

**UNIONAMERICA INSURANCE COMPANY LIMITED**

**Annual Report and Financial Statements**

**For the year ended 31 December 2010**





**UNIONAMERICA INSURANCE COMPANY LIMITED**  
**REPORT AND FINANCIAL STATEMENTS 2010**

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# **UNIONAMERICA INSURANCE COMPANY LIMITED**

## **OFFICERS AND PROFESSIONAL ADVISORS**

### **DIRECTORS AND OFFICERS**

The directors and officers who served during the year are shown below

|              |                        |   |
|--------------|------------------------|---|
| T Nichols    | Director               |   |
| G Nokes      | Director               |   |
| A Turner     | Director               |   |
| P Thomas     | Director               |   |
| P Van Vuuren | Non Executive Director | Resigned 19 <sup>th</sup> February 2010 |
| J Riley      | Non Executive Director | Appointed 1 <sup>st</sup> May 2010      |
| S Hextall    | Secretary              |   |

### **REGISTERED OFFICE**

Avaya House  
2 Cathedral Hill  
Guildford  
Surrey GU2 7YL

### **MANAGERS**

Enstar (EU) Limited  
Avaya House  
2 Cathedral Hill  
Guildford  
Surrey  
GU2 7YL

### **BANKERS AND INVESTMENT CUSTODIANS**

Barclays Bank plc  
Citibank N A  
UBS  
Goldman Sachs International  
Comerica Bank  
The Bank of New York Mellon  
Deutsche Bank Alex Brown

### **CONSULTING ACTUARIES**

Ernst & Young LLP, USA

### **AUDITORS**

Deloitte LLP  
Chartered Accountants and Statutory Auditors  
London, United Kingdom

# UNIONAMERICA INSURANCE COMPANY LIMITED

## DIRECTORS' REPORT

The directors present their annual report, together with the financial statements and auditors' report for the year ended 31 December 2010

### Principal Activities

The principal activity of the Company is to conduct an orderly run-off of its general insurance business. The Company ceased writing new business with effect from 1 January 2001.

### Review of the Business and Future Developments

The results for the year are shown in the profit & loss account on page 8. The profit for the year after taxation amounted to \$73,946,000 (2009 Profit \$68,156,000). During the year the Company commuted some major reinsurance contracts and undertook an annual review of claims outstanding, these events were the primary contributors to the profit for the year. The Company continues to conduct an orderly run-off of its business. Consequently all business has been classified as discontinued operations.

Following the acquisition of the Unionamerica Group of companies by Royston Run-Off Limited, a subsidiary of Enstar Group Limited, Enstar (EU) Limited ("Enstar") was engaged to provide management and run-off administration services to the Company, and Enstar Limited to provide investment management services to the Company.

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

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

The following paragraphs deal with the management of the Company by the current run-off managers, Enstar (EU) Limited.

#### *Claims Management and Administration*

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

#### *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.

#### *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. A scheme however, is not expected within the next year.

# UNIONAMERICA INSURANCE COMPANY LIMITED

## DIRECTORS' REPORT (continued)

### *Performance Management*

The Companies Act encourages companies to provide both financial information and also to comment on key performance indicators (KPIs). Unionamerica operates within a performance management framework that encompasses business planning and ongoing monitoring, as appropriate in a run-off company. KPIs are used primarily to compare actual performance to the business plan. KPIs include

Percentage reduction in net reserves during the year was 23.9% (2009: 14.7%)

Investment income return for the year was 3.0% (2009: 3.6%)

Year end regulatory capital £185,297,000 (2009: £229,395,000)

Operating profit before tax of \$100,378,000 (2009: \$88,860,000)

### **Identification and Management of Major Risks**

#### *Movements in Reserves*

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

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

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

#### *Solvency II*

On April 22, 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.

# **UNIONAMERICA INSURANCE COMPANY LIMITED**

## **DIRECTORS' REPORT (continued)**

### **Going Concern**

After making enquiries, the directors have a reasonable expectation that the Company and the Group have 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.

