# The Griffin

INSURANCE ASSOCIATION LIMITED

Annual Report and Financial Statements
Year ended 30 September 2010

# Contents

# Report of the Committee

## The Committee has pleasure in presenting its report together with the audited financial statements for the year ended 30 September 2010.

### 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 list in the table below details the more important matters considered by the Committee at its meetings:

### Financial Review

The financial statements show that the Association returned a strong performance in 2010, with a surplus after tax of £7.5 million and free reserves of £44.1 million. This was achieved through a combination of lower claims costs and continuing strong investment returns.

Gross call income was down on 2009 by some £1.8 million, the result of the loss of two large Members part way through the year. However, the loss of a Member also results in lower potential claims and therefore the cost of reinsurance and the estimate of claims for the 2010 year have also fallen. Overall, therefore, the effect on the Association's finances has been neutral.

In July, the Committee agreed a 22.5% return of call from the 2003/04 policy year. This amounted to around £2.2 million and has been credited to Members entered in that year.

As usual, the claims experience of the Association has been heavily affected by a small number of large claims. One claim first notified 10 years ago has recently shown significant deterioration after an unusually long time. However, as the Association's retention for the year in question was only £2 million, the bulk of any increased liability will fall on reinsurers, giving rise to an increase in the reinsurers' share of claims outstanding in the balance sheet.

There have also been some substantial releases from claims reserves, particularly from the 2006/07 and 2008/09 policy years which have developed positively. The overall effect is that claims incurred, net of reinsurance, are £6.2 million, less than half the figure shown in the 2009 financial statements.

### Matters considered by the Committee

- Membership
- Future strategy
- Report and financial statements
- Claims and claims trends
- Regulatory and economic capital requirements
- Rule amendments
- Call rates
- Closing of policy years
- Reinsurance arrangements
- Investment performance
- Corporate governance

# Report of the Committee (continued)

Investment returns were positive, and although they fell short of the very strong gains made in 2009, they exceeded the return based on the longer-term rate assumptions by £3.7 million. A fuller analysis of investment performance is given on page 3.

The free reserves have grown from £36.6 million at the end of last year to over £44.1 million at 30 September 2010. This places the Association in a strong financial position from which to face the future.

### Investments

The Association's investment portfolio grew from £77.4 million to £79.8 million during the year, which included reinvested income of £2.3 million and capital gains, offset by a net out-flow of funds.

The overall return was +9.4% against the benchmark return of +9.2%.

The first six months of the Association's year saw buoyant equity markets and the FTSE 100 rose by some 13%. However, market sentiment became fragile in reaction to the European sovereign debt crisis in March and lost all that gain by the end of June, only to recover by September to show an overall gain for the year of just under 15%.

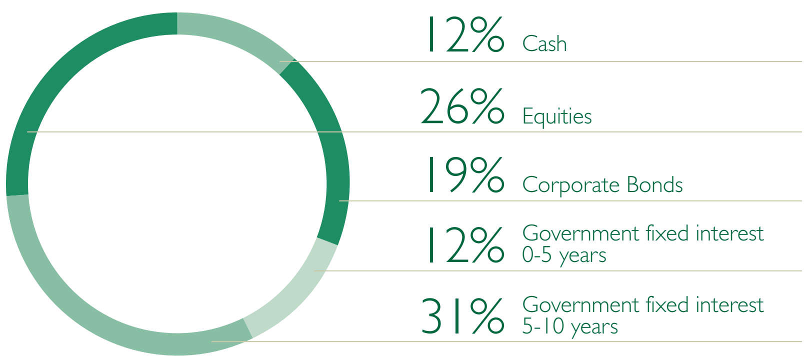
Greece's escalating debt level caused a major crisis that tested the integrity of European monetary union with the result that the EU had to step in with a €110 billion rescue package. The laborious EU co-ordination process damaged the euro for a time and left the ECB providing liquidity to European banks in return for holdings of peripheral European sovereign debt.

