Company Registration No. 00199059
Registered in England & Wales

UNIONE ITALIANA (UK) REINSURANCE COMPANY LIMITED

Annual Report and Financial Statements

for the year ended 31 December 2012

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UNIONE ITALIANA (UK) REINSURANCE COMPANY LIMITED

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UNIONE ITALIANA (UK) REINSURANCE COMPANY LIMITED

OFFICERS AND PROFESSIONAL ADVISORS

DIRECTORS

I P Millar	
G H J Nokes	(Resigned 3 May 2012
C P Thomas	(Non-Executive)
A J Turner	(Non-Executive)
T J R Wilkes	(Appointed 14 September 2012)

SECRETARY

S M Hextall

REGISTERED OFFICE

Avaya House
2 Cathedral Hill
Guildford
Surrey
GU2 7YL

BANKERS AND INVESTMENT CUSTODIANS

Citibank
Barclays Bank plc
Bank of New York

CONSULTING ACTUARIES

Ernst & Young LLP, USA

AUDITOR

KPMG Audit plc
Chartered Accountants and Statutory Auditor
London, United Kingdom

UNIONE ITALIANA (UK) REINSURANCE COMPANY LIMITED

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements of Unione Italiana (UK) Reinsurance Company Limited ("the Company") for the year ended 31 December 2012

PRINCIPAL ACTIVITY

The principal activity of the Company is the conduct of general insurance and reinsurance business The Company voluntarily ceased to underwrite new business in 1995 The remaining run-off now almost entirely comprises the Company's share of the BD Cooke Pool, which has been in run-off since 1971 when the Company's participation in the pool ended The BD Cooke Pool is managed by B D Cooke and Partners Limited ("BD Cooke")

REVIEW OF THE BUSINESS AND FUTURE DEVELOPMENTS

The Company is owned by Enstar Group Limited, a company domiciled in Bermuda The Company is in run-off and has outsourced the management of its business to Enstar (EU) Limited ("Enstar"), a fellow subsidiary company The Company also utilises the services of BD Cooke to manage the Company's participation in the BD Cooke Pool The Company does not directly employ its own staff

The Company's run-off is conducted in a disciplined and professional manner in order to efficiently discharge liabilities associated with the business while preserving and maximizing assets This may include, where appropriate, negotiating with insureds and reinsureds to buyback and/or commute their insurance or reinsurance agreements In most cases, policy buybacks and commutations involve the settlement of all claims each party has against the other and are therefore a mechanism to extinguish liabilities for inwards insurance and reinsurance in addition to collecting outwards reinsurance recoveries, thereby eliminating uncertainty over the amount of future claims and reinsurance recoveries

The Company 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 Enstar's experienced claims adjusters, together with in-house and external legal counsel and run-off managers The Company determines which claims are valid through the use of such experts and advisers

The results of the Company for the year are shown on page 9 The profit after taxation for the year amounted to £4,981 (2011 £3,357,884) The profit arises from favourable ultimate net loss reserve developments and investment income in excess of administration expenses The run-off has proceeded satisfactorily during the year and the Company continues to conduct an orderly run-off of its business All business has been classified as discontinued operations

Claims Management and Administration

The run-off of the remaining exposures of the Company's participation in the BD Cooke Pool is conducted by BD Cooke The Company and Enstar have implemented claims reporting and control procedures to monitor the claims administration performed by BD Cooke

Manage Capital Prudently

The Company manages its capital prudently relative to its risk exposure and liquidity requirements to maximize 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) The Company operates within a performance management framework that encompasses business planning and ongoing monitoring, as appropriate to a company in run-off KPIs are used primarily to compare actual performance to the business plan For the year ended 31 December 2012 KPIs include

Financial KPI's
Percentage reduction in net reserves during the year was 9 5% (2011 12 7%)
Investment income return for the year was 3 5% (2011 3 7%)
Operating loss before tax of £100,473 (2011 £2,902,007 profit)

