

**Syndicate Capital (No. 5) Limited**

**Directors' report and financial  
statements**

**Registered number 2842678  
31<sup>st</sup> December 2004**



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## Directors' report

### Results and dividends

The directors present their report and financial statements for the year ended 31<sup>st</sup> December 2004. The accounts have been prepared using the format for insurance companies and reflect the company's participations in its underlying Lloyd's syndicates.

	<b>2004</b>	2003
	<b>£'000</b>	£'000
(Loss)/profit after tax for the year	<b>(104)</b>	6
Dividend payable	-	-
	<hr/>	<hr/>
(Loss)/profit for the year transferred to reserves	<b>(104)</b>	6
	<hr/>	<hr/>

No final preference dividend has been proposed (2003: £nil). No ordinary dividend has been paid or proposed (2003: £nil).

### Principal activity and status

The company was formed to take advantage of the opportunity provided by the admission of corporate capital to the Lloyd's insurance market. It is a corporate member of Lloyd's and entered into underwriting commitments with participating syndicates.

The company ceased underwriting as from the end of the 1998 underwriting account. The company purchased a reinsurance policy on the 19<sup>th</sup> August 1999 in respect of the spread participation underwritten by the company for the 1997 and 1998 underwriting years. The effect of the reinsurance policy is that the company should suffer no adverse economic impact from any deterioration in the company's underwriting portfolio.

### Going Concern

Notwithstanding the deficit in shareholders' funds the Company has been treated as a going concern as the Company continues to receive financial and other support from its immediate parent company Mayheld Limited.

## **Directors' report** *(continued)*

### **Directors and directors' interests**

The directors who held office during the year were as follows:

J. C. R. Batty  
J. M. Massey

No director had any interest in the share capital of the company or any other body corporate in the same group during the period under review. No options or any other rights to acquire shares in of any member of the group have been granted to or exercised by the directors or any members of their families during the year.

The directors received no remuneration in respect of their services as directors of the company during the year. The directors received fees from the company's immediate parent company, Mayheld Limited, in the year ended 31<sup>st</sup> December 2004. The directors also received fees in respect of the year ended 31<sup>st</sup> December 2003.

The company has no employees.

There are no loans or guarantees granted or provided by the company to any director nor are any service contracts in existence between the company and any director.

### **Directors' responsibilities**

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 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, 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 maintaining 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 safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

## **Directors' report** *(continued)*

### **Registered office**

The registered office of the company is situated at 71 Fenchurch Street, London EC3M 4HH.

### **Auditor**

Pursuant to a shareholders' resolution, the company is not obliged to reappoint its auditor annually and KPMG Audit plc will therefore continue in office.

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

A handwritten signature in black ink, appearing to read 'M J Turvey', is written over a faint circular stamp or watermark.

**M J Turvey**  
*Company Secretary*  
71 Fenchurch Street  
London EC3M 4HH

21<sup>st</sup> June 2005

## **Report of the Independent Auditor to the members of Syndicate Capital (No. 5) Limited**

We have audited the financial statements on pages 8 – 19.

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 purposes. 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 4, 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.

### **Basis of 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.

## **Report of the Independent Auditor to the members of Syndicate Capital (No. 5) Limited** *(continued)*

### **Opinion**

In our opinion, the financial statements give a true and fair view of the state of the company's affairs as at 31<sup>st</sup> December 2004 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

*KPMG Audit Re*

**KPMG Audit Plc**  
*Chartered Accountants*  
*Registered Auditor*  
8 Salisbury Square  
London  
EC4Y 8BB

21<sup>st</sup> June 2005

**Profit and Loss Account**  
*For the year ended 31st December 2004*

	Notes	2004 £'000	2003 £'000
<b>Technical Account</b>			
Gross premiums written		-	-
Outward reinsurance premiums		-	-
Net premiums written		-	-
Allocated investment return transferred from the non-technical account		-	-
<b>Claims incurred</b>			
Claims paid:			
Gross amount		-	-
Reinsurers' share		-	-
Claims paid, net of reinsurance		-	-
<b>Change in the provision for claims:</b>			
Gross amount		-	-
Reinsurers' share		-	-
Net claims incurred		-	-
Net operating expenses		-	-
Investment expenses and charges		-	-
<b>Balance on the technical account</b>		-	-

The notes on pages 12-19 form an integral part of these financial statements and details of the basis of preparation are included in note 1.



