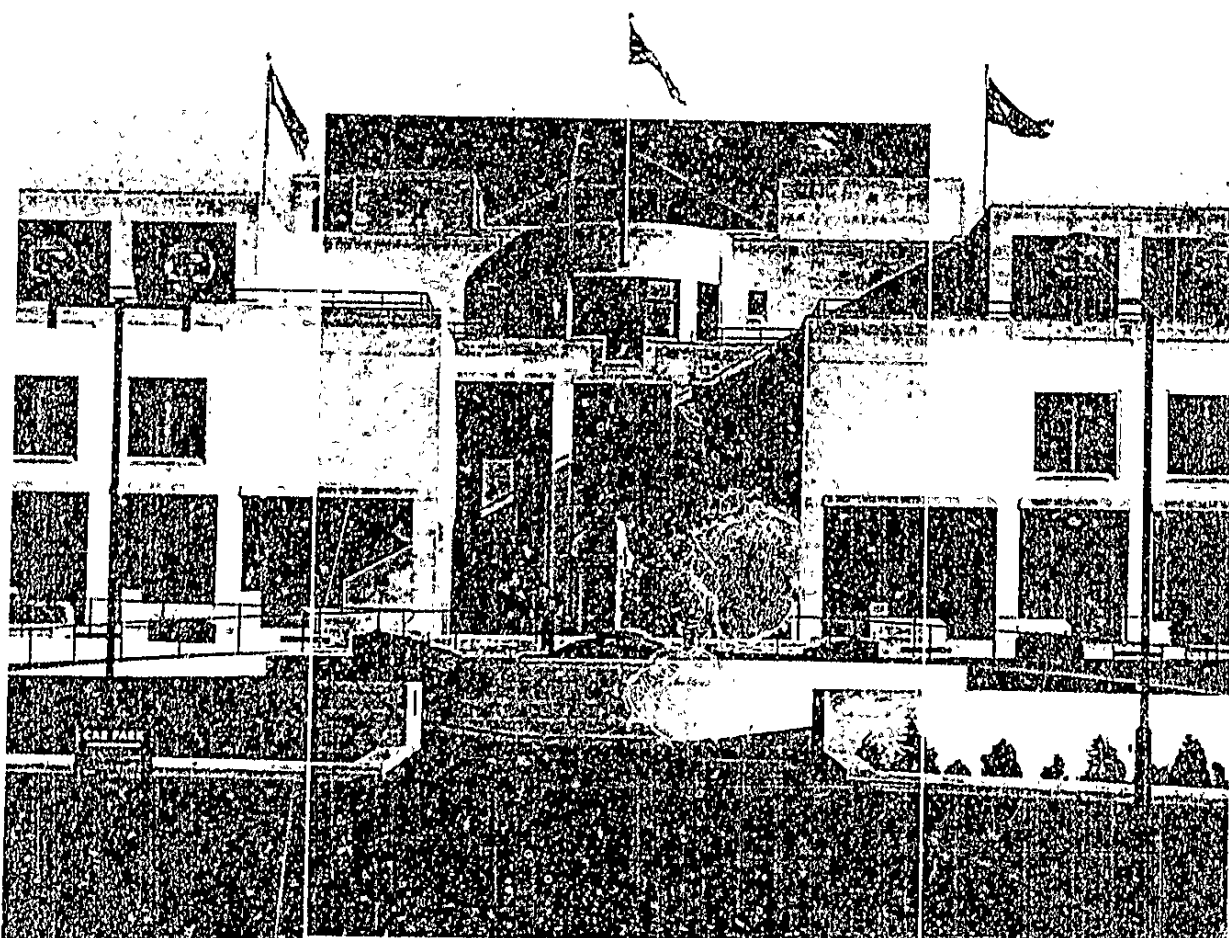


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THE NFU MUTUAL AND AVON GROUP



1988 Reports and Accounts

The NEU Mutual is the Field
in Agricultural Insurance



*Avon Insurance — serving
the public, industry and commerce.*

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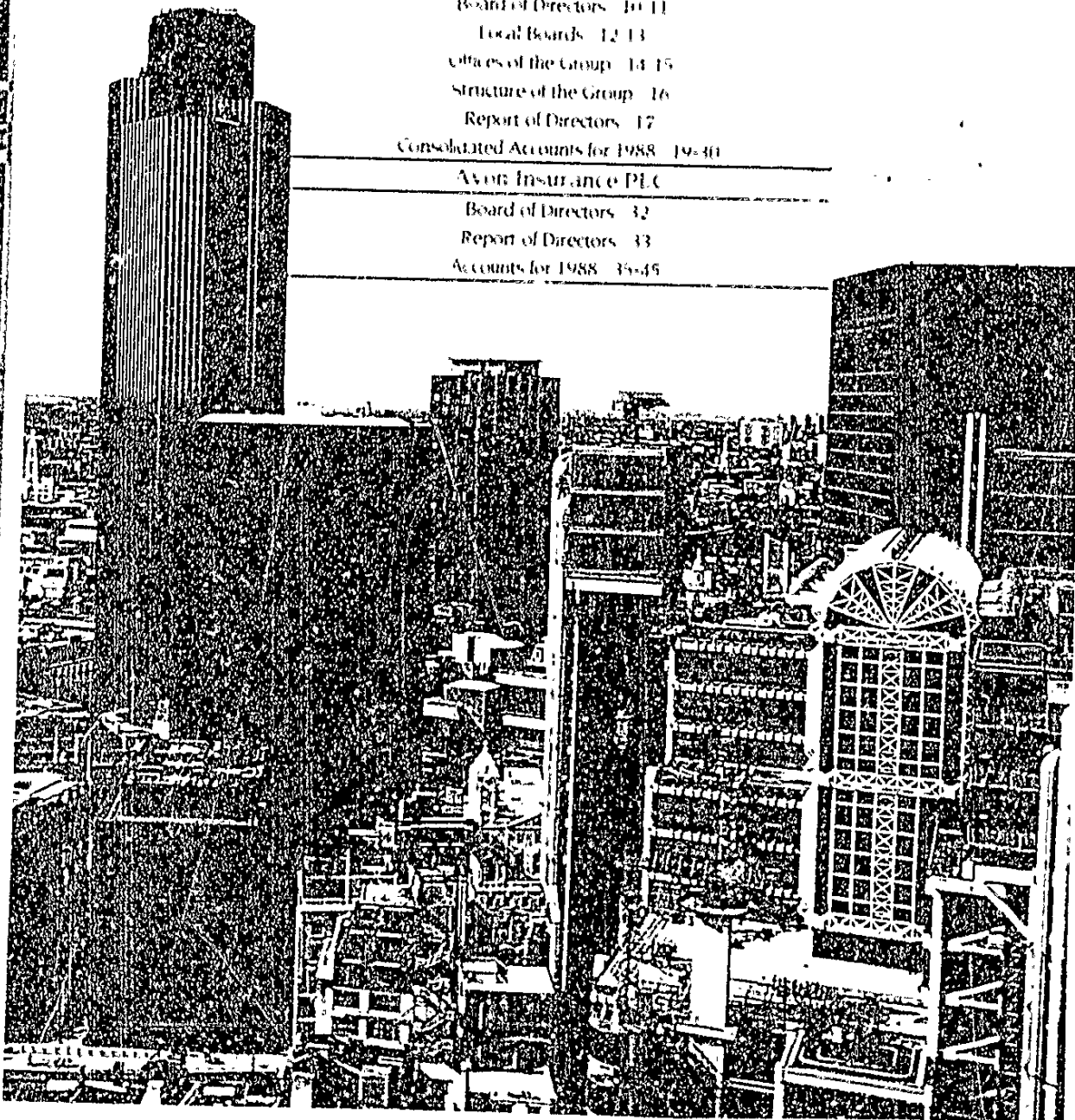
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NFU MUTUAL AND AVON GROUP

British agriculture leads the world in productivity and efficiency. The NFU Mutual, through its close links with this great enterprise, also has a long and successful history. Its steady growth, over more than three-quarters of a century, reflects the deepest commitment to the insurance and financial needs of Britain's farming community.

Avon Insurance, the Mutual's subsidiary company, is establishing a wide reputation, within the insurance industry and amongst the general public, both at home and abroad. It is playing an increasingly important role by providing an ever-broadening base for the Group.

The NFU Mutual

Much has changed since early this century, when seven farmers met in a Stratford tea shop to discuss ways to recruit new members to the local Farmers' Union. They decided there and then to found a mutual insurance society for the benefit of farmers — and the origins of "The Mutual" were established.

The down-to-earth philosophy of these seven entrepreneurs remains the basis of the Group's success. It was expressed in a document of Intent in September 1909, which promised to provide fire, workmen's compensation and all other kinds of insurance (except life), at the most competitive rates.

In 1928, life assurance was added and today the Mutual offers farmers a wide range of financial services, including life and investment, tax and pension plans as well as unit trusts and mortgages.

The NFU Mutual, as its name signifies, is a "mutual" insurance society, owned by its policyholders. Any surpluses it earns go to

strengthen the Group, to improve service and broaden policyholders' insurance cover.

But what makes the Mutual unique is its link with the Farmers' Unions, which began in 1919. Their agents, today's Farmers' Union Secretaries, are given an agency to sell NFU Mutual insurances to their members. In return the Union Secretaries receive commission which, in effect, constitutes their salary.

In this way, the National Farmers' Unions are able to provide an outstanding service to their members at reasonable cost. This has resulted in one of the most successful examples of agricultural cooperation that can be seen today.

The Mutual has branches established throughout the UK, employing over 2,000 of its own staff. And despite the complexity and scale of modern farming, it provides the variety of insurances and financial services that farmers need — conveniently and at the lowest possible cost compatible with security and the breadth and quality of service.

The Avon

In 1925, in the face of growing demand for insurance from outside agriculture, Avon Insurance was formed. Since those early days, the scope of the Company has expanded beyond recognition. Today, its fast-growing reputation for innovation and service is widely respected, here and overseas.

At home, it serves the public through a nationwide

network of regional branches, and is securing an ever larger share of both the commercial and industrial markets.

In the City, at the heart of the London money market's famous "Square Mile", and in Birmingham, Manchester, Glasgow and other major centres Avon's underwriting rooms earn

valuable income from the large and diverse risks that are attracted to the UK. They also provide essential day-to-day contact with other insurance companies and with brokers handling business on a global scale.

Overseas the Avon is established as an insurance underwriter in countries as widely different as Hong

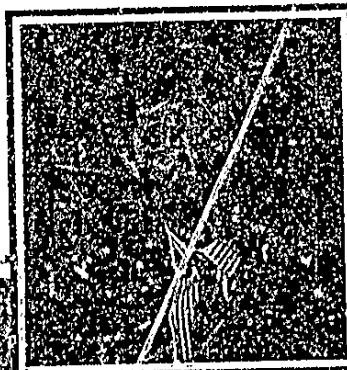
Kong and Denmark, France and the Netherlands.

The last three-quarters of a century has seen many changes for both the NFU Mutual and the Avon. Undoubtedly, as the Group forges ahead into the 21st century, the future will present many new challenges. These will be met with confidence -- a confidence that has been well and truly earned.

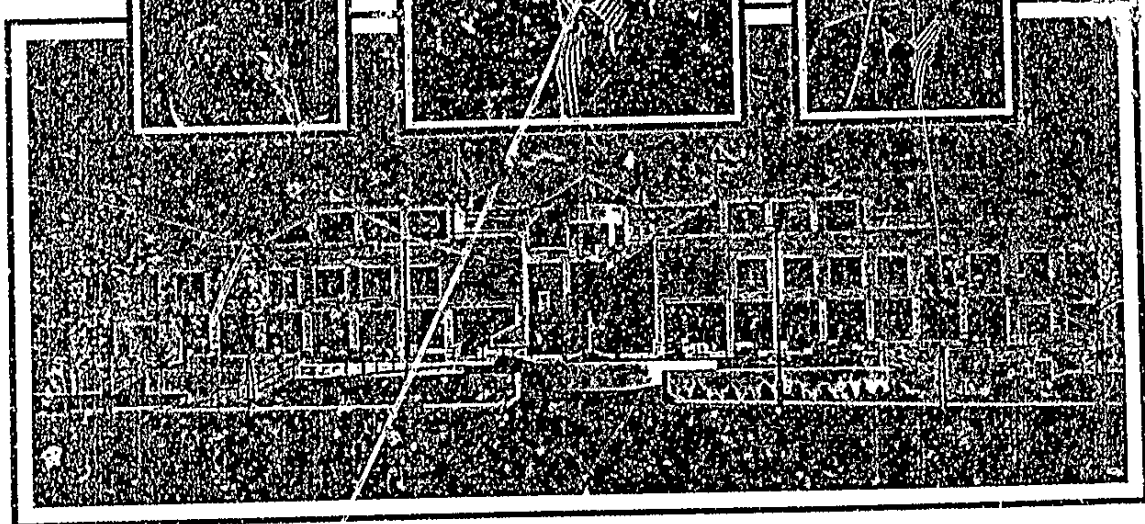
Management

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

General Manager (Society)
D. F. Tigwell, F.C.I.I.



