Company No. 20960(

Avon Insurance plc

annual report 1995

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NFU Mutual

General Management

Illustrated from left to right:-

R. A. Deacon, LL.B. *(General Manager, Corporate)*

D. F. Tigwell, F.C.I.I. *(General Manager, NFU Mutual General)*

A. S. Young, F.C.I.I. *(Managing Director)*

N. Carter, F.C.A. *(General Manager, NFU Mutual Life)*

A. Harris, M.B.A., F.C.I.I. *(Assistant General Manager)*

W. E. Cooper, A.C.I.S., A.C.I.I. *(Company Secretary)*

Chairman's Statement

The trading results of all our divisions in 1995 clearly reflect the prevailing market conditions.

In a very competitive market for general insurance, both NFU Mutual and the Avon returned a small underwriting loss. A good year for investments meant that both achieved a satisfactory result on their overall trading.

Our Life and Pensions division faced a difficult task in a UK market lacking in customer confidence - but nevertheless came close to matching last year's record premium income.

NFU MUTUAL GENERAL

Business Development

Despite significant premium rate reductions worth £16.5m. to members, our gross written premium income was very similar to that of 1994, at £328.4m. Premiums were reduced in over a dozen classes of insurance, spread throughout our portfolio of business, motor and personal insurances. Our virtually unchanged premium income is a reflection of the additional business which we attracted during the year. In a very competitive climate, we were pleased with our sales in 1995.

A business development which, though still in its early days, is showing good results is our Telemarketing unit. Through this unit, we have been working closely with our partners in the farming unions to canvass and recruit more NFU members - and then to offer them our insurance products. By this method, we are also making good progress with the expansion of our subsidiary business, NFU Mutual Insurance Association Limited, into the rural non-farming market. With the trend in the UK insurance market towards consolidation into fewer but larger insurance companies, it is important to us and the long-term interests of our customers that we continue to develop the business. This will not only help to achieve economies of scale, but also the wider spread of risk which comes from a portfolio based not just on agriculture, but including many other rural businesses. We are committed to the further development of this facility and have covered the cost of the next phase within our accounts.

The cover of this Annual Report carries our new corporate identity - our traditional wheatsheaf emblem, but in a new form. In recent times, we have been looking closely at our image, and our professional advisors felt that the stylised version we have used in the past few years did not provide the instant connection to the NFU Mutual which we need. They recommended a return to a more traditional version. In a world in which brand name recognition and brand values are important competitive features, we have accepted that recommendation. We shall probably phase in the change to the new logo over the next year or so. At the same time, we will also be promoting ourselves more strongly in an effort to increase our business from both the farming and the rural communities. In the medium term, this should help towards the economies of scale and better spread of risk to which I referred earlier. This represents a substantial investment in brand name promotion.

In common with many other businesses, we have already begun the process of adapting our computer systems in readiness for the year 2000. The cost of this has also been provided for in the 1995 accounts.

Claims

Our underwriting loss was £5.67m., compared with last year's profit of £14.75m. In addition to the reduction in premium rates, our results were affected by the hot, dry summer. Four times the usual number of crop and combine fire claims were received, and during a three-week period in August, our policyholders notified us of as many claims as we normally receive in six months. A secondary feature of the drought was an increase in the incidence of subsidence problems, but thankfully this was relatively minor and soon returned to normal levels.

Extreme weather of the opposite kind affected us in the final few days of the year, when a severe frost was followed by an extremely rapid thaw. Inevitably, that brought UK insurers an influx of burst pipe claims - and we were no exception.

Another factor which has an important bearing on our results is the amount we reserve for future claims. This is particularly so with liability business where claims can, and do, materialise many years after the incident which caused the problem. Claims for pollution damage and occupational disease can be made on public and employers' liability policies decades after the cover has been provided. One of the most difficult tasks we face is to determine the level of reserves we need to provide for these future payments. All of the trends that we see, in the law and in medical science, make us increasingly cautious about the possible future costs associated with these 'long-tail' classes of insurance.

The medical profession can now more accurately attribute disease and injury to an actionable event. Happily, the life expectancy and survival rates for even the most seriously injured of accident victims have been enhanced in recent years. Whilst these developments should be greatly welcomed by all members of society, they mean that the cost of awards for personal injury claims will inevitably increase.

Insurers are also at risk from future developments which may affect claims already reported but not yet settled. These could arise from changes in the law, or higher assessments of damages, following judicial precedent or retrospective application of statutory provisions. Inflation also has an impact.

There have been several Law Commission recommendations which are likely to increase amounts of compensation to seriously injured claimants - in particular, the increased use of actuarial tables to help calculate those items of damages which relate to continuing future losses such as medical care and loss of earnings. This is likely to have effect on current outstanding liability claims as well as future ones.

The concerns we express are not new, as worldwide liability insurance results have been marked by increased claims for injury and damage caused by chemicals, pollution of soil and water, harmful materials and processes at work. Farming is not exempt from these potentially very expensive claims. With the growing trend in modern society to seek compensation for almost every incident, we have once again increased the reserves we maintain to pay future liability claims which may be made against our members. In this way, we intend to continue to offer our policyholders first class security, able to cope with the inevitable increase in liability claims facing all businesses and individuals.

Rural theft continued to be a concern in 1995. Today's network of motorways and major roads provide an inviting target for criminals whose activities have been partly thwarted by improved security measures in urban areas. Enhanced vigilance is an effective way to contain this problem and we were pleased to be involved in initiatives with a number of Farm Watch schemes.

CUSTOMER SERVICE

We are working to improve our service to customers on a number of fronts.

Good progress was made in 1995 with our networking system, linking our agents' offices with our mainframe computer - and giving our agents the opportunity to offer on-the-spot completion of a very high proportion of, in the first instance, motor insurance transactions. Our roll-out of this facility accelerated over the year and will continue in 1996, when house and contents transactions will be added to the system. In 1997, we expect to reach the point where all of our agents' offices are networked. This is a vital part of our mission to deliver top-quality service to our customers at lower cost - and to deliver it at a local outlet convenient for the customer, also providing Union service. We continue to work hard on rigorously controlling our costs and, despite inflationary pressures, the costs of running our general insurance business in 1995 were the same as in 1994.

The agents and the staff employed in those local outlets have been through a training and licensing programme, designed not only to equip all of them with the professional knowledge necessary to offer comprehensive advice on our general insurance products, but also to ensure that, by way of a licence, we can prove the level of their expertise. Recent testing of agents' knowledge, under examination conditions, has produced evidence of good progress in this area. It is important that all of our customers receive good advice from well trained and qualified people.

We continue to expand our service by means of dedicated staff units specialising in particular aspects of our business. Our flagship in this area is our Risk Reduction Service, which provides customers with an expert survey covering security, the safety of employees and the public, pollution control and other risks present on the farm. This process of improving the risk both lowers premiums for the individual policyholders and also makes the farm a safer place - in the interests of our policyholders and those who work for them. I am pleased with progress to date, and once more commend this service to those who have not yet tried it. Additionally, we have created specialist units handling fish farming, glasshouse and poultry insurance in order to focus on the particular needs of those sectors. Other units now deal with the insurance aspects of chemicals used on the farm, the various work-related illnesses, and the many other liability issues which can arise from farming and other rural businesses. Further specialists look after livestock insurances. By constantly developing our expertise in all these ways, we can help customers improve the risk management of their businesses and, in the longer term, reduce their insurance costs.

NFU MUTUAL LIFE

Taking the UK life and pensions market as a whole, sales were down by around 15% in 1995. Against that background, our sales performance was reasonable, especially in the context of having achieved record sales in recent years. We came within 4% of repeating our 1994 performance, in a market coming to terms with a revised regulatory regime from 1st January 1995.

This included a much greater requirement for disclosure of information at 'point of sale', and led to a more detailed process of advising the customer on his needs. Initially, this tended to slow down the selling process, as we and our customers set out to become familiar with the extra detail. The essence of the regulatory regime is that all companies must recommend the correct product for the individual's needs and disclose the costs involved. A measure of how well a company achieves customer satisfaction is the number of policyholders who maintain their policies - and I am pleased to say that our lapse ratio continues to be amongst the industry's lowest. We have always valued the long-term nature of our relationship with our customers and their families.

There can be no dispute that everyone needs to provide for their retirement and to guard against the possibility of premature death. It is becoming increasingly clear that, in the next century, government will expect people to take much greater responsibility for their own financial welfare in retirement and for the cost of care for long-term illness. This can only be achieved by proper planning and I urge all our policyholders to review the pension and life assurance provision they have made, with the aid of advice from our financial consultants.

Once again, we had a very successful Capital Investment Bond campaign in 1995. We were particularly pleased that many more of our existing customers chose us to handle the investment of their money - taking the opportunity to get even better value from their membership of the Society.

NFU MUTUAL FINANCE

NFU Mutual Finance, our finance joint venture with NWS Bank, enjoyed its best year to date. As customer confidence generated investment in new plant and machinery, we were able to respond with swift decisions, competitive rates and a number of special schemes. The company's profitability remains good, reflecting the quality of its business, and NFU Mutual Finance continues to represent an excellent investment for us and our joint venture partner.

FARMERS' UNIONS

As well as their insurance work for the NFU Mutual, our agents carry out a very important task as the local representatives of the farming unions. Through them, their officeholders and staff throughout the UK, the unions continue to do a first class job in putting the views and needs of the country's farmers and growers to government and the public. Interest and awareness of issues such as food safety, methods of husbandry and animal welfare continue to grow. The unions' role is a vital one, in protecting farmers' interests and putting the case for farming, and ensuring that the many benefits the industry provides to the consumer and the economy are not overlooked. An important point, which should not be forgotten, is that farmers insuring with the NFU Mutual are also contributing to the strength of the farmers' unions. We look forward to the further success of our partnership with the farming unions in support of agriculture.

AVON INSURANCE

Competition in general insurance has rarely been fiercer and although the Avon only achieved a small increase in sales, many competitors were unable even to do that. Against such a background, it was no surprise that our underwriting result deteriorated and we returned an underwriting loss, albeit a small one, of £1.38m. Many of the issues which affected the Society - such as burst pipes and liability claims reserves - also affected the Avon. A good investment result produced a pre-tax profit of £21.74m. and the Company paid another substantial dividend to the parent Society.

The results further enhanced the Avon's sound financial base. Recognising that a prime concern of brokers and their customers is the reassurance provided by a strong balance sheet and a good security rating, we continue to regard financial strength as a priority.

Competition means that we must add value in every way we can, and the Avon's philosophy is to do so in close co-operation with our chosen partners - our supporting brokers. This means adding value through everything behind the insurance product - competitive premiums, first class service, efficient processing and a range of support services for the broker.

