STRONGHOLD INSURANCE COMPANY LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS 2017

Company Registration No.
00736581

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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 2017.

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

	2017	2016	Change
	US$'000	US$'000	%
Balance on technical account – general business	**1,285**	(54)	-2480%
Profit/(loss) for the financial year	**1,285**	(54)	-2480%
Capital and reserves	**10,650**	9,365	+14%
Investment Return	**2,765**	2,447	+13%
Gross Paid Claims	**11,187**	15,361	-27%
Gross reserves before discount	**50,125**	58,899	-15%
Asbestos and pollution related gross outstanding claims before discount	**45,944**	55,232	-17%
Reinsurance reserves before discount	**3,686**	5,238	-30%
Discount provided	**12,776**	14,729	-13%

There is a profit of $1.3 million in the current financial year compared to a small loss in the previous year. Claims payments were above those expected and therefore the underwriting result was affected by the discounting adjustment. However, investment income was the major contributor to the current result.

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 2017 are US$10.7m (2016: US$9.4m).

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 31/12/2017. 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 14 to the financial statements.

By Order of the Board

Andrew Gregory

A J GREGORY
Director

19 April 2018

Directors' Report

Company Registration No. **00736581**

The Directors present their report and the financial statements of the Company for the year ended 31 December 2017.

Results and dividends

There was a profit on ordinary activities after taxation for the year of US$1,285,000 (2016 - loss US$54,000). The Directors do not recommend the payment of a dividend for the year (2016 - 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 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 2017 had the following interests in the share capital of the holding company, Stronghold Holdings Limited:

	At 31 December 2017 Ordinary shares	At 31 December 2016 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

19 April 2018

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.
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The Directors are responsible for keeping 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 2017 which comprise the income statement, statement of comprehensive income, statement of changes in equity and statement of financial position and the related notes 1 to 20 including a summary of significant accounting policies. 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".

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31 December 2017 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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Use of our report

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.

Material uncertainty related to going concern

We draw attention to note 1.2 in the financial statements, which indicates that there exists material uncertainty over the ultimate exposure to future claims, related reinsurance recoveries and run-off expenses. As stated in note 1.2, these events or conditions, along with the other matters as set forth in notes 1.3 and 13, indicate that a material uncertainty exists that may cast significant doubt on the company's ability to continue as a going concern, and that the financial statements do not include the adjustments that would result if the company was unable to continue as a going concern. Our opinion is not modified in respect of this matter.

Overview of our audit approach

Key audit matters	• Valuation of claims reserves • Calculation of the run-off provision
Materiality	► Overall materiality of US$213k which represents 2% of Net Assets

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

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the Material uncertainty related to going concern section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Risk	Our response to the risk	Key observations communicated to Those Charged with Governance
Valuation of claims reserves (Gross US$50.1m and Net US$46.4m, 2016: Gross US$58.9m and Net US$53.6) The valuation of claims reserves incorporates a significant amount of judgement for the expected ultimate cost of claims incurred, including those not yet reported, at the reporting date. It is reasonably possible that uncertainties inherent in the reserving process, delays in insurers reporting losses to the company, together with the potential for adverse development, could lead to the ultimate amount paid varying materially from the amount estimated at this reporting date. Additional uncertainty arises as a consequence of the natural run-off of reserves whereby outcomes of individual claims have a more significant impact on the result.	▸ We understood and assessed management's reserving process including the review and approval of the reserves, and controls over the extraction of data from the appropriate sources. ▸ Supported by our actuarial specialists we evaluated management's methodology against market practice and challenged management's assumptions and their assessment of major sensitivities, based on our market knowledge and industry data where available. The main area of judgements include the estimated cost of claims, case specific adjustments made to the case reserves, the assumed future payment patterns adopted by management that form the basis of the discounting calculations and the discount rate used. ▸ Using management's data we performed a benchmarking exercise over a proportion of the claims provision to estimate a range for the gross and net claims reserves based on different assumptions arising from our wider market knowledge investigating significant differences between our benchmark estimates and management's booked reserves. Using our own benchmark estimates we then considered whether the provisions for gross and net insurance liabilities held at the year-end fall within a reasonable range of estimates.	Taken as a whole, we consider that management's judgements in the areas highlighted are reasonable based on the information available at the date of this report. The company's gross and net provision lie within what we consider to be a reasonable range of estimates albeit at the bottom of that range. In addition we consider that the disclosures made in note 1.2, 1.3 and 13 are satisfactory, and they provide information that assists in understanding the material uncertainty inherent in the valuation of provisions for insurance liabilities which may cast significant doubt upon the ability of the company to continue as a going concern.

