

# THE GRIFFIN

INSURANCE ASSOCIATION LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS  
YEAR ENDED 30 SEPTEMBER 2008



# Contents

## **Report of the Committee**

- 1 Principal Activity
- 1 The Committee
- 1 Committee Meetings
- 1 Financial Review
- 2 Investments
- 3 Risk Management
- 4 Renewal 2008/09
- 4 Rules of the Association
- 4 Audit
- 4 Auditor
- 16 Directors

## **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



## Report of the Committee

The Committee has pleasure in presenting its report together with the audited financial statements for the year ended 30 September 2008.

### 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 Act 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 following were the more important matters considered by the Committee at its meetings:

### Financial Review

The Association's financial statements for the year to 30 September 2008 report a net deficit for the financial year of £2.3 million. The deficit reflects two factors. Firstly, a small number of claims reported to the Managers in previous years have developed adversely over the past twelve months. It is always difficult to project with accuracy the likely outcome of a potentially large and complex claim when it is initially notified. Where it is not possible to make an accurate assessment as to a claim's outcome, because insufficient information is available, the Managers use actuarial techniques to estimate a reserve based on the development of similar claims in earlier policy years. As soon as sufficient information is available, the Managers place conservative estimates on these claims. While experience shows that this conservative approach to reserving generally results in subsequent releases from claims provisions, there will be times when

some large claims develop adversely and offset the effect of releases on other claims. It is precisely this situation that has arisen in the past twelve months and, as a result, the cost of claims for the financial year is higher than expected. The contrast with the previous year is all the more marked because in that year, favourable developments together with a revision to the way in which provisions for future development of claims were calculated resulted in a £6.3 million release from prior years' reserves.

The second factor affecting the result for the year was the shortfall in investment income earned compared to the amount credited to the policy year and to the technical account. This shortfall (£0.9 million) reflects the impact of the 'credit crunch' and the subsequent difficulties in financial and investment markets. While the demand for gilts and US treasuries has produced substantial gains on the Association's fixed income investments, the fall in

### Matters considered by the Committee

Membership  
Report and financial statements  
Claims and claims trends  
Reserves strategy  
Individual Capital Assessment

Rule amendments  
Closing of policy years and call rates  
Reinsurance arrangements  
Investment strategy and performance  
Corporate governance

## Report of the Committee (continued)

equity market values has resulted in a loss on investments of £0.8 million, although almost half of this was compensated for by exchange gains as the value of the Association's US dollar investments rose. The reported investment result does not reflect the more recent, post 30 September, falls in equity markets. However, the Association's investments are held for the long-term and the Association's investment reserve, which at 30 September stood at £5.6 million, should be adequate to absorb any further deterioration in market values.

Despite the deficit for the financial year, the Directors have approved the transfer of a further £1.5 million to the general reserve. Overall the Association remains in a sound financial position. As at 30 September its free reserves totalled £32.1 million representing over 80% of its net claims liabilities.

### Investments

By the autumn of 2007, US sub-prime mortgages had been causing problems for some time, wholesale money markets were hardly functioning and Northern Rock had foundered. Dramatic as these events appeared at the time, they proved to be a mere taster of what was to happen in the following twelve months.

Money-market funding continued to present difficulties into the turn of the year and the three-month LIBOR benchmark moved from its normal 25

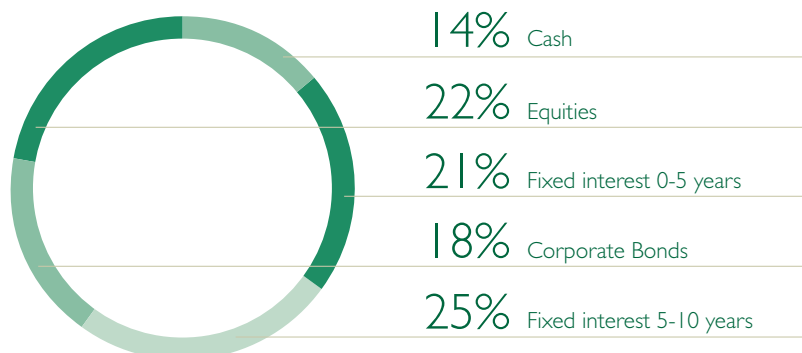
basis points (bp) to 100bp (1%) above the overnight rate. Various measures were taken by central banks to provide liquidity but most of this seemed to be hoarded by banks and very little money was lent on to the real economy.

