

THE
BRITISH AVIATION INSURANCE
COMPANY LIMITED

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BRITISH AVIATION INSURANCE
COMPANY LIMITED
23/04/02

REPORT and ACCOUNTS
2001

Registered Number 246018

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THE BRITISH AVIATION INSURANCE COMPANY LIMITED

Directors

D M BOYLE Chairman

A J MEDNIUK Managing Director

D E REEVES

C A C M SCHRAUWERS

Head Office
Fitzwilliam House
10 St Mary Axe
London EC3A 8EQ

THE BRITISH AVIATION INSURANCE COMPANY LIMITED
DIRECTORS' REPORT

The directors have pleasure in submitting their report and accounts for the year ended 31 December 2001.

Principal Activity and Review of the Business

The Company's principal activity is the carrying out of aviation insurance and reinsurance in London and through a branch in Canada under a management agreement with Global Aerospace Underwriting Managers Limited. From 1 January 1991 to 31 December 2000 the Company wrote aviation business as a member of the British Aviation Insurance Group pool. During 2001 the Company underwrote reinsurance of the Global Aerospace Underwriting Managers Pool, as well as a number of direct aviation risks. From 1 January 2002 the Company ceased to effect contracts of insurance.

The overall financial position at the end of the year was satisfactory.

Profit and Loss Account

The loss after taxation amounted to £17,889,000 (2000 £4,302,000). The directors do not recommend any final dividend for the year. No dividend was paid in respect of 2000.

The retained loss of £17,889,000 has been transferred to the Profit and Loss Account and the balance of £121,696,000 carried forward.

Directors

The names of the persons who were directors of the Company at any time during the financial year are shown on page 2.

Directors' interests

None of the directors had a beneficial interest in the shares of the Company at any time during the financial year.

Messrs Medniuk and Schrauwers did not hold any shares in Royal & Sun Alliance Insurance Group plc at 1 January or 31 December 2001.

Messrs Boyle & Reeves had the following interests in Royal & Sun Alliance Insurance Group plc shares at the beginning and end of the year:

<u>Shares</u>	Balance 01/01/01			Balance 31/12/01
D M Boyle	-			-
D E Reeves	556			589
<u>Options</u>	Balance 01/01/01	Granted	Exercised	Balance 31/12/01
D M Boyle	175,661	46,654	-	222,315
D E Reeves	91,851	34,462	3,244	123,069

THE BRITISH AVIATION INSURANCE COMPANY LIMITED
DIRECTORS' REPORT

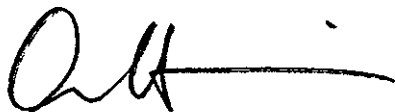
Contributions

The sum given to charitable organisations in the United Kingdom during the year was £325 (2000 £250).
No donations were made for political purposes.

Auditors

In accordance with Section 385 of the Companies Act 1985, a resolution proposing the appointment of auditors of the Company will be put to the Annual General Meeting.

Approved and signed on behalf of the Board

A handwritten signature in dark ink, appearing to be 'D Littlefair', with a long horizontal stroke extending to the right.

D Littlefair
Company Secretary

21 March 2002

THE BRITISH AVIATION INSURANCE COMPANY LIMITED
DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing those accounts, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts; and
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the accounts comply with the provisions of the Companies Act 1985 as applicable to insurance companies. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

THE BRITISH AVIATION INSURANCE COMPANY LIMITED
INDEPENDENT AUDITORS' REPORT
to the members of THE BRITISH AVIATION INSURANCE COMPANY LIMITED

We have audited the accounts which comprise the profit and loss account, the balance sheet, the cash flow statement, the statement of total recognised gains and losses and the related notes to the accounts which have been prepared under the historical cost convention as modified by the revaluation of investments and the accounting policies set out in the notes to the accounts.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and accounts in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the accounts in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board.

We report to you our opinion as to whether the accounts give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the accounts, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts. The other information comprises only the Directors' Report.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

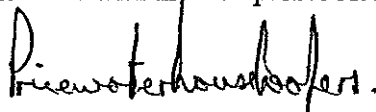
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts.

Equalisation reserves

Our evaluation of the presentation of information in the accounts has had regard to the statutory requirement for insurance companies to maintain equalisation reserves. The nature of the equalisation reserve, the amount set aside at 31 December 2001 and the effect of the movement in the reserves during the year on the general business technical result and loss before tax are disclosed in notes 1 and 3(c) respectively.

