

SYNDICATE CAPITAL (No. 5) LIMITED

**REPORT & ACCOUNTS
31ST DECEMBER 2003**

Registered number: 2842678



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Syndicate Capital (No. 5) Limited

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Report of the Directors

Results and Dividends

The directors present their report and financial statements for the year ended 31 December 2003. The accounts have been prepared using the format for insurance companies and reflect the company's participations in its underlying Lloyd's syndicates.

	2003	2002
	£'000	£'000
Profit after tax for the year	6	170
Dividend payable in June 2001	<u>-</u>	<u>(170)</u>
Profit for the year transferred to reserves	<u>6</u>	<u>-</u>

No final preference dividend has been proposed (2002: £169,719 per share). No ordinary dividend has been paid or proposed.

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 19th 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.

Directors and their 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 or debentures 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 or debentures 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 parent company, Mayheld Limited, in the year ended 31st December 2002.

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.

Registered office

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

Auditors

Pursuant to a shareholders' resolution, the company is not obliged to reappoint its auditors 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', with a large circular flourish at the end.

M J Turvey
Company Secretary
28 June 2004

Report of the Independent Auditor to the shareholder of Syndicate Capital (No. 5) Limited

We have audited the financial statements on pages 6 to 18.

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 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 guide.

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.

Opinion

In our opinion, the financial statements give a true and fair view of the state of the company's affairs as at 31st December 2003 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
Registered Auditor
28 June 2004

8 Salisbury Square
London
EC4Y 8BB

Profit and Loss Account – Non-Technical Account

for the year ended 31st December 2003

	Note	2003 £	2002 £
Non-Technical Account			
Balance on the technical account		-	-
Other Income	4	11,461	-
Other charges, including value adjustments		<u>(2,500)</u>	<u>(10,052)</u>
Profit/(loss) on ordinary activities before tax	5	8,961	(10,052)
Tax on profit/(loss) on ordinary activities	6	<u>(2,688)</u>	<u>179,771</u>
Profit on ordinary activities after tax		6,273	169,719
Dividends paid and proposed	7	<u>-</u>	<u>(169,719)</u>
Profit retained for the financial year		<u>6,273</u>	<u>-</u>

There were no gains or losses other than those included in the profit and loss account for the year and prior periods.

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

The notes on pages 9 -18 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 2003

2003				2002			
Note	Syndicate £	Corporate £	Total £	Syndicate £	Corporate £	Total £	
ASSETS							
Debtors							
Other debtors	11	-	397,868	397,868	-	389,063	389,063
Total Assets		<u>-</u>	<u>397,868</u>	<u>397,868</u>	<u>-</u>	<u>389,063</u>	<u>389,063</u>

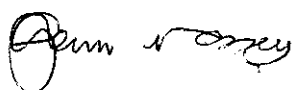
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Balance Sheet

as at 31st December 2003

		2003			2002		
Note		Syndicate £	Corporate £	Total £	Syndicate £	Corporate £	Total £
LIABILITIES							
Capital and reserves							
Called up share capital	8	-	3	3	-	3	3
Profit and loss account	9	-	47,273	47,273	-	41,000	41,000
Shareholders' funds							
equity interests	10	-	47,276	47,276	-	41,003	41,003
Creditors							
Other creditors including taxation and social securities	12	-	344,091	344,091	-	174,341	174,341
Proposed final dividend		-	-	-	-	169,719	169,719
		-	344,091	344,091	-	344,060	344,060
Accruals and deferred income							
		-	6,500	6,500	-	4,000	4,000
Total Liabilities		-	397,868	397,868	-	389,063	389,063

These financial statements were approved by the Board of Directors on 28 June 2004 and were duly signed on its behalf by;



Director

The notes on pages 9 -18 form an integral part of these financial statements and details of the basis of preparation are included in note 1.

Notes to the Financial Statements

1. Basis of Preparation of Financial Statements

(a) Legal framework

The financial statements have been prepared in accordance with Section 255 of, and Schedule 9A to, the Companies Act 1985 ("the Act") and in accordance with applicable Accounting Standards and under the historical cost accounting rules, modified to include the revaluation of investments.

(b) Inclusion of insurance transactions

Preparing the financial statements in accordance with Section 255 of, and Schedule 9A to, the Act has required the company to recognise its proportion of all the transactions undertaken by the Lloyd's syndicates in which it participates ("the Syndicates").

