



THE GRIFFIN
INSURANCE ASSOCIATION LIMITED

Annual Report and Financial Statements
Year ended 30 September 2005

The Griffin Insurance Association Limited

Registered Office, New City Court, 20 St Thomas Street, London SE1 9RR

Telephone: 020 7407 3588



CONTENTS

Report of the Committee

- 1 Principal Activity
- 1 The Committee
- 1 Committee Meetings
- 1 Rules of Association
- 1 Membership
- 1 Financial Review
- 2 Investments
- 4 Risk Management
- 4 Renewal 2005/06

Financial statements

- 6 Statement of Directors' responsibilities
- 7 Independent auditors' report
- 8 Income and expenditure account
- 9 Balance sheet
- 10 Cash flow statement
- 11 Notes to the financial statements
- 16 Directors



REPORT OF THE COMMITTEE

The Committee has pleasure in presenting its Report together with the audited financial statements for the year ended 30 September 2005.

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 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 purposes 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 16.

Committee Meetings

The Committee met twice during the year under review, in December and July. The table below lists the most important matters considered by the Committee at its meetings:

Rules of Association

Several changes were made to the Rules during the year under review. Amendments were made to Rule 27(5) and Rule 2 to reflect the replacement of the IBRC and the GISC by the FSA, and a new Rule 6(5)K was added to enable compliance with regulatory requirements. Reference to Section 13 of the Data Protection Act was incorporated into Rule 18(1) and the exclusion set out at Rule 19(11) was restated to clarify the scope of the exclusion, which is restricted to losses arising from the act of electronic transmission and/or receipt. A procedural amendment was made to Rule 6(5)D.

Membership

At 1 October 2005, the number of firms entered for insurance in the Association was 44 (2004 – 43).

Financial Review

For the third year running the Association's financial statements

report a substantial surplus for the financial year and a stronger financial position. Part of this (£1.5 million) results directly from the decision taken three years ago to build the Association's free reserves by increasing call rates to a level that permitted transfers to the General Reserve. However, the surpluses also reflect a period of benign claims experience. While it would be imprudent to anticipate that such a favourable claims trend will continue indefinitely, it has enabled the Association to progress faster than anticipated towards the reserve targets set by the Committee in July 2003.

Calls for the year to 30 September 2005 were just under 10% higher than the previous year, reflecting growth in Members' businesses and the addition of one new member. At its meeting in July 2005, the Committee approved a return of call for the 1998/99 policy year equivalent to 20% of the advance call for that year.

Matters considered by the Committee

- Membership
- Financial statements
- Advance call rates
- Investment strategy
- Closing of policy years
- Articles of Association
- Rule amendments
- Reinsurance arrangements
- Claims
- Individual capital assessment
- Release call rates

REPORT OF THE COMMITTEE (CONTINUED)

This amount has been accrued in these financial statements and has since been credited against Members' calls for the 2005/06 policy year. The structure of the Association's reinsurance programme was unchanged and rates remained virtually identical. As a result the cost of reinsurance went up in line with advance call income.

Claims paid during the year (£3.5 million) were a third lower than the previous year. Although the cost of claims for the 2004/05 policy year is projected to be higher than the previous year (in line with the increase in call income), the amount charged in these financial statements was reduced by a further release from prior years' claims provisions reflecting the lower than anticipated cost of claims in the 2002/03 policy year.

The costs of managing the Association increased broadly in line with salary inflation. Administrative expenses include the costs of professional advice taken in connection with the investment strategy review and the development of the Association's

Individual Capital Assessment, which took place during the year.

After several years of disappointing investment returns, the recovery of equity markets produced a substantial boost to the Association's investment return for 2004/05. At £4.6 million the net return was more than double the projected return for the year and resulted in a £1.8 million transfer to the investment reserve. This, together with the £0.7 million transfer from closed policy years approved by the Committee in July, means that the investment reserve is now only £1.3 million short of its target level. Good progress has been made towards building the general reserve and the Association is well on track to achieve its target level of free reserves.