### **Dividends**

A dividend of US\$nil is proposed for the year (2009 declared and paid US\$nil).

### **Directors**

The present membership of the board of directors and the changes in the directors during the year are shown on page 1.

### **Political and Charitable Contributions**

The Company made no political or charitable contributions during the year (2009 US\$nil).

### **Post Balance Sheet Events**

On 1 March 2011, following regulatory approval, the Board approved an \$81m distribution to the Company's immediate parent. The company is undertaking a restructuring of its Shareholders' Funds enabling the payment of the dividend to be made from distributable reserves.

### **Disclosure of Information to Auditor**

In the case of each of the persons who are directors of the Company at the date when this report is approved:

- so far as each director is aware, there is no relevant audit information of which the Company's auditors are unaware,
- each of the directors has taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

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

Deloitte LLP have expressed their willingness to continue to act as auditors. A resolution to reappoint Deloitte LLP as auditors to the Company will be proposed at the forthcoming Annual General Meeting.

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



Gareth Nokes  
Director  
4 March 2011

# **UNIONAMERICA INSURANCE 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 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 judgments 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 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 UNIONAMERICA INSURANCE COMPANY LIMITED**

We have audited the financial statements of Unionamerica Insurance Company Limited for the year ended December 31, 2010 which comprise the Profit and Loss Account, the Balance Sheet, and the related notes 1 to 24. 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 auditors**

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 December 31, 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.

### **Emphasis of matter relating to technical provisions**

In forming our opinion on the financial statements, which is not qualified, 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, but 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.

### **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.

  
**William Ramsay (Senior Statutory Auditor)**

For and on behalf of Deloitte LLP  
Chartered Accountants and Statutory Auditors  
London, United Kingdom  
4 March 2011

# UNIONAMERICA INSURANCE COMPANY LIMITED

## PROFIT AND LOSS ACCOUNT

For the year ended 31 December 2010

|  | Notes | 2010<br>US\$000 | Restated<br>2009<br>US\$000 |
|--|-------|-----------------|-----------------------------|
| <b>TECHNICAL ACCOUNT – GENERAL BUSINESS</b>                |       |                 |                             |
| <b>EARNED PREMIUMS, NET OF REINSURANCE</b>                 |       |                 |                             |
| Gross premiums written                                     | 3     | 3,242           | (184)                       |
| Outward reinsurance premiums                               |       | 406             | 958                         |
| Earned premiums, net of reinsurance                        |       | <u>3,648</u>    | <u>774</u>                  |
| <b>CLAIMS INCURRED, NET OF REINSURANCE</b>                 |       |                 |                             |
| Claims paid - gross amount                                 |       | (135,834)       | (91,520)                    |
| - reinsurers' share  |       | 48,712          | 13,793                      |
|  |       | <u>(87,122)</u> | <u>(77,727)</u>             |
| Change in the provision for claims - gross amount          |       | 226,769         | 138,991                     |
| - reinsurers' share  |       | (73,661)        | (7,622)                     |
| Net change in the provision for claims                     |       | <u>153,108</u>  | <u>131,369</u>              |
| Claims incurred, net of reinsurance                        | 4, 5  | 65,986          | 53,642                      |
| Net operating expenses                                     | 6     | (13,139)        | (9,402)                     |
| <b>BALANCE ON THE TECHNICAL ACCOUNT – GENERAL BUSINESS</b> |       | <u>56,495</u>   | <u>45,014</u>               |

