



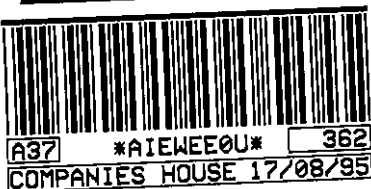
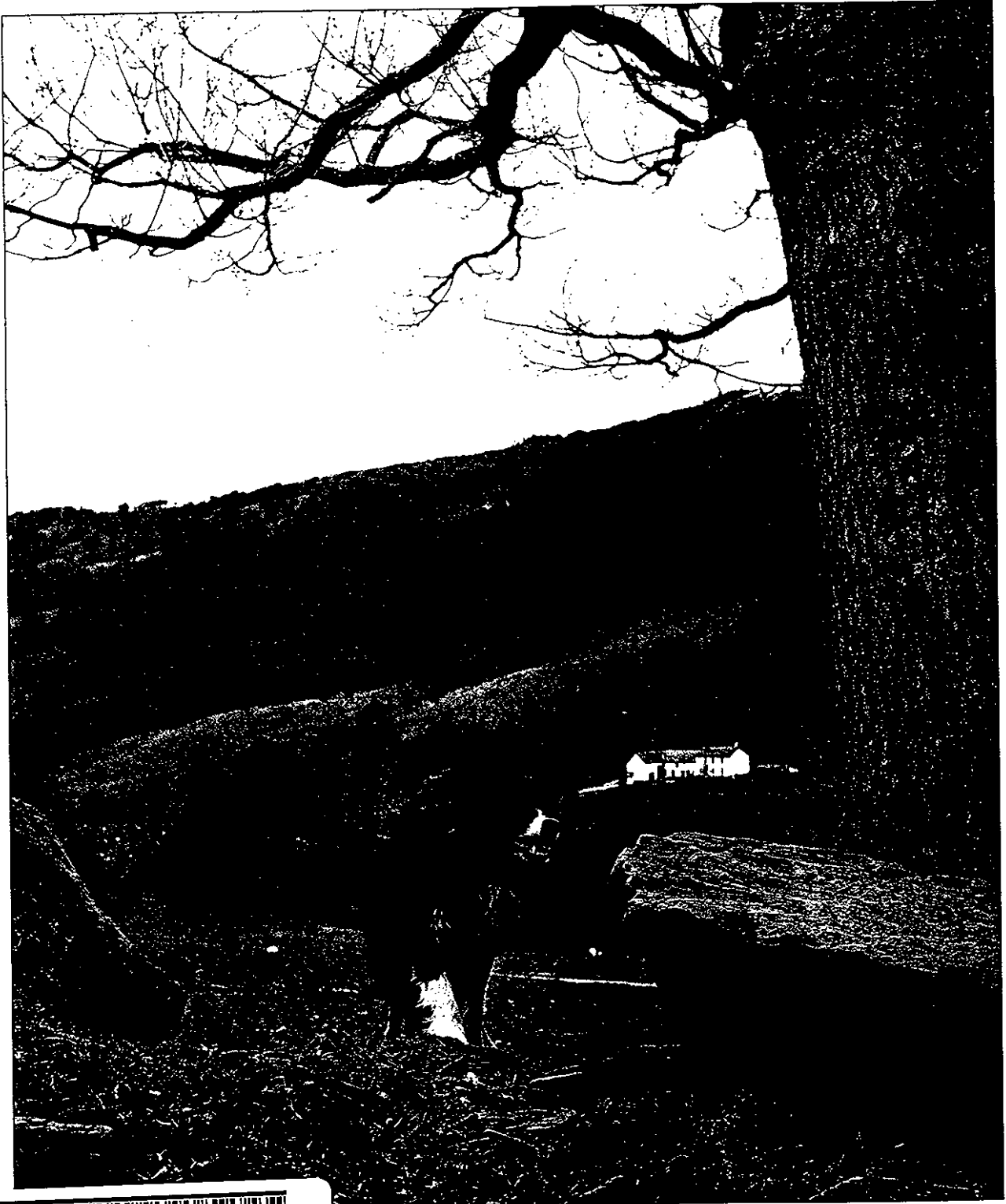
**NFU MUTUAL
& AVON GROUP**

Company No. 209606
Avon Insurance plc

ANNUAL

REPORT

1994



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COMPANIES HOUSE 17/08/95



General Management

Illustrated from left to right:-

N. Carter, F.C.A. (*Deputy General Manager, Finance*)

R. A. Deacon, LL.B. (*General Manager, NFU Mutual Life*)

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

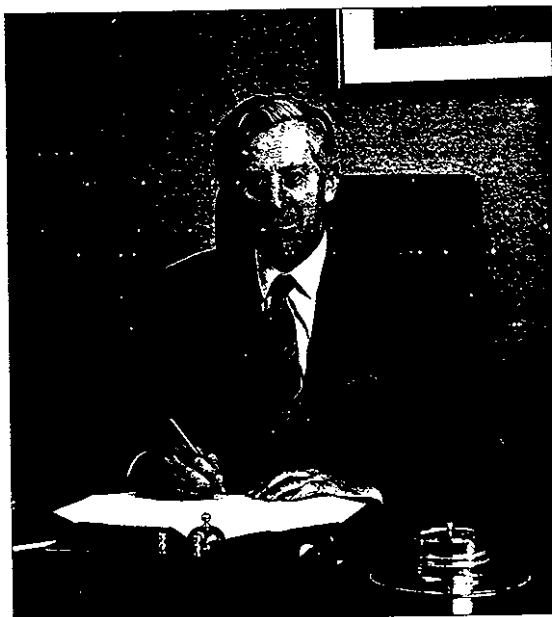
P. W. Aldersey, B.A., F.C.I.I. (*General Manager, Avon Insurance*)

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

V. G. Seaman, A.C.I.I. (*Assistant General Manager*)

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

Chairman's Statement



The Group's trading results for 1994 represented a satisfactory consolidation of the improvements of the previous year, in all three of our main business units.

Again, claims ratios in the NFU Mutual General and in the Avon showed further improvement and both companies achieved an underwriting profit. For the Avon, this was all the more pleasing because it was the Company's first underwriting profit for a number of years.

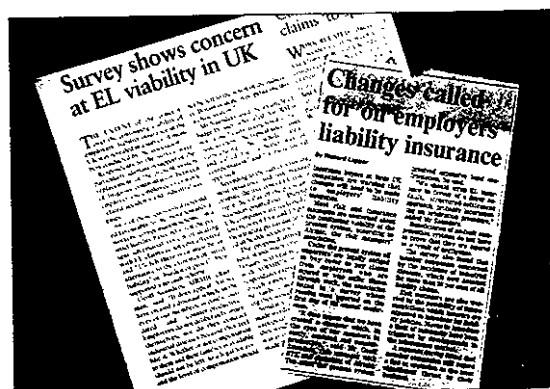
In difficult market conditions for all Life and Pensions companies, our Financial Services division, contrary to the general trend, achieved a further significant increase in sales.

NFU Mutual General

Gross written premiums increased from £326.6m. to £330.7m. This reflects a greater rate of growth than appears at first sight, as we reduced premium rates in a number of classes of business during the year. We finished the year with an underwriting profit of £14.7m., thanks, in no small measure, to generally calm weather conditions. Absence of severe windstorms was particularly welcome. One storm, along the lines of those seen in 1987 and 1990, would have turned our result into a substantial underwriting loss and demonstrates the impact that weather conditions can have on our year's trading - just like farming!

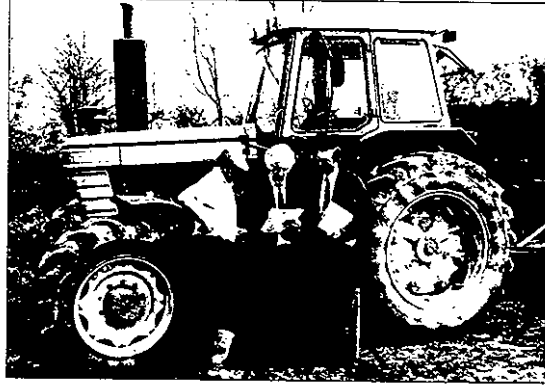
During the year, we continued to see a deteriorating trend in our liability claims - principally employers' and public liability insurance - as a result of more and bigger claims. In these 'longtail' classes of insurance the standards required of an employer or of a supplier of goods are, many years after the event giving rise to the claim, likely to be judged by the then current standards of safety precautions. If, by these more demanding criteria, they are found wanting, liability for damages inevitably follows.

