NFU Mutual
Solvency and Financial Condition Report 2016

Solvency and Financial Condition Report

CONTENTS

D. VALUATION FOR SOLVENCY PURPOSES

E. CAPITAL MANAGEMENT

INTRODUCTION

This is a single SFCR that incorporates consolidated information at the level of the Group ("Group"), solo information for National Farmers Union Mutual Insurance Society Limited ("NFUM") and the subsidiary insurance undertaking: Avon Insurance Plc ("Avon").

This report is prepared as a single Group SFCR in compliance with waiver 2202893 granted by the PRA with effect from 1 January 2016.

Relevant information about the business of the Group is provided in the Group's Annual Report and Accounts for the year ended 31 December 2016 (the 'Report & Accounts'), a copy of which can be found at www.nfumutual.co.uk.

NFU Mutual Insurance Society is both an authorised composite insurer and the legal entity at the head of the NFU Mutual Group. Therefore where 'NFU Mutual' is used within this document it refers to both the insurer and the Group unless otherwise stated.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Approval by the Board of Directors of the single Group Solvency and Financial Condition Report Financial period ended 31 December 2016

We certify that:

1. the Solvency and Financial Condition Report ("SFCR") has been properly prepared in all material respects in accordance with the PRA rules and Solvency II Regulations; and;
2. we are satisfied that:
(a) throughout the financial year in question, NFU Mutual has complied in all material respects with the requirements of the PRA rules and Solvency II Regulations as applicable at the level of the Group and the insurers that form part of the Group and;
(b) it is reasonable to believe that NFU Mutual will continue to comply in future.

Signed on behalf of the Board of Directors

Richard Percy
Chairman

Lindsay Sinclair
Group Chief Executive

25 May 2017

Report of the external independent auditors to the Directors of The National Farmers Union Mutual Insurance Society Limited ('the Company') pursuant to Rule 4.1 (2) of the External Audit Part of the PRA Rulebook applicable to Solvency II firms

Report on the Audit of the relevant elements of the Single Group-Wide Solvency and Financial Condition Report Opinion

Except as stated below, we have audited the following documents prepared by the Company as at 31 December 2016:

- The 'Valuation for solvency purposes' and 'Capital Management' sections of the Single Group-Wide Solvency and Financial Condition Report of the Company as at 31 December 2016, ('**the Narrative Disclosures subject to audit**');
- Group templates S.02.01.02, S.22.01.22, S.23.01.22 and S.32.01.22 ('**the Group Templates subject to audit'**); and
- Templates S.02.01.02, S.12.01.02, S.17.01.02, S.22.01.21, S.23.01.01 and S.28.02.01 in respect of the Company and templates S.02.01.02, S.17.01.02, S.23.01.01, S.25.01.21 and S.28.01.01 in respect of Avon Insurance plc ('**the Company Templates subject to audit'**).

The Narrative Disclosures subject to audit, the Group Templates subject to audit and the Company Templates subject to audit are collectively referred to as the '**relevant elements of the Single Group-Wide Solvency and Financial Condition Report'**.

We are not required to audit, nor have we audited, and as a consequence do not express an opinion on the **Other Information** which comprises:

- Information contained within the relevant elements of the Single Group-Wide Solvency and Financial Condition Report set out above which are, or derive from the Group and the Company's Solvency Capital Requirement, as identified in the Appendix to this report;
- The 'Summary', 'Business and performance', 'System of governance' and 'Risk profile' elements of the Single Group-Wide Solvency and Financial Condition Report;
- Group templates S.05.01.02, S.05.02.01 and S.25.02.22;
- Templates S.05.01.02, S.05.02.01, S.19.01.21 and S.25.02.21 in respect of the Company and templates S.05.01.02, S.05.02.01 and S.19.01.21 in respect of Avon Insurance plc;
- Information calculated in accordance with the previous regime used in the calculation of the transitional measure on technical provisions, and as a consequence all information relating to the transitional measure on technical provisions as set out in the Appendix to this report for the Company and the Group;
- The written acknowledgement by management of their responsibilities, including for the preparation of the Single Group-Wide Solvency and Financial Condition Report ('**the Responsibility Statement**'); and
- Information which pertains to an undertaking that is not a Solvency II undertaking and has been prepared in accordance with PRA rules other than those implementing the Solvency II Directive or in accordance with an EU instrument other than the Solvency II regulations ('**the sectoral information')** as identified in the Appendix to this report.

To the extent the information subject to audit in the relevant elements of the Single Group-Wide Solvency and Financial Condition Report includes amounts that are totals, sub-totals or calculations derived from the Other Information, we have relied without verification on the Other Information.

In our opinion, the information subject to audit in the relevant elements of the Single Group-Wide Solvency and Financial Condition Report of the Company as at 31 December 2016 is prepared, in all material respects, in accordance with the financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based, as modified by relevant supervisory modifications, and as supplemented by supervisory approvals.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) (ISAs (UK & I)), International Standard on Auditing (UK) 800 and International Standard on Auditing (UK) 805, and applicable law. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the relevant elements of the Single Group-Wide Solvency and Financial Condition Report* section of our report.

Emphasis of Matter - Basis of Accounting

We draw attention to the 'Valuation for solvency purposes' and 'Capital Management' sections of the Single Group-Wide Solvency and Financial Condition Report, which describe the basis of accounting. The Single Group-Wide Solvency and Financial Condition Report is prepared in compliance with the financial reporting provisions of the PRA Rules and Solvency II regulations, and therefore in accordance with a special purpose financial reporting framework. The Single Group-Wide Solvency and Financial Condition Report is required to be published, and intended users include but are not limited to the Prudential Regulation Authority. As a result, the Single Group-Wide Solvency and Financial Condition Report may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

Responsibilities of Directors for the Single Group-Wide Solvency and Financial Condition Report

The Directors are responsible for the preparation of the Single Group-Wide Solvency and Financial Condition Report in accordance with the financial reporting provisions of the PRA rules and Solvency II regulations which have been modified by the modifications, and supplemented by the approvals made by the PRA under section 138A of FSMA, the PRA Rules and Solvency II regulations on which they are based, as detailed below:

Modifications

Permission to publish a Single Group-Wide SFCR

Approvals

Approval for the Company to use the matching adjustment in the calculation of technical provisions;
Approval for the Company to use the volatility adjustment in the calculation of technical provisions;
Approval for the Company to use the risk free rate transitional measure in the calculation of technical provisions;
Approval for the Company to use the transitional measure on technical provisions; and
Approval for the Group and Company to use a partial Internal Model.

The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of a Single Group-Wide Solvency and Financial Condition Report that is free from material misstatement, whether due to fraud or error.

Auditors' Responsibilities for the Audit of the relevant elements of the Single Group-Wide Solvency and Financial Condition Report

It is our responsibility to form an independent opinion, in accordance with applicable law, ISAs (UK & I) and ISAs (UK) 800 and 805 as to whether the information subject to audit in the relevant elements of the Single Group-Wide Solvency and Financial Condition Report is prepared, in all material respects, in accordance with the financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based. ISAs (UK & I) require us to comply with the Auditing Practices Board's Ethical Standard for Auditors.

An audit involves obtaining evidence about the amounts and disclosures in the relevant elements of the Single Group-Wide Solvency and Financial Condition Report sufficient to give reasonable assurance that the relevant elements of the Single Group-Wide Solvency and Financial Condition Report 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 relevant elements of the Single Group-Wide Solvency and Financial Condition Report. In addition, we read all the financial and non-financial information in the Single Group-Wide Solvency and Financial Condition Report to identify material inconsistencies with the audited relevant elements of the Single Group-Wide Solvency and Financial Condition Report. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

This report, including the opinion, has been prepared for the Directors of the Company to comply with their obligations under External Audit rule 2.1 of the Solvency II firms Sector of the PRA Rulebook and for no other purpose. We do not, in providing this report, accept or assume responsibility for any other purpose save where expressly agreed by our prior consent in writing.

Other Matter

The Company has authority to calculate its Group Solvency Capital Requirement using a partial Internal Model ('the Group Model') approved by the Prudential Regulation Authority in accordance with the Solvency II Regulations and its Solvency Capital Requirement using a partial Internal Model ('the Solo Model') approved by the Prudential Regulation Authority in accordance with the Solvency II Regulations. In forming our opinion (and in accordance with PRA Rules), we are not required to audit the inputs to, design of, operating effectiveness of and outputs from the Group Model and the Company Solo Model, or whether the Group Model and the Solo Model are being applied in accordance with the Company's and the group members' application or approval order.

Report on Other Legal and Regulatory Requirements.

Sectoral Information

In our opinion, in accordance with Rule 4.2 of the External Audit Part of the PRA Rulebook, the sectoral information has been properly compiled in accordance with the PRA rules and EU instruments relating to that undertaking from information provided by members of the group and the relevant insurance group undertaking.

Other Information

In accordance with Rule 4.1 (3) of the External Audit Part of the PRA Rulebook for Solvency II firms we are required to read the Other Information and consider whether it is materially inconsistent with the relevant elements of the Single Group-Wide Solvency and Financial Condition Report and our knowledge obtained in the audits of the Single Group-Wide Solvency and Financial Condition Report and of the Company's statutory financial statements. 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. We have nothing to report in this regard.

PricewaterhouseCoopers LLP.

PricewaterhouseCoopers LLP
Chartered accountants
Bristol
25 May 2017

- The maintenance and integrity of The National Farmers Union Mutual Insurance Society Limited's website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the Single Group-Wide Solvency and Financial Condition Report since it was initially presented on the website.

- Legislation in the United Kingdom governing the preparation and dissemination of Solvency and Financial Condition Reports may differ from legislation in other jurisdictions.

Appendix – relevant elements of the Single Group-Wide Solvency and Financial Condition Report that are not subject to audit

The relevant elements of the Single Group-Wide Solvency and Financial Condition Report that are not subject to audit comprise:

- The following elements of Group template S.02.01.02:
  - Row R0550: Technical provisions - non-life (excluding health) - risk margin
  - Row R0590: Technical provisions - health (similar to non-life) - risk margin
  - Row R0640: Technical provisions - health (similar to life) - risk margin
  - Row R0680: Technical provisions - life (excluding health and index-linked and unit-linked) - risk margin
  - Row R0720: Technical provisions - Index-linked and unit-linked - risk margin
- The following elements of Group template S.22.01.22
  - Column C0030 – Impact of transitional on technical provisions
  - Row R0010 – Technical provisions
  - Row R0090 – Solvency Capital Requirement
- The following elements of Group template S.23.01.22
  - Row R0020: Non-available called but not paid in ordinary share capital at group level
  - Row R0060: Non-available subordinated mutual member accounts at group level
  - Row R0080: Non-available surplus at group level
  - Row R0100: Non-available preference shares at group level
  - Row R0120: Non-available share premium account related to preference shares at group level
  - Row R0150: Non-available subordinated liabilities at group level
  - Row R0170: The amount equal to the value of net deferred tax assets not available at the group level
  - Row R0190: Non-available own funds related to other own funds items approved by supervisory authority
  - Row R0210: Non-available minority interests at group level
  - Row R0380: Non-available ancillary own funds at group level
  - Rows R0410 to R0440 – Own funds of other financial sectors

- Row R0680: Group SCR
- Row R0740: Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds
- Row R0750: Other non available own funds

- The following elements of the Company's template S.02.01.02:
  - Row R0550: Technical provisions - non-life (excluding health) - risk margin
  - Row R0590: Technical provisions - health (similar to non-life) - risk margin
  - Row R0640: Technical provisions - health (similar to life) - risk margin
  - Row R0680: Technical provisions - life (excluding health and index-linked and unit-linked) - risk margin
  - Row R0720: Technical provisions - Index-linked and unit-linked - risk margin
- The following elements of the Company's template S.12.01.02
  - Row R0100: Technical provisions calculated as a sum of BE and RM - Risk margin
  - Rows R0110 to R0130 – Amount of transitional measure on technical provisions
- The following elements of the Company's template S.17.01.02
  - Row R0280: Technical provisions calculated as a sum of BE and RM - Risk margin
  - Rows R0290 to R0310 – Amount of transitional measure on technical provisions
- The following elements of the Company's template S.22.01.21
  - Column C0030 – Impact of transitional on technical provisions
  - Row R0010 – Technical provisions
  - Row R0090 – Solvency Capital Requirement
- The following elements of the Company's template S.23.01.01
  - Row R0580: SCR
  - Row R0740: Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds
- The following elements of the Company's template S.28.02.01
  - Row R0310: SCR
- Elements of the Narrative Disclosures subject to audit identified as 'unaudited'.

SUMMARY

Business and Performance

The results for the year for the Group, NFUM and Avon Insurance have been;

	Group £m		NFUM £m		Avon £m	
	2016	2015	2016	2015	2016	2015
Profit after tax	1,026	359	1,075	360	47.5	8.0

The profit after tax of £1,026m (2015: profit of £359m) for the Group and £1,075m (2015: profit of £360m) for NFUM on a UK GAAP basis reflects the strong results seen from our General Business with an underwriting result of £151m (2015: £281m) and total pre tax investment return of £1,166m. A strong investment performance within our Life and Pension business resulted in a strengthening of the Fund for future Appropriation of £165m (2015:£11m).

In respect of Avon Insurance plc, an insurance company within the group, the profit for the period after tax of £47.5m (2015: profit of £8.0m) was driven by dividends received from Avon Insurance plc's subsidiary companies.

System of Governance

The Board of Directors of the Group has ultimate accountability for ensuring that all risks to which the Group is exposed are effectively managed. The Board delegates accountability for risk management down through the Group's organisation structure, to individuals and teams with appropriate expertise and capability.

The Board also oversees the effectiveness of risk management via its risk governance framework, which consists of committees from board level to business unit and divisional level and ensures effective group wide risk oversight. The committees oversee the effectiveness of risk management for their delegated accountabilities and act as an escalation point for issues. This framework of business focussed oversight and flow of information throughout the governance framework ensures the Board is appropriately informed and can be comfortable that all risks are being managed effectively or are escalated appropriately.

There have been no material changes to these frameworks over the reporting period. To further improve the risk assurance and oversight changes have been made to our governance structure from 1st January 2017 and these changes are described in detail in section B.

The Group system of Governance oversees the risks within NFUM and Avon Insurance plc.

Risk Profile

The most significant change to the Group risk profile over the reporting period is an increase in the exposure to Market Risk, where Market Risk is defined as "the risk of reduction in earnings and/or value through financial or reputational loss due to unfavourable market moves." This increase has come about due to the strong performance of NFU Mutual's equity portfolio. As this set of assets has risen in value so too has the value of the risk exposure.

There has been no significant change to Avon Insurance plc risk profile over the period, the major risks being Insurance risk and Financial risk alongside other risks relating to the competitive environment.

Valuation for Solvency Purposes

Group and NFUM Own Funds have significantly increased over the reporting period to a value of £6,409m and £6,406m at the reporting date. As above, this has primarily arisen due to the strong performance of NFU Mutual's equity portfolio.

Avon Insurance own funds are lower at the reporting date than the previous year-end, at a value of £32m. The value was reduced following a dividend paid to the parent company in 2016.

Capital Management

The Group Solvency II coverage ratio has decreased over the reporting period to a value of 181% at the reporting date and NFUM is 181%. The Solvency II coverage ratio being calculated as eligible own funds as a percentage of the SCR. Over the reporting period own funds for the Group comfortably exceeded the Solvency Capital Requirement at all times.

For Avon Insurance the Solvency II coverage ratio has reduced over the reporting period to a value of 381% at the reporting date. Own funds for Avon Insurance remained well above the Solvency Capital Requirement at all times.

A. BUSINESS AND PERFORMANCE

A.1. Business Overview

A.1.a. Name and Legal Form

The National Farmers Union Mutual Insurance Society Limited, the firm, was founded as a Mutual Society in 1910, and was incorporated in 1910 as a Limited Company, Limited by Guarantee.

Avon Insurance plc is a public limited company incorporated in the United Kingdom.

A.1.b. Supervisory Authority Details

The National Farmers Union Mutual Insurance Society Limited (No. 111982) is a member of the Association of British Insurers, Avon Insurance plc (No. 00209606) is an insurance company within the Group.
The Firms are authorised and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

Financial Conduct Authority	Prudential Regulation Authority
25 The North Colonnade	20 Moorgate
London	London
E14 5HS	EC2R 6DA

A.1.c. External Auditor

PricewaterhouseCoopers LLP, 2 Glass Wharf, Bristol, BS2 0FR

A.1.d. Shareholdings

The National Farmers Union Mutual Insurance Society Limited is a Mutual Company limited by Guarantee, and as such does not have any share capital. No corporate entity has a qualifying holding, a proportion of ownership interest or voting power in the Company.

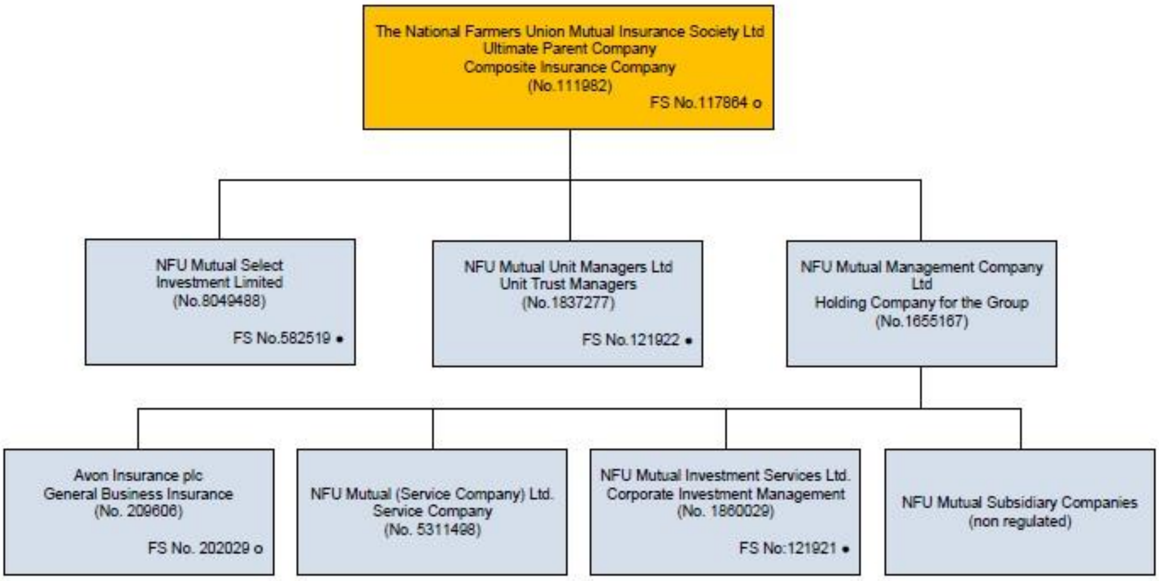
Avon Insurance plc has authorised capital at 31st December 2016 of £100m (2015: £100m) divided into shares of £1 each, of which £20m (2015: £20m) were issued and fully paid. The company is a wholly owned subsidiary of NFU Mutual Management Company Ltd, with the ultimate parent company being The National Farmers Union Mutual Insurance Society Limited.

