Registered number 00209606

Avon Insurance plc
Annual Report 2015

Board of Directors

Chief Executive
Lindsay Sinclair

Joanne Cribb

Directors' Report

Principal Activities

The principal activity of the Company is the transaction of Personal Accident insurance business.

Strategic Report

Avon's business model has shifted to operating a closed book of business following closure to new business in 2013.

The financial results and balance sheet position have been prepared under New UK GAAP Financial Reporting Standards (FRS) 102 and 103 for the first time, the impact from these changes to accounting policies can be seen in the Transition Statement to FRS102 and FRS103 within Note 23 to the financial statements.

Solvency II came into force from 1 January 2016. Solvency II is a European Union directive designed to ensure that insurance companies have sufficient capital to cover their risks and to harmonise standards and practices throughout Europe. In practice this means all EU insurance firms, including Avon Insurance plc, will have to demonstrate they have strong systems of risk governance in place that are fully integrated into business decision making and financial modelling processes. Insurers will also need to meet demanding new public and regulatory reporting requirements that have been designed to improve transparency across the industry. Avon Insurance plc is well-prepared for this having had a programme running for a number of years.

Gross written premium for the year was £32.2m compared to £35.9m in 2014. During the year the company made a profit on ordinary activities before taxation of £10.0m (2014: £14.5m) and paid a dividend of £7m in 2015 (2014: £8m). The movement on the profit and loss reserves was a £1m increase (2014: £3.4m increase).

The profit continues to be underpinned by the personal accident book together with the investment performance of the company's fixed interest securities.

The company has maintained its financial strength with a strong solvency ratio of 316% compared to 271% in 2014, supported by both its continued profitability and legacy investment base.

The claims run-off from the Broker and Intermediary business continues to be managed as part of the parent company's outstanding claims.

Key Performance Indicators

	2015	2014
	£m	£m
Gross Written Premium	32.2	35.9
Profit before tax	10.0	14.5
Solvency	316%	271%

Principal Risks and Uncertainties

The management of the business and the execution of the Company's strategy are subject to a number of risks. The key business risks and uncertainties affecting the Company are Insurance risk and Financial risk alongside other risks relating to the competitive environment, technology and the skill base and performance of its employees.

Insurance Risk

The insurance risk with any one contract is twofold, firstly the uncertainty that an insured event will occur and secondly the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this is an estimate and therefore unpredictable.

These risks are managed through the Company's underwriting strategy, adequate reinsurance arrangements and proactive claims handling.

The run off book is partially reinsured by the Company's ultimate parent company, The National Farmers Union Mutual Insurance Society Limited.

The key components of financial risk are interest rate, credit and liquidity risk.

Interest Rate Risk

The financial assets of Avon Insurance plc are held in fixed interest stocks and gilts and as such are sensitive to interest rate changes. The investment portfolio is considered at Group level at the quarterly Market Risk Committee meetings.

Credit Risk

For the Personal Accident business, there is no premium credit risk exposure as monthly premiums are paid in advance of cover.

The creditworthiness of reinsurers are reviewed by the Group Reinsurance Security Committee. The Company considers that both its liquidity and capital position are sufficient to cover any default by a reinsurer. In terms of the claims run-off from the Broker and Intermediary business, an element of credit risk is carried by the parent via reinsurance.

Liquidity Risk
Liquidity is not seen as a significant risk for Avon Insurance plc, as premiums are received in advance. Liquidity positions are considered at a Group level at quarterly Market Risk Committee meetings. Corporate governance matters are dealt with at Group level and are reported in detail in the parent Company's Annual Report "Governance section".

Future Outlook
Over the coming years Avon will continue to focus on providing good levels of customer service to its existing customer base and maximising the financial return to Group while meeting our regulatory obligations.

Directors
The names of the current Directors are listed on page 1. Changes in Directorship during the year and since the end of the year are listed below:

John Roberts resigned 23/02/2016
Richard Percy resigned 08/03/2016
Joanne Cribb appointed 08/03/2016

Qualifying third party indemnity provision has been in place for all Directors of Avon Insurance plc throughout 2015 and at the time of the Directors' Report and accounts being approved.

Statement of Directors' Responsibilities

The directors are responsible for preparing the Director's 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 applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland (FRS102).

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, including FRS 102 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.

Disclosure of Information to Auditors
The Directors confirm that, so far as each Director is aware, there is no relevant audit information of which the Company's auditors are unaware and that each Director has taken all steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Independent auditors
A resolution to re-appoint Price Waterhouse Coopers LLP as auditors to the Company will be proposed at the annual general meeting.

