

ANNUAL REPORT AND FINANCIAL STATEMENTS
2017

Company Registration No.
03324797



Contents

| | Page |
|--|-------------|
| Corporate Information | 2 |
| Strategic Report | 3 - 4 |
| Directors' Report | 5 - 6 |
| Directors' Responsibilities Statement | 7 |
| Independent Auditor's Report | 8 - 10 |
| Consolidated Income statement | 11 |
| Consolidated Statement of Comprehensive Income | 12 |
| Consolidated Statement of Changes in Equity | 12 |
| Consolidated Statement of Financial Position | 13 - 14 |
| Company Statement of Financial Position | 15 |
| Consolidated Statement of Cash Flows | 16 |
| Notes to the Financial Statements | 17 - 35 |

Corporate Information

Directors

A M Duffy
H Sopher
K F Watkins

Secretaries

TMF Corporate Administration Services Limited

Auditors

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

Registered office

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

Strategic Report

The Directors present their strategic report of the Group for the year ended 31 December 2017.

Review of the business**Principal activities**

The main subsidiary undertaking, Stronghold Insurance Company Limited, ceased to write new and renewal business in 1985 and entered into solvent run-off. The Company's main activity is the settlement and administration of claims and the collection of reinsurance. The majority of the liabilities outstanding relate to Asbestos and Environmental Pollution related claims.

Review of the business

| | 2017 US\$'000 | 2016 US\$'000 | Change % |
|---|------------------|------------------|-------------|
| Balance on technical account – general business | 1,285 | 125 | +928% |
| Profit for the financial year | 1,285 | 125 | +928% |
| Capital and reserves | 10,650 | 9,365 | +14% |
| Investment Return | 2,765 | 2,447 | +13% |
| Gross Paid Claims | 11,187 | 15,361 | -27% |
| Gross reserves before discount | 50,125 | 58,899 | -15% |
| Asbestos and pollution related gross outstanding claims before discount | 45,944 | 55,232 | -17% |
| Reinsurance reserves before discount | 3,686 | 5,238 | -30% |
| Discount provided | 12,776 | 14,729 | -13% |

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

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

The capital and reserves of the Group at 31 December 2017 are US\$10.7m (2016: US\$9.4 m).

Principal risks and uncertainties

The principal risks and uncertainties facing the Group are broadly grouped as: insurance, regulatory and financial instrument risk.

The risk management objectives and policies are driven by the need to protect the Group's regulatory capital position, to meet obligations to policyholders when they fall due and to have the adequate capital to run-off in an orderly fashion.

Strategic Report (continued)

Principal risks and uncertainties (continued)

Insurance risk

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

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

Reinsurance recoverables, representing 5% of Gross technical provisions, are reviewed on a regular basis and where it is commercially viable to do so commutations are agreed with reinsurers. Such commutations convert long term reinsurance recoveries into present day cash and investments. The Group discounts its claims liabilities relating to "long-tail" North American liability business, including the run-off provision. Future investment income is expected to at least equal the discount provided.

Regulatory risk

The Company is subject to regulation by the Prudential Regulation Authority ("PRA"). The PRA rules stipulate that sufficient margins of regulatory solvency be maintained and that customers are treated fairly. The Company did not meet the capital requirements under Solvency II at any time during the year to 31/12/2017. The Company has submitted a plan to the regulator setting how it intends to meet capital requirements in the future.

Financial instrument risk

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

The main risks facing the Group are:

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

These risks are covered in substantial detail in note 16 to the financial statements.

By Order of the Board



H SOPHER
Director

19 April 2018

Directors' Report**Company Registration No.** 03324797

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

Results and dividends

There was a profit on ordinary activities after taxation for the year of US\$1,285,000 (2016 - profit US\$125,000). The Directors do not recommend the payment of a dividend for the year (2016 - Nil).

Going Concern

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

As described in note 1.2 there are material uncertainties which cast significant doubt on the 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 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 the existence for the foreseeable future. For these reasons they continue to adopt the going concern basis in preparing the financial statements.

Directors

The names of the Directors at the date of this Report appear on page 2.

The Directors at 31 December 2017 had the following interests in the share capital of the holding company, Stronghold Holdings Limited:

| | At 31 December 2017 Ordinary shares | At 31 December 2016 Ordinary shares |
|-------------|--|--|
| A M Duffy | 40 | 40 |
| H Sopher | 40 | 40 |
| K F Watkins | 20 | 20 |

Financial Instruments

Details of financial instruments are provided in the Strategic Report.

Research And Development

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

Charitable and political donations

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

Staff

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

Environment Impact

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

Future Development

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

Directors' Report (continued)

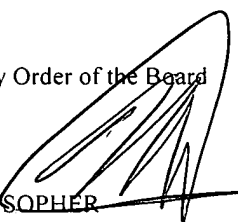
Disclosure of information to Auditors

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

Auditors

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

By Order of the Board



H. SOPHER

Director

19 April 2018

Directors' Responsibilities Statement

The Directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the Group 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.
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Company and of the Group 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 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 ('the Parent company') and its subsidiaries (the 'Group') for the year ended 31 December 2017 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Financial Position, the Parent Company Statement of Financial Position, the Group Statement of Cash Flows and the related notes 1 to 21, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" and FRS 103 "Insurance Contracts".

