Company Registration No. 00157661
Registered in England & Wales

CAVELL INSURANCE COMPANY LIMITED

Annual Report and Financial Statements

for the year ended 31 December 2011

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ANNUAL REPORT AND FINANCIAL STATEMENTS 2011

OFFICERS AND PROFESSIONAL ADVISORS

DIRECTORS

Ian Millar - Appointed 25 May 2011
Tom Nichols - Resigned 28 April 2011
Gareth Nokes
Derek Reid - Resigned 28 April 2011
Paul Thomas
Alan Turner

SECRETARY

Siobhan Hextall

REGISTERED OFFICE

Avaya House
2 Cathedral Hill
Guildford
Surrey
GU2 7YL

BANKERS AND INVESTMENT ADVISORS

Citibank
Barclays Bank Plc
Goldman Sachs International
Bank of New York

CONSULTING ACTUARIES

Ernst & Young LLP, USA

AUDITOR

Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements of Cavell Insurance Company Limited ("the Company") for the year ended 31 December 2011

PRINCIPAL ACTIVITY

The Company ceased to write new general insurance business and the Company's authority to accept contracts of insurance was withdrawn by the Department of Trade and Industry on 23 May 1995 The Company continues to conduct an orderly run-off of its business

The business was predominantly underwritten in the UK and through branches in Canada, Australia and New Zealand The Company previously owned 100% of the share capital of Cirrus Reinsurance Company Limited A/S ("Cirrus"), a former reinsurance company in run-off in Norway Cirrus was de-registered as an insurance company with the Norwegian financial regulator Kredittilsynet during 2008 following the transfer of its insurance business to the Company and was formally wound up during 2009 The liabilities of the New Zealand branch were fully extinguished and the branch closed during 2007 The insurance business of the Australia branch was transferred to Gordian Run-off Limited, a wholly-owned subsidiary of Enstar Group Limited, during 2008 and the branch was formally wound up during 2010 The insurance business of the Canada branch was transferred to Omega General Insurance Company, a Canadian company which offers finality solutions for Canadian insurance business on 30 November 2011, and the branch will be formally wound up during 2012

REVIEW OF THE BUSINESS AND FUTURE DEVELOPMENTS

The results for the year are shown in the profit and loss account on page 8 The profit for the year after taxation amounted to £1,099,450 (2010 - £5,924,183) This profit is primarily attributable to investment income earned offset by unrealised investment losses and a loss on the technical account during the period The Company successfully concluded a number of commutations along with a portfolio transfer of the Canada Branch insurance business to Omega General Insurance Company during the year, although the profits generated by these transactions were offset by net operating expenses resulting in the technical account loss The 2011 year of run-off has proceeded satisfactorily and the Company continues to conduct an orderly run-off of its business The state of affairs is as set out in the attached financial statements

During the year the Company reduced its ordinary share capital from £30,874,000 to £20,000,000 and its share premium account from £10,281,000 to £nil by cancelling 10,874,000 of the fully paid Ordinary Shares of £1 each and 10,281,000 of the Additional Paid-in Capital, held by the Company's immediate parent Cavell Holdings Limited The share capital reduction was used to free up additional distributable capital for future dividend distributions The Company also received regulatory approval from the FSA to pay an interim dividend of £8,500,000 to the Company's shareholders

The Company is ultimately owned by Enstar Group Limited, a company incorporated and registered in Bermuda The Company is currently managed by Enstar (EU) Limited ("Enstar"), a wholly-owned subsidiary of Enstar Group Limited

The run-off is conducted in a disciplined and professional manner in order to efficiently discharge liabilities associated with the business while preserving and maximising its assets The Company's approach to its run-off includes, where appropriate, negotiating with third-party reinsureds to commute their reinsurance agreement for an agreed upon up-front payment by the Company and to more efficiently manage payment of reinsurance claims. The Company attempts to commute policies with reinsureds in order to eliminate uncertainty over the amount of future claims

