

99122

NORWICH UNION FIRE
INSURANCE SOCIETY LIMITED
1994



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Norwich Union Fire Insurance Society Limited
Founded 1797
Registered in England & Wales no. 99122
Registered Office :Surrey Street, Norwich, NR1 3NS

Directors

George Paul DL - Chairman
Francis Cator - Vice-Chairman
Bryan Basset CBE
Allan Bridgewater
Andrew Buxton
Richard Harvey
David Keys
Albert Mills
Jonathan Peel CBE, MC, DL
Philip Scott
Peter Sharman CBE
Elizabeth Vallance

Management

Allan Bridgewater ACII, FIPM, CIMgt
Group Chief Executive

Michael Biggs MA, ACA
General Manager
(Europe & International)

Richard Harvey BSc, FIA
General Manager
(Group Finance)

Albert Mills FIA, CIMgt
General Manager
(General Insurance - UK)

Philip Scott FIA
General Manager
(Life & Pensions - UK)

John Stanforth ACII
General Manager
(Group Services)

Graham Jones BA, MBA
Group Legal Manager and Secretary

Directors' report

to the 198th Annual General Meeting 12 May 1995

The directors have pleasure in presenting to the members of Norwich Union Fire Insurance Society Limited their report on the Society during the year ended 31 December 1994 together with the accounts.

Principal activity

The principal activity of the Society is the transaction of general insurance business.

Results

Consolidated results - analysis :

| | Gross premiums written 1994 £m | Net premiums written 1994 £m | Underwriting result 1994 £m | Attributable investment income 1994 £m | Insurance result | |
|---|--|--|--------------------------------------|--|------------------|-------------|
| | | | | | 1994 £m | 1993 £m |
| United Kingdom | 1,355.3 | 1,284.3 | (5.4) | 155.9 | 150.5 | 106.1 |
| Overseas - Europe | 61.1 | 57.7 | (6.5) | 5.2 | (1.3) | 5.3 |
| Overseas - International | 10.0 | 7.1 | (18.9) | - | (18.9) | (3.2) |
| | 1,426.4 | 1,349.1 | (30.8) | 161.1 | 130.3 | 108.2 |
| Less quota share treaty with: | | | | | | |
| Shareholders of associated undertakings | | 89.9 | (0.5) | 12.1 | 11.6 | 6.6 |
| Other undertakings | | 56.2 | (1.3) | 7.6 | 6.3 | 5.0 |
| Net worldwide total | | 1,203.0 | (29.0) | 141.4 | 112.4 | 96.6 |

Consolidated accounts - salient features :

| | 1994 £m | 1993 £m |
|--------------------------------------|------------|------------|
| Insurance result | 112.4 | 96.6 |
| Other investment income | 32.8 | 27.7 |
| Policyholders' Protection Board levy | (21.0) | (4.4) |
| Reorganisation costs | (10.0) | (4.8) |
| Result before taxation | 113.6 | 119.4 |
| Net result for the year | 66.1 | 86.4 |

Consolidated investments and capital:

| | 1994 £m | 1993 £m |
|-----------------------------|------------|------------|
| Market value of investments | 2,019.8 | 2,174.0 |
| Capital and reserves | 520.6 | 704.4 |
| Free reserve ratio | 43% | 65% |

Dividend

The directors have recommended a dividend for the year of £37.5m (1993 - £50.0m).

Directors' report

Share capital

At an Extraordinary General Meeting on 9 December 1994 the Society's authorised share capital was increased to 200,000,000 shares of £1 each. On 22 December 1994 37,500,000 shares were allotted to and subscribed by Norwich Union Holdings plc at par. The shares were allotted in order to strengthen the Society's capital base.

Business review

Our general insurance operations in the UK returned an insurance result of £150 million in 1994, building on the good progress achieved in 1993. This was an excellent achievement during a period of ongoing change, challenge and varying degrees of uncertainty. These profits are needed, however, to restore our financial position following the losses incurred in the early 1990s.

In the personal insurance division, volumes of household business rose substantially, and we were one of the few established insurers to record healthy growth in our motor account via professional intermediaries. Central to the improvement in sales of motor insurance has been the introduction of a high technology electronic data interchange facility and we are extending its use to household business. Substantial cost savings are being accomplished enabling our intermediaries to combine cost-effective products with higher levels of personalised service.

Hill House Hammond, our high street insurance intermediary which we acquired three years ago, found trading conditions difficult in 1994 but the value which we expected them to add to the acquired Safeguard chain of shops has exceeded our expectations and profits are already accruing from that source.

Commercial insurance business showed a modest increase in premium income in 1994, but recorded an impressive turn-round in profitability. Our engineering insurance, inspection and health and safety subsidiary, Ajax, continues to make a positive contribution having increased its turnover significantly in 1994.

We are founder members of the Claims Underwriting Exchange, which helps us to identify fraudulent and multiple claims. The results of our participation, by eliminating such claims, enables us to keep premiums at a lower level than would otherwise be the case and thereby benefits the vast majority of our policyholders who are honest.

