Registered number 02973419

CATLIN (THREE) LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

CATLIN (THREE) LIMITED

COMPANY INFORMATION

Directors	D Ibeson P Jardine D Primer N Freshwater
Company secretary	E Guyatt
Registered number	02973419
Registered office	20 Gracechurch Street London EC3V 0BG
Independent auditors	PricewaterhouseCoopers LLP Chartered Accountants and Statutory Auditors 7 More London Riverside London SE1 2RT

CATLIN (THREE) LIMITED

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CATLIN (THREE) LIMITED

DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2010

The directors present their report together with the audited financial statements for the year ended 31 December 2010

Principal activity

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

Business review

The company's participation in the capacity of Syndicate 2003 for the 2007 year of account is as follows

	2010	*2009*
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 to analyse achievement of its objective are as follows

	2010	*2009*
	£	*£*
Gross written premiums	-	*(452,116)*
Surplus on technical accounts - general business	-	*2,877,468*
Allocated investment income	-	*1,938,417*
Profit on ordinary activities before tax	**50,729**	*1,499,438*

The company did not partake in any years of account after the 2007 year of account and therefore from 2010 onwards, the company does not have a share of Syndicate 2003 The company has no further obligations in respect of its participation and has no other activities, and so the Board considers the extent of the exposure to financial risks has reduced significantly in the year See note 2 for further details

Results and dividends

The (loss) for the year amounted to £(56,171) *(2009 profit of £1,046,184)* as shown on page 5

No dividend has been paid or proposed during the year *(2009 £nil)*

Directors

The directors who held office during the year and up to the date that the financial statements were signed are 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

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

DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2010

Investment income
The company did not receive any investment income during the year In 2009 the investment policy was consistent with prior years and was as established and managed by Catlin Group Limited's Board

Future developments
The company will not participate in syndicates in the future, and therefore, the company will eventually cease to trade

Disclosure of information to the auditors
Each of the persons who are directors 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, and
- 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

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 these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company 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

This report was approved by the Board and signed on its behalf by

N. Freshwater
Director
26 May 2011

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 2010 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 2, 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

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 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

Opinion on financial statements
In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2010 and of its loss 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

N J D Terry

Nigel Terry (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
01 June 2011

CATLIN (THREE) LIMITED

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2010

	Note	2010 £	2009 £
TECHNICAL ACCOUNT - GENERAL BUSINESS			
Gross premiums written	3	-	(452,116)
Outward reinsurance premiums		-	307,005
Net premiums written		-	(145,111)
Change in the gross provision for unearned premiums		-	1,275,691
Change in the provision for unearned premiums, reinsurers' share		-	(695,481)
Change in the net provision for unearned premiums		-	580,210
Earned premiums net of reinsurance		-	435,099
Allocated investment return transferred from the non-technical account	7	-	1,938,417
Total technical income		-	2,373,516
Claims paid			
Gross amount		-	(11,297,865)
Reinsurers' share		-	5,076,583
Net of reinsurance		-	(6,221,282)
Change in the provision for claims			
Gross amount		-	11,514,839
Reinsurers' share		-	(4,582,452)
Net of reinsurance		-	6,932,387
Claims incurred, net of reinsurance		-	711,105
Net operating expenses	6	-	(207,153)
Balance on the general business technical account		-	2,877,468

CATLIN (THREE) LIMITED

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2010

	Note	2010 £	*2009* *£*
NON-TECHNICAL ACCOUNT			
Balance on the general business technical account		-	*2,877,468*
Investment income		-	*1,566,172*
Unrealised gains on investments		-	*688,039*
Investment expenses and charges		-	*(200,074)*
Unrealised losses on investments		-	*(115,720)*
	7	-	*1,938,417*
Allocated investment return transferred to the general business technical account	7	-	*(1,938,417)*
Other income and (charges)	8	**50,729**	*(1,378,030)*
Profit on ordinary activities before tax	4	**50,729**	*1,499,438*
Tax on profit on ordinary activities	9	**(106,900)**	*(453,254)*
(Loss)/profit for the financial year	15	**(56,171)**	*1,046,184*