The UK was a net beneficiary from the euro-zone fallout despite its own hefty debt to GDP ratio. This was partly because a weaker pound allowed an improvement in competitiveness, but also because – ahead of the general election – all parties were committing to fiscal retrenchment. Indeed, the aggressive programme of spending cuts that was announced after the election drove gilts to their lowest yields since the depths of the banking crisis in early 2009. The same de-risking has been positive for government bonds of core Europe and the US.

Inflation-linked bonds outperformed their conventional counterparts in the first half of the Association's year. At that time, the consensus view was that a recovery would take hold by the second half of 2010. Interest rates were expected to rise and inflation was thought to be a risk. This proved to be far too optimistic and as the global economy lost momentum, inflation-linked bonds underperformed, but not by much. The US has announced another phase of quantitative easing in another attempt to pump money into the economy. The debate over whether this policy will lead to inflation remains a live issue amongst central bankers.

Corporate bonds have also been strong as new issues, particularly at the start of the year, were priced to ensure bond deals were successfully launched.

**Investment holdings at 30 September 2010**



However, following the EU sovereign debt crisis in the spring, core sovereign debt outperformed corporate bonds. Nonetheless, the additional corporate yield is still attractive as balance sheets remain strong and default risk is low.

The Association has for the first time invested in Euro assets. Their performance has been similar to US and UK assets with the exception of inflation-linked bonds, which slightly underperformed their conventional equivalents.

### Risk Management

The risk management programme that commenced in 2008 was completed in mid-2010, and a new programme has now begun.

The increasing acceptance within the membership of responsibility for the management of risk at a senior level has assisted in the development and delivery of a programme which provides for a higher frequency of regular contact between the Managers and the Members. This has allowed closer monitoring of risk controls by the Members, and more assistance in implementation by the Managers.

In assessing the overall control of professional indemnity risk within the membership, the Managers continue to review a number of broking files in order to assess the standard of procedures within each Member firm, as well as looking at their levels of competency and resourcing. More particular risks, for example those presented by staff leaving or joining, are identified with Members and addressed within the review visit. They are also looked at on an ad-hoc basis between regular visits, should this be considered necessary.

The new risk management DVD, which deals with a range of the more commonly encountered professional indemnity risks, has been widely presented, and continues to be in heavy demand. This is supplemented by a number of other presentations which address specific areas of risk. These are available to the membership on request, but are more often delivered by the Managers as a result of findings made at review visits in order to provide training in areas where weaknesses have been observed.

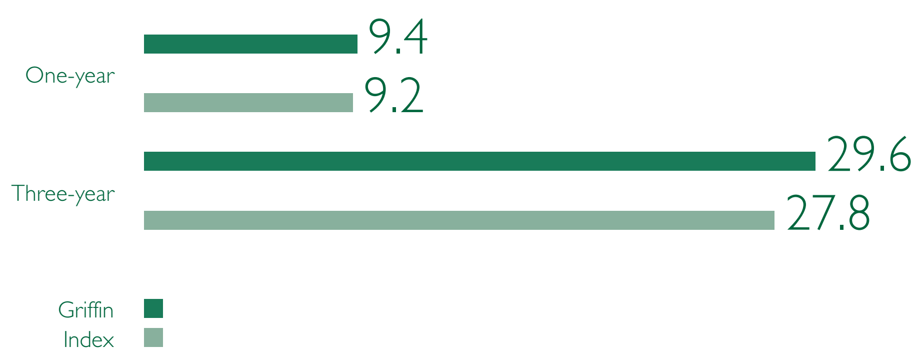
Bulletins and forums continue to be produced for the benefit of the membership on developments in the law or broking practice which could present an increased professional indemnity risk, and serve as an additional means of supporting Members' control of their risk exposure.

### Renewal 2010/11

Membership of the Association continues to be stable, 38 Members having renewed their cover with the Association.