The amount of damages is becoming greater with every year that passes. This means that, in common with the rest of the insurance industry, we have to set premium rates today which are adequate to reflect the likely standards of competence which will be applied by the courts many years into the future. On top of that, we must anticipate the future level of compensation which may be awarded. It is, therefore, no surprise that these classes continue to produce substantial



underwriting losses. As a result of the general trend in society to more readily claim damages it is difficult to see the losses in these classes ameliorating.

In motor and personal insurance, the UK insurance market is undergoing one of the most intense periods of competition ever. Increasingly this business, and especially motor insurance, is becoming more akin to a commodity to be bought simply on price and ignoring the quality of the product. Customers are quite rightly cost-conscious and expect to pay no more than a reasonable market price. Our challenge is to continue to drive our costs downwards without detracting from the service, particularly the cover and the claims service, that we give to our policyholders.



To help us in this task, we have been piloting direct computer links with our agents' offices and I hope to see this project reach fruition during 1995. In this way, we can take out some duplication in our paperwork processing and thereby save costs, as well as speeding up our service. I am particularly grateful to all the people working on this project for the enthusiasm and determination they have shown.



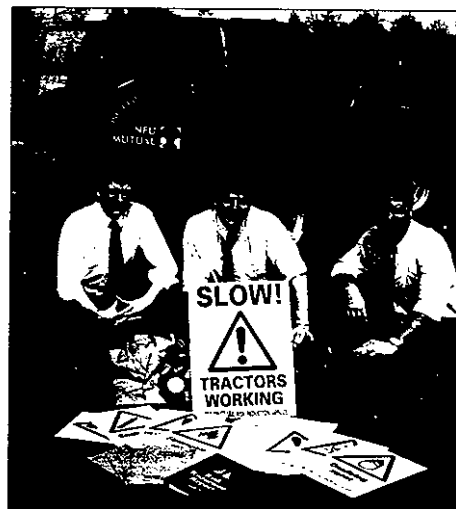
Another important way of reducing cost ratios is, of course, to handle more business without increasing costs commensurately. To help us to do so, using the same office systems and brand name as the parent Society, we have established a new company known as NFU Mutual Insurance Association Limited. This development should enable our agents to capitalise on, and further strengthen, the NFU Mutual trademark to people living in rural areas. This new company replaces the facility that our group secretary agents had previously, to place business with our subsidiary company - Avon Insurance plc - and leaves the Avon to

concentrate on serving insurance brokers. In many ways, we have come full circle from the early days of the Avon when the company was known as the Farmers Commercial Insurance Company. Very rarely is anything completely new.

We believe that the NFU Mutual Insurance Association will enable our agents to transact a wider range of business, thereby giving us a more balanced spread of risk and producing economies of scale to the benefit of the parent Society.

Throughout 1994, we continued to promote our Risk Reduction Service - designed to advise farmers on how to avoid many of the hazards which lead to insurance claims. In the long run, the only way to contain the cost of insurance is to reduce the number and cost of claims. I have been most encouraged by the growing demand for this service and by the enthusiastic response of those who have bought it.

The year was also a busy one for our partners in the rural scene, the farming unions, in their task of representing and promoting the interests of UK farmers and growers. Significant structural changes, such as the de-regulation of the dairy industry and increased public interest in issues such as animal welfare, all mean that the present time is one in which the industry has all the more need of the strong and effective representation which the unions have



always provided. To be strong, they need to be growing in membership, and we were delighted with the success that they enjoyed in 1994 in their activities to increase membership, especially in areas such as NFU Countryside - designed to extend to rural land-users on the fringe of full-time farming the benefits of NFU membership and of insurance with the Society.

NFU Mutual Life

I take considerable pleasure in reporting sales results which were contrary to the trend of the UK life and pensions industry as a whole. The Association of British Insurers' statistics show that for the first time for many years, levels of new business for the total market in 1994 decreased - by 10% for annual premiums and by nearly 14% for single premiums. I am, therefore, delighted with the Society's increase of nearly 5% in new UK premiums, which increased our total UK net premium income by over 4%.

NFU Mutual CAPITAL GUARANTEED BOND MK II

Last year, there was quite a stampede to the market.

On 9th May 1994, the gates open for the NFU Mutual Capital Guaranteed Bond MK II.

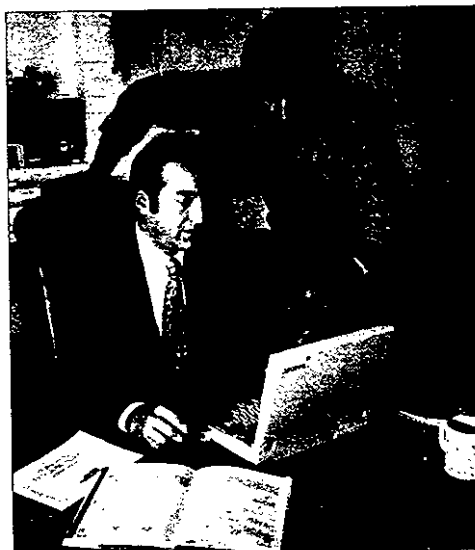
Strong sales in our traditional heartland of pensions and term assurance were reinforced by a very successful Capital Investment Bond offer during the final weeks of the year. Increasingly, our customers are demonstrating their readiness to entrust the investment of substantial lump sums to us. This must reflect the excellent performance of our investment team. Although I must emphasise that past performance is not necessarily a guide to future results and units can go down as well as up, our unit-linked investments have shown consistently better returns than bank or building society deposits over the medium to long term.

We were very pleased to receive the following placings in the Micropal Awards for 1994:-

- 2nd place in the one-year pension fund survey (smaller group category);
- 3rd place in the one-year life fund survey (smaller group category);
- 3rd place in the one-year pension fund index-linked gilt sector.

Micropal is becoming the recognised leader in the analysis of packaged investment fund performance and these awards recognise not only good performance but consistency across the various investment sectors, giving an appropriate balance between the management of risk and the attainment of performance. We are delighted with this recognition.

There is, however, no time to rest on our laurels, as competition for business remains fierce. The introduction, from 1st January, 1995, of the disclosure of costs to the customer at the point of sale could mean that only the low-cost suppliers of life and pensions will flourish. Some commentators are forecasting that the total number of life and pension providers will reduce sharply over the last few years of this century. As a mutual society, all of our efforts are concentrated on giving our customers good value and an analysis of the insurance industry shows that we are one of the low-cost players. If we can maintain the growing support of our customers, we can drive our sales cost ratios down further and sustain the virtuous circle in which our policyholders benefit from our efficiency.



The key features of the year were a pre-tax profit of £16.8m. - four times last year's level - and premium income up 4% to £127.3m.

Avon Insurance plc

The improvement in profitability was driven by an underwriting profit of £4.7m. which, as in the Society, was helped by favourable weather conditions.

The competition for motor and personal insurance, to which I referred earlier, also affected the Avon and resulted in the loss of some business. We recognise the essential need to reduce costs if we and our supporting brokers are to compete successfully in these markets. Nonetheless, we were pleased with the results we achieved from a number of special schemes designed in conjunction with individual brokers. This is an aspect of our business which has grown over the years and indicates the growing expertise we are developing in this area. Our accidental death policy, in which we are the market leader, again made a good contribution to the year's profit.



We enjoyed good growth in our commercial insurance business, where the contribution from tailor-made schemes was also significant.



We continue to work hard on improving our service to and strengthening our ties with our supporting brokers. In a very competitive market-place, we must work hard to distinguish the Avon from our competitors.

Once again, we were pleased by the excellent security rating given to the Avon by the various rating agencies. The failure of a number of insurance companies in recent years has emphasised the point that any insurance policy is only as good as the financial strength which backs it. The maintenance of a strong balance sheet will remain one of our priorities and

gives our brokers and our policyholders confidence in our products.

As a result of a successful year, we have increased the dividend paid by the Avon to the parent Society to £4.3m., easily the largest dividend we have ever paid.