Opinion

In our opinion the accounts give a true and fair view of the state of the affairs of the Company at 31 December 2001 and of the loss and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
Southwark Towers
32 London Bridge
London SE1 9SY

21 March 2002

THE BRITISH AVIATION INSURANCE COMPANY LIMITED
PROFIT and LOSS ACCOUNT
for the year ended 31 December 2001

	Notes	2001 £'000	2000 £'000
TECHNICAL ACCOUNT - General Business			
Gross premiums written – discontinued operations	2	16,208	23,160
Outward reinsurance premiums		<u>6,825</u>	<u>16,100</u>
		<u>9,383</u>	<u>7,060</u>
Change in the provision for gross unearned premiums		4,097	(1,730)
Change in the provision for reinsurance unearned premiums		<u>5,479</u>	<u>(2,229)</u>
		<u>(1,382)</u>	<u>499</u>
Earned premiums, net of reinsurance		8,001	7,559
Allocated investment return transferred from the non-technical account		4,889	10,860
Claims paid			
Gross amount		30,318	31,298
Reinsurers' share		<u>15,493</u>	<u>19,535</u>
Net of reinsurance		<u>14,825</u>	<u>11,763</u>
Change in the provision for claims			
Gross amount		53,576	(7,893)
Reinsurers' share		<u>43,209</u>	<u>(572)</u>
Net of reinsurance	3	<u>10,367</u>	<u>(7,321)</u>
Claims incurred net of reinsurance		25,192	4,442
Net operating expenses	4	3,277	3,895
Change in equalisation reserves	3	<u>(423)</u>	<u>423</u>
		<u>28,046</u>	<u>8,760</u>
Balance on the general business technical account			
Attributable to discontinued operations		<u>(15,156)</u>	<u>9,659</u>

THE BRITISH AVIATION INSURANCE COMPANY LIMITED
PROFIT and LOSS ACCOUNT
for the year ended 31 December 2001

	Notes	2001 £'000	2000 £'000
NON-TECHNICAL ACCOUNT			
Balance on the general business technical account		(15,156)	9,659
Investment income	7	6,754	65,198
Investment charges	7	(834)	-
Unrealised losses on investments		(8,278)	(48,816)
Allocated investment return transferred to the technical account		(4,889)	(10,860)
		<hr/>	<hr/>
(Loss)/Profit on ordinary activities before tax		(22,403)	15,181
Tax on (loss)/profit on ordinary activities	8	(4,514)	19,483
		<hr/>	<hr/>
Loss on ordinary activities after tax		(17,889)	(4,302)
Dividends	9	-	-
		<hr/>	<hr/>
Retained loss transferred to reserves	14	(17,889)	(4,302)
		<hr/>	<hr/>

STATEMENT of TOTAL RECOGNISED GAINS and LOSSES
for the year ended 31 December 2001

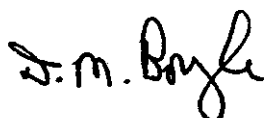
	Notes	2001 £'000	2000 £'000
Loss on ordinary activities after tax		(17,889)	(4,302)
Exchange gains net of tax	14	601	1,587
		<hr/>	<hr/>
Total recognised losses related to the year		(17,288)	(2,715)
		<hr/>	<hr/>

THE BRITISH AVIATION INSURANCE COMPANY LIMITED

BALANCE SHEET
as at 31 December 2001

ASSETS	Notes	2001 £'000	2000 £'000
Investments			
Other financial investments	11	163,687	182,703
Reinsurers' share of technical provisions			
Provision for unearned premiums		683	6,012
Claims outstanding	3,12	<u>112,948</u>	<u>68,098</u>
		<u>113,631</u>	<u>74,110</u>
Debtors			
Debtors arising out of direct insurance operations – intermediaries		620	14,332
Debtors arising out of reinsurance operations	16	18,246	6,036
Amount due from group undertakings	17	26,066	26,066
Other debtors	17,18	<u>25,588</u>	<u>19,857</u>
		<u>70,520</u>	<u>66,291</u>
Other assets			
Cash at bank and in hand		1,177	3,056
Prepayments and accrued income			
Accrued interest		1,361	1,430
Deferred acquisition costs		445	1,192
Total assets		<u><u>350,821</u></u>	<u><u>328,782</u></u>
LIABILITIES			
Capital and reserves			
Called up share capital	13	1,993	1,993
Profit and loss account	14	<u>121,696</u>	<u>138,984</u>
Equity shareholders' funds	14	<u>123,689</u>	<u>140,977</u>
Technical provisions			
Provision for unearned premiums		8,922	12,779
Claims outstanding	3,12	198,186	141,390
Equalisation reserves		-	423
		<u>207,108</u>	<u>154,592</u>
Provision for other risks and charges	15	12,000	12,000
Deposits received from reinsurers		49	106
Creditors			
Creditors arising out of direct insurance operations		594	2,196
Creditors arising out of reinsurance operations		5,990	6,562
Other creditors	10	<u>1,391</u>	<u>12,349</u>
		<u>7,975</u>	<u>21,107</u>
Total liabilities		<u><u>350,821</u></u>	<u><u>328,782</u></u>

