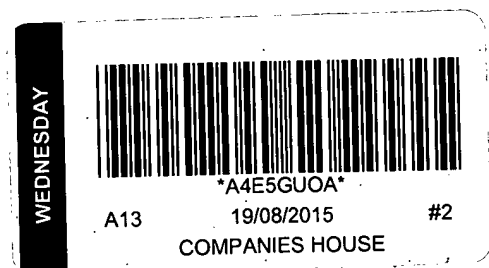


REPORT AND FINANCIAL STATEMENTS  
2014

Company Registration No.  
03324797



**Contents**

|   | Page    |
|---|---------|
| Directors and Management  | 2       |
| Strategic Report  | 3       |
| Report of the Directors   | 4       |
| Statement of Directors' Responsibilities in respect of the Financial Statements | 5       |
| Independent Auditor's Report  | 6 - 7   |
| Consolidated Profit and Loss Account  | 8       |
| Consolidated Statement of Total Recognised Gains and Losses                     | 9       |
| Reconciliation of Movements in Consolidated Shareholders' Funds                 | 9       |
| Consolidated Balance Sheet  | 10 - 11 |
| Parent Company Balance Sheet  | 12      |
| Consolidated Statement of Cash Flows  | 13      |
| Notes to the Financial Statements   | 14 - 23 |

## **STRONGHOLD HOLDINGS LIMITED**

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### **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

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### Strategic Report

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

#### 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.

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

Gross reserves are a measure of the Company's performance in settling claims within reserves.

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

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

By Order of the Board



K F WATKINS.  
Director

19 March 2015

## STRONGHOLD 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 2014.

### Results and dividends

After allowing for taxation, there was a Group profit on ordinary activities for the year of US\$449,000 (2013 - profit US\$198,000). The profit arises from the run off activities of the subsidiary undertaking. The Directors do not recommend the payment of a dividend for the year (2013 - Nil).

### Going Concern

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

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

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

### Directors

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

The Directors at 31 December 2014 had the following interests in the share capital of the Company:

|             | At 31 December 2014 | At 31 December 2013 |
|-------------|---------------------|---------------------|
|             | Ordinary shares     | Ordinary shares     |
| A M Duffy   | 40                  | 40                  |
| H Sopher    | 40                  | 40                  |
| K F Watkins | 20                  | 20                  |

### Disclosure of information to Auditors

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

### Charitable and political donations

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

### Auditors

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

By Order of the Board



K F WATKINS  
Director

19 March 2015

**Statement of Directors' Responsibilities in respect of the Financial Statements**

The directors are responsible for preparing the Strategic Report, 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 judgements and 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.

**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 2014 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 Sheets, 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 auditors**

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

**Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and 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 Report and Financial Statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

**Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the group's and the parent company's affairs as at 31 December 2014 and of the group's profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

**Emphasis of matter - claims provision, claims handling expense provision and going concern**

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosures made in note 1a 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 Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

## STRONGHOLD HOLDINGS LIMITED

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### Independent Auditor's Report to the Members of Stronghold Holdings Limited (continued)

