

# **Swiss Re Specialised Investments Holdings (UK) Limited**

**Directors' report and financial statements  
for the year ended 31 December 2007**

Registered number 4442605



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## **Directors' report**

The Directors present their annual report and the audited financial statements for the year ended 31 December 2007

### **Principal activities and business review**

Swiss Re Specialised Investments Holdings (UK) Limited ("the Company") is an investment company and holding company of a group of companies whose principal activities are the raising and investing of funds

The Company's results for the year show a profit after tax of £34,459,000 (2006 £67,596,000)

The Directors consider the results for the year to be satisfactory

### **Dividends**

Ordinary dividends of £4,000,000 (2006 £10,000,000) were paid during the year

### **Financial risk management**

Risk management is an inherent part of the business activities of Swiss Reinsurance Company ("Swiss Re") and its group of companies ("Swiss Re Group"), of which this company is a part. The Company's risk management framework and governance structure are intended to provide comprehensive controls and ongoing management of its major risks. The Company exercises oversight through the Board of Directors.

An overview of the key aspects of risk management and use of financial instruments is provided below

#### *Liquidity risk*

Liquidity risk arises from the general funding needs of the Company's activities and in the management of its assets and liabilities. The Company's funding needs are met by other Group companies and the funds are managed in a manner consistent with the overall Group liquidity management framework.

#### *Credit risk*

The Company's exposure to credit risk arises from the possibility that counterparties may default on their obligations to the Company. The amount of the Company's maximum exposure to credit risk is indicated by the carrying value of its financial assets. At the balance sheet date the Company does not have any credit exposure to external counterparties. The Company's credit risk is concentrated in its investments in other Swiss Re Group companies and is not considered significant.

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

### ***Market risk***

Market risk represents the potential loss in value of portfolios and financial instruments caused by adverse movements in market variables such as interest and foreign exchange rates, credit spreads and equity and commodity prices. As the Company's only investments are in other Swiss Re Group companies, it does not have significant exposure to market risk. If the Company were to have investments outwith the Swiss Re Group, sensitivities to market risks would be monitored by the Board.

### ***Interest rate risk***

Interest rate risk is the risk of loss resulting from movements in interest rates. The Company does not have significant fixed interest positions. The Company has significant liabilities and assets (through its investment in subsidiaries) that are sensitive to short term movements in interest rates, however these are closely matched such that the Company's net exposure to interest rate movements is not significant.

### ***Foreign exchange risk***

Foreign exchange risk is the risk of fluctuations in future cash flows arising from changes in foreign exchange rates. At the balance sheet date the Company had no foreign currency liabilities and no short term foreign currency assets other than bank balances, which are not significant. One of the Company's investments is denominated in Euros, however as this is a long term investment there is no current intention to realise the gain which would arise by disposing of the investment. The Company therefore is not considered to have significant exposure to foreign exchange risk.

### ***Operational risk***

Operational risk is the risk of loss resulting from inadequate or failed processes or systems, human factors or external events. To monitor and control operating risk, the Group and the Company maintain a system of comprehensive policies and a control framework designed to provide a sound and well-controlled operational environment.

## **Directors and Directors' interests**

The Directors who held office during the year were as follows

Richard Banks

David Godfrey

Adrian Halter                      resigned 30 June 2008

Stephen Hjorring                appointed 11 December 2007

George Quinn                    resigned 11 December 2007

Robert Ratcliffe

Philip Shaw

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

None of the Directors who held office during the year had any disclosable interest in the shares of the Company or of its subsidiaries

No rights to subscribe for shares in, or debentures of, the Company or its subsidiaries were granted to any of the Directors or their immediate families, or exercised by them, during the year

### **Principal place of business**

The offices of the Company and the location of board meetings during the year was 30 St Mary Axe, London EC3A 8EP

### **Political and charitable contributions**

The Company made no political or charitable contributions during the current or previous year

### **Auditors**

PricewaterhouseCoopers LLP have expressed their willingness to continue in office

By order of the Board

A handwritten signature in black ink, appearing to read 'Philip Shaw', with a long horizontal stroke extending to the right.