At its meeting in July 2010, the Committee decided that the appropriate level of advance call for 2010/11 could be achieved without any change in the General Rate.

**Investment performance compared to benchmark**



# Report of the Committee (continued)

### Rules of the Association

During the year under review, an extensive review of the Rules was carried out, and various amendments were made. The majority of these amendments were organisational changes improving the layout and clarity of the Rules and did not affect the scope of cover afforded. Changes were also made to the definition of Associated Company, to allow the Managers discretion to continue to treat companies as such where they no longer fell within the strict definition under the Rules or the Companies Act, and also to allow the Managers discretion to approve a waiver of rights of recourse in circumstances where the Member was participating in a joint venture or consortium.

### Board Restructure

When the Association was founded in 1988, it was agreed that all Member firms should be entitled to nominate a director of the Association. It was always envisaged that the Association could grow to a size where the right for every member firm to nominate a director was no longer appropriate and the position was reviewed on a regular basis.

Following a review of corporate governance guidelines in 2009, the Committee agreed that at the next strategic review, particular consideration should be given to the structure of the Committee and Executive Sub-Committee and the extent to which this enabled directors to fulfil their responsibilities.

At its meeting in July 2010, the Committee approved the Future Strategy Group's recommendation that the Board of directors of the Association should be reduced to 12–15 directors. The restructure, which will include the adoption of revised Articles of Association, will take place following the Committee Meeting on 7 December 2010.

### Audit

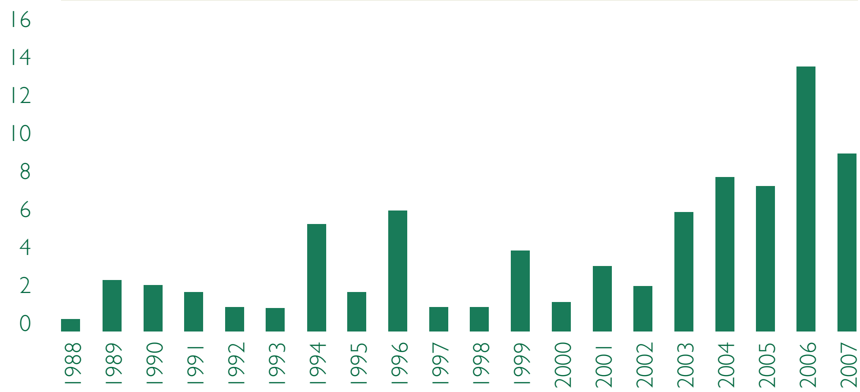
The Managers are responsible for the maintenance of the Association's accounting records and the preparation of the financial statements. They have confirmed that they have provided the auditors with all relevant audit information of which they are aware. The Audit Group has considered the financial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

By order of the Committee

**A F Gosden** Secretary
7 December 2010

**Net claims £m**




Policy year
(Data in 2008 and 2009 policy years are insufficiently developed to make accurate projections)

# Financial Statements

# Statement of Directors' responsibilities

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Association and of the surplus or deficit of the Association for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;

- make judgements and accounting estimates that are reasonable and prudent;

- state whether applicable UK 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 adequate accounting records that are sufficient to show and explain the Association's transactions and disclose with reasonable accuracy at any time the financial position of the Association and enable them to ensure that the financial statements comply with the Companies Act 2006. 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 2010 which are set out on pages 8 to 15. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Association's members, as a body, in accordance with Sections 495 – 496 of the Companies Act 2006. 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

As explained more fully in the Directors' Responsibilities Statement set out on page 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### Scope of the audit of financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Association's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

### Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Association's affairs as at 30 September 2010 and of its surplus for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Committee Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

### Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records or returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