**Profit and Loss Account**  
*For the year ended 31<sup>st</sup> December 2004*

		<b>2004</b> <b>£'000</b>	<b>2003</b> <b>£'000</b>
<b>Non-Technical Account</b>			
<b>Balance on the technical account</b>		-	-
Other income	4	-	12
Other charges, including value adjustments		(3)	(3)
		<hr/>	<hr/>
<b>(Loss)/profit on ordinary activities before tax</b>	5	(3)	9
Tax on (loss)/profit on ordinary activities	6	(101)	(3)
		<hr/>	<hr/>
<b>(Loss)/profit on ordinary activities after tax</b>		(104)	6
Dividends paid and proposed		-	-
		<hr/>	<hr/>
<b>(Loss)/profit retained for the financial year</b>		(104)	6
		<hr/>	<hr/>

There were no gains or losses other than those included in the profit and loss account for the year and prior periods. Therefore no statement of recognised gains and losses has been presented.

The company ceased underwriting with effect from the 1998 Year of Account.

The notes on pages 12-19 form an integral part of these financial statements and details of the basis of preparation are included in note 1.

**Balance Sheet**  
*As at 31st December 2004*

		<b>2004</b>	2003
		<b>£'000</b>	£'000
<b>ASSETS</b>			
<b>Debtors</b>			
Other debtors	10	-	398
<b>Total assets</b>		<u>-</u>	<u>398</u>

The notes on pages 12-19 form an integral part of these financial statements and details of the basis of preparation are included in note 1.

**Balance Sheet (continued)**  
**As at 31st December 2004**

	Notes	2004 £'000	2003 £'000
<b>LIABILITIES</b>			
<b>Capital and reserves</b>			
Called up share capital	7	-	-
Profit and loss account	8	(57)	47
<b>Ordinary shareholders' funds – equity interests</b>	9	<u>(57)</u>	<u>47</u>
<b>Creditors</b>			
Other creditors including taxation	11	57	344
		<u>57</u>	<u>344</u>
Accruals and deferred income		-	7
<b>Total liabilities</b>		<u>-</u>	<u>398</u>

Approved by the Board on 21<sup>st</sup> June 2005  
 and signed on its behalf by



Director

The notes on pages 12-19 form an integral part of these financial statements and details of the basis of preparation are included in note 1.

## **Notes**

*(forming part of the financial statements)*

### **1. Accounting policies**

#### ***Basis of preparation***

The financial statements of the company for the current year have been prepared in accordance with Section 255 of, and Schedule 9A to, the Companies Act 1985, which cover the disclosures applicable to insurance companies. As a result the accounts include the company's share of all income, expenses, assets and liabilities of the underlying syndicates on which it participates. The information regarding the company's share of income, expenses, assets and liabilities of the underlying syndicates has been compiled from standardised audited reporting forms prepared by the managing agents of those syndicates.

The accounts have been prepared in accordance with applicable accounting standards and guidance on accounting for Corporate Capital issued by the Institute of Chartered Accountants in England and Wales ("ICAEW"). The ICAEW guidance requires corporate capital to comply, so far as applicable, with the Statement of Recommended Practice issued by the Association of British Insurers in November 2003 (The "ABI SORP revised").

Under Financial Reporting Standard 1 the company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the company in its own published consolidated financial statements.

Notwithstanding the deficit in shareholders' funds the Company has been treated as a going concern as the Company continues to receive financial and other support from its immediate parent company Mayheld Limited.

#### ***Technical account***

The technical account records the results of underwriting, including investment returns and expenses, of the Lloyd's syndicates in which the Company participates. These underwriting results are presented on the three year funded basis such that the Technical Account for 2004 incorporates transactions recorded during 2004 which relate to the 2003 and prior Years of Account.

Under the three year funded basis, profits from underwriting activities are recognised at the end of the third year, whilst provisions for losses are recognised as soon as foreseen. Accordingly, the balance on the Technical Account for 2004 represents profits arising from the company's participations on Lloyd's syndicates for the 2002 and prior underwriting years net of movements in provisions for losses foreseen.

As a result of the company's reinsurance policy, provisions for losses on the open Year of Account will be fully recoverable under this policy. The policy has been purchased to cover all participations for the 1997, 1998 and 1999 Years of Account.

Lloyd's syndicates represent annual ventures which are closed by reinsuring the liabilities of the syndicate usually into a succeeding syndicate at the end of the third year. This process is called Reinsurance to Close. Reinsurance to Close premiums received and paid are shown as part of earned premiums.

**Notes (continued)**  
**(forming part of the financial statements)**

**1. Accounting policies (continued)**

***Technical account (continued)***

Where an underwriting year of account is not closed at the end of the third year (a "run-off year of account") a provision is made by the managing agent on a similar basis to the reinsurance to close for the estimated cost of all known and unknown outstanding liabilities of that year. However, any subsequent variation in the ultimate liabilities for that year remains with the corporate member participating thereon. Accordingly the directors have given consideration to the potential for further deterioration of the run-off years of account and have made additional provisions where considered appropriate.

