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THE

GRIFFIN

INSURANCE ASSOCIATION LIMITED

Company Number 2134231

2003 *Report and Financial Statements*
30th September

THE

GRIFFIN

INSURANCE ASSOCIATION LIMITED

Contents

THE
GRIFFIN
INSURANCE ASSOCIATION LIMITED

Directors and Administration

Committee

R E G Gibson (Chairman)

K S Alsford[1]
M J Attenborough
P Barnes[1]
M J A Bishop
R S Bright[2]
N M Bryce-Smith[3]
I Buckley Sharp[4]
S A Buckle[1]
P R Carroll
P S Cazeaux
J C Clements[1]
M G Cobb
R E Cole
I B Evans-Lombe

I Genders[5]
J S Goldsmith
R K Haddon
C G Harman
P J Hicks
F T Hindle[1]
P R Holcroft
A M Holman
D P Howden[1]
P Hunt[1]
G R S Lark
C B Manwaring[6]
H M F McCall[7]
A J McGraw

G J McKean
A P Phillips
D H E Price
S Rimmer[2]
I D Russell
M E Shaw[1]
A J Sindall
J C Speers[1]
C M Spratt
R M Steel[7]
H J P Thomas[4]
P C Venus[2]
P Vincent
M R W Warren
T J Watkins

Notes
1 appointed on 11 December 2002
2 appointed on 16 July 2003
3 resigned on 30 September 2003
4 resigned on 30 October 2002
5 resigned on 29 August 2003
6 resigned on 11 December 2002
7 resigned on 5 November 2002

Registered Office

New City Court
20 St. Thomas Street
London SE1 9RR

Limited by Guarantee
Company Number 2134231

Managers

Griffin Managers Limited
New City Court
20 St. Thomas Street
London SE1 9RR

Auditors

Moore Stephens
St. Paul's House
Warwick Lane
London EC4P 4BN

THE

GRIFFIN

INSURANCE ASSOCIATION LIMITED

Report of the Committee

The Committee has pleasure in presenting its Report together with the audited Financial Statements for the year ended 30 September 2003.

Principal Activity

The principal activity of the Association is the insurance of the professional indemnity risks of a selected group of insurance broking firms. The report of the Committee on the following pages provides a summary of the principal matters affecting the Association's business during the year.

The Committee

The members of the Committee are Directors for the purpose of the Companies Acts and are approved by the Financial Services Authority under Section 59 of the Financial Services and Markets Act 2000. The names of the Directors are shown on page 2.

Committee Meetings

The Committee has met twice during the year under review, in December and July. The following were the more important matters considered by the Committee at its meetings:

Membership
Financial Statements
Advance call rates
The Association's Reserves
Closing of policy years
Compliance with the FSMA 2000
Rule amendments
Reinsurance arrangements
Claims
Investments
Release call rates

Rules of Association

Amendments were made during the year under review to Rule 2 "Definitions", Rule 6 "Entry" and Rule 12 "Period of Insurance", Rule 18 "Risks Covered" and Rule 19 "Risks Specifically Excluded".

Amendments were made to the definition of "Broking Business" to exclude cover for acting as trustee of a Member's own pension fund. It was felt that this was not an activity in which a professional duty of care arose as a result of acting as a broker, in contrast to acting as trustee or administrator of third party pension funds, cover for which still continues. The definition of "Representative Member" was modified to allow for the possibility of appointing (with the Managers' agreement) a person who did not fall within the definition of a Member. A further amendment to the definition of "Broking Business" was made which, together with consequential amendment to Rules 19(2) and 19(3), allows the Managers to exclude underwriting activities on the part of a Member if it is felt that they represent an undue exposure or are not regarded as Broking Business. References to "deductible" were removed from the Rules, which were also altered to avoid the possibility of the Association being unable to pass a formal resolution within a prescribed timetable and to eliminate the possibility of any misunderstanding caused by the difference between GMT and British Summer Time.

Membership

At 1 October 2003, the number of firms entered for insurance in the Association was 41 (2002 - 35).