In October, two long-serving members of our Board of Directors retired. Mr. Alan Jackson and Mr. Peter Coldicutt both joined the Board in September, 1982, and both gave sterling service to the Society over that period, as well as filling a number of prominent roles promoting the interests of the UK's farmers and growers. To succeed them, the directors have appointed Mr. Bill Madders, a well-known dairy farmer from Staffordshire, and Mr. Derek Tigwell, the General Manager of our General Insurance division.

Board of Directors

In today's insurance market-place, the pace of change is ever-increasing. The need to adapt to this makes increased demands on our management and staff, in addition to the task of running the business. I pay tribute to the way in which our staff and our agency force have responded to this in 1994 and are continuing to do so as we face the challenges of the next few years. Along with them, my thanks also go to my fellow directors, to our local directors and local assessors, and to all the officeholders and staff of all the farming unions, whose support, as ever, contributes to our successes.

Acknowledgments

Board of Directors

Chairman



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



Vice-Chairman

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

*Managing
Director*



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



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



M. Dowdall, B.Sc.



I. D. Grant, C.B.E., F.R.A.G.S.



J. Hann, C.B.E.



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



W. W. Madders.



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



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

*General
Manager*

England

Area No. 1

A. Q. Hitchcock, C.B.E., M.A. (*general director*)
 J. R. Campbell, M.A., Yorkshire (North Riding
 and South Durham)
 W. M. Clarkson, Yorkshire (East Riding)
 J. Craigs, J.P., Northumberland
 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

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

Area No. 4

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

Area No. 5

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

Area No. 6

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

Area No. 7

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

Area No. 8

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

Northern Ireland

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

Scotland

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

Wales

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

Local Boards

1994 Report & Financial Statements NFU Mutual and Avon Group

DIRECTORS' REPORT

Activities

The principal activities of the Society and its subsidiaries are the transaction of general insurance, life assurance and pensions, and related financial services including a unit trust, investment management and capital equipment financing. A list of the Society's subsidiary companies is shown in note 9 on page 23.

General Business

Group net written premiums amounted to £399.77m. Claims incurred were £285.83m. Commission and expenses absorbed £89.84m. After making provision for unearned premiums, less deferred acquisition expenses, a surplus of £21.80m. has been transferred from the revenue account. After adding investment income and income from non-insurance subsidiaries, less expenses, the profit before taxation was £93.50m. The final result was a profit after tax of £72.33m. which has been transferred to retained profits and other reserves.

Long-Term Business

The net premium income of the Society in respect of life and pensions business, including consideration for annuities granted, amounted to £177.40m. At the end of 1994 the life assurance fund totalled £1,708.61m.

Directors

The parent Society's Board of Directors comprises nine non-executive directors plus the Managing Director and one of the General Managers. All the non-executive directors are policyholders of the Society. They are independent of the Society in all matters apart from their fees and benefits, details of which are shown in note 7 on page 21.

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

<i>Audit</i>	Mr. A. Q. Hitchcock (<i>Chairman</i>) Mr. A. Evans Mr. J. Hann Mr. W. R. Morrow
<i>Nomination</i>	Mr. A. Evans (<i>Chairman</i>) Sir Richard Butler Mr. A. Q. Hitchcock Mr. A. S. Young
<i>Remuneration</i>	Sir Richard Butler (<i>Chairman</i>) Mr. M. Dowdall Mr. I. D. Grant

The Board records its sincere appreciation of the service of Mr. P. E. Coldicutt and Mr. J. A. Jackson, who retired in October 1994, both having served for 12 years as directors.

The directors have appointed Mr. W. W. Madders and Mr. D. F. Tigwell to fill the consequent vacancies and their appointments will be submitted to members for confirmation at the Annual General Meeting. In accordance with the Articles of Association, Mr. M. Dowdall and Mr. A. Q. Hitchcock retire and, being eligible, offer themselves for re-election.

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

Statement of Directors' Responsibilities

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

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

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

Corporate Governance

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

The directors are responsible for the Group's system of internal financial control. The guidance for directors will come into force for accounting periods commencing on or after 1st January, 1995. The directors will include a formal statement on this subject in next year's report.

Going Concern

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

Employees

The average number of persons employed by the Group in the United Kingdom during 1994, including part-time employees, was 2,144 and their aggregate remuneration was £34.6m.

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

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

Copies of the Annual Report and Financial Statements are made available to all employees. Copies of 'Link' - the staff magazine - are issued throughout the year. Briefing meetings, for all members of staff, take place at least quarterly to cover progress, targets and profitability trends. Half-year results are conveyed by video communication. Employees are encouraged to participate in the affairs of the Group through their managers and the staff suggestion scheme.

The Group continues to place great emphasis on the value of training and, during 1994, held 136 in-house training courses with 994 participants attending them.

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

Directors and Officers Liability Insurance

Throughout 1994, the NFU Mutual and Avon Group maintained an insurance policy indemnifying the directors and officers against loss attaching to legal liabilities arising in the course of their duties.

Charitable Donations

Charitable donations during 1994 amounted to £24,460.

Auditors

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

A. Evans
Chairman

A. Q. Hitchcock
Vice-Chairman

A. S. Young
Managing Director

Sir Richard Butler
Director

Stratford-upon-Avon, 16th March, 1995

General Insurance Revenue Account

for the year ended 31st December, 1994

	Con- solidated 1994 £m	Con- solidated 1993 £m	Parent Society 1994 £m	Parent Society 1993 £m
Continuing Operations				
<i>Gross premiums written (Note 2)</i>	459.18	450.65	330.71	326.62
<i>Less: outwards reinsurance</i>	59.41	59.08	35.98	35.55
<i>Net premiums written</i>	399.77	391.57	294.73	291.07
<i>Less: increase/(decrease) in unearned premiums</i>	2.46	15.77	(0.78)	16.08
<i>Premiums earned</i>	397.31	375.80	295.51	274.99
<i>Claims</i>	300.61	312.54	235.51	225.79
<i>Policyholders' Protection Act levy</i>	3.83	1.95	2.88	1.46
<i>Gross claims</i>	304.44	314.49	238.39	227.25
<i>Less: outwards reinsurance</i>	18.61	21.32	14.57	10.32
<i>Net claims</i>	285.83	293.17	223.82	216.93
<i>Commission</i>	53.72	51.99	35.76	34.71
<i>Expenses</i>	36.12	34.58	21.06	20.78
<i>Deferred acquisition expenses</i>	(0.16)	(1.29)	0.12	(2.41)
	375.51	378.45	280.76	270.01
Surplus/(deficit) to Profit and Loss Account	21.80	(2.65)	14.75	4.98

Profit and Loss Account

for the year ended 31st December, 1994

	Con- solidated 1994 £m	Con- solidated 1993 £m	Parent Society 1994 £m	Parent Society 1993 £m
<i>Investment income</i>	69.30	62.39	57.82	48.35
<i>Surplus/(deficit) from General Insurance Revenue Account</i>	21.80	(2.65)	14.75	4.98
<i>Income from non-insurance subsidiaries</i>	8.87	7.20	-	-
<i>Share of profit in associated company</i>	0.56	0.32	-	-
	100.53	67.26	72.57	53.33
<i>Less: other expenses</i>	7.03	7.13	0.85	0.68
<i>Profit before taxation (Note 3)</i>	93.50	60.13	71.72	52.65
<i>Less: taxation (Note 8)</i>	21.17	14.64	14.60	12.82
Retained profit for the year (Note 4)	72.33	45.49	57.12	39.83

The Group has no recognised gains or losses included in the profits above and therefore no separate statement of total recognised gains and losses has been presented. Recognised gains and losses in investments are disclosed separately within investment reserves (note 5).