A.1.e. Legal Structure of the Group

In accordance with Solvency II Reporting Requirements the Group consolidates only the regulated companies within the Group and companies providing ancillary services, whereas the Group reports its Financial Statements under UK GAAP (FRS102/103) which includes all its investment in group undertakings.

A simplified Group structure is illustrated below and a list of subsidiaries and other investments in Group undertakings.

The registered office of The National Farmers Union Mutual Insurance Society Limited and Avon Insurance plc is Tiddington Road, Stratford upon Avon, Warwickshire CV37 7BJ.



Key
FS No: = Financial Services Registered Number
• = Authorised and regulated by the Financial Conduct Authority
o = Authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and Prudential Regulation Authority

Directly Held Subsidiaries

NFU Mutual Management Company Limited	Holding Company
NFU Mutual Unit Managers Limited	Authorised Corporate Director of The NFU Mutual OEIC and the NFU Mutual Portfolio Funds OEIC
NFU Mutual Select Investments Limited	Platform Operator
NFU Mutual Pension Fund Trust Company Limited	Holds assets for the pension fund
Salmon Harvester Properties Limited (50% owned)	Property Development Joint Venture
SHP Opportunity Fund General Partner Limited (98% owned direct / 2% owned by Salmon Harvester Properties Limited)	General Partner of Limited Partnership
NFU Mutual Finance Limited (50% owned)	Finance Joint Venture
Oaks Property (Borehamwood MW2) Limited 2/3 owned direct / 1/3 owned by NFU Mutual Pension Fund Trust Company Limited)*	Property Special Purpose Vehicle

Subsidiaries Held Through NFU Mutual Management Company Limited

Avon Insurance plc	General Insurance
NFU Mutual Investment Services Limited Corporate	Investment Management
NFU Mutual Risk Management Services Limited	Risk Reduction Services
NFU Mutual Direct Limited†	Direct Marketing of Insurance
NFU Mutual (Service Company) Limited	Service Company
Harvester Properties Limited	Property Development
Knights Property Company Limited†	Property Holding Company
NFU Mutual Insurance association Limited Insurance*†	Underwriting Agency
Tiddington Finance Limited	Intra-Group Leasing and Financing
Stratford Services Limited*†	Admin Services
NFU Mutual Services Limited*†	Service Company
Country Mutual Limited*†	Non Trading Company
Hathaway Property Company Limited	Property Development

Subsidiaries Held Through NFU Mutual Select Investments Limited

Tiddington Nominees Limited*	Custodian
NFU Mutual Trustee Limited*	Pension Bare Trustee

Subsidiaries Held Through Avon Insurance Plc

Tiddington Investments Limited†	Non-Dealing Investment Company
Avon Life Limited	Non Trading Company

Companies Incorporated in Other Jurisdictions

Guernsey

Islands' Insurance (Holdings) Limited	Holding Company
Lancaster Court Limited	Holding Company
The Islands' Insurance Brokers Limited	Insurance Underwriting Agent & Insurance Broker
Farmers Re Limited	Reinsurance

Jersey

The Islands' Insurance Managers Limited	Holding Company
M. J. Touzel (Insurance Brokers) Limited	Insurance Underwriting Agent & Insurance Broker

Subsidiaries Held Through Salmon Harvester Properties Limited

Salmon Harvester (Orbital A3) Limited	Special Purpose Vehicle
FSH Airport (Edinburgh) (50% owned by Salmon Harvester Properties Limited)*	Joint Venture Property Company
FSH Nominees Limited (100% owned by FSH Airport (Edinburgh) Services Limited)*	Joint Venture Property Company
Ascot Business Park Management Company Limited; Property SPV	100% owned by Salmon Harvester Properties Limited
Ascot Business Park Parking Limited; Property SPV	100% owned by Salmon Harvester Properties Limited

Other investment in Group undertakings

SHP Opportunity Fund	Limited Partner Act 1907

* Denotes a company that is dormant and exempt from the requirement to prepare individual accounts by virtue of s394A of the Companies Act 2006 and exempt from audit by virtue of s479A of the Companies Act 2006

† Company that has been closed and removed from the register of companies held at Companies House.

A.1.f. Material Lines of Business and Geographic Areas

For over 15 years the Society has been offering its products and services to the wider rural community, a market place in which the firm intends to continue operating. The rural economy as a whole is large and varied in its nature.

General Insurance

The firm is ideally placed to service the rural community, with its unique local distribution network of over 300 outlets in rural and provincial locations. Over 50% of its general insurance premiums now come from the wider rural community and farm diversification, rather than directly from within the agriculture sector itself.

In part, it is this diversification away from 'core' agriculture into the wider rural community that has positioned the firm in its current, strong trading position.

Analysis of the NFUM General Insurance Business is normally carried out at three levels, by product type, by market sector, and by distribution channel.

Product Types

Are split into three main categories:

Business

- Business Property
- Livestock Mortality & Disease
- Liability, Public and Employers
- Accident & Health
- Pecuniary / Loss of Business
- Combined Packages

Motor

- Fleet Motor
- Commercial Motor
- Personal Motor both Comprehensive and Third Party

Personal

- Home Buildings & Contents
- Equine
- Jewellery
- Caravans

Distribution Channels

Tied Agents

The firm's network of agents, who are also the local NFU representatives in each area

Direct Operations

The firm's call centre operations, based in Glasgow

GCB

Group Corporate Business, an entity that deals with the large 'special' accounts handled by the firm, often sourced through independent brokers.

All General Business and Life (Pensions and Investments) business is written in the British Isles. All insurance premiums are direct insurance. There is no reinsurance inwards at Group level.

Life business

We offer products on an advised and non advised basis.

Product Types

- Investment Bonds
- With-profits Products

- Protection Products
- Pension Products
- Annuities
- Investments Saving Accounts (ISA's)

Avon Insurance

Avon Insurance plc's principal activity is the transaction of Personal Accident insurance business.

A.1.g. Significant Events over the Reporting Period

2016 has been a year of significant political and economic upheaval both on a national and international scale, highlighted by the result of the EU referendum within the UK and the result within the US presidential election.

Despite this uncertainty, the Group has continued to grow and deliver overall profit in 2016.

- Underwriting

Ongoing development of underwriting capability, together with focused claims and cost management led to a year end Combined Operating Ratio (COR - Proportion of Total Technical Charges as a percentage of earned premiums before earned Mutual Bonus and after allowing for reinsurance) of 88.3% (2015: 77.5%). Two significant areas have impacted the result:

  - Reserve strengthening reflecting the outcome of the Ogden tables review for bodily injury claims by the Lord Chancellor, which reduced the discount rate from positive 2.5% to minus 0.75%.

  - Reserve release relating to the statutory removal of the Claims Equalisation regulatory reserve.

- Investments

With regard to the NFUM's investments, it continues to be a strong believer in the long-term economic value of investing in shares and property – and this year, that belief has been rewarded in the form of a significant increase in the value of our portfolio.

- Mutual Bonus

In recognition of the NFUM's financial strength, it rewarded its members by increasing the Mutual Bonus they receive by 2.5% for the 12 months starting 1st July 2016. Given the strong return on our investments seen in 2016 we recently announced that we are adding 10% to the Mutual Bonus in 2017.

- Non trading/dormant Subsidiaries Return on Capital

2016 also saw a simplification of the Group structure with the Return of Capital and subsequent closure of some of its subsidiary companies including subsidiaries of Avon Insurance plc. These were also removed from the Register at Companies House.

A.2. Performance of Underwriting Activities

A.2.a. Underwriting Performance

The underwriting performance of the Group and that of the solo entity NFUM, being the parent company of the Group, over the period has been;

General Insurance

Our underlying General Insurance result (before total investment return) for the year is a profit of £178m (2015: £330m) in the U.K.
Ongoing development of underwriting capability, together with focused claims and cost management, led to a year end Combined Operating Ratio (COR) of 88.3%. On a longer term 10 year basis the average COR continues to sit close to our 98% target.

Further information can be found in the Business Review section of the Report and Accounts 2016.

Life and Pensions

The underlying Life and Pensions result (as represented by the NFUM's transfer to the Funds for Future Appropriations for the year) was £165m (2015:£11m) in the UK.

The NFUM offers products on both an advised and non advised basis. Advised propositions include a select number of third party products as well as our own. For almost all new product sales we charge explicitly for advice. For increments to products that were started before 2013 advice charges remain implicit. As a result we look at both sales of products by the manufacturer part of the business and the provision of advice by the adviser part of the business.

Within the manufacturer part of the business, overall new business volumes showed a small decline in 2016 (2015: 18.8% increase) to £56.7m Annual Premium Equivalent (APE – an industry measure which is equal to new regular annualised premiums plus 10% of new single premiums) (2015: £57.5m).

Within the adviser part of the business, income of £10.1m was generated in relation to giving advice (2015: £6.6m) driven by a continued focus on improving adviser quality and effectiveness. Opportunities provided by the new protection product in the second half of the year also contributed to an increase in adviser income. A strong cost focus also ensured costs within the adviser business were held at 2015 levels.

Further information can be found in the Business Review section of the Report and Accounts 2016.

Avon Insurance

Avon Insurance plc's business model is to operate a closed book of business following closure to new business in 2013. Ultimately the profit continues to be underpinned by the personal accident book together with the investment performance of the company's fixed interest securities. The underwriting result for the year was £8.6m (2015:£9.7m) in the U.K.

Further information can be found in the company's statutory Accounts 2016.

A.3. Performance of Investment Activities

A.3.a. Investment Income and Expenses

The income and investments for the NFUM and Avon Insurance plc on a solo basis are shown below. There is no significant difference between the Group and NFUM figures.

Investment Income and Expenses	2016			2015		
	Group £m	**NFUM £m**	**Avon £m**	**Group £m**	**NFUM £m**	**Avon £m**
Income:						
Bonds and non equity investments	141.8	141.0	0.8	151.7	149.5	1.2
Equity and Unitised Investments	357.3	319.6	37.7	220.8	220.8	-
Cash and Deposits	2.1	2.1	-	2.3	2.3	-
Properties	75.0	75.0	-	71.5	71.5	-
Total Income	**576.2**	**537.7**	**38.5**	**446.3**	**444.1**	**1.2**
Expenses:						
Investment Expenses	**3.3**	**3.2**	**0.1**	**3.1**	**3.0**	**0.1**

NFUM and Avon Insurance receive dividend and coupon income from stock market investments net of any applicable domestic and withholding tax. The companies pay withholding tax at a rate stipulated within the double taxation treaty between the United Kingdom and the relevant overseas country where the company is domiciled. Dividend income is recognised when the related investment goes ‘ex-dividend’. Avon Insurance also receives dividend income from it’s investments in subsidiary undertakings. During 2016 it received a one-off return of capital from it’s non trading subsidiaries.

Property investment income arises from rental receipts due from tenants where the company owns a property directly. Further property investments income is received from our investment in indirect property funds, as a distribution of net income for the period. The companies incur expenditure on maintaining properties where the liability for such costs sits with the landlord, or where there is no tenant in situ, in addition to management and letting fees incurred as lease incentives to tenants as part of standard letting negotiations. Leases will typically have provision for five-yearly upward-only rent reviews to open market levels or in line with RPI.

A.3.b. Gains and Losses Recognised Directly in Equity

The gains and losses on investments for the NFUM and Avon Insurance plc on a solo basis are shown below. There is no significant difference between the Group and NFUM figures.

Gains and losses on Investments	2016					
	Group £m		NFUM £m		Avon £m	
	Realised	Unrealised	Realised	Unrealised	Realised	Unrealised
Bonds and non equity investments	90.7	463.3	90.7	463.3	0.9	1.4
Equity and Unitised Investments	118.6	1,229.3	118.6	1,229.3	(37.3)	-
Cash and Deposits	-	5.6	-	5.6	-	-
Properties	3.1	(3.0)	3.1	(3.0)	-	-
Total Gains	**212.4**	**1,695.2**	**212.4**	**1,695.2**	**36.4**	**1.4**

Gains and losses on Investments	2015					
	Group £m		NFUM £m		Avon £m	
	Realised	Unrealised	Realised	Unrealised	Realised	Unrealised
Bonds and non equity investments	41.1	(144.5)	41.1	(143.0)	0.1	(1.0)
Equity and Unitised Investments	186.6	(252.9)	186.6	(252.9)	-	-
Cash and Deposits	-	-	-	-	-	-
Properties	31.2	135.4	31.2	135.4	-	-
Total Gains	**258.9**	**(262.0)**	**258.9**	**(260.5)**	**0.1**	**(1.0)**

Realised gains and losses on investments carried at fair value are calculated as the difference between net sales proceeds and purchases price, on an average cost basis. Avon Insurance non trading subsidiaries returned capital during 2016 thereby reducing the value of it's investments in subsidiary undertakings by £37.3m.

Properties are valued on a quarterly basis by an independent party to ascertain the fair value of our assets, with the difference from book cost being calculated as unrealised gains or losses.

A.3.c. Investment in Securitisations

There are currently only 2 ABS/MBS (Asset Backed Securities/Mortgage Backed Securities) in the NFUM portfolio 2016: £1.8m (2015: £1.9m). Key characteristics would be a guarantee from a third party and a different name on the bond that might obscure the underlying assets (often a holding company).

Avon Insurance plc held no investments in securitisations during 2016.

A.4. Performance of Other Activities

A.4.a. Other Income and Expenses

The NFUM Group made support payments to the farming unions 2016: £8m (2015: £7m), and Other Expenses in the form of Government levy fees, directors emoluments, and audit fees as disclosed in the Group's annual Report and Accounts. The Group had no material finance or operating lease arrangements during the period.

A.5. Any Other Disclosure

A.5.a. Any Other Disclosure

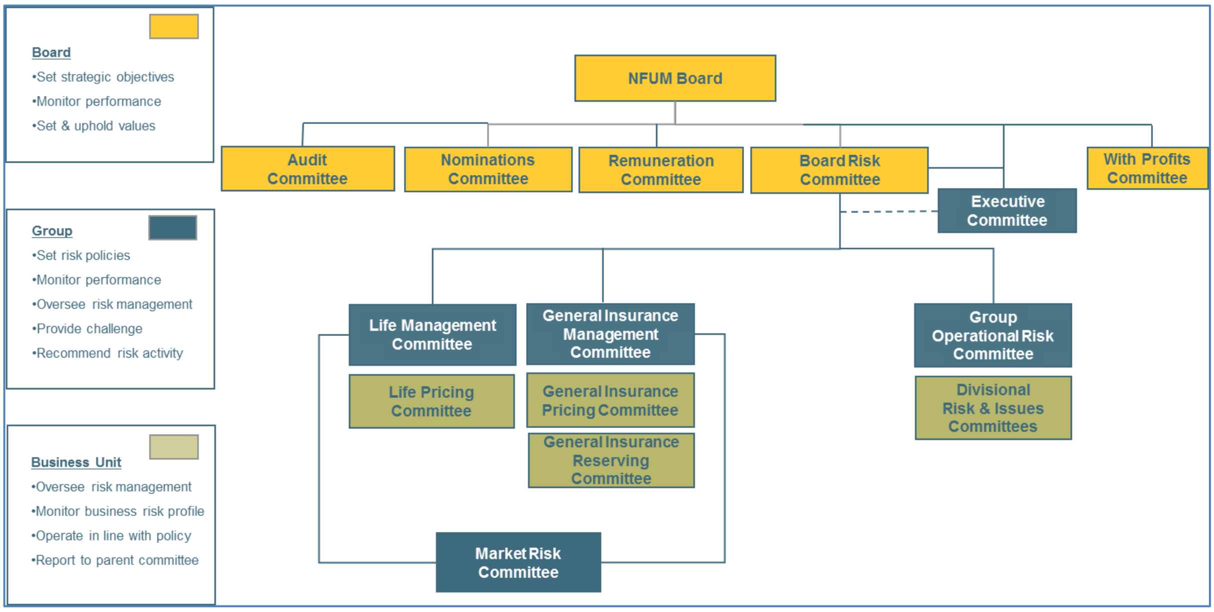
No further disclosures

B. SYSTEM OF GOVERNANCE

B.1. Governance Structure

B.1.a. Governance Structure

The following diagram illustrates the risk governance framework that was in place at NFUM and covers Avon Insurance plc during 2016. The framework operates to ensure that the Board have effective oversight of all Group activities. Further details of changes to our Governance structure can be found in Section B.1.b.



Group Committee Structures

The Board Risk Committee has delegated the risk management responsibility to business committees at the Group level in order to provide focus on financial and operational risk.

