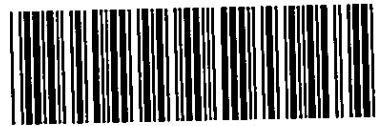


CATLIN (THREE) LIMITED
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2009

Company Number: 2973419

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CATLIN (THREE) LIMITED

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CATLIN (THREE) LIMITED
COMPANY INFORMATION

Directors

D Ibeson
P Jardine
D Primer
N Freshwater

Company Secretary

E Guyatt

Auditors

PricewaterhouseCoopers LLP
Hay's Galleria
1 Hay's Lane
London
SE1 2RD

Registered office

6th Floor
3 Minster Court
Mincing Lane
London
EC3R 7DD

Registered number

2973419

CATLIN (THREE) LIMITED

DIRECTORS' REPORT

The directors present their report together with the financial statements for the year ended 31 December 2009

Principal activity

The company acts as a corporate member at Lloyd's and is a wholly owned subsidiary of Catlin (North American) Holdings Limited

Business review

The company's participation in the capacity of Syndicate 2003 by year of account is as follows

	Syndicate
	2003
	2007
Capacity provided by the Company (£m)	17.8
Percentage of total syndicate capacity	1.62%

The company has not participated on any subsequent years of account or on any other syndicates

It is the company's objective, when providing capacity to a syndicate, to achieve profitable underwriting operations through the Syndicate. In this respect, the key performance indicators (KPIs) used by the company for the current and prior financial years to analyse achievement of its objective are as follows

	2009	2008
	£m	£m
Gross written premium	(0.5)	0.9
Surplus on technical account – general business	2.9	0.9
Allocated investment income	2.0	(1.6)
Profit on ordinary activities before tax	1.5	1.5

The company did not partake in the 2008 or 2009 years of account and this is reflected in the above KPIs

The company had no employees as at 31 December 2009

Results and dividends

The profit for the year, after tax, amounted to £1.0m (2008: £1.2m). The shareholder's funds total £7.1m (2008: £6.1m).

The directors do not recommend a final dividend (2008: £nil). No dividend was paid during the year (2008: £2.5m).

Directors

The directors who held office during the year were as follows

D. Ibeson
P. Jardine
D. Primer
N. Freshwater

Financial instruments and risk management

The company's financial risk management policies and objectives are established and managed by Catlin Group Limited's Board. Details of the types of financial risks faced by the company and the financial risk management policies and objectives are set out in note 2 to the financial statements.

CATLIN (THREE) LIMITED

DIRECTORS' REPORT

Principal risks and uncertainties

From the perspective of the company, the principal risks and uncertainties are integrated with the principal risks of the group and are not managed separately. Accordingly, the principal risks and uncertainties of Catlin Group Limited, which include those of the company, are discussed in the group's annual report which does not form part of this report.

Investment income

The investment risk policy for the management of syndicate assets seeks to limit risk in absolute terms to a level that is broadly equivalent to that associated with a portfolio of short bonds. By diversifying into other asset classes, where returns are expected to be higher and not closely correlated to that of short bonds, the expected return is increased while risk measured on a value at risk basis is not. Investment policy has been exercised consistently with prior years.

The Syndicates' policy in respect of currency exposures is to match assets and liabilities for major currencies and to avoid exchange rate exposure.

Supplier payment policy

The company has no external suppliers as all services are provided by other group companies and all expenses incurred by the company are settled by inter-company account with Catlin group companies.

Future developments

The company will not participate in Syndicates in the future, and therefore, the company will eventually cease to trade.

Auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office.

PricewaterhouseCoopers LLP are deemed to be reappointed in accordance with an elective resolution made under section 386 of the Companies Act 1985 which continues in force under the Companies Act 2006. Accordingly, PricewaterhouseCoopers LLP will continue as the company's auditors.

Disclosure of information to the auditors

Each of the persons who are a director at the date of this report confirms that

- So far as each director is aware, there is no relevant audit information for which the company's auditors are unaware.
- Each director has taken all the steps that he ought to have taken in his duty as a director in order to make himself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

CATLIN (THREE) LIMITED

DIRECTORS' REPORT

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 and loss of the company for that period.

In preparing those 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,
- 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.

By order of the Board



N Freshwater
Director
21 July 2010

CATLIN (THREE) LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF CATLIN (THREE) LIMITED

We have audited the financial statements of Catlin (Three) Limited for the year ended 31 December 2009 which comprise the Profit and Loss Account, the Balance Sheet and the related notes. 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)

Respective responsibilities of directors and auditors

As explained more fully in the Statement of Directors' Responsibilities on page 5, 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 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.

This report, including the opinions, has been prepared for and only for the company's member as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit

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.

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 2009 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.