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

for the year ended 31st December, 1994

	Parent Society 1994 £m	Parent Society 1993 £m
Continuing Operations		
<i>Premiums</i>	122.25	114.92
<i>Consideration for annuities</i>	60.88	57.94
<i>Gross premiums written (Note 2)</i>	183.13	172.86
<i>Less: reinsurance</i>	5.73	11.67
<i>Net premiums written</i>	177.40	161.19
<i>Gross investment income</i>	106.88	102.01
	284.28	263.20
<i>Claims by death</i>	18.34	13.00
<i>Claims by maturity</i>	49.34	49.48
<i>Surrenders</i>	19.01	11.73
<i>Annuities</i>	15.72	13.78
	102.41	87.99
<i>Less: reinsurance recoveries</i>	8.61	2.86
	93.80	85.13
<i>Commission</i>	46.95	40.92
<i>Expenses</i>	12.75	12.09
<i>Taxation (Note 8)</i>	4.13	3.58
	157.63	141.72
<i>Increase in fund during the year</i>	126.65	121.48
<i>Add: fund at the beginning of the year</i>	1,491.96	1,160.48
<i>Transfer from investment reserves</i>	90.00	210.00
Fund at the end of the year	1,708.61	1,491.96

Long-Term Business Revenue Account

Balance Sheet

for the year ended 31st December, 1994

	Con- solidated 1994 £m	Con- solidated 1993 £m	Parent Society 1994 £m	Parent Society 1993 £m
Assets				
Investments				
<i>Land and buildings</i>	84.10	74.83	43.92	41.03
<i>British Government and local authority securities</i>	269.64	287.92	197.27	205.26
<i>Fixed interest stocks</i>	137.45	111.93	88.58	67.94
<i>Ordinary shares</i>	770.89	754.16	676.95	657.44
<i>Mortgages, loans and deposits</i>	153.84	173.87	119.42	132.01
<i>Shares in subsidiaries</i>	—	—	2.57	2.56
<i>Loans to subsidiaries</i>	—	—	44.64	44.49
<i>Shares in associated company</i>	0.23	0.23	0.18	0.11
Other financial investments	1,332.05	1,328.11	1,129.61	1,109.81
	1,416.15	1,402.94	1,173.53	1,150.84
Reinsurers' share of technical provisions (Note 14)				
<i>Provision for unearned premiums</i>	5.37	9.92	4.93	5.43
<i>Claims outstanding</i>	40.08	33.44	22.48	13.47
	45.45	43.36	27.41	18.90
Debtors				
<i>Due from policyholders</i>	40.11	33.56	25.53	22.60
<i>Due from intermediaries</i>	30.47	32.38	22.76	24.94
Debtors arising out of direct insurance operations	70.58	65.94	48.29	47.54
Debtors arising out of reinsurance operations	3.89	3.70	1.35	2.13
<i>Securities for subsequent settlement</i>	1.17	3.60	0.91	2.94
<i>Due from subsidiary</i>	—	—	0.02	0.69
<i>Taxation recoverable</i>	—	0.04	—	—
<i>Sundry debtors and balances</i>	6.96	8.62	4.57	4.42
Other debtors	8.13	12.26	5.50	8.05
	82.60	81.90	55.14	57.72
Other assets				
<i>Tangible assets</i>	3.61	3.53	—	—
<i>Stock held by non-insurance subsidiaries</i>	0.08	0.12	—	—
<i>Cash at bank and in hand</i>	20.93	16.07	10.82	10.11
	24.62	19.72	10.82	10.11
Prepayments and accrued income				
<i>Accrued interest and rent</i>	5.45	4.54	3.55	2.98
<i>Pension prepayment</i>	22.09	23.16	22.09	23.16
	27.54	27.70	25.64	26.14
Long-term business fund assets	2,172.42	2,240.61	2,172.42	2,240.61
Total assets	3,768.78	3,816.23	3,464.96	3,504.32

for the year ended 31st December, 1994

Con- solidated 1994 £m	Con- solidated 1993 £m	Parent Society 1994 £m	Parent Society 1993 £m
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Balance Sheet

Liabilities

Free reserves

<i>Retained profits and other reserves (Note 4)</i>	315.92	243.59	267.10	209.98
<i>Investment reserves (Note 5)</i>	412.68	534.21	355.34	449.73
	<u>728.60</u>	<u>777.80</u>	<u>622.44</u>	<u>659.71</u>

Technical provisions (Note 14)

<i>Provision for unearned premiums</i>	211.19	213.28	161.66	162.94
<i>Claims outstanding</i>	627.71	562.28	494.02	433.92
<i>Deferred acquisition expenses</i>	(31.71)	(31.55)	(23.51)	(23.63)
	<u>807.19</u>	<u>744.01</u>	<u>632.17</u>	<u>573.23</u>

Creditors

<i>Creditors arising out of direct insurance operations</i>	17.80	15.14	15.42	12.76
<i>Creditors arising out of reinsurance operations</i>	9.60	8.39	5.28	4.23
<i>Bank loans</i>	2.00	2.00	—	—
<i>Securities for subsequent settlement</i>	3.29	4.26	3.04	2.44
<i>Due to subsidiaries</i>	—	—	1.40	0.75
<i>Corporation tax</i>	15.80	13.54	10.28	10.19
<i>Other creditors and balances</i>	9.62	10.48	0.47	0.40
<i>Other taxation</i>	2.46	—	2.04	—
<i>Other creditors</i>	<u>33.17</u>	<u>30.28</u>	<u>17.23</u>	<u>13.78</u>
	<u>60.57</u>	<u>53.81</u>	<u>37.93</u>	<u>30.77</u>
<i>Long-term business fund liabilities</i>	2,172.42	2,240.61	2,172.42	2,240.61
Total liabilities	<u>3,768.78</u>	<u>3,816.23</u>	<u>3,464.96</u>	<u>3,504.32</u>

These financial statements were approved by the directors at a meeting on 16th March, 1995 and were signed on their behalf by:-

A. Evans

Chairman

A. S. Young

Managing Director

A. Q. Hitchcock

Vice-Chairman

Sir Richard Butler

Director

Stratford-upon-Avon, 16th March, 1995

Long-Term Business Balance Sheet

for the year ended 31st December, 1994

	Parent Society 1994 £m	Parent Society 1993 £m
Assets		
Investments		
<i>Land and buildings</i>	197.29	166.61
<i>British Government and local authority securities</i>	308.52	350.60
<i>Fixed interest stocks</i>	239.13	267.57
<i>Ordinary shares</i>	1,365.26	1,383.22
<i>Mortgages, loans and deposits</i>	28.70	40.29
<i>Other financial investments</i>	1,941.61	2,041.68
	<u>2,138.90</u>	<u>2,208.29</u>
Debtors		
<i>Due from policyholders</i>	1.14	1.56
<i>Debtors arising out of direct insurance operations</i>	1.14	1.56
<i>Debtors arising out of reinsurance operations</i>	4.22	—
<i>Securities for subsequent settlement</i>	2.08	5.35
<i>Taxation recoverable</i>	8.02	10.78
<i>Sundry debtors and balances</i>	0.54	0.14
<i>Other taxation</i>	—	0.11
<i>Other debtors</i>	10.64	16.38
	<u>16.00</u>	<u>17.94</u>
Other assets		
<i>Cash at bank and in hand</i>	8.01	5.34
	<u>8.01</u>	<u>5.34</u>
Prepayments and accrued income		
<i>Accrued interest and rent</i>	9.51	9.04
	<u>9.51</u>	<u>9.04</u>
Total assets	<u>2,172.42</u>	<u>2,240.61</u>

for the year ended 31st December, 1994

Parent Society 1994 £m	Parent Society 1993 £m
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Long-Term Business Balance Sheet

Liabilities

Free reserves

Investment reserves (Note 5)

439.28	728.76
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439.28	728.76
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Technical provisions

Long-term business fund

1,708.61	1,491.96
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Claims outstanding

3.10	4.01
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1,711.71	1,495.97
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Creditors

Creditors arising out of direct insurance operations

0.62	0.51
------	------

Creditors arising out of reinsurance operations

4.73	2.58
------	------

Securities for subsequent settlement

4.00	4.25
------	------

Deferred taxation

4.00	4.00
------	------

Other creditors and balances

7.93	4.54
------	------

Other taxation

0.15	-
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Other creditors

16.08	12.79
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21.43	15.88
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Total liabilities

2,172.42	2,240.61
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Consolidated Cash Flow Statement

for the year ended 31st December, 1994

	Con- solidated 1994 £m	Con- solidated 1993 £m
Continuing Operating Activities		
<i>Premiums received from customers</i>	463.18	459.68
<i>Reinsurance premiums paid</i>	(53.90)	(52.56)
<i>Claims paid net of reinsurance</i>	(214.58)	(215.24)
<i>Interest and dividends received</i>	64.96	56.50
<i>Other cash payments</i>	(107.47)	(98.15)
<i>Receipts from non-insurance subsidiaries</i>	3.04	4.05
<i>Payments by non-insurance subsidiaries</i>	(3.91)	(1.28)
<i>Net cash inflow from continuing operating activities</i> <i>(Note 15a)</i>	<u>151.32</u>	<u>153.00</u>
Servicing of finance	-	-
Taxation		
<i>Corporation tax paid</i>	<u>(13.01)</u>	<u>(6.69)</u>
Investing activities		
<i>(Purchases) less sales of investments</i> <i>excluding cash deposits</i>	(148.40)	(106.82)
<i>(Purchases) less sales of fixed assets</i>	(1.88)	(1.72)
<i>Net cash outflow from investing activities</i>	<u>(150.28)</u>	<u>(108.54)</u>
<i>Net cash (outflow)/inflow before financing activities</i>	(11.97)	37.77
Financing activities	-	-
<i>(Decrease)/increase in cash and cash equivalents</i> <i>(Note 15b)</i>	<u>(11.97)</u>	<u>37.77</u>

