

N.F.U. MUTUAL UNIT MANAGERS LIMITED
ANNUAL REPORT
FOR THE YEAR ENDED 31ST DECEMBER 2012

Registered Number: 01837277

Registered Office:
Tiddington Road
Stratford-upon-Avon
Warwickshire
CV37 7BJ

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N F U. MUTUAL UNIT MANAGERS LIMITED
ANNUAL REPORT
FOR THE YEAR ENDED 31ST DECEMBER 2012

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N F U. MUTUAL UNIT MANAGERS LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31ST DECEMBER 2012

The directors present their report and audited financial statements of N F U. Mutual Unit Managers Limited ("the company") for the year ended 31st December 2012

PRINCIPAL ACTIVITIES

The principal activities of the company are the promotion and management of two third party Open Ended Investment Companies (OEICs) for which it receives management fees. The company is an Authorised Corporate Director for the two OEICs and in its capacity as such creates and redeems shares within the OEICs as part of its day to day business.

KEY PERFORMANCE INDICATORS

KPI	2012	2011
Loss before tax	£(4.8)m	£(6.6)m
Total Sales	£149.7m	£217.6m
Net sales (less repurchases)	£88.4m	£172.6m
Total Customers	27,615	27,386

REVIEW OF BUSINESS AND FUTURE DEVELOPMENTS

In 2012 N F U Mutual Unit Managers Limited recorded a loss after tax of £4m (2011: £5m loss after tax). As per previous years the cost of acquiring the new business in 2012 exceeded the initial charge levied upon the investments. Although it is known that in the short term the ISA business is not profitable as a direct result of this new business strain, the company anticipates generating a profit on such business over the long term via the Annual Management Charge levied upon the fund.

The Annual Management Charge showed positive growth of 15% in the year. Total net sales in the year fell by 49% to £88m (2011: £173m) of which retail shares (which earn the management charge) fell by 13% to £55m (2011: £63m). The company saw its funds under management rise to £914m (2011: £758m) an increase of 21%, the FTSE 100 also rose by 5.8% in 2012.

Commission fell by 18% in 2012, this is paid to the introducers who acquire the new business on behalf of the company. Discounts rose by 15% in 2012. Higher discounts were seen in 2012 which are expected to offset any new business costs in the long run. The initial charge earned net of discounts fell by 26% to £1m in the year.

Administrative expenses in 2012 fell by 8% to £12m (2011: £13m).

The Board agreed to a further capital injection from the Parent Company of £10m during 2012 (£5m injected in 2011) in order to ensure that the capital requirements were met throughout the year, and will continue to be met in the future.

It is expected that going forwards the majority of new business will come from the newly incorporated NFU Mutual Select Investments Limited, a subsidiary of the parent company. This new business will be invested through a new share class which will ultimately earn a reduced amount of annual management charge than the existing business. This reduction in income is expected to be fully offset by a greater reduction in expenses due to the company's expenses being transferred to NFU Mutual Select Investments Limited.

The company is exposed to financial risk through its financial assets and financial liabilities. The key financial risk that is currently managed is market risk incurred indirectly through its relationship with the Open Ended

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DIRECTORS' REPORT

FOR THE YEAR ENDED 31ST DECEMBER 2012

Investment Company. A further risk is that, in the long term, the management charge is not sufficient to cover the initial new business strain incurred on acquiring the business, this may occur in a prolonged downturn in the market. The Board continues to monitor the embedded value of the company and that the net investment into the funds is positive. The well diversified portfolio will also help to minimise this risk. These risks are discussed further below.

The Directors consider that the level of reserves held is sufficient to meet the firms' financial liabilities

DIVIDENDS AND TRANSFERS TO RESERVES

The directors do not recommend the payment of a dividend (2011 £nil)

The loss for the financial year was £3,553,058 (2011 loss of £4,827,423) which will be offset against reserves

DIRECTORS

The directors during the year and up to the date of signing of these financial statements were as follows

K. Arif, B Soc Sc. (Hons), FIA

A Paterson, BA, ACII

S V McCarthy

P A. Glover, B.Soc Sc (Hons)

T McKeon

The parent company has put in place deeds of indemnity for the benefit of the Directors and Company Secretary of the parent company and of its associated companies. The deeds of indemnity are qualifying third party indemnity provisions in accordance with the Companies Act 2006

FINANCIAL RISK MANAGEMENT

The company is exposed to financial risk through its financial assets and financial liabilities. In particular, the key financial risk that is currently managed is Equity risk incurred indirectly through its relationship with the Open Ended Investment Company