We continually search for ways of rewarding customers who take measures to protect their property, while seeking to enhance services for those who suffer loss. Examples include the introduction of a special householders' scheme for Home Watch members at reduced premium levels and the enhancement of our Select Repairer scheme. This latter scheme entitles motor policyholders with full insurance cover to benefit from a free courtesy car while their own damaged vehicle is being repaired.

Although profitability returned to the general insurance market scarcely three years ago, premium rates have already begun to weaken. Our philosophy is to concentrate on underwriting for a fair profit, recognising that our customers obtain best security and value from stability, accompanied by a quality service, rather than volatile pricing and an inconsistent approach to claims settlement.

Employees

Provision of information

During the year the following policy has been continued:

- (i) providing information on matters of concern and interest to staff through circulars, an in-house newspaper, videos, regular conferences and courses;
- (ii) managers holding regular briefing and dissemination meetings to provide information and the opportunity for questions and discussions;
- (iii) consulting with staff representative bodies on various issues including terms and conditions of employment, job security, and health and safety.

The Society also involves employees in the Group's performance by way of participation in a staff profit sharing scheme.

Equal opportunities/disabled persons

The Society is committed to providing equal opportunities to all employees irrespective of sex, marital status, creed, colour, race or ethnic origin. This commitment extends to recruitment, training, career development, promotion and performance appraisal.

In respect of disabled persons the policy of the Society and its subsidiary undertakings continues to be to:

- (i) give full and fair consideration to applications for employment made by disabled persons taking into account their disability only to the extent to which it would affect their ability to perform the job and any health and safety considerations;
- (ii) retain if possible in its employment any staff member who becomes disabled, if necessary by providing appropriate training for an alternative job;
- (iii) provide equal opportunity to disabled persons regarding their consideration for training, career development and promotion, only taking into account their disability as outlined in (i) above.

Directors

The names of the directors are given on page 2.

Mr Michael Falcon and Mr Philip Sheridan were directors from 1 January 1994 until their retirements on 13 May 1994 and 31 December 1994 respectively.

Mr Richard Harvey and Dr Elizabeth Vallance were appointed directors from 1 January 1995. Both retire in accordance with the Articles of Association and, being eligible, offer themselves for re-election.

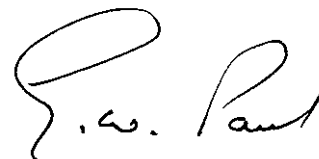
Mr Allan Bridgewater, Mr Andrew Buxton and Mr Francis Cator retire by rotation and, being eligible, offer themselves for re-election. At the conclusion of the Annual General Meeting, Mr Peter Sharman retires from the Board having reached the age limit.

According to the register kept under section 325 of the Companies Act 1985, no director has any interest in any share or debenture of the Society, the Society's parent undertaking or any other subsidiary undertaking of the Society's ultimate parent undertaking.

The Group has effected liability insurance on behalf of directors and officers.

Auditors

Ernst & Young have expressed their willingness to continue in office and a resolution will be submitted at the meeting to reappoint them as auditors and to authorise the directors to fix their remuneration.



George Paul
Chairman

Norwich 17 March 1995

Statement of directors' responsibilities

in respect of the accounts of Norwich Union Fire Insurance Society for the year ended 31 December 1994

Company law requires the directors to prepare accounts for each financial year in accordance with the provisions of the Companies Act 1985 applicable to insurance companies. 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;
- prepare the accounts on the going concern basis.

The directors confirm that the accounts comply with the above requirements.

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

Auditors' report

to the members of Norwich Union Fire Insurance Society Limited

We have audited the accounts on pages 8 to 23, which have been prepared under the basis of the accounting policies set out on pages 8 to 10.

Respective responsibilities of directors and auditors

As described on page 6 the Society's directors are responsible for the preparation of the accounts. It is our responsibility to form an independent opinion on whether the accounts have been properly prepared in accordance with the provisions of the Companies Act 1985 applicable to insurance companies, based on our audit, and to report our opinion to you.

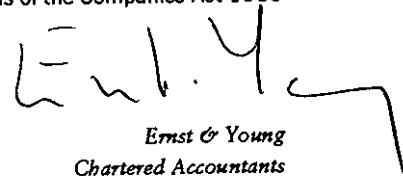
Basis of opinion

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 Society'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 after taking account of the provisions of the Companies Act 1985 applicable to insurance companies.

Opinion

In our opinion the accounts have been properly prepared in accordance with the provisions of the Companies Act 1985 applicable to insurance companies.


Ernst & Young
Chartered Accountants
Registered Auditor

Norwich 17 March 1995

Accounting policies

A. Basis of preparation

As permitted by the transitional provisions of The Companies Act 1985 (Insurance Companies Accounts) Regulations 1993, the accounts are prepared in compliance with sections 255 and 255A of, and Schedule 4A and the old Schedule 9A to, the Companies Act 1985, on the bases applicable to insurance companies. In particular the aggregate cost and depreciation of fixed assets, aggregate amounts of listed and unlisted investments and movements on reserves are not disclosed. Subject to these exemptions, the accounts are also prepared in accordance with applicable accounting standards and with the statement of recommended practice issued by the Association of British Insurers.