The turnover and operating (loss)/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 8 to 24 form part of these financial statements

CATLIN (THREE) LIMITED
REGISTERED NUMBER 02973419

BALANCE SHEET
AS AT 31 DECEMBER 2010

	Note	2010 £	2009 £
ASSETS			
Investments	10	-	22,349,236
Reinsurers' share of technical provisions			
Claims outstanding		-	9,208,959
Debtors			
Debtors arising out of direct insurance operations (intermediaries)		-	2,083,110
Debtors arising out of reinsurance operations		-	5,037,449
Other debtors	11	9,480,812	7,247,621
		9,480,812	14,368,180
Other assets			
Cash at bank		-	2,924,153
Prepayments and accrued income			
Prepayments		-	143,609
TOTAL ASSETS		9,480,812	48,994,137

CATLIN (THREE) LIMITED
REGISTERED NUMBER 02973419

BALANCE SHEET
AS AT 31 DECEMBER 2010

	Note	2010 £	2009 £
LIABILITIES			
Capital and reserves			
Called up share capital	14	**320,000**	*320,000*
Share premium account	15	**2,880,000**	*2,880,000*
Profit and loss account	15	**3,926,933**	*3,983,104*
Total shareholder's funds		**7,126,933**	*7,183,104*
Technical provisions			
Claims outstanding		-	*25,975,453*
Provisions for other risks and charges			
Deferred tax	13	-	*2,213,317*
Creditors			
Creditors arising out of direct insurance operations (intermediaries)		-	*278,264*
Creditors arising out of reinsurance operations		-	*9,505,840*
Other creditors, including taxation and social security	12	**2,353,879**	*3,803,772*
		2,353,879	*13,587,876*
Accruals and deferred income		-	*34,387*
TOTAL LIABILITIES		**9,480,812**	*48,994,137*

The financial statements were approved and authorised for issue by the Board and were signed on its behalf by

N. Freshwater
Director
26 May 2011

The notes on pages 8 to 24 form part of these financial statements

1 ACCOUNTING POLICIES

1.1 Basis of presentation

The financial statements have been prepared on the going concern basis, and in accordance with applicable accounting standards and under the historical cost convention, as modified by the revaluation of certain investments, in compliance with The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 ("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

1.2 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

1 3 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 premiums that is equally offset by an increase (or decrease) in incurred losses As a result, there is no impact to the net results 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

1.4 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

1 ACCOUNTING POLICIES (continued)

1 4 Insurance and investment contracts – classification (continued)

(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

1 ACCOUNTING POLICIES (continued)

1.4 Insurance and investment contracts – classification (continued)

(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 uncollectable 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

1 5 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

1 6 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

1 ACCOUNTING POLICIES (continued)

1.7 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

1.8 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, included 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

1 9 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

(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

1 ACCOUNTING POLICIES (continued)

1 9 Financial assets (continued)

(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

1.10 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

1.11 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

1.12 Pension costs

Catlin Holdings Limited, a fellow group company, operates a defined contribution scheme Pension contributions relating to the company's share of syndicate staff are charged to the company and included within net operating expenses

2 MANAGEMENT OF FINANCIAL RISK

Financial risk management objectives

"The syndicate" refers to the 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 and currency risk), credit risk and liquidity risk

These risks arise from open positions in interest rate and currency exposures, all of which are subject to general and specific market movements The primary risk that the syndicate faces due to the nature of its investments and liabilities is interest rate 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's framework All of the syndicate's financial assets and liabilities are designated as fair value through income 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

In 2009 the company was exposed to interest rate risk as it held fixed interest securities At the Balance Sheet date the company is no longer exposed to this risk because it does not have a share of the syndicate's result so holds no fixed interest securities

2 MANAGEMENT OF FINANCIAL RISK (continued)

(a) Market risk (continued)

