

THE STOP LOSS MUTUAL INSURANCE ASSOCIATION LIMITED

Annual Report and Financial Statements

1998



Registered Office

International House, 1 St. Katharine's Way, London E1 9UN

DIRECTORS

Chairman

Sir Peter Miller	The Miller Insurance Group Limited
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Directors

J M Bray	Kiln Cotesworth Stewart Limited
C J Hodgson	Greenwich Lloyd's Underwriting Limited
J F Jackman	External Name
C M Moore	External Name
T R Riddell	Sedgwick Oakwood Lloyd's Underwriting Agents Limited
W R P Sedgwick Rough	Amlin Private Capital Limited
A I G C South	Wren Underwriting Agencies Limited

Managers

Charles Taylor & Co. Limited

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NOTICE OF MEETING

NOTICE IS HEREBY GIVEN that the ninth Annual General Meeting of Members will be held at The Dome Room, Beaufort House, 15 St. Botolph Street, London EC3 at 12 noon on Thursday, 7th October 1999, for the following purposes:

Ordinary Business

1. To adopt the Report and Financial Statements for the year ended 31st December 1998.
2. To reappoint Deloitte & Touche as Auditors and to authorise the Directors to fix their remuneration.

Special Business

3. To re-elect Mr. C.M. Moore, who retires in accordance with the Articles of Association, as a Director of the Company.
4. To re-elect Mr. J.M. Bray, who retires in accordance with the Articles of Association, as a Director of the Company.
5. Any other business.

By order of the Board,



S.M. Caw
Secretary
9th September 1999

CHAIRMAN'S STATEMENT

I am pleased to say that another year has passed, and another year of account has closed, without the Association having any claims in its stop loss classes. The 1995 policy year has now been closed with something in excess of £2 million being transferred to general reserves. Four 1996 syndicates remain open at the 36th month, but we are confident that there will be no claims on that year. As for the naturally open years, there will, unfortunately, be losses among the Association's membership in both 1997 and 1998; on current estimates, however, they will only produce claims on the 1998 policy year.

Demand for our stop loss policies has been extremely high in 1999; indeed, the capacity originally available in Class II was increased when it became clear that it would be over-subscribed, and a small number of names still remain on a reserve list. Knowing that 1999 had every prospect of being the most marginal year since 1992, the managers were asked to buy as much reinsurance as possible for Class II; thanks to the Association's considerable reserves, this was achieved at only a small cost to individual members. It is, incidentally, worth noting that the proportion of our membership represented by conversion vehicles, or individuals underwriting through them, has once again increased.

Despite restrictions imposed by our reinsurers, there has again been substantial demand for the Class IV estate protection policies. While I am pleased to say that there have been very few deaths in the Association's Class IV membership over the last three years, such claims as there have been are recoverable in full from our reinsurers.

Your board is well aware of the need to give careful thought to the Association's continuing role while Lloyd's itself continues to change and, as I have said before, it will continue to adapt to changes within Lloyd's whenever it possibly can. Details of the cover to be offered by the Association next year will be published as soon as they have been finalised.

It is proper that I end on a personal note. My own term as a director of your Association ends today and I have not put my name forward for re-election for a further term. I have been Chairman since the inception of the Association almost ten years ago and it is time for a change. I have much enjoyed the Association's work and my grateful thanks are due to my colleagues for their patience, to the managers for the assiduous discharge of their duties and to the members for their support.

I am very pleased to record that the Board has elected Mr. Christopher Hodgson as my successor. There are no better hands in which to place the future fortunes of your Association.



Sir Peter Miller
Chairman
9th September 1999

REPORT OF THE DIRECTORS

The Directors present their Report and the audited Financial Statements for the year ended 31st December 1998.

PRINCIPAL ACTIVITIES

The Stop Loss Mutual Insurance Association Limited provides stop loss and estate protection insurance to Names at Lloyd's who are members of the Association.

REVIEW OF DEVELOPMENTS

During the year, the Association offered three classes of Cover, known as Classes I, II, and IV. There were 298 members in Class I, 805 in Class II and 706 in Class IV.

FINANCIAL STATEMENTS

The Financial Statements show that general reserves increased by £536,000 during the year. This was largely the net effect of the 1995 year closing (for accounting purposes) with a surplus and the 1998 year returning a deficit, the latter arising as a result of the current Class II reinsurance programme being partially funded from reserves. At 31st December 1998 the balance available to meet known and future claims stood at £6,396,000.