Notes to Financial Statements

1 Accounting Policies

The financial statements 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 financial statements 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 Society avails itself of certain of the exemptions from the disclosure requirements of the Companies Act 1985 (as amended) applicable to insurance companies.

b) Basis of Consolidation

The consolidated financial statements include the assets and liabilities at 31st December, 1994 of the Society and its subsidiaries. Similarly the results of the Society and its subsidiaries are included for the year ended on 31st December, 1994. 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, manufacturing costs and administration expenses.

c) Translation and Conversion of Foreign Currencies

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

d) General Insurance Business

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

e) Long-Term Business

Premiums in respect of investment linked policies are accounted for in the period in which the liability is established. Other premiums are accounted for as they fall due for payment. Claims arising from death are accounted for in the period in which the event is notified. Maturity claims are accounted for when they become due and surrenders are charged when payment is made. Annuities are accounted for in the period in which the annuity becomes due for payment.

f) Investment Income

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

g) Taxation

United Kingdom 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.

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.

h) Investments

Investments, other than in subsidiaries, are shown at market value. Unlisted investments and mortgages are included at directors' valuation. The properties are valued annually by the Group's

professional staff, who are members of the Royal Institution of Chartered Surveyors, and by external Chartered Surveyors.

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 long-term business revenue account and general business profit and loss account when appropriate.

i) 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.

j) 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 to the revenue accounts or profit and loss account.

k) Depreciation

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

l) Retirement Benefits Schemes

The Group operates pension schemes covering the majority of employees. The schemes are valued regularly by qualified actuaries, the rates of contribution being determined after taking account of their advice.

Regular pension costs are calculated in accordance with the advice of the actuaries and are accounted for by charging the cost of providing pensions over the period during which the Group benefits from the employees' services. Variations from regular cost are spread over the expected average remaining working lifetime of the members of the schemes and interest accrued on any surplus arising in the schemes is deducted from the regular pension costs.

m) 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 over their estimated useful lives.

n) Goodwill

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

o) Associated Company

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

2 Gross Premiums Written

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

	Con- solidated 1994 £m	Con- solidated 1993 £m	Parent Society 1994 £m	Parent Society 1993 £m
General Business				
<i>Fire and Accident</i>	164.68	149.19	111.42	104.35
<i>Motor</i>	185.48	193.21	159.51	160.27
<i>Personal</i>	108.90	108.17	59.78	62.00
<i>Reinsurance accepted</i>	0.12	0.08	-	-
	<u>459.18</u>	<u>450.65</u>	<u>330.71</u>	<u>326.62</u>
Long-Term Business				
<i>Life</i>			122.25	114.92
<i>Annuity</i>			0.88	1.87
<i>Pensions</i>			60.00	56.07
			<u>183.13</u>	<u>172.86</u>

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

	Con- solidated 1994 £m	Con- solidated 1993 £m	Parent Society 1994 £m	Parent Society 1993 £m
General Business				
<i>United Kingdom</i>	456.40	448.07	330.71	326.62
<i>Overseas</i>	2.78	2.58	-	-
	<u>459.18</u>	<u>450.65</u>	<u>330.71</u>	<u>326.62</u>
Long-Term Business				
<i>United Kingdom</i>			138.04	135.55
<i>Overseas</i>			45.09	37.31
			<u>183.13</u>	<u>172.86</u>

3 Profit Before Taxation

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

	Con- solidated 1994 £m	Con- solidated 1993 £m	Parent Society 1994 £m	Parent Society 1993 £m
<i>Expenses of non-insurance activities</i>	4.28	4.45	-	-
<i>Depreciation</i>	1.90	2.03	0.18	0.18
<i>Auditors' fees for:</i>				
<i>Audit</i>	0.14	0.19	0.08	0.11
<i>Other services</i>	0.15	0.15	0.12	0.11

4 Retained Profits and Other Reserves

	Con- solidated 1994 £m	Con- solidated 1993 £m	Parent Society 1994 £m	Parent Society 1993 £m
<i>Balance at 1st January</i>	243.59	198.10	209.98	170.15
<i>Transfer from Profit and Loss Account</i>	72.33	45.49	57.12	39.83
<i>Balance at 31st December</i>	<u>315.92</u>	<u>243.59</u>	<u>267.10</u>	<u>209.98</u>

5 Investment Reserves

	Con- solidated 1994 £m	Con- solidated 1993 £m	Parent Society 1994 £m	Parent Society 1993 £m
Balance Sheet				
<i>Realised gains</i>	5.50	42.48	1.83	32.79
<i>Less: taxation</i>	2.12	4.35	0.87	1.14
	<u>3.38</u>	<u>38.13</u>	<u>0.96</u>	<u>31.65</u>
<i>Add: unrealised (losses)/gains</i>	(124.91)	129.35	(95.35)	108.67
<i>Total (losses)/gains in year</i>	<u>(121.53)</u>	<u>167.48</u>	<u>(94.39)</u>	<u>140.32</u>
<i>Less: transfer to General Insurance Revenue Account</i>	-	63.61	-	63.61
<i>(Decrease)/increase in the year</i>	<u>(121.53)</u>	<u>103.87</u>	<u>(94.39)</u>	<u>76.71</u>
<i>Balance at 1st January</i>	534.21	430.34	449.73	373.02
<i>Balance at 31st December</i>	<u>412.68</u>	<u>534.21</u>	<u>355.34</u>	<u>449.73</u>

These reserves are after taking into account deferred taxation on the unrealised gains of £2.00m. (1993 £2.00m.) in both the consolidated and parent Society financial statements.

Long-Term Business Balance Sheet

	Parent Society 1994 £m	Parent Society 1993 £m
<i>Realised gains</i>	13.45	49.78
<i>Less: taxation</i>	3.05	(2.85)
	<u>10.40</u>	<u>52.63</u>
<i>Add: unrealised (losses)/gains</i>	(209.88)	311.42
<i>Total (losses)/gains in year</i>	<u>(199.48)</u>	<u>364.05</u>
<i>Less: transfer to Long-Term Business Revenue Account</i>	(90.00)	(210.00)
<i>(Decrease)/increase in the year</i>	<u>(289.48)</u>	<u>154.05</u>
<i>Balance at 1st January</i>	728.76	574.71
<i>Balance at 31st December</i>	<u>439.28</u>	<u>728.76</u>

These reserves are after taking into account deferred taxation on the unrealised gains of £4.00m. (1993 £4.00m.).

6 Movements in Reserves

	Con- solidated 1994 £m	Con- solidated 1993 £m	Parent Society 1994 £m	Parent Society 1993 £m
<i>Reserves at 1st January:</i>				
<i>General Business</i>	777.80	628.44	659.71	543.17
<i>Long-Term Business</i>	728.76	574.71	728.76	574.71
	<u>1,506.56</u>	<u>1,203.15</u>	<u>1,388.47</u>	<u>1,117.88</u>
<i>Retained profits and other reserves (Note 4)</i>	72.33	45.49	57.12	39.83
<i>Investment reserves (Note 5)</i>	(411.01)	257.92	(383.87)	230.76
<i>Total reserves at 31st December</i>	<u>1,167.88</u>	<u>1,506.56</u>	<u>1,061.72</u>	<u>1,388.47</u>
<i>As represented by:</i>				
<i>General Business</i>	728.60	777.80	622.44	659.71
<i>Long-Term Business</i>	439.28	728.76	439.28	728.76
	<u>1,167.88</u>	<u>1,506.56</u>	<u>1,061.72</u>	<u>1,388.47</u>

7 Directors and Employees

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

	1994	1993
<i>Fees</i>	£160,554	£152,117
<i>Other emoluments</i>	£216,354*	£200,241*

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

Included in the above is £45,634 payable to the Chairman (1993 £42,914). Also included is £187,706 (inclusive of taxable benefits in kind) payable to the highest paid director (1993 £190,914). The emoluments of the remaining directors of the Society are classified in the following table:-

<i>Emoluments</i>	<i>Number of Directors</i>	
	1994	1993
£0 - £5,000	1	1
£5,001 - £10,000	-	1
£10,001 - £15,000	7	7
£15,001 - £20,000	2	-
£20,001 - £25,000	1	1

Pensions to former directors amounted to £50,484 (1993 £52,158).