The Directors' Report has been approved by the Board of Directors and signed on its behalf by:

Lindsay Sinclair
Chief Executive

Joanne Cribb
Director

Stratford-upon-Avon 16th March 2016

Independent auditors' report to the members of Avon Insurance plc

Report on the financial statements

Our opinion

In our opinion, Avon Insurance plc's financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 31 December 2015 and of its profit and cash flows 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.

What we have audited

The financial statements, included within the Annual Report, comprise:

- the Balance Sheet as at 31 December 2015;
- the Profit and Loss Account and Statement of Other Comprehensive Income for the year then ended;
- the Statement of Cash Flows for the year then ended;
- the Statement of Changes in Equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinion on other matter prescribed by the Companies Act 2006

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

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- 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.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 3, 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) ("ISAs (UK & 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 parent 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.

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). 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.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Joanne Leeson (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Bristol
16th March 2016

Profit And Loss Account
Technical Account

For the year ended 31 December	2015 £m	2014 £m
Gross premiums written (note 5)	32.2	35.9
	32.2	**35.9**
Outwards reinsurance premiums	(11.6)	(12.3)
Net premiums written	**20.6**	**23.6**
Change in the gross provision for unearned premiums	0.1	0.1
Change in the provision for unearned premiums, reinsurers' share	-	(0.1)
Change in the net provision for unearned premiums	**0.1**	**-**
Earned premiums, net of reinsurance	**20.7**	**23.6**
Total technical income	**20.7**	**23.6**
Gross claims paid	6.3	5.2
Reinsurers' share	(3.0)	(2.3)
Net claims paid	**3.3**	**2.9**
Change in gross provision for claims	(2.7)	13.2
Change in reinsurers' share	1.5	(14.2)
Change in the net provisions for claims	**(1.2)**	**(1.0)**
Claims incurred, net of reinsurance	**2.1**	**1.9**
Changes in other technical provisions, net of reinsurance	-	-
Net operating expenses (note 7)	8.9	10.7
Total Technical Charges	**11.0**	**12.6**
Surplus on the technical account - general business	**9.7**	**11.0**

Profit and Loss Account
Non-Technical Account

For the year ended 31 December	2015 £m	2014 £m
Surplus on the Technical Account - General Business	9.7	11.0
Investment income (note 8)	1.3	1.9
Unrealised (loss)/gain on investments (note 8)	(1.0)	1.6
Profit on ordinary activities before taxation	**10.0**	**14.5**
Taxation on profits on ordinary activities (note 11)	(2.0)	(3.1)
Profit for the financial year	**8.0**	**11.4**

All results are derived from continuing operations.

There is no material difference between the profit on ordinary activities before taxation and the profit for the financial year stated above and their historical cost equivalent.

Statement of Other Comprehensive Income

For the year ended 31 December	2015 £m	2014 £m
Profit for the financial year	8.0	11.4
Revaluation of subsidiary	-	0.3
Total recognised gain relating to the year	**8.0**	**11.7**

Balance Sheet

As at 31 December	2015 £m	2014 £m
Assets		
Investments		
Shares in group undertakings and participating interests (note 13)	37.4	37.4
Shares and other variable-yield securities	4.6	2.9
Debt securities and other fixed interest securities	19.8	19.5
Deposits with credit institutions	32.3	28.8
Other financial investments *(note 13)*	**56.7**	**51.2**
	94.1	**88.6**
Reinsurers' share of technical provisions		
Provision for unearned premiums	0.5	0.5
Claims outstanding	39.6	41.1
	40.1	**41.6**
Debtors		
Due from policyholders	0.5	0.2
Due from Group Undertakings	-	1.9
Debtors arising out of direct insurance operations	**0.5**	**2.1**
Other debtors	3.4	5.4
	3.9	**7.5**
Cash at bank and in hand	0.5	0.6
Prepayments and accrued income		
Accrued interest and rent	0.3	0.3
Total assets	**138.9**	**138.6**

Balance Sheet

As at 31 December	2015 £m	2014 £m
Liabilities		
Capital and Reserves		
Called up share capital (note 15)	20.0	20.0
Revaluation Reserve	21.1	21.1
Profit and loss account	23.9	22.9
Shareholders' funds attributable to equity interests	**65.0**	**64.0**
Technical provisions		
Provision for unearned premiums	1.1	1.2
Claims outstanding	43.4	46.1
Other technical provisions - provision for unexpired risk	0.2	0.2
	44.7	**47.5**
Creditors		
Creditors arising out of direct insurance operations	0.4	0.4
Creditors arising out of reinsurance operations	0.7	0.7
Due to parent society	2.4	-
Due to subsidiaries	23.6	23.4
	27.1	**24.5**
Corporation tax	0.9	1.7
Other	0.5	0.3
Other taxation	0.7	0.6
Other creditors including taxation and social security	**2.1**	**2.6**
	29.2	**27.1**
Total liabilities	**138.9**	**138.6**