INVESTMENTS

The Directors have for a number of years approved a policy of cautious investment in UK government securities and other listed Sterling-denominated debt rated AA or better. Since November 1996 the investment guidelines have allowed for investment in bonds of up to ten years' maturity, subject to a maximum average life of five years over the whole portfolio. The Directors have also established an appropriate benchmark, which enables them to monitor the investment returns to ensure that the expected rewards are achieved.

The UK bond market performed extremely well in 1998, as a result of the cuts in short-term interest rates in response to the slowdown in the economy. Short-term interest rates fell by 1.25% from their peak to 6.25%, and long-term bond yields fell from 6.0% to just under 4.50%. The investment portfolio achieved a total return of 12.4% on the invested funds, which was in line with the benchmark return.

The new financial year is unlikely to show an equivalent return in view of the low level of interest rates.

REPORT OF THE DIRECTORS

continued

DIRECTORS' INTERESTS

The Association's Directors are set out on page 2. The Chairman received fees of £3,000 and the other Directors received £2,500 each. Directors' and Officers' liability insurance was effected on their behalf. Other interests are detailed in Note 12 to the Accounts.

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 at the end of the financial year and of the surplus or deficit 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;
- prepare the Financial Statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the Financial Statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

AUDITORS

Deloitte & Touche have indicated their willingness to continue in office and a resolution to reappoint them as Auditors will be proposed at the Annual General Meeting.

By order of the Board,



S. M. Caw

Secretary

9th September 1999

REPORT OF THE AUDITORS

To the Members of The Stop Loss Mutual Insurance Association Limited

We have audited the Financial Statements on pages 9 to 16, which have been prepared under the accounting policies set out on pages 12 and 13.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As described on page 7, 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.

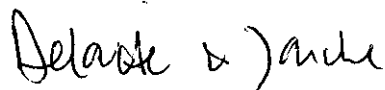
BASIS OF OPINION

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 affairs of the Company as at 31st December 1998 and of the Income and Expenditure of the company for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Deloitte & Touche
Chartered Accountants and Registered Auditors

Stonecutter Court,
1 Stonecutter Street,
London EC4A 4TR

9th September 1999

INCOME AND EXPENDITURE ACCOUNT
for the year ended 31st December 1998

<u>TECHNICAL ACCOUNT – GENERAL BUSINESS</u>	NOTES	1998 £000s	1997 restated £000s
INCOME			
Gross premiums written	1(c), 11	2,094	1,767
Outward reinsurance premiums		(3,690)	(2,189)
Earned premiums, net of reinsurance		(1,596)	(422)
Investment return allocated from non-technical account		634	487
Reinsurance profit commission		0	21
EXPENDITURE			
Gross claims paid		6	115
Claims recovered		(168)	(118)
Reinsurers' share		0	0
Net claims paid		(162)	(3)
Gross change in the provision for claims		(1,864)	(1,649)
Reinsurers' share		0	0
Net change in the provision for claims		(1,864)	(1,649)
Claims incurred, net of reinsurance		(2,026)	(1,652)
Net operating expenses	4	528	518
BALANCE ON THE TECHNICAL ACCOUNT		536	1,220
<u>NON-TECHNICAL ACCOUNT</u>			
Balance on the general business technical account		536	1,220
Investment income	2	561	605
Unrealised gains on investments	1(e)	363	102
Investment expenses and charges	3	(16)	(90)
Investment return allocated to technical account		(634)	(487)
SURPLUS ON ORDINARY ACTIVITIES BEFORE TAXATION		810	1,350
Tax on surplus on ordinary activities	5	(274)	(130)
SURPLUS FOR THE FINANCIAL YEAR	15	536	1,220

There are no recognised gains or losses other than stated in the income and expenditure account for the financial year and the preceding financial year. Accordingly, no statement of total recognised gains and losses is given. All activities derive from continuing operations.

THE STOP LOSS MUTUAL INSURANCE ASSOCIATION LIMITED

**BALANCE SHEET
as at 31st December 1998**

	NOTES	1998 £000s	1997 restated £000s
<u>ASSETS</u>			
INVESTMENTS			
Other financial investments	6	7,364	7,459
DEBTORS			
Debtors arising out of direct insurance operations		2	3
OTHER ASSETS			
Cash at bank and in hand		758	346
PREPAYMENTS AND ACCRUED INCOME			
Accrued interest		93	49
TOTAL ASSETS		8,217	7,857
<u>LIABILITIES</u>			
RESERVES			
General Reserve Fund		5,276	4,740
	15	5,276	4,740
TECHNICAL PROVISIONS			
Claims outstanding - gross amount	7	593	745
- open year funds		527	2,238
Gross claims outstanding		1,120	2,983
BALANCE AVAILABLE TO MEET KNOWN AND FUTURE CLAIMS	1(c)	6,396	7,723
CREDITORS			
Creditors arising out of direct insurance operations		1,566	100
Other creditors including taxation and social security		233	15
Provisions for other risks and charges-provision for taxation	8	0	0
ACCRUALS AND DEFERRED INCOME			
Accrued expenses		22	19
TOTAL LIABILITIES		8,217	7,857