TRAINING
AVON
INSURANCE
partnership

One feature of this which, we believe, demonstrates our commitment, is our Training Partnership for supporting brokers, launched in 1995. This flexible training package, delivered to brokers' staff by our own professional training team, is tailored to the partner brokers' business needs and objectives. We were delighted that, through this initiative, the Avon became the first general insurer to attain Accredited Training Provider status by the industry's professional body, the Chartered Insurance Institute.

Our accidental death policy made further good progress and contributed well to profit. Marketed in conjunction with some of the country's best-known financial institutions, we see good scope for future growth. Our special schemes for particular market segments supported our philosophy of profitable partnerships.

INVESTMENT INCOME

I should like to draw members' attention to notes 4 and 8 on pages 21 and 23. For the first time, we have included income from realised gains on investments within the profit & loss account. This change follows the latest accounting practice to comply with EU and UK legislation. In consequence, the underwriting result, plus the gains/losses on sales of investment holdings, appear in the one place. I counsel members to interpret this extra information with a degree of caution - since, of course, the values of stock exchange investments will obviously always be subject to fluctuation, the figures shown in our financial statements for these realised gains are bound to be higher in some years than others.

MUTUALITY

Much has been said and written recently about mutuality, since there began to be moves amongst some financial institutions to change their status from mutuals to publicly-listed companies. In the NFU Mutual, we remain firmly committed to mutuality, which we believe is particularly appropriate for organisations such as ours, which have their origins deeply rooted in the industries with which they work, and with whose fortunes they remain linked. But it is not simply a matter of legal structure. The nature of a company's competitive advantage is important. Does it have good products; does it have a low cost structure; does its distribution system give good service to customers ? Whatever view an organisation takes about de-mutualisation, it will not prosper if it does not get these things right. And it will not get them right just by adopting one status or another. The task before us is to continue to strive to deliver top quality and value for money in our products - for only in that way can we continue to develop the business, to the benefit of our customers.

Mutuality enables an organisation to focus entirely on its customers and on providing them with the highest levels of quality and value. Mutual societies are all the more able to take that focused view because their customers do not have to share the value added with outside shareholders. We are also committed to meeting the long-term insurance needs of our members, as opposed to moving in and out of lines of business depending upon short-term profitability. And, of course, those mutuals which provide support to the industries from which many of their customers derive their livelihoods might not continue to do so if controlled by shareholders who had no stake in that industry. In many ways, our claim to be part of the fabric of farming comes from the fact that we are 'the Mutual'.

BOARD OF DIRECTORS

At last year's annual meeting, members approved the recommendation to create an extra place on the Board and to appoint Mr. Bob Deacon, LL.B., one of our General Managers, to fill it. At the end of the year, Sir Richard Butler retired from the Board after 11 years' service, during which he served with distinction as a director of both the NFU Mutual and the Avon and I place on record here our sincere appreciation of his work for the Group. To succeed Sir Richard, the Board have appointed Mr. John Ross,C.B.E., well known throughout UK agriculture as President of the NFU of Scotland until he recently stepped down from the post.

It is with sadness that I record the deaths of two former boardroom colleagues - Mr. Michael Shaxson, a director of both the NFU Mutual and the Avon from 1975 to 1989 and Mr. Norman Keegan, General Manager of the NFU Mutual from 1978 to 1985. Both men left our organisation all the richer for their respective contributions to its development and they are sadly missed.

ACKNOWLEDGMENTS

The major issue to be tackled today is that of change. These days, professionalism has to encompass not only knowledge but a realism and a willingness to accept changes and to turn them into opportunities for success. I am pleased to say that I encounter this commitment throughout our organisation, from staff and agents alike. Increasingly, both groups are pursuing professional qualifications to equip them for the tasks of today and the challenges of tomorrow, and some excellent results have been achieved.

As well as our staff and agents, I would like to thank our local directors and local assessors, the officeholders and staff of the farming unions, the members of our insurance sub-committees throughout the country, and my fellow directors. All have, once more, contributed to our results in 1995. They are all an important part of the unique culture of the NFU Mutual.

Board of Directors

Chairman

A. Evans, O.B.E., F.R.Ag.S., D.L.

Vice-Chairman

A. Q. Hitchcock, C.B.E., M.A.

Managing Director

A. S. Young, F.C.I.I.

R. A. Deacon, LL.B.

General Manager

M. Dowdall, B.Sc.

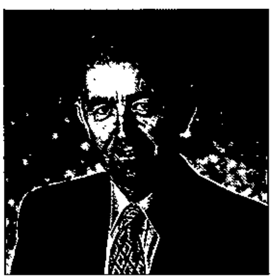
I. D. Grant, C.B.E., F.R.Ag.S.

J. Hann, C.B.E.

M. J. Horrell,
M.A., Dip.Ag.Econ., A.R.Ag.S.

W. W. Madders.

W. R. Morrow, C.B.E.



J. A. Ross, C.B.E.

General Manager

D. F. Tigwell, F.C.I.I.

Local Boards

England

Area No. 1

A. Q. Hitchcock, C.B.E., M.A. *(general director)*
J. R. Campbell, M.A., Yorkshire (North Riding and South Durham)
W. M. Clarkson, Yorkshire (East Riding)
J. Howie, Northumberland
P. R. Mitchell, B.Sc., Cumbria
J. S. Moor, Durham
P. A. Smith, Yorkshire (West Riding)
J. R. Welford, York

Area No. 2

A. Q. Hitchcock, C.B.E., M.A. *(general director)*
R. J. Bealby, Nottinghamshire
J. R. Downes, Shropshire
J. J. Molyneux, Lancashire
G. C. Morris, Cheshire
G. Shuker, Derbyshire
D. W. Thornalley, Lincolnshire

Area No. 4

W. W. Madders *(general director)*
W. B. Douthwaite, Warwickshire
G. L. Goodman, Worcestershire
G. R. J. Lewis, Staffordshire
J. H. Norman, Oxfordshire

Area No. 5

A. Q. Hitchcock, C.B.E., M.A. *(general director)*
M. Dowdall, B.Sc. *(general director)*
R. Carter, Essex
J. Dillon-Robinson, O.B.E., Cambridgeshire
W. S. Hay, Holland division of Lincolnshire
D. H. Hodge, J.P., Suffolk
C. Wharton, Norfolk

Area No. 6

M. J. Horrell, M.A., Dip.Ag.Econ., A.R.Ag.S. *(general director)*
W. J. Bryant, Cornwall
F. Christensen, Somerset
M. W. Cox, Dorset
R. M. Kallaway, Devon
J. F. Matthews, Herefordshire
W. H. Organ, Gloucestershire
R. C. Butler, Wiltshire

Area No. 7

A. Q. Hitchcock, C.B.E., M.A. *(general director)*
M. Dowdall, B.Sc. *(general director)*
T. G. Brock, Hampshire
D. J. Craig, East Sussex
H. B. Lowe, Kent
D. M. Richardson, Central Southern
J. R. U. Taylor, Isle of Wight
G. W. Wallis, Berkshire

Area No. 8

W. W. Madders *(general director)*
D. A. V. Cox, B.Sc., Hertfordshire
C. J. F. Matts, Northamptonshire
H. Raby, Bedfordshire and Huntingdonshire
G. C. Stacey, Buckinghamshire
R. T. Thomas, Leicestershire and Rutland

Northern Ireland

W. R. Morrow, C.B.E. *(general director)*
R. T. Chesney, County Antrim
C. G. Conn, County Londonderry
W. Elliott, J.P., C.Eng., County Tyrone
R. W. Fyffe, County Tyrone
J. T. Gilmour, County Londonderry
J. R. H. Hamilton, County Fermanagh
R. N. Harpur, County Armagh
J. A. Patton, C.B.E., F.R.Ag.S., County Antrim
J. A. Rankin, County Down
N. W. Shaw, C.B.E., B.Sc., County Down

Scotland

I. D. Grant, C.B.E., F.R.Ag.S. *(general director)*
J. Hann, C.B.E. *(general director)*
J. A. Ross, C.B.E. *(general director)*
D. Barr, The Lothians
A. R. Campbell, Kirkcudbrightshire
J. Fleming, Lanarkshire
J. B. Forrest, F.R.Ag.S., Berwickshire
D. Houghton, Inverness and Ross
W. Lammie, Wigtownshire
J. E. McNaughton, O.B.E., F.R.Ag.S., Stirlingshire
R. Malcolm, J.P., D.L., Argyll
I. Marr, O.B.E., A.R.Ag.S., Aberdeenshire and Kincardineshire
D. M. Miller, Caithness
W. Y. Smith, Perthshire
A. Taylor, Banffshire
W. C. Taylor, Angus
A. T. Y. Thomson, Inverclyde
A. Train, Ayrshire
I. J. Turnbull, B.Sc., Fife

Wales

A. Evans, O.B.E., F.R.Ag.S., D.L. *(general director)*
E. T. Davies, O.B.E., A.R.Ag.S., Cardiganshire
T. G. Davies, O.B.E., A.R.Ag.S., Pembrokeshire
E. M. Jones, O.B.E., Brecon and Radnor
J. H. Jones, Clwyd
J. R. Williams, Mid-Gwynedd
W. H. Jones, M.B.E., Carmarthenshire
R. D. Roberts, J.P., Merionethshire
M. Thomas, Glamorgan
M. G. W. Trumper, O.B.E., Monmouthshire
T. R. Tudor, M.B.E., F.R.Ag.S., Montgomeryshire
E. T. Williams, Anglesey

Directors' Report

Activities

The principal activities of the Society and its subsidiaries are the transaction of general insurance, life assurance and pensions, and related financial services including a unit trust, investment management and capital equipment financing. A list of the Society's subsidiary companies is shown in note 11 on page 25.

General Business

Group net written premiums amounted to £412.35m. Claims incurred were £311.01m. Commission and expenses absorbed £104.20m. After making provision for unearned premiums, less deferred acquisition costs, a deficit of £3.38m. has been transferred from the technical account. After adding investment income and income from non-insurance subsidiaries, less expenses, the profit before taxation was £116.86m. The final result was a profit after tax of £86.78m. which has been transferred to retained profits and other reserves.

Long-Term Business

The net premium income of the Society in respect of life and pensions business, including consideration for annuities granted, amounted to £165.86m. At the end of 1995, the long-term business provision including the provision for linked liabilities totalled £2,039.70m.

Directors

The parent Society's Board of Directors comprises nine non-executive directors plus the Managing Director and two of the General Managers. All the non-executive directors are policyholders of the Society. They are independent of the Society in all matters apart from their fees and benefits, details of which are shown in note 6 on page 22.