**Simon Gallagher** (Senior Statutory Auditor)
for and on behalf of Moore Stephens LLP, Statutory Auditor

150 Aldersgate Street
London EC1A 4AB

# Income and expenditure account

for the year ended 30 September 2010

| **Technical account – general business** | Note | | 2010 £ | | 2009 £ |
|---|---|---|---|---|---|
| **Earned premiums, net of reinsurance** | | | | | |
| Calls and premiums | 2 | | 15,675,961 | | 17,427,577 |
| Return calls | 2 | | (2,209,051) | | (1,890,624) |
| Reinsurance premiums | | | (2,988,474) | | (3,782,734) |
| | | | 10,478,436 | | 11,754,219 |
| Allocated investment return transferred from the non-technical account | 6 | | 2,975,589 | | 3,735,096 |
| | | | 13,454,025 | | 15,489,315 |
| **Claims paid** | | | | | |
| Gross amount | | (12,720,175) | | (9,881,425) | |
| Reinsurers' share | | 2,181,826 | | 519,878 | |
| | | (10,538,349) | | (9,361,547) | |
| **Change in the provision for claims** | 3 | | | | |
| Gross amount | | 1,081,485 | | (4,030,030) | |
| Reinsurers' share | | 3,252,714 | | 733,471 | |
| | | 4,334,199 | | (3,296,559) | |
| **Claims incurred net of reinsurance** | | | (6,204,150) | | (12,658,106) |
| **Net operating expenses** | 4 | | (1,712,708) | | (1,689,687) |
| **Balance on the technical account** | | | 5,537,167 | | 1,141,522 |

| **Non-technical account** | Note | 2010 £ | 2009 £ |
|---|---|---|---|
| Balance on the technical account | | 5,537,167 | 1,141,522 |
| Net investment income | 5 | 6,696,353 | 9,296,288 |
| Allocated investment return transferred to the general business technical account | 6 | (2,975,589) | (3,735,096) |
| **Surplus on ordinary activities before taxation** | | 9,257,931 | 6,702,714 |
| Taxation | 7 | (1,710,206) | (2,276,416) |
| **Net surplus for the financial year after taxation** | | 7,547,725 | 4,426,298 |
| Surplus at 30 September 2009 | | 7,039,983 | 9,563,087 |
| **Surplus at 30 September 2010** | | 14,587,708 | 13,989,385 |
| Net transfers to investment reserve | 9 | (2,770,504) | (5,449,402) |
| Transfer to general reserve | 9 | (1,500,000) | (1,500,000) |
| **Balance carried to balance sheet** | | 10,317,204 | 7,039,983 |

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 2010

| **Assets** | Note | 2010 £ | 2009 £ |
|---|---|---|---|
| Financial investments | 8 | 79,763,828 | 77,376,152 |
| Reinsurers' share of technical provisions | | | |
| Claims outstanding | | 6,620,318 | 3,367,604 |
| Debtors | | | |
| Direct insurance operations – Members | | – | 6,226 |
| Reinsurance | | 897,437 | 121,207 |
| Cash at bank | | 4,625,301 | 4,592,641 |
| Accrued income | | 352,382 | 373,925 |
| | | 92,259,266 | 85,837,755 |
| **Liabilities** | | | |
| Reserves | | | |
| Investment reserve | 9 | 13,792,787 | 11,022,283 |
| General reserve | 9 | 20,000,000 | 18,500,000 |
| Income and expenditure account | 9 | 10,317,204 | 7,039,983 |
| | | 44,109,991 | 36,562,266 |
| Technical provisions | | | |
| Claims outstanding – gross amount | 1(viii) | 44,112,280 | 45,193,765 |
| Creditors | | | |
| Direct insurance operations – Members | | 2,634,064 | 1,947,739 |
| Taxation | | 1,221,222 | 1,875,665 |
| Other creditors | | 181,709 | 258,320 |
| | | 92,259,266 | 85,837,755 |