Market Risk

The company's income is derived from a management service charge levied based on the fund values of the NFU Mutual OEIC and the NFU Mutual Portfolio Funds OEIC. It follows that if the values of these funds go down then the income level within the company will diminish. The management considers this risk to be insignificant due to the company having sufficient reserves to ensure that a fall in income will be absorbed

Furthermore the company holds very little in the way of OEIC units thus reducing its exposure to market volatility and ultimately its financial position

Cashflow Risk

The risk is that current assets are insufficient to meet obligations to third party creditors. This position is managed by ensuring that cash on short-term deposits is sufficient to cover the company's obligations as they fall due

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DIRECTORS' REPORT

FOR THE YEAR ENDED 31ST DECEMBER 2012

Interest Rate Risk

Following the decision to hold only a limited amount of OEIC units on the company's balance sheets the exposure to interest rate risk is limited and can therefore be considered immaterial.

Credit Risk

There is a risk that interest or principal will not be returned on the firm's cash deposits placed with financial institutions. We monitor the credit worthiness of financial instruments through credit ratings and other publicly available information in order to manage this risk to an acceptably low level.

By order of the Board



Kim Arif
Director

23/04/2013

N F U. MUTUAL UNIT MANAGERS LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent,
- state whether applicable UK 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 adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. 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.

Information Given To Auditors

Each of the directors at the date of approval of this report confirms that

- (a) so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware, and
- (b) the director has taken all the steps that they ought to have taken as a director in order to make them self aware of any relevant audit information and to establish that the company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

By order of the Board



Kim Arif
Director

23/04/2013

N.F.U. MUTUAL UNIT MANAGERS LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF N F U. MUTUAL UNIT MANAGERS LIMITED

We have audited the financial statements of N F U Mutual Unit Managers Limited for the year ended 31 December 2012 which comprise the Profit and Loss Account, the Balance Sheet, and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of directors and auditors

As explained more fully in the Statement of Directors' Responsibilities set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2012 and of its loss for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit.



Craig Gentle (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Bristol

23/04/2013

N.F.U. MUTUAL UNIT MANAGERS LIMITED
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31ST DECEMBER 2012

	<u>Note</u>	<u>2012</u> £	<u>2011</u> £
<u>Continuing Operations</u>			
TURNOVER		7,279,606	6,888,081
Cost of sales		(117,855)	(141,612)
GROSS PROFIT	4	<u>7,161,751</u>	<u>6,746,469</u>
Administrative expenses		(12,017,549)	(13,429,242)
OPERATING (LOSS)		<u>(4,855,798)</u>	<u>(6,682,773)</u>
Interest receivable and similar income	5	31,344	36,699
(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION	6	<u>(4,824,454)</u>	<u>(6,646,074)</u>
Tax on (loss) on ordinary activities	7	1,271,396	1,818,651
(LOSS) FOR THE FINANCIAL YEAR	11	<u><u>(3,553,058)</u></u>	<u><u>(4,827,423)</u></u>

All results derive from continuing operations

The company has no recognised gains and losses other than in the loss above, and therefore no separate statement of total recognised gains and losses has been presented

There is no material difference between the losses on ordinary activities before taxation and the loss for the financial years stated above and their historical costs equivalents

The information on pages 9 to 15 forms an integral part of these financial statements

N F U. MUTUAL UNIT MANAGERS LIMITED

BALANCE SHEET

AS AT 31st December 2012

	<u>Note</u>	<u>2012</u> £	<u>2011</u> £
<u>CURRENT ASSETS</u>			
Stock of shares		36,698	25,557
Debtors	8	2,490,340	2,484,668
Cash at bank and in hand		21,175,556	15,341,499
		<u>23,702,594</u>	<u>17,851,724</u>
Creditors Amounts falling due within one year	9	<u>12,839,762</u>	<u>13,435,834</u>
NET ASSETS		<u>10,862,832</u>	<u>4,415,890</u>
<u>CAPITAL AND RESERVES</u>			
Called up share capital	10	566,666	399,999
Share premium account	11	28,238,314	18,404,981
Profit and loss account	11	(17,942,148)	(14,389,090)
EQUITY SHAREHOLDERS' FUNDS	12	<u>10,862,832</u>	<u>4,415,890</u>

The financial statements on pages 7 to 15 were approved by the board of directors on 23/04/2013 and were signed on its behalf by



Kim Arif
DIRECTOR

23/04/2013

N F U MUTUAL UNIT MANAGERS LIMITED
Company Number 01837277

The information on pages 9 to 15 forms an integral part of these financial statements