**Philip Shaw**  
Director  
31 October 2008

## Statement of 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 year. 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 and the group 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 safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Each of the persons who is a Director at the date of approval of this report confirms that

- so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware, and
- the Director has taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information, and to establish that the Company's auditors are aware of that information

This confirmation is given and should be interpreted in accordance with the provisions of s234ZA of the Companies Act 1985.

By order of the Board



**Philip Shaw**  
Director  
31 October 2008

## **Independent auditors' report to the members of Swiss Re Specialised Investments Holdings (UK) Limited**

We have audited the financial statements of Swiss Re Specialised Investments Holdings (UK) Limited for the year ended 31 December 2007 which comprise the profit and loss account, the balance sheet and the related notes. These financial statements have been prepared under the accounting policies set out therein.

### **Respective responsibilities of directors and auditors**

The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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 whether in our opinion the information given in the directors' report is consistent with the financial statements.

In addition we report to you if, in our opinion, 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 other transactions is not disclosed.

We read the Directors' report and consider the implications for our report if we become aware of any apparent misstatements within it.

### **Basis of audit opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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.

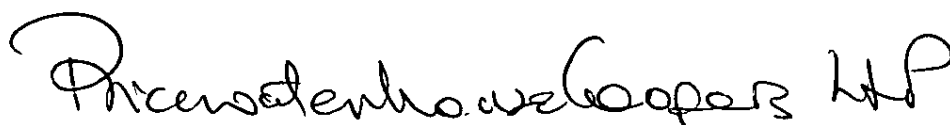
## **Independent auditors' report to the members of Swiss Re Specialised Investments Holdings (UK) Limited *(continued)***

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, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 December 2007 and of its profit for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' report is consistent with the financial statements



PricewaterhouseCoopers LLP  
Chartered Accountants and Registered Auditors  
London  
31 October 2008



**Profit and loss account**  
**for the year ended 31 December 2007**

	Note	2007 £000	2006 £000
Investment income *	2	90,721	115,385
Administrative expenses	3	(10,517)	(6,969)
<b>Operating profit</b>		<b>80,204</b>	<b>108,416</b>
Interest receivable	4	1,029	69
Interest payable	5	(46,772)	(40,889)
<b>Profit on ordinary activities before taxation</b>		<b>34,461</b>	<b>67,596</b>
Tax on profit on ordinary activities	8	(2)	-
<b>Profit for the year</b>		<b>34,459</b>	<b>67,596</b>

The Company has no recognised gains and losses other than the profit for the year. Accordingly no statement of total recognised gains and losses is presented.

There is no difference between the profit on ordinary activities before taxation and the profit for the financial year stated above and their historical cost equivalents.

The Company's results are derived from continuing operations.

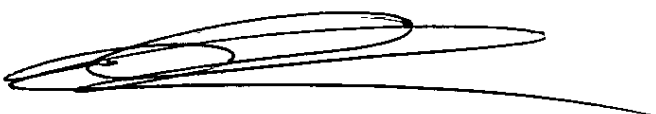
The notes on pages 9 to 16 form part of these accounts.

\* For the year ended 31 December 2006 the Company has reclassified the write down of investments in subsidiaries. Previously this was presented as a separate item below operating profit. As a consequence of the reclassification of this item to investment income, investment income in 2006 has decreased by £39,517,000. This reclassification has no effect on the previously reported profit for the year.

**Balance sheet**  
as at 31 December 2007

	Note	2007 £000	2006 £000
<b>Fixed assets</b>			
Investments	9	690,736	841,484
<b>Current assets</b>			
Debtors	10	166,588	4,663
Cash at bank and in hand		91	173
		<u>166,679</u>	<u>4,836</u>
<b>Creditors amounts falling due within one year</b>	11	<u>(822,343)</u>	<u>(841,707)</u>
<b>Net current liabilities</b>		<u>(655,664)</u>	<u>(836,871)</u>
<b>Net assets</b>		<u>35,072</u>	<u>4,613</u>
<b>Capital and reserves</b>			
Called up share capital	12	1,000	1,000
Profit and loss account	13	34,072	3,613
<b>Equity shareholders' funds</b>	14	<u>35,072</u>	<u>4,613</u>

The financial statements on pages 7 to 16 were approved by the Board of Directors on 31 October 2008 and were signed on its behalf by