Approved by the Committee on 7 December 2010

**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 2010

| | 2010 £ | 2009 £ |
|---|---|---|
| Premiums received from Members | **14,153,235** | 15,598,984 |
| Reinsurance premiums paid | **(2,102,757)** | (3,425,869) |
| Claims paid | **(12,713,948)** | (9,845,766) |
| Reinsurance recoveries received | **519,877** | 131,958 |
| Net cash (outflow)/inflow from general insurance transactions | **(143,593)** | 2,459,307 |
| | | |
| Dividends received | **525,976** | 596,234 |
| Other investment income received | **1,489,197** | 2,226,268 |
| Other operating cash payments | **(2,014,810)** | (1,880,111) |
| Net cash (outflow)/inflow from operating activities | **(143,230)** | 3,401,698 |
| | | |
| Corporation Tax paid | **(2,364,650)** | (366,567) |
| **Net cash (outflow)/inflow** | **(2,507,880)** | 3,035,131 |
| | | |
| **Cash flows were applied as follows:** | | |
| Increase in cash balances | **32,660** | 1,605,463 |
| (Decrease)/increase in investments | **(2,540,540)** | 1,429,668 |
| Net application of cash flows | **(2,507,880)** | 3,035,131 |

# Notes to the cash flow statement

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

| | 2010 £ | 2009 £ |
|---|---|---|
| Net surplus before taxation | **9,257,931** | 6,702,714 |
| (Decrease)/increase in provisions for claims | **(4,334,199)** | 3,296,559 |
| Increase in insurance and other debtors | **(748,460)** | (12,395) |
| Increase in insurance and other creditors | **609,713** | 81,300 |
| Realised investment gains | **(2,136,800)** | (336,844) |
| Increase in market value of investments | **(2,791,415)** | (6,329,636) |
| **Net cash (outflow)/inflow from operating activities** | **(143,230)** | 3,401,698 |

**Movement in opening and closing portfolio investments net of financing**

| | 2010 | 2010 | 2009 | 2009 |
|---|---|---|---|---|
| Net cash inflow for the period | | **32,660** | | 1,605,463 |
| (Decrease)/increase in investments | **(2,540,540)** | | 1,429,668 | |
| Realised investment gains | **2,136,800** | | 336,844 | |
| Increase in investment debtors/creditors | **–** | | (2,961) | |
| Net portfolio investment | | **(403,740)** | | 1,763,551 |
| Increase in market value of investments | | **2,791,415** | | 6,329,636 |
| Portfolio investments and cash 30 September 2009 | | **81,968,793** | | 72,270,143 |
| **Portfolio investments and cash 30 September 2010** | | **84,389,128** | | 81,968,793 |

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

# Notes to the financial statements

30 September 2010

## 1 Accounting policies

### i Basis of accounting

These financial statements have been prepared under the historical cost convention as modified to include investments at market value, in compliance with Schedule 3 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI2008/410) of the Companies Act 2006 and in accordance with applicable accounting standards in the UK and with the Statement of Recommended Practice issued by the Association of British Insurers in December 2005 (as amended in December 2006). The Statutory 'Profit and Loss Account' is replaced by an 'Income and Expenditure Account' throughout these financial statements consistent with the mutual status of the Association. The accounting policies adopted are described below.

### 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, 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 matter 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, net of reinstatement premiums, are accrued to match the relevant claim amounts 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 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 technical account – general business 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 2010

## 1 Accounting policies (continued)

### 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 stage 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 bears the cost of claims per Member up to £5m. This level of retention means that it is exposed to potentially substantial variations in the cost of claims from year to year.

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. Liabilities or assets are calculated on the basis of the rates at which the timing differences are estimated to reverse under current legislation.