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



Andrew Hill (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
21 July 2010

CATLIN (THREE) LIMITED
PROFIT AND LOSS ACCOUNT
TECHNICAL ACCOUNT – GENERAL BUSINESS

For the year ended 31 December	Notes	2009 £m	2008 £m
Technical Account – General Business			
Gross premiums written		(0 5)	0 9
Reinsurance to close premium receivable		-	(1 4)
Total gross premiums written	3	(0 5)	(0 5)
Outward reinsurance premiums		0 3	(0 8)
Net premiums written		(0 2)	(1 3)
Change in the gross provision for earned premiums		1 3	8 0
Change in the gross provision for unearned premiums		(0 7)	(3 7)
Change in the provision for unearned premiums, reinsurers' share		0 6	4 3
Earned premiums net of reinsurance		0 4	3 0
Allocated investment income transferred from the non-technical account	5	2 0	(1 6)
Total technical income		2 4	1 4
Claims incurred, net of reinsurance			
Claims paid			
Gross amount		(11 3)	(8 9)
Reinsurer's share		5 1	2 9
Net of reinsurance		(6 2)	(6 0)
Change in the provision for claims			
Gross amount		11 5	3 9
Reinsurer's share		(4 6)	0 9
Reinsurance to close provision		-	1 4
Net of reinsurance		6 9	6 2
Claims incurred, net of reinsurance		0 7	0 2
Net operating expenses	6	(0 2)	(0 7)
Balance on the general business technical account		2 9	0 9

CATLIN (THREE) LIMITED
PROFIT AND LOSS ACCOUNT
NON-TECHNICAL ACCOUNT

For the year ended 31 December	Notes	2009 £m	2008 £m
Non-Technical Account			
Balance on the general business technical account	-	2 9	0 9
Investment income		1 6	1 2
Unrealised gains on investments		0 7	0 2
Investment expenses and charges		(0 2)	(0 4)
Unrealised losses on investments		(0 1)	(2 6)
	5	<u>2 0</u>	<u>(1 6)</u>
Allocated investment return transferred to the technical account – general business	5	(2 0)	1 6
Other income / (charges)	7	<u>(1 4)</u>	<u>0 6</u>
Profit on ordinary activities before tax	8	1 5	1 5
Tax on profit on ordinary activities	9	(0 5)	(0 3)
		<u>1 0</u>	<u>1 2</u>
Profit for the financial year		<u>1 0</u>	<u>1 2</u>

The turnover and operating profit relates entirely to continued activities as defined by Financial Reporting Standard (FRS) 3

No statement of recognised gains and losses has been disclosed as all gains and losses have been included within the profit and loss account

There are no material differences between the profit on ordinary activities before taxation and the retained profit for the period stated above and their historical cost equivalents

The notes on pages 11 to 28 form part of these financial statements

CATLIN (THREE) LIMITED

BALANCE SHEET

At 31 December	Notes	2009 <u>£m</u>	Restated 2008 <u>£m</u>
ASSETS			
Fixed assets			
Investments	11	22 4	23 7
Reinsurers' share of technical provisions			
Provision for unearned premiums		-	0 7
Claims outstanding		<u>9 2</u>	<u>12 2</u>
		9 2	12 9
Debtors			
Debtors arising out of direct insurance operations		2 1	1 6
Debtors arising out of reinsurance operations		5 0	3 5
Other debtors	12	<u>7 2</u>	<u>7 8</u>
		14 3	12 9
Other assets			
Cash at bank and in hand		2 9	4 2
Prepayments and accrued income			
Deferred acquisition costs		-	0 4
Other prepayments and accrued income		<u>0 1</u>	<u>0 1</u>
		0 1	0 5
TOTAL ASSETS		<u>48 9</u>	<u>54 2</u>

CATLIN (THREE) LIMITED

BALANCE SHEET

At 31 December	Notes	2009 £m	Restated 2008 £m
LIABILITIES			
Capital and reserves			
Called up share capital	15	0 3	0 3
Share premium account	16	2 9	2 9
Profit and loss account	16	3 9	2 9
Total shareholder's funds	17	7 1	6 1
Technical provisions			
Provision for unearned premiums		-	1 4
Claims outstanding		26 0	34 0
		26 0	35 4
Provision for other risks and charges			
Deferred tax	13	2 2	1 6
Deposits received from reinsurers		-	0 2
Creditors			
Creditors arising out of direct insurance operations		0 3	0 2
Creditors arising out of reinsurance operations		9 5	9 1
Other creditors, including taxation and social security	14	3 8	1 5
		13 6	10 8
Accruals and deferred income		-	0 1
TOTAL LIABILITIES		48 9	54 2

The financial statements on pages 7 to 28 were approved by the Board of Directors on 21 July 2010



N Freshwater
Director

The notes on pages 11 to 28 form part of these financial statements

CATLIN (THREE) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

(a) Basis of presentation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost convention, as modified by the revaluation of certain investments, in compliance with SI2008/410 relating to insurance companies, and other requirements of the Companies Act 2006. The company has adopted the guidance on accounting for insurance business set out in the revised Statement of Recommended Practice issued by the Association of British Insurers ("the ABI SORP") in December 2005 (as amended in December 2006).

All accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements.

(b) Cash flow statement

A cash flow statement is not presented under the provisions of Financial Reporting Standard 1 (revised 1996). The company is a subsidiary undertaking where 100% of the voting rights are controlled in the group and the consolidated financial statements in which the results of the subsidiary undertaking are included are publicly available.

(c) Syndicate participation

The reinsurance to close (RITC) is a contract between the Lloyd's members on one syndicate underwriting year of account and the members on another syndicate underwriting year of account (normally the following year of the same syndicate), whereby the members on the earlier year reinsure all their outstanding liabilities with the members on the later year. To the extent that members maintain their interest from one year to the next, there is no economic effect arising from this transaction. However, where members' interests change from one underwriting year of account to the next, and the Company's share of the syndicate changes as a consequence, there is an economic transfer arising from the RITC.

