

1993
**REPORT &
ACCOUNTS**
AVON
INSURANCE plc

Registered no. 209606

BOARD OF DIRECTORS

Chairman

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

Vice-Chairman

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

Managing Director

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

General Manager

P. W. Aldersey, B.A., F.C.I.I.

Sir Richard Butler, M.A., D.L.

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



REPORT OF DIRECTORS

Activities

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

General Business

Net written premiums amounted to £96.44m. Claims incurred were £75.75m. After making provision for all expenses and for unearned premiums, less deferred acquisition expenses, a deficit of £7.16m. has been transferred from the revenue account. After adding investment income, less expenses, the profit before taxation was £4.11m. The profit after tax was £2.80m. and after providing for the proposed dividend of £2.50m. the balance to be transferred to retained profits and other reserves amounts to a profit of £0.30m.

Directors

In accordance with the Articles of Association Mr. W. R. Morrow retires and, being eligible, offers himself for re-election.

A list of the directors of the Company is shown above.

Directors and Officers Liability Insurance

From the 20th September, 1993 the NFU Mutual and Avon Group has maintained an insurance policy indemnifying the directors and officers against loss attaching to legal liabilities arising in the course of their duties.

Corporate Governance

The NFU Mutual and Avon Group continues to support fully the recommendations of the Cadbury Committee on Corporate Governance and to maintain a very high standard of compliance with the Code of Best Practice. Once guidance has been received from the relevant professional bodies on the prescribed format, the Board will include in its report appropriate comments on internal control and confirmation of the current position that the business is a going concern.

Auditors

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

A. Evans *A. O. Hitchcock* *A. S. Young* *Richard Butler*

A. Evans
Chairman

A. O. Hitchcock
Vice-Chairman

A. S. Young
Managing Director

Sir Richard Butler
Director

Stratford-upon-Avon, 17th March, 1994



A02861J3

A021RECEIPT DATE:25/05/94

GENERAL INSURANCE REVENUE ACCOUNT

for the year ended 31st December, 1993	1993 £m	1992 £m
Continuing Operations		
Gross premiums written (Note 2)	122.94	122.26
Less: outwards reinsurance	26.50	21.72
Net premiums written	96.44	100.54
Less: (decrease) in unearned premiums	(4.06)	(5.85)
Premiums earned	100.50	106.39
 Gross claims	 86.46	 98.50
Less: outwards reinsurance	10.71	9.54
Net claims	75.75	88.96
 Commission	 17.26	 16.54
Expenses	13.53	15.49
Deferred acquisition expenses	1.12	0.79
	107.60	121.78
 Deficit to Profit and Loss Account	 £(7.16)	 £(15.39)

for the year ended 31st December, 1993		
Investment income	11.89	11.26
Deficit from General Insurance Revenue Account	(7.16)	(15.39)
Long-Term Business profit	-	5.00
	4.73	0.87
Less: other expenses (Note 6)	0.13	0.13
Reorganisation costs release	-	(1.01)
Policyholders' Protection Act Levy	0.49	0.77
Profit before taxation	4.11	0.98
Taxation (Note 11)	1.31	(1.61)
Profit after taxation	2.80	2.59
Less: proposed dividend	2.50	0.10
 Retained profit for the year (Note 7)	 £0.30	 £2.49

PROFIT AND LOSS ACCOUNT

With the exception of those on investments, the Company has no recognised gains or losses other than investments 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.

TWENTY FIVE

BALANCE SHEET

for the year ended 31st December, 1993

1993 £m 1992 £m

Investments (Note 3)	238.07	181.53
Current assets (Note 4)	23.53	39.39
Total assets	261.60	220.92
Less: liabilities (Note 5)	17.46	10.24
	<u>£244.14</u>	<u>£210.68</u>

Represented by

Share capital (Note 15)	20.00	20.00
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Reserves:

Retained profits and other reserves (Note 7)	22.26	21.96
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Investment reserves (Note 8)	62.12	38.92
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	104.38	80.88
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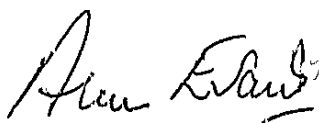
General Insurance funds:

Unearned premiums (Note 16)	31.67	34.61
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Outstanding claims (Note 16)	108.09	95.19
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	<u>£244.14</u>	<u>£210.68</u>
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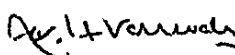
These accounts were approved by the directors at a meeting on 17th March, 1994 and were signed on their behalf by:-