All business is discontinued as defined by Financial Reporting Standard 3

The notes on pages 10 to 20 form part of these financial statements

**UNIONAMERICA INSURANCE COMPANY LIMITED**  
**PROFIT AND LOSS ACCOUNT**

**For the year ended 31 December 2010**

|  |              | <b>2010</b>    | <b>Restated</b> |
|--|--------------|----------------|-----------------|
| <b>NON TECHNICAL ACCOUNT – GENERAL BUSINESS</b>            | <b>Notes</b> | <b>US\$000</b> | <b>2009</b>     |
|  |              |                | <b>US\$000</b>  |
| <b>BALANCE ON THE TECHNICAL ACCOUNT – GENERAL BUSINESS</b> |              | <b>56,495</b>  | <b>45,014</b>   |
|  |              | <hr/>          | <hr/>           |
| Investment income  | 7            | 31,928         | 24,314          |
| Other income   | 8            | 49             | 5,308           |
| Unrealised investment gain                                 |              | 13,723         | 14,626          |
| Investment expenses and charges                            | 9            | (1,348)        | (402)           |
|  |              | <hr/>          | <hr/>           |
|  |              | <b>44,352</b>  | <b>43,846</b>   |
|  |              | <hr/>          | <hr/>           |
| Other charges, including valuation adjustments             | 10           | (469)          | -               |
|  |              | <hr/>          | <hr/>           |
| <b>OPERATING PROFIT ON ORDINARY ACTIVITIES BEFORE TAX</b>  |              | <b>100,378</b> | <b>88,860</b>   |
| Tax on profit on ordinary activities                       | 14           | (26,432)       | (20,704)        |
|  |              | <hr/>          | <hr/>           |
| <b>PROFIT FOR THE YEAR AFTER TAX</b>                       |              | <b>73,946</b>  | <b>68,156</b>   |
|  |              | <hr/>          | <hr/>           |

There are no recognised gains or losses in either year other than the profit of \$73,946,000 (2009 \$68,156,000) shown above. Accordingly, no statement of total recognised gains and losses is required.

The notes on pages 10 to 20 form part of these financial statements.

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

# UNIONAMERICA INSURANCE COMPANY LIMITED


## BALANCE SHEET

As at 31 December 2010

|  | Notes | 2010<br>US\$000  | 2009<br>US\$000  |
|--|-------|------------------|------------------|
| <b>ASSETS</b>  |       |                  |                  |
| <b>Investments</b>                                     |       |                  |                  |
| Other financial investments                            | 15    | 801,935          | 1,022,041        |
| Deposits with ceding undertakings                      |       | 6,159            | 7,663            |
| <b>Reinsurers' share of technical provisions</b>       |       |                  |                  |
| Claims outstanding                                     | 5     | 89,825           | 164,243          |
| <b>Debtors</b>   |       |                  |                  |
| Debtors arising out of reinsurance operations          |       | 15,667           | 21,007           |
| Other debtors  | 16    | 137,562          | 2,938            |
| <b>Other assets</b>                                    |       |                  |                  |
| Cash at bank and in hand                               | 15    | 40,592           | 14,978           |
| <b>Prepayments and accrued income</b>                  |       |                  |                  |
| Accrued interest                                       |       | 5,747            | 8,281            |
| Other prepayments and accrued income                   |       | 7                | 7                |
| <b>TOTAL ASSETS</b>                                    |       | <b>1,097,494</b> | <b>1,241,158</b> |
| <b>LIABILITIES</b>                                     |       |                  |                  |
| <b>CAPITAL AND RESERVES</b>                            |       |                  |                  |
| Called up share capital                                | 19    | 86,968           | 86,968           |
| Capital contribution                                   |       | 100,000          | 100,000          |
| Share premium account                                  |       | 184,727          | 184,727          |
| Profit and loss account                                |       | 79,222           | 5,276            |
| <b>Equity shareholders' funds</b>                      | 20    | <b>450,917</b>   | <b>376,971</b>   |
| <b>Technical provisions</b>                            |       |                  |                  |
| Claims outstanding – gross amount                      | 5     | 592,462          | 824,983          |
| <b>Deposits received from reinsurers</b>               |       |                  |                  |
|  |       | -                | 17               |
| <b>Creditors</b>                                       |       |                  |                  |
| Creditors arising out of reinsurance operations        |       | 14,681           | 9,301            |
| Amounts owed to credit institutions                    |       | 19,003           | 6,553            |
| Other creditors including taxation and social security | 18    | 19,117           | 22,608           |
|  |       | <b>52,801</b>    | <b>38,479</b>    |
| <b>Accruals and deferred income</b>                    |       |                  |                  |
|  |       | 1,314            | 725              |
| <b>TOTAL LIABILITIES</b>                               |       | <b>1,097,494</b> | <b>1,241,158</b> |