In our opinion, the financial statements:

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

Basis for opinion

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

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

Use of our report

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

Emphasis of matter - Material uncertainty related to going concern

We draw attention to note 1.2 in the financial statements, which indicates that there exists material uncertainty over the ultimate exposure to future claims, related reinsurance recoveries and run-off expenses. As stated in note 1.2, these events or conditions, along with the other matters as set forth in notes 1.3 and 1.5, indicate that a material uncertainty exists that may cast significant doubt on the group's ability to continue as a going concern, and that the financial statements do not include the adjustments that would result if the group was unable to continue as a going concern. Our opinion is not modified in respect of this matter.

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

Other information

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

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

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

We have nothing to report in this regard.

Opinion on other matter prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

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

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the 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.

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

Responsibilities of directors

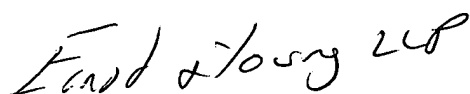
As explained more fully in the directors' responsibilities statement set out on page 7, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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



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

19 April 2018

STRONGHOLD HOLDINGS LIMITED
**Consolidated Income Statement
for the year ended 31 December 2017**

| | | 2017 | | 2016 | |
|---|-------|----------|--------------|----------|--------------|
| | Notes | US\$'000 | US\$'000 | US\$'000 | US\$'000 |
| Technical account - General business | | | | | |
| Gross premiums written | | | 2 | | (7) |
| Outwards reinsurance premiums | | | (4) | | (24) |
| Earned premiums, net of reinsurance | | | (2) | | (31) |
| Investment income | 7 | 2,198 | | 2,638 | |
| Unrealised gains/(losses) on investments | 7 | 723 | | (39) | |
| Investment expenses and charges | | (156) | | (152) | |
| Negative goodwill written back | 11 | - | | 179 | |
| | | | 2,765 | | 2,626 |
| Other income – revaluation gain | 12 | | 66 | | - |
| Total technical income | | | 2,829 | | 2,595 |
| Claims incurred net of reinsurance | | | | | |
| Gross claims and claims handling expenses paid | | 11,187 | | 15,361 | |
| Reinsurers' share of claims paid | | (859) | | (1,144) | |
| Net claims and claims handling expenses paid | 3 | 10,328 | | 14,217 | |
| Gross change in provision for claims | | (10,013) | | (12,983) | |
| Reinsurers' share | | 1,229 | | 1,236 | |
| Net change in the provision for claims | 3 | (8,784) | | (11,747) | |
| Claims and claims handling expenses incurred net of reinsurance | 3 | 1,544 | | 2,470 | |
| Total charges | | | 1,544 | | 2,470 |
| Balance on the general business technical account | | | 1,285 | | 125 |
| Non-technical account | | | | | |
| Balance on the general business technical account | | | 1,285 | | 125 |
| Profit on ordinary activities before taxation | | | 1,285 | | 125 |
| Tax on ordinary activities | 8 | | - | | - |
| Profit for the financial year | | | 1,285 | | 125 |

The notes on pages 17 - 35 form part of these financial statements.

STRONGHOLD HOLDINGS LIMITED**Consolidated Statement of Comprehensive Income
for the year ended 31 December 2017**

| | 2017 US\$'000 | 2016 US\$'000 |
|---|------------------|------------------|
| Profit for the financial year attributable to members of the parent company | 1,285 | 125 |
| Total Comprehensive Income for the year | <u>1,285</u> | <u>125</u> |

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

| | Share capital US\$'000 | Profit and loss account US\$'000 | Total US\$'000 |
|---|------------------------------|---|-------------------|
| At 1 January 2017 | - | 9,365 | 9,365 |
| Total Comprehensive Income for the year | - | 1,285 | 1,285 |
| At 31 December 2017 | <u>-</u> | <u>10,650</u> | <u>10,650</u> |
| At 1 January 2016 | - | 9,240 | 9,240 |
| Total Comprehensive Income for the year | - | 125 | 125 |
| At 31 December 2016 | <u>-</u> | <u>9,365</u> | <u>9,365</u> |

The notes on pages 17 - 35 form part of these financial statements.

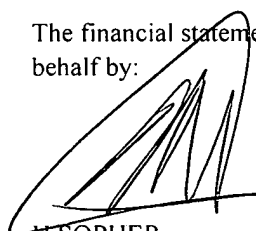
STRONGHOLD HOLDINGS LIMITED**Consolidated Statement of Financial Position
as at 31 December 2017**