The Board has established committees, under its overall authority, to deal with certain functions in detail. Membership of these committees is as follows:-

Audit	Mr. A. Q. Hitchcock *(Chairman)* Mr. A. Evans Mr. J. Hann Mr. W. R. Morrow
Nomination	Mr. A. Evans *(Chairman)* Mr. A. Q. Hitchcock Mr. W. R. Morrow Mr. A. S. Young
Remuneration	Mr. M. Dowdall *(Chairman)* Mr. I. D. Grant Mr. A. Q. Hitchcock

Mr R. A. Deacon joined the Board during the year, in consequence of the decision of the 1995 Annual General Meeting to increase the number of directors to twelve.

The Board records its sincere appreciation of the service of Sir Richard Butler, who retired at the year end, having served for 11 years as a director. The directors have appointed Mr. J. A. Ross to fill the consequent vacancy and his appointment will be submitted to members for confirmation at the Annual General Meeting. In accordance with the Articles of Association, Mr. A. Evans, Mr. I. D. Grant and Mr. W. R. Morrow retire and, being eligible, offer themselves for re-election.

A list of the directors of the parent Society is shown on page 6.

Statement of Directors' Responsibilities

Company law requires the directors to prepare financial statements for each financial year in accordance with the provisions of the Companies Act 1985 applicable to insurance companies. In preparing those financial statements, the directors are required to:-

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Society 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 Society 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 Society and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Corporate Governance

Compliance

The Group is committed to business integrity, high ethical values and professionalism in all its activities. As an essential part of this commitment, the Board supports the highest standards in corporate governance and confirms that the Group complies with the Code of Best Practice published by the Cadbury Committee on the Financial Aspects of Corporate Governance in December, 1992. The auditors' report concerning the Company's compliance with the Cadbury Code appears on page 30.

Board Committees

The three principal Board Committees are described on page 8. All Committee remits and memberships are regularly reviewed.

Internal Control

The Board of Directors has overall responsibility for the Group's system of internal control. It should be recognised that any system of internal financial control provides reasonable but not absolute assurance that the assets are safeguarded, transactions are authorised and recorded properly and that material errors and irregularities are either prevented or would be detected within a timely period. The full Board meets regularly throughout the year and has adopted a schedule of matters which are required to be brought to it for decision. This ensures that the Directors maintain full and effective control over all significant strategic, financial, organisational and compliance issues.

The Directors have delegated to executive management the establishment and implementation of a system of internal controls appropriate to the various business environments in which it operates. The Group operates under a system of controls which has been developed and refined over time to meet its current and future needs and communicated through various operating and procedural manuals. These include, but are not limited to:-

- the definition of the organisational structure and the appropriate delegation of authorities to operational management;
- procedures for the review and authorisation of capital investments including post acquisition reviews and appraisals;
- strategic planning and the related annual planning process;
- the monthly reporting and review of financial results and operating statistics;
- accounting and financial reporting policies to ensure the consistency, integrity and accuracy of the Group's accounting records;
- specific investment policies and objectives and the ongoing reporting and review of all significant transactions.

The internal control system is monitored and supported by an internal audit function that reports to management and the Audit Committee on the Group's operations.

The work of the internal auditors is focused on the areas of greatest risk to the Group determined on the basis of a risk management approach to audit. The external auditors are engaged to express an opinion on the Group Annual Report, which is prepared from the Group's accounting records and complies fully with generally accepted accounting principles. They independently and objectively review the performance of management in reporting operating results and financial condition. In co-ordination with the internal auditors, they also review and test the system of internal financial control and the data contained in the Annual Report to the extent necessary for expressing their opinion.

Going Concern

After making enquiries, the directors consider that the Society has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Employees

The average number of persons employed by the Group in the UK during 1995, including part-time employees, was 2,242 and their aggregate remuneration was £35.7m.

The Group adopts a positive attitude towards employee involvement. We take involvement to mean communication and consultation - acquainting employees with the facts of the business and seeking their views.

The Group recognises MSF as the trade union representing staff at all levels below management. A procedural agreement with that union is in force and joint negotiations are carried out as required.

Copies of the Annual Report are made available to all employees. Copies of the staff magazine - Link - are issued throughout the year. Briefing meetings, for all members of staff, take place at least quarterly to cover progress, targets and profitability trends.

The Group continues to place great emphasis on the value of training and, during 1995, held 147 in-house training courses with 1,306 participants attending them.

Applications for employment from disabled persons are fully and fairly considered having regard to the particular aptitudes and abilities of such applicants. In the event of members of staff becoming disabled, the Group would endeavour to continue their employment and, where necessary, appropriate retraining would be arranged. It is the policy of the Group, that the training, career development and promotion of disabled persons should, wherever possible, be the same as for employees who are not disabled.

Directors and Officers Liability Insurance

Throughout 1995, the NFU Mutual and Avon Group maintained an insurance policy indemnifying the directors and officers against loss attaching to legal liabilities arising in the course of their duties.

Charitable Donations

Charitable donations during 1995 amounted to £25,130.

Auditors

A resolution proposing the re-appointment of Coopers & Lybrand, Chartered Accountants, as auditors of the parent Society will be put to the Annual General Meeting.

A. Evans	A. Q. Hitchcock	A. S. Young
Chairman	*Vice-Chairman*	*Managing Director*

Stratford-upon-Avon, 21st March, 1996

Profit & Loss Account
Technical Account - General Business

for the year ended 31st December, 1995	Con-solidated 1995 £m	Con-solidated 1994 £m as restated	Parent Society 1995 £m	Parent Society 1994 £m as restated
Continuing Operations				
Gross premiums written (note 2)	465.10	459.18	328.42	330.71
Outwards reinsurance	(52.75)	(59.41)	(30.46)	(35.98)
Net premiums written	412.35	399.77	297.96	294.73
Decrease in the gross provision for unearned premiums	3.72	2.08	1.68	1.36
(Decrease) in the provision for unearned premiums, reinsurers' share	(4.77)	(4.54)	(4.79)	(0.58)
(Increase)/decrease in the net provision for unearned premiums	(1.05)	(2.46)	(3.11)	0.78
Earned premiums, net of reinsurance	411.30	397.31	294.85	295.51
Gross claims paid	250.10	233.96	187.03	174.56
Reinsurers' share	(18.29)	(12.10)	(6.78)	(5.58)
Net claims paid	231.81	221.86	180.25	168.98
Gross increase in the provision for claims	76.85	65.42	58.23	60.07
Decrease/(increase) in reinsurers' share	2.35	(6.51)	(0.59)	(8.99)
Increase in the net provision for claims	79.20	58.91	57.64	51.08
Claims incurred, net of reinsurance	311.01	280.77	237.89	220.06
Commission (note 3)	57.74	53.72	36.00	35.76
Expenses (note 3)	46.46	41.18	27.10	24.82
Deferred acquisition costs (note 3)	(0.53)	(0.16)	(0.47)	0.12
Total Charges	414.68	375.51	300.52	280.76
(Deficit)/surplus on the technical account - general business	**(3.38)**	**21.80**	**(5.67)**	**14.75**

Profit & Loss Account
Technical Account - Long-Term Business

for the year ended 31st December, 1995	Parent Society 1995 £m	Parent Society 1995 £m	Parent Society 1994 £m as restated	Parent Society 1994 £m as restated
Continuing Operations				
Gross premiums written (note 2)	176.10		183.13	
Outwards reinsurance premiums	(10.24)		(5.73)	
Earned premiums, net of reinsurance		165.86		177.40
Investment income (note 4)		185.86		121.07
Unrealised gains on investments		236.24		-
Other technical income		0.01		0.01
Total technical income		587.97		298.48
Gross claims paid	105.03		103.36	
Reinsurers' share	0.16		(8.66)	
Net claims paid	105.19		94.70	
Gross increase/(decrease) in the provision for claims	0.55		(0.90)	
Claims incurred, net of reinsurance		105.74		93.80
Gross increase in the long-term business provision	191.68		15.89	
Reinsurers' share	(1.12)		(1.75)	
Net increase in the long-term business provision	190.56		14.14	
Technical provision for linked business net of reinsurance	55.41		33.17	
Net increase in technical provisions (note 15)		245.97		47.31
Bonuses and rebates, net of reinsurance (note 15)		62.20		54.64
Commission		20.46		46.95
Expenses		11.60		12.75
Deferred acquisition costs		(1.20)		(2.50)
Investment expenses and charges		0.79		0.75
Unrealised losses on investments		-		209.88
Tax attributable to the long-term business (note 9)		10.49		7.18
Transfer to/(from) the fund for future appropriations (note 15)		131.92		(172.28)
Total technical charges		587.97		298.48
Balance on the technical account - long-term business		**0.00**		**0.00**

Profit and Loss Account
Non-Technical Account

for the year ended 31st December, 1995	Consolidated 1995 £m	Consolidated 1994 £m as restated	Parent Society 1995 £m	Parent Society 1994 £m as restated
(Deficit)/surplus on the technical account - general business	(3.38)	21.80	(5.67)	14.75
Investment income (note 4)	118.82	74.80	98.19	59.65
Income from non-insurance subsidiaries	8.80	8.87	-	-
Share of profit in associated company	0.66	0.56	-	-
	124.90	106.03	92.52	74.40
Investment expenses and charges	0.42	0.37	0.37	0.30
Other charges	7.62	6.66	0.61	0.55
	8.04	7.03	0.98	0.85
Profit on ordinary activities before taxation (note 7)	116.86	99.00	91.54	73.55
Taxation on profits on ordinary activities (note 9)	30.08	23.29	22.52	15.47
Retained profit for the financial year (note 13)	**86.78**	**75.71**	**69.02**	**58.08**

With the exception of unrealised gains and losses as shown in note 14, the Group's total recognised gains and losses are included in the profits above and therefore no separate statement of total recognised gains and losses has been presented.

There is no difference between the profit before taxation and retained profit for the year stated above and its historical cost equivalent.