Approved by the Board of Directors on 22nd June 1999

Peter Miller
Director

*N. J. A. Hill, Director,
Charles Taylor & Co. Limited
Managers*

CASH FLOW STATEMENT
for the year ended 31st December 1998

	NOTES	1998 £000s	1997 £000s
OPERATING ACTIVITIES			
Net cash outflow from operating activities	9	(493)	(884)
RETURNS ON INVESTMENTS			
Investment income		503	604
TAXATION			
Tax paid		(56)	(242)
		(46)	(522)
CASH FLOWS WERE INVESTED AS FOLLOWS:			
INCREASE IN CASH HOLDINGS		412	165
NET PORTFOLIO INVESTMENTS			
Purchase of investments		4,092	12,094
Sale of investments		(4,550)	(12,781)
		(458)	(687)
NET INVESTMENT OF CASH FLOWS		(46)	(522)

Reconciliation of cash flow with movement in cash during the year	1998 £000s	1997 £000s
Cash held at beginning of year	346	181
Net cash inflow	412	165
Cash held at end of year	758	346

Analysis of movement in portfolio investments during the year	1998 £000s	1997 £000s
Portfolio investments at beginning of year	7,459	8,044
Purchase of investments	4,092	12,094
Sale of investments	(4,550)	(12,781)
Increase in market value	363	102
Portfolio investments at end of year	7,364	7,459

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31st December 1998

1. ACCOUNTING POLICIES

The Financial Statements have been prepared in accordance with applicable accounting standards in the United Kingdom and with section 255 of and Schedule 9A to the UK Companies Act 1985, as amended by the Companies Act 1985 (Insurance Companies Accounts) Regulations 1993 ("the Regulations"). The Regulations use "Profit and Loss Account" as a heading, which is replaced by "Income and Expenditure Account" throughout these Financial Statements consistent with the mutual status of the Association. All references to Income and Expenditure Account in these Financial Statements have the same meaning as Profit and Loss Account in the Regulations. A summary of the more important accounting policies, which have been applied consistently, is set out below.

a) Change in accounting policy

In accordance with the Statement of Recommended Practice issued by the Association of British Insurers in December 1998, the Association now accounts for all unrealised gains and losses on investments in the non-technical account. This is a change from the previous policy of accounting for unrealised gains and losses through a revaluation reserve. Comparative amounts have been restated and the effect of this change in accounting policy is disclosed in note 15.

b) Basis of accounting

The Financial Statements are prepared in accordance with the historical cost convention modified by the revaluation of certain assets as required by the Regulations.

c) Fund basis

The transfer to or from the general reserve fund, which is a fund created on the closure of a policy year, is determined using a fund basis of accounting as the Association is unable to obtain sufficient information in respect of the claims of the open policy years and the Directors do not believe the annual basis is appropriate. Under the fund basis premiums and claims are allocated to each policy year beginning 1st January, the results of which are determined and reported when the policy year is closed. Each policy year is regarded as closed after four years of development, at which time any surpluses are recognised. Deficiencies on open policy years are provided for as soon as they become anticipated where they are not covered by the scaling down provisions in the Association's rules.

(i) Premiums are credited to the Income and Expenditure Account as and when charged to members. Premiums for periods after the Balance Sheet date are treated as prepaid and are not included in the Income and Expenditure Account.

(ii) The insurance fund is included within the technical provision for claims outstanding and is assessed after making full provision for the estimated costs of all claims, including the related expenses, whether reported or not, in respect of each class and policy year. The level of the insurance fund is the amount within which the Association expects the ultimate settlement of claims to fall, based on the current facts and circumstances. Account is also taken of estimated future supplementary premiums receivable.

NOTES TO THE FINANCIAL STATEMENTS
continued

1. ACCOUNTING POLICIES (continued)

c) **Fund basis (cont.)**

(iii) Claims incurred comprise those claims agreed, notified or anticipated at the Balance Sheet date and any deficiency arising from open policy years.

d) **Interest and investment income**

Interest on fixed-interest securities and bank deposits is included on an accruals basis.

e) **Investments**

The investments held by the Association have been disclosed at market value in the Balance Sheet. Realised gains or losses represent the difference between the net sales proceeds and purchase price. Unrealised gains or losses represent the difference between the valuation of investments at the balance sheet date and their purchase price. The movement in unrealised investment gains and losses therefore includes the reversal of previously recognised unrealised gains and losses on investments disposed of in the current period.

f) **General administration expenses**

General administration expenses, including Managers' remuneration, are included on an accruals basis. Claims handling costs are incorporated into the management fee, and consequently no provision is required in the Income and Expenditure account.

g) **Taxation**

Taxation provided is that which became chargeable during the year together with deferred taxation (calculated by the liability method) on all short-term timing differences.

h) **Allocation of investment return**

Investment returns are allocated between the technical and non-technical accounts according to the balances standing to the credit of their associated funds.

