

THE

GRIFFIN

INSURANCE ASSOCIATION LIMITED

Company Number 2134231

2004

REPORT AND FINANCIAL STATEMENTS
30TH SEPTEMBER

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Directors and Administration

Committee

R E G Gibson (Chairman)

K S Alsford	J S Goldsmith	D H E Price
M J Attenborough	A C Gyde*	S Rimmer**
P Barnes	R K Haddon	I D Russell
J C Birkmire*	C G Harman	M E Shaw
M J A Bishop	P J Hicks	A J Sindall
R S Bright	F T Hindle	J C Speers
S A Buckle	P R Holcroft	C M Spratt
P R Carroll	A M Holman	V H Thompson*
P S Cazeaux	D P Howden	P C Venus
J C Clements	P Hunt	P Vincent**
M G Cobb	G R S Lark	A Wallas*
R E Cole	A J McGraw	M R W Warren
I B Evans-Lombe	G J McKean	T J Watkins
P J Fleury*	A P Phillips	K W Woodhams*

Notes

* *appointed during the year* ** *resigned during the year*

The Griffin Insurance Association Limited

Limited by Guarantee
Company Number 2134231
Authorised and Regulated by the Financial Services Authority

Registered Office

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

Managers

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

Auditors

Moore Stephens
St. Paul's House
Warwick Lane
London EC4M 7BP

Report of the Committee

The Committee has pleasure in presenting its Report together with the audited Financial Statements for the year ended 30 September 2004.

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 Association is authorised under the Financial Services and Markets Act 2000 ("FSMA") to conduct insurance business in the United Kingdom. It is regulated by the Financial Services Authority. In connection with the implementation in the UK of the EU Intermediation Directive, the Association has been granted additional Part IV approvals to advise on, arrange, make arrangements for, and deal in non-investment insurance contracts.

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

Rules of the Association

During the year under review, the definition of "Broking Business" was amended in order to reflect terminology used by the FSA in implementing the Insurance Mediation Directive.

Membership

At 1 October 2004, the number of firms entered for insurance in the Association was 43 (2003 - 41).

Financial Review

The attached financial statements for the year to 30 September 2004 show a further strengthening of the Association's financial position. Its free reserves have increased by 23% to £17.2 million, equal to 76.1% of outstanding claims liabilities (2003 – 73.8%).

Although there was no increase in advance call rates at renewal in September 2003, call and premium income for the year increased by 24% reflecting the increased membership of the Association and the growth in Members' underlying business.

The cost of claims for the year increased by only 15% to £8.8 million. Once again this cost has been reduced as a result of releases from prior years' claims provisions (£2.0 m. compared to £1.7m in 2003). Net operating expenses have increased as a result of higher costs of managing the Association's business and the rising cost of regulatory compliance.

Following the substantial recovery in equity markets during 2003, stock markets have generally moved sideways during the past twelve months with the result that the investment return for the year was lower than expected. As a result, there is a transfer from the investment reserve of £0.3m almost equal to the net surplus of investment return transferred into that reserve twelve months ago. At its meeting in July 2004, the Committee decided to start the process of re-building the investment reserve by making a transfer of £670,000 from the surplus on the 1997/98 policy year. These financial statements therefore include a net transfer to the investment reserve of £0.4m.

At the same meeting, the Committee decided that a further 20% return of advance call for the 1997/98 policy year, amounting to £1.1 million, should be made to Members in that year still entered with the Association. The return will be credited against the first and/or subsequent instalment(s) of advance call for 2004/2005 and is included as a creditor in these financial statements. In accordance with the reserve strategy adopted by the Committee in July the year will remain open and the surplus £2.0 million will be retained pending the increase of the general reserve to its target level.

The insurance industry as a whole is under close regulatory scrutiny. Part of this involves increased capital requirements to ensure the security of policyholders' interests. The Association does not escape these requirements, but the decision already taken by the Committee to build the free reserves over a number of years means that no change of financial policy is likely to be required.

Investments

The features of the latest twelve months in financial markets have been:

- healthy global growth
- sharp increases in commodity prices
- a very modest increase in inflation
- a weaker US dollar
- a further recovery in equity markets

The later part of 2003 saw the peak of global growth in this economic cycle and during 2004 this has moderated to more sustainable levels. US GDP in the final quarter of last year was running at an annualised rate of 4.2% (having been 7.4% the previous quarter).

The demand for raw materials in China contributed significantly to sharp rises in prices for commodities such as steel and copper. The prices of copper and oil almost doubled over the last year. Unlike the 1970's, the market viewed the oil price increase as being more of a brake on growth than a threat to inflation and in the event, inflation in goods and services at the consumer level increased only modestly.

