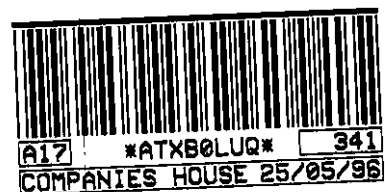


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BRITISH AVIATION INSURANCE GROUP LIMITED
and Subsidiaries

REPORT and ACCOUNTS

1995



BRITISH AVIATION INSURANCE GROUP LIMITED
and Subsidiaries

Directors' Report

Principal Activity

The principal activity of the Company is the transaction of aviation insurance as agent for the following insurance companies :

The British Aviation Insurance Company Limited
Commercial Union Assurance Company plc
General Accident Fire & Life Assurance Corporation plc
Royal Insurance plc
Sun Alliance and London Insurance plc

Until 31 December 1995 the Company also wrote aviation insurance on behalf of Eagle Star Reinsurance Company Limited and Guardian Insurance Limited.

Results and Dividend

The profit for the group on ordinary activities before taxation for the year ended 31 December 1995 amounted to £129,834 (1994 £92,612). The Directors do not recommend a dividend.

Directors

The present Directors and their Alternates, together with the dates of appointment approved by the Board, are :

C R Barker Bennett (P J Rhodes)
P Crawford
R A Elms (T J Brown)
A P Latham 19.5.95 (P D Webster 19.5.95)
P G Ward (P L Evans to 21.3.96, C A C M Schrauwers from 21.3.96)

The past Directors of the Company and the dates of their resignation are :

R J Taylor 19.5.95
P G Edwards 18.10.95
A J Howell 18.10.95

None of the Directors had any beneficial interests in the share capital of the group Companies at either the beginning or the end of the year.

BRITISH AVIATION INSURANCE GROUP LIMITED
and Subsidiaries

Directors' Report — continued

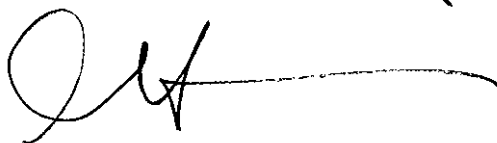
Tangible Fixed Assets

Movements in fixed assets are set out in note 10 to the accounts.

Auditors

Ernst & Young have expressed their willingness to continue in office as auditors and a resolution to re-appoint them will be proposed at the Annual General Meeting.

By order of the Board

A handwritten signature in black ink, appearing to be 'D Littlefair', with a long horizontal stroke extending to the right.

D Littlefair
Secretary
21 March 1996

BRITISH AVIATION INSURANCE GROUP LIMITED
and Subsidiaries

CONSOLIDATED PROFIT and LOSS ACCOUNT
for the year ended 31 December 1995

	1995	1994
	£	£
Turnover (note 3)	10,108,357	10,293,622
Administrative expenses (note 4)	10,339,928	10,472,533
	(231,571)	(178,911)
Interest receivable	361,405	271,523
Profit on ordinary activities before taxation	129,834	92,612
Tax on profit on ordinary activities (note 8)	129,834	92,612
Profit for the year	—	—

There are no recognised gains or losses during the current year or the previous year.

BRITISH AVIATION INSURANCE GROUP LIMITED
and Subsidiaries


CONSOLIDATED BALANCE SHEET
as at 31 December 1995

	1995 £	1994 £
Fixed assets		
Tangible assets (note 10)	1,474,835	1,548,853
Current assets		
Debtors (note 11)	664,202	755,264
Cash at bank and in hand	3,675,227	1,996,073
	4,339,429	2,751,337
Creditors: Amounts falling due within one year (note 12)	(4,239,429)	(2,651,337)
Net current assets	100,000	100,000
Total assets less current liabilities	1,574,835	1,648,853
Creditors : Amounts falling due over one year (note 13)	(1,474,835)	(1,548,853)
Total assets less liabilities	100,000	100,000
Capital and Reserves		
Called up share capital (note 14)	100,000	100,000
Profit and loss account	—	—
	100,000	100,000