A. Evans
Chairman



A. S. Young
Managing Director



A. O. Hitchcock
Vice-Chairman



Sir Richard Butler
Director

Stratford-upon-Avon, 17th March, 1994

for the year ended 31st December, 1993	1993 £m	1992 £m
Continuing Operating Activities		
Premiums received from customers	127.26	131.40
Reinsurance premiums paid	(23.99)	(23.80)
Claims paid net of reinsurance	(60.74)	(71.14)
Interest and dividends received	10.74	10.33
Other cash payments	(31.00)	(40.86)
Net cash inflow from continuing operating activities (Note 17a)	22.27	5.93
Servicing of Finance		
Dividends paid	(0.10)	(0.10)
Taxation		
Corporation tax received	3.00	6.03
Investing Activities		
(Purchases) less sales of investments excluding cash deposits	(24.89)	(14.45)
Net cash inflow/outflow before financing activities	0.28	(2.59)
Financing Activities		
Increase/(Decrease) in cash and cash equivalents (Note 17b)	£0.28	£(2.59)

CASH FLOW STATEMENT

NOTES TO ACCOUNTS

1 Accounting Policies

The accounts have been prepared in accordance with applicable accounting standards in the United Kingdom. The more important accounting policies, which have been applied consistently, are set out below.

a) The accounts are drawn up in compliance with sections 255 and 255A of, and Schedule 9A to, the Companies Act 1985 (as amended by the Companies Act 1989). The Company avails itself of certain of the exemptions from the disclosure requirements of the Companies Act 1985 (as amended) applicable to insurance companies.

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.

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. Provisions for unexpired risks are 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.

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 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.

Provision for deferred taxation on unrealised appreciation of investments is made only where realisations giving rise to a taxation liability are anticipated in the foreseeable future.

Deferred taxation is calculated on the liability method and consists of the estimated taxation, or relief from taxation, which is expected to arise in the foreseeable future from material timing differences.

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

g) 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 external qualified professional Chartered Surveyors.

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

Profits and losses on realisation of investments, after adjustment for taxation, and unrealised profits and losses on investments have been transferred to investment reserves.

Allocations from investment reserves are made to the profit and loss account when appropriate.

2 Gross Premiums Written

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

	1993 £m	1992 £m
Fire and Accident	44.27	43.76
Motor	32.94	37.84
Personal	45.73	40.61
Reinsurance accepted	-	0.05
	<u>122.94</u>	<u>122.26</u>

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

United Kingdom	121.38	120.50
Overseas	1.56	1.76
	<u>122.94</u>	<u>122.26</u>

3 Investments

	1993 £m	1992 £m
British Government and local authority securities	57.55	50.10
Fixed interest stocks and shares	36.83	15.83
Ordinary shares	96.72	76.96
Mortgages, loans and deposits	28.70	22.45
Freehold and leasehold property	13.22	11.14
Shares in fellow subsidiary	5.05	5.05
	<u>238.07</u>	<u>181.53</u>

4 Current Assets

	1993 £m	1992 £m
Due from agents and policyholders	17.03	21.87
Claims recoverable under reinsurance	1.12	0.71
Interest and rents accrued	1.39	0.81
Securities for subsequent settlement	0.66	0.05
Due from parent Society	-	9.64
Sundry debtors and balances	2.49	7.45
Cash at bank	0.62	6.69
Due from fellow subsidiary	0.22	0.26
Taxation recoverable	-	0.91
	<u>23.53</u>	<u>39.39</u>

5 Liabilities

	1993 £m	1992 £m
Securities for subsequent settlement	1.82	0.08
Due to parent Society	3.68	0.35
Due to reinsurers	2.93	0.42
Other creditors and balances	3.11	7.79
Provision for proposed dividend	2.50	0.10
Due to fellow subsidiary	0.23	-
Taxation	2.19	-
Bank loans	1.00	1.50
	<u>17.46</u>	<u>10.24</u>

6 Other Expenses

	1993 £m	1992 £m
Auditors' remuneration	0.06	0.06
Directors' fees	0.03	0.03
Investment expenses	0.04	0.04
	<u>0.13</u>	<u>0.13</u>

7 Retained Profits and Other Reserves

	1993 £m	1992 £m
Balance at 1st January	21.96	19.47
Transfer from profit and loss account	0.30	2.49
Balance at 31st December	<u>22.26</u>	<u>21.96</u>