- Executive Committee (ExCo) - considers the development and implementation of strategy, operational plans, policies and budgets, the monitoring of operating and financial performance, and the prioritisation and allocation of resources in each area of operation. ExCo is also responsible for maintaining oversight of strategic risk.
- Group Operational Risk Committee (GORC) - reviews and recommends the Group's operational risk appetite and operational Risk Management Framework, and high-level Group policies relevant to operational risk. GORC periodically reviews risk exposures and risk/returns; and monitors the development, implementation and effectiveness of the Group's risk governance framework. GORC is supported by Divisional Risks and Issues Committees who are responsible for Operational Risks within each business division. They are also supported by Technical Operational Risk Experts (TOREs); individuals who can advise the GORC on the risk landscape and best risk management practice for a particular Operational Risk category.
- General Insurance Management Committee (GIMC) – This Committee is authorised to manage the General Insurance business in line with risk appetites set by the Board Risk Committee. The committee is responsible for the implementation and effectiveness of the financial Risk Management Framework, risk policies, reviewing the risk exposures and concentrations of risk in the General Business Fund.
- Life Management Committee (LMC) – This Committee is responsible for managing financial risks to risk appetites set by the Board Risk Committee. The committee is

responsible for the implementation and effectiveness of the financial Risk Management Framework, risk policies, reviewing the risk exposures and concentrations of risk in the Life Business Fund.

- Market Risk Committee (MRC) - The Committee is authorised by the Board to manage all aspects of the asset side of the balance sheet, investment policy and strategy for the Group and provide oversight of the operation of the Group's investment portfolios within direction set by GIMC and LMC, established strategy, and risks frameworks. The Committee assists the Board in setting the Group's investment strategy.

Business Unit Committee Structures

General Insurance:

- General Insurance Reserving Committee - This Committee sets both the best estimate liabilities for existing business and booked reserves.
- General Insurance Pricing Committee – This Committee is responsible for managing risk appetites for new business and has responsibility for setting product pricing, cover, terms and conditions subject to the overall risk appetite passed down from the General Insurance Management Committee.

Life Business:

- Life Pricing Committee - The Life Pricing Committee is responsible for setting product terms, conditions and charges (for both existing and new business) in line with the risk appetite passed down from the Life Management Committee.

The Board determines the Group's strategies and policies, sets guidelines within which the business is managed and reviews business performance. It is also responsible for ensuring that financial controls and risk management systems are robust.

The role of Chairman is to lead the Board in determining its strategy and achieving its objectives and to ensure that it keeps a close eye on governance. The Executive Team, led by the Group CEO, is charged with developing the strategy and successfully executing the operational plans agreed in pursuit of our long term objectives, in line with the Board's risk appetite and whilst complying with regulatory and legal requirements.

Managing risks effectively creates additional value for the business and in turn provides distinct competitive advantage. It is important that the Board has a majority of independent Non-Executive Directors as this independence and external experience enables them to bring challenge to the Board proceedings and hold management to account. With farming and the rural community so important to everything that the Group does, Board members' backgrounds include a mix of both farming and financial services experience.

The approach to Governance at the Group is committed to business integrity, high ethical values and professionalism in all its activities. As an essential part of this commitment, the Board supports the highest standards in corporate governance. The Board believes that best practice in corporate governance should be embedded throughout the Group. The Board has a clear view of the leadership and activities of the Group, including business results, key risks and developments. Directors are required to consider the long-term consequences of any decision on the Group's relationships with customers, suppliers, employees, the environment and the community, the Group's high standards of business conduct and the need to act fairly towards members. The Board and its committees work together to review strategy, business performance and to manage the business risks. The Board is proud of NFU Mutual's local governance framework which allows our members to communicate directly with the business.

To support the Board in maintaining an effective control environment the Group operates a three lines of defence model which is summarised below:

Governance

Three Lines of Defence

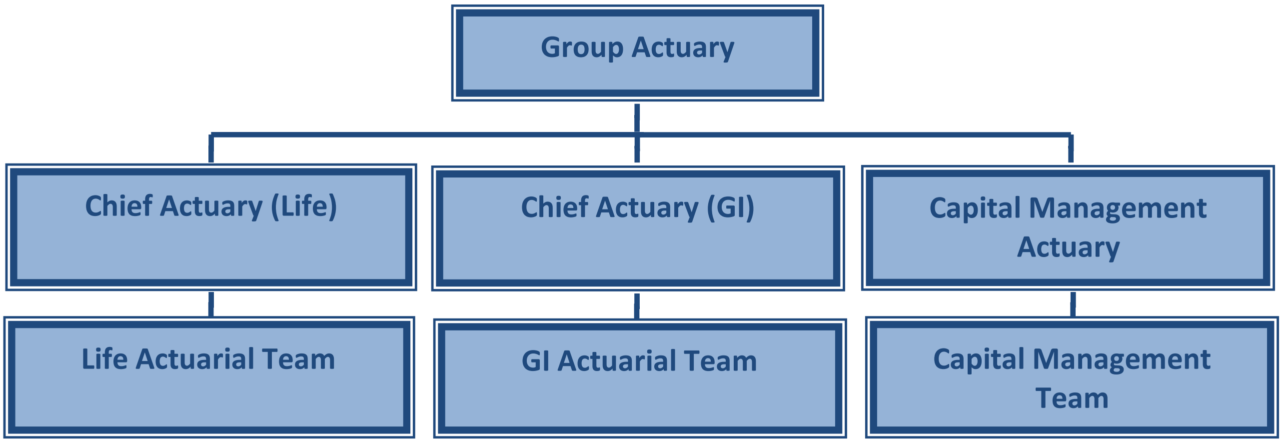
1st Line of Defence: Management	2nd Line of Defence: Oversight	3rd Line of Defence: Independent Review
Line Management	**Risk Function**	**Audit Committee**
•Owners of risk. •Identification, assessment of new and •emerging risks. •Delegated responsibility for management of risk in their area including use of Risk Information Officers if appropriate. •Owners of controls, policies, action plans and all mitigation activity. •Adherence to company policy, ethics and values.	•Owners of the Risk Management Framework (RMF). •Oversight & challenge of the implementation and use of the RMF and Line 1 risk activity. •Definition of Risk Strategy and related policies. •Encouragement of Risk Culture. •Provision of Risk Management training and education.	•Reviews effectiveness of the internal control environment and Risk Management Framework.
All Staff	**Compliance Function**	**Group Internal Audit Department**
•Responsible for management of risks within their area. •Identification and escalation of new or emergent risks in line with the Risk Management Framework. •Adherence to company policy and Guiding Principles.	•Interpret regulatory developments. •Provide guidance and support to the business for implementing operating procedures that meet regulatory requirements. •Responsible for Financial Crime and Information Security management. •Provide oversight on all policies & processes relating to security of information assets in all formats.	•Provides independent appraisal of the effectiveness of controls across all areas of the business. •Owners of the Group Audit Plan.
	Oversight Committees	**Compliance Audit**
	•Oversight of all risk types •Oversight of the Group's policy framework and plans to address any material exceptions. •Takes input from and provides challenge to Group and Divisional risk functions and committees. •Oversight and challenge of the Risk Management Framework.	•Provides independent assurance to Management and NFU Mutual Board that key regulatory risks are well managed and controlled.

Centralised Group control functions have been put in place for Compliance, Risk and Actuarial, which are all part of the Finance Division. Each control function has a formal document in place which sets out its purpose and details its status within the Group and how it maintains independence. The Heads of each function have formal reporting channels to the Board or its sub committees to ensure they are able to operate independently. Control function representatives are also appropriately represented on senior committees across the Group to ensure they are actively involved in decision making, including being members of the risk governance committees shown in the diagram above, operational decision making committees and change programmes. Each control function includes experienced and dedicated professionals who have the appropriate resources (including, where required, professional qualifications) to be able to discharge their duties correctly.

Actuarial Function Structure

The Group has in place a single Group level Actuarial Function which is part of the Group's Finance Division. The function is made up of the following roles and teams, which reflect the composite nature of the group.

The Actuarial Function is headed up by the Group Actuary who has an operational reporting line into the Finance Director.



Key Responsibilities

The Actuarial Function is responsible for providing independent assurance to the board and risk governance committees that technical provisions are appropriate and the Internal Model is appropriately validated. These responsibilities can be broken down into a number of specific Line 1 and 2 activities including:

Second Line Responsibilities

Life and GI Actuarial:

- Oversee the calculation of technical provisions, including reserves, ensuring the appropriateness of methodologies, models, assumptions and data used.
- Inform the board of the reliability and adequacy of the calculation of technical provisions; including explaining any inconsistencies in the calculation of technical provisions from the Solvency II requirements and justifying material changes in data, methodologies or assumptions between valuation dates.
- Ensure that options and guarantees included in contracts are appropriately assessed
- Compare best estimates against experience.
- Express an opinion on the following, including consideration of how they relate to technical provisions, and escalate any concerns to governance:
    - The Group's underwriting strategies, including pricing.
    - The adequacy of the Group's reinsurance policy and the program in place for the Group as a whole.
- Carry out independent validation of the Group's Internal Model.
- Contribute to the Group's Own Risk and Solvency Assessment (ORSA) and broader risk management including the emerging risks faced by the business.
- Provide regular and ad hoc management information and technical support to management and governance committees. This includes a board report, at least annually, that documents all material tasks carried out by the actuarial function, their results, any deficiencies identified and recommendations for improvement.

Capital Management:

- Define and recommend the Group's capital management policy.
- Make recommendations to governance committees regarding efficient use of the Group's capital assets.

First Line Responsibilities

Life Actuarial Department:

- Advise the With Profits Committee on the management of with-profits policies and provide other technical support as required.
- Ensure that own fund illustrations are specified accurately.
- Calculate unit prices for the unit linked funds.
- Provide timely, accurate input into regulatory reporting processes.
- Provide actuarial advice and support to the wider Life business.

GI Actuarial Department:

- Calculate GI Reserving figures in conjunction with claims and underwriting teams.

Operation Independence – The Actuarial Function operates on behalf of the Board and has reporting lines to the Board Risk Committee via the Group Actuary. It is a separate function within the Group Structure and where conflicts of interest are identified these are actively managed to ensure that independence is not compromised.

Ability to Influence – The Actuarial Function's standing in the organisation is such that it has the ability to raise items at an appropriate level of seniority and also has access to all aspects of the Group relevant to the proper performance of its responsibilities. In addition annual Chief Actuary Reports are produced for the Board Risk Committee by each Chief Actuary.

The Actuarial Function is represented on a number of senior management and governance committees to ensure that financial risk and capital impacts are considered in business decision making at all levels.

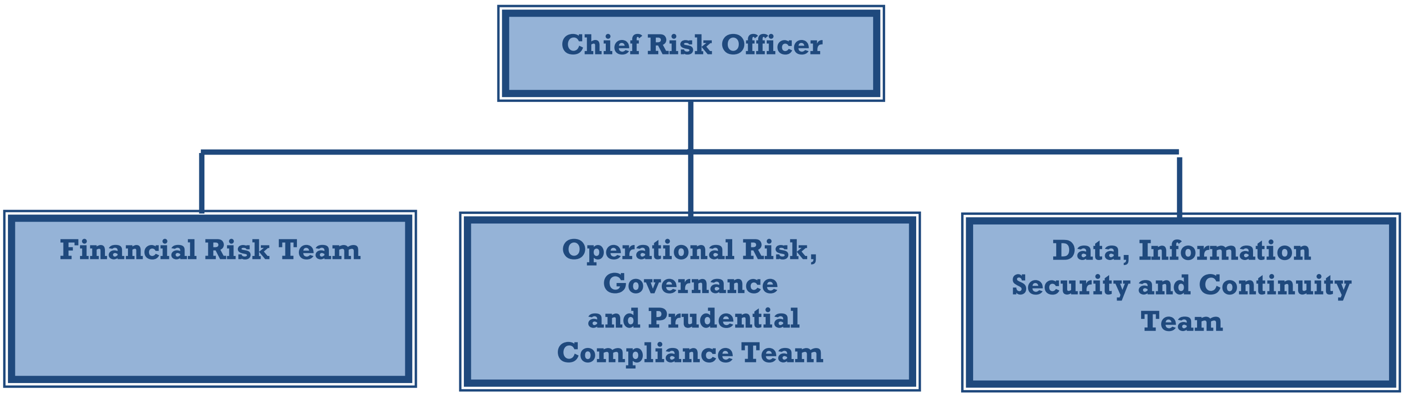
Resourcing – The Group Actuary is accountable for ensuring the Actuarial Function has sufficient resources to undertake its responsibilities. The Group Actuary also ensures that individuals working within the function have appropriate skills, knowledge and experience to carry out the roles assigned to them.

Quality and best practice – Activities undertaken by the Actuarial Function will meet regulatory requirements and will also take into consideration any best practice available.

Risk Management Function Structure

The Group has in place a single Group level Risk Management Function which is part of the Group's Finance Division. The Risk Management Function is headed up by the Chief Risk Officer (CRO) who has an operational reporting line into the Finance Director and a governance reporting line into the Board Risk Committee.

The Risk Management Function is made up of the following teams which all report to the Chief Risk Officer; teams may have responsibilities in addition to their Risk Management Function roles which may relate to another control function or may be First Line activities. Where teams undertake First Line support activities alongside their Second Line responsibilities the independence of Second Line activities is explicitly stated where appropriate.



Key Responsibilities

The Risk Management Function is responsible for providing independent assurance to the board and risk governance committees that the company's risk governance, risk management and control environment frameworks remain effective on an on-going basis. This can be broken down into a number of specific First Line and Second Line activities including:

Second Line Responsibilities

All Risk Teams:
- Ensure that the design of the risk management, risk governance and control environment frameworks meet the needs of the Group on an on-going basis, align with regulatory requirements and take account of industry best practice.
- Provide independent assurance to the board and risk governance committees that risk and control frameworks are effectively implemented across the Group so that all risks faced by the Group are appropriately identified, assessed, mitigated and monitored.
- Report on risk exposures, and changes to risk profile, including identifying and assessing emerging risks.
- Maintain an aggregated view of the risk profile of the business.
- Review and challenge First Line risk management activities and form an independent view of risk governance and risk management effectiveness; raise any concerns identified and provide independent assurance to the board and risk management committees.

Financial Risk Team:
- Define, implement and facilitate the Group's ORSA process.
- Line 2 challenge and oversight for financial risks.

Operational Risk, Governance and Prudential Compliance:
- Define, implement and maintain the Group's Risk Management Framework and Risk Governance Framework including the governance committee structure and standard risk tools such as the Group Risk and Issues Database (GRID) and Risk Log.
- Define, implement and maintain the operational risk management framework.
- Second Line challenge and oversight for operational risks and prudential regulatory risks.

Information Security, Business Continuity and Group Insurances:
- Define, implement and maintain the Group's frameworks for information security, data protection and business continuity risks.
- Second line challenge and oversight for information security, data protection and business continuity risks.

First Line Responsibilities

All Risk Teams:
- Provide consultancy and expert advice for business stakeholders.

- Provide training and education for business stakeholders.

Financial Risk Team:

- Define, implement and manage the Group's regulatory capital models, excluding the Internal Model. This includes the design, development, documentation and operation of the models and also ensuring that model outputs are considered as part of business decision making.
- Ensure the board and risk governance understand the performance of the model, its strengths and weaknesses and areas for improvement.
- Carry out First Line model validation activities; responsibility for independent validation sits outside of the Financial Risk Team.
- Define, implement and maintain the financial risk handbook.
- Oversight of the Financial Risk Log on behalf of the Group.

Operational Risk, Governance and Prudential Compliance:

- Define, implement and manage the Group's regulatory capital model for operational risk. This includes the design, development, documentation and operation of the models and also ensuring that model outputs are considered as part of business decision making.
- Ensure the board and risk governance understand the performance of the model, its strengths and weaknesses and areas for improvement.
- Define, implement and maintain the operational risk handbook.
- Define, implement and maintain the Group's Control Environment document.

Information Security, Business Continuity and Group Insurances:

- Own the Group Insurances programme and ensure it provides appropriate mitigation for the risks it acts as a control for:

Operation Independence – The Risk Management Function operates on behalf of the Board and has a reporting line, via the CRO, to the Board Risk Committee (BRC). It is a separate function within the Group Structure and where conflicts of interest are identified these are actively managed to ensure that independence is not compromised.

Ability to Influence – The Risk Management Function's standing in the organisation is such that it has the ability to raise items at an appropriate level of seniority and also has access to all aspects of Group relevant to the proper performance of its responsibilities. In addition the CRO has regular access to the Board including via private sessions of the Board Risk Committee.

The Risk Management Function is represented on a number of senior management and governance committees, including the CRO's position as a member of the Group's Executive Committee (ExCo), to ensure that risk is considered in business decision making at all levels.

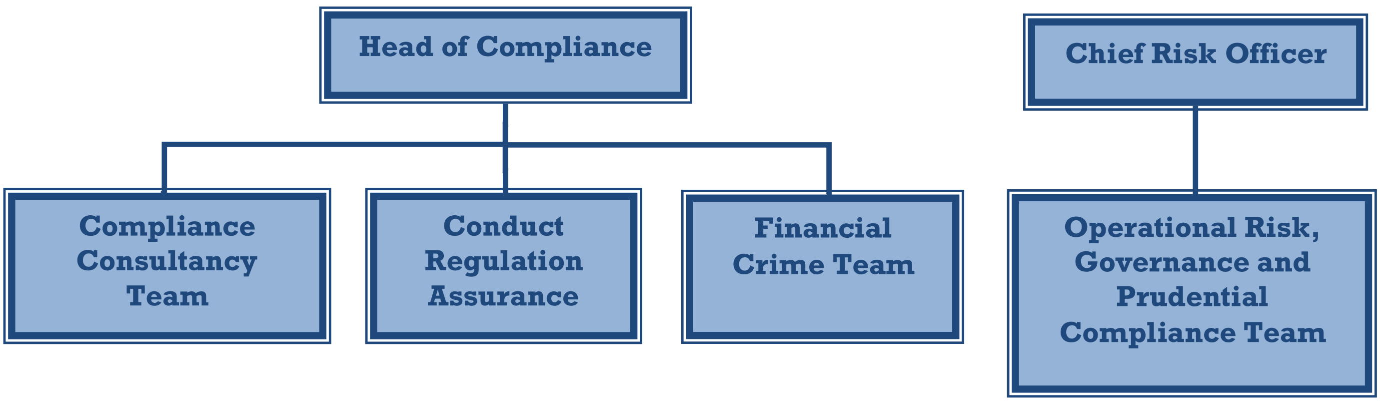
Resourcing – The CRO is accountable for ensuring the Risk Management Function has sufficient resources to undertake its responsibilities. The CRO also ensures that individuals working within the function have appropriate skills, knowledge and experience to carry out the roles assigned to them.