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

Risk	Our response to the risk	Key observations communicated to Those Charged with Governance
Calculation of run-off provision (included with Claims Outstanding, Note 13) (US$13.7m, 2016: US$16.1m)	▸ We conducted a detailed review of management's methodology and challenged management's assumptions and their assessment of material variables, based on our knowledge of the company. The main area of judgement is around the assumed forecast expenses and discount rate, which inform the model produced by management. We have assessed historical budgets compared to actual experience and considered the assumptions underpinning management's forecasts.	Taken as a whole, we consider that management's judgements in the areas highlighted are reasonable based on the information available at the date of this report. The company's run-off provision is deemed to be a reasonable estimate.
The calculation of run-off provision is underpinned by assumptions as to the length of the run-off period, quantum of future expenses and the discount rate. Expense assumptions and the discount rate used can be manipulated resulting in an inappropriate run-off provision estimated at the reporting date.	▸ Using management's data we independently re-calculated forecast costs using management's key assumptions, including the application of discounting.	In addition we consider that the disclosures made in note 1.2 and 13 provide satisfactory information regarding the uncertainty inherent in the calculation of the run-off provision which may cast significant doubt upon the ability of the company to continue as a going concern.

An overview of the scope of our audit

Tailoring the scope
Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for the company. This enables us to form an opinion on the financial statements. We take into account size, risk profile, the organisation of the company and effectiveness of controls, including controls and changes in the business environment when assessing the level of work to be performed. All audit work was performed directly by the audit engagement team.

Changes from the prior year
There has been no changes in scope of the audit from the prior year.

Our application of materiality
We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

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

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the company to be US$213k (2016: US$187k), which is 2% (2016: 2%) of Net Assets. We believe that Net Assets provides us with a measurement of materiality which is most closely aligned to the key focus of the entity and its users of the financial statements.

Performance Materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the company's overall control environment, our judgement was that performance materiality was 75% (2016: 75%) of our planning materiality, namely US$160k (2016: US$140k).

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We have reported to the directors all uncorrected audit differences in excess of US$10k (2016: US$9k), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matters 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; and
- 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 to be audited 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.

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

Responsibilities of directors

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 and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

The objectives of our audit:

- in respect to fraud, are; to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management; and
- • in respect to fraud, are; to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management; and

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the company and determined that the most significant frameworks which are directly relevant to specific assertions in the financial statements are those that relate to the reporting framework (FRS 102, FRS 103 and Companies Act 2006) and the relevant tax compliance regulations in the UK and overseas jurisdictions in which the Company operates. Our considerations of other laws and regulations that may have a material effect on the financial statements included permissions and supervisory requirements of the Prudential Regulation Authority ('PRA') and the Financial Conduct Authority ('FCA').

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

- We obtained a general understanding of how the company complies with these legal and regulatory frameworks by making enquiries of management and those responsible for legal and compliance matters. We also reviewed correspondence between the company and UK regulatory bodies; reviewed minutes of the Board; and gained an understanding of the company's approach to governance, demonstrated by the Board's approval of the company's governance framework and the Board's review of the company's risk management framework and internal control processes.
- We assessed the susceptibility of the company's financial statements to material misstatement, including how fraud might occur by meeting with management within various parts of the business to understand where they considered there was susceptibility to fraud. Where the risk was considered to be higher, we performed audit procedures to address each identified fraud risk. These procedures included testing manual journals and were designed to provide reasonable assurance that the financial statements were free from fraud or error.
- For direct laws and regulations, we considered the extent of compliance with those laws and regulations as part of our procedures on the related financial statement items.
- For both direct and other laws and regulations, our procedures involved: making enquiry of those charged with governance and senior management for their awareness of any non-compliance of laws or regulations, inquiring about the policies that have been established to prevent non-compliance with laws and regulations by officers and employees, inquiring about the company's methods of enforcing and monitoring compliance with such policies, inspecting significant correspondence with the FCA and PRA.
- The company operates in the insurance industry which is a highly regulated environment. As such the Senior Statutory Auditor considered the experience and expertise of the engagement team to ensure that the team had the appropriate competence and capabilities, which included the use of specialists where appropriate.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Other matters we are required to address