#### Matters on which we are required to report by exception

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

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

*Ernst & Young LLP*

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

19 March 2015



# STRONGHOLD HOLDINGS LIMITED

## Consolidated Profit and Loss Account for the year ended 31 December 2014

|   | Notes | 2014     |          | 2013     |          |
|---|-------|----------|----------|----------|----------|
|   |       | US\$'000 | US\$'000 | US\$'000 | US\$'000 |
| <b>Technical account - General business</b>                     |       |          |          |          |          |
| <i>Discontinued operations</i>                                  |       |          |          |          |          |
| Gross premiums written  | 2     |          | 6        |          | 9        |
| Outwards reinsurance premiums                                   |       |          | (6)      |          | (5)      |
| Earned premiums, net of reinsurance                             |       |          | -        |          | 4        |
| Gross claims and claims handling expenses paid                  |       | 16,244   |          | 11,222   |          |
| Reinsurers' share of claims paid                                |       | (4,971)  |          | (5,349)  |          |
| Net claims and claims handling expenses paid                    |       | 11,273   |          | 5,873    |          |
| Gross change in the provision for claims                        |       | (12,034) |          | (5,150)  |          |
| Reinsurers' share   |       | 4,333    |          | 1,023    |          |
| Net change in the provision for claims                          |       | (7,701)  |          | (4,127)  |          |
| Claims and claims handling expenses incurred net of reinsurance | 4,5   | 3,572    |          | 1,746    |          |
| Net operating expenses  |       | -        |          | 1        |          |
| <b>Total technical charges</b>                                  |       |          | 3,572    |          | 1,747    |
| <b>Balance on the general business technical account</b>        |       |          | (3,572)  |          | (1,743)  |
| <b>Non-technical account</b>                                    |       |          |          |          |          |
| Balance on the general business technical account               |       |          | (3,572)  |          | (1,743)  |
| Investment income   | 8     | 3,670    |          | 3,309    |          |
| Unrealised gains/(losses) on investments                        |       | 347      |          | (1,352)  |          |
| Investment expenses and charges                                 | 9     | (174)    |          | (195)    |          |
|   |       |          | 3,843    |          | 1,762    |
| Negative goodwill written back                                  |       |          | 178      |          | 179      |
| <b>Profit on ordinary activities before taxation</b>            |       |          | 449      |          | 198      |
| Tax on ordinary activities                                      | 10    |          | -        |          | -        |
| <b>Profit for the financial year</b>                            |       |          | 449      |          | 198      |

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

|   | 2014<br>US\$'000 | 2013<br>US\$'000 |
|---|------------------|------------------|
| Profit for the financial year                                   | 449              | 198              |
| Currency translation differences on foreign currency net assets | 18               | 107              |
| Total recognised gains and losses relating to the year          | <u>467</u>       | <u>305</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 2014**

|  | 2014<br>US\$'000 | 2013<br>US\$'000 |
|--|------------------|------------------|
| Opening shareholders' funds                            | 8,549            | 8,244            |
| Total recognised gains and losses relating to the year | 467              | 305              |
| Closing shareholders' funds                            | <u>9,016</u>     | <u>8,549</u>     |

# **STRONGHOLD HOLDINGS LIMITED**

## **Consolidated Balance Sheet as at 31 December 2014**

|  | Notes | 2014<br>US\$'000 | 2013<br>US\$'000 |
|--|-------|------------------|------------------|
| <b>Assets</b>                                    |       |                  |                  |
| <b>Intangible assets</b>                         |       |                  |                  |
| Negative goodwill                                | 12    | (358)            | (536)            |
| <b>Tangible assets</b>                           |       |                  |                  |
| Land and buildings                               | 13    | 1,135            | 1,175            |
| <b>Investments</b>                               |       |                  |                  |
| Other financial investments                      | 14(a) | 75,787           | 85,189           |
| Deposits with ceding undertakings                |       | 624              | 710              |
|  |       | <u>76,411</u>    | <u>85,899</u>    |
| <b>Reinsurers' share of technical provisions</b> |       |                  |                  |
| Claims outstanding                               | 18    | 7,654            | 12,016           |
| <b>Debtors</b>                                   |       |                  |                  |
| Debtors arising out of reinsurance operations    |       | 1,274            | 1,268            |
| Other debtors                                    |       | 19               | 12               |
|  |       | <u>1,293</u>     | <u>1,280</u>     |
| <b>Other assets</b>                              |       |                  |                  |
| Cash at bank and in hand                         | 14(b) | 14,609           | 13,497           |
| <b>Prepayments and accrued income</b>            |       |                  |                  |
| Accrued interest and rent                        |       | 821              | 1,049            |
| Other prepayments and accrued income             |       | 20               | 24               |
|  |       | <u>841</u>       | <u>1,073</u>     |
| <b>Total assets</b>                              |       | <u>101,585</u>   | <u>114,404</u>   |