These financial statements on pages 6 – 24 were approved and authorised for issue by the Directors on 16th March 2016 and were signed on their behalf by:

Lindsay Sinclair
Chief Executive

Joanne Cribb
Director

Stratford-upon-Avon, 16th March 2016
Avon Insurance plc Registered Number 00209606

Statement of Cash Flows

For the year ended 31st December	2015 £m	2014 £m
Net cash from operating activities *(note 20)*	14.6	12.3
Interest and dividend income	1.3	1.9
Taxation paid	(2.7)	(1.7)
Net cash generated from operating activities	**13.2**	**12.5**
Cash flow from investing activities:		
Purchase of Government Stocks and Fixed Interest Securities	(6.1)	(7.7)
Proceeds from the sale of Government Stocks and Fixed Interest Securities	3.3	7.6
Net cash used in investing activities	**(2.8)**	**(0.1)**
Cash flow from financing activities:		
Equity dividends paid	(7.0)	(8.0)
Net cash used in financing activities	**(7.0)**	**(8.0)**
Net increase in cash and cash equivalents	**3.4**	**4.4**
Cash and cash equivalents at the beginning of the year	29.4	25.0
Cash and cash equivalents at the end of the year	**32.8**	**29.4**
Cash and cash equivalents consist of:		
Cash at bank and in hand	0.5	0.6
Deposits with credit institutions	32.3	28.8
Cash and cash equivalents	**32.8**	**29.4**

Statement of Changes in Equity

	Revaluation Reserve £m	Share Capital £m	Profit and Loss Account £m	Total 2015 £m	Total 2014 £m
Balance at 1st January	21.1	20.0	22.9	64.0	60.3
Profit for year	-	-	8.0	8.0	11.4
Other comprehensive income for year	-	-	-	-	-
Dividends	-	-	(7.0)	(7.0)	(8.0)
Revaluation of subsidiaries	-	-	-	-	0.3
Balance at 31st December	**21.1**	**20.0**	**23.9**	**65.0**	**64.0**

Notes to Financial Statements

1 General Information

Avon Insurance plc is a public limited company incorporated in the United Kingdom. The registered address of Avon Insurance plc is: Tiddington Road, Stratford Upon Avon, Warwickshire, CV37 7BJ

2 Compliance Statement & Accounting Policies

Statement of Compliance
The financial statements have been prepared in accordance with the requirements of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 ("SI 2008/410") relating to insurance groups, and in accordance with the United Kingdom Accounting Standards, including Financial Reporting Standards 102 & 103, The Financial Reporting Standard applicable in the United Kingdom and Republic Of Ireland ("FRS 102") and Financial Standard 103 "Insurance Contracts" ("FRS 103") issued by the Financial Reporting Council in March 2015 and as amended in September 2015. The financial statements comply with the provision of the Company Act 2006.

Basis of Preparation
The financial statements have been prepared on a going concern basis under the historical cost convention with the exception of financial assets and liabilities which are stated at fair value. These financial statements have been prepared as separate financial statements. A summary of the more important accounting policies is set out below.

a) Changes in Accounting Policy
The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. Details of the transition to FRS102 & FRS 103 are disclosed in Note 23.

b) Translation and Conversion of Foreign Currencies
Foreign currency transactions have been converted into sterling at rates of exchange ruling during the year. All material assets and liabilities in foreign currencies have been translated at the rates of exchange ruling at the end of the year. Exchange differences are taken to the Profit and Loss account.

c) General Insurance Business
Premiums written relate to business incepted during the year, together with any differences between booked premiums for prior years and those previously accrued, less an allowance for cancellations. Related reinsurance premiums are accounted for when paid or payable.

The balance on the Technical Account – General Business is determined after making provision for unearned premiums, unexpired risks and outstanding claims. Unearned premiums represent the proportion of premiums written in the year that relate to unexpired terms of policies in force at the balance sheet date.

Provision for unearned premiums is calculated on a 365th inception basis. Provision for unexpired risks is maintained, when required, to cover the estimated excess of liabilities over the associated unearned premium after taking into account future investment return. Claims incurred comprise claims and related expenses paid in the year and changes in the provisions for outstanding claims, including provisions for claims incurred but not reported and related expenses, together with any other adjustments to claims from previous years. Where applicable, deductions are made for salvage and other recoveries.

