Avon Insurance plc
Annual Report 2003

Board of Directors

Chairman
Sir Don Curry, C.B.E., F.R.Ag.S.

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

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

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

Registered no. 209606

Directors' Report

Principal Activities

The principal activity of the Company is the transaction of Personal Accident insurance business and management of the run off of its broker and intermediary business.

Review of Business

Following the sale on the 31st December 2002 of the broker and intermediary business to The National Insurance and Guarantee Corporation Limited, both the level of continuing business and the year end financial position remain satisfactory. Net written premiums for the year amounted to £14.3m and net earned premiums amounted to £81.1m. Net claims incurred were £32.9m. After taking into account investment income from the Non-Technical Account and making provision for expenses, unearned premiums, less deferred acquisition costs, a surplus of £27.1m. has been transferred from the Technical Account. After adding the balance of investment income, less expenses, the profit before taxation was £41.1m. The profit after tax was £30.2m, and after paying a dividend of £100.0m and providing for a further proposed dividend of £10.0m, the balance to be transferred from reserves amounts to a loss of £79.8m.

Directors

The Board records its sincere appreciation of the service of Mr R. J. Carter, who retired from the Board in June 2003 having served as director for 5 years.

The directors appointed Mr I. D. Grant as a director on 16th June 2003. His appointment will be submitted to members for confirmation at the Annual General meeting. In accordance with the Articles of Association, Sir Don Curry retires, and being eligible, offers himself for re-election.

Statement of Directors' Responsibilities

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

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

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

Corporate Governance

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

Introduction of the euro

The Company does not conduct business in countries participating in the euro, but is affected by the requirement to record investments held in euro. It is currently undertaking a project to consider the impact of the introduction of the euro.

Shareholder Engagement and Voting Policy

The Shareholder Engagement and Voting Policy of the investment department of the Group takes account of the Institutional Shareholders' Committee* principles. These principles set out best practice for institutional shareholders in relation to their responsibilities in respect of investee companies. The investment managers of the Group are encouraged to engage with investee companies where this may secure or enhance value in a cost effective way. A statement of the policy on shareholder engagement and voting is available on request.

(*Institutional Shareholders' Committee members are: the Association of British Insurers; the Association of Investment Trust Companies; the National Association of Pension Funds; and the Investment Management Association.)

Auditors

A resolution to re-appoint PricewaterhouseCoopers LLP as auditors to the company will be proposed at the annual general meeting.

Sir Don Curry	I. S. Geden
Chairman	*Managing Director*

Stratford-upon-Avon, 24th March 2004

Profit & Loss Account
Technical Account – General Business

for the year ended 31st December, 2003	2003 £m	2002 £m
Gross premiums written (note 2)		
Continuing operations	45.5	41.9
Discontinued operations	1.4	149.5
	46.9	191.4
Outwards reinsurance	(32.6)	(30.8)
Net premiums written	14.3	160.6
Decrease/(Increase) in the gross provision for unearned premiums	66.9	(13.8)
(Decrease)/Increase in the provision for unearned premiums, reinsurers' share	(0.1)	0.1
Decrease/(Increase) in the net provision for unearned premiums	66.8	(13.7)
Earned premiums, net of reinsurance	81.1	146.9
Allocated investment return transferred from the non-technical account	7.6	12.1
Other technical income	0.5	0.9
Total technical income	89.2	159.9
Gross claims paid	64.0	88.6
Reinsurers' share	(3.6)	(6.8)
Net claims paid	60.4	81.8
(Decrease)/Increase in the gross provision for claims	(25.2)	4.9
(Increase) in reinsurers' share	(2.3)	(0.6)
(Decrease)/Increase in the net provision for claims	(27.5)	4.3
Claims incurred, net of reinsurance	32.9	86.1
Changes in other technical provisions, net of reinsurance	(0.1)	(0.1)
Net operating expenses (note 5)	29.6	44.0
Other technical charges	–	0.5
(Decrease)/Increase in the equalisation provision	(0.3)	2.1
Total Technical Charges	62.1	132.6
Surplus on the technical account - general business	27.1	27.3

