

**UNIONE ITALIANA (UK) REINSURANCE
COMPANY LIMITED**

Annual Report and Financial Statements

for the year ended 31 December 2010



UNIONE ITALIANA (UK) REINSURANCE COMPANY LIMITED

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UNIONE ITALIANA (UK) REINSURANCE COMPANY LIMITED

REPORT AND FINANCIAL STATEMENTS 2010

OFFICERS AND PROFESSIONAL ADVISORS

DIRECTORS

Mr T Nichols
Mr G Nokes
Mr D R Reid
Mr P Thomas
Mr A 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

CONSULTING ACTUARIES

Ernst & Young LLP, USA

AUDITORS

Deloitte LLP
Chartered Accountants and Statutory Auditors
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 2010

PRINCIPAL ACTIVITY

The Company ceased underwriting in May 1995. The principal activity of the Company is the run-off of the insurance and reinsurance business underwritten prior to 1996. The remaining run-off relates to 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 pool is managed by B D Cooke and Partners Limited ("BD Cooke").

REVIEW OF THE BUSINESS AND FUTURE DEVELOPMENTS

The results of the Company for the year are shown on page 8. The profit after taxation for the year amounted to £3,650,285 (2009 £615,287). The profit arises from favourable ultimate net loss reserve developments, combined with foreign exchange gains and investment income in excess of administration expenses.

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.

Claims Management and Administration

The run-off of the remaining exposures of the Company is conducted by BD Cooke. 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 in a run-off company.

KPI's are used primarily to compare actual performance to the business plan. KPI's include:

- Percentage reduction in gross reserves during the year was 9% (2009 11%)
- Investment income return for the year was 4.3% (2009 0.5%)
- Year end regulatory capital £7,430,000 (2009 £5,978,000)
- Operating profit before tax of £5,002,770 (2009 profit £615,287)

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 the Company'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.

UNIONE ITALIANA (UK) REINSURANCE COMPANY LIMITED

DIRECTORS' REPORT (continued)

IDENTIFICATION AND MANAGEMENT OF MAJOR RISKS

Deterioration of Reserves The Company wrote general liability policies and reinsurance under which policyholders continue to present claims. BD Cooke constantly monitor exposures and will seek settlements where appropriate.

The Company's independent external actuaries 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.

In many 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 emphasize the preservation of its invested assets and provide sufficient liquidity for the prompt payment of claims, and settlement of commutation payments.

Reinsurance Balances Receivable The Company 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. Reinsurance recoveries are reviewed on a regular basis by BD Cooke.

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-US Dollar denominated assets against its non-US 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 gains and losses, which could adversely affect its operating results. The assets backing shareholders' funds are largely kept in US Dollars, the Enstar Group's main currency.

Solvency II On 22 April 2009 the European Parliament approved the Solvency II framework directive. 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 implementation date of 1 January 2013.

SCHEME OF ARRANGEMENT

In 2004 it was considered feasible to seek the agreement of creditors to implement a solvent scheme of arrangement for business other than that written as part of the BD Cooke Pool. Accordingly, the Company applied to the High Court for this purpose and an order dated 20 December 2004 was made by the Court upon which the Company convened a meeting of Scheme Creditors on 23 February 2005 who overwhelmingly approved the Company's Solvent Scheme of Arrangement ("Scheme"). The Scheme was sanctioned on 7 March 2005 and became effective on 9 June 2005.

During the period the Company continued to make distributions to Scheme creditors. The final distributions are expected to be made within the next financial year.

GOING CONCERN

After making enquiries, 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 in preparing the 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 (2009 £Nil).

UNIONE ITALIANA (UK) REINSURANCE COMPANY LIMITED

DIRECTORS' REPORT (continued)

DIRECTORS

The present membership of the Board of Directors is shown on page 1, all of who held office from 1 January 2010, and until the date of this report, unless otherwise stated

CHARITABLE DONATIONS

Charitable donations for the period were £nil (2009 - £nil)

DISCLOSURE OF INFORMATION TO AUDITORS

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 auditors are 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 auditors.

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



Director

Gareth Nokes
4 March 2011

UNIONE ITALIANA (UK) REINSURANCE COMPANY LIMITED

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 AUDITORS' 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 2010 which comprise the Profit and Loss Account, the Balance Sheet, and the related notes 1 to 14. 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 auditors' 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 2010 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

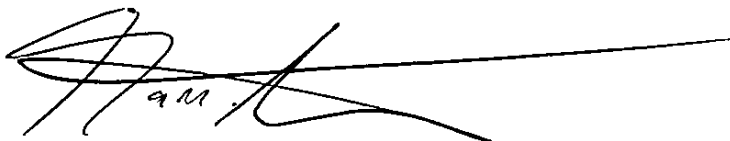
In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

**INDEPENDENT AUDITORS' 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

A handwritten signature in black ink, appearing to read 'M. McIlquham', with a long horizontal line extending to the right.