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

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

Incurred but not reported claims reserves
The estimation of claims incurred but not reported (IBNR) is generally subject to a greater degree of uncertainty. Classes of business, such as employers' liability, where the IBNR proportion of the total reserve is high will typically display greater variations between initial estimates and final outcomes because of the greater degree of difficulty of estimating these reserves. IBNR claims are estimated using statistical techniques, which use past trends to forecast separately the expected number of claims and the expected average cost of claims. Separate allowance is made for large claims. An allowance is made for expected changes in future trends, such as changes in company processes, changes in the legal environment, changes in mix of business and changes in expected claims inflation. In addition, exposure based techniques are adopted to estimate reserves required for new sources of loss not significantly evident in historic data.
Provisions are calculated gross of any reinsurance recoveries. A separate estimate is made of the amount that will be recoverable from reinsurers based upon the gross provisions and having due regard to collectability.

IBNR estimate assumptions:

- Latent claims IBNR is assessed using a frequency / severity approach, taking into account the likely reinsurance recoveries and potential future inflation.
- Given the nature of the exposure and the size and status of the book, under UK GAAP an appropriate level of prudence is included in the booked reserves.

Reinsurance
Claims outstanding and IBNR for all reinsured policies are shown gross with equal and opposite recoveries attributable to the reinsurer.

Reinsurance recoveries
Reinsurance recoveries in respect of estimated claims incurred but not reported are assumed to be consistent with the historical pattern of such recoveries, adjusted to reflect changes in the nature and extent of the Company's reinsurance programme over time. An assessment is also made of the recoverability of reinsurance recoveries having regard to market data on the financial strength of each of the reinsurance companies.

d) Investment Return
Investment return comprises investment income, including investment gains and losses and movements in unrealised gains and losses, net of investment expenses and charges. Realised gains and losses on investments carried at market value are calculated as the difference between net sales proceeds and purchase price. Movements in unrealised gains and losses on investments represent the difference between the valuation at the balance sheet date and their purchase price or, if they have been previously valued, their valuation at the last balance sheet date, together with the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current period. Movement in unrealised gains and losses in investments are included in the Profit and Loss Account other than those in respect of the investment in subsidiaries and associates which are taken to the revaluation reserve. Gains and losses on realisation of investments are included within investment income or investment expenses in the Non-Technical Account. Unrealised gains and losses are also included within the Non-Technical Account. In the case of irredeemable fixed interest securities and short term assets, the allocated longer term rate of investment return should be and is the interest income receivable in respect of the financial year. The longer term rate of investment return is an estimate of the long-term trend investment return having regard to past performance over the past forty years, current trends and future expectations.

e) Taxation
United Kingdom and overseas taxation charged in the Non-Technical Account and the Technical Account General Business are based on profits and income including realised gains and losses on all investments for the year as determined in accordance with the relevant tax legislation, together with adjustments in respect of earlier years. Deferred tax is calculated on material timing differences between taxable profits and total income as stated in the financial statements that arise from the inclusion of income and expenses in tax assessments in different periods from those in which they recognised in the financial statements. Deferred tax is calculated using the tax rates that have been enacted or substantively enacted by the balance sheet date and are expected to apply to the reversal of the timing difference.

f) Retirement Benefits Scheme

The Group operates a defined contribution pension scheme for the majority of its employees. The cost of providing benefits is determined using the Projected Unit Credit Method with actuarial valuations being carried out at each balance sheet date. Payments to defined contribution retirement benefit schemes are charged as an expense when paid.

g) Financial instruments

Financial assets and financial liabilities are recognised on the Group's Balance Sheet when the Group becomes a party to contractual provisions of the instrument.

Debtors

Trade debtors are measured at initial recognition at the value transferred. Subsequent measurements are made having an appropriate allowance for estimated irrecoverable amounts.

Investments

Investments are shown at market value. Investments are recognised and derecognised on the trade date where a purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at cost. Movements in investment value are recognised at fair value through the profit and loss account.

The investments in subsidiaries are valued at fair value with changes in fair value recognised in the statement of other comprehensive income.

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.

Creditors

Trade creditors are valued at the initial value of the transaction, and derecognised at the date payment is made.

h) Exemptions

The Company has taken advantage of the exemption from disclosing the Company key management personnel compensation, as required by FRS 102 paragraph 33.7.

3 Risk Management

The risk management strategy forms an integral part of ensuring that risks are managed in alignment with Avon Insurance plc's and the Parent NFU Mutual's objectives and business strategies and to maintain the financial stability of our policyholders, our reputation, employees, and assets.

