Registered number 00209606

Avon Insurance plc
Annual Report 2018

AVON
INSURANCE

Board of Directors

Chief Executive
Lindsay Sinclair

Joanne Cribb
Richard Morley

Strategic Report

Avon's business model is to operate a closed book of business following closure to new business in 2013. The company's profit continues to be underpinned by the personal accident book together with the investment performance of the company's fixed interest securities.

Gross written premium for the year was £24.8m compared to £26.7m in 2017. During the year the company made a profit on ordinary activities before taxation of £8.4m (2017: £11.2m) and paid a dividend of £9.0m in 2018 (2017: £7.0m).

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

Avon Insurance has complied with all Solvency II regulatory requirements throughout the reporting period. Eligible Own Funds available to cover the Solvency II Capital Requirement (SCR) as at 31 December 2018 is estimated to be £32.4m (2017: £33.7m) unaudited representing a £25.9m excess (2017: £25.4m excess) over the estimated SCR at 31st December 2018 of £6.5m (2017: £8.3m).

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. Further details can be found in Risk Management Note 3 on pages 16-17.

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 Board Investment 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 Forum. 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 company via reinsurance.

Liquidity Risk
Liquidity positions are considered at a Group level at quarterly Board Investment 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".

Key Performance Indicators

	2018 £m	2017 £m
Gross Written Premium	24.8	26.7
Profit before tax	8.4	11.2

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 the Group while meeting our regulatory obligations.

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

Lindsay Sinclair
Chief Executive

Richard Morley
Director

Stratford-upon-Avon 20 March 2019

Directors' Report

Principal Activities

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

Directors

The names of the current Directors are listed on the front cover.

Qualifying third party indemnity provision has been in place for all Directors of Avon Insurance plc throughout 2018 and at the time of the Directors' Report and financial statements being approved.

Dividends

During the year the company paid a dividend of £9.0m (2017: £7.0m).

Principal Risks And Uncertainties

The principal risks and uncertainties faced by the company are discussed in the Strategic Report.

Statement Of Directors' Responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

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, comprising FRS 102 ('The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland"), 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;
- state whether applicable United Kingdom Accounting Standards, comprising 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. The Directors 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.

There have been no post balance sheet events that require disclosure in the financial statements, we have considered the likely future events in the strategic report.

Statement of Disclosure Of Information To Independent Auditors

The auditors, Deloitte LLP, appointed in June 2018, have indicated their willingness to continue in office and a resolution that they be reappointed will be proposed at the Annual General Meeting.

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

- so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- the director has taken all the steps that they ought to have taken as 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:

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

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

Lindsay Sinclair R.M.
Lindsay Sinclair | Richard Morley
Chief Executive | Director

Stratford-upon-Avon 20 March 2019

Independent auditors' report to the members of Avon Insurance plc

Report on the Audit of the Financial Statements

Opinion

In our opinion the financial statements of Avon Insurance plc (the 'company', 'Avon'):

- **give a true and fair view of the state of the company's affairs as at 31 December 2018 and of its profit for the year then ended;**
- **have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and**
- **have been prepared in accordance with the requirements of the Companies Act 2006.**

We have audited the financial statements which comprise:

- the profit and loss account;
- the balance sheet;
- the statement of changes in equity;
- the statement of cash flow; and
- the related notes 1 to 21.

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

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Summary of our audit approach

Key audit matters	We identified one key audit matter in the current year which was the valuation of general insurance incurred but not reported ('IBNR') claims.
Materiality	The materiality that we used in the current year was £970,000 which was determined on the basis of 3% of Total Equity.
Scoping	The company consists of one operating unit and we have therefore performed audit procedures on the financial statements as a whole. Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