The notes on pages 10 to 20 form part of these financial statements

These financial statements were approved by the Board of Directors on 4 March 2011 and signed on its behalf by

  
Gareth Nokes  
Director  
Company Registration No 1022903

# UNIONAMERICA INSURANCE COMPANY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2010

### 1. ACCOUNTING POLICIES

The principal accounting policies are summarised below. They have been applied consistently throughout the current and preceding years with the exception of the policy for allocated investment return which is further explained in note 13.

#### **Basis of accounting**

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 2 to 4.

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

#### **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.

#### **Premiums**

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

#### **Claims incurred**

Claims incurred include all claims and claims settlement expense payments made in respect of the financial period, the movement in the provision for outstanding claims and claims settlement expenses, and movement in claims incurred but not reported.

Outward reinsurance recoveries are accounted for in the same period as the claims for the related direct or inward reinsurance business being reinsured.

#### **Claims outstanding**

Full provision is made on an individual case basis for the estimated cost of claims notified but not yet settled by the balance sheet date after taking into account handling costs and settlement trends. A provision for claims incurred but not reported is established on a statistical basis. The level of provisions has been set on the basis of the information which is currently available, including potential outstanding claims advices and case law. The methods used and estimates made are reviewed regularly. Whilst the directors consider the gross provision for claims and the related reinsurance recoveries to be fairly stated on the basis of the information currently available to them, the ultimate liability can vary materially as a result of subsequent information and events. Any difference, which may be material, between provisions and subsequent settlements will be dealt with in the accounts of later years.

#### **Commutations**

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

# UNIONAMERICA INSURANCE COMPANY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2010

### 1 ACCOUNTING POLICIES *(continued)*

#### **Run-off Provision**

Provision is made for administration and other costs estimated to be incurred during the period of the run-off to the extent these costs will not be covered by future investment income

#### **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.

#### **Investment income, expenses and charges**

Investments are shown at market value. Debt securities and other fixed-income securities and shares and other variable-yield securities and units in unit trusts are stated at market value at the close of business on the balance sheet date, or on the last trading day before that date.

Investment income is accounted for on an accrual basis. Interest is accrued up to the balance sheet date. Realised investment gains and losses comprise the difference between net sale proceeds and previous valuation unless acquired during the year.

#### **Currency translation**

All revenue transactions during the year denominated in currencies other than United States dollars are recorded at the rates ruling at that time. Monetary assets and liabilities denominated in currencies other than United States dollars are translated into dollars at the exchange rates ruling at the year-end. Differences on exchange are recorded in the profit and loss account.

The results and financial position are presented in the same currency as the primary economic environment in which it operates (its functional currency). The presentational currency is US dollars.

# UNIONAMERICA INSURANCE COMPANY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2010

### 1 ACCOUNTING POLICIES *(continued)*

#### **Taxation**

Current tax, including UK corporation and foreign tax, is provided at amounts expected to be paid (or recovered) using tax rates and laws that have been enacted or substantively enacted by the balance sheet date. The charge for taxation is based on the profit/(loss) for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

#### **Restatement of prior year comparatives**

The Company has made a decision to no longer allocate an investment return to the general insurance business technical account in order to bring the Company in line with Group policy. As a result the prior year comparative has been restated. The restatement of comparatives has no impact on the profit retained for the financial year. See note 13.

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

Management has established reserves for asbestos and environmental claims based upon known facts, current law and management's judgement. However, the uncertainties surrounding the final resolution of these claims continue, and it is difficult to determine the ultimate exposure for the asbestos and environmental claims and related litigation. As a result, the reserves are subject to revision as new information becomes available and claims develop.

