**	(1,920)
Investment management expenses	**(141)**	(165)
Interest payable - on reinsurance balances	**(11)**	(6)
Total investment return	**2,447**	574

All investment income is received from financial investments held at fair value.

9 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.

(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 20% (2015 - 20.25%). The differences are explained below:

Tax reconciliation	2016 US$'000	2015 US$'000
(Loss)/profit on ordinary activities before tax	**(54)**	53
(Loss)/profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 20% (2015 - 20.25%)	**(11)**	11
Expenses not deductible for tax purposes	**2**	**59**
Unrelieved losses carried forward	**117**	**15**
Non taxable dividend income	**(44)**	**(49)**
Movement in provisions	**(64)**	(36)
	-	-

10 Deferred taxation

There are tax losses and other timing differences available to offset against taxable profits in future periods. No deferred tax asset has been recognised in respect of these losses due to uncertainty over the quantum, source and timing of any future taxable profits.

The UK corporation tax rate during 2016 was 20%. Legislation was enacted during 2015 to reduce the UK corporation tax rate to 19% from 1 April 2017 and 18% from 1 April 2020. A further reduction was enacted during 2016 to apply a rate of 17% from 1 April 2020 instead of 18%.

The total unrecognised deferred tax asset when taking into account the future tax rate reductions is US$2.263m (2015 - US$2.347m). Within this unrecognised deferred tax asset are gross tax losses of $11.568m.

Notes to the Financial Statements

11 Financial Investments

2016	Carrying Value US$'000	Purchase Price US$'000	Listed US$'000
Shares and other variable yield securities and units in unit trusts			
- Designated at fair value through profit or loss	**5,121**	**6,334**	**5,121**
Debt securities and other fixed income securities			
- Designated at fair value through profit or loss	**52,238**	**54,230**	**52,238**
Deposits with credit institutions	**1,598**	**1,598**	-
	58,957	**62,162**	**57,359**
2015			
Shares and other variable yield securities and units in unit trusts			
- Designated at fair value through profit or loss	7,452	8,023	7,452
Debt securities and other fixed income securities			
- Designated at fair value through profit or loss	58,853	61,544	58,853
Deposits with credit institutions	1,935	1,935	-
	68,240	71,502	66,305

There was no material change in fair value for financial instruments held at fair value attributable to own credit risk in the current or comparative period.

They have been no day 1 profits recognised in respect of financial instruments designated at fair value through profit or loss.

The following table shows financial investments recorded at fair value analysed between the three levels in the fair value hierarchy.

	Level 1 US$'000	Level 2 US$'000	Level 3 US$'000	Total US$'000
2016				
Shares and other variable yield securities and units in unit trusts	**5,121**	-	-	**5,121**
Debt securities and other fixed income securities	**52,238**	-	-	**52,238**
	57,359	-	-	**57,359**
2015				
Shares and other variable yield securities and units in unit trusts	7,452	-	-	7,452
Debt securities and other fixed income securities	58,853	-	-	58,853
	66,305	-	-	66,305

Included in the level 1 category are financial assets that are measured by reference to published quotes in an active market. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Cash at bank and in hand

The facility provided to the Company in respect of its letter of credit liabilities, amounting to US$6.788m (2015 - US$6.263m) is secured by a charge over a bank account of an equal amount.

Notes to the Financial Statements

12 Tangible fixed assets

	Freehold land and buildings US$'000
Cost	
As at 1 January 2016	1,375
As at 31 December 2016	1,375
Depreciation and impairment	
As at 1 January 2016	516
Provided during the year	149
As at 31 December 2016	665
Carrying value	
As at 31 December 2016	710
As at 1 January 2016	859

The property was valued by an independent valuer with a recognised and relevant professional qualification and with recent experience in the location and category of the property being valued, Arnolds Keys as at 31 December 2015, on the basis of fair value in accordance with the Appraisal and Valuation Manual of The Royal Institution of Chartered Surveyors. The key assumption was that the offices, given their location, could be converted to residential flats after allowing for the costs of conversion.