UK base rates have risen from the exceptionally low 3.5% to 4.75%, which appears increasingly likely to be the peak in this interest rate cycle. The Bank of England, which was the first major central bank to act, signalled its intentions well in advance, so the gilt-edged market has not been perturbed by the moves in short term rates. Longer-dated issues remain well supported by pension and life assurance funds and yields remain around the 4.65% level, where they were twelve months ago.

The US Federal Reserve only started to raise its official rate at the end of June 2004 and by September the Fed Funds rate was at 1.75%. Since the year end there has been a further 0.25% rise. At this level, real rates are still negative (i.e. below inflation) and further rises are expected going into 2005.

Later in the year UK and US equity markets made further progress, building on the recovery that started in April 2003. Strong growth in profitability was a key driver, whilst UK dividend growth looks likely to be the highest for a number of years.

Risk Management

The former risk management programme was successfully concluded with emphasis on embedding good practice with new Members. Following a full review a new risk management programme began in February 2004. The objective is to review the entire UK based membership within eighteen months and overseas branches where appropriate.

New Risk Management Guidelines were issued with greater emphasis given to IT. Additionally, a new review report format was introduced and narrative honed to provide clear concise text in user-friendly format. Reaction from the Members to both has so far been positive.

Early in the year the majority of Members were pre-occupied with their FSA applications. More recently their focus turned to ensuring appropriate systems and compliance are in place to meet the new regulatory requirements. Members' own heightened risk management perception has further embedded the already strong alignment with the Association's risk management objectives.

Noticeable trends from the programme to date include IT issues relating to electronic communication, storage and archiving. Other than this there has been a general spread of findings rather than an incidence of specific issues.

The Managers continue to assist Members to raise risk awareness by way of presentations and risk control strategies. Underwriters' reliance on policy terms and conditions as a basis of denial has increased, thereby generating a greater demand for training and competence. Liability advice given during the period has tended to focus on Terms of Business, confidentiality and business transfer agreements. This remains an important aspect of work undertaken by the Managers.

Renewal 2004/2005

All current Members renewed their cover on the Association's common anniversary date at 1 October 2004. The Membership immediately following renewal stood at 43, representing a small increase of two over the twelve months. This is in line with the Association's ongoing selective approach to the admission of new Members.

The financial position of the Association is sound, and once again the Committee took the view that an appropriate level of advance call could be achieved without any general rate change though Members would continue to be underwritten individually to reflect any changes they might present in terms of risk to the Association.

By order of the Committee

A. F. Gosden
Secretary
8 December 2004

Statement of Directors' Responsibilities

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.

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 2004 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 accept 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 2004 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 EC4M 7BP

10 December 2004

Income and Expenditure Account for the year ended 30 September 2004

	Note	2004 £	2003 £
TECHNICAL ACCOUNT - GENERAL BUSINESS			
Earned premiums, net of reinsurance			
Calls and premiums	2	17,568,869	14,161,536
Return calls	2	(1,094,847)	(581,366)
Reinsurance premiums		(4,100,054)	(3,783,497)
		12,373,968	9,796,673
Allocated investment return transferred from the non-technical account	6	1,706,313	1,328,626
		14,080,281	11,125,299
Claims paid			
Gross amount		(5,216,915)	(2,821,502)
Reinsurers' share		169,065	(1,787)
		(5,047,850)	(2,823,289)
Change in the provision for claims			
Gross amount		(3,716,357)	(4,796,649)
Reinsurers' share		-	-
		(3,716,357)	(4,796,649)
Increase	3	(3,716,357)	(4,796,649)
Claims incurred net of reinsurance		(8,764,207)	(7,619,938)
Net operating expenses	4	(1,286,364)	(881,236)
Balance on the technical account		4,029,710	2,624,125
NON-TECHNICAL ACCOUNT			
Balance on the technical account		4,029,710	2,624,125
Net investment income	5	1,309,331	1,784,811
Allocated investment return transferred to general business technical account	6	(1,706,313)	(1,328,626)
Surplus on ordinary activities before taxation		3,632,728	3,080,310
Taxation	7	(363,401)	(489,746)
Net surplus for the financial year after taxation		3,269,327	2,590,564
Surplus at 30 September 2003		4,112,189	3,185,968
Surplus at 30 September 2004		7,381,516	5,776,532
Transfer to investment reserve	10	(383,199)	(331,009)
Transfer to general reserve	10	(1,500,000)	(1,333,334)
Balance carried to Balance Sheet		£5,498,317	£4,112,189

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.

