

THE STOP LOSS MUTUAL INSURANCE ASSOCIATION LIMITED



Annual Report and Financial Statements 2014

THE STOP LOSS MUTUAL INSURANCE ASSOCIATION LIMITED

(A company limited by guarantee, registered number 02430780)

DIRECTORS

C.J. Hodgson
Chairman
Greenwich Lloyd's Underwriting Limited

J.M. Bray
Argenta Private Capital Limited

D. Monksfield
Argenta Private Capital Limited

S.M. Wilcox
Hampden Agencies Limited

CONTENTS

Pages

Chairman's Statement	3
Strategic Report.....	4
Report of the Directors.....	5-6
Independent Auditor's Report.....	7
Income and Expenditure Account	8
Balance Sheet	9
Cash Flow Statement.....	10
Notes to the Financial Statements	11-14

MANAGERS

Charles Taylor & Co. Limited

AUDITORS

Goodman Jones LLP, 29-30 Fitzroy Square, London W1T 6LQ.

REGISTERED OFFICE

Standard House, 12-13 Essex Street, London WC2R 3AA.

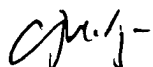
THE STOP LOSS MUTUAL INSURANCE ASSOCIATION LIMITED

CHAIRMAN'S STATEMENT

The Board, in conjunction with the Association's Managers, is continuing to implement the Scheme of Operations agreed with the Financial Conduct Authority (FCA) to ensure the timely and orderly run-off of the Association's affairs.

Following the changes made to the 2010 Class II coverage in 2013, the Board was hopeful of being in a position to finalise the Association's affairs. This has not proven possible because the Association has been successful in recovering outstanding reinsurance recoveries from reinsurers in administration, and further such recoveries are anticipated before the end of 2014. As a consequence, whilst the final asset position of the Association remains uncertain, the Board has been unable to wind up our Association's affairs in accordance with the Articles of Association.

I remain grateful for the support, wisdom and expertise of my fellow Directors and the three Members' Agents. The Board is also grateful for the assistance of the Association's Managers, Charles Taylor & Co. Limited, for ensuring the smooth implementation of the plan to finalise the affairs of the Association to the satisfaction of all stakeholders.



C. J. Hodgson
9 September 2014

THE STOP LOSS MUTUAL INSURANCE ASSOCIATION LIMITED

STRATEGIC REPORT

The Directors present their Strategic Report for the period ended 30th June 2014

BUSINESS REVIEW

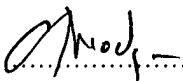
The Income and Expenditure Account shows a surplus for the year of £6,000 (2012: deficit of £82,000). As at 30th June 2014, the balance available to meet known and future claims stood at £384,000 (2012: £378,000). The Stop Loss Mutual Insurance Association Limited ("the Association") provided stop loss and estate protection reinsurance to Names and other vehicles at Lloyd's, who are members of the Association. With effect from 1st January 2011, the Association ceased writing new policies and was put into (solvent) run-off.

INVESTMENT PERFORMANCE

During the period to 30th June 2014 the portfolio of cash and deposits yielded a return of 1.33% p.a. (2012: 1.40%).

PRINCIPAL RISKS AND UNCERTAINTIES

The Association has an outstanding claim against the Scheme of Administration of HIH Casualty and General Insurance Limited (In Liquidation). As at the reporting date, the Association had recovered a total of 37.36% of its original claim of £479,264. There is uncertainty as regards both quantum and timing of any future distributions that may be made by the HIH Scheme of Administration. As a consequence, the Association's strategy is to defer the final winding-up of its affairs until such time as there is reasonable certainty regarding the value of future payments to be made by the HIH Scheme of Administration.


.....
Director

9 September 2014

THE STOP LOSS MUTUAL INSURANCE ASSOCIATION LIMITED

REPORT OF THE DIRECTORS

The Directors present their Report and the Audited Financial Statements for the period ended 30th June 2014.

PRINCIPAL ACTIVITIES

The Stop Loss Mutual Insurance Association Limited ("the Association") provided stop loss and estate protection reinsurance to Names and other vehicles at Lloyd's, who are members of the Association. With effect from 1st January 2011, the Association ceased writing new policies and was put into (solvent) run-off.

