

COMPANY REGISTRATION NO. 03266637

MMO UK LIMITED

REPORT AND FINANCIAL STATEMENTS

31 DECEMBER 1998



MMO UK LIMITED

REPORT AND FINANCIAL STATEMENTS 1998

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MMO UK LIMITED

REPORT OF THE DIRECTORS

The directors submit their annual report and the audited financial statements for the year to 31 December 1998.

Principal activity

The principal activity of the company is to act as a Corporate Member of Lloyd's.

Review of the business and future prospects

Lloyd's granted approval in February 1998 for the company to act as a Corporate Member for the 1998 Underwriting Year of Account. The company supports MMO Syndicate 1265 at Lloyd's.

The company intends to develop and expand its operations within the Lloyd's Insurance Market as opportunities and market conditions allow.

Results and dividends

The directors report a profit before taxation for the year of £51,090 (period 22 October 1996 to 31 December 1997 – Nil).

The results of the company are set out on page 7.

The directors do not recommend the payment of a dividend.

The retained profit for the year has been transferred to reserves, as set out on page 9.

Directors

The directors of the company are as follows:

J N Blackman (resigned 17 November 1998)
M W Blackman (resigned 17 November 1998)
J A Lambert
T J Iacopelli (appointed 17 November 1998)
S B Tobia (appointed 17 November 1998)

The Company Secretary is Clyde Secretaries Limited.

Directors interests

The directors have no interests in the share capital of the company.

Their interests in the ultimate parent company, NYMAGIC Inc – Common Stock \$1 each are as follows:

31 December 1997
and 1998

J A Lambert	18,055
S B Tobia	3,726
T J Iacopelli	250

MMO UK LIMITED

REPORT OF THE DIRECTORS (continued)

Year 2000

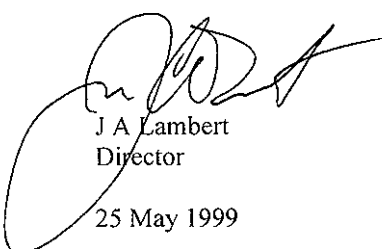
The directors have reviewed the company's systems against potential failures arising from the "millennium bug". In conjunction with Lloyd's, testing criteria have been established and currently we have passed all the criteria.

The directors expect all risks underwritten on behalf of the company to be subject to an appropriate millennium clause. The company is not aware of any material discrepancies between the cover offered against such perils and the cover afforded by our reinsurance policies.

Auditors

KPMG Audit Plc have signified their willingness to continue in office and a resolution to reappoint them is to be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors
and signed on behalf of the Board



J A Lambert
Director

25 May 1999

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 as 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 subject to any material departures disclosed and explained in the financial statements; and
- 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 have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

Approved by the Board of Directors
and signed on behalf of the Board.



J A Lambert
Director

25 May 1999

MMO UK LIMITED

REPORT OF THE AUDITORS TO THE MEMBERS OF MMO UK LIMITED

We have audited the financial statements on pages 7 to 13 .

Respective responsibilities of directors and auditors

As described on page 5 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 on 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 the company's affairs at 31 December 1998 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



KPMG Audit Plc
Chartered Accountants and Registered Auditor
1-2 Dorset Rise
London
EC4Y 8AE

25 May 1999

PROFIT AND LOSS ACCOUNT
for the year ended 31 December 1998

	Note	1998 £	1998 £	1997 £	1997 £
Profit and loss account:					
Technical account – general business					
Premiums net of reinsurance:					
Gross earned premiums	2	15,966,771	-	-	-
Outward reinsurance premiums		588,415	-	-	-
			15,378,356		-
Investment income			567,708		-
Investment gains less losses			2,850		-
			15,948,914		-
Claims incurred, net of reinsurance					
Claims paid:					
Gross amount		1,703,896	-	-	-
Reinsurers' share		500,044	-	-	-
		1,203,852	-	-	-
Change in the provisions for claims					
Gross amount		15,214,378	-	-	-
Reinsurers' share		2,913,290	-	-	-
		12,301,088	-	-	-
			13,504,940		-
Net operating expenses	3		2,432,273		-
Investment expenses and charges			11,701		-
Balance on technical account - general business			-		-
Profit and loss account:					
Non-technical account					
Balance on the general business technical account					
Investment income	7		74,674		-
Other charges			630		-
Profit on ordinary activities before tax			74,044		-
Tax on profit on ordinary activities			22,954		-
Profit for the financial year	12		51,090		-

All activities derive from continuing operations.