For each such syndicate, the company's proportion of the underwriting transactions, investment return and operating expenses has been reflected within the company's profit and loss account. Similarly, its proportion of the syndicate's assets and liabilities has been reflected in its balance sheet (under the column heading "syndicate"). The "syndicate" assets are held subject to trust deeds *for the benefit of the company's insurance creditors*.

The proportion referred to above is calculated by reference to the company's participation as a percentage of the syndicate's total capacity.

The company has delegated sole management and control of its underwriting through each syndicate to the managing agent of the syndicate ("the Managing Agent") and it has further undertaken not to interfere with the exercise of such management and control. The Managing Agents of the syndicates are therefore responsible for determining the insurance transactions to be recognised by the company. The only exception to this rule is the level of provision for outstanding claims. These provisions have been determined by the directors of the company (see 2(e) below).

(c) Sources of data

The information used to compile the technical account and the "syndicate" balance sheet is based on returns prepared for this purpose by the Managing Agents of the syndicates ("the Returns"). These Returns have been subjected to audit by the syndicate auditors and are based on the audited syndicate returns to Lloyd's and the audited annual reports to syndicate members. This base data has been adjusted as necessary so that the Returns reflect the differences in preparation between syndicate annual reports and financial statements in accordance with Schedule 9A.

The format of the Returns has been established by Lloyd's and Lloyd's has also been responsible for collating the data at a syndicate level and analysing it into corporate member level results.

The Returns cover the 12 months to 31st December 2003 and the 12 months to 31st December 2002.

Notes to the Financial Statements (continued)

2. Accounting Policies

(a) Accounting convention

The financial statements are prepared under the historical cost convention as modified by the revaluation of financial investments.

(b) Accounting for underwriting results

All classes of insurance business written are accounted for on a three year funded basis because it is the basis most similar to that followed by the syndicates. The nature of the information Managing Agents can make available is insufficient for the company to make reliable estimates of the necessary technical provisions on an annual basis of accounting. Under the three year funded basis followed by the company, the excess of premiums written and attributable net investment return over claims and expenses paid in respect of contracts incepting in an accounting period ("the underwriting year") is carried forward as a technical provision until the end of the third year from the inception of the underwriting year. Consequently, no profit is recognised in respect of an underwriting year until that time at the earliest. Profit is only recognised if a syndicate has been able to effect a "reinsurance to close" (see (f) below) in respect of that underwriting year.

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.

If an underwriting year is expected to make a loss, the loss is recognised as soon as it is foreseen by increasing the technical provision to make it sufficient to meet present liabilities and anticipated future claims and expenses.

(c) Premiums

Premiums written comprise the total premiums receivable for the whole period of cover provided by the contracts incepting during the financial year, together with any adjustments arising in the year to such premiums receivable in respect of business written in prior years.

Premiums are shown gross of commission payable to intermediaries and exclude insurance premium tax.

Gross premiums written include "reinsurance to close" receivable (see (f) below).

Premiums written by a syndicate may also include the reinsurance of other syndicates on which the company participates. No adjustments have been made to gross premiums written or outward reinsurance premiums (or to gross and reinsurers' claims) to remove this intersyndicate reinsurance. Outward reinsurance premiums include "reinsurance to close" payable (see (f) below).

Notes to the Financial Statements (continued)

2. Accounting Policies (continued)

(d) Claims incurred

Claims incurred include the costs of claims handling expenses. Recoverable amounts arising out of subrogation or salvage are deducted from the cost of claims. Claims incurred comprise amounts paid or provided in respect of claims occurring during the year to 31st December, together with the amount by which settlement or reassessment of claims from previous years differs from the provision at the beginning of the year.

(e) Provision for claims

Provision is made for claims incurred but not paid in respect of events up to 31st December. The provision includes the amounts required to ensure no profit is recognised before the end of the third year under the three year funded basis of accounting (see (b) above).

The provision has been increased as appropriate by the company to the extent that deficits are foreseen on underwriting years before they have closed via a reinsurance to close.

In deciding whether any such additional provision is necessary, syndicate participations have been considered in aggregate terms as all Lloyd's underwriting is managed together. Where a syndicate's underwriting year does not close at the end of its third year, specific consideration is given to *reserving for that syndicate*.

