COMPANY NO: 2430780

THE STOP LOSS MUTUAL INSURANCE ASSOCIATION LIMITED

Annual Report and Financial Statements

1999

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COMPANIES HOUSE 26/10/00

Registered Office

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

DIRECTORS

Chairman

C J Hodgson	Greenwich Lloyd's Underwriting Limited
Sir Peter Miller *(Retired 7th October 1999)*	The Miller Insurance Group Limited

Directors

J M Bray	Kiln Cotesworth Stewart 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	CBS Private Capital Ltd
A I G C South	Wren Underwriting Agencies Limited
S M Wilcox *(Appointed 7th December 1999)*	Hampden Agencies Limited

Managers

Charles Taylor & Co. Limited

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THE STOP LOSS MUTUAL INSURANCE ASSOCIATION LIMITED

NOTICE OF MEETING

NOTICE IS HEREBY GIVEN that the tenth Annual General Meeting of Members will be held at International House, 1 St. Katharine's Way, London E1 at 10 a.m. on Friday, 20th October 2000, for the following purposes:

Ordinary Business

1. To adopt the Report and Financial Statements for the year ended 31st December 1999.

2. To reappoint Deloitte & Touche as Auditors and to authorise the Directors to fix their remuneration.

Special Business

3. To re-elect Mr. S.M. Wilcox, who was appointed by the Directors during the year to fill a vacancy and who retires in accordance with the Articles of Association, as a Director of the Company.

4. To re-elect Mr. C.J. Hodgson, who retires in accordance with the Articles of Association, as a Director of the Company.

5. To re-elect Mr. T.R. Riddell, who retires in accordance with the Articles of Association, as a Director of the Company.

6. Any other business.

By order of the Board,

S.M. Caw
Secretary
21st September 2000

CHAIRMAN'S STATEMENT

My predecessor, Sir Peter Miller, predicted in his statement in last year's annual report that there would be losses among the Association's membership in both 1997 and 1998, although those losses seemed likely only to produce claims to the Association on the 1998 policy year.

In the event, the 1997 account closed at 31st December 1999 with a market loss of 1.7%. The Association received just one claim in Class I, of less than £1,000. While deterioration on the ten open syndicates may lead to further claims, we expect that the Association's Class I fund will remain largely intact and that the £250,000 held in reserves will not need to be transferred. Only the most severe deterioration would lead to claims in Class II; although it is too early for your board to consider closing the policy year under rule 9, it is not anticipated that the Association will have to levy a supplementary premium.

Current forecasts indicate that the 1998 year of account will produce a market loss of around 10%, leading to substantial Class I claims which will unfortunately exceed the Class I funds even after taking into account the £500,000 earmarked from reserves to augment those funds. The total amount available to pay Class I claims will be approximately £890,000, and claims of this magnitude are therefore reflected in the accounts.

We also expect to receive enough Class II claims on the 1998 account to breach the Association's retention under its reinsurance programme. Although the board will not fix the supplementary premium until the 36th month results are known next spring, members should expect to pay at least £300 for each £100,000 of cover and this is reflected in the accounts. The maximum supplementary premium of £525 will be levied if the level of claims warrants it.

It is at the moment difficult to make any firm predictions about 1999. However, it is generally accepted that its result will be close to the 1998 one, which would again lead to Class I claims exceeding the funds available to pay them (currently about £1,130,000, including £650,000 earmarked from reserves). This is also reflected in the accounts.

The level of Class II claims on the 1999 account is very hard to predict, but current forecasts suggest that we are likely to receive claims in Class II and members should therefore expect to pay a supplementary premium of £300 per £100,000 of cover in the spring of 2002.

As you know, Class II premiums have for some years been subsidised out of reserves. This year, your board felt that it would be prudent to maintain the Association's reserves at their existing level, and the premium consequently had to increase if we were to continue to offer the level of protection that proved so popular in 1999. There continues nevertheless to be significant demand for stop loss and estate protection cover, and the managers are working now on next year's policies. Details will be announced later in the year.

It is only appropriate that I conclude my first statement by paying tribute to Sir Peter Miller for his inspired chairmanship since the formation of the Association. On behalf of your board and all members, I thank him for his leadership and wish him a very enjoyable retirement.

