

THREE LIONS UNDERWRITING LIMITED

Report and Financial Statements

31 December 2008

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THREE LIONS UNDERWRITING LIMITED

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THREE LIONS UNDERWRITING LIMITED

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

R Benzies (appointed 12th September 2008)
D Niemann
J F Strain
A Hedger
M Roehrig
S Frieze (appointed 18th June 2008)

SECRETARY

A Hedger

REGISTERED OFFICE

55 King William Street
London
EC4R 9AD

AUDITORS

KPMG Audit Plc
Chartered Accountants
8 Salisbury Square
London EC4Y 8BB

BANKERS

National Westminster Bank PLC
1 Princes Street
London
EC2R 8PA

Anglo Irish Bank
10 Old Jewry
London
EC2R 8DN

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the period from 1 January 2008 to 31 December 2008.

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.

During the 2009 financial year the directors intend to continue to develop the Company's core business, and further improve its in-house administrative capabilities in order to streamline the process for its customers.

DIVIDEND

The amount (if any) that the directors recommend should be paid by way of a dividend was £500,000 (2007 - £400,000) however Munich Re declined to take their share - £300,000.

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, D Niemann and S Friese are directors of Bell & Clements Limited.

Certain directors benefited from qualifying third party indemnity provisions in place during the financial year and at the date of this report. The Company provided qualifying third party indemnity provisions to certain directors of associated companies during the financial year and at the date of this report.

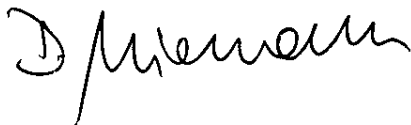
CHARITABLE DONATIONS

The Company made charitable donations of £1,581 during the period (2007 - £2,260).

DISCLOSURE OF INFORMATION TO AUDITORS

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware; and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

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



D Niemann
Director

18th September 2009

**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 and applicable law (UK Generally Accepted Accounting Practice).

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.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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 2008 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

The directors' responsibilities for preparing the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 3.

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 whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, 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 2008 and of its profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

KPMG Audit Plc

18 September 2009

KPMG Audit Plc
Chartered Accountants
London EC4Y 8BB
Registered Auditor

THREE LIONS UNDERWRITING LIMITED

PROFIT AND LOSS ACCOUNT Year ended 31 December 2008

	Note	2008	2007
		£	£
TURNOVER	2	3,026,907	2,769,173
Profit Commission		(43,976)	626,628
Other operating income		188,294	212,962
Administrative expenses		<u>(3,109,043)</u>	<u>(2,740,924)</u>
OPERATING PROFIT AND PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	3	62,182	867,839
Tax on profit on ordinary activities	6	<u>(51,148)</u>	<u>(291,232)</u>
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION	13	<u>11,034</u>	<u>576,607</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.

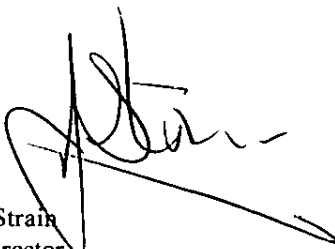
THREE LIONS UNDERWRITING LIMITED

BALANCE SHEET 31 December 2008

	Note	2008 £	2007 £
FIXED ASSETS			
Tangible assets	7	<u>56,347</u>	<u>125,838</u>
CURRENT ASSETS			
Debtors	8	2,088,532	2,931,860
Cash at bank and in hand	9	<u>6,186,302</u>	<u>5,057,778</u>
		8,274,834	7,989,638
CREDITORS: amounts falling due within one year	10	<u>(7,264,774)</u>	<u>(6,860,103)</u>
NET CURRENT ASSETS		<u>1,010,060</u>	<u>1,129,535</u>
NET ASSETS		<u>1,066,407</u>	<u>1,255,373</u>
CAPITAL AND RESERVES			
Called up share capital	12	50,000	50,000
Profit and loss account		<u>1,016,407</u>	<u>1,205,373</u>
TOTAL EQUITY SHAREHOLDERS' FUNDS	13	<u>1,066,407</u>	<u>1,255,373</u>

The Board of Directors approved these financial statements on 18th September 2009.