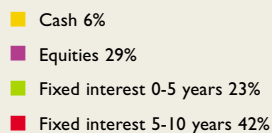
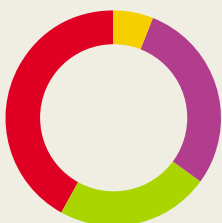
With effect from 2005, UK insurers have been subject to the Financial Services Authority's new capital adequacy requirements. The first of these, the Enhanced Capital Requirement, uses the existing solvency return as a basis for calculating a capital requirement that reflects the risks of different categories

of asset and liability. The second, the Individual Capital Assessment, requires the directors of insurance companies to develop their own assessment of the minimum capital required at a 99.5% confidence level, taking into account all the factors peculiar to their business. With advice from independent consultants, the Managers have spent a considerable amount of time developing the Association's Individual Capital Assessment. Although some of the techniques involved are more sophisticated than those employed in the past, the underlying principles reflect closely the thinking which lies behind the Committee's existing reserves strategy and, as anticipated, the results demonstrate that the Association continues to be prudently reserved and in a sound position to meet the uncertainties of the future.

Investments

The pace of growth in the UK economy over the course of the last 12 months has been more moderate. A reduced impetus from the public sector has been one factor, and a slowing housing market another,

Investment holdings at 30 September 2005



while at the same time retail sales volumes have been significantly weaker. The global picture is more mixed. While economic growth in Europe has been persistently slow, the US has shrugged off its so-called 'slow patch' and GDP is growing above trend. The US consumer is still prepared to borrow in order to spend, apparently encouraged by strong house price gains. Overheating in the housing sector presents a risk to the US, and therefore the global, economy going forward.

Over the period forecasts for inflation have risen, particularly in the US and UK. In the US, inflation is expected to exceed 3% in 2005 but to decline next year, although there is a risk that this forecast is too optimistic. In the UK, the inflation rate has exceeded the new 2% CPI target for the first time.

In August, UK interest rates were cut to 4.5%. That decision seems to have coincided with the weakest point in both retail sales and house prices, both of which have since recovered a little. Subsequently, Hurricane

Katrina has disrupted US oil production and caused a spike in petrol prices. The Federal Reserve's view was that this interruption to the economy was likely to be temporary and, indeed, there could be a boost to growth once the rebuilding programme gets under way. The Fed has now raised interest rates from 1.75% to 3.75% and still regards policy as 'accommodative'. US Treasury yields have increased from 4.1% to 4.3% over the same period and seem set to continue rising.

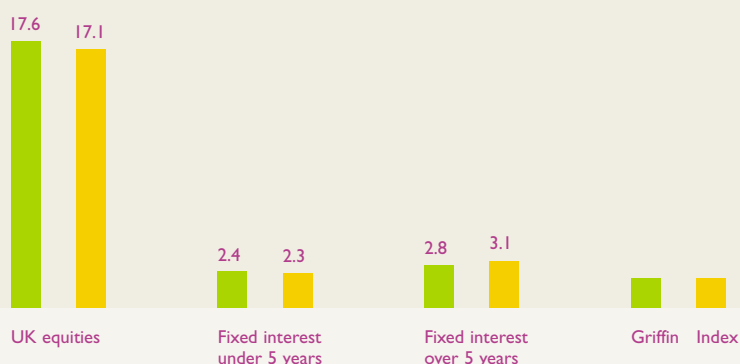
The UK gilt-edged market benefited from the slower economic outlook. The yield on the 10-year government bond has fallen from 4.9% to 4.3% over the course of the last 12 months. A low point of 4.1% was reached at the end of August, boosted by the rate cut earlier in the month. Given that yields have been rising recently in other major markets, UK yields seem set to follow.

Stock markets continued to recover, supported by high levels of profit and dividend growth. The UK stock market rose by nearly 21% and the

US by 11.5%. Over the course of the year the portfolio returned 9.8% compared with a benchmark return of 9.5%.

During the year the Committee undertook a review of the Association's investment strategy. With the advice of external consultants it considered the asset allocation strategy appropriate to the projected liabilities. It also considered the way in which the portfolio should be managed and the appointment of the investment managers. The review concluded that little change was required. The Association will continue to hold approximately 25% of its investments in equities, with the balance held in cash and government bonds. The previous allocation to high-grade corporate bonds has been discontinued, given the marginal yield premium that these securities provided over equivalent gilts or US treasuries. The Association's existing investment managers have been reappointed and will continue to manage the portfolio on an active basis.