- the directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

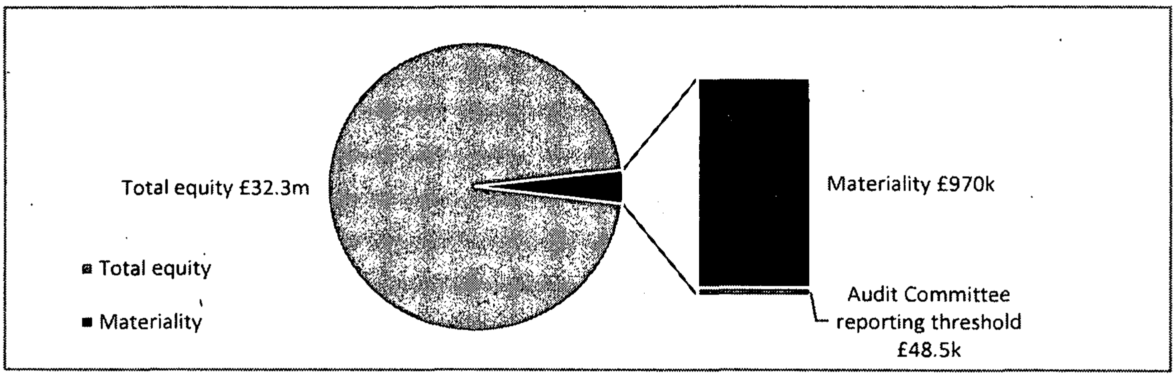
Valuation of general insurance incurred but not reported ('IBNR') claims	
Key audit matter description	The general insurance claims outstanding liabilities at year end includes the estimated cost of settling general insurance claims incurred at the balance sheet date. This balance comprises of estimates for claims that have been reported to the company and those claims that have been "Incurred But Not Reported". As a result of the significant judgement required in estimating the future costs of claims, this was an area of focus in our audit. Both reported claims and IBNR consist of the actuarial best estimate plus an additional reserve for prudence. The IBNR best estimate is inherently subject to greater uncertainty than reported claims. We have focused our audit work on the valuation of IBNR for personal accident insurance and Avon's historical book of business underwritten prior to 2003. The directors apply significant judgement in selecting the assumptions and methodology used to estimate how claims will develop in the future. The company's accounting policy for IBNR is disclosed in note 2.b. to the financial statements and the movement in insurance liabilities disclosures in note 6.
How the scope of our audit responded to the key audit matter	The procedures we have performed to address the valuation of general insurance IBNR claims outstanding including: • We assessed the design and implementation of key management controls which addressed the financial reporting risk; • We tested the underlying company data including its accuracy and completeness of premiums and claims; • We confirmed the consistency of the claims estimation process and Avon's reserving principles; and • Testing the methodology and Avon's process for setting assumptions; • With the involvement of our general insurance actuarial team, we tested the methodology and the keys assumptions used against recognised actuarial practices and by applying our industry knowledge and experience for reserves.
Key observations	While noting that the balance is subject to significant uncertainty, based on our work performed we consider management's assumptions and methodology used to value the claims outstanding IBNR to be appropriate.

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Materiality	£970,000
Basis for determining materiality	3% of Net Assets
Rationale for the benchmark applied	In establishing an appropriate benchmark to use, we considered various financial measures including those that are aligned to the strategy of the business. Net Assets was considered the most appropriate metric to use as it represents the capital strength of the company which is of interest to the users of insurance company financial statements.



We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £48,500, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Avon Insurance plc does not have any components or subsidiaries and we have performed our audit at the legal entity level. Our audit was scoped by obtaining an understanding of the entity and its environment, including internal controls, and assessing the risks of material misstatement. Audit work to respond to risks of material misstatement was performed directly by the audit engagement team.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

We have nothing to report in respect of these matters.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We have nothing to report in respect of these matters.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

Responsibilities of directors

As explained more fully in the statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Details of the extent to which the audit was considered capable of detecting irregularities, including fraud are set out below.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Extent to which the audit was considered capable of detecting irregularities, including fraud

We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks, including obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.