The continuing uncertainties include, without limitation, the risks and lack of predictability inherent in complex litigation, any impact from the bankruptcy protection sought by various asbestos producers and other asbestos defendants, a further increase or decrease in asbestos and environmental claims which cannot now be anticipated, the role of any umbrella or excess policies the Company has issued, the resolution or adjudication of some disputes pertaining to the amount of available coverage for asbestos and environmental claims in a manner inconsistent with the Company's previous assessment of these claims, the number and outcome of direct actions against the Company and further developments pertaining to the environmental claims.

In addition, the Company's asbestos-related claims and claims adjustment expense experience has been impacted by the exhaustion or unavailability due to insolvency of other insurance sources potentially available to policyholders along with the insolvency or bankruptcy of other defendants. It is also not possible to predict changes in the legal and legislative environment and their impact on the future development of asbestos and environmental claims. This development will be affected by future court decisions and interpretations, as well as changes in applicable legislation, including legislation related to asbestos reform.

It is also difficult to predict the ultimate outcome of large coverage disputes until settlement negotiations near completion and significant legal questions are resolved or, failing settlement, until the dispute is adjudicated. This is particularly the case with policyholders in bankruptcy where negotiations often involve a large number of claimants and other parties and require court approval to be effective. As part of its continuing analysis of asbestos reserves, which includes an annual ground-up review of asbestos policyholders, the Company continues to study the implications of these and other developments.

Because of the uncertainties set forth above, additional liabilities may arise for amounts in excess of the current asbestos and environmental reserves. In addition, the Company's estimate of claims and claim adjusting expenses may change. These additional liabilities and increases in estimates, or a range of either, cannot now be reasonably estimated and could result in income statement charges that could be material to the Company's operating results and financial condition in future period.

# UNIONAMERICA INSURANCE COMPANY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2010

### 3. SEGMENTAL INFORMATION

Analysis of gross premiums written and earned, gross claims incurred, gross operating expenses, reinsurance balance and the result All business was written in the UK There is no analysis by situs of risk

| Year ended 31 December 2010       | Gross<br>premiums<br>written<br>US\$000 | Gross<br>premiums<br>earned<br>US\$000 | Gross<br>claims<br>incurred<br>US\$000 | Gross<br>operating<br>expenses<br>incurred<br>US\$000 | Reinsurance<br>balance<br>US\$000 | Under-<br>writing<br>profit<br>US\$000 |
|-----------------------------------|---|--|--|---|-----------------------------------|--|
| <b>Direct insurance:</b>          |   |  |  |   |                                   |  |
| Fire and other damage to property | -                                       | -                                      | 1,305                                  | (79)  | (5)                               | 1,221                                  |
| Third-party liability             | 2                                       | 2                                      | (8,158)                                | (1,011)   | (3,535)                           | (12,702)                               |
|                                   | <u>2</u>                                | <u>2</u>                               | <u>(6,853)</u>                         | <u>(1,090)</u>  | <u>(3,540)</u>                    | <u>(11,481)</u>                        |
| <b>Reinsurance</b>                | 3,240                                   | 3,240                                  | 97,788                                 | (12,077)  | (20,975)                          | 67,976                                 |
|                                   | <u>3,242</u>                            | <u>3,242</u>                           | <u>90,935</u>                          | <u>(13,167)</u>                                       | <u>(24,515)</u>                   | <u>56,495</u>                          |

| Year ended 31 December 2009       | Gross<br>premiums<br>Written<br>US\$000 | Gross<br>premiums<br>earned<br>US\$000 | Gross<br>claims<br>incurred<br>US\$000 | Gross<br>operating<br>expenses<br>Incurred<br>US\$000 | Reinsurance<br>balance<br>US\$000 | Under-<br>writing<br>loss<br>US\$000 |
|-----------------------------------|---|--|--|---|-----------------------------------|--------------------------------------|
| <b>Direct insurance:</b>          |   |  |  |   |                                   |                                      |
| Fire and other damage to property | 24                                      | 24                                     | 1,148                                  | (124)   | (2,165)                           | (1,117)                              |
| Third-party liability             | 22                                      | 22                                     | 4,738                                  | (412)   | 16,697                            | 21,045                               |
|                                   | <u>46</u>                               | <u>46</u>                              | <u>5,886</u>                           | <u>(536)</u>  | <u>14,532</u>                     | <u>19,928</u>                        |
| <b>Reinsurance</b>                | (230)                                   | (230)                                  | 41,585                                 | (8,871)   | (7,398)                           | 25,086                               |
|                                   | <u>(184)</u>                            | <u>(184)</u>                           | <u>47,471</u>                          | <u>(9,407)</u>  | <u>7,134</u>                      | <u>45,014</u>                        |