The Company's management understands the need to dispose of certain risks expeditiously and cost-effectively by constantly analysing changes in the market and efficiently settling claims with the assistance of its experienced claims adjusters and in-house and external legal counsel

Claims Management and Administration

Enstar, the current run-off managers of the Company, have implemented claims handling guidelines and claims reporting and control procedures To ensure that claims are handled and reported in accordance with these guidelines, all claims matters are reviewed regularly, with all material claims matters being circulated to and reviewed by management prior to any action being taken (the Company determines which claims are valid through the use of experienced adjusters and claims experts)

DIRECTORS' REPORT

Prudent Management of Capital

The Company manages its capital prudently relative to its risk exposure and liquidity requirements to maximise profitability and long-term growth in shareholder value The Company's capital management strategy is to deploy capital efficiently to establish (and re-establish, when necessary) adequate loss reserves to protect against future adverse developments

Performance Management

The Companies Act encourages companies to provide both financial information and also to comment on key performance indicators (KPIs) Cavell operates within a performance management framework that encompasses business planning and ongoing monitoring, as appropriate in a run-off company

KPIs are used primarily to compare actual performance to the business plan KPIs include

- Percentage reduction in gross reserves during the year was 8% (2010 11%)
- Investment income return for the year was 2 7% (2010 3%)
- Year end regulatory capital (defined as equity shareholders' funds less assets inadmissible under FSA restrictions) £21,039,252 (2010 £20,719,771)
- Operating profit before tax for the year was £1,014,171 (2010 profit £8,384,965)

Exit Strategy

The Company continues to monitor the appropriateness of various strategies to achieve complete finality and conclude its run-off Possible exit strategies include a solvent scheme of arrangement whereby a UK court-sanctioned scheme, approved by a statutory majority of voting creditors, provides for a one-time full and final settlement of an insurance or reinsurance company's obligations to its policyholders An alternative exit strategy could involve a portfolio transfer of Cavell's remaining assets and liabilities to another company within the Enstar Group, possibly through the mechanism set out in Part VII of the Financial Services and Markets Act 2000

IDENTIFICATION AND MANAGEMENT OF MAJOR RISKS

Movements in Reserves The Company wrote general liability insurance and reinsurance policies under which policyholders continue to present claims Enstar employs professional and disciplined claim handling strategies to achieve favourable results for the Company while minimising costs In addition to the inherent uncertainty in reserving, surplus or deterioration will arise from commutations of inward and outward risks

The Company's independent, external actuaries use industry benchmarking methodologies to estimate appropriate Incurred But Not Reported ("IBNR") reserves for the Company's various exposures These methods are based on comparisons of the Company's loss experience on its various exposures relative to industry loss experience for comparable exposures

In certain circumstances the impact of any gross deterioration or improvement will be partially covered by reinsurance It is possible that one or more of these reinsurances may be exhausted such that gross losses fall back on the Company in full

Investments The Company follows a conservative investment strategy designed to emphasise the preservation of its invested assets and provide sufficient liquidity for the prompt payment of claims and settlement of commutation payments In addition, the Company's investments include an investment in a Limited Partnership which is accounted for on an equity basis based on the most recently available financial information This investment is subject to restrictions on redemptions and sales which are determined by the governing documents and limit the Company's ability to liquidate these investments in the short term

Reinsurance Balances Receivable The Company has purchased reinsurance to manage its existing liabilities There is therefore credit risk that a counterparty will be unable to pay amounts in full when due The Company places limits on its exposure to a single counterparty, or groups of counterparty, and to geographical and industry segments Where necessary the Company will establish provisions against bad or doubtful debts

