Avon Insurance plc
Annual Report 2001

Board of Directors

Chairman
R. J. Carter, J.P.

Vice-Chairman
Sir Donald Curry, C.B.E., F.R.Ag.S.

Managing Director
I. S. Geden, F.C.I.I.

A. Harris, M.B.A., F.C.I.I.

Registered no. 209606

Directors' Report

Principal Activities

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

Review of Business

Both the level of business and the year end financial position remain satisfactory, and the directors expect that the present level of activity will be sustained for the foreseeable future. Net written premiums for the year amounted to £147.2m. Net claims incurred were £82.5m. After taking into account investment income from the Non-Technical Account and making provision for expenses, unearned premiums, less deferred acquisition costs, a surplus of £21.1m. has been transferred from the Technical Account. After adding the balance of investment income, less expenses, the loss before taxation was £9.2m. The loss after tax was £4.6m. and after providing for the proposed dividend of £20.0m. the balance to be transferred from reserves amounts to a loss of £24.6m.

Directors

The Board records its sincere appreciation of the service of Mr. N. Carter who retired in September, 2001, and Mr. A. Young who retired in January 2002. Mr. I. S. Geden was appointed a director in March, 2001. Mr. A. Harris was appointed a director in January 2002 and his appointment will be submitted to Members for confirmation at the Annual General Meeting. In accordance with the Articles of Association, Sir Donald Curry retires and, being eligible, offer himself for re-election. A list of the directors of the Company is shown on page 1.

Statement of Directors' Responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the profit for that period. In preparing those financial statements the directors confirm:-

- suitable accounting policies have been selected and applied consistently;
- judgements and estimates made are reasonable and prudent;
- applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- the financial statements are prepared on the going concern basis.

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 financial statements comply with the Companies Act 1985. 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.

Corporate Governance

Corporate governance matters are dealt with at Group level and are reported in detail in the parent Company's Annual Report.

Introduction of the euro

The company does not conduct business in countries participating in the euro, but is affected by the requirement to record investments held in euro.

Auditors

A resolution to re-appoint PricewaterhouseCoopers as auditors to the company will be proposed at the Annual General Meeting.

R. J. Carter

R. J. Carter	I. S. Geden
Chairman	*Managing Director*

Stratford-upon-Avon, 18th March 2002

Profit & Loss Account
Technical Account – General Business

for the year ended 31st December, 2001	2001 £m	2000 £m
Continuing Operations		
Gross premiums written (note 2)	173.1	151.9
Outwards reinsurance	(25.9)	(23.8)
Net premiums written	147.2	128.1
(Increase) in the gross provision for unearned premiums	(8.4)	(7.2)
Increase in the provision for unearned premiums, reinsurers' share	0.2	0.2
(Increase) in the net provision for unearned premiums	(8.2)	(7.0)
Earned premiums, net of reinsurance	139.0	121.1
Allocated investment return transferred from the non-technical account	11.9	11.0
Total technical income	150.9	132.1
Gross claims paid	93.5	85.3
Reinsurers' share	(7.6)	(7.5)
Net claims paid	85.9	77.8
Increase in the gross provision for claims	3.4	6.0
(Increase)/Decrease in reinsurers' share	(6.8)	1.6
(Decrease)/Increase in the net provision for claims	(3.4)	7.6
Claims incurred, net of reinsurance	82.5	85.4
Changes in other technical provisions, net of reinsurance	0.6	–
Net operating expenses (note 4)	44.6	38.3
Increase/(Decrease) in the equalisation provision	2.1	(4.6)
Total Technical Charges	129.8	119.1
Surplus on the technical account - general business	21.1	**13.0**

Profit & Loss Account
Non-Technical Account

for the year ended 31st December, 2001	2001 £m	2000 £m
Continuing Operations		
Surplus on the technical account - general business	21.1	13.0
Investment income (note 5)	18.8	22.6
Investment expenses and charges (note 5)	(0.1)	(0.1)
Unrealised losses on investments (note 5)	(37.0)	(6.8)
Allocated investment return transferred to the general business technical account (note 6)	(11.9)	(11.0)
Other charges	(0.1)	(0.1)
(Loss)/Profit on ordinary activities before tax (note 8)	(9.2)	17.6
Taxation on (losses)/profits on ordinary activities (note 9)	4.6	(2.2)
(Loss)/Profit on ordinary activities after taxation	(4.6)	15.4
Proposed and paid dividend	(20.0)	(10.0)
Retained (loss)/profit for the financial year (note 12)	[redacted]	**5.4**