Key financial risks faced by Avon Insurance plc as a result of its activities are as follows:

Market Risk

Market risk is dealt with at Group level as well as by Avon Insurance plc. The Groups Market Risk Policy sets out the minimum principles and framework for matching liabilities with appropriate assets. Assets and liabilities for all classes of business are broadly matched in order to reduce the degree to which assets and liability values diverge when investment markets change.

The Board delegates authority to the Group Market Risk Committee by setting limits of authority for market dealing by the Group. The Group Market Risk Committee meets quarterly. At these, senior management meet to discuss compliance issues, matching positions, solvency, liquidity management, investment return, mix and concentration across the Group.

Insurance Risk

For a portfolio of insurance contracts the principal risk that Avon Insurance plc faces is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency or severity of claims and benefits are greater than estimated. Insurance events are random and the actual number and amount of claims will vary from year to year from the level established using statistical techniques. Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. Factors that aggravate insurance risk include lack of risk diversification in terms of class and amount of risk, geographical location, and type of industry covered.

Avon Insurance plc manages these risks through its underwriting strategy, adequate reinsurance arrangements, and proactive claims handling. The underwriting strategy attempts to ensure that the underwritten risks are well controlled in terms of class and amount of risk, and geography.

Operational Risk

A Group level committee is in place whose remit is to oversee the effectiveness of operational risk management and act as an escalation point for significant operational risk issues, which covers operational risks such as Business Continuity, Compliance and Legal and Financial Crime.

Liquidity Risk

To manage this risk cash positions are monitored closely, in addition a significant portion of the fund is held in highly liquid assets such as government bonds. As well as these sources of liquidity one advantage of being part of a group is that cash may be moved within the Group to manage short-term cash flow issues.

Analysis of Claims Development – Gross of Reinsurance

The table below reflects the cumulative incurred claims including both claims notified and incurred but not reported ('IBNR') for each successive accident year at each Statement of Financial Position date, together with the cumulative payments to date. The Company aims to maintain appropriate reserves in order to protect against adverse future claims experience and developments.

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Total
Estimate of ultimate claims costs £m											
At end of reporting year	5.8	6.4	5.7	6.9	7.7	7.8	8.2	8.6	7.6	8.8	73.5
One year later	4.4	5.1	4.2	3.2	4.3	5.6	5.5	5.6	5.0		
Two Years Later	4.3	4.7	3.7	2.3	3.5	5.6	5.1	4.7			
Three Years Later	4.1	4.3	3.6	1.8	3.4	5.4	4.8				
Four Years Later	4.0	4.2	3.6	1.9	3.4	5.2					
Five Years Later	4.0	4.2	3.6	1.8	3.3						
Six Years Later	4.0	4.2	3.5	1.8							
Seven Years Later	4.0	4.2	3.5								
Eight Years Later	4.0	4.2									
Nine Years Later	4.0										
Current estimate of cumulative Claims	4.0	4.2	3.5	1.8	3.3	5.2	4.8	4.7	5.0	8.8	45.3
Cumulative Payments to Date	(4.0)	(4.2)	(3.5)	(1.8)	(3.3)	(5.2)	(4.8)	(4.1)	(4.2)	(4.7)	(39.8)
Liability recognised in the Balance Sheet	-	-	-	-	-	-	-	0.6	0.8	4.1	5.5
Reserve in respect of prior years											36.8
Other Reserves											1.1
Total reserve included in the Balance Sheet											43.4

4 Capital Management Policies

Avon Insurance plc is a wholly owned subsidiary with 100% of called up share capital owned by the parent company NFU Mutual. The Company has an established Individual Capital Assessment (ICA) process which ensures compliance with the requirements to hold adequate capital to cover all types of risk faced by the business. Risks are managed in accordance with a clearly documented risk framework and monitored by a Risk Committee that meets quarterly. Capital implications of existing and emerging risks are reflected in the parent company ICA calculations.

5 Segmental Information

All business is transacted in the UK

a) Gross Written Premiums, Reinsurance Balance and Profit before Tax

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

	Gross Written Premiums		Reinsurance Balance		Profit before Taxation	
	2015	2014	2015	2014	2015	2014
	£m	£m	£m	£m	£m	£m
Accident and Health	31.3	34.9	(9.2)	(10.2)	8.7	10.3
Fire and Other Damage to Property	0.9	1.0	(0.4)	14.3	1.0	3.9
Non Technical account	-	-	-	-	0.3	0.3
	32.2	**35.9**	**(9.6)**	**4.1**	**10.0**	**14.5**

