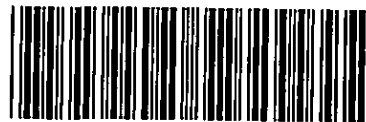


STRONGHOLD HOLDINGS LIMITED

**REPORT AND FINANCIAL STATEMENTS
2011**

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COMPANIES HOUSE

Company Registration No 3324797

STRONGHOLD HOLDINGS LIMITED

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STRONGHOLD HOLDINGS LIMITED

Directors and Management

Directors

A M Duffy
H Sopher
K F Watkins

Secretary

TMF Corporate Administration Services Limited

Auditors

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

Registered Office

5th Floor, 6 St Andrew Street, London, EC4A 3AE, England

STRONGHOLD HOLDINGS LIMITED

Report of the Directors

The Directors present their report and the consolidated financial statements of the Group for the year ended 31 December 2011

Principal activity

The only activities of the Group are carried out by its insurance subsidiary. Its business is described under 'Nature of Business' below.

Nature of Business

The group's only subsidiary, Stronghold Insurance Company Limited, is in solvent run-off. This 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 Group 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 Group will continue to seek commutation opportunities in the future.

Staff

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

Environmental Impact

The Group considers that its impact on the environment is minimal.

Key Performance Indicators

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

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

Results and dividends

After allowing for taxation, there was a Group loss on ordinary activities for the year of US\$1,817,000 (2010 – profit US\$2,498,000). The loss arises from the run off activities of the subsidiary undertaking. The Directors do not recommend the payment of a dividend for the year (2010 – Nil).

STRONGHOLD HOLDINGS LIMITED

Report of the Directors (continued)

Going Concern

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

As described in note 1(a) there are material uncertainties which cast significant doubt on the Group's ability to continue as a going concern. The uncertainties derive principally from the long term nature of the group'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 Group have a reasonable expectation that the Group has adequate resources that enable it to continue in existence for the foreseeable future. For these reasons they continue to adopt the going concern basis in preparing the financial statements.

Directors

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

The Directors at 31 December 2011 had the following interests in the share capital of the Company:

	At 31 December 2011 Ordinary shares	At 31 December 2010 Ordinary shares
A M Duffy	40	40
H Sopher	40	40
K F Watkins	20	20

Disclosure of Information to Auditors

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

Charitable and political donations

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

Auditors

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

By Order of the Board



K F WATKINS
Director

28 March 2012

STRONGHOLD HOLDINGS LIMITED

Statement of Directors' Responsibilities in respect of the Financial Statements

The directors are responsible for preparing the Directors' Report and the group 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 Group and the Company and the profit or loss of the Group 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 Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group and 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 Group and the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

STRONGHOLD HOLDINGS LIMITED

Independent Auditor's Report to the Members of Stronghold Holdings Limited

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

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements

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

Emphasis of matter – Going concern

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosures made in notes 1a and 18 to the financial statements concerning the group's ability to continue as a going concern. The conditions explained in note 1a and 18 indicate the existence of a material uncertainty which may cast significant doubt about the group's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the group was unable to continue as a going concern.

Opinion on other matter prescribed by the Companies Act 2006

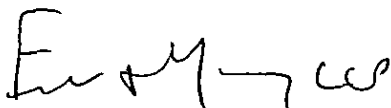
In our opinion the information given in the Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements.