Identifying and assessing potential risks related to irregularities
In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, our procedures included the following:

- enquiring of management, internal audit and the Audit Committee, including obtaining and reviewing supporting documentation, concerning the company's policies and procedures relating to:
    - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
    - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;

- o the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations;
- discussing among the engagement team and involving relevant internal specialists, including actuarial, tax, and IT teams regarding how and where fraud might occur in the financial statements and any potential indicators of fraud. As part of this discussion, we identified potential for fraud in the following areas: general insurance IBNR valuation, revenue recognition; and
- obtaining an understanding of the legal and regulatory frameworks that the company operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of the company. The key laws and regulations we considered in this context included the UK Companies Act, pension and tax legislation. In addition, as a regulated insurer, compliance with the company's regulatory solvency requirements regulated by the PRA and FCA were fundamental to the company's ability to continue as a going concern.

Audit response to risks identified

As a result of performing the above, we identified valuation of general as a key audit matter. The key audit matters section of our report explains the matters in more detail and also describes the specific procedures we performed in response to that key audit matters.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above;
- enquiring of management, the Audit Committee and legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- testing a sample of gross written premium back to underlying policy documentation;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with HMRC, PRA and FCA; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- 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; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

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 nothing to report in respect of these matters.

Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made.

We have nothing to report in respect of this matter.

Other matters

Auditor tenure

Following the recommendation of the Audit Committee, we were appointed by the board of directors on 20 June 2018 to audit the financial statements for the year ending 31 December 2018 and subsequent financial periods. The period of total uninterrupted engagement of the firm is 1 year covering the year ended 31 December 2018.

Consistency of the audit report with the additional report to the audit committee

Our audit opinion is consistent with the additional report to the audit committee we are required to provide in accordance with ISAs (UK).

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

M. McQueen

Mark McQueen (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom

20 March 2019

Profit & Loss Account

Technical Account

For the year ended 31 December	2018	2017
	£m	£m
Gross premiums written (note 5)	24.8	26.7
	24.8	26.7
Outwards reinsurance premiums	(9.3)	(10.1)
Net premiums written	15.5	16.6
Change in the gross provision for unearned premium	0.1	-
Change in the provision for unearned premiums, reinsurers share	-	-
Change in the net provision for unearned premiums	**0.1**	-
Earned premiums, net of reinsurance	**15.6**	**16.6**
Total technical income	**15.6**	**16.6**
Gross claims paid	5.8	5.8
Reinsurers' share	(3.5)	(3.2)
Net claims paid	**2.3**	**2.6**
Change in gross provision for claims	(0.5)	(0.3)
Change in reinsurers' share	1.1	(0.8)
Change in the net provisions for claims	**0.6**	**(1.1)**
Claims incurred, net of reinsurance	**2.9**	**1.5**
Changes in other technical provisions, net of reinsurance	-	-
Net operating expenses (note 7)	4.1	4.9
Total technical charges	**7.0**	**6.4**
Surplus on the technical account - general business	**8.6**	**10.2**

Profit & Loss Account
Non-Technical Account

For the year ended 31 December	2018 £m	2017 £m
Surplus on the Technical Account - General Business	8.6	10.2
Investment income (note 8)	0.9	1.6
Unrealised loss on investments (note 8)	(1.1)	(0.6)
Profit on ordinary activities before taxation	**8.4**	**11.2**
Taxation on profits on ordinary activities (note 11)	(1.6)	(2.1)
Profit for the financial year	**6.8**	**9.1**

All results are derived from continuing operations.

Balance Sheet

Assets As at 31 December	**2018** £m	**2017** £m
Investments		
Debt securities & other fixed interest securities (note 13)	20.6	26.8
Deposits with credit institutions	9.0	18.0
***Other financial investments** (note 13)*	**29.6**	**44.8**
Reinsurers' share of technical provisions		
Provision for unearned premiums	0.4	0.4
Claims outstanding	35.6	36.7
	36.0	**37.1**
Debtors		
Other debtors	0.4	1.8
Due from group undertakings	1.8	-
	2.2	**1.8**
Cash at bank at in hand	6.6	1.1
Prepayments & accrued interest		
Accrued interest & rent	0.2	0.3
Total assets	**74.6**	**85.1**