**STRONGHOLD HOLDINGS LIMITED****Consolidated Balance Sheet  
as at 31 December 2014**

|  | Notes | 2014<br>US\$'000 | 2013<br>US\$'000 |
|--|-------|------------------|------------------|
| <b>Liabilities</b>                                     |       |                  |                  |
| <b>Capital and Reserves</b>                            |       |                  |                  |
| Called up share capital                                | 16    | -                | -                |
| Profit and loss account                                |       | <u>9,016</u>     | <u>8,549</u>     |
| <b>Shareholders' funds</b>                             | 17    | <u>9,016</u>     | <u>8,549</u>     |
| <b>Technical provisions</b>                            |       |                  |                  |
| Claims outstanding                                     | 18    | 88,175           | 101,106          |
| <b>Deposits received from reinsurers</b>               |       | 2,655            | 2,876            |
| <b>Creditors</b>                                       |       |                  |                  |
| Arising out of reinsurance operations                  |       | 1,545            | 1,663            |
| Other creditors including taxation and social security |       | <u>2</u>         | <u>7</u>         |
|  |       | <u>1,547</u>     | <u>1,670</u>     |
| <b>Accruals and deferred income</b>                    |       | 192              | 203              |
| <b>Total liabilities</b>                               |       | <u>101,585</u>   | <u>114,404</u>   |

  
K F WATKINS  
Director

19 March 2015

**STRONGHOLD HOLDINGS LIMITED****Parent Company Balance Sheet  
as at 31 December 2014**

|   | Notes | 2014<br>US\$'000 | 2013<br>US\$'000 |
|---|-------|------------------|------------------|
| <b>Fixed Assets</b>                                   |       |                  |                  |
| Investments   |       |                  |                  |
| Shares in subsidiary undertakings                     | 15    | -                | -                |
| <b>Current assets</b>                                 |       |                  |                  |
| Amounts owed by group undertakings                    |       | -                | -                |
|   |       | -                | -                |
| <b>Creditors: amounts falling due within one year</b> |       |                  |                  |
| Amounts owed to group undertakings                    |       | -                | -                |
| Accruals and deferred income                          |       | -                | -                |
|   |       | -                | -                |
| <b>Net current assets</b>                             |       | -                | -                |
| <b>Net assets</b>                                     |       | -                | -                |
| <b>Capital and reserves</b>                           |       |                  |                  |
| Called up share capital                               | 16    | -                | -                |
| Profit and loss account                               |       | -                | -                |
|   |       | -                | -                |



K F WATKINS  
Director

19 March 2015

# STRONGHOLD HOLDINGS LIMITED

## Consolidated Statement of Cash Flows for the year ended 31 December 2014

|  | Notes | 2014<br>US\$'000 | 2013<br>US\$'000 |
|--|-------|------------------|------------------|
| Net cash outflow from operating activities                     | 19    | <u>(8,148)</u>   | <u>(3,018)</u>   |
| Cash flows were invested as follows:                           |       |                  |                  |
| Increase in cash holdings                                      | 20    | 1,199            | 1,344            |
| Net portfolio investment                                       |       |                  |                  |
| Decrease in portfolio investments                              | 20    | (9,347)          | (4,342)          |
| Net investment of cash flows                                   | 20    | <u>(8,148)</u>   | <u>(2,998)</u>   |
| Movement in opening and closing cash and portfolio investments |       |                  |                  |
|  |       | 2014<br>US\$'000 | 2013<br>US\$'000 |
| Net cash inflow for the period                                 | 20    | 1,199            | 1,344            |
| Cash inflow: portfolio investments                             | 20    | (9,347)          | (4,342)          |
| Movement arising from cash flows                               | 20    | <u>(8,148)</u>   | <u>(2,998)</u>   |
| Changes in market values and exchange rates                    | 20    | (142)            | (1,418)          |
| Total movement in cash and portfolio investments               | 20    | <u>(8,290)</u>   | <u>(4,416)</u>   |
| Cash and portfolio investments net of financing at 1 January   | 20    | 98,686           | 103,102          |
| Cash and portfolio investments net of financing at 31 December | 20    | <u>90,396</u>    | <u>98,686</u>    |

**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 (2013 - 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 2014, the Directors, having regard to the material uncertainties which cast significant doubt about the company's ability to continue as a going concern expressed in Note 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.

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

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

Exchange differences on foreign currency net assets 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 difference 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.



