

SERVICE CORPORATE CAPITAL LIMITED

Report and Financial Statements

For the period from 25 October 1996 to 31 December 1997



REPORT OF THE DIRECTORS

The directors have pleasure in presenting their first report together with the financial statements for the period from 25 October 1996 to 31 December 1997.

INCORPORATION

The company was incorporated on 25 October 1996 as Service Corporate Capital Limited.

PRINCIPAL ACTIVITY

The company is a corporate member of Lloyd's and undertakes both insurance and reinsurance business through participation in Lloyd's Syndicate No. 1222. The company commenced underwriting for the 1997 year of account, the results of which should be determined at the end of 1999.

RESULTS FOR THE PERIOD

The company's results for the period are set out on pages 4 and 5 its financial position is set out on pages 6 and 7.

The directors do not recommend the payment of a dividend.

DIRECTORS AND DIRECTORS' INTEREST

The directors who have held office during the period are as follows:

C.S.H. Hampton (Chairman)	(appointed 25 October 1996)
Sir L.H. Magnus	(appointed 25 October 1996)
D.A.C. Reid Scott	(appointed 25 October 1996)

Each of the above are partners in The Phoenix Partnership which owns 100% of the issued share capital of the company. Details of their respective shares in the Partnership are as follows:

C.S.H. Hampton	16.69%
Sir L.H. Magnus	2.69%
D.A.C. Reid Scott	16.69%

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

- a) select suitable accounting policies and then apply them consistently;
- b) make judgements and estimates that are reasonable and prudent;
- c) state whether applicable accounting standard have been followed;
- d) prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business for the foreseeable future.

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 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.

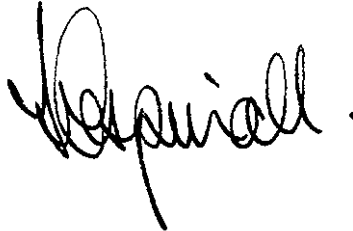
REPORT OF THE DIRECTORS (Continued)

AUDITORS

Deloitte & Touche were appointed auditors to the company on 25 October 1996 and have expressed their willingness to continue in office as auditors in accordance with the provision of the Companies Act 1985.

By order of the board

L. Aspinall
Company Secretary
4/10 Valiant House
Heneage Lane
London EC3M 5DQ

A handwritten signature in black ink, appearing to read 'L. Aspinall', is written over the typed name and address.

26 June 1998

AUDITORS' REPORT TO THE MEMBERS OF

SERVICE CORPORATE CAPITAL LIMITED

We have audited the financial statements on pages 4 to 16 which have been prepared under the accounting policies set out on page 9.

Respective responsibilities of directors and auditors

As described on page 1 the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

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 at 31 December 1997 and of its loss for the period then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche
Deloitte & Touche
Chartered Accountants and Registered Auditors
Stonecutter Court
1 Stonecutter Street
London EC4A 4TR

29th June 1998

**PROFIT AND LOSS ACCOUNT
TECHNICAL ACCOUNT - GENERAL BUSINESS
FOR THE PERIOD FROM 25 OCTOBER 1996 TO 31 DECEMBER 1997**

	Note	£	£
Gross premiums written	3	14,177,811	
Outward reinsurance premiums		<u>13,322,423</u>	
Net premium written			855,388
Investment income	4		<u>1,493</u>
Total technical income			<u>856,881</u>
Claims paid			
Gross amount		866,448	
Reinsurers' share		<u>811,610</u>	
			54,838
Change in the provision for claims			
Gross amount	14	11,408,109	
Reinsurers' share	14	<u>10,686,077</u>	
			<u>722,032</u>
Claims incurred, net of reinsurance			<u>776,870</u>
Net operating expenses	6		<u>182,286</u>
Total technical charges			<u>959,156</u>
Balance on the general business technical account			<u>(102,275)</u>

All of the operations of the company are continuing.

**PROFIT AND LOSS ACCOUNT
NON-TECHNICAL ACCOUNT
FOR THE PERIOD FROM 25 OCTOBER 1996 TO 31 DECEMBER 1997**

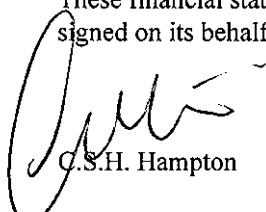
	Note	£
Balance on the general business technical account		(102,275)
Other expenses		(446)
		<hr/>
Operating loss		(102,721)
Investment income		
Income from other investments	4	34,983
Investment expenses and charges	5	(34,983)
		<hr/>
Loss on ordinary activities before tax		(102,721)
Tax on loss on ordinary activities	10	-
		<hr/>
Loss for the financial year after tax retained and transferred from reserves		<u>(102,721)</u>

A statement of total recognised gains and losses is not given as there have been no gains and losses other than shown above.