Financial Review

The financial statements for the year to 30 September 2003 reflect three major changes in the Association's financial position. Firstly, the strong growth in the membership has increased the volume of business underwritten. Secondly, the Committee's decision in 2002 to increase advance call rates by 30% which, together with the growth in membership, resulted in an increase in call income to some £14.2m. Finally, the decision with effect from 30 September 2002 to increase the risk retained by the Association from £3.0m to £5.0m has reduced the cost of reinsurance as a proportion of calls and further increased the funds retained within the Association.

Gross claim payments for the year of £2.8m were substantially lower than the previous year's, which had included the settlement of one very large claim. The increased charge for claims in the current policy year, reflecting the increased risk retained by the Association, has resulted in the provisions for net outstanding claims increasing substantially. However, the cost of claims for the financial year was reduced by £1.7m as a result of favourable outcomes on a number of prior years' claim notifications. The net cost of claims was therefore £7.6m and there was a surplus on the technical account of £2.6m.

After several years of depressing news on the investment front, it is pleasing to be able to report that the Association's portfolio has recovered some of its lost ground. The actual return for the year was some £0.46m higher than the calculated longer-term return credited to the policy year and as a result there has been a transfer (net of tax) of some £0.33m to the investment reserve.

In July 2003, the Committee decided that the timing was right to close the ninth policy year (1996/97). It was also agreed that a 10% return of advance call for the 1997/98 policy year, amounting to £0.5m, would be made to all Members in that year, the return to be credited against the first and/or subsequent instalment(s) of Advance Call for 2003/2004.

Overall, the Association's free reserves have increased by £2.6m. In line with the decision taken by the Committee in 2000, a further £0.3m has been transferred to general reserve. In addition, there has been a transfer of £1.0m to that reserve in recognition of the increased risk that the Association now bears.

Investments

Once again the global economy has taken its lead from the US, where the continuing economic recovery has been the principal influence on market behaviour. Twelve months ago markets were apprehensive, anticipating a war in Iraq. By contrast, the last quarter of this financial year saw exceptionally strong acceleration in growth, which looks set to continue. Business confidence remains positive.

Conventional wisdom suggests that an increase in economic growth brings with it an upturn in inflation as demand outpaces supply. In these conditions, bond markets normally turn negative while equities improve. In fact, inflation in the last twelve months has increased only modestly. Bonds markets have, nonetheless, seen yields rise over the period. Deteriorating government budget deficits have been a contributing factor. In the UK, gilts under 10 years have risen around 15 basis points and longer maturities have risen more. Overall, shorter-dated bonds produced a modest, positive return.

In the US, yields also rose apart from the very short-dated stocks, which were supported by the continuing rate cuts by the Federal Reserve. The main reversal in yields has been over the summer, after the market initially interpreted the Federal Reserve as targeting low yields along the entire curve. Subsequent comments indicated that such optimism was unjustified. The Federal Reserve has a money target rate of just 1.0% (which is negative in real terms) and has confirmed that it will maintain an accommodative monetary policy for "a considerable period". During the course of Griffin's financial year, the Federal Reserve cut rates by 0.75%. Over the same period the dollar declined by 5.9% against sterling. In the UK, rates were reduced by 0.50% (and the UK was the first major economy to raise rates in November 2003.)

Equity markets have remained volatile. The FTSE 100 index initially fell over 10%, until it reached a low point in March. It rallied strongly to finish the 12 month period up 10% overall. The US market reacted in a similar manner, finishing the year proportionately slightly higher than the UK. Investor confidence appeared to increase throughout the summer and leading indicators suggest that this renewed enthusiasm for equity investment is supported at the economic level.

THE
GRIFFIN
INSURANCE ASSOCIATION LIMITED

At its meeting in July the Committee reviewed the Association's investment asset benchmark which was last revised in January 2002. Despite the recent market turmoil, it was concluded that the assumptions underlying the asset allocation remained valid and accordingly, no change was required. The investment managers will retain limited discretion to vary the asset allocation within approved ranges from a benchmark asset allocation of Cash and Govt. Bonds under 5 years: 25%; Govt. Bonds over 5 years: 40%; Corporate Bonds 10%; and Equities: 25%.

Risk Management

During the past twelve months the Association's risk management team has concentrated on visiting new Members and undertaking a series of reviews to introduce them to the programme and to provide follow-up advice and assistance as necessary.