RITC is accounted for in the year in which the contract is signed which is the calendar year after the relevant year of account closes. The company discloses in gross premiums, written and earned, the amount of the RITC received relating to the increase (or decrease) in capacity from one underwriting year of account to the next, along with an equivalent increase (or decrease) in net claims incurred. The recognition of the RITC results in an increase (or decrease) to earned premium that is equally offset by an increase (or decrease) in incurred losses. As a result, there is no impact to the net result. In addition, the recognition of the RITC results in an increase (or decrease) in reinsurance assets that are equally offset by an increase (or decrease) in loss provisions. As a result, there is no impact to net assets.

(d) Insurance and investment contracts – classification

Insurance contracts are those contracts that transfer significant insurance risk. Such contracts may also transfer financial risk.

Investment contracts are those contracts that transfer financial risk with no significant insurance risk.

The company has not issued any investment contracts, as set out above, in this or prior years and has only issued insurance contracts.

The results of the company are determined on an annual basis, whereby the incurred cost of claims, commission and related expenses are charged against the earned proportion of premiums, net of reinsurance as follows:

CATLIN (THREE) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(i) Premiums written

Gross premiums from the sale of general insurance products, including pipeline premiums, are recorded when written and recognised in earnings over the terms of the related policy coverage. Gross premiums written are stated before deduction of commissions but net of taxes and duties levied on premiums. Gross premiums written that have not been collected by the balance sheet date are recognised as debtors on the balance sheet.

Management makes estimates of ultimate gross premiums written which consists of an estimate of ultimate premium for risks written during the calendar year (i.e. an underwriting year). Premium earnings patterns are then applied to the estimated ultimate premium for each underwriting year to determine the amount of earnings that should be recognised in the calendar year. The earnings patterns are applied by class of business and are consistent with the risk profile of the underlying business. As additional premium information is received, variances from previous estimates are reflected in the period identified.

The Syndicates purchase reinsurance protection to mitigate their exposure to insurance risk. The reinsurance premium is recorded when written and is earned over the term of the reinsurance contract or matched to the related direct or inwards reinsurance business, as appropriate.

(ii) Unearned premiums provision

The provision for UEP represents that part of gross premiums written and the reinsurers' share that is estimated to relate to the unexpired term of the related policy coverage.

(iii) Claims incurred

Claims incurred comprise claims and claims handling expenses (both internal and external) paid in the year and the movement in provision for outstanding claims and settlement expenses.

Provision is made at the year end for the estimated cost of claims incurred but not settled at the balance sheet date, including the cost of claims incurred but not reported to the syndicate until after the year end (IBNR). The provision for claims also includes amounts in respect of claims handling costs. When developing the estimate of claims incurred management initially makes estimates of ultimate underwriting year losses which represent the losses related to all policies incepting during a given calendar year. Underwriting year estimated ultimate gross losses are determined for each class of business and include reported losses as well as a provision for IBNR.

When calculating the ultimate estimated cost of unpaid claims, management makes certain assumptions concerning the ultimate settlement of these claims that are generally based on statistical analyses of historical experience combined with analysis based on exposure where appropriate. In most instances, management assumes the development pattern of current claims will be consistent with past experience. This approach is modified to account for changes or uncertainties which may create distortions in the underlying statistics or which might cause the cost of unsettled claims to vary when compared with the cost of previously settled claims. Examples of such changes are:

- changes in processes which might accelerate or slow down the development and / or recording of paid or incurred claims compared with the statistics from previous periods,
- changes in the legal environment,
- the effects of inflation,
- changes in the mix of business,
- the impact of large losses, and
- movement in industry benchmarks

CATLIN (THREE) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(iii) Claims incurred (continued)

Incurred loss patterns are applied to ultimate gross losses, by class of business, to determine the year in which the losses should be recorded. The incurred loss occurrence patterns for non-catastrophe exposed business are generally consistent with the premium earning patterns of the related business. These patterns give consideration to the actual losses that have arisen during the calendar year and estimates for losses which have been incurred but not yet reported for non-catastrophe exposed business. Inherent in applying these assumptions is the sensitivity of allocation of the provision for ultimate gross and net IBNR between the current and future calendar years. For catastrophe exposed business, the allocation of ultimate losses between years is determined by the accident year in which the loss has occurred.

The estimation of IBNR claims is subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified. Claims IBNR may often not be apparent until many years after the event giving rise to the claims has occurred. Classes of business where the IBNR proportion of the total reserve is high, such as liability business, will typically display greater variations between initial estimates and final outcomes as a result of the greater degree of difficulty in estimating these reserves. Actual paid losses generally vary less from the initial loss reserve for classes of business where claims are typically reported relatively quickly after the claim event, such as property business.

Provisions are calculated gross of any reinsurance recoveries. A separate estimate is made of the reinsurers' share of provisions for claims based on calculated amounts for outstanding claims and projections to IBNR, net of estimated uncollectible amounts. The estimate of reinsurance recoveries (including IBNR) is based on the relevant reinsurance programme in place for the calendar year in which the related losses have been incurred. Amounts recoverable from reinsurers are estimated in a manner consistent with the claim reserves associated with the reinsured policy. An estimate for potential bad debts is provided to reduce the carrying value of reinsurance assets to their net recoverable amount.

The Board considers the loss reserves and related reinsurance recoveries to be fairly stated, based on the information currently available. The ultimate liability will vary as a result of inherent uncertainties and may result in significant adjustments to the amounts provided.

(e) Unexpired risks provision

A provision for unexpired risks is made where claims and related expenses arising after the end of the financial period in respect of contracts concluded before that date, are expected to exceed the unearned premiums and premiums receivable under these contracts, after the deduction of any acquisition costs deferred.