Foreign Currency Risk The Company currently does not use foreign currency hedges to manage its foreign currency exchange risk The Company manages its exposure to foreign currency exchange risk by broadly matching its non-U S Dollar denominated assets against its non-U S Dollar denominated liabilities This matching process is undertaken quarterly in arrears and therefore any mismatches occurring in the period may give rise to foreign exchange gains and losses, which could adversely affect its operating results Surplus funds are held in U S Dollars and as a result the Company is exposed to potential revaluation gains and losses when reporting in Sterling

DIRECTORS' REPORT

Solvency II Solvency II will set out new, strengthened EU-wide requirements on capital adequacy and risk management for insurers with the aim of increasing policyholder protection, instilling greater risk awareness and improving the international competitiveness of EU insurers We continue to work with regulators on our Solvency II implementation project and expect to be fully compliant with the requirements under Solvency II prior to the current implementation date of 1 January 2013

GOING CONCERN

The Directors regularly review the Solvency calculations, available capital resources and run-off plans of the Company Senior Management work alongside the local regulatory authorities to ensure sufficient capital remains within the Company as required under current regulations Any capital extractions require the prior approval of the Financial Services Authority to ensure the Company continues to retain adequate resources in order to conduct an orderly, solvent run off Having reviewed the run off plans and Solvency calculations for the company, safe in the knowledge the Company has ceased underwriting, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future Accordingly, they continue to adopt the going concern basis of accounting in preparing the annual financial statements

DIVIDENDS

A dividend of £8,500,000 (2010 £nil) was paid to the shareholders of the Company as part of the share capital reduction as outlined in the business review above

DIRECTORS

The present membership of the Board of Directors is shown on page 1, all of who held office from 1 January 2011, and until the date of this report, unless otherwise stated

CHARITABLE DONATIONS

No charitable donations were made in the year (2010 - £nil)

DISCLOSURE TO THE AUDITOR

The directors who were in office on the date of approval of these financial statements have confirmed, as far as they are aware, that there is no relevant audit information of which the auditor is unaware Each of the directors have confirmed that they have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that it has been communicated to the auditor

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006

Deloitte LLP have indicated their willingness to be appointed for another term and appropriate arrangements have been put in place for them to be reappointed as auditors in the absence of an Annual General Meeting

Approved by the Board of Directors
and signed on behalf of the Board

Ian Millar
Director
28 February 2012

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Annual 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 profit or loss of the company for that period In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company and the group will continue in business

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006 They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CAVELL INSURANCE COMPANY LIMITED

We have audited the financial statements of Cavell Insurance Company Limited for the year ended 31 December 2011 which comprise of the Profit and Loss Account, the Balance Sheet, and the related notes 1 to 17 The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

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

Respective responsibilities of directors and auditor

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements

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

Opinion on other matter prescribed by the Companies Act 2006

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CAVELL INSURANCE COMPANY LIMITED (continued)

Matters on which we are required to report by exception

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

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

M. McQueen

Mark McQueen (Senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom

28 February 2012

PROFIT AND LOSS ACCOUNT
for the year ended 31 December 2011

TECHNICAL ACCOUNT – GENERAL BUSINESS	Notes	2011 £'000	2010 £'000
EARNED PREMIUMS, NET OF REINSURANCE			
Gross premiums written		31	62
Outward reinsurance premiums		-	-
Earned premiums, net of reinsurance		31	62
CLAIMS INCURRED, NET OF REINSURANCE			
Gross claims paid	4	(3,395)	(6,402)
Reinsurers' share		105	669
Net claims paid	4	(3,290)	(5,733)
Change in the provision for claims - gross	4	4,353	10,826
Reinsurers' share		39	(160)
Net change in the provision for claims	4	4,392	10,666
Claims incurred, net of reinsurance		1,102	4,933
Net operating expenses	5	(1,956)	(2,143)
Total technical (charges)/income		(854)	2,790
BALANCE ON THE TECHNICAL ACCOUNT		(823)	2,852
NON - TECHNICAL ACCOUNT			
Balance on the general business technical account		(823)	2,852
Investment income	7	3,255	3,052
Investment expenses and charges	8	(65)	(58)
Unrealised (losses)/gains on investments		(981)	757
Other (charges)/income	9	(371)	1,782
OPERATING PROFIT ON ORDINARY ACTIVITIES BEFORE TAX		1,015	8,385
Tax on profit on ordinary activities	10	85	(2,461)
PROFIT FOR THE FINANCIAL YEAR		1,100	5,924