**Notes to the Financial Statements**

**3 Segmental information**

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

All premiums relate to general reinsurance business concluded in the United Kingdom. The 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<br>US\$'000 | Reinsurance<br>US\$'000 | Net<br>US\$'000 |
|---|-------------------|-------------------------|-----------------|
| <b>2014</b>                                       |                   |                         |                 |
| Claims paid                                       | 12,940            | 4,971                   | 7,969           |
| Claims handling expenses paid                     | 3,304             | -                       | 3,304           |
|   | 16,244            | 4,971                   | 11,273          |
| Outstanding claims carried forward                | 88,175            | 7,654                   | 80,521          |
| Outstanding claims brought forward                | (101,106)         | (12,016)                | (89,090)        |
| Revaluation of outstanding claims brought forward | 897               | 29                      | 868             |
|   | (12,034)          | (4,333)                 | (7,701)         |
| Claims incurred                                   | 4,210             | 638                     | 3,572           |
| <b>2013</b>                                       |                   |                         |                 |
| Claims paid                                       | 7,758             | 5,349                   | 2,409           |
| Claims handling expenses paid                     | 3,464             | -                       | 3,464           |
|   | 11,222            | 5,349                   | 5,873           |
| Outstanding claims carried forward                | 101,106           | 12,016                  | 89,090          |
| Outstanding claims brought forward                | (105,959)         | (13,031)                | (92,928)        |
| Revaluation of outstanding claims brought forward | (297)             | (8)                     | (289)           |
|   | (5,150)           | (1,023)                 | (4,127)         |
| Claims incurred                                   | 6,072             | 4,326                   | 1,746           |

**5 Claims handling expenses paid**

Claims handling expenses include:

|   | 2014<br>US\$'000 | 2013<br>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                         | 111              | 119              |
| - other services pursuant to legislation including the audit of the regulatory return | 27               | 27               |
| Depreciation  | 40               | 40               |

**STRONGHOLD HOLDINGS LIMITED****Notes to the Financial Statements**

| <b>6 Staff costs</b>  | <b>2014<br/>US\$'000</b> | <b>2013<br/>US\$'000</b> |
|-----------------------|--------------------------|--------------------------|
| Wages and salaries    | 653                      | 645                      |
| Social security costs | 76                       | 79                       |
| Other pension costs   | 85                       | 85                       |
|                       | <u>814</u>               | <u>809</u>               |

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

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

**7 Directors' remuneration**

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

|              | <b>2014<br/>US\$</b> | <b>2013<br/>US\$</b> |
|--------------|----------------------|----------------------|
| Remuneration | 447,070              | 465,165              |
|              | <u>447,070</u>       | <u>465,165</u>       |

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

| <b>8 Investment income</b>                    | <b>2014<br/>US\$'000</b> | <b>2013<br/>US\$'000</b> |
|---|--------------------------|--------------------------|
| Income from listed investments                | 3,154                    | 3,442                    |
| Income from other investments                 | 177                      | 201                      |
| Other interest receivable                     | 34                       | -                        |
| Gain/(Loss) on the realisation of investments | 305                      | (334)                    |
|   | <u>3,670</u>             | <u>3,309</u>             |

| <b>9 Investment expenses and charges</b>   | <b>2014<br/>US\$'000</b> | <b>2013<br/>US\$'000</b> |
|--|--------------------------|--------------------------|
| Investment management expenses             | 166                      | 179                      |
| Interest payable - on reinsurance balances | 8                        | 16                       |
|  | <u>174</u>               | <u>195</u>               |

**Notes to the Financial Statements**

**10 Taxation**

(a) No provision has been made in the financial statements for UK corporation tax on the assessable profits for the year as they have been set off against losses of previous years.

(b) Factors affecting current tax charge

The tax assessed for the period is lower than the standard rate of corporation tax in the UK of 21.5% (2013 - 23.25%). The differences are explained below:

|   | 2014<br>US\$'000 | 2013<br>US\$'000 |
|---|------------------|------------------|
| Profit on ordinary activities before tax  | <u>449</u>       | <u>198</u>       |
| Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 21.5% (2013 - 23.25%) | 97               | 46               |
| Expenses not deductible for tax purposes  | (27)             | (35)             |
| Tax on currency translation differences   | 4                | 25               |
| Unrelieved losses carried forward   | 13               | -                |
| Non taxable dividend income   | (39)             | -                |
| Movement in provisions  | (48)             | -                |
| Utilisation of tax losses   | -                | (36)             |
|   | <u>-</u>         | <u>-</u>         |