Non-Financial KPI's
Risk identification and control assessment process now operating quarterly on a Risk Management System
Formal Risk Management reporting (including risk appetite monitoring) to Board as business as usual
Own Risk & Solvency Assessment (ORSA – a Solvency II requirement) under discussion

UNIONE ITALIANA (UK) REINSURANCE COMPANY LIMITED

DIRECTORS' REPORT (continued)

Future Developments

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 The Company will continue to work on its Solvency II project plan and expects to be fully compliant with the requirements under Solvency II prior to its implementation

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 the Company's remaining regulated business to another company within the Enstar Group through the mechanism set out in Part VII of the Financial Services and Markets Act 2000

IDENTIFICATION AND MANAGEMENT OF PRINCIPAL RISKS AND UNCERTAINTIES

Strategic Risk

If the Company is unable to implement business plans and strategies, the business and financial condition may be adversely affected The experience of the management team supported by a robust risk management framework will continue to allow the Company to manage the run-off of the business efficiently, while mitigating the impact and likelihood of the associated risks

Reserving Risk

The Company is managed to ensure it holds adequate loss reserves to protect it against future claims development

To help manage this risk, the Company engages independent, external actuaries who use statistical methods including 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

Claims Management and Commutation Risk

As noted above, Enstar has implemented effective claims handling guidelines along with claims reporting and control procedures To ensure that claims are appropriately handled and reported in accordance with these guidelines, all claims matters are reviewed regularly, with all material claims matters being circulated to and authorised by management prior to any action being taken

When appropriate, the Company (and its run-off managers on behalf of the Company) negotiates with direct insureds to commute or buyback policies either on favourable terms or to mitigate against existing and/or potential future indemnity exposures and legal costs in an uncertain and constantly evolving legal environment

The Company also pursues commutations on favourable terms with ceding companies of reinsurance business

A disciplined approach is followed throughout the commutation and policy buyback process to minimise risk and increase the probability of a positive outcome

Liquidity Risk

The Company follows a conservative investment strategy designed to emphasize the preservation of its invested assets and provide sufficient liquidity for the prompt payment of claims as they fall due and settlement of commutation and policy buyback payments

Credit Risk

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 counterparties, and to geographical and industry segments Where necessary the Company will establish provisions against any 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 done quarterly in arrears and therefore any mismatches occurring in the period may give rise to foreign exchange losses, which could adversely affect the Company's operating results The assets backing shareholders' funds are largely kept in U S Dollars, the Enstar Group's main currency

Outsourcing Risk

Those business activities / services that are outsourced via Service Level Agreements (including to Enstar) are reviewed on a regular basis to ensure that they are appropriate for the requirements of the business Although these activities are outsourced, the Board remains fully accountable for the risks inherent in the business in accordance with the Outsourcing Policy Regular review of outsource providers is a control that is attested to quarterly

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

Further details regarding the adoption of the going concern basis can be found in the Statement of Accounting Policies in the financial statements

DIVIDENDS

The directors do not recommend the payment of a dividend for the year under review (2011 £10,000,000)

DIRECTORS

The present membership of the Board of Directors and changes in the composition of the Board up to and including the date of approval of these financial statements are as shown on page 1

CHARITABLE DONATIONS

No charitable donations were made in the year (2011 - £nil)

DIRECTORS' REPORT (continued)

DISCLOSURE OF INFORMATION TO AUDITOR

The dırectors who were ın office on the date of approval of these financıal statements have confirmed, as far as they are aware, that there ıs no relevant audıt ınformatıon of whıch the audıtor ıs unaware Each of the dırectors have confirmed that they have taken all the steps that they ought to have taken as dırectors ın order to make themselves aware of any relevant audıt ınformatıon and to establısh that ıt has been communıcated to the audıtor

Thıs confirmatıon ıs gıven and should be ınterpreted ın accordance wıth the provısıons of s418 of the Companıes Act 2006

Durıng the year, Deloıtte LLP resıgned as audıtors to the Company On 21st June 2012 the Dırectors resolved to appoınt KPMG Audıt plc ('KPMG') to fill the vacancy arısıng, and KPMG were duly appoınted