General Manager (Avon)
C. T. Bilby, F.C.A.



Assistant General Managers

T. M. Barlow, F.C.A., F.C.I.I.
E. D. Browning, A.C.I.I.
N. Carter, F.C.A.
R. A. Deacon, LL.B.

J. F. Germaine, B.A., F.C.I.I.
J. R. Murray, F.C.I.I.
V. G. Seaman, A.C.I.I.

Secretary
W. E. Cooper, A.C.I.S., A.C.I.I.

CHAIRMAN'S STATEMENT



Chairman
D. M. Milne, C.B.E., J.P., F.R.A.g.S.

Highlights

I am very pleased to report that 1988 was a year of solid progress for the Society and its wholly-owned subsidiary — Avon Insurance PLC. In both companies we achieved very satisfactory general business growth, coupled with significantly improved underwriting results. The major factors influencing these results were much more settled weather conditions, and, particularly in the Avon, a more stable pricing structure in the UK insurance market as a whole. Both of these features were welcome relief after a number of years of extreme weather patterns and intensive price competition

1988 also saw record growth and exceptional activity in our life and pensions business. We took

advantage of the opportunities afforded by the changes in the UK pension market and, in consequence, attracted many new customers.

NFU Mutual

Although most of our premium rates remained unaltered, our general business premium income nonetheless rose by almost 10% to £168m. Most of this extra income came from new business and increases in cover purchased by existing customers — a trend which I regard as most satisfactory. I am confident that we are increasing our share of the farming insurance market.

As it was only three years ago that I had to report on the largest underwriting loss in the history of the Society, you will understand the pleasure it gives me to report our largest underwriting profit. The benign weather conditions to which I referred earlier helped us to produce an underwriting profit of £14.2m. Added to the underwriting surplus is investment income of £28.6m., producing a trading surplus of £42.8m. before tax and other expenses. I cannot emphasize too strongly the importance of profitable trading, especially to a mutual organisation. Further expansion and diversification of our business require capital and with the rapidly changing shape of the financial services industry, and the imminent prospect of a single European market, your Society must have the financial strength to enable it to compete in this new environment.

Although 1988 produced a good general business result I feel I am justified in describing it as "the Year of the Pension". The changes to the UK pension regime, introduced by the Social Security Act 1986, gave us an opportunity to develop this part of our business. Coming, as it did, at the same time as the implementation of much of the Financial Services Act, it meant that our entire life and pensions operation had to contend with a considerable workload. In preparation we have, during the last two years, carried out a major training programme in life and pension products for all our field staff and agents. We have also invested in a new computer system to enable us to process our new range of life and pension products.

I am gratified that all this effort and investment has produced results and we recorded an increase of 122% in new annual premiums for individual pension policies. It is clear that more farmers than ever before have taken stock of their retirement needs and, following advice from our agents and field staff, have made some provision for their retirement. In the past, too many farmers have delayed their pension planning to the point where it has become very expensive to fund a reasonable amount of pension. I urge all members to seek early advice from our agents. Our reserves are strong and the Society provides solid security for policyholders' investments.

Throughout last year, we continued to work closely with the Farmers' Unions. We were involved with the NFU of England & Wales in the major review of our joint field force which, over the years, has contributed so much to our success. Like all systems it needs to be reviewed and adjusted to reflect changing circumstances, and I am very pleased that the Council of the Union have accepted the consultants' recommendations.

1988 saw a great deal of preparatory work undertaken in readiness for the 1989 Celebration of British Food & Farming.



It is not said often enough that year after year British farmers and growers provide consumers with a wide choice of high-quality food which is excellent value for money. The Celebration provides a platform for the industry to present its story and the Society is pleased to be associated with this important event as a major sponsor and as official insurer. We wish the Celebration well.

Avon Insurance PLC

In recent years I have derived considerable pleasure from the growth of the Avon, and 1988 saw a continuation of this trend. The Avon has now firmly established its own place in the market and stands well placed for future growth.

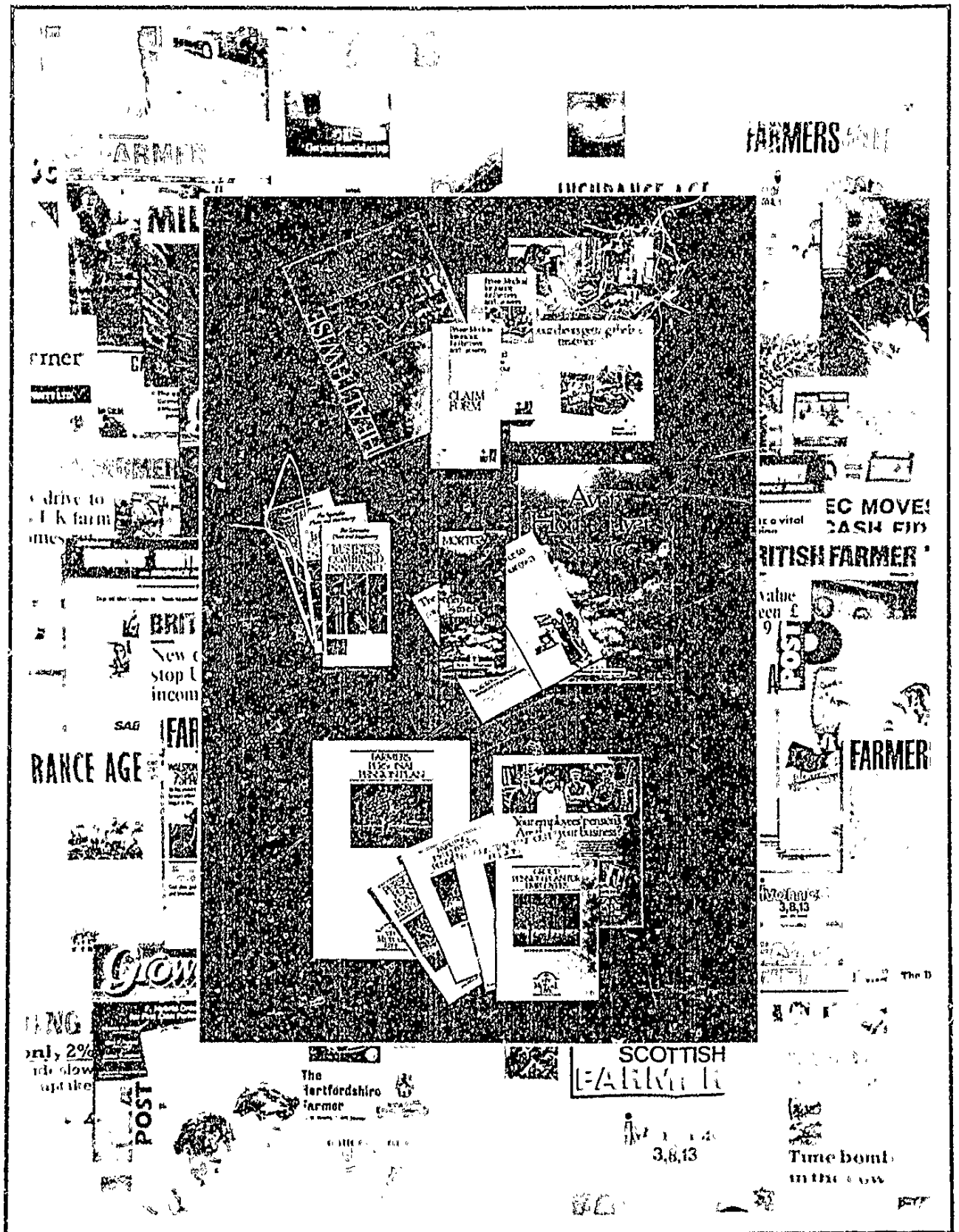
Last year, general business premium income increased by more than 27% to a total of £86.3m. In monetary terms, for the first time ever the Avon's premium increase in the year was greater than the Society's.

The underwriting result was much improved, with the loss reduced from £5.5m. to £2.3m. The trend is sound and our plans for the Company will reflect our philosophy of combining careful control of underwriting standards with a constant search for profitable niches in the market.

After including investment income of £6.2m., the Avon's overall result is a profit of £3.9m. before tax and other expenses.

As the Society's major operating subsidiary, the Avon has a vital role in the overall well-being of our group of companies. The Avon provides the parent Society with the vehicle to diversify outside agriculture — thereby spreading the business base of the Group and bringing the benefits of operational scale as its business increases.

We recognize that for a company of the Avon's size to compete with bigger rivals, and in a market which is already well supplied, we must offer high standards of service and a first-class product range. Our rapid expansion, particularly over the last three years, reflects the growing and substantial support we enjoy from insurance brokers. That support can never be taken for granted and we shall continue to strive to improve our service and products and to keep in touch with the needs of our brokers and agents. I thank them for their support in 1988.



New Products

In both our companies we are determined to offer our customers an ever-increasing range of top-quality products. 1988 saw the introduction of our domestic mortgage package -- Avon Homebuyers Service -- and I look forward to steady growth in this part of our business. Both companies also introduced a private medical insurance policy -- HealthWise. Again, I anticipate steadily increasing sales.

Quite appropriately, the Society was the first company to provide cover, to supplement the basic Government compensation, for Bovine Spongiform Encephalopathy.

In the Avon we carried out a thorough revision of our Commercial Insurance covers and re-launched the new range in October.

Single European Market

During 1988 the Government has worked to focus the minds of all British businessmen on the implications of the single European market. Throughout the 1980s, the Avon has been modestly developing its business in a number of countries. The experience we have gained will help us in our planning. Although there is considerable confusion over how the creation of a single market will influence consumer trends and the shape of the financial services industry, we cannot afford to be parochial and to ignore the prospect of new markets or competition in our home market from new sources. As part of our consideration of this issue, our executives are in regular contact with other European agricultural insurers.



These contacts were enhanced last November when the Board of the Society spent three days in France to study at first-hand the structure of our French equivalent -- GroupAMA -- and to exchange views on the future.

Conclusion

At the end of April our Managing Director, Charles Thomas, handed over the reins to our youngest ever Chief Executive, Andrew Young. He heads a capable and enthusiastic senior management team, whose ideas on how the business will develop in the nineties and beyond are already shaping our strategic thinking, and who have also produced such good results in 1988. My congratulations and appreciation for those results are due to the entire management, staff and agency force.

I also thank my colleagues on the Board for their unswerving personal support throughout the year. My sincere thanks are also due to our local Directors and the officials of the Farmers' Unions for all they have done to help us. I look forward to the same team effort in 1989.

SATISFIED CUSTOMERS – OUR MOST VALUABLE ASSET

Retired Scots farmer John Gilmour and his wife returned home after a short holiday to find their home awash. A toilet cistern had burst while they were away, and over several days water had flooded over their landing, cascaded through the ceiling, causing extensive damage to the upper and lower floors of the couple's home.

The damage was horrific. The ceiling and plasterwork was in ruins, and the carpets and furniture on the landing, hall and lounge damaged beyond repair.

Fortunately, John had continued to insure with the Mutual after he retired and within hours of the couple returning home, his branch office had appointed experts to assess the extent of the damage. Their inspection revealed that in addition to the plasterwork, some of the floor needed to be replaced, and the damaged parts of the house rewired.

A third of the silage needed to feed Robert and Jack Taylor's 150-head dairy herd through the winter was destroyed when a fire broke out in the silo at their Lancashire farm.

The fire began in an elevator which was being used to move silage. Silage on the elevator carried the fire into the store, where it spread through half of the eight bay building.