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

b) Gross Premium Earned

	2015	2014
	£m	£m
Continuing operations		
Accident and Health	31.4	35.0
Fire and Other Damage to Property	0.9	1.0
	32.3	**36.0**

c) Gross Claims incurred

	2015	2014
	£m	£m
Continuing operations		
Accident and Health	(0.5)	(0.1)
Fire and Other Damage to Property	4.7	4.0
Motor	(0.6)	14.5
	3.6	**18.4**

d) Gross Operating Expenses

	2015	2014
	£m	£m
Continuing operations		
Accident and Health	8.9	10.7
Fire and Other Damage to Property	-	-
	8.9	**10.7**

e) Outwards Reinsurance Premium

	2015	2014
	£m	£m
Continuing operations		
Accident and Health	10.6	11.3
Fire and Other Damage to Property	1.0	1.0
	11.6	**12.3**

6 Movement in prior year's provision for claims outstanding

A positive run off deviation of £3.3m (2014: £2.2m) for Accident & Health was experienced in the year with all other classes of business reporting a net positive deviation of £0.9m (2014: £0.1m).

7 Net Operating Expenses

	2015	2014
	£m	£m
Acquisition costs	5.9	6.6
Expenses	2.8	3.9
Reinsurance commission and profit participation	0.2	0.2
	8.9	**10.7**

8 Investment Return

	2015	2014
	£m	£m
Income from other investments	1.2	1.5
Net gains on realisation of investments	0.1	0.4
Investment income	1.3	1.9
Movement in unrealised investment (losses)/gains	(1.0)	1.6
Investment return for the year	**0.3**	**3.5**

9 Directors' and Employee Information

	2015	2014
	£	£
Directors' aggregate emolument	124,039	123,289
Retirement benefit to past Non-Executive Directors	58,224	55,476
	182,263	**178,765**

There were no pension contributions made in 2015 (2014: £2,875) in respect of serving directors. Pensions to former directors amounted to £58,224 (2014: £55,476). The employees of the Company do not have contracts of service with Avon Insurance plc but with another Group Company, The National Farmers Union Mutual Service Company Limited. There is a pension commitment of £58,224, 25% of Group total that is charged to Avon Insurance plc regarding retirement benefits to past directors.

The average monthly number of persons involved is:

	2015	2014
Administration and finance	24	42
Claims	3	5
	27	**47**

A recharge of staff costs is made from The National Farmers Union Mutual Service Company Limited for the services of the above employees.

Staff costs were:

	2015	2014
	£m	£m
Wages and salaries	1.3	2.0
Social security costs	0.1	0.2
	1.4	**2.2**

10 Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after:

	2015 £k	2014 £k
Fees payable to the company's auditor for the audit of the financial statements	31.5	36.5
Fees payable to the company's auditor and its associates for other services:		
the audit of the company's subsidiaries, pursuant to legislation	4.0	2.4

11 Taxation on profits on ordinary activities

The tax assessed for the period is higher (2014: higher) than the standard rate of Corporation Tax in the UK for the year ended 31 December 2015 of 20% (2014: 21%).

	2015 £m	2014 £m
Factors affecting the tax charge for the period		
Profit on ordinary activities before tax	10.0	14.5
Profit on ordinary activities multiplied by blended rate of corporation tax in the UK of 20.25% (2014: 21.5%)	2.0	3.1
Current tax charge for the period	**2.0**	**3.1**

From 1st April 2015 the UK Corporation Tax rate fell from 21% to 20%. As a result a blended rate of 20.25% has been used as the standard rate of corporation tax for the current year. Changes to the UK Corporation Tax rates were substantively enacted as part of the Finance Bill 2015 on 26th October 2015. These include reductions to the main rate to reduce the rate to 19% from 1st April 2017, and to 18% from 1st April 2020.Deferred taxes at the balance sheet date have been measured using these enacted tax rates and reflected in these financial statements.

12 Dividends

	2015 £m	2014 £m
Equity Shares		
Dividend paid of £0.35 per share (2014: £0.40 per share)	7.0	8.0

13 Investments

a) Shares in group undertakings and participating interests

	Fair Value £m	Purchase Price £m
At 1st January 2015	37.4	16.6
Movement in fair value	-	-
At 31st December 2015	**37.4**	**16.6**

All shares held are £1 ordinary shares.