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

- A fee of £10,660, plus supplements for work as director of a subsidiary or as a member of a Board committee. In the case of the Chairman and Vice-Chairman, these fees are £42,640 and £21,320 respectively, plus supplements.
- A pension on retirement, on a non-contractual, unfunded basis. This cost is paid out of the Society's general revenue account. Pensions are based on the length of service as a director. The widow of a director dying either in service, or in retirement, also receives a small pension.
- Private medical insurance covering directors, their spouses and any children under 21.

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

Mr. D. F. Tigwell's remuneration, as General Manager, is similarly decided. In his case, the performance-related element is based only on the results of the Society's general insurance business.

The performance-related element reflects both short-term financial performance and medium-term objectives set by the Board. It is non-pensionable. Any payments earned are made once a year (in respect of short-term performance, during the preceding calendar year) and once every three years (in respect of the medium-term performance).

The Group's policy is to place significant emphasis on the performance-related element of the remuneration of senior executives.

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

	1994	1993
<i>Basic salary</i>	148,050	142,450
<i>Performance-related : short-term</i>	28,138	12,338
<i>Performance-related : medium-term (every 3 years)</i>	n/a	24,675
	<u>£176,188</u>	<u>£179,463</u>

Other benefits received were car, petrol, private medical insurance, telephone and directors and officers liability insurance, the taxable benefits from which totalled

<u>£11,518</u>	<u>£11,451</u>
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The Group received £13,288 (1993 £6,000) in respect of the Managing Director's services to other companies as a non-executive director, thereby reducing the cost to the Group by that amount. Particulars of transactions required by section 232 and Schedule 6 of the Companies Act 1985 are as follows:-

House purchase loans for Mr. A. S. Young and Mr. D. F. Tigwell subsisted during the year. The terms of the transactions are those applicable, under the staff mortgage scheme, to a member of General Management, commencing with an interest rate of 3½%. Each loan is secured by a first mortgage on the private dwelling house and on endowment policies on the borrower's life.

	Mr. A. S. Young	Mr. D. F. Tigwell
Liability at 1st January, 1994	£14,075	£56,125
Maximum liability during the year	£14,075	£56,125
Liability at 31st December, 1994	£14,075	£42,100

At 31st December, 1994 one officer of the Society had a loan of £36,900 made on normal terms under the staff mortgage scheme (1993 one officer £42,000).

8 Taxation

The profit and loss account shows the taxation borne and chargeable on interest, dividends and rents and for subsidiaries on the results of the year. The provision for taxation is based on a rate of 33% (1993 33%). In the long-term business revenue account, taxation has been computed on the basis applicable to life assurance and pensions business. The provision for taxation is based on a rate of 25% (1993 25%).

	<i>Consolidated Profit and Loss</i>		<i>Parent Society Profit and Loss</i>		<i>Parent Society Long-Term</i>	
	1994 £m	1993 £m	1994 £m	1993 £m	1994 £m	1993 £m
United Kingdom Taxation						
<i>Corporation tax</i>	15.71	9.96	10.01	9.12	(0.07)	(0.20)
<i>Deferred taxation</i>	0.32	0.45	0.37	0.30	(0.06)	(0.08)
<i>Income tax on franked investment income</i>	4.87	3.96	4.20	3.39	3.69	3.41
<i>Share of associated company's tax</i>	0.19	0.12	—	—	—	—
	<u>21.09</u>	<u>14.49</u>	<u>14.58</u>	<u>12.81</u>	<u>3.56</u>	<u>3.13</u>
<i>Less: double taxation relief</i>	0.50	0.46	0.50	0.46	0.15	0.39
Total United Kingdom Taxation	<u>20.59</u>	<u>14.03</u>	<u>14.08</u>	<u>12.35</u>	<u>3.41</u>	<u>2.74</u>
Overseas Taxation	0.58	0.61	0.52	0.47	0.72	0.84
	<u>21.17</u>	<u>14.64</u>	<u>14.60</u>	<u>12.82</u>	<u>4.13</u>	<u>3.58</u>

Deferred taxation in the balance sheets is included under taxation and amounts to £6.13m. credit (1993 £5.81m. credit) in the balance sheet for general business and £4.01m. credit (1993 £4.07m. credit) in the long-term business balance sheet.

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 £75.00m. (1993 £93.40m.) in the general business consolidated financial statements and £62.00m. (1993 72.00m.) in the parent Society general business financial statements. The equivalent figure for long-term business is £40.00m. (1993 £60.00m.).

9 Subsidiaries

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

Subsidiaries in the Group are as follows:-

*NFU Mutual Management Company Ltd.**
NFU Mutual Unit Managers Ltd.
NFU Mutual Insurance Association Ltd.
Tiddington Finance Ltd.
Tiddington Investments Ltd.
Stratford Services Ltd.

Avon Insurance plc
NFU Mutual Investment Services Ltd.
Knights Property Company Ltd.
Edward Fox & Son Ltd.
Tiddington Nominees Ltd.
Harvester Properties Ltd.
*Salmon Harvester Properties Ltd. (50% owned)**

* denotes direct subsidiary

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

Guernsey

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

Jersey

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

The remaining subsidiary, which is 60% owned, is registered in Greece:-

Barry S.A.

10 Associated Company

The Group has a 46% (1993 36%) shareholding in its associated company, NFU Mutual Finance Ltd., a company incorporated in Great Britain and registered in England and Wales.

11 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 assets of the schemes are held separately from those of the companies. Contributions to the schemes are charged to the revenue accounts so as to spread the cost of pensions over employees' working lives with the companies. The charge for the year was £1.14m. (1993 £0.88m.)

The contributions for the schemes are determined by an independent qualified actuary on the basis of triennial valuations using the Projected Unit Method. The most recent valuation was at 31st March, 1994. At this date the market value of the investments of the schemes was £270.30m. The assets of these schemes were in excess of the amount required to cover the benefits that had accrued to members after allowing for future increases in earnings. The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of return on investments and the rates of increases in salaries and pensions. It was assumed that the returns on new investments would be 9% per annum, increases in dividends would be 4% per annum, salary increases would average 7% per annum and present and future pensions would increase at the rate of 5% per annum.

12 Capital Expenditure

Capital expenditure not provided for in these financial statements at 31st December, 1994 amounted to approximately:-

	1994	1993
	£m	£m
Contracted for	6.21	0.41
Authorised but not contracted for	12.07	7.44

13 Stock Lending

Holdings of UK Government securities and overseas equities with a value of £129.14m. (1993 £85.80m.) were on loan at 31st December, 1994 under approved stock lending schemes.

