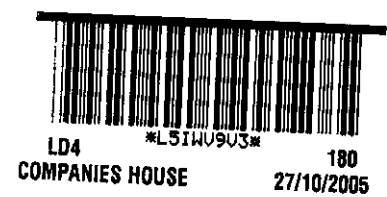


THREE LIONS UNDERWRITING LIMITED

Report and Financial Statements

31 December 2004



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OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

C Sitterer	(Chairman, appointed 30 October 2002, resigned 1 st April 2005)
P Albo	(Chairwoman, appointed 1 st April 2005)
P W Murrell	
D Niemann	(appointed 30 October 2002, resigned 15 June 2004)
J Phillips	(appointed 30 October 2002, resigned 15 June 2004)
B Riemann	(appointed 30 October 2002, resigned 15 June 2004)
C Shah	(appointed 22 August 2002, resigned 15 June 2004)
J F Strain	
J E Walker	(appointed 30 October 2002, resigned 15 June 2004)

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 2004 to 31 December 2004.

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.

The Directors do not recommend the payment of a dividend. (2003: nil)

During the 2005 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

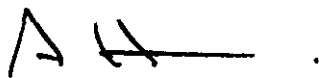
CHARITABLE DONATIONS

The Company made charitable donations of £1,033 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

STATEMENT OF DIRECTORS' RESPONSIBILITIES

United Kingdom company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the profit or loss of the Company for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed; 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 which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for the system of internal control, for safeguarding the assets of the Company, and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

We have audited the financial statements on pages 5 to 12.

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 are responsible for preparing the directors' report and, as described on page 3, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

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 transactions with the company is not disclosed.

We read the other information accompanying the financial statements and consider whether it is consistent with those statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards 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 judgements 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 of the state of the company's affairs as at 31 December 2004 and of its profit for the period then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit plc

Chartered Accountants and
Registered Auditor

London

27 October 2005

THREE LIONS UNDERWRITING LIMITED

PROFIT AND LOSS ACCOUNT Period ended 31 December 2004

	Note	2004 £	22/08/2002 to 31/12/2003 £
TURNOVER	2	1,440,000	1,200,000
Profit Commission		1,796,617	-
Other operating income		182,145	25,296
Administrative expenses		<u>(1,683,997)</u>	<u>(982,166)</u>
OPERATING PROFIT AND PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	3	1,734,765	243,130
Tax on profit on ordinary activities	5	<u>(536,516)</u>	<u>(82,506)</u>
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION	12	1,198,249	160,624
Retained profit brought forward		<u>160,624</u>	<u>-</u>
Retained profit carried forward		<u><u>1,358,873</u></u>	<u><u>160,624</u></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 2004

	Note	31/12/2004 £	31/12/2003 £
FIXED ASSETS			
Tangible assets	6	95,259	34,723
CURRENT ASSETS			
Debtors	7	9,194,067	1,847,860
Cash at bank and in hand	8	5,801,980	4,138,673
		14,996,047	5,986,533
CREDITORS: amounts falling due within one year	9	(13,680,377)	(5,810,632)
NET CURRENT ASSETS		1,315,670	175,901
TOTAL ASSETS LESS CURRENT LIABILITIES		1,410,929	210,624
PROVISION FOR LIABILITIES AND CHARGES	10	(2,056)	-
		1,408,873	210,624
CAPITAL AND RESERVES			
Called up share capital	11	50,000	50,000
Profit and loss account		1,358,873	160,624
TOTAL EQUITY SHAREHOLDERS' FUNDS	12	1,408,873	210,624

The Board of Directors approved these financial statements on 25th October 2005.

Signed on behalf of the Board of Directors



P Murrell
Director

NOTES

Period ended 31 December 2004

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. Commissions are recognised in the profit and loss account on insurance policies where the Company has contractual obligations to perform post placement activities, the net retained commission 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.

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 2004

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.

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.

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:

	2004	22/08/2002 to 31/12/2003
	£	£
Auditors' remuneration for audit services	17,625	15,000
Depreciation of tangible fixed assets	26,140	8,874

4. DIRECTORS AND EMPLOYEES

Staff costs (including directors)

	2004	22/08/2002 to 31/12/2003
	£	£
Wages, salaries and bonuses	925,883	145,536
Social security costs	111,483	16,053
Defined contribution pension scheme contributions	43,104	6,181
Other staff benefits	17,523	11,565
Other staff costs	63,335	4,110
	<u>1,161,328</u>	<u>183,445</u>

NOTES

Period ended 31 December 2004

Directors' emoluments

	2004	22/08/2002 to 31/12/2003
	£	£
Total aggregated emoluments (excluding pension contributions)	248,312	18,288
Pension contributions	15,150	2,700
Total aggregated emoluments	<u>263,462</u>	<u>20,988</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 2004 (2003 : nil).

Monthly average number of employees (excluding directors)

The average number of employees was sixteen during the period from 1 January 2004 to 31st December 2004.

