

THREE LIONS UNDERWRITING LIMITED

Report and Financial Statements

31 December 2005



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THREE LIONS UNDERWRITING LIMITED

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OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

C Sitterer (Chairman, appointed 30 October 2002, resigned 1st April 2005)
P Albo (Chairwoman, appointed 1st April 2005)
D Niemann (appointed 14th June 2005)
P W Murrell
J F Strain

SECRETARY

A Hedger

REGISTERED OFFICE

55 King William Street
London
EC4R 9AD

AUDITORS

KPMG Audit Plc
Chartered Accountants
London E14 5AG

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the period from 1 January 2005 to 31 December 2005.

PRINCIPAL ACTIVITY

The Company's principal activity is that of an underwriting agency.

REVIEW OF BUSINESS AND FUTURE DEVELOPMENTS

The development of the Company's business during the period and its position at the end of the period were satisfactory.

An interim dividend of £16 per share (total £800,000) was paid in 2005 (2004 – nil).

During the 2006 financial year the directors intend to continue to develop the Company's in-house administrative capabilities in order to reduce reliance on third parties for these functions.

DIRECTORS AND THEIR INTERESTS

The present directors and the directors who served during the year are set out on page 1.

None of the directors had any interests in the shares of the Company.

J F Strain is a director of Bell & Clements Limited

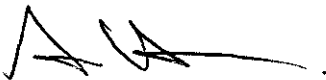
CHARITABLE DONATIONS

The Company made charitable donations of £110 during the period.

AUDITORS

Pursuant to section 386 of the Companies Act 1985, a resolution is to be put to the forthcoming Annual General Meeting which, if passed, would result in the company not being required to reappoint its auditors annually. KPMG Audit Plc would then continue as the company's auditors.

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



A Hedger
Secretary

September 2006

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS

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 UK Accounting Standards.

The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing these financial statements, the directors are required to:

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

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

Under applicable law the directors are also responsible for preparing a Directors' Report that complies with that law.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF THREE LIONS UNDERWRITING LIMITED

We have audited the financial statements of Three Lions Underwriting Limited for the year ended 31 December 2005 which comprise the Profit and Loss Account, the Balance Sheet, and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As described in the Statement of Directors' Responsibilities on page 3, the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements:

- give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2005 and of its profit for the year then ended; and
- have been properly prepared in accordance with the Companies Act 1985

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
London E14 5AG
Registered Auditor

25 September 2006

THREE LIONS UNDERWRITING LIMITED

PROFIT AND LOSS ACCOUNT

Period ended 31 December 2005

	Note	2005	2004
		£	£
TURNOVER	2	1,772,551	1,440,000
Profit Commission		596,673	1,796,617
Other operating income		254,872	182,145
Administrative expenses		<u>(2,045,503)</u>	<u>(1,683,997)</u>
OPERATING PROFIT AND PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	3	578,593	1,734,765
Tax on profit on ordinary activities	5	<u>(191,896)</u>	<u>(536,516)</u>
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION	12	<u>386,697</u>	<u>1,198,249</u>

CONTINUING OPERATIONS

Turnover and operating profit derive from continuing operations.

TOTAL RECOGNISED GAINS AND LOSSES

There are no recognised gains or losses other than the profit on ordinary activities after taxation and accordingly no statement of total recognised gains and losses is included in these financial statements

BALANCE SHEET
31 December 2005

	Note	31/12/2005 £	31/12/2004 £
FIXED ASSETS			
Tangible assets	6	<u>97,236</u>	<u>95,259</u>
CURRENT ASSETS			
Debtors	7	18,182,083	9,194,067
Cash at bank and in hand	8	<u>2,920,282</u>	<u>5,801,980</u>
		21,102,365	14,996,047
CREDITORS: amounts falling due within one year	9	<u>(20,201,298)</u>	<u>(13,680,377)</u>
NET CURRENT ASSETS		<u>901,067</u>	<u>1,315,670</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		998,303	1,410,929
PROVISION FOR LIABILITIES AND CHARGES	10	<u>(2,733)</u>	<u>(2,056)</u>
		<u>995,570</u>	<u>1,408,873</u>
CAPITAL AND RESERVES			
Called up share capital	11	50,000	50,000
Profit and loss account		<u>945,570</u>	<u>1,358,873</u>
TOTAL EQUITY SHAREHOLDERS' FUNDS	12	<u>995,570</u>	<u>1,408,873</u>

The Board of Directors approved these financial statements on September 2006

Signed on behalf of the Board of Directors



Director

NOTES

Period ended 31 December 2005

1.ACCOUNTING POLICIES

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

Basis of preparation

The financial statements are prepared under the historical cost convention and in accordance with applicable United Kingdom accounting standards.

Cash flow statement

A cash flow statement has not been prepared as the Company has taken advantage of the exemption allowed by Financial Reporting Standard 1 (revised) where the financial statements of the Company are consolidated by its ultimate parent undertaking and those consolidated statements are available to the public.