B. Basis of consolidation

The consolidated financial statements comprise the accounts of Norwich Union Fire Insurance Society Limited and its subsidiary undertakings made up to 31 December 1994.

The results of subsidiary undertakings disposed of during the year are included up to the date of disposal.

Associated undertakings have been treated as investments and their results have only been included to the extent of dividends received as the amounts involved are immaterial.

C. Valuation of investments

Investments are shown in the balance sheets as follows:

- (i) Listed securities at middle market value.
- (ii) Unlisted securities at market value estimated by the directors.
- (iii) Property at open market value, making due allowance for purchasers' acquisition costs, valued by the Chief Estates Manager, a Fellow of the Royal Institution of Chartered Surveyors.
- (iv) Subsidiary undertakings at net asset value on the foregoing bases.

Profits and losses, after taxation, on the realisation of investments, together with the excess of market values over book values, are taken to the investment reserve.

D. Reserves

Investment reserve principally consists of unrealised appreciation of investments, profits and losses, after taxation, on realisation of investments and exchange adjustments from revenue.

E. Insurance funds

- (i) Unearned premiums are those proportions of the premiums written in a year that relate to the periods of risk subsequent to the balance sheet date. They are computed principally on a daily pro-rata basis.
- (ii) Provision is made for unexpired risks when, after taking account of an element of attributable investment income, it is anticipated that unearned premiums will be insufficient to cover future claims and expenses on existing contracts.
- (iii) Provision has been made for the cost of all claims incurred during the year, whether reported or not, which are outstanding at the balance sheet date. The estimated cost of these claims has been determined after considering anticipated claims settlement patterns and future increases in settlement costs together with related handling expenses.

The outstanding claims provision includes an actuarially calculated permanent health insurance fund.

Domestic mortgage indemnity business has been accounted for on a funded basis in 1994. Provision has been made for claims from the date of repossession of the mortgaged property, whether reported or not. Potential claims in respect of domestic mortgage indemnity business, where repossession has not yet taken place, are considered in the calculation of the fund.

E. Insurance funds (continued)

- (iv) Marine and aviation business is provided for in a separate fund. The fund is arrived at by considering the adequacy of each year having regard to estimates of future premiums and settlements.

Any difference between the provisions at the balance sheet date and settlements and provisions in the following year is included in the revenue account for that year.

F. Underwriting results

The results of general insurance business are determined on an annual basis.

G. Deferred acquisition expenses

Commission and other acquisition expenses incurred are attributable to the insurance business written in the accounting period. To the extent that a proportion of the premiums written in the accounting period is deferred to a subsequent accounting period, an equivalent proportion of the related acquisition expenses has been deferred in accordance with the accruals concept.

H. Capital expenditure

Expenditure on computing and other office equipment and furniture, motor vehicles and machinery is capitalised and charged to revenue over an appropriate period. Computer software is not capitalised.

The Society makes purchases in the United Kingdom on behalf of most of the Norwich Union Group undertakings. Such purchases are leased to the undertakings concerned under operating leases and amounts recovered have been credited to investment income.

The written down balance in the balance sheets includes assets acquired under finance leases shown at the value of the minimum lease payments less depreciation with the net obligation to the lessor being included in the balance sheets as a liability.

I. Rates of exchange

Assets, liabilities and revenue transactions in currencies other than sterling have been translated into sterling at approximate rates of exchange ruling at 31 December. Exchange adjustments are taken to investment reserve.

Insurance funds held at the beginning of the year in currencies other than sterling have been revalued at rates of exchange ruling at 31 December and the resulting exchange adjustments taken to investment reserve.

J. Deferred taxation

Deferred taxation is calculated using the liability method, but is only provided for where the amount is likely to become payable in the foreseeable future.

K. Premiums

Premiums are principally accounted for in the year in which the risk commences. The overall effect of new business premiums, mid term adjustments and lapses of renewal premiums not accounted for in the year of risk inception is not material.

L. Investment income

Income from listed stocks and shares is included in the accounts when the security becomes ex-dividend, except for income from certain overseas stocks and shares which is accounted for when received.

Interest and rents receivable are accounted for on an accruals basis.

All investment income is shown net of investment expenses.

Accounting policies

M. Other operations

Commission and fee income of the Society's other operating subsidiary undertakings is recognised on an accruals basis.

N. Pension plans

The expected cost of pensions in respect of the defined benefit staff pension plans is charged to the revenue account so as to spread the cost of pensions over the service lives of employees in the plans.

O. Goodwill

Goodwill arising on the purchase of subsidiary undertakings, representing the difference between purchase consideration and the fair value of assets acquired, is written off to investment reserve in the year of acquisition.

