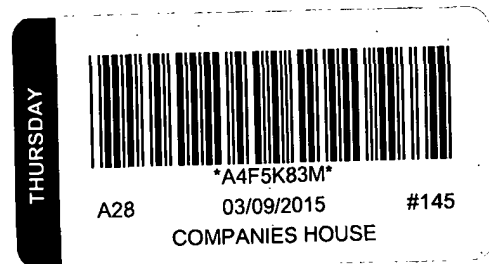


ANNUAL REPORT AND FINANCIAL STATEMENTS
2014

Company Registration No.
00736581



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STRONGHOLD INSURANCE COMPANY LIMITED

Directors and Management

Directors

J M Massey - Chairman

A M Duffy

H Sopher

K F Watkins

A J Gregory (Appointed 11 November 2014)

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

Strategic Report

The Directors present their strategic report of the Company for the year ended 31 December 2014.

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.

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.

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.

	2014	2013
	US\$'000	US\$'000
Gross outstanding claims (including claims handling expenses) after discount	88,175	101,106
Asbestos and pollution related gross outstanding claims (including claims handling expenses) after discount	78,382	86,059
Reinsurance recoveries on gross outstanding claims after discount	7,654	12,016

Asbestos and Pollution Related Gross Reserves reflect the Company's statement that the majority of the remaining liabilities relate to these categories of claims.

Reinsurance reserves measure the Company's reliance on third parties to meet future claim payments.

By Order of the Board



K F WATKINS
Director

19 March 2015

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 2014.

Results and dividends

There was a profit on ordinary activities after taxation for the year of US\$271,000 (2013 - profit US\$19,000). The Directors do not recommend the payment of a dividend for the year (2013 - 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(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 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. All of the Directors served throughout the year.

The Directors at 31 December 2014 had the following interests in the share capital of the holding company, Stronghold Holdings Limited:

	At 31 December 2014	At 31 December 2013
	Ordinary shares	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

19 March 2015

Statement of Directors' Responsibilities

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 2014 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 auditors

As explained more fully in the Directors' Responsibilities Statement 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 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 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 2014 and of its profit 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 disclosure made in note 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 Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

STRONGHOLD INSURANCE COMPANY LIMITED

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

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.

Ernst & Young LLP

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

19 March 2015

STRONGHOLD INSURANCE COMPANY LIMITED

**Profit and Loss Account
for the year ended 31 December 2014**

		2014		2013	
	Notes	US\$'000	US\$'000	US\$'000	US\$'000
Technical account - General business					
<i>Discontinued operations</i>					
Gross premiums written	2		6		9
Outwards reinsurance premiums			(6)		(5)
Earned premiums, net of reinsurance			-		4
Gross claims and claims handling expenses paid		16,244		11,222	
Reinsurers' share of claims paid		(4,971)		(5,349)	
Net claims and claims handling expenses paid		11,273		5,873	
Gross change in provision for claims		(12,034)		(5,150)	
Reinsurers' share		4,333		1,023	
Net change in the provision for claims		(7,701)		(4,127)	
Claims and claims handling expenses incurred net of reinsurance	4,5	3,572		1,746	
Net operating expenses		-		1	
Total technical charges			3,572		1,747
Balance on the general business technical account			(3,572)		(1,743)
Non-technical account					
Balance on the general business technical account			(3,572)		(1,743)
Investment income	8	3,670		3,309	
Unrealised gains/(losses) on investments		347		(1,352)	
Investment expenses and charges	9	(174)		(195)	
			3,843		1,762
Profit on ordinary activities before taxation			271		19
Tax on ordinary activities	10		-		-
Profit for the financial year			271		19

STRONGHOLD INSURANCE COMPANY LIMITED**Statement of Total Recognised Gains and Losses
for the year ended 31 December 2014**

	2014 US\$'000	2013 US\$'000
Profit for the financial year	271	19
Currency translation differences on foreign currency net assets	18	107
Total recognised gains and losses related to the year	<u>289</u>	<u>126</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 2014**