BALANCE SHEET AS AT 31 DECEMBER 1997

	Note	£	£
ASSETS			
Investments			
Other financial investments	11		2,377,879
Reinsurers' share of technical provisions			
claims outstanding	14		10,686,077
Debtors			
Debtors arising out of direct insurance operations			
Intermediaries		2,509,028	
Debtors arising out of reinsurance operations		5,205,716	
Other debtors		76,654	
			7,791,398
Other assets			
Cash at bank	16	309,603	
Prepayments and accrued income		142,953	
			452,556
Total assets			21,307,910

These financial statements were approved by the board of directors on 26 June 1998 and were signed on its behalf by:


C.S.H. Hampton
Director

BALANCE SHEET AS AT 31 DECEMBER 1997

	Note	£	£
LIABILITIES			
Capital and reserves			
Called up share capital	12	2	
Profit and loss account	13	(102,721)	
Shareholders' funds attributable to equity interests			(102,719)
Technical provisions			
Claims outstanding	14		11,408,109
Creditors			
Creditors arising out of direct insurance operations		95,377	
Creditors arising out of reinsurance operations		9,172,402	
Accruals and deferred income		24,512	
Other creditors	15	710,229	
			10,002,520
Total liabilities			
			21,307,910

**CASH FLOW STATEMENT FOR THE PERIOD
FROM 25 OCTOBER 1996 TO 31 DECEMBER 1997**

	Note	£ 1997
Net cash outflow from operating activities	18	(2)
Returns on investment and servicing of finance	18	-
Financing	18	2
		<hr/>
Movement in cash and cash equivalents		- <hr/>

The cash flow statement excludes cash flows arising from syndicate participations as the Company has no control or access to those funds.

NOTES TO THE FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

The financial statements are prepared in accordance with the provisions of Section 255 of, and Schedule 9A to, the Companies Act 1985, as amended by the Companies Act 1985 (Insurance Companies Accounts) Regulations 1993.

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules as modified by the revaluation of investments. The Company has adopted all material recommendations of the Guidance on Accounting for Insurance Business (Excluding Accounting for Investments) issued in December 1995 and amended in December 1996 by the Association of British Insurers.

The Company underwrites insurance business as principal through its participations in Lloyd's syndicates under the terms of agency agreements entered into each year with the syndicates' managing agents. These agreements give control to the managing agent of the conduct of the underwriting and the Company has no access to those funds which are controlled by the syndicates. The technical account represents the Company's participations on syndicates for the 1997 year of account as reported for the year ended 31 December 1997, and is based on syndicate returns which have been audited by the syndicates' auditors. Whole account quota share reinsurances entered into directly by the Company are recorded in the technical account. Other transactions entered into directly by the Company from 25 October 1996, the date of incorporation, to 31 December 1997 are reported in the non-technical account.

2. ACCOUNTING POLICIES

Basis of accounting for underwriting activities

The Company has adopted the underwriting year basis of accounting. Profits for an underwriting year are recognised on its closure which is not earlier than 36 months after its commencement, and is normally at that time. This basis has been adopted for the syndicates' business to allow a period for the reporting of premiums and claims which is sufficient to enable the underwriting result to be determined. This method of profit recognition follows that adopted by the syndicates on which the Company participates. The excess of premiums written and investment income, less claims paid and related reinsurance, and net operating expenses is carried forward as a technical provision as part of outstanding claims and reinsurers' share of outstanding claims. The adequacy of the technical provision for open years is assessed by estimating the net written premium and deducting the estimated ultimate cost of claims, settlement expenses and net operating expenses. Any anticipated underwriting losses are recognised as soon as they are foreseen.

2. ACCOUNTING POLICIES (Continued)

Premiums

Written premiums comprise premiums estimated to be receivable in respect of contracts incepting in the financial year and are stated gross of commissions payable to intermediaries, and exclusive of taxes and duties levied on premiums.

Outwards reinsurance premiums are accounted for in the same period as the premiums for the related direct or inwards reinsurance business.