Difficult market conditions have continued, emphasising the need for Members to be ever more vigilant in ensuring that high professional standards are maintained throughout their organisations.

The risk management team has continued to provide liability advice on the prevention of errors and omissions exposure that may arise from electronic communication and the use of information technology in business process, including the requirements of the Data Protection Act; the acquisition and/or transfer of business accounts; and the placement and administration of Binding Authorities. Presentations to raise awareness of risk management issues and suggested risk control strategies have continued to feature prominently in the risk management programme.

Close liaison has been maintained with regulatory authorities and, where appropriate, assistance is being provided to Members on issues which may have an impact on their cover with the Association. The changes taking place in the regulation of Insurance Brokers and any consequent changes to Standards of Professional Practice are being, and will continue to be incorporated into the programme.

Renewal 2003/2004

Over the last year, the broking community has become even more aware of the benefits of the Association's objectives, namely continuing availability of appropriate cover and stability in the cost of that cover. Firms with which the Association has maintained contact over a period of time have continued to express interest in joining, and whilst the Association has maintained its policy of selectivity, the opportunity has been taken to attract suitable new members with the number of insured firms immediately following renewal standing at 41.

Following the increase of 30% in the general call rates of Members the previous year, the Committee considered that, having regard to the overall financial position of the Association and the growth in Members' income, an appropriate level of advance call for 2003/2004 could be achieved without a general increase in advance call rates at renewal on 1 October 2003. Adjustments were however made to the rates of individual Members to reflect changes in the composition of their businesses and claims records.

By order of the Committee

A.F. Gosden

A. F. Gosden
Secretary
10 December 2003

Company law requires the Directors to prepare financial statements for each financial year that give a true and fair view of the state of the affairs of the Association and of the income and expenditure of the Association for the year. In fulfilling their responsibility for 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.
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Association 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 Association 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 Association and to prevent and detect fraud and other irregularities.

THE
GRIFFIN
INSURANCE ASSOCIATION LIMITED

Independent Auditors' Report
to the Members of
The Griffin Insurance Association Limited

We have audited the financial statements of The Griffin Insurance Association Limited for the year ended 30 September 2003 set out on pages 8 to 17 which have been prepared under the historical cost convention as modified by the inclusion of investments at market value and the accounting policies set out on pages 11 to 12.

This report is made solely to the Association's Members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the 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 except or assume responsibility to anyone other than the Association and the Association's Members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and Auditors

As described in the Statement of Directors' Responsibilities on page 6 the Association's Directors are responsible for the preparation of financial statements in accordance with applicable law and United Kingdom Accounting Standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Committee Report is not consistent with the financial statements, if the Association has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and transactions with the Association is not disclosed.

We read the Committee Report and consider the implications for our report if we become aware of any apparent misstatements within it.

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 Association's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations that 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 Association's affairs as at 30 September 2003 and of its income and expenditure for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Moore Stephens

Registered Auditor
Chartered Accountants

St. Paul's House
Warwick Lane
London EC4P 4BN

11 December 2003

THE
GRIFFIN
INSURANCE ASSOCIATION LIMITED

Income and Expenditure Account for the year ended 30 September 2003

	Note		2003 £		2002 £
TECHNICAL ACCOUNT - GENERAL BUSINESS					
Earned premiums, net of reinsurance					
Calls and premiums	2		14,161,536		7,539,195
Return calls	2		(581,366)		(919,860)
Reinsurance premiums			(3,783,497)		(2,485,317)
			9,796,673		4,134,018
Allocated investment return transferred from the non-technical account	6		1,328,626		1,215,410
			11,125,299		5,349,428
Claims paid					
Gross amount		(2,821,502)		(11,968,671)	
Reinsurers' share		(1,787)		6,704,065	
		(2,823,289)		(5,264,606)	
Change in the provision for claims					
Gross amount		(4,796,649)		6,886,258	
Reinsurers' share		-		(6,058,273)	
(Increase)/decrease	3	(4,796,649)		827,985	
Claims incurred net of reinsurance			(7,619,938)		(4,436,621)
Net operating expenses	4		(881,236)		(862,437)
Balance on the technical account			2,624,125		50,370
NON-TECHNICAL ACCOUNT					
Balance on the technical account			2,624,125		50,370
Net investment income/(deficit)	5		1,784,811		(655,703)
Allocated investment return transferred to general business technical account	6		(1,328,626)		(1,215,410)
Net surplus/(deficit) before taxation			3,080,310		(1,820,743)
Taxation	7		(489,746)		115,113
Net surplus/(deficit) after taxation			2,590,564		(1,705,630)
Surplus at 30 September 2002			3,185,968		3,954,179
Surplus at 30 September 2003			5,776,532		2,248,549
Transfer (to)/from investment reserve	10		(331,009)		1,270,752
Transfer to general reserve	10		(1,333,334)		(333,333)
Balance carried to Balance Sheet			£4,112,189		£3,185,968