A statement of total recognised gains and losses has not been prepared as there are no recognised gains and losses for the current year or preceding financial period other than as stated in the profit and loss account.

The notes on pages 10 to 13 form part an integral part of these financial statements.

BALANCE SHEET
31 December 1998

	Note	1998	1997
		£	£
ASSETS			
Financial Investments			
Deposit at Lloyd's of London		1,000,000	-
Debt securities and other fixed income securities		7,597,583	-
Deposits with credit institutions		705,229	-
		<u>9,302,812</u>	<u>-</u>
Reinsurers' share of technical provisions			
Claims outstanding		2,913,290	-
Debtors			
Debtors arising out of direct insurance operations via intermediaries		4,827,423	-
Debtors arising out of reinsurance operations		295,051	-
Other debtors	8	132,927	2
Other assets			
Cash at bank and in hand		148,958	-
Other		2,032	-
Prepayments and accrued income	9	87,681	-
Total assets		<u><u>17,710,174</u></u>	<u><u>2</u></u>

BALANCE SHEET
31 December 1998

	Note	1998	1997
		£	£
LIABILITIES			
Capital and reserves			
Called up share capital	11	2	2
Profit and loss account	12	51,090	-
Equity shareholders' funds		<u>51,092</u>	<u>2</u>
Technical provisions			
Claims outstanding		15,214,378	-
Creditors			
Creditors arising out of direct insurance operations		238,727	-
Creditors arising out of reinsurance operations		50,627	-
Other creditors including taxation and social security	10	2,155,350	-
Total liabilities		<u>17,710,174</u>	<u>2</u>

The notes on pages 10 to 13 form part an integral part of these financial statements.

These financial statements were approved by the board of directors on 25 May 1999



J A Lambert
Director

NOTES TO THE ACCOUNTS

For the year ended 31 December 1998

1. Accounting policies

a) Basis of preparation

The financial statements have been prepared in accordance with the provisions of Section 255 of, and Schedule 9A to, the Companies Act 1985 and with the recommendations of the Statement of Recommended Practice on Accounting for Insurance Business issued by the Association of British Insurers in December 1998. The financial statements have also been prepared in accordance with applicable accounting standards and under the historical cost accounting rules, modified to include the revaluation of investments.

The company is exempt from the requirement of Financial Reporting Standard No 1 to prepare a cash flow statement as it is a wholly owned subsidiary undertaking of MMO EU Limited.

b) Lloyd's underwriting activities

The company underwrites as a corporate member of Lloyd's on syndicate 1265. The technical account has been prepared by including the company's share of the underwriting transactions of syndicate 1265, of which it is the single member. These transactions relate to the calendar year ended 31 December 1998. There are no comparative figures for the period ended 31 December 1997, because 1998 is the company's first year of underwriting. Similarly, its proportion of the syndicate's assets and liabilities has been reflected in the balance sheet. Syndicate assets are held subject to trust deeds for the benefit of the subsidiary company's insurance creditors.

c) Premiums

Gross premiums written represent premiums notified as due to the syndicate by brokers up to the balance sheet date in respect of contracts commencing in the financial year together with adjustments to premiums written in previous accounting periods and estimates for 'pipeline' premiums. Gross written premiums are stated before deduction of commissions but exclusive of taxes, duties levied on premiums and other deductions.

Outward reinsurance premiums are accounted for in the same accounting period as the related direct insurance or inwards reinsurance business except in relation to excess of loss contracts, where the initial premium is charged when paid.

d) Technical provisions

The excess of premiums written and investment income in respect of syndicate assets over the claims and expenses paid in respect of business commencing in an underwriting year is carried forward as a technical provision as part of outstanding claims. A profit is not recognised until the end of the second year following the end of the underwriting year when the technical provision is replaced by provisions for claims outstanding. Where appropriate, provisions for losses are made in respect of open underwriting years as soon as foreseen.

Whilst the directors consider that the technical provisions are fairly stated on the basis of the information available to them, the ultimate liability will vary as a result of subsequent information and events and may result in significant adjustments to the losses foreseen. Adjustments to the amounts of provisions are reflected in the accounts for the period in which the adjustments are made. The methods used, and estimates made, are regularly reviewed.