Three-year investment performance compared to benchmark



REPORT OF THE COMMITTEE (CONTINUED)

Risk Management

Since the recent growth in membership of the Association, the Risk Management programme has concentrated on ensuring that newer Members are embracing the principles of good practice set out in the Association's Risk Management Guidelines and, where necessary, providing assistance to those Members. More recently, the Risk Management programme has been able to continue the original objective of reviewing all Members on a regular basis and incorporating any issues of particular interest or concern in relation to those Members.

Members are encouraged to see errors and omissions risk as part of a wider approach to the management of business risk. This enables the identification and control of errors and omissions related risks to be integrated into the overall controls which firms have in place to promote and monitor best business practice.

The Managers have continued to assist Members in raising risk awareness by way of presentations

and recommendations in respect of risk control strategies. Matters addressed have included contract certainty, conflicts of interest (including those presented by the need to enter into terms of business agreements with insurers), client focus, and incorporating the FSA's principles of treating clients fairly. These issues have all emphasised the need for efficient systems and controls, and improved work practices to respond to changes in the way brokers conduct their business. A number of technical forums have been held on these and other topics.

The membership of the Association remains very alive to the potential errors and omissions issues that arise out of the current challenges facing the broking community. Use of information technology to trade, store and process data continues to develop. Through the Risk Management Programme, Members have been assisted in the improvements they are seeking to implement by the provision of advice on legal aspects of liability exposure. This service, combined with the ongoing Risk Management

programme, supports Members in reinforcing the messages they are disseminating within their own firms on these important issues.

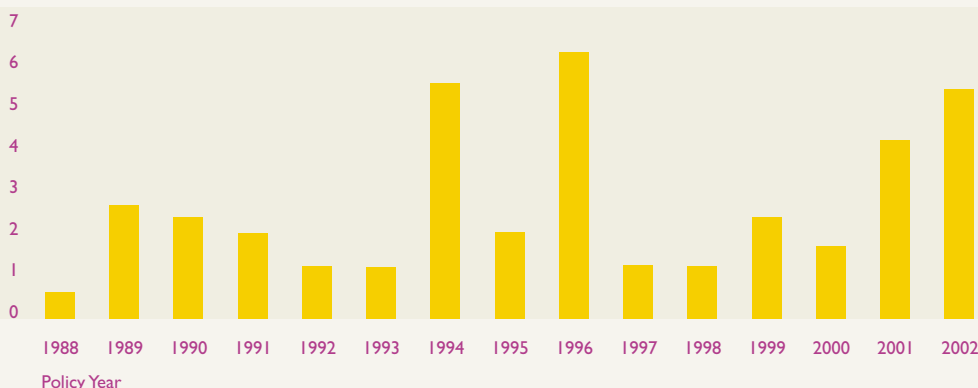
Renewal 2005/06

At its meeting in July 2005, the Committee decided that an appropriate level of advance call for 2005/06 could be achieved without any general rate increase.

Immediately following renewal, the membership stood at 44, as compared with 43 one year earlier. Two new firms joined during the year to 30 September 2005, and one, whose business was in run-off, departed at the end of the policy year.

By order of the Committee
A F Gosden Secretary
 8 December 2005

Net claims £m



(Data in 2003 and 2004 policy years are insufficient to make accurate projections)

FINANCIAL STATEMENTS

- 6 Statement of Directors' responsibilities
- 7 Independent auditors' report
- 8 Income and expenditure account
- 9 Balance sheet
- 10 Cash flow statement
- 11 Notes to the financial statements
- 16 Directors



STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the Directors to prepare financial statements for each financial year, which 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 that period. 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 2005 set out on pages 8 to 15. These financial statements have been prepared under the historical cost convention and the accounting policies set out on pages 11 and 12.

This report is made solely to the Association's Members, as a body, in accordance with Section 253 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 purposes. 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, the Association's Directors are responsible for the preparation of financial statements in accordance with applicable law and the 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 Directors' report is not consistent with the financial statements, 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 with the Association is not disclosed.

