

199059

**UNIONE ITALIANA (U.K.)
REINSURANCE COMPANY LIMITED**

**REPORT AND ACCOUNTS
FOR THE YEAR ENDED
31 DECEMBER 1999**



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UNIONE ITALIANA (U.K.) REINSURANCE COMPANY LIMITED

Directors and Advisers

Registered Number 199059

Directors Mr A C Eckert III
 Mr D T Young (Chairman)
 Mr R L Barclay
 Mr R A Hamwee

Secretary Eastgate Insurance Services Limited

Registered Office Eastgate House, 40 Dukes Place, London EC3A 7NH

Principal Bankers National Westminster Bank Plc
 City of London Office, PO Box 12258, 1 Princes Street
 London, EC2R 8PA

Auditors Arthur Andersen, 1 Surrey Street, London, WC2R 2PS

Report of the Directors

For the year ended 31 December 1999

The Directors present their report and the audited financial statements for the year ended 31 December 1999.

Principal Activity

The principal activity of the Company is the provision of all classes of insurance and reinsurance business (other than life and pension). However, the Company ceased underwriting in May 1995.

Review of business

The Company continues the orderly run-off of the business.

Results and dividends

The results for the year are shown on pages 5 to 18 of the accounts. The loss for the year after taxation of £151,000 (1998 profit - £227,000) has been carried to reserves.

The Directors do not recommend the payment of a dividend (1998 : £Nil).

Directors and Directors' interests

The names of the present Directors are shown on page 1. Mr R A Hamwee was appointed on the 10 June 1999.

None of the Directors had a beneficial interest in the shares of the Company or its ultimate parent company at any time during the year, nor any material interest in any of the transactions, arrangements or contracts to which the Company is a party.

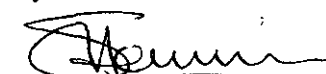
Year 2000

The Company is principally reliant on the systems of external suppliers; Eastgate Insurance Services (EIS) and B D Cooke (BDC). The Company is not aware of any Year 2000 problems arising in EIS or BDC and therefore does not anticipate incurring any additional costs.

Auditors

A resolution for the re-appointment of Arthur Andersen as auditors of the Company will be proposed at the Annual General Meeting.

By Order of the Board



Eastgate Insurance Services Limited
Company Secretary

24 May 2000

Statement of Directors' Responsibilities

The Directors are required by UK company law to prepare financial statements for each financial year that give a true and fair view of the state of the affairs of the Company as at the end of the financial year and of the profit or loss of the Company for that period.

The Directors confirm that suitable accounting policies have been used and applied consistently, and reasonable and prudent judgements and estimates have been made, in the preparation of the financial statements for the year ended 31 December 1999. The Directors also confirm that applicable accounting standards have been followed, and that the financial statements have been prepared on the going concern basis.

The Directors are responsible for keeping proper accounting records, for taking reasonable steps to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Report of the Auditors

To the Shareholders of Unione Italiana (U.K.) Reinsurance Company Limited

We have audited the financial statements on pages 5 to 18, which have been prepared in accordance with the accounting policies set out on pages 11 to 12.

Respective responsibilities of Directors and Auditors

As described on page 3, the Company's Directors are responsible for the preparation of the accounts in accordance with applicable United Kingdom laws and accounting standards. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board and by our profession's ethical guidance in the United Kingdom.

Basis of Opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Fundamental Uncertainty

In forming our opinion, we have considered the adequacy of the disclosures made in note 1(c) and note 3 to the financial statements concerning the fundamental uncertainty attaching to the quantification of the technical provision for claims outstanding and the outcome of the run-off of discontinued business. The ultimate liability will vary as a result of subsequent information and developments and significant adjustments may be necessary to the amounts provided. Our opinion is not qualified in this respect.

Opinion

In our opinion, the financial statements give a true and fair view of the state of the Company at 31 December 1999 and of the Company's loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Arthur Andersen
Chartered Accounts and Registered Auditor
1 Surrey Street
London
WC2R 2PS