(ii) 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

In 2009 the company was exposed to currency risk in respect of liabilities under policies of insurance denominated in currencies other than Sterling, most significantly the US Dollar At the Balance Sheet date the company is no longer exposed to this risk because it does not have a share of the syndicate's result and so has no liabilities in respect of insurance policies denominated in foreign currencies

At 31 December 2010 a weakening or strengthening of the pound by 4% against the US Dollar, with all other variables remaining constant, would not have a significant impact on profit

(b) Credit risk

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due In 2009 the company was exposed to credit risk in the following areas

- 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

At the Balance Sheet date the company is no longer exposed to significant credit risk because it does not have a share of the syndicate's liabilities and holds only liabilities with other group undertakings

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

2 MANAGEMENT OF FINANCIAL RISK (continued)

(b) Credit risk (continued)

	2010 £	2009 £
Debt securities and other fixed income securities	-	15,172,914
Shares and other variable yield securities and units in unit trusts	-	5,873,850
Deposits with credit institutions	-	915,910
Overseas deposits as investments	-	386,562
Cash at bank	-	2,924,153
Debtors arising out of direct insurance operations	-	2,083,110
Debtors arising out of reinsurance operations	-	5,037,449
Total assets bearing credit risk	-	32,393,948

	2010 £	2009 £
AAA	-	11,338,461
AA	-	2,301,421
A	-	4,544,013
BBB	-	383,708
Below BBB or not rated	-	831,936
Shares & other variable yield securities & units in unit trusts	-	5,873,850
Debtors arising out of direct insurance operations	-	2,083,110
Debtors arising out of reinsurance operations	-	5,037,449
Total assets bearing credit risk	-	32,393,948

(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

At the Balance Sheet date the company is no longer exposed to significant liquidity risk because it does not have a share of the syndicate's obligations

(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

At the Balanace Sheet date the company no longer has an active participation in Syndicate 2003 so it does not undergo a process of active capital management

2 MANAGEMENT OF FINANCIAL RISK (continued)

(e) Fair value estimation

The table below analyses financial instruments carried at fair value, by valuation method The difference levels have been defined as follows

- 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 company holds no assets or liabilities at fair value as at 31 December 2010 The following table presents the company's holdings of assets and liabilities measured at fair value at 31 December 2009

2009	**Level 1**	**Level 2**	**Level 3**	**Total**
	£	**£**	**£**	£
Assets				
Fair value through Profit and Loss				
Debt securities and other fixed income securities	-	14,931,726	241,188	15,172,914
Shares and other variable yield securities and units in unit trusts	18,500	4,856,333	999,017	5,873,850
	18,500	19,788,059	1,240,205	21,046,764

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

2 MANAGEMENT OF FINANCIAL RISK (continued)

(e) Fair value estimation (continued)

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

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 2010, £NIL *(2009 £0 1m)* of securities were transferred from Level 2 to Level 3 This was due to a lack of observable market data due to a decrease in market activity for these securities

No securities were transferred from Level 3 to Level 2 in 2009 or 2010 This was due to a security no longer being classed as ALT-A and holding a S&P rating of AAA

At the Balance Sheet date the company no longer has an active participation in Syndicate 2003 so no longer holds any Level 3 instruments The following table presents the changes in Level 3 instruments since the year ended 31 December 2009

	Debt securities & other fixed income securities		**Shares & other variable yeild securities & units in unit trusts**	
	2010	*2009*	**2010**	*2009*
	£	*£*	**£**	*£*
Opening balance	**241,188**	*153,483*	**999,017**	*1,045,268*
Total net gains included in income	-	*65,779*	-	*296,005*
Net (disposals)	-	*(10,963)*	-	*(231,254)*
Reduction due to settlement following closure of 2007 year of account	**(241,188)**	-	**(999,017)**	-
Level 3 transfers in	-	*54,815*	-	-
Foreign exchange	-	*(21,926)*	-	*(111,002)*
Closing balance	-	*241,188*	-	*999,017*
Amounts of net gains relating to balances still held at year end	-	*33,367*	-	*249,855*