There are no recognised gains or losses in either the current or previous financial years other than the profit of £1,099,450 (2010 - £5,924,183) shown above Accordingly, no statement of total recognised gains and losses is required

Notes on pages 10 to 18 form an integral part of these accounts

All business is discontinued as defined by Financial Reporting Standard 3

BALANCE SHEET
As at 31 December 2011

	Notes	2011 £'000	2010 £'000
ASSETS			
Investments			
Land and buildings	11	1,948	2,226
Deposits with ceding undertakings		6,027	5,550
Other financial investments	11	61,681	67,374
		69,656	75,150
Reinsurers' share of technical provisions			
Claims outstanding	2	204	167
Debtors			
Arising out of reinsurance operations		272	1,692
Other debtors	12	24,366	30,959
Other assets			
Cash at bank and in hand		10,586	12,971
Prepayments and accrued income		9	26
Accrued interest and rent		569	484
		11,164	13,481
TOTAL ASSETS		105,662	121,449
LIABILITIES			
CAPITAL AND RESERVES			
Called up equity share capital	14	20,000	30,874
Share premium account	15	-	10,281
Profit and loss account	15	26,759	13,004
Equity shareholders' funds		46,759	54,159
Technical provisions			
Claims outstanding – gross amount	2	54,802	59,538
Deposits received from reinsurers		51	51
Creditors			
Arising out of reinsurance operations		3,802	4,980
Other creditors including taxation and social security		-	2,161
		3,802	7,141
Accruals and deferred income		248	560
TOTAL LIABILITIES		105,662	121,449

Notes on pages 10 to 18 form an integral part of these accounts

These financial statements were approved by the Board of Directors on 28 February 2012

Signed on behalf of the Board of Directors

Ian Millar
Director
Company Registration No 00157661

NOTES TO THE ACCOUNTS
for the year ended 31 December 2011

1. ACCOUNTING POLICIES

Basis of preparation

The financial statements have been prepared in accordance with the provisions of Section 396 of the Companies Act 2006 and Schedule 3 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008

In accordance with FRS 1 (Revised 1996), Cash Flow Statements, the Company is not required to prepare a cash flow statement because more than 90% of the voting rights of the Company are held within the group and the group's consolidated financial statements are publicly available

The financial statements have been prepared in accordance with applicable United Kingdom accounting standards and under the historical cost accounting rules as modified by the revaluation of investments, including land and buildings The company has adopted all material recommendations of the Statement of Recommended Practice on Accounting for Insurance Business issued in December 2005 (as amended in December 2006) by the Association of British Insurers ("the ABI SORP")

The principal risks and uncertainties of the business have been addressed within the director's report on pages 2 to 4

All business is classified as discontinued as defined by Financial Reporting Standard 3

The particular accounting policies are described below They have been applied consistently throughout the current and preceding years

Going Concern

Having reviewed the capital resources and cash available to the Company along with forecast results for future periods, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements

Underwriting

Full provision is made for outstanding losses, irrecoverable reinsurances and the costs of settling claims, on the basis of information currently available and anticipating trends of future settlements An analysis of the technical provisions is included under note 2

Claims incurred

Claims incurred comprise the estimated cost of all claims occurring during the year, whether reported or not, including related direct and indirect claims handling costs and adjustments to claims outstanding from previous years

Outwards reinsurance recoveries are accounted for in the same accounting period as the claims for the related direct or inwards reinsurance business being reinsured