Quality and best practice – Activities undertaken by the Risk Management Function will meet regulatory requirements and will also take into consideration any best practice available.

Compliance Function Structure
As a financial services organisation the Group operates in a dual regulatory environment and is subject to supervision by both the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA).

The structure of the Compliance Function at the Group reflects the needs of the Group and the different focus of each regulatory body:
- Conduct regulation and all matters relating to the FCA are managed by a single Group level Compliance Department (GCD), which is headed up by the Head of Compliance.
- Prudential regulation (both PRA and FCA) and all matters relating to the PRA are managed by an Operational Risk, Governance and Prudential Compliance Team under the accountability of the Group's Chief Risk Officer.

Both teams have responsibilities in addition to their Compliance Function roles which either relate to another control function or to First Line activities and therefore the independence of Second Line activities is explicitly stated where appropriate.
The Group Compliance Department and the Operational Risk, Governance and Prudential Compliance Team are both part of the Group's Finance Division and the Head of Compliance and the Chief Risk Officer have operational reporting lines into the Finance Director.
The diagram below illustrates the organisational structure which comprises the Compliance Function at NFU Mutual:



Key Responsibilities

The Compliance Function is responsible for providing independent assurance to the board and risk governance committees that the company's compliance framework remains effective on an on-going basis. The framework ensures that compliance requirements are identified, interpreted, communicated and monitored in line with our regulators' expectations and the needs of the Group. The Compliance Function also reviews and challenges First Line compliance activities to form an independent view of compliance with regulatory requirements in order to provide assurance to risk governance that compliance risks are effectively managed. These responsibilities can be broken down into a number of specific First and Second Line activities including:

Second Line Responsibilities

Conduct Regulation Assurance Team:
- Carry out risk based reviews on areas of conduct risk and customer outcomes relevance; report findings to management and governance. This could be via the escalation of individual items to risk governance or through the Compliance dashboard.
- Define and maintain a compliance assurance plan for conduct compliance.

Compliance Consultancy Team:

- Notify the FCA of any breach of conduct rules.
- Report to risk governance on conduct regulatory matters.

Operational Risk, Governance and Prudential Compliance Team:

- Carry out assurance reviews on areas of prudential risk relevance; report findings to management and governance.
- Define, maintain and deliver a Conduct Regulation Assurance Plan as well as a conduct risk universe used for planning purposes.
- Notify the PRA of any breach of prudential rules.
- Report to risk governance on prudential regulatory matters.

First Line Responsibilities

Compliance Consultancy Team:

- Understand the regulatory agenda of the FCA including rule book requirements and wider European and global drivers; interpret and communicate conduct regulation changes to key internal stakeholders; and support them, as required, in meeting their responsibilities.
- Provide consultancy and expert advice to business stakeholders in relation to conduct regulation.
- Manage NFU Mutual's relationship with the FCA, acting as the first point of contact for all FCA enquiries and facilitating requests for information.
- Manage regulatory visits from the FCA by ensuring that a clear scope is agreed and communicated, internal stakeholders are appropriately prepared and any feedback is communicated and acted upon.
- Liaise with the Operational Risk, Governance and Prudential Compliance Team for any matters raised by either regulatory body that are of shared regulatory interest.

Operational Risk, Governance and Prudential Compliance Team:

- Understand the regulatory agenda of the PRA including rule book requirements and wider European and global drivers; interpret and communicate prudential regulation changes to key internal stakeholders; and support them, as required, in meeting their responsibilities.
- Provide consultancy and expert advice to business stakeholders in relation to prudential regulation.
- Manage NFU Mutual's relationship with the PRA, acting as the first point of contact for all PRA enquiries and facilitating requests for information.
- Manage PRA visits to NFU Mutual, ensuring that a clear scope is agreed and communicated, internal stakeholders are appropriately prepared and any feedback is communicated and acted upon.
- Facilitate PRA meetings with Group Board members, ensuring that meeting arrangements are mutually convenient, board members are appropriately prepared and appropriate records of the meeting are taken.
- Liaise with the Group Compliance Department for any matters raised by either regulatory body that are of shared regulatory interest.

Financial Crime Team:

- Define and implement the Group's financial crime risk framework, including defining and implementing the Group's financial crime related policies. Ensure that the framework meets the needs of the Group on an on-going basis and also aligns with regulatory requirements and takes account of industry best practice.

- Investigate any alleged financial crime activity and report any findings to management and governance. This could be via the escalation of individual items or through the Compliance dashboard.
- Manage BAU activity in relation to financial crime including, but not limited to, review of suspicious activity reports, notifications to the NCA, PEP and sanctions analysis.
- Provide consultancy and expert advice to business stakeholders in relation to financial crime risk.

Operation Independence – The Compliance Function operates on behalf of the Board and has reporting lines to the Group Operational Risk Committee (GORC). The teams that comprise NFU Mutual's compliance function are independent functions within the Group structure and where conflicts of interest are identified these are actively managed to ensure that independence is not compromised.

Ability to Influence – The Compliance Function's standing in the organisation is such that it has the ability to raise items at an appropriate level of seniority and also has access to all aspects of the Group relevant to the proper performance of its responsibilities.

The Compliance Function is represented on a number of senior management and governance committees to ensure that regulatory compliance is considered in business decision making at all levels.

Resourcing – The Head of Compliance and the CRO are accountable for ensuring the Compliance Function has sufficient resources to undertake its responsibilities. They also ensure that individuals working within the function have appropriate skills, knowledge and experience to carry out the roles assigned to them.

Quality and best practice – Activities undertaken by the Compliance Function will meet regulatory requirements and will also take into consideration any best practice available.

Internal Audit Structure:

Purpose

The Group Internal Audit Department's (GIAD) primary purpose and overarching goal is to help the Board and Executive Management to protect the assets, reputation and sustainability of the Group. It does this by assessing whether all significant risks are identified and appropriately reported by Management to the Board and Executive Management; assessing whether the risks are adequately controlled; and by recommending to Management improvements in the effectiveness of governance, risk management and internal controls.

Authority

GIAD derives its authority from the Board of Directors, via the Audit Committee. GIAD is authorised to examine the internal controls, risk management and governance arrangements in all areas of NFU Mutual. GIAD, with accountability for confidentiality and safeguarding records and information, is authorised full, free, and unrestricted access to any and all of the Group records, physical properties, and personnel pertinent to carrying out any engagement, including oversight arrangements undertaken by Management for outsourced operations, within a reasonable period of making the request.

Scope and Priorities

The scope of work undertaken each year by GIAD will be determined by the internal audit plan, which will be approved by the Audit Committee. The plan will be developed using a risk-based approach of all auditable entities to prioritise work towards providing assurance that the key risks facing the Group are controlled and identifying weaknesses where they are not. Additionally, GIAD may perform consulting services as appropriate, and conduct investigations and evaluate specific operations at the request of the Board or Executive Management, as appropriate. The nature of the proposed consulting activity will be assessed by the Group Head of Internal Audit (GHIA) to ensure it will not compromise GIAD's objectivity.

In accordance with the plan, GIAD will include within its scope, but will not be limited to, an assessment of the:

- design and operating effectiveness of the internal governance structures and processes of NFU Mutual.
- information presented to the Board and Executive Management for strategic and operational decision making.
- setting of, and adherence to, risk appetite.
- risk and control culture of NFU Mutual.
- treatment of customers in line with conduct regulation.
- management of NFU Mutual's financial and non-financial risks.
- framework within which programmes and projects operate.
- and the design and operating effectiveness of NFU Mutual's policies and processes.

As part of this assurance, GIAD will make recommendations to Management to manage risks and control weaknesses, which will be tracked by GIAD until implementation.

Organisational Independence

The primary reporting line for the GHIA is to the Chairman of the Audit Committee, with a secondary reporting line to the Group Chief Executive. The GHIA also has direct access to the Chairman of the Board, and an 'open invitation' to attend the Board Risk Committee and any meetings of the second line Risk Oversight Committees and first line Operational Committees.

The Audit Committee is ultimately responsible for approving the activity of GIAD in accordance with its Terms of Reference. The GHIA is present at, and issues reports to the Audit Committee, which include but is not limited to, quarterly reports on GIAD's performance relative to its annual internal audit plan, and this Charter; GIAD's assessment of Management's responsiveness to the findings and recommendations presented in internal audit reports; and an annual assurance report on the governance, risk and control framework of NFU Mutual.

Independence and Objectivity

GIAD is independent of the day-to-day business of NFU Mutual. GIAD has no direct operational responsibility or authority over any of the activities audited. Accordingly, GIAD will not 'sign-off' on any new or changed processes, systems or controls; it is Management's responsibility to satisfy itself on the appropriateness of such activities given NFU Mutual's risk appetite. Additionally, GIAD staff will not review a business area or function in which they have had recent management or operational responsibility or are otherwise conflicted. In undertaking internal audit activity, GIAD will exhibit the highest level of professional objectivity and will not be unduly influenced by its own interests or by others in forming judgments.

Resources, Professionalism, Quality Assurance and Improvement Programme
The GHIA will ensure that GIAD has the skills and experience commensurate with the risks of NFU Mutual, and will communicate any resource requirements to the Audit Committee, such as recruitment or co-sourcing with an external third party.

All internal audit activity will be undertaken in accordance with the mandatory elements of the Chartered Institute of Internal Auditors' (CIIA) International Professional Practices Framework (IPPF), including adherence to the Core Principles; the guidance in the Financial Services Code; relevant Group policies and procedures; and documented audit methodology and procedures in the Internal Audit Manual. GIAD will also remain up to date with emerging risks, new methodology practices, industry hot topics, and regulatory developments. This will provide a framework for evaluating internal audit effectiveness.

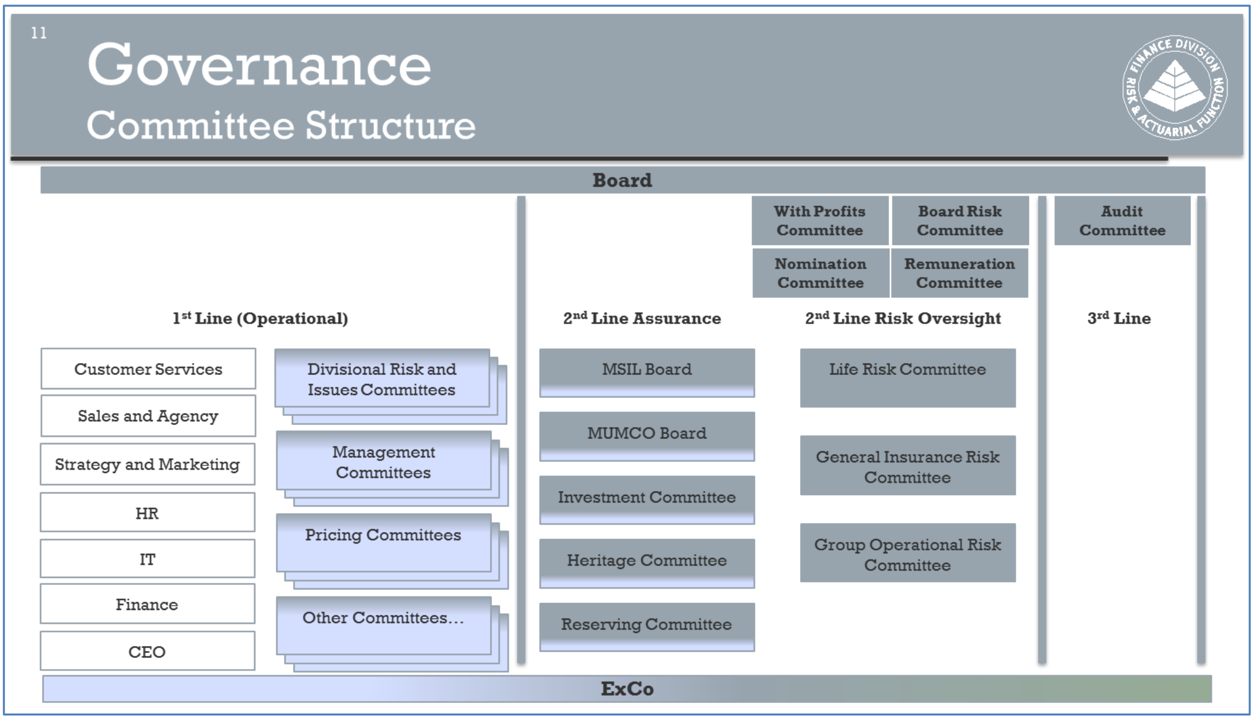
A quality assurance and improvement programme will be maintained by GIAD that will include an evaluation of GIAD's conformance with this framework; an assessment of the efficiency and effectiveness of GIAD; and identification of opportunities for improvement. The programme will include ongoing internal assessments and external assessments conducted at least every five years, with the results being reported in line with the CIIA reporting disclosure requirement.

B.1.b. Changes in the Governance Structure

To further improve the risk assurance and oversight, a revised Second Line governance structure is being implemented for 2017. The key changes being:

- Risk Committees will be managed and run by the Risk Management Function. To ensure effective risk oversight, the committees will have revised terms of reference supported by a change in membership and reporting MI. The committees will be in place and operating from 31 December 2016.
- Additional 'boards' are being implemented where there are key strategic or regulatory reasons for this arrangement.
- In accordance with PRA Regulation, new roles have been created within the Risk and Actuarial Function to ensure an appropriate degree of specialist and technical oversight.

The revised structure is illustrated by the diagram below:



Group Committee Structures

The Board Risk Committee has delegated the risk management responsibility to business committees at the Group level in order to provide focus on financial and operational risk.

- Executive Committee (ExCo) - considers the development and implementation of strategy, operational plans, policies and budgets, the monitoring of operating and financial performance, and the prioritisation and allocation of resources in each area of operation. ExCo is also responsible for maintaining oversight of strategic risk.
- Group Operational Risk Committee (GORC) - has responsibility to provide independent Second Line oversight and challenge of the operational risks arising from the Group's business strategies, decisions, activities, outcomes and external environment. It also provides assurance to the BRC that these risks are being appropriately managed.
- General Insurance Risk Committee (GIRC) - has responsibility to provide independent 2nd line oversight and challenge of the financial risks arising from General Insurance business strategies, decisions, activities and outcomes across the Group. It also provides assurance to the BRC that these risks are being appropriately managed.
- Life Risk Committee (LRC) - has responsibility to provide independent 2nd line oversight and challenge of the financial risks arising from Life business strategies, decisions, activities and outcomes across the Group. It also provides assurance to the BRC that these risks are being appropriately managed.
- Investment Committee (MRC) - has responsibility to provide independent 2nd line oversight and challenge to ensure that the investment business strategies, decisions, activities and outcomes across the Group are efficient, appropriate, and consistent with agreed constraints and risk appetites.

Business Unit Committee Structures

A number of business unit committees exist across the Group's First Line of defence which help drive, set and challenge business decision making across both General Insurance and Life businesses. They also act to identify, assess, manage and monitor single and aggregate risk exposures across the First Line of defence.

The 3 Lines of Defence Model is in place to ensure that all components within the internal control system operate effectively and is illustrated below:

32

3 Lines of Defence

Responsibilities

Line 1 Implement the control environment by adhering to group policies and controls and actively identifying and managing risks using the Risk Management Framework. **Key words – checking, monitoring, authorising, reviewing**	• Business units adhere to Control Environment Frameworks to ensure that risks are identified, managed, monitored and recorded on Risk Logs. • Business units apply group and local controls to manage risks e.g. quality checking, peer reviews, sign offs. • Activities are performed by appropriate individuals but responsibility lies with the risk owner.	Line 1 control activities: • May be formal or informal. • Will be undertaken on behalf of and be reported to the risk owner. • Are likely to be continuous or regular.
Line 2 Define key components of the control environment such as Risk Management, Governance and Compliance frameworks and provides assurance to governance that risks are being effectively managed across the Group. **Key words – assurance, validating**	• Line 2 define, implement and monitor the Risk Management, Internal Control and Compliance Frameworks. • Assurance activity is undertaken by teams that are independent of the business unit, usually a Control Function (Risk, Actuarial, Compliance), and business unit input must not compromise the independence of findings. • Assurance activities may include thematic reviews and model validation.	Line 2 assurance activities: • Have a clear scope and result in a written report to a head of control function or governance committee. • The report will be risk focussed and include opinions and recommendations. • May be regular or occasional but unlikely to be continuous. • Independent of the 1st Line.
Line 3 Provide the Board with an independent, objective and impartial view that risk management and internal control frameworks are appropriate and operating effectively **Key word – audit**	• Audit activity can only be undertaken by internal or external audit. • Findings are always presented in an audit report. • The scope of an audit encompasses both 1st and 2nd line activities.	Line 3 audit activities are: • Formal deliverables to the Board via the Audit Committee. • Independent of both 1st and 2nd lines.

B.1.c. Remuneration Policy and Practices

Reward aligns employees with the long-term performance of the business and encourages behaviours which are in line with NFUM's values and risk appetite. Reward consists of base pay, pension and benefits, and variable pay which consists of a Short-Term Incentive Plan (STIP) and a Long Term Incentive Plan (LTIP). Salaries are benchmarked against relevant markets to ensure competitiveness whilst controlling costs. All NFUM variable pay plans are based on financial and non-financial performance measures. Individual criteria of acceptable performance and adherence to risk appetite are also applied.

Pay-outs under the variable pay scheme are made by reference to a maximum percentage of salary which ensures that fixed remuneration remains a high portion of total remuneration. Senior employees (levels 8 and 7) participate in the long-term incentive plan which vests after three years, based on the achievement of targets linked to the three long-term objectives, which include both financial and non-financial criteria. No payment is made under the incentive plans if performance falls below a threshold level of acceptable performance. Withholding (malus) and recovery provisions (clawback) are in place. Payments can be scaled-back or cancelled if NFUM's risk and compliance controls have been breached or exceeded, or regulatory requirements have not been met.