| | Notes | 2017 US\$'000 | 2016 US\$'000 |
|--|-------|------------------|------------------|
| Assets | | | |
| Intangible assets | | | |
| Negative goodwill | 11 | - | - |
| Investments | | | |
| Financial investments | 10 | 50,806 | 58,957 |
| Deposits with ceding undertakings | | <u>728</u> | <u>597</u> |
| | | <u>51,534</u> | <u>59,554</u> |
| Reinsurers' share of technical provisions | | | |
| Claims outstanding | 15 | 2,832 | 4,023 |
| Debtors | | | |
| Debtors arising out of reinsurance operations | | 1,916 | 1,337 |
| Other debtors | | <u>16</u> | <u>11</u> |
| | | <u>1,932</u> | <u>1,348</u> |
| Other assets | | | |
| Land and buildings | 12 | 776 | 710 |
| Cash and cash equivalents | | <u>8,308</u> | <u>7,974</u> |
| | | <u>9,084</u> | <u>8,684</u> |
| Prepayments and accrued income | | | |
| Accrued interest and rent | | 685 | 705 |
| Other prepayments and accrued income | | <u>-</u> | <u>-</u> |
| | | <u>685</u> | <u>705</u> |
| Total assets | | <u>66,067</u> | <u>74,314</u> |

STRONGHOLD HOLDINGS LIMITED**Consolidated Statement of Financial Position
as at 31 December 2017**

| | Notes | 2017 US\$'000 | 2016 US\$'000 |
|--|-------|------------------|------------------|
| Equity and Liabilities | | | |
| Shareholder's Equity | | | |
| Called up share capital | 14 | - | - |
| Profit and loss account | | <u>10,650</u> | <u>9,365</u> |
| Total capital and reserves | | <u>10,650</u> | <u>9,365</u> |
| Liabilities | | | |
| Technical provisions | | | |
| Claims outstanding | 15 | 51,805 | 60,895 |
| Deposits received from reinsurers | | 1,252 | 1,399 |
| Creditors | | | |
| Arising out of reinsurance operations | | 2,138 | 2,443 |
| Other creditors including taxation and social security | | <u>1</u> | <u>5</u> |
| | | <u>2,139</u> | <u>2,448</u> |
| Accruals and deferred income | | 221 | 207 |
| Total liabilities | | <u>55,417</u> | <u>64,949</u> |
| Total equity and liabilities | | <u>66,067</u> | <u>74,314</u> |

The financial statements on pages 11 - 35 were approved by the Board of Directors and were signed on its behalf by:

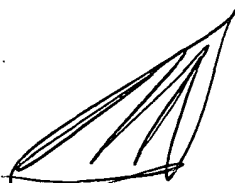


H. SOPHER
Director

19 April 2018

STRONGHOLD HOLDINGS LIMITED**Company Statement of Financial Position
as at 31 December 2017**

| | | 2017 US\$'000 | 2016 US\$'000 |
|---|----|------------------|------------------|
| Fixed Assets | | | |
| Investments | | | |
| Investments in subsidiary undertakings | 13 | - | - |
| Current assets | | | |
| Amounts owed by group undertakings | | - | - |
| | | - | - |
| Creditors: amounts falling due within one year | | | |
| Amounts owed to group undertakings | | - | - |
| Accruals and deferred income | | - | - |
| | | - | - |
| Net current assets | | - | - |
| Net assets | | - | - |
| Capital and reserves | | | |
| Called up share capital | 14 | - | - |
| Profit and loss account | | - | - |
| | | - | - |



H. SOPHER
Director

19 April 2018

STRONGHOLD HOLDINGS LIMITED

Consolidated Statement of Cash Flows for the year ended 31 December 2017

| | Notes | 2017 US\$'000 | 2016 US\$'000 |
|--|-------|------------------|------------------|
| Profit on ordinary activities before tax | | 1,285 | 125 |
| Other non-cash movements | | (22) | (17) |
| Reclassification of investment income | | (2,564) | (2,950) |
| Realised investment losses | | 365 | 369 |
| Dividend income | | 103 | 226 |
| Interest and other investment income received | | 2,493 | 2,752 |
| Interest paid | | (10) | (11) |
| Unrealised investment (gains)/losses | | (1,492) | 2,231 |
| Movement in general insurance outstanding claims | | (9,090) | (15,445) |
| Movement in reinsurers' share of outstanding claims | | 1,191 | 1,302 |
| Negative goodwill | | - | (179) |
| Increase in debtors, prepayments and accrued income | | (564) | (448) |
| (Decrease)/increase in creditors, accruals and deferred income | | (295) | 296 |
| Increase in deposits with ceding undertakings | | (131) | (48) |
| Decrease in deposits received from reinsurers | | (147) | (322) |
| Revaluation / Depreciation | | (66) | 149 |
| Net cash outflow from operating activities | | (8,944) | (11,970) |
| Investing activities | | | |
| Purchases of debt and equity instruments | | (5,781) | (10,156) |
| Sales of debt and equity instruments | | 14,997 | 17,151 |
| Net cash inflow from investing activities | | 9,216 | 6,995 |
| Increase in cash and cash equivalents | | 272 | (4,975) |
| Cash and cash equivalents at 1 January | | 7,974 | 13,261 |
| Exchange differences on opening cash | | 62 | (312) |
| Cash and cash equivalents at 31 December | | 8,308 | 7,974 |

The notes on pages 17 - 35 form part of these financial statements.