Claims outstanding

The provision for claims outstanding is made on an individual case basis and is based on the estimated ultimate cost of all claims notified but not settled by the balance sheet date, together with the provision for related claims handling The provision also includes the estimated costs of claims incurred but not reported at the balance sheet date, based on statistical methods

The provision for claims outstanding is based on information available at the balance sheet date Significant delays may be experienced in the notification and settlement of certain claims and accordingly the ultimate cost of such claims cannot be known with certainty at the balance sheet date Subsequent information and events may result in the ultimate liability being less than, or greater than, the amount provided Any differences between provisions and subsequent settlements are dealt with in the general business technical account in the year in which they arise

Premiums

Written premiums comprise adjustments arising in the financial year to premiums receivable in respect of business written in previous years

NOTES TO THE ACCOUNTS
for the year ended 31 December 2011

1. ACCOUNTING POLICIES (CONTINUED)

Investments

Investments are held on the balance sheet at market value Cavell's investments include an investment in a Limited Partnership which is accounted for on an equity basis based on the most recently available financial information

The carrying value of leasehold buildings is based on their latest formal valuation, having been adjusted for capitalised development expenditure and depreciation based on the expected remaining future life Other financial investments are held on the balance sheet at market value Unrealised gains and losses are taken to the profit and loss account

Investment income

All investment return is recognised in the Non – Technical Account

Investment earnings include dividends and interest income receivable in the year, interest on an accruals basis and realised profits and losses on sale of investments Realised gains are calculated as the difference between net sales proceeds and costs In accordance with the ABI SORP (revised) on accounting for insurance business, unrealised profits and losses on investments are also included in investment earnings 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 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

Expenditure

All expenses are charged to the technical account in the year in which they are incurred except investment management expenses, which are charged to the non-technical account, in the year in which they are incurred

Foreign Currency

Transactions in foreign currencies during the year are translated into sterling at average rates of exchange for the period Monetary assets and liabilities are translated into sterling at the rates ruling at the balance sheet date All differences arising from the translation of assets and liabilities are dealt with in the non-technical account

Taxation

The charge for taxation is based on the profit for the year at rates which have been enacted or substantively enacted by the balance sheet date, taking into account deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or a right to receive more tax, with the following exception Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable tax profits from which the future reversal of the underlying timing differences can be deducted Deferred tax is calculated based on tax rates and laws enacted or substantively enacted at the balance sheet date Deferred tax assets and liabilities are not discounted

Run-off costs

Run-off costs are the future costs of managing the Company, including claims handling costs Provision is made for run-off costs to the extent that they are expected to exceed future investment income

NOTES TO THE ACCOUNTS
for the year ended 31 December 2011

1 ACCOUNTING POLICIES (CONTINUED)

Estimation Techniques

The provision for outstanding claims comprises an estimate of the cost of settling all notified outstanding claims including claims handling costs, and an estimate of the cost of settling IBNR claims including claims handling costs

The notified outstanding claims are based on advices from policyholders, intermediaries and assessors IBNR claims are estimated using a variety of statistical techniques including

- The development of previously settled claims (Chain Ladder Method)
- The development of previously notified claims (Chain Ladder Method)
- Expected loss ratios
- A combination of the above (Bornhuetter-Ferguson Method)

In addition reference is made to external reviews and industry data The methods are predominantly deterministic, however, where possible, stochastic methods are used to produce a range of possible outcomes The reinsurers' share of the provision for outstanding claims is then estimated based on the gross provisions having due regard to collectability, and contract terms and conditions

The estimation of the provisions for the ultimate cost of asbestos, environmental pollution and other latent health hazards is subject to a larger range of uncertainties than those in other classes of business This is largely due in part to the long delay between the exposure to the harmful conditions and the notification of a claim to the insurer As a consequence traditional claims estimation techniques cannot wholly be relied on, and estimates are made using the specialised knowledge of both internal and external experts and professional advisors