B.1.c.i. Remuneration Policy Principles

Pay-outs under the variable pay scheme are made by reference to a maximum percentage of salary which ensures that fixed remuneration remains a high portion of total remuneration. In the case of the STIP and LTIP, payments can be scaled-back or cancelled if NFUM's risk and compliance controls have been breached or exceeded, or regulatory requirements have not been met. Malus and clawback provisions are in place. The Group bonus scheme allows flexibility for NFUM to decide an appropriate payment should the business not meet its targets for exceptional reasons. The packages for new Identified Staff (including Senior Risk Staff) and their variable pay opportunities and pay-outs and any salary increases will be subject to approval from the Remuneration Committee.

B.1.c.ii. Individual and Collective Performance Criteria

All NFUM corporate bonus schemes are based on a balanced score card so a wide range of financial, customer and employee engagement measures are included.

The annual bonus scheme (Group Bonus Scheme) applies to all individuals and includes six separate financial measures (60% bonus weighting) and two customer measures (40% bonus weighting). No bonus is payable in the event of unsatisfactory individual performance.

The Short Term Incentive Plan (STIP) applies to management grade employees and includes five separate financial measures (50% bonus weighting), two customer measures (25% bonus weighting) and an employee engagement measure (25% bonus weighting). The employee engagement measure is directly related to the division in which the employee operates and both financial and customer measures are adjusted to ensure that they are also relevant to the manager's role. If business performance falls below a Profitability Threshold then any payment due under the STIP will be reviewed by the Remuneration Committee and may be adjusted or withheld. The Profitability Threshold is defined as the whole company Combined Operating Ratio Threshold level. No bonus is payable in the event of unsatisfactory individual performance.

The Long Term Incentive Plan (LTIP) applies to the most senior level of employees only. This scheme is based on targets relating to a three year performance period and includes five separate financial measures (50% bonus weighting), two customer measures (25% bonus weighting) and an employee engagement measure (25% bonus weighting). As with the STIP, there are threshold levels of acceptable performance applicable to LTIP awards, below which vesting is not permitted. One third of the CEO and Executive Directors STIP award (including the Group Bonus Scheme award) is being deferred for three years post award. No LTIP payment is payable in the event of unsatisfactory individual performance.

All bonus scheme rules include the potential for the Remuneration Committee to adjust the bonus payment made to the company/division/department or individual.

B.1.c.iii. Supplementary or Early Retirement Schemes

The NFUM pension scheme has a Defined Benefit section which is closed to future accrual, along with a Defined Contribution section. Employees can apply to take early retirement from age 55 and an actuarial deduction would apply. A small number of employees receive a cash pension supplement where they are unable to join the pension scheme due to fixed protection issues.

B.1.d. Transactions with Shareholders and/or Management

Directors and members of senior management are related parties. Directors of the Group are required, under its constitution, to be members – i.e., to maintain insurance policies with the Group. The total premium income involved in 2016, for Directors and members of senior management and their close family and/or connected entities was £90,725 (2015: £84,144) for General business and £397,282(2015:£216,728) for Life business. Claims paid and Life surrenders totalled £44,771 (2015: £17,783).

B.1.e. General Governance Information

No additional information required.

B.2. Fit and Proper Requirements

B.2.a. Skills, Knowledge and Expertise

The Group has a responsibility to ensure that all individuals working in regulated positions have the appropriate level of skill, knowledge, experience and demonstrate the standards expected by the Financial Services Regulators. This is referred to by the Regulators as "Fitness and Propriety", and the Group is required to assess this both at appointment stage and on an ongoing basis.

At Executive level, role holders must demonstrate that they have significant leadership experience within the Financial Services industry, and that they also have previously operated at Board level developing strategies for the company's future, including significant levels of change. They are also expected to be able to demonstrate a high level of understanding of both the General and Life Insurance markets, along with knowledge of the regulation and industry standards that apply. This is assessed in a variety of different ways, and can be evidenced through methods such as pre-employment screening checks (including criminality checks, FCA Register check, Directorship and International Sanction List checks, and Financial Probity checks), performance management processes, Continuous Professional Development, membership of professional bodies and through the recruitment documents provided to the Regulators.

B.2.b. Assessing Fitness and Propriety

A framework is in place across the undertaking to ensure we meet fit and proper requirements on an on-going basis. Fitness and propriety at the Group covers all employees (to differing extents depending on roles). Fitness and propriety is managed through strong governance and people management processes in the following way:

Board Governance:

- The board are accountable for ensuring they are fit and proper on an ongoing basis.

- Key aspects of governance that contribute to fit and proper:

    - Board Effectiveness Review – annual review incorporating independent external review (three yearly), sub committee effectiveness reviews and review of decisions made.
    - Nomination Committee – board sub committee with accountability to recruit board members, ensure appropriate make up of the Board and review the three yearly re-appointment of Board members.

Risk Governance:

- Risk committee structure in place aligned to organisational structure and risk profile.

- Provides oversight and challenge to ensure all employees are fit and proper.

- Ongoing reviews of the framework including annual committee effectiveness reviews.

- Defined and managed by Risk Management Function on behalf of the board. The Risk Management Function are responsible for ensuring the ongoing appropriateness of Risk Governance and recommending and implementing improvements.

People Management:

- Policies and processes in place across the Group that support the on-going fitness and propriety of all employees.

- Group HR are responsible for ensuring the ongoing appropriateness of fit and proper processes and recommending and implementing improvements.

- Processes may be carried out by Group HR or the business.

- Processes can be grouped into three categories:

    - Regulatory notification – processes in place to notify the regulators (FCA and PRA) of approved persons role changes and to gain regulatory approval for individuals in approved persons roles. Processes are triggered by organisational structure changes, promotions, recruitment, leavers or dismissals.
    - Screening – processes in place to check the financial, criminal and regulatory status of employees when they join the Group, gain promotions into higher screening tiers and on an ongoing basis for directors and financial advisers. A risk based approach is taken to screening with all new starters screened as part of the recruitment process and ongoing screening in place for high risk roles such as directors and financial advisers.
    - Ongoing performance management – BAU processes and policies that ensure the ongoing fitness of all employees including recruitment, performance management, role profiles etc.

Accountability for ensuring that individuals are fit and proper on an ongoing basis lies with the accountable manager.

B.3. Risk Management System

B.3.a. Risk Management Strategies, Processes and Reporting Procedures

NFU Mutual's Control Environment consists of a number of components that work together to facilitate a culture where individuals at all levels demonstrate appropriate risk aware behaviour.

Each component is clearly defined and aligned to the business model and strategic objectives of NFU Mutual.

Key components of the Risk Management Framework include:

- Risk Management Strategy
- Stress and scenario testing methodology
- Risk universe
- Risk appetites and constraints
- Risk policies
- Roles and responsibilities
- Risk management processes and reporting
- Risk management tools

The responsibility for implementing and maintaining the Risk Management Framework across the Group sits with the Risk Management Function and is overseen by the Board Risk Committee on behalf of the Board.

In order for the Group to optimise its performance it is important that risk and return are considered together. The Group believe this is best done by managers being accountable for the management of risk within their teams as well as being responsible for meeting their business objectives and goals, as decisions on risk should not be isolated from the rest of business decision making. This requires regular and close liaison between the wider business and the Risk Management Function.

Business units and subsidiaries (e.g. Avon) are allowed to make decisions on risk but need to operate within risk appetite and the Group's policy framework. They must do so in a way which is consistent with realising the Group's strategy and meets agreed business performance targets.

The core principles that underpin this approach to risk management are:

- Executive Management has primary responsibility for designing, implementing, embedding and maintaining an effective Risk Management Framework.
- Managers are accountable for the management of risk, including implementing effective controls, in their area of business. They are also responsible for documenting their risks and controls via individual Risk Logs, with support and challenge from the Risk team or others where necessary. Some managers may elect to appoint a Risk Information Officer (RIO) to act as "risk champions" within their area.
- Decisions taken by management are consistent with the NFU Mutual's strategic objectives and risk appetite, which are approved by the Board. Financial models will be used to inform this decision making.
- The interests of members and other stakeholders are protected by ensuring that excessive powers are not delegated to individuals.

- A common Risk Management Framework is used throughout the organisation to manage risk, supported by appropriate policy and control standards.
- The Group has common definitions of risk for both financial and operational risks. These are documented in the Group's Control Environment document, as part of the Risk Universe.
- Key roles, responsibilities and authorities relating to risk are clearly identified and documented within the business.
- Risk management arrangements and risk exposures are subject to independent oversight (i.e. oversight from individuals and groups not directly accountable for the management of the risk).
- All elements of the Group's Three Lines of Defence governance framework (Management / Oversight / Independent Review) have appropriate visibility into, and understanding of, the Group's Risk Management Framework and processes to enable them to operate effectively.
- Every member of staff is responsible for understanding and managing the risk they take on behalf of the Group and for ensuring that they act within the authorities and accountabilities delegated to them.

All managers within the Group are accountable for managing their risks in line with the risk management framework to ensure that the individual and aggregated risks to which the Group is exposed are monitored and reported on an on-going basis.

Risk is an essential part of the Group's business operations and successful risk taking is required to achieve the Group's business objectives. To ensure that all risks are managed effectively the Group is committed to:

- Embedding a common risk culture across the business, and thus:
  - Aligning risk strategy with business strategy.
  - Providing challenge to the business to inform decision making.
  - Enhancing and embedding risk appetites across the business.
  - Re-enforcing the importance of risk management as part of the everyday work of the Group employees.
  - Ensuring that financial models are used as a part of business decision making.
  - Ensuring that the risks arising from subsidiaries and joint ventures are properly identified and managed.
- Implementing effective systems and processes of risk management, and thus:
  - Maintaining a strong system of internal controls to safeguard policyholders and employees interests.
  - Supporting the realisation of NFU Mutual's business objectives and build value for the Group by continuously identifying, evaluating, prioritising and pro-actively managing the risks to the achievement of those objectives.
  - Providing a consistent approach to prioritising risks and then determining effective methods of controlling and responding to them.
  - Ensuring clear roles, responsibilities and reporting lines are in place for managing risk.
  - Facilitating the provision of risk management information across the business.
  - Participating with other bodies including regulatory supervisors in the development and sharing of risk management best practice.

    - Providing financial models that, where appropriate, can quantify NFU Mutual's exposure to risk.
    - Ensuring that financial models are of an appropriate design for NFU Mutual, have minimal risk of material miss-statement, and are well controlled and governed.
    - Supporting the Group in its objective of building and maintaining an efficient capital structure by ensuring that all risks are assessed and managed, and assisting the business in maximising return on capital.

- Helping senior management to improve their control and co-ordination of risk taking across the business, and thus:
    - Ensuring senior management can obtain necessary assurance that risks are being effectively managed, while establishing strong and independent review and challenge structures.
    - Supporting senior management when they formulate Group risk appetites and ensure that they are consistent with business plans and strategic objectives.
- Retaining, developing and attracting the appropriate resource in the risk function, and thus:
    - Maintaining a risk function that has the appropriate skills to effectively discharge its duties.
    - Ensuring risk resources are utilised appropriately.
- Ensuring the Group meets its regulatory requirements, and thus:
    - Ensuring that sufficient capital is held for the SCR (Solvency Capital Requirement) and ORSA (Own Risk and Solvency Assessment).
    - Communicating risk management information received from the regulatory supervisor and other bodies to stakeholders within the Group.
    - Supporting the Group in meeting its regulatory reporting requirements.

These objectives are achieved through a Risk Management Framework and governance detailing the actions the Group will take, together with corresponding roles and responsibilities.

To achieve these objectives the Risk Management Function:

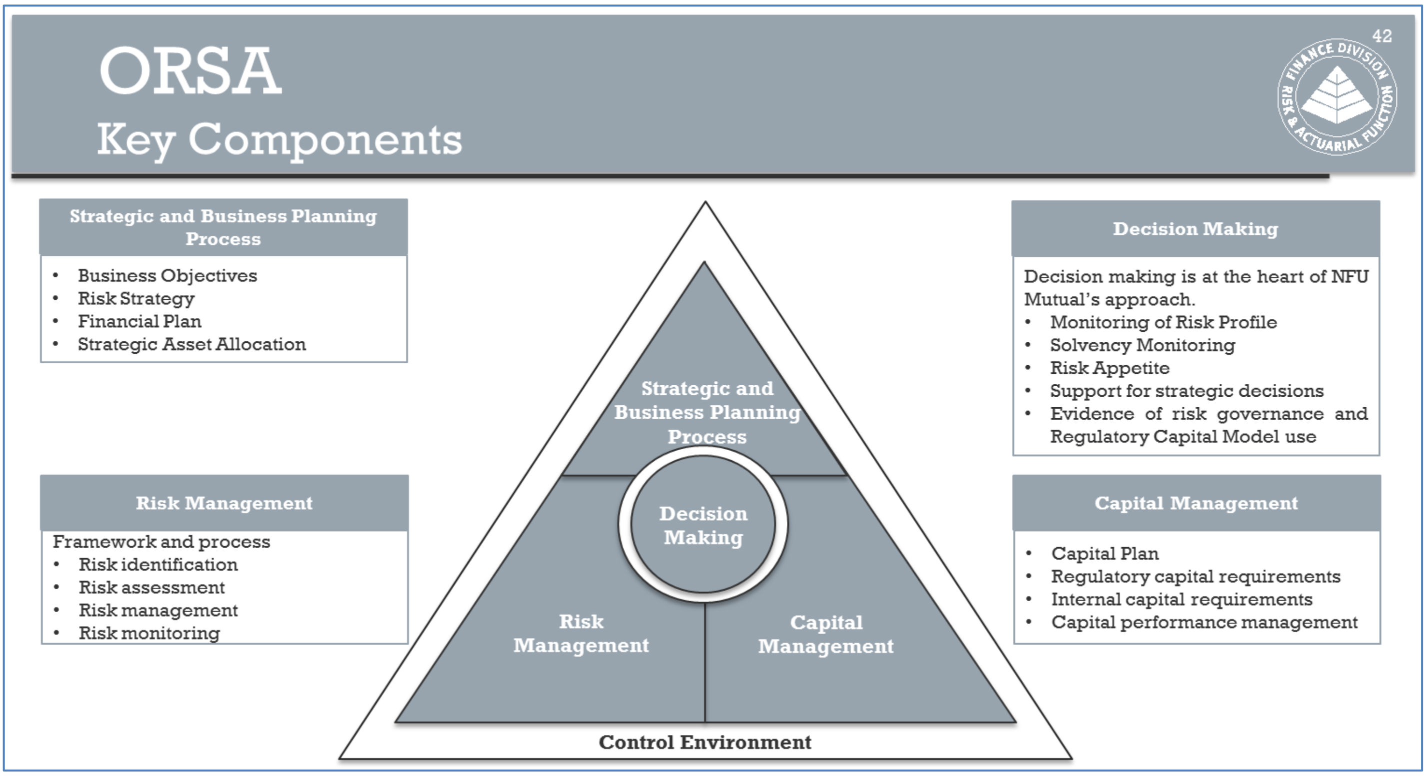
- Leads risk management activities across the Group, including establishing the vision and overall direction for risk management, embracing changes in best practice and regulation.
- Acts as a leading advocate for the development of a risk-based culture to manage the business of the Group, working with the Group to develop its Three Lines of Defence model, to make sure it is working effectively.
- Ensures that, throughout the Group (including outsourced providers), there is an appropriate understanding and awareness of the risks surrounding the Group's business and that senior management understand their responsibilities in managing those risks.
- Ensures that risk owners have appropriate training and resources to execute their risk management responsibilities.
- Maintains an appropriate Group-wide Risk Management Framework, including Group-wide minimum standards.
- Develops and continuously improves financial models that can be transparently validated, including using "back testing" against experience.

- Supports the Group as it continuously identifies, prioritises and evaluates the risks to the business, identifying clear lines of responsibility and accountability for the management of risks.
- Provides on-going advisory and assurance services in the subject matter of risk management, in particular:
    - Provides oversight, challenge and validation of risk management activities though a governance framework;
    - Provides advice on prospective industry changes / developments; and
    - Develops relevant subject matter expertise.
- Develops the Group's relationship with the PRA, FCA and other regulators to ensure an open and co-operative relationship; and
- Operates in accordance with the PRA and FCA's principle based regulations.

There have been no significant changes to the governance of the Internal Model other than those shown in Section B.3.b.

B.3.b. Integration into the Organisational Structure and Decision Making Processes

The risks management function is integrated into the organisational structure and the decision making processes as illustrated below:



The Risk Management Function is part of the Finance Division, reporting to the Finance Director. However the Chief Risk Officer has unfettered access to Board, including via private sessions of the Board Risk Committee.

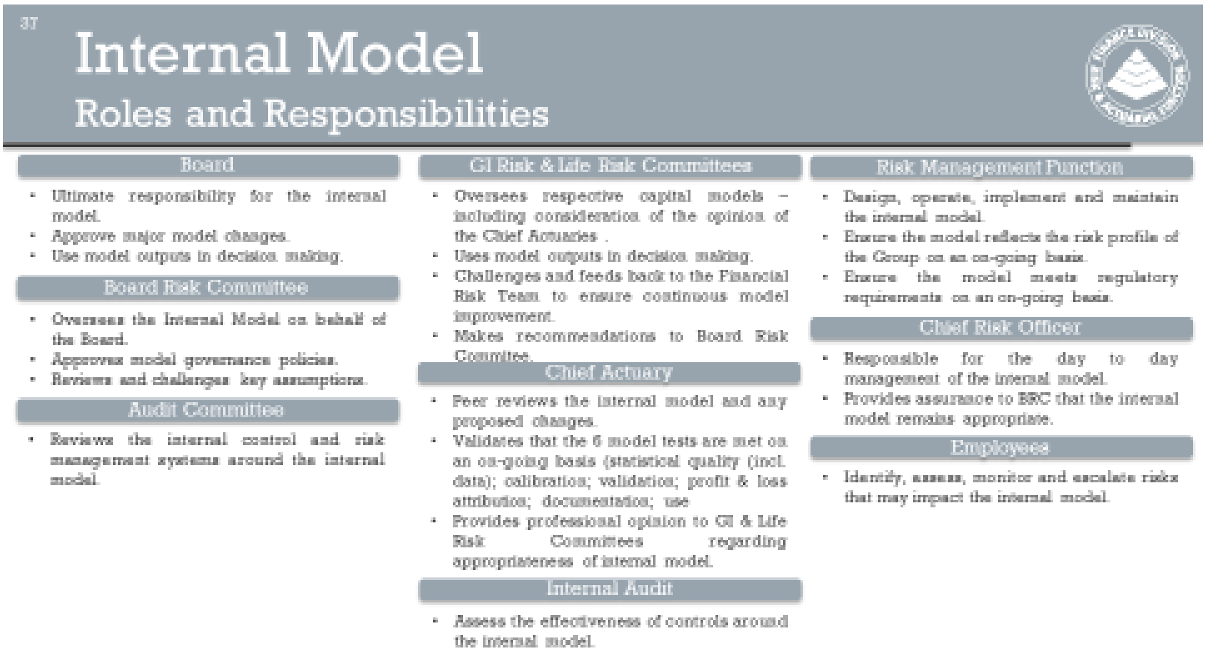
The outputs of the Risk Management Framework underpin the calculations to assess the levels of capital held to cover the risks the Group is exposed to.