**Philip Shaw**  
Director

## **Notes**

*(forming part of the financial statements)*

### **1 Accounting policies**

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Company's financial statements

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

The financial statements have been prepared on the going concern basis in accordance with applicable accounting standards and under the historical cost accounting rules

#### ***Cash flow statement***

Under FRS 1 the Company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking, controlling 90% or more of the Company's voting rights includes the Company in its own published consolidated financial statements which are publicly available

#### ***Consolidated accounts***

The Company has taken advantage of the exemption contained within s228 of the Companies Act 1985 not to prepare consolidated accounts

#### ***Foreign currencies***

Transactions in currencies other than the reporting currency of the entity are recorded at the rate of exchange prevailing on the date of transaction, with the exception of transactions covered by a matching forward contract, in which case the rate of exchange implied in the contract is used

Monetary items in the balance sheet, other than those covered by matching forward contracts, are restated at the prevailing rate of exchange on the balance sheet date with any foreign exchange difference taken to the profit and loss account in the period

#### ***Taxation***

The tax expense represents the sum of the tax currently payable and deferred tax. Tax payable is based on the taxable profit for the year. Taxable profit differs from profit before tax as reported in the profit and loss account because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

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 where it is more likely than not that deferred tax assets will not be recoverable. Timing differences arise where transactions or events during the year result in an obligation to pay more tax in the future, or a right to pay less tax in the future.

## Notes (continued)

### *Investment income*

A business investing in financial instruments has no equivalent to turnover, cost of sales and gross profit. Consequently, the Directors consider certain departures from the Companies Act 1985 appropriate. Investment income, defined as income generated through Group investment strategies, has been disclosed instead of turnover as this reflects more meaningfully the nature and the results of the Company's and the Group's activities.

### *Investments*

Debt securities, equity shares, preference shares and other similar interests intended to be held on a continuing basis are disclosed as fixed asset investments. These are included in the balance sheet at cost, adjusted for any amortisation of premium or discount incurred at acquisition, or adjustments for any repayments of capital, on an appropriate basis over the period until the investment's contracted or anticipated maturity. Provision is made for any permanent impairment.

### *Stock borrowing and lending agreements*

The Company may enter into stock lending agreements incidental to its investment activities. Income earned on stock lending is reported as investment income except when in the nature of interest, in which case it is reported as interest receivable.

### *Derivatives*

The Company may enter into interest rate, foreign currency, credit or other derivatives whether to manage interest rate risk, as a hedge of transactions undertaken or anticipated, or as part of investment strategies. The accounting treatment applied follows the purpose and intention for which the derivative was entered into as follows:

Derivatives entered into as part of investment strategies and where no or an insignificant fair value exposure to movements in interest rates is retained are carried on the balance sheet within "Fixed asset investments" at amortised cost. Amounts payable or receivable on these contracts are recognised in investment income.

Derivatives held to manage interest rate risk are accounted for on an accruals basis, which is consistent with the treatment of the underlying asset, with amounts payable or receivable in respect of interest rate swap agreements being recognised in the net interest payable charge of the year to which the contract relates.

## Notes (continued)

Gains or losses on all other derivatives entered into for hedging purposes are recognised in earnings or reserves, or are reflected in the carrying amounts of the hedged item, as appropriate, when the hedged transaction occurs

The criteria required for a derivative instrument to be classified as a hedge are that

- the transaction must be expected to match or eliminate substantially all of the risk inherent in the assets, liabilities, other positions or cash flows being hedged, and
- evidence of the intention to hedge and linkage with the underlying risk inherent in the assets, liabilities, other positions or cash flows being hedged, must be established at the outset of the transaction

Gains or losses on hedging instruments, which are cancelled due to termination of the hedged transaction or which cease to be effective, are recognised in the income statement immediately

### Interest income and expense

Interest expense on financing, interest income on funds lent and net interest on interest rate swap hedges that are not generated through investment strategies, are included under "interest receivable" and "interest payable"

## 2 Investment income

	2007 £000	2006 £000
Dividend income from equity investments	241,443	154,902
Loss on write down of investments *	(1)	(39,517)
Loss on realisation of investments	(150,721)	-
	<u>90,721</u>	<u>115,385</u>

In 2007 the Company wrote the down carrying value of its investment in SR Edinburgh Limited. The Company also realised losses on the disposal of shares in SR Dorus Investments Limited.