The net assets and investment income are not managed at a class level, and therefore are not included in the segmental analysis



# UNIONAMERICA INSURANCE COMPANY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2010

### 4. PRIOR YEARS' CLAIMS PROVISIONS

(Under)/over provisions for claims provisions at the beginning of the period compared with payments and provisions at the end of the period in respect of prior years' claims net of ceded reinsurance are represented by the claims incurred net of reinsurance figure in the Profit and Loss Technical Account

### 5. CLAIMS OUTSTANDING

Claims outstanding as at the balance sheet date were as follows

|                    | <b>Gross<br/>US\$000</b> | <b>Reinsurance<br/>US\$000</b> | <b>Net<br/>US\$000</b> |
|--------------------|--------------------------|--------------------------------|------------------------|
| <b>2010</b>        |                          |                                |                        |
| Claims outstanding | 592,462                  | 89,825                         | 502,637                |
| <b>2009</b>        |                          |                                |                        |
| Claims outstanding | 824,983                  | 164,243                        | 660,740                |

The movement in net claims outstanding in the year was

|  | <b>2010<br/>US\$000</b> | <b>2009<br/>US\$000</b> |
|--|-------------------------|-------------------------|
| Net claims outstanding as at 1 January   | 660,740                 | 774,614                 |
| Translation adjustment                   | (4,995)                 | 17,495                  |
|  | <u>655,745</u>          | <u>792,109</u>          |
| Claims incurred, net of reinsurance      | (65,986)                | (53,642)                |
| Claims payments, net of reinsurance      | (87,122)                | (77,727)                |
| Net claims outstanding as at 31 December | <u>502,637</u>          | <u>660,740</u>          |

# UNIONAMERICA INSURANCE COMPANY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2010

### 6. NET OPERATING EXPENSES

|  | 2010<br>US\$000 | 2009<br>US\$000 |
|--|-----------------|-----------------|
| Gross acquisition costs                | 278             | 150             |
|  | <u>278</u>      | <u>150</u>      |
| Administration expenses                | 12,889          | 9,257           |
| Gross operating expenses               | <u>13,167</u>   | <u>9,407</u>    |
| Reinsurance commissions                | (28)            | (5)             |
|  | <u>13,139</u>   | <u>9,402</u>    |
| Included in net operating expenses are |                 |                 |
|  | 2010<br>US\$000 | 2009<br>US\$000 |
| Auditor's remuneration in respect of   |                 |                 |
| Audit of these financial statements    | 395             | 438             |
| Other services                         | 6               | 5               |

### 7 INVESTMENT INCOME

|                                    | 2010<br>US\$000 | 2009<br>US\$000 |
|------------------------------------|-----------------|-----------------|
| Income from investments            | 27,344          | 30,410          |
| Realised investment gains/(losses) | 4,584           | (6,096)         |
|                                    | <u>31,928</u>   | <u>24,314</u>   |

### 8. OTHER INCOME

|   | 2010<br>US\$000 | 2009<br>US\$000 |
|---|-----------------|-----------------|
| Other income                              | 49              | 118             |
| Profit on translation of foreign currency | -               | 5,190           |
|   | <u>49</u>       | <u>5,308</u>    |

### 9. INVESTMENT EXPENSES AND CHARGES

|                               | 2010<br>US\$000 | 2009<br>US\$000 |
|-------------------------------|-----------------|-----------------|
| Investment management charges | 1,348           | 402             |
|                               | <u>1,348</u>    | <u>402</u>      |

# UNIONAMERICA INSURANCE COMPANY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2010

### 10. OTHER CHARGES

|   | 2010<br>US\$000 | 2009<br>US\$000 |
|---|-----------------|-----------------|
| Loss on translation of foreign currency | 469             | -               |
|   | <u>469</u>      | <u>-</u>        |

### 11. EMPLOYEES

The Company does not employ any staff and all services to the Company were provided by Enstar (EU) Limited, a fellow group undertaking. The charges associated with these management agreements have been fully included within these financial statements (see note 21).