13 Authorised and allotted share capital

	2016 US$'000	2015 US$'000
Authorised		
30,000,000 ordinary shares of £1 each	**53,421**	53,421
Allotted, called up and fully paid		
27,000,000 ordinary shares of £1 each	**48,079**	48,079

Notes to the Financial Statements

14 Claims outstanding

	Gross US$'000	Reinsurance US$'000	Net US$'000
2016			
Provision before discounting	**58,899**	**5,238**	**53,661**
Discounting adjustment	**(14,105)**	**(1,215)**	**(12,890)**
	44,794	**4,023**	**40,771**
Claims handling expenses	**17,940**	-	**17,940**
Discounting adjustment	**(1,839)**	-	**(1,839)**
	16,101	-	**16,101**
	60,895	**4,023**	**56,872**
2015			
Provision before discounting	72,932	6,896	66,036
Discounting adjustment	(16,393)	(1,571)	(14,822)
	56,539	5,325	51,214
Claims handling expenses	22,561	-	22,561
Discounting adjustment	(2,760)	-	(2,760)
	19,801	-	19,801
	76,340	5,325	71,015

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 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 3.50% (2015 – 3.50%) 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 8.8 years (2015 – 8.0 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. Of the change in outstanding claims net of reinsurance of $11.7m (2015 - $8.8m), $2.9m relates to the effect of discounting (2015 - $4.8m).

Notes to the Financial Statements

15 *Risk Management*

(a) Governance

The primary objective of the Company's risk and financial management framework is to protect the Company's policyholders from events that hinder the payment of valid claims when they fall due.

With a small number of staff, the Directors are heavily involved in the running of the business.

(b) Capital management objectives, policies and approach

The Company ceased issuing all new and renewal insurance contracts in 1985 and entered into solvent run-off.

The Company's approach to managing capital involves managing assets, liabilities and risks in a coordinated way with investments held with a maturity profile which matches the estimated claims settlement pattern by currency in order to minimise exchange and reinvestment risk. The Company discounts its claims liabilities relating to "long-tail" North American liability business, including the run-off provision. Future investment income is expected to at least equal the discount provided.

On 1 January 2016 Solvency II Regulations came into force and the Company confirmed that it did not meet Minimum Capital Requirement (MCR) under that regime.

The Company has provided a plan to the PRA setting out how it intends to meet MCR in the future. This will be achieved by a combination of the continued natural reduction in Technical Reserves together with the forecast of modest annual profits.

(c) Insurance risk

The principal risk the Company faces under insurance contracts is that actual claims payments or the timing thereof differ from expectation. This is influenced by frequency of claims, severity of claims, actual benefits paid and subsequent development of claims.

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

The Company purchased reinsurance as part of its risks mitigation programme. Reinsurance ceded was placed on both a proportional and non–proportional basis. The majority of proportional reinsurance was quota–share reinsurance which was taken out to reduce the overall exposure to certain classes of business. Non–proportional reinsurance is primarily excess–of–loss reinsurance designed to mitigate the Company's net exposure to catastrophe losses. Retention limits for the excess–of–loss reinsurance vary by product line and territory.

Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contracts. The Company has reduced its exposure to reinsurance through commutations and settlements which now represents 10% of technical provisions. Although the Company has reinsurance arrangements, it is not relieved of its direct obligations to its policyholders and thus a credit exposure exists with respect to ceded insurance, to the extent that any reinsurer is unable to meet its obligations assumed under such reinsurance agreements. The company's placement of reinsurance was diversified such that it is neither dependent on a single reinsurer nor are the operations substantially dependent upon any single reinsurance contract.

15 ***Risk Management (continued)***

The Company's remaining liabilities principally relate to general liability policies issued to US corporations.

The most significant remaining risks arise from claims caused by latent diseases which by their nature take many years to manifest themselves. There is also a significant risk to environmental pollution claims. These are long tail claims that take some years to settle, there is also litigation risk.

	2016			2015		
	Gross liabilities	Reinsurance of liabilities	Net liabilities	Gross liabilities	Reinsurance of liabilities	Net liabilities
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
General Liability	**60,895**	**4,023**	**56,872**	76,340	5,325	71,015
Total	**60,895**	**4,023**	**56,872**	76,340	5,325	71,015

The geographical concentration of the outstanding claim liabilities is noted below. The disclosure is based on the location of the claimants.

	2016			2015		
	Gross liabilities	Reinsurance of liabilities	Net liabilities	Gross liabilities	Reinsurance of liabilities	Net liabilities
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
USA	**54,495**	**3,600**	**50,895**	74,133	5,172	68,961
United Kingdom	**4,547**	**301**	**4,246**	135	9	126
Europe	**1,588**	**105**	**1,483**	1,325	92	1,233
Asia	**265**	**17**	**248**	747	52	695
Total	**60,895**	**4,023**	**56,872**	76,340	5,325	71,015

Sensitivities

The outstanding claim liabilities represent a best estimate of a range of possible outcomes. As disclosed elsewhere these are long tail claims subject to a significant range of possible outcomes. As a guide other possible outcomes could be 25% less than the best estimate or 70% more and a 1% increase or decrease in the discount rate would lead to a 6% increase or decrease in net liabilities.