The Company owns the whole of the issued share capital of Tiddington Investments Limited and Avon Life Limited whose principal activities are non dealing Investment Companies, who are incorporated in Great Britain and registered in England and Wales. The Company is exempt under Section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements as it and its subsidiary undertakings are included by full consolidation in the consolidated financial statements of its parent, The National Farmers Union Mutual Insurance Society Limited, a company incorporated in England and Wales. The value of the Company's interest in its subsidiaries is not less than the amount at which the interest is stated in the Balance Sheet.

b) Other financial investments

	2015 £m		2014 £m	
	Valuation	Cost	Valuation	Cost
Shares and other variable-yield securities	4.6	4.4	2.9	2.6
Debt securities and other fixed interest securities	19.8	19.3	19.5	18.1
Deposits with credit institutions	32.3	32.3	28.8	28.8
	56.7	**56.0**	**51.2**	**49.5**

Shares and other variable-yield securities consist of United Kingdom Index Linked Gilts

14 Financial Instruments – Fair Value Methodology

Investments carried at fair value have been categorised using a fair value hierarchy as detailed below:

Level 1 –
Quoted market prices in active markets Inputs to level 1 fair value are quoted prices (unadjusted) in active markets for identical assets. An active market is one in which transactions for the asset occurs with sufficient frequency and volume to provide pricing information on an ongoing basis. Instruments included in level 1 comprise primarily FTSE or equivalent listed equity instruments.

Level 2 –
Internal models or broker quotes with observable market parameters Inputs to level 2 fair values are inputs other than quoted prices included within level 1 that are observable for the asset, either directly or indirectly. Level 2 includes both quoted prices for similar assets in an active market or an inactive identical market and models using observable inputs or inputs derived from or corroborated by observable market data.

Where it is determined that there is no active market, fair value is established using a valuation technique. Level 2 valuation techniques include the following:

- Quoted prices for similar assets in active markets
- The use of observable prices for recent arms length transactions
- Quoted prices or dealer quotes for identical or similar assets in markets that are not active, the prices are not current, or price quotations vary substantially either over time. Where possible the Group seeks at least two quotations for each bond and considers whether these are representative of fair value
- Inputs other than quoted prices that are observable for the assets i.e. interest rates and yield curves observable at commonly quoted intervals, credit risk and default rates
- Inputs that are derived principally from, or corroborated by, observable market data by correlation or other means
- Discounted cashflow analysis used to determine fair value for the remaining financial instruments and other pricing models. The Group closely monitors the valuation of assets in markets that have become less liquid

Determining whether a market is active requires the exercise of judgement and is determined based upon the facts and circumstances of the market for the instrument being measured. The techniques above maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. The relative weightings given to differing sources of information and the determination of non-observable inputs to valuation models can require the exercise of significant judgement.

Level 3 –
Inputs to level 3 fair values are based on unobservable inputs for the assets at the last measurement date. If all significant inputs required to fair value an investment are observable then the instrument is included in level 2, if not it is included in level 3.
Avon Insurance plc does not hold any investments that have been categorised as level 3.

		2015 £m			2014 £m	
	Level 1	Level 2	**Total**	Level 1	Level 2	**Total**
Shares and other variable yield securities	0.7	3.9	**4.6**	-	2.9	**2.9**
Debt Securities & other fixed income securities	3.3	16.5	**19.8**	5.0	14.5	**19.5**
	4.0	**20.4**	**24.4**	**5.0**	**17.4**	**22.4**

15 Called Up Share Capital

The authorised capital at 31st December 2015 was £100m (2014: £100m) divided into shares of £1 each, of which £20m (2014: £20m) were issued and fully paid.

16 Reserves Within Equity

Revaluation Reserve
Increases in the fair value of Avon Insurance plc's two subsidiaries – Tiddington Investments Limited, and Avon Life Limited are recorded through Avon's revaluation reserve. During 2015 there was no movement recorded through the revaluation reserve.

Share Capital
The share capital of Avon Insurance plc is wholly owned by NFU Mutual the parent company. There were no share issues during 2015.

Profit and Loss Account
The profit and loss account is a reserve to record the cumulative balance of retained profits or losses and any dividends that are paid.

17 Stock Lending

Holdings of UK Government and corporate fixed interest securities with a value of £1.0m (2014: £2.65m) were on loan at 31 December 2015 under approved stock lending schemes. As at 31 December 2015 nil of sovereigns (2014: £2.72m) have been accepted by the Company and recognised on the balance sheet which are permitted to be sold or re-pledged in the event of default of the owner of the collateral. The Company retains the risks and rewards of ownership. No collateral was sold or re-pledged during the year or in the prior year. The Company has an obligation to return these assets to the pledgor.

18 Retirement Benefit Schemes

The NFU Mutual Insurance Society operates the NFU Mutual Retirement Benefit Scheme which provides membership with benefits on a Defined Benefits and Defined Contribution basis that covers all material obligations to provide pensions to retired and current employees. The Defined Benefit Scheme is closed to new employees.