N.F.U. MUTUAL UNIT MANAGERS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER 2012

1 ACCOUNTING POLICIES

These financial statements have been prepared on the going concern basis, under the historical cost convention, as modified by the fair valuing of stocks of shares, and in accordance with the Companies Act 2006 and applicable accounting standards and accounting policies in the United Kingdom. Accounting policies have been applied consistently.

a) Going Concern basis of Preparation

The company made a loss in the year of £4.8m before tax (2011: £6.6m loss) and is dependant on the continuing support of its parent company. The Directors have taken account of this parental support in concluding that it remains appropriate to use the going concern concept in the preparation of the financial statements.

b) Turnover

Turnover consists of dealing charges on the sale of units within the OEICs less any discounts, and fees receivable for managing the open ended investment companies in the United Kingdom. Any holding profit or loss made on the managers box along with any distribution income is accounted for as turnover. Income receivable is recognised on an accruals basis.

c) Stocks of shares

Shares are valued daily at market value. Any profit or loss is recognised as dealing profit within the turnover figure on the Profit and Loss account.

d) Debtors

Debtors are amounts due from customers and other receivables arising from trading and services performed in the ordinary course of business. If collection is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets. Debtors are recognised initially at fair value and subsequently measured at amortised cost less provision or impairment.

e) Deposits with Credit Institutions

Deposits with credit institutions represents deposits with qualifying credit institutions subject to time restrictions or penalties for early withdrawal.

f) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of change in value.

g) Share capital

Ordinary shares are classified as equity. Excess amounts received over par is accounted for as share premium and recognised as equity.

h) Creditors

Creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within

N.F.U. MUTUAL UNIT MANAGERS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER 2012

one year or less. If not, they are presented as non-current liabilities. Creditors are recognised initially at fair value and subsequently measured at amortised cost.

i) Current and Deferred Taxation

The tax expense for the period comprises current and deferred tax where applicable. The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the company generate taxable income. A taxation credit is recognised where losses are utilised within the Group and the Company will receive cash in respect of these losses.

j) Administrative Expenses

Administrative expenses are recognised on an accruals basis in the period to which the services or goods received relate.

The Company is a wholly owned subsidiary of The National Farmers Union Mutual Insurance Society Limited, whose consolidated financial statements are publicly available (see note 13). Consequently, the Company is exempt under the terms of Financial Reporting Standard 1 (FRS 1 – Cashflow Statements) (Revised 1996) from publishing a cash flow statement.

The Company is also exempt under the terms of Financial Reporting Standard 8 (FRS 8 – Related Parties) from disclosing related party transactions with entities that are part of The National Farmers Union Mutual Insurance Society group.

2 RELATED PARTY DISCLOSURES

Dealings with OEIC funds

The company managed nine Open Ended Investment Company (OEIC) funds during the year, for which it received total management fees of £6,224,392 (2011: £5,413,923).

In its capacity as Authorised Corporate Director of the OEICs the company creates and redeems shares within the OEICs as part of its day to day business. These transactions are not included in turnover since they are client monies and relate to client investments in the OEICs and do not represent income to the Company. The amounts paid over to the trustees of the OEIC in order to satisfy customer demands were as follows:

	<u>2012</u>	<u>2011</u>
	£	£
Amounts paid to the trustees for creation of shares	<u>102,970,203</u>	<u>199,254,044</u>
 The amounts outstanding at 31 December with open ended investment companies	 <u>1,545,415</u>	 <u>765,129</u>

N.F.U. MUTUAL UNIT MANAGERS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER 2012

3 DIRECTORS' EMOLUMENTS AND EMPLOYEE INFORMATION

The directors received no emoluments for their services to the company for year ended 31 December 2012 (2011: nil) The Directors are remunerated by the Parent Company in respect of the services for the entire Group, the Directors' services in respect of the company were incidental in comparison to their services within the Group, and therefore nil emoluments have been apportioned to the company (2011: nil) There were no employees during the year (2011: nil)

4 GROSS PROFIT

	<u>2012</u>	<u>2011</u>
	£	£
Turnover comprises the following		
Dealing charges and other income	2,671,286	2,880,058
Management fee	6,224,392	5,413,923
Discount on initial charges	<u>(1,616,072)</u>	<u>(1,405,900)</u>
	<u>7,279,606</u>	<u>6,888,081</u>
Cost of sales comprises the following		
Stamp duty and other costs	<u>117,855</u>	<u>141,612</u>
	<u>117,855</u>	<u>141,612</u>

