

# **Report and Accounts 2000**



**AVIATION & GENERAL INSURANCE  
COMPANY LIMITED**

**Registered Number 296276 England**

## Contents

Page	
2	Directors Alternate Directors
3	Directors' Report
4	Directors' Responsibilities
5	Auditors' Report
6	Profit and Loss Account
7	Balance Sheet
8	Cash Flow Statement
9 - 12	Notes to the Accounts

AVIATION & GENERAL INSURANCE COMPANY LIMITED

**Directors**

P R Abbott  
(appointed 4 April 2000)

W J Bower (Chairman)

E Christie

S Fogh  
(appointed 23 June 2000)

J B Nockels

N J Thrower  
(appointed 22 March 2001)

**Alternate Directors**

R D Howe  
(appointed 4 April 2000)

D A Long  
(appointed 22 March 2001)

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E A McMurrough  
(resigned 4 April 2000)

A W Boulter (Alternate)  
(resigned 4 April 2000)

J A Dodds  
(resigned 31 May 2000)

A Kierkegaard (Alternate)  
(resigned 31 May 2000)

T A Fraser  
(resigned 22 September 2000)

N J Thrower (Alternate)  
(resigned 22 September 2000)

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**Head Office**  
Fitzwilliam House  
10 St Mary Axe  
London EC3A 8EQ

AVIATION & GENERAL INSURANCE COMPANY LIMITED  
**DIRECTORS' REPORT**

The directors present their report and accounts for the year ended 31 December 2000.

**Activities**

The Company's principal activity was the transaction of aviation insurance. Up until 31 December 1990 this was written solely through the Aviation & General Insurance Group insurance pool, whose other members are The Prudential Assurance Company Limited and Pearl Assurance plc.

From 1 January 1991 to 31 December 1993 the Company wrote new business solely through Global Aerospace Underwriting Managers Limited (formerly British Aviation Insurance Group Limited).

The Company ceased to write business for its net account after 31 December 1993. The Company continued to renew aviation business in Germany until 31 December 1997. This business was wholly reinsured to British Aviation Insurance Group. The Company no longer writes insurance and is in run-off. The Company has a branch in Canada which is also in run-off. The Company's German branch was closed on 23 February 2000.

**Results and dividend**

The loss after taxation amounted to £1,073,000 (1999 £4,761,000 profit). No dividend is recommended (1999 interim of £1,000,000 and a final of £4,000,000). The loss after taxation has been transferred from the profit and loss account and the balance of £25,593,000 carried forward.

**Directors**

The present directors together with their alternates approved by the board are shown on page 2.

None of the directors had a beneficial interest in the shares of the Company at any time during the financial year.

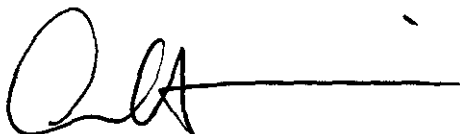
**Donations**

No charitable donations were made during the year.

**Auditors**

In accordance with Section 385 of the Companies Act 1985, a resolution proposing the re-appointment of PricewaterhouseCoopers as auditors of the Company will be put to the Annual General Meeting.

Approved and signed on behalf of the Board



D Littlefair  
Company Secretary  
28 March 2001

AVIATION & GENERAL INSURANCE COMPANY LIMITED

**STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ACCOUNTS**

Company law requires the directors to prepare accounts for each financial year which show a true and fair view of the state of affairs of the Company and of the profit or loss of the Company 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 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 accounts comply with the Companies Act 1985 as applicable to insurance companies. 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.

AVIATION & GENERAL INSURANCE COMPANY LIMITED

**AUDITORS' REPORT**

to the shareholders of AVIATION & GENERAL INSURANCE COMPANY LIMITED

We have audited the accounts on pages 6 to 12 which have been prepared under the historical cost convention as modified by the revaluation of investments and the accounting policies set out on page 9.

**Respective responsibilities of directors and auditors**

The directors are responsible for preparing the Annual Report. As described on page 4, this includes responsibility for preparing the accounts, in accordance with applicable United Kingdom accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and our profession's ethical guidance.

We report to you our opinion as to whether the accounts give a true and fair view and are properly prepared in accordance with the United Kingdom Companies Act. We also report to you if, in our opinion, the Directors' Report is not consistent with the accounts, if the Company 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 is not disclosed.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts.