- We were appointed as auditor by the company to audit the financial statements for the year ending 31 December 1989 and for all subsequent financial periods. The period of total uninterrupted engagement, including previous renewals and reappointments is 29 years, covering the years ending 31 December 1989 to 31 December 2017. Our most recent engagement letter was signed on 26 September 2017.
- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the company and we remain independent of the company in conducting the audit.
- The audit opinion is consistent with the additional report to those charged with governance.

Ernst & Young LLP

Ed Jervis (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
14 April 2018

Income Statement
for the year ended 31 December 2017

	Notes	2017 US$'000	2017 US$'000	2016 US$'000	2016 US$'000
Technical account - General business					
Gross premiums written			2		(7)
Outwards reinsurance premiums			(4)		(24)
Earned premiums, net of reinsurance			(2)		(31)
Investment income	7	2,198		2,638	
Unrealised gains/(unrealised losses) on investments	7	723		(39)	
Investment expenses and charges		(156)		(152)	
			2,765		2,447
Other income – revaluation gain	11		66		
Total technical income			2,829		2,416
Claims incurred net of reinsurance					
Gross claims and claims handling expenses paid		11,187		15,361	
Reinsurers' share of claims paid		(859)		(1,144)	
Net claims and claims handling expenses paid	3	10,328		14,217	
Gross change in provision for claims		(10,013)		(12,983)	
Reinsurers' share		1,229		1,236	
Net change in the provision for claims	3	(8,784)		(11,747)	
Claims and claims handling expenses incurred net of reinsurance	3	1,544		2,470	
Total charges			1,544		2,470
Balance on the general business technical account			1,285		(54)
Non-technical account					
Balance on the general business technical account			1,285		(54)
Profit/(loss) on ordinary activities before taxation			1,285		(54)
Tax on ordinary activities	8		-		-
Profit/(loss) for the financial year			1,285		(54)

The notes on pages 18 - 36 form part of these financial statements.

Statement of Comprehensive Income
for the year ended 31 December 2017

	Notes	2017 US$'000	2016 US$'000
Profit/(loss) for the financial year		**1,285**	(54)
Total Comprehensive Income for the year		**1,285**	(54)

Statement of Changes in Equity
for the year ended 31 December 2017

	Share capital US$'000	Profit and loss account US$'000	Total US$'000
At 1 January 2017	**48,079**	**(38,714)**	**9,365**
Total Comprehensive Income for the year	**-**	**1,285**	**1,285**
At 31 December 2017	**48,079**	**(37,429)**	**10,650**
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

The notes on pages 18 - 36 form part of these financial statements.

Statement of Financial Position
as at 31 December 2017

	Notes	2017 US$'000	2016 US$'000
Assets			
Investments			
Financial investments	10	**50,806**	58,957
Deposits with ceding undertakings		**728**	597
		51,534	59,554
Reinsurers' share of technical provisions			
Claims outstanding	13	**2,832**	4,023
Debtors			
Debtors arising out of reinsurance operations		**1,916**	1,337
Other debtors		**16**	11
		1,932	1,348
Other assets			
Land and buildings	11	**776**	710
Cash and cash equivalents		**8,308**	7,974
		9,084	8,684
Prepayments and accrued income			
Accrued interest and rent		**685**	705
Other prepayments and accrued income		**-**	-
		685	705
Total assets		**66,067**	74,314

Statement of Financial Position
as at 31 December 2017

	Notes	2017 US$'000	2016 US$'000
Equity and Liabilities			
Shareholder's Equity			
Called up share capital	12	**48,079**	48,079
Profit and loss account		**(37,429)**	(38,714)
Total capital and reserves		**10,650**	9,365
Liabilities			
Technical provisions			
Claims outstanding	13	**51,805**	60,895
Deposits received from reinsurers		**1,252**	1,399
Creditors			
Arising out of reinsurance operations		**2,138**	2,443
Other creditors including taxation and social security		**1**	5
		2,139	2,448
Accruals and deferred income		**221**	207
Total liabilities		**55,417**	64,949
Total equity and liabilities		**66,067**	74,314

The financial statements on pages 14 - 36 were approved by the Board of Directors and were signed on its behalf by:

Andy Gregory

A J GREGORY
Director

19 April 2018

Notes to the Financial Statements

1 Accounting policies

1.1 *Statement of compliance*

Stronghold 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 2017 and for the year ended 31 December 2017.

