

Report and Accounts 2001

**AVIATION & GENERAL INSURANCE
COMPANY LIMITED**

Registered Number 296276 England



A12 *A219ACMU* 0524
COMPANIES HOUSE 19/07/02

Contents

Page	
2	Directors Alternate Directors
3	Directors' Report
4	Directors' Responsibilities
5	Independent 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

Alternate Directors

P R Abbott

R D Howe

W J Bower (Chairman)

E Christie

S Fogh

J B Nockels

N J Thrower
(appointed 22 March 2001)

D A Long
(appointed 22 March 2001)

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 2001.

Principal Activity and Review of the Business

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.

Results and dividend

The profit after taxation amounted to £496,000 (2000 £1,073,000 loss). No dividend is recommended (2000 nil). The profit after taxation has been transferred to the profit and loss account and the balance of £27,114,000 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.

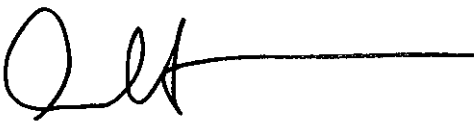
Donations

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
26 March 2002

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
INDEPENDENT AUDITORS' REPORT
to the members of AVIATION & GENERAL INSURANCE COMPANY LIMITED

We have audited the accounts which comprise the profit and loss account, the balance sheet, the cash flow statement, the statement of total recognised gains and losses and the related notes to the accounts which have been prepared under the historical cost convention as modified by the revaluation of investments and the accounting policies set out in the notes to the accounts.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and accounts in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the accounts in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board.

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 Companies Act 1985. 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. The other information comprises only the Directors' Report.

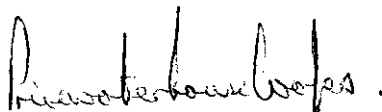
Basis of opinion

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 2001 and of the profit 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
Southwark Towers
32 London Bridge
London SE1 9SY
26 March 2002

AVIATION & GENERAL INSURANCE COMPANY LIMITED

PROFIT AND LOSS ACCOUNT
for the year ended 31 December 2001

	Notes	2001 £'000	2000 £'000
TECHNICAL ACCOUNT - General Business			
Gross premiums written – discontinued operations		9	36
Outward reinsurance premiums		<u>95</u>	<u>5</u>
Total technical income		<u>(86)</u>	<u>31</u>
Investment return allocated from the non-technical account		729	1,438
Claims paid			
Gross amount		2,822	3,376
Reinsurers' share		<u>2,870</u>	<u>1,217</u>
Net of reinsurance		<u>(48)</u>	<u>2,159</u>
Change in the provision for outstanding claims			
Gross amount		(6,268)	(1,596)
Reinsurers' share		<u>(2,012)</u>	<u>(414)</u>
Net of reinsurance		<u>(4,256)</u>	<u>(1,182)</u>
Claims incurred net of reinsurance	3	(4,304)	977
Net operating expenses	2	<u>502</u>	<u>555</u>
Total technical charges		<u>(3,802)</u>	<u>1,532</u>
Balance on the general business technical account			
Attributable to discontinued operations		<u>4,445</u>	<u>(63)</u>
NON-TECHNICAL ACCOUNT			
Balance on the general business technical account		4,445	(63)
Investment income	5	1,771	4,295
Unrealised losses on investments		<u>(4,549)</u>	<u>(4,983)</u>
Investment expenses and charges	6	(83)	(102)
Allocated investment return transferred to the technical account		<u>(729)</u>	<u>(1,438)</u>
Other (charges)/income – exchange gains		<u>(48)</u>	<u>142</u>
Profit/(loss) on ordinary activities before tax		807	(2,149)
Tax on profit on ordinary activities	7	<u>311</u>	<u>(1,076)</u>
Profit/(loss) on ordinary activities after tax		496	(1,073)
Dividends		-	-
Profit/(loss) retained for the financial year	10	<u>496</u>	<u>(1,073)</u>

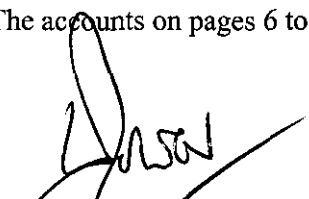
All recognised gains and losses are included in the profit and loss account.