The accounts on pages 7 to 17 were approved by the Board on 21 March 2002 and signed on its behalf by:



D M Boyle (Chairman)



A J Medniuk (Managing Director)

THE BRITISH AVIATION INSURANCE COMPANY LIMITED
CASH FLOW STATEMENT
for the year ended 31 December 2001

	Notes	2001 £'000	2000 £'000
Net cash (outflow)/inflow from operating activities		(834)	2,583
Taxation paid		(12,995)	(6,226)
Equity dividends paid		-	(4,314)
Financing : Loans to shareholders	17	-	(45,648)
Net cash outflow		<u>(13,829)</u>	<u>(53,605)</u>
Cash flows were applied as follows:			
(Decrease)/Increase in cash holdings		(1,879)	1,541
Portfolio investments			
Purchase of ordinary shares		14,313	250
Purchase of fixed income securities		20,600	10,890
Sale of ordinary shares		(4,689)	(65,624)
Sale of fixed income securities		(24,610)	(20,601)
(Decrease)/increase of deposits with credit institutions		<u>(17,564)</u>	<u>19,939</u>
		<u>(13,829)</u>	<u>(53,605)</u>

NOTES TO THE CASH FLOW STATEMENT

Reconciliation of operating (loss)/profit to net cash (outflow)/inflow from operating activities

Operating (loss)/profit before taxation	(22,403)	15,181
Increase/(Decrease) in technical provisions	12,095	(7,542)
Decrease/(Increase) in debtors and prepayments	971	(333)
Decrease in creditors	(1,068)	(561)
Exchange movements	459	3,758
Loss/(Profit) on sales of investments	834	(56,736)
Unrealised losses on investments	<u>8,278</u>	<u>48,816</u>
Net cash (outflow)/inflow from operating activities	<u>(834)</u>	<u>2,583</u>

Movement in cash and portfolio investments

	As at 1.1.01 £'000	Cash flow £'000	Changes in market value £'000	As at 31.12.01 £'000
Cash holdings	3,056	(1,879)	-	1,177
Portfolio investments				
Ordinary shares	101,131	9,624	(10,098)	100,657
Fixed income securities	51,111	(4,010)	986	48,087
Deposits with credit institutions	32,507	(17,564)	-	14,943
	<u>187,805</u>	<u>(13,829)</u>	<u>(9,112)</u>	<u>164,864</u>

THE BRITISH AVIATION INSURANCE COMPANY LIMITED
NOTES to the ACCOUNTS
at 31 December 2001

1 ACCOUNTING POLICIES

Preparation of Accounts

The accounts have been prepared in accordance with the provisions of Section 255 of, and Schedule 9A to, the Companies Act 1985 and in compliance with applicable accounting standards. The accounts comply with the Statement of Recommended Practice issued by the Association of British Insurers.

Insurance Business

Insurance business is accounted for on an annual basis. Premiums written are accounted for in the year in which the related risks commence and include estimates where the amounts are not determined at the balance sheet date.

The provision for unearned premiums represents the proportion of premiums written relating to periods of insurance subsequent to the balance sheet date, calculated on a pro-rata basis. Equalisation reserves are established in accordance with the requirements of the Interim Prudential Sourcebook for Insurers and are in addition to the provisions required to meet the anticipated ultimate cost of settlement of outstanding claims at the balance sheet date.

Acquisition costs, comprising commission and other costs related to new insurance contracts, are deferred to the extent that they are attributable to premiums unearned at the balance sheet date.

Provision is made for unexpired risks if the expected value of claims and expenses attributable to the unexpired periods of policies in force at the balance sheet date exceeds the unearned premium provision less deferred acquisition costs, after taking account of associated anticipated investment return.