Notes to the Financial Statements

1 Accounting policies

1.1 *Statement of compliance*

Stronghold Holdings Limited is a limited liability company incorporated in England. The Registered Office is 46 Rose Lane, Norwich NR1 1PN. The financial statements cover those of the individual entity and are prepared as at 31 December 2017 and for the year ended 31 December 2017.

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

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

1.2 *Basis of preparation*

The group's financial statements for the year ended 31 December 2017 were approved for issue by the Board of Directors on 19 April 2018.

The financial statements, which consolidate the financial statements of the company and its subsidiary undertakings, are prepared in US dollars which is the presentation and functional currency of the group and rounded to the nearest US\$'000.

The Company has taken the advantage of the exemption under Section 408 of the Companies Act 2006 and is not presenting a Company Income Statement. The profit dealt with in the financial statements of the parent company for the year is US\$Nil (2016: US\$Nil).

In preparing the financial statements for the year ended 31 December 2017, the Directors, having regard to the material uncertainties which cast significant doubt about the Group's ability to continue as a going concern expressed in Note 15 as to the amounts at which the Group'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 15.

1.3 *Basis of Consolidation*

The consolidated financial statements include the financial statements of the Company and all of its subsidiaries made up at 31 December 2017.

The group financial statements consolidate the financial statements of Stronghold Holdings Limited and the entities in controls (its subsidiary undertakings) drawn up to 31 December each year.

Subsidiaries are consolidated from the date of their acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. The financial statements of subsidiary undertakings are prepared for the same reporting year as the parent company, using consistent accounting policies. All inter-company balances and transactions are eliminated.

Minority interests represent the proportion of profit and loss and net assets in subsidiaries that is not held by the Group and is presented separately from parent shareholders' equity in the consolidated balance sheet.

Notes to the Financial Statements

1 Accounting policies (continued)

1.4 Judgements and key sources of estimation uncertainty

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

Insurance contract technical provisions

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

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

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

Further details are given in Note 15.

Taxation

The Group establishes provisions based on reasonable estimates.

Notes to the Financial Statements

1 Accounting policies (continued)

1.5 Significant accounting policies

Insurance contracts

Product classification

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

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

Claims

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

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

Claims outstanding

The provision for claims outstanding (note 15) is based on the estimated ultimate cost of all claims notified but not settled by the financial position date, claims incurred but not reported together with the provision for related claims handling costs. Provisions are calculated allowing for reinsurance recoveries and a separate asset is recorded for the reinsurers' share, having regard to collectability.

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

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

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

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

Notes to the Financial Statements

1 Accounting policies (continued)

Reinsurance assets

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

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

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

Insurance Receivables

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

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

Insurance Payables

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

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

Foreign Currencies

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

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

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

Exchange differences are included in Claims Incurred Net of Reinsurance and Investment Income within the Income Statement.

Impairment of non-financial assets

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

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

Notes to the Financial Statements

1 Accounting policies (continued)

Land and buildings held for own use

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

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

Land – indefinite life

Buildings – 50 years

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

The carrying values of land and buildings are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. Land and buildings are derecognised on disposal or when no future economic benefits are expected from its use or disposal. There is no recycling of unrealised gains to profit or loss upon disposal.

The property was revalued in 2017 with further details given in Note 12.

Financial Investments

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

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

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

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

Financial assets at fair value through profit or loss has two sub categories namely financial assets held for trading and those designated at fair value through profit or loss at inception. Investments typically bought with the intention to sell in the near future are classified as held for trading. For investments designated as at fair value through profit or loss, the following criteria must be met:

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

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

Notes to the Financial Statements

1 Accounting policies (continued)

Cash and cash equivalents

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

Fair value of financial assets

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

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.
Quoted in an active market in this context means quoted prices are readily and regularly available and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted price is usually the bid price.
- Level 2: when quoted prices are unavailable the instrument is valued using inputs that are observable either directly or indirectly including quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in inactive markets, inputs that are observable such as interest rates and yield curves observable at commonly quoted intervals, implied volatility or credit spreads and market-corroborated inputs.
- Level 3: when observable inputs are not available, unobservable inputs are used to measure fair value by use of valuation techniques. The objective of using the valuation technique is to estimate what the fair value would have been on the measurement date.

See Note 10 for details of financial instruments classified by fair value hierarchy.

Impairment of financial assets

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

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

Derecognition of financial assets

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

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

Notes to the Financial Statements

1 Accounting policies (continued)

Offsetting of financial instruments

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

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

Investment return

Dividends are recognised when the investments to which they relate are declared 'ex-dividend'. Interest income is recognised on a time proportionate basis taking into account effective interest yield.

Unrealised and realised gains and losses on financial investments are recognised based on the appropriate classification of financial investments and are covered in detail under the accounting policy for financial investments.