The combination of a collapsing housing market and restricted credit was a significant drag on the world's major economies with both the UK and the US showing negative GDP growth by the third quarter of 2008. Despite this, consumer spending has been surprisingly resilient until recently, perhaps because unemployment only started to accelerate after July.

The US Federal Reserve cut rates swiftly from the peak of 5.25% in September 2007 to 2.00% a year later. The Bank of England, reduced rates more cautiously from 5.75% to 4.50% over the same period (although a more major 150bp rate cut followed in October 2008). More rate cuts are probably required in the UK and are still possible in the US, as the economic outlook for 2009 looks poor.

Inflation worries escalated rapidly over the course of the year. The price of a barrel of oil was around \$80 in September 2007 but this rose to over \$145 in July 2008. Petrol prices and domestic fuel bills rose commensurately and by May it was anticipated that UK inflation could be above target for the next two years. As the world economy slowed, the oil price dropped back towards \$100 by September but only

### Investment holdings at 30 September 2008



in October did a near-halving of the oil price give the Bank of England confidence to cut rates further:

However, these economic difficulties were eclipsed when, on 15 September, Lehman Brothers, a major US investment bank, failed. The repercussions were probably more serious and widespread than many, including the Federal Reserve, expected. Lehman was a counterparty to most other major market participants and the unwinding of outstanding relationships caused problems for many institutions. The Lehman collapse coincided with the near-collapse of Fannie Mae, Freddie Mac and AIG – all pillars of the US financial system – and the forced rescue of several other major market players. In a seismic shift, the financial landscape was re-drawn by the heavy injections of public money into key market participants deemed 'too-big-to-fail'.

Within the Association's portfolio, the inflation scare was very beneficial to index-linked bonds which outperformed conventional government issues and this was the best-performing asset class over the year. Conventional gilts were the next best performers. Yield spreads on corporate bonds continued to widen throughout the year and as a result corporate bonds underperformed gilts. Equities endured several periods of intense selling and trailed other assets as the earnings outlook deteriorated, but Griffin's UK and US equities out-performed their respective indices by a high margin.

Despite the unprecedented level of volatility in the market, especially at the Association's year-end, the investment portfolio produced a positive return of 3.9%, outperforming the benchmark over the last year by 1.0%.

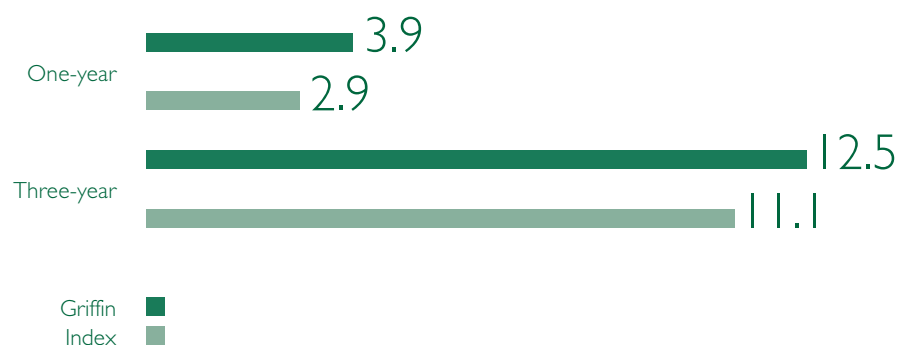
#### Risk Management

The risk management programme that commenced in 2006 was completed in mid-2008 and a new programme has started. Members have adhered to FSA requirements and have implemented changes in systems and controls in order to manage risks at operational level and provide improved reporting of procedural weaknesses to management.

The effectiveness of these controls in the management of risk continues to be a focus of the risk management programme. The review findings have enabled the Managers to provide guidance to Members in their preparation of Compliance Plans encompassing internal audit, ongoing risk assessment and IT strategy. The findings have also emphasised the importance of effective ongoing competence assessment and training, another area in which guidance and support has been given to Members.

The Managers continue to review files (both paper and electronic) as a key part of their assessment of Members' risk and the effectiveness of their overall management controls.

#### Investment performance compared to benchmark



## Report of the Committee (continued)

Existing and additional presentations, bulletins, updated guidelines and further advice on legal aspects of liability exposure continue to be provided.

### Renewal 2008/09

Membership of the Association continues to be stable, 41 Members having renewed their cover with the Association.