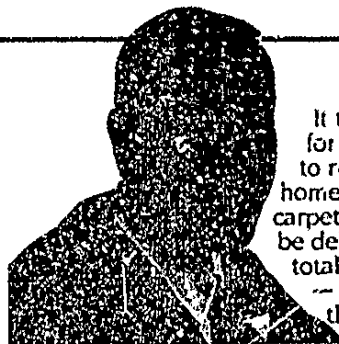
Firemen were on the scene within 20 minutes, but by then the fire was well established and took two hours to bring under control. By that time around 800 tonnes of silage had been destroyed together with 12,000 bales of hay and straw. The asbestos sheeted steel-frame silo was extensively damaged.

Fortunately, the Taylors had their silage insured, and were able to claim for its full value. After the fire damaged silage had been removed, tests were made to establish if the remainder had been rendered useless by smoke penetration.

"Service second to none — I couldn't have asked for my claim to have been handled more efficiently."
That was Southport grower Brian Forshaw's comment on the Mutual's claims service.

Over half his four acres of glasshouses were destroyed by a storm which raged across northern England during the night of February 9. Winds gusting to hurricane force lifted two glasshouses from their foundations, and threw them onto the neighbouring block of glasshouses. As well as the damage to the structures and glass, the irrigation and heating systems, machinery, and a computer control system were crushed.

Contractors were quickly found to replace the two glasshouses which had been destroyed, and repair the others. At the same time estimates for replacement heating and irrigation equipment were obtained, and a cheque for over £150,000 sent to



It took three months for the various workmen to restore the Gilmour's home, and for new carpets and furniture to be delivered. When the total bill — over £4,000 — was presented to the Mutual, a cheque was in the couple's hands in four days.

"My wife and I were very pleased indeed with the way the Mutual's staff helped us and settled the claim.

"We have been insured with the Mutual for nearly 50 years now, and it is always reassuring to know that we have got the security of our NFU Mutual Insurances."

Once the results of these tests were available, an NFU Mutual Local Assessor valued the lost silage, hay and straw on the basis of its market price in the area at the time of the fire.

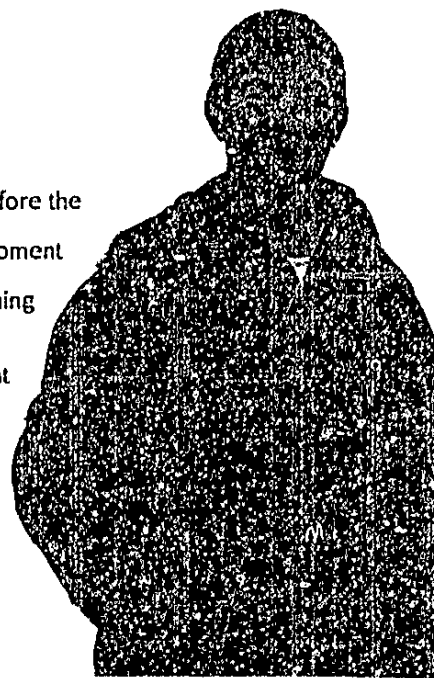
An interim payment for the silage, hay and straw, enabled the Taylors to replace the lost feed before their cows came in for the winter.

Once satisfactory estimates had been obtained to bring the silo and its lean-to — also damaged in the fire — back to their original condition, a final cheque was issued.

"We were very satisfied with the way the claim was dealt with," said Mr Robert Taylor.

Mr Forshaw before the end of March.

"From the moment I contacted the Mutual, everything went exactly to plan, and the quick settlement of the claim meant I was back in salad production by the summer," said Mr Forshaw.



Avon's claims service came to the rescue of a Welsh couple, whose Christmas family reunion was threatened by a car crash.

It was just nine days before Christmas when disaster struck Alan and Diane Smith as they drove through Colwyn Bay in their Nissan Micra.

An overtaking van swerved into their car with such force that it was pushed off the road and up an embankment before rolling over onto its roof. Mr and Mrs Smith escaped from the wreckage with minor injuries, but their car was damaged beyond repair.

The couple were looking forward to visiting their family over Christmas — but without a car there was no way they could visit relatives in South Wales and in parts of England.

After hospital treatment, Mr and Mrs Smith called their insurance agent. So that they could go ahead with their Christmas visits, they asked if it was possible for Avon to settle their motor claim in time for them to buy another car before Christmas.

Les Davies of brokers Gott and Wynne advised the Smiths to contact Avon direct, and after a call to Avon's local branch office, a staff engineer was on his way to inspect the wrecked car.



Three days later, when the branch office received the couple's claim form, and the car's documents, a cheque for the full value of the car was handed to Mr and Mrs Smith, who were able to buy a new car from their local Nissan dealer and go ahead with the Christmas plans.

"Avon's staff at the Llandudno office couldn't have been more helpful," said Mr Smith. "Our friends were amazed that we had a new car a week after the accident."

The combination of a night's torrential rain and a blocked culvert led to the collapse of a retaining wall and a five feet high wall of muddy water cascading through Mrs Denzi Bennett's Newbridge hairdressing salon.

Mrs Bennett rushed to her salon after a 'phone call in the middle of the night alerted her of the disaster. She arrived at dawn to find the parade of shops in Meredith Terrace devastated. Doors and windows had been smashed by the force of the flood, and her salon was flooded out, with the floors under a layer of thick mud.

Furniture, floor coverings, and the salon's electrical equipment was ruined. It took Mrs Bennett and her staff several days to clear up the mess. The problem was made worse because of a postal dispute, which made it impossible to get written estimates from builders, decorators, and equipment suppliers.

Realising that her salon would be out of action for weeks, and faced with bills for the clearing-up operation, Mrs Bennett rang Avon's Penarth branch. That day, an interim payment was personally handed over to her.

Later, when orders for new hairdressing equipment had been placed, a cheque for the remaining items was issued, together with a payment under the policy's business interruption cover, to make up the income lost while the salon was being put to rights.

"I couldn't fault Avon's claims service," she said. "When I rang up to explain the problem the claims staff got to work on it straight away. Getting a cheque on the same day meant I could get the repairs work started immediately."

The General Manager
Avon Insurance
9 St. Davidsgate
York
YO1 2NH

Beech Croft
Valton
Wakefield

Dear Sir,

I have today received your cheque in settlement of my claim for damage to my car.

I write to thank you for the prompt attention you gave to the claim, and to express appreciation of your common-sense approach to my proposal for its settlement.

I have today renewed my insurance for the coming year.

Yours sincerely,

Richard A Smith

Richard A. Smith

BOARD OF DIRECTORS

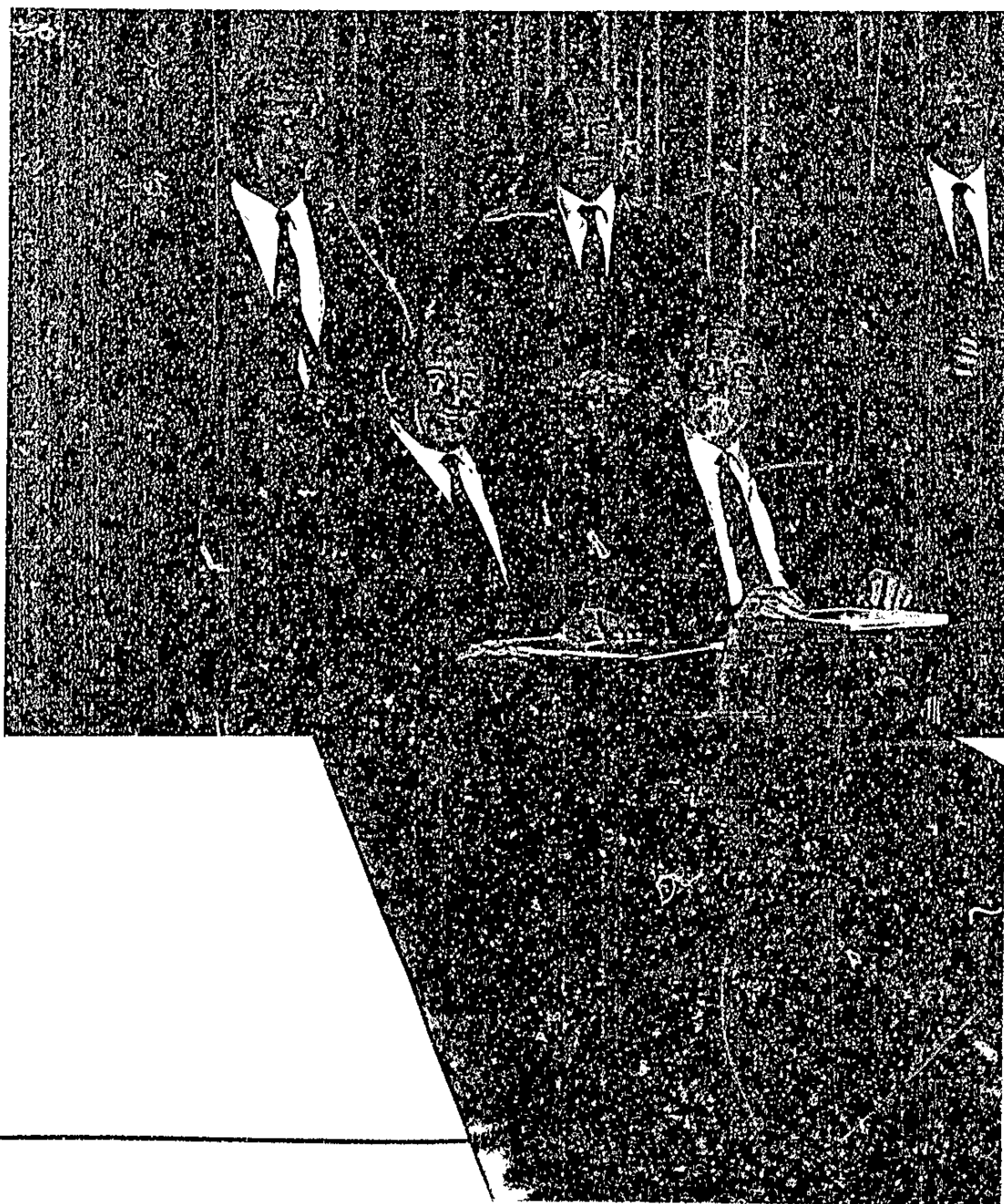
G. H. Ballard CBE, LL.D.
 Chairman of the Board
 20, Harley, Westminster

Sir Richard Butler, M.A., D.L.
 Director, East Hill Road, Essex

A. Evans, CBE, LL.D.
 Chairman of the Board
 1, Wynn, Warrington

T. M. D. Shaxson
 Parkfield, Eased, Midhurst
 West Sussex

J. A. McIntyre JP
 Glenelg, Broadstone Road
 Sturminster, Wiltshire



W. R. Morrow
Rosa Victoria Park Road
Colindale, London

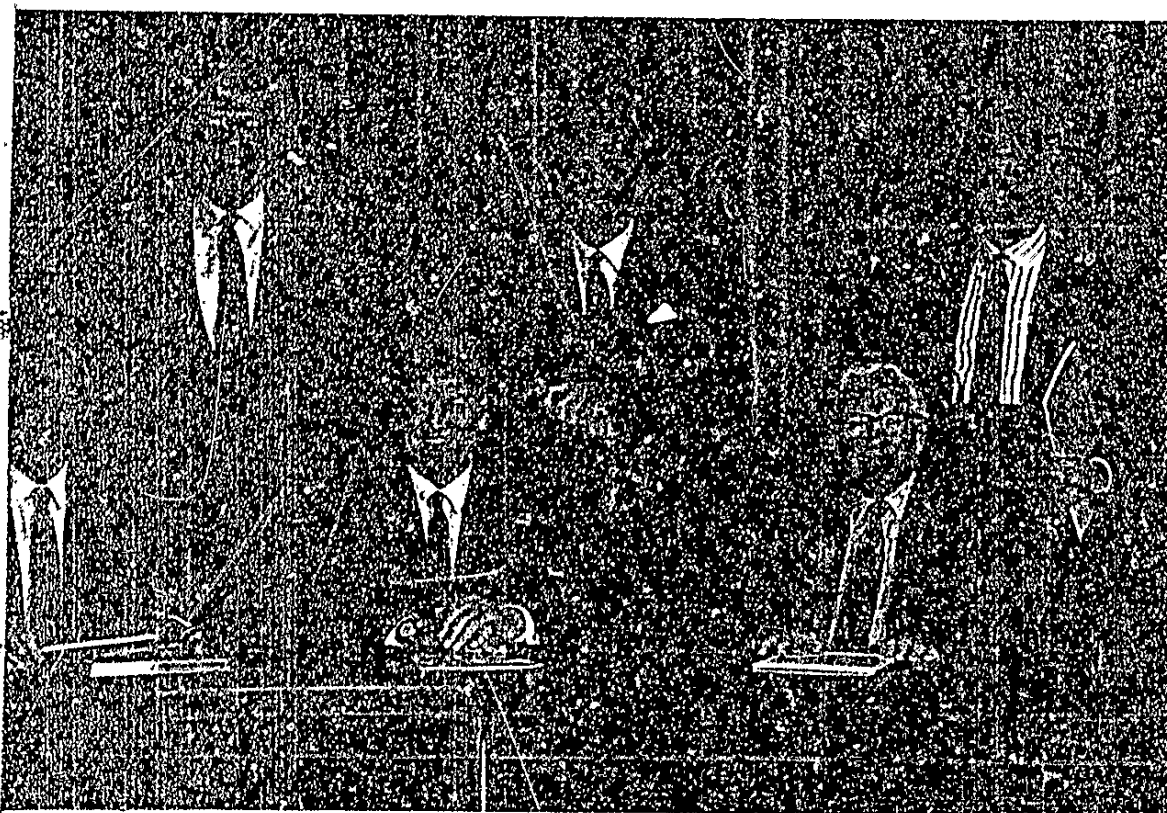
J. A. Jackson
West Cotes, Ponteland
Northumberland