KPMG have ındıcated theır wıllıngness to be appoınted for another term and appropnate arrangements have been put ın place for them to be reappoınted as audıtor ın the absence of an Annual General Meetıng

Approved by the Board of Dırectors and sıgned on behalf of the Board by

I P Mıllar

Dırector

26th February 2013

UNIONE ITALIANA (UK) REINSURANCE COMPANY LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing 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 they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice)

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 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 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 have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF

UNIONE ITALIANA (UK) REINSURANCE COMPANY LIMITED

We have audited the financial statements of Unione Italiana (UK) Reinsurance Company Limited for the year ended 31 December 2012 set out on pages 9 to 18 The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK 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 set out on page 6, 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

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www frc org uk/auditscopeukprivate

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 2012 and of its profit for the year then ended,
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Emphasis of matter relating to technical provisions

In forming our opinion on the financial statements, which is not modified, we draw attention to the disclosure in note 2 to the financial statements concerning the Company's technical provisions Considerable uncertainty exists regarding the ultimate cost of settlement of these liabilities and the recoverability of the reinsurers' share of technical provisions and therefore material, presently unquantifiable, adjustments may be necessary to the gross and net technical provisions

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

UNIONE ITALIANA (UK) REINSURANCE 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

Jonathan Bell (Senior Statutory Auditor)
for and on behalf of KPMG Audit plc, Statutory Auditor
Chartered Accountants
KPMG Audit plc

15 Canada Square

London

E14 5GL

28th February 2013

UNIONE ITALIANA (UK) REINSURANCE COMPANY LIMITED

PROFIT AND LOSS ACCOUNT
for the year ended 31 December 2012

TECHNICAL ACCOUNT – GENERAL BUSINESS	Notes	2012 £'000	2011 £'000
EARNED PREMIUMS, NET OF REINSURANCE			
Gross premiums written		-	-
Outward reinsurance premiums		-	-
Earned premiums, net of reinsurance		-	-
CLAIMS INCURRED, NET OF REINSURANCE	3		
Gross claims paid		(832)	(456)
Reinsurers' share		29	(85)
Net claims paid		(803)	(541)
Gross change in the provision for claims		1,610	2,407
Reinsurers' share		(749)	5
Net change in the provision for claims		861	2,412
Claims incurred, net of reinsurance		58	1,871
Net operating expenses	5	(484)	(371)
Total technical income		(426)	1,500
BALANCE ON THE TECHNICAL ACCOUNT		(426)	1,500
NON- TECHNICAL ACCOUNT			
Balance on the general business technical account		(426)	1,500
Investment income	7	787	1,409
Investment expenses and charges		(26)	(25)
Unrealised gains/(losses) on investments		254	(30)
Other (expense)/income	8	(689)	48
OPERATING (LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAX		(100)	2,902
Tax credit on (Loss)/Profit on ordinary activities	9	105	456
PROFIT FOR THE FINANCIAL YEAR AFTER TAX	14	5	3,358

There are no recognised gains or losses in either the current or previous financial years other than the profit of £4,981 (2011 £3,357,884) shown above Accordingly, no statement of total recognised gains and losses is required

Notes on pages 11 to 18 form an integral part of these accounts

All business is discontinued as defined by Financial Reporting Standard 3

UNIONE ITALIANA (UK) REINSURANCE COMPANY LIMITED

BALANCE SHEET
as at 31 December 2012

	Notes	2012 £'000	2011 £'000
ASSETS			
Investments			
Financial investments	10	21,333	23,287
Reinsurers' share of technical provisions			
Claims outstanding		1,124	1,940
Debtors			
Arising out of reinsurance operations		1,342	1,833
Amounts due from parent undertaking		-	5,908
Other Debtors	11	8,124	635
Other assets			
Cash at bank and in hand		293	819
Prepayments and accrued income		159	211
		452	1,030
TOTAL ASSETS		32,375	34,633
LIABILITIES			
CAPITAL AND RESERVES			
Called up equity share capital	12	7,000	7,000
Profit and loss account	14	8,482	8,477
Equity shareholders' funds		15,482	15,477
Technical provisions			
Claims outstanding – gross amount		16,041	18,420
Deposits received from reinsurers		139	175
Creditors			
Arising out of reinsurance operations		652	486
Other creditors including taxation and social security	13	-	8
		652	494
Accruals and deferred income		61	67
TOTAL LIABILITIES		32,375	34,633