At its meeting in July 2008, the Committee decided that an appropriate level of advance call for 2008/09 could be achieved without any change to the general rate.

### Rules of the Association

During the year under review, there was only one change to the Rules of the Association – the definition of 'Associated Company' under Rule 2 was amended.

### Audit

The Managers are responsible for the maintenance of the Association's accounting records and the preparation of the financial statements. They have confirmed that they have provided the auditors with all relevant audit information of which they are aware. The Audit Group has considered the financial statements with the Managers, met privately with the auditors, and reported to the Committee.

So far as each of the persons who is a Director at the time of this report is aware, there is no relevant audit information of which the Association's auditors are unaware. The Directors confirm that they have taken all steps that they ought to have taken as Directors to make themselves aware of any relevant audit information and to establish that the Association's auditors are aware of that information.

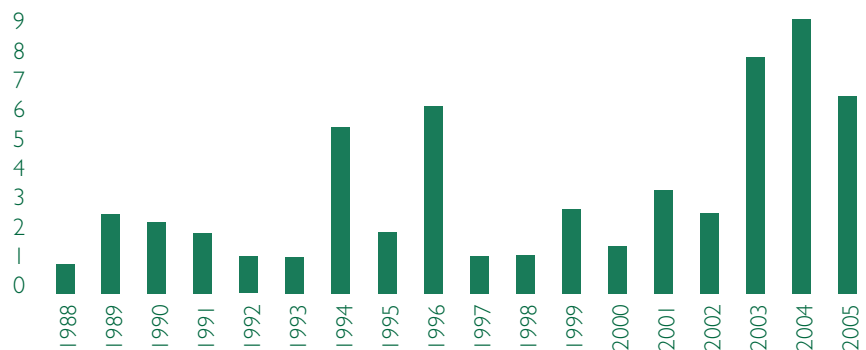
### Auditor

A resolution to reappoint Moore Stephens LLP as auditor will be put to the Members at the Annual General Meeting.

By order of the Committee

**A F Gosden** Secretary  
10 December 2008

### Net claims £m



Policy year

(Data in 2006 and 2007 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



## 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 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 2008 which are set out pages 8 to 15. These financial statements have been prepared under the accounting policies set out therein.

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 Association's 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

The Directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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 whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, 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 other transactions is not disclosed.

We read the Directors' Report 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 International Standards on Auditing (UK and Ireland) 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 judgments 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, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Association's affairs as at 30 September 2008 and of its result for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

## Moore Stephens LLP

Registered Auditors  
Chartered Accountants  
St Paul's House  
Warwick Lane  
London EC4M 7BP  
10 December 2008

## Income and expenditure account

for the year ended 30 September 2008

	Note	2008 £	2007 £
<b>Technical account – general business</b>			
<b>Earned premiums, net of reinsurance</b>			
Calls and premiums	2	18,691,410	19,087,962
Return calls	2	(1,742,786)	(1,983,955)
Reinsurance premiums		(4,345,287)	(3,943,026)
		12,603,337	13,160,981
Allocated investment return transferred from the non-technical account	6	3,267,419	3,170,508
		15,870,756	16,331,489
<b>Claims paid</b>			
Gross amount		(8,406,332)	(9,258,932)
Reinsurers' share		131,958	522,743
		(8,274,374)	(8,736,189)
<b>Change in the provision for claims</b>			
Gross amount	3	2,817,260	(11,800,782)
Reinsurers' share		(9,843,018)	12,477,151
		(7,025,758)	676,369
<b>Claims incurred net of reinsurance</b>		(15,300,132)	(8,059,820)
<b>Net operating expenses</b>	4	(1,546,863)	(1,427,776)
<b>Balance on the technical account</b>		(976,239)	6,843,893
<b>Non-technical account</b>			
Balance on the technical account		(976,239)	6,843,893
Net investment income	5	2,325,662	2,122,735
Allocated investment return transferred to the general business technical account	6	(3,267,419)	(3,170,508)
<b>(Deficit)/surplus on ordinary activities before taxation</b>		(1,917,996)	5,796,120
Taxation	7	(392,823)	(599,040)
<b>Net (deficit)/surplus for the financial year after taxation</b>		(2,310,819)	5,197,080
Surplus at 30 September 2007		14,091,219	11,642,050
<b>Surplus at 30 September 2008</b>		11,780,400	16,839,130
Net transfers to investment reserve	9	(717,313)	(1,247,911)
Transfer to general reserve	9	(1,500,000)	(1,500,000)
<b>Balance carried to balance sheet</b>		9,563,087	14,091,219