There are no recognised gains and losses other than those included in the Income and Expenditure Account. All amounts are derived from continuing operations.

The notes on pages 11 to 17 form part of these financial statements.

THE
GRIFFIN
INSURANCE ASSOCIATION LIMITED

Balance Sheet
as at 30 September 2003

	Note	2003 £	2002 £
ASSETS			
Financial investments	8	**29,018,865**	22,895,546
Reinsurers' share of technical provisions			
Claims outstanding		-	-
Debtors			
Direct insurance operations - Members		**209,718**	34,559
- Reinsurance		-	43,887
Other debtors		-	144,284
Taxation		-	414,482
Cash at bank		**5,496,967**	3,192,348
Deferred taxation		**22,095**	38,755
Accrued income		**414,024**	322,018
		35,161,669	27,085,879
LIABILITIES			
Reserves			
Investment reserve	10	**331,009**	-
General reserve	10	**9,500,000**	8,166,666
Income and expenditure account	10	**4,112,189**	3,185,968
		13,943,198	11,352,634
Technical provisions			
Claims outstanding - gross amount		**18,890,062**	14,093,413
Creditors			
Direct insurance operations - Members		**483,332**	781,409
- Reinsurance		**241,162**	510,201
Taxation		**19,324**	-
Other creditors	9	**1,584,591**	348,222
		35,161,669	27,085,879

Approved by the Committee on. 10 DECEMBER 2003

Directors

Managers

Griffin Managers Limited

The notes on pages 11 to 17 form part of these financial statements.

THE
GRIFFIN
INSURANCE ASSOCIATION LIMITED

Cash Flow Statement
for the year ended 30 September 2003

	2003 £	2002 £
Cash Flow Statement		
Premiums received from Members	**13,170,682**	6,564,812
Reinsurance premiums paid	(4,052,536)	(1,977,217)
Claims paid	(2,885,252)	(12,023,814)
Reinsurance recoveries	(1,787)	6,704,065
Net cash inflow/(outflow) from general insurance transactions	**6,231,107**	(732,154)
Dividends received	**233,693**	253,907
Other investment income received	**1,004,153**	1,114,116
Other operating cash payments	**(967,611)**	(1,009,077)
Net Cash inflow/(outflow) from operating activities	**6,501,342**	(373,208)
Corporation tax paid	**(39,280)**	(561,863)
Net cash flow/(amount withdrawn from investment)	**6,462,062**	£(935,071)
Cash flows were invested as follows:		
Increase in cash balances	**2,304,619**	837,636
Increase/(decrease) in investments	**4,157,443**	(1,772,707)
Net (source)/application of cash flows	**6,462,062**	£(935,071)

Reconciliation of net income before tax to net cash flow from operating activities

	2003	2002
Net surplus/(deficit) before taxation	***3,080,310***	*(1,820,743)*
Increase/(decrease) in provision for claims	***4,796,649***	*(827,985)*
Decrease/(Increase) in insurance and other debtors	***176,759***	*(29,455)*
(Decrease)/increase in insurance and other creditors	***(986,218)***	*399,141*
Realised investment losses	***239,883***	*202,248*
(Increase)/decrease in market value of investments	***(806,041)***	*1,703,586*
Net cash inflow/(outflow) from operating activities	***6,501,342***	*(373,208)*

Movement in opening and closing portfolio investments net of financing

		2003		2002
Net cash inflow for the period		***2,304,619***		*837,636*
Increase/(Decrease) in investments	***4,157,443***		*(1,772,707)*	
Realised investment losses	***(239,883)***		*(202,248)*	
Increase in investment creditors	***1,399,717***		*111,470*	
Net portfolio investment		***5,317,277***		*(1,863,485)*
Decrease in market value of investments		***806,041***		*(1,703,586)*
Portfolio investments and cash 30 September 2002		***26,087,894***		*28,817,329*
Portfolio investments and cash 30 September 2003		***34,515,831***		*26,087,894*

The notes on pages 11 to 17 form part of these financial statements.