## 2 Calls and premiums

| | 2010 £ | 2009 £ |
|---|---|---|
| Advance calls | **15,675,961** | 17,412,560 |
| Release calls | – | 15,017 |
| | **15,675,961** | 17,427,577 |
| Return call – 2003/04 (22.5%) | **(2,206,531)** | – |
| Return call – 2002/03 (15.0%) | – | (1,890,624) |
| Adjustments to prior year return call | **(2,520)** | – |
| | **(2,209,051)** | (1,890,624) |

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 £4,337,906 (2009 – £295,793) relating to prior years made up as follows:

| | 2010 £ | 2009 £ |
|---|---|---|
| Net provision at beginning of year | **41,826,161** | 38,529,602 |
| Net payments during the year in respect of these provisions | **(8,676,477)** | (7,471,904) |
| Net provision carried forward in respect of claims provided for at the end of the previous year | **(28,811,778)** | (30,761,905) |
| Over/(under) provision in respect of prior years | **4,337,906** | 295,793 |

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

## 4 Net operating expenses

| | 2010 £ | 2009 £ |
|---|---|---|
| Acquisition costs | **326,200** | 312,900 |
| Administrative expenses | **1,386,508** | 1,376,787 |
| | **1,712,708** | 1,689,687 |

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 £1,010,000 (2009 – £955,000) payable to the Managers in respect of the conduct of the Association's risk management programme.
- Auditors' remuneration of £23,500 (2009 – £22,750). In addition to their audit fee, Moore Stephens LLP were paid £4,985 (2009 – £4,772) in respect of taxation services.
- Directors' remuneration of £20,000 (2009 – £20,000).

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

## 5 Net investment income

| | 2010 £ | 2009 £ |
|---|---|---|
| Income from listed investments | **1,291,017** | 1,409,094 |
| Dividends received from equities | **527,824** | 577,487 |
| Bank and other interest | **28,791** | 212,093 |
| Gains on the realisation of investments | **2,136,800** | 336,844 |
| Change in unrealised gains/losses on investments | **2,791,415** | 6,329,636 |
| Exchange gain | **145,996** | 640,828 |
| Investment income | **6,921,843** | 9,505,982 |
| Investment management expenses | **(225,490)** | (209,694) |
| Net investment income | **6,696,353** | 9,296,288 |

## 6 Allocated investment return

The allocated investment return, £2,975,589 (2009 – £3,735,096) is allocated to the technical account – general business on the basis of longer-term rates of investment return. The longer-term return is based on historical 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:

| | 2010 UK £ | 2009 UK £ | 2010 US$ | 2009 US$ | 2010 Euro | 2009 Euro |
|---|---|---|---|---|---|---|
| Bonds | **3.7%** | 4.5% | **3.2%** | 4.5% | **3.7%** | n/a |
| Equities | **7.0%** | 7.0% | **7.0%** | 7.0% | **7.0%** | n/a |
| Cash | **0.5%** | 3.5% | **0.5%** | 4.0% | **0.5%** | n/a |

# Notes to the financial statements (continued)

30 September 2010

## 6 Allocated investment return (continued)

| Comparison of longer-term investment return with actual returns over 10 years | 2010 £ | 2009 £ |
|---|---|---|
| Actual net investment return | **30,229,171** | 26,422,395 |
| Longer-term rate of return | **23,614,391** | 22,303,440 |
| Surplus of actual return over longer-term return | **6,614,780** | 4,118,955 |

## 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 | 2010 £ | 2009 £ |
|---|---|---|
| Corporation tax | **1,713,296** | 2,275,665 |
| Prior year's (over)/under provision | **(3,090)** | 751 |
| Total current tax | **1,710,206** | 2,276,416 |

### 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:

| | 2010 £ | 2009 £ |
|---|---|---|
| Net surplus before tax | **9,257,931** | 6,702,714 |
| Surplus on ordinary activities multiplied by standard rate of corporation tax in the UK (28%). | **2,592,221** | 1,876,760 |
| Effects of: | | |
| Non-taxable mutual insurance operations | **(717,242)** | 726,201 |
| Non-taxable dividend income and exchange | **(161,683)** | (327,296) |
| Prior year's (over)/underprovision | **(3,090)** | 751 |
| Current tax charge | **1,710,206** | 2,276,416 |