Company Reinsurance Policies

The company has entered into a number of whole account quota-share reinsurance contracts to protect the 1997 underwriting year. The combined effect of these contracts is such that 93.67% of the account is reinsured. The reinsurers have provided letters of credit totalling £7.4 million which forms part of the Company's Funds at Lloyd's, which support the Company's permitted overall premium income limit of £19.8 million for the 1998 year of account (1997 year of account: £17.9 million).

Claims incurred

Claims incurred comprise all claim payments and internal and external settlement expense payments made in the financial year and the movement in the provisions for outstanding claims and settlement expenses, net of salvage and subrogation recoveries.

Outwards reinsurance recoveries are accounted for in the same period as the claims for the related direct or inwards reinsurance business.

Claims outstanding

For all underwriting years, provision is made for outstanding claims and settlement expenses incurred at the balance sheet date. Included in the provision is an estimate of the internal and external costs of handling the outstanding claims.

For an open underwriting year, the provision includes the excess of net premiums written and investment income, less claims paid and related reinsurance, and operating expenses so that no profit is recognised in the technical account for that underwriting year. Provision is made for losses on each open underwriting year to the extent that the technical provision is assessed to be inadequate to meet the estimate ultimate cost of claims, settlement expenses and net operating expenses.

For an underwriting year which has been closed, claims outstanding includes a provision for claims incurred but not reported.

The level of provisions is set on the basis of information which is available, including potential outstanding claims advices and case law. Any differences between provisions and subsequent settlements are dealt with in the technical accounts of later years.

Equalisation provision

An equalisation provision is not included in the accounts as members of Lloyd's are exempt from the provisions of the Insurance Companies (Reserves) Act 1995.

NOTES TO THE FINANCIAL STATEMENTS

2. ACCOUNTING POLICIES (Continued)

Investments, investment income, expenses and charges

Financial investments are stated at market value.

Investment income comprises interest and dividends, together with related tax credits. Interest is recognised on an accruals basis and dividends are recognised on an ex-dividend basis. Interest payable and expenses incurred in the management of investments are accounted for on an accruals basis.

Realised gains or losses are calculated as the difference between the net sales proceeds and purchase price or, if they have been previously revalued, their valuation at the last balance sheet date.

Unrealised gains or losses represent the difference between the valuation at the balance sheet date and their purchase price, or if they have previously been revalued, their valuation at the last balance sheet date.

Allocation of investment return

The investment return on funds managed by the syndicates is included in the technical account. The investment return on other funds is included in the non-technical account.

Taxation and deferred taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Provision is made for deferred tax only to the extent that it is probable that a liability will crystallise.

3. SEGMENTAL REPORTING

Segmental Reporting - Business lines

	Total Gross Premiums Written	Gross Claims incurred	Gross Operating Expenses	Reinsurance Balance
Direct Business				
Motor-third party liability	4,575,768	(3,605,109)	(1,468,857)	(337,972)
Motor-other classes	4,396,327	(3,463,732)	(1,411,254)	(324,718)
Total Direct	8,972,095	(7,068,841)	(2,880,111)	(662,690)
Reinsurance Business				
Reinsurance Acceptances	5,205,716	(5,205,716)	-	-
Total	14,177,811	(12,274,557)	(2,880,111)	(662,690)

NOTES TO THE FINANCIAL STATEMENTS (Continued)**3. SEGMENTAL REPORTING (Continued)**

All business is written and located in the United Kingdom. Total commission paid in respect of direct business is £1,608,876.

During the period to 31 December 1997, the company participated in one syndicate at Lloyd's, Syndicate 1222, managed by Service Managing Agency Limited. The company's capacity on the syndicate amounted to £17.96m.

4. INVESTMENT INCOME

	Income	Realised Gains	1997 £
Income from other investments			
Technical account	21,259	2,338	23,597
Reinsurers share	(19,914)	(2,190)	(22,104)
	<hr/>	<hr/>	<hr/>
	1,345	148	1,493
Non-technical account	34,983	-	34,983
	<hr/>	<hr/>	<hr/>
	36,328	148	36,476
	<hr/>	<hr/>	<hr/>

5. INVESTMENT EXPENSES AND CHARGES

	1997 £
Interest payable on loan	
SMA Holdings Limited	34,983
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6. NET OPERATING EXPENSES

	1997 £
Acquisition costs	1,608,876
Management expenses	1,271,235
	<hr/>
Gross operating expenses	2,880,111
Reinsurers share	(2,697,825)
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Net operating expenses	182,286
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NOTES TO THE FINANCIAL STATEMENTS (Continued)

7. AUDITORS REMUNERATION

Profit on ordinary activities before tax is stated after charging auditors' remuneration in respect of audit fees of £6,000.