Balance Sheet

for the year ended 31st December, 1995	Consolidated 1995 £m	Consolidated 1994 £m as restated	Parent Society 1995 £m	Parent Society 1994 £m as restated
Assets				
Investments				
Land and buildings (note 10)	303.63	281.39	258.47	241.21
Other financial investments (note 10)	3,730.75	3,119.40	3,482.10	2,916.96
	4,034.38	3,400.79	3,740.57	3,158.17
Assets held to cover linked liabilities	204.31	154.26	204.31	154.26
Reinsurers' share of technical provisions				
General business (note 19)				
Provision for unearned premiums	0.60	5.37	1.01	5.80
Claims outstanding	37.73	40.08	23.07	22.48
Deferred acquisition costs	(0.18)	-	(0.15)	(0.87)
	38.15	45.45	23.93	27.41
Long-term business provision (note 15)	21.33	20.21	21.33	20.21
Debtors				
Due from policyholders	42.07	41.25	30.89	26.67
Due from intermediaries	28.61	30.47	20.83	22.76
Debtors arising out of direct insurance operations	70.68	71.72	51.72	49.43
Debtors arising out of reinsurance operations	12.09	8.11	11.02	5.57
Securities for subsequent settlement	11.54	3.25	11.54	2.99
Due from group undertaking	-	-	3.27	0.02
Taxation recoverable	9.17	8.02	9.17	8.02
Other taxation	0.56	-	0.56	-
Sundry debtors and balances	13.76	7.50	5.27	5.11
Other debtors	35.03	18.77	29.81	16.14
	117.80	98.60	92.55	71.14
Other assets				
Tangible assets	3.22	3.61	-	-
Stock held by non-insurance subsidiaries	-	0.08	-	-
Cash at bank and in hand	56.06	29.87	44.00	19.76
	59.28	33.56	44.00	19.76
Prepayments and accrued income				
Accrued interest and rent	29.39	14.96	26.75	13.06
Pension prepayment	21.07	22.09	21.07	22.09
Long-term business deferred acquisition costs	19.90	18.70	19.90	18.70
	70.36	55.75	67.72	53.85
Total assets	**4,545.61**	**3,808.62**	**4,194.41**	**3,504.80**

Balance Sheet

for the year ended 31st December, 1995	Consolidated 1995 £m	Consolidated 1994 £m as restated	Parent Society 1995 £m	Parent Society 1994 £m as restated
Liabilities				
Free reserves				
Retained profits and other reserves (note 13)	406.08	319.30	337.08	268.06
Revaluation reserves (note 14)	538.20	409.30	469.79	354.38
Fund for future appropriations (note 15)	566.98	435.06	566.98	435.06
	1,511.26	1,163.66	1,373.85	1,057.50
Technical provisions				
General business (note 19)				
Provision for unearned premiums	207.47	211.19	160.85	162.53
Claims outstanding	704.56	627.71	552.25	494.02
Deferred acquisition costs	(32.42)	(31.71)	(24.13)	(24.38)
	879.61	807.19	688.97	632.17
Long-term business				
Long-term business provision (note 15)	1,860.63	1,606.75	1,860.63	1,606.75
Claims outstanding	3.65	3.10	3.65	3.10
	1,864.28	1,609.85	1,864.28	1,609.85
Technical provision for linked liabilities (note 15)	200.40	144.99	200.40	144.99
Creditors				
Creditors arising out of direct insurance operations	24.07	18.42	19.30	16.04
Creditors arising out of reinsurance operations	10.92	14.33	7.45	10.01
Bank loans	-	2.00	-	-
Securities for subsequent settlement	2.33	7.29	2.31	7.04
Due to group undertakings	-	-	0.56	1.40
Corporation tax	16.36	13.08	11.98	8.28
Deferred taxation	24.67	6.72	17.00	6.00
Other creditors and balances	7.91	17.55	5.33	8.40
Other taxation	3.80	3.54	2.98	3.12
Other creditors	55.07	50.18	40.16	34.24
	90.06	82.93	66.91	60.29
Total liabilities	**4,545.61**	**3,808.62**	**4,194.41**	**3,504.80**

These financial statements were approved by the directors at a meeting on 21st March, 1996 and were signed on their behalf by:-

A. Evans *Chairman* A. S. Young *Managing Director*

A. Q. Hitchcock *Vice-Chairman*

Stratford-upon-Avon, 21st March, 1996

Consolidated Cash Flow Statement

for the year ended 31st December, 1995	Consolidated 1995 £m	Consolidated 1994 £m as restated
Continuing Operating Activities		
Premiums received from customers	470.87	463.03
Reinsurance premiums paid	(54.99)	(53.90)
Claims paid, net of reinsurance	(231.81)	(221.86)
Interest and dividends received	79.95	64.96
Other cash payments	(106.18)	(99.11)
Receipts from non-insurance subsidiaries	3.80	3.04
Payments by non-insurance subsidiaries	(3.69)	(3.91)
Net cash inflow from continuing operating activities (note 23a)	157.95	152.25
Servicing of finance	-	-
Taxation		
Corporation tax paid	(20.51)	(13.01)
Investing activities		
(Purchases) less sales of investments excluding cash deposits	(101.27)	(148.40)
(Purchases) less sales of fixed assets	(1.14)	(1.88)
Net cash outflow from investing activities	(102.41)	(150.28)
Net cash inflow/(outflow) before financing activities	35.03	(11.04)
Financing activities	-	-
Increase/(decrease) in cash and cash equivalents (note 23b)	**35.03**	**(11.04)**

As permitted by Financial Reporting Standard 1, the above statement excludes cash flows arising from long-term business.

Notes to Financial Statements

1 Accounting Policies

The financial statements have been prepared in accordance with applicable accounting standards in the United Kingdom. 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 by the Companies Act 1989) relating to investments. The Company has taken advantage of the transitional arrangements within FRS 5 relating to insurance broking transactions. In other respects, the financial statements have been prepared in accordance with section 255 and 255A of, and schedule 9A to, the Companies Act 1985 (as amended).

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

a) Changes in Accounting Policies

The requirements of the Companies Act 1985 (Insurance Companies Accounts) Regulations 1993 ('the Regulations') came into effect for periods commencing after 23rd December, 1994 and accordingly have been applied in these financial statements. The Regulations require the adoption of accounting policies which differ from those previously adopted by the Company. Accordingly, the more important changes made are given below. Comparative figures have been restated where necessary.

The effect of the accounting policy changes are shown in note 8 for general business and note 15 for long-term business.

General Insurance Business

Realised investment gains and losses are now included within investment income in the non-technical account, with the associated tax charge included within the taxation charge for the year in the non-technical account.

Long-Term Business

1. Two significant adjustments have been made to the statutory solvency basis:-

i) the reallocation of reserves held within the long-term business fund, for the purpose of the Insurance Companies Act 1982, between the long-term business provision, the provision for linked liabilities and the fund for future appropriations;

ii) the deferral of new long-term business acquisition costs incurred but relating to subsequent accounting periods.

The revised method of financial reporting is known as the 'modified statutory solvency basis'.

2. As permitted by the Regulations, both realised and unrealised investment gains and losses are now accounted for in the technical account - long-term business.

b) Basis of Consolidation

The consolidated financial statements include the assets and liabilities at 31st December, 1995 of the Society and its subsidiaries. Similarly the results of the Society and its subsidiaries are included for the year ended on 31st December, 1995. Owing to the dissimilar nature of the insurance funds and the non-insurance subsidiaries, the turnover, results and related depreciation are stated without offsetting intra-group trading. Income from non-insurance subsidiaries is shown in the non-technical account before charging depreciation, manufacturing costs and administration expenses.

c) 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 reserves or to the profit and loss account as appropriate.

d) General Insurance Business

The underwriting result is determined after making provision for unearned premiums, unexpired risks and outstanding claims.

Provision for unearned premiums is calculated on a proportional basis after making an appropriate deduction for acquisition costs. These deferred acquisition costs, of commission and other related expenses, are charged in the accounting periods in which the corresponding premiums are earned.

Provision for unexpired risks is maintained, when required, to cover the estimated excess of liabilities over the unearned premium. No allowance is made for investment income in calculating this provision.

Gross claims are shown after transfers to claims provisions and from reserves. Provisions for notified claims as at 31st December each year are determined on an individual case basis after taking into account handling costs, salvage and other known recoveries, anticipated inflation and trends in settlements. Outstanding claims include reserves and provisions for claims incurred but not reported at the balance sheet date. For all funded business, premiums less claims paid and expenses relating to the open years of account are carried forward and increased, if necessary, to meet the cost of estimated liabilities.

e) Long-Term Business

Premiums in respect of investment linked policies are accounted for in the period in which the liability is established. Other premiums are accounted for as they fall due for payment.

Claims arising from death are accounted for in the period in which the event is notified. Maturity claims are accounted for when they become due and surrenders are charged when payment is made. Annuities are accounted for in the period in which the annuity becomes due for payment.

Reversionary bonuses are recognised when declared and terminal bonuses when paid.

f) Investment Income

Investment income is included, together with the related tax credit. 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 for general business and the technical account for long-term business.

g) Taxation

United Kingdom and overseas taxation charged in the non-technical account and the technical account - long-term business is based on profits and income including realised gains and losses 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. Movements in this taxation provision are transferred to revaluation reserves. 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.

h) Investments

Investments, other than in subsidiaries, are shown at market value. Unlisted investments and mortgages are included at directors' valuation. The properties are valued annually by the Group's professional staff, who are members of the Royal Institution of Chartered Surveyors, and by external Chartered Surveyors. In accordance with SSAP 19, no depreciation or amortisation is provided in respect of freehold properties and leasehold investment properties with over 20 years to run. The directors consider that, as these properties are held for investment, to depreciate them would not give a true and fair view.

Investments in subsidiaries are shown at the lower of cost or directors' valuation.

General Insurance Business

Gains and losses on realisation of investments are included within investment income or investment expenses in the non-technical account. Unrealised gains and losses have been transferred to revaluation reserves. Provision is made for any diminution in value which is considered to be permanent. Allocations to and from the revaluation reserves are made to the non-technical account, when appropriate.