The provision for unexpired risks is calculated by reference to classes of business which are managed together, after taking into account relevant investment return.

(f) Investment return

Investment return is comprised of interest income, realised gains and losses and the current year change in unrealised gains on financial investments classified as fair value through income. All cash inflows arise from underwriting activities and consequently all the investment return is allocated to the technical account.

All financial investments are held for trading and classified as fair value through income. For financial investments classified as fair value through income, realised gains and losses represent the difference between net sales proceeds and the purchase price (if acquired during the year), or fair value at the previous year-end. Unrealised gains and losses represent the difference between the market value at the end of the year and the purchase price (if acquired during the year), or fair value at the previous year-end.

CATLIN (THREE) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(g) Net operating expenses

(i) Brokerage and other acquisition costs

Brokerage and other acquisition costs include commissions, underwriting and policy issue expenses that are directly related to the production of new and renewal business. Such acquisition costs are deferred, to the extent they are recoverable, and amortised over the life of the related contracts.

(ii) Administrative costs

The Company's share of syndicate and administrative expenses, including finance costs, is recognised in the profit and loss account as incurred.

(iii) Other charges

Other charges are recognised in the profit and loss account as incurred.

(h) Foreign currencies

Items included in the financial statements are measured using the currency of the primary economic environment in which the company operates (the functional currency). The financial statements are presented in pounds sterling, which is the company's functional and presentational currency.

Foreign transactions are translated into the functional currency using average rates of exchange as a proxy for the transactional rates. Foreign exchange (FX) gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies, except available for sale securities, are recognised in the profit and loss account. Non-monetary assets and liabilities, including deferred acquisition costs (DAC) and unearned premium (UEP), are translated at the FX prevailing at the time of the original transaction and are not re-translated at each year-end.

(i) Financial assets

Financial assets comprise investments, reinsurers' share of technical provisions, debtors and cash.

(i) Investments

Investments are recognised and de-recognised on the trade date. Investments held by the company comprise investment securities held for trading that are classified as "fair value through income" and are carried at fair value. Fair values are determined by reference to published bid prices. Fair value through income investments include debt and equity securities that are managed to maximise total return. For investments designated as fair value through income, the change in fair value is recognised in the profit and loss account.

(ii) Derivative financial instruments

Syndicate 2003 uses derivative financial instruments to mitigate exposure to changes in FX rates. Cash flow derivatives are purchased to protect future distribution of foreign currency profits paid in sterling from the syndicate to members (including the Company). These FX cash flow derivatives are recorded at their fair value at the date of the contract and subsequent changes in fair value are recognised in the profit and loss account. The fair value of all derivative financial instruments is obtained from independent valuation sources and is disclosed within Investments.

CATLIN (THREE) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(iii) Reinsurers' share of technical provisions

Reinsurers' share of technical provisions include unearned reinsurance premiums and amounts recoverable from reinsurers in respect of unpaid losses including IBNR losses and loss adjustment expenses. Amounts recoverable from reinsurers are recorded gross in the balance sheet, unless a legally enforceable right of offset exists and it is management's intention to settle on a net basis. The Group considers qualitative and quantitative factors, such as reinsurers' Standard & Poor's (S&P) ratings and overall financial condition, when assessing the recoverability of amounts due from reinsurers. When a reinsurance debtor is considered impaired, a provision is provided to reduce the carrying value to its net recoverable amount.

(iv) Debtors

Receivable balances are carried at their estimated net recoverable amount. Debtors arising out of direct insurance operations comprise mainly premiums due on direct insurance contracts but also include claim refunds. Debtors arising out of reinsurance operations comprise amounts recoverable from reinsurers on paid claims and premiums due from the reinsured on reinsurance contracts.

(v) Cash at bank

Cash at bank comprises deposits with banks and financial institutions and includes investments with original maturities of three months or less, including other short-term highly liquid investments.

(j) Impairment of financial assets

Assets that are subject to amortisation or depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value, less costs to sell, or its value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

(k) Deferred taxation

Full provision is made for deferred tax assets and liabilities arising from all timing differences between the recognition of gains and losses in the financial statements and recognition in the tax computation.

A net deferred tax asset is recognised only if it can be regarded as 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 assets and liabilities are not discounted.

CATLIN (THREE) LIMITED
NOTES TO THE FINANCIAL STATEMENTS

2. FRS 29 'FINANCIAL INSTRUMENTS: DISCLOSURES:

Financial risk management objectives

"The Syndicate" refers to the continuing operations of Syndicate 2003

The Syndicate is exposed to a range of financial risks through its financial assets, insurance liabilities and reinsurance assets. In particular, the key financial risk is that the proceeds from financial assets are not sufficient to fund the obligations arising from insurance policies as they fall due. The most important components of this financial risk are market risk (including interest rate risk, equity price risk and currency risk), credit risk and liquidity risk.

These risks arise from open position in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The risks that the Syndicate primarily faces due to the nature of its investments and liabilities are interest rate risk and equity price risk.

The Syndicate's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Syndicate's financial performance. It manages these positions within a risk management framework ("the framework") that has been developed to ensure that investment proceeds and returns are in excess of obligations under insurance contracts. The Syndicate produced regular reports at a legal entity level that are circulated to the management of the Managing Agency. The principal technique of the Syndicate's framework is to match assets and liabilities from insurance contracts by reference to the type of benefits payable to contract holders. The Syndicate's framework is also integrated with the management of the financial risks associated with the Syndicate's other financial assets and liabilities not directly associated with insurance liabilities.