Statement of Total Recognised Gains and losses	2001 £m	2000 £m
Retained (loss)/profit for the financial year	(24.6)	5.4
Revaluation of subsidiary	0.2	0.8
Total recognised losses and gains relating to the year	(24.4)	6.2

Balance Sheet

As at 31st December, 2001	2001 £m	2000 £m
Assets		
Investments		
Land and buildings (note 10a)	23.4	30.9
Shares in subsidiaries (note 10b)	21.3	21.1
Listed British Government and local authority securities	73.3	70.4
Listed fixed interest stocks	71.2	74.8
Listed ordinary shares	175.5	207.5
Mortgages, loans and deposits	22.2	25.5
Other financial investments (note 10c)	342.2	378.2
	386.9	430.2
Reinsurers' share of technical provisions		
Provision for unearned premiums	1.0	0.8
Claims outstanding	29.3	22.5
Other technical provisions - provisions for unexpired risk	0.6	–
	30.9	23.3
Debtors		
Due from policyholders	17.3	15.5
Due from intermediaries	12.7	12.0
Debtors arising out of direct insurance operations	30.0	27.5
Debtors arising out of reinsurance operations	0.5	0.4
Other debtors	2.6	0.8
	33.1	28.7
Other assets		
Cash at bank and in hand	3.3	2.8
Prepayments and accrued income		
Accrued interest and rent	3.6	3.7
Deferred acquisition costs	11.5	10.5
	15.1	14.2
Total assets	[illegible]69.3	499.2

Balance Sheet

As at 31st December, 2001	2001 £m	2000 £m
Liabilities		
Capital and reserves		
Called up share capital (note 11)	20.0	20.0
Profit and loss account (note 12)	168.1	192.7
Revaluation Reserve (note 13)	9.3	9.1
Shareholders' funds attributable to equity interests (note 14)	197.4	221.8
Technical provisions		
Provision for unearned premiums	54.7	46.3
Claims outstanding	166.4	163.0
Claims equalisation provision (note 15)	3.1	1.0
Other technical provisions - provision for unexpired risk	1.2	–
	225.4	210.3
Provision for other risks and charges (Note 17)	23.4	37.0
Creditors		
Creditors arising out of direct insurance operations	8.0	6.7
Creditors arising out of reinsurance operations	4.6	6.0
Due to parent Society	1.6	3.0
Corporation tax	7.0	2.2
Other	0.2	0.4
Other taxation	1.7	1.7
Provision for proposed dividend	–	10.0
Other creditors	8.9	14.3
Accruals and deferred income	–	0.1
	[illegible]6.5	67.1
Total liabilities	[illegible]	499.2

These financial statements were approved by the directors at a meeting on 18th March, 2002 and were signed on their behalf by:-

R. J. Carter

R. J. Carter
Chairman

I. S. Geden
Managing Director

Stratford-upon-Avon, 18th March 2002

Cash Flow Statement

for the year ended 31st December, 2001	2001 £m	2000 £m
Net cash inflow from continuing operating activities (note 19)	27.4	32.9
Taxation paid	(4.7)	(5.2)
Equity dividends paid	(30.0)	(4.8)
Net cash (Outflow)/Inflow	(7.3)	22.9
Cash flows were invested/(applied) as follows:		
Increase/(Decrease) in cash holdings (note 19)	0.5	(4.4)
Net portfolio investment		
Ordinary shares (note 19)	2.2	6.6
Fixed Income securities (note 19)	0.8	3.3
Investment properties (note 19)	(7.5)	7.6
Deposits with credit institutions (note 19)	(3.3)	9.8
	(7.8)	27.3
Net (Application)/Investment of cash flows	[redacted]	22.9

Notes to Financial Statements

1 Accounting Policies

The financial statements have been prepared in accordance with applicable accounting standards in the United Kingdom and with the Statement Of Recommended Practice (SORP) on accounting for insurance business issued by the Association of British Insurers. Compliance with Statement of Standard Accounting Practice (SSAP) 19 'Accounting for investment properties' requires departure from the requirements of the Companies Act 1985 (as amended) relating to depreciation and an explanation of the departure is given in accounting policy relating to investments. In other respects, the financial statements have been prepared in accordance with Section 255 of, and Schedule 9A to, the Companies Act 1985 (as amended).

FRS 18 "Accounting policies" has been adopted in the current year, but this did not require any change in accounting policies.