Profit & Loss Account
Non-Technical Account

for the year ended 31st December, 2003	2003 £m	2002 £m
Surplus on the technical account - general business	27.1	27.3
Investment income (note 6)	65.3	23.8
Investment expenses and charges (note 6)	(0.1)	(0.1)
Unrealised losses on investments (note 6)	(45.7)	(43.8)
Allocated investment return transferred to the general business technical account (note 7)	(7.6)	(12.1)
Other income	1.5	–
Other charges	(0.2)	(0.1)
Continuing operations *(note 3)*	13.0	13.2
Discontinued operations *(note 3)*	27.3	(18.2)
Total operating profit/(loss)	40.3	(5.0)
Profit on sale of premium renewal rights (note 8)	0.8	1.2
Profit/(Loss) on ordinary activities before tax (note 10)	41.1	(3.8)
Taxation on profits/(losses) on ordinary activities (note 11)	(10.9)	1.6
Profit/(Loss) on ordinary activities after taxation	30.2	(2.2)
Proposed and paid dividend (note 12)	(110.0)	–
Retained (loss) for the financial year (note 15)	(79.8)	(2.2)

Statement of Total Recognised Gains and losses	2003 £m	2002 £m
Retained (loss) for the financial year	(79.8)	(2.2)
Revaluation of subsidiary	1.0	1.5
Total recognised losses relating to the year	(78.8)	(0.7)

Balance Sheet

As at 31st December, 2003	2003 £m	2002 £m
Assets		
Investments		
Land and buildings (note 13a)	–	15.7
Shares in subsidiaries (note 13b)	23.7	22.8
Listed British Government and local authority securities	92.5	93.6
Listed fixed interest stocks	70.6	73.8
Listed ordinary shares	–	122.7
Mortgages, loans and deposits	81.2	52.3
Other financial investments (note 13c)	244.3	342.4
	268.0	380.9
Reinsurers' share of technical provisions		
Provision for unearned premiums	1.0	1.1
Claims outstanding	32.2	29.9
Other technical provisions - provisions for unexpired risks	0.5	0.6
	33.7	31.6
Debtors		
Due from policyholders	1.4	19.2
Due from intermediaries	–	21.1
Debtors arising out of direct insurance operations	1.4	40.3
Debtors arising out of reinsurance operations	0.6	0.8
Due from Parent Society	0.9	–
Other debtors	1.1	4.4
	4.0	45.5
Other assets		
Cash at bank and in hand	0.8	2.2
Prepayments and accrued income		
Accrued interest and rent	2.9	3.6
Deferred acquisition costs	–	14.5
	2.9	18.1
Total assets	309.4	478.3

Balance Sheet

As at 31st December, 2003	2003 £m	2002 £m
Liabilities		
Capital and reserves		
Called up share capital (note 14)	20.0	20.0
Profit and loss account (note 15)	86.1	165.9
Revaluation Reserve (note 16)	11.8	10.8
Shareholders' funds attributable to equity interests (note 17)	117.9	196.7
Technical provisions		
Provision for unearned premiums	1.6	68.5
Claims outstanding	146.1	171.3
Claims equalisation provision (note 18)	4.9	5.2
Other technical provisions - provision for unexpired risk	0.9	1.1
	153.5	246.1
Provision for other risks and charges (note 20)	0.8	13.4
Creditors		
Creditors arising out of direct insurance operations	2.9	8.3
Creditors arising out of reinsurance operations	1.8	4.1
Due to parent Society	–	2.5
Due to Group undertaking	5.5	–
Corporation tax	13.9	5.2
Other	2.7	0.1
Other taxation	0.4	1.9
Proposed dividend	10.0	–
Other creditors	27.0	7.2
	38.0	35.5
Total liabilities	309.4	478.3