RISK MANAGEMENT

The Association operates internal control systems and procedures to manage its risks. The main risks affecting the Association are as follows:

- i) Insurance Risk. The Association's classes of cover are either fully or partially reinsured. To the extent that reinsurance cover either fails or is fully exhausted, the Association has the power under its Rules to scale down claims. The level of insurance risk is therefore very low;
- ii) Liquidity risk. The Association's assets are held in the form of bank current accounts, on-call deposits, or fixed term deposits. The Association is able to anticipate all of its cash outflows well in advance, and is not required to fund claim payments in advance of corresponding reinsurance recoveries being collected. The Association therefore has little or no liquidity risk;
- iii) Operational risk. The Association is (and has always been) managed by Charles Taylor & Co. Limited (part of Charles Taylor plc). The day-to-day management is carried out by a small, dedicated team of staff, most of whom have worked for the Association for many years and understand its business. Furthermore, the managers are covered by an Errors and Omissions (E&O) policy with a limit of liability of £50m, which effectively acts as a risk mitigator. Therefore, the Association's operational risk is very low.

GOING CONCERN

As a result of the continuing decline in demand for the Association's classes of cover, on 29th October 2010 the Board decided that cover would not be offered for the 2011 policy year, and that the Association would be put into run-off. A Scheme of Operations setting out the Association's plan for a solvent run-off of its affairs was submitted to the FSA towards the end of 2010. The financial statements have been prepared on the basis of a solvent run-off, and as the Association has sufficient resources available to run off the liabilities, there is no difference between the financial statements being prepared on a solvent run-off basis and those prepared on a going concern basis. The Board anticipate that the Association will complete the run-off of its outstanding liabilities by the end of 2014.

DIRECTORS

The Association's directors who served throughout the period are set out on page 2. Directors' and Officers' liability insurance was effected on their behalf.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Strategic Report, Directors' Report and the Financial Statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial period. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they 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 United Kingdom Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements.

REPORT OF THE DIRECTORS
continued

STATEMENT OF DIRECTORS' RESPONSIBILITIES (cont.)

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. 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

A resolution to re-appoint Goodman Jones LLP as auditors will be put at the next General Meeting.

STATEMENT OF DISCLOSURE TO THE AUDITORS

In the case of each of the persons who are directors of the company at the date when this report was approved:

- so far as each of the directors is aware, there is no relevant audit information of which the company's auditor is unaware; and
- each of the directors has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

By order of the board,



Charles Taylor & Co. Limited
Secretary

9 September 2014

THE STOP LOSS MUTUAL INSURANCE ASSOCIATION LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE STOP LOSS MUTUAL INSURANCE ASSOCIATION LIMITED

We have audited the financial statements of The Stop Loss Mutual Insurance Association Limited for the period ended 30 June 2014 which comprise the income and expenditure account, the balance sheet, the cash flow statement and the related notes 1 to 9. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 purpose. 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 auditor

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 30 June 2014 and of its surplus for the period then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

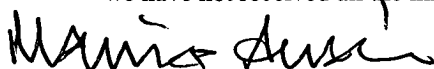
Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and Directors' Report for the financial period for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.



Maurice Austin (Senior Statutory Auditor)

For and on behalf of Goodman Jones LLP

Chartered Accountants and Statutory Auditors

London, United Kingdom.

09 September 2014

THE STOP LOSS MUTUAL INSURANCE ASSOCIATION LIMITED

INCOME AND EXPENDITURE ACCOUNT for the period ended 30th June 2014

	NOTES	18m to Jun 2014 £000s	Year to Dec 2012 £000s
<u>TECHNICAL ACCOUNT - GENERAL BUSINESS</u>			
<u>INCOME</u>			
Gross premiums written	1(b)	0	0
Outward reinsurance premiums		0	0
Earned premiums, net of reinsurance		0	0
Investment return allocated from non-technical account		6	5
<u>EXPENDITURE</u>			
Gross claims paid		0	(11)
Reinsurers' share		(65)	18
Net claims paid		(65)	7
Gross change in the provision for claims		0	11
Reinsurers' share		0	(18)
Net change in the provision for claims		0	(7)
Claims incurred, net of reinsurance		(65)	0
Net operating expenses	2	65	87
BALANCE ON THE TECHNICAL ACCOUNT		6	(82)
<u>NON-TECHNICAL ACCOUNT</u>			
Balance on the general business technical account		6	(82)
Investment income	3	7	6
Investment return allocated to technical account		(6)	(5)
SURPLUS/(DEFICIT) ON ORDINARY ACTIVITIES BEFORE TAXATION		7	(81)
Tax on surplus/(deficit) on ordinary activities	4	(1)	(1)
SURPLUS/(DEFICIT) FOR THE FINANCIAL PERIOD	5	6	(82)

The notes 1 to 9 form an integral part of these financial statements.

All activity is derived from discontinued operations.

The company has no recognised gains or losses other than its surplus for the period. There are no other differences between the surplus on ordinary activities before tax and the surplus for the financial period as stated above and their historical cost equivalents.

THE STOP LOSS MUTUAL INSURANCE ASSOCIATION LIMITED

BALANCE SHEET as at 30th June 2014

	NOTES	30 Jun 2014 £000s	31 Dec 2012 £000s
<u>ASSETS</u>			
<u>OTHER ASSETS</u>			
Cash at bank and in hand	1(d)	82	87
Fixed cash deposits		275	300
<u>PREPAYMENTS AND ACCRUED INCOME</u>			
Prepaid expenses		16	3
Accrued income		27	6
TOTAL ASSETS		400	396
<u>LIABILITIES</u>			
<u>RESERVES</u>			
General Reserve Fund	5	384	378
		384	378
<u>TECHNICAL PROVISIONS</u>			
Claims outstanding - gross amount		0	0
- open year funds		0	0
Gross claims outstanding		0	0
BALANCE AVAILABLE TO MEET KNOWN AND FUTURE CLAIMS	1(b)	384	378
<u>CREDITORS</u>			
Other creditors including taxation and social security		1	1
<u>ACCRUALS AND DEFERRED INCOME</u>			
Accrued expenses		15	17
TOTAL LIABILITIES		400	396

The notes 1 to 9 form an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 9 Sep. 2014 and signed on its behalf by:

..... *C. J. Hodgson* (C.J. HODGSON)
Director
(Company registration no. 02430780)

Charles Taylor & Co Ltd
Charles Taylor & Co. Limited
Managers

THE STOP LOSS MUTUAL INSURANCE ASSOCIATION LIMITED

CASHFLOW STATEMENT for the period ended 30th June 2014

	NOTES	18m to Jun 2014 £000s	Year to Dec 2012 £000s
OPERATING ACTIVITIES			
Net cash outflow from operating activities	6	(42)	(136)
RETURNS ON INVESTMENTS			
Investment income		13	0
TAXATION			
Tax paid		(1)	(1)
		(30)	(137)
CASH FLOWS WERE INVESTED AS FOLLOWS:			
DECREASE IN CASH HOLDINGS		(30)	(137)
NET INVESTMENT OF CASH FLOWS		(30)	(137)

Reconciliation of cash flow with movement in cash during the period	18m to Jun 2014 £000s	Year to Dec 2012 £000s
Cash held at beginning of period	387	524
Net cash outflow	(30)	(137)
Cash held at end of period	357	387

The notes 1 to 9 form an integral part of these financial statements.

THE STOP LOSS MUTUAL INSURANCE ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the period ended 30th June 2014

1. ACCOUNTING POLICIES

The Financial Statements have been prepared in accordance with applicable accounting standards in the United Kingdom and with section 396 of the Companies Act 2006 and Schedule 3 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 ("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) 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. The Association has adopted all material recommendations of the Statement of Recommended Practice on Accounting for Insurance Business issued in December 2005 (as amended in December 2006) by the Association of British Insurers ("the ABI SORP") except as noted in (b) below.

b) Fund basis – departure from the 2005 ABI SORP

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. This form of accounting, which was previously permitted under predecessors of the 2005 ABI SORP, has been prohibited under the 2005 ABI SORP. The Directors consider that the fund basis of accounting is appropriate. The Association provided stop loss insurance to individuals in relation to their participation on Lloyd's syndicates. The results for Lloyd's syndicates are not known until closure, or establishment of an Estimated Future Liability, 36 months after inception of the year of account. Consequently it is not possible to estimate with any reasonable degree of accuracy the results on an annual accounting basis. 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. Claims provisions are established by reference to the syndicate results published by Lloyd's applied to each policyholder's participation on each of the syndicates (in terms of allocated API). 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.

(iii) Claims incurred comprise those Claims agreed, notified or anticipated at the Balance Sheet date and any deficiency arising from open policy years. Reinsurance recoveries are recognised on a basis consistent with the recognition of incurred claims.

c) Interest and investment income

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

THE STOP LOSS MUTUAL INSURANCE ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Continued

1. ACCOUNTING POLICIES (continued)

d) Cash at bank and in hand

Cash at bank and in hand comprises bank current accounts, on-call deposit accounts, and term deposit accounts with a notice period not exceeding 30 days. Interest income on interest-bearing accounts is recognised on an accruals basis.

e) General administration expenses

General administration expenses, including Managers' remuneration, are included on an accruals basis. Claims handling costs within the management fee are accounted for in the year in which they are incurred.

f) Taxation

Current tax is provided as amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

g) Allocation of investment return

Given the mutual status of the Association and the absence of shareholders' funds, investment returns are allocated between the technical and non-technical accounts in order that the technical result reflects the overall credit to the general reserve fund.

h) Going Concern

As a result of the continuing decline in demand for the Association's classes of cover, on 29th October 2010 the Board decided that cover would not be offered for the 2011 policy year, and that the Association would be put into run-off. A Scheme of Operations setting out the Association's plan for a solvent run-off of its affairs was submitted to the FSA towards the end of 2010. The financial statements have been prepared on the basis of a solvent run-off, and as the Association has sufficient resources available to run off the liabilities, there is no difference between the financial statements being prepared on a solvent run-off basis and those prepared on a going concern basis. No run-off provision has been included as no additional run-off costs are anticipated, other than the Association's normal operating costs. The Board anticipate that the Association will complete the run-off of its outstanding liabilities by the end of 2014.

i) Change of accounting date

In December 2013 the Association changed its accounting year-end from 31st December to 30th June. As a result of this change, the accounting period under review is a period of 18 months ending on 30th June 2014.

THE STOP LOSS MUTUAL INSURANCE ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Continued

2. NET OPERATING EXPENSES	18m to Jun 2014 £000s	Year to Dec 2012 £000s
Management fee	38	50
Directors' remuneration	11	7
Auditors' remuneration - current year audit fee	14	17
Auditors' remuneration - adjustment to prior year's accrued audit fee	(5)	5
Directors' and Officers' insurance	5	4
FSA fees	1	1
Write-off of uncollected claim refunds	0	2
General administration costs	1	1
Net operating expenses	65	87

3. INVESTMENT INCOME	18m to Jun 2014 £000s	Year to Dec 2012 £000s
Interest on deposits and cash balances	7	6
Total investment income	7	6

4. TAXATION	18m to Jun 2014 £000s	Year to Dec 2012 £000s
Analysis of tax charge on ordinary activities: United Kingdom corporation tax at 20% (2012: 20%) based on the deficit for the period	1	1
Adjustments made in respect of prior periods	0	0
	1	1
Factors affecting tax charge for the current period: The tax assessed for the period is higher than that resulting from applying the standard rate of corporation tax in the UK (20%) (2012: 20%). The differences are explained below:		
Surplus/deficit on ordinary activities before tax	7	(81)
Tax at 20% (2012: 20%) thereon	1	(17)
Effects of: Non-taxable items	0	18
Current tax charge for period	1	1
The mutual activities of the Association are not subject to Corporation Tax. The Association is only subject to Corporation Tax on its non-mutual activities, which comprise its investment activities.		

THE STOP LOSS MUTUAL INSURANCE ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Continued

5. RESERVES	General Reserve Fund £000s	Total £000s
At 1st January 2013	378	378
Transfer from Income and Expenditure Account	6	6
Balance at 30th June 2014	384	384

6 NET CASH OUTFLOW FROM OPERATING ACTIVITIES	18m to Jun 2014 £000s	Year to Dec 2012 £000s
Surplus/(deficit) on ordinary activities before taxation	7	(81)
Decrease in technical provisions	0	(7)
Increase in debtors	(34)	(5)
Decrease in creditors	0	(48)
(Decrease)/increase in accruals and deferred income	(2)	5
Investment income received allocated to operating activities	(13)	0
	(42)	(136)

7. GEOGRAPHICAL BREAKDOWN OF PREMIUM INCOME

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

8. DIRECTORS' INTERESTS

The Association's four Directors (C.J. Hodgson, J.M. Bray, D. Monksfield and S.M. Wilcox) were the only members of the Association during the period under review.

9. CONSTITUTION

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