The more important accounting policies, which unless otherwise stated have been applied consistently, are set out below.

a) Translation and Conversion of Foreign Currencies

Foreign currency transactions have been converted into sterling at rates of exchange ruling during the year. Assets and liabilities in foreign currencies have been translated at the rates of exchange ruling at the end of the year. Exchange differences are taken to the profit and loss account.

b) General Insurance Business

The results for motor, accident and health, third party liability, fire and other damage to property are determined on an annual basis whereby the incurred cost of claims, commission and related expenses are charged against the earned proportion of premiums, net of reinsurance as follows:

The balance on the Technical Account - General Business is determined after making provision for unearned premiums, unexpired risks and outstanding claims.

Premiums written relate to business incepted during the year, together with any differences between booked premiums for prior years and those previously accrued, and include estimates of premiums due but not yet receivable or notified to the company, less an allowance for cancellations.

Provision for unearned premiums is calculated on a 365th inception basis.

Provision for unexpired risks is maintained, when required, to cover the estimated excess of liabilities over the associated unearned premium, net of associated acquisition costs after taking into account future investment return on the investments supporting the unearned premiums provision.

Claims 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 provision calculated takes account of handling costs, salvage and other know recoveries, anticipated inflation, legal costs and trends in settlement.

The cost of notified but not settled claims are estimated on an individual case by case basis by claims handlers using their experience of past settlements and known and expected legislative changes.

The estimation of claims incurred but not reported (IBNR) is generally subject to a greater degree of uncertainty. Classes of business, such as employers' liability, where the IBNR proportion of the total reserve is high will typically display greater variations between initial estimates and final outcomes because of the greater degree of difficulty of estimating these reserves.

IBNR claims are estimated using statistical techniques, which use past trends to forecast anticipated loss ratios by year of accident, Separate allowance is made for large claims. An allowance is made for expected changes in future trends, such as changes in company processes, changes in the legal environment, changes in mix of business and changes in expected claims inflation. In addition, *exposure based techniques are adopted to estimate reserves required for new sources of loss not significantly evident in historic data.*

Equalisation provisions have been established in accordance with the requirements of the Insurance Companies (Reserves) Act 1995 to mitigate exceptional high loss ratios for classes of business displaying a high degree of claims volatility.

Acquisition costs are deferred over the period of which the related premiums are earned.

c) Investment Return

Account is taken of dividend income when the related investment goes 'ex-dividend' and other investment income is included on an accruals basis.

Gains and losses on realisation of investments are included within investment income or investment expenses in the Non-Technical Account. Allocations to and from the Non-Technical Account are made to the technical account of the longer term investment return on investments supporting the general insurance technical provisions.

Realised gains and losses on investments carried at market value are calculated as the difference between net sales proceeds and purchase price. Movement in unrealised gains and losses on investments represent the difference between the valuation at the balance sheet date and their purchase price or, if they have been previously valued, their valuation at the last balance sheet dates together with the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current period.

Movements in unrealised gains and losses in investments are included in the Non-Technical Account other than those in respect of the investment in subsidiaries which are taken to a revaluation reserve.

d) Taxation

United Kingdom and overseas taxation charged in the Non-Technical Account is based on profits and income including realised gains and losses on all investments for the year as determined in accordance with the relevant tax legislation, together with adjustments in respect of earlier years. Provision for deferred taxation on unrealised appreciation of investments is made only where realisations giving rise to a taxation liability are anticipated in the foreseeable future. Deferred taxation is calculated on the liability method and consists of the estimated taxation, or relief from taxation, which is expected to arise in the foreseeable future from material timing differences, including unrealised appreciation of investments. Movements in this taxation provision are charged to the Non-Technical Account

e) Investments

Investments are shown at market value. Unlisted investments (including Investments in subsidiaries) are included at directors' valuation. The properties are valued annually by independent external Chartered Surveyors. In accordance with SSAP 19, no depreciation or amortisation is provided in respect of freehold investment properties and leasehold investment properties with over 20 years to run. The requirement of the Companies Act 1985 is to depreciate all properties. This requirement conflicts with the generally accepted accounting principles set out in SSAP19.