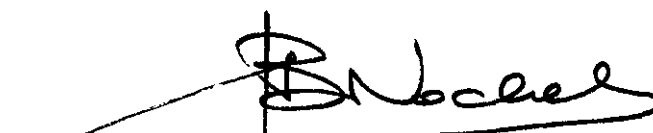
AVIATION & GENERAL INSURANCE COMPANY LIMITED

BALANCE SHEET
as at 31 December 2001

	Notes	2001 £'000	2000 £'000
ASSETS			
Investments			
Other financial investments	8	41,135	45,922
Reinsurers' share of Technical Provisions			
Claims outstanding	3	9,893	11,624
Debtors			
Debtors arising out of reinsurance operations		862	666
Other debtors		<u>459</u>	<u>331</u>
		<u>1,321</u>	<u>997</u>
Other Assets			
Cash at bank and in hand		2,155	1,223
Prepayments and Accrued Income			
Accrued interest		249	318
Total assets		<u>54,753</u>	<u>60,084</u>
LIABILITIES			
Capital and Reserves			
Called up share capital	9	500	500
Share premium account		525	525
Profit and loss account		<u>26,089</u>	<u>25,593</u>
Equity shareholders' funds	10	<u>27,114</u>	<u>26,618</u>
Technical Provisions			
Claims outstanding	3	20,034	25,779
Provisions for Other Risks and Charges			
Deferred tax	11	3,478	4,533
Deposits Received from Reinsurers		2,258	2,224
Creditors			
Creditors arising out of direct insurance operations		178	79
Creditors arising out of reinsurance operations		282	462
Other creditors including taxation and social security	12	<u>1,409</u>	<u>389</u>
		<u>1,869</u>	<u>930</u>
Total liabilities		<u>54,753</u>	<u>60,084</u>

The accounts on pages 6 to 12 were approved by the board on 26 March, 2002 and signed on its behalf by:


W J Bower (Chairman)


J B Nockels (Director)

AVIATION & GENERAL INSURANCE COMPANY LIMITED

CASH FLOW STATEMENT
for the year ended 31 December 2001

	2001 £'000	2000 £'000
Net cash inflow/(outflow) from operating activities	783	(1,214)
Taxation paid	(444)	(730)
Equity dividends paid	-	(4,000)
Net cash inflow/(outflow)	<u>339</u>	<u>(5,944)</u>
Cash flows were applied as follows:-		
Increase/(decrease) in cash holdings	932	(342)
Portfolio investments		
Purchase of ordinary shares	115	912
Purchase of fixed income securities	1,782	425
Sale of ordinary shares	(395)	(7,129)
Sale of fixed income securities	(1,709)	(2,601)
(Decrease)/increase in deposits with credit institutions	(386)	2,791
	<u>339</u>	<u>(5,944)</u>

NOTES TO THE CASH FLOW STATEMENT

Reconciliation of operating profit to net cash outflow from operating activities

Operating profit/(loss) before taxation	807	(2,149)
Decrease in outstanding claims	(4,256)	(1,182)
Increase in debtors and prepayments	305	327
Increase/(decrease) in creditors	143	(615)
Exchange movements	48	(142)
Gains on sales of investments	(203)	(2,436)
Unrealised losses on investments	4,549	4,983
Net cash inflow/(outflow) from operating activities	<u>783</u>	<u>(1,214)</u>

Movement in cash and portfolio investments

	As at 1.1.01 £'000	Cash flow £'000	Changes in market value £'000	As at 31.12.01 £'000
Cash holdings	1,223	932	-	2,155
Portfolio investments				
Ordinary shares	29,036	(280)	(4,238)	24,518
Fixed income securities	11,320	73	(108)	11,285
Deposits with credit institutions	<u>5,718</u>	<u>(386)</u>	<u>-</u>	<u>5,332</u>
	<u>47,297</u>	<u>339</u>	<u>(4,346)</u>	<u>43,290</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.

Claims provisions

Provision is made at the year-end for the estimated cost of claims incurred but not settled at the balance sheet date, including the cost of claims incurred but not yet reported to the company. The estimated cost of claims includes expenses to be incurred in settling claims. The company takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. The company uses independent consulting actuaries to advise on the appropriate level of provision. Given the uncertainty in establishing claims provisions, the final outcome however, may prove to be different from the original liability established.

Provisions are calculated gross of any reinsurance recoveries. A separate estimate is made of the amounts that will be recoverable from reinsurers based upon the gross provisions and having due regard to collectability.

The Company's liabilities include material amounts in respect of potential exposures to various environmental type liabilities, especially in the USA, commonly referred to as APH liabilities. There may be a long delay between the occurrence and notification of these types of claim. Such claims cannot be estimated using traditional reserving techniques and, accordingly, their ultimate cost is less certain than with other lines of business. In estimating these liabilities the company considers the type of risks written historically that may give rise to exposure to these risks, notifications received from policyholders, the nature and extent of the cover provided, the current legal environment, changes in the effectiveness of clean up techniques and industry benchmarks of the typical cost of claims of this kind and of total expected insured losses.