We read the Directors' report and the report of the Committee and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of Audit 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 which 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 state of the Association's affairs as at 30 September 2005 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 LLP
Registered Auditor
Chartered Accountants

St Paul's House
Warwick Lane
London EC4M 7BP

8 December 2005

INCOME AND EXPENDITURE ACCOUNT

for the year ended 30 September 2005

		2005	2004
		£	£
Technical account – general business			
Earned premiums, net of reinsurance			
Calls and premiums	2	19,304,744	17,568,869
Return calls	2	(998,524)	(1,094,847)
Reinsurance premiums		(4,603,463)	(4,100,054)
		13,702,757	12,373,968
Allocated investment return transferred from the non-technical account	6	2,127,020	1,706,313
		15,829,777	14,080,281
Claims paid			
Gross amount		(3,495,347)	(5,216,915)
Reinsurers' share		–	169,065
		(3,495,347)	(5,047,850)
Change in the provision for claims			
Gross amount	3	(6,432,697)	(3,716,357)
Reinsurers' share		–	–
		(6,432,697)	(3,716,357)
Claims incurred net of reinsurance		(9,928,044)	(8,764,207)
Net operating expenses	4	(1,412,080)	(1,286,364)
Balance on the technical account		4,489,653	4,029,710
Non-technical account			
Balance on the technical account		4,489,653	4,029,710
Net investment income	5	4,614,635	1,309,331
Allocated investment return transferred to the general business technical account	6	(2,127,020)	(1,706,313)
Surplus on ordinary activities before taxation		6,977,268	3,632,728
Taxation	7	(1,202,981)	(363,401)
Net surplus for the financial year after taxation		5,774,287	3,269,327
Surplus at 30 September 2004		5,498,317	4,112,189
Surplus at 30 September 2005		11,272,604	7,381,516
Transfers to investment reserve	9	(2,539,123)	(383,199)
Transfer to general reserve	9	(1,500,000)	(1,500,000)
Balance carried to Balance Sheet		7,233,481	5,498,317

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 15 form part of these financial statements.

BALANCE SHEET

as at 30 September 2005

		2005	2004
Assets	Note	£	£
Financial investments	8	49,898,272	34,724,880
Reinsurers' share of technical provisions			
Claims outstanding		–	–
Debtors			
Direct insurance operations – Members		37,972	1,345
Reinsurance		42,924	–
Other debtors		115,622	42,537
Taxation		–	41,151
Deferred taxation		4,097	–
Cash at bank		3,833,553	5,800,763
Accrued income		510,202	373,653
		54,442,642	40,984,329
Liabilities			
Reserves			
Investment reserve	9	3,253,331	714,208
General reserve	9	12,500,000	11,000,000
Income and expenditure account	9	7,233,481	5,498,317
		22,986,812	17,212,525
Technical provisions			
Claims outstanding – gross amount		29,039,116	22,606,419
Provision for other risks and charges			
Deferred taxation		–	29,378
Creditors			
Direct insurance operations – Members		1,008,005	945,100
Reinsurance operations		–	119,190
Taxation		1,236,615	–
Other creditors		172,094	71,717
		54,442,642	40,984,329

Approved by the Committee on 8 December 2005.

GRS Lark Director
REG Gibson Director

P Hurst Griffin Managers Limited

The notes on pages 11 to 15 form part of these financial statements.

CASH FLOW STATEMENT

for the year ended 30 September 2005

	2005 £	2004 £
Premiums received from Members	18,249,002	17,007,838
Reinsurance premiums paid	(4,765,577)	(4,222,027)
Claims paid	(3,369,313)	(5,123,126)
Reinsurance recoveries received	–	169,065
Net cash inflow from general insurance transactions	10,114,112	7,831,750
Dividends received	374,683	298,694
Other investment income received	1,747,145	1,465,963
Other operating cash payments	(1,465,452)	(1,438,593)
Net cash inflow from operating activities	10,770,488	8,157,814
Corporation Tax paid	41,309	(372,402)
Net cash flow	10,811,797	7,785,412
Cash flows were applied as follows:		
Decrease cash balances	(1,967,210)	303,796
Increase in investments	12,779,007	7,481,616
Net application of cash flows	10,811,797	7,785,412