The directors consider that, as these properties are held for investment, to depreciate them would not give a true and fair view, and that it is necessary to adopt SSAP19 in order to give a true and fair view. Depreciation is only one of the factors reflected in the annual valuation, and the amounts which might otherwise have been shown cannot reasonably be separately analysed. Any permanent diminution in the value of properties is charged to the non-technical account, as appropriate.

f) Goodwill

Goodwill arising subsequent to 31 December, 1997 is capitalised in the balance sheet at cost and amortised through the profit and loss account over its useful economic life on a straight-line basis.

Prior to 1998, goodwill was eliminated against reserves as a matter of accounting policy. As permitted under the transitional arrangements of Financial Reporting Standard (FRS) 10, 'Intangible assets and Goodwill', such amounts previously written off to reserves have not been reinstated as an asset, but will be charged to the profit and loss account on any disposal or closure of the business to which they relate. A total of £1.1m. remains eliminated against reserves at 31 December 2001.

g) Retirement Benefits Scheme

The Company participates in the Group defined benefits pensions scheme covering the majority of employees. The scheme is valued regularly by qualified actuaries, the rates of contribution being determined after taking account of their advice. Regular pension costs are calculated in accordance with the advice of the actuaries and are accounted for by charging the cost of providing pensions over the period during which the Company benefits from the employees' services. Variations from regular cost are spread over the expected average remaining working lifetime of the members of the scheme and interest accrued on any surplus arising in the scheme is deducted from the regular pension costs.

2 Segmental Information

a) Gross Premiums Written

The gross premium income for the year by major class of business was as follows:-

	2001 £m	2000 £m
Fire and Accident	66.5	52.5
Motor	24.8	20.2
Personal	81.8	79.2
	[redacted]	151.9

All gross premium income was written in the United Kingdom

b) Gross Premiums Earned

	2001 £m	2000 £m
Fire and Accident	60.6	49.1
Motor	23.6	19.2
Personal	80.5	76.5
	[redacted]	144.8

3 Movement in prior year's provisions for claims outstanding

Positive run off deviations of £3.6m. (2000 - £6.0m.) for Motor, £3.1m. for Liability and £2.5m. for Property were experienced for the year.

4 Net Operating Expenses

	2001 £m	2000 £m
Acquisition costs	34.7	30.8
Increase in deferred acquisition costs	(1.0)	(2.2)
Administration expenses	10.9	9.7
	44.6	38.3

Total commision for direct insurance accounted for during the year amounted to (2000 - £27.8m.).

5 Investment Return

	2001 £m	2000 £m
Income from land and buildings	1.3	1.7
Income from other investments	16.1	16.2
Net gains on the realisation of investments	1.4	4.7
Investment income	18.8	22.6
Investment expenses and charges	(0.1)	(0.1)
Movement in unrealised investment (losses)	(37.0)	(6.8)
Investment return for the year	(18.3)	15.7

6 General Business Longer Term Investment Return

Analysed between:	2001 £m	2000 £m
Allocated investment return transferred to the Technical Account – General Business	11.9	11.0
Net investment return included in the Non-Technical Account	(30.2)	4.8
	[redacted]	15.8

The longer term rate of investment return is an estimate of the long-term trend investment return having regard to past performance over the last forty years, current trends and future expectations.

	Longer term rates of investment return	
	2001 %	2000 %
Equities	8.0	9.0
Properties	7.0	7.0

The longer term return credited to the operating results is based on the investments supporting the technical reserves of the General Business. There is no material difference between the actual return attributable to investments supporting the technical reserves and the longer term return credited to operating results.

7 Directors and Employee Information

The aggregate emoluments of the Company's directors were £42,400 (2000 - £41,000) all of which was in respect of fees for service as non-executive directors.

	2001 £	2000 £
R. J. Carter	25,000	21,000
Sir D. T. Y. Curry	17,400	8,000
A. Evans	–	12,000
	[redacted]	41,000

No pension contributions were made in respect of serving directors. Pensions to former directors amounted to £27,180 (2000 - £24,002).

The employees of the Company do not have contracts of service with Avon Insurance plc but with the ultimate parent company, The National Farmers Union Mutual Insurance Society Limited.

The number of persons involved is :

	2001	2000
Administration and finance	176	164
Underwriting	153	143
Claims	64	53
	393	360

A recharge is made from the parent Company for the services of the above employees. This amounted to £8.8m. (2000 - £7.6m.).