In 2006 the Company wrote down the carrying value of its investments in Calico Leasing (GB) and SR Edinburgh Limited.

\* For the year ended 31 December 2006 the Company has reclassified the write down of investments in subsidiaries. Previously this was presented as a separate item below operating profit. As a consequence of the reclassification of this item to investment income, investment income in 2006 has decreased by £39,517,000. This reclassification has no effect on the previously reported profit for the year.

## Notes (continued)

### 3 Administrative expenses

	2007 £000	2006 £000
Audit fees	(138)	(124)
Legal and professional fees	(138)	(32)
Service fees	(10,249)	(6,798)
Management and Cost Bearing Agreements	11	-
Bank charges	(3)	(11)
Other general administrative expenses	-	(4)
	<u>(10,517)</u>	<u>(6,969)</u>

Service fees represent charges made by Swiss Re Services Limited ("SRSL") in relation to finance, operational, legal, infrastructure, advisory and other services provided to the Company by Swiss Re Group companies

In December 2007 the Company entered into Management and Cost Bearing Agreements ("the Agreements") with five entities within the SRSIH Group. Under the terms of the Agreements, the Company will settle all current and future administrative and other expenses, will receive any current and future revenues and will act as agent of the respective entities until such time as those entities are wound up or dissolved.

### 4 Interest receivable

	2007 £000	2006 £000
Group companies		
- Interest receivable on funds advanced	1,010	47
Non-Group companies		
- Interest receivable on cash deposits	19	22
	<u>1,029</u>	<u>69</u>

### 5 Interest payable

	2007 £000	2006 £000
Group companies		
- Interest payable on funds borrowed	(46,772)	(40,889)

## Notes (continued)

### 6 Employees

The Company had no employees during the current or previous year, all services being provided by Swiss Re Group companies

### 7 Directors' emoluments

The Directors received no remuneration in respect of their services to the Company in the current or previous year

### 8 Tax on profit on ordinary activities

	2007	2006
	£000	£000
Analysis of charge in year		
Current tax		
Tax on profit on ordinary activities	2	-
	<u>2</u>	<u>-</u>
The current tax charge for the year is lower than the standard rate of corporation tax in the UK (30%) The differences are explained below		
Factors affecting the tax charge for the year		
Profit on ordinary activities before tax	34,461	67,596
	<u>34,461</u>	<u>67,596</u>
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2006 30%)	10,338	20,279
Effects of		
Non taxable dividends received	(72,433)	(46,471)
Non deductible loss on share repurchase	45,217	-
Write down of fixed asset investments	-	11,855
Group relief for no consideration	12,624	10,949
Losses not utilised	4,254	3,386
Taxable income arising from partnership interest	-	2
Adjustments in respect of previous periods	2	-
	<u>2</u>	<u>-</u>
Current tax charge for the year	2	-
	<u>2</u>	<u>-</u>

No provision has been made for a deferred tax asset in respect of operating losses carried forward of approximately £50,000,000 The losses can be utilised against future investment income

## Notes (continued)

### 9 Fixed asset investments

Investments at cost	Member's interest in partnership £000	Investments in subsidiaries £000	Total £000
At 1 January 2007	24	841,460	841,484
Disposals and write downs	-	(150,724)	(150,724)
Capital account distributions	(24)	-	(24)
	<hr/>	<hr/>	<hr/>
At 31 December 2007	-	690,736	690,736
	<hr/>	<hr/>	<hr/>

The unlisted entities in which the Company has an interest are set out in the table below