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 2017 were approved for issue by the Board of Directors on 19 April 2018.

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 Company has not prepared a cash flow statement 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 statements of that company.

In preparing the financial statements for the year ended 31 December 2017, 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 13 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 13.

Notes to the Financial Statements

1 Accounting policies (continued)

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:

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. The resulting liability is discounted for the time value of money.

Further details are given in Note 13.

Taxation

The company establishes provisions based on reasonable estimates.

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 13) is based on the estimated ultimate cost of all claims notified but not settled by the financial position 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 financial position date and settlements and provisions in the following year is included in the underwriting result for that year.

Notes to the Financial Statements

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 income statement.

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 income statement.

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 Claims Incurred Net of Reinsurance and Investment Income within 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 the income statement 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.

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

Additionally FRS 102 Section 17.8 states that land and buildings are separable assets, and an entity shall account for them separately, even when they are acquired together. The Directors have considered the property in the light of the reporting regulations and the most recent valuation and conclude that the fair value of the land is materially equal to the latest valuation of the property. As the value of the land is considered to materially equal the fair value of the own use property, management considers there to be no need of depreciation of the building.

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 2017 with further details given in Note 11.

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 the income statement, 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 the income statement 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. 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 income statement.

Notes to the Financial Statements

1 Accounting policies (continued)

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.

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 10 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.

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'. 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.

All actual investment returns are on investments supporting the general insurance technical provisions. As all investment returns would be allocated from the non-technical account to the technical account they are reported directly in the 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:

2017	Third party liability US$'000	Total US$'000
Gross Premium Written	**2**	**2**
Gross Premium Earned	**2**	**2**
Gross Claims Incurred	**1,174**	**1,174**
Reinsurance balance	**(374)**	**(374)**

2016	US$'000	US$'000
Gross Premium Written	(7)	(7)
Gross Premium Earned	(7)	(7)
Gross Claims Incurred	2,378	2,378
Reinsurance balance	(116)	(116)

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
2017			
Claims paid	**8,558**	**859**	**7,699**
Claims handling expenses paid	**2,629**	**-**	**2,629**
	11,187	**859**	**10,328**
Outstanding claims carried forward	**51,805**	**2,832**	**48,973**
Outstanding claims brought forward	**(60,895)**	**(4,023)**	**(56,872)**
Revaluation of outstanding claims brought forward	**(923)**	**(38)**	**(885)**
	(10,013)	**(1,229)**	**(8,784)**
Claims incurred	**1,174**	**(370)**	**1,544**
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

Of the change in outstanding claims net of reinsurance of US$8.8m (2016 - US$11.7m), US$1.8m relates to the effect of discounting unwind (2016 - US$2.3m).

Claims handling expenses paid includes all operating expenses paid.

Notes to the Financial Statements

4 Auditors' remuneration

	2017 US$'000	2016 US$'000
Audit of financial statements	90	69
Other fees to auditors :		
Other services pursuant to legislation, including the audit of the regulatory return	54	59
	144	128

Auditors' remuneration is included in claims handling expenses paid (see note 3).

5 Staff costs

	2017 US$'000	2016 US$'000
Wages and salaries	341	313
Social security costs	75	69
Other pension costs	53	48
	469	430

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

	2017	2016
Management	-	-
Claims	5	5

Staff costs are included in claims handling expenses paid (see note 3).