BRITISH AVIATION INSURANCE GROUP LIMITED
and Subsidiaries

PARENT COMPANY BALANCE SHEET
as at 31 December 1995

	1995 £	1994 £
Fixed assets		
Tangible assets (note 10)	1,384,639	1,446,206
Investments (note 9)	11,806	11,392
	<u>1,396,445</u>	<u>1,457,598</u>
Current assets		
Debtors (note 11)	719,589	1,012,800
Cash at bank and in hand	3,670,008	1,799,673
	<u>4,389,597</u>	<u>2,812,473</u>
Creditors: Amounts falling due within one year (note 12)	(4,211,207)	(2,621,218)
Net current assets	<u>178,390</u>	<u>191,255</u>
Total assets less current liabilities	1,574,835	1,648,853
Creditors : Amounts falling due over one year (note 13)	(1,474,835)	(1,548,853)
Total assets less liabilities	<u><u>100,000</u></u>	<u><u>100,000</u></u>
Capital and Reserves		
Called up share capital (note 14)	100,000	100,000
Profit and loss account	—	—
	<u><u>100,000</u></u>	<u><u>100,000</u></u>


P.G. Ward
Chairman

21 March 1996


P Crawford
Director

BRITISH AVIATION INSURANCE GROUP LIMITED
and Subsidiaries

CONSOLIDATED CASH FLOW STATEMENT
for the year ended 31 December 1995

	1995 £	1994 £
Operating activities		
Net cash inflow from operating activities	2,332,696	685,689
Taxation		
Corporation tax paid	(114,820)	(231,822)
Investing activities		
Payments to acquire tangible fixed assets	(538,722)	(1,343,535)
Receipts from sales of tangible fixed assets	—	325,238
Change in cash and cash equivalents	<u>1,679,154</u>	<u>(564,430)</u>

Notes

(1) Reconciliation of operating profit to net cash inflow from operating activities

	1995 £	1994 £
Operating profit before taxation	129,834	92,612
Depreciation of tangible fixed assets	612,740	541,466
(Profit)/loss on sale of tangible fixed assets	—	(72,870)
Decrease/(increase) in debtors	91,062	(221,493)
Increase in creditors	1,499,060	345,974
Net cash inflow from operating activities	<u>2,332,696</u>	<u>685,689</u>

(2) Analysis of changes in cash and cash equivalents during the year

	1995 £	1994 £
Balance at the beginning of the year	1,996,073	2,560,503
Net cash inflow/(outflow)	1,679,154	(564,430)
Balance at the end of the year	<u>3,675,227</u>	<u>2,560,503</u>

(3) Analysis of the balances of cash as shown in the balance sheet

	1995 £	1994 £	Change in year £
Cash at bank and in hand	<u>3,675,227</u>	<u>1,996,073</u>	<u>1,679,154</u>

BRITISH AVIATION INSURANCE GROUP LIMITED
and Subsidiaries

NOTES TO THE ACCOUNTS

1. Basis of Preparation of Accounts

The accounts have been prepared under the historical cost convention and in accordance with Section 226 of and Schedule 4 to the Companies Act 1985 and applicable accounting standards.

The group accounts consolidate the accounts of British Aviation Insurance Group Limited and all its subsidiaries made up to 31 December 1995. No profit or loss account is presented for British Aviation Insurance Group Limited, as provided by Section 228 of the Companies Act 1985. The profit for the year of the company is £ nil (1994 £ nil).

2. Accounting Policies

(i) Tangible fixed assets

Depreciation is provided to reduce the cost of assets to their residual value over their estimated useful lives. The directors have assessed the useful lives as being :

Computer hardware – 4 years

Equipment – 6 years

(ii) Investments

Fixed asset investments are shown at cost.