These financial statements were approved by the directors at a meeting on 24th March, 2004 and were signed on their behalf by:-

Sir Don Curry
Chairman

I. S. Geden
Managing Director

Stratford-upon-Avon, 24th March 2004

Cash Flow Statement

for the year ended 31st December, 2003	2003 £m	2002 £m
Net cash (outflow)/inflow from continuing operating activities (note 23)	(4.3)	40.4
Taxation paid	(14.7)	(9.7)
Disposal of renewal rights	–	(1.8)
Equity dividends paid	(100.0)	–
Net cash (Outflow)/Inflow	(119.0)	28.9
Cash flows were invested/(applied) as follows:		
(Decrease) in cash holdings (note 23)	(1.4)	(1.1)
Net portfolio investment		
Ordinary shares (note 23)	(130.4)	(12.4)
Fixed Income securities (note 23)	–	19.4
Investment properties (note 23)	(16.1)	(7.1)
Deposits with credit institutions (note 23)	28.9	30.1
	(117.6)	30.0
Net (Application)/Investment of cash flows	(119.0)	28.9

Notes to Financial Statements

1 Accounting Policies

The financial statements have been prepared in accordance with Section 255 and 255A of, and Schedule 9A to, the Companies Act 1985 (as amended) and applicable accounting standards in the United Kingdom and with the Statement Of Recommended Practice (SORP) on accounting for insurance business issued by the Association of British Insurers in December 1998. Compliance with Statement of Standard Accounting Practice (SSAP) 19 'Accounting for investment properties' requires departure from the requirements of the Companies Act 1985 (as amended) relating to depreciation and an explanation of the departure is given in the accounting policy relating to investments.

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

a) Translation and Conversion of Foreign Currencies

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

b) General Insurance Business

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

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

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

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

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

Claims provision is made at the year end for the estimated cost of claims incurred but not settled at the balance sheet date, including the cost of claims incurred but not yet reported to the company. The provision calculated takes account of handling costs, salvage and other know recoveries, anticipated inflation, legal costs and trends in settlement.

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

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

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

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

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

c) Investment Return

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

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

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

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

d) Taxation

United Kingdom and overseas taxation charged in the Non-Technical Account is based on profits and income including realised gains and losses on all investments for the year as determined in accordance with the relevant tax legislation, together with adjustments in respect of earlier years. Deferred taxation is calculated on the liability method and consists of the estimated taxation, or relief from taxation, which is expected to arise in the foreseeable future from material timing differences, including unrealised appreciation of investments. Deferred tax is not discounted and is calculated at the rates at which it is expected that the tax will arise to take into account the likely timing of payments and the pattern of the expected realisation of investments. Movements in this taxation provision are charged to the Non-Technical Account.

e) Investments

Investments are shown at market value. Unlisted investments (including Investments in subsidiaries) are included at directors' valuation.

f) Retirement Benefits Scheme

Employees have the opportunity to become members of the NFU Mutual Insurance Society Retirement Benefit Scheme, a defined benefit scheme. Details of this fund and its latest actuarial valuation are given in the Annual Accounts of National Farmers Union Mutual Insurance Society Limited.

On a triennial basis, a formal valuation of the NFU Mutual Insurance Society Retirement Benefit Scheme is undertaken by an independent actuary. The most recent full valuation of the Fund was performed as at 31 December 2002. There were no contributions to the NFU Mutual Insurance Society Retirement Benefit Scheme in the year (2002: £nil); they are based on the assumptions of the Group as a whole which are determined in accordance with the advice of the independent actuary and are agreed with the Scheme Trustees.

The transitional provisions of FRS 17, Retirement Benefits, are included in the accounts of NFU Mutual Insurance Society. The NFU Mutual Insurance Society Retirement Benefit Scheme had a net pension surplus for FRS 17 purposes at 31 December 2003 of £81.2m, having taken into account a related deferred tax liability of £34.8m. Since the company is unable to identify its share of the underlying assets and liabilities of the Scheme, under FRS 17, contributions to the Scheme are accounted for as if they were contributions to a defined contribution scheme.