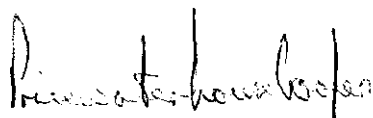
**Basis of opinion**

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 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 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 the affairs of the Company at 31 December 2000 and of the loss and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers  
Chartered Accountants and Registered Auditors  
London SE1 9SY

28 March 2001

**AVIATION & GENERAL INSURANCE COMPANY LIMITED**

**PROFIT AND LOSS ACCOUNT**  
for the year ended 31 December 2000

	Notes	2000 £'000	1999 £'000
<b>TECHNICAL ACCOUNT - General Business</b>			
Gross premiums written – discontinued operations		36	9
Outward reinsurance premiums		<u>5</u>	<u>336</u>
<b>Total technical income</b>		<u>31</u>	<u>(327)</u>
<b>Investment return allocated from/(to) the non-technical account</b>		1,438	(148)
Claims paid			
Gross amount		3,376	5,655
Reinsurers' share		<u>1,217</u>	<u>3,661</u>
Net of reinsurance		<u>2,159</u>	<u>1,994</u>
Change in the provision for outstanding claims			
Gross amount		(1,596)	(7,172)
Reinsurers' share		<u>(414)</u>	<u>(3,624)</u>
Net of reinsurance	3	<u>(1,182)</u>	<u>(3,548)</u>
Claims incurred net of reinsurance		977	(1,554)
Net operating expenses	2	<u>555</u>	<u>627</u>
<b>Total technical charges</b>		<u>1,532</u>	<u>(927)</u>
<b>Balance on the general business technical account</b>			
Attributable to discontinued operations		<u>(63)</u>	<u>452</u>
<b>NON-TECHNICAL ACCOUNT</b>			
Balance on the general business technical account		(63)	452
Investment income	5	4,295	3,075
Unrealised(losses)/ gains on investments		<u>(4,983)</u>	<u>1,735</u>
Investment expenses and charges	6	(102)	(110)
Allocated investment return transferred (to)/from the technical account		<u>(1,438)</u>	<u>148</u>
Other income – exchange gains		142	606
<b>(Loss)/profit on ordinary activities before tax</b>		<u>(2,149)</u>	<u>5,906</u>
Tax on profit on ordinary activities	7	<u>(1,076)</u>	<u>1,145</u>
<b>(Loss)/profit on ordinary activities after tax</b>		<u>(1,073)</u>	<u>4,761</u>
Dividends	8	-	5,000
<b>Loss retained for the financial year</b>	11	<u>(1,073)</u>	<u>(239)</u>

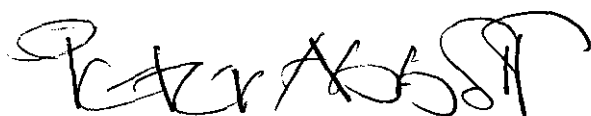
All recognised gains and losses are included in the profit and loss account.

AVIATION & GENERAL INSURANCE COMPANY LIMITED

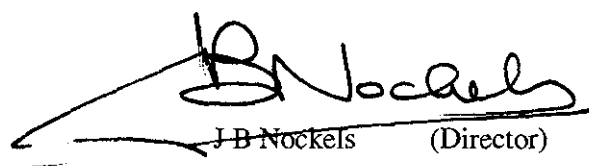
**BALANCE SHEET**  
as at 31 December 2000

	Notes	2000 £'000	1999 £'000
<b>ASSETS</b>			
<b>Investments</b>			
Other financial investments	9	45,922	53,413
<b>Reinsurers' share of Technical Provisions</b>			
Claims outstanding	3	11,624	11,254
<b>Debtors</b>			
Debtors arising out of reinsurance operations		666	1,304
Other debtors		<u>331</u>	<u>216</u>
		<u>997</u>	<u>1,520</u>
<b>Other Assets</b>			
Cash at bank and in hand		1,223	1,565
<b>Prepayments and Accrued Income</b>			
Accrued interest		318	362
<b>Total assets</b>		<u><u>60,084</u></u>	<u><u>68,114</u></u>
<b>LIABILITIES</b>			
<b>Capital and Reserves</b>			
Called up share capital	10	500	500
Share premium account		525	525
Profit and loss account		<u>25,593</u>	<u>26,666</u>
Equity shareholders' funds	11	<u>26,618</u>	<u>27,691</u>
<b>Technical Provisions</b>			
Claims outstanding	3	25,779	25,863
<b>Provisions for Other Risks and Charges</b>			
Deferred tax	12	4,533	6,373
<b>Deposits Received from Reinsurers</b>			
		2,224	2,115
<b>Creditors</b>			
Creditors arising out of direct insurance operations		79	176
Creditors arising out of reinsurance operations		462	1,565
Other creditors including taxation and social security	13	<u>389</u>	<u>4,331</u>
		<u>930</u>	<u>6,072</u>
<b>Total liabilities</b>		<u><u>60,084</u></u>	<u><u>68,114</u></u>

The accounts on pages 6 to 12 were approved by the board on 28 March, 2001 and signed on its behalf by:



P R Abbott (Director)



J B Nockels (Director)



AVIATION & GENERAL INSURANCE COMPANY LIMITED

**CASH FLOW STATEMENT**  
for the year ended 31 December 2000

	2000 £'000	1999 £'000
<b>Net cash outflow from operating activities</b>	<b>(1,214)</b>	<b>(2,047)</b>
<b>Taxation (paid)/received</b>	<b>(730)</b>	<b>82</b>
<b>Equity dividends paid</b>	<b>(4,000)</b>	<b>(3,000)</b>
<b>Cash dis-investment</b>	<b>(5,944)</b>	<b>(4,965)</b>
Cash flows were applied as follows:-		
<b>(Decrease)/increase in cash holdings</b>	<b>(342)</b>	<b>114</b>
<b>Portfolio investments</b>		
Purchase of ordinary shares	912	762
Purchase of fixed income securities	425	404
Sale of ordinary shares	(7,129)	(2,900)
Sale of fixed income securities	(2,601)	(3,458)
Increase in deposits with credit institutions	2,791	113
	<b>(5,944)</b>	<b>(4,965)</b>

**NOTES TO THE CASH FLOW STATEMENT**

**Reconciliation of operating profit to net cash outflow from operating activities**

Operating (loss)/profit before taxation	(2,149)	5,906
Decrease in outstanding claims	(1,182)	(3,550)
Decrease/(increase) in debtors and prepayments	327	(528)
Decrease in creditors	(615)	(532)
Exchange movements	(142)	(606)
Gains less losses on sales of investments	(2,436)	(1,002)
Unrealised losses/(gains) on investments	4,983	(1,735)
Net cash outflow from operating activities	<b>(1,214)</b>	<b>(2,047)</b>

**Movement in cash and portfolio investments**

	As at 1.1.00 £'000	Cash flow £'000	Changes in market value £'000	As at 31.12.00 £'000
Cash holdings	1,565	(342)		1,223
Portfolio investments				
Ordinary shares	38,059	(6,217)	(2,854)	28,988
Fixed income securities	13,085	(2,176)	307	11,216
Deposits with credit institutions	<u>2,927</u>	<u>2,791</u>		<u>5,718</u>
	<u>55,636</u>	<u>(5,944)</u>	<u>(2,547)</u>	<u>47,145</u>

AVIATION & GENERAL INSURANCE COMPANY LIMITED  
NOTES TO THE ACCOUNTS

**1. ACCOUNTING POLICIES**

**Preparation of accounts**

The accounts have been prepared in compliance with Section 255 of and Schedule 9A to, the Companies Act 1985, and in compliance with applicable accounting standards. The accounts comply with the Statement of Recommended Practice issued by the Association of British Insurers in December 1998.

**Provision for outstanding claims**

Provision is made on an individual case basis for the estimated cost of claims notified but not settled by the balance sheet date, taking into account anticipated inflation and settlement trends. A provision for claims incurred but not reported is established on a statistical basis. The methods used and the estimates made are reviewed regularly. Whilst the directors consider that the gross provision for claims and the related reinsurance recoveries are fairly stated on the basis of the information currently available to them, the ultimate liability may vary as a result of subsequent information and events. Any differences between provisions and subsequent settlements will be dealt with in the technical account of the year in which they arise.

The long tail element is discounted over the estimated period to ultimate settlement, based on statistically forecast payment projections, at a rate of 4% per annum. Included within the provision for outstanding claims is a provision for estimated future claims handling costs.

**Foreign currencies**

Revenue transactions and assets and liabilities held in foreign currencies are translated to sterling at year end rates of exchange. Exchange adjustments are included in the non-technical account under other income.

**Investments and investment return**

Interest on fixed interest securities, loans and deposits is accounted for on the accruals basis. Dividends net of attributable tax credits are accounted for when the underlying securities go ex-dividend. Realised and unrealised gains and losses are taken to the profit and loss account.

Fixed interest assets are held to match technical provisions. Matching is done by both currency and term. An allocation of investment return is made from the non-technical account to the technical account representing the investment return during the year on assets matching technical provisions. Investments are stated in the balance sheet at market value.

**Deferred taxation**

Full provision under the liability method is made for deferred taxation charges and reliefs resulting from the effect of the allocation for taxation purposes of income and expenditure to periods different from those used for accounting purposes. Full provision is made for taxation that would have been payable had investments been disposed of at market value at the balance sheet date. Full provision is made for taxation that would have been recoverable had full corporation tax relief been given on the total provision for outstanding claims provided for in the accounts.