The Syndicate has not changed the processes used to manage its risks from previous periods. The notes that follow explain how financial risks are managed using the categories utilised in the Syndicate framework. All of the Syndicate's financial assets and liabilities are designated as fair value through profit or loss on recognition as defined in FRS26.

(a) Market risk

(i) Interest rate risk

Interest rate risk arises primarily from investments in fixed interest securities. In addition to the extent that claims inflation is correlated to interest rates, liabilities to policyholders are exposed to interest rate risk.

The Syndicate monitors interest rate risk on a quarterly basis by calculating the mean duration of the investment portfolio. The mean duration is an indicator of the sensitivity of the assets and liabilities to changes in current interest rates. The mean duration of the liabilities is determined by means of projecting expected cash flows using standard actuarial claims projection techniques. This is calculated in a consistent manner with the prior year.

The sensitivity analysis for interest rate risk illustrates how changes in the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates at the reporting date.

An increase or decrease of 10 basis points in interest yields would not have a significant impact on profit.

CATLIN (THREE) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(ii) Equity Price risk

The Syndicate is exposed to equity securities price risk as a result of its holdings in unitised equity investments, classified as financial assets at fair value through profit or loss. The Syndicate has no direct equity holdings. Exposures to individual companies and to equity shares in aggregate are monitored in order to ensure compliance with the relevant regulatory limits for solvency purposes. Investments held are listed and traded on the UK and other recognised stock exchanges.

The Syndicate has a defined investment policy which sets limits on the Syndicate's exposure to equities both in aggregate terms and by geography, industry and counterparty. This policy of diversification is used to manage the Syndicate's price risk arising from its investments in equity securities.

As at 31 December 2009 the Syndicate had no equity investments (2008: £0.9m of which 85.9% were listed securities). If equity market indices had increased/decreased by 5%, with all other variables held constant, and all the Syndicate's equity investments moving according to the historical correlation with the index, the profit for the year would increase/decrease by £nil (2008: £0.1m).

(iii) Currency risk

The Syndicate manages its foreign exchange risk against its main functional currency. Foreign exchange arises when future commercial transactions or recognised assets and liabilities are denominated in a currency that is not the entity's functional currency.

The Syndicate is primarily exposed to currency risk in respect of liabilities under policies of insurance denominated in currencies other than Sterling. The most significant currency to which the Syndicate is exposed is the US Dollar. The Syndicate seeks to mitigate the risk by matching the estimated foreign currency denominated liabilities with assets denominated in the same currency. The Syndicate also uses currency forward deals which have the economic effect of converting certain US Dollar exposures at floating rates to fixed rates.

At 31 December 2009, if the pound had weakened/strengthened by 4% against the US Dollar with all other variables held constant, profit for the year would have been £nil (2008: £0.1m) higher/lower, mainly as a result of foreign exchange gains/losses on the translation of US Dollar profits.

(b) Credit Risk

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due. Key areas where the Syndicate is exposed to credit risk are:

- reinsurers' share of insurance liabilities,
- amounts due from reinsurers in respect of claims already paid,
- amounts due from insurance contract holders,
- amounts due from insurance intermediaries,
- amounts due from issuers of debt securities, and
- counterparty risk with respect to derivative transactions.

The Syndicate manages the levels of credit risk it accepts by placing limits on its exposure to a single counterparty, or groups of counterparty, and to geographical and industry segments. Such risks are subject to regular review.

CATLIN (THREE) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(b) Credit Risk (continued)

Limits on the level of credit risk by category and territory are approved quarterly by management. Reinsurance is used to manage insurance risk. This does not, however, discharge the Syndicate's liability as primary insurer. If a reinsurer fails to pay a claim, the Syndicate remains liable for the payment to the policyholder. The creditworthiness of reinsurers is considered on an annual basis by reviewing their financial strength prior to finalisation of any contract. In addition, management assesses the creditworthiness of all reinsurers and intermediaries by reviewing credit grades provided by rating agencies and other publicly available financial information. The recent payment history of reinsurers is also used to update the reinsurance purchasing strategy. In certain circumstances, deposits from reinsurers are also held as collateral.

Exposures to individual policyholders and groups of policyholders are collected within the ongoing monitoring of the controls associated with regulatory solvency.

The assets bearing credit risk are summarised below, together with an analysis by credit rating.

	2009 £m	Restated 2008 £m
Shares & other variable yield securities & units in unit trusts	5.9	8.5
Debt securities & other fixed income securities	15.2	15.1
Deposits with credit institutions	0.9	0.1
Overseas deposits as investments	0.4	-
Cash at bank and in hand	2.9	4.2
Debtors arising out of direct insurance operations	2.1	1.6
Debtors arising out of reinsurance operations	5.0	3.5
Total assets bearing credit risk	32.4	33.0

	2009 £m	Restated 2008 £m
AAA	11.3	13.1
AA	2.3	1.7
A	4.6	4.1
BBB	0.4	0.4
Below BBB or not rated	0.8	0.1
Shares & other variable yield securities & units in unit trusts	5.9	8.5
Debtors arising out of direct insurance operations	2.1	1.6
Debtors arising out of reinsurance operations	5.0	3.5
Total assets bearing credit risk	32.4	33.0

The assets bearing credit risk for the 2008 comparables have been restated to disclose all assets that are subject to credit risk, and include the credit ratings for cash at bank.