2 Segmental Information

a) Gross Premiums Written

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

	2003 £m	2002 £m
Continuing operations		
Personal	45.5	41.9
Discontinued operations		
Fire and Accident	1.0	75.6
Motor	1.8	24.2
Personal	(1.4)	44.3
Reinsurance Accepted	–	5.4
	1.4	149.5
	46.9	191.4

b) Gross Premiums Earned

	2003 £m	2002 £m
Continuing operations		
Personal	45.5	41.9
Discontinued operations		
Fire and Accident	34.9	69.9
Motor	12.3	24.3
Personal	16.8	36.5
Reinsurance Accepted	4.3	5.0
	68.3	135.7
	113.8	177.6

c) Gross Claims Incurred

	2003 £m	2002 £m
Continuing operations		
Personal	6.1	4.5
Discontinued operations		
Fire and Accident	10.3	36.4
Motor	11.4	23.7
Personal	11.1	25.3
Reinsurance Accepted	(0.1)	3.6
	32.7	89.0
	38.8	93.5

d) Gross Operating Expenses

	2003 £m	2002 £m
Continuing operations		
Personal	13.0	7.9
Discontinued operations		
Fire and Accident	10.5	21.1
Motor	2.5	5.7
Personal	4.7	9.4
Reinsurance Accepted	–	0.9
	17.7	37.1
	30.7	45.0

e) Reinsurance Balance

	2003 £m	2002 £m
Continuing operations		
Personal	14.9	15.1
Discontinued operations		
Fire and Accident	4.3	9.9
Motor	1.0	(5.6)
Personal	1.0	2.5
Reinsurance Accepted	4.4	0.4
	10.7	7.2
	25.6	22.3

The reinsurance balance represents the charge to the technical account from the aggregate of all items relating to reinsurance outwards

f) Analysis by geographic area

Gross written premiums

	2003 £m	2002 £m
United Kingdom		
Continuing operations	45.5	41.9
Discontinued operations	1.4	149.5
	46.9	191.4

Profit/(Loss) before taxation and minority interests

	2003 £m	2002 £m
United Kingdom		
Continuing operations	13.0	13.2
Discontinued operations	28.1	(16.9)
Overseas	–	(0.1)
	41.1	(3.8)

Net Assets

	2003 £m	2002 £m
United Kingdom		
Continuing operations	19.1	19.2
Discontinued operations	98.6	177.3
Overseas	0.2	0.2
	117.9	196.7

3 Analysis of Profit and Loss Account items

	2003 Continuing £m	2003 Discontinued £m	2003 Total £m	2002 Continuing £m	2002 Discontinued £m	2002 Total £m
Earned premiums, net of reinsurance	27.2	53.9	81.1	24.4	122.5	146.9
Other technical income	–	0.5	0.5	–	0.9	0.9
Allocated investment return transferred from the non-technical account	0.3	7.3	7.6	0.2	11.9	12.1
Claims incurred, net of reinsurance	(3.3)	(29.6)	(32.9)	(2.5)	(83.6)	(86.1)
Changes in other technical provisions	0.1	–	0.1	0.1	–	0.1
Net operating expenses	(12.3)	(17.3)	(29.6)	(7.5)	(36.5)	(44.0)
Other technical charges	–	–	–	–	(0.5)	(0.5)
Change in equalisation provision	–	0.3	0.3	–	(2.1)	(2.1)
Balance on the technical account for general business	12.0	15.1	27.1	14.7	12.6	27.3
Investment income	4.3	61.0	65.3	1.6	22.2	23.8
Investment expenses and charges	–	(0.1)	(0.1)	–	(0.1)	(0.1)
Unrealised losses on investments	(3.0)	(42.7)	(45.7)	(2.9)	(40.9)	(43.8)
Allocated investment return transferred to the general business technical account	(0.3)	(7.3)	(7.6)	(0.2)	(11.9)	(12.1)
Other income	–	1.5	1.5	–	–	–
Other charges	–	(0.2)	(0.2)	–	(0.1)	(0.1)
Total operating profit/(loss)	13.0	27.3	40.3	13.2	(18.2)	(5.0)