P. E. Coldicutt
Browns Green House, Umberslade
Tapworth in Arden, Solihull
West Midlands

Chairman
D. M. Milne, CBE JP FRAGS
North Mains of Inverness
Fortar Angus

Vice Chairman
A. O. Hitchcock, CBE MA
Stocking Pelham Hall
Buntingford, Hertfordshire

M. A. Jeans, OBE
Stowey Court, Nether Stowey
Bridgwater, Somerset



LOCAL BOARDS

England

Area No. 1

G. H. Ballard, C.B.E., J.P., D.L. (*general director*)
 J. A. Jackson (*general director*)
 W. M. Clarkson, Yorkshire (East Riding)
 J. Craigs, Northumberland
 J. S. Fawcett, C.B.E., Yorkshire
 (North Riding and South Durham)
 R. N. Haworth, South Cumbria
 P. R. Mitchell, B.Sc., North Cumbria
 J. S. Moor, Durham
 P. A. Smith, Yorkshire (West Riding)
 J. R. Welford, York

Area No. 2

G. H. Ballard, C.B.E., J.P., D.L. (*general director*)
 J. A. Jackson (*general director*)
 D. A. Brookes, Shropshire
 R. F. Cotton, Derbyshire
 J. J. Molyneux, Lancashire
 G. C. Morris, Cheshire
 J. E. Nullis, Nottinghamshire
 D. W. Thornalley, Lincolnshire

Area No. 4

G. H. Ballard, C.B.E., J.P., D.L. (*general director*)
 P. E. Coldicutt (*general director*)
 W. B. Douthwaite, Warwickshire
 W. W. Madders, Staffordshire
 J. H. Norman, Oxfordshire
 P. R. Sparey, Worcestershire

Area No. 5

A. Q. Hitchcock, C.B.E., M.A. (*general director*)
 Sir Richard Butler, M.A., D.L. (*general director*)
 T. M. D. Shaxson (*general director*)
 J. D. Allpress, O.B.E., Isle of Ely
 R. A. Brice, Essex

J. Dillon-Robinson, Cambridgeshire
 D. B. German, Peterborough
 W. S. Hay, Holland division of Lincolnshire
 D. H. Hodge, J.P., Suffolk
 C. Wharton, Norfolk

Area No. 6

M. A. Jeanes, O.B.E. (*general director*)
 R. J. Badcock, Cornwall
 C. H. Coad, J.P., Wiltshire
 L. E. Hallett, J.P., Devon
 W. H. Organ, Gloucestershire
 T. R. Pearce, Somerset
 E. J. Sainsbury, Herefordshire
 B. J. Young, Dorset

Area No. 7

A. Q. Hitchcock, C.B.E., M.A. (*general director*)
 Sir Richard Butler, M.A., D.L. (*general director*)
 T. M. D. Shaxson (*general director*)
 T. G. Brock, Hampshire
 J. A. Fordham, East Sussex
 J. W. Gore, Berkshire
 D. I. Hadfield, J.P., Surrey
 R. S. Hancock, M.B.E., West Sussex
 H. B. Lowe, Kent
 J. R. U. Taylor, Isle of Wight

Area No. 8

G. H. Ballard, C.B.E., J.P., D.L. (*general director*)
 P. E. Coldicutt (*general director*)
 H. G. Boughton, Buckinghamshire
 D. A. V. Cox, B.Sc., Hertfordshire
 D. W. B. Godfrey, Bedfordshire
 and Huntingdonshire
 T. R. Mould, Northamptonshire
 R. T. Thomas, Leicestershire and Rutland

Northern Ireland

W. R. Morrow (*general director*)
 R. T. Chesney, County Antrim
 C. G. Conn, County Londonderry
 W. E. S. Fullerton, F.R.Ag.S., County Down
 J. R. H. Hamilton, County Fermanagh
 R. N. Harpur, County Armagh

W. A. McCahon, C.B.E., County Londonderry
 J. A. Patton, C.B.E., F.R.Ag.S., County Antrim
 S. A. Robinson, County Tyrone
 N. W. Shaw, B.Sc., County Down
 J. T. Swain, County Down

Scotland

D. M. Milne, C.B.E., J.P., F.R.Ag.S. (*general director*)
 J. A. McIntyre, J.P. (*general director*)
 J. Caldwell, Ayrshire
 A. R. Campbell, Kirkcudbrightshire
 S. Campbell, O.B.E., Aberdeenshire
 D. M. Cargill, Kincardineshire

J. Fleming, Lanarkshire
 J. B. Forrest, F.R.Ag.S., Berwickshire
 H. A. M. Fraser, J.P., Inverness-shire
 I. D. Grant, C.B.E., Perthshire
 J. E. Jeffrey, The Lothians
 W. Lammie, Wigtownshire

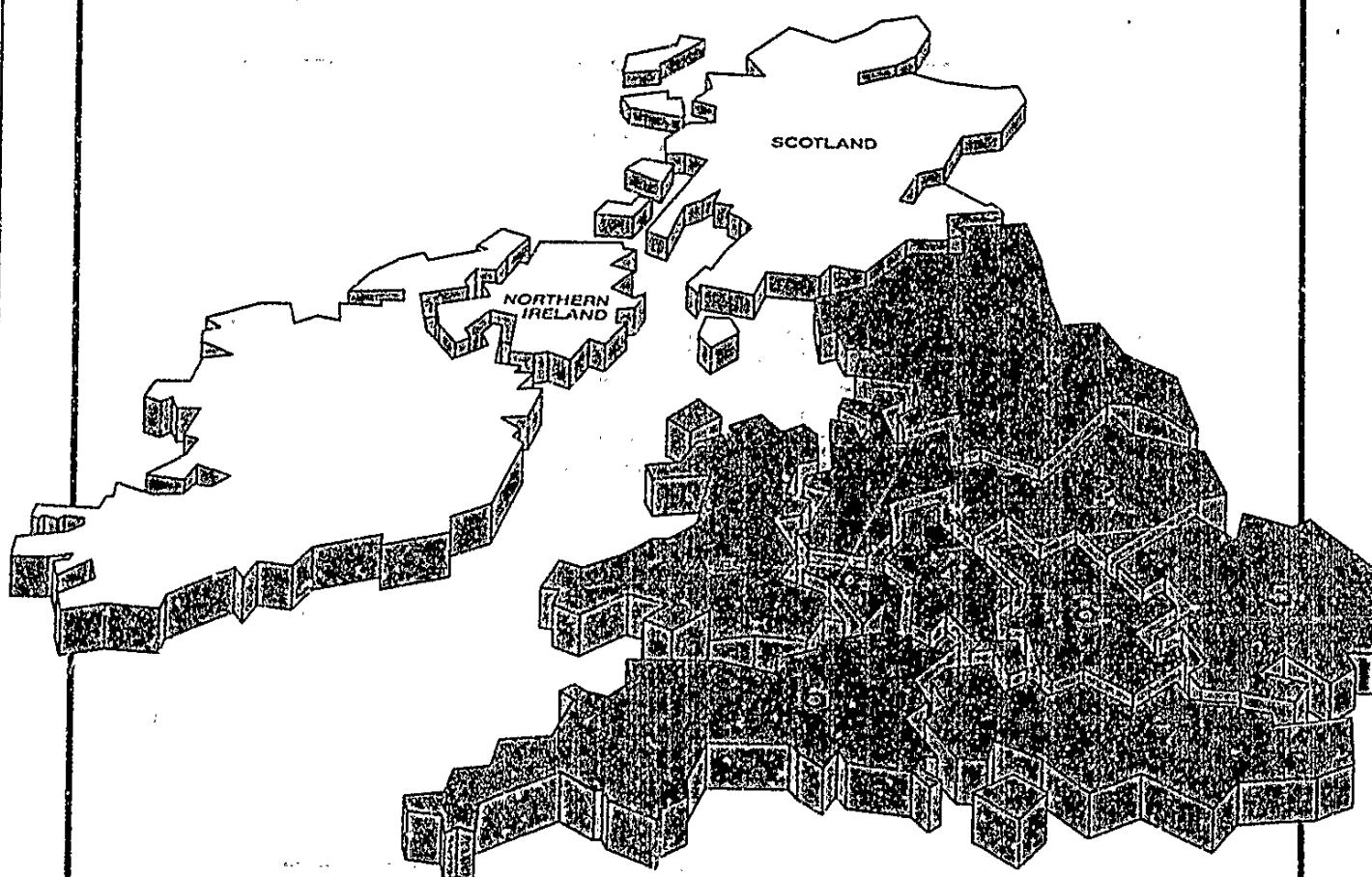
R. J. Lennox, O.B.E., J.P., Dunbartonshire
 R. Malcolm, J.P., D.L., Argyll
 J. M. Mathieson, O.B.E., J.P., Perthshire
 J. E. McNaughton, O.B.E., Stirlingshire

A. Taylor, Banffshire
 W. C. Taylor, Angus
 I. J. Turnbull, B.Sc., Fife

Wales

A. Evans, O.B.E., F.R.Ag.S. (*general director*)
 A. J. Arthur, Monmouthshire
 E. T. Davies, Cardiganshire
 J. D. Hirst, Flintshire
 E. Jones, J.P., Denbighshire
 E. M. Jones, Brecon and Radnor
 E. P. Jones, Merionethshire

R. A. Jones, Mid-Gwynedd
 W. H. Jones, Carmarthenshire
 D. A. Lakin, Glamorgan
 P. J. Perkins, F.R.Ag.S., Pembrokeshire
 T. R. Tudor, Montgomeryshire
 R. Williams, Anglesey



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Newcastle upon Tyne
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NE2 2AU Telephone 091-281 7901
G. Stonley, F.C.I.I., Manager

West Midlands
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CV37 6HE Telephone (0789) 414000
G. H. Bolshaw, Manager

Northern Ireland
4, Adelaide Street, Belfast, BT2 8GE
Telephone (0232) 242961
W. D. Jones, A.C.I.I., Manager

Channel Islands

The Islands' Insurance Group

Islands' Insurance Company Ltd.,
Risk Management Ltd.,
Invicta House, Candie Road,
St. Peter Port, Guernsey
M. A. Ward, F.C.I.L., F.I.R.M., *Chief Executive*

Islands' Insurance Managers Ltd.,
Ingouville House,
Ingouville Lane, St. Helier, Jersey
M. A. Ward, F.C.I.L., F.I.R.M., *Chief Executive*

Avon only Offices

City Underwriting Room
Excess House, 13, Fenchurch Avenue,
London, EC3M 5BS
Telephone 01-623 1697

Manchester Underwriting Room
9/21, Princess Street, Manchester,
M2 6AR
Telephone 061-832 4651

Birmingham Underwriting Room
Lancaster House, 67, Newhall Street,
Birmingham, B3 1NH
Telephone 021-233 1802