**11 Deferred taxation**

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

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

# STRONGHOLD HOLDINGS LIMITED

## Notes to the Financial Statements

### 12 Intangible assets

|                               | 2014<br>US\$'000 | 2013<br>US\$'000 |
|-------------------------------|------------------|------------------|
| <i>Negative goodwill</i>      |                  |                  |
| <i>Cost</i>                   |                  |                  |
| Balance 1 January             | (3,575)          | (3,575)          |
| Additions during year         |                  |                  |
| Balance at 31 December        | <u>(3,575)</u>   | <u>(3,575)</u>   |
| <i>Amounts written back</i>   |                  |                  |
| Balance 1 January             | 3,039            | 2,860            |
| Written back during the year  | 178              | 179              |
| Balance at 31 December        | <u>3,217</u>     | <u>3,039</u>     |
| Net book value at 31 December | <u>(358)</u>     | <u>(536)</u>     |

### 13 Tangible fixed assets

|                        | Freehold<br>land and<br>buildings<br>US\$'000 |
|------------------------|---|
| <i>Cost</i>            |   |
| As at 1 January 2014   | 1,375   |
| As at 31 December 2014 | <u>1,375</u>                                  |
| <i>Depreciation</i>    |   |
| As at 1 January 2014   | 200   |
| Charge for the year    | 40  |
| As at 31 December 2014 | <u>240</u>                                    |
| Net book value         |   |
| As at 31 December 2014 | <u>1,135</u>                                  |
| As at 31 December 2013 | <u>1,175</u>                                  |

### 14 (a) Investments of the Group

|   | Current value    |                  | Historical cost  |                  |
|---|------------------|------------------|------------------|------------------|
|   | 2014<br>US\$'000 | 2013<br>US\$'000 | 2014<br>US\$'000 | 2013<br>US\$'000 |
| Other financial investments   |                  |                  |                  |                  |
| Shares and other variable-yield securities and shares in unit trusts (listed)   | 9,329            | 9,453            | 8,952            | 8,350            |
| Shares and other variable-yield securities and shares in unit trusts (unlisted) | -                | -                | 430              | 430              |
| Debt securities and other fixed income securities (listed)                      | 64,209           | 73,193           | 65,512           | 75,581           |
| Deposits with credit institutions   | 2,249            | 2,543            | 2,249            | 2,543            |
|   | <u>75,787</u>    | <u>85,189</u>    | <u>77,143</u>    | <u>86,904</u>    |

### (b) Cash at bank and in hand

The facility provided to the Company in respect of its letter of credit liabilities, amounting to US\$7.081m (2013 - US\$9.429m) is secured by a charge over a bank account of an equal amount.

# 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 2014 and any future retained profits are subject to a restriction on dividend payments by the Prudential Regulatory Authority.

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

### 16 Share capital

|   | 2014<br>US\$ | 2013<br>US\$ |
|---|--------------|--------------|
| <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

| <i>Group</i>   | Share<br>capital<br>US\$'000<br>(Note 16) | Profit &<br>loss a/c<br>US\$'000 | Total<br>US\$'000 |
|--|---|----------------------------------|-------------------|
| <b>2014</b>  |   |                                  |                   |
| Balance at 1 January   | -   | 8,549                            | 8,549             |
| Currency translation differences on foreign currency<br>net investment | -   | 18                               | 18                |
| Retained profit for the year   | -   | 449                              | 449               |
| Balance at 31 December   | <u>-</u>                                  | <u>9,016</u>                     | <u>9,016</u>      |
| <b>2013</b>  |   |                                  |                   |
| Balance at 1 January   | -   | 8,244                            | 8,244             |
| Currency translation differences on foreign currency<br>net investment | -   | 107                              | 107               |
| Retained profit for the year   | -   | 198                              | 198               |
| Balance at 31 December   | <u>-</u>                                  | <u>8,549</u>                     | <u>8,549</u>      |
| <i>Company</i>   |   |                                  |                   |
| <b>2014</b>  |   |                                  |                   |
| Balance at 1 January   | -   | -                                | -                 |
| Retained profit for the year   | -   | -                                | -                 |
| Balance at 31 December   | <u>-</u>                                  | <u>-</u>                         | <u>-</u>          |
| <b>2013</b>  |   |                                  |                   |
| Balance at 1 January   | -   | -                                | -                 |
| Retained profit for the year   | -   | -                                | -                 |
| Balance at 31 December   | <u>-</u>                                  | <u>-</u>                         | <u>-</u>          |