CATLIN (THREE) LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010

3 SEGMENTAL ANALYSIS

The following business has been underwritten in the United Kingdom and has all been treated as one geographical segment Gross premiums written, gross premiums earned, gross claims incurred, gross operating expenses and the reinsurance balances by class of business are as follows

As the company no longer has an active participation in Syndicate 2003, no segmental analysis is provided for 2010

2009	Gross Premiums Written	Gross Premiums Earned	Gross Claims Incurred	Gross Operating Expenses	Reinsurance Balance	Total
	£	£	£	£	£	£
Fire and other damage to property	*(100,751)*	*266,612*	*39,526*	*(68,154)*	*55,246*	*293,230*
Accident and Health	*(15,088)*	*16,136*	*5,880*	*(5,540)*	*2,443*	*18,919*
Credit and suretyship	*(15,420)*	*32,294*	*18,075*	*(8,195)*	*(666)*	*41,508*
Third-party Liability	*(76,507)*	*152,781*	*31,811*	*(42,848)*	*22,149*	*163,893*
Marine, aviation and transport	*(48,676)*	*47,892*	*27,716*	*(16,707)*	*5,112*	*64,013*
Other direct	*(31,111)*	*61,285*	*21,344*	*(17,997)*	*9,976*	*74,608*
Reinsurance acceptances	*(164,563)*	*246,575*	*72,622*	*(74,987)*	*38,670*	*282,880*
Total	*(452,116)*	*823,575*	*216,974*	*(234,428)*	*132,930*	*939,051*

The reinsurance balance represents the credit / (charge) to the technical account from the aggregate of all items relating to reinsurance outwards

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

	2010	*2009*
	£	*£*
United Kingdom	-	*(63,296)*
Other EU Countries	-	*(54,254)*
Other	-	*(334,566)*
	-	*(452,116)*

4 PROFIT ON ORDINARY ACTIVITIES BEFORE TAX

Profit on ordinary activities before tax is stated after (crediting)/charging

	2010	2009
	£	£
Foreign exchange	(55,154)	1,091,753

The auditors' remuneration for the year of £2,500 *(2009 £2,500)* has been borne by another group company

5 EMPLOYEES & DIRECTORS

The company has no employees

The company incurred no staff costs during the year *(2009 £78,254)* All staff costs are recharged by other group companies

Directors' emoluments for the year were as follows

	2010	2009
	£	£
Aggregate emoluments and other benefits	-	3,254
Pension Contributions	-	158
	-	3,412
Emoluments of the highest paid director are		
Aggregate emoluments and other benefits	-	1,099
Pension contributions	-	71
	-	1,170

Directors' emoluments for 2009 are Catlin (Three) Limited's share of the total emoluments charged to Syndicate 2003 for services provided to the syndicate

The company did not partake in any years of account after the 2007 year of account and therefore for 2010 onwards, Catlin (Three) Limited does not have a share of the total emoluments charged to Syndicate 2003

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010

6 NET OPERATING EXPENSES

	2010 £	2009 £
Acquisition costs in respect of direct business	-	(8,473)
Change in deferred acquisition costs	-	425,064
	-	416,591
Administration expenses	-	14,557
Foreign exchange (gain)	-	(196,720)
Reinsurance commissions and profit participations	-	(27,275)
	-	207,153

7 INVESTMENT RETURN

	2010 £	2009 £
Investment income		
Income from investments	-	1,222,229
Gain on realisation of investments	-	343,943
	-	1,566,172
Investment expenses and charges		
Losses on realisation of investments	-	(182,837)
Investment management expenses	-	(17,237)
	-	(200,074)
Net unrealised gains on investments	-	572,319
Total investment return	-	1,938,417

8 OTHER INCOME AND CHARGES

	2010 £	2009 £
Profit related bonus	-	343,489
(Gain)/Loss on foreign exchange	(55,154)	1,091,753
Other	4,425	(57,212)
	(50,729)	1,378,030