STRONGHOLD HOLDINGS LIMITED

Matters on which we are required to report by exception

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

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



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

28 March 2012

STRONGHOLD HOLDINGS LIMITED

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

	Notes	2011		2010	
		US\$'000	US\$'000	US\$ 000	US\$ 000
Technical account - General business					
<i>Discontinued operations</i>					
Gross premiums written	2		141		20
Outwards reinsurance premiums			(16)		(73)
Earned premiums, net of reinsurance			125		(53)
Gross claims and claims handling expenses paid		14,193		21,701	
Reinsurers' share of claims paid		(3,252)		(7,584)	
Net claims and claims handling expenses paid		10,941		14,117	
Gross change in the provision for claims		(7,153)		(13,897)	
Reinsurers' share		571		4,370	
Net change in the provision for claims		(6,582)		(9,527)	
Claims and claims handling expenses incurred net of reinsurance	4,5	4,359		4,590	
Net operating expenses		(1)		-	
Total technical charges			4,358		4,590
Balance on the general business technical account			(4,233)		(4,643)
Non-technical account					
Balance on the general business technical account			(4,233)		(4,643)
Investment income	8	4,894		5,821	
Unrealised gains/(losses) on investments		(2,405)		1,219	
Investment expenses and charges	9	(251)		(78)	
			2,238		6,962
Negative goodwill written back			178		179
(Loss)/profit on ordinary activities before taxation			(1,817)		2,498
Tax on ordinary activities	10		-		-
(Loss)/profit for the financial year			(1,817)		2,498

STRONGHOLD HOLDINGS LIMITED

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

	2011 US\$'000	2010 US\$ 000
(Loss)/profit for the financial year	(1,817)	2 498
Currency translation differences on foreign currency net investment	(35)	(349)
Total recognised gains and losses relating to the year	<u>(1,852)</u>	<u>2,149</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 Consolidated Shareholders' Funds
for the year ended 31 December 2011**

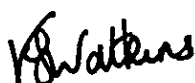
	2011 US\$'000	2010 US\$'000
Opening shareholders' funds	8,361	6,212
Total recognised gains and losses relating to the year	(1,852)	2,149
Closing shareholders' funds	<u>6,509</u>	<u>8 361</u>

STRONGHOLD HOLDINGS LIMITED**Consolidated Balance Sheet
as at 31 December 2011**

	Notes	2011 US\$'000	2010 US\$ 000
Assets			
Intangible assets			
Negative goodwill	12	(894)	(1,072)
Tangible assets			
Land and buildings	13	1,255	1 295
Investments			
Other financial investments	14(a)	78,666	104,313
Deposits with ceding undertakings		<u>767</u>	<u>973</u>
		<u>79,433</u>	<u>105,286</u>
Reinsurers' share of technical provisions			
Claims outstanding	18	16,862	17,436
Debtors			
Debtors arising out of reinsurance operations		1,668	3,191
Other debtors		<u>19</u>	<u>27</u>
		<u>1,687</u>	<u>3,218</u>
Other assets			
Cash at bank and in hand	14(b)	33,680	16,348
Prepayments and accrued income			
Accrued interest and rent		905	1,130
Other prepayments and accrued income		<u>24</u>	<u>26</u>
		<u>929</u>	<u>1 156</u>
Total assets		<u>132,952</u>	<u>143,667</u>

STRONGHOLD HOLDINGS LIMITED**Consolidated Balance Sheet
as at 31 December 2011**

	Notes	2011 US\$'000	2010 US\$ 000
Liabilities			
Capital and Reserves			
Called up share capital	16	-	-
Profit and loss account		<u>6,509</u>	<u>8,361</u>
Shareholders' funds	17	<u>6,509</u>	<u>8,361</u>
Technical provisions			
Claims outstanding	18	119,233	126,445
Deposits received from reinsurers		4,317	4,791
Creditors			
Arising out of reinsurance operations		2,682	4,034
Other creditors including taxation and social security		<u>-</u>	<u>2</u>
		<u>2,682</u>	<u>4,036</u>
Accruals and deferred income		211	34
Total liabilities		<u>132,952</u>	<u>143,667</u>



K F WATKINS
Director

Date 28 March 2012

STRONGHOLD HOLDINGS LIMITED**Parent Company Balance Sheet
as at 31 December 2011**