**Notes to the Financial Statements**

**18 Claims outstanding**

|                              | Gross<br>US\$'000 | Reinsurance<br>US\$'000 | Net<br>US\$'000 |
|------------------------------|-------------------|-------------------------|-----------------|
| <b>2014</b>                  |                   |                         |                 |
| Provision before discounting | 85,404            | 10,026                  | 75,378          |
| Discounting adjustment       | (19,907)          | (2,372)                 | (17,535)        |
|                              | <u>65,497</u>     | <u>7,654</u>            | <u>57,843</u>   |
| Claims handling expenses     | 26,855            | -                       | 26,855          |
| Discounting adjustment       | (4,177)           | -                       | (4,177)         |
|                              | <u>22,678</u>     | <u>-</u>                | <u>22,678</u>   |
|                              | <u>88,175</u>     | <u>7,654</u>            | <u>80,521</u>   |
| <b>2013</b>                  |                   |                         |                 |
| Provision before discounting | 98,836            | 15,966                  | 82,870          |
| Discounting adjustment       | (24,071)          | (3,950)                 | (20,121)        |
|                              | <u>74,765</u>     | <u>12,016</u>           | <u>62,749</u>   |
| Claims handling expenses     | 32,398            | -                       | 32,398          |
| Discounting adjustment       | (6,057)           | -                       | (6,057)         |
|                              | <u>26,341</u>     | <u>-</u>                | <u>26,341</u>   |
|                              | <u>101,106</u>    | <u>12,016</u>           | <u>89,090</u>   |

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 significant adjustments to the amounts provided. Adjustments to the technical provisions are reflected in the financial statements for the period in which the adjustments are made.

The provision for claims outstanding for environmental and asbestos losses, and other losses for Casualty classes together with related claims handling expenses, are included after taking into account the future attributable investment earnings at an assumed compound discount rate of 3.50% (2013 – 3.50%) per annum. The discount rate is calculated taking account of the fact that the 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 8.4 years (2013 – 8.8 years). This settlement pattern has been derived from the historic development of claims payments appropriate for the types of claims within these classes, in particular those relating to environmental and asbestos losses. Of the change in outstanding claims net of reinsurance of \$7.7m (2013 - \$4.1m), \$4.7m relates to the effect of discounting (2013 - \$1.9m).

# STRONGHOLD HOLDINGS LIMITED

## Notes to the Financial Statements

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

|   | 2014<br>US\$'000 | 2013<br>US\$'000 |
|---|------------------|------------------|
| Profit on ordinary activities before tax            | 449              | 198              |
| Realised investment (gains)/losses                  | (305)            | 334              |
| Unrealised investment (gains)/losses                | (347)            | 1,352            |
| Decrease in provision for claims outstanding        | (7,701)          | (4,127)          |
| Decrease in debtors, prepayments and accrued income | 108              | 915              |
| Decrease in creditors, accruals and deferred income | (122)            | (1,268)          |
| Decrease in deposits with ceding undertakings       | 119              | (37)             |
| Decrease in deposits received from reinsurers       | (211)            | (246)            |
| Negative goodwill written off                       | (178)            | (179)            |
| Depreciation  | 40               | 40               |
| Net cash outflow from operating activities          | <u>(8,148)</u>   | <u>(3,018)</u>   |

### 20 Movement in cash and portfolio investments

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

Cash flows of other financial investments are analysed as follows:

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

**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 Insurance Company Limited, are also directors of Isis Consulting Inc. During 2014 Isis provided Stronghold with consultancy services for fees totalling US\$1,000,000 (2013 - US\$1,000,000) of which US\$ Nil (2013 - US\$ Nil) was outstanding at 31 December 2014.

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

**22 Pension scheme**

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

**23 Prudential Regulation 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 Prudential Regulation 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 Prudential Regulation Authority have indicated they do not intend to take any action in respect of this matter.