14 General Business Technical Provisions	Gross	Reinsurance	Net	Gross	Reinsurance	Net
	1994 £m	1994 £m	1994 £m	1993 £m	1993 £m	1993 £m
Consolidated						
Unearned premiums	211.19	5.37	205.82	213.28	9.92	203.36
Deferred acquisition expenses	(31.71)	-	(31.71)	(31.55)	-	(31.55)
	<u>179.48</u>	<u>5.37</u>	<u>174.11</u>	<u>181.73</u>	<u>9.92</u>	<u>171.81</u>
Outstanding claims	627.71	40.08	587.63	562.28	33.44	528.84
Parent Society						
Unearned premiums	161.66	4.93	156.73	162.94	5.43	157.51
Deferred acquisition expenses	(23.51)	-	(23.51)	(23.63)	-	(23.63)
	<u>138.15</u>	<u>4.93</u>	<u>133.22</u>	<u>139.31</u>	<u>5.43</u>	<u>133.88</u>
Outstanding claims	494.02	22.48	471.54	433.92	13.47	420.45

15 Consolidated Cash Flow Statement

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

	1994 £m	1993 £m
Profit before taxation	93.50	60.13
Adjustments for items not involving movements of cash:		
Net gain on disposal of assets	(0.03)	(0.29)
(Increase)/decrease in debtors	(3.21)	9.11
Increase in unearned premiums	2.30	14.09
Increase in claims provisions	58.79	66.43
Increase in creditors	3.46	5.84
Taxation on franked investment income	(4.87)	(4.06)
Depreciation charge	1.90	2.04
Decrease in stocks	0.04	0.03
Share of (profit) in associated company	(0.56)	(0.32)
Net cash inflow from continuing operating activities	<u>151.32</u>	<u>153.00</u>

b) Changes in Cash and Cash Equivalents

Cash at bank at 1st January	16.07	37.74
Cash at bank at 31st December	20.93	16.07
Increase/(decrease) in year	<u>4.86</u>	<u>(21.67)</u>
Cash deposits at 1st January	129.04	71.05
Cash deposits at 31st December	112.21	129.04
(Decrease)/increase in year	<u>(16.83)</u>	<u>57.99</u>
Short-term loans at 1st January	(2.00)	(3.45)
Short-term loans at 31st December	(2.00)	(2.00)
Increase in year	<u>-</u>	<u>1.45</u>
(Decrease)/increase in cash and cash equivalents	<u>(11.97)</u>	<u>37.77</u>

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

We have audited the financial statements on pages 10 to 24.

Respective responsibilities of directors

As described on page 8, 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, 1995

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

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

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

Basis of opinion

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

Opinion

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

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

Coopers & Lybrand
Chartered Accountants
Liverpool, 17th March, 1995

**1994
Report &
Financial
Statements
Avon
Insurance plc**

Registered no. 209606

BOARD OF DIRECTORS

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

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

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

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

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

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



DIRECTORS' REPORT

Activities

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

General Business

Net written premiums amounted to £100.40m. Claims incurred were £61.90m. After making provision for all expenses and for unearned premiums, less deferred acquisition expenses, a surplus of £4.65m. has been transferred from the revenue account. After adding investment income, less expenses, the profit before taxation was £16.83m. The profit after tax was £11.65m. and after providing for the proposed dividend of £4.26m. the balance to be transferred to retained profits and other reserves amounts to a profit of £7.39m.

Directors

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

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

Statement of Directors' Responsibilities

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

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

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

Corporate Governance

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

The directors are responsible for the Group's system of internal financial control. The guidance for directors will come into force for accounting periods commencing on or after 1st January, 1995. The directors will include a formal statement on this subject in next year's report.

Going Concern

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

Directors and Officers Liability Insurance

Throughout 1994, the NFU Mutual and Avon Group maintained an insurance policy indemnifying the directors and officers against loss attaching to legal liabilities arising in the course of their duties.

Auditors

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

A. Evans

A. Evans
Chairman

A. Q. Hitchcock

A. Q. Hitchcock
Vice-Chairman

A. S. Young

A. S. Young
Managing Director

Sir Richard Butler

Sir Richard Butler
Director

for the year ended 31st December, 1994

	1994 £m	1993 £m
Continuing Operations		
<i>Gross premiums written (Note 2)</i>	127.26	122.94
<i>Less: outwards reinsurance</i>	26.86	26.50
<i>Net premiums written</i>	100.40	96.44
<i>Less: increase/(decrease) in unearned premiums</i>	1.48	(4.06)
<i>Premiums earned</i>	98.92	100.50
<i>Claims</i>	64.53	86.46
<i>Policyholders' Protection Act levy</i>	0.95	0.49
<i>Gross claims</i>	65.48	86.95
<i>Less: outwards reinsurance</i>	3.58	10.71
<i>Net claims</i>	61.90	76.24
<i>Commission</i>	17.93	17.26
<i>Expenses</i>	14.72	13.53
<i>Deferred acquisition expenses</i>	(0.28)	1.12
	94.27	108.15
Surplus/(deficit) to Profit and Loss Account	4.65	(7.65)

for the year ended 31st December, 1994

	1994 £m	1993 £m
<i>Investment income</i>	12.35	11.89
<i>Surplus/(deficit) from General Insurance Revenue Account</i>	4.65	(7.65)
	17.00	4.24
<i>Less: other expenses</i>	0.17	0.13
<i>Profit before taxation (Note 3)</i>	16.83	4.11
<i>Less: taxation (Note 8)</i>	5.18	1.31
<i>Profit after taxation</i>	11.65	2.80
<i>Less: proposed dividend</i>	4.26	2.50
Retained profit for the year (Note 4)	7.39	0.30

The Group has no recognised gains or losses included in the profits above and therefore no separate statement of total recognised gains and losses has been presented. Recognised gains and losses in investments are disclosed separately within investment reserves (note 5).

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

**General
Insurance
Revenue
Account**

**Profit
and Loss
Account**

Balance Sheet

for the year ended 31st December, 1994

1994 £m

1993 £m

Assets		
Investments		
<i>Land and buildings</i>	16.68	13.22
<i>British Government and local authority securities</i>	51.81	57.55
<i>Fixed interest stocks</i>	38.07	36.83
<i>Ordinary shares</i>	93.94	96.72
<i>Mortgages, loans and deposits</i>	24.19	28.70
<i>Shares in subsidiaries</i>	5.05	5.05
	<hr/>	<hr/>
<i>Other financial investments</i>	213.06	224.85
	<hr/>	<hr/>
	229.74	238.07
	<hr/>	<hr/>
Reinsurers' share of technical provisions (Note 13)		
<i>Provision for unearned premiums</i>	0.14	4.10
<i>Claims outstanding</i>	17.60	19.97
	<hr/>	<hr/>
	17.74	24.07
	<hr/>	<hr/>
Debtors		
<i>Due from policyholders</i>	12.08	9.59
<i>Due from intermediaries</i>	7.71	7.44
	<hr/>	<hr/>
<i>Debtors arising out of direct insurance operations</i>	19.79	17.03
	<hr/>	<hr/>
<i>Debtors arising out of reinsurance operations</i>	2.16	1.12
<i>Securities for subsequent settlement</i>	0.22	0.66
<i>Due from parent Society</i>	1.00	—
<i>Due from subsidiary</i>	0.78	0.22
<i>Sundry debtors and balances</i>	0.88	2.49
	<hr/>	<hr/>
<i>Other debtors</i>	2.88	3.37
	<hr/>	<hr/>
	24.83	21.52
	<hr/>	<hr/>
Other assets		
<i>Cash at bank and in hand</i>	1.60	0.62
	<hr/>	<hr/>
	1.60	0.62
	<hr/>	<hr/>
Prepayments and accrued income		
<i>Accrued interest and rent</i>	1.42	1.39
	<hr/>	<hr/>
	1.42	1.39
	<hr/>	<hr/>
Total assets	275.33	285.67

for the year ended 31st December, 1994

1994 £m

1993 £m

Balance Sheet

Liabilities		
Capital and reserves		
<i>Called up share capital (Note 12)</i>	20.00	20.00
<i>Retained profits and other reserves (Note 4)</i>	29.65	22.26
<i>Investment reserves (Note 5)</i>	38.98	62.12
Free reserves	68.63	84.38
Shareholders' funds (Note 6)	88.63	104.38
Technical provisions (Note 13)		
<i>Provision for unearned premiums</i>	41.21	43.69
<i>Claims outstanding</i>	133.34	128.06
<i>Deferred acquisition expenses</i>	(8.20)	(7.92)
	166.35	163.83
Creditors		
<i>Creditors arising out of direct insurance operations</i>	2.30	2.38
<i>Creditors arising out of reinsurance operations</i>	3.74	2.93
<i>Bank loans</i>	1.00	1.00
<i>Securities for subsequent settlement</i>	0.26	1.82
<i>Due to parent Society</i>	3.25	3.68
<i>Due to subsidiaries</i>	-	0.23
<i>Corporation tax</i>	4.37	2.19
<i>Other creditors and balances</i>	0.77	0.73
<i>Other taxation</i>	0.40	-
<i>Provision for proposed dividend</i>	4.26	2.50
Other creditors	14.31	12.15
	20.35	17.46
Total liabilities	275.33	285.67

These financial statements were approved by the directors at a meeting on 16th March, 1995 and were signed on their behalf by:-