4 Movement in prior year's provisions for claims outstanding

Negative run off deviations of £1.8m. (2002 – positive £3.3m.) for Motor, positive £7.5m. (2002 – positive £5.1m.) for Liability and positive £3.2m. (2002 – positive £5.4m.) for Property were experienced for the year.

5 Net Operating Expenses

	2003 £m	2002 £m
Acquisition costs	9.9	37.3
Decrease/(increase) in deferred acquisition costs	14.5	(3.0)
Administration expenses	6.3	10.7
Reinsurance commissions and profit participation	(1.1)	(1.0)
	29.6	44.0

Total commission for direct insurance accounted for during the year amounted to £5.5m. (2002 – £30.9m.).

6 Investment Return

	2003 £m	2002 £m
Income from land and buildings	0.7	0.6
Income from other investments	15.1	17.0
Net gains on the realisation of investments	49.5	6.2
Investment income	65.3	23.8
Investment expenses and charges	(0.1)	(0.1)
Movement in unrealised investment (losses)	(45.7)	(43.8)
Investment return for the year	19.5	(20.1)

7 General Business Longer Term Investment Return

Analysed between:	2003 £m	2002 £m
Allocated investment return transferred to the Technical Account – General Business	7.6	12.1
Net investment return included in the Non-Technical Account	11.9	(32.2)
	19.5	(20.1)

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

	Longer term rates of investment return	
	2003 %	2002 %
Equities	7.0	7.5
Properties	7.0	7.0

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

8 Profit on sale of premium renewal rights

On the 31st December 2002 the right to invite renewal of Avon Insurance's broker and Intermediary business was sold to another party. The consideration for this transaction being commission payments based on the renewed Gross Premium Written in the following 12 months, and a share of any trading profit acheived in the 2 years following 31st December 2002 based on acheived Gross Loss Ratios.

The profit on disposal shown in the Profit and Loss account in 2002 rerpresents the guaranteed minimum consideration net of the costs of disposal. In 2003 an amount of £0.8m has been recognised as being additional consideration receivable in respect of gross written premiums in 2003. Any contingent consideration will be recognised in the period the qualifying conditions are met.

9 Directors and Employee Information

The aggregate emoluments of the Company's directors were £74,688 (2002 – £59,500) all of which was in respect of fees for service as non-executive directors.

	2003 £	2002 £
Sir Don Curry	39,000	19,900
I.D.Grant	20,688	–
R.J. Carter	15,000	39,600
	74,688	59,500

No pension contributions were made in respect of serving directors. Pensions to former directors amounted to £38,992 (2002 – £27,761).

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

The number of persons involved is :

	2003	2002
Administration and finance	57	169
Underwriting	1	151
Claims	4	66
	62	386

A recharge is made from the parent Company for the services of the above employees. This amounted to £1.2m. (2002 – £8.6m.).

10 Profit for the year

Profit for the year is stated after charging:-

	2003 £m	2002 £m
Auditors' fees for:		
Audit	0.1	0.1
Non audit	–	0.2

11 Taxation

	2003 £m	2002 £m
United Kingdom Taxation		
Corporation tax	23.4	7.9
Deferred tax	(12.5)	(9.5)
	10.9	(1.6)
Total United Kingdom Taxation		

Factors affecting the tax charge for the period	2003 £m	2002 £m
Profit/(loss) on ordinary activities before tax	41.1	(3.8)
Profit/(loss) on ordinary activities multiplied by standard rate of corporate tax in the UK of 30% (2002 30%)	12.3	(1.1)
Investment Income (equities)	(1.1)	(1.3)
Unrealised gains on equities	12.4	14.5
Claims reserves	0.4	0.3
Capital allowances in excess of depreciation	–	(0.1)
Adjustment to tax charge in respect of previous periods	(0.6)	(4.4)
Current tax charge for the period	23.4	7.9

Included in the tax charge for the period is an amount of £0.2m. (2002 – £0.4m.) in respect of the disposal of renewal rights.