	Notes	2011 US\$'000	2010 US\$ 000
Fixed Assets			
Investments			
Shares in subsidiary undertakings	15	-	-
Current assets			
Amounts owed by group undertakings		7	5
		<u>7</u>	<u>5</u>
Creditors, amounts falling due within one year			
Amounts owed to group undertakings		-	-
Accruals and deferred income		7	5
		<u>7</u>	<u>5</u>
Net current assets		-	-
Net assets		-	-
Capital and reserves			
Called up share capital	16	-	-
Profit and loss account		-	-
		<u>-</u>	<u>-</u>



K F WATKINS
Director

Date 28 March 2012

STRONGHOLD HOLDINGS LIMITED**Consolidated Statement of Cash Flows
for the year ended 31 December 2011**

	Notes	2011 US\$'000	2010 US\$ 000
Net cash outflow from operating activities	19	<u>(6,991)</u>	<u>(12,429)</u>
Cash flows were invested as follows:			
Increase/(decrease) in cash holdings	20	17,093	(35,942)
Net portfolio investment			
Increase in portfolio investments	20	(24,084)	23,513
Net investment of cash flows	20	<u>(6,991)</u>	<u>(12,429)</u>
Movement in opening and closing cash and portfolio investments			
		2011 US\$'000	2010 US\$ 000
Net cash inflow/(outflow) for the period	20	17,093	(35,942)
Cash inflow portfolio investments	20	(24,084)	23,513
Movement arising from cash flows	20	<u>(6,991)</u>	<u>(12,429)</u>
Changes in market values and exchange rates	20	(1,324)	2,247
Total movement in cash and portfolio investments	20	<u>(8,315)</u>	<u>(10,182)</u>
Cash and portfolio investments net of financing at 1 January	20	120,661	130,843
Cash and portfolio investments net of financing at 31 December	20	<u>112,346</u>	<u>120 661</u>

STRONGHOLD HOLDINGS LIMITED

Notes to the Financial Statements

1 Accounting policies

(a) Basis of preparation

The group's financial statements, which consolidate the financial statements of the Company and its wholly owned subsidiary undertakings, have been prepared in accordance with the provisions of paragraph 9 and Part 1 of Schedule 6 (as modified by Part 3) of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 relating to insurance groups and comply with the revised Statement of Recommended Practice issued in December 2005 (amended in 2006) by the Association of British Insurers. The balance sheet of the parent company is prepared in accordance with the provisions of Schedule 1 to The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008. The financial statements have also been prepared in accordance with applicable accounting standards.

The Company takes advantage of the exemption under Section 408 of the Companies Act 2006 from presenting its own profit and loss account. The result for the year dealt with in the financial statements of the parent undertaking was Nil (2010 – Nil).

The Group financial statements incorporate the assets, liabilities and results of the Company and its subsidiary undertaking.

In preparing the financial statements for the year ended 31 December 2011, the Directors, having regard to the material uncertainties which cast significant doubt about the company's ability to continue as a going concern expressed in Note 18 as to the amounts at which the subsidiary undertaking's technical provisions will ultimately be settled, consider that the Group 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 Group prove inadequate. This basis could be invalidated if the resources of the Group were exhausted by adverse adjustments arising from the resolution of the uncertainties referred to in Note 18.

(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.

STRONGHOLD HOLDINGS LIMITED

Notes to the Financial Statements

1 Accounting policies (continued)

(d) Investments

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

In the financial statements of the parent undertaking, shares in subsidiary undertakings are stated at historical cost.

(e) Negative goodwill

Negative goodwill arising on consolidation has been capitalised and is amortised through the profit and loss account over a period of 20 years, estimated by the Directors to be the useful economic life.

(f) Foreign currencies

Foreign currency transactions are translated to United States dollars at the rate applicable when recorded in the books, with the exception of transactions in sterling and Canadian dollars, which are translated at the year end rate.

Assets and liabilities, other than fixed assets which are converted at the rate ruling at the date of purchase, are shown in the balance sheet at the year end rate.

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

(g) Deferred taxation

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

h) 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.