6 Directors' remuneration

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

	2017 US$'000	2016 US$'000
Aggregate remuneration in respect of qualifying services	627	619
Aggregate contributions made to money purchase schemes	20	38
	647	657
Number of directors accruing benefits under money purchase schemes	1	1

The highest paid Director received remuneration of US$279,012 (2016 - US$279,807). The aggregate contribution made to money purchase schemes in respect of the highest paid director was US$20k (2016 - US$38k). No amounts were paid to any director for loss of office during the year (2016 - US$ Nil) and no amounts have been paid to past directors for any services rendered (2016 - US$ Nil). No directors have any share options within the Company.

Directors' emoluments are included in claims handling expenses paid (see note 3).

Notes to the Financial Statements

7 Investment return

	2017 US$'000	2016 US$'000
Income from other financial investments	**2,262**	2,713
Income from other investments and cash at bank	**155**	144
Other interest receivable	**146**	150
Net loss on realisation of investments	**(365)**	(369)
Total investment income	**2,198**	2,638
Net unrealised gains/(net unrealised loss) on investments	**723**	(39)
Investment management expenses	**(146)**	(141)
Interest payable - on reinsurance balances	**(10)**	(11)
Total investment return	**2,765**	2,447

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

8 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 19.25% (2016 - 20.00%).
The differences are explained below:

Tax reconciliation

	2017 US$'000	2016 US$'000
Profit/(loss) on ordinary activities before tax	**1,285**	(54)
Profit/(loss) on ordinary activities multiplied by the standard rate of corporation tax in the UK of 19.25% (2016 - 20%)	**247**	(11)
Expenses not deductible for tax purposes	**1**	2
Unrelieved losses carried forward	**(195)**	117
Non taxable dividend income	**(20)**	(44)
Revaluation of Land and Buildings	**(12)**	-
Movement in provisions	**(21)**	(64)
	-	-

9 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 2017 was 19.25%. 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$2.034m (2016 - US$2.263m). Within this unrecognised deferred tax asset are gross tax losses of $10.326m.

Notes to the Financial Statements

10 Financial Investments

2017	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	**3,536**	**4,241**	**3,536**
Debt securities and other fixed income securities			
- Designated at fair value through profit or loss	**46,032**	**47,820**	**46,032**
Deposits with credit institutions	**1,238**	**1,238**	**-**
	50,806	**53,299**	**49,568**
2016			
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

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
2017				
Shares and other variable yield securities and units in unit trusts	**3,536**	-	-	**3,536**
Debt securities and other fixed income securities	**46,032**	-	-	**46,032**
	49,568	-	-	**49,568**
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

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$6.408m (2016 - US$6.788m) is secured by a charge over a bank account of an equal amount.

Notes to the Financial Statements

11 Land and buildings

	Held for own use US$'000
Fair Value	
At 1 January 2017	710
Profit on revaluation	66
As at 31 December 2017	776
Depreciation and impairment	
At 1 January 2017	-
Provided during the year	-
At 31 December 2017	-
Carrying value at 31 December 2017	776
Carrying value at 1 January 2017	710

The historical cost of the property in own use held at fair value is $1,375,000 (2016: $1,375,000).
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 2017, 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.

12 Authorised and allotted share capital

	2017 US$'000	2016 US$'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

13 Claims outstanding

	Gross US$'000	Reinsurance US$'000	Net US$'000
2017			
Provision before discounting	**50,125**	**3,686**	**46,439**
Discounting adjustment	**(11,992)**	**(854)**	**(11,138)**
	38,133	**2,832**	**35,301**
Claims handling expenses	**15,310**	-	**15,310**
Discounting adjustment	**(1,638)**	-	**(1,638)**
	13,672	-	**13,672**
	51,805	**2,832**	**48,973**
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

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% (2016 – 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 8.7 years (2016 – 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.

Notes to the Financial Statements

14 *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.

The Company is subject to capital requirements imposed by the Prudential Regulation Authority (PRA). Throughout the year the Company has been Companies Act compliant but not met Solvency II, which is used to calculate the Company's capital requirement.

At 31 December 2017 the Company had a regulatory deficit against its MCR of approximately US$9m (2016: US$ 14m).

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 5% of Gross 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.

Notes to the Financial Statements

14 ***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.