Midlands Underwriting Room
Scholars Lane, Stratford-upon-Avon,
CV37 6HE Telephone (0789) 414000

Stratford-upon-Avon Servicing Centre
Scholars Lane, Stratford-upon-Avon,
CV37 6HE Telephone (0789) 414000
A. T. Swindells, *Manager*

Overseas Representation

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Mr. Treublaan 7,
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4, Rue Lamennais,
75382, Paris

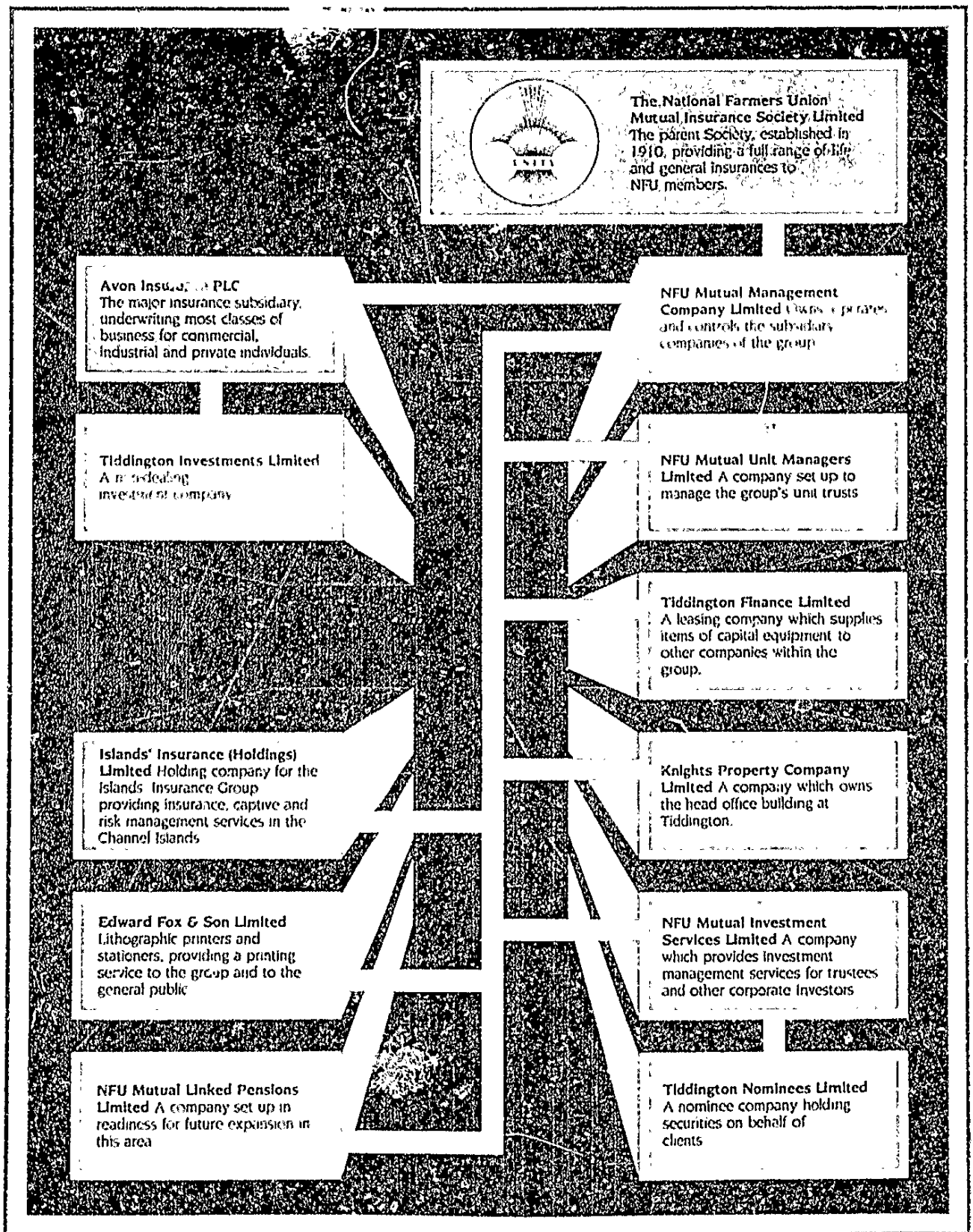
Tulleners van Buren,
10th Floor,
World Trade Centre,
PO Box 21046,
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Greece
Barry S.A.,
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Athens 105 64

A. C. Fraser & Co.,
Postbus 1033,
Boompjes 57,
3000 BA Rotterdam

Hong Kong
Hanford United Insurance Agents Ltd.,
1401-2, Yue Shing Commercial Building,
15, Queen Victoria Street,
Central

STRUCTURE OF THE GROUP



REPORT OF DIRECTORS

Activities

The principal activity of the Society and its insurance subsidiary is the transacton of fire, accident and motor, life and pensions and unit trust business. A list of the Society's subsidiary companies is shown in note 9 on pages 29-30.

General Business

Group net written premiums amounted to £231.37m. Claims incurred were £147.61m (63.8%). Commission and expenses absorbed £54.83m (23.7%). After making provision for unearned premiums, less deferred acquisition expenses, a surplus of £11.89m has been transferred to profit and loss account.

Long-Term Business

The net premium income of the Group in respect of life and pensions business, including consideration for annuities granted, amounted to £52.25m. During the year new life and pension policies were issued with annual premiums of £6.97m and single premiums of £6.17m. At the end of 1988 the life assurance funds totalled £718.26m.

Profit and Loss Account

After the proposed transfer of £37.50m to general reserve, the consolidated balance to be carried forward amounts to £7.84m.

Directors

Mr. C. A. Thomas retired from the position of Managing Director on the 30th April, 1988.

In accordance with the Articles of Association, Mr. P. E. Coldicutt, Mr. A. Q. Hitchcock and Mr. J. A. McIntyre retire and, being eligible, offer themselves for re-election.

A list of the directors of the parent Society is shown on pages 10-11.

Employees

The average number of persons employed by the Group in the United Kingdom during 1988, including part-time employees, was 2,156 and the aggregate remuneration was £22.23m. The Group has adopted 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, the industry and services union, as representing employees at all levels below management. A procedural agreement with that union is in force, and a Joint Negotiating Committee meets regularly during the

year. Also, the full National Executive Committee meets annually with senior management to hear the results of the business for the year and to discuss current trends, problems and projections for the future.

Copies of the Annual Report and Accounts are made available to all employees and 'The Link', a staff newspaper, is issued three times a year. Briefing meetings, for all members of staff, take place at least quarterly to cover progress, targets and profitability trends. Employees are encouraged to participate in the affairs of the Group through their managers and the staff suggestion scheme.

The Group is convinced of the need for training personnel at all levels, so that the individuals concerned are equipped to perform their roles effectively. This leads to better performance all round. During 1988 some 140 courses were held in the training rooms of the Group and these courses involved some 1,500 individuals.

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 re-training 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.

Charitable Donations

Charitable donations during 1988 amounted to £6,148.

Auditors

In accordance with section 384 of the Companies Act 1985, a resolution proposing the re-appointment of Deloitte Haskins & Sells, Chartered Accountants, as auditors of the parent Society will be put to the Annual General Meeting.

D. M. Milne
Chairman

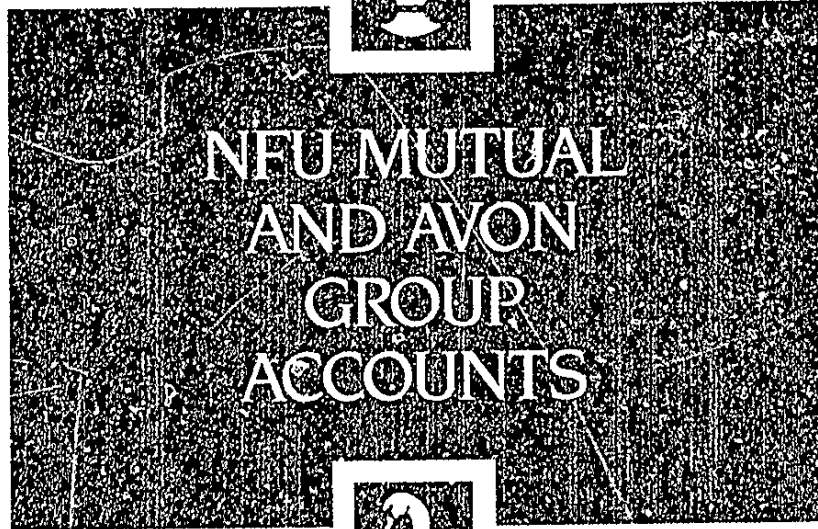
A. O. Hitchcock
Vice-Chairman

A. S. Young
Chief Executive

T. M. D. Shaxson
Director

Stratford-upon-Avon, 1st March, 1989

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GENERAL INSURANCE REVENUE ACCOUNT

<i>for the year ended</i> 31st December, 1988	<i>Consolidated</i> 1988 £m	<i>Consolidated</i> 1987 £m	<i>Parent Society</i> 1988 £m	<i>Parent Society</i> 1987 £m
Income				
Gross premiums written (Note 2)	255.13	221.59	168.46	153.67
Less: outwards reinsurance	23.76	22.86	9.94	9.63
Net premiums written	<u>231.37</u>	<u>198.73</u>	<u>158.52</u>	<u>144.04</u>
Less: Increase in unearned premiums	17.04	14.31	7.56	7.00
Premiums earned	<u>214.33</u>	<u>184.42</u>	<u>150.96</u>	<u>137.04</u>
Outgo				
Gross claims	160.61	177.38	111.99	129.77
Less: outwards reinsurance	13.00	37.80	7.86	26.60
Net claims	<u>147.61</u>	<u>139.58</u>	<u>104.13</u>	<u>103.17</u>
Commission	32.42	28.18	19.73	18.27
Expenses	25.41	20.85	14.04	12.98
Deferred acquisition expenses	(3.00)	(2.39)	(1.13)	(1.05)
	<u>202.44</u>	<u>186.22</u>	<u>136.77</u>	<u>133.37</u>
Surplus/(Deficit) to Profit and Loss Account	<u>£11.89</u>	<u>£(1.80)</u>	<u>£14.19</u>	<u>£3.67</u>

PROFIT AND LOSS ACCOUNT

<i>for the year ended 31st December, 1988</i>	<i>Consolidated 1988 £m</i>	<i>Consolidated 1987 £m</i>	<i>Parent Society 1988 £m</i>	<i>Parent Society 1987 £m</i>
Investment income	34.90	31.65	28.59	26.71
Transfer of realised profits on investments	—	1.15	—	—
Surplus/(Deficit) from General Insurance revenue account	11.89	(1.80)	14.19	3.67
Income from non-insurance subsidiaries	3.29	1.91	—	—
	<u>50.08</u>	<u>32.91</u>	<u>42.78</u>	<u>30.38</u>
Less: other expenses (Note 6)	2.92	2.09	0.47	0.44
	<u>47.16</u>	<u>30.82</u>	<u>42.31</u>	<u>29.94</u>
Less: taxation (Note 8)	10.80	8.67	9.25	8.90
	<u>36.36</u>	<u>22.15</u>	<u>33.06</u>	<u>21.04</u>
Balance of last year's account	8.98	8.33	7.71	7.17
	<u>45.34</u>	<u>30.48</u>	<u>40.77</u>	<u>28.21</u>
Less: proposed transfer to general reserve	37.50	21.50	35.00	10.50
Transfer to Avon Insurance PLC	—	—	—	10.00
Balance carried forward	<u>£7.84</u>	<u>£8.98</u>	<u>£5.77</u>	<u>£7.71</u>

BALANCE SHEET

as at 31st December, 1988	Consolidated 1988 £m	Consolidated 1987 £m	Parent Society 1988 £m	Parent Society 1987 £m
Investments less reserves (Note 3)	380.75	324.56	307.11	266.21
Plant and equipment	4.98	4.37	—	—
Current assets (Note 4)	66.37	63.12	38.25	36.92
Total assets	452.10	392.05	345.36	303.13
Less: liabilities (Note 5)	26.46	28.79	17.62	19.98
	425.64	363.26	327.74	283.15
Long-Term Business fund net assets	718.26	631.35	652.44	573.15
	£1,143.90	£994.61	£980.18	£856.30
Represented by				
Reserves				
General reserve	133.38	95.88	110.00	75.00
Additional reserve	4.94	4.94	4.79	4.79
Profit and loss account	7.84	8.98	5.77	7.71
	146.16	109.80	120.56	87.50
Insurance funds				
Unearned premiums	101.68	87.64	69.53	63.10
Outstanding claims (Note 12)	177.80	165.82	137.65	132.55
	425.64	363.26	327.74	283.15
Long-Term Business fund	718.26	631.35	652.44	573.15
	£1,143.90	£994.61	£980.18	£856.30