Claims provisions

Provision is made at the year-end for the estimated cost of claims incurred but not settled at the balance sheet date, including the cost of claims incurred but not yet reported to the company. The estimated cost of claims includes expenses to be incurred in settling claims. The company takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. The company uses independent consulting actuaries to advise on the appropriate level of provision. Given the uncertainty in establishing claims provisions, the final outcome however, may prove to be different from the original liability established.

The estimation of claims incurred but not reported ("IBNR") is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the company, where more information about the claim event is generally available. Claims IBNR may often not be apparent to the insured until many years after the event giving rise to the claims has happened. In calculating the estimated cost of unpaid claims the company uses a variety of estimation techniques, generally based upon statistical analyses of historical experience, which assumes that the development pattern of the current claims will be consistent with past experience. Allowance is made, however, for changes or uncertainties which may create distortions in the underlying statistics or which might cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims.

A component of these estimation techniques is usually the estimation of the cost of notified but not paid claims. In estimating the cost of these the company has regard to the claim circumstance as reported, any information available from loss adjusters and information on the cost of settling claims with similar characteristics in previous periods.

THE BRITISH AVIATION INSURANCE COMPANY LIMITED
NOTES to the ACCOUNTS

Large claims impacting each relevant business class are generally assessed separately, being measured on a case by case basis or projected separately in order to allow for the possible distortive effect of the development and incidence of these large claims.

Where possible multiple techniques are used to estimate the required level of provisions. This assists in giving greater understanding of the trends inherent in the data being projected. The projections given by the various methodologies also assists in setting the range of possible outcomes. The most appropriate estimation technique is selected taking into account the characteristics of the business class and the extent of the development of each accident year.

Provisions are calculated gross of any reinsurance recoveries. A separate estimate is made of the amounts that will be recoverable from reinsurers based upon the gross provisions and having due regard to collectability.

Claims estimates for the company's liabilities other than pollution, asbestos and health hazard liabilities are derived from a combination of loss ratio based estimates and an estimate based upon actual claims experience using a predetermined formula whereby greater weight is given to actual claims experience as time passes. The initial estimate of the loss ratio based on the experience of previous years adjusted for factors such as premium rate changes and on the anticipated market experience, is an important assumption in this estimation technique.

The Company's liabilities include material amounts in respect of potential exposures to various environmental type liabilities, especially in the USA, commonly referred to as APH liabilities. There may be a long delay between the occurrence and notification of these types of claim. Such claims cannot be estimated using traditional reserving techniques and, accordingly, their ultimate cost is less certain than with other lines of business. In estimating these liabilities the company considers the type of risks written historically that may give rise to exposure to these risks, notifications received from policyholders, the nature and extent of the cover provided, the current legal environment, changes in the effectiveness of clean up techniques and industry benchmarks of the typical cost of claims of this kind and of total expected insured losses.

Reinsurance recoveries

Reinsurance recoveries in respect of estimated claims incurred but not reported are assumed to be consistent with the historical pattern of such recoveries, adjusted to reflect changes in the nature and extent of the company's reinsurance programme over time. An assessment is also made of the recoverability of reinsurance recoveries having regard to market data on the financial strength of each of the reinsurance companies.

Expenses

All expenses are charged against the revenue of the year in which they are incurred. Expenses are net of reinsurance overriding commission and include movements on the provision for bad and doubtful debts.

Exchange Rates

Transactions in foreign currencies and assets and liabilities have been converted into sterling at the year end rates of exchange. Exchange differences arising from the retranslation of opening insurance assets and liabilities, denominated in foreign currencies are taken to reserves and reported in the statement of total recognised gains and losses. All other exchange differences are taken to the profit and loss account.

THE BRITISH AVIATION INSURANCE COMPANY LIMITED
NOTES to the ACCOUNTS

Investments and Investment Return

Interest on fixed interest securities, loans and deposits is accounted for on the accruals basis. Dividends are accounted for when the underlying securities go ex-dividend. Dividend income from UK companies is accounted for net of related tax credits. Realised and unrealised gains and losses are taken to the profit and loss account. An allocation of investment return is made from the non-technical account to the technical account representing the investment return during the year on assets matching technical reserves.

Listed investments are stated in the balance sheet at market value. Unlisted investments are included at the directors' valuation.

Associated Company

The Company holds 50% of the issued shares of Airclaims Group Limited. The principal activity of this company is the investigation and adjustment of aircraft insurance claims. This shareholding is included under investments, on a net asset valuation basis.