Long-Term Business

Gains and losses on realisation of investments are included within investment income or investment expenses in the technical account. Unrealised gains and losses are also included within the technical account. Allocations to and from the fund for future appropriations are made to the technical account, when appropriate.

i) Long-Term Business Provision

The long-term business provision is determined by the Society's actuary following his annual investigation of the long-term business and is calculated initially on a statutory solvency basis to comply with the reporting requirements under the Insurance Companies Act 1982, having due regard to the actuarial principles laid down in the Life Framework Directive (Council Directive 92/96/EEC). The calculation uses the net premium valuation method in respect of the majority of the Society's non-linked business and as such, includes explicit provision for vested bonuses (including those vesting following the current valuation). Implicit provision is made for future reversionary bonuses by use of the net premium method with appropriate interest rates and margins. The valuation is then modified to remove certain resilience, contingency and other reserves required by the Insurance Companies Regulations 1993. The valuation basis adopted reflects the value of related assets and the yield derived therefrom. Other assumptions reflect a prudent assessment of future experience of mortality, morbidity, expenses and inflation.

j) Acquisition Costs - Long-Term Business

Acquisition costs comprise direct costs, such as acquisition commissions, and indirect costs of obtaining and processing new business. Such costs of acquiring new insurance contracts which are incurred during a financial year are deferred to the extent that it is appropriate to assume they will be recoverable out of future revenue margins. The deferred acquisition costs are disclosed as an asset in the balance sheet and are determined explicitly. The rate of amortisation of the deferred acquistion cost asset is consistent with a prudent assessment of the expected pattern of receipt of the future revenue margins over the period the relevant contracts are expected to remain in force, or such shorter period as is reasonable.

k) Fund for Future Appropriations

The fund for future appropriations incorporates amounts which have yet to be allocated to current or future participating policyholders. Transfers to and from the fund reflect the excess or deficiency of revenues (including premiums and investment gains and losses) over expenses (including claims) in each accounting period arising from participating, non-participating and unit-linked business in the Society's long-term business fund.

l) Leased Assets

The major proportion of the Group's leasing transactions are intra-group and hence the treatment required by SSAP 21 is not considered appropriate. All leases are treated as operating leases. Annual rentals payable and receivable are charged to the technical accounts or non-technical account.

m) Depreciation

Depreciation is charged at 2% on the value of buildings in the Group's own occupation.

n) Retirement Benefits Schemes

The Group operates pension schemes covering the majority of employees. The schemes are 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 Group benefits from the employees' services. Variations from regular cost are spread over the expected average remaining working lifetime of the members of the schemes and interest accrued on any surplus arising in the schemes is deducted from the regular pension costs.

o) General Equipment

Additions to and replacements of general equipment have been included in expenses in the technical accounts except for the assets held by the non-insurance subsidiaries which are written off over their estimated useful lives.

p) Goodwill

Goodwill on consolidation is written off against realised investment reserves in the year of acquisition.

q) Associated Company

The results of the associated company have been accounted for using the equity method of accounting.

2 Gross Premiums Written

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

	Con-solidated 1995 £m	Con-solidated 1994 £m	Parent Society 1995 £m	Parent Society 1994 £m
General Business				
Fire and Accident	167.73	164.68	112.69	111.42
Motor	179.20	185.48	157.74	159.51
Personal	118.11	108.90	57.99	59.78
Reinsurance accepted	0.06	0.12	-	-
	465.10	459.18	328.42	330.71
Long-Term Business				
Life			109.15	122.25
Annuity			6.45	0.88
Pensions			60.50	60.00
			176.10	183.13

The gross premium income was written in the following areas:-

	Con-solidated 1995 £m	Con-solidated 1994 £m	Parent Society 1995 £m	Parent Society 1994 £m
General Business				
United Kingdom	462.48	456.40	328.42	330.71
Overseas	2.62	2.78	-	-
	465.10	459.18	328.42	330.71
Long-Term Business				
United Kingdom			132.57	138.04
Overseas			43.53	45.09
			176.10	183.13

3 Net Operating Expenses

	Con-solidated 1995 £m	Con-solidated 1994 £m	Parent Society 1995 £m	Parent Society 1994 £m
Acquisition costs	78.47	72.08	48.19	46.92
(Increase)/decrease in deferred acquisition costs	(0.53)	(0.16)	(0.47)	0.12
Administration expenses	25.74	22.82	14.91	13.66
	103.68	94.74	62.63	60.70

Guaranteed fund levies included in administration expenses amounted to £1.84m. (1994 £5.03m.) in the consolidated general business financial statements and £1.76m. (1994 £3.76m.) in the parent Society general business financial statements.

4 Investment Income

General Business

	Consolidated 1995 £m	Consolidated 1994 £m	Parent Society 1995 £m	Parent Society 1994 £m
Income from participating interests	–	–	9.39	6.41
Income from land and buildings	3.57	2.70	2.10	1.76
Income from other investments	87.26	66.60	66.19	49.65
	90.83	69.30	77.68	57.82
Gains on realisation of investments	27.99	5.50	20.51	1.83
Total income	118.82	74.80	98.19	59.65

Long-Term Business

	Consolidated 1995 £m	Consolidated 1994 £m	Parent Society 1995 £m	Parent Society 1994 £m
Income from land and buildings			12.84	12.17
Income from other investments			117.33	95.45
			130.17	107.62
Gains on realisation of investments			55.69	13.45
Total income			185.86	121.07

5 Investment Activity Account

General Business

	Consolidated 1995 £m	Consolidated 1994 £m	Parent Society 1995 £m	Parent Society 1994 £m
Investment income	118.82	74.80	98.19	59.65
Investment expenses and charges	(0.42)	(0.37)	(0.37)	(0.30)
Movement in unrealised investment gains and losses	128.90	(124.91)	115.41	(95.35)
Investment return for the year	247.30	(50.48)	213.23	(36.00)

Long-Term Business

	Consolidated 1995 £m	Consolidated 1994 £m	Parent Society 1995 £m	Parent Society 1994 £m
Investment income			185.86	121.07
Investment expenses and charges			(0.79)	(0.75)
Movement in unrealised investment gains and losses			236.24	(209.88)
Investment return for the year			421.31	(89.56)

6 Directors and Employees

The aggregate emoluments of the Society's directors including the amounts payable to them as directors of subsidiary companies were as follows:-

	1995	*1994*
Fees	*£157,975*	*£160,554*
Other emoluments	*£392,826**	*£216,354**

* Includes pension contributions, all other figures exclude any pension contributions applicable.

Included in the above is £47,059 payable to the Chairman (1994 £45,634). Also included is £203,429 (inclusive of taxable benefits in kind) payable to the highest paid director (1994 £187,706).

The emoluments of the remaining directors of the Society are classified in the following table:-

	Number of Directors	
Emoluments	*1995*	*1994*
£0 - £5,000	-	*1*
£10,001 - £15,000	*6*	*7*
£15,001 - £20,000	*1*	*2*
£20,001 - £25,000	*1*	*1*
£65,001 - £70,000	*1*	-
£110,001 - £115,000	*1*	-

Pensions to former directors amounted to £47,832 (1994 £50,484).

Non-executive directors receive the following benefits in respect of their service:-

- a fee of £11,250, plus supplements for work as director of a subsidiary or as a member of a Board committee. In the case of the Chairman and Vice-Chairman, these fees are £45,000 and £22,500 respectively, plus supplements;
- a pension on retirement, on a non-contractual, unfunded basis. This cost is paid out of the Society's technical account - general business. Pensions are based on the length of service as a director. The widow of a director dying either in service, or in retirement, also receives a pension;
- part of the cost of private medical insurance covering directors and their spouses.

The Managing Director's remuneration is decided by the Board on a recommendation from the Remuneration Committee. It is made up of two elements - a basic salary, which is pensionable, plus a performance-related element based on the results of the Society's and Avon's general insurance businesses and the life and pensions business.

The remuneration of Mr. D. F. Tigwell and Mr. R. A. Deacon, as General Managers, is similarly decided. In their case, the performance-related element is based only on the respective results of the Society's general insurance business and its life & pensions business.

The performance-related element reflects both short-term financial performance and medium-term objectives set by the Board. It is non-pensionable. Any payments are made once a year (in respect of short-term performance acheived during the preceding calendar year) and once every three years (in respect of the medium-term performance). The Group's policy is to place significant emphasis on the performance-related element of the remuneration of senior executives.

The amounts received by the Managing Director in the calendar year were as follows:-

	1995	*1994*
Basic salary	*155,150*	*148,050*
Performance-related : short-term	*36,000*	*28,138*
Performance-related : medium-term (every 3 years)	*n/a*	*n/a*
	£191,150	*£176,188*
Other benefits received were car, petrol, private medical insurance and telephone, the taxable benefits from which totalled	*£12,279*	*£11,518*

The Group received £21,223 (1994 £13,288) in respect of the Managing Director's services to other organisations as a non-executive director, thereby reducing the cost to the Group by that amount.

Particulars of transactions required by section 232 and schedule 6 of the Companies Act 1985 are as follows:-

House purchase loans for Mr. A. S. Young, Mr. D. F. Tigwell and Mr. R. A. Deacon subsisted during the year. The terms of the transactions are those applicable, under the staff mortgage scheme, to a member of General Management, commencing with an interest rate of $3^1/_2$%. Each loan is secured by a first mortgage on the private dwelling house and on endowment policies on the borrower's life.

	Mr. A. S. Young	Mr. D. F. Tigwell	Mr. R. A. Deacon
Liability at 1st January, 1995	*£14,075*	*£42,100*	*£45,175*
Maximum liability during the year	*£60,000*	*£63,000*	*£45,175*
Liability at 31st December, 1995	*£60,000*	*£63,000*	*£45,175*

At 31st December, 1995 one officer of the Society had a loan of £36,900 made on normal terms under the staff mortgage scheme (1994 one officer £36,900).

7 Profit Before Taxation

The profit on ordinary activities before taxation is stated after charging:-

	Consolidated 1995 £m	Consolidated 1994 £m	Parent Society 1995 £m	Parent Society 1994 £m
Expenses of non-insurance activities	5.26	4.28	-	-
Depreciation	1.84	1.90	0.23	0.18
Auditors' fees for:				
Audit	0.16	0.16	0.09	0.08
Other services	0.11	0.15	0.08	0.12

8 Effect of Accounting Policy Changes – General Business

As a result of the implementation of the Insurance Companies Accounts Regulations 1993, accounting policy changes have had an effect on the profit before taxation, as follows:-

	Consolidated 1995 £m	Consolidated 1994 £m	Parent Society 1995 £m	Parent Society 1994 £m
Profit before taxation using policies applied in 1994 (old basis)	88.87	93.50	71.03	71.72
Inclusion of gains on the realisation of investments	27.99	5.50	20.51	1.83
Profit before taxation using policies applied in 1995 (new basis)	116.86	99.00	91.54	73.55

9 Taxation

The non-technical account shows the taxation borne and chargeable on realised gains and losses, interest, dividends, rents and for subsidiaries on the results of the year. The provision for taxation is based on a rate of 33% (1994 33%). In the technical account - long-term business, taxation has been computed on the basis applicable to life assurance and pensions business. The provision for taxation is based on a rate of 25% (1994 25%).

	Consolidated Profit and Loss		Parent Society Profit and Loss		Parent Society Long-Term	
	1995 £m	1994 £m	1995 £m	1994 £m	1995 £m	1994 £m
United Kingdom Taxation						
Corporation tax	21.68	17.83	15.46	10.88	4.76	2.98
Deferred taxation	1.43	0.32	1.43	0.37	0.06	(0.06)
Income tax on franked investment income	6.53	4.87	5.52	4.20	5.30	3.69
Share of associated company's tax	0.23	0.19	-	-	-	-
	29.87	23.21	22.41	15.45	10.12	6.61
Less: double taxation relief	0.67	0.50	0.67	0.50	0.58	0.15
Total United Kingdom Taxation	29.20	22.71	21.74	14.95	9.54	6.46
Overseas Taxation	0.88	0.58	0.78	0.52	0.95	0.72
	30.08	23.29	22.52	15.47	10.49	7.18

If the investments were realised at the amounts at which they are included in the financial statements, a liability to corporation tax of approximately £119.00m. (1994 £75.00m.) would arise in the consolidated general business financial statements and £100.00m. (1994 £62.00m.) in the parent Society general business financial statements.