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

Provisions

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

Pension Costs

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

Taxation

Current tax

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

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

Deferred tax

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

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

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

Dividends

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

Notes to the Financial Statements

2 Analysis by Class of Business

The underwriting result is analysed as follows:

| | Third party liability US\$'000 | Total US\$'000 |
|-----------------------|--------------------------------------|-------------------|
| 2017 | | |
| Gross Premium Written | <u>2</u> | <u>2</u> |
| Gross Premium Earned | 2 | 2 |
| Gross Claims Incurred | 1,174 | 1,174 |
| Reinsurance balance | (374) | (374) |
| 2016 | US\$'000 | US\$'000 |
| Gross Premium Written | <u>(7)</u> | <u>(7)</u> |
| Gross Premium Earned | (7) | (7) |
| Gross Claims Incurred | 2,378 | 2,378 |
| Reinsurance balance | (116) | (116) |

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

3 Net claims incurred and claims handling expenses

| | Gross US\$'000 | Reinsurance US\$'000 | Net US\$'000 |
|---|-------------------|-------------------------|-----------------|
| 2017 | | | |
| Claims paid | 8,558 | 859 | 7,699 |
| Claims handling expenses paid | <u>2,629</u> | <u>-</u> | <u>2,629</u> |
| | <u>11,187</u> | <u>859</u> | <u>10,328</u> |
| Outstanding claims carried forward | 51,805 | 2,832 | 48,973 |
| Outstanding claims brought forward | (60,895) | (4,023) | (56,872) |
| Revaluation of outstanding claims brought forward | <u>(923)</u> | <u>(38)</u> | <u>(885)</u> |
| | <u>(10,013)</u> | <u>(1,229)</u> | <u>(8,784)</u> |
| Claims incurred | <u>1,174</u> | <u>(370)</u> | <u>1,544</u> |
| 2016 | | | |
| Claims paid | 12,501 | 1,144 | 11,357 |
| Claims handling expenses paid | <u>2,860</u> | <u>-</u> | <u>2,860</u> |
| | <u>15,361</u> | <u>1,144</u> | <u>14,217</u> |
| Outstanding claims carried forward | 60,895 | 4,023 | 56,872 |
| Outstanding claims brought forward | (76,340) | (5,325) | (71,015) |
| Revaluation of outstanding claims brought forward | <u>2,462</u> | <u>66</u> | <u>2,396</u> |
| | <u>(12,983)</u> | <u>(1,236)</u> | <u>(11,747)</u> |
| Claims incurred | <u>2,378</u> | <u>(92)</u> | <u>2,470</u> |

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

Claims handling expenses paid includes all operating expenses paid.

STRONGHOLD HOLDINGS LIMITED

Notes to the Financial Statements

4 Auditors' remuneration

| | 2017 US\$'000 | 2016 US\$'000 |
|--|------------------|------------------|
| Audit of financial statements of parent company and the group | 4 | 3 |
| Audit of subsidiary company | 90 | 69 |
| Other fees to auditors : | | |
| Other services pursuant to legislation, including the audit of the regulatory return | 55 | 59 |
| | <u>149</u> | <u>131</u> |

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

5 Staff costs

| | 2017 US\$'000 | 2016 US\$'000 |
|-----------------------|------------------|------------------|
| Wages and salaries | 341 | 313 |
| Social security costs | 75 | 69 |
| Other pension costs | 53 | 48 |
| | <u>469</u> | <u>430</u> |

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

| | 2017 | 2016 |
|------------|------|------|
| Management | - | - |
| Claims | 5 | 5 |

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

6 Directors' remuneration

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

| | 2017 US\$'000 | 2016 US\$'000 |
|--|------------------|------------------|
| Aggregate remuneration in respect of qualifying services | 281 | 277 |
| | <u>281</u> | <u>277</u> |

The directors of the company are also directors of fellow group undertakings. The total remuneration as shown in the table was all paid by Stronghold Insurance Company Limited. The directors do not believe that it is practicable to apportion this amount between their services as directors of the company and their services as directors of other fellow group undertakings.

The highest paid Director received remuneration of US\$200,550 (2016 - US\$197,440). No contributions were made to money purchase schemes in respect of the highest paid director was (2016 - US\$ Nil). No amounts were paid to any director for loss of office during the year (2016 - US\$ Nil) and no amounts have been paid to past directors for any services rendered (2016 - US\$ Nil). No directors have any share options within the Company.

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

STRONGHOLD HOLDINGS LIMITED

Notes to the Financial Statements

| 7 Investment return | 2017 | 2016 |
|--|-----------------|-----------------|
| | US\$'000 | US\$'000 |
| Income from other financial investments | 2,262 | 2,713 |
| Income from other investments and cash at bank | 155 | 144 |
| Other interest receivable | 146 | 150 |
| Net loss on realisation of investments | (365) | (369) |
| Total investment income | 2,198 | 2,638 |
| Net unrealised gains/(net unrealised loss) on investments | 723 | (39) |
| Investment management expenses | (146) | (141) |
| Interest payable - on reinsurance balances | (10) | (11) |
| Total investment return | 2,765 | 2,447 |
| All investment income is received from financial investments held at fair value. | | |

8 Taxation

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

(b) Factors affecting current tax charge

The tax assessed for the period is lower than the standard rate of corporation tax in the UK of 19.25% (2016 - 20.00%).