The concentration of credit risk is substantially unchanged compared to prior year. No credit limits were exceeded during the period. The Syndicate maintains strict control limits on open derivative positions, by both amount and term. The amount subject to credit risk at any one time is limited to the current fair value of derivative financial assets.

CATLIN (THREE) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(c) Liquidity Risk

Liquidity risk is the risk that cash may not be available to pay obligations when due at a reasonable cost. The primary liquidity risk of the Syndicate is the obligation to pay claims as they fall due. The projected settlement of these liabilities is modelled, on a regular basis, using actuarial techniques.

Syndicate 2020 is closing into Catlin Syndicate 2003 and this corporate name has no active participation in Syndicate 2003 beyond the 2007 year of account, hence no ageing analysis is provided.

(d) Capital Management

The Syndicate maintains a capital structure in holdings of Funds at Lloyd's (FAL) consistent with the Syndicate's risk profile and the regulatory and market requirements of its business.

The Syndicate's objectives in managing its capital are:

- to match the profile of its assets and liabilities, taking account of the risks inherent in the business,
- to maintain financial strength,
- to satisfy the requirements of its policyholders, regulators and rating agencies,

As the Syndicate is in run-off, it does not undergo a process of active capital management except in respect of monitoring the run off of current business.

The Syndicate is regulated by Lloyd's and the Financial Services Authority and the Syndicate is subject to insurance solvency regulations which specify the minimum amount and type of capital that must be held in addition to the insurance liabilities.

(e) Fair value estimation

Effective 1 January 2009, the Syndicate adopted the amendment to FRS29. This requires, for financial instruments held at fair value in the balance sheet, disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1)
- Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2)
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3)

The following table presents the company's holdings of assets and liabilities measured at fair value at 31 December 2009.

	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
Assets				
Fair value through profit or loss				
Shares & other variable yield securities & units in unit trusts	-	4.9	1.0	5.9
Debt securities & other fixed income securities	-	15.0	0.2	15.2
	-	19.9	1.2	21.1

CATLIN (THREE) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(e) Fair value estimation (continued)

The fair value of financial instruments traded in active markets is based on quoted bid prices at the balance sheet date as described in the accounting policies. These instruments are included within Level 1. Instruments in Level 1 comprise primarily exchange traded derivatives.

The Syndicate closely monitors the valuation of assets in markets that have become less liquid. Determining whether a market is active requires exercise of judgement and is determined based upon the facts and circumstances of the market for the instruments being measured. Where it is determined that there is no active market, fair value is established using a valuation technique. The techniques applied incorporate relevant information available and reflect appropriate adjustments for credit and liquidity risks. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. The relative weightings given to differing sources of information and the determination of non-observable inputs to valuation models can require the exercise of significant judgement.

If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:

- The use of observable prices for recent arm's length transactions
- Quoted market prices or dealer quotes for similar investments
- Other techniques, such as discounted cash flow analysis and other pricing models

At 31 December 2009 all the resulting fair value estimates are included in Level 2 except for hedge funds with significant redemption restrictions, collateralised debt obligations ("CDO"), sub-prime securities, Alt A securities and securities rated CCC and below, as detailed below.

In 2009, £0.1m of securities were transferred from Level 2 to Level 3. This is due to lack of observable market data due to a decrease in market activity for these securities.

£nil of securities were transferred from Level 3 to Level 2. This is due to a security no longer being classed as ALT-A and holding a S&P rating of AAA.

The following table presents the changes in Level 3 instruments for the year ended 31 December 2009.

	<i>Debt securities & other fixed income securities</i>	<i>Shares & other variable yield securities & units in unit trusts</i>
	<i>£m</i>	<i>£m</i>
As at 1 January 2009	0.2	1.0
Total net (losses)/gains included in income	-	0.3
Net (disposals)/purchases	-	(0.2)
Level 3 transfers in	-	-
Foreign exchange	-	(0.1)
As at 31 December 2009	0.2	1.0
Amounts of net (losses)/gains relating to balances still held at year end	-	0.3

CATLIN (THREE) LIMITED
NOTES TO THE FINANCIAL STATEMENTS

3 SEGMENTAL ANALYSIS

An analysis of the balance on the technical account before investment return is set out below
2009

	Gross premiums written £m	Gross premiums earned £m	Gross claims incurred £m	Gross operating expenses £m	Re- insurance balance £m	Total £m
Accident and health	-	-	-	-	-	-
Marine, aviation and transport	(0 1)	-	-	-	-	-
Fire and other damage to property	(0 1)	0 3	0 1	(0 1)	0 1	0 4
Third-party liability	(0 1)	0 2	-	-	-	0 2
Reinsurance acceptances	(0 2)	0 2	0 1	(0 1)	-	0 2
Other direct	-	0 1	-	-	-	0 1
RITC	-	-	-	-	-	-
Total	(0 5)	0 8	0 2	(0 2)	0 1	0 9

2008

	Gross premiums written £m	Gross premiums earned £m	Gross claims incurred £m	Restated Gross operating expenses £m	Re- insurance balance £m	Restated Total £m
Accident and health	-	0 2	(0 1)	-	0 1	0 2
Marine, aviation and transport	-	0 7	(0 7)	-	(0 3)	(0 3)
Fire and other damage to property	0 7	2 2	(2 4)	(0 2)	(0 4)	(0 8)
Third-party liability	0 3	2 2	(1 1)	(0 2)	-	0 9
Reinsurance acceptances	(0 2)	2 2	0 8	(0 2)	0 4	3 2
Other direct	0 1	1 4	(1 5)	(0 2)	(0 5)	(0 8)
RITC	(1 4)	(1 4)	1 9	-	(0 5)	-
Total	(0 5)	7 5	(3 1)	(0 8)	(1 2)	2 4