Mark McIlquham (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom
4 March 2011

UNIONE ITALIANA (UK) REINSURANCE COMPANY LIMITED

PROFIT AND LOSS ACCOUNT for the year ended 31 December 2010

TECHNICAL ACCOUNT – GENERAL BUSINESS	Notes	2010 £'000	2009 £'000
EARNED PREMIUMS, NET OF REINSURANCE			
Gross premiums written		-	-
Outward reinsurance premiums		-	-
Earned premiums, net of reinsurance		-	-
CLAIMS INCURRED, NET OF REINSURANCE			
Gross claims paid	3	(2,602)	(1,480)
Reinsurers' share	3	4,971	999
Net claims paid		2,369	(481)
Gross change in the provision for claims		5,139	3,473
Reinsurer's share		(4,330)	(1,015)
Net change in the provision for claims		809	2,458
Claims incurred, net of reinsurance		3,178	1,977
Net operating expenses	4	(407)	(559)
Total technical income		2,771	1,418
BALANCE ON THE TECHNICAL ACCOUNT		2,771	1,418
NON- TECHNICAL ACCOUNT			
Balance on the general business technical account		2,771	1,418
Investment income	6	1,453	1,093
Investment expenses and charges		(21)	-
Unrealised gains on investments		101	210
Other income/(charges)	7	698	(2,106)
OPERATING PROFIT ON ORDINARY ACTIVITIES BEFORE TAX		5,002	615
Tax on profit on ordinary activities	8	(1,352)	-
PROFIT FOR THE FINANCIAL YEAR	12	3,650	615

There are no recognised gains or losses in either the current or previous financial years other than the profit of £3,650,285 (2009 £615,287) shown above. Accordingly, no statement of total recognised gains and losses is required.

Notes on pages 10 to 17 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 2010

	Notes	2010 £'000	2009 £'000
ASSETS			
Investments			
Financial investments	9	18,616	1,924
Reinsurers' share of technical provisions			
Claims outstanding	3	1,926	5,937
Debtors			
Arising out of reinsurance operations		5,066	2,323
Amounts due from parent undertaking	13	14,991	12,810
Other assets			
Cash at bank and in hand		4,063	20,549
Prepayments and accrued income		178	772
		<u>4,241</u>	<u>21,321</u>
TOTAL ASSETS		<u>44,840</u>	<u>44,315</u>
LIABILITIES			
CAPITAL AND RESERVES			
Called up equity share capital	10	17,000	17,000
Profit and loss account	12	5,119	1,469
Equity shareholders' funds		<u>22,119</u>	<u>18,469</u>
Technical provisions			
Claims outstanding – gross amount	3	20,809	25,101
Deposits received from reinsurers			
		174	170
Creditors			
Arising out of reinsurance operations		484	469
Other creditors including taxation and social security	11	1,112	22
		<u>1,596</u>	<u>491</u>
Accruals and deferred income		<u>142</u>	<u>84</u>
TOTAL LIABILITIES		<u>44,840</u>	<u>44,315</u>

Notes on pages 10 to 17 form an integral part of these accounts

These financial statements were approved by the Board of Directors on 3 March 2011

Signed on behalf of the Board of Directors


Director
GARETH NOKES

Company Registration No 00199059

UNIONE ITALIANA (UK) REINSURANCE COMPANY LIMITED

NOTES TO THE ACCOUNTS for the year ended 31 December 2010

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 3 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

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

UNIONE ITALIANA (UK) REINSURANCE COMPANY LIMITED

NOTES TO THE ACCOUNTS for the year ended 31 December 2010

1. ACCOUNTING POLICIES (CONTINUED)

Investments

Investments are held on the balance sheet at current value

Investment income

All investment returns are recognised in the non-technical account

Investment earnings include dividends/interest income receivable in the year, interest on an accruals basis and realised profits/losses on sale of investments, less related expenses. 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/losses on investments are also included in investment earnings. Unrealised investment gains and losses are calculated as the difference 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, 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.

UNIONE ITALIANA (UK) REINSURANCE COMPANY LIMITED

NOTES TO THE ACCOUNTS for the year ended 31 December 2010

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)
- The development of previously notified claims (chain ladder)
- Expected loss ratios
- A combination of the above (Bornhuetter-Ferguson)

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
2010			
Outstanding claims	6,903	499	6,404
Claims incurred but not reported	13,906	1,427	12,479
	<u>20,809</u>	<u>1,926</u>	<u>18,883</u>
2009			
Outstanding claims	8,211	2,252	5,959
Claims incurred but not reported	14,690	3,685	11,005
Provision for run-off expenses	2,200	-	2,200
	<u>25,101</u>	<u>5,937</u>	<u>19,164</u>

UNIONE ITALIANA (UK) REINSURANCE COMPANY LIMITED

NOTES TO THE ACCOUNTS for the year ended 31 December 2010

3. CLAIMS INCURRED NET OF REINSURANCE

	Gross £'000	Reinsurance £'000	Net £'000
31 December 2010			
Claims paid	2,602	4,971	(2,369)
Outstanding claims brought forward	25,101	5,937	19,164
Revaluation	847	319	528
Reduction in outstanding claims	(5,139)	(4,330)	(809)
Outstanding claims carried forward	20,809	1,926	18,883
Claims incurred	(2,537)	(641)	(3,178)
	Gross £'000	Reinsurance £'000	Net £'000
31 December 2009			
Claims paid	1,480	999	481
Outstanding claims brought forward	31,130	7,660	23,470
Revaluation	(2,556)	(708)	(1,848)
Reduction in outstanding claims	(3,473)	(1,015)	(2,458)
Outstanding claims carried forward	25,101	5,937	19,164
Claims incurred	(1,993)	(16)	(1,977)

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

The whole turnover is to the UK market. Incurred claims are derived solely from the Company's participation in the BD Cooke Pool

The gross reserve includes a provision for claims handling costs of £nil (2009 - £2,200,000)

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.