STRONGHOLD HOLDINGS LIMITED

Notes to the Financial Statements

3 Segmental information

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

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

4 Net claims and claims handling expenses incurred

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

5 Claims handling expenses paid

Claims handling expenses include

	2011 US\$'000	2010 US\$ 000
Auditors' remuneration - audit of financial statements of the parent company and the group	4	4
- audit of financial statements of the subsidiary undertaking	116	110
- other services pursuant to legislation including the audit of the regulatory return	25	25
Depreciation	40	40

STRONGHOLD HOLDINGS LIMITED**Notes to the Financial Statements****6 Staff costs**

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

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

Management	1	1
Claims	5	6

7 Directors' emoluments

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

	2011 US\$	2010 US\$
Fees	404,030	404,870
Other emoluments	-	-
	<u>404,030</u>	<u>404,870</u>

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

8 Investment income

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

9 Investment expenses and charges

	2011 US\$'000	2010 US\$'000
Investment management expenses	230	50
Interest payable - on reinsurance balances	21	19
	<u>251</u>	<u>69</u>

STRONGHOLD HOLDINGS LIMITED

Notes to the Financial Statements

10 Taxation

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

(b) Factors affecting current tax charge

The tax assessed for the period is lower than the standard rate of corporation tax in the UK of 26.5% (2010 – 28%)

The differences are explained below

	2011 US\$'000	2010 US\$'000
(Loss)/profit on ordinary activities before tax	<u>(1,817)</u>	<u>2,498</u>
(Loss)/profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 26.5% (2010 – 28%)	(482)	699
Expenses not deductible for tax purposes	(76)	(9)
Tax on currency translation differences	(3)	(48)
Unrelieved losses carried forward	561	
Utilisation of tax losses	<u>-</u>	<u>(642)</u>
	<u>-</u>	<u>-</u>

(c) Factors that may affect future tax charges

The group has tax losses arising in the UK of £8.097m (2010 - £6.726m) that are available indefinitely for offset against future taxable profits of the company in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they may not be used to offset taxable profits elsewhere in the group.

11 Deferred taxation

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

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

	2011 US\$'000	2010 US\$'000
Short-term timing differences	(684)	(698)
Accelerated capital allowances	(12)	(13)
Trading losses available for carry forward	<u>(3,123)</u>	<u>(2,706)</u>
	<u>(3,819)</u>	<u>(3,417)</u>

STRONGHOLD HOLDINGS LIMITED

Notes to the Financial Statements

12 Intangible assets

	2011 US\$'000	2010 US\$'000
<i>Negative goodwill</i>		
<i>Cost</i>		
Balance 1 January	(3,575)	(3,575)
Additions during year	-	-
Balance 31 December	<u>(3,575)</u>	<u>(3,575)</u>
<i>Amounts written back</i>		
Balance 1 January	2,503	2,324
Written back during the year	178	179
Balance at 31 December	<u>2,681</u>	<u>2,503</u>
Net book value at 31 December	<u>(894)</u>	<u>(1,072)</u>

13 Tangible fixed assets

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

14 (a) Investments of the Group

	Current value		Historical cost	
	2011 US\$'000	2010 US\$'000	2011 US\$'000	2010 US\$'000
Other financial investments				
Shares in other variable-yield securities and shares in unit trusts (listed)	10,978	14,114	12,459	14,314
Shares in other variable-yield securities and shares in unit trusts (unlisted)	-	-	430	430
Debt securities and other fixed income securities (listed)	64,614	86,884	65,970	87,116
Deposits with credit institutions	3,074	3,315	3,074	3,315
	<u>78,666</u>	<u>104,313</u>	<u>81,933</u>	<u>105,175</u>

(b) Cash at bank and in hand

The facility provided to the Group in respect of its letter of credit liabilities, amounting to US\$8 709m (2010 - US\$9 283m) is secured by a charge over a bank account of an equal amount

STRONGHOLD HOLDINGS LIMITED

Notes to the Financial Statements

15 Subsidiary undertaking

The Company owns 100% of the issued share capital of Stronghold Insurance Company Limited, an insurance company registered in England