The segmental analysis in respect of gross operating expenses has been restated for 2008 comparatives, to correctly represent the gross operating expenses excluding any reduction in respect of the reinsurance participations and commissions (note 6)

CATLIN (THREE) LIMITED
NOTES TO THE FINANCIAL STATEMENTS

3 SEGMENTAL ANALYSIS (Continued)

For the purposes of SSAP 25 'Segmental reporting', the Lloyd's insurance market has been treated as one geographical segment. All business is signed and concluded in the UK.

The geographical analysis of gross premiums written by risk location is as follows:

	2009 £m	2008 £m
United Kingdom	(0.1)	0.2
Other EU countries	(0.1)	0.2
Other	(0.3)	0.5
Total gross premiums written	(0.5)	0.9
RITC	-	(1.4)
Total	(0.5)	(0.5)

4 EMPLOYEES AND DIRECTORS

Other than directors the company has no employees. All staff costs are recharged by other group companies.

	2009 £m	Restated 2008 £m
Salaries and related costs	0.1	0.1
	0.1	0.1

Director's emoluments for the year were as follows:

	2009 £'000	Restated 2008 £'000
Aggregate emoluments and other benefits	3.3	4.7
Pension contributions	0.1	0.2
	3.4	4.9
Emoluments of the highest paid director are:		
Aggregate emoluments and other benefits	1.1	1.9
Pension contributions	0.1	0.1
	1.2	2.0

Directors' emoluments are Catlin (Three) Limited's share of the total emoluments charged to the Syndicate 2003 for services provided to the Syndicate. Directors' emoluments are paid by other group companies and recharged by way of management fee based on the best estimate of time spent on the Syndicate's activities.

For the purposes of this note, there has been a change in the methodology of allocating directors' emoluments to individual entities which has consequently led to a restatement of the 2008 comparatives.

CATLIN (THREE) LIMITED
NOTES TO THE FINANCIAL STATEMENTS

5. INVESTMENT RETURN

	2009 £m	2008 £m
Investment income		
Income from investments	1 2	1 1
Gains on realisation of investments	0 4	0 1
	<u>1 6</u>	<u>1 2</u>
Investment expenses and charges		
Losses on realisation of investments	(0 2)	(0 4)
	<u>(0 2)</u>	<u>(0 4)</u>
Net unrealised gains/(losses) on investments	0 6	(2 4)
	<u>2 0</u>	<u>(1 6)</u>
Total investment return		

6. NET OPERATING EXPENSES

	2009 £m	Restated 2008 £m
Brokerage and other business and acquisition costs	-	0 2
Change in deferred acquisition costs	0 4	1 3
	<u>0 4</u>	<u>1 5</u>
Foreign exchange (gain)/loss	(0 2)	(0 8)
Administration expenses	-	0 1
Reinsurance participations and commissions	-	(0 1)
	<u>0 2</u>	<u>0 7</u>

For the purposes of this note, expenses have been grossed out to present all categories of expenses included within net operating expenses, which has subsequently led to a restatement of 2008 comparatives. This change has no impact on the balances disclosed in the primary statements.

7. OTHER INCOME/CHARGES

	2009 £m	2008 £m
Group interest payable and similar charges, net of foreign exchange effects	0 3	0 4
Foreign exchange (gains)/losses	1 1	(1 0)
	<u>1 4</u>	<u>(0 6)</u>

CATLIN (THREE) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

8. PROFIT ON ORDINARY ACTIVITIES BEFORE TAX

	2009 £	2008 £
Profit on ordinary activities before tax is stated after charging		
Foreign exchange (gains) losses	0.9	(1.8)

The auditors' remuneration for the year of £2,500 (2008 £8,298) has been borne by another group company

9. TAX ON PROFIT ON ORDINARY ACTIVITIES

	2009 £m	2008 £m
Corporation tax charge on profits for the year	-	0.2
Adjustment in respect of prior periods	(0.2)	(0.9)
	(0.2)	(0.7)
Foreign tax charge on profits for the year	0.1	-
Adjustment in respect of prior periods	-	-
	0.1	-
Current tax charge/(credit) for the year	(0.1)	(0.7)
Deferred tax charge (note 13)	0.6	1.0
Tax on profit on ordinary activities	0.5	0.3

The tax assessed for the year is lower (2008 lower) than the standard rate of corporation tax in the UK for the year ended 31 December 2009 of 28% (2008 28%). The differences are explained below

	2009 £m	2008 £m
Profit on ordinary activities before tax	1.5	1.5
Profit on ordinary activities multiplied by standard rate of 28% (2008 28%)	0.4	0.4
Effects of		
Timing differences relating to the recognition of net underwriting (profits)/losses	(0.4)	(0.2)
Adjustments in respect of prior year	(0.2)	(0.9)
Foreign tax	0.1	-
Current tax charge/(credit) for the year	(0.1)	(0.7)

Factors that may affect future tax charges are primarily related to the company's overseas earnings, in particular those from the US, which are subject to tax at different rates to those applicable in the UK

To the extent available corporation tax receivable/payable will be group relieved at full value. The assessment of group relief will be completed at the time of filing the appropriate tax returns