(iii) Pension costs

The group operates separate defined benefit pension schemes for its employees in the United Kingdom and for its employees in Canada. It is the policy of the group to provide for pension liabilities on a going concern basis, on the advice of external actuaries, by payments to insurance companies. Independent actuarial valuations on a going concern basis are carried out every three years. Amounts paid in respect of the pension funds are charged to the profit and loss account when paid.

(iv) Foreign currency.

In the accounts of individual companies, transactions denominated in foreign currencies are recorded in the local currency at the actual rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the year end are reported at the rates of exchange prevailing at the year end.

3. Turnover

Turnover represents management fees receivable, and is in respect of continuing operations.

4. Administration Expenses	1995	1994
Administration expenses include:		
Depreciation	£612,740	£541,466
Fees in respect of audit services	£13,344	£12,139
5. Directors' remuneration	1995	1994
Total directors' emoluments	£167,739	£167,352
Emoluments of the highest paid director (excluding pension contributions)	£135,939	£135,552

The Chairman and other directors did not receive any remuneration for their services as directors of this Company.

BRITISH AVIATION INSURANCE GROUP LIMITED
and Subsidiaries

Notes to the Accounts – continued

6. Staff costs	1995	1994
	£	£
Wages and salaries	3,818,883	3,936,983
Social security payments	325,211	341,379
Other pension costs	901,875	843,798
	<u>5,045,969</u>	<u>5,122,160</u>
Average weekly number of employees	135	139

The staff costs and the number of employees include those of the Canadian subsidiary.

7. Pension Costs

The Company operates a defined benefit pension scheme in the United Kingdom with assets held in a separate trustee administered fund which is subject to triennial valuation using the projected unit method. For the year under review the cost of the scheme was £ 869,299 (1994 £813,632).

A valuation was carried out at 1 January 1994 by a qualified actuary and contributions to the scheme were determined assuming an investment return of 8% p.a. with provision for salary increases of 6.5% and that at retirement, pensions will be provided by purchasing annuities at rates calculated on the basis of 8% p.a. interest.

British Aviation Insurance Group (Canada) Limited

The non-contributory defined benefits pension plan maintained by British Aviation Insurance Group (Canada) Limited provides benefits based on length of service and final average earnings. For the year under review the cost of the scheme was Canadian \$68,980 (1994 Canadian \$ 66,200).

The status of the plan at 31 December 1995, based on an update of a 1 January 1994 actuarial report dated 12 March 1996 is as follows:—

Pension fund assets – market value	Can\$ 2,694,500
Actuarial present value of accrued pension benefits	Can\$ 2,363,300

8. Taxation	1995	1994
	£	£
Based on the profit for the year:		
Corporation tax at 33% (1994 33%)	65,657	40,000
Deferred taxation	—	—
Overseas taxation	30,779	26,297
Corporation tax under provided in previous year	33,398	26,315
	<u>129,834</u>	<u>92,612</u>

9. Investment in subsidiaries

The Company owns the entire share capital of British Aviation Insurance Group (Canada) Limited (incorporated in Canada), which is the management company for the Group in Canada. The investment is held at cost of Canadian \$ 25,000.

The Company owns the entire share capital of BAIG Limited, registered in England which was dormant throughout the year.

BRITISH AVIATION INSURANCE GROUP LIMITED
and Subsidiaries

Notes to the Accounts – continued

10. Tangible Fixed Assets

(A) GROUP

	COMPUTER HARDWARE	EQUIPMENT	TOTAL
Cost	£	£	£
1 January 1995	1,174,629	1,665,447	2,840,076
Additions	488,853	49,869	538,722
Disposals	—	—	—
31 December 1995	<u>1,663,482</u>	<u>1,715,316</u>	<u>3,378,798</u>
Depreciation			
1 January 1995	635,567	655,656	1,291,223
Disposals	—	—	—
Provided during the year	<u>357,754</u>	<u>254,986</u>	<u>612,740</u>
31 December 1995	<u>993,321</u>	<u>910,642</u>	<u>1,903,963</u>
Net book value			
31 December 1995	<u>670,161</u>	<u>804,674</u>	<u>1,474,835</u>
31 December 1994	<u>539,062</u>	<u>1,009,791</u>	<u>1,548,853</u>