***Non-technical account***

The non-technical account primarily incorporates transactions arising from corporate activities, being the activities of Syndicate Capital (No. 5) Limited.

**Premiums**

Gross written premiums comprise the total premium incepted during the year and exclude insurance premium tax.

**Claims**

Claims outstanding represent the ultimate cost of settling all claims (including direct and indirect claims settlement costs) arising from events which have occurred up to the balance sheet date including a provision for claims incurred but not yet reported less any amounts paid in respect of these liabilities. Claims outstanding are reduced by anticipated salvage and other recoveries.

The movement in claims provision charged to the profit and loss account is a composite figure comprising actual movement in claims provision; movement in reinsurance to close reserves; and expenses accrued charged to the years of account in run off.

The provision is based on the returns and reports from the Managing Agents and the company's licensed adviser. Where appropriate, statistical methods have been applied to past experience of claims frequency and severity.

While the directors consider that the provisions for losses on open years are fairly stated on the basis of the information available to them, the ultimate liability will vary as a result of subsequent information and events and may result in significant adjustments to the sums provided.

**Notes (continued)**  
**(forming part of the financial statements)**

**1. Accounting policies (continued)**

**Investments**

(i) Investment valuations

Listed investments are included in the balance sheet at mid-market value, and unlisted investments and loans at directors' valuation.

(ii) Investment income and expenses, and gains and losses

Investment income includes dividends, interest, gains and losses on the realisation of investments and related expenses. Dividends are recorded on the date on which the shares are quoted ex-dividend and include the imputed tax credits. Interest and expenses are accounted for on an accruals basis.

Realised gains and losses on investments are calculated as the difference between net sales proceeds and purchase price or, if previously valued, the valuation at the last balance sheet date. Unrealised gains and losses which represent the movement in the accumulated unrealised gains and losses are taken directly to the technical account.

**Deferred tax**

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

**Foreign currencies**

Foreign currency revenue transactions, assets and liabilities are translated at year end exchange rates. Resulting exchange gains and losses are taken to the profit and loss account.

**Releases of premium trust funds**

Interest received on releases of amounts from Premium Trust Funds is not recognised as income until the closure of the relevant Year of Account.

**Related party transactions**

As the company is a wholly owned subsidiary of Mayheld Limited, the company has taken advantage of the exemption contained in FRS 8 and has therefore not disclosed transactions or balances with entities which form part of the group. The consolidated financial statements of Mayheld Limited, within which this company is included, can be obtained from the address given in note 12.

## Notes to the Financial Statements *(continued)*

### 1. Accounting policies *(continued)*

#### Company's reinsurance policy

Premiums in respect of the reinsurance policy have been accounted for in the outward reinsurance premiums within the technical account. Resultant recoveries due under this policy have been accounted for in the reinsurer's share of claims paid.

### 2. Segmental information

2004	Gross premiums written £'000	Gross claims incurred £'000	Gross operating expenses £'000	Reinsurance balance £'000
Direct business				
Marine aviation & transport	-	-	-	-
Fire & other damage to property	-	-	-	-
Third party liability	-	-	-	-
Accident & health	-	-	-	-
Credit, suretyship & legal expenses	-	-	-	-
Total direct	-	-	-	-
Reinsurance business				
Other reinsurance acceptances	-	-	-	-
Reinsurance to close	-	-	-	-
Total reinsurance	-	-	-	-
Total	-	-	-	-

## 2. Segmental information (continued)

2003	Gross premiums written £'000	Gross claims incurred £'000	Gross operating expenses £'000	Reinsurance balance £'000
Direct business				
Marine aviation & transport	-	-	-	-
Fire & other damage to property	-	-	-	-
Third party liability	-	-	-	-
Accident & health	-	-	-	-
Credit, suretyship & legal expenses	-	-	-	-
Total direct	-	-	-	-
Reinsurance business				
Other reinsurance acceptances	-	-	-	-
Reinsurance to close	-	-	-	-
Total reinsurance	-	-	-	-
Total	-	-	-	-

## 3. Remuneration of directors

The directors received no fees or remuneration during the year ended 31<sup>st</sup> December 2004 (period ended 31<sup>st</sup> December 2003 – nil). The directors received fees from the parent company in the year ended 31<sup>st</sup> December 2004. The directors also received fees in respect of the year ended 31<sup>st</sup> December 2003.