C.J. Hodgson
Chairman
21st September 2000

REPORT OF THE DIRECTORS

The Directors present their Report and the audited Financial Statements for the year ended 31st December 1999.

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 three classes of cover. There were 351 members in Class I, 945 in Class II and 579 in Class IV.

FINANCIAL STATEMENTS

The Income and Expenditure Account shows a deficit for the year of £2,978,000. This is chiefly due to the 1999 Class II reinsurance programme benefiting from a substantial degree of funding from reserves, and to a lesser extent to the formal transfer from reserves of funds earmarked for Class I for the 1998 and 1999 policy years. At 31st December 1999 the balance available to meet known and future claims stood at £6,162,000.

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.

Last year saw the worst bond market in 70 years, with bond yields rising in excess of 1.0% from the record lows reached in 1998. The fall in prices, as a result of the rise in yields, led to a disappointing overall time-weighted loss of 0.2%, compared to the benchmark return of 0.1%.

Over the last five years the fund has earned a compound return of 7.1% per annum. The current financial year started with yields at a higher level and the expectation is that the fund will achieve a return closer to the long-term average.

REPORT OF THE DIRECTORS

continued

DIRECTORS' INTERESTS

The Association's Directors are set out on page 2. The retiring 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

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 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
21st September 2000

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 1999 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

21st September 2000

INCOME AND EXPENDITURE ACCOUNT
for the year ended 31st December 1999

	NOTES	1999 £000s	1998 £000s
TECHNICAL ACCOUNT - GENERAL BUSINESS			
INCOME			
Gross premiums written	1(a), 10	3,820	2,094
Outward reinsurance premiums		(4,681)	(3,690)
Earned premiums, net of reinsurance		(861)	(1,596)
Investment return allocated from non-technical account		62	634
EXPENDITURE			
Gross claims paid		0	6
Claims recovered		(5)	(168)
Reinsurers' share		0	0
Net claims paid		(5)	(162)
Gross change in the provision for claims		2,745	(1,864)
Reinsurers' share		(1,040)	0
Net change in the provision for claims		1,705	(1,864)
Claims incurred, net of reinsurance		1,700	(2,026)
Net operating expenses	4	479	528
BALANCE ON THE TECHNICAL ACCOUNT		(2,978)	536
NON-TECHNICAL ACCOUNT			
Balance on the general business technical account		(2,978)	536
Investment income	2	575	561
Unrealised (losses)/gains on investments	1(d)	(472)	363
Investment expenses and charges	3	(25)	(16)
Investment return allocated to technical account		(62)	(634)
(DEFICIT)/SURPLUS ON ORDINARY ACTIVITIES BEFORE TAXATION		(2,962)	810
Tax on (deficit)/surplus on ordinary activities	5	(16)	(274)
(DEFICIT)/SURPLUS FOR THE FINANCIAL YEAR	14	(2,978)	536

All activity is derived from continuing operations.

THE STOP LOSS MUTUAL INSURANCE ASSOCIATION LIMITED

BALANCE SHEET
as at 31st December 1999

	NOTES	1999 £000s	1998 £000s
ASSETS			
INVESTMENTS			
Other financial investments	6	4,199	7,364
REINSURERS' SHARE OF TECHNICAL PROVISIONS			
Claims outstanding - open year funds		1,040	0
DEBTORS			
Debtors arising out of direct insurance operations		566	2
Other debtors		26	0
OTHER ASSETS			
Cash at bank and in hand		433	758
PREPAYMENTS AND ACCRUED INCOME			
Accrued interest		52	93
TOTAL ASSETS		6,316	8,217
LIABILITIES			
RESERVES			
General Reserve Fund		2,298	5,276
	14	2,298	5,276
TECHNICAL PROVISIONS			
Claims outstanding - gross amount	7	138	593
- open year funds		3,726	527
Gross claims outstanding		3,864	1,120
BALANCE AVAILABLE TO MEET KNOWN AND FUTURE CLAIMS	1(b)	6,162	6,396
CREDITORS			
Creditors arising out of direct insurance operations		131	1,566
Other creditors including taxation and social security		0	233
ACCRUALS AND DEFERRED INCOME			
Accrued expenses		23	22
TOTAL LIABILITIES		6,316	8,217

Approved by the Board of Directors on 21st September 2000 N.J.J. [signature], Director