LONG-TERM BUSINESS REVENUE ACCOUNT

<i>for the year ended 31st December, 1988</i>	<i>Consolidated 1988 £m</i>	<i>Consolidated 1987 £m</i>	<i>Parent Society 1988 £m</i>	<i>Parent Society 1987 £m</i>
Income				
Premiums	25.95	22.32	22.21	18.69
Consideration for annuities (Note 2)	26.63	21.31	25.30	20.02
	<u>52.58</u>	<u>43.63</u>	<u>47.51</u>	<u>38.71</u>
Less: reinsurance	0.33	1.07	0.23	0.93
	<u>52.25</u>	<u>42.56</u>	<u>47.28</u>	<u>37.78</u>
Gross investment income	69.22	58.41	59.06	52.91
Transfer of realised profits on investments	26.50	34.00	24.00	30.00
	<u>143.97</u>	<u>134.97</u>	<u>130.34</u>	<u>120.69</u>
Outgo				
Claims by death	5.17	5.03	4.73	4.54
Claims by maturity	23.03	20.09	20.39	17.85
Surrenders	3.66	10.50	3.16	9.78
Annuities	5.52	5.47	5.26	4.54
	<u>37.38</u>	<u>41.09</u>	<u>33.54</u>	<u>36.71</u>
Less: reinsurance recoveries	0.70	0.81	0.61	0.14
	<u>36.68</u>	<u>40.28</u>	<u>32.93</u>	<u>36.57</u>
Taxation (Note 8)	7.81	9.06	6.81	8.22
Commission	4.67	0.54	4.36	0.23
Expenses	7.90	6.88	6.95	5.91
	<u>57.06</u>	<u>56.76</u>	<u>51.05</u>	<u>50.93</u>
Increase in fund during the year	86.91	78.21	79.29	69.76
Add: fund at the beginning of the year	631.35	553.14	573.15	503.39
Fund at the end of the year	<u>£718.26</u>	<u>£631.35</u>	<u>£652.44</u>	<u>£573.15</u>

LONG-TERM BUSINESS BALANCE SHEET

as at 31st December, 1988	Consolidated 1988 £m	Consolidated 1987 £m	Parent Society 1988 £m	Parent Society 1987 £m
Investments less reserves (Note 3)	714.64	637.34	649.05	578.16
Current assets (Note 4)	19.68	21.90	18.20	20.20
Total assets	<u>£734.32</u>	<u>£659.24</u>	<u>£667.25</u>	<u>£598.36</u>
Represented by				
Assurance fund	718.26	631.35	652.44	573.15
Other liabilities (Note 5)	16.06	27.89	14.81	25.21
	<u>£734.32</u>	<u>£659.24</u>	<u>£667.25</u>	<u>£598.36</u>

CONSOLIDATED SOURCE AND APPLICATION OF FUNDS STATEMENT

for the year ended 31st December, 1988

1988 £m 1987 £m

General Insurance

Source

Underwriting surplus/(deficit) less profit and loss account expenses plus other income	12.26	(1.98)
Gross investment income	34.90	31.65

Taxation

	47.16	29.67
	10.80	8.67
	<u>36.36</u>	<u>21.00</u>

Add (deduct) adjustments in other sources:

Unearned premiums less deferred acquisition expenses	14.04	11.92
Outstanding claims	11.98	10.07
Transfer of realised profits on investments	—	1.15
Agents' balances and debtors	(1.92)	(12.61)
Creditors	(2.33)	9.68
Depreciation	4.20	1.35

	<u>£59.33</u>	<u>£42.56</u>
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Application

Increase (decrease) in investments less reserves and liquid assets:

Fixed interest stocks and shares	5.80	21.15
Ordinary shares	16.21	19.92
Mortgages, loans and deposits	17.75	(7.03)
Freehold and leasehold property	16.51	4.95
Other assets	1.32	1.13
Cash at bank	1.74	2.44

	<u>£59.33</u>	<u>£42.56</u>
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NOTES TO ACCOUNTS

I Accounting Policies

The accounts are prepared in accordance with Statements of Standard Accounting Practice so far as considered appropriate to insurance companies.

a) The accounts are drawn up in compliance with sections 258 and 259 of, and Schedule 9 to, the Companies Act 1985.

The Society avails itself of certain exemptions from the disclosure requirements of the Companies Act 1985 applicable to insurance companies.

b) Basis of Consolidation

The consolidated accounts include the assets and liabilities at 31st December, 1988 of the Society and its subsidiaries with the exception of the Islands' Insurance Group whose assets and liabilities are included at its latest accounting date of 31st March, 1988. Similarly the results of the Society and its subsidiaries are included for the year ended on 31st December, 1988 with the exception of the Islands' Insurance Group whose results are for the year to 31st March, 1988. 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 profit and loss account before charging depreciation and certain other expenses.

c) Translation and Conversion of Foreign Currencies

Foreign currency transactions have been translated 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 except for investments, which have been translated at historical rates.

d) General Insurance Business

The underwriting balance is 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. Provisions for unexpired risks are maintained when required to cover the estimated excess of liabilities over the unearned premium.

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) Investment Income

Investment income is included on an accruals basis. UK dividends are grossed up by the attaching tax credits.

f) Taxation

UK and overseas taxation charged in the profit and loss account and the long-term business revenue account is based on profits and income for the year as determined in accordance with the relevant tax legislation, together with adjustments in respect of earlier years.

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.

Tax payable or recoverable on the realisation of investments is carried to reserves.

g) Investments

Investments at the year end are shown at cost less investment reserve with the exception of investment properties which are shown at market value less investment reserve.

The value of investments was in the aggregate at least equal to the aggregate of the amount thereof shown in the respective balance sheets. For the purposes of this statement the values of investments were determined as follows:—

Property — at amounts certified by the internal and external professional valuers at open market value.
Listed securities — at middle market value.
Unlisted securities — at directors' valuation.

Profits and losses on realisation of investments after adjustment for taxation have been transferred to investment reserve.

Allocation of realised profits from investment reserves are made to long-term revenue and profit and loss account when appropriate. In 1988 the Directors consider that a transfer of £24m be made to the long-term revenue account but no transfer is necessary to the profit and loss account.

h) Long-Term Business Funds

No part of any fund required to be kept separate has been applied directly or indirectly for any purpose except the class of business to which it is applicable.

The liabilities in respect of long-term business do not exceed the amounts of the respective funds. All other liabilities in respect of the long-term business are as shown in the long-term business balance sheet.

i) Leased Assets

The major proportion of the Group's leasing transactions are intra-group and hence the treatment required by Statement of Standard Accounting Practice No. 21 is not considered appropriate. All leases are treated as operating leases. Annual rentals payable and receivable are charged or credited to the revenue accounts or profit and loss account.

1 Accounting Policies (continued)

j) Depreciation

Depreciation is charged at 2% on the cost of buildings in the Group's own occupation, except for the Head Office building.

k) Retirement Benefits Schemes

The Group's Retirement Benefits schemes cover all material obligations to provide pensions to retired and current employees. Based on the latest independent actuarial investigations, the present funding arrangements are considered satisfactory and adequate to meet the future liabilities of the schemes. Contributions are assessed on actuarial bases designed so that the funds will be adequate to provide the pensions and other benefits expected to arise under the rules of the schemes.

l) General Equipment

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

m) Goodwill

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

2 Gross Premiums Written

The Gross premium Income for the year by major class of business was as follows:

General Business	Consolidated 1988 £m	Consolidated 1987 £m	Parent Society 1988 £m	Parent Society 1987 £m
Fire & Accident	89.69	78.92	53.98	50.17
Motor	113.19	95.84	85.25	77.90
Personal	49.41	43.89	29.23	25.60
Reinsurance accepted	2.84	2.94	—	—
	<u>255.13</u>	<u>221.59</u>	<u>168.46</u>	<u>153.67</u>
Long-Term Business				
Life	25.95	22.32	22.21	18.69
Annuity	0.59	0.40	0.56	0.35
Pensions	26.04	20.91	24.74	19.67
	<u>52.58</u>	<u>43.63</u>	<u>47.51</u>	<u>38.71</u>

The Gross premium Income was written in the following areas:

General Business	Consolidated 1988 £m	Consolidated 1987 £m	Parent Society 1988 £m	Parent Society 1987 £m
United Kingdom	249.82	216.74	168.46	153.67
Overseas	5.31	4.85	—	—
	<u>255.13</u>	<u>221.59</u>	<u>168.46</u>	<u>153.67</u>
Long-Term Business				
United Kingdom	49.70	43.86	44.63	38.94
Overseas	2.88	(0.23)	2.88	(0.23)
	<u>52.58</u>	<u>43.63</u>	<u>47.51</u>	<u>38.71</u>

3 Investments (Less Reserves)

Balance Sheet	Consolidated 1988 £m	Consolidated 1987 £m	Parent Society 1988 £m	Parent Society 1987 £m
British Government and local authority securities	121.33	118.74	99.36	98.85
Fixed interest stocks and shares	23.43	20.22	16.87	15.97
Ordinary shares	138.37	122.16	110.95	98.63
Mortgages, loans and deposits	49.93	32.18	31.89	22.31
Freehold and leasehold property	47.69	31.26	21.10	14.45
Shares in subsidiaries	—	—	2.58	2.58
Loans to subsidiaries	—	—	24.36	13.42
	<u>380.75</u>	<u>324.56</u>	<u>307.11</u>	<u>266.21</u>
Long-Term Business				
Balance Sheet				
British Government and local authority securities	203.26	193.92	184.40	176.23
Fixed interest stocks and shares	135.80	120.55	123.57	103.90
Ordinary shares	285.43	245.52	260.51	224.36
Mortgages, loans and deposits	12.10	10.06	10.01	8.00
Freehold and leasehold property	78.05	67.29	70.56	60.67
	<u>714.64</u>	<u>637.34</u>	<u>649.05</u>	<u>578.16</u>

4 Current Assets

Balance Sheet	Consolidated 1988 £m	Consolidated 1987 £m	Parent Society 1988 £m	Parent Society 1987 £m
Stock held by non-insurance subsidiaries	0.22	0.19	—	—
Due from agents and policyholders	45.79	39.38	24.85	22.20
Claims recoverable under reinsurance	3.17	3.42	1.88	2.19
Interest and rents accrued	3.01	2.48	2.57	2.12
Securities for subsequent settlement	0.45	4.74	0.44	4.70
Due from subsidiary	—	—	0.38	0.30
Taxation recoverable	—	0.44	—	—
Certificate of tax deposit	0.40	0.40	0.40	0.40
Sundry debtors and balances	4.00	4.48	2.40	2.16
Cash at bank	9.33	7.59	5.33	2.85
	<u>66.37</u>	<u>63.12</u>	<u>38.25</u>	<u>36.92</u>
Long-Term Business				
Balance Sheet				
Due from policyholders	1.15	0.79	0.97	0.71
Interest and rents accrued	6.64	5.67	6.03	5.15
Securities for subsequent settlement	1.02	5.84	0.94	5.12
Taxation recoverable	6.53	6.16	6.49	5.99
Due from reinsurers	0.27	—	0.27	—
Sundry debtors and balances	—	0.28	—	0.27
Cash at bank	4.07	3.16	3.50	2.96
	<u>19.68</u>	<u>21.90</u>	<u>18.20</u>	<u>20.20</u>

5 Liabilities

Balance Sheet	Consolidated 1988 £m	Consolidated 1987 £m	Parent Society 1988 £m	Parent Society 1987 £m
Securities for subsequent settlement	2.59	4.87	2.13	7.63
Due to subsidiaries	—	—	1.29	0.77
Due to reinsurers	7.47	7.25	2.57	3.26
Taxation	8.69	1.28	6.86	4.00
Other creditors	7.71	7.39	4.77	4.32
	<u>26.46</u>	<u>28.79</u>	<u>17.62</u>	<u>19.98</u>
Long-Term Business Balance Sheet				
Outstanding claims	2.24	1.97	2.14	1.75
Securities for subsequent settlement	11.09	21.20	10.12	19.10
Due to reinsurers	0.37	0.41	0.36	0.40
Due to agents	0.25	0.25	0.19	0.21
Taxation	—	0.01	—	—
Other creditors	2.11	4.05	2.60	3.75
	<u>16.06</u>	<u>27.89</u>	<u>14.81</u>	<u>25.21</u>

6 Other Expenses

	Consolidated 1988 £m	Consolidated 1987 £m	Parent Society 1988 £m	Parent Society 1987 £m
Expenses not charged to other accounts	1.25	0.32	0.06	0.06
Payments under NFU organisation scheme	0.01	0.01	0.01	0.01
Auditors' remuneration	0.16	0.15	0.09	0.09
Directors' fees	0.10	0.09	0.08	0.08
Depreciation	1.20	1.35	0.08	0.07
Investment expenses	0.20	0.17	0.15	0.13
	<u>2.92</u>	<u>2.09</u>	<u>0.47</u>	<u>0.44</u>

7 Directors and Employees

In the profit and loss account provision has been made for directors' fees for 1988. The aggregate emoluments of the Society's directors including the amounts payable to them as directors of subsidiary companies were as follows:

	1988	1987
Fees	£100,100	£ 92,590
Other emoluments	£ 41,311	£109,713
Pension contributions	£ 2,919	£ 13,105

Included in the above is £28,060 payable to the Chairman (1987 £26,050) and £40,167, together with benefits in kind amounting to £1,144, payable to the highest paid director (1987 £107,167 and £2,547 respectively).