The establishment of outstanding claims provisions is subject to a great degree of variability in that, notwithstanding every effort to make appropriate provision, the eventual cost of settling outstanding claims may vary significantly from the initial estimate

2. CLAIMS OUTSTANDING

	Gross £000	Reinsurance £000	Net £000
2011			
Outstanding claims	35,601	204	35,397
Claims incurred but not reported	19,201	-	19,201
Provision for run off expenses	-	-	-
	54,802	204	54,598
2010			
Outstanding claims	37,696	167	37,529
Claims incurred but not reported	21,806	-	21,806
Provision for run off expenses	36	-	36
	59,538	167	59,371

Incurred claims shown in the technical account for the current year are all in respect of prior years' claims provisions

The provision for outstanding claims has been set on the basis of information that is currently available and includes estimates of incurred but not reported claims The process of estimating outstanding claims is inherently imperfect and the resultant calculation of the provision is a best estimate within a range of possible outcomes Whilst the directors consider that the gross provision for claims and the related reinsurance recoveries are fairly stated on the basis of information currently available to them, the ultimate liability is uncertain and may vary as a result of subsequent information and events as these provisions include claims in respect of long-tail risks This may result in material adjustments to the gross and net amounts provided

NOTES TO THE ACCOUNTS
for the year ended 31 December 2011

2. CLAIMS OUTSTANDING (CONTINUED)

The directors believe that the uncertainties have been appropriately considered in estimating ultimate losses and that the provision included to meet all unknown outstanding liabilities is adequate to cover claims and losses which have occurred including future developments on known claims as well as those yet to be reported

The Company's loss portfolio includes long-tail risks, some of which relate to exposure to losses arising from claims for latent disease and environmental pollution At 31 December 2011 the Company held gross reserves of £18,447,976 (2010 £19,039,841) in respect of these risks Reinsurance reserves in respect of these risks are immaterial

The uncertainties relating to asbestos and environmental claims on insurance policies written many years ago are exacerbated by inconsistent court decisions and judicial and legislative interpretations of coverage that in some cases have tended to erode the clear and express intent of such policies and in others have expanded theories of liability The industry as a whole is engaged in extensive litigation over these coverage and liability issues and is thus confronted with a continuing uncertainty in its effort to quantify these exposures

Asbestos remains the most significant and difficult mass tort for the insurance industry in terms of claims volume and exposure value Based on current published projections, it is expected that the Company will continue receiving asbestos claims

Significant uncertainty remains as to the ultimate liability of the Company in respect of asbestos related claims due to such factors as the long latency period between asbestos exposure and disease manifestation and the resulting potential for involvement of multiple policy periods for individual claims as well as the increase in the volume of claims by plaintiffs claiming exposure but with no symptoms of asbestos related disease

Reserves for asbestos and environmental claims cannot be estimated with traditional loss reserving techniques that rely on historical accident year loss development factors Case reserves and expenses reserves for costs of related litigation have been established where sufficient information has been developed to indicate the involvement of a specific insurance policy In addition, incurred but not reported reserves have been established to cover additional exposures on both known and unasserted claims

The reserve carried for asbestos and environmental claims at 31 December 2011 is management's best estimate of ultimate loss and loss adjustment expenses based upon known facts and current law However, the conditions surrounding the final resolution of these claims continue to change Because of future unknowns, additional liabilities may arise for amounts in excess of the current reserves

These additional amounts, or a range of these additional amounts, cannot now be reasonably estimated and could result in a liability exceeding the reserve by an amount that would be material to the Company's results and shareholders' funds in a future period

3. SEGMENTAL ANALYSIS

The company ceased underwriting in 1995 and all remaining movements and balances relate to long-tail insurance business which is in run-off The directors consider long-tail insurance business as the only segment for disclosure purposes under SSAP25 General reinsurance business conducted in the UK is the only material segment Business transacted through overseas branches is considered immaterial and is not disclosed separately in the financial statements Assets are held for the whole company and are not split by class