The differences are explained below:

| Tax reconciliation | 2017 | 2016 |
|--|-----------------|-----------------|
| | US\$'000 | US\$'000 |
| Profit on ordinary activities before tax | 1,285 | 125 |
| Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 19.25% (2016 - 20.00%) | 247 | 25 |
| Expenses not deductible for tax purposes | 1 | 2 |
| Unrelieved losses carried forward | (195) | 117 |
| Non taxable dividend income | (20) | (44) |
| Revaluation of Land and Buildings | (12) | - |
| Movement in provisions | (21) | (64) |
| Negative goodwill written back | - | (36) |
| | - | - |

9 Deferred taxation

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

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

The total unrecognised deferred tax asset when taking into account the future tax rate reductions is US\$2.034m (2016 - US\$2.263m). Within this unrecognised deferred tax asset are gross tax losses of \$10.326m.

Notes to the Financial Statements

10 Financial Investments

| | Carrying Value US\$'000 | Purchase Price US\$'000 | Listed US\$'000 |
|---|-------------------------------|-------------------------------|--------------------|
| 2017 | | | |
| Shares and other variable yield securities and units in unit trusts | | | |
| - Designated at fair value through profit or loss | 3,536 | 4,241 | 3,536 |
| Debt securities and other fixed income securities | | | |
| - Designated at fair value through profit or loss | 46,032 | 47,820 | 46,032 |
| Deposits with credit institutions | 1,238 | 1,238 | - |
| | <u>50,806</u> | <u>53,299</u> | <u>49,568</u> |
| 2016 | | | |
| Shares and other variable yield securities and units in unit trusts | | | |
| - Designated at fair value through profit or loss | 5,121 | 6,334 | 5,121 |
| Debt securities and other fixed income securities | | | |
| - Designated at fair value through profit or loss | 52,238 | 54,230 | 52,238 |
| Deposits with credit institutions | 1,598 | 1,598 | - |
| | <u>58,957</u> | <u>62,162</u> | <u>57,359</u> |

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

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

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

| | Level 1 US\$'000 | Level 2 US\$'000 | Level 3 US\$'000 | Total US\$'000 |
|---|---------------------|---------------------|---------------------|-------------------|
| 2017 | | | | |
| Shares and other variable yield securities and units in unit trusts | 3,536 | - | - | 3,536 |
| Debt securities and other fixed income securities | 46,032 | - | - | 46,032 |
| | <u>49,568</u> | <u>-</u> | <u>-</u> | <u>49,568</u> |
| 2016 | | | | |
| Shares and other variable yield securities and units in unit trusts | 5,121 | - | - | 5,121 |
| Debt securities and other fixed income securities | 52,238 | - | - | 52,238 |
| | <u>57,359</u> | <u>-</u> | <u>-</u> | <u>57,359</u> |

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

Cash at bank and in hand

The facility provided to the Group in respect of its letter of credit liabilities, amounting to US\$6.408m (2016 - US\$6.788m) is secured by a charge over a bank account of an equal amount.

STRONGHOLD HOLDINGS LIMITED

Notes to the Financial Statements

11 Intangible assets

| | 2017 US\$'000 | 2016 US\$'000 |
|-------------------------------|------------------|------------------|
| <i>Negative goodwill</i> | | |
| Balance 1 January | - | (179) |
| Written back during the year | - | 179 |
| Net book value at 31 December | - | - |

Negative goodwill is being written off in equal instalments over the estimated economic life of 20 years.

12 Land and buildings

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

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

The property was valued by an independent valuer with a recognised and relevant professional qualification and with recent experience in the location and category of the property being valued, Arnolds Keys as at 31 December 2017, on the basis of fair value in accordance with the Appraisal and Valuation Manual of The Royal Institution of Chartered Surveyors. The key assumption was that the offices, given their location, could be converted to residential flats after allowing for the costs of conversion.

13 Subsidiary undertaking

The Company owns 100% of the issued share capital of Stronghold Insurance Company Limited, registered office 46 Rose Lane, Norwich, NR1 1PN, England.

Stronghold Insurance Company Limited has retained losses as at 31 December 2017 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.

14 Authorised and allotted share capital

| | 2017 US\$ | 2016 US\$ |
|---|--------------|--------------|
| <i>Authorised</i> | | |
| 1,000 ordinary shares of £1 each | 1,620 | 1,620 |
| <i>Allotted, called up and fully paid</i> | | |
| 100 ordinary shares of £1 each | 162 | 162 |

Notes to the Financial Statements

15 Claims outstanding

| | Gross US\$'000 | Reinsurance US\$'000 | Net US\$'000 |
|------------------------------|-------------------|-------------------------|-----------------|
| 2017 | | | |
| Provision before discounting | 50,125 | 3,686 | 46,439 |
| Discounting adjustment | (11,992) | (854) | (11,138) |
| | <u>38,133</u> | <u>2,832</u> | <u>35,301</u> |
| Claims handling expenses | 15,310 | - | 15,310 |
| Discounting adjustment | (1,638) | - | (1,638) |
| | <u>13,672</u> | <u>-</u> | <u>13,672</u> |
| | <u>51,805</u> | <u>2,832</u> | <u>48,973</u> |
| 2016 | | | |
| Provision before discounting | 58,899 | 5,238 | 53,661 |
| Discounting adjustment | (14,105) | (1,215) | (12,890) |
| | <u>44,794</u> | <u>4,023</u> | <u>40,771</u> |
| Claims handling expenses | 17,940 | - | 17,940 |
| Discounting adjustment | (1,839) | - | (1,839) |
| | <u>16,101</u> | <u>-</u> | <u>16,101</u> |
| | <u>60,895</u> | <u>4,023</u> | <u>56,872</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 irrecoverable amounts.