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

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.

(f) Reinsurance to close

A reinsurance to close is a particular type of reinsurance contract entered into by Lloyd's syndicates. Under it, underwriting members (the reinsured members) who are members of a syndicate for a year of account (the closed year), agree with underwriting members who comprise that or another syndicate for a later year of account (the reinsuring members) that the reinsuring members will indemnify, discharge or procure the discharge, of the reinsured members against all known and unknown liabilities of the reinsured members arising out of insurance business undertaken through that syndicate and allocated to the closed year in consideration of:

- (a) a premium; and
- (b) either
- (i) the assignment, or agreement to assign, to the reinsuring members of all the rights of the reinsured members arising out of, or in connection with, that insurance business (including without limitation the right to receive all future premiums, reinsurances and other monies receivable in connection with that insurance business); or

Notes to the Financial Statements (continued)

2. Accounting Policies (continued)

- (ii) an agreement by the reinsured members that the reinsuring members shall collect *on behalf of the reinsured members the proceeds of all such rights and retain them for their own benefit so far as they are not applied in discharge of the liabilities of the reinsured members.*

Where the reinsurance to close is between members on successive years of account of the same syndicate, the managing agent has a duty to ensure both sets of members are treated equitably and to set the reinsurance to close with the intention that neither a profit nor a loss accrues to either group of members.

To the extent that the company participates on successive years of account of the same syndicate and there is a reinsurance to close between those years, the company has offset its share of the reinsurance to close received against its share of the reinsurance to close paid.

If the company has increased its participation from one year of account to the next, the reinsurance to close paid is eliminated, as a result of this offset, leaving an element of the reinsurance to close received. This reflects the fact that the company has assumed a greater proportion of the business of the syndicate. If the company has reduced its participation from one year of account to the next, the reinsurance to close received is eliminated, leaving an element of the reinsurance to close paid. This reflects the reduction in the company's exposure to risks previously written by the syndicate.

The reinsurance to close is technically a reinsurance contract and, as such, the payment of a reinsurance to close does not remove from members of that year of account ultimate responsibility for claims payable on risks they have written. If the reinsuring members under the reinsurance to close become insolvent and the other elements of the Lloyd's chain of security also fail, the reinsured members remain theoretically liable for the settlement of any outstanding claims.

However, payment of a reinsurance to close is conventionally accepted as terminating a reinsured member's participation on a syndicate year of account and it is treated for accounts purposes as settling all the company's outstanding gross liabilities in respect of the business so reinsured.

(g) Investments

Listed and other traded investments are stated at mid market values. Other investments are stated at directors' valuations. Unrealised gains and losses are recognised in the profit and loss account.

(h) Investment income

Investment income comprises interest receivable and dividends received plus net realised gains on the disposal of investments. Realised gains and losses arise from the difference between proceeds and valuation at the previous year end, or cost if there has been no previous revaluation.

Where investments represent the company's share of syndicate investments, they are treated as sold and repurchased at each year end in recognition of the annual venture nature of participation on a syndicate. The realised gains reported by syndicates are net of any realised losses.

All syndicate investment income, net of realised losses arising on syndicate participation is allocated to the technical account. Other investment income is attributable to the non-technical account.

Notes to the Financial Statements (continued)

2. Accounting Policies (continued)

(i) Investment expenses and charges

Investment expenses and charges comprise investment management expenses and losses on the realisation of investments. Realised losses arise from the difference between proceeds and valuation at the previous year end, or cost if there has been no previous revaluation. The realised losses reported by syndicates are net of any realised gains.

(j) Net operating expenses

Operating expenses are recognised when incurred. They include the company's share of syndicate operating expenses, the remuneration payable to Managing Agents and the company's licensed adviser and the direct costs of membership of Lloyd's. Where they relate to the company's underwriting, they are taken into account in calculating the technical provision required under the three year funded basis of accounting.

(k) Other charges

Expenses not attributable to underwriting are recognised when incurred.

(l) Foreign currencies

Transactions in foreign currencies other than sterling, United States dollars and Canadian dollars are translated at the rates of exchange ruling at the date the transaction is processed. Unless otherwise stated, transactions in United States dollars and Canadian dollars and assets and liabilities in currencies other than sterling are translated at the rates of exchange ruling at the end of the financial year. Exchange differences arising on translation are dealt within the profit and loss account.