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 2008

		2008	2007
	Note	£	£
<b>Assets</b>			
<b>Financial investments</b>	8	69,282,963	63,824,069
<b>Reinsurers' share of technical provisions</b>			
Claims outstanding		2,634,133	12,477,151
<b>Debtors</b>			
Direct insurance operations – Members		41,885	102,154
Reinsurance		90,152	700,572
Taxation		34,186	119,096
<b>Cash at bank</b>		2,987,178	3,330,154
<b>Accrued income</b>		356,926	360,560
		<b>75,427,423</b>	<b>80,913,756</b>
<b>Liabilities</b>			
<b>Reserves</b>			
Investment reserve	9	5,572,881	4,855,568
General reserve	9	17,000,000	15,500,000
Income and expenditure account	9	9,563,087	14,091,219
		<b>32,135,968</b>	<b>34,446,787</b>
<b>Technical provisions</b>			
Claims outstanding – gross amount	1 (viii)	41,163,735	43,980,995
<b>Creditors</b>			
Direct insurance operations – Members		1,885,708	2,269,601
Other creditors		242,012	216,373
		<b>75,427,423</b>	<b>80,913,756</b>

Approved by the Committee on 10 December 2008

GRS Lark Director  
P Cazeaux Director

SCG Scriven Griffin Managers

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

## Cash flow statement

for the year ended 30 September 2008

	2008 £	2007 £
Premiums received from Members	16,564,731	18,244,465
Reinsurance premiums paid	(4,125,652)	(4,160,588)
Claims paid	(8,346,063)	(9,329,925)
Reinsurance recoveries received	522,742	–
Net cash inflow from general insurance transactions	4,615,758	4,753,952
Dividends received	539,723	479,268
Other investment income received	2,787,299	2,010,438
Other operating cash payments	(1,763,878)	(1,771,721)
Net cash inflow from operating activities	6,178,902	5,471,937
Corporation Tax paid	(307,906)	(932,744)
<b>Net cash flow</b>	<b>5,870,996</b>	<b>4,539,193</b>
<b>Cash flows were applied as follows:</b>		
Decrease in cash balances	(342,976)	(886,388)
Increase in investments	6,213,972	5,425,581
Net application of cash flows	5,870,996	4,539,193
<b>Reconciliation of net income before tax to net cash flow from operating activities</b>		
Net (deficit)/surplus before taxation	(1,917,996)	5,796,120
Increase/(decrease) in provisions for claims	7,025,758	(676,369)
Decrease/(increase) in insurance and other debtors	674,321	(776,944)
(Decrease)/increase in insurance and other creditors	(361,220)	941,920
Realised investment gains	(245,359)	(226,941)
Decrease in market value of investments	1,003,398	414,151
<b>Net cash inflow from operating activities</b>	<b>6,178,902</b>	<b>5,471,937</b>
<b>Movement in opening and closing portfolio investments net of financing</b>		
Net cash (outflow) for the period	(342,976)	(886,388)
Increase in investments	6,213,972	5,425,582
Realised investment gains	245,359	226,941
Decrease/(Increase) in investment debtors/creditors	2,962	(58,747)
Net portfolio investment	6,462,293	5,593,776
Decrease in market value of investments	(1,003,397)	(414,151)
Portfolio investments and cash 30 September 2007	67,154,223	62,860,986
<b>Portfolio investments and cash 30 September 2008</b>	<b>72,270,143</b>	<b>67,154,223</b>

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

# Notes to the financial statements

30 September 2008

## 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 December 2005 (as amended in December 2006).

### 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 is 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 (representing the difference between net proceeds and purchase cost) 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 or previous valuation.

The transfer to 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 investment 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 September 2008

### 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 of a claim, 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 12 months from the balance sheet date, the information available is frequently inadequate to form a reliable basis for case-by-case estimates. Accordingly, claims provisions for these policy years are calculated using standard actuarial claims projection techniques and stochastic modelling based on historical claims patterns, adjusted for inflation and other variables such as the volume of business transacted by the membership, to predict their potential ultimate cost. The principal assumption underlying this approach is that past experience is a reliable basis for projecting the ultimate cost of claims for more recent years.