## 4. Other Income

	2004 £'000	2003 £'000
Other income	-	12



## Notes to the Financial Statements *(continued)*

### 5. (Loss)/profit on ordinary activities before tax

The (loss)/profit on ordinary activities before tax is stated after charging:

	2004 £'000	2003 £'000
Auditor remuneration		
- audit services	1	1
- non-audit services	2	2
	<hr/>	<hr/>

### 6. Taxation

	2004 £'000	2003 £'000
Current tax	101	3
	<hr/>	<hr/>

The current tax charge for the period is higher than (2003: equal to) the standard rate of corporation tax in the UK (30%, 2003: 30%). The difference is explained as follows:

#### Current tax reconciliation

(Loss)/profit before tax	(3)	9
Corporation tax at 30% (2003: 30%)	(1)	3
Adjustment in respect of prior periods – overseas tax	101	-
Adjustment in respect of prior periods – UK tax	1	-
	<hr/>	<hr/>
	101	3
	<hr/>	<hr/>

No deferred tax asset has been recognised in this period as the company has ceased underwriting and consequently has no future profits to utilise the asset. The future tax charge of the Company is dependent on the ability of the company to utilise tax losses as they become available.

### 7. Share capital

	2004	2003
<b>Ordinary shares of £1 each</b>		
Authorised	99	99
	<hr/>	<hr/>
Allotted, called up and fully paid	2	2
	<hr/>	<hr/>
<b>Preference shares of £1 each</b>		
Authorised	1	1
	<hr/>	<hr/>
Allotted, called up and fully paid	1	1
	<hr/>	<hr/>

The preference share entitles the holder to a return of capital and any undistributed underwriting profits on winding up. It carries no voting rights.

## Notes to the Financial Statements *(continued)*

### 8. Reserves

	2004 £'000	2003 £'000
At start of year	47	41
Retained (loss)/profit for the year	(104)	6
At end of year	<u>(57)</u>	<u>47</u>

### 9. Reconciliation of movements in shareholders' funds

	2004 £'000	2003 £'000
(Loss)/profit for the financial year	(104)	6
Dividends paid and proposed	-	-
Net (reduction)/addition to shareholders' funds	<u>(104)</u>	<u>6</u>
Opening shareholders' fund	47	41
Closing shareholders' funds	<u>(57)</u>	<u>47</u>

### 10. Other debtors

	2004 £'000	2003 £'000
Sums due from parent undertaking	-	98
UK Corporation tax recoverable	-	88
Overseas tax withheld	-	101
Other	-	111
	<u>-</u>	<u>398</u>

### 11. Other creditors including taxation

	2004 £'000	2003 £'000
Sums due to parent undertaking	57	170
Other	-	174
	<u>57</u>	<u>344</u>

## Notes to the Financial Statements *(continued)*

### 12. Ultimate holding company

The company's immediate parent company is Mayheld Limited, a company registered in England and Wales. The Company's ultimate holding company is Ogier Trustee Limited which is located at Pirouet House, Union Street, St Helier, Jersey JE4 9WG.

### 13. Contingent liabilities

There are fourteen other corporate member subsidiaries of Mayheld Limited. If one of these subsidiaries fails to meet any of its Lloyd's obligations, Lloyd's will:

- (i) be entitled to require the other subsidiaries to cease or reduce their underwriting; and/or
- (ii) having regard to the fact that the Central Fund may be applied to discharge the obligations of the defaulting subsidiary, be entitled to require each of the other corporate member subsidiaries to make contributions to the Central Fund up to the amount of their respective net profits held from time to time in premiums trust funds, sufficient to reimburse the Central Fund in full for any payment made on behalf of the defaulting member.

At the date of these financial statements the directors are not aware of any other corporate member subsidiary of the group failing to meet any of its Lloyd's obligations.

- (iii) As part of the disposal of the company to Mayheld Limited, Syndicate Capital Underwriting Limited a subsidiary of SVB Holdings PLC, agreed to indemnify Mayheld Limited and the shareholders of Mayheld Limited against any loss, damage, costs, liabilities, claims, cash calls and expenses to the extent that the same are not covered by the reinsurance contract regarding the 1997 and 1998 underwriting years.
- (iv) As set out in the accounting policies, where the group reduces its participation on a syndicate it pays a reinsurance to close premium to other Lloyd's Names to assume its ongoing liabilities. The nature of this arrangement is that of reinsurance such that the group retains liability in the event of failure of these Lloyd's Names and the Lloyd's chain of security. There is no mechanism for the group to quantify its exposure in this regard and the directors consider that the possibility of having to assume these liabilities is remote.