Company Registration No. 4516776

# THREE LIONS UNDERWRITING LIMITED

## Report and Financial Statements

## 31 December 2003

## CONTENTS

## OFFICERS AND PROFESSIONAL ADVISERS

### DIRECTORS

| | |
|---|---|
| C Sitterer | (Chairman, appointed 30 October 2002) |
| P W Murrell | (appointed 30 October 2002) |
| 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 | (appointed 30 October 2002) |
| J E Walker | (appointed 30 October 2002, resigned 15 June 2004) |

### SECRETARY

A Hedger (appointed 22 August 2002)

### REGISTERED OFFICE

4 St. Dunstan's Hill
London
EC3R 8HJ

### AUDITORS

KPMG Audit Plc
Chartered Accountants
London

## DIRECTORS' REPORT

The Company was incorporated on 22 August 2002 and commenced trading on 30 October 2002. The directors present their annual report and the audited financial statements for the period from 22 August 2002 to 31 December 2003.

### 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 2004 financial year the directors intend to continue to develop the Company's in-house administrative capabilities in order to reduce reliace 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.

On 31 December 2003 D Niemann held four shares in the parent company, Münchener Rückversicherungs-Gesellschaft (date of appointment – none). None of the other directors had interests in the shares of any other group company.

### SHARE CAPITAL

During the year the Company issued 30,000 "A" ordinary £1 shares and 20,000 "B" ordinary £1 shares at par value.

### CHARITABLE DONATIONS

The Company made a charitable donation of £500 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

27 August 2004

## 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 11.

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 2003 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

31 August 2004

## PROFIT AND LOSS ACCOUNT
## Period ended 31 December 2003

| | Note | 22/08/2002 to 31/12/2003 £ |
|---|---|---|
| **TURNOVER** | 2 | 1,200,000 |
| Other operating income | | 25,296 |
| Administrative expenses | | (982,166) |
| **OPERATING PROFIT AND PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION** | 3 | 243,130 |
| Tax on profit on ordinary activities | 5 | (82,506) |
| **PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION** | 11 | 160,624 |
| **Retained profit brought forward** | | - |
| **Retained profit carried forward** | | 160,624 |

**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 2003

| | Note | 31/12/2003<br>£ |
|---|---|---|
| **FIXED ASSETS** | | |
| Tangible assets | 6 | 34,723 |
| **CURRENT ASSETS** | | |
| Debtors | 7 | 1,847,860 |
| Cash at bank and in hand | 8 | 4,138,673 |
| | | 5,986,533 |
| **CREDITORS: amounts falling due within one year** | 9 | (5,810,632) |
| **NET CURRENT ASSETS** | | 175,901 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | 210,624 |
| **CAPITAL AND RESERVES** | | |
| Called up share capital | 10 | 50,000 |
| Profit and loss account | 11 | 160,624 |
| **TOTAL EQUITY SHAREHOLDERS' FUNDS** | 11 | 210,624 |

The Board of Directors approved these financial statements on 27 August 2004

Signed on behalf of the Board of Directors

J Strain
Director

# BALANCE SHEET
# 31 December 2003

## 1. ACCOUNTING POLICIES

The particular accounting policies adopted are described below.

**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 when the Company processes the underlying insurance risks, 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**

Trade debtors and crditors are recognised when the company processes the underlying insurance risks.

**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.

# NOTES
## Period ended 31 December 2003

### 3. OPERATING PROFIT

| Operating profit is stated after charging: | 22/08/2002 to 31/12/2003 £ |
|---|---|
| Auditors' remuneration for audit services | 15,000 |
| Depreciation of tangible fixed assets | 8,874 |

### 4. DIRECTORS AND EMPLOYEES

**Staff costs (including directors)**

| | 22/08/2002 to 31/12/2003 £ |
|---|---|
| Wages, salaries and bonuses | 145,536 |
| Social security costs | 16,053 |
| Defined contribution pension scheme contributions | 6,181 |
| Other staff benefits | 11,565 |
| Other staff costs | 4,110 |
| | 183,445 |

**Directors' emoluments**

| | 22/08/2002 to 31/12/2003 £ |
|---|---|
| Total aggregated emoluments (excluding pension contributions) | 18,288 |
| Pension contributions | 2,700 |
| Total aggregated emoluments | 20,988 |

The pension contributions shown above are in respect of one director. There were no outstanding contributions as at 31 December 2003.