Stronghold Insurance Company Limited has retained losses as at 31 December 2011 and any future retained profits are subject to a restriction on dividend payments by the Financial Services Authority

The shares in Stronghold Insurance Company Limited are valued in the parent company balance sheet at nil, this being the historical cost

16 Share capital

	2011 US\$	2010 US\$
<i>Authorised</i>		
100 ordinary shares of £1 each	<u>162</u>	<u>162</u>
<i>Issued, called up and fully paid</i>		
100 ordinary shares of £1 each	<u>162</u>	<u>162</u>

The share capital comprises shares of one class only

17 Shareholders' funds

	Share Capital US\$'000 (Note 16)	Profit & loss a/c US\$'000	Total US\$'000
<i>Group</i>			
2011			
Balance at 1 January	-	8,361	8,361
Currency translation differences on foreign currency net investment	-	(35)	(35)
Retained loss for the year	-	<u>(1,817)</u>	<u>(1,817)</u>
Balance at 31 December	-	<u>6,509</u>	<u>6,509</u>
2010			
Balance at 1 January	-	6,212	6,212
Currency translation differences on foreign currency net investment	-	(349)	(349)
Retained profit for the year	-	<u>2,498</u>	<u>2,498</u>
Balance at 31 December	-	<u>8,361</u>	<u>8,361</u>
<i>Company</i>			
2011			
Balance at 1 January	-	-	-
Retained profit for the year	-	-	-
Balance at 31 December	-	-	-
2010			
Balance at 1 January	-	-	-
Retained profit for the year	-	-	-
Balance at 31 December	-	-	-

STRONGHOLD HOLDINGS LIMITED**Notes to the Financial Statements****18 Claims outstanding**

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

The claims outstanding are those of the insurance undertaking, Stronghold Insurance Company Limited, and 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 future irrecoverable amounts.

The level of the provision for claims handling expenses is dependent upon the settlement of gross technical provisions, collection of related reinsurance recoveries and changes in the factors influencing these.

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

The provision for claims outstanding for environmental and asbestos losses and other losses for Casualty classes together with related claims handling expenses, are included after taking into account the future attributable investment earnings at an assumed compound discount rate of 3.50% (2010 – 3.80%) per annum. The discount rate is calculated taking account of the fact that the subsidiary undertaking has a mixed portfolio of US Dollar and Sterling investments and cash holdings and future claims will be settled mainly in US Dollars and future claims handling expenses will be settled mainly in Sterling. The assumed settlement pattern for gross claim payments results in an average term for the liabilities of 9.2 years (2010 – 9.6 years). This settlement pattern has been derived from the historical development of claims payments appropriate for the types of claims within these classes, in particular those relating to environmental and asbestos losses. The effect of discounting, included within claims incurred net of reinsurance during the year amounted to a loss of \$6.7m (2010 - loss \$2.7m).

STRONGHOLD HOLDINGS LIMITED

Notes to the Financial Statements

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

	2011 US\$'000	2010 US\$'000
Profit on ordinary activities before tax	(1,817)	2 498
Realised investment gains	(1,132)	(1,625)
Unrealised investment losses/(gains)	2,405	(1 219)
Decrease in provision for claims outstanding	(6,582)	(9,527)
Decrease in debtors, prepayments and accrued income	1,613	553
Decrease in creditors, accruals and deferred income	(981)	(453)
(Decrease)/increase in deposits with ceding undertakings	114	(20)
Decrease in deposits received from reinsurers	(473)	(2 497)
Negative goodwill written off	(178)	(179)
Depreciation	40	40
Net cash outflow from operating activities	<u>(6,991)</u>	<u>(12,429)</u>

20 Movement in cash and portfolio investments

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

Gross investment cash flows

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

STRONGHOLD HOLDINGS LIMITED

Notes to the Financial Statements

21 Related party transactions

Emoluments paid to Directors are disclosed in note 7

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

22 Pension scheme

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

23 Financial Services Authority Regulatory Reporting

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