To calculate the Solvency Capital Requirement figure, firms have the choice of using a prescribed ‘Standard Formula’, developing their own Internal Model (subject to supervisory approval), or using a combination of both (known as a Partial Internal Model).

NFUM has obtained approval from the Prudential Regulation Authority (PRA) to use a Partial Internal Model; where Insurance Risk, Market Risk, Credit Risk and Liquidity Risk are calculated using an Internal Model for the Group excluding Avon Insurance (who use the standard formula to calculate the financial risk SCR given the low materiality of its capital requirement in comparison to the Group as a whole). This forms a key component of the own Risk Solvency Assessment (ORSA) where we consider strategic business planning, risk and capital management as an integrated process.

Operational risk capital for the Group is based on the standard formula.

The roles and responsibilities for the Internal Model are as follows:



The main changes to Internal Model governance in 2016 were revisions to the Internal Model Change policy which included the quantitative limits for the assessment of major model change. The revised policy was submitted to the PRA and approval for the new policy was received in March 2017.

The validations tools and processes used within the Internal Model include stress & sensitivity testing, back testing, simulation sensitivity and robustness, profit and loss attribution and comparison against the Solvency II Standard Formula.

B.4 Own Risk and Solvency Assessment (ORSA)

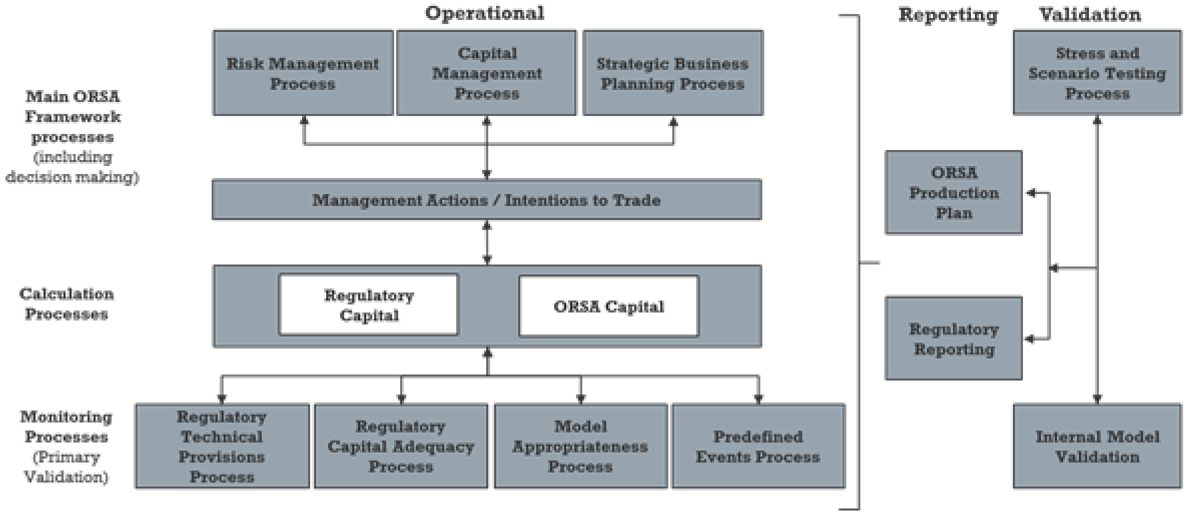
B.4.a. ORSA Process and Integration

The ORSA forms an integral part of the NFU Mutual’s ‘Control Environment’ underpinned by the following key components:

- Strategy and business planning;
- Risk management; and

- Capital management.

The diagram below demonstrates the key ORSA processes introduced by the Group to meet its ORSA requirements. Where applicable, each individual process within the diagram has been signed off by a respective owner.



These processes are designed to ensure that:

- The 'Internal Model' is used in the business, underpinned by a Solvency II valuation basis, Group risk management practices, and plays an important role in decision making.
- Risk and capital management is linked to strategy and business planning, including product design and development.
- A governance structure is in place to review and challenge the underlying assumptions of the ORSA.
- A controlled, documented and auditable process is available and capable of independent review.
- We continually monitor our regulatory capital and technical provisions.

The above is supported by implementing:

- The 'Three of Lines of Defence' methodology. As part of this, a governance structure has been introduced to review and challenge the underlying risk and management practices and issues of the Group.
- A risk management strategy setting out the risk management objectives, key risk management principles, approach to risk appetite and assignment of risk management responsibilities across all the activities of the undertaking.
- Risk management policies which support and embed the Risk Strategy.
- Key documentation exists for the key processes and Internal Model design and set up. This includes guidance to the business and an ORSA timetable for the completion of the Group ORSA report involving key managers from the business.

B.4.b. ORSA Review and Approval Frequency

The Group will produce a regulatory and Board ORSA report on an annual basis. A single ORSA report is produced that covers both NFUM and Avon Insurance.

The report complies with regulatory ORSA guidance and based on the following key areas:

- Forward-looking and cover the regulatory and internal capital needs for our strategic business plans including a view over the longer term.
- An assessment of the risk profile over the planning horizon, highlighting any significant change.
- Stress and scenario testing to highlight significant vulnerabilities to the organisation under a range of possible outcomes.
- The adequacy of the processes, particularly the systems of governance in operation within the Group together with key findings and recommendations.
- Key areas of the risk framework that require remediation moving forward.

In addition:

- Regulatory capital and technical provision requirements are monitored on a continual basis.
- Ad-hoc ORSA submissions are advised to the Prudential Regulatory Authority should there be a material change in risk profile.
- Risk dashboards are presented at each regular Risk Committee meeting with minutes taken of the key discussions, decisions and actions taken.

B.4.c. Solvency Requirements and the Interaction of Risk Management and Capital Management

The annual ORSA reporting process is an integrated process involving key risk managers in the business. It commences with the strategic business planning process which sets out the key strategic planning objectives for the next three years which the business turns into a financial plan. The plan is reviewed by the business for key risk (including longer term) and capital impacts together with affordability and is reviewed through the governance committee structure and ultimately by the main Board.

An ORSA timetable works alongside the planning process and requires risk managers in the business to articulate the key risk impacts on the business. Capital modelling is undertaken by the risk teams and reported as part of a suite of documents presented to governance committees. As part of the capital management of the ORSA, stress and scenarios are carried out together with a view on the risk appetite position from both a regulatory and own risk appetite perspective.

B.5. Internal Control Function

B.5.a. Internal Control System

The Group has a robust group-wide control framework consisting of a continuous set of processes, policies and frameworks that ensure risks are managed effectively, that regulatory and customer obligations are met, and business objectives are achieved. The internal control system is summarised in a Control Environment Document which sets out all of the key components and is widely available to key stakeholders.

An effective Three Lines of Defence Model is in place to ensure that all components within the internal control system operate effectively; a high level summary is illustrated in Section B.1.b.

Oversight of the internal control system is delegated from the Board, who retain ultimate accountability to a number of Risk Governance Committees and Boards as shown in Section B.1.b.

B.5.b. Compliance Function

The Compliance function within the Group has a number of key roles including:

- Understanding, interpreting and communicating the regulatory agenda of the PRA and FCA to key internal stakeholders.
- Supporting managers in understanding and meeting their regulatory responsibilities.
- Providing Second Line assurance on compliance with regulatory requirements.
- Managing the day to day relationships with the Group's regulatory supervisors.

The Group follows a devolved compliance model where the responsibility for complying with regulatory or legislative requirements sit with the managers of the business function as part of their overall responsibility for managing all risks relating to their areas.

The structure of the compliance function within the Group reflects the needs of the Group and the differing requirements of each regulatory body in the following way:

- A Group level Conduct Compliance Department has responsibility for all conduct regulation that applies to the Group and the Group's relationship with the FCA. The department is headed up by the Head of Compliance who has a reporting line to the Finance Director.
- A Group level Prudential Risk Team has responsibility for all prudential regulation that applies to the Group and manages the relationship with the PRA. The department is headed up by the Chief Risk Officer who also has a reporting line to the Finance Director.

The departments that comprise the compliance function are independent functions within the Group structure; they attend and actively contribute to senior management and risk committees, with the heads of each department also having reporting lines to Board Committees. This ensures that the compliance function is integrated into the organisational structure and decision making processes; it also ensures that items can be raised at an appropriate level of seniority.

The Head of Conduct Compliance and the Chief Risk Officer are responsible for ensuring the compliance function has sufficient resources to undertake its responsibilities. They also ensure that individuals working within the function have appropriate skills, knowledge and experience to carry out the roles assigned to them.

B.6. Internal Audit Function

B.6.a. Internal Audit Function

The primary role of GIAD is to help the Board and Executive protect the assets, reputation and sustainability of NFU Mutual. This role has been established by the NFUM board, with authority for oversight of the audit function delegated to the Audit Committee, as set out in its terms of reference. The authority, role and mandate of GIAD is set out in the Audit Charter, which is made publically available through NFU Mutual's website, and is reviewed annually by the Committee.

Group Internal Audit Department (GIAD) reports to the Chair of the Audit Committee with a secondary reporting line to the Group Chief Executive.

The Audit Committee is responsible for reviewing and approving the GIAD programme of work, its budget and resource. It discharges this duty by receiving quarterly and annual reports from the Group Head of Internal Audit on each of these aspects.

GIAD comprises 18 people with a range of skills from the following disciplines: Chartered Auditors (CIIA), Accountants (FCA, FCCA, CPFA), Insurers (CII), Surveyors (RICS), Information Security Auditors (CISA & CISSP), Project Management (Prince2) and Actuarial (FIA). Further resource, support and subject matter expertise is drawn from Deloitte, GIADs co-source partner.

B.6.b. Independence and Objectivity

GIAD's independence and objectivity is enshrined in the Audit Charter and has been further reinforced by the Group Head of Internal Audit (GHIA) reporting directly to the Chairman of the Audit Committee (w.e.f August 2016). The Committee Chairman meets with the GHIA on a monthly basis. The whole Committee meets with the GHIA, without management, on a quarterly basis. The GHIA also has direct access to the Chairman of the Board.

The GHIA also meets monthly with the Group Chief Executive to discuss audit findings and activity, further reinforcing its standing with Executive Committee members.

The Chairman of the Audit Committee is responsible for the appraisal, objective setting and remuneration of the GHIA. The Audit Committee is responsible for approving the appointment and replacement of the GHIA.

GIAD is independent of the day-to-day business of NFU Mutual. GIAD staff assume no operational responsibilities and will not review a business area or function in which they have had recent management or operational responsibility or are otherwise conflicted.

Any advisory work to assist management to develop an effective control framework will be a limited proportion of GIAD's work. Any such work proposed is assessed by the GHIA to ensure it will not compromise GIAD's independence and objectivity. GIAD will not however 'sign off' on new or changed processes, systems or controls; it is management's responsibility to satisfy itself on the appropriateness of such activities given NFU Mutual's risk appetite.

B.7. Actuarial Function

B.7.a. Actuarial Function

At NFUM the Actuarial Function is split into Life and General Insurance sections, each headed by the respective Chief Actuaries.

The Actuarial Function is a key part of the organisational structure of the business. It is represented on all relevant decision making bodies within the Risk Management Framework.

The Actuarial Function has access to the Society Board and Board Risk Committee which enable it to directly report to and advise the ultimate decision makers of the business and consists of a team of experienced, qualified or part-qualified professional staff who have the relevant knowledge, experience, expertise and operational independence to carry out their duties.
The GI Actuarial Function also covers the Avon Insurance subsidiary.

B.8. Outsourcing

B.8.a. Outsourcing Policy and Outsourcing of Critical Operational Functions

All aspects of operational risk, including Supplier and Outsourcing, are incorporated into the Group Operational Risk Policy. This provides guidance to individuals on their roles and responsibilities for effectively managing operational risk.

The Supplier and Outsourcing framework includes the Operational Risk Policy, the Outsourcing Manual (providing guidance on the issues to consider when Outsourcing), Supplier Risk Assessment Framework (enabling consistent and effective risk assessment) and the wider Procurement and Contract processes and procedures, including approval governance and the Supplier Management Framework.

There are no Critical or Important (Material) Intra-Group Outsourcing Arrangements.

B.9. Adequacy of the Governance Structure

B.9.a. Adequacy of the Governance Structure

The Group undertakes an annual effectiveness review for each committee within its governance framework to ensure that the overall framework and each individual committee is operating effectively and continues to meet the needs of the Group on an on-going basis. The outputs from the review are included in the Chief Risk Officer's report which is submitted to the Board Risk Committee on an annual basis. At present this has assessed that the systems of governance and control are adequate given the nature, scale and complexity of NFU Mutual's business.

B.10. Other Disclosures

B.10a. Other Disclosures

No other disclosures currently identified

C. RISK PROFILE

C.1. Underwriting Risk

C.1.a. Underwriting Risk Exposure

C.1.a.i. Nature of Underwriting Risk

Group and NFUM

Group and NFUM writes a range of lines of general insurance and life insurance products. In the general insurance business these include car insurance, home insurance and commercial insurance. In the Life business these include investment, pension and protection products. All of these products give rise to underwriting risk.

In the general insurance business we subdivide underwriting risk into the following categories:

- Catastrophe Risk – The risk of reductions in earnings and/or value due to a single event, or series of events, of major magnitude over a defined period, leading to a significant deviation in actual claims from the total expected claims.
- Premium Risk - The risk of reduction in earnings and/or value due to losses from cover relating to future premiums deviating from those expected, and also due to value or timing of expenses deviating from those expected or assumed.
- Reserve Risk - The risk of reductions in earnings and/or value due to the possible variability in reserves, relating to claims for prior loss years only. This includes: outstanding claims reserves risks, claims handling reserves risk, reinsurance reserve risk.

In the Group and NFUM life business the main categories of underwriting risk are:

- Longevity Risk - The risk of reductions in earnings and/or value due to longevity rates deviating from those expected.
- Retirement Ages Risk - Risk of reduction in earnings and /or value due to the actual retirement rates deviating from those expected or assumed.
- Lapse Risk - The risk of reductions in earnings and/or value due to policy lapse or surrender rates deviating from those expected.

Over the latest reporting period the largest changes to the Group and NFUM underwriting risk exposure were on Longevity Risk and Reserve Risk. Interest rates are lower at 31 December 2016 than the previous year-end and this increases exposure to these risks as reserves are discounted at lower rates.

Avon Insurance

The underwriting risk exposure of Avon Insurance is small in comparison to the Group and NFUM. The main source of underwriting risk is the Premium and Reserve Risk exposure relating to personal accident policies. Quantitative information on the underwriting risk exposure of the Group, NFUM and Avon is shown in the QRT templates (S.25.2.21) attached to this document.

C.1.a.ii. Assessment and Management of Underwriting Risk

Underwriting risks are quantified using the Internal Model for the Group and NFUM and via the Solvency II Standard Formula for Avon Insurance. A large number of improvements to the Internal Model were delivered in the run up to Internal Model approval in December 2015. In comparison less change has been made in 2016. Further information on the Underwriting Risks can be found in the Report and Accounts 2016 for the Group and NFUM and in it's statutory Accounts for Avon Insurance plc.

C.1.b. Underwriting Risk Concentrations

C.1.b.i. Underwriting Risk Concentrations

General Insurance Business:

As a UK only insurer with a strong focus on agriculture and rural business the Group and NFUM faces some specific risk aggregation or risk concentration issues. However the general insurance book is predominately relatively low value with low exposure business such as car, home and small to medium commercial insurances, whilst UK only the business is spread UK wide.

The following paragraphs summarise identified key risk concentrations:

- Property and Business Interruption – Catastrophe Risk

  The most obvious aggregation risk is in respect of weather losses from Storm, Flood and Freeze perils. The Internal Model is used to model exposure to catastrophic weather events and the outcome of this modelling work is used to drive the catastrophe reinsurance programme. Windstorm is the largest aggregation rather than Flood.

- Property – Single Fire Risk

  Aggregations can also arise where the property & business interruption risks on multiple policies are connected either physically or via a supply chain. This can arise where the Group and NFUM insures a landlord in addition to a tenant or through the insurance of a number of businesses in a single supply chain.

  The Group and NFUM Business Interruption policies provide a standard extension for customers and suppliers. This will pay for a Business Interruption loss where there is damage at a customers or suppliers premises leading to the interruption.

- Animal Disease

  A limited range of Animal Disease covers are written, the principle aggregation risk arises from Foot and Mouth where there is clearly potential for significant spread of disease nationwide impacting many customers.

- Motor

  Motor presents a series of individual risks although aggregations/concentrations can arise from multiple insured vehicles involved in a single incident.

- Liability – Disease/Accident risk

  Principle risk aggregations from a Liability perspective relate to the amount of business from farming and associated sectors and the known and unknown risks which may exist.

Life Business:

Mortality risk concentrations are possible, however, Mortality Risk is not one of the Group and NFUM's most material underwriting risks. The life business no longer manufactures protection new business and so over time the exposure to mortality risk concentrations will reduce.

Lapse risk concentration is possible, say where a single event prompts large numbers of customers to cash in their policies. This is allowed for in the Internal Model via a mass lapse stress which ensures that sufficient capital is held to cover this risk.