Reconciliation of net income before tax to net cash flow from operating activities

Net surplus before taxation	6,977,268	3,632,728
Increase in provisions for claims	6,432,697	3,716,357
(Increase)/decrease in insurance and other debtors	(211,395)	206,207
(Decrease)/increase in insurance and other creditors	(21,178)	325,208
Realised investment (gains)/losses	(268,814)	535,787
Increase in market value of investments	(2,138,090)	(258,473)
Net cash inflow from operating activities	10,770,488	8,157,814

Movement in opening and closing portfolio investments net of financing

Net cash inflow for the period	(1,967,210)	303,796
Increase in investments	12,779,005	7,481,616
Realised investment gains/(losses)	268,814	(535,787)
Decrease in investment debtors/creditors	(12,517)	(1,498,287)
Net portfolio investment	13,035,302	5,447,542
Increase in market value of investments	2,138,090	258,473
Portfolio investments and cash 30 September 2004	40,525,643	34,515,832
Portfolio investments and cash 30 September 2005	53,731,825	40,525,643

The notes on pages 11 to 15 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

30 September 2005

I 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 in November 2003.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

30 June 2005

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 24 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.

	2005 £	2004 £
2 Calls and premiums		
Advance calls	19,304,744	17,568,869
Release calls	–	–
	19,304,744	17,568,869
Return call – 1998/99	(998,524)	–
Return call – 1997/98	–	(1,094,847)
	(998,524)	(1,094,847)

All business is written in the UK and calls relate wholly to one class of business – professional indemnity insurance.

3 Movement in prior years' claims provisions

Included within the change in provision for claims is a credit of £3,064,156 (2004 – £2,173,293) relating to prior years made up as follows:

	2005 £	2004 £
Net provision at beginning of year	22,606,419	18,890,062
Net payments during the year in respect of these provisions	(1,144,065)	(3,732,114)
Net provision carried forward in respect of claims provided for at the end of the last year	(18,398,198)	(12,984,655)
Prior year overprovision	3,064,156	2,173,293

	2005 £	2004 £
4 Net operating expenses		
Acquisition costs	309,400	297,500
Administrative expenses	1,102,680	988,864
	1,412,080	1,286,364

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:

- Risk management fees of £695,000 (2004 – £640,000) payable to the Managers in respect of the conduct of the Association's risk management programme.
- Auditors' remuneration of £16,500 (2004 – £15,500). In addition to their audit fee, Moore Stephens were paid £4,289 (2004 – £4,113) in respect of taxation services.
- Directors' remuneration of £20,000 (2004 – £20,000).

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

	2005 £	2004 £
5 Net investment income		
Income from listed investments	1,977,366	1,564,029
Bank and other interest	281,011	160,257
Gains/(losses) on the realisation of investments	268,814	(535,787)
Unrealised gains on investments	2,138,090	258,473
Exchange gains/(losses)	108,336	(799)
Investment income	4,773,617	1,446,173
Investment management expenses	(158,982)	(136,842)
Net investment income	4,614,635	1,309,331

6 Allocated investment return

The investment return, £2,127,020 (2004 – £1,706,313) 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:

	2005 UK £	2004 UK £	2005 US\$	2004 US\$
Bonds	4.4%	4.4%	4.0%	4.0%
Equities	7.0%	7.0%	7.0%	7.0%
Cash	3.0%	3.5%	2.0%	3.0%

	2005 £	2004 £
Comparison of longer-term investment return with actual returns		
Net investment income since 1 October 1998	11,991,925	7,377,290
Longer-term rate of return since 1 October 1998	11,375,940	9,248,920
Surplus/(deficit) of actual returns against longer-term returns	615,985	(1,871,630)

The investment return for 2005 represents the aggregate for a 7-year period compared to a 6-year period for 2004.