Deferred Taxation

Deferred taxation is calculated on the liability method and consists of the estimated taxation which could arise in the foreseeable future from material timing differences, being the realisation of investment gains.

2 SEGMENTAL INFORMATION

	2001	2000
Gross written premiums from contracts concluded in:-	£'000	£'000
United Kingdom	15,081	20,818
Canada	<u>1,127</u>	<u>2,342</u>
	<u>16,208</u>	<u>23,160</u>

Gross written premiums relate wholly to the writing of worldwide aviation business.

3 TECHNICAL PROVISIONS

(a) Claims Outstanding

As noted above (see note 1) claims outstanding contain material amounts in respect of the Company's potential exposures to various environmental type liabilities, especially in the USA, commonly referred to as APH liabilities. Such claims cannot be estimated using traditional reserving techniques and, accordingly, their ultimate cost is less certain than with other lines of business. Whilst the directors, in conjunction with consulting actuaries, have reviewed the Company's technical provisions at 31 December 2001 for such claims and consider that on the basis of the information currently available the gross provision for these claims and related reinsurance recoveries are fairly stated, the ultimate liability may vary as a result of subsequent information and events and could result in adjustments to the amounts provided. The directors consider that were future losses associated with those claims to arise they would not have a material impact on the solvency of the Company. Adjustments to the provisions are reflected in the accounts for the period in which the adjustments are made.

Note 12 sets out details of the Company's liabilities arising from the terrorist events of 11 September 2001 in the USA and the related uncertainties.

(b) Run-off Deviation

Claims incurred include an adverse deviation of £25 million - £15 million net of reinsurance, in respect of prior years. (2000 £6 million adverse - £4 million surplus net of reinsurance).

THE BRITISH AVIATION INSURANCE COMPANY LIMITED

NOTES to the ACCOUNTS

(c) Equalisation Reserves

On the basis of the requirements of the Interim Prudential Sourcebook for Insurers, the Company made a transfer from equalisation reserves of £423,000 during the year. During 2000 the Company made a transfer to equalisation reserves of £423,000.

(d) Contingent Asset

The Company is in discussions with certain reinsurers regarding coverage issues in connection with its exposure to various environmental type liabilities. The directors are confident that a satisfactory outcome can be reached in the foreseeable future. The amount of the expected recovery is not disclosed in order not to prejudice the outcome of the discussions.

4 NET OPERATING EXPENSES	2001 £'000	2000 £'000
Acquisition costs	579	2,031
Changes in deferred acquisition costs	769	(145)
Administrative expenses	<u>1,648</u>	<u>2,121</u>
	2,996	4,007
Less:		
Overriding commission (payable)/receivable	<u>(281)</u>	<u>112</u>
	<u>3,277</u>	<u>3,895</u>

5 ADMINISTRATIVE EXPENSES	2001 £'000	2000 £'000
Administrative expenses include:-		
Auditors' remuneration	25	28
Auditors' fees for non audit work	27	18

6 DIRECTORS and STAFF

No directors were remunerated by the Company during the year (2000 £ nil).

The Company had no staff during the year and no employment costs as Global Aerospace Underwriting Managers Limited provides management services to the Company.

7 INVESTMENT INCOME/CHARGES	2001 £'000	2000 £'000
Income from investments	6,754	8,462
Realised investment gains	<u>-</u>	<u>56,736</u>
	6,754	65,198
Realised investment losses	<u>834</u>	<u>-</u>

THE BRITISH AVIATION INSURANCE COMPANY LIMITED
NOTES to the ACCOUNTS

8 TAXATION	2001	2000
	£'000	£'000
The charge for taxation comprises:-		
Current taxation		
UK corporation tax at 30% (2000 - 30%)	(4,589)	19,055
Overseas tax	<u>75</u>	<u>113</u>
	(4,514)	19,168
UK Corporation tax – prior years	<u>-</u>	<u>315</u>
	<u>(4,514)</u>	<u>19,483</u>

The level of realised investment gains increased significantly during 2000 due to the disposal of part of the equity portfolio, the proceeds from which were loaned to shareholders. This crystallised investment gains, for tax purposes, which had previously been recognised as unrealised investment gains, thereby creating an exceptional tax charge of £16.1 million. The exceptional tax charge was not mitigated by a deferred tax adjustment as the Company's policy is to provide for deferred tax which would arise in the foreseeable future and this transaction was not foreseen until 2000.