Consolidated revenue account

for the year ended 31 December 1994

| | Notes | 1994 £m | 1993 £m |
|--|------------|------------|------------|
| Gross premiums written - continuing operations | | 1,426.4 | 1,239.2 |
| - discontinued operations | 10 | - | 49.8 |
| | | 1,426.4 | 1,289.0 |
| Reinsurance ceded | | (223.4) | (209.0) |
| Net premiums written | | 1,203.0 | 1,080.0 |
| Increase in unearned premiums | | (82.8) | (26.6) |
| Premiums earned | | 1,120.2 | 1,053.4 |
| Gross claims incurred | | 985.1 | 987.1 |
| Reinsurance recoveries | | (127.9) | (160.4) |
| Net claims incurred | | 857.2 | 826.7 |
| Commission and expenses | 9,18,19,20 | 292.0 | 281.5 |
| Underwriting result | | (29.0) | (54.8) |
| | | 1,120.2 | 1,053.4 |

Consolidated profit and loss account

for the year ended 31 December 1994

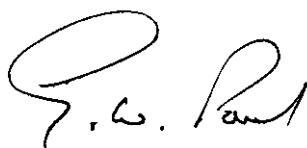
| | Notes | 1994 £m | 1994 £m | 1993 £m | 1993 £m |
|---|-------|------------|------------|------------|------------|
| Underwriting result | 10 | | | | |
| Attributable investment income | 10,11 | | (29.0) | | (54.8) |
| Insurance result - continuing operations | 10 | 112.4 | | 93.2 | 151.4 |
| - discontinued operations | 10 | - | | 3.4 | |
| - total | 10 | | 112.4 | | 96.6 |
| Other investment income | 11 | 32.8 | | 27.7 | |
| Other operations | 12 | (0.6) | | 4.3 | |
| Reorganisation costs | | (10.0) | | (4.8) | |
| Policyholders Protection Board levy | 21 | (21.0) | | (4.4) | |
| Result before taxation | | | 1.2 | | 22.8 |
| Taxation | 14 | | 113.6 | | 119.4 |
| Net result for the year | 8 | | (47.5) | | (33.0) |
| Dividend | | | 66.1 | | 86.4 |
| Profit retained for the year | | | (37.5) | | (50.0) |
| | | | 28.6 | | 36.4 |
| Retained profits at 1 January 1994 | | | 103.8 | | 39.8 |
| Investment reserve transfers | | | - | | 27.6 |
| Retained profits at 31 December 1994 | 8 | | 132.4 | | 103.8 |

Balance sheets

at 31 December 1994

| | Notes | Society | | Consolidated | |
|--|----------|----------------|----------------|----------------|----------------|
| | | 1994 £m | 1993 £m | 1994 £m | 1993 £m |
| Investments | 1 | 1,585.1 | 1,730.2 | 2,019.8 | 2,174.0 |
| Other assets | | | | | |
| Capitalised equipment | | 29.0 | 37.9 | 38.2 | 48.4 |
| Debtors | 3 | 310.4 | 293.2 | 394.0 | 333.7 |
| Other current assets | 4 | 239.6 | 282.7 | 141.4 | 270.4 |
| Total assets | | 2,164.1 | 2,344.0 | 2,593.4 | 2,826.5 |
| Liabilities and insurance funds | | | | | |
| Creditors | | 122.1 | 73.2 | 167.9 | 112.1 |
| Insurance funds | 5 | 1,410.0 | 1,408.1 | 1,870.4 | 1,849.8 |
| Other liabilities and provisions | 6 | 111.4 | 158.3 | 34.5 | 160.2 |
| | | 1,643.5 | 1,639.6 | 2,072.8 | 2,122.1 |
| Net assets | | 520.6 | 704.4 | 520.6 | 704.4 |
| Capital and reserves | | | | | |
| Share capital | 7 | 76.5 | 39.0 | 76.5 | 39.0 |
| Share premium | | 28.1 | 28.1 | 28.1 | 28.1 |
| Investment reserve | | 401.2 | 615.9 | 283.6 | 533.5 |
| Retained profits | 8 | 14.8 | 21.4 | 132.4 | 103.8 |
| Equity shareholders' funds | | 520.6 | 704.4 | 520.6 | 704.4 |

The notes on pages 15 to 23 form an integral part of these accounts



George Paul
Chairman



Allan Bridgewater
Group Chief Executive

Norwich 17 March 1995

Consolidated cash flow statement

for the year ended 31 December 1994

| | Notes | 1994 £m | 1994 £m | 1993 £m | 1993 £m |
|--|-------|------------|------------|------------|------------|
| Operating activities | | | | | |
| Net cash inflow from operating activities | 17 | | 144.9 | | 180.6 |
| Servicing of finance | | | | | |
| Dividends paid | | | (37.5) | | (50.0) |
| Taxation | | | | | |
| Corporation and income tax (paid)/recovered | | | (49.0) | | 1.0 |
| Investing activities | | | | | |
| (Purchases) less sales of investments, excluding cash deposits : | | | | | |
| Ordinary stocks | | (26.0) | | (25.0) | |
| Property | | (3.1) | | 29.4 | |
| Government and other public securities | | 44.5 | | (211.3) | |
| Debentures and loan stocks | | (14.7) | | (74.8) | |
| Preference stocks | | 11.3 | | 19.3 | |
| Mortgages and loans | | (52.8) | | (39.1) | |
| Disposal of associated undertakings | | - | | 68.0 | |
| | | (40.8) | | (233.5) | |
| Net realised investment gains/(losses) before tax | | (16.2) | | 31.4 | |
| Disposal of subsidiary undertakings | | - | | 15.9 | |
| (Purchases) less sales of tangible fixed assets | | (5.2) | | (11.9) | |
| Net cash outflow from investing activities | | | (62.2) | | (198.1) |
| Net cash outflow before financing | | | (3.8) | | (66.5) |
| Financing | | | | | |
| Issue of ordinary share capital to minority interests | | | - | | (0.1) |
| Issue of ordinary share capital | | | 37.5 | | 20.0 |
| Increase/(decrease) in cash and cash equivalents | 17 | | 33.7 | | (46.6) |