The Association reinsures the cost of claims per Member above £5m. This high level of retention means that it is exposed to potentially substantial variations in the cost of claims from year to year. Although claims that involve the Association's reinsurers have not been frequent, there are regular notifications from Members which have the potential to exceed the Association's retention. More than one such claim can arise in one year. Two such claims on the reinsurance will involve a total charge of at least £12.5m in the Association's income and expenditure account, an amount which is substantial in relation to the Association's free reserves.

The volatility in the historical cost of claims is reflected in the way provisions are established. This, together with the prudent basis of reserving for individual cases, may result in levels of IBNER which subsequently prove to be cautious in years where actual claims experience is significantly better than the historical average. Any such surplus IBNER provisions will be automatically released once the policies to which they relate have been in existence for longer than 12 months. By contrast, in years where it appears to the Managers that the actual claims experience is likely to be worse than the original provisions established, those provisions will be increased immediately.

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 general business technical account 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.

	2008 £	2007 £
<b>2 Calls and premiums</b>		
Advance calls	18,691,410	19,077,510
Release calls	–	10,452
	<b>18,691,410</b>	<b>19,087,962</b>
Return call – 2001/2002 (12.5%)	(837,975)	–
Return call – 2000/2001 (17.5%)	(904,811)	–
Return call – 1999/2000 (20%)	–	(1,004,517)
Return call – 1998/1999 (20%)	–	(979,438)
	<b>(1,742,786)</b>	<b>(1,983,955)</b>

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 of £7,025,758 (2007 – £676,369 credit) is a charge of £1,494,332 (2007 – credit of £6,264,580) relating to prior years made up as follows:

	2008 £	2007 £
Net provision at beginning of year	31,503,844	32,180,213
Net payments during the year in respect of these provisions	(6,337,348)	(2,015,624)
Net provision carried forward in respect of claims provided for at the end of the last year	(26,660,828)	(23,900,009)
(Under)/over provision in respect of prior years	(1,494,332)	6,264,580

Attention is drawn to accounting policy 1 (viii) dealing with claims outstanding which describes the inherent uncertainty relating to the valuation of the technical provisions.

**4 Net operating expenses**

	2008 £	2007 £
Acquisition costs	303,800	309,000
Administrative expenses	1,243,063	1,118,776
	1,546,863	1,427,776

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 £855,000 (2007 – £770,000) payable to the Managers in respect of the conduct of the Association's risk management programme.
- Auditors' remuneration of £22,000 (2007 – £21,000). In addition to their audit fee, Moore Stephens LLP were paid £4,700 (2007 – £4,113) in respect of taxation services.
- Directors' remuneration of £20,000 (2007 – £20,000).

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

**5 Net investment income**

	2008 £	2007 £
Income from listed investments	1,753,475	1,607,078
Dividends received from equities	569,571	471,860
Bank and other interest	595,349	672,661
Gains on the realisation of investments	245,359	226,941
Change in unrealised (losses) on investments	(1,003,398)	(414,151)
Exchange gain/(loss)	404,998	(215,891)
Investment income	2,565,354	2,348,498
Investment management expenses	(239,692)	(225,763)
Net investment income	2,325,662	2,122,735

**6 Allocated investment return**

The investment return, £3,267,419 (2007 – £3,170,508) 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:

	2008 UK £	2007 UK £	2008 US\$	2007 US\$
Bonds	4.5%	4.5%	4.5%	4.5%
Equities	7.0%	7.0%	7.0%	7.0%
Cash	3.5%	4.0%	4.0%	4.0%

## Notes to the financial statements (continued)

30 September 2008

### 6 Allocated investment return (continued)

Comparison of longer-term investment return with actual returns	2008 £	2007 £
Net investment income since 1 October 1998	18,568,538	16,242,876
Longer-term rate of return since 1 October 1998	20,395,342	16,931,125
Shortfall of actual returns over longer-term returns	(1,826,804)	(688,249)

The investment return for 2008 represents the aggregate for a 10-year period compared to an 9-year period for 2007.