10 Investments

	Consolidated		Parent Society		Parent Society Long-Term	
	1995 £m	1994 £m	1995 £m	1994 £m	1995 £m	1994 £m
Land and Buildings	303.63	281.39	50.04	43.92	208.43	197.29
British Government and local authority securities	617.95	566.26	220.66	197.27	313.96	296.62
Fixed interest stocks	454.91	358.19	119.71	88.58	263.99	220.74
Ordinary shares	2,462.77	2,024.65	841.30	676.95	1,508.36	1,253.76
Mortgages, loans and deposits	174.87	170.07	125.54	119.42	27.28	16.23
Shares in subsidiaries	-	-	2.50	2.57	-	-
Loans to subsidiaries	-	-	58.62	44.64	-	-
Shares in associated company	0.25	0.23	0.18	0.18	-	-
Loans to associated company	20.00	-	-	-	-	-
Other Financial Investments	3,730.75	3,119.40	1,368.51	1,129.61	2,113.59	1,787.35
Included in the above are listed investments:						
Shares and other variable yield securities	2,477.17	2,013.29	859.32	667.88	1,504.74	1,251.47
Debt securities and other fixed interest stocks	1,038.11	923.27	308.20	285.74	576.32	515.35

Long-term business assets included in the consolidated balance sheet total £2,639.37m. (1994 £2,211.33m. as restated).

11 Subsidiaries

The National Farmers Union Mutual Insurance Society Limited, a mutual company limited by guarantee, incorporated in Great Britain and registered in England and Wales, is the ultimate holding company. Subsidiaries in the Group are as follows:-

*NFU Mutual Management Company Ltd.**
NFU Mutual Unit Managers Ltd.
NFU Mutual Insurance Association Ltd.
Tiddington Finance Ltd.
Tiddington Investments Ltd.
Stratford Services Ltd.
Avon Insurance plc
NFU Mutual Investment Services Ltd.
Knights Property Company Ltd.
Tiddington Nominees Ltd.
Harvester Properties Ltd.
*Salmon Harvester Properties Ltd. (50% owned)**

* denotes direct subsidiary

Each of these companies is incorporated in Great Britain and registered in England and Wales, has an issued capital of ordinary shares only and is wholly owned, except as indicated, by the Society.

In addition the following subsidiary companies are registered in:-

Guernsey

The Islands' Insurance (Holdings) Ltd.
The Islands' Insurance Brokers Ltd.
The Islands' Insurance Company Ltd.
Risk Management Ltd.
Farmers Re Ltd.

Jersey

The Islands' Insurance Managers Ltd.
Connaught Communication Services Ltd.

During 1995, the Group disposed of its interests in Edward Fox & Son Ltd. (100%) and Barry S.A. (60%).

12 Associated Company

The Group has a 50% (1994 46%) shareholding in its associated company, NFU Mutual Finance Ltd., a company incorporated in Great Britain and registered in England and Wales.

13 Retained Profits and Other Reserves

	Consolidated 1995 £m	Consolidated 1994 £m	Parent Society 1995 £m	Parent Society 1994 £m
Balance at 1st January	319.30	243.59	268.06	209.98
Transfer from non-technical account	86.78	75.71	69.02	58.08
Balance at 31st December	406.08	319.30	337.08	268.06

14 Revaluation Reserves

	Consolidated 1995 £m	Consolidated 1994 £m	Parent Society 1995 £m	Parent Society 1994 £m
Balance at 1st January	409.30	534.21	354.38	449.73
Realised investment gains less taxation	-	3.38	-	0.96
Prior year adjustment	-	(3.38)	-	(0.96)
Add: unrealised gains/(losses) less taxation	128.90	(124.91)	115.41	(95.35)
Balance at 31st December	538.20	409.30	469.79	354.38

These reserves are after taking into account deferred taxation on the unrealised gains of £24.00m. (1994 £2.00m.) in the consolidated general business financial statements and £17.00m. (1994 £2.00m.) in the parent Society general business financial statements.

15 Reserves, Policyholder Liabilities and Fund for Future Appropriations - Long-Term Business

	Investment Reserve	Long-Term Business Fund	Long-Term Business Provision	Provision For Linked Liabilities	Fund For Future Appropriations
Balance at 1st January, 1994	728.76	1,491.96	-	-	-
Prior year adjustments:					
Unrealised investment gains	(728.76)	49.00	-	-	679.76
Transfer into fund	-	90.00	-	-	(90.00)
Deferred acquisition costs	-	-	-	-	16.20
Reallocation of long-term business fund	-	(1,630.96)	1,517.76	111.82	1.38
Balance at 1st January, 1994, as restated	-	-	1,517.76	111.82	607.34
1994 movements:					
Increase in technical provisions			14.14	33.17	-
Bonuses and rebates, net of reinsurance			54.64	-	-
Transfers from fund for future appropriations			-	-	(172.28)
Balance at 31st December, 1994			1,586.54	144.99	435.06
As represented by:					
Gross			1,606.75	144.99	
Reinsurance			20.21	-	
Net			1,586.54	144.99	
1995 movements:					
Increase in technical provisions			190.56	55.41	-
Bonuses and rebates, net of reinsurance			62.20	-	-
Transfers to fund for future appropriations			-	-	131.92
Balance at 31 December, 1995			1,839.30	200.40	566.98
As represented by:					
Gross			1,860.63	200.40	
Reinsurance			21.33	-	
Net			1,839.30	200.40	

16 Fund for Future Appropriations - Long-Term Business

The fund for future appropriations incorporates amounts which have yet to be allocated to current or future participating policyholders. Transfers to and from the fund reflect the excess or deficiency of revenues (including premiums and investment gains and losses) over expenses, claims and changes in provisions, in each accounting period arising from participating, non-participating and unit linked business in the Society's long-term business fund.

17 Long-Term Business Provision

The principal assumptions underlying the calculations for the major classes were as follows:-

Class of Business		Mortality	Interest Rate %
Life			
	Participating	A67/70(2) ult	3.00 (3.25)
	Non-participating	A67/70(2) ult	3.50 (3.75)
	Annuities in payment:		
	individual	IM80/IF80 - 4	3.50 (3.75)
	group	PMA80/PFA80 - 4	3.50 (3.75)
General Annuity			
	Participating group deferred annuities:		
	pre-vesting	nil	3.00 (3.25)
	post-vesting	PMA80/PFA80 - 4	4.50 (4.75)
	Annuities in payment:		
	individual	IM80/IF80 - 4	4.50 (4.75)
	group	PMA80/PFA80 - 4	4.50 (4.75)
Pensions			
	Participating:		
	pre-vesting	nil	4.00 (4.25)
	post-vesting	IM80/IF80 - 4	4.50 (4.75)
	Non-participating:		
	post-vesting	IM80/IF80 - 4	4.50 (4.75)
	Annuities in payment:		
	individual	IM80/IF80 - 4	4.50 (4.75)
	group	PMA80/PFA80 - 4	4.50 (4.75)
	Assurances	A67/70(2) ult	4.50 (4.75)

The interest rates in brackets represent those used at the previous year end.
The references as shown under mortality are to published actuarial tables.

18 Movements in Reserves

	Consolidated 1995 £m	Consolidated 1994 £m	Parent Society 1995 £m	Parent Society 1994 £m
Reserves at 1st January:				
General business	728.60	777.80	622.44	659.71
Long-term business	435.06	607.34	435.06	607.34
	1,163.66	1,385.14	1,057.50	1,267.05
Retained profits and other reserves	86.78	75.71	69.02	58.08
Revaluation reserves	128.90	(124.91)	115.41	(95.35)
Fund for future appropriations	131.92	(172.28)	131.92	(172.28)
Total reserves at 31st December	1,511.26	1,163.66	1,373.85	1,057.50
As represented by:				
General business	944.28	728.60	806.87	622.44
Long-term business	566.98	435.06	566.98	435.06
	1,511.26	1,163.66	1,373.85	1,057.50

19 General Business Technical Provisions

	Gross 1995 £m	Reinsurance 1995 £m	Net 1995 £m	Gross 1994 £m	Reinsurance 1994 £m	Net 1994 £m
Consolidated						
Unearned premiums	207.47	0.60	206.87	211.19	5.37	205.82
Claims outstanding	704.56	37.73	666.83	627.71	40.08	587.63
Deferred acquisition costs	(32.42)	(0.18)	(32.24)	(31.71)	-	(31.71)
	879.61	38.15	841.46	807.19	45.45	761.74
Parent Society						
Unearned premiums	160.85	1.01	159.84	162.53	5.80	156.73
Claims outstanding	552.25	23.07	529.18	494.02	22.48	471.54
Deferred acquisition costs	(24.13)	(0.15)	(23.98)	(24.38)	(0.87)	(23.51)
	688.97	23.93	665.04	632.17	27.41	604.76

20 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 £1.09m. (1994 £1.14m.)

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 March, 1994. At this date the market value of the investments of the schemes was £270.30m. The assets of these schemes were 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 9% per annum, increases in dividends would be 4% per annum, salary increases would average 7% per annum and present and future pensions would increase at the rate of 5% per annum.

21 Capital Expenditure

Capital expenditure not provided for in these financial statements at 31st December, 1995 amounted to approximately:-

	1995 £m	1994 £m
Contracted for	24.82	6.21
Authorised but not contracted for	0.79	12.07

22 Stock Lending

Holdings of UK Government securities and overseas equities with a value of £57.48m. (1994 £129.14m.) were on loan at 31st December, 1995 under approved stock lending schemes.