	Principal activity	Class of share	% held
<b><u>Cayman Islands</u></b>			
Ampersand Investments (UK) Limited	Investment	Ordinary	100
Bramley Funding Limited*	Dormant	Ordinary	100
Cobham Funding Limited* +	Investment	Ordinary	100
Dunstanburgh Finance (Cayman) Limited*	Investment	Ordinary	100
Epsom Funding Limited*	Investment	Ordinary	100
Farnham Funding Limited*	Investment	Ordinary	100
Kilgallon Finance Limited* +	Investment	Ordinary	100
Ravensworth Finance Limited* +	Investment	Ordinary	100
Reigate Funding Limited* +	Investment	Ordinary	100
SR Cayman Holdings Limited	Investment	Ordinary	100
SR Dorus Investments Limited	Investment	Ordinary	100
SR Edinburgh Limited	Investment	Ordinary	100
SR York Limited	Investment	Ordinary	100
SV Corinthian Investments Limited*	Investment	Ordinary	100
SW Tuscan Investments Limited*	Non-trading	Ordinary	100
Swiss Re Funding UK Limited*	Investment	Ordinary	100
Swiss Re Strategic Investments UK Limited*	Investment	Ordinary	100
SZ Gothic Investments Limited*	Non-trading	Ordinary	100
<b><u>Jersey</u></b>			
Banian Investments UK Limited*	Investment	Ordinary	100
<b><u>United Kingdom</u></b>			
Calico Leasing (GB)	Asset financing	Ordinary	100
Cyrenaic Investments (UK) Limited*	Investment	Ordinary	100
SR Delta Investments (UK) Limited	Investment	Ordinary	100
Truck Finance Limited*	Asset financing	Ordinary	100

The financial year ends of the Company's subsidiaries are all 31 December with the exception of those indicated by +, which have a financial year end of 30 September. All investments are directly held by the Company unless indicated by \*, in which case they are held by intermediate holding companies within the SRSIH Group.



## Notes (continued)

### 10 Debtors' amounts falling due within one year

	2007 £000	2006 £000
Group companies		
- Amounts due in respect of surrender of tax relief	-	4,663
- Funds lent to Group companies	166,588	-
	<u>166,588</u>	<u>4,663</u>

Funds lent to Group companies represent short term advances at prevailing commercial interest rates

### 11 Creditors' amounts falling due within one year

	2007 £000	2006 £000
Group companies		
- Funds borrowed from Group companies	(807,689)	(832,953)
- Interest payable on funds borrowed	(3,997)	(2,307)
- Service fees payable	(10,507)	(6,346)
- Deferred income	(150)	-
Non-Group companies		
- Accrued expenses	-	(101)
	<u>(822,343)</u>	<u>(841,707)</u>

Funds borrowed from Group companies represent short term advances at prevailing commercial interest rates

### 12 Called up equity share capital

	2007 £000	2006 £000
<b>Authorised</b>		
1,500,000,000 Ordinary shares of £1 each	1,500,000	1,500,000
<b>Allotted, called up and fully paid</b>		
1,000,000 Ordinary shares of £1 each	1,000	1,000

## Notes (continued)

### 13 Profit and loss reserve

	2007 £000	2006 £000
At 1 January	3,613	(53,983)
Profit for the year	34,459	67,596
Dividends	(4,000)	(10,000)
	<hr/>	<hr/>
At 31 December	34,072	3,613
	<hr/>	<hr/>

### 14 Reconciliation of movements in equity shareholders' funds

	2007 £000	2006 £000
At 1 January	4,613	(52,983)
Profit for the year	34,459	67,596
Dividends	(4,000)	(10,000)
	<hr/>	<hr/>
At 31 December	35,072	4,613
	<hr/>	<hr/>

### 15 Contingent liability

The Company entered into group relief agreements in respect of the surrender for value of 2004 and 2006 tax losses by subsidiaries to the rest of the Swiss Re UK tax group. These tax losses are currently being enquired into by Her Majesty's Revenue & Customs ("HMRC"). If HMRC successfully challenged these losses such that they could not be surrendered, and if the Company could not procure the surrender of an equivalent amount of losses from its subsidiaries, the Company would be liable to pay up to £128,000,000 to the claimant companies.

### 16 Related party disclosures

The Company is controlled by Swiss Reinsurance Company ("Swiss Re"), its immediate parent company. As 100% of the voting rights of the Company are controlled within the Swiss Re Group, the Company has taken advantage of the exemption within FRS 8 not to disclose transactions with entities which form part of the Swiss Re Group.

### 17 Ultimate parent undertaking

The ultimate parent company and the ultimate controlling party is Swiss Reinsurance Company ("Swiss Re"), a company incorporated in Switzerland.

The smallest and largest group in which the results of the Company are consolidated is that headed by Swiss Re. The consolidated accounts of the Swiss Re Group are available to the public and may be obtained from 30 St Mary Axe, London EC3A 8EP.