Signed on behalf of the Board of Directors


 J Strain
 Director

NOTES

Year ended 31 December 2008

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. The company anticipates future years results to be in profit rather than loss therefore the deferred tax asset will be covered. 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.

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Year ended 31 December 2008

Trade debtors and creditors (continued)

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.

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.

Foreign currencies

Assets and liabilities in foreign currencies have been translated into sterling at the rates ruling at the balance sheet date. Differences arising on the translation of such items are dealt with in the profit and loss account.

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:	2008	2007
	£	£
Amounts receivable by the auditors and their associates in respect of:		
Audit of these financial statements pursuant to legislation	18,018	22,555
Other fees	-	-

THREE LIONS UNDERWRITING LIMITED

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Year ended 31 December 2008

Depreciation of tangible fixed assets	84,108	62,778
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4. DIRECTORS AND EMPLOYEES

Staff costs (including directors)

	2008	2007
	£	£
Wages, salaries and bonuses	1,573,496	1,490,263
Social security costs	198,116	181,545
Defined contribution pension scheme contributions	98,699	85,352
Other staff benefits	61,700	51,495
Other staff costs	109,047	95,640
	<u>2,041,058</u>	<u>1,904,295</u>

Directors' emoluments

	2008	2007
	£	£
Total aggregated emoluments (excluding pension contributions)	179,433	149,085
Pension contributions	15,525	28,560
Total aggregated emoluments	<u>194,958</u>	<u>177,645</u>

The aggregated emoluments and pension contributions shown above include all directors. There were no outstanding pension contributions as at 31 December 2008 (2007 - nil).

	2008	2007
	£	£
Highest paid director emoluments (excluding pension contributions)	89,529	149,085
Highest paid director pension contributions	5,350	28,560
Total aggregated emoluments	<u>94,879</u>	<u>177,645</u>

Monthly average number of employees (excluding directors)

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Year ended 31 December 2008

The average number of employees was thirty six during the period from 1 January 2008 to 31st December 2008 (2007 – 34).

5. PENSION

The pension scheme run by the company is a group personal pension with Clerical Medical. The cost for the period was £98,699 (2007 - £85,351) and there were no outstanding or prepaid contributions at the balance sheet date.

6. TAXATION

	2008	2007
Analysis of charge in the year		
	£	£
UK corporation tax		
Current tax on income for the period	54,787	293,904
Adjustments in respect of prior years	-	-
Total current tax	54,787	293,904
Deferred tax (see note 11)		
Origination/reversal of timing differences	(3,639)	(2,820)
Effect of decrease in tax rate	-	148
Total deferred tax	(3,639)	(2,672)
 Tax on profit on ordinary activities	 51,148	 291,232

	2008	2007
Factors affecting tax charge for the year		
	£	£
Profit on ordinary activities before tax	62,182	867,839
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 28.5% (2007 – 30%)	17,722	260,352
Effects of:		
Expenses not deductible for tax purposes	18,780	23,067
Difference between depreciation and capital allowances	18,285	10,485

THREE LIONS UNDERWRITING LIMITED

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Year ended 31 December 2008

Current tax charge for the year

54,787

293,904

THREE LIONS UNDERWRITING LIMITED

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Year ended 31 December 2008

7. TANGIBLE FIXED ASSETS

	Leasehold improvements £	Furniture, fixtures & fittings £	Computer hardware and software £	Office machinery £	Total £
Cost					
At 31 December 2007	115,648	67,267	100,969	23,555	307,439
Additions	4,224	471	9,166	756	14,617
Disposals	-	-	-	-	-
At 31 December 2008	<u>119,872</u>	<u>67,738</u>	<u>110,135</u>	<u>24,311</u>	<u>322,056</u>
Accumulated depreciation					
At 31 December 2007	65,876	27,245	75,702	12,778	181,601
Charge for the period	51,161	10,138	18,527	4,282	84,108
Disposals	-	-	-	-	-
At 31 December 2008	<u>117,037</u>	<u>37,383</u>	<u>94,229</u>	<u>17,060</u>	<u>265,709</u>
Net book value					
At 31 December 2008	<u>2,835</u>	<u>30,355</u>	<u>15,906</u>	<u>7,251</u>	<u>56,347</u>
At 31 December 2007	<u>49,772</u>	<u>40,022</u>	<u>25,267</u>	<u>10,777</u>	<u>125,838</u>