23 Consolidated Cash Flow Statement

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

	1995 £m	1994 £m
Profit before taxation	116.86	99.00
Adjustments for items not involving movements of cash:		
Net gain on realisation of investments	(28.24)	(5.53)
Increase in debtors	(1.56)	(3.21)
Increase in unearned premiums less deferred acquisition costs	0.52	2.30
Increase in claims provisions	79.20	58.91
(Decrease)/increase in creditors	(3.48)	4.27
Taxation on franked investment income	(6.53)	(4.87)
Depreciation charge	1.84	1.90
Decrease in stocks	-	0.04
Share of profit in associated company	(0.66)	(0.56)
Net cash inflow from continuing operating activities	157.95	152.25

b) Changes in Cash and Cash Equivalents

	General business		Long-term business		Total	
	1995 £m	1994 £m	1995 £m	1994 £m	1995 £m	1994 £m
Cash at bank at 1st January	21.86	16.07	8.01	5.34	29.87	21.41
Cash at bank at 31st December	28.10	21.86	27.96	8.01	56.06	29.87
Increase in year	6.24	5.79	19.95	2.67	26.19	8.46
Cash deposits at 1st January	112.21	129.04	19.36	31.57	131.57	160.61
Cash deposits at 31st December	139.00	112.21	33.85	19.36	172.85	131.57
Increase/(decrease) in year	26.79	(16.83)	14.49	(12.21)	41.28	(29.04)
Short-term loans at 1st January	(2.00)	(2.00)	-	-	(2.00)	(2.00)
Short-term loans at 31st December	-	(2.00)	-	-	-	(2.00)
Increase in year	2.00	-	-	-	2.00	-
Increase/(decrease) in cash and cash equivalents	35.03	(11.04)	34.44	(9.54)	69.47	(20.58)

Report of the Auditors to the members of The National Farmers Union Mutual Insurance Society Limited

We have audited the financial statements on pages 11 to 29.

Respective responsibilities of directors and auditors

As described on page 9, the Company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements 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 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 mis-statement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the Company's affairs at 31st December, 1995 and of its profit, total recognised gains and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Coopers & Lybrand
Chartered Accountants and Registered Auditors
Liverpool, 22nd March, 1996

Report of the Auditors to The National Farmers Union Mutual Insurance Society Limited on Corporate Governance matters

In addition to our audit of the financial statements, we have reviewed the directors' statement on pages 9 & 10 on the Company's compliance with the Code of Best Practice.

The objective of the review is to draw attention to non-compliance with those paragraphs of the Code which are not properly disclosed.

Basis of opinion

We carried out our review having regard to the Bulletin 1995/1 'Disclosures relating to corporate governance' issued by the Auditing Practices Board. That Bulletin does not require us to perform the additional work necessary to and we do not express any opinion on the effectiveness of either the Company's system of internal financial control or its corporate governance procedures, nor on the ability of the Company to continue in operational existence.

Opinion

With respect to the directors' statements on internal control and going concern on pages 9 & 10, in our opinion the directors have provided the going concern disclosures required by paragraph 4.6 of the Code and have explained the extent of their compliance with the disclosures on internal financial control required by paragraph 4.5 of the Code both as supplemented by the related guidance for directors. Their statements in respect of both are not inconsistent with the information of which we are aware from our audit work on the financial statements.

Based on enquiry of certain directors and officers of the Company and examination of relevant documents, in our opinion the directors' statement on page 9 appropriately reflects the Company's compliance with the other paragraphs of the Code specified for our review.

Coopers & Lybrand
Chartered Accountants
Liverpool, 22nd March, 1996

Avon Insurance plc
Annual Report 1995

Board of Directors

Chairman
A. Evans, O.B.E., F.R.Ag.S., D.L.

Vice-Chairman
A. Q. Hitchcock, C.B.E., M.A.

Managing Director
A. S. Young, F.C.I.I.

R. A. Deacon, LL.B.

W. R. Morrow, C.B.E.

Registered no. 209606

Directors' Report

Activities

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

General Business

Net written premiums amounted to £112.56m. Claims incurred were £73.10m. After making provision for all expenses and for unearned premiums, less deferred acquisition costs, a deficit of £1.38m. has been transferred from the technical account. After adding investment income, less expenses, the profit before taxation was £21.74m. The profit after tax was £15.11m. and after providing for the proposed dividend of £4.26m. the balance to be transferred to retained profits and other reserves amounts to a profit of £10.85m.

Directors

The Board records its sincere appreciation of the service of Sir Richard Butler, who retired at the year end having served for 5 years as a director. The directors have appointed Mr R. A. Deacon to fill the consequent vacancy. In accordance with the Articles of Association Mr. R. A. Deacon and Mr A. Evans retire and, being eligible, offer themselves for re-election. A list of the directors of the Company is shown on page 31.

Statement of Directors' Responsibilities

Company law requires the directors to prepare financial statements for each financial year in accordance with the provisions of the Companies Act 1985 applicable to insurance companies. In preparing those financial statements, the directors are required to:-

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

The directors confirm that the Company continues to maintain a high standard of compliance with the Code of Best Practice published by the Cadbury Committee on the Financial Aspects of Corporate Governance.

The directors are responsible for the Company's system of internal control.

After making enquiries, the directors consider that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Directors and Officers Liability Insurance

Throughout 1995, the NFU Mutual and Avon Group maintained an insurance policy indemnifying the directors and officers against loss attaching to legal liabilities arising in the course of their duties.

Auditors

A resolution proposing the re-appointment of Coopers & Lybrand, Chartered Accountants, as auditors of the Company will be put to the Annual General Meeting.

A. Evans *Chairman*	A. Q. Hitchcock *Vice-Chairman*	A. S. Young *Managing Director*

Stratford-upon-Avon, 21st March, 1996

Profit & Loss Account
Technical Account - General Business

for the year ended 31st December, 1995	1995 £m	1994 £m as restated
Continuing Operations		
Gross premiums written (note 2)	135.59	127.26
Outwards reinsurance	(23.03)	(26.86)
Net premiums written	112.56	100.40
(Increase)/decrease in the gross provision for unearned premiums	(0.23)	2.48
Increase/(decrease) in the provision for unearned premiums, reinsurers' share	0.02	(3.96)
(Increase) in the net provision for unearned premiums	(0.21)	(1.48)
Earned premiums, net of reinsurance	112.35	98.92
Gross claims paid	62.30	58.98
Reinsurers' share	(10.86)	(6.11)
Net claims paid	51.44	52.87
Gross increase in the provision for claims	18.61	5.19
Decrease in reinsurers' share	3.05	2.53
Increase in the net provision for claims	21.66	7.72
Claims incurred, net of reinsurance	73.10	60.59
Commission (note 3)	21.71	17.93
Expenses (note 3)	18.98	16.03
Deferred acquisition costs (note 3)	(0.06)	(0.28)
Total Charges	113.73	94.27
(Deficit)/surplus on the technical account - general business	**(1.38)**	**4.65**

Profit & Loss Account
Non-Technical Account

for the year ended 31st December, 1995	1995 £m	1994 £m as restated
(Deficit)/surplus on the technical account - general business	(1.38)	4.65
Investment income (note 4)	23.28	16.02
	21.90	20.67
Investment expenses and charges	0.05	0.07
Other charges	0.11	0.10
	0.16	0.17
Profit on ordinary activities before taxation (note 7)	21.74	20.50
Taxation on profits on ordinary activities (note 9)	6.63	6.43
Profit on ordinary activities after taxation	15.11	14.07
Proposed dividend	4.26	4.26
Retained profit for the financial year (note 12)	**10.85**	**9.81**

With the exception of unrealised gains and losses as shown in note 13, the Company's total recognised gains and losses are included in the profits above and therefore no separate statement of total recognised gains and losses has been presented.

There is no difference between the profit before taxation and retained profit for the year stated above and its historical cost equivalent.

Balance Sheet

for the year ended 31st December, 1995	1995 £m	1994 £m as restated
Assets		
Investments		
Land and buildings	22.12	16.68
Listed British Government and local authority securities	58.52	51.81
Listed fixed interest stocks	58.22	38.07
Listed ordinary shares	113.11	93.94
Mortgages, loans and deposits	17.26	24.19
Shares in subsidiaries	5.00	5.05
Other financial investments	252.11	213.06
	274.23	229.74
Reinsurers' share of technical provisions (note 15)		
Provision for unearned premiums	0.16	0.14
Claims outstanding	14.55	17.60
Deferred acquisition costs	(0.03)	-
	14.68	17.74
Debtors		
Due from policyholders	10.29	12.08
Due from intermediaries	7.78	7.71
Debtors arising out of direct insurance operations	18.07	19.79
Debtors arising out of reinsurance operations	0.78	2.16
Securities for subsequent settlement	-	0.22
Due from parent Society	0.50	1.00
Due from group undertaking	0.58	0.78
Sundry debtors and balances	6.14	0.88
Other debtors	7.22	2.88
	26.07	24.83
Other assets		
Cash at bank and in hand	5.61	1.60
	5.61	1.60
Prepayments and accrued income		
Accrued interest and rent	2.27	1.42
	2.27	1.42
Total assets	**322.86**	**275.33**

Balance Sheet

for the year ended 31st December, 1995	1995 £m	1994 £m as restated
Liabilities		
Capital and reserves		
Called up share capital (note 10)	20.00	20.00
Retained profits and other reserves (note 12)	42.92	32.07
Revaluation reserves (note 13)	47.51	36.56
Free reserves	90.43	68.63
Shareholders' funds attributable to equity interests (note 14)	110.43	88.63
Technical provisions (note 15)		
Provision for unearned premiums	41.44	41.21
Claims outstanding	151.95	133.34
Deferred acquisition costs	(8.29)	(8.20)
	185.10	166.35
Creditors		
Creditors arising out of direct insurance operations	4.77	2.30
Creditors arising out of reinsurance operations	3.03	3.74
Bank loans	-	1.00
Securities for subsequent settlement	-	0.26
Due to parent Society	3.24	3.25
Corporation tax	3.30	3.71
Deferred taxation	7.66	0.66
Other creditors and balances	0.29	0.77
Other taxation	0.78	0.40
Provision for proposed dividend	4.26	4.26
Other creditors	19.53	14.31
	27.33	20.35
Total liabilities	**322.86**	**275.33**

These financial statements were approved by the directors at a meeting on 21st March, 1996 and were signed on their behalf by:-

A. Evans *Chairman*

A. S. Young *Managing Director*

A. Q. Hitchcock *Vice-Chairman*

Stratford-upon-Avon, 21st March, 1996

Cash Flow Statement

for the year ended 31st December, 1995	1995 £m	1994 £m as restated
Continuing Operating Activities		
Premiums received from customers	138.27	126.93
Reinsurance premiums paid	(23.74)	(26.04)
Claims paid, net of reinsurance	(51.44)	(52.87)
Interest and dividends received	14.33	11.65
Other cash payments	(34.24)	(37.66)
Net cash inflow from continuing operating activities (note 17a)	43.18	22.01
Servicing of finance		
Dividends paid	(4.26)	(2.50)
Taxation		
Corporation tax paid	(6.05)	(2.31)
Investing activities		
(Purchases) less sales of investments excluding cash deposits	(26.96)	(20.22)
Net cash inflow/(outflow) before financing activities	5.91	(3.02)
Financing activities	-	-
Increase/(decrease) in cash and cash equivalents (note 17b)	**5.91**	**(3.02)**

Notes to Financial Statements

1 Accounting Policies

The financial statements have been prepared in accordance with applicable accounting standards in the United Kingdom. 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 by the Companies Act 1989) relating to investments. The Company has taken advantage of the transitional arrangements within FRS 5 relating to insurance broking transactions. In other respects, the financial statements have been prepared in accordance with section 255 and 255A of, and schedule 9A to, the Companies Act 1985 (as amended).