NOTES TO THE ACCOUNTS (continued)
For the year ended 31 December 1998

1. Accounting policies (continued)

e) Investments

All investments are stated at their current value at the balance sheet date.

f) Investment income, expenses and charges

Investment income is accounted for on a receivable basis and is accrued up to the balance sheet date.

Investment income and all investment gains and losses relating to syndicate investments and cash are dealt with through the technical account. Other investment income is dealt with through the non-technical account.

g) Deferred taxation

Deferred taxation, calculated on the liability method, is provided on items, which are recognised for accounts and tax purposes in different periods, to the extent that the asset or liability is expected to crystallise in the foreseeable future.

h) Exchange rates

Syndicate assets, liabilities, income and expenditure expressed in US dollars and Canadian dollars are translated at rates of exchange ruling at 31 December. Underwriting transactions in other foreign currencies are included in the accounts at historical rates. All differences on the translation of foreign currency amounts in the syndicates are dealt with in the technical account: other differences are dealt with in the non-technical account.

2. Segmental analysis

(a) The directors regard the transaction of general insurance business in the United Kingdom as the only business segment.

(b)

1998	Gross premiums (gross of brokerage) £	Gross claims incurred £	Net operating expenses £	Reinsurance balance £
Marine, aviation & transport	7,191,234	6,859,795	1,095,466	(875,578)
Fire & other damage to property	3,952	-	602	-
Pecuniary loss	2,228	-	339	-
Reinsurance business	8,769,357	10,058,479	1,335,866	(1,949,341)
	<u>15,966,771</u>	<u>16,918,274</u>	<u>2,432,273</u>	<u>(2,824,919)</u>

Internal claims settlement expenses are included within gross claims incurred.

NOTES TO THE ACCOUNTS (continued)
For the year ended 31 December 1998

3. Net operating expenses

	Year ended 31 December 1998	Year ended 31 December 1997
	£	£
Acquisition costs	1,402,969	-
Administrative expenses	1,029,304	-
	<u>2,432,273</u>	<u>-</u>

The audit fee for the company is borne by a fellow subsidiary company.

4. Employees

There were no employees, other than directors during the current period.

5. Directors

None of the directors received any remuneration in respect of their services to the company during the current period.

6. Funds at Lloyd's

The parent undertaking deposited funds as security at Lloyd's on behalf of the company by means of a cash deposit of £1m and a Letter of Credit issued by Morgan Guaranty Trust of New York in the sum of £10.5m on 21 May 1997. These funds may not be withdrawn without the permission of Lloyd's.

7. Investment income

	Year ended 31 December 1998	Year ended 31 December 1997
	£	£
Bank interest receivable	<u>74,674</u>	<u>-</u>

8. Other debtors

Immediate parent undertaking	2	2
Fellow subsidiary undertakings	50,981	-
Other taxes recoverable	33,703	-
Other	48,241	-
	<u>132,927</u>	<u>2</u>

9. Prepayments and accrued income

Prepayments	46,726	-
Accrued interest receivable	40,955	-
	<u>87,681</u>	<u>-</u>

NOTES TO THE ACCOUNTS (continued)
For the year ended 31 December 1998

10. Other creditors:- amounts falling due within one year

	Year ended 31 December 1998	Year ended 31 December 1997
	£	£
Ultimate parent undertaking	1,000,000	-
Fellow subsidiary undertakings	961,389	-
Corporation tax	22,954	-
Other	61,143	-
Accruals	109,864	-
	2,155,350	-

11. Called up share capital

	£	£
Authorised 100 Ordinary £1 shares	100	100
Called up, allotted and fully paid 2 Ordinary £1 shares	2	2

12. Reconciliation of movements on Shareholder' Funds

Opening shareholders' funds	2	-
Shareholders' Funds on Incorporation	-	2
Result for the year	51,090	-
Closing Shareholders' Funds	51,092	2

13. Ultimate parent company

The company's ultimate parent company is NYMAGIC Inc., a company registered in the USA.

Group accounts are prepared by the company's immediate parent undertaking MMO EU Limited, a company registered in England and Wales. Group accounts can be obtained from the registered office at 51 Eastcheap, London. EC3M 1JP.