### 12. DIRECTORS' EMOLUMENTS

|                       | 2010<br>US\$000 | 2009<br>US\$000 |
|-----------------------|-----------------|-----------------|
| Directors' emoluments | 15              | -               |
|                       | <u>15</u>       | <u>-</u>        |

The emoluments of the highest paid director, Mr P Van Vuuren, were US\$15,000 (2009: US\$nil). There is no accrued benefit under any defined benefit scheme.

The directors' emoluments are fees paid in respect of the non-executive directors. The remaining executive 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 Enstar group and they receive no remuneration as executive directors of this company. Disclosures regarding directors' emoluments and staff costs are contained in the financial statements of Enstar (EU) Limited.

### 13. PRIOR YEAR ADJUSTMENT

The Company has made a decision to no longer allocate an investment return to the general insurance business technical account. As a result, the prior year comparative has been restated. The comparative figures in the technical and non-technical account have been restated to reflect the new policy. The restatement of comparatives has no impact on the profit retained for the financial year.

# UNIONAMERICA INSURANCE COMPANY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2010

### 14. TAXATION

#### (a) Analysis of charge in the year

|   | 2010<br>US\$000 | 2009<br>US\$000 |
|---|-----------------|-----------------|
| Current tax charge                        |                 |                 |
| UK corporation tax on profit for the year | 27,022          | 20,442          |
| Adjustments in respect of prior periods   | (675)           | -               |
|   | <u>26,347</u>   | <u>20,442</u>   |
| Foreign tax                               | 85              | 262             |
| Total current tax on profit for the year  | <u>26,432</u>   | <u>20,704</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<br>US\$000 | 2009<br>US\$000 |
|---|-----------------|-----------------|
| Reconciliation of the current tax charge required under FRS 19  |                 |                 |
| Profit on ordinary activities before taxation   | 100,378         | 88,860          |
| Profit on ordinary activities before taxation multiplied by the standard rate of corporation taxation of 28% (2009 28%) | <u>28,106</u>   | <u>24,881</u>   |
| Use of brought forward losses   | -               | (142)           |
| Non taxable income  | (151)           | -               |
| Group relief surrendered for nil consideration  | (977)           | (2,422)         |
| Overseas tax  | 85              | -               |
| Reversal of timing differences on technical provisions  | -               | (1,636)         |
| Capital allowances in excess of depreciation  | (5)             | -               |
| Disallowed expenses   | 49              | 23              |
| Prior year corporation tax  | (675)           | -               |
| Tax charge for the period   | <u>26,432</u>   | <u>20,704</u>   |

The company has no tax losses arising in the UK (2009 US\$nil) that are available for offset against future taxable profits of the same trade, and there are no deferred tax assets or liabilities (2009. US\$nil)

# UNIONAMERICA INSURANCE COMPANY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2010

### 15. OTHER FINANCIAL ASSETS

(a) The Company's investments, which are shown at market value, are as follows

|   | 2010<br>US\$000<br>Market<br>Value | 2009<br>US\$000<br>Market<br>Value |
|---|------------------------------------|------------------------------------|
| Shares & other variable yield securities          | 108,246                            | 39,340                             |
| Debt securities and other fixed income securities | 542,170                            | 754,194                            |
| Deposits with credit institutions                 | 151,519                            | 228,507                            |
|   | <u>801,935</u>                     | <u>1,022,041</u>                   |
| Cash at bank and in hand                          | 40,592                             | 14,978                             |
|   | <u>842,527</u>                     | <u>1,037,019</u>                   |