	2014 US\$'000	2013 US\$'000
Opening shareholders' funds	9,085	8,959
Total recognised gains and losses relating to the year	289	126
Closing shareholders' funds	<u>9,374</u>	<u>9,085</u>

STRONGHOLD INSURANCE COMPANY LIMITED**Balance Sheet
as at 31 December 2014**

	Notes	2014 US\$'000	2013 US\$'000
Assets			
Tangible fixed assets			
Land and buildings	13	1,135	1,175
Investments			
Other financial investments	12(a)	75,787	85,189
Deposits with ceding undertakings		624	710
		<u>76,411</u>	<u>85,899</u>
Reinsurers' share of technical provisions			
Claims outstanding	16	7,654	12,016
Debtors			
Debtors arising out of reinsurance operations		1,274	1,268
Other debtors		19	12
		<u>1,293</u>	<u>1,280</u>
Other assets			
Cash at bank and in hand	12(b)	14,609	13,497
Prepayments and accrued income			
Accrued interest and rent		821	1,049
Other prepayments and accrued income		20	24
		<u>841</u>	<u>1,073</u>
Total assets		<u>101,943</u>	<u>114,940</u>

STRONGHOLD INSURANCE COMPANY LIMITED

Balance Sheet as at 31 December 2014

	Notes	2014 US\$'000	2013 US\$'000
Liabilities			
Capital and Reserves			
Called up share capital	14	48,079	48,079
Profit and loss account		(38,705)	(38,994)
Shareholders' funds	15	<u>9,374</u>	<u>9,085</u>
Technical provisions			
Claims outstanding	16	88,175	101,106
Deposits received from reinsurers		2,655	2,876
Creditors			
Arising out of reinsurance operations		1,545	1,663
Other creditors including taxation and social security		2	7
Amounts due to parent undertaking		-	-
		<u>1,547</u>	<u>1,670</u>
Accruals and deferred income		192	203
Total liabilities and shareholders' funds		<u>101,943</u>	<u>114,940</u>

Signed on behalf of the Board:



K F WATKINS
Director

19 March 2015

STRONGHOLD INSURANCE COMPANY LIMITED**Statement of Cash Flows
for the year ended 31 December 2014**

	Notes	2014 US\$'000	2013 US\$'000
Net cash outflow from operating activities	17	<u>(8,148)</u>	<u>(3,018)</u>
Cash flows were invested as follows:			
Increase in cash holdings	18	1,199	1,344
Net portfolio investment			
Decrease in portfolio investments	18	(9,347)	(4,342)
Net investment of cash flows	18	<u>(8,148)</u>	<u>(2,998)</u>

Movement in opening and closing cash and portfolio investments

		2014 US\$'000	2013 US\$'000
Net cash inflow for the period	18	1,199	1,344
Cash flow: portfolio investments	18	(9,347)	(4,342)
Movement arising from cash flows	18	<u>(8,148)</u>	<u>(2,998)</u>
Changes in market values and exchange rates	18	(142)	(1,418)
Total movement in cash and portfolio investments	18	<u>(8,290)</u>	<u>(4,416)</u>
Cash and portfolio investments net of financing at 1 January	18	98,686	103,102
Cash and portfolio investments net of financing at 31 December	18	<u>90,396</u>	<u>98,686</u>

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 2014, 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 assets 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 difference 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

	2014	2013
<i>Technical account</i>	US\$'000	US\$'000
Gross premiums earned	6	9
Gross claims and claims handling expenses incurred	(4,210)	(6,072)
Gross technical result	(4,204)	(6,063)
Reinsurance balances	632	4,321
Net operating expenses	-	(1)
Net technical result	(3,572)	(1,743)

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
2014			
Claims paid	12,940	4,971	7,969
Claims handling expenses paid	3,304	-	3,304
	16,244	4,971	11,273
Outstanding claims carried forward	88,175	7,654	80,521
Outstanding claims brought forward	(101,106)	(12,016)	(89,090)
Revaluation of outstanding claims brought forward	897	29	868
	(12,034)	(4,333)	(7,701)
Claims incurred	4,210	638	3,572
2013			
Claims paid	7,758	5,349	2,409
Claims handling expenses paid	3,464	-	3,464
	11,222	5,349	5,873
Outstanding claims carried forward	101,106	12,016	89,090
Outstanding claims brought forward	(105,959)	(13,031)	(92,928)
Revaluation of outstanding claims brought forward	(297)	(8)	(289)
	(5,150)	(1,023)	(4,127)
Claims incurred	6,072	4,326	1,746