Balance Sheet as at 30 September 2004

	Note	2004 £	2003 £
ASSETS			
Financial investments	8	34,724,880	29,018,865
Reinsurers' share of technical provisions			
Claims outstanding		-	-
Debtors			
Direct insurance operations - Members		1,345	162,157
Reinsurance		-	-
Other debtors		42,537	47,561
Taxation		41,151	-
Deferred taxation		-	22,095
Cash at bank		5,800,763	5,496,967
Accrued income		373,653	414,024
		40,984,329	35,161,669
LIABILITIES			
Reserves			
Investment reserve	10	714,208	331,009
General reserve	10	11,000,000	9,500,000
Income and expenditure account	10	5,498,317	4,112,189
		17,212,525	13,943,198
Technical provisions			
Claims outstanding - gross amount		22,606,419	18,890,062
Provision for the other risks and charges			
Deferred taxation		29,378	-
Creditors			
Direct insurance operations - Members		945,100	483,332
Reinsurance Operations		119,190	241,162
Taxation		-	19,324
Other creditors	9	71,717	1,584,591
		40,984,329	35,161,669

Approved by the Committee on 8 December 2004.

R E G Gibson
Director

P J Hicks
Director

P Hurst
Griffin Managers Limited

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

**Cash Flow Statement for the year ended
30 September 2004**

	2004 £	2003 £
Cash Flow Statement		
Premiums received from Members	17,007,838	13,170,682
Reinsurance premiums paid	(4,222,027)	(4,052,536)
Claims paid	(5,123,126)	(2,885,252)
Reinsurance recoveries	169,065	(1,787)
Net cash inflow/(outflow) from general insurance transactions	<u>7,831,750</u>	<u>6,231,107</u>
Dividends received	298,694	233,693
Other investment income received	1,465,963	1,004,153
Other operating cash payments	(1,438,593)	(967,611)
Net cash inflow from operating activities	<u>8,157,814</u>	<u>6,501,342</u>
Corporation tax paid	(372,402)	(39,280)
Net cash flow	<u><u>7,785,412</u></u>	<u><u>£6,462,062</u></u>
Cash flows were invested as follows:		
Increase in cash balances	303,796	2,304,619
Increase in investments	7,481,616	4,157,443
Net application of cash flows	<u><u>7,785,412</u></u>	<u><u>£6,462,062</u></u>
Reconciliation of net income before tax to net cash flow from operating activities		
<i>Net surplus before taxation</i>	3,632,728	3,080,310
<i>Increase in provision for claims</i>	3,716,357	4,796,649
<i>Decrease in insurance and other debtors</i>	206,207	176,759
<i>Increase/(decrease) in insurance and other creditors</i>	325,208	(986,218)
<i>Realised investment losses</i>	535,787	239,883
<i>Increase in market value of investments</i>	(258,473)	(806,041)
Net cash inflow from operating activities	<u><u>8,157,814</u></u>	<u><u>6,501,342</u></u>
Movement in opening and closing portfolio investments net of financing		
<i>Net cash inflow for the period</i>	303,796	2,304,619
<i>Increase in investments</i>	7,481,616	4,157,443
<i>Realised investment losses</i>	(535,787)	(239,883)
<i>Decrease/(increase) in investment creditors</i>	(1,498,287)	1,399,718
Net portfolio investment	<u>5,447,542</u>	<u>5,317,278</u>
<i>Decrease in market value of investments</i>	258,473	806,041
Portfolio investments and cash 30 September 2003	<u>34,515,832</u>	<u>26,087,894</u>
Portfolio investments and cash 30 September 2004	<u><u>40,525,643</u></u>	<u><u>34,515,832</u></u>

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 was 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

	2004	2003
	£	£
Advance calls	17,568,869	14,129,791
Release calls	-	31,745
	<u>17,568,869</u>	<u>14,161,536</u>
Return call – 1997/98	(1,094,847)	(505,800)
Return call - 1995/96	-	(75,566)
	<u>(1,094,847)</u>	<u>(581,366)</u>

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 £2,173,293 (2003 - £1,724,876) relating to prior years made up as follows:

	2004	2003
	£	£
Net provision at beginning of year	18,890,062	14,093,413
Net payments during the year in respect of these provisions	(3,732,114)	(1,609,682)
Net provision carried forward in respect of claims provided for at the end of the last year	(12,984,655)	(10,758,855)
Prior year over-provision	<u>2,173,293</u>	<u>1,724,876</u>

4. Net operating expenses

	2004	2003
	£	£
Acquisition costs	297,500	221,250
Administrative expenses	988,864	659,986
	<u>1,286,364</u>	<u>881,236</u>

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 £640,000 (2003 - £470,000) payable to the Managers in respect of the conduct of the Association's risk management programme.
- ii) Auditors' remuneration of £15,500 (2003 - £13,515). In addition to the audit fee, Moore Stephens were paid £4,113 (2003 - £5,250) in respect of taxation services.
- iii) Director's remuneration of £20,000 (2003 - £20,000).