24 May 2000

UNIONE ITALIANA (U.K.) REINSURANCE COMPANY LIMITED

Profit and Loss Account

For the year ended 31 December 1999

	Notes	1999 £000	Restated 1998 £000
Technical Account – General Business			
Earned premiums, net of reinsurance			
Gross premiums written		620	108
Outward reinsurance premium		<u>(374)</u>	<u>(228)</u>
Earned premiums, net of reinsurance	1(a)	<u>246</u>	<u>(120)</u>
Claims incurred, net of reinsurance			
Claims paid			
Gross amount		(11,274)	(12,792)
Reinsurers' share		<u>10,686</u>	<u>11,856</u>
Net Claims paid		<u>(588)</u>	<u>(936)</u>
Changes in provisions for claims			
Gross amount		(979)	7,836
Reinsurers' share		<u>842</u>	<u>(8,350)</u>
Change in the net provision for claims		<u>(137)</u>	<u>(514)</u>
Claims incurred, net of reinsurance	1(c),3	(725)	(1,450)
Net operating expenses	1(b),4,6,7	<u>(623)</u>	<u>(1,151)</u>
Balance on the Technical Account for General Business		<u>(1,102)</u>	<u>(2,721)</u>

The Company's underwriting activities have ceased and the results above reflect the continuation of the run-off.

The notes on pages 11 to 18 form part of these financial statements.

Profit and Loss Account (continued)

For the year ended 31 December 1999

	Notes	1999 £000	Restated 1998 £000
Non-Technical Account			
Balance on the Technical Account for General Business		(1,102)	(2,721)
Investment income	1(d),8	2,501	2,541
Unrealised gains on investment		-	489
Investment expenses and charges	9	(184)	(131)
Unrealised losses on investment		(1,364)	-
Other (charges)/income		<u>(2)</u>	<u>49</u>
(Loss)/profit on ordinary activities before taxation	7	(151)	227
Tax on (loss)/profit on ordinary activities	1(g),10	<u>-</u>	<u>-</u>
Retained (loss)/profit for the financial year		<u>(151)</u>	<u>227</u>

The notes on pages 11 to 18 form part of these financial statements.

UNIONE ITALIANA (U.K.) REINSURANCE COMPANY LIMITED

Statement of Total Recognised Gains and Losses

For the year ended 31 December 1999

	Notes	1999 £000	Restated 1998 £000
(Loss)/profit for the financial year		(151)	227
Foreign exchange revaluation gain/(loss)	1(f)	<u>14</u>	<u>(61)</u>
Total (losses)/gains recognised since the last financial report	16	<u>(137)</u>	<u>166</u>

The notes on pages 11 to 18 form part of these financial statements.

UNIONE ITALIANA (U.K.) REINSURANCE COMPANY LIMITED

Balance Sheet

As at 31 December 1999

	Notes	1999 £000	Restated 1998 £000
Assets			
Investments			
Investments in group undertaking and participating interests	11	1	1
Other financial investments	1(e),12	37,382	37,600
Deposits with ceding undertakings		<u>371</u>	<u>410</u>
		<u>37,754</u>	<u>38,011</u>
Reinsurers' share of technical provisions			
Claims outstanding	1(c),3	<u>86,071</u>	<u>83,235</u>
Debtors			
Debtors arising out of reinsurance operations		16,954	13,531
Other debtors		<u>1,412</u>	<u>676</u>
		<u>18,366</u>	<u>14,207</u>
Other assets			
Cash at bank and in hand		<u>3,465</u>	<u>3,612</u>
Prepayments and accrued income			
Accrued interest and rent		<u>237</u>	<u>162</u>
Total assets		<u>145,893</u>	<u>139,227</u>

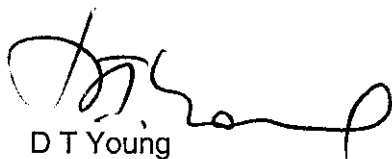
The notes on pages 11 to 18 form part of these financial statements.

Balance Sheet (continued)

As at 31 December 1999

	Notes	1999 £000	Restated 1998 £000
Liabilities			
Capital and reserves			
Called up share capital	14	23,500	23,500
Profit and loss account	16	(4,256)	(4,119)
Shareholders' funds attributable to equity interests		<u>19,244</u>	<u>19,381</u>
Technical provisions			
Claims outstanding	1(c),3	<u>115,107</u>	<u>111,616</u>
Creditors			
Deposits received from reinsurers		2,572	2,291
Creditors arising out of reinsurance operations		8,840	5,770
Other creditors including taxation and social security		<u>41</u>	<u>13</u>
		<u>11,453</u>	<u>8,074</u>
Accruals and deferred income		<u>89</u>	<u>156</u>
Total liabilities		<u>145,893</u>	<u>139,227</u>

The accounts on pages 5 to 18 were approved by the Board of Directors on 24 May 2000, and were signed on its behalf by:



D T Young
Chairman

Cash Flow Statement

For the year ended 31 December 1999

	Notes	1999 £000	Restated 1998 £000
Net cash inflow from operating activities	13	378	573
Capital expenditure – receipts from sales of fixed assets		-	1,212
Taxation paid		<u>-</u>	<u>-</u>
		<u>378</u>	<u>1,785</u>
Cash flows were invested as follows:			
(Decrease)/increase in cash holdings		(219)	<u>2,173</u>
Net portfolio investment			
Fixed income securities		<u>597</u>	<u>(388)</u>
Net investment of cash flows		<u>378</u>	<u>1,785</u>
Movement in opening and closing portfolios net of financing			
Net cash (outflow)/inflow for the year		(219)	2,173
Portfolio investments		<u>597</u>	<u>(388)</u>
		378	1,785
Changes in market values and exchange rates		(782)	<u>404</u>
Total portfolio investments net of financing		(404)	2,189
Portfolio investments net of financing at 1 January		<u>41,622</u>	<u>39,433</u>
Portfolio investments net of financing at 31 December		<u>41,218</u>	<u>41,622</u>

The notes on pages 11 to 18 form part of these financial statements.

Notes to the Financial Statements

For the year ended 31 December 1999

1 Accounting policies

The financial statements have been prepared in accordance with the provisions of Section 255 of, and Schedule 9A to, the Companies Act 1985, and with the Statement of Recommended Practice on Accounting for Insurance Business issued by the Association of British Insurers ("the ABI SORP") dated December 1998.

The financial statements have been prepared in accordance with applicable accounting standards.

Consolidated accounts have not been prepared because in the opinion of the Directors, the dormant subsidiary's figures are immaterial.

A summary of the more important accounting policies, which have been applied consistently is set out below.

Recognition of profits and losses

The financial statements are prepared in accordance with the historical cost convention modified by the revaluation of certain assets as required.

- (a) Premiums earned relate to differences between booked premiums for prior years and those previously accrued, and include estimates of premiums due but not yet receivable or notified to the company.
- (b) Expenditure is charged as incurred to the technical account, with the exception of certain corporate and investment expenses which are charged to the non-technical account. Provision is made for future non-claims handling expenses in excess of future investment income.
- (c) Claims incurred comprise claims and related expenses paid in the year and changes in provisions for outstanding claims, including provisions for claims incurred but not reported and related expenses, together with any other adjustments to claims from previous years.

Provisions for outstanding claims are established based on actuarial and statistical projections and other estimates of the ultimate cost of settlement.

Whilst management believes that the provisions for outstanding claims are fairly stated, these estimates inevitably contain inherent uncertainties because significant periods of time may elapse between the occurrence of an incurred loss, the reporting of that loss to the Company and the Company's payment of the loss and the receipt of reinsurance recoveries. These uncertainties are inherent in much of the business underwritten by the Company.

The estimates made are based upon current facts available to the Company and the prevailing legal environment affecting it and are subjected to continual review, with any resulting adjustments reported in the current earnings.

Notes to the Financial Statements (continued)

For the year ended 31 December 1999

Investments

- (d) Investment income comprises interest and dividends receivable for the year after adding back any related tax credit or withholding tax deducted at source.
- (e) Investments are stated at mid market value at the balance sheet date. The aggregate surplus or deficit on revaluation is taken to the non-technical account.

Exchange rates

- (f) Foreign currency liabilities are substantially covered by foreign currency assets. Accordingly, such assets and liabilities are translated to sterling at the rates of exchange ruling at the balance sheet date and the exchange differences taken to reserves. Exchange differences on transactions during the year are included in either the technical account or the non-technical account according to the transaction type.

Taxation

- (g) Provision is made for all taxation expected to be payable on taxable profits of the year, including estimated underwriting results for open underwriting years. Deferred taxation is provided for on the liability method on all material timing differences but only to the extent that the liability to, or relief from, tax is expected to arise in the foreseeable future.

Claims handling costs

- (h) The Company has not provided for future claims handling costs as it estimates that future investment income will be in excess of any future expenses. The Company estimates that the provision for future claims handling costs would have been £5,424,000.

Restatement of comparative amounts

- (i) Certain comparative amounts have been restated to ensure consistency with current year presentation. There is no change in the profit after tax previously disclosed.