2. INVESTMENT INCOME	1998 £000s	1997 £000s
Income from listed fixed-interest securities	521	558
Interest on deposits and cash balances	12	19
Gains on sale of investments	28	28
Total investment income	561	605

NOTES TO THE FINANCIAL STATEMENTS

continued

3. INVESTMENT EXPENSES AND CHARGES	1998 £000s	1997 £000s
Investment management expenses	2	4
Losses on sale of investments	14	86
	16	90

4. NET OPERATING EXPENSES	1998 £000s	1997 £000s
Management fee	455	440
Directors' remuneration	21	21
Auditors' remuneration - audit	9	9
- other services	10	2
Directors' and Officers' insurance	9	10
H.M. Treasury (formerly D.T.I.) filing fees	7	(5)
Printing	4	3
Legal fees	5	27
General administration costs	8	11
Total administrative expenses	528	518

5. TAXATION	1998 £000s	1997 £000s
Current taxation on interest received	267	143
Adjustments in respect of prior years	7	(13)
Deferred tax on interest accrued (see note 8)	0	0
	274	130

The Association is taxed only on its investment income and capital gains because it is a mutual association.

6. INVESTMENTS	Market value		Historical cost	
	1998 £000s	1997 £000s	1998 £000s	1997 £000s
Other financial investments				
Debt securities and other fixed income securities:				
Investments listed on recognised stock exchange:	7,319	7,309	6,929	7,282
Cash deposits:	45	150	45	150
TOTAL INVESTMENTS	7,364	7,459	6,974	7,432

NOTES TO THE FINANCIAL STATEMENTS

continued

7. GROSS CLAIMS

"Claims outstanding - gross amount" represents the reserves to cover future deterioration on syndicates left open and the reserves to cover the Association's maximum future liability under its active Class III policies.

8. DEFERRED TAXATION

	1998 £000s	1997 £000s
Deferred taxation brought forward	0	0
Current year release	0	0
Deferred taxation carried forward	0	0
The deferred taxation balance represents short-term timing differences on interest accrued at the year-end. All timing differences have been provided for in full.		

9. NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	1998 £000s	1997 £000s
Surplus on ordinary activities before taxation	810	1,350
Decrease in technical provisions	(1,864)	(1,649)
(Increase)/decrease in debtors	(43)	85
Increase in creditors	1,467	53
Increase/(decrease) in accruals and deferred income	3	(17)
Unrealised gains on investments	(363)	(102)
Investment income allocated to operating activities	(503)	(604)
	(493)	(884)

10. GEOGRAPHICAL BREAKDOWN OF PREMIUM INCOME

Income is wholly attributable to business originating in the U.K.

NOTES TO THE FINANCIAL STATEMENTS
continued

11. ANALYSIS OF PREMIUM INCOME	1998 £000s	1997 £000s
Supplementary premiums	16	6
Other premiums	2,078	1,761
	2,094	1,767

12. DIRECTORS' INTERESTS

Five of the directors (Sir Peter Miller, J.F. Jackman, C.M. Moore, W.R.P. Sedgwick Rough and A.I.G.C. South) were members of the Association during 1998.

13. DIRECTORS' EMOLUMENTS

The directors each received an annual fee of £2,500, except for the chairman, Sir Peter Miller, who received an annual fee of £3,000.

14. CONSTITUTION

The Stop Loss Mutual Insurance Association is limited by the guarantee of each member up to £50 per member.

15. RESERVES	Reval- uation Reserve	General Reserve Fund	Total £000s
As previously stated at 1st January 1998	27	4,713	4,740
Prior year adjustment	(27)	27	0
As restated at 1st January 1998	0	4,740	4,740
Transfer from Income and Expenditure Account	0	536	536
Balance at 31st December 1998	0	5,276	5,276
The prior year adjustment arises as a result of the change in accounting policy for unrealised gains and losses on investments, as explained in note 1 to the accounts on page 12. The effect of this change in accounting policy is to increase the current year's surplus before taxation by £363,000 (1997 restated = increase of £102,000).			