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

5. Net investment income

	2004 £	2003 £
Income from listed investments	1,564,029	1,217,833
Bank and other interest	160,257	112,018
Losses on the realisation of investments	(535,787)	(239,883)
Unrealised gains on investments	258,473	806,041
Exchange losses	(799)	(5,195)
	<hr/>	<hr/>
Investment income	1,446,173	1,890,814
Investment management expenses	(136,842)	(106,003)
	<hr/>	<hr/>
Net investment income	<u>1,309,331</u>	<u>1,784,811</u>

6. Allocated investment return

Investment return, £1,706,313 (2003 - £1,328,626) 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:

	2004 UK £	2003 UK £	2004 US \$	2003 US \$
Bonds	4.40%	4.30%	4.00%	4.10%
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

	2004 £	2003 £
Net Investment Income	7,377,290	6,067,959
Longer-term rate of return	9,248,920	7,542,607
	<hr/>	<hr/>
Deficit of actual returns below longer-term returns	<u>(1,871,630)</u>	<u>(1,474,648)</u>

The investment return for 2004 represents the aggregate for a 6-year period compared to a 5-year period for 2003.

The transfer of £286,801 from the Investment reserve represents the shortfall of £396,982 (net of tax of £110,181) in net investment income compared to the longer-term return credited to the technical account.

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 in the income and expenditure account represents:

Analysis of charge for the year

	2004 £	2003 £
Corporation Tax at 30%	312,330	473,086
Prior year's over provision	<u>(402)</u>	<u>-</u>
Total current tax	311,928	473,086
Deferred taxation	<u>51,473</u>	<u>16,660</u>
	<u><u>363,401</u></u>	<u><u>489,746</u></u>

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:

	2004 £	2003 £
Net income before tax	<u>3,632,728</u>	<u>3,080,310</u>
Surplus on ordinary activities multiplied by standard rate of corporation tax in the UK of 30%	1,089,818	924,093
<i>Effects of:</i>		
Non-taxable mutual insurance operations	(696,779)	(387,091)
Non-taxable equity income	(80,709)	(63,916)
Prior year's over provision	<u>(402)</u>	<u>-</u>
Current tax charge	<u><u>311,928</u></u>	<u><u>473,086</u></u>

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	9,476,041	2,525,104	12,001,145
Sale of investments	(5,081,722)	(936,094)	(6,017,816)
Realised losses	(318,060)	(217,727)	(535,787)
Net portfolio investment	<u>4,076,259</u>	<u>1,371,283</u>	<u>5,447,542</u>
Movement in unrealised (losses)/gains	(732,760)	991,233	258,473
	<u>3,343,499</u>	<u>2,362,516</u>	<u>5,706,015</u>
Market value at 30 September 2003	20,319,282	8,699,583	29,018,865
Market value at 30 September 2004	<u><u>23,662,781</u></u>	<u><u>11,062,099</u></u>	<u><u>34,724,880</u></u>
<i>Cost at 30 September 2003</i>	<i>£20,488,886</i>	<i>£9,212,460</i>	<i>£29,701,346</i>
<i>Cost at 30 September 2004</i>	<i>£24,565,146</i>	<i>£10,583,742</i>	<i>£35,148,888</i>

9. Other creditors

Included in the figure for other creditors in 2004 is £12,900, resulting from an unsettled investment trade (2003 - £1,511,187).

10. Reserves

	Investment reserve £	General reserve £	Income and expenditure account £	Total £
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	<u>331,009</u>	<u>9,500,000</u>	<u>4,112,189</u>	<u>13,943,198</u>
Surplus for the financial year	-	-	3,269,327	3,269,327
Transfer to investment reserve	670,000	-	(670,000)	-
Transfer from investment reserve	(286,801)	-	286,801	-
Transfer to general reserve	-	1,500,000	(1,500,000)	-
Balance at 30 September 2004	<u><u>714,208</u></u>	<u><u>11,000,000</u></u>	<u><u>5,498,317</u></u>	<u><u>17,212,525</u></u>

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/deficit on the Association's investments portfolio. At its meeting in July 2004, the Committee decided to start the process of rebuilding this reserve by making a transfer of £670,000 from the surplus on the 1997/98 policy year.

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 £2,390,000 in respect of management fees and risk management services during the year ended 30 September 2004 (2003 - £1,945,000).