Notes to the accounts

1. Investments

| | Society | | Consolidated | |
|--|----------------|----------------|----------------|----------------|
| | 1994 £m | 1993 £m | 1994 £m | 1993 £m |
| Ordinary stocks | 291.2 | 356.5 | 325.8 | 359.6 |
| Property | 61.5 | 55.8 | 66.7 | 57.6 |
| Government and other public securities | 603.5 | 736.5 | 968.9 | 1,116.6 |
| Debentures and loan stocks | 126.7 | 108.9 | 235.9 | 249.2 |
| Preference stocks | 4.8 | 17.1 | 4.8 | 22.7 |
| Mortgages and loans | 268.6 | 225.4 | 351.8 | 342.0 |
| Deposits | 65.8 | 26.0 | 65.9 | 26.3 |
| Shares in subsidiary undertakings | 163.0 | 204.0 | - | - |
| | 1,585.1 | 1,730.2 | 2,019.8 | 2,174.0 |

The Society's mortgage operations are carried out through fellow Group undertakings, and are financed by loans from the Society. The Society has entered into stock lending arrangements during the year in accordance with established market conditions. Other investments are specifically deposited under local laws in various places outside the United Kingdom as security to holders of policies issued there.

2. Subsidiary undertakings

Particulars of subsidiary undertakings at 31 December 1994 are given below. Those undertakings which have been omitted do not materially affect the amount of the result or assets shown in the accounts. Unless otherwise stated, the undertakings have share capital comprising shares of one class only, and are engaged in the transaction of general insurance business.

| | Country of registration or incorporation | Percentage of allotted share capital held |
|---|--|---|
| Scottish Union and National Insurance Company | unregistered | |
| 'A' shares of £5 each (50p paid) | | 100 |
| Ordinary shares of £1 each | | 100 |
| Haven Insurance Policies Limited | England & Wales | 100 |
| NUFIS Investments Limited (Investment holding company) | England & Wales | 100 |
| Ajax Insurance Holdings Limited (Holding company) | England & Wales | 100 |
| The Ajax Insurance Association Limited (Engineering inspections) | England & Wales | 100* |
| Hill House Hammond Limited (Insurance intermediaries) | England & Wales | 100 (voting) |
| I for Insurance Services Limited (Advertising & telephone call handling services) | England & Wales | 100 |
| Norwich Union Healthcare Limited (Marketing & administration company) | England & Wales | 100 |
| Worldwide Assistance Limited (Medical emergency service) | England & Wales | 100 |

* Held through a wholly owned intermediate subsidiary undertaking.

At 31 December 1994 cumulative goodwill of £46.9m on the acquisition of subsidiaries has been written off to the investment reserve.

Notes to the accounts

3. Debtors

The company has taken advantage of the amendment to Financial Reporting Standard 5, 'Reporting the Substance of Transactions', issued in December 1994, whereby balances in respect of insurance broking transactions are included on a net basis within debtors in the balance sheet.

4. Other current assets

| | Society | | Consolidated | |
|---|--------------|--------------|--------------|--------------|
| | 1994 | 1993 | 1994 | 1993 |
| | £m | £m | £m | £m |
| Amounts due from The Norwich Union Life Insurance Society | - | 12.2 | - | 9.2 |
| Amounts due from subsidiary undertakings | 138.1 | 165.4 | - | - |
| Amounts due from other Group undertakings | 5.0 | 9.4 | 4.8 | 9.2 |
| Cash in hand and on current account | 14.9 | 16.8 | 24.7 | 145.9 |
| Deferred acquisition expenses | 81.6 | 78.9 | 111.9 | 106.0 |
| Deferred taxation | - | - | - | 0.1 |
| | 239.6 | 282.7 | 141.4 | 270.4 |

5. Insurance funds

| | Society | | Consolidated | |
|------------------------|----------------|----------------|----------------|----------------|
| | 1994 | 1993 | 1994 | 1993 |
| | £m | £m | £m | £m |
| Unearned premiums: | | | | |
| Gross | 577.1 | 535.5 | 598.1 | 553.7 |
| Reinsurance ceded | (182.5) | (178.5) | (77.6) | (74.7) |
| Outstanding claims: | | | | |
| Gross | 1,581.8 | 1,605.1 | 1,615.6 | 1,645.2 |
| Reinsurance recoveries | (566.4) | (554.0) | (265.7) | (274.4) |
| | 1,410.0 | 1,408.1 | 1,870.4 | 1,849.8 |

Due to revaluation and portfolio adjustments the movement on unearned premium reserve does not reconcile to the amount shown in the revenue account.