Claims development table

The Company ceased issuing all new and renewal insurance contracts in 1985, 31 years ago. An analysis of claims development by underwriting year or accident year is not therefore meaningful and has not been prepared. Notes 3 and 14 give analysis of claims movements during the including the effects of exchange.

d) Financial risk

(1) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge an obligation.

The following policies and procedures are in place to mitigate the exposure to credit risk:

- The Company sets the maximum amounts and limits that may be advanced to corporate counterparties by reference to their long term credit ratings.
- As the company is in claims run-off no reinsurance policies have been written for 31 years.
- Reinsurance debtors are subject to regular reviews by the credit controller and the CEO, with reviews for creditworthiness and the provision for impairment is revised bi-annually as necessary.

15 ***Risk Management (continued)***

The tables below show the maximum exposure to credit risk (including an analysis of financial assets exposed to credit risk) for the components of the statement of financial position. The maximum exposure is shown gross, before the effect of mitigation through collateral agreements.

	Neither past due nor impaired	Past due	Impaired	Total
2016	US$'000	US$'000	US$'000	US$'000
Financial investments – debt securities	**52,238**	-	-	**52,238**
Deposits with credit institutions	**1,598**	-	-	**1,598**
Reinsurers' share of claims outstanding	**4,023**	-	-	**4,023**
Debtors arising out of reinsurance operations	**1,337**	-	-	**1,337**
Other debtors	**11**	-	-	**11**
Cash at bank and in hand	**7,974**	-	-	**7,974**
	67,181	-	-	**67,181**
2015				
Financial investments – debt securities	58,853	-	-	58,853
Deposits with credit institutions	1,935	-	-	1,935
Reinsurers' share of claims outstanding	5,325	-	-	5,325
Debtors arising out of reinsurance operations	811	-	-	811
Other debtors	17	-	-	17
Cash at bank and in hand	13,261	-	-	13,261
	80,202	-	-	80,202

The table below provides information regarding the credit risk exposure of the Company at 31 December 2016 by classifying assets according to Standard & Poor's credit ratings of the counterparties. AAA is the highest possible rating. Assets that fall outside the range of AAA to BBB are classified as speculative grade and have not been rated. Debtors, other than amounts due from reinsurers, have been excluded from the table as these are not rated.

	AAA	AA	A	BBB	Not rated	Total
2016	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
Financial investments – debt securities	**4,762**	**3,980**	**9,907**	**26,544**	**7,045**	**52,238**
Deposits with credit institutions	-	-	**1,598**	-	-	**1,598**
Reinsurers' share of claims outstanding	-	**177**	**337**	-	**3,509**	**4,023**
Debtors arising out of reinsurance operations	-	**43**	**143**	-	**1,151**	**1,337**
Cash at bank and in hand	-	-	**7,974**	-	-	**7,974**
	4,762	**4,200**	**19,959**	**26,544**	**11,705**	**67,170**
2015						
Financial investments – debt securities	4,986	5,042	15,534	26,368	6,923	58,853
Deposits with credit institutions	-	-	1,935	-	-	1,935
Reinsurers' share of claims outstanding	-	177	390	-	4,758	5,325
Debtors arising out of reinsurance operations	-	23	92	-	696	811
Cash at bank and in hand	-	-	13,261	-	-	13,261
	4,986	5,242	31,212	26,368	12,377	80,185

Notes to the Financial Statements

15 *Risk Management (continued)*

(2) Liquidity risk

Liquidity risk is the risk that an insurance company will encounter difficulty in meeting obligations associated with financial instruments.

The following policies and procedures are in place to mitigate the Company's exposure to liquidity risk:

• Guidelines on asset allocation, portfolio limit structures and maturity profiles of assets are set, in order to ensure that sufficient funding is available to meet insurance and investment contracts obligations.

Maturity profiles

The table below summarises the maturity profile of the Company's financial liabilities based on remaining undiscounted contractual obligations, including interest payable, and outstanding claim liabilities based on the estimated timing of claim payments resulting from recognised insurance liabilities. Repayments which are subject to notice are treated as if notice were to be given immediately.

	Up to a year	1–2 years	2–5 years	5–10 years	Over 10 years	Total and carrying amount
At 31 December 2016	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
Outstanding claim liabilities	9,460	7,698	19,313	18,226	22,142	76,839
Creditors	2,448	-	-	-	-	2,448
At 31 December 2015						
Outstanding claim liabilities	9,912	9,114	23,963	28,467	24,037	95,493
Creditors	2,101	-	-	-	-	2,101

(3) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk:

(a) currency risk;

(b) interest rate risk; and

(c) equity price risk.