The company acts as principal in the sale of shares in its authorised OEIC although in substance it is acting as an agent in accordance with Application Note G of FRS 5 (Reporting the Substance of Transactions), as a result the sale of shares is not recognised as revenue The gross sales of shares during the year were £149,707,699 (2011 £217,577,377)

5 INTEREST RECEIVABLE AND SIMILAR INCOME

	<u>2012</u>	<u>2011</u>
	£	£
Deposit Interest	<u>31,344</u>	<u>36,699</u>

6 LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION

	<u>2012</u>	<u>2011</u>
	£	£
The loss on ordinary activities is stated after charging		
Auditors' remuneration		
Audit		
N F U Mutual Unit Managers Limited	15,600	15,600
NFU Mutual OEIC	<u>92,028</u>	<u>92,028</u>
	<u>107,628</u>	<u>107,628</u>

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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER 2012

7 TAX ON (LOSS) ON ORDINARY ACTIVITIES

	<u>2012</u>	<u>2011</u>
	<u>£</u>	<u>£</u>
The taxation credit on the loss for the year		
UK Corporation tax credit - current year	(1,181,860)	(1,761,528)
UK Corporation tax credit - prior year	(89,536)	(57,123)
Total UK corporation tax credit	<u>(1,271,396)</u>	<u>(1,818,651)</u>

The tax assessed for the prior year is higher than the standard rate of corporation tax in the UK of 24.5% (2011 26.5%)

The differences are explained below

	<u>2012</u>	<u>2011</u>
	<u>£</u>	<u>£</u>
(Loss) on ordinary activities before tax	<u>(4,824,454)</u>	<u>(6,646,074)</u>
(Loss) on ordinary activities multiplied by standard rate of Corporation tax in UK 24.5% (2011 26.5%)	(1,181,991)	(1,761,210)
Tax on franked and unfranked investment income (not taxable)	(203)	(531)
Tax already suffered on franked and unfranked investment income	334	213
Adjustment in respect of prior years	(89,536)	(57,123)
Current tax (credit) for the year	<u>(1,271,396)</u>	<u>(1,818,651)</u>

The taxation loss during the year has been fully utilised against taxable profits made within the Group. As a result a debtor in respect of these losses is receivable from Group as shown in note 8

8 DEBTORS

	<u>2012</u>	<u>2011</u>
	<u>£</u>	<u>£</u>
Trade debtors	1,121,861	664,358
Prepayments and accrued income	95,995	58,569
Amount due from Group Company in respect of Group tax relief	<u>1,272,484</u>	<u>1,761,741</u>
	<u>2,490,340</u>	<u>2,484,668</u>

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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER 2012

9 CREDITORS AMOUNTS FALLING DUE WITHIN ONE YEAR

	<u>2012</u>	<u>2011</u>
	£	£
Trade creditors	1,905,708	1,067,189
Amounts due to Group Undertaking	10,552,689	11,836,875
Accrual and deferred income	381,365	531,770
	<u>12,839,762</u>	<u>13,435,834</u>

10 CALLED UP SHARE CAPITAL

	<u>2012</u>	<u>2011</u>
	£	£
Allotted and fully paid shares of £1 each	<u>566,666</u>	<u>399,999</u>

11 RESERVES

	<u>Profit and Loss</u>	<u>Share Premium</u>	<u>Total</u>
	<u>Account</u>	<u>Account</u>	
	£	£	£
At 1st January 2012	(14,389,090)	18,404,981	4,015,891
Loss for the year	(3,553,058)	-	(3,553,058)
Proceeds of new share issue	-	9,833,333	9,833,333
At 31st December 2012	<u>(17,942,148)</u>	<u>28,238,314</u>	<u>10,296,166</u>

12 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	<u>2012</u>	<u>2011</u>
	£	£
Equity shareholders' funds at 1st January	4,415,890	4,243,313
(Loss) for the year	(3,553,058)	(4,827,423)
Proceeds of new share issue	10,000,000	5,000,000
At 31st December 2012	<u>10,862,832</u>	<u>4,415,890</u>

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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER 2012

13 ULTIMATE PARENT UNDERTAKING

The directors consider the ultimate parent company and controlling party is The National Farmers Union Mutual Insurance Society Limited, a company incorporated in England and Wales, and the only group to consolidate these financial statements. Copies of the consolidated financial statements of the ultimate controlling party can be obtained from the Secretary at the following address

Tiddington Road,
Stratford-upon-Avon
Warwickshire
CV37 7BJ