Balance Sheet

Liabilities As at 31 December	2018 £m	2017 £m
Capital & Reserves		
Called up share capital (note 15)	20.0	20.0
Profit & loss account	12.3	14.5
Shareholders' funds attributable to equity interests	**32.3**	**34.5**
Technical provisions		
Provision for unearned premiums	0.8	0.9
Claims outstanding	38.7	39.2
Other technical provisions - provision for unexpired risk	0.2	0.2
	39.7	**40.3**
Creditors		
Creditors arising out of direct insurance operations	0.4	0.3
Creditors arising out of reinsurance operations	0.7	1.4
Due to group undertakings	0.0	6.6
	1.1	**8.3**
Other creditors including taxation & social security		
Corporation tax	0.6	0.9
Provisions and other liabilities	0.2	0.4
Other taxation	0.7	0.7
	1.5	**2.0**
Total liabilities	**74.6**	**85.1**

These financial statements on pages 9-25 were approved and authorised for issue by the Directors on 20 March 2019 and were signed on their behalf by:

Lindsay Sinclair
Chief Executive

Richard Morley
Director

Stratford-upon-Avon, 20 March 2019
Avon Insurance plc Registered Number 00209606

Statement of Cash Flows

For the year ended 31 December	2018	2017
	£m	£m
***Net cash from operating activities** (note 19)*	1.4	7.0
Interest & dividend income	0.9	1.6
Taxation paid	(1.9)	(2.4)
Net cash generated from operating activities	**0.4**	**6.2**
Cash flow from investing activities		
Purchase of debt securities and other fixed/variable interest securities	(7.3)	(7.7)
Proceeds from the sale of debt securities and other fixed/variable interest securities	12.4	6.1
Net cash used in investing activities	**5.1**	**(1.6)**
Cash flow from financing activities		
Equity dividends paid	(9.0)	(7.0)
Net cash used in financing activities	**(9.0)**	**(7.0)**
Net decrease in cash & cash equivalents	**(3.5)**	**(2.4)**
Cash & cash equivalents at the beginning of the year	19.1	21.5
Cash & cash equivalents at the end of the year	**15.6**	**19.1**
Cash & cash equivalents consist of		
Cash at bank & in hand	6.6	1.1
Deposits with credit institutions	9.0	18.0
Cash & cash equivalents	**15.6**	**19.1**

Statement of Changes in Equity

For the year ended 31st December 2018

	Called Up Share Capital £m	Profit And Loss Account £m	Total 2018 £m	Total 2017 £m
Balance at 1st January	**20.0**	**14.5**	**34.5**	**32.4**
Profit for the financial year	-	6.8	6.8	9.1
Dividends paid	-	(9.0)	(9.0)	(7.0)
Balance at 31st December	**20.0**	**12.3**	**32.3**	**34.5**

Notes to Financial Statements

For the year ended 31st December 2018

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, 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. The financial statements comply with the provision of the Companies 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 investments which are stated at fair value. These financial statements have been prepared as separate financial statements.

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.

a) Translation And Conversion Of Foreign Currencies

Foreign currency transactions have been converted into sterling at the average rate of exchange over 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.

b) 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 United Kingdom Generally Accepted Accounting Practice (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.

c) 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. 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. The longer term rate of investment return is an estimate of the long term trend investment return of the relevant category of investment having regard to past performance, current trends and future expectations.

d) Taxation
United Kingdom and overseas taxation charged in the Non-Technical Account is based on profits and income including realised gains and losses on all investments for the year as determined in accordance with the relevant tax legislation, together with adjustments in respect of earlier years. Deferred 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.

e) Retirement Benefits Scheme
The Group operates the Retirement Benefit Scheme (RBS) of The National Farmers Union Mutual Insurance Society Limited which provides members with benefits on a Defined Contribution basis. 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.

f) 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 non-technical account.

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.

g) 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. The Company has also taken advantage of the exemption set out in FRS 102 paragraph 33.1A, not to disclose transactions with other Group Companies.