A. Evans

Chairman

A. S. Young

Managing Director

A. Q. Hitchcock

Vice-Chairman

Sir Richard Butler

Director

Stratford-upon-Avon, 16th March, 1995

Cash Flow Statement

for the year ended 31st December, 1994

	1994 £m	1993 £m
Continuing Operating Activities		
<i>Premiums received from customers</i>	126.93	127.26
<i>Reinsurance premiums paid</i>	(26.04)	(23.99)
<i>Claims paid net of reinsurance</i>	(53.55)	(60.74)
<i>Interest and dividends received</i>	11.65	10.74
<i>Other cash payments</i>	(36.98)	(31.00)
<i>Net cash inflow from continuing operating activities</i> <i>(Note 14a)</i>	22.01	22.27
Servicing of finance		
<i>Dividends paid</i>	(2.50)	(0.10)
Taxation		
<i>Corporation tax (paid)/received</i>	(2.31)	3.00
Investing activities		
<i>(Purchases) less sales of investments</i> <i>excluding cash deposits</i>	(20.22)	(24.89)
<i>Net cash (outflow)/inflow before financing activities</i>	(3.02)	0.28
Financing activities		
(Decrease)/increase in cash and cash equivalents (Note 14b)	(3.02)	0.28

Notes to Financial Statements

1 Accounting Policies

The financial statements 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 financial statements 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. Exchange differences are taken to reserves or to profit and loss account as appropriate.

c) General Insurance Business

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

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

United Kingdom 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.

f) Investments

Investments, other than in subsidiaries, are shown at market value. Unlisted investments and mortgages are included at directors' valuation. The properties are valued annually by the Group's professional staff, who are members of the Royal Institution of Chartered Surveyors, and by external Chartered Surveyors.

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:-

	1994 £m	1993 £m
<i>Fire and Accident</i>	52.65	44.27
<i>Motor</i>	25.97	32.94
<i>Personal</i>	48.64	45.73
	<u>127.26</u>	<u>122.94</u>

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

<i>United Kingdom</i>	125.69	121.38
<i>Overseas</i>	1.57	1.56
	<u>127.26</u>	<u>122.94</u>

3 Profits Before Taxation

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

	1994 £m	1993 £m
<i>Auditors' fees for:</i>		
<i>Audit</i>	0.05	0.06
<i>Other services</i>	0.03	0.05

4 Retained Profits and Other Reserves

	1994 £m	1993 £m
<i>Balance at 1st January</i>	22.26	21.96
<i>Transfer from Profit and Loss Account</i>	7.39	0.30
<i>Balance at 31st December</i>	<u>29.65</u>	<u>22.26</u>

5 Investment Reserves

	1994 £m	1993 £m
<i>Realised gains</i>	3.67	9.69
<i>Less: taxation</i>	1.25	3.21
	<u>2.42</u>	<u>6.48</u>
<i>Add: unrealised (losses)/gains</i>	(25.56)	16.72
<i>(Decrease)/increase in the year</i>	(23.14)	23.20
<i>Balance at 1st January</i>	62.12	38.92
<i>Balance at 31st December</i>	<u>38.98</u>	<u>62.12</u>

6 Movements In Shareholders' Funds

	1994 £m	1993 £m
<i>Balance at 1st January</i>	104.38	80.88
<i>Retained profits and other reserves (Note 4)</i>	7.39	0.30
<i>Investment reserves (Note 5)</i>	(23.14)	23.20
<i>Balance at 31st December</i>	<u>88.63</u>	<u>104.38</u>

7 Directors

The aggregate emoluments of the Company's directors were £32,000 (1993 £28,000) all of which was in respect of service as directors.

Included in the above is £10,730 payable to the Chairman (1993 £9,340).

Three other directors of the Company received emoluments within the range £5,001 - £10,000 (1993 three in the range £5,001 - £10,000).

No pension contributions were made in respect of serving directors.

Pensions to former directors amounted to £12,621 (1993 £13,039).

8 Taxation

In the profit and loss account, taxation is based on the results of the year, using a rate of 33% (1993 33%).

	1994 £m	1993 £m
United Kingdom Taxation		
<i>Corporation tax</i>	4.41	0.37
<i>Deferred taxation</i>	0.01	0.27
<i>Income tax on franked investment income</i>	0.67	0.57
Total United Kingdom Taxation	<u>5.09</u>	<u>1.21</u>
Overseas Taxation	0.09	0.10
	<u>5.18</u>	<u>1.31</u>

Deferred taxation in the balance sheet is included under taxation and amounts to £0.66m. (1993 £0.65m.).

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 £13.00m. (1993 £21.40m.).

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 Great Britain and registered in England and Wales.

10 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 financial statements are not required as the Company is itself the wholly-owned subsidiary of another company incorporated in Great Britain and registered in England and Wales. The value of the Company's interest in its subsidiaries is not less than the amount at which the interest is stated in the balance sheet.

11 Capital Expenditure

There were no capital commitments at 31st December, 1994 not provided for in these financial statements (1993 £Nil).

12 Share Capital

The authorised capital at 31st December, 1994 was £100m. (1993 £100m.) divided into shares of £1 each, of which twenty million (1993 twenty million) were issued and fully paid.

13 General Business Technical Provisions	Gross	Reinsurance	Net	Gross	Reinsurance	Net
	1994 £m	1994 £m	1994 £m	1993 £m	1993 £m	1993 £m
Unearned premiums	41.21	0.14	41.07	43.69	4.10	39.59
Deferred acquisition expenses	(8.20)	—	(8.20)	(7.92)	—	(7.92)
	33.01	0.14	32.87	35.77	4.10	31.67
Outstanding claims	133.34	17.60	115.74	128.06	19.97	108.09

14 Cash Flow Statement

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

	1994 £m	1993 £m
Profit before taxation	16.83	4.11
Adjustments for items not involving movements of cash:		
(Increase)/decrease in debtors	(2.90)	6.78
Increase/(decrease) in unearned premiums	1.20	(2.94)
Increase in claims provisions	7.65	13.13
(Decrease)/increase in creditors	(0.10)	1.76
Taxation on franked investment income	(0.67)	(0.57)
Net cash inflow from continuing operating activities	22.01	22.27

b) Changes in Cash and Cash Equivalents

Cash at bank at 1st January	0.62	6.69
Cash at bank at 31st December	1.60	0.62
Increase/(decrease) in year	0.98	(6.07)
Cash deposits at 1st January	20.30	14.45
Cash deposits at 31st December	16.30	20.30
(Decrease)/increase in year	(4.00)	5.85
Short-term loans at 1st January	(1.00)	(1.50)
Short-term loans at 31st December	(1.00)	(1.00)
Increase in year	—	0.50
(Decrease)/increase in cash and cash equivalents	(3.02)	0.28

Report of the Auditors to the members of Avon Insurance plc

We have audited the financial statements on pages 27 to 34.

Respective responsibilities of directors

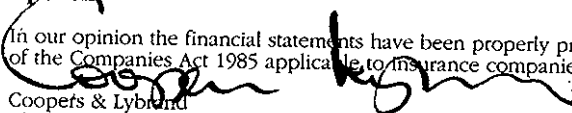
As described on page 26, the Company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

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, 1995

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

In addition to our audit of the financial statements, we have reviewed the directors' statement on page 26 on the Company's compliance with the Code of Best Practice.

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

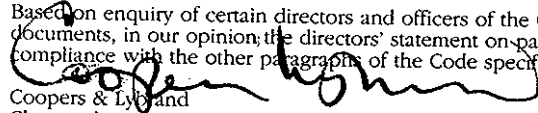
Basis of opinion

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

Opinion

With respect to the directors' statements on internal control and going concern on page 26, in our opinion the directors have provided the going concern disclosures required by paragraph 4.6 of the Code and have explained the extent of their compliance with the disclosures on internal financial control required by paragraph 4.5 of the Code both as supplemented by the related guidance for directors. Their statements in respect of both are not inconsistent with the information of which we are aware from our audit work on the financial statements.

Based on enquiry of certain directors and officers of the Company and examination of relevant documents, in our opinion the directors' statement on page 26 appropriately reflects the Company's compliance with the other paragraphs of the Code specified for our review.


Coopers & Lybrand
Chartered Accountants
Liverpool, 17th March, 1995

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NFU MUTUAL & AVON GROUP

Members of which are regulated by the Personal Investment Authority
and the Investment Management Regulatory Organisation.

The Group also includes members of the Association of British Insurers
and the Insurance Ombudsman Bureau.

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