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

Emoluments	Number of Directors	
	1988	1987
£1 — £5,000	—	—
£5,001 — £10,000	9	9
£10,001 — £15,000	1	1

Pensions to former directors amounted to £22,284 (1987 £13,525).

Presentation to retired Managing Director £47,500.

Particulars of transactions required by section 232 and

7 Directors and Employees (continued)

Schedule 6 of the Companies Act 1985 involving directors are as follows.

Mr. C. A. Thomas (house purchase)
 Liability at 1st January, 1988 £8,100
 Liability at 31st December, 1988 £ NIL

The house purchase loan subsisted until 1st June, 1988 and was secured by mortgage on the private residence and by life assurance policies on the life of the borrower. Interest was charged on the loan at the preferential rates of interest applicable to staff mortgages commencing with an annual rate of 3½%. This loan was granted before Mr. Thomas became a director of the Society. No other loans were granted to directors in 1988 or in 1987.

The emoluments excluding pension contributions of higher paid employees in 1988 are classified in the following table:

Emoluments	Number of Employees	
	1988	1987
£30,001 — £35,000	11	4
£35,001 — £40,000	9	4
£40,001 — £45,000	4	2
£45,001 — £50,000	2	1
£50,001 — £55,000	2	2
£55,001 — £60,000	1	1
£60,001 — £65,000	1	—
£65,001 — £70,000	—	—

At 31st December, 1988 two officers of the Society had in aggregate loans of £56,905 made on normal terms under the staff mortgage scheme (1987 one officer £26,905).

8 Taxation

The profit and loss account shows the taxation borne and chargeable on interest, dividends and rents and on the results of the year for subsidiaries.

In the long-term business revenue account taxation has been computed on the basis applicable to life assurance and pensions business.

	Consolidated Profit and Loss		Consolidated Long-Term		Parent Society Profit and Loss		Parent Society Long-Term	
	1988	1987	1988	1987	1988	1987	1988	1987
	£m	£m	£m	£m	£m	£m	£m	£m
United Kingdom Taxation								
Corporation Tax	7.10	5.59	2.77	5.16	6.21	6.45	2.28	4.71
Deferred Tax	0.42	0.10	0.45	(0.29)	0.34	0.03	0.40	(0.27)
Income Tax on franked Investment Income	3.25	2.94	4.14	4.08	2.71	2.43	3.99	3.68
	10.77	8.63	7.66	8.95	9.26	8.91	6.67	8.12
Less: Double Taxation Relief	0.19	0.18	0.19	0.18	0.19	0.18	0.17	0.16
Total UK Taxation	10.58	8.45	7.47	8.77	9.07	8.73	6.50	7.96
Overseas Taxation	0.22	0.22	0.34	0.29	0.18	0.17	0.31	0.26
	10.80	8.67	7.81	9.06	9.25	8.90	6.81	8.22

Deferred taxation in the balance sheets is included under taxation and amounts to £1,385,000 (1987 £1,240,000)

in the balance sheet for general business and £5,000 (1987 £2,000) in the long-term business balance sheet.

9 Subsidiaries

The National Farmers Union Mutual Insurance Society Limited, a mutual company limited by guarantee, is the ultimate holding company.

Subsidiaries in the Group are as follows:—

NFU Mutual Management Company Ltd.*
 Avon Insurance PLC
 NFU Mutual Unit Managers Ltd.
 NFU Mutual Investment Services Ltd.

Knights Property Company Ltd.
 Tiddington Finance Ltd.
 Edward Fox & Son Ltd.
 Tiddington Investments Ltd.
 Tiddington Nominees Ltd.
 NFU Mutual Linked Pensions Ltd.

* denotes direct subsidiary

Each of these companies is incorporated in England, has

9 Subsidiaries (continued)

an issued capital of ordinary shares only, and is wholly owned by the Society

In addition the following group of subsidiary companies is registered in the Channel Islands —

Islands' Insurance (Holdings) Ltd.
Islands' Insurance Managers Ltd.
Islands' Insurance Brokers Ltd.
Lovick, Martin & Carter Ltd.
Islands' Insurance Company Ltd.
Invicta Insurance Services Ltd.
Risk Management Ltd.

10 Capital Expenditure

1988 £m 1987 £m

Capital expenditure not provided for in these accounts as at 31st December, 1988 amounted to approximately:

Contracted for	2.22	1.42
Authorised but not contracted for	18.14	5.69


11 Stock Lending

Holdings of UK Government securities with a value of £27.2m (1987 £34.9m) were on loan at 31st December, 1988 under approved stock lending schemes.

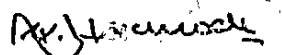
12 General Business — Outstanding Claims

	Consolidated 1988 £m	Consolidated 1987 £m	Parent Society 1988 £m	Parent Society 1987 £m
Gross	207.83	211.75	154.96	164.57
Reinsurance	30.03	45.93	17.31	32.02
Net	177.80	165.82	137.65	132.55

These accounts were approved by the directors at a meeting on 9th February, 1989 and were signed on their behalf by:—



D. M. Milne Chairman



A. O. Hitchcock Vice-Chairman



A. S. Young Chief Executive
Stratford-upon-Avon, 1st March, 1989

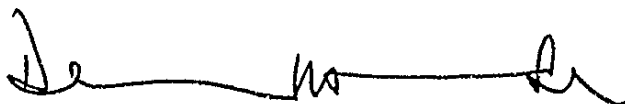


T. M. D. Shaxson Director

Auditors' Report

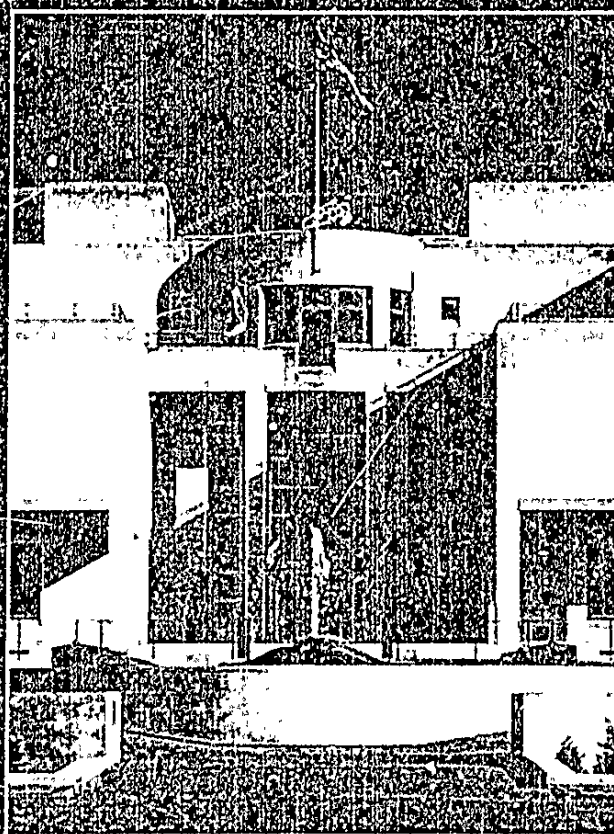
We have audited the accounts for the year ended 31st December, 1988 on pages 19-30 in accordance with approved auditing standards.

In our opinion the accounts comply with the provisions of the Companies Act 1985 applicable to insurance companies.



Deloitte Haskins & Sells Chartered Accountants
Liverpool, 1st March, 1989

1988 REPORT AND ACCOUNTS



AVON
INSURANCE
PLC

BOARD OF DIRECTORS

Chairman
D. M. Milne, C.B.E., J.P., F.R.Ag.S.



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



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



General Manager
C. T. Bilby, F.C.A.



G. H. Ballard, C.B.E., J.P., D.L.



M. A. Jeanes, O.B.E.



T. M. D. Shaxson



REPORT OF DIRECTORS

Activities

The principal activity of the Company is the transaction of fire, accident and motor, life and pensions business.

General Business

Net written premiums amounted to £72.72m. Claims incurred were £43.46m. After making provision for all expenses and for unearned premiums, less deferred acquisition expenses, a deficit of £2.30m has been transferred to profit and loss account.

Long-Term Business

The net premium income including consideration for annuities granted amounted to £4.97m. During the year, new life and pension policies were issued with annual premiums of £0.57m and single premiums of £0.17m. At the end of 1988 the long-term business fund totalled £65.82m.

D. M. Milne
Chairman

Profit and Loss Account

After providing for the proposed dividend of £0.04m and the proposed transfer to general reserve of £2.50m the balance to be carried forward amounts to £0.81m.

A. O. Hitchcock
Vice-Chairman

Directors

Mr. C. A. Thomas retired from the position of Managing Director on the 30th April, 1988.

In accordance with the Articles of Association, Mr. G. H. Ballard and Mr. A. S. Young retire and, being eligible, offer themselves for re-election.

A. S. Young
Chief Executive

A list of the directors of the Company is shown on page 32.

Auditors

In accordance with section 384 of the Companies Act 1985, a resolution proposing the re-appointment of Deloitte Haskins & Sells, Chartered Accountants, as auditors of the Company will be put to the Annual General Meeting.