(m) Taxation

The company is taxed on its share of the underwriting results "declared" by syndicates and these are deemed to accrue evenly over the calendar year in which they are declared. The syndicate results for the 2003 calendar year are included in these financial statements and are declared for tax purposes in the calendar year 2002.

The Inland Revenue agrees the taxable results of syndicates which includes gains and losses on syndicate investments at a syndicate level on the basis of computations submitted by the Managing Agent. At the date of approval of these financial statements, the syndicate taxable results have not been agreed for the 1998 year of account. Any adjustments that may be necessary to the

Notes to the Financial Statements (continued)

2. Accounting Policies (continued)

tax provisions established by the company as a result of Inland Revenue agreement of syndicate taxable results will be reflected in the financial statements of subsequent periods.

(n) Deferred taxation

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.

(o) Related party transactions

As the company is a wholly owned subsidiary of Mayheld Ltd, 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 Ltd, within which this company is included, can be obtained from the address given in note 14.

(p) Cashflow statement

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.

Notes to the Financial Statements (continued)

3. Remuneration of Directors

The directors received no fees or remuneration during the year ended 31st December 2003 (period ended 31st December 2002 – nil). The directors received fees from the parent company in the year ended 31st December 2003.

4. Other Income

	2003 £	2002 £
Other income	<u>11,461</u>	<u>-</u>

5. Profit on Ordinary Activities before Tax

The profit on ordinary activities before tax is stated after charging:

	2003 £	2002 £
Auditor's remuneration		
- audit services	1,000	1,000
- non-audit services	<u>1,500</u>	<u>1,500</u>

6. Taxation

	2003 £	2002 £
Current tax	<u>2,688</u>	<u>(179,771)</u>
	<u>2,688</u>	<u>(179,771)</u>
Current tax reconciliation		
Profit before tax	8,961	(10,052)
Corporation tax at 30% (2001 30%)	2,688	(3,016)
Prior year under/(over)provision	-	(179,771)
Group relief	-	3,016
	<u>2,688</u>	<u>(179,771)</u>

Notes to the Financial Statements (continued)

7. Dividends

	2003 £	2002 £
Preference dividends:		
No final preference dividend is proposed (2002: £169,719)	-	169,719

8. Share Capital

	2003 £	2002 £
Ordinary shares of £1 each		
Authorised	99	99
Allotted, called up and fully paid	2	2
Preference shares of £1 each		
Authorised	1	1
Allotted, called up and fully paid	1	1

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

9. Reserves

	2003 £	2002 £
At start of year	41,000	41,000
Retained profit for the year	6,273	-
At end of year	47,273	41,000

Notes to the Financial Statements (continued)

10. Reconciliation of Movements in Shareholders' Funds

	2003 £	2002 £
Profit for the financial year	6,273	169,719
Dividends paid and proposed	-	(169,719)
Net addition to shareholders' funds	6,273	-
Share capital issued	-	-
Opening shareholders' funds	41,003	41,003
Closing shareholders' funds	47,276	41,003

11. Other debtors

	2003 £	2002 £
Sums due from parent undertaking	98,242	98,242
UK Corporation tax recoverable	88,317	91,006
Overseas tax withheld	101,456	101,456
Other	109,853	98,359
	<u>397,868</u>	<u>389,063</u>

12. Other Creditors including Taxation and Social Security

	2003 £	2002 £
Sums due to parent undertaking	169,719	-
Other	174,372	174,341
	<u>344,091</u>	<u>174,341</u>

Notes to the Financial Statements (continued)

13. Related Party Disclosure

The following Managing Agents managed more than 10% of the company's capacity on the underwriting years on which it participates.

Managing Agent	% of company's aggregate premium limit for year 1998
SVB Syndicates Limited	53.7
Venton Underwriting Agencies Limited	15.3
J E Mumford (UWA) Limited	25.6

14. 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.

15. Contingent Liabilities

- (a) 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.

- (b) As part of the disposal of the company to Mayheld, Syndicate Capital Underwriting Limited, a subsidiary of SVB Holdings PLC, agreed to indemnify Mayheld Limited and the shareholders of Mayheld 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.
- (c) As set out in note 2 (f) of 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.