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 company The National Farmers Union Mutual Insurance Society Limited'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 Board Investment Committee by setting limits of authority for market dealing by the Group. The Board Investment 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 is exposed at any given time to latent risk which, by its very nature is uncertain and in many cases is only expected to emerge in the long term. Therefore, a material element of the company's overall reserves exists in order to cover these risks. The company assesses its exposure to latent risk regularly and uses statistical methods and specific inputs including external third party experts to estimate the value of this exposure. Uncertainty over value and timing does, however, mean that final outcomes could be significantly different from current estimates.

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 Balance Sheet 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.

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Total
Estimate of Ultimate Claims Costs £m											
At end of Reporting Year	6.9	7.7	7.8	8.2	8.6	7.6	8.8	6.1	3.8	3.5	
One year later	3.2	4.3	5.6	5.5	5.5	5.0	7.6	5.0	3.8		
Two years later	2.3	3.5	5.6	5.1	4.7	4.7	7.2	5.5			
Three years later	1.8	3.4	5.4	4.8	4.5	4.8	7.3				
Four Years later	1.9	3.4	5.2	5.2	4.6	4.5					
Five years later	1.8	3.3	5.3	5.2	4.6						
Six years later	1.8	3.4	5.3	5.2							
Seven years later	1.8	3.4	5.3								
Eight years later	1.8	3.4									
Nine years later	1.8										
Current estimate of cumulative claims	1.8	3.4	5.3	5.2	4.6	4.5	7.3	5.5	3.8	3.5	44.9
Cumulative payments to date	(1.8)	(3.4)	(5.3)	(5.2)	(4.5)	(4.5)	(6.9)	(5.1)	(2.9)	(1.2)	(40.8)
Liability Recognised in Balance Sheet	-	-	-	-	0.1	-	0.4	0.4	0.9	2.3	4.1
Reserve in respect of prior years											34.0
Other Reserves											0.8
Total Reserve included in the Balance Sheet											38.9

4 Capital Management Policies

Avon Insurance plc is a wholly owned subsidiary with 100% of called up share capital owned by the parent company The National Farmers Union Mutual Insurance Society Limited, and is part of the NFU Mutual Group.

Avon Insurance plc's capital takes the form of both share capital and retained reserves, both classed as tier 1 capital. Avon Insurance plc is a regulated insurance company which from 1 January 2016 calculates its Solvency II capital requirement via the use of the Standard Formula (previously under Solvency I). Avon Insurance plc is required to hold sufficient capital to meet the Solvency II capital requirements, and has complied with all externally imposed capital requirements throughout the year.

The NFU Mutual Group has an established Own Risk and Solvency Assessment (ORSA) process which incorporates Avon Insurance plc, and which ensures compliance with the requirements to hold adequate capital to cover all types of risk faced by the business. To support the protection of existing Own Funds, the Group has established processes and policies in specific areas such as Investment Strategy and Risk Management.

Avon Insurance plc's capital position remains strong. The Own Funds of Avon Insurance plc solely comprises of the excess of assets over liabilities represented by its accumulated retained profits and share capital, as measured under Solvency II. Own Funds available to cover the Solvency II Capital Requirement (SCR) as at 31 December 2018 is estimated to be £32.4m (2017: £33.7m) unaudited.

The effects on the value of the total equity caused by the difference in valuation and recognition methods between balance sheet and Solvency II regulatory requirements are summarised below.