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

a) Changes in Accounting Policies

The requirements of the Companies Act 1985 (Insurance Companies Accounts) Regulations 1993 ('the Regulations') came into effect for periods commencing after 23 December, 1994 and accordingly have been applied in these financial statements. The Regulations require that realised investment gains and losses be included within investment income in the non-technical account, with the associated tax charge included within the taxation charge for the year in the non-technical account.

The effect of this accounting policy change is shown in note 8.

b) 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 reserves or to profit and loss account as appropriate.

c) General Insurance Business

The underwriting result is determined after making provision for unearned premiums, unexpired risks and outstanding claims.

Provision for unearned premiums is calculated on a proportional basis after making an appropriate deduction for acquisition costs. These deferred acquisition costs, of commission and other related expenses, are charged in the accounting periods in which the corresponding premiums are earned.

Provision for unexpired risks is maintained, when required, to cover the estimated excess of liabilities over the unearned premium. No allowance is made for investment income in calculating this provision.

Gross claims are shown after transfers to claims provisions and from reserves. Provisions for notified claims as at 31st December each year are determined on an individual case basis after taking into account handling costs, salvage and other known recoveries, anticipated inflation and trends in settlements. Outstanding claims include reserves and provisions for claims incurred but not reported at the balance sheet date.

d) Investment Income

Investment income is included, together with the related tax credit. 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.

e) Taxation

United Kingdom and overseas taxation charged in the non-technical account is based on profits and income including realised gains and losses 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. Movements in this taxation provision are transferred to revaluation reserves. 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.

f) Investments

Investments, other than in subsidiaries, are shown at market value. Unlisted investments and mortgages are included at directors' valuation. The properties are valued annually by the Group's professional staff, who are members of the Royal Institution of Chartered Surveyors, and by external Chartered Surveyors. In accordance with SSAP 19, no depreciation or amortisation is provided in respect of freehold properties and leasehold investment properties with over 20 years to run. The directors consider that, as these properties are held for investment, to depreciate them would not give a true and fair view.

Investments in subsidiaries are shown at the lower of cost or directors' valuation.

Gains and losses on realisation of investments are included within investment income or investment expenses in the non-technical account. Unrealised gains and losses have been transferred to revaluation reserves. Provision is made for any diminution in value which is considered to be permanent. Allocations to and from the revaluation reserves are made to the non-technical account, when appropriate.

2 Gross Premiums Written

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

	1995 £m	1994 £m
Fire and Accident	54.48	52.65
Motor	21.46	25.97
Personal	59.65	48.64
	135.59	127.26

The gross premium income was written in the following areas:-

	1995 £m	1994 £m
United Kingdom	134.06	125.69
Overseas	1.53	1.57
	135.59	127.26

3 Net Operating Expenses

	1995 £m	1994 £m
Acquisition costs	29.00	23.20
Increase in deferred acquisition costs	(0.06)	(0.28)
Administration expenses	11.70	10.76
	40.64	33.68

Guaranteed fund levies included in administration expenses amounted to £0.08m. (1994 £1.27m.).

4 Investment Income

	1995 £m	1994 £m
Income from land and buildings	1.47	0.94
Income from other investments	14.75	11.41
	16.22	12.35
Gains on realisation of investments	7.06	3.67
Total income	23.28	16.02

5 Investment Activity Account

	1995 £m	1994 £m
Investment income	23.28	16.02
Investment expenses and charges	(0.05)	(0.07)
Movement in unrealised investment gains and losses	17.95	(25.56)
Investment return for the year	41.18	(9.61)

6 Directors

The aggregate emoluments of the Company's directors were £32,000 (1994 £32,000) all of which was in respect of service as directors.

Included in the above is £10,730 payable to the Chairman (1994 £10,730).

Three other directors of the Company received emoluments within the range £5,001 - £10,000 (1994 three in the range £5,001 - £10,000).

No pension contributions were made in respect of serving directors. Pensions to former directors amounted to £11,958 (1994 £12,621).

7 Profit Before Taxation

The profit on ordinary activities before taxation is stated after charging:-

	1995 £m	1994 £m
Auditors' fees for:		
Audit	0.05	0.05
Other services	0.03	0.03

8 Effect of Accounting Policy Changes

As a result of the implementation of the Insurance Companies Accounts Regulations 1993, accounting policy changes have had an effect on the profit before taxation, as follows:-

	1995 £m	1994 £m
Profit before taxation using policies applied in 1994 (old basis)	14.68	16.83
Inclusion of gains on the realisation of investments	7.06	3.67
Profit before taxation using policies applied in 1995 (new basis)	21.74	20.50

9 Taxation

In the non-technical account, taxation is based on the results of the year, using a rate of 33% (1994 33%).

	1995 £m	1994 £m
United Kingdom Taxation		
Corporation tax	5.61	5.66
Deferred taxation	-	0.01
Income tax on franked investment income	1.01	0.67
Total United Kingdom Taxation	6.62	6.34
Overseas Taxation	0.01	0.09
	6.63	6.43

If the investments were realised at the amounts at which they are included in the financial statements, a liability to corporation tax of approximately £19.00m. (1994 £13.00m.) would arise.

10 Share Capital

The authorised capital at 31st December, 1995 was £100.00m. (1994 £100.00m.) divided into shares of £1 each, of which twenty million (1994 twenty million) were issued and fully paid.

11 Subsidiaries

The Company owns the whole of the issued share capital of Tiddington Investments Limited, which is incorporated in Great Britain and registered in England and Wales. Consolidated financial statements are not required as the Company is itself the wholly-owned subsidiary of another company incorporated in Great Britain and registered 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.

During 1995, the Company disposed of its interest in Barry S.A. (60%).

12 Retained Profits and Other Reserves

	1995 £m	1994 £m
Balance at 1st January	32.07	22.26
Transfer from non-technical account	10.85	9.81
Balance at 31st December	42.92	32.07

13 Revaluation Reserves

	1995 £m	1994 £m
Balance at 1st January	36.56	62.12
Realised investment gains less taxation	-	2.42
Prior year adjustment	-	(2.42)
Add: unrealised gains/(losses) less taxation	10.95	(25.56)
Balance at 31st December	47.51	36.56

These reserves are after taking into account deferred taxation on the unrealised gains of £7.00m. (1994 £Nil)

14 Movements In Shareholders' Funds

	1995 £m	1994 £m
Balance at 1st January	88.63	104.38
Retained profits and other reserves (note 12)	10.85	9.81
Revaluation reserves (note 13)	10.95	(25.56)
Balance at 31st December	110.43	88.63

15 General Business Technical Provisions

	Gross 1995 £m	Reinsurance 1995 £m	Net 1995 £m	Gross 1994 £m	Reinsurance 1994 £m	Net 1994 £m
Unearned premiums	41.44	0.16	41.28	41.21	0.14	41.07
Claims outstanding	151.95	14.55	137.40	133.34	17.60	115.74
Deferred acquisition costs	(8.29)	(0.03)	(8.26)	(8.20)	-	(8.20)
	185.10	14.68	170.42	166.35	17.74	148.61

16 Capital Expenditure

There were no capital commitments at 31st December, 1995 not provided for in these financial statements (1994 £Nil).

17 Cash Flow Statement

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

	1995 £m	1994 £m
Profit before taxation	21.74	20.50
Adjustments for items not involving movements of cash:		
Net gain on realisation of investments	(7.05)	(3.67)
Decrease/(increase) in debtors	2.44	(2.90)
Increase in unearned premiums less deferred acquisition costs	0.15	1.20
Increase in claims provisions	21.66	7.65
Increase/(decrease) in creditors	5.25	(0.10)
Taxation on franked investment income	(1.01)	(0.67)
Net cash inflow from continuing operating activities	43.18	22.01

b) Changes in Cash and Cash Equivalents

Cash at bank at 1st January	1.60	0.62
Cash at bank at 31st December	5.61	1.60
Increase in year	4.01	0.98
Cash deposits at 1st January	16.30	20.30
Cash deposits at 31st December	17.20	16.30
Increase/(decrease) in year	0.90	(4.00)
Short-term loans at 1st January	(1.00)	(1.00)
Short-term loans at 31st December	-	(1.00)
Increase in year	1.00	-
Increase/(decrease) in cash and cash equivalents	5.91	(3.02)

18 Parent Society

The Company is a member of a group, the ultimate holding company of which is The National Farmers Union Mutual Insurance Society Limited, incorporated in Great Britain and registered in England and Wales.

Report of the Auditors to the members of Avon Insurance plc

We have audited the financial statements on pages 34 to 44.

Respective responsibilities of directors and auditors

As described on page 32, the Company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements 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 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 mis-statement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the Company's affairs at 31st December, 1995 and of its profit, total recognised gains and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Coopers & Lybrand
Chartered Accountants and Registered Auditors
Liverpool, 22nd March, 1996

Report of the Auditors to Avon Insurance plc on Corporate Governance matters

In addition to our audit of the financial statements, we have reviewed the directors' statement on page 32 on the Company's compliance with the Code of Best Practice.

The objective of the review is to draw attention to non-compliance with those paragraphs of the Code which are not properly disclosed.

Basis of opinion

We carried out our review having regard to the Bulletin 1995/1 'Disclosures relating to corporate governance' issued by the Auditing Practices Board. That Bulletin does not require us to perform the additional work necessary to and we do not express any opinion on the effectiveness of either the Company's system of internal financial control or its corporate governance procedures, nor on the ability of the Company to continue in operational existence.

Opinion

With respect to the directors' statements on internal control and going concern on page 32, in our opinion the directors have provided the going concern disclosures required by paragraph 4.6 of the Code and have explained the extent of their compliance with the disclosures on internal financial control required by paragraph 4.5 of the Code both as supplemented by the related guidance for directors. Their statements in respect of both are not inconsistent with the information of which we are aware from our audit work on the financial statements.

Based on enquiry of certain directors and officers of the Company and examination of relevant documents, in our opinion the directors' statement on page 32 appropriately reflects the Company's compliance with the other paragraphs of the Code specified for our review.

Coopers & Lybrand

Coopers & Lybrand
Chartered Accountants
Liverpool, 22nd March, 1996

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