STRONGHOLD INSURANCE COMPANY LIMITED

Notes to the Financial Statements

5 Claims handling expenses paid

Claims handling expenses include:		2014 US\$'000	2013 US\$'000
Auditors' remuneration	- audit of financial statements	111	119
	- other services pursuant to legislation including the audit of the regulatory return	27	27
Depreciation		<u>40</u>	<u>40</u>

6 Staff costs

	2014 US\$'000	2013 US\$'000
Wages and salaries	653	645
Social security costs	76	79
Other pension costs	<u>85</u>	<u>85</u>
	<u>814</u>	<u>809</u>

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

Management	1	1
Claims	5	5

7 Directors' remuneration

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

	2014 US\$	2013 US\$
Remuneration	562,184	547,115
	<u>562,184</u>	<u>547,115</u>

The highest paid Director received remuneration of US\$367,070 (2013 - US\$385,165).

On 11 November 2014, an employee of the company was appointed to be a director and his remuneration since this date is disclosed within this note. His full remuneration for the year is disclosed within Note 6.

8 Investment income

	2014 US\$'000	2013 US\$'000
Income from listed investments	3,154	3,442
Income from other investments	177	201
Other interest receivable	34	-
Gain/(Loss) on the realisation of investments	<u>305</u>	<u>(334)</u>
	<u>3,670</u>	<u>3,309</u>

Notes to the Financial Statements

9 Investment expenses and charges

	2014 US\$'000	2013 US\$'000
Investment management expenses	166	179
Interest payable - on reinsurance balances	8	16
	<u>174</u>	<u>195</u>

10 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 21.5% (2013 - 23.25%).

The differences are explained below:

	2014 US\$'000	2013 US\$'000
Profit on ordinary activities before tax	<u>271</u>	<u>19</u>
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 21.5% (2013 - 23.25%)	58	4
Expenses not deductible for tax purposes	12	7
Tax on currency translation differences	4	25
Unrelieved losses carried forward	13	-
Non taxable dividend income	(39)	-
Movement in provisions	(48)	-
Utilisation of tax losses	-	(36)
	<u>-</u>	<u>-</u>

11 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 2014 was 23% reducing to 21% effective from 1 April 2014. In July 2013 future reduction to 20% from 1 April 2015 was substantively enacted as part of Finance Act 2013. This rate has been reflected in the closing deferred tax position of US\$2.807m (2013 - US\$2.898m).

Notes to the Financial Statements

12 (a) Investments

	Current value		Historical cost	
	2014 US\$'000	2013 US\$'000	2014 US\$'000	2013 US\$'000
Other financial investments				
Shares and other variable-yield securities and share in unit trusts (listed)	9,329	9,453	8,952	8,350
Shares and other variable-yield securities and shares in unit trusts (unlisted)	-	-	430	430
Debt securities and other fixed income securities (listed)	64,209	73,193	65,512	75,581
Deposits with credit institutions	2,249	2,543	2,249	2,543
	<u>75,787</u>	<u>85,189</u>	<u>77,143</u>	<u>86,904</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\$7.081m (2013 - US\$9.429m) 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 2014	1,375
As at 31 December 2014	<u>1,375</u>
Depreciation	
As at 1 January 2014	200
Charge for year	40
As at 31 December 2014	<u>240</u>
Net book value	
As at 31 December 2014	<u>1,135</u>
As at 31 December 2013	<u>1,175</u>