12 Dividends

	2003 £m	2002 £m
Equity Shares		
Dividend paid of 500p per share (2002 – nil)	100.0	–
Proposed dividend of 50p per share (2002 – nil)	10.0	–
	110.0	–

13 Investments:

a) Land and Buildings

Valuation	Freehold Investment properties 2003 £m
Balance at 1st January	15.7
Additions	–
Shortfall on disposal	0.6
Disposals	(16.3)
Net book value at 31st December, 2003	–
Net book value at 31st December, 2002	15.7

Purchase price of land and buildings £nil. (2002 – £16.3m.)

b) Shares in subsidiaries

Purchase price of Investments £12.0m. (2002 – £12.0m.)

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

c) Other financial investments

	2003 £m	2002 £m
Purchase price of other financial investments - *Listed British Government and Local Authority securities*	92.2	89.8
- Listed fixed interest stocks	67.1	68.9
- Listed ordinary shares	–	81.3
- Mortgages, loans and deposits	81.2	52.3
	240.5	292.3

14 Share Capital

The authorised capital at 31st December, 2003 was £100.0m. (2002 – £100.0m.) divided into shares of £1 each, of which twenty million (2002 – twenty million) were issued and fully paid.

15 Profit and Loss Account

	2003 £m	2002 £m
Balance at 1st January	165.9	168.1
Transfer from Non-Technical Account	(79.8)	(2.2)
Balance at 31st December	86.1	165.9

16 Revaluation Reserve

	2003 £m
Balance at 1st January	10.8
Revaluation Movement	1.0
Balance at 31st December	11.8

17 Movements In Shareholders' Funds

	2003 £m	2002 £m
Balance at 1st January	196.7	197.4
Profit and loss account (note 15)	(79.8)	(2.2)
Revaluation reserves	1.0	1.5
Balance at 31st December	117.9	196.7

18 Claims Equalisation Provision

Equalisation provisions are established in accordance with the requirements of the Interim Prudential Source book for Insurers. These provisions, which are in addition to the provisions required to meet the anticipated ultimate cost of settlement of outstanding claims at the balance sheet date, are required by Schedule 9A to the Companies Act 1985 to be included within technical provisions in the balance sheet notwithstanding that they do not represent liabilities at the balance sheet date. This has had the effect of increasing profit on ordinary activities before taxation by £0.3m (2002 – reduction of £2.1m.) in the financial statements.

19 Retirement Benefit Schemes

The Group's Retirement Benefits Schemes are defined benefit schemes and cover all material obligations to provide pensions to retired and current employees. The Group operates funded pension schemes with the assets of the schemes held separately from those of the companies. Contributions to the schemes are charged to the technical accounts so as to spread the cost of pensions over employees' working lives with the companies. The charge for the year was £nil. (2002 – £nil)

The contributions for the schemes are determined by an independent qualified actuary on the basis of triennial valuations using the Projected Unit Method. The most recent valuation was at 31st December, 2002. At this date the market value of the investments of the schemes was £461m. The assets of these schemes were 31% 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 5.5% per annum, salary increases would average 4.5% per annum and present and future pensions would increase at the rate of 2.5% per annum. At 31st December, 2003 the pension prepayment held on the Group's balance sheet is £21m. (2002 – £21m.)