1. Accounting policies

(i) Basis of Accounting

These financial statements have been prepared under the historical cost convention, modified to include investments at market value, in accordance with the provisions of section 255 of and Schedule 9A to the Companies Act 1985 as amended by the Companies Act 1985 (Insurance Companies Accounts) Regulations 1993. The Regulations require the use of Profit and Loss Account as a heading. This is replaced in these financial statements by Income and Expenditure Account consistent with the mutual status of the Association. The financial statements have also been prepared in accordance with applicable accounting standards and the Statement of Recommended Practice issued by the Association of British Insurers.

(ii) Policy year accounting

The Association's business is accounted for on an annual basis. For the purposes of reporting to Members all transactions, including calls, reinsurance premiums payable, claims and reinsurance recoveries, are allocated to the policy year to which they relate. In the case of claims and reinsurance recoveries the appropriate year is decided by the date on which the claim or the potential claim giving rise to the claim is notified to the Association. Other income and expenditure is allocated to the current policy year.

Members remain liable for their rateable proportions of any excess of claims and expenses over income for any open policy year and may, at the discretion of the Directors, have returned to them any balance not retained and applied for the purposes of the Association. Underwriting years are closed only when the Directors are satisfied that the information on claims payable is sufficiently reliable to enable the outcome of that year to be determined with reasonable accuracy.

The income and expenditure account presents the aggregate of changes during the financial year on all policy years, both open and closed.

(iii) Calls and premiums

Calls and premiums are credited to the income and expenditure account as and when charged to Members. Return calls are accounted for when approved by the Directors.

Outward reinsurance premiums are accounted for in the same period as calls and premiums for the related insurance.

(iv) Claims and reinsurance recoveries

Claims incurred include all claims and claims settlement expense payments made during the year and the movement in the provision for outstanding claims.

Reinsurance recoveries and reinstatement premiums are accrued to match the relevant claims that have been charged to the income and expenditure account.

(v) Rates of exchange

Revenue transactions for the year are translated into sterling at the rates applicable at the date of the transaction. Assets and liabilities denominated in currencies other than sterling are translated into sterling at the rates of exchange ruling at the balance sheet date.

(vi) Investment income

Investment income includes interest and dividends receivable for the year.

Net gains or losses on the disposal of investments are credited or charged to the income and expenditure account as and when realised. Unrealised gains and losses represent the difference between the valuation of investments held at the balance sheet date and their purchase price.

The transfer to or from the investment reserve represents the difference (net of tax) between the actual investment income for the year and the allocated investment return.

(vii) Allocation of investment return

An allocation is made from the non-technical account to the general business technical account in respect of the longer-term investment return on the total portfolio since these investments relate wholly to the technical provisions and Members' funds held for mutually insured risks.

(viii) Claims outstanding

The Association underwrites professional liability risks on a 'claims made' basis. Claims outstanding represent the Managers' assessment of the ultimate cost of claims reported at the balance sheet date.

The Association reserves individual claims notified on a 'worst likely outcome' basis. Case estimates are set by legally qualified claims handlers who base their estimates on the information available about the individual claim and experience of similar cases. Where it is not yet possible to make an assessment of the likely outcome, a statistically derived reserve is applied based on the development of similar notifications in earlier policy years. In addition, contingency provisions are applied to aggregate outstanding estimates for each policy year using percentages that reflect the stages of development of the policy year.

In the case of policies incepting less than twenty-four months from the balance sheet date, the information available is frequently inadequate to form a reliable basis for case-by-case estimates and accordingly, claims reserves are also calculated on the basis of standard actuarial claims projection techniques. These extrapolate the development of incurred claims for earlier policy years to arrive at a projected total cost of claims for the policy years concerned. The main assumption underlying this approach is that past experience is a reliable basis for projecting the ultimate cost of claims for more recent years. Where the aggregate of individual claims estimates exceeds the actuarially computed cost for the policy year the Association reserves on the basis of this higher figure.