	2017			2016		
	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	**51,805**	**2,832**	**48,973**	60,895	4,023	56,872
Total	**51,805**	**2,832**	**48,973**	60,895	4,023	56,872

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

	2017			2016		
	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	**46,003**	**2,515**	**43,488**	54,495	3,600	50,895
United Kingdom	**3,862**	**211**	**3,651**	4,547	301	4,246
Europe	**1,576**	**87**	**1,489**	1,588	105	1,483
Asia	**364**	**19**	**345**	265	17	248
Total	**51,805**	**2,832**	**48,973**	60,895	4,023	56,872

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, 32 years ago. An analysis of claims development by underwriting year or accident year is not therefore meaningful and has not been prepared. Note 3 gives analysis of claims movements during the year 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 32 years.
- Reinsurance debtors are subject to regular reviews by the credit controller and the CEO.

Notes to the Financial Statements

14 *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.

2017	Neither past due nor impaired US$'000	Past due US$'000	Impaired US$'000	Total US$'000
Financial investments – debt securities	**46,032**	-	-	**46,032**
Deposits with credit institutions	**1,238**	-	-	**1,238**
Reinsurers' share of claims outstanding	**2,832**	-	-	**2,832**
Debtors arising out of reinsurance operations	**1,916**	-	-	**1,916**
Other debtors	**16**	-	-	**16**
Cash at bank and in hand	**8,308**	-	-	**8,308**
	60,342	-	-	**60,342**
2016				
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

The table below provides information regarding the credit risk exposure of the Company at 31 December 2017 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.

2017	AAA US$'000	AA US$'000	A US$'000	BBB US$'000	Not rated US$'000	Total US$'000
Financial investments – debt securities	**4,715**	**1,569**	**9,201**	**23,570**	**6,977**	**46,032**
Deposits with credit institutions	-	-	**1,238**	-	-	**1,238**
Reinsurers' share of claims outstanding	-	**196**	**267**	-	**2,369**	**2,832**
Debtors arising out of reinsurance operations	-	**32**	**171**	-	**1,713**	**1,916**
Cash at bank and in hand	-	-	**8,308**	-	-	**8,308**
	4,715	**1,797**	**19,185**	**23,570**	**11,059**	**60,326**
2016						
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

Notes to the Financial Statements

14 *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 2017	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
Outstanding claim liabilities	7,096	6,759	16,584	16,019	18,977	65,435
Creditors	2,139	-	-	-	-	2,139
At 31 December 2016						
Outstanding claim liabilities	9,460	7,698	19,313	18,226	22,142	76,839
Creditors	2,448	-	-	-	-	2,448

(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.

Notes to the Financial Statements

14 *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:

	2017 GBP exposure US$'000	2016 GBP exposure US$'000
Property	**776**	710
Financial investments	**9,138**	8,485
Reinsurance claims outstanding	**376**	451
Debtors	**819**	654
Cash at bank	**1,109**	740
	12,218	11,040
Creditors	**(12,174)**	(11,369)

(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 2017		31 December 2016	
	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%	**354**	**354**	512	512
FTSE 100 / S&P 500	-10%	**(354)**	**(354)**	(512)	(512)

*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

15 Creditors

All creditors are payable within the next financial year.

16 Segmental information

The Company ceased underwriting in 1985 and since that date the Company's business has been in run-off. 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.

17 Related parties

Companies treated as related parties of the Company for disclosure purposes under FRS102 and FRS103, 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

18 Related party transactions

Details of the emoluments paid to the Directors can be found in note 6.

Ms A M Duffy and Mr H Sopher, Directors of Stronghold Insurance Company Limited, are also Directors of Isis Consulting Inc. During 2017 Isis provided Stronghold with consultancy services for fees totalling US$750,000 (2016 - US$1,000,000) of which US$ Nil (2016 - US$ Nil) was outstanding at 31 December 2017.

Ms A M Duffy and Mr H Sopher are also Directors of BD Cooke Solutions Limited. During 2017 BD Cooke Solutions Limited provided Stronghold Insurance Company Limited with accountancy services for fees totalling US$33,000 (2016 - US$31,000) of which US$ Nil (2016 - US$ Nil) was outstanding at 31 December 2017.

As at 31 December 2017 a balance of US$190 was due from the parent undertaking (2016 - US$180 due from the parent undertaking).

19 Pension scheme

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

20 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.