6. Other liabilities and provisions

| | Society | | Consolidated | |
|--|--------------|--------------|--------------|--------------|
| | 1994 | 1993 | 1994 | 1993 |
| | £m | £m | £m | £m |
| Amounts due to The Norwich Union Life Insurance Society | 3.4 | - | 4.9 | - |
| Amounts due to subsidiary undertakings | 0.8 | - | - | - |
| Amounts due to other Group undertakings | 13.2 | 28.6 | 13.2 | 28.5 |
| Bank loans and overdrafts | 94.0 | 129.7 | 15.7 | 131.0 |
| Minority interests of outside shareholders in subsidiaries | - | - | 0.7 | 0.7 |
| | 111.4 | 158.3 | 34.5 | 160.2 |

Bank loans and overdrafts are repayable as follows :

| | | | | |
|-----------------------------------|------|-------|------|-------|
| In one year or less, or on demand | 94.0 | 129.7 | 15.7 | 131.0 |
|-----------------------------------|------|-------|------|-------|

7. Share capital

| | 1994 £m | 1993 £m |
|--|------------|------------|
| Authorised | | |
| 200,000,000 (1993 - 39,050,000) ordinary shares of £1 each | 200.0 | 39.0 |
| Allotted fully paid | | |
| 76,550,000 (1993 - 39,050,000) ordinary shares of £1 each | 76.5 | 39.0 |

8. Profit and loss account

As permitted by section 230 of the Companies Act 1985, the parent undertaking's profit and loss account has not been included in these financial statements.

| | 1994 £m | 1993 £m |
|--|--------------|--------------|
| (i) Net result dealt with in the accounts of the Society | 30.9 | 72.6 |
| (ii) Consolidated retained profits comprise: | | |
| The Society | 14.8 | 21.4 |
| Subsidiary undertakings | 117.6 | 82.4 |
| | 132.4 | 103.8 |

9. Commission and expenses

| | 1994 £m | 1993 £m |
|---|--------------|--------------|
| Commission | 175.6 | 165.5 |
| Expenses | 126.6 | 115.7 |
| Increase in deferred acquisition expenses | (10.2) | 0.3 |
| | 292.0 | 281.5 |

10. Analysis of consolidated insurance result

| | Continuing | | Discontinued | | Total | |
|--------------------------------|--------------|-------------|--------------|------------|--------------|-------------|
| | 1994 £m | 1993 £m | 1994 £m | 1993 £m | 1994 £m | 1993 £m |
| Underwriting result | (29.0) | (49.2) | - | (5.6) | (29.0) | (54.8) |
| Attributable investment income | 141.4 | 142.4 | - | 9.0 | 141.4 | 151.4 |
| Insurance result | 112.4 | 93.2 | - | 3.4 | 112.4 | 96.6 |

The Republic of Ireland branch became a subsidiary undertaking on 1 January 1994 which was then transferred on 21 February 1994 to a fellow subsidiary undertaking within the Norwich Union Group. The business written in the Republic of Ireland has been treated as a discontinued operation.

11. Investment income

Investment income in the consolidated profit and loss account is shown after deduction of investment expenses of £1.5m (1993 - £1.2m) and interest payable of £12.5m (1993 - £12.3m) on loans and other current balances. It includes rents receivable on property of £7.9m (1993 - £10.6m).

Notes to the accounts

12. Other operations

The trading results of the Society's operating subsidiary undertakings not engaged in the transaction of general insurance business (listed in note 2) are derived as follows:

| | 1994 £m | 1993 £m |
|---------------------------|--------------|------------|
| Net commission receivable | 80.6 | 66.1 |
| Investment income | 1.0 | 1.4 |
| Expenses | (82.2) | (63.2) |
| Trading result | (0.6) | 4.3 |

Included in commission is approximately £33.9m (1993 - £26.2m) from other Group undertakings.

13. Segmental information

| | 1994 £m | 1993 £m |
|------------------------------------|----------------|----------------|
| (i) Gross premiums written | | |
| United Kingdom | 1,355.3 | 1,170.4 |
| Overseas - Europe | 61.1 | 113.0 |
| Overseas - International | 10.0 | 5.6 |
| | 1,426.4 | 1,289.0 |
| (ii) Result before taxation | | |
| United Kingdom | 135.1 | 116.0 |
| Overseas - Europe | (3.3) | 5.5 |
| Overseas - International | (18.2) | (2.1) |
| | 113.6 | 119.4 |
| (iii) Net assets | | |
| United Kingdom | 484.3 | 636.7 |
| Overseas - Europe | 30.5 | 57.0 |
| Overseas - International | 5.8 | 10.7 |
| | 520.6 | 704.4 |

(iv) For the purposes of Statement of Standard Accounting Practice 25, "Segmental Reporting", the directors consider that the Society and its subsidiary undertakings operate principally in only one class of business, that of general insurance.

(v) The directors consider that turnover on the destination basis is not materially different from turnover on an origin basis.