8. DIRECTORS' EMOLUMENTS

None of the directors received any emoluments during the period.

9. EMPLOYEE REMUNERATION

There are no staff employed directly by the Company.

10. TAXATION

	1997 £
UK corporation tax at 31%	-

11. OTHER FINANCIAL INVESTMENTS

	1997 £
Syndicates' investments	
Listed debt securities and other fixed interest securities	984,604
Deposits with credit institutions	893,275
	<u>1,877,879</u>
Company's investments	
Cash funds deposited at Lloyd's	500,000
	<u>2,377,879</u>

All the listed investments are quoted on a recognised investment exchange.

The cash funds deposited at Lloyd's have been lodged to support the company's syndicate participations for the 1997 year of account. All syndicate investments are controlled by the syndicates, and are held in premiums trust funds for the benefit of policyholders until the underwriting year is closed.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

12. CALLED UP SHARE CAPITAL AND SHAREHOLDERS' FUNDS

Share capital

Authorised 1,000 ordinary shares of £1 each	£1,000
	<hr/>
Allotted, called up and fully paid	
2 ordinary shares of £1 each	£2
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The Company was formed with an authorised share capital of 1,000 ordinary shares of £1 each.

Movements on Shareholders' funds	£
Called up share capital on incorporation	2
Shares issued during the period	-
Loss for the financial period	(102,721)
	<hr/>
Shareholders' funds at 31 December 1997	(102,719)
	<hr/> <hr/>

13. RESERVES

	Profit and loss account
	£
Retained (loss) for the period	
At 31 December 1997	(102,721)
	<hr/>
	(102,721)
	<hr/> <hr/>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

14. TECHNICAL PROVISIONS

	Claims outstanding £
Gross amount at beginning of period	0
Movement in the provision	11,408,109
At 31 December 1997	<u>11,408,109</u>
Reinsurers' share at beginning of period	0
Movement in the provision	(10,686,077)
At 31 December 1997	<u>(10,686,077)</u>
Net technical provisions at 31 December 1997	<u><u>722,032</u></u>

15. OTHER CREDITORS

	1997 £
Sundry creditors	210,229
Unsecured loan from related company	500,000
	<u>710,229</u>

16. CASH AT BANK

	1997 £
Syndicates' cash	309,603
Company's cash	-
	<u><u>309,603</u></u>

The syndicates' cash is held in premiums trust funds for the benefit of policyholders until the underwriting year is closed.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

17. CONTINGENT LIABILITIES

The Company became a corporate member of Lloyd's on 1 January 1997 and commenced underwriting for the 1997 year of account. The Company has lodged funds at Lloyd's in support of its syndicate participations for the 1997 year of account in the sum of £500,000, provided by means of a cash deposit (see Note 11). The Company has also issued a charge in favour of Lloyd's over its assets and future profits to cover underwriting obligations incurred at Lloyd's.

18. CASH FLOW

1997
£

(i) Reconciliation of operating loss to net cash outflow from operating activities

Operating loss arising from the operations of the Company	(446)
(Increase) in investments	(500,000)
(Increase) in debtors	(24,068)
Increase in creditors	524,512
	<hr/>
Net cash outflow from operating activities	(2)
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(ii) Analysis of Cash Flows for Headings Netted in the Cash Flow Statement

Returns on investment and servicing finance	
Interest received on funds held at Lloyd's	17,521
Interest paid on loan	17,521
	<hr/>
	-
	<hr/>
Financing	
Nominal value of Share Capital	2
	<hr/>

- (iii) The company has no net cash flows nor any debt as defined by FRS 4 and consequently a reconciliation of net cash flow to movement in net debt has not been prepared

19. ULTIMATE PARENT ENTITY

The ultimate parent entity is The Phoenix Partnership.

20. RELATED PARTY DISCLOSURE

During the year, the Company participated on syndicate 1222 at Lloyd's, managed by Service Managing Agency Limited who charged 0.75% of capacity for managing the affairs of the syndicate. Service Managing Agency Limited is entitled to receive a commission of 12.5% of the profit of the syndicate as each underwriting year closes.

The Company has received an unsecured loan of £500,000 from SMA Holdings Limited.

The ultimate parent entity of both Service Managing Agency Limited and SMA Holdings Limited is The Phoenix Partnership.