The provision for outstanding claims is based on information available at the balance sheet date. The majority of claims are settled only after extensive investigation and negotiation, which can take a number of years to complete. Accordingly the ultimate cost of such claims cannot be known with certainty at the balance sheet date. Subsequent information and events may result in the ultimate liability being greater or less than the amount provided. Any differences between provisions and subsequent settlements are dealt with in the technical account – general business in later years.

(ix) Investments

Investments are shown at market value.

(x) Deferred taxation

Full provision is made for tax deferred as a result of timing differences between the recognition of income or expenses in the financial statements and their treatment for tax purposes. Deferred Tax is calculated on the basis of the rates at which the timing differences are estimated to reverse under current legislation.

2. Calls and premiums

	2003	2002
	£	£
Advance calls	**14,129,791**	7,539,195
Release calls	**31,745**	-
	14,161,536	7,539,195
Return call – 1995/96	**(75.566)**	(919,860)
Return call - 1997/98	**(505,800)**	-
	(581,366)	(919,860)

All business is written in the UK.

3. Movement in prior years' claims provisions

Included within the change in the provision for claims is a credit of £1,724,876 (2002 - £896,257) relating to prior years made up as follows:

	2003	2002
	£	£
Net provision at beginning of year	**14,093,413**	14,921,398
Net payments during the year in respect of these provisions	**(1,609,682)**	(4,553,644)
Net provision carried forward in respect of claims provided for at the end of the last year	**(10,758,855)**	(9,471,497)
Prior year over-provision	**1,724,876**	896,257

4. Net operating expenses

	2003	2002
	£	£
Acquisition costs	**221,250**	228,000
Administrative expenses	**659,986**	660,994
Insurance Premium Tax credits	**-**	(26,557)
	881,236	862,437

Acquisition costs represent the management cost of underwriting, the renewal of the entry of existing Members, negotiations with potential Members and the processing of entry documentation.

Included in administrative expenses are:

i) Risk management fees of £470,000 (2002 - £345,000) payable to the Managers in respect of the conduct of the Association's risk management programme.

ii) Auditors' remuneration of £13,515 (2002 - £11,100). In addition to the audit fee, Moore Stephens were paid £5,250 (2002 - £4,113) in respect of taxation services.

iii) Director's remuneration of £20,000 (2002 - £20,000).

The Association has no employees as services are provided by Griffin Managers Limited.

5. Net investment income

	2003	2002
	£	£
Income from listed investments	**1,217,833**	1,302,608
Bank and other interest	**112,018**	62,778
(Losses) on the realisation of investments	**(239,883)**	*(202,248)*
Unrealised gains/(losses) on investments	**806,041**	(1,703,586)
Exchange losses	**(5,195)**	(15,899)
Investment income/(deficit)	**1,890,814**	(556,347)
Investment management expenses	**(106,003)**	(99,356)
Net investment income/(deficit)	**1,784,811**	(655,703)

6 Allocated investment return

Investment return, £1,328,626 (2002 - £1,215,410) is allocated to the general business technical account on the basis of longer-term rates of investment return. The longer-term return is based on historical real rates of return and current inflation expectations adjusted for consensus economic and investment forecasts. The return is calculated by applying these rates to the investible assets held during the period on a monthly basis. The following rates have been used:

	2003	2002	**2003**	2002
	UK £	UK £	**US $**	US $
Bonds	**4.30%**	4.50%	**4.10%**	4.00%
Equities	**7.00%**	7.00%	**7.00%**	7.00%
Cash	**3.50%**	3.50%	**3.00%**	3.00%

Comparison of longer-term investment return with actual returns

	2003	2002
	£	£
Net Investment Income	**6,067,959**	4,283,148
Longer-term rate of return	**7,542,607**	6,213,981
Deficit of actual returns below longer-term returns	**(1,474,648)**	(1,930,833)

The investment return for 2003 represents the aggregate for a 5-year period compared to a 4-year period for 2002.

The transfer of £331,009 to the Investment reserve represents the surplus of net investment income over the longer-term return of £456,185 (net of tax of £125,176).