8 Operating Profit Before Taxation

The operating profit before taxation is stated after charging:-

	2001 £m	2000 £m
Auditors' fees for:		
Audit	0.1	0.1

9 Taxation

	2001 £m	2000 £m
United Kingdom Taxation		
Corporation tax	9.5	4.3
Deferred tax	(14.1)	(2.1)
Total United Kingdom Taxation	(4.6)	2.2

10 Investments:

a) Land and Buildings

	Investment properties 2001 £m
Valuation	
Balance at 1st January	30.9
Additions	1.1
Shortfall on revaluation	(0.4)
Disposals	(8.2)
Net book value at 31st December, 2001	[redacted]
Net book value at 31st December, 2000	30.9

Purchase price of land and buildings £22.2m. (2000 £29.3m.)

b) Shares in subsidiaries

Purchase price of Investments £12.0m. (2000 £12.0m.)

The Company owns the whole of the issued share capital of Tiddington Investments Limited whose principle activity is a non dealing Investment Company, which is incorporated in Great Britain and registered in England and Wales. The Company is exempt under Section 228 of the Companies Act 1985 from the requirement to prepare consolidated financial statements as it and its subsidiary undertakings are included by full consolidation in the consolidated financial statements of its parent, The National Farmers Union Mutual Insurance Society Limited, a company incorporated in England and Wales. The value of the Company's interest in its subsidiaries is not less than the amount at which the interest is stated in the balance sheet.

c) Other financial investments

	2001 £m	2000 £m
Purchase price of other financial investments - *Listed British Government and Local Authority securities*	73.0	66.7
- Listed fixed interest stocks	67.8	71.1
- Listed ordinary shares	87.3	86.1
- Mortgages, loans and deposits	22.2	25.4
	[redacted]	249.3

11 Share Capital

The authorised capital at 31st December, 2001 was £100.0m. (2000 - £100.0m.) divided into shares of £1 each, of which twenty million (2000 twenty million) were issued and fully paid.

12 Profit and Loss Account

	2001 £m	2000 £m
Balance at 1st January	192.7	187.3
Transfer from Non-Technical Account	(24.6)	5.4
Balance at 31st December	[redacted]	192.7

13 Revaluation Reserve

	2001 £m
Balance at 1st January	9.1
Revaluation Movement	0.2
Balance at 31st December	[redacted]

14 Movements In Shareholders' Funds

	2001 £m	2000 £m
Balance at 1st January	221.8	215.6
Profit and loss account (note 12)	(24.6)	5.4
Revaluation reserves	0.2	0.8
Balance at 31st December	197.4	221.8

15 Claims Equalisation Provision

Equalisation provisions are established in accordance with the requirements of the Interim Prudential Source book for Insurers. These provisions, which are in addition to the provisions required to meet the anticipated ultimate cost of settlement of outstanding claims at the balance sheet date, are required by Schedule 9A to the Companies Act 1985 to be included within technical provisions in the balance sheet notwithstanding that they do not represent liabilities at the balance sheet date. This has had the effect of reducing profit on ordinary activities before taxation by £2.1m. (2000 increased profit by £4.6m.) in the financial statements.

16 Retirement Benefit Schemes

The Group's Retirement Benefits Schemes are defined benefit schemes and cover all material obligations to provide pensions to retired and current employees. The Group operates funded pension schemes with the assets of the schemes held separately from those of the companies. Contributions to the schemes are charged to the technical accounts so as to spread the cost of pensions over employees' working lives with the companies. The charge for the year was £nil. (2000 £nil)

The contributions for the schemes are determined by an independent qualified actuary on the basis of triennial valuations using the *Projected Unit Method. The most recent valuation was at 31st December, 1999. At this date the market value of the investments of the* schemes was £584m. The assets of these schemes were 54% in excess of the amount required to cover the benefits that had accrued to members after allowing for future increases in earnings. The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of return on investments and the rates of increases in salaries and pensions. It was assumed that the returns on new investments would be 6.5% per annum, the return on existing investments would be 4.25% per annum, salary increases would average 4.25% per annum and present and future pensions would increase at the rate of 2.5% per annum. At 31st December, 2001 the pension prepayment held on the Group's balance sheet is £21m. (2000 - £21m.).

It is not possible to identity the employers' underlying share of the assets and liabilities of the scheme and as such the transitional disclosure requirements of FRS 17 are not given in these financial statements. The disclosures in respect of it's entire scheme are shown in the Group's consolidated financial statements.