9 DIVIDENDS

There were no dividends paid or proposed (2000-£nil).

10 OTHER CREDITORS

Other creditors include taxation of £nil (2000 £12,121,000).

11 INVESTMENTS	2001	2000
	£'000	£'000
Current value		
Listed equity shares	98,934	98,231
Unlisted equity shares	1,724	1,654
Government fixed interest	42,739	45,346
Other listed fixed interest securities	5,295	4,913
Other loans	52	52
Deposits with credit institutions	<u>14,943</u>	<u>32,507</u>
	<u>163,687</u>	<u>182,703</u>
Historical cost		
Listed equity shares	26,006	17,131
Unlisted equity shares	911	911
Government fixed interest	42,066	45,339
Other listed fixed interest securities	4,954	4,827
Other loans	52	52
Deposits with credit institutions	<u>14,943</u>	<u>32,507</u>
	<u>88,932</u>	<u>100,767</u>

In the event that the investments were sold at the current value stated above, a tax liability of approximately £22 million would arise, being the full potential deferred tax of the Company.

THE BRITISH AVIATION INSURANCE COMPANY LIMITED
NOTES to the ACCOUNTS

12 CLAIMS OUTSTANDING

Claims outstanding include £43.2m of gross liabilities and £1.9m of net of reinsurance liabilities in respect of the terrorist attacks in the USA on September 11th. Potential liabilities arise from airline insurance policies and from the insurance policies of other aviation service providers such as airport security companies. Potential liabilities also arise from assumed reinsurance business. The provisions held have been established using the London Market outstanding claim amounts and reinsurance recoverable amounts have been calculated on the basis that reinsurance applies to each of the four aircraft separately. Although there is uncertainty in the insurance market generally over the number of events for reinsurance purposes, the Company's net liability is relatively unaffected by this issue because of the construction of the Company's reinsurance programmes.

Litigation arising from these events will be vigorously defended and accordingly significant uncertainty surrounds the estimate of gross liability. The effect of the US Government compensation fund for victims of the attacks and the unknown number and diversity of potential claimants, contribute to this uncertainty. The net of reinsurance liability is also uncertain, but the range of possible outcomes is significantly smaller.

13 SHARE CAPITAL

	2001 £'000	2000 £'000
Ordinary shares of £1 each		
Authorised	2,000	2,000
Issued and fully paid	1,993	1,993

14 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	Share Capital £'000	Profit and Loss Account £'000	Total £'000
As at 1 January 2001	1,993	138,984	140,977
Retained loss for the year	-	(17,889)	(17,889)
Exchange gain	-	601	601
As at 31 December 2001	<u>1,993</u>	<u>121,696</u>	<u>123,689</u>

15 PROVISION FOR OTHER RISKS AND CHARGES

	£'000
Deferred tax	
As at 1 January 2001	12,000
Charge for the year	-
As at 31 December 2001	<u>12,000</u>

Deferred tax represents tax which could arise in the foreseeable future on the realisation of the Company's investments.

THE BRITISH AVIATION INSURANCE COMPANY LIMITED

NOTES to the ACCOUNTS

16 PARENT COMPANY

The Company's ultimate parent company is Royal & Sun Alliance Insurance Group plc. This company is registered in England and copies of the accounts are available from the address shown on page 2.

Debtors arising out of reinsurance operations include deposits of £0.9m placed with the Royal & Sun Alliance Group which were in the normal course of business.

17 RELATED PARTY TRANSACTIONS

During 2000 the company loaned £45,648,000 interest free to its shareholders. The loans were in proportion to the individual shareholdings and are repayable on nine months written notice. £26,066,000 is included under amounts due from group undertakings and £19,582,000 under other debtors.

During 2001 the Company reinsured the Global Aerospace Underwriting Managers pool, which included two members who were also shareholders of the Company. In the technical account, written premiums of £6,953,000 (gross and net), and paid claims of £351,000 (gross and net) and in the balance sheet, gross outstanding claims of £1,557,000, gross unearned premiums of £4,568,000 and debtors of £7,053,000 relate to these shareholders.

18 OTHER DEBTORS

Other debtors include taxation recoverable of £5,131,000 (2000 £nil).

19 CONTINGENT LIABILITY

The Company has a contingent liability of £699,000 under a letter of credit provided to the Institute of London Underwriters to cover potential liabilities of that organisation in respect of property leases. The last of these leases expires during 2011.