### 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 income and net gains from investments. The charge in the income and expenditure account represents:

Analysis of charge in period	2008 £	2007 £
Corporation tax	406,422	577,927
Prior year's (over)/underprovision	(13,599)	21,113
Total current tax	392,823	599,040

#### Factors affecting tax charge for period

The tax assessed for the period is lower than the standard rate of corporation tax in the UK (28%). The differences are explained below:

	2008 £	2007 £
Net (deficit)/surplus before tax	(1,917,996)	5,796,120
(Deficit)/surplus on ordinary activities multiplied by standard rate of corporation tax in the UK (30% up to 31/3/08, thereafter 28%).	(556,219)	1,738,836
Effects of:		
Non-taxable mutual insurance operations	1,230,660	(1,102,015)
Non-taxable equity income	(268,019)	(58,894)
Prior year's (over)/underprovision	(13,599)	21,113
Current tax charge	392,823	599,040

### 8 Investments

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

	Deposits with financial institutions £	Fixed interest investments £	Equity investments £	Total £
Purchase of investments	64,635,840	33,228,286	8,091,858	105,955,984
Sale of investments	(65,097,049)	(26,722,798)	(7,919,204)	(99,739,051)
Realised profits/(losses)	–	(150,302)	395,661	245,359
Net portfolio investment	(461,209)	6,355,186	568,315	6,462,292
Movement in unrealised losses	52,011	2,532,577	(3,587,986)	(1,003,398)
	(409,198)	8,887,763	(3,019,671)	5,458,894
Market value at 30 September 2007	10,123,487	35,518,324	18,182,258	63,824,069
<b>Market value at 30 September 2008</b>	<b>9,714,289</b>	<b>44,406,087</b>	<b>15,162,587</b>	<b>69,282,963</b>
Cost at 30 September 2007	10,129,306	37,915,832	15,301,755	63,346,893
Cost at 30 September 2008	9,668,098	44,271,019	15,870,070	69,809,187

	Investment reserve £	General reserve £	Income and expenditure account £	Total £
<b>9 Reserves</b>				
Balance at 30 September 2006	3,607,657	14,000,000	11,642,050	29,249,707
Surplus for the financial year	–	–	5,197,080	5,197,080
Special transfer to investment reserve	2,000,000	–	(2,000,000)	–
Transfer from investment reserve	(752,089)	–	752,089	–
Transfer to general reserve	–	1,500,000	(1,500,000)	–
Balance at 30 September 2007	4,855,568	15,500,000	14,091,219	34,446,787
Deficit for the financial year	–	–	(2,310,819)	(2,310,819)
Special transfer to investment reserve	1,500,000	–	(1,500,000)	–
Transfer from investment reserve	(782,687)	–	782,687	–
Transfer to general reserve	–	1,500,000	(1,500,000)	–
<b>Balance at 30 September 2008</b>	<b>5,572,881</b>	<b>17,000,000</b>	<b>9,563,087</b>	<b>32,135,968</b>

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 investment 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 £782,687 has been charged as at 30 September 2008 (2007 charge of £752,089). In addition special transfers of £1 million from the surplus on the 2002/2003 and £0.5million from the surplus on the 2000/2001 policy years were made in the year ended 30 September 2008.

The general reserve has been established in accordance with Rule 31(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 1987/1988 to 1999/2000 policy years have been closed.

## 10 Related party transactions

The 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 (trading as Griffin Managers) received £3,025,000 in respect of management fees and risk management services during the year ended 30 September 2008 (2007 - £2,830,000).

## Directors

The Griffin Insurance Association Limited, Limited by Guarantee

### Committee

P S Cazeaux (Chairman)	J Joslin
A J Allen	G R S Lark
K S Alford	A J McGraw
P W Ambler* ■	P Molyneaux
P Barnes ■	S J Nunn
J C Birkmire	A P Phillips
M J A Bishop	D H E Price
R J L Bramble	I D Russell
P R Carroll	S C G Scriven
J C Clements	M E Shaw ■
A S Cross	A J Sindall
D J Ezzard*	P D Slade*
F Fernandez ■	J C Speers
P P C Gregory	C M Spratt
A C Gyde	P C Venus
R K Haddon	M R W Warren
C G Harman**	T J Watkins
S P Hearn ■	K W Woodhams
FT Hindle	
P R Holcroft	
A M Holman	*appointed during the year
D P Howden	**resigned during the year
P Hurst ■	■resigned at or since the year end

### Registered Office

New City Court  
20 St Thomas Street  
London SE1 9RR

Company Number 2134231

### Managers

Tindall Riley Limited, trading as  
Griffin Managers  
New City Court  
20 St Thomas Street  
London SE1 9RR

### Auditors

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