5. TAXATION

Analysis of charge in the year	2004	22/08/2002 to 31/12/2003
	£	£
UK corporation tax		
Current tax on income for the period	533,001	82,506
Adjustments in respect of prior years	1,459	-
Total current tax	<u>534,460</u>	<u>82,506</u>
Deferred tax (see note 10)		
Due to timing difference	2,056	-
Tax on profit on ordinary activities	<u>536,516</u>	<u>82,506</u>
Factors affecting tax charge for the year		
Profit on ordinary activities before tax	<u>1,734,764</u>	<u>243,130</u>
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30%	520,429	72,939
Effects of:		
Expenses not deductible for tax purposes	10,837	10,175
Difference between depreciation and capital allowances	1,735	(608)
Current tax charge for the year	<u>533,001</u>	<u>82,506</u>

THREE LIONS UNDERWRITING LIMITED

NOTES

Period ended 31 December 2004

6. TANGIBLE FIXED ASSETS

	Leasehold improvements £	Furniture, fixtures & fittings £	Computer hardware and software £	Office machinery £	Total £
Cost					
At 31 December 2003	16,287	9,187	13,931	4,192	43,597
Transfer from fellow subsidiary	12,942	14,403	54,485	4,971	86,801
Additions	15,792	14,448	12,866	5,704	48,810
Disposals	-	-	-	(529)	(529)
At 31 December 2004	<u>45,021</u>	<u>38,038</u>	<u>81,282</u>	<u>14,338</u>	<u>178,679</u>
Accumulated depreciation					
At 31 December 2003	4,958	806	2,620	490	8,874
Transfer from fellow subsidiary	2,632	3,363	41,345	1,066	48,406
Charge for the period	13,489	2,705	8,292	1,654	26,140
At 31 December 2004	<u>21,079</u>	<u>6,874</u>	<u>52,257</u>	<u>3,210</u>	<u>83,420</u>
Net book value					
At 31 December 2004	<u>23,942</u>	<u>31,164</u>	<u>29,025</u>	<u>11,128</u>	<u>95,259</u>
At 31 December 2003	<u>11,330</u>	<u>8,380</u>	<u>3,702</u>	<u>11,311</u>	<u>34,723</u>

7. DEBTORS

	31/12/2004 £	31/12/2003 £
Trade debtors - fellow subsidiary	3,849,742	605,343
- others	3,515,810	1,208,900
Other debtors	1,105	4,750
Prepayments and accrued income	1,827,410	28,867
	<u>9,194,067</u>	<u>1,847,860</u>

8. CASH AT BANK AND IN HAND

	31/12/2004 £	31/12/2003 £
Insurance accounts	5,768,161	4,124,452
Other accounts	33,818	14,221
	<u>5,801,979</u>	<u>4,138,673</u>

NOTES

Period ended 31 December 2004

9. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	31/12/2004 £	31/12/2003 £
Trade creditors - fellow subsidiary	7,465,681	3,237,068
- others	4,087,135	1,528,301
Amount owed to fellow subsidiary undertaking (see note 13)	1,159,230	698,245
Corporation tax	533,001	82,506
Other creditors including taxation and social security	122,995	249,512
Accruals and deferred income	312,335	15,000
	<u>13,680,377</u>	<u>5,810,632</u>

10. PROVISION FOR LIABILITIES AND CHARGES

Deferred taxation	31/12/2004 £	31/12/2003 £
Balance at the beginning of the year	-	-
Movement for the year	2,056	-
Balance at the end of the year	<u>2,056</u>	<u>-</u>

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

11. CALLED UP SHARE CAPITAL

	31/12/2004 £	31/12/2003 £
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 2004

12. RECONCILIATION OF MOVEMENTS IN EQUITY SHAREHOLDERS' FUNDS

	31/12/2004 £	31/12/2003 £
Profit for the financial year after taxation	1,198,248	160,624
Issue of share capital	-	50,000
Opening equity shareholders' funds	210,624	-
Closing equity shareholders' funds	<u>1,408,872</u>	<u>210,624</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 2004 to 31 December 2004. In addition the company received a profit commission of £1,796,617. The Company and GLUK are both controlled by Munich Re.

GLUK provided a funding loan to the Company. The loan is interest-free and is repayable on demand. As at 31 December 2004 the total net amount outstanding due from the Company to GLUK was £4,775,168 of which £1,159,230 was for the funding loan (this was repaid on 23 February 2005).

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 £234,917 in management charges under an arms-length service agreement. These charges included amounts in respect of duties performed by P W Murrell.

14. LEASE COMMITMENTS

The Company has entered into operating leases in respect of land and buildings. There are two operating leases, which expire in 2008. Commitments in respect of the leases signed in 2003 amounts to £35,052 (£27,750 – 2004) per annum and commitments in respect of the lease signed in 2004 amounts to £18,391 (£2,872 – 2004) per annum.

The Company has also entered into an operating lease in respect of a pool car. The lease expires in 2006. Commitments in respect of the lease amount to £6,008 per annum.