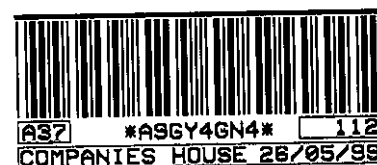


# **Report and Accounts 1998**

**AVIATION & GENERAL INSURANCE  
COMPANY LIMITED**

**Registered Number 296276 England**



# AVIATION & GENERAL INSURANCE COMPANY LIMITED

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**AVIATION & GENERAL INSURANCE COMPANY LIMITED**

**Directors**

**Alternate Directors**

W J Bower

E Christie

J A Dodds

T A Fraser  
(appointed 30 March 1999)

E A McMurrough (Chairman)

J B Nockels

A Kierkegaard

N J Thrower  
(appointed 30 March 1999)

S A McAweaney

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S J Blease  
(retired 21 September 1998)

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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 1998.

**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 Public Limited Company.

From 1 January 1991 to 31 December 1993 the Company wrote new business solely through British Aviation Insurance Group.

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 branches in Canada and Germany which are also in run-off.

**Results and dividend**

The profit after taxation amounted to £3,950,000 (1997 £5,206,000). A final dividend of £2,000,000 is recommended (1997 nil). The retained profit of £1,950,000 has been credited to the Profit and Loss Account and the balance of £26,905,000 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.


**Year 2000**

The Company has taken steps to deal with the issues arising from the Year 2000 date recognition problem. Work to correct the main information technology systems of the Company has been successfully completed and tested. External electronic links have also been successfully tested. It is estimated that this work has increased operating expenses by no more than £40,000 in 1998.

**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  
30 March 1999

**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;
- 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. 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 set out on pages 6 to 13, which have been prepared in accordance with the accounting policies set out on page 10.

**Respective responsibilities of directors and auditors**

The directors are responsible for preparing the Report and Accounts, including as described on page 4, the accounts. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board and by 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 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.

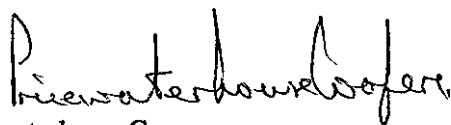
**Basis of opinion**

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 affairs of the Company at 31 December 1998 and of its 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  
London WC2N 6NN

30 March 1999

**AVIATION & GENERAL INSURANCE COMPANY LIMITED**

**PROFIT AND LOSS ACCOUNT**  
for the year ended 31 December 1998

	Notes	1998 £'000	Restated 1997 £'000
<b>TECHNICAL ACCOUNT - General Business</b>			
Gross premiums written – discontinued operations		4	130
Outward reinsurance premiums		<u>125</u>	<u>936</u>
<b>Total technical income</b>		<b>(121)</b>	<b>(806)</b>
<b>Investment return allocated from the non-technical account</b>		<b>1,636</b>	<b>1,810</b>
Claims paid			
Gross amount		3,383	4,914
Reinsurers' share		<u>(2,050)</u>	<u>(2,923)</u>
Net of reinsurance		<u>1,333</u>	<u>1,991</u>
Change in the provision for outstanding claims			
Gross amount		90	(2,133)
Reinsurers' share		<u>(677)</u>	<u>(678)</u>
Net of reinsurance	5	<u>(587)</u>	<u>(2,811)</u>
Claims incurred net of reinsurance		746	(820)
Net operating expenses	3	<u>366</u>	<u>(306)</u>
<b>Total technical charges</b>		<b><u>1,112</u></b>	<b><u>(1,126)</u></b>
<b>Balance on the general business technical account</b>			
Attributable to discontinued operations		<u>403</u>	<u>2,130</u>
<b>NON-TECHNICAL ACCOUNT</b>			
<b>Balance on the General Business Technical Account</b>		<b>403</b>	<b>2,130</b>
Investment income	7	2,952	6,785
Unrealised gains on investments		5,170	1,603
Investment expenses and charges	8	(664)	(1,457)
Allocated investment return transferred to the technical account		<u>(1,636)</u>	<u>(1,810)</u>
<b>Profit on ordinary activities before tax</b>		<b>6,225</b>	<b>7,251</b>
Tax on profit on ordinary activities	9	<u>2,275</u>	<u>2,045</u>
<b>Profit on ordinary activities after tax</b>		<b>3,950</b>	<b>5,206</b>
Dividends - £2 per share (1997 nil)		<u>2,000</u>	-
<b>Profit retained for the financial year</b>	12	<b><u>1,950</u></b>	<b><u>5,206</u></b>

All recognised gains and losses are included in the Profit and Loss account.