9 TAX ON PROFIT ON ORDINARY ACTIVITIES

	2010 £	*2009 £*
Analysis of tax charge in the year		
UK corporation tax charge on the profit for the year	1,936,760	-
Adjustments in respect of prior periods	-	*(208,909)*
	1,936,760	*(208,909)*
Foreign tax charge on profit for the year	383,457	*61,491*
	383,457	*61,491*
Total current tax charge/(credit) for the year	2,320,217	*(147,418)*
Deferred tax		
Origination and reversal of timing differences	(2,213,317)	*600,672*
Total deferred tax (note 13)	(2,213,317)	*600,672*
Tax on profit on ordinary activities	106,900	*453,254*

The tax assessed for the year is higher *(2009 lower)* than the standard rate of corporation tax in the UK for the year ended 31 December 2010 of 28% *(2009 28%)* The differences are explained below

	2010 £	*2009 £*
Profit on ordinary activities before tax	50,729	*1,499,438*
Profit on ordinary activities before tax multiplied by the standard rate of 28% *(2009 28%)*	14,204	*419,843*
Effects of		
Disallowable expenses and non-taxable income	(4,594)	-
Adjustments in respect of prior years	-	*(208,909)*
Foreign tax	16,235	*61,491*
Timing differences relating to the recognition of net underwriting (profits)/losses	2,479,707	*(419,843)*
Tax losses utilised	(185,335)	-
Current tax charge/(credit) for the year	2,320,217	*(147,418)*

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

10 INVESTMENTS

	Carrying value		Purchase price	
	2010	*2009*	**2010**	*2009*
	£	*£*	**£**	*£*
Shares and other variable yield securities and units in unit trusts	-	*5,873,850*	-	*5,647,870*
Debt securities and other fixed income securities	-	*15,172,914*	-	*14,661,185*
Deposits with credit institutions	-	*915,910*	-	*915,910*
Overseas deposits as investments	-	*386,562*	-	*386,562*
	-	*22,349,236*	-	*21,611,527*

The total market value of listed investments at the end of the year is £nil *(2009 £15,172,914)*

11 OTHER DEBTORS

	2010	*2009*
	£	*£*
Amounts owed from group undertakings	**9,473,993**	*6,302,322*
Foreign tax recoverable	**6,819**	*330,983*
Other debtors	-	*614,316*
	9,480,812	*7,247,621*

12 OTHER CREDITORS
Amounts falling due within one year

	2010	*2009*
	£	*£*
Corporation tax payable	**1,936,760**	-
Amounts owed to group undertakings	**383,676**	*3,671,442*
Other creditors	-	*132,330*
Foreign tax payable	**33,443**	-
	2,353,879	*3,803,772*

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

13 DEFERRED TAXATION

	2010 £	2009 £
Deferred tax lıabılıty relatıng to Tımıng dıfferences ın respect of underwrıtıng results	-	2,213,317
Balance as at 1 January	2,213,317	1,612,645
Amounts (credıted)/charged to the Profit and Loss Account	(2,213,317)	600,672
Balance as at 31 December	-	2,213,317

14 CALLED UP SHARE CAPITAL

	2010 £	2009 £
Ordinary shares **Allotted, called-up and fully paıd** 3,200,000 Ordınary shares of £0 10 each	320,000	320,000

15 RESERVES

	Share premium account £	Profit and loss account £
1 January 2010	2,880,000	3,983,104
(Loss) for the year	-	(56,171)
31 December 2010	2,880,000	3,926,933

16 RECONCILIATION OF MOVEMENTS IN SHAREHOLDER'S FUNDS

	2010 £	2009 £
Openıng shareholder's funds as prevıously stated	7,183,104	6,136,920
(Loss)/profit for the year	(56,171)	1,046,184
Closıng shareholder's funds	7,126,933	7,183,104
Represented by Equıty ınterests	7,126,933	7,183,104

17 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

18 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, Washington House, 5th Floor, 16 Church Street, Hamilton, Bermuda, HM11