	2018	2017
	£m	£m
Total Equity - Statutory	32.3	34.5
Valuation Method adjustments		
Net technical reserves	0.1	(0.9)
Deferred tax	-	0.1
Own Funds - Solvency II	**32.4**	**33.7**

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 Tax	
	2018	2017	2018	2017	2018	2017
	£m	£m	£m	£m	£m	£m
Accident & Health	23.9	25.8	(7.2)	(8.2)	8.7	10.0
Fire & Other Damage to Prop	0.9	0.9	0.3	2.1	(0.1)	0.2
Non-Technical Account	-	-	-	-	(0.2)	1.0
	24.8	**26.7**	**(6.9)**	**(6.1)**	**8.4**	**11.2**

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

	2018	2017
Continuing operations	£m	£m
Accident & Health	24.0	25.8
Fire & Other Damage to Property	0.9	0.9
	24.9	**26.7**

c) Gross Claims Incurred

	2018	2017
	£m	£m
Accident & Health	4.1	2.8
Fire & Other Damage to Property	1.5	3.2
Motor	(0.3)	(0.5)
	5.3	**5.5**

d) Gross Operating Expenses

	2018	2017
	£m	£m
Accident & Health	4.0	4.9
Fire & Other Damage to Property	0.1	-
	4.1	**4.9**

e) Outwards Reinsurance Premium

	2018	2017
Continuing operations	£m	£m
Accident & Health	8.4	9.2
Fire & Other Damage to Property	0.9	0.9
	9.3	**10.1**

6 Movement In Insurance Liabilities

A negative run off deviation of £0.7m (2017: £0.6m) for Accident and Health was experienced in the year with all other classes of business reporting a net negative deviation of £0.7m (2017: negative deviation of £2.4m).

	2018			2017		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
	£m	£m	£m	£m	£m	£m
Total at the beginning of the year	39.2	36.7	2.5	39.5	35.9	3.6
Movement in Liabilities;						
Gross arising from Current Year General Insurance Claims	1.4	-	1.4	1.6	-	1.6
Gross arising from Prior Year General Insurance Claims	(3.5)	-	(3.5)	(6.6)	-	(6.6)
Reinsured Claims Outstanding Movement	-	(2.6)	2.6	-	(4.0)	4.0
Claims incurred but not reported reserve movements	1.6	1.5	0.1	5.0	4.8	0.2
Claims Handling Reserve Movements	-	-	-	(0.3)	-	(0.3)
Total at the end of the year	**38.7**	**35.6**	**3.1**	**39.2**	**36.7**	**2.5**

7 Net Operating Expenses

	2018	2017
	£m	£m
Acquisition costs	2.6	3.0
Expenses	1.3	1.7
Reinsurance commission & profit participation	0.2	0.2
	4.1	**4.9**

8 Investment Return

	2018	2017
	£m	£m
Income from other investments	0.8	0.8
Net gains on realisation of investments	0.1	0.8
Investment income	**0.9**	**1.6**
Movement in unrealised investment losses	(1.1)	(0.6)
Investment return for the year	**(0.2)**	**1.0**

9 Director and Employee Information

	2018	2017
	£k	£k
Directors' aggregate emolument	22.8	20.3
Retirement benefit to past NED's	52.8	60.2
	75.6	**80.5**

Directors' aggregate emoluments in 2018 were £22,755 (2017: £20,318). Emoluments of Directors' are apportioned in the year of appointment and resignation. Pension contributions made in respect of serving directors in 2018 were £815 (2017: £612). The employees of the Company do not have contracts of service with Avon Insurance plc but with the Group Company, The National Farmers Union Mutual Service Company Limited. There is a pension commitment of £52,827 (2017: £60,249), 25% of Group total that is charged to Avon Insurance plc regarding retirement benefits to past directors.

The average monthly number of employees involved is:

	2018	2017
Admin & finance	12	13
Claims	3	3
	15	**16**

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:

	2018	2017
	£m	£m
Wages & salaries	0.5	0.5
Social security costs	-	-
	0.5	**0.5**

10 Profit On Ordinary Activities Before Taxation

Profit on ordinary activities before taxation is stated after:

	2018	2017
	£k	£k
Fees payable to the company's auditors for audit of financial statements	24.0	28.9
Audit related assurance services	93.2	110.8

11 Taxation On Profits On Ordinary Activities

The tax assessed for the year is the same as (2017: same as) the standard rate of Corporation Tax in the UK for the year ended 31 December 2018 of 19% (2017: 19.25% blended).