2 Segmental Analysis

	Gross Premiums Written and Earned 1999 £000	Gross Claims Incurred 1999 £000	Gross Operating Expenses 1999 £000	Reinsurance Balance 1999 £000
Reinsurance acceptances	620	(12,253)	(629)	11,160

Notes to the Financial Statements (continued)

For the year ended 31 December 1999

	Gross Premiums Written and Earned 1998 £000	Gross Claims Incurred 1998 Restated £000	Gross Operating Expenses 1998 £000	Reinsurance Balance 1998 Restated £000
Reinsurance acceptances	<u>108</u>	<u>(4,956)</u>	<u>(1,157)</u>	<u>3,284</u>

3 Movements in prior years' outstanding claims provisions

	Gross 1999 £000	Reinsurer's Share 1999 £000	Net 1999 £000
Reinsurance Acceptances			
Outstanding claims provision brought forward at 1 January	111,616	83,235	28,381
Revaluation of outstanding claims provision brought forward to prevailing rates of exchange	2,512	1,994	518
Payments during the year in respect of those provisions	(11,274)	(10,686)	(588)
Outstanding claims provision carried forward in respect of claims provided at 1 January	<u>(115,107)</u>	<u>(86,071)</u>	<u>(29,036)</u>
Under provision of prior years	<u>(12,253)</u>	<u>(11,528)</u>	<u>(725)</u>

	Gross 1998 £000	Reinsurer's Share 1998 £000	Net 1998 £000
Reinsurance Acceptances			
Outstanding claims provision brought forward at 1 January	120,022	92,029	27,993
Revaluation of outstanding claims provision brought forward to prevailing rates of exchange	(570)	(444)	(126)
Payments during the year in respect of those provisions	(12,792)	(11,856)	(936)
Outstanding claims provision carried forward in respect of claims provided at 1 January	<u>(111,616)</u>	<u>(83,235)</u>	<u>(28,381)</u>
Under provision of prior years	<u>(4,956)</u>	<u>(3,506)</u>	<u>(1,450)</u>

The claims provision includes amounts in respect of potential claims relating to asbestos, pollution and health hazard. These claims are not expected to be settled for many years and there is considerable uncertainty as to both the insurer's liability for these claims and the amounts at which they will be settled.

Notes to the Financial Statements (continued)

For the year ended 31 December 1999

The level of the provision has been set on the basis of the information which is currently available, including potential outstanding loss advices, experience of development of similar claims and case law. 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, the ultimate liability will vary as a result of subsequent information and events and may result in significant adjustments to the amount provided. Adjustments to the amounts of provisions are reflected in the financial statements for the period in which the adjustments are made. The methods used, and the estimates made, are reviewed regularly.

4 Net operating expenses

	1999 £000	1998 £000
Acquisition costs	17	43
Administrative expenses	<u>612</u>	<u>1,114</u>
	629	1,157
Reinsurance commissions and profit participation	<u>(6)</u>	<u>(6)</u>
Net operating expenses	<u>623</u>	<u>1,151</u>

The total commission incurred during the year in respect of direct insurance was £Nil (1998: £Nil).

5 Particulars of Staff

The average number of persons employed by the Company during the year was:

	1999	1998
	<u>-</u>	<u>6</u>
Management	-	1
Administration	-	3
Claims	-	2

At 31 December 1999, the Company employed no staff.

The aggregate amount paid to staff (excluding Directors) during the year was:

	1999 £000	1998 £000
Wages and salaries	-	374
Social Security costs	-	25
Other pension costs	<u>9</u>	<u>86</u>
	<u>9</u>	<u>485</u>

Notes to the Financial Statements (continued)

For the year ended 31 December 1999

6 Directors Remuneration

	1999 £	1998 £
Emoluments	<u>8,000</u>	<u>935</u>

None of the Directors have benefits accruing to them in the pension scheme.

7 (Loss)/Profit on Ordinary Activities before Tax

The (loss)/profit on ordinary activities before tax is stated after charging:

	1999 £	1998 £
Auditors' remunerations - audit fee	40,000	56,000
- fees for non-audit services	-	<u>9,700</u>
	<u>40,000</u>	<u>65,700</u>

8 Investment Income

	1999 £000	1998 £000
Income from other investments	2,245	2,415
Software royalties	<u>19</u>	<u>91</u>
	2,264	2,506
Gains on the realisation of investments	<u>237</u>	<u>35</u>
	<u>2,501</u>	<u>2,541</u>

9 Investment Expenses and Charges

	1999 £000	1998 £000
Interest payable	107	84
Other expenses	<u>77</u>	<u>47</u>
	<u>184</u>	<u>131</u>

10 Taxation

The Company has unrelieved tax losses, therefore no provision has been made for UK corporation tax.