C.1.c. Underwriting Risk Mitigation Techniques

C.1.c.i. Underwriting Risk Mitigation Techniques

The principle mitigation used against Insurance Risk is the placement of reinsurance. All loss limits, retentions and programme structures are reviewed annually. The most significant reinsurance treaties placed by the Group and NFUM for general insurance business are listed below:

- Property Catastrophe Excess of loss
- Property Weather Aggregate (all losses from the perils of Storm, Flood, Freeze and Escape of Water)
- Flood Re whereby the Flood peril, in respect of relevant high risk homes, is ceded 100% to Flood Re
- Property Risk Excess of Loss
- Motor Excess of Loss
- Liability Excess of Loss

Within our underwriting function, risk appetite is defined at a granular level, with appropriate detailed guidance given to underwriting teams. Underwriting capability is reviewed regularly and outputs from this are used to determine any new required learning interventions. Controls are in place to review underwriting decision making regularly, with any risks on the fringe of risk appetite requiring referral to senior technical underwriting members.

On the life business underwriting risk exposure from the Group and NFUM, manufactured new business is less than in the past as lower volumes of annuity business are now sold and protection business is not sold at all.

Avon Insurance cedes some of its most material risk exposures to the Group and NFUM via reinsurance.

C.1.d. Underwriting Risk Sensitivity

C.1.d.i. Stress Testing and Sensitivity Analysis for Underwriting Risks

Sensitivity analysis is carried out for all material underwriting risks. The results for the most significant risks are described in the annual Internal Model Report to Board. The Group and NFUM carries out a regular programme of stress testing and scenario testing with the results of this work summarised to Board Risk Committee each year.

Quantitative information on the market risk exposure of the Group, NFUM and Avon Insurance plc is shown in the reports attached in the QRT templates (S.25.2.21) attached to this document.

Further information on the Underwriting Risk Sensitivity can be found in the Report and Accounts 2016.

C.2. Market Risk

C.2.a. Market Risk Exposure

C.2.a.i. Nature of Market Risk

The most significant market risks to which the Group and NFUM is exposed are:

- Equity Returns Risk – The risk of reductions in value due to deviations in the market price of equities.
- Property Returns Risk - The risk of reductions in value due to deviations in property prices.
- Interest Rate Risk - The risk of reductions in earnings and/or value due to the deviations in interest rates.
- Credit Spread Risk - The risk of reductions in value due to deviations in credit spreads. We define credit spread as the difference between the return required on corporate bonds compared to near risk free assets like UK government bonds.
- Currency Risk - The risk of reductions in earnings and/or value due to the deviations in currency exchange rates.
- Equity Volatility Risk - The risk of reductions in net asset value due to the impact on assets and liabilities from a change in volatility of equity market prices. This risk arises in relation to where the Group and NFUM has exposure to long term guaranteed returns and hence is only material in the life fund.
- Swap Spread Risk - Swap Spread Risk arises because Solvency II requires liabilities to be discounted at yields based on interest rate swaps. Discounting at swap rates introduces a mismatch between fixed interest assets (which are largely driven by gilt yields) and the discount rate used to value the liabilities (based on swap rates). The risk is that the yields for the bonds held (for example UK gilts) rise relative to swap rates. This means that higher gilt yields cause the value of our assets to fall but we receive no mitigating offset in the value of our liabilities.

The most significant change to the Group and NFUM Market Risk exposure over the reporting period was the increased exposure to Equity Return Risk and Currency Risk. This is due to positive investment growth on the equity portfolio in 2016.

At the reporting date the main sources of market risk for Avon Insurance Plc were Interest Rate Risk and Credit Spread Risk relating to the holdings of fixed interest assets.

Quantitative information on the market risk exposure of the Group, NFUM and Avon Insurance plc is shown in the reports attached in the QRT templates (S.25.2.21) attached to this document.

C.2.a.ii. Assessment and Management of Market Risk

Market risks are quantified using the Internal Model for the Group and NFUM and via the Solvency II Standard Formula for Avon Insurance. The most material change to modelling over the reporting period was a strengthening of the assumptions used to calculate the capital requirement for Interest Rate Risk. This change was made in response to the lower interest rates seen in 2016.

C.2.b. Market Risk Concentrations

C.2.b.i. Market Risk Concentrations

Market Risk concentrations arise from a number of sources:

- Too great an exposure to a specific sector (e.g. overseas equity).
- Too great an exposure to a specific counterparty.
- Insufficient stocks in a particular fund leading to lack of diversification.
- For government stocks there could be too great an exposure to a specific stock.
- For property assets concentration risk can arise from too much exposure to a specific sector or tenant.

Portfolio concentrations are managed to ensure that portfolio risks are adequately spread and holdings to companies and sectors reviewed regularly. In general, exposures to industries, sizes of companies and the types of securities (such as growth stocks, value stocks) are examined. The aim is to ensure that there are no excessive or undue concentration risks.

Investment Limits of Authority exist to control the exposure to each of the concentrations listed above. Quantitative information on the market risk exposure of the Group, NFUM and Avon Insurance plc is shown in the reports attached in the QRT templates (S.25.2.21) attached to this document.

C.2.c. Market Risk Mitigation Techniques

C.2.c.i. Market Risk Mitigation Techniques

Market risk is calculated for portfolios by considering a range of risk statistics. For example, when a portfolio is managed to a benchmark (or appropriate index) then ‘tracking error’ or ‘active risk’ measures to expected return are considered, to better understand portfolio risks. Generally, portfolio returns are risk adjusted.

Risk appetites set out how much risk a business is prepared to take, while constraints place limits on the authority of committees and business managers to make decisions without the need to refer decisions up through the risk governance structure. Risk appetites are set by the NFUM Board and are an important control and mitigation against Market Risk exposure.

To ensure risk appetites are not breached between committee meetings early warning indicators (EWIs) track key financial indices such as the FTSE-All Share index. Daily monitoring of these EWIs allows the business to identify market conditions where the capital position may breach risk appetite.

If a fund is approaching the lower boundary of risk appetite such that it is in danger of having insufficient capital to meet its risk appetite, actions will be taken to reduce the risk exposure of the fund to get back within its risk appetite. Similarly, if a fund is approaching the upper boundary either action can be taken to increase the risk exposure of the fund or additional capital will be set aside and held within the excess working capital.

The main levers used to keep within risk appetite on a day to day basis are trading assets. Trades of assets (e.g. the sale of risky assets such as equities and the purchase of less risky assets such as government bonds) will reduce the market risk capital requirement and hence improve our risk capital position. The opposite trade can be used to increase market risk if desired.

C.2.d. Market Risk Sensitivity

C.2.d.i. Stress Testing and Sensitivity Analysis for Market Risks

Sensitivity analysis is carried out for all material risks. The results for the most significant risks are described in the annual Internal Model Report to Board. The Group and NFUM carries out a regular programme of stress testing and scenario testing with the results of this work summarised to Board Risk Committee each year.

Quantitative information on the market risk exposure of the Group, NFUM and Avon Insurance plc is shown in the reports attached in the QRT templates (S.25.2.21) attached to this document.

C.3. Credit Risk

C.3.a. Risk Exposure

C.3.a.i. Nature of Material Credit Risk

The exposure of the Group, NFUM and Avon Insurance to Credit Risk is much lower than the exposure to Market Risk and Underwriting Risk. The 1-in-200 exposure to Credit Risk calculated as at the reporting date is shown in the QRT templates (S.25.2.21) attached to this document.

This exposure has not materially changed over the reporting period. The main sources of Credit Risk relate to amounts owed by reinsurers, cash at bank, premiums owed by customers and other counterparty exposures. Note that Credit Risk relating to corporate bonds is considered as part of Market Risk.

C.3.a.ii. Assessment and Management of Credit Risk

Credit risks are quantified using the Internal Model for the Group and NFUM and via the Solvency II Standard Formula for Avon Insurance. The measures used to assess Credit Risk have not materially changed over the reporting period.

C.3.b. Risk Concentrations

C.3.b.i. Description of Material Credit Risk Concentrations

As explained in section C.3.a.i. our overall exposure to Credit Risk is low compared to Market Risk and Underwriting Risk. Hence, exposure to Credit Risk concentrations is less material. One of the main potential risk concentrations is the exposure to specific reinsurers from different treaties.

C.3.c. Risk Mitigation Techniques

C.3.c.i. Description of Risk Mitigation Techniques for Credit Risk and Monitoring of Effectiveness

As explained in Section C.3.b.i. one of the main sources of Credit Risk concentrations is the exposure on the reinsurance programme. This exposure is managed by review of each reinsurer on an annual basis at the Reinsurance Security Forum.

A second significant source of Credit Risk relates to monies owed by suppliers. To mitigate this risk the Group Operational Risk Committee sets appropriate constraints in terms of supplier exposure.

A further significant source of Credit Risk relates to cash on deposit with banks. The Investment Limits of Authority are a key mitigation against this risk.

C.3.d. Risk Sensitivity

C.3.d.i. Methods, Assumptions and Outcome of Stress Testing and Sensitivity Analysis for Material Credit Risks

Sensitivity analysis is carried out for all material risks. Alternative stress assumptions are considered to test the sensitivity of each judgement made in calculating the Solvency Capital Requirement. These alternative stress assumptions are then used to grade the materiality of each judgement in line with our Proportionality and Materiality framework. This framework sets the level of review of each judgement with the most material judgements requiring a review at Board or Board Risk Committee level.

In terms of Credit Risk sensitivity tests show that judgements in relation to Credit Risk do not rank as the most material judgements in the Internal Model.

C.4. Liquidity Risk

C.4.a. Risk Exposure

C.4.a.i. Nature of Material Liquidity Risk

The Group, NFUM and Avon Insurance have potential exposure to Liquidity Risk through the requirement to pay claims on life protection and general insurance products as well as the need to meet customer requests for encashment of investment products.

In terms of the liquidity risk of assets, the nature of the asset mix means that the vast majority of assets are in relatively liquid assets, such as large capitalisation equities, government bonds and cash. Whilst short term liquidity is limited in commercial property investments (weightings are kept manageable to reflect this) and increasingly in the corporate bond world, there is sufficient exposure to liquid assets in all funds such that this is not seen as a significant risk.

Due to the mitigations described in Section C.4.c.i. no capital is held for Liquidity Risk in the SCR calculation as at the reporting date. The exposure to Liquidity Risk has not materially changed over the reporting period.

C.4.a.ii. Assessment and Management of Liquidity Risk

Liquidity Risk is quantified using the Internal Model for the Group and NFUM and via the Solvency II Standard Formula for Avon Insurance. The assessment measure for Liquidity Risk has not materially changed over the reporting period.

C.4.b. Risk Concentrations

C.4.b.i. Description of Material Liquidity Risk Concentrations

The most significant liquidity risk concentrations identified in stress and scenario testing analysis relate to exposure to failure of the custodian, say in a situation where assets held in custodian accounts were temporarily frozen. Appropriate mitigations have been agreed at Market Risk Committee including developing and documenting an exit plan for the scenario of custodian failure.

C.4.c. Risk Mitigation Techniques

C.4.c.i. Description of Risk Mitigation Techniques for Liquidity Risk and Monitoring of Effectiveness

The Investment Limits of Authority are a key mitigation against Liquidity Risk. Examples of the limits currently in force include:

- Cash can only be placed on deposit with an approved bank or building society on the Counterparty List.

- Cash deposits are restricted to a maximum tenure of 6 months in respect of term deposits Exposure to any one counterparty is restricted to limits which are based on the credit rating of the counterparty.

Furthermore the Group and NFUM holds substantial amounts of liquid investment assets which would be available to pay claims if required.

C.4.d. Risk Sensitivity

C.4.d.i. Methods, Assumptions and Outcome of Stress Testing and Sensitivity Analysis for Material Liquidity Risks

Sensitivity analysis is carried out for all material risks. The results for the most significant risks are described in the annual Internal Model Report to Board. In terms of Liquidity Risk stress tests up to a 1-in-200 level do not show any material impact on the overall level of Group Own Funds.

C.4.e. Expected Profit Included in Future Premiums

C.4.e.i. Expected Profit Included in Future Premiums

The total amount of the expected profit included in future premiums as calculated in accordance with Article 252(2) is £48.9m.

C.5. Operational Risk

C.5.a. Risk Exposure

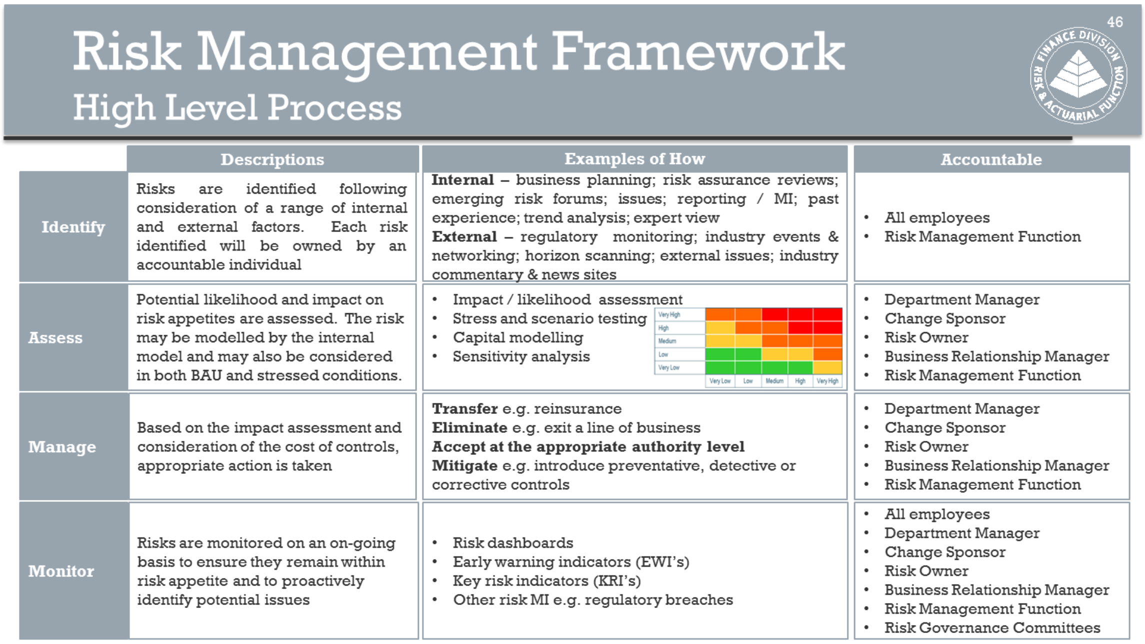
C.5.a.i. Nature of Material Operational Risk

Operational risk covers a wide variety of different risks, the Group and NFUM has categorised these risks into the following groups which are derived from the Basel II categories for operational risks. The titles and definitions have been updated in 2016 to be launched with the business in 2017.

Operational Risk: The risk of reductions in earnings and/or value through financial or reputational loss, from inadequate or failed internal processes and systems or from people related or external events.	
Business Continuity Risk	Risks relating to the ability of the Group to maintain its reputation, service to customers and minimise the financial impact by identifying, planning and responding to disruptive events, unexpected surges in demand, and internal and external changes.
Legal & Regulatory Risk	Risks relating to the ability of the Group to identify and respond appropriately to regulation, laws or recognised industry standards (e.g. ABI etc.) that are relevant to the activities we undertake.
Customer & Conduct Risk	The risk that we act against our customers' best interests in the pursuit of our own (i.e. not delivering fair outcomes for our customers) or do not provide the desired customer experience. This also relates to risks associated with our propositions in terms of our proposition design, terms and conditions, sales and servicing processes, sales distribution and complaint and breach handling.
Data & MI Risk	The risk of failing to maintain the confidentiality, integrity and availability of data, information and MI throughout its lifecycle from input to deletion.
Errors & Omissions Risk	Risks that arise from our staff, agents, partners or suppliers incorrectly (not maliciously or fraudulently) performing an act or service.
Financial Crime Risk	Risk exposures to any kind of criminal conduct relating to money, financial services, or markets – including any offence involving, but not limited to, fraud or dishonesty; misconduct in or misuse of information relating to a financial market (market abuse); handling the proceeds of crime; and false accounting.
IT Risk (including Cyber Risk)	The risks that arise from the provision of IT services to the business, irrespective of the source of delivery for the services. Cyber risk relates to criminal activity that involves the internet, computer systems, computer technology and the storage of and access to data and information assets.
Modelling & Calculation Risk	Modelling risk arises due to the use of a model to aid decision making where there are uncertain outcomes. Risk exists because users may not be prepared for scenarios where actual outcomes are different to those predicted by the model. Calculation risk relates to a defined process that transform data into a separate output not performing as expected.
People Risk	People risk relates to how people behave and contribute to the running of the business and also people's safety and well being needs. Risks can arise through a failure to appropriately recruit, retain, train, reward and incentivise suitably skilled staff to achieve business objectives as well as through failure to comply with regulation and legislation
Supplier & Outsourcing Risk	Risks relating to all operational risks, including termination risk, arising from the activities of the end to end supply chain in delivering goods or services to the appropriate quantity, quality and timeliness.

Operational risk exposure is reported to governance via the Operational Risk Dashboard. From a regulatory capital perspective Operational Risk is outside of the scope of the Group and NFUM's Internal Model; rather it is calculated via the standard formula.

The material operational risks at the Group and NFUM are identified through the risk management process illustrated below and also through stress and scenario testing, including work undertaken to calculate the Group's operational risk Solvency Capital Requirement (SCR).