NOTES TO THE ACCOUNTS
for the year ended 31 December 2011

4. CLAIMS INCURRED NET OF REINSURANCE

	Gross £'000	Reinsurance £'000	Net £'000
2011			
Claims paid	3,395	105	3,290
Outstanding claims brought forward	59,538	167	59,371
Revaluation	(383)	(2)	(381)
(Reduction)/increase in outstanding claims	(4,353)	39	(4,392)
Outstanding claims carried forward	54,802	204	54,598
Claims incurred	(958)	144	(1,102)
2010			
Claims paid	6,402	669	5,733
Outstanding claims brought forward	69,429	356	69,073
Revaluation	935	(29)	964
Reduction in outstanding claims	(10,826)	(160)	(10,666)
Outstanding claims carried forward	59,538	167	59,371
Claims incurred	(4,424)	507	(4,933)

5. NET OPERATING EXPENSES

Expenses charged to the P&L account include

Auditor's remuneration	2011 £'000	2010 £'000
Fees payable to the Company's auditor for the audit of the company's annual accounts	102	96
	102	96
Fees payable to the Company's auditor for other services		
Taxation compliance services	6	11
Total non-audit fees	6	11

The Company had no employees during the current and preceding year Management services were provided by Enstar (EU) Limited who charge a management fee

6. DIRECTORS' EMOLUMENTS

The directors are not remunerated for their services by the Company They are employees of Enstar (EU) Limited They are remunerated by Enstar (EU) Limited for their services to the group and they receive no remuneration as directors of this company Disclosures regarding Directors' emoluments and staff costs are contained in the financial statements of Enstar (EU) Limited

NOTES TO THE ACCOUNTS
for the year ended 31 December 2011

7. INVESTMENT INCOME

	2011 £'000	2010 £'000
Income from land and buildings	258	395
Income from other investments	2,997	2,657
	3,255	3,052

8. INVESTMENT EXPENSES AND CHARGES

	2011 £'000	2010 £'000
Other investment related expenses	65	58
	65	58

9. OTHER (CHARGES)/INCOME

	2011 £'000	2010 £'000
Land & Building Depreciation	(278)	(278)
(Loss)/profit on translation of foreign currency	(93)	2,060
	(371)	1,782

10. TAXATION

(a) Analysis of (credit)/charge in the year

	2011 £'000	2010 £'000
UK corporation tax on profit for the year	-	2,243
Adjustment in respect of prior years	(13)	-
Foreign tax	(72)	218
Total amount of current tax	(85)	2,461

(b) Factors affecting the tax (credit)/charge for the year

The tax charged for the period and prior period is lower than the standard rate of corporation tax in the UK 26 5% (2010 28%) The differences are explained below

10. TAXATION (CONTINUED)

	2011 £'000	2010 £'000
Profit on ordinary activities before tax	1,015	8,385
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 26 5% (2010 28%)	269	2,348
Effects of		
Expenses not deductible for taxation purposes	74	81
Capital allowances for the period in excess of depreciation	(2)	(2)
Foreign tax	(72)	218
Group relief claimed for nil consideration	(341)	(3)
Utilisation of tax losses	-	(181)
Prior Year adjustment	(13)	-
Current tax charge for the period	(85)	2,461

The rate of corporation tax has reduced from 28% to 26% effective 1 April 2011 and as a result a composite rate of 26 5% has been used in the Accounts

(c) Factors that may affect future tax charges

No provision has been made for deferred tax on gains or losses recognised on revaluing property to its market value

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

	2011 £'000	2010 £'000
Accelerated capital allowances	(5)	(7)
	(5)	(7)

11. INVESTMENTS

	2011 £'000	2010 £'000
Land and buildings		
Long leasehold	1,948	2,226
Shares and other variable yield securities and units in unit trusts	-	3,655
Debt securities and other fixed income securities – unlisted	53,737	46,217
Unlisted equity securities	3,510	3,994
Deposits with credit institutions	934	-
Other financial investments	3,500	13,508
	61,681	67,374