[signature] Director Charles Taylor & Co. Ltd. Managers

CASH FLOW STATEMENT
for the year ended 31st December 1999

	NOTES	1999 £000s	1998 £000s
OPERATING ACTIVITIES			
Net cash outflow from operating activities	8	(3,337)	(493)
RETURNS ON INVESTMENTS			
Investment income		595	503
TAXATION			
Tax paid		(276)	(56)
		(3,018)	(46)
CASH FLOWS WERE INVESTED AS FOLLOWS:			
(DECREASE)/INCREASE IN CASH HOLDINGS		(325)	412
NET PORTFOLIO INVESTMENTS			
Purchase of investments		1,895	4,092
Sale of investments		(4,588)	(4,550)
		(2,693)	(458)
NET INVESTMENT OF CASH FLOWS		(3,018)	(46)

Reconciliation of cash flow with movement in cash during the year	1999 £000s	1998 £000s
Cash held at beginning of year	758	346
Net cash inflow	(325)	412
Cash held at end of year	433	758

Analysis of movement in portfolio investments during the year	1999 £000s	1998 £000s
Portfolio investments at beginning of year	7,364	7,459
Purchase of investments	1,895	4,092
Sale of investments	(4,588)	(4,550)
(Decrease)/increase in market value	(472)	363
Portfolio investments at end of year	4,199	7,364

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31st December 1999

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.

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 he 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)

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 are incorporated into the management fee, and consequently no provision is required in the Income and Expenditure account.

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	1999 £000s	1998 £000s
Income from listed fixed-interest securities	309	521
Interest on deposits and cash balances	21	12
Gains on sale of investments	245	28
Total investment income	575	561

NOTES TO THE FINANCIAL STATEMENTS
continued

3. INVESTMENT EXPENSES AND CHARGES	1999 £000s	1998 £000s
Investment management expenses	3	2
Losses on sale of investments	22	14
	25	16

4. NET OPERATING EXPENSES	1999 £000s	1998 £000s
Management fee	413	455
Directors' remuneration	21	21
Auditors' remuneration - audit	10	9
- other services	2	10
Directors' and Officers' insurance	14	9
FSA Regulatory Return filing fees	8	7
Printing	3	4
Legal fees	3	5
General administration costs	5	8
Total administrative expenses	479	528

5. TAXATION	1999 £000s	1998 £000s
Current taxation on interest received	16	267
Adjustments in respect of prior years	0	7
	16	274
The Association is taxed only on its investment income and capital gains because it is a mutual association.		

6. INVESTMENTS	Market value		Historical cost	
	1999 £000s	1998 £000s	1999 £000s	1998 £000s
Other financial investments				
Debt securities and other fixed income securities:				
Investments listed on recognised stock exchange:	4,137	7,319	4,220	6,929
Cash deposits:	62	45	62	45
TOTAL INVESTMENTS	4,199	7,364	4,282	6,974

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. NET CASH OUTFLOW FROM OPERATING ACTIVITIES	1999 £000s	1998 £000s
(Deficit)/surplus on ordinary activities before taxation	(2,962)	810
Increase/(decrease) in technical provisions	2,744	(1,864)
Increase in reinsurers' share of technical provisions	(1,040)	0
Increase in debtors	(523)	(43)
(Decrease)/increase in creditors	(1,434)	1,467
Decrease in accruals and deferred income	1	3
Unrealised losses/(gains) on investments	472	(363)
Investment income allocated to operating activities	(595)	(503)
	(3,337)	(493)

9. GEOGRAPHICAL BREAKDOWN OF PREMIUM INCOME

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

10. ANALYSIS OF PREMIUM INCOME	1999 £000s	1998 £000s
Supplementary premiums	576	16
Other premiums	3,244	2,078
	3,820	2,094

NOTES TO THE FINANCIAL STATEMENTS
continued

11. DIRECTORS' INTERESTS

Seven of the directors (Sir Peter Miller, 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 1999.

12. DIRECTORS' EMOLUMENTS

The directors each received an annual fee of £2,500, except for the former chairman, Sir Peter Miller, 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 1999	5,276	5,276
Transfer from Income and Expenditure Account	(2,978)	(2,978)
Balance at 31st December 1999	2,298	2,298