Turnover

Turnover represents commissions receivable from underwriters on whose behalf the Company binds insurance risks. Where the Company has contractual obligations to perform post placement activities, the net retained commission recognised in the profit and loss account is allocated on a fair value basis over the period over which contractual obligations are performed, unless the binding authority contract between the Company and the underwriters stipulates a minimum commission.

Profit Commission

Profit commission is taken to income when the right to profit commission is achieved and is capable of reliable measurement. Any adjustments are dealt with in subsequent periods.

Taxation

The charge for taxation is based on the profit for the year, at current rates of tax. Deferred taxation is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

Depreciation

Depreciation is calculated to write off the cost of tangible fixed assets on a straight-line basis over their estimated useful lives, which are estimated to be:

Leasehold improvements	-	term of the lease
Furniture, fixtures and fittings	-	80 months
Computer equipment	-	36 months
Office machinery	-	60 months

Trade debtors and creditors

The Company acts as agent in placing the insurable risks of its clients with insurers and, as such, generally, is not liable as principal for amounts arising from such transactions. Notwithstanding these legal relationships, debtors and creditors arising from insurance broking transactions are shown as assets and liabilities. This recognises that the Company is entitled to retain the investment income on any cash flows arising from these transactions.

Debtors and creditors arising from a transaction between a client and insurers (e.g. a premium or a claim) are recorded simultaneously. Consequently, there is a high level of correlation between the totals reported in respect of trade debtors and trade creditors.

It is normal practice for the Company to settle accounts with other intermediaries, clients, insurers and market settlement bureaux on a net basis. Thus, large changes in both trade debtors and creditors can result from comparatively small cash settlements. For this reason, the totals of trade debtors and creditors give no indication of future cash flows.

NOTES

Period ended 31 December 2005

The legal status of this practice of net settlement is uncertain and in the event of insolvency it is generally abandoned. FRS 5 "Reporting the substance of transactions" requires that offset of assets and liabilities should be recognised in the financial statements where, and only where, the offset would survive the insolvency of the other party. Accordingly, only such offsets have been recognised in calculating trade debtors and creditors

Operating leases

Operating lease rentals are charged to the profit and loss account in equal annual amounts over the term of the lease.

Pension scheme

The Company operates a Group Personal Pension Scheme ("the GPP"), which is a defined contribution scheme, for all employees. Contributions to the GPP are charged to the profit and loss account in the year in which they are payable.

2.TURNOVER

Turnover is derived from the principal activity of acting as an underwriting agency. The entire turnover arises in the United Kingdom.

3.OPERATING PROFIT

Operating profit is stated after charging:	2005	2004
	£	£
Auditors' remuneration for audit services	18,000	17,625
Depreciation of tangible fixed assets	<u>39,825</u>	<u>26,140</u>

4.DIRECTORS AND EMPLOYEES**Staff costs (including directors)**

	2005	2004
	£	£
Wages, salaries and bonuses	1,156,634	925,883
Social security costs	134,701	111,483
Defined contribution pension scheme contributions	56,046	43,104
Other staff benefits	47,290	17,523
Other staff costs	<u>73,402</u>	<u>63,335</u>
	<u>1,468,073</u>	<u>1,161,328</u>

NOTES

Period ended 31 December 2005

Directors' emoluments

	2005	2004
	£	£
Total aggregated emoluments (excluding pension contributions)	226,952	248,312
Pension contributions	18,825	15,150
Total aggregated emoluments	<u>245,777</u>	<u>263,462</u>

The aggregated emoluments and pension contributions shown above relate to the highest paid director. There were no outstanding pension contributions as at 31 December 2005 (2004 : nil).

Monthly average number of employees (excluding directors)

The average number of employees was twenty four during the period from 1 January 2005 to 31st December 2005. (2004 – 16)

5.TAXATION

	2005	2004
	£	£
Analysis of charge in the year		
UK corporation tax		
Current tax on income for the period	191,219	533,001
Adjustments in respect of prior years	-	1,459
Total current tax	<u>191,219</u>	<u>534,460</u>
Deferred tax (see note 10)		
Due to timing differences	677	2,056
Tax on profit on ordinary activities	<u>191,896</u>	<u>536,516</u>
Factors affecting tax charge for the year		
Profit on ordinary activities before tax	<u>578,593</u>	<u>1,734,764</u>
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (19% for small companies)	173,578	520,429
Effects of:		
Expenses not deductible for tax purposes	13,333	10,837
Difference between depreciation and capital allowances	4,308	1,735
Current tax charge for the year	<u>191,219</u>	<u>533,001</u>

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Period ended 31 December 2005