14. Taxation

Provision for taxation on the result for the year has been made as shown below. Group relief relates to inter-company payments for losses transferred. The investment reserve transfer represents relevant taxation on items credited or charged to investment reserve.

| | 1994 £m | 1993 £m |
|--|-------------|-------------|
| UK corporation tax at 33% (1993 - 33%) | 32.7 | 39.9 |
| Less double taxation relief | (0.2) | (0.7) |
| Net charge for UK corporation tax | 32.5 | 39.2 |
| Tax on franked investment income | 2.9 | 3.8 |
| Group relief at 33% (1993 - 33%) | 5.7 | 11.5 |
| Overseas taxation | 0.5 | 0.6 |
| Deferred taxation | 0.2 | (0.1) |
| Total taxation for the year | 41.8 | 55.0 |
| Adjustment in respect of prior years including deferred taxation | 1.4 | 7.4 |
| Utilisation of prior year losses | - | (12.2) |
| | 43.2 | 50.2 |
| Investment reserve transfer | 4.3 | (17.2) |
| Charge to profit and loss account | 47.5 | 33.0 |

Details of the full potential liability for deferred taxation are given below :

| | Society | | Consolidated | |
|--|-------------|--------------|--------------|--------------|
| | 1994 £m | 1993 £m | 1994 £m | 1993 £m |
| Provided in accounts : | | | | |
| Insurance funds | - | - | - | - |
| Accelerated capital allowances | - | - | 0.2 | 0.2 |
| Short term timing differences | - | - | (0.2) | (0.3) |
| | - | - | - | (0.1) |
| Not provided in accounts : | | | | |
| Unrealised appreciation of investments | 60.0 | 122.0 | 60.0 | 137.0 |
| Accelerated capital allowances | (2.8) | (1.7) | (3.0) | (1.8) |
| Short term timing differences | (11.1) | (3.7) | (13.3) | (4.3) |
| | 46.1 | 116.6 | 43.7 | 130.9 |
| | 46.1 | 116.6 | 43.7 | 130.8 |

Notes to the accounts

15. Leases

| | 1994 £m | 1993 £m |
|--|------------|------------|
| (i) The Society's commitment under finance leases is as lessee and comprises: | | |
| Net amount included in capitalised equipment | 8.1 | 13.7 |
| Total depreciation charged for the year | 6.1 | 4.7 |
| Payments due: | | |
| Next year | 6.0 | 5.8 |
| Subsequent four years | 1.9 | 7.7 |
| Finance charges of £1.1m were incurred in 1994. | | |
| (ii) The Society's involvement under operating leases as lessor comprises: | | |
| Amount included in capitalised equipment: | | |
| Gross | 31.5 | 29.5 |
| Accumulated depreciation | (17.0) | (10.0) |
| Net | 14.5 | 19.5 |
| Rents receivable | 10.5 | 12.0 |
| (iii) The annual commitments under operating leases of the Society's subsidiary undertakings as lessees, of which £nil in 1994(1993 - £nil) is in respect of land and buildings, are as follows: | | |
| Operating leases which expire: | | |
| Next year | 6.0 | 5.8 |
| Subsequent four years | 1.9 | 7.6 |
| | 7.9 | 13.4 |

16. Capital commitments

Contracts exist at 31 December 1994 for capital expenditure excluding investments amounting to approximately £nil (1993 - £0.2m) for which provision has not been made in the accounts.

The directors have authorised capital expenditure, other than on investments, of £7.5m (1993 - £12.2m) which has not yet been contracted for.

17. Cash flow statement

(i) Reconciliation of result before taxation to net cash inflow from operating activities

| | 1994 £m | 1993 £m |
|--|--------------|--------------|
| Result before taxation | 113.6 | 119.4 |
| Adjustments to convert revenue to a cash basis: | | |
| Depreciation charges | 15.2 | 18.4 |
| Tax on franked investment income included within operating income | (2.9) | (3.8) |
| Fees and interest included in investment reserve | - | (3.4) |
| Movements in: | | |
| Debtors excluding taxation | (48.9) | 59.1 |
| Deferred acquisition expenses | (5.9) | 1.4 |
| Insurance funds | 19.0 | 56.1 |
| Creditors excluding taxation | 40.9 | (22.7) |
| Current account with The Norwich Union Life Insurance Society excluding group relief | 14.1 | (15.8) |
| Current account with other Group undertakings excluding group relief | (0.2) | (28.1) |
| Net cash inflow from operating activities | 144.9 | 180.6 |

(ii) Analysis of changes in investments, excluding cash deposits, during the year

| | | |
|---------------------------------------|----------------|----------------|
| Purchases less sales of investments | 40.8 | 233.5 |
| Foreign exchange gains/(losses) | 1.8 | (19.5) |
| Changes in market value | (236.4) | 158.3 |
| Investments held in subsidiaries sold | - | (39.2) |
| Movements in investments | (193.8) | 333.1 |
| Balance at 1 January 1994 | 2,147.7 | 1,814.6 |
| Balance at 31 December 1994 | 1,953.9 | 2,147.7 |

Separate figures for purchases and sales of investments are not readily available.