## 8 Investments

Investments comprise US dollar, Euro and Sterling denominated 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 | 14,479,504 | 4,530,496 | 6,241,790 | 25,251,790 |
| Sale of investments | (11,924,699) | (7,866,866) | (8,000,764) | (27,792,329) |
| Realised profits/(losses) | – | 666,283 | 1,470,517 | 2,136,800 |
| Net portfolio investment | 2,554,805 | (2,670,087) | (288,457) | (403,739) |
| Movement in unrealised gains | (47,608) | 2,070,051 | 768,972 | 2,791,415 |
| | 2,507,197 | (600,036) | 480,515 | 2,387,676 |
| Market value at 30 September 2009 | 7,072,306 | 49,703,616 | 20,600,230 | 77,376,152 |
| Market value at 30 September 2010 | 9,579,503 | 49,103,580 | 21,080,745 | 79,763,828 |
| | | | | |
| Cost at 30 September 2009 | 7,024,698 | 46,459,766 | 18,088,277 | 71,572,741 |
| Cost at 30 September 2010 | 9,579,503 | 43,789,678 | 17,799,820 | 71,169,001 |

## 9 Reserves

| | Investment reserve £ | General reserve £ | Income and expenditure account £ | Total £ |
|---|---|---|---|---|
| Balance at 30 September 2008 | 5,572,881 | 17,000,000 | 9,563,087 | 32,135,968 |
| Surplus for the financial year | – | – | 4,426,298 | 4,426,298 |
| Special transfer to investment reserve | 1,250,000 | – | (1,250,000) | – |
| Transfer to investment reserve | 4,199,402 | – | (4,199,402) | – |
| Transfer to general reserve | – | 1,500,000 | (1,500,000) | – |
| Balance at 30 September 2009 | 11,022,283 | 18,500,000 | 7,039,983 | 36,562,266 |
| Surplus for the financial year | – | – | 7,547,725 | 7,547,725 |
| Transfer to investment reserve | 2,770,504 | – | (2,770,504) | – |
| Transfer to general reserve | – | 1,500,000 | (1,500,000) | – |
| Balance at 30 September 2010 | 13,792,787 | 20,000,000 | 10,317,204 | 44,109,991 |

The Association is incorporated as a company limited by guarantee and does not therefore have 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 £2,770,504 has been credited as at 30 September 2010 (2009 – £4,199,402).

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 1987/88 to 2003/04 policy years have been closed.

## 10 Related party transactions

The Articles of 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 FRS 8 (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 £3,340,000 in respect of management fees and risk management services during the year ended 30 September 2010 (2009 – £3,190,000).

# Directors

The Griffin Insurance Association Limited, Limited by Guarantee

## Committee

P S Cazeaux (Chairman)
A J Allen
R S Baillie*
R J Benzies*
M J A Bishop
R J L Bramble
P R Carroll
J C Clements**
A S Cross
B I Donald*
D J Ezzard
J Flanagan
A D Fuller
P P C Gregory**
A C Gyde
R K Haddon**
F T Hindle
P R Holcroft
A M Holman
D P Howden
M J Illingworth*
J Joslin
G R S Lark
D T Martin
A J McGraw
P Molyneaux
A J Niven
S J Nunn
R J Parkins*
A P Phillips
D A Philpott*
D H E Price
D M Reed
I D Russell**
S C G Scriven
C K Shah*
A J Sindall
P D Slade
J C Speers
C M Spratt
P C Venus**
M R W Warren
T J Watkins**
K W Woodhams**

*appointed during the year
**resigned during the year

## Registered Office

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London SE1 9RR

Companies House Number
2134231

## Managers

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(trading as Griffin Managers)
New City Court
20 St Thomas Street
London SE1 9RR

## Auditors

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150 Aldersgate Street
London EC1A 4AB

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