The transfer of £1,839,123 to the investment reserve represents the surplus of £2,487,615 (net of tax of £648,492) of net investment income compared to the longer-term return credited to the technical account.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

30 June 2005

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 in period	2005 £	2004 £
Corporation tax at 30%	1,236,456	312,330
Prior year's overprovision	–	(402)
Total current tax	1,236,456	311,928
Deferred taxation	(33,475)	51,473
	1,202,981	363,401

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:

	2005 £	2004 £
Net income before tax	6,977,268	3,632,728
Surplus on ordinary activities multiplied by standard rate of corporation tax in the UK of 30%	2,093,180	1,089,818
Effects of:		
Non-taxable mutual insurance operations	(708,790)	(696,779)
Non-taxable equity income	(147,934)	(80,709)
Prior year's overprovision	–	(402)
Current tax charge	1,236,456	311,928

8 Investments

Investments, all of which are listed on recognised stock exchanges, comprise UK and North American government securities, corporate bonds and equities, together with cash deposits with financial institutions.

	Deposits with financial institutions £	Fixed interest investments £	Equity investments £	Total £
Purchase of investments	3,205,096	17,813,213	4,312,072	25,330,380
Sale of investments	–	(9,722,645)	(2,841,248)	(12,563,892)
Realised profit/(losses)	–	(170,622)	439,436	268,814
Net portfolio investment	3,205,096	7,919,946	1,910,260	13,035,302
Movement in unrealised gains	–	480,980	1,657,110	2,138,090
	3,205,096	8,400,926	3,567,370	15,173,392
Market value at 30 September 2004	–	23,662,781	11,062,099	34,724,880
Market value at 30 September 2005	3,205,096	32,063,707	14,629,469	49,898,272
Cost at 30 September 2004	–	24,565,146	10,583,742	35,148,888
Cost at 30 September 2005	3,205,096	32,497,396	12,481,699	48,184,191

9 Reserves	Investment reserve £	General reserve £	Income and expenditure account £	Total £
Balance at 30 September 2003	331,009	9,500,000	4,112,189	13,943,198
Surplus for the financial year	–	–	3,269,327	3,269,327
Special 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	714,208	11,000,000	5,498,317	17,212,525
Surplus for the financial year	–	–	5,774,287	5,774,287
Special transfer to investment reserve	700,000	–	(700,000)	–
Transfer to investment reserve	1,839,123	–	(1,839,123)	–
Transfer to general reserve	–	1,500,000	(1,500,000)	–
Balance at 30 September 2005	3,253,331	12,500,000	7,233,481	22,986,812

The Association is incorporated as a company limited by guarantee and does not therefore 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. To the extent that net investment income in a year exceeds/falls short of the amount credited to the technical account it is transferred to or from this reserve. As a result £1,839,123 has been credited as at 30 September 2005 (2004 debit of £286,801). 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. A further transfer of £700,000 from the surplus of the 1998/99 policy year was made during the 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.

10 Related party 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 £2,515,000 in respect of management fees and risk management services during the year ended 30 September 2005 (2004 – £2,390,000).

DIRECTORS

The Griffin Insurance Association Limited, Limited by Guarantee

Committee

R E G Gibson (Chairman)
 K S Alford
 M J Attenborough
 P Barnes
 J C Birkmire
 M J A Bishop
 R S Bright
 S A Buckle
 W P Champion*
 P R Carroll
 P S Cazeaux
 J C Clements
 M G Cobb
 R E Cole
 I B Evans-Lombe**
 F Fernandez*
 P J Fleury**
 J S Goldsmith
 A C Gyde
 R K Haddon
 C G Harman
 S P Hearn*
 P J Hicks**
 F T Hindle

P R Holcroft
 A M Holman
 D P Howden
 P Hunt**
 G R S Lark
 A J McGraw
 G J McKean
 A P Phillips
 D H E Price
 I D Russell
 M E Shaw
 A J Sindall
 J C Speers
 C M Spratt
 V H Thompson
 P C Venus
 A Wallas**
 M R W Warren
 T J Watkins
 K W Woodhams

* appointed during the year

** resigned during the year

Registered Office

New City Court
 20 St Thomas Street
 London SE1 9RR

Company Number 2134231

Managers

Tindall Riley Limited, trading as
 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