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

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

The provision for claims outstanding for environmental and asbestos losses, and other losses for Casualty classes together with related claims handling expenses, are included after taking into account the future attributable investment earnings at an assumed compound discount rate of 3.50% (2016 – 3.50%) per annum. The discount rate is calculated taking account of the fact that the 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 8.7 years (2016 – 8.8 years). This settlement pattern has been derived from the historic development of claims payments appropriate for the types of claims within these classes, in particular those relating to environmental and asbestos losses.

Notes to the Financial Statements

16 Risk Management

(a) Governance

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

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

(b) Capital management objectives, policies and approach

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

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

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

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

(c) Insurance risk

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

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

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

Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contracts. The Group has reduced its exposure to reinsurance through commutations and settlements which now represents 5% of Gross technical provisions. Although the Group has reinsurance arrangements, it is not relieved of its direct obligations to its policyholders and thus a credit exposure exists with respect to ceded insurance, to the extent that any reinsurer is unable to meet its obligations assumed under such reinsurance agreements. The group's placement of reinsurance was diversified such that it is neither dependent on a single reinsurer nor are the operations substantially dependent upon any single reinsurance contract.

Notes to the Financial Statements

16 *Risk Management (continued)*

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

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

| | 2017 | | | 2016 | | |
|-------------------|-------------------|----------------------------|-----------------|-------------------|----------------------------|-----------------|
| | Gross liabilities | Reinsurance of liabilities | Net liabilities | Gross liabilities | Reinsurance of liabilities | Net liabilities |
| | US\$'000 | US\$'000 | US\$'000 | US\$'000 | US\$'000 | US\$'000 |
| General Liability | 51,805 | 2,832 | 48,973 | 60,895 | 4,023 | 56,872 |
| Total | 51,805 | 2,832 | 48,973 | 60,895 | 4,023 | 56,872 |

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

| | 2017 | | | 2016 | | |
|----------------|-------------------|----------------------------|-----------------|-------------------|----------------------------|-----------------|
| | Gross liabilities | Reinsurance of liabilities | Net liabilities | Gross liabilities | Reinsurance of liabilities | Net liabilities |
| | US\$'000 | US\$'000 | US\$'000 | US\$'000 | US\$'000 | US\$'000 |
| USA | 46,003 | 2,515 | 43,488 | 54,495 | 3,600 | 50,895 |
| United Kingdom | 3,862 | 211 | 3,651 | 4,547 | 301 | 4,246 |
| Europe | 1,576 | 87 | 1,489 | 1,588 | 105 | 1,483 |
| Asia | 364 | 19 | 345 | 265 | 17 | 248 |
| Total | 51,805 | 2,832 | 48,973 | 60,895 | 4,023 | 56,872 |

Sensitivities

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

Claims development table

The Group ceased issuing all new and renewal insurance contracts in 1985, 32 years ago. An analysis of claims development by underwriting year or accident year is not therefore meaningful and has not been prepared. Notes 3 gives analysis of claims movements during the year including the effects of exchange.

d) Financial risk

(1) Credit risk

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

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

- The Group sets the maximum amounts and limits that may be advanced to corporate counterparties by reference to their long term credit ratings.
- As the Group is in claims run-off no reinsurance policies have been written for 32 years.
- Reinsurance debtors are subject to regular reviews by the credit controller and the CEO.

Notes to the Financial Statements

16 Risk Management (continued)

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

| | Neither past due nor impaired | Past due | Impaired | Total |
|---|--|----------|----------|---------------|
| | US\$'000 | US\$'000 | US\$'000 | US\$'000 |
| 2017 | | | | |
| Financial investments – debt securities | 46,032 | - | - | 46,032 |
| Deposits with credit institutions | 1,238 | - | - | 1,238 |
| Reinsurers' share of claims outstanding | 2,832 | - | - | 2,832 |
| Debtors arising out of reinsurance operations | 1,916 | - | - | 1,916 |
| Other debtors | 16 | - | - | 16 |
| Cash at bank and in hand | 8,308 | - | - | 8,308 |
| | <u>60,342</u> | <u>-</u> | <u>-</u> | <u>60,342</u> |
| 2016 | | | | |
| Financial investments – debt securities | 52,238 | - | - | 52,238 |
| Deposits with credit institutions | 1,598 | - | - | 1,598 |
| Reinsurers' share of claims outstanding | 4,023 | - | - | 4,023 |
| Debtors arising out of reinsurance operations | 1,337 | - | - | 1,337 |
| Other debtors | 11 | - | - | 11 |
| Cash at bank and in hand | 7,974 | - | - | 7,974 |
| | <u>67,181</u> | <u>-</u> | <u>-</u> | <u>67,181</u> |