17 Provision for other risks and charges

a) Deferred Taxation

	2001 £m	2000 £m
Balance at 1st January	36.2	38.3
Charge for the year	(14.1)	(2.1)
Balance at 31st December	22.1	36.2

The provision for deferred taxation comprised:

	2001 £m	2000 £m
Unrealised gains on investments	26.5	36.5
Other short term timing differences	(4.4)	(0.3)
	22.1	36.2

The Directors are of the opinion that all of the investments held will be realised in the forseeable future, as a result Deferred Taxation has been provided on these amounts. There is no other unprovided Deferred Taxation.

b) Motor Insurer's Bureau

The company is a member of the Motor Insurer's Bureau and as such has provided £0.8m. (2000 £0.8m.) for its proportion of the proposed levy forecast.

c) Financial Services Compensation Scheme

A reserve of £0.5m. (2000 £nil) being 0.34% of the 2001 NWPI has been provided for its proportion of the anticipated levy forecast. The maximum levy that can be raised in respect of 2001 premium income is 0.80%.

18 Capital Expenditure

There were no capital commitments at 31st December, 2001 not provided for in these financial statements (2000 £nil).

19 Cash Flow Statement

a) Reconciliation of Profit Before Tax to Net Cash Inflow from Operating Activities

	2001 £m	2000 £m
(Loss)/Profit before tax	(9.2)	17.6
(Increase) in debtors, prepayments and accrued income	(4.3)	(1.2)
(Decrease)/Increase in creditors, accruals and deferred income	(1.3)	6.6
Increase in technical provisions	6.5	7.8
Realised and unrealised investment losses	35.7	2.1
Net cash Inflow from operating activities	[illegible]	32.9

b) Movement in portfolio investments net of financing

	2001 £m	2000 £m
Increase/(Decrease) in cash holdings	0.5	(4.4)
Cash (Outflow)/ Inflow on portfolio investments	(7.8)	27.3
Movement arising from cash flows	(7.3)	22.9
Changes in market value and currencies	(35.7)	(2.1)
Total movement in portfolio investments, net of financing	(43.0)	20.8
Portfolio investments, net of financing at 1st January	411.9	391.1
Portfolio investments, net of financing at 31st December	[illegible]	411.9

c) Cash flows invested in portfolio investments

	2001 £m	2000 £m
Purchase of shares and other variable yield securities	7.8	14.7
Purchase of debt securities and other fixed income securities	57.4	21.7
Purchase of land and buildings	6.1	8.1
Sale of shares and other variable yield securities	(5.6)	(8.1)
Sales of debt securities and other fixed income securities	(56.6)	(18.4)
Sale of land and buildings	(13.6)	(0.5)
Net (decrease)/Increase in deposits with credit institutions	(3.3)	9.8
Net cash (Outflow)/Inflow on portfolio investments	[illegible]	27.3

d) Movement in cash, portfolio investments net of financing

	As at 1st January, 2001 £m	Cash flow £m	Changes to Market values & currencies £m	As at 31st December, 2001 £m
Cash at bank and in hand	2.8	0.5	–	3.3
Shares and other variable yield securities	207.5	2.2	(34.2)	175.5
Debt securities and other fixed income securities	145.2	0.8	(1.5)	144.5
Land and buildings	30.9	(7.5)	–	23.4
Deposits with credit institutions	25.5	(3.3)	–	22.2
Total	411.9	(7.3)	(35.7)	368.9

20 Related Parties

The Company has taken advantage of the exemption set out in FRS8 not to disclose transactions with other Group Companies.

21 Ultimate Holding Company

The immediate parent company is NFU Mutual Management Company Limited, which is incorporated in England and Wales. The company's ultimate controlling undertaking and parent company is The National Farmers Union Mutual Insurance Society Limited, which is incorporated in England and Wales. Copies of the consolidated accounts of the ultimate controlling party can be obtained from the Secretary at the following address: Tiddington Road, Stratford-upon-Avon, CV37 7BJ.

Independent Auditors' Report to the members of Avon Insurance plc

We have audited the financial statements 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.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements 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 financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards by the Auditing Practices Board.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions 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 misstatement or material inconsistencies with the financial statements. The other information comprises only the directors' report.

Basis of audit 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 financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the 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 financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Equalisation reserves

Our evaluation of the presentation of information in the financial statements has had regard to the statutory requirement for insurance companies to maintain equalisation reserves. The nature of equalisation reserves, the amount set aside at 31 December 2001, and the effect of the movement in those reserves during the year on the general business technical result and loss before tax, are disclosed in notes 1b) and note 15 respectively.

Opinion

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

PricewaterhouseCoopers

PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
Bristol, 18th March, 2002