CATLIN (THREE) LIMITED
NOTES TO THE FINANCIAL STATEMENTS

10. DIVIDENDS

	2009 £'000	2008 £'000
Interim dividend paid £nil (2008 £0.78) per £0.10 allotted share	-	2,500

The directors do not recommend a final dividend (2008 £nil)

11. INVESTMENTS

	Carrying value		Purchase price	
	2009	2008	2009	2008
	£m	£m	£m	£m
Debt securities and other fixed income securities	15.2	15.1	14.7	16.5
Deposits with credit institutions	0.9	0.1	0.9	0.1
Overseas deposits as investments	0.4	-	0.4	-
Shares, other variable yield securities and unitised trust funds	5.9	8.5	5.6	10.2
	22.4	23.7	21.6	26.8
Share of Syndicate assets				
Debt securities and other fixed income securities	15.2	15.1	14.7	16.6
Deposits with credit institutions	0.9	0.1	0.9	0.1
Overseas deposits as investments	0.4	-	0.4	-
Shares, other variable yield securities and unitised trust funds	5.9	8.5	5.6	10.2
Total held with syndicate premium trust funds	22.4	23.7	21.6	26.8

Listed investments

Included in the carrying values above are amounts in respect of listed investments as follows

	2009 £m	2008 £m
Shares and other variable yield securities and units in unit trusts	-	-
Debt securities and other fixed income securities	15.2	15.1
	15.2	15.1

CATLIN (THREE) LIMITED
NOTES TO THE FINANCIAL STATEMENTS

12. OTHER DEBTORS

	2009	<i>Restated</i> 2008
	<i>£m</i>	<i>£m</i>
Foreign tax recoverable	0 3	0 2
Group relief	-	0 1
Amounts owed from group undertakings	6 3	6 5
Other assets	0 6	1 0
	<hr/>	<hr/>
	7 2	7 8

For the purposes of this note, the total tax recoverable has been grossed out between all tax categories, which has subsequently led to a restatement of 2008 comparatives. This change has resulted in an increase of the 2008 comparable debtors of £0.2m.

13. DEFERRED TAXATION

	2009	2008
	<i>£m</i>	<i>£m</i>
Deferred tax liability relating to Timing differences in respect of underwriting results	2 2	1 6
Balance at 1 January	1 6	0 6
Amounts credited to profit and loss account in respect of fully utilised losses	0 6	1 0
	<hr/>	<hr/>
Balance at 31 December	2 2	1 6

14. OTHER CREDITORS:

Amounts falling due within one year

	2009	<i>Restated</i> 2008
	<i>£m</i>	<i>£m</i>
Amounts owed to group undertakings	3 7	0 3
Corporation tax payable	-	0 2
Other creditors	0 1	1 0
	<hr/>	<hr/>
	3 8	1 5

For the purposes of this note, the total tax recoverable has been grossed out between all tax categories, which has subsequently led to a restatement of 2008 comparatives. This change has resulted in an increase of the 2008 comparable creditors of £0.2m.

CATLIN (THREE) LIMITED
NOTES TO THE FINANCIAL STATEMENTS

15. SHARE CAPITAL

	2009	2008
	£	£
Authorised		
15,000,000 ordinary shares of £0.10 each	1,500,000	1,500,000
Allotted, called-up and fully paid		
3,200,000 ordinary shares of £0.10 each	320,000	320,000

16. RESERVES

	Share premium	Profit and loss
	£m	£m
1 January 2009	2.9	2.9
Profit for the year		1.0
31 December 2009	2.9	3.9

17. RECONCILIATION ON MOVEMENT IN SHAREHOLDER'S FUNDS

	2009	2008
	£m	£m
Opening shareholder's funds	6.1	7.4
Profit for the year	1.0	1.2
Dividend paid (note 10)	-	(2.5)
Closing shareholder's funds	7.1	6.1

18. CONTINGENT LIABILITIES

An LOC Facility administered by Citibank on behalf of Lloyd's acting for the Lloyd's Syndicates has LOCs totalling \$7 million outstanding at 31 December 2009. These LOCs are fully secured.

Within total assets of £48.9m (2008: £54.2m) disclosed on the balance sheet, £nil (2008: £28.3m) are the company's share of the total assets of Syndicate 2020, of which £nil (2008: £18.7m) are investments and cash, and £37.1m (2008: £14.3m) are the company's share of the total assets of Syndicate 2003, of which £25.3m (2008: £9.2m) are investments and cash. These assets are subject to Lloyd's Premium Trust Fund rules and will only be released to the Company on the distribution of syndicate profits in accordance with Lloyd's requirements.

19. RELATED PARTY TRANSACTIONS

The company has taken advantage of the exemption within FRS 8 not to disclose transactions with group entities on the grounds that 100% of the company's voting shares are controlled within the group and consolidated financial statements are publicly available.

CATLIN (THREE) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

20. ULTIMATE PARENT UNDERTAKING

The company is a wholly owned subsidiary of Catlin (North American) Holdings Ltd, a company registered in England and Wales

The ultimate parent undertaking and controlling party is Catlin Group Limited, a company registered in Bermuda, which is the parent undertaking of the smallest and largest group to consolidate these financial statements. Copies of Catlin Group Limited consolidated financial statements can be obtained from The Secretary, Catlin Group Limited, Cumberland House, 6th Floor, 1 Victoria Street, Hamilton, Bermuda, HM11