All investments are carried at market value and are assessed at bid price

(b) Collateral deposits

Investments amounting to US\$13,507,875 (2009 US\$16,206,822) have been deposited with a third party to secure certain overseas liabilities

Investments amounting to US\$148,879,261 (2009 US\$202,536,725) are held in a US trust fund required by virtue of the Company's accredited reinsurer status in a number of US jurisdictions

### 16. OTHER DEBTORS

|   | 2010<br>US\$000 | 2009<br>US\$000 |
|---|-----------------|-----------------|
| Amounts receivable from fellow group undertakings | 129,924         | 1,940           |
| Taxation recoverable                              | -               | 10              |
| Other debtors                                     | 7,638           | 988             |
|   | <u>137,562</u>  | <u>2,938</u>    |

### 17 INDEMNITIES, CONTINGENT LIABILITIES AND COMMITMENTS

In the normal course of business, letters of credit to the value of US\$23,303,230 (2009 US\$27,297,555) have been issued to policyholders against insurance liabilities. The letters of credit have been collateralised with bank deposits of US\$988,878 (2009 US\$1,181,824) and investments of US\$23,366,678 (2009 US\$31,821,607)

# UNIONAMERICA INSURANCE COMPANY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2010

### 18. OTHER CREDITORS INCLUDING TAXATION AND SOCIAL SECURITY

|                                    | 2010<br>US\$000 | 2009<br>US\$000 |
|------------------------------------|-----------------|-----------------|
| Amounts owed to group undertakings | 1,516           | 4               |
| UK corporation tax                 | 16,376          | 21,094          |
| Other creditors                    | 1,225           | 1,510           |
|                                    | <u>19,117</u>   | <u>22,608</u>   |

### 19. SHARE CAPITAL

|   | 2010<br>US\$000 | 2009<br>US\$000 |
|---|-----------------|-----------------|
| Authorised<br>110,000,000 (2009 110,000,000) ordinary shares of US\$1 each                    | 110,000         | 110,000         |
| Allotted, issued and fully paid<br>86,968,123 (2009 86,968,123) ordinary shares of US\$1 each | <u>86,968</u>   | <u>86,968</u>   |

### 20. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

|                               | 2010<br>US\$000 | 2009<br>US\$000 |
|-------------------------------|-----------------|-----------------|
| Opening shareholders' funds   | 376,971         | 308,815         |
| Profit for the financial year | 73,946          | 68,156          |
| Closing shareholders' funds   | <u>450,917</u>  | <u>376,971</u>  |

### 21. MANAGEMENT COMPANY

The Company has no employees and all services were provided to the Company by Enstar Limited and Enstar (EU) Limited with which the Company has a management agreement

No loans were made to the directors or officers of the Company (2009 US\$nil)

### 22. RELATED PARTY TRANSACTIONS

The Company has taken advantage of the exemption, contained in Financial Reporting Standard 8, from disclosing transactions with other group companies or with related parties in which the Company has no investments

# **UNIONAMERICA INSURANCE COMPANY LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS**

**Year ended 31 December 2009**

### **23. POST BALANCE SHEET EVENTS**

On 1 March 2011, following regulatory approval, the Board approved an \$81m distribution to the Company's immediate parent. The company is undertaking a restructuring of its Shareholders' Funds enabling the payment of the dividend to be made from distributable reserves.

### **24. IMMEDIATE AND ULTIMATE PARENT COMPANY**

The immediate parent undertaking of the smallest group of which the Company is a member is Unionamerica Holdings Ltd, a company incorporated in Great Britain.

The ultimate parent undertaking of the largest group of which the Company is a member and for which consolidated accounts have been prepared is Enstar Group Limited, a company incorporated in Bermuda. The consolidated financial statements of both parent undertakings are available to the public and may be obtained from the Company's office at Avaya House, 2 Cathedral Hill, Guildford, Surrey GU2 7YL.

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.

[www.sec.gov](http://www.sec.gov)