M. A. Jeanes
Director

Stratford-upon-Avon, 1st March, 1989



AVON
INSURANCE
ACCOUNTS



GENERAL INSURANCE REVENUE ACCOUNT

<i>for the year ended</i> 31st December, 1988	1988 £m	1987 £m
Income		
Gross premiums written (Note 2)	86.30	67.83
Less: outwards reinsurance	13.58	13.17
Net premiums written	<u>72.72</u>	<u>54.66</u>
Less: increase in unearned premiums	9.47	7.31
Premiums earned	<u>63.25</u>	<u>47.35</u>
Outgo		
Gross claims	47.92	47.58
Less: outwards reinsurance	4.46	11.18
Net claims	<u>43.46</u>	<u>36.40</u>
Commission	12.63	9.90
Expenses	11.33	7.86
Deferred acquisition expenses	(1.87)	(1.34)
	<u>65.55</u>	<u>52.82</u>
(Deficit) to Profit and Loss Account	<u>£(2.30)</u>	<u>£(5.47)</u>

PROFIT AND LOSS ACCOUNT

<i>for the year ended</i> 31st December, 1988		1988 £m	1987 £m
Investment income		6.24	4.87
Transfer of realised profits on investments		—	—
(Deficit) from General Insurance revenue account		(2.30)	(5.47)
		<hr/> 3.94	<hr/> 0.55
Other expenses (Note 6)		(0.12)	(0.10)
		<hr/> 3.82	<hr/> 0.45
Taxation (payable)/recoverable (Note 8)		(1.18)	0.41
		<hr/> 2.64	<hr/> 0.86
Balance of last year's account		0.71	0.89
Transfer from parent Society		—	10.00
		<hr/> 3.35	<hr/> 11.75
Less: proposed transfer to general reserve		2.50	11.00
		<hr/> 0.85	<hr/> 0.75
Less: proposed dividend		0.04	0.04
		<hr/> £0.81	<hr/> £0.71
Balance carried forward		<hr/> £0.81	<hr/> £0.71

BALANCE SHEET

as at 31st December, 1988	1988 £m	1987 £m
Investments less reserves (Note 3)	89.75	74.43
Current assets (Note 4)	27.20	25.46
Total assets	116.95	99.89
Less: liabilities (Note 5)	8.24	8.21
	108.71	91.68
Long-Term Business fund net assets	65.82	58.20
	£174.53	£149.88
Represented by		
Share capital (Note 12)	5.00	5.00
Reserves		
General reserve	23.00	20.50
Additional reserve	0.16	0.16
Investments revaluation reserve	7.50	7.50
Profit and loss account	0.81	0.71
	36.47	33.87
Insurance funds		
Unearned premiums	32.14	24.53
Outstanding claims (Note 13)	40.10	33.28
	108.71	91.68
Long-Term Business fund	65.82	58.20
	£174.53	£149.88

LONG-TERM BUSINESS REVENUE ACCOUNT

for the year ended
31st December, 1988

1988 £m 1987 £m

Income

Premiums	3.74	3.63
Consideration for annuities (Note 2)	1.33	1.29
	<hr/>	<hr/>
Less: reinsurance	5.07	4.92
	0.10	0.14
	<hr/>	<hr/>
Gross investment income	4.97	4.78
Transfer of realised profits on investments	6.16	5.50
	<hr/>	<hr/>
	2.50	4.00
	<hr/>	<hr/>
	13.63	14.28
	<hr/>	<hr/>

Outgo

Claims by death	0.45	0.49
Claims by maturity	2.64	2.24
Surrenders	0.50	0.72
Annuities	0.25	0.93
	<hr/>	<hr/>
Less: reinsurance recoveries	3.84	4.38
	0.09	0.67
	<hr/>	<hr/>
Taxation (Note 8)	3.75	3.71
	1.00	0.84
Commission	0.31	0.31
Expenses	0.95	0.97
	<hr/>	<hr/>
	6.01	5.83
	<hr/>	<hr/>

Increase in fund during
the year

7.62 8.45

Add: fund at the beginning
of the year

58.20 49.75

Fund at the end of
the year

£65.82 £58.20

LONG-TERM BUSINESS BALANCE SHEET

as at
31st December, 1988

1988 £m 1987 £m

Investments
less reserves
(Note 3)

65.59 59.18

Current assets
(Note 4)

1.48 1.70

Total assets

£67.07 £60.88

Represented by

Assurance fund

65.82 58.20

Other liabilities
(Note 5)

1.25 2.68

£67.07 £60.88

SOURCE AND APPLICATION OF FUNDS STATEMENT

for the year ended 31st December, 1988

1988 £m 1987 £m

General Insurance

Source

Underwriting deficit plus profit and loss account expenses	(2.42)	(5.57)
Gross investment income	6.24	4.87

Taxation (payable)/recoverable

3.82	(0.70)
(1.18)	0.41

2.64	(0.29)
------	--------

Add (deduct) adjustments in other sources:

Unearned premiums less deferred acquisition expenses	7.61	5.96
Outstanding claims	6.82	3.70
Transfer of realised profits on investments	—	1.15
Transfer from parent Society	—	10.00
Agents' balances and debtors	(2.48)	(2.48)
Creditors	0.03	0.91

£14.62	£18.95
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Application

Dividend paid	0.04	0.04
Increase (decrease) in investments less reserves and liquid assets:		
Fixed interest stocks and shares	4.18	4.63
Ordinary shares	3.88	5.50
Mortgages, loans and deposits	5.39	5.19
Freehold and leasehold property	1.87	2.23
Other assets	0.01	(0.48)
Cash at bank	(0.75)	1.84

£14.62	£18.95
--------	--------

NOTES TO ACCOUNTS

1 Accounting Policies

The accounts are prepared in accordance with Statements of Standard Accounting Practice so far as considered appropriate to insurance companies.

a) The accounts are drawn up in compliance with sections 258 and 259 of, and Schedule 9 to, the Companies Act 1985.

The Company avails itself of certain of the exemptions from the disclosure requirements of the Companies Act 1985 applicable to insurance companies.

b) Translation and Conversion of Foreign Currencies.

Foreign currency transactions have been translated 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 except for investments which have been translated at historical rates.

c) General Insurance Business

The underwriting balance is 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. Provisions for unexpired risks are maintained when required to cover the estimated excess of liabilities over the unearned premium.

Outstanding claims include 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.

d) Investment Income

Investment income is included on an accruals basis. UK dividends are grossed up by the attaching tax credits.

e) Taxation

UK and overseas taxation charged in the profit and loss account and the long-term business revenue account is based on profits and income for the year as determined in accordance with the relevant tax legislation, together with adjustments in respect of earlier years.

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.

Tax payable or recoverable on the realisation of investments is carried to reserves.

f) Investments

Investments at the year end are shown at cost less investment reserve with the exceptions of investment properties which are shown at market value less investment reserve and those investments revalued by £10m by the directors in 1985 which are shown below market value.

The value of investments was in the aggregate at least equal to the aggregate of the amount thereof shown in the respective balance sheets. For the purposes of statement the values of investments were determined as follows:—

Property — at amounts certified by internal and external professional valuers at open market value.
Listed securities — at middle market value.
Unlisted securities — at directors' valuation.

Profits and losses on realisation of investments after adjustment for taxation have been transferred to investment reserve.

Allocation of realised profits from investment reserves are made to long-term business revenue and profit and loss accounts when appropriate. In 1988 the Directors consider that a transfer of £2.5m be made to the long-term revenue account but no transfer is necessary to the profit and loss account.

g) Long-Term Business Funds

No part of any fund required to be kept separate has been applied directly or indirectly for any purpose except the class of business to which it is applicable.

The liabilities in respect of long-term business do not exceed the amounts of the respective funds. All other liabilities in respect of the long-term business are as shown in the long-term business balance sheet.

2 Gross Premiums Written

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

General Business	1988 £m	1987 £m
Fire & Accident	35.34	28.03
Motor	27.94	18.57
Personal	20.18	18.29
Reinsurance accepted	2.84	2.94
	<u>86.30</u>	<u>67.83</u>
Long-Term Business		
Life	3.74	3.63
Annuity	0.03	0.05
Pensions	1.30	1.24
	<u>5.07</u>	<u>4.92</u>

The Gross premium income was written in the following areas:

General Business	1988 £m	1987 £m
United Kingdom	81.36	63.07
Foreign	4.94	4.76
	<u>86.30</u>	<u>67.83</u>
Long-Term Business		
United Kingdom	5.07	4.92
Foreign	—	—
	<u>5.07</u>	<u>4.92</u>

3 Investments (Less Reserves)

Balance Sheet	1988 £m	1987 £m
British Government and local authority securities	18.77	16.89
Fixed interest stocks and shares	6.56	4.26
Ordinary shares	35.91	32.03
Mortgages, loans and deposits	15.25	9.86
Freehold and leasehold property	10.26	8.39
Shares in fellow subsidiary	3.00	3.00
	<u>89.75</u>	<u>74.43</u>
Long-Term Business Balance Sheet		
British Government and local authority securities	18.86	17.70
Fixed interest stocks and shares	12.23	10.88
Ordinary shares	24.92	21.93
Mortgages, loans and deposits	2.09	2.06
Freehold and leasehold property	7.49	6.61
	<u>65.59</u>	<u>59.18</u>

4 Current Assets

Balance Sheet	1988 £m	1987 £m
Due from agents and policyholders	20.69	15.97
Claims recoverable under reinsurance	0.90	1.23
Interest and rents accrued	0.41	0.36
Securities for subsequent settlement	0.01	0.04
Taxation recoverable	—	0.36
Taxation recoverable from parent Society	—	0.41
Due from parent Society	0.78	—
Sundry debtors and balances	0.97	1.90
Cash at bank	3.44	4.19
	<u>27.20</u>	<u>25.46</u>

Long-Term Business Balance Sheet

Due from policyholders	0.18	0.08
Interest and rents accrued	0.61	0.52
Securities for subsequent settlement	0.08	0.72
Taxation recoverable	0.04	0.17
Sundry debtors and balances	—	0.01
Cash at bank	0.57	0.20
	<u>1.48</u>	<u>1.70</u>

5 Liabilities

Balance Sheet	1988 £m	1987 £m
Securities for subsequent settlement	0.45	2.24
Due to parent Society	0.38	0.30
Due to reinsurers	4.48	3.67
Taxation payable	1.16	—
Other creditors	1.73	1.96
Provision for proposed dividend	0.04	0.04
	<u>8.24</u>	<u>8.21</u>

Long-Term Business Balance Sheet

Outstanding claims	0.10	0.22
Securities for subsequent settlement	0.97	2.10
Due to reinsurers	0.01	0.01
Due to agents	0.06	0.04
Taxation	—	0.01
Other creditors	0.11	0.30
	<u>1.25</u>	<u>2.68</u>

6 Other Expenses

	1988 £m	1987 £m
Auditors' remuneration	0.05	0.04
Directors' fees	0.02	0.02
Investment expenses	0.05	0.04
	<u>0.12</u>	<u>0.10</u>

7 Directors

In the profit and loss account provision has been made for directors' fees for 1988. The aggregate emoluments of the Company's directors were £19,000 (1987 £17,500) all of which was in respect of services as directors.

Included in the above is £6,500 payable to the Chairman (1987 £6,000).

Four other directors of the Company received emoluments within the range £1 – £5,000 (1987 – four).

Pensions to former directors amounted to £5,571 (1987 £3,381).

8 Taxation

In the profit and loss account taxation is based on the results of the year.

In the long-term business revenue account taxation has been computed on the basis applicable to life assurance and pensions business.

	Profit and Loss		Long-Term	
	1988 £m	1987 £m	1988 £m	1987 £m
United Kingdom				
Taxation				
Corporation Tax				
payable/(recoverable)	0.55	(0.96)	0.49	0.43
Deferred Tax	0.05	—	0.05	—
Income Tax on franked				
Investment Income	0.54	0.51	0.45	0.40
	<u>1.14</u>	<u>(0.45)</u>	<u>0.99</u>	<u>0.83</u>
Less: Double Taxation Relief	—	—	0.02	0.02
Total UK Taxation	<u>1.14</u>	<u>(0.45)</u>	<u>0.97</u>	<u>0.81</u>
Overseas Taxation	0.04	0.04	0.03	0.03
Taxation payable/(recoverable)	<u>1.18</u>	<u>(0.41)</u>	<u>1.00</u>	<u>0.84</u>

No taxation has been provided on the revaluation of investments by £10m in 1985 because the Company has sufficient investment reserves to cover the liability if disposal of those investments should occur, although this is not anticipated in the foreseeable future.

Deferred taxation in the long-term balance sheet is included under taxation and amounts to £5,000 (1987 £2,000).

9 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 England.

10 Subsidiary

The Company owns the whole of the issued share capital of Tiddington Investments Limited. Consolidated accounts are not required as the Company is itself the wholly-owned subsidiary of another company

incorporated in England. The value of the Company's interest in Tiddington Investments Limited is not less than the amount at which the interest is stated in the balance sheet.

11 Capital Expenditure

There were no capital commitments as at the 31st December, 1988 not provided for in these accounts (1987 £nil).

12 Share Capital

The nominal share capital at 31st December, 1988 was £10m divided into shares of £1 each, of which five million were issued and fully paid.

13 General Business — Outstanding Claims

	1988 £m	1987 £m
Gross	52.82	47.19
Reinsurance	12.72	13.91
Net	40.10	33.28

These accounts were approved by the directors at a meeting on 9th February, 1989 and were signed on their behalf by:—

D. M. Milne *Chairman*

A. O. Hitchcock *Vice-Chairman*

A. S. Young *Chief Executive*
Stratford-upon-Avon, 1st March 1989

M. A. Jeanes *Director*

Auditors' Report

We have audited the accounts for the year ended 31st December, 1988 on pages 35-45 in accordance with approved auditing standards.

In our opinion the accounts comply with the provisions of the Companies Act 1985 applicable to insurance companies.

Deloitte Haskins & Sells *Chartered Accountants*
Liverpool, 1st March, 1989