Notes on pages 11 to 18 form an integral part of these accounts

These financial statements were approved by the Board of Directors on 26th February 2013

Signed on behalf of the Board of Directors

I P Millar
Director

Company Registration No 00199059

UNIONE ITALIANA (UK) REINSURANCE COMPANY LIMITED

NOTES TO THE ACCOUNTS
for the year ended 31 December 2012

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 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 2to 5

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

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

1. **ACCOUNTING POLICIES (continued)**

Investments

Investments are held on the balance sheet at market value

Investment income

All investment returns are 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, unrealized 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

Commutations

Commutations are accounted for as a cancellation of the relevant outstanding claims reserves and reinsurance recoveries along with a net settlement

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 enacted or substantively enacted at 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 taxable profits from which the future reversal of the underlying timing differences can be deducted Deferred tax is calculated based on tax rates and laws 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

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. **UNCERTAINTIES REGARDING THE ADEQUACY OF RESERVES FOR ASBESTOS AND ENVIRONMENTAL ISSUES**

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 2012 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

2. UNCERTAINTIES REGARDING THE ADEQUACY OF RESERVES FOR ASBESTOS AND ENVIRONMENTAL ISSUES (continued)

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

The Company uses retrocessional agreements to reduce its exposure to the risk of reinsurance assumed The Company remains liable to the extent that certain quota share reinsurances are finite or that the retrocessionaires do not meet their obligation under these agreements, and therefore the Company evaluates and monitors concentration of credit risk Provisions are made for amounts considered potentially uncollectible

3. CLAIMS INCURRED NET OF REINSURANCE

	Gross £'000	Reinsurance £'000	Net £'000
31 December 2012			
Claims paid	832	(29)	803
Outstanding claims brought forward	18,420	(1,940)	16,480
Revaluation	(769)	67	(702)
Reduction in outstanding claims	(1,610)	749	(861)
Outstanding claims carried forward	16,041	(1,124)	14,917
Claims incurred	(778)	720	(58)

	Gross £'000	Reinsurance £'000	Net £'000
31 December 2011			
Claims paid	456	85	541
Outstanding claims brought forward	20,809	(1,926)	18,883
Revaluation	18	(9)	9
Reduction in outstanding claims	(2,407)	(5)	(2,412)
Outstanding claims carried forward	18,420	(1,940)	16,480
Claims incurred	(1,951)	80	(1,871)

The Company does not hold a provision for claims handling costs (2011 - £nil) as future investment is expected to exceed run off costs

The provision for outstanding claims has been set on the basis of information that is currently available, includes estimates of incurred but not reported claims and has been calculated in accordance with accounting policy for Estimation Techniques as set out in Note 1 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

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

NOTES TO THE ACCOUNTS
for the year ended 31 December 2012

4. SEGMENTAL ANALYSIS

All the Company's business is in run-off and, as such, the directors consider its run-off business to be the only segment for reporting under SSAP 25

5. NET OPERATING EXPENSES

Included within net operating expenses is auditors remuneration The analysis of the auditor's remuneration is as follows

	2012 £'000	2011 £'000
Fees payable to the Company's auditor for the audit of the Company's annual accounts		
Deloitte	-	31
KPMG	27	-
	27	31
Fees payable to the Company's auditor for other services		
Taxation compliance services – Deloitte	(3)	1
	(3)	1

All administrative expenses have been charged to the technical account in the current and preceeding years

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

7. INVESTMENT INCOME

	2012 £'000	2011 £'000
Investment income		
Income from investments	875	1,597
Loss on realisation of investments	(88)	(188)
	787	1,409