None of the land and buildings are occupied by the Company for its own activities The original cost of the building was £4,675,000, and a market value assessment which was performed by an independent firm of chartered surveyors in October 2008, valued the building at £1,900,000 In addition to this, Cavell has incurred £816,310 in leasehold improvement costs which have been capitalised, resulting in a book valuation, net of accumulated depreciation totalling £768,564 (including depreciation of £278,252 for 2011), of £1,947,746 Management consider the value of the building not to be materially different from this amount at the balance sheet date

NOTES TO THE ACCOUNTS
for the year ended 31 December 2011

11. INVESTMENTS (CONTINUED)

The Company has made a decision to use the FRS 1 (revised) - Cash Flow Statements definition of cash as the basis for the balance sheet heading 'cash at bank and in hand' As a result, certain balances shown within the prior year comparative have been reclassified $8,221,613 has been moved from 'cash at bank and in hand' to 'Investments - Debt securities and other fixed income securities – unlisted' This reclassification of comparatives has no impact on the profit retained for the financial year or on the equity shareholders' funds at 31 December 2010

Certain of the Company's investments are deposited as security for reinsurance obligations with ceding companies or in countries outside the United Kingdom as required under local legislation

Market value is assessed at bid price, rather than mid-market value

12 OTHER DEBTORS

	2011 £'000	2010 £'000
Due within one year		
Amounts due from parent undertaking	-	30,572
Amounts due from other group companies	23,048	-
Other debtors	1,318	387
	24,366	30,959

The loan to an other group company is repayable on demand and at commercial terms

13. PLEDGES AND LIENS

The Company has granted a charge over its invested asset, to collateralise letters of credit provided in the ordinary course of business, totaling £2,443,000 as at 31 December 2011 (2010 £2,474,000)

14. CALLED UP SHARE CAPITAL

	2011 £'000	2010 £'000
Authorised share capital		
58,000,000 ordinary shares of £1 each	58,000	58,000
Allotted, called-up and fully paid ordinary shares of £1 each		
Balance at January 1	30,874	30,874
Share capital reduction	(10,874)	-
Balance at December 31	20,000	30,874

NOTES TO THE ACCOUNTS
for the year ended 31 December 2011

15. SHAREHOLDERS' FUNDS

	Share capital £'000	Share premium £'000	Profit & loss account £'000	Total £'000
2011				
Balance at 1 January	30,874	10,281	13,004	54,159
Retained profit for the financial year	-	-	1,100	1,100
Dividend	-	-	(8,500)	(8,500)
Share capital and share premium reduction	(10,874)	(10,281)	21,155	-
Balance at 31 December	20,000	-	26,759	46,759
2010				
Balance at 1 January	30,874	10,281	7,080	48,235
Currency translation differences on foreign currency net investment	-	-	2,060	2,060
Retained profit for the financial year	-	-	3,864	3,864
Revaluation of subsidiary undertaking	-	-	-	-
Balance at 31 December	30,874	10,281	13,004	54,159

16. RELATED PARTY TRANSACTIONS

Advantage has been taken of the exemption under Financial Reporting Standard 8 "Related Party Disclosures" not to disclose transactions between entities, 100% of whose voting rights were controlled within the Enstar Group, whose consolidated financial statements are publicly available (see note 17) There are no other transactions requiring disclosure

17. ULTIMATE PARENT UNDERTAKING

The Company's ultimate parent company and controlling entity is Enstar Group Limited, incorporated in Bermuda The immediate parent company is Cavell Holdings Limited, incorporated in the United Kingdom

The annual U S Securities and Exchange Commission filing of Enstar Group Limited may be obtained from

U S Securities and Exchange Commission
450 Fifth Street, NW
Washington, D C 20549
U S A