# AVIATION & GENERAL INSURANCE COMPANY LIMITED

## NOTES TO THE ACCOUNTS

	2000 £'000	1999 £'000
<b>2. NET OPERATING EXPENSES</b>		
Administrative expenses include:-		
Auditors' remuneration	23	23
Auditors remuneration for non-audit work	48	-

### 3. PROVISION FOR OUTSTANDING CLAIMS

#### (a) Run-off deviation

Claims incurred net of reinsurance and before discounting include an adverse variation in respect of prior years of £1,455,000 (1999 £397,000 - positive).

#### (b) Discounting

The long tail element of the provision for outstanding claims is discounted at 4% per annum. The unwinding of the discount amounted to £400,000 (1999 £440,000). The investment return including unrealised gains/(losses) on assets matching the liabilities being discounted amounted to a profit of £1,174,000 (1999 loss of £110,000). The net outstanding claims before discounting amounted to £17,908,000 (1999 £18,076,000) of which £14,618,000 (1999 £13,451,000) has been discounted. The mean term from the balance sheet date to settlement of the discounted liabilities was 8 years (1999 8 years).

#### (c) Environmental and asbestos liabilities

The provision for net outstanding claims after discounting of £14.2 million (net of reinsurance) includes an amount of £6.6 million for US environmental and asbestos liabilities. In view of the continuing uncertainty regarding the appropriate level of provision in respect of these US environmental and asbestos liabilities, the directors have carried out a review of technical provisions in conjunction with consulting actuaries, and consider the provision to be fairly stated on the basis of the information currently available.

### 4. DIRECTORS AND STAFF

No directors were remunerated by the Company during the year (1999 £nil). The Company had no staff during the year and no employment costs as Global Aerospace Underwriting Managers Limited provides management services to the Company.

	2000 £'000	1999 £'000
<b>5. INVESTMENT INCOME</b>		
Income from investments	1,859	2,073
Realised investment gains less losses	<u>2,436</u>	<u>1,002</u>
	<u>4,295</u>	<u>3,075</u>

## NOTES TO THE ACCOUNTS

	2000 £'000	1999 £'000
<b>6. INVESTMENT EXPENSES AND CHARGES</b>		
Investment management expenses	<u>102</u>	<u>110</u>
<b>7. TAXATION</b>		
Current taxation		
UK corporation tax at 30% (1999 30.25%)	722	421
Overseas tax	42	60
Deferred taxation	<u>(1,772)</u>	<u>965</u>
	<u>(1,008)</u>	<u>1,446</u>
Prior years		
UK corporation tax	-	(301)
Deferred taxation	<u>(68)</u>	<u>-</u>
	<u>(1,076)</u>	<u>1,145</u>
<b>8. DIVIDENDS</b>		
Interim dividend of £nil per share (1999 £1)	-	1,000
Final dividend of £nil per share (1999 £4)	<u>-</u>	<u>4,000</u>
	<u>-</u>	<u>5,000</u>
<b>9. INVESTMENTS</b>		
Current value		
Listed equity shares	28,988	37,925
Government fixed interest	11,216	12,561
Deposits with credit institutions	<u>5,718</u>	<u>2,927</u>
	<u>45,922</u>	<u>53,413</u>
Historical cost		
Listed equity shares	12,144	15,972
Government fixed interest	10,508	12,637
Deposits with credit institutions	<u>5,718</u>	<u>2,927</u>
	<u>28,370</u>	<u>31,536</u>
<b>10. SHARE CAPITAL</b>		
Ordinary shares of £1 each: Authorised – 1 million shares	1,000	1,000
Issued – 1 million shares (50p paid)	500	500

AVIATION & GENERAL INSURANCE COMPANY LIMITED

NOTES TO THE ACCOUNTS

**11. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS**

	Share Capital	Share Premium	Profit and Loss account	Total
	£'000	£'000	£'000	£'000
As at 1 January 2000	500	525	26,666	27,691
Movement during year	-	-	(1,073)	(1,073)
As at 31 December 2000	<u>500</u>	<u>525</u>	<u>25,593</u>	<u>26,618</u>

**12. DEFERRED TAX**

	2000 £'000	1999 £'000
Provision at the beginning of the year	6,373	5,408
Movement during the year	(1,840)	965
Provision at the end of the year	<u>4,533</u>	<u>6,373</u>

The provision for deferred tax comprises £5,045,000 (1999 £6,641,000) in respect of unrealised investment gains, offset by £512,000 (1999 £268,000) of other timing differences.

**13. CREDITORS**

Other creditors include £317,000 (1999 £284,000) in respect of Corporation tax. The 1999 comparatives included the final dividend of £4 million.

**14. SECURED ASSETS**

Certain investments are secured in respect of letters of credit for policyholders in the USA. Other investments are held in trust funds on behalf of regulatory authorities in the USA and Canada. The total of these amounted to £5.4 million (1999 £5.0 million).