7. Taxation

By virtue of its mutual status, the Association is not liable to tax on its insurance operations. It is liable to tax on its investment income and net gains. The charge/(credit) in the income and expenditure account represents:

Analysis of charge/(credit) for the year

	2003	2002
	£	£
Corporation Tax at 30%	**473,086**	(255,203)
Prior year's (over)/under provision	**-**	(1,463)
Total current tax	**473,086**	(256,666)
Deferred taxation	**16,660**	141,553
	489,746	(115,113)

Deferred tax represents tax accrued in respect of unrealised gains/(losses) on equity investments.

Factors affecting tax charge for period

The tax assessed for the period is lower than the standard rate of corporation tax in the UK (30%). The differences are explained below:

	2003	2002
	£	£
Net income/(expenditure) before tax	**3,080,310**	(1,820,743)
Profit/(loss) on ordinary activities multiplied by standard rate of corporation tax in the UK of 30%	**924,093**	(546,223)
Effects of:		
Non-taxable mutual insurance operations	**(387,091)**	349,512
Non-taxable equity income	**(63,916)**	(58,492)
Prior year's (over)/under provision	**-**	(1,463)
Current tax charge/(credit)	**473,086**	(256,666)

8. Investments

Investments, all of which are listed on recognised Stock Exchanges, comprise UK and North American government securities, corporate bonds and equities.

	Fixed interest investments £	Equity investments £	Total £
Purchase of investments	8,003,773	1,878,089	9,881,862
Sale of investments	(3,840,607)	(484,094)	(4,324,701)
Realised gains/(losses)	19,733	(259,616)	(239,883)
Net portfolio investment	4,182,899	1,134,379	5,317,278
Movement in unrealised (losses)/gains	(682,342)	1,488,383	806,041
	3,500,557	2,622,762	6,123,319
Market value at 30 September 2002	16,818,725	6,076,821	22,895,546
Market value at 30 September 2003	20,319,282	8,699,583	29,018,865
Cost at 30 September 2002	*£16,305,987*	*£8,078,081*	*24,384,068*
Cost at 30 September 2003	*£20,488,886*	*£9,212,460*	*29,701,346*

9. Other creditors

Included in the figure for other creditors in 2003 is £1,511,187, resulting from an unsettled investment trade (2002 - £255,753).

10. Reserves

	Investment reserve £	General reserve £	Income and expenditure account £	Total £
Balance at 30 September 2001	1,270,752	7,833,333	3,954,179	13,058,264
Deficit for the financial year	-	-	(1,705,630)	(1,705,630)
Transfer from investment reserve	(1,270,752)	-	1,270,752	-
Transfer to general reserve	-	333,333	(333,333)	-
Balance at 30 September 2002	-	8,166,666	3,185,968	11,352,634
Surplus for the financial year	-	-	2,590,564	2,590,564
Transfer to investment reserve	331,009	-	(331,009)	-
Transfer to general reserve	-	1,333,334	(1,333,334)	-
Balance at 30 September 2003	331,009	9,500,000	4,112,189	13,943,198

The Association is incorporated as a company limited by guarantee and therefore does not have a share capital.

The investment reserve comprises the cumulative net transfers from the income and expenditure account equivalent to the net unallocated return on the Association's investments.

The general reserve has been established in accordance with Rule 32(1) of the Association to provide for any unforeseen contingencies, claims, expenses, losses or other outgoings of the Association. Transfers to this reserve are considered upon closure of each policy year. To date the 1988/89 to 1996/97 policy years have been closed.

11. Related parties transactions

The Memorandum and Articles of the Association permit each Member firm to be represented on the Committee by a director or partner, each having one vote. No individual Director can therefore have a significant influence over the financial or operating policies of the Association.

The Directors of the Association are related parties as defined by FRS8 Related Party Disclosures and each Member firm, being both insurer and insured, is in effect a related party. The aggregate of transactions with Members is disclosed in the financial statements and, in the opinion of the Directors, there are no individual transactions, or connected transactions, the disclosure of which is necessary for an understanding of the financial statements.

Tindall Riley Limited, which manages the Association through its wholly-owned subsidiary Griffin Managers Limited, received £1,945,000 in respect of management fees and risk management services during the year ended 30 September 2003 (2002 - £1,485,000).