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

20 Provision for other risks and charges

a) Deferred Taxation

	2003 £m	2002 £m
Balance at 1st January	12.6	22.1
Charge for the year	(12.5)	(9.5)
Balance at 31st December	0.1	12.6

The provision for deferred taxation comprised:

	2003 £m	2002 £m
Unrealised gains on investments	0.1	12.6
Other short term timing differences	–	–
	0.1	12.6

There is no unprovided Deferred Taxation.

b) Motor Insurer's Bureau

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

	2003 £m
Balance at 1st January	0.8
Payments	(0.5)
Charge to Technical Account	–
Balance at 31st December	0.3

c) Financial Services Compensation Scheme

It is currently anticipated that a levy will be raised in respect of 2003 and a provision of 0.8% of Gross Premiums Written has been made.

	2003 £m
Balance at 1st January	–
Payments	–
Charge to Technical Account	0.4
Balance at 31st December	0.4

21 Contingent Liabilities

There are no contingent liabilities.

22 Capital Expenditure

There were no capital commitments at 31st December, 2003 not provided for in these financial statements (2002 £nil).

23 Cash Flow Statement

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

	2003 £m	2002 £m
Profit/(Loss) before tax	40.3	(5.0)
Decrease/(Increase) in debtors, prepayments and accrued income	43.0	(9.4)
(Decrease)/Increase in creditors, accruals and deferred income	(3.6)	0.3
(Decrease)/Increase in technical provisions	(80.2)	17.0
Realised and unrealised investment (gains)/losses	(3.8)	37.5
Net cash (Outflow)/Inflow from operating activities	(4.3)	40.4

b) Movement in portfolio investments net of financing

	2003 £m	2002 £m
(Decrease) in cash holdings	(1.4)	(1.1)
Cash (Outflow)/Inflow on portfolio investments	(117.6)	30.0
Movement arising from cash flows	(119.0)	28.9
Changes in market value and currencies	3.8	(37.5)
Total movement in portfolio investments, net of financing	(115.2)	(8.6)
Portfolio investments, net of financing at 1st January	360.3	368.9
Portfolio investments, net of financing at 31st December	245.1	360.3

c) Cash flows invested in portfolio investments

	2003 £m	2002 £m
Purchase of shares and other variable yield securities	–	2.3
Purchase of debt securities and other fixed income securities	19.7	43.7
Purchase of land and buildings	0.6	1.0
Sale of shares and other variable yield securities	(130.4)	(14.7)
Sales of debt securities and other fixed income securities	(19.7)	(24.3)
Sale of land and buildings	(16.7)	(8.1)
Net Increase in deposits with credit institutions	28.9	30.1
Net cash (Outflow)/Inflow on portfolio investments	(117.6)	30.0

d) Movement in cash, portfolio investments net of financing

	As at 1st January, 2003 £m	Cash flow £m	Changes to Market values & currencies £m	As at 31st December, 2003 £m
Cash at bank and in hand	2.2	(1.4)	–	0.8
Shares and other variable yield securities	122.7	(130.4)	7.7	–
Debt securities and other fixed income securities	167.4	–	(4.3)	163.1
Land and buildings	15.7	(16.1)	0.4	–
Deposits with credit institutions	52.3	28.9	–	81.2
Total	360.3	(119.0)	3.8	245.1

24 Related Parties

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

25 Ultimate Holding Company

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

Independent Auditors' Report to the members of Avon Insurance plc

We have audited the financial statements which comprise the profit and loss account, the balance sheet, the cash flow statement, the statement of total recognised gains and losses and the related notes which have been prepared in accordance with the accounting policies set out in note 1 of the accounts.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or in to whose hands it may come save where expressly agreed by our prior consent in writing.

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

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the directors' report.

Basis of audit opinion

We conducted our audit in accordance with auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Equalisation reserves

Our evaluation of the presentation of information in the financial statements has had regard to the statutory requirement for insurance companies to maintain equalisation reserves. The nature of equalisation reserves, the amount set aside at 31 December 2003, and the effect of the movement in those reserves during the year on the general business technical result and loss before tax, are disclosed in notes 1b) and note 17 respectively.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 31 December 2003 and of its loss and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Bristol, 24th March, 2004