8. DEBTORS

	2008 £	2007 £
Trade debtors - fellow subsidiary	528,768	471,663
- others	1,304,357	1,581,928
Other debtors	35,447	21,196
Prepayments and accrued income	169,030	854,995
Corporate tax recoverable	45,213	-
Deferred tax assets (Note 11)	5,717	2,078
	<u>2,088,532</u>	<u>2,931,860</u>

9. CASH AT BANK AND IN HAND

	2008 £	2007 £
Insurance accounts	4,920,489	3,944,872
Other accounts	1,265,813	1,112,906
	<u>6,186,302</u>	<u>5,057,778</u>

THREE LIONS UNDERWRITING LIMITED

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Year ended 31 December 2008

10. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2008 £	2007 £
Trade creditors - fellow subsidiary	6,428,781	5,120,010
- others	244,401	967,820
Corporation tax payable	-	225,586
Other creditors including taxation and social security	188,121	133,360
Accruals and deferred income	403,471	413,327
	<u>7,264,774</u>	<u>6,860,103</u>

11. DEFERRED TAXATION

	2008 £	2007 £
Balance at the beginning of the year	(2,078)	594
Credit to the profit and loss for the year	(3,639)	(2,672)
Balance at the end of the year	<u>(5,717)</u>	<u>(2,078)</u>

The deferred tax is related to the difference between capital allowances and accumulated depreciation as follows:

Deferred taxation	2008 £	2007 £
Deferred tax asset (Note 8)	5,717	2,078
Deferred tax liability	-	-
Balance at the end of the year	<u>5,717</u>	<u>2,078</u>

12. CALLED UP SHARE CAPITAL

	2008 £	2007 £
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.

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Year ended 31 December 2008

13. RECONCILIATION OF MOVEMENTS IN EQUITY SHAREHOLDERS' FUNDS

2008	Share capital	Profit and loss account	Total
	£	£	£
At beginning of year	50,000	1,205,373	1,255,373
Profit for the year	—	11,034	11,034
Dividends paid	—	(200,000)	(200,000)
At end of year	50,000	1,016,407	1,066,407

2007	Share capital	Profit and loss account	Total
	£	£	£
At beginning of year	50,000	628,766	678,766
Profit for the year	—	576,607	576,607
Dividends paid	—	—	—
At end of year	50,000	1,205,373	1,255,373

14. 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 ("Great Lakes")

The Company has entered into a binding authority agreement with Great Lakes under which the Company earned a commission of £2,760,000 during the period (2007 - £2,684,275), this commission is earned under an arms-length agreement. The Company and Great Lakes are both controlled by Munich Re. In addition the company earned a profit commission of £ (43,976) (2007 - £626,628).

The Company also has a binding authority agreement with Victoria Versicherung Aktiengesellschaft ("Victoria") under which the company earned a commission of £240,000 (2007 - nil), this commission is earned under an arms-length agreement.

J F Strain, D Niemann and S Friese are directors of Bell & Clements Limited. During the period the Company paid Bell & Clements Limited £289,348 (2007 - £150,219) in management charges under an arms-length service agreement. There was a balance due to Bell & Clements at the end of the year of £52,616 in respect of items paid for by Bell & Clements (2007 - £ 42,986) and a balance due from Bell & Clements of £2,635 due for management charges (2007 - £951).

THREE LIONS UNDERWRITING LIMITED

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Year ended 31 December 2008

15. LEASE COMMITMENTS

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

	2008	Other	2007	Other
	Land and Buildings		Land and Buildings	
	£	£	£	£
Operating leases which expire:				
Within one year	-	-	53,433	-
In the second to fifth years inclusive	64,600	-	-	-
	<u>64,600</u>	<u>-</u>	<u>53,433</u>	<u>-</u>

16. DIVIDENDS

The aggregate amount of dividends comprises:

	2008	2007
	£	£
Interim dividends declared in the year	200,000	-
Aggregate amount of dividends declared in the financial year	<u>200,000</u>	<u>-</u>
Dividends paid during the year	<u>200,000</u>	<u>400,000</u>

During the period, the company declared dividends to shareholders of £500,000, £300,000 of which was due to Munich Re, who declined to take their share.