(iii) Analysis of the balance of cash and cash equivalents as shown in the balance sheet

| | 1994 £m | Change in 1994 £m | 1993 £m | Change in 1993 £m |
|--|-------------|-------------------------|-------------|-------------------------|
| Cash at bank and in hand | 24.7 | (121.2) | 145.9 | 82.1 |
| Short term deposits | 65.9 | 39.6 | 26.3 | (45.2) |
| Bank overdrafts | (15.7) | 115.3 | (131.0) | (83.5) |
| Total cash and cash equivalents | 74.9 | 33.7 | 41.2 | (46.6) |

Notes to the accounts

18. Directors' emoluments

| | 1994 £ | 1993 £ | | | |
|---|----------------|----------------|----------------------|------|------|
| (i) The total emoluments of the directors of the Society for the year comprised : | | | | | |
| Fees to non-executive directors | 51,750 | 47,891 | | | |
| Consideration paid to third parties for the services of non-executive directors | 11,772 | 13,050 | | | |
| Contributions to the Chairman's and non-executive directors' pension schemes, which were closed to new members in October 1990 and made paid up for existing members in December 1993 | - | 2,484 | | | |
| Executive directors - Emoluments | 425,526 | 308,474 | | | |
| - Contributions to a staff pension plan | 47,591 | 37,844 | | | |
| Total | 536,639 | 409,743 | | | |
| (ii) A supplement to a past director's widow's pension in respect of services as a director but not payable out of the non-executive directors' pension scheme, amounted to | - | 565 | | | |
| (iii) The emoluments of the Chairman comprised : | | | | | |
| Previous Chairman - Fees | 10,625 | 22,500 | | | |
| - Contributions to the Chairman's pension schemes | - | 563 | | | |
| Present Chairman - Fees | 14,875 | - | | | |
| Total | 25,500 | 23,063 | | | |
| (iv) The emoluments of the highest paid director comprised : | | | | | |
| Emoluments | 170,387 | 144,035 | | | |
| Contributions to a staff pension plan | 19,874 | 17,732 | | | |
| Total | 190,261 | 161,767 | | | |
| (v) The number of directors whose total emoluments, excluding pension contributions, fell within the ranges stated below was as follows: | | | | | |
| | 1994 | 1993 | | 1994 | 1993 |
| nil to £5,000 | 1 | 8 | £85,001 to £90,000 | 1 | - |
| £5,001 to £10,000 | 6* | 2* | £130,001 to £135,000 | - | 1 |
| £10,001 to £15,000 | 1 | - | £140,001 to £145,000 | - | 1 |
| £15,001 to £20,000 | 1* | - | £165,001 to £170,000 | 1 | - |
| £20,001 to £25,000 | - | 1 | £170,001 to £175,000 | 1 | - |
| £30,001 to £35,000 | - | 1 | | | |

* Includes consideration paid to third parties for the services of 2 (1993 - 2) non-executive directors.

* Includes consideration paid to third parties for the services of 2 (1993 - 2) non-executive directors.

19. Auditors' remuneration

Auditors' remuneration, including amounts paid to local auditors overseas, comprised:

| | 1994 £ | 1993 £ |
|--|----------------|----------------|
| For auditing the accounts | 308,170 | 362,328 |
| For other services provided by Ernst & Young | 50,926 | 130,590 |
| Total | 359,096 | 492,918 |

20. Staff pension plans

Pensions are provided for eligible full and part-time employees in the United Kingdom through a number of fully funded defined benefit plans. The Society's United Kingdom employees are members of the Norwich Union Group plans and the contributions are based on pension costs across the Group as a whole. These plans are valued annually using the projected unit method, by a professionally qualified Actuary employed by the Group. The most recent valuation of the United Kingdom staff plans was at 30 September 1994 and the details of this valuation are disclosed in the accounts of The Norwich Union Life Insurance Society. The full cost of providing pensions is met by the Group through contributions based on a percentage of salaries of eligible staff. The Group also provides a number of pension plans for overseas staff which operate in accordance with local practice and regulations.

The cost to the Society of providing pensions charged to the consolidated revenue account for the year was £13.2m (1993 - £10.2m).

21. Policyholders Protection Board levy

A provision has been made for the maximum levy payable under the requirements of the Policyholders Protection Act 1975. The charge in the 1994 profit and loss account is based on leviable premium income in 1993 and 1994.

22. Contingent liabilities

There are contingent liabilities in respect of:

- (i) Uncalled capital on certain shares held.
- (ii) As a result of an order made under section 68 of the Insurance Companies Act 1982, the Society, the Scottish Union and National Insurance Company and Haven Insurance Policies Limited have been granted a concession to deposit consolidated annual returns with the Department of Trade and Industry. As a condition of this concession the above companies have mutually guaranteed respective liabilities in a manner approved by the Department of Trade and Industry. They also continue to guarantee the liabilities of a Group undertaking, the Maritime Insurance Company Limited, which has been excluded from the section 68 order since 1 January 1993.

23. Parent undertaking

The Society is a member of the Norwich Union Group and its ultimate parent undertaking is The Norwich Union Life Insurance Society, registered in England and Wales. The accounts of the ultimate parent undertaking are available from the registered office, the address of which is noted on page 1.

The immediate parent undertaking is Norwich Union Holdings plc, registered in England and Wales.