Irrecoverable overseas taxation has been charged to profit and loss account.

Notes to the Financial Statements (continued)

For the year ended 31 December 1999

11 Investment in Group Undertakings and Participating Interests

	1999 £000	1998 £000
Shares in group undertaking	1	1

The Company owns 100% of the allotted, called up and fully paid ordinary share capital of Anglo Saxon Insurance Services Limited which is dormant.

12 Investments
Other financial investments

	1999 Market Value £000	1999 Cost £000	1998 Market Value £000	1998 Cost £000
Shares and other variable yield securities and units in unit trusts	3,106	3,106	-	-
Debt securities and other fixed interest securities	15,812	18,326	10,407	10,199
Deposits with credit institutions	18,464	16,813	27,193	26,890
	<u>37,382</u>	<u>38,245</u>	<u>37,600</u>	<u>37,089</u>

13 Reconciliation of Profit before Tax to Net Cash Inflow from Operating Activities

	1999 £000	1998 £000
(Loss)/profit before tax	(151)	227
Decrease in debtors prepayments and accrued income	(3,902)	(1,734)
Increase in creditors accruals and deferred income	2,908	2,049
Increase in net technical provisions	137	515
Decrease in deposits received from reinsurers	259	94
Realised and unrealised investment losses/(gains)	1,127	(524)
Profit on sale of tangible fixed assets	-	(54)
Net cash inflow from operating activities	<u>378</u>	<u>573</u>

14 Share Capital

	1999 £000	1998 £000
Authorised:		
35,500,000 (1998 – 35,500,000)		
Ordinary shares of £1 each	<u>35,500</u>	<u>35,500</u>
Allotted, called up and fully paid:		
23,500,000 (1998 – 23,500,000)		
Ordinary shares of £1 each	<u>23,500</u>	<u>23,500</u>

Notes to the Financial Statements (continued)

For the year ended 31 December 1999

15 Pension Costs

The Company operates a pension scheme providing defined benefits based on final pensionable salary. The Company no longer has any employees, following the change of ownership in May 1999. The trustees are finalising the wind-up of the scheme and the purchase of annuities in order to ensure the scheme meets its obligations to members.

The assets of the scheme are held separately from those of the Company, being held in a fund managed by an unrelated company and invested in units in that unrelated company's in-house managed funds which are similar to unit trusts. Contributions to the scheme are charged to the revenue account in management expenses, so as to spread the cost of pensions over the employees' working lives with the Company.

The contributions are determined by an independent, qualified actuary on the basis of triennial valuations using the aggregate method. The most recent valuation was as at 1 July 1996. The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of return on investment and the rates of increase in salaries and pensions. It was assumed that investment returns would be 8% per annum, that total pensionable salaries will increase at 6.5% per annum and that pensions in payment will be increased by 4% per annum for past service benefits and 4.25% per annum for future service benefits.

The pension charge for the year ended 31 December 1999 was £8,777 (1998 - £85,615).

The market value of the scheme's assets at the most recent actuarial valuation was £2,184,184 and the actuarial value of the assets at £2,049,971 represented 100% of the value of the benefits that had accrued to members after allowing for expected future increases in salaries.

16 Reconciliation of Movement in Shareholders' Funds

	1999 £000	1998 £000
(Loss)/profit for the financial year	(151)	227
Other recognised losses/(gains) for the financial year	14	(61)
Net increase in profit and loss account	(137)	166
Opening shareholders' funds	19,381	19,215
Closing shareholders' funds	19,244	19,381

17 Note on Historical Cost Profits and Losses

	1999 £000	1998 £000
Reported (loss)/profit on ordinary activities before taxation	(151)	227
Difference between realisation of investments at historical and revalued amounts	387	(91)
Reversal of movement in unrealised losses/(gains)	1,364	(489)
Historical cost profit/(loss) on ordinary activities before taxation	1,600	(353)
Historical cost profit/(loss) on ordinary activities after taxation and dividends	1,600	(353)

Notes to the Financial Statements (continued)

For the year ended 31 December 1999

18 Related Party Transactions

No transactions have taken place with related parties during the financial year, and no balances were due to or from related parties at the end of the financial year.

19 Ultimate Parent Company

The Directors regard Dukes Place Holdings L.P., incorporated in Bermuda as the Company's ultimate parent company.

The Directors consider Citigroup, a company incorporated in the USA as the ultimate controlling party.