6.TANGIBLE FIXED ASSETS

	Leasehold improvements £	Furniture, fixtures & fittings £	Computer hardware and software £	Office machinery £	Total £
Cost					
At 31 December 2004	45,021	38,037	81,283	14,338	178,679
Additions	1,001	11,844	26,189	3,065	42,099
Disposals		(304)			(304)
At 31 December 2005	<u>46,022</u>	<u>49,577</u>	<u>107,472</u>	<u>17,403</u>	<u>220,474</u>
Accumulated depreciation					
At 31 December 2004	21,079	6,874	52,257	3,210	83,420
Charge for the period	13,366	6,544	16,881	3,034	39,825
Disposals		(7)			(7)
At 31 December 2005	<u>34,445</u>	<u>13,411</u>	<u>69,138</u>	<u>6,244</u>	<u>123,238</u>
Net book value					
At 31 December 2005	<u>11,577</u>	<u>36,166</u>	<u>38,334</u>	<u>11,159</u>	<u>97,236</u>
At 31 December 2004	<u>23,942</u>	<u>31,163</u>	<u>29,026</u>	<u>11,128</u>	<u>95,259</u>

7.DEBTORS

	31/12/2005 £	31/12/2004 £
Trade debtors - fellow subsidiary	7,783,404	3,849,742
- others	9,449,027	3,515,810
Other debtors	5,075	1,105
Prepayments and accrued income	944,577	1,827,410
	<u>18,182,083</u>	<u>9,194,067</u>

8.CASH AT BANK AND IN HAND

	31/12/2005 £	31/12/2004 £
Insurance accounts	2,855,021	5,768,161
Other accounts	65,261	33,818
	<u>2,920,282</u>	<u>5,801,979</u>

NOTES

Period ended 31 December 2005

9.CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	31/12/2005 £	31/12/2004 £
Trade creditors - fellow subsidiary	13,581,817	7,465,681
- others	6,023,590	4,087,135
Amount owed to fellow subsidiary undertaking	—	1,159,230
Corporation tax	191,219	533,001
Other creditors including taxation and social security	120,817	122,995
Accruals and deferred income	283,855	312,335
	<u>20,201,298</u>	<u>13,680,377</u>

10.PROVISION FOR LIABILITIES AND CHARGES

Deferred taxation	31/12/2005 £	31/12/2004 £
Balance at the beginning of the year	2,056	-
Prior year items	1,018	
Movement for the year	(341)	2,056
Balance at the end of the year	<u>2,733</u>	<u>2,056</u>

The deferred tax is related to the differences between capital allowances and accumulated depreciation

11.CALLED UP SHARE CAPITAL

	31/12/2005 £	31/12/2004 £
Authorised:		
600,000 "A" ordinary £1 shares	600,000	600,000
400,000 "B" ordinary £1 shares	400,000	400,000
	<u>1,000,000</u>	<u>1,000,000</u>
Called up, allotted, and fully paid:		
30,000 "A" ordinary £1 shares	30,000	30,000
20,000 "B" ordinary £1 shares	20,000	20,000
50,000 ordinary £1 shares	<u>50,000</u>	<u>50,000</u>

The "A" and "B" shares rank pari passu in all respects.

NOTES

Period ended 31 December 2005

12.RECONCILIATION OF MOVEMENTS IN EQUITY SHAREHOLDERS' FUNDS

	Share capital	Profit and loss account	Total
	£	£	£
At beginning of year	50,000	1,358,873	1,408,873
Profit for the year	—	386,697	386,697
Dividends paid	—	(800,000)	(800,000)
At end of year	<u>50,000</u>	<u>945,570</u>	<u>995,570</u>

13.RELATED PARTY TRANSACTIONS

The ultimate parent company and the parent company of the largest and smallest group of companies into which the company is consolidated is Münchener Rückversicherungs-Gesellschaft ("Munich Re"). Copies of Munich Re's financial statements are available from Königinstrasse 107, 80802 München, Germany.

Great Lakes Reinsurance (UK) plc ("GLUK")

The Company has entered into a binding authority agreement with GLUK under which the Company earned a commission of £1,440,000 during the period from 1 January 2005 to 31 December 2005. In addition the company earned a profit commission of £596,673. The Company and GLUK are both controlled by Munich Re.

J F Strain is a director of Bell & Clements Limited and P W Murrell was a director of Bell & Clements Limited from 4 March 2003 to 27 April 2004. During the period the Company paid Bell & Clements Limited £91,253 in management charges under an arms-length service agreement. There was a balance due to Bell & Clements at the end of the year of £30,478 in respect of items paid for by Bell & Clements (2004 – £ 53,996) and a balance due from Bell & Clements of £7,120 due for management charges (2004 - £22,516)

14. LEASE COMMITMENTS

Annual commitments under non-cancellable operating leases are as follows:

	2005 Land and Buildings £	Other £	2004 Land and Buildings £	Other £
Operating leases which expire:				
Within one year		1,166		
In the second to fifth years inclusive	53,443		53,443	6,008
	<u>53,443</u>	<u>1,166</u>	<u>53,443</u>	<u>6,008</u>

NOTES

Period ended 31 December 2005

15. DIVIDENDS

The aggregate amount of dividends comprises:

	2005 £000	2004 £000
Interim dividends paid in respect of the current year	800,000	
Aggregate amount of dividends paid in the financial year	800,000	-