New starters have the option of joining the Defined Contribution scheme. As the NFU Mutual Retirement Benefit Scheme admits new members in a Defined Contribution basis and not a Defined Benefit basis, the current service cost in respect of Defined Contribution members will typically increase (as a percentage of pensionable pay) as the average age of the active membership increases.

The most recent valuation carried out was at 31 December 2014. At this date the assets of both schemes were in excess of the amount required to cover the benefits that had accrued to members after allowing for future increases in earnings. As a result the Group has agreed with the trustees to suspend contributions to the scheme, and as such there is no specific policy for determining the contribution to be paid by any given Group entity. Funding levels are monitored on an annual basis and are not expected to change in 2016.

The current surplus of the scheme, calculated by the independent firm of actuaries, is £91.9m (2014: £68.8m) and is accounted for by The NFU Mutual Insurance Society. As a result of this surplus, contributions to the Scheme by the Society are currently suspended. Due to the movement of employees across different business areas, the company is unable to identify its share of the underlying asset.

19 Deferred Taxation

	2015 £m	2014 £m
Balance at 1 January	0.1	0.1
Charge for the year	-	-
Balance at 31 December	**0.1**	**0.1**

There is no un-provided Deferred Taxation. The amount is included within Other Debtors on the Balance Sheet

20 Cash Flow Statement

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

	2015 £m	2014 £m
Profit for the financial year	8.0	11.4
Adjustments for:		
Interest and dividend income	(1.3)	(1.9)
Tax charge on ordinary activities	2.0	3.1
Operating profit	**8.7**	**12.6**
Decrease in debtors, prepayments and accrued income	3.6	2.3
Increase in creditors, accruals and deferred income	2.6	0.1
Increase in net technical provisions	(1.3)	(1.0)
Realised and unrealised investment gain/(loss)	1.0	(1.7)
Net cash inflow from operating activities	**14.6**	**12.3**

b) Analysis of changes in Cash and cash Equivalents

	As at 31 January 2015 £m	Cash Flow 2015 £m	As at 31 December 2015 £m
Cash at bank and in hand	0.6	(0.1)	0.5
Deposits with credit institutions	28.8	3.5	32.3
Total cash and cash equivalents	**29.4**	**3.4**	**32.8**

21 Related parties

The Company has taken advantage of the exemption set out in FRS 102 not to disclose transactions with other Group Companies.

22 Ultimate Parent Company

The immediate parent company is NFU Mutual Management Company Limited, which is incorporated in England and Wales. The Company's ultimate controlling undertaking and parent company is The National Farmers Union Mutual Insurance Society Limited, which is incorporated in England and Wales. The National Farmers Union Mutual Insurance Society Limited is the only parent undertaking to consolidate these financial statements at 31 December 2015. The consolidated financial statements of the National Farmers Union Mutual Insurance Society Limited are available from the Secretary at the following address:
Tiddington Road, Stratford-upon-Avon, Warwickshire, CV377BJ.

23 Transition statement to FRS102 and FRS103

Transition to FRS102 and FRS103
The group has presented its financial statements for the period to 31 December 2015 under FRS 102 and FRS103 for the first time. The last financial statements prepared under the previous UK GAAP were for the period to 31 December 2014. The date of transition to FRS102 and FRS103 was 1 January 2014.

The change in accounting policies has not resulted in a change to the profit for the financial year ended 31 December 2014 or to the equity as at that date.

Investment in subsidiary undertakings
Under previous UK GAAP the company had a policy of valuing its investment in subsidiary undertakings at the subsidiaries net asset value. Under FRS 102 the companies are required to value subsidiaries at a fair value with movements in value in the period recognised through the other comprehensive income. This change has not changed the balance sheet equity as at 1 January 2014 or the other comprehensive income for 2014 as the fair value for the subsidiary undertakings was the same as the value of their net assets. The value of the investment in subsidiary undertakings at 31 December 2014 was £37.4m.

Statement of cash flows
The Group's cash flow statement reflects the presentation requirements of FRS 102, which is different to that prepared under FRS 1. In addition the cash flow statement reconciles to cash and cash equivalents whereas under previous UK GAAP the cash flow statement reconciled to cash. Cash and cash equivalents are defined in FRS 102 as 'cash on hand and demand deposits and short term highly liquid investments that are readily convertible to known amounts of cash and that are subject to an insignificant risk of changes in value' whereas cash is defined in FRS 1 as 'cash in hand and deposits repayable on demand with any qualifying institution, less overdrafts from any qualifying institution repayable on demand'. The FRS 1 definition is more restrictive. There have been no changes except for presentational changes to comparative 2014 statement of cash flows.