8. OTHER (EXPENSES) / INCOME

	2012 £'000	2011 £'000
Software royalties	5	4
(Loss)/Gain on translation of foreign currencies	(694)	44
	(689)	48

9. TAXATION

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

	2012 £'000	2011 £'000
Current tax		
UK corporation tax on profit for the year	-	-
Adjustment in respect of prior years	(105)	(456)
Tax (credit)/charge on ordinary activities	(105)	(456)

(b) Factors affecting the tax charge for the year

The tax charged for the period and prior period is different from the standard rate of corporation tax in the UK of 24 5% (2011 26 5%) The differences are explained below

	2012 £'000	2011 £'000
(Loss)/profit on ordinary activities before tax	(100)	2,902
(Loss)/profit on ordinary activities before taxation multiplied by the standard UK corporation tax rate of 24 5% (2011 26 5%)	(25)	769
Factors affecting the charge for the period		
Group relief surrendered/(claimed) for nil consideration	25	(769)
Prior year adjustment	(105)	(456)
Total amount of current tax	(105)	(456)

The rate of corporation tax was reduced from 26% to 24% effective 1 April 2012, and as a result of this a composite rate of 24 5% has been used in respect of the year ended December 2012 A composite rate of corporation tax of 26 5% was used in respect of the year ended 31 December 2011 following the reduction in the corporation tax rate from 28% to 26% effective 1 April 2011

(c) Factors that may affect future tax charges

A reduction in the rate of corporation tax to 23% (effective 1 April 2013) has been substantively enacted and the Government has announced its intention to reduce the UK corporation tax rate to 21% with effect from 1 April 2014 It has not been possible to quantify the effect of the announced further rate reduction, although this may reduce the company's tax charge in future periods

The company has no tax losses available for offset against future taxable profits of £nil (2011 £nil) There are no unrecognised deferred tax assets or liabilities (2011 £nil)

UNIONE ITALIANA (UK) REINSURANCE COMPANY LIMITED

NOTES TO THE ACCOUNTS
for the year ended 31 December 2012

10. INVESTMENTS

2012

	At Cost £'000	Market Value £'000
Other financial investments		
Debt securities and other fixed income securities – non listed	19,795	20,271
Other financial investments	1,015	1,062
	20,810	21,333

2011

	At Cost £'000	Market Value £'000
Other financial investments		
Debt securities and other fixed income securities – non listed	22,517	23,287
	22,517	23,287

11. OTHER DEBTORS

	2012 £'000	2011 £'000
Amounts owed by group undertakings	8,027	-
Taxation debtor	97	635
	8,124	635

12. CALLED UP SHARE CAPITAL

	2012 £'000	2011 £'000
Authorised share capital		
35,500,000 ordinary shares of £1 each	35,500	35,500
Allotted, called-up and fully paid		
Balance at January 1	7,000	17,000
Share capital reduction	-	(10,000)
Balance at December 31	7,000	7,000

13. OTHER CREDITORS

	2012 £'000	2011 £'000
Amounts due to fellow group undertakings	-	8

NOTES TO THE ACCOUNTS
for the year ended 31 December 2012

14. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	Share capital £'000	Profit & loss account £'000	Total £'000
Year ended 31 December 2012			
Opening shareholders' funds	7,000	8,477	15,477
Profit for the year	-	5	5
Closing shareholders' funds	7,000	8,482	15,482
Year ended 31 December 2011			
Opening shareholders' funds	17,000	5,119	22,119
Profit for the year	-	3,358	3,358
Capital Restructure	(10,000)	10,000	-
Dividend	-	(10,000)	(10,000)
Closing shareholders' funds	7,000	8,477	15,477

15. RELATED PARTIES TRANSACTIONS

The Company has taken advantage of the exemption granted in Financial Reporting Standard 8 "Related Party Disclosures" not to disclose transactions between the Company and other wholly owned members of the Enstar Group Limited group

16. ULTIMATE PARENT UNDERTAKING

The Company's ultimate parent company and controlling entity is Enstar Group Limited, incorporated in Bermuda The immediate parent company is Virginia Holdings Ltd, also incorporated in Bermuda

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