The table below provides information regarding the credit risk exposure of the Group at 31 December 2017 by classifying assets according to Standard & Poor's credit ratings of the counterparties. AAA is the highest possible rating. Assets that fall outside the range of AAA to BBB are classified as speculative grade and have not been rated. Debtors, other than amounts due from reinsurers, have been excluded from the table as these are not rated.

| | AAA | AA | A | BBB | Not rated | Total |
|---|--------------|--------------|---------------|---------------|---------------|---------------|
| | US\$'000 | US\$'000 | US\$'000 | US\$'000 | US\$'000 | US\$'000 |
| 2017 | | | | | | |
| Financial investments – debt securities | 4,715 | 1,569 | 9,201 | 23,570 | 6,977 | 46,032 |
| Deposits with credit institutions | - | - | 1,238 | - | - | 1,238 |
| Reinsurers' share of claims outstanding | - | 196 | 267 | - | 2,369 | 2,832 |
| Debtors arising out of reinsurance operations | - | 32 | 171 | - | 1,713 | 1,916 |
| Cash at bank and in hand | - | - | 8,308 | - | - | 8,308 |
| | <u>4,715</u> | <u>1,797</u> | <u>19,185</u> | <u>23,570</u> | <u>11,059</u> | <u>60,326</u> |
| 2016 | | | | | | |
| Financial investments – debt securities | 4,762 | 3,980 | 9,907 | 26,544 | 7,045 | 52,238 |
| Deposits with credit institutions | - | - | 1,598 | - | - | 1,598 |
| Reinsurers' share of claims outstanding | - | 177 | 337 | - | 3,509 | 4,023 |
| Debtors arising out of reinsurance operations | - | 43 | 143 | - | 1,151 | 1,337 |
| Cash at bank and in hand | - | - | 7,974 | - | - | 7,974 |
| | <u>4,762</u> | <u>4,200</u> | <u>19,959</u> | <u>26,544</u> | <u>11,705</u> | <u>67,170</u> |

Notes to the Financial Statements

16 Risk Management (continued)

(2) Liquidity risk

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

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

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

Maturity profiles

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

| | Up to a year | 1–2 years | 2–5 years | 5–10 years | Over 10 years | Total and carrying amount |
|-------------------------------|-----------------|-----------|-----------|---------------|------------------|---------------------------------|
| | US\$'000 | US\$'000 | US\$'000 | US\$'000 | US\$'000 | US\$'000 |
| At 31 December 2017 | | | | | | |
| Outstanding claim liabilities | 7,096 | 6,759 | 16,584 | 16,019 | 18,977 | 65,435 |
| Creditors | 2,139 | - | - | - | - | 2,139 |
| At 31 December 2016 | | | | | | |
| Outstanding claim liabilities | 9,460 | 7,698 | 19,313 | 18,226 | 22,142 | 76,839 |
| Creditors | 2,448 | - | - | - | - | 2,448 |

(3) Market risk

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

- currency risk;
- interest rate risk; and
- equity price risk.

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

- The Directors have approved a range of investment holdings which they have assessed as being appropriate to meet the Group's requirements of a prudent liability driven investment policy. Compliance with the policy is monitored and exposures and breaches are reported to the Board quarterly. The policy is reviewed regularly for pertinence and for changes in the risk environment.
- For assets backing outstanding claims provisions, market risk is managed by matching the duration and profile of assets to the technical provisions they are backing. This helps manage market risk to the extent that changes in the values of assets are matched by a corresponding movement in the values of the technical provisions.

(a) Currency risk

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

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

Notes to the Financial Statements

16 Risk Management (continued)

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

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

(b) Interest rate risk

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

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

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

The group has no significant concentration of interest rate risk.

(c) Equity price risk

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

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

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

There is no significant concentration of equity price risk.

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

| | | 31 December 2017 | | 31 December 2016 | |
|---------------------------------------|---------------------|-----------------------------|-------------------|-----------------------------|-------------------|
| | Change in variables | Impact on profit before tax | Impact on equity* | Impact on profit before tax | Impact on equity* |
| | US\$'000 | US\$'000 | US\$'000 | US\$'000 | US\$'000 |
| Changes in variables - market indices | | | | | |
| FTSE 100 / S&P 500 | +10% | 354 | 354 | 512 | 512 |
| FTSE 100 / S&P 500 | -10% | (354) | (354) | (512) | (512) |

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

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

Notes to the Financial Statements

17 Creditors

All creditors are payable within the next financial year.

18 Segmental information

The insurance subsidiary undertaking ceased underwriting in 1985 and since that date the Company's business has been in run-off. In the opinion of the Directors the Company is only involved in one activity, the settlement and administration of claims and, accordingly, no Segmental Analysis has been prepared.

19 Related parties

Companies treated as related parties of the Group for disclosure purposes under Financial Reporting Standard 8, together with the nature of the relationship, are listed below :

Companies related to the Directors

Isis Consulting, Inc.

BD Cooke Solutions Limited

20 Related party transactions

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

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

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

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

21 Pension scheme

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