STRONGHOLD INSURANCE COMPANY LIMITED

Notes to the Financial Statements

14 Share capital		2014	2013
		US\$'000	US\$'000
<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	Profit & loss a/c	Total
	US\$'000	US\$'000	US\$'000
2014			
Balance at 1 January	48,079	(38,994)	9,085
Currency translation differences on foreign currency net investment	-	18	18
Retained profit for the financial year	-	271	271
Balance at 31 December	<u>48,079</u>	<u>(38,705)</u>	<u>9,374</u>
2013			
Balance at 1 January	48,079	(39,120)	8,959
Currency translation differences on foreign currency net investment	-	107	107
Retained profit for the financial year	-	19	19
Balance at 31 December	<u>48,079</u>	<u>(38,994)</u>	<u>9,085</u>
16 Claims outstanding			
	Gross	Reinsurance	Net
	US\$'000	US\$'000	US\$'000
2014			
Provision before discounting	85,404	10,026	75,378
Discounting adjustment	(19,907)	(2,372)	(17,535)
	<u>65,497</u>	<u>7,654</u>	<u>57,843</u>
Claims handling expenses	26,855	-	26,855
Discounting adjustment	(4,177)	-	(4,177)
	<u>22,678</u>	<u>-</u>	<u>22,678</u>
	<u>88,175</u>	<u>7,654</u>	<u>80,521</u>
2013			
Provision before discounting	98,836	15,966	82,870
Discounting adjustment	(24,071)	(3,950)	(20,121)
	<u>74,765</u>	<u>12,016</u>	<u>62,749</u>
Claims handling expenses	32,398	-	32,398
Discounting adjustment	(6,057)	-	(6,057)
	<u>26,341</u>	<u>-</u>	<u>26,341</u>
	<u>101,106</u>	<u>12,016</u>	<u>89,090</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 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% (2013 – 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 8.4 years (2013 – 8.8 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 \$7.7m (2013 - \$4.1m), \$4.7m relates to the effect of discounting (2013 - \$1.9m).

STRONGHOLD INSURANCE COMPANY LIMITED

Notes to the Financial Statements

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

	2014 US\$'000	2013 US\$'000
Profit on ordinary activities before tax	271	19
Realised investment (gains)/losses	(305)	334
Unrealised investment (gains)/losses	(347)	1,352
Decrease in provision for claims outstanding	(7,701)	(4,127)
Decrease in debtors, prepayments and accrued income	108	915
Decrease in creditors, accruals and deferred income	(122)	(1,268)
Decrease/(increase) in deposits with ceding undertakings	119	(37)
Decrease in deposits received from reinsurers	(211)	(246)
Depreciation	40	40
Net cash outflow from operating activities	<u>(8,148)</u>	<u>(3,018)</u>

18 Movement in cash and portfolio investments

	At 1 Jan 2014 US\$'000	Cash Flow US\$'000	Changes in market values and exchange rates US\$'000	At 31 Dec 2014 US\$'000
Cash at bank and in hand	13,497	1,199	(87)	14,609
Other financial investments	85,189	(9,347)	(55)	75,787
	<u>98,686</u>	<u>(8,148)</u>	<u>(142)</u>	<u>90,396</u>

Cash flows of other financial investments are analysed as follows:

	2014 US\$'000	2013 US\$'000
Purchases	13,277	13,617
Sales	(22,624)	(17,959)
	<u>(9,347)</u>	<u>(4,342)</u>

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.

BD Cooke Solutions Limited

20 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 2014 Isis provided Stronghold with consultancy services for fees totalling US\$1,000,000 (2013 - US\$1,000,000) of which US\$ Nil (2013 - US\$ Nil) was outstanding at 31 December 2014.

Ms A M Duffy and Mr H Sopher are also directors of BD Cooke Solutions Limited. During 2014 BD Cooke Solutions Limited provided Stronghold Insurance Company Limited with accountancy services for fees totalling US\$47,000 (2013 - US\$16,000) of which US\$ Nil (2013 - US\$Nil) was outstanding at 31 December 2014.

As at 31 December 2014 a balance of US\$230 was due from the parent undertaking (2013 - US\$240 due from the parent undertaking).

21 Pension scheme

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

22 Prudential Regulatory Authority Reporting

The statutory financial statements include outstanding claims and future claims handling expenses on a discounted basis. For regulatory reporting purposes, to the Prudential Regulatory 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 Prudential Regulatory 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.