**AVIATION & GENERAL INSURANCE COMPANY LIMITED**  
**NOTE OF HISTORICAL COST PROFITS AND LOSSES**

	1998 £'000	1997 £'000
Reported profit on ordinary activities before taxation	6,225	7,251
Unrealised gains on investments	<u>5,170</u>	<u>1,603</u>
Historical cost profit on ordinary activities before taxation	<u>1,055</u>	<u>5,648</u>
Historical cost profit for the year retained after taxation and dividends	<u>(1,916)</u>	<u>3,840</u>




**AVIATION & GENERAL INSURANCE COMPANY LIMITED**

**BALANCE SHEET**  
as at 31 December 1998

	Notes	1998 £'000	Restated 1997 £'000
<b>ASSETS</b>			
<b>Investments</b>			
Other financial investments	10	54,789	49,529
<b>Reinsurers' share of Technical Provisions</b>			
Claims outstanding	5	14,463	13,899
<b>Debtors</b>			
Debtors arising out of reinsurance operations		937	1,208
Other debtors		<u>155</u>	<u>287</u>
		<u>1,092</u>	<u>1,495</u>
<b>Other Assets</b>			
Cash at bank and in hand		1,451	1,495
<b>Prepayments and Accrued Income</b>			
Accrued interest		262	337
<b>Total assets</b>		<u>72,057</u>	<u>66,755</u>
<b>LIABILITIES</b>			
<b>Capital and Reserves</b>			
Called up share capital	11	500	500
Share premium account		525	525
Profit and loss account		<u>26,905</u>	<u>24,955</u>
Equity shareholders' funds	12	<u>27,930</u>	<u>25,980</u>
<b>Technical Provisions</b>			
Claims outstanding	5	32,262	32,413
<b>Provisions for Other Risks and Charges</b>			
Deferred tax	13	5,408	4,104
<b>Deposits Received from Reinsurers</b>		2,466	2,620
<b>Creditors</b>			
Creditors arising out of direct insurance operations		380	364
Creditors arising out of reinsurance operations		1,540	1,205
Other creditors including taxation and social security	14	<u>2,071</u>	<u>69</u>
		<u>3,991</u>	<u>1,638</u>
<b>Total liabilities</b>		<u>72,057</u>	<u>66,755</u>

The accounts on pages 6 to 13 were approved by the Board on 30 March 1999 and signed on its behalf by:

  
E A McMurrough (Chairman)

  
W J Bower (Director)

**AVIATION & GENERAL INSURANCE COMPANY LIMITED**

**CASH FLOW STATEMENT**  
for the year ended 31 December 1998

	1998 £'000	Restated 1997 £'000
Net cash inflow/(outflow) from operating activities	660	(132)
Taxation paid	(722)	(1,726)
Cash dis-investment	<u>(62)</u>	<u>(1,858)</u>
Cash flows were applied as follows:- (Decrease)/increase in cash holdings	(44)	663
Portfolio investments		
Purchase of ordinary shares	6,821	8,635
Purchase of fixed income securities	5,150	6,490
Sale of ordinary shares	(2,097)	(4,672)
Sale of fixed income securities	(8,042)	(10,136)
Decrease of deposits with credit institutions	(1,850)	(2,838)
	<u>(62)</u>	<u>(1,858)</u>

**NOTES TO THE CASH FLOW STATEMENT**

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

Operating profit before taxation	6,225	7,251
Decrease in outstanding claims	(587)	(2,811)
Decrease in debtors and prepayments	398	614
Increase/(decrease) in creditors	177	(55)
Exchange movements	(233)	(662)
Gains less losses on sales of investments	(3)	(2,737)
Unrealised gains on investments	(5,170)	(1,603)
Tax on franked investment income	(147)	(129)
Net cash inflow/(outflow) from operating activities	<u>660</u>	<u>(132)</u>

**Movement in cash and portfolio investments**

	As at 1.1.98 £'000	Cash flow £'000	Changes in market value £'000	As at 31.12.98 £'000
Cash holdings	1,495	(44)	-	1,451
Portfolio investments				
Ordinary shares	26,396	4,724	4,829	35,949
Fixed income securities	18,574	(2,892)	344	16,026
Deposits with credit institutions	4,664	(1,850)	-	2,814
	<u>51,129</u>	<u>(62)</u>	<u>5,173</u>	<u>56,240</u>

**AVIATION & GENERAL INSURANCE COMPANY LIMITED**  
**NOTES TO THE ACCOUNTS**

**1. CHANGE OF ACCOUNTING POLICY**

**Unrealised investment appreciation**

To comply with the Statement of Recommended Practice issued by the Association of British Insurers, unrealised investment appreciation is now dealt with in the non-technical account whereas previously it was dealt with in the revaluation reserve. 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 reserves. Comparative figures have been restated. The change in accounting policy has increased profit before tax by £5,170,000 (1997 £1,603,000) but has had no net effect on equity shareholders' funds.

**2. 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 revised Statement of Recommended Practice issued by the Association of British Insurers.

**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, together with the related tax thereon, are included in Net Operating Expenses in the Profit and Loss Account.