8 Investment Reserves

	1993 £m	1992 £m
Realised gains	9.69	7.85
Less: taxation	3.21	2.58
	<u>6.48</u>	<u>5.27</u>
Add: unrealised gains	16.72	6.64
	<u>23.20</u>	<u>11.91</u>
Increase in the year	38.92	42.01
Balance at 1st January	-	(15.00)
Bonus issue of shares		
Balance at 31st December	<u>62.12</u>	<u>38.92</u>

9 Movements In Shareholders' Funds

	1993 £m	1992 £m
Reserves at 1st January	80.88	66.48
Increase in share capital	-	15.00
Retained profits and other reserves (Note 7)	0.30	2.49
Investment reserves	23.20	(3.09)
Reserves at 31st December	<u>104.38</u>	<u>80.88</u>

10 Directors

The aggregate emoluments of the Company's directors were £28,000 (1992 £26,000) all of which was in respect of service as directors.

Included in the above is £9,140 payable to the Chairman (1992 £3,575).

Three other directors of the Company received emoluments within the range £5,001 - £10,000 (1992 three in the range £5,001 - £10,000).

No pension contributions were made in respect of serving directors.

Pensions to former directors amounted to £13,039 (1992 £13,857).

11 Taxation

In the profit and loss account, taxation is based on the results of the year, using a rate of 33% (1992 33%).

	1993	1992
	£m	£m
United Kingdom Taxation		
<i>Corporation tax</i>	0.37	(3.20)
<i>Deferred tax</i>	0.27	0.71
Income tax on franked investment income	0.57	0.32
Total UK Taxation	1.21	(1.67)
Overseas Taxation	0.10	0.06
	1.31	(1.61)

Deferred taxation in the balance sheet is included under taxation and amounts to £Nil (1992 £Nil). The net potential amount of deferred taxation not expected to become a liability in the foreseeable future and for which no provision has been made, on unrealised gains of investments, is £15.50m. (1992 £10.00m.).

12 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.

13 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, and 60% of the issued share capital of Barry S.A., a company registered in Greece. Consolidated accounts 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.

14 Capital Expenditure

There were no capital commitments as at 31st December, 1993 not provided for in these accounts (1992 £Nil).

15 Share Capital

The authorised capital at 31st December, 1992 was £100m. (1992 £100m.) divided into shares of £1 each, of which twenty million (1992 twenty million) were issued and fully paid.

16 General Business Technical Reserves	Gross	Reinsurance	Net	Gross	Reinsurance	Net
	1993 £m	1993 £m	1993 £m	1992 £m	1992 £m	1992 £m
Unearned premium	43.69	4.10	39.59	46.71	3.45	43.26
Deferred acquisition expense	(1.92)	-	(1.92)	(8.65)	-	(8.65)
	35.77	4.10	31.67	38.06	3.45	34.61
Outstanding claims	128.00	19.97	108.03	113.28	18.09	95.19

17 Cash Flow Statement

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

	1993 £m	1992 £m
Operating profit	4.11	0.13
Adjustments for financing expenses and items not involving movements of cash:		
Decrease in debtors	6.78	1.37
Decrease in unearned premiums	(2.94)	(5.06)
Increase in claims provisions	13.13	14.25
Increase/(Decrease) in creditors	1.76	(4.79)
Taxation on franked investment income	(0.57)	(0.82)
Net cash inflow from continuing operating activities	22.27	5.93

b) Changes in Cash and Cash Equivalents

Cash at bank at 1st January	6.69	0.35
Cash at bank at 31st December	0.62	6.69
Movement in year	(6.07)	6.34
Cash deposits at 1st January	14.45	23.63
Cash deposits at 31st December	20.30	14.45
Movement in year	5.85	(9.18)
Short term loans at 1st January	(1.50)	(1.75)
Short term loans at 31st December	(1.00)	(1.50)
Movement in year	0.50	0.25
Total movement in cash and cash equivalents	0.28	(2.59)

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.

Report of the Auditors to the members of Avon Insurance plc

We have audited the financial statements on pages 25 to 32.

Respective responsibilities of directors

As described above 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.

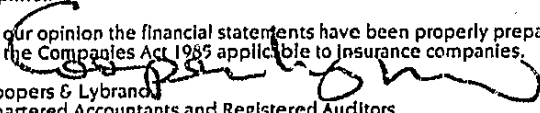
Basis of opinion

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


Coopers & Lybrand
Chartered Accountants and Registered Auditors
Liverpool, 17th March, 1994