The Company's APH claims are discounted in order to take account of the expected investment income receivable between the balance sheet date and claims settlement date, on the assets held to cover the provisions. The discount rate is applied to the estimated future payment patterns of these claims and related reinsurance recoveries. Further details are provided in note 3.

In calculating the estimated cost of unpaid claims for non APH liabilities, the company analyses historical experience, and assumes that the development pattern of the current claims will be consistent with past experience. A component of these estimation techniques is the estimation of the cost of notified but not paid claims. In estimating the cost of these, the Company has regard to the claim circumstances as reported, any information available from loss adjusters and information on the cost of settling claims with similar characteristics in previous periods.

Reinsurance recoveries

Reinsurance recoveries in respect of estimated claims incurred but not reported are assumed to be consistent with the historical pattern of such recoveries, adjusted to reflect changes in the nature and extent of the company's reinsurance programme over time. An assessment is also made of the recoverability of reinsurance recoveries having regard to market data on the financial strength of each of the reinsurance companies.

Expenses

All expenses are charged against the revenue of the year in which they are incurred. Expenses include movements on the provision for bad and doubtful debts.

AVIATION & GENERAL INSURANCE COMPANY LIMITED

NOTES to the ACCOUNTS

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 are accounted for net of attributable tax credits 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.

	2001 £'000	2000 £'000
2. NET OPERATING EXPENSES		
Administrative expenses include:-		
Auditors' remuneration	30	23
Auditors remuneration for non-audit work	8	48

3. OUTSTANDING CLAIMS/CLAIMS INCURRED NET OF REINSURANCE

(a) Discounting

The long tail element of the provision for outstanding claims is discounted at 4% per annum. The unwinding of the discount amounted to £421,000 (2000 £400,000). The investment return including unrealised gains/(losses) on assets matching the liabilities being discounted amounted to a profit of £616,000 (2000 £1,174,000). The net outstanding claims before discounting amounted to £13,415,000 (2000 £17,908,000) of which £10,365,000 (2000 £14,618,000) has been discounted. The mean term from the balance sheet date to settlement of the discounted liabilities was 10 years (2000 8 years).

(b) Environmental and asbestos liabilities

The provision for net outstanding claims after discounting of £10.1 million (net of reinsurance) includes an amount of £6.3 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.

(c) Claims incurred

Claims incurred net of reinsurance benefitted from a release of £4,304,000 in respect of outstanding claims provisions and related expenses brought forward from last year.

AVIATION & GENERAL INSURANCE COMPANY LIMITED

NOTES to the ACCOUNTS

4. DIRECTORS AND STAFF

No directors were remunerated by the Company during the year (2000 £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.

	2001 £'000	2000 £'000
5. INVESTMENT INCOME		
Income from investments	1,568	1,859
Realised investment gains	<u>203</u>	<u>2,436</u>
	<u>1,771</u>	<u>4,295</u>

	2001 £'000	2000 £'000
6. INVESTMENT EXPENSES AND CHARGES		
Investment management expenses	<u>83</u>	<u>102</u>

7. TAXATION

Current taxation		
UK corporation tax at 30% (2000 30%)	1,174	722
Overseas tax	34	42
Deferred taxation	<u>(1,056)</u>	<u>(1,772)</u>
	152	(1,008)
Prior years		
UK corporation tax	159	-
Deferred taxation	<u>-</u>	<u>(68)</u>
	<u>311</u>	<u>(1,076)</u>

8. INVESTMENTS

Current value		
Listed equity shares	24,518	28,988
Government fixed interest	11,285	11,216
Deposits with credit institutions	<u>5,332</u>	<u>5,718</u>
	<u>41,135</u>	<u>45,922</u>
Historical cost		
Listed equity shares	11,995	12,144
Government fixed interest	10,653	10,508
Deposits with credit institutions	<u>5,332</u>	<u>5,718</u>
	<u>27,980</u>	<u>28,370</u>

9. SHARE CAPITAL

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

10. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	Share Capital	Share Premium	Profit and Loss account	Total
	£'000	£'000	£'000	£'000
As at 1 January 2001	500	525	25,593	26,618
Movement during year	-	-	496	496
As at 31 December 2001	<u>500</u>	<u>525</u>	<u>26,089</u>	<u>27,114</u>

11. DEFERRED TAX

	2001 £'000	2000 £'000
Provision at the beginning of the year	4,533	6,373
Movement during the year	(1,055)	(1,840)
Provision at the end of the year	<u>3,478</u>	<u>4,533</u>

The provision for deferred tax comprises £3,745,000 (2000 £5,045,000) in respect of unrealised investment gains, offset by £267,000 (2000 £512,000) of other timing differences.

12. CREDITORS

Other creditors include £1,240,000 (2000 £317,000) in respect of Corporation tax.

13. 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 £5.6 million (2000 £5.4 million).