J F Strain and C Shah are directors 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 £590,727 in management charges under an arms-length service agreement. These charges included amounts in respect of duties performed by P W Murrell.

**Monthly average number of employees (excluding directors)**

The average number of employees was four during the period from 30 October 2002 to 31 December 2003. Prior to that the company had no employees.

# BALANCE SHEET
# 31 December 2003

## 5. TAXATION

| Analysis of charge in the year | 22/08/2002 to 31/12/2003 £ |
|---|---|
| Current tax: | |
| UK corporation tax at 30% on taxable profits | 82,506 |
| Tax on profit on ordinary activities | 82,506 |

| | |
|---|---|
| **Factors affecting tax charge for the year** | |
| Profit on ordinary activities before tax | 243,130 |
| Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% | 72,939 |
| Effects of: | |
| Expenses not deductible for tax purposes | 10,175 |
| Capital allowances in excess of depreciation | (608) |
| Current tax charge for the year | 82,506 |

The tax liability is unduly high in relation to the profit on ordinary activities before taxation because the company incurs a significant amount of expenditure that is disallowed for tax purposes.

## 6. TANGIBLE FIXED ASSETS

| | Leasehold improve-ments £ | Furniture, fixtures & fittings £ | Computer hardware and software £ | Office machinery £ | Total £ |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| At 22 August 2002 | - | - | - | - | - |
| Additions | 16,287 | 9,187 | 13,931 | 4,192 | 43,597 |
| At 31 December 2003 | 16,287 | 9,187 | 13,931 | 4,192 | 43,597 |
| **Accumulated depreciation** | | | | | |
| At 22 August 2002 | - | - | - | - | - |
| Charge for the period | 4,958 | 806 | 2,620 | 490 | 8,874 |
| At 31 December 2003 | 4,958 | 806 | 2,620 | 490 | 8,874 |
| **Net book value** | | | | | |
| At 31 December 2003 | 11,329 | 8,381 | 11,311 | 3,702 | 34,723 |
| At 22 August 2002 | - | - | - | - | - |

## BALANCE SHEET
## 31 December 2003

### 7. DEBTORS

| | 31/12/2003 £ |
|---|---|
| Trade debtors - fellow subsidiary | 605,343 |
| - others | 1,208,900 |
| Other debtors | 4,750 |
| Prepayments and accrued income | 28,867 |
| | 1,847,860 |

### 8. CASH AT BANK AND IN HAND

| | 31/12/2003 £ |
|---|---|
| Insurance accounts | 4,124,452 |
| Other accounts | 14,221 |
| | 4,138,673 |

### 9. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

| | 31/12/2003 £ |
|---|---|
| Trade creditors - fellow subsidiary | 3,237,068 |
| - others | 1,528,301 |
| Amount owed to fellow subsidiary undertaking (see note 12) | 698,245 |
| Corporation tax | 82,506 |
| Other creditors including taxation and social security | 249,512 |
| Accruals and deferred income | 15,000 |
| | 5,810,632 |

### 10. CALLED UP SHARE CAPITAL

| | 31/12/2003 £ |
|---|---|
| **Authorised:** | |
| 600,000 "A" ordinary £1 shares | 600,000 |
| 400,000 "B" ordinary £1 shares | 400,000 |
| | 1,000,000 |
| **Called up, allotted, and fully paid:** | |
| 30,000 "A" ordinary £1 shares | 30,000 |
| 20,000 "B" ordinary £1 shares | 20,000 |
| 50,000 ordinary £1 shares | 50,000 |

During the year the Company issued 30,000 "A" ordinary £1 shares and 20,000 "B" ordinary £1 shares at par value. The "A" and "B" shares rank pari passu in all respects.

## BALANCE SHEET
## 31 December 2003

### 11. RECONCILIATION OF MOVEMENTS IN EQUITY SHAREHOLDERS' FUNDS

| | 31/12/2003<br>£ |
|---|---|
| Profit for the financial year after taxation | 160,624 |
| Issue of share capital | 50,000 |
| Opening equity shareholders' funds | - |
| Closing equity shareholders' funds | 210,624 |

### 12. 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 commission of £1,200,000 during the period from 22 August 2002 to 31 December 2003. 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 2003 the total net amount outstanding due from the Company to GLUK was £3,329,969, of which £698,245 was for the funding loan.