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.

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.

UNIONE ITALIANA (UK) REINSURANCE COMPANY LIMITED

NOTES TO THE ACCOUNTS

for the year ended 31 December 2010

3. CLAIMS INCURRED NET OF REINSURANCE (CONTINUED)

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 related to 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 2010 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.

Segmental Analysis

All business was written in the United Kingdom. Materially all current liabilities and transactions are in the reinsurance class. Given the company ceased underwriting in 1995, all remaining movements and balances relate to longtail classes.

4. NET OPERATING EXPENSES

Profit on ordinary activities is stated after charging

	2010 £'000	2009 £'000
Auditors' remuneration – audit services	39	88
- non audit services	2	2

The Company has no employees (2009 Nil)

5. DIRECTORS' EMOLUMENTS

No emoluments were paid to the current directors for the period.

The current directors 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 the Company. Disclosures regarding Directors' emoluments and staff costs are contained in the financial statements of Enstar (EU) Limited.

UNIONE ITALIANA (UK) REINSURANCE COMPANY LIMITED

NOTES TO THE ACCOUNTS for the year ended 31 December 2010

6. INVESTMENT INCOME

	2010 £'000	2009 £'000
Investment income		
Income from investments	1,474	1,093
Loss on realisation of investments	(21)	-
	<u>1,453</u>	<u>1,093</u>

7. OTHER INCOME / (CHARGES)

	2010 £'000	2009 £'000
Software royalties	4	4
Gain/(loss) on translation of opening net assets	694	(2,110)
	<u>698</u>	<u>(2,106)</u>

8. TAXATION

(a) Analysis of charge in the year

	2010 £'000	2009 £'000
Current tax charge		
UK corporation tax on profit for the year	<u>1,352</u>	<u>-</u>

(b) Factors affecting the tax charge for the year

The tax charged for the period is different from the standard rate of corporation tax in the UK (28%) The differences are explained below

	2010 £'000	2009 £'000
Profit on ordinary activities before tax	<u>5,002</u>	<u>615</u>
Tax on profit on ordinary activities at standard UK corporation tax rate of 28% (2009 28%)	1,400	172
Effects of Utilisation of tax losses	<u>(48)</u>	<u>(172)</u>
Total amount of current tax	<u>1,352</u>	<u>-</u>

UNIONE ITALIANA (UK) REINSURANCE COMPANY LIMITED

NOTES TO THE ACCOUNTS **for the year ended 31 December 2010**

8. TAXATION (CONTINUED)

(c) Factors that may affect future tax charges

The company has tax losses available for offset against future taxable profits of £nil (2009 £172,000)

Deferred taxation

No provision has been made in the financial statements for deferred taxation

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

	2010	2009
	£'000	£'000
Trading losses available for carry forward	-	(48)
	-	(48)

9. INVESTMENTS

	2010	2009
	£'000	£'000
<i>Other financial investments</i>		
Debt securities and other fixed income securities – non listed	18,616	1,924
	18,616	1,924

10. CALLED UP SHARE CAPITAL

	2010	2009
	£'000	£'000
Authorised share capital		
35,500,000 ordinary shares of £1 each	35,500	35,500
Allotted, called-up and fully paid		
17,000,000 ordinary shares of £1 each	17,000	17,000

11. OTHER CREDITORS

	2010	2009
	£'000	£'000
Corporation tax payable	1,091	-
Amounts due to fellow group undertakings	21	22
	1,112	22

UNIONE ITALIANA (UK) REINSURANCE COMPANY LIMITED

NOTES TO THE ACCOUNTS for the year ended 31 December 2010

12. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	Share capital £'000	Profit & loss account £'000	Total £'000
Year ended 31 December 2010			
Opening shareholders' funds	17,000	1,469	18,469
Profit for the year	-	3,650	3,650
Closing shareholders' funds	17,000	5,119	22,119
Year ended 31 December 2009			
Opening shareholders' funds	17,000	854	17,854
Profit for the year	-	615	615
Closing shareholders' funds	17,000	1,469	18,469

13. TRANSACTIONS WITH RELATED PARTIES

Advantage has been taken of the exemption under Financial Reporting Standard 8 "Related Party Disclosures" not to disclose transactions between entities, 100% or more of whose voting rights were controlled within the Enstar Group Limited group, whose consolidated financial statements are publicly available (see note 14) There are no other transactions requiring disclosure

14. 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