**Investments and investment return**

Interest on fixed interest securities, loans and deposits is accounted for on the accruals basis. Dividends are accounted for when the underlying securities go ex-dividend. Franked investment income includes the related tax credit. Realised and unrealised gains and losses are taken to the profit and loss account. 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 reserves. 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**

	1998	1997
	£'000	£'000
<b>3. NET OPERATING EXPENSES</b>		
Administrative expenses	530	511
Exchange gain	<u>(164)</u>	<u>(817)</u>
	<u>366</u>	<u>(306)</u>
<b>4. ADMINISTRATIVE EXPENSES</b>		
Administrative expenses include:-		
Auditors' remuneration	23	29
<b>5. PROVISION FOR OUTSTANDING CLAIMS</b>		
(a) <b>Run-off deviation</b>		
Claims incurred net of reinsurance and before discounting include deviation in respect of prior years of £104,000 (1997 £69,000).		
(b) <b>Discounting</b>		
The long tail element of the provision for outstanding claims is discounted at 4% per annum. The unwinding of the discount amounted to £1,274,000 (1997 £484,000) of which £730,000 is attributable to the discount rate being reduced from 5% in 1997 to 4% to reflect lower prospective returns on the assets matching technical reserves. The investment return on assets supporting the liabilities being discounted amounted to £1,307,000 (1997 £1,316,000). The net outstanding claims before discounting amounted to £14,405,000 (1997 £15,761,000). The mean term of the discounted liabilities was 6.3 years (1997 8.2 years).		
(c) <b>Environmental and asbestos liabilities</b>		
The provision for net outstanding claims after discounting of £17.8 million (net of reinsurance) includes an amount of £7.2 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.		
(d) <b>Comparative figures</b>		
Prior year comparatives for outstanding claims and reinsurers' share of outstanding claims have been increased by £2,143,000 to reflect fronting arrangements previously accounted for on a net basis. There was no impact on equity shareholders' funds from this adjustment.		
<b>6. DIRECTORS AND STAFF</b>		
No directors were remunerated by the Company during the year (1997 £nil). The Company had no staff during the year and no employment costs as British Aviation Insurance Group provides management services to the Company.		
<b>7. INVESTMENT INCOME</b>	1998	1997
	£'000	£'000
Income from investments	2,382	2,664
Realised investment gains	<u>570</u>	<u>4,121</u>
	<u>2,952</u>	<u>6,785</u>

**AVIATION & GENERAL INSURANCE COMPANY LIMITED**  
**NOTES TO THE ACCOUNTS**

	1998 £'000	Restated 1997 £'000
<b>8. INVESTMENT EXPENSES AND CHARGES</b>		
Investment management expenses	97	73
Realised investment losses	<u>567</u>	<u>1,384</u>
	<u>664</u>	<u>1,457</u>
<b>9. TAXATION</b>		
Current taxation		
UK corporation tax at 31% (1997 31.5%)	7	1,682
Tax attributable to UK dividends	147	129
Overseas tax	296	8
Deferred taxation	<u>1,474</u>	<u>160</u>
	1,924	1,979
Prior years		
UK corporation tax	521	267
Deferred taxation	<u>(170)</u>	<u>(201)</u>
	<u>2,275</u>	<u>2,045</u>
<b>10. INVESTMENTS</b>		
Current value		
Listed equity shares	35,949	26,398
Government fixed interest	16,026	18,467
Deposits with credit institutions	<u>2,814</u>	<u>4,664</u>
	<u>54,789</u>	<u>49,529</u>
Historical cost		
Listed equity shares	16,947	12,039
Government fixed interest	15,852	18,925
Deposits with credit institutions	<u>2,814</u>	<u>4,664</u>
	<u>35,613</u>	<u>35,628</u>
<b>11. 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**

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

	Share Capital	Share Premium	Profit and Loss account	Revaluation Reserve	Total
	£'000	£'000	£'000	£'000	£'000
As at 1 January 1998	500	525	14,860	10,095	25,980
Restatement to reflect new accounting policy for unrealised gains	-	-	10,095	(10,095)	-
As at 1 January 1998 – restated	500	525	24,955	-	25,980
Movement during year	-	-	1,950	-	1,950
As at 31 December 1998	<u>500</u>	<u>525</u>	<u>26,905</u>	<u>-</u>	<u>27,930</u>

**13 DEFERRED TAX**

	1998 £'000	1997 £'000
Provision at the beginning of the year	4,104	4,145
Movement during the year	1,304	(41)
Provision at the end of the year	<u>5,408</u>	<u>4,104</u>

The provision for deferred tax relates mainly to unrealised investment gains.

**14. CREDITORS**

Other creditors include £22,000 (1997 nil) in respect of Corporation tax and the proposed dividend of £2 million (1997 nil).

**15. 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 £6.0 million (1997 £6.8 million).