(B) COMPANY

	COMPUTER HARDWARE	EQUIPMENT	TOTAL
Cost	£	£	£
1 January 1995	1,040,485	1,602,611	2,643,096
Additions	457,035	45,386	502,421
Disposals	—	—	—
31 December 1995	<u>1,497,520</u>	<u>1,647,997</u>	<u>3,145,517</u>
Depreciation			
1 January 1995	558,939	637,951	1,196,890
Disposals	—	—	—
Provided during the year	<u>317,203</u>	<u>246,785</u>	<u>563,988</u>
31 December 1995	<u>876,142</u>	<u>884,736</u>	<u>1,760,878</u>
Net book value			
31 December 1995	<u>621,378</u>	<u>763,261</u>	<u>1,384,639</u>
31 December 1994	<u>481,546</u>	<u>964,660</u>	<u>1,446,206</u>

BRITISH AVIATION INSURANCE GROUP LIMITED
and Subsidiaries

Notes to the Accounts – continued

11. Debtors

	Group		Company	
	1995	1994	1995	1994
	£	£	£	£
Amounts owed by subsidiaries	—	—	75,911	276,396
VAT	118,114	72,637	118,114	72,637
Other debtors	229,692	315,300	209,395	297,388
Prepayments and accrued income	316,396	367,327	316,169	366,379
	<u>664,202</u>	<u>755,264</u>	<u>719,589</u>	<u>1,012,800</u>

12. Creditors: amounts falling due within one year

The following amounts are included in creditors falling due within one year:

	Group		Company	
	1995	1994	1995	1994
	£	£	£	£
Other creditors:				
UK corporation tax payable	50,945	34,034	50,945	34,034
Overseas taxation	28,222	30,119	—	—
Due to members and other managed entities	3,899,112	2,545,049	3,899,112	2,545,049
Accruals and deferred income	261,150	42,135	261,150	42,135
	<u>4,239,429</u>	<u>2,651,337</u>	<u>4,211,207</u>	<u>2,621,218</u>

13. Creditors: amounts falling due after more than one year

The following amounts are included in creditors falling due after more than one year:

	Group		Company	
	1995	1994	1995	1994
	£	£	£	£
Other creditors:				
Due to members and other managed entities	<u>1,474,835</u>	<u>1,548,853</u>	<u>1,474,835</u>	<u>1,548,853</u>

14. Share Capital

	1995	1994
	£	£
Authorised, 150,000 Ordinary shares of £1 each	<u>£150,000</u>	<u>£150,000</u>
Allotted and called up, 100,000 Ordinary shares of £1 each	<u>£100,000</u>	<u>£100,000</u>

15. Capital Commitments

There were no capital commitments as at 31 December 1995 (1994 nil).

BRITISH AVIATION INSURANCE GROUP LIMITED
and Subsidiaries

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ACCOUNTS

Company law requires the directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the company and of the group and of the profit or loss of the group for that period. In preparing those accounts, 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 accounts; and
- prepare the accounts on a going concern basis unless it is inappropriate to presume that the group 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 group and to enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

REPORT of the AUDITORS
to the members of British Aviation Insurance Group Limited

We have audited the accounts on pages 3 to 10, which have been prepared under the historical cost convention and on the basis of the accounting policies set out on page 7.

Respective responsibilities of directors and auditors

As described above the company's directors are responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts 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 accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the group'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 accounts 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 accounts.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the company and of the group at 31 December 1995 and of the result of the group for the year then ended, and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young

Ernst & Young

Chartered Accountants

Registered Auditor

21 March 1996