	2018	2017
	£m	£m
Profit on ordinary activities before tax	8.4	11.2
Profit on ordinary activities multiplied by corporation tax in the UK of 19% (2017: 19.25% blended)	1.6	2.1
Effects of		
Non-taxable dividend received	-	-
Total tax charge for the year	**1.6**	**2.1**

Since 1 April 2017 the UK Corporation Tax rate has been 19%. A blended rate of 19.25% applied for 2017 as the rate pre April 2017 was 20%. The Finance Act 2017 reduces the main rate of corporation tax from 19% to 17% from 1 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

	2018	2017
	£m	£m
Equity Shares		
Dividend paid of £0.45 per share (2017: £0.35 per share)	9.0	7.0

13 Investments

	2018		2017	
	Valuation	**Cost**	**Valuation**	**Cost**
	£m	£m	£m	£m
Debt securities and other fixed interest securities	20.6	20.3	26.8	25.4
Deposits with credit institutions	9.0	9.0	18.0	18.0
	29.6	**29.3**	**44.8**	**43.4**

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 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 cash flow 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 –
Internal models with significant unobservable market parameters. 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.

	2018 £m			2017 £m		
	Level 1	Level 2	Total	Level 1	Level 2	Total
Debt Securities & other fixed/variable income securities	3.5	17.1	**20.6**	3.2	23.6	**26.8**
	3.5	**17.1**	**20.6**	**3.2**	**23.6**	**26.8**

15 Called Up Share Capital

The authorised capital at 31st December 2018 was £100m (2017: £100m) divided into shares of £1 each, of which £20m (2017: £20m) were issued and fully paid.

16 Reserves Within Equity

Share Capital
The share capital of Avon Insurance plc is wholly owned by NFU Mutual Management Company (MANCO), with the ultimate parent company being The National Farmers Union Insurance Society Limited. There were no share issues during 2018.

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 Retirement Benefit Schemes

The National Farmers Union Mutual Insurance Society Limited operates the NFU Mutual Retirement Benefit Scheme (RBS) 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. The Defined Benefit scheme closed to future accrual with affect from 31 December 2016, but retains salary linkage for active members. The assets of the two sections of the scheme are held in separate trustee-administered funds and cover all material obligations to provide pensions to retired and current 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 2017. 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. Following ongoing consultations with the trustees of the RBS and the Group, the Group agreed to commence contributions to the scheme with affect from 1 January 2016. Prior to this date it was agreed that contributions would be suspended. Funding levels are monitored on an annual basis and are not expected to change in 2019.

The current surplus of the scheme, calculated by the independent firm of actuaries, is £64.4m (2017: £63.1m surplus) and is accounted for by The National Farmers Union Mutual Insurance Society Limited.

18 Deferred Taxation

	2018	2017
	£m	£m
Balance at 1 January	0.1	0.1
Charge for the year	(0.1)	-
Balance at 31 December	-	**0.1**

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

19 Cash Flow Statement

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

	2018	2017
	£m	£m
Profit for the financial year	6.8	9.1
Adjustments for		
Investment income	(0.9)	(1.6)
Tax charge on ordinary activities	1.6	2.1
Operating profit	**7.5**	**9.6**
(Increase)/Decrease in debtors, prepayments and accrued income	(0.3)	1.8
Decrease in creditors, accruals and deferred income	(7.4)	(3.9)
Increase/(Decrease) in net technical provisions	0.5	(1.1)
Unrealised investment loss	1.1	0.6
Net cash inflow from operating activities	**1.4**	**7.0**

b) Analysis of changes in cash and cash equivalents

	As at 1 January 2018	Cash Flow 2018	As at 31 December 2018
	£m	£m	£m
Cash at bank and in hand	1.1	5.5	6.6
Deposits with credit institutions	18.0	(9.0)	9.0
Total cash and cash equivalents	**19.1**	**(3.5)**	**15.6**

20 Related Parties

The Company has taken advantage of the exemption set out in FRS 102 paragraph 33.1A, not to disclose transactions with other Group Companies.

21 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 2018. 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, CV37 7BJ.