Risk Management Framework

High Level Process

46

	Descriptions	Examples of How	Accountable
Identify	Risks are identified following consideration of a range of internal and external factors. Each risk identified will be owned by an accountable individual	**Internal** – business planning; risk assurance reviews; emerging risk forums; issues; reporting / MI; past experience; trend analysis; expert view **External** – regulatory monitoring; industry events & networking; horizon scanning; external issues; industry commentary & news sites	• All employees • Risk Management Function
Assess	Potential likelihood and impact on risk appetites are assessed. The risk may be modelled by the internal model and may also be considered in both BAU and stressed conditions.	• Impact / likelihood assessment • Stress and scenario testing • Capital modelling • Sensitivity analysis	• Department Manager • Change Sponsor • Risk Owner • Business Relationship Manager • Risk Management Function
Manage	Based on the impact assessment and consideration of the cost of controls, appropriate action is taken	**Transfer** e.g. reinsurance **Eliminate** e.g. exit a line of business **Accept at the appropriate authority level** **Mitigate** e.g. introduce preventative, detective or corrective controls	• Department Manager • Change Sponsor • Risk Owner • Business Relationship Manager • Risk Management Function
Monitor	Risks are monitored on an on-going basis to ensure they remain within risk appetite and to proactively identify potential issues	• Risk dashboards • Early warning indicators (EWI's) • Key risk indicators (KRI's) • Other risk MI e.g. regulatory breaches	• All employees • Department Manager • Change Sponsor • Risk Owner • Business Relationship Manager • Risk Management Function • Risk Governance Committees

C.5.a.ii. Assessment and Management of Operational Risk

Operational risks are managed within the Group's Risk Management Framework with all operational risks captured on the Group's risk recording tools and reported into the governance structure in line with risk appetites and constraints.

Risks are measured in terms of gross and net likelihoods and impacts and are submitted to the Group's Operational Risk team on either a quarterly basis or as they arise.

Risks are assessed using a matrix considering impact vs likelihood. The level of the net risk assessment (i.e. the level of risk after considering the effectiveness of the controls used to mitigate the risk) determines where in the organisational and governance structure the risk is escalated for approval.

C.5.b. Risk Concentrations

C.5.b.i. Description of Material Operational Risk Concentrations

None

C.5.c. Risk Mitigation Techniques

C.5.c.i. Description of Risk Mitigation Techniques for Operational Risk and Monitoring of Effectiveness

The Group and NFUM employs a number of different mitigation types to reduce the impact of operational risk, including:

- Business Continuity and Contingency plans - these enable the Group to respond effectively to issues and reduce the capital impacts, such as plans for a pandemic event and loss of access to buildings.
- A cyber operational team to manage the response to a cyber incident.

- Checking Controls – an amount of operational risk capital has been set aside for potential mistakes made by employees such as giving poor advice or errors and omissions, therefore ensuring adequate training, technical competence, strong processes, key person cover and sufficient resource capacity are all important controls for operational risk alongside audits and sample checking.
- Insurances – the current Group Insurance Programme is comprehensive and provides substantial cover against the operational risks faced as a Group.

Ensuring that controls are effective on an on-going effectiveness of controls is incorporated within the Risk Management Framework including:

- Controls are captured in departmental Risk Logs and reported on a quarterly basis.
- Group policies in place which state required controls – these have clear owners and are reviewed regularly. Compliance with Group policies is also tracked through department Risk Logs.
- During 2016 a review has been undertaken to ensure that Group level policies manage operational risk appropriately. This included:
    - A review of the operational risk appetite and constraint statements. This ensures the mandatory actions specified in policies are aligned to these statements and the requirements of the policies are balanced with the risk being managed.
    - The mandatory actions that must and must not be taken, and the type of evidence required to demonstrate compliance. This is to ensure Policies clearly outline the audience for the policy.
    - Policy owners commencing Group wide education and awareness programmes with applicable staff members.
    - On-going reviews of the Group Insurances programme and Business Continuity plans to ensure this remains aligned to the Group's risk appetites.
    - Second Line assurance reviews by Risk Function and Group Compliance Departments including assurance that controls in place across the Group are appropriate and operating effectively in practice.
    - Audits carried out by Group Internal Audit Department as part of the Group and NFUM's Third Line of Defence.

C.5.d. Risk Sensitivity

C.5.d.i. Methods, Assumptions and Outcome of Stress Testing and Sensitivity Analysis for Material Operational Risks

Stress and scenario testing enables the Group and NFUM to understand the unlikely future events that could prevent achievement of long term objectives.

Active consideration of plausible future business scenarios ensures risks are identified that would result in material financial, operational or reputational damage and have proportionate monitoring, management and contingency plans in place.

A range of sources are considered to provide a broad and comprehensive base for scenario identification, including past experience, external issues, current and planned change, emerging risks and technical expertise.

Potential scenarios are identified, based on the information gathered, and these are developed in conjunction with business experts to assess the likelihood, impacts, controls and mitigating actions.

A number of scenarios are considered and those with the most material impact or the highest plausibility are developed into detailed scenarios. Scenarios are documented to an appropriate level of detail.

Completed scenarios can be used for a number of different purposes including Reverse Stress Testing, validation of regulatory capital calculations and education and awareness.

Formal reports detailing the results of stress testing will be delivered to governance as required.

C.6. Other Material Risk

C.6.a. Risk Exposure

C.6.a.i. Nature of Material Other Material Risk

Strategic Risks

The table below summarises the principle risks and uncertainties currently faced by the Group, NFUM and Avon Insurance plc due to the nature of our business and the market in which we operate. The assessments and mitigating actions for these risks have been reviewed and discussed at Governance Committees throughout 2016 and as part of the preparation for the Own Risk Solvency Assessment.

Risk: Disruption of the relationship with the National Farming Unions	**Risk Owner:** Sales & Agency Director
Risk description: There is a risk that significant disruption in our relationship with one of more of the farming unions affects our ability to deliver our strategic cornerstone to defend and grow our share of the farming market.	
Mitigating actions: Relationships with the unions, Group Secretaries and wider agency network are strong and have been actively managed at all levels across the organisation during the year to ensure the affiliation remains positive for all parties.	

Risk: Competitor activity	**Risk Owner:** Strategy & Marketing Director
Risk description: There is a risk that a new or existing competitor seeks to challenge our position as market leader in farming insurance.	
Mitigation of the risk: The 5 Year Project Roadmap that has been created allows for the continued investment in developing the Farming Proposition Competitor activity has been and will continue to be regularly monitored.	

Risk: Britain leaving the EU (BREXIT)	**Risk Owner:** Strategy & Marketing Director

Risk description:

There is a risk that some farming sectors are significantly and adversely impacted by final Brexit settlements e.g. farming subsidies, leading to a material shift in the demand for, and the appropriateness of, Group and NFUM products.

Mitigation of the risk:

Political and farming market activity has been regularly monitored to identify any changes early. A specific focus on changes arising from BREXIT will continue, e.g. farmers exiting the industry, insurance purchasing behaviours, diversifying or changing business models.

Risk: Reduction in demand for key products and distribution channels	**Risk Owner:** Strategy & Marketing Director

Risk description:

There is a risk of a reduction in customer demand for our key products as a result of internal and external activity in response to political and industry changes e.g. the cost of advice, the on-going move to on-line (direct and aggregator) propositions.

Mitigation of the risk:

Competitor activity, customer volume, customer persistency and new business volumes has been and will continue to be regularly monitored. Customer surveys have also been completed during the year.

Work has continued on both the Pricing Improvement Programme (PIP) and the Life Aspiration Design and Delivery Programme (LADDER) which aim to deliver propositions and pricing that will attract market customers. These programmes are supported by clear sales and growth strategies.

Throughout 2016, the Group and NFUM 's nine Regional Service Centres (RSCs) have been consolidated into two larger Regional Service Centres which will be based in the existing Bristol and York offices. These will be supported by smaller centres in Stratford, Glasgow, Chester and Belfast. Norwich will retain a Commercial Underwriting Team.

The Regional Service Centre consolidation will:

- Provide Agents and customers with a consistent, standardised service
- Make it easier to introduce new technology and processes
- Reduce staff and property costs by over £3.5 million annually

In delivering these changes, the Group and NFUM will be in a better position to provide a consistently first-class customer experience and deliver its strategic objectives.

Risk: UK Regional Devolution	**Risk Owner:** Customer Services Director (Insurance) HR Director (Employer)

Risk description:

Successful Scottish independence could result in regulatory, economic and legal impacts for NFU Mutual.

Mitigation of the risk:

Political developments have continued to be monitored and further mitigation will be put into place as appropriate.

Risk: Cyber	Risk Owner: IT Director

Risk description:

Like all financial services companies the Group and NFUM has an exposure to cyber risk based on the nature and volume of data used and held in the course of day to day business. The risk arises from a range of scenarios involving both internal and external parties accessing information assets using techniques including: malwares; misuse of authority; hacking and exploiting vulnerabilities in hardware; Distributed Denial of Services; phishing and vishing; and attacking third-party service providers.

Following an event where data is corrupted or deleted there is a risk that without regular testing of established DR plans the DR infrastructure does not respond as expected

Mitigating Actions:
The investment in NFUM's IT Systems over the past few years has strengthened the level of technology protection.
This includes:

- Information Security Group Polices which set out the expectations on all staff
- Managed Security Service Provider
- Penetration test programme
- Cyber insurance to mitigate any financial losses

In addition a key element of the Data Foundations programme (sponsored by Finance Director) will be the development of a group wide strategy for managing and monitoring risks associated with data.

Risk: General Data Protection Regulation (GDPR)	Risk Owner: Chief Risk Officer

Risk description:
The European General Data Protection Regulation (GDPR) represents the most significant change to data protection in the UK and EU since 1995. The GDPR will in May 2018 replace the current EU Directive95/46/EC, under which the UK Data Protection Act 1998 was formed. The new regulations give more compensation rights to the:

- Information Commissioner's Office as they will be given the ability to fine companies 4% of their Group turnover; rather than a maximum of £0.5m.
- Individual, where they can now sue companies for distress rather than just indemnify them for their loss. This is expected to significantly increase costs to companies if this follows the same path as the US.

Mitigating Actions:

A project team has been established to produce a gap analysis and a costed risk based road map to GDPR compliance.

C.6.a.ii. Assessment and Management of Other Material Risk

See above.

C.6.b. Risk Concentrations

C.6.b.i. Description of Other Material Risk Concentrations

None.

C.6.c. Risk Mitigation Techniques

C.6.c.i. Description of Risk Mitigation Techniques for Material Other Risk and Monitoring of Effectiveness

See above.

C.6.d. Risk Sensitivity

C.6.d.i. Methods, Assumptions and Outcome of Stress Testing and Sensitivity Analysis for Other Material Risks

A number of stress tests have been performed, including on Cyber, Brexit and a "worst possible scenario" where a number of significant events are experienced at once. In no case was the Group and NFUM's capital position degraded to an extent that it would breach it's capital requirements.

C.7. Prudent Person Principle

C.7.a. Prudent Person Principle

Knowledge of the client's investment aims, objectives and requirements informs the choice of financial instruments best suited to their needs both in terms of size and nature. Whilst each client will have their own unique investment profile, the underlying investment approach that the investment team adopts and that best reflects the current underlying investment needs of the client, is one of building and maintaining diversifed, quality investment portfolios of financial instruments and property for the longer term. The financial instruments will include, in various proportions as appropriate, equity shares, fixed interest stocks, short term instruments (including cash) and where appropriate, property and derivative instruments.

The underlying need to maintain sound portfolios for clients over the longer term is the overriding and fundamental objective. The Investment Managers' approach of dealing for professional clients through normal broking channels implies minimal settlement risk while keeping transaction costs within normal limits. These 'execution factors' are therefore secondary to size of transaction and the speed and likelihood of execution. Price, however, represents the major consideration in all transactions.

C.8. Any Other Disclosures

C.8.a. Other Disclosures

None.

D. VALUATION FOR SOLVENCY PURPOSES

D.1. Assets

D.1.a. Asset Valuation Bases, Methods, Assumptions and Values by Asset Class

D.1.a.i. Deferred Acquisition costs; Property Plant and equipment held for own use; Investment property; Participations; Financial Instruments; Assets held to cover linked liabilities; Loans and mortgages; Cash and cash equivalents

The following represents the assets within the Group, NFUM and Avon Insurance plc:

Summary Assets Valuations	Group £m	NFUM £m	Avon £m
Property Plant and Equipment Held for Own use	86.1	80.5	-
Investment Property	1,906.0	1317.1	-
Investment in Related Undertakings	9.1	654.9	-
Financial Instruments	12,055.6	11,794.4	46.1
Assets Held to Cover Linked Liabilities	2,878.3	2,878.3	-
Loans and Mortgages	1.5	46.6	-
Cash and Cash Equivalents	225.1	199.1	1.6
Total Invested Assets	**17,161.7**	**16,970.9**	**47.7**
Insurance Renewables	141.1	140.1	24.8
Other Assets	87.1	99.1	3.8
Total Assets	**17,389.9**	**17,210.0**	**76.3**

Under Solvency II assets are valued at fair value, or the value at which they could be exchanged in an arms length transaction, which is consistent with asset values in the Group, NFUM and Avon Insurance financial statements under UK GAAP. Present Value of Future Profits (PVFP) are treated under Solvency II as a future cashflow within the Technical Provisions. Deferred Acquisition Costs have a nil value under Solvency II. Further information on the fair value of assets can be found in the NFUM Report and Accounts Note 5 and Avon Insurance statutory accounts Note 14.

Investment Properties
The valuation basis and assumptions for investment properties is shown in D.4.a.

Investment in Related Undertakings
Investments in related undertakings have been valued using the adjusted equity method based upon on a look through basis at their net assets value being valued on a Solvency II basis.

Financial Instruments
Financial Instruments are valued at fair value. Information on the recognition and valuation methods of financial assets is shown within the NFUM Report and Accounts Notes 1(k)(l)& 5 and Avon statutory accounts Notes 1(f)& 14.

Assets Held to Cover Linked Liabilities
Assets Held to Cover Linked Liabilities are valued at fair value. Information on the recognition and valuation methods of financial assets are shown within the NFUM Report and Accounts Note 1 (k). Assets held to cover linked liabilities excludes structured settlement assets of £135.4m which are classified as Financial Instruments for Solvency II structure settlement assets are included within assets to cover linked liabilities for UK GAAP as shown in the NFUM Report & Accounts.

Cash and Cash Equivalents
The valuation of Cash and Cash Equivalents is based upon the value of cash held at the bank.

Insurance Recoverables
The valuation basis for insurance recoverables is shown in D.2.a.i.9 (GI).

Deferred Acquisition Costs
Deferred Acquisition Cost are valued at nil as required under Solvency II and as such are not reported separately on the balance sheets of the Group, NFUM or Avon Insurance.

D.1.a.ii. Recognition of deferred tax assets

There were no significant deferred tax assets recognised in NFUM or Avon Insurance as at 31 December 2016.

D.1.b. Comparison, by Asset Class, of Asset Valuation Methods, Bases, Assumptions and Values for Solvency Purposes

There are no other significant differences between the valuation methods, basis and assumptions used for Solvency II purposes and those used for the statutory accounts for NFUM or Avon Insurance.

D.2. Technical Provisions

D.2.a. Technical Provisions Valuation Methods, Bases, Assumptions and Values by Material Line of Business

The technical provisions as at 31 December 2016 were:

	NFUM		NFUM £m	Avon £m	Intra-Group Reinsurance £m	Group £m
	GI £m	Life £m				
Gross	2,064	7,857	9,921	30	(24)	9,927
Reinsurance	(107)	(34)	(140)	(25)	24	(141)
Net	**1,957**	**7,823**	**9,781**	**5**	**-**	**9,786**
Analysis (net):						
Best Estimate Liabilities	1,598	7,903	9,502	3	-	9,506
Risk Margin (unaudited)	359	340	699	2	-	700
	1,957	**8,243**	**10,201**	**5**	**-**	**10,206**
Transitional Measure (unaudited)		**(420)**	**(420)**			**(420)**
Technical Provision	**1,957**	**7,843**	**9,781**	**5**	**-**	**9,786**

Internal reinsurance representing the agreement between NFUM and Avon Insurance.

D.2.a.i.(*1*) Valuation Methods – General Insurance (NFUM, Avon Insurance)

There have been no material changes made to valuation methods over the year.

D.2.a.i.1 Technical Provisions Calculated as a Whole

NFUM and Avon Insurance

We calculate the technical provisions as the sum of the best estimate liability and a risk margin. There are no contracts for which the technical provisions are calculated as a whole.

D.2.a.i.2 Contract Boundaries

Technical provisions are calculated for both new business quotes and any issued renewals. Collectively these are referred to as Written but not Incepted ("WBNI") business. When calculating the appropriate provisions for these items, we allow for the expected level of strike rate on new business quotes and persistency on renewals.

D.2.a.i.3 Unbundling

The best estimate liabilities are calculated separately by our internal business groupings, in line with the actuarial team reserving analysis for UK GAAP (these are then mapped across to the relevant Solvency II accounting classes):

NFUM

<table>
<tr><th>Account</th><th>Segmentation of Each Account</th></tr>
<tr><td>Private Car</td><td rowspan="4">• Glass
• Accidental Damage
• Fire & Theft
• Third Party Property Damage
• Third Party Bodily Injury
  ○ Over £1m
  ○ £100k - £1m
  ○ Under £100k</td></tr>
<tr><td>Commercial Vehicle</td></tr>
<tr><td>Fleets</td></tr>
<tr><td>Agricultural Vehicle</td></tr>
<tr><td>Employers Liability</td><td rowspan="2">• Over £1m
• Under £1m</td></tr>
<tr><td>Public, Product & Contractors Liability</td></tr>
<tr><td>Commercial Buildings, Contents & Stock</td><td rowspan="6">• Over £1m
• Under £1m</td></tr>
<tr><td>Business Interruption</td></tr>
<tr><td>Household Buildings</td></tr>
<tr><td>Household Contents</td></tr>
<tr><td>Equine</td></tr>
<tr><td>Commercial Packages</td></tr>
</table>

All other lines of business are combined into an aggregated 'Other Accounts' class for reserving analysis.

Avon Insurance

For Avon Insurance the majority of the business is in run off so broader groupings are used, split by the historic groupings of business:

Account	
PA Plans business	This business was written until 2013 when it closed to new business. Policies continue to be serviced until they lapse or reach the maximum age.
Group Insurances	Avon provides Group insurance cover to NFU Mutual. The Group insurances are reinsured through NFU Mutual's external reinsurance treaties. Retained claims after reinsurance are transferred to the NFUM through a 100% quota share agreement.
Historical business in Run Off	This business was written prior to 2003. Claims arise mostly from latent claims such as industrial deafness

For the purpose of Solvency II reporting, these classes of business are mapped onto Solvency II classes – whether directly on a one-to-one basis, or where a more granular