The following policies and procedures are in place to mitigate the exposure to market risk:

• The Directors have approved a range of investment holdings which they have assessed as being appropriate to meet the Company's requirements of a prudent liability driven investment policy. Compliance with the policy is monitored and exposures and breaches are reported to the Board quarterly. The policy is reviewed regularly for pertinence and for changes in the risk environment.

• For assets backing outstanding claims provisions, market risk is managed by matching the duration and profile of assets to the technical provisions they are backing. This helps manage market risk to the extent that changes in the values of assets are matched by a corresponding movement in the values of the technical provisions.

(a) Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Company is exposed to currency risk (GB Pounds) in respect of certain proportion of the run-off provision in the United Kingdom. The Company seeks to mitigate the risk by matching the estimated foreign currency denominated liabilities with assets denominated in the same currency.

15 *Risk Management (continued)*

The table below summarises the exposure of the financial assets and liabilities to foreign currency exchange risk at the reporting date, as follows:

	2016 GBP exposure US$'000	2015 GBP exposure US$'000
Property	**710**	859
Financial investments	**8,485**	10,800
Reinsurance claims outstanding	**451**	376
Debtors	**654**	555
Cash at bank	**740**	1,791
	11,040	14,381
Creditors	**(11,369)**	(14,447)

(b) Interest rate risk

Interest rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Floating rate instruments expose the company to cash flow interest risk, whereas fixed rate instruments expose the company to fair value interest risk.

The company's interest risk policy requires it to manage the interest rate risk by maintaining a portfolio of predominantly fixed rate instruments the profile and maturity of which matches that of the insurance liabilities. As the insurance liabilities are fully discounted at a rate reflecting the recent historical returns of the portfolio an increase or decrease in interest rates is unlikely to have a material impact on either profit before tax or equity.

The company has no significant concentration of interest rate risk.

(c) Equity price risk

Equity price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The company's equity price risk exposure relates to financial assets and financial liabilities whose values will fluctuate as a result of changes in market prices, principally investment securities.

The equity price risk policy requires it to manage such risks by setting and monitoring objectives and constraints on investments.

There is no significant concentration of equity price risk.

The analysis below is performed for reasonably possible movements in market indices on financial instruments, showing the impact on profit before tax due to changes in fair value of financial assets and liabilities (whose fair values are recorded in the profit and loss account) and equity (that reflects adjustments to profit before tax and changes in fair value of available for sale financial assets that are equity instruments).

		31 December 2016		31 December 2015	
	Change in variables	Impact on profit before tax	Impact on equity*	Impact on profit before tax	Impact on equity*
Changes in variables - market indices	US$'000	US$'000	US$'000	US$'000	US$'000
FTSE 100 / S&P 500	+10%	**512**	**512**	745	745
FTSE 100 / S&P 500	-10%	**(512)**	**(512)**	(745)	(745)

*There is no difference on the impact on equity as the Company has significant brought forward tax losses.

The method used for deriving sensitivity information and significant variable did not change from the previous period.

Notes to the Financial Statements

16 Creditors

All creditors are payable within the next financial year.

17 Segmental information

The Company ceased underwriting in 1985 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 Segmental Analysis has been prepared.

18 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.
BD Cooke Solutions Limited

19 Related party transactions

Details of the emoluments paid to the 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 2016 Isis provided Stronghold with consultancy services for fees totalling US$1,000,000 (2015 - US$1,000,000) of which US$ Nil (2015 - US$ Nil) was outstanding at 31 December 2016.

Ms A M Duffy and Mr H Sopher are also Directors of BD Cooke Solutions Limited. During 2016 BD Cooke Solutions Limited provided Stronghold Insurance Company Limited with accountancy services for fees totalling US$31,000 (2015 - US$30,000) of which US$ Nil (2015 - US$Nil) was outstanding at 31 December 2016.

As at 31 December 2016 a balance of US$180 was due from the parent undertaking (2015 - US$220 due from the parent undertaking).

20 Pension scheme

All employees are members of a defined contribution personal pension scheme to which the Company contributes.

21 Parent 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.

Notes to the Financial Statements

22 Notes to the Statement of Cash Flows

Cash and cash equivalents comprise the following :

	2016 US$'000	2015 US$'000
Cash at bank and in hand	**7,974**	13,261
	7,974	13,261