

**THE STOP LOSS MUTUAL INSURANCE
ASSOCIATION LIMITED**

Annual Report and Financial Statements

2000



Registered Office

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

THE STOP LOSS MUTUAL INSURANCE ASSOCIATION LIMITED
(A Company Limited by Guarantee)

DIRECTORS

Chairman

C J Hodgson Greenwich Lloyd's Underwriting Limited

Directors

J M Bray Anton Private Capital Limited

J F Jackman External Name

C M Moore External Name
(Resigned 31st December 2000)

T R Riddell SOC Private Capital Limited

W R P Sedgwick Rough CBS Private Capital Ltd

A I G C South Anton Private Capital Limited

S M Wilcox Hampden Agencies Limited

Managers

Charles Taylor & Co. Limited

THE STOP LOSS MUTUAL INSURANCE ASSOCIATION LIMITED

CONTENTS

	Pages
Notice of Meeting.....	4
Chairman's Statement	5
Report of the Directors	6-7
Report of the Auditors	8
Income and Expenditure Account	9
Balance Sheet	10
Cash Flow Statement.....	11
Notes to the Financial Statements	12-16

THE STOP LOSS MUTUAL INSURANCE ASSOCIATION LIMITED

NOTICE OF MEETING

NOTICE IS HEREBY GIVEN that the eleventh Annual General Meeting of Members will be held at International House, 1 St. Katharine's Way, London E1 at 10 a.m. on Thursday, 25th October 2001, for the following purposes:

Ordinary Business

1. To adopt the Report and Financial Statements for the year ended 31st December 2000.
2. To reappoint Deloitte & Touche as Auditors and to authorise the Directors to fix their remuneration.

Special Business

3. To re-elect Mr. A.I.G.C. South, who retires in accordance with the Articles of Association, as a Director of the Company.
4. To re-elect Mr. J.F. Jackman, 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

27th September 2001

THE STOP LOSS MUTUAL INSURANCE ASSOCIATION LIMITED

CHAIRMAN'S STATEMENT

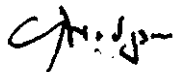
Three weeks ago, I would have started this statement by saying that Lloyd's disappointing 1998 results seemed likely to be followed by rather worse ones for 1999, and that the only reasonably good news was that the 2000 account seemed likely to produce a smaller loss than 1998 had. Since the tragic events of 11th September, however, things have changed dramatically and the only thing one can say with certainty is that it is impossible for any individual or company involved in the insurance industry currently to put an accurate figure on his or its exposure. Apart from the fact that claims arising from those events will directly affect the 1999, 2000 and 2001 accounts at Lloyd's, they are also likely to precipitate insolvencies, and therefore reinsurance failures which will have a further, indirect, impact on the results for those years.

It is against this background that the Association's latest financial statements have been drawn up. On the basis of the Syndicate Quarterly Returns for 30th June 2001, the 1999 account seemed likely to produce Class II claims of at least £10 million. We cannot at present say how this will be affected by recent events, and this figure has therefore been used in preparing the financial statements. Class I claims will obviously exceed, several times over, the funds available to pay them. Using the same returns for 2000 indicated that Class I claims would exceed the funds available to pay them, but Class II claims would fall within the Association's reinsurance retention. This position will, however, deteriorate and 2000 Class II members should expect to pay the maximum supplementary premium of £1,200 per £100,000 of cover. This has been accounted for in the financial statements.

I am sorry to have to say that three of the Association's reinsurers - all previously 'A' rated - are in difficulties. Reinsurance Australia Corporation is in run-off, Reliance Insurance Company has sought protection under US bankruptcy law and HHH is in liquidation. The Association's policy is not to take credit for reinsurance recoveries where there is any doubt as to the financial status of a reinsurer, and, as you will see from note 7, some £4.1 million out of a potential £10 million of recoveries in respect of 1999 Class II claims is therefore being disallowed. I am afraid that this means members' claims being scaled down proportionately, although it is quite possible that there will ultimately be some recovery. It should also be noted that the degree of scaling down decreases as the level of claims increases.

The Association's accounting policies do not allow it to take credit for any profit commission it may expect to receive from its reinsurers. Prior to 11th September, it was anticipated that a substantial profit commission payable by the reinsurer at the upper end of our programme would go some way towards alleviating any shortfall in reinsurance recoveries. I regret to say, however, that this now seems unlikely.

By way of report, the 1998 policy year produced claims of £2,492,000 in Class I and £913,000 in Class II. Some £916,000 was available to pay Class I claims, which consequently had to be scaled down by just over 63%. Class I had an excess of only 5% of allocated premium income; its resources were boosted by funds earmarked from reserves back in 1998 and I think it must be considered to have done reasonably well in a year which saw a 10% market loss. Class II claims on the 1998 policy year were paid in full after levying a supplementary premium of £525 per £100,000 of cover, although problems experienced by one of the reinsurers mentioned above meant that the Association had to draw on its reserves to the extent of £640,000.



C. J. Hodgson
27th September 2001

THE STOP LOSS MUTUAL INSURANCE ASSOCIATION LIMITED

REPORT OF THE DIRECTORS

The Directors present their Report and the audited Financial Statements for the year ended 31st December 2000.

PRINCIPAL ACTIVITIES

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

REVIEW OF DEVELOPMENTS

During the year the Association offered four classes of cover. There were 295 members in Class I, 447 in Class II, 28 in Class III and 433 in Class IV.

FINANCIAL STATEMENTS

The Income and Expenditure Account shows a deficit for the year of £1,918,000, which is almost entirely due to the 2000 Class II reinsurance programme benefiting from a substantial degree of funding from reserves. At 31st December 2000 the balance available to meet known and future claims stood at £10,251,000.

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. The investment guidelines allow for investments 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.

In contrast to 1999, bonds significantly out-performed equities last year, and the fund returned 7.76% against the benchmark return of 8.8%. Bonds have continued to out-perform equities in 2001, but long gilts are now under pressure because of the economic downturn and increased government spending. Fears about an impending shortage of gilts are rapidly disappearing. The cancellation of the minimum funding requirement for pension funds has reduced the demand for long gilts.

THE STOP LOSS MUTUAL INSURANCE ASSOCIATION LIMITED

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 11 to the Financial Statements.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

United Kingdom 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 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;
- 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

27th September 2001

THE STOP LOSS MUTUAL INSURANCE ASSOCIATION LIMITED

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 which are required to be prepared in accordance with applicable United Kingdom law and accounting standards. 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 United Kingdom 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 2000 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
Deloitte & Touche

Chartered Accountants and
Registered Auditors

Stonecutter Court,
1 Stonecutter Street,
London EC4A 4TR

27th September 2001

THE STOP LOSS MUTUAL INSURANCE ASSOCIATION LIMITED

**INCOME AND EXPENDITURE ACCOUNT
for the year ended 31st December 2000**

TECHNICAL ACCOUNT - GENERAL BUSINESS	NOTES	2000 £000s	1999 £000s
INCOME			
Gross premiums written	1(a), 10	2,540	3,820
Outward reinsurance premiums		(3,135)	(4,681)
Earned premiums, net of reinsurance		(595)	(861)
Investment return allocated from non-technical account		202	62
EXPENDITURE			
Gross claims paid		35	0
Claims recovered		0	(5)
Reinsurers' share		(13)	0
Net claims paid		22	(5)
Gross change in the provision for claims		6,007	2,745
Reinsurers' share		(4,556)	(1,040)
Net change in the provision for claims		1,451	1,705
Claims incurred, net of reinsurance		1,473	1,700
Net operating expenses	4	429	479
Reinsurance profit commission		377	0
BALANCE ON THE TECHNICAL ACCOUNT		(1,918)	(2,978)
NON-TECHNICAL ACCOUNT			
Balance on the general business technical account		(1,918)	(2,978)
Investment income	2	210	575
Unrealised gains/(losses) on investments	1(d)	98	(472)
Investment expenses and charges	3	(55)	(25)
Investment return allocated to technical account		(202)	(62)
DEFICIT ON ORDINARY ACTIVITIES BEFORE TAXATION		(1,867)	(2,962)
Tax on deficit on ordinary activities	5	(51)	(16)
DEFICIT FOR THE FINANCIAL YEAR	14	(1,918)	(2,978)

All activity is derived from continuing operations.

THE STOP LOSS MUTUAL INSURANCE ASSOCIATION LIMITED

**BALANCE SHEET
as at 31st December 2000**

	NOTES	2000 £000s	1999 £000s
<u>ASSETS</u>			
<u>INVESTMENTS</u>			
Other financial investments	6	3,261	4,199
<u>REINSURERS' SHARE OF TECHNICAL PROVISIONS</u>			
Claims outstanding - open year funds	7	5,596	1,040
<u>DEBTORS</u>			
Debtors arising out of direct insurance operations		1,095	566
Other debtors		0	26
<u>OTHER ASSETS</u>			
Cash at bank and in hand		287	433
<u>PREPAYMENTS AND ACCRUED INCOME</u>			
Accrued interest		69	52
TOTAL ASSETS		10,308	6,316
<u>LIABILITIES</u>			
<u>RESERVES</u>			
General Reserve Fund		380	2,298
	14	380	2,298
<u>TECHNICAL PROVISIONS</u>			
Claims outstanding - gross amount	7	119	138
- open year funds	7	9,752	3,726
Gross claims outstanding		9,871	3,864
BALANCE AVAILABLE TO MEET KNOWN AND FUTURE CLAIMS	1(b)	10,251	6,162
<u>CREDITORS</u>			
Creditors arising out of direct insurance operations		0	131
Other creditors including taxation and social security		36	0
<u>ACCRUALS AND DEFERRED INCOME</u>			
Accrued expenses		21	23
TOTAL LIABILITIES		10,308	6,316

Approved by the Board of Directors on 27th September 2001

C.J. Hodgson
C.J. Hodgson, Director

Charles Taylor & Co. Limited
Charles Taylor & Co. Limited, Managers

THE STOP LOSS MUTUAL INSURANCE ASSOCIATION LIMITED

CASH FLOW STATEMENT
for the year ended 31st December 2000

	NOTES	2000 £000s	1999 £000s
OPERATING ACTIVITIES			
Net cash outflow from operating activities	8	(1,335)	(3,337)
RETURNS ON INVESTMENTS			
Investment income		142	595
TAXATION			
Tax refunded/(paid)		11	(276)
		(1,182)	(3,018)
CASH FLOWS WERE INVESTED AS FOLLOWS:			
DECREASE IN CASH HOLDINGS		(146)	(325)
NET PORTFOLIO INVESTMENTS			
Purchase of investments		1,448	1,895
Sale of investments		(2,484)	(4,588)
		(1,036)	(2,693)
NET INVESTMENT OF CASH FLOWS		(1,182)	(3,018)

Reconciliation of cash flow with movement in cash during the year	2000 £000s	1999 £000s
Cash held at beginning of year	433	758
Net cash outflow	(146)	(325)
Cash held at end of year	287	433

Analysis of movement in portfolio investments during the year	2000 £000s	1999 £000s
Portfolio investments at beginning of year	4,199	7,364
Purchase of investments	1,448	1,895
Sale of investments	(2,484)	(4,588)
Increase/(decrease) in market value	98	(472)
Portfolio investments at end of year	3,261	4,199

THE STOP LOSS MUTUAL INSURANCE ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31st December 2000

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) **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 1998 by the Association of British Insurers ("the ABI SORP").

b) **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.

THE STOP LOSS MUTUAL INSURANCE ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

continued

1. ACCOUNTING POLICIES (continued)

b) 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.

c) Interest and investment income

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

d) 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 adjustment of previously recognised unrealised gains and losses on investments disposed of in the current period.

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

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.

g) Allocation of investment return

Given the mutual status of the company 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.

2. INVESTMENT INCOME	2000 £000s	1999 £000s
Income from listed fixed-interest securities	186	309
Interest on deposits and cash balances	23	21
Gains on sale of investments	1	245
Total investment income	210	575

THE STOP LOSS MUTUAL INSURANCE ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

continued

3. INVESTMENT EXPENSES AND CHARGES	2000 £000s	1999 £000s
Investment management expenses	3	3
Losses on sale of investments	52	22
	55	25

4. NET OPERATING EXPENSES	2000 £000s	1999 £000s
Management fee	382	413
Directors' remuneration	21	21
Auditors' remuneration - audit	12	10
- other services	0	2
Directors' and Officers' insurance	0	14
FSA Regulatory Return filing fees	8	8
Printing	3	3
Legal fees	1	3
General administration costs	2	5
Total administrative expenses	429	479

5. TAXATION	2000 £000s	1999 £000s
Current taxation on interest received	51	16
Adjustments in respect of prior years	0	0
	51	16
The Association is taxed only on its investment income and capital gains because it is a mutual association.		

6. INVESTMENTS	Market value		Historical cost	
	2000 £000s	1999 £000s	2000 £000s	1999 £000s
Other financial investments				
Debt securities and other fixed income securities:				
Investments listed on recognised stock exchange:	3,183	4,137	3,167	4,220
Cash deposits:	78	62	78	62
TOTAL INVESTMENTS	3,261	4,199	3,245	4,282

THE STOP LOSS MUTUAL INSURANCE ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

continued

7. GROSS CLAIMS AND REINSURERS' SHARE OF TECHNICAL PROVISIONS

"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.

The Class II reinsurance programme for the 1999 policy year was placed in five layers and allows a maximum total recovery of £19.7m.

Due to questions being asked in respect of the solvency of some reinsurers, primarily on the lowest layer, the Directors have concluded that it would be prudent not to take credit in these statements for £4.1m of recoveries due from these reinsurers. They have additionally concluded that the estimated figure for claims should be reduced in accordance with the Association's rules and the terms of its Class II endorsement.

A potential shortfall of £640,000 in reinsurance recoveries in respect of the 1998 policy year has been made good from the Association's reserves.

Any profit commission received from reinsurers under the terms of a contract covering the 1998, 1999 and 2000 policy years will be used to alleviate any shortfall in the initial settlement of Class II claims. Recoveries actually received from the reinsurers referred to above will also be put towards any shortfall remaining on Class II claims at the date of recovery.

8. NET CASH OUTFLOW FROM OPERATING ACTIVITIES	2000 £000s	1999 £000s
Deficit on ordinary activities before taxation	(1,867)	(2,962)
Increase in technical provisions	6,007	2,744
Increase in reinsurers' share of technical provisions	(4,556)	(1,040)
Increase in debtors	(546)	(523)
Decrease in creditors	(131)	(1,434)
(Decrease)/increase in accruals and deferred income	(2)	1
Unrealised (gains)/losses on investments	(98)	472
Investment income allocated to operating activities	(142)	(595)
	(1,335)	(3,337)

THE STOP LOSS MUTUAL INSURANCE ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

continued

9. GEOGRAPHICAL BREAKDOWN OF PREMIUM INCOME

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

10. ANALYSIS OF PREMIUM INCOME	2000 £000s	1999 £000s
Supplementary premiums	544	576
Other premiums	1,996	3,244
	2,540	3,820

11. DIRECTORS' INTERESTS

Six of the directors (J.M. Bray, J.F. Jackman, C.M. Moore, W.R.P. Sedgwick Rough, A.I.G.C. South and S.M. Wilcox) were members of the Association during 2000.

12. DIRECTORS' EMOLUMENTS

The directors each received an annual fee of £2,500, except for the chairman, C.J. Hodgson, who received an annual fee of £3,000.

13. CONSTITUTION

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

14. RESERVES	General Reserve Fund	Total £000s
At 1st January 2000	2,298	2,298
Transfer from Income and Expenditure Account	(1,918)	(1,918)
Balance at 31st December 2000	380	380

15. POST BALANCE SHEET EVENT

The Association is expected to incur material claims resulting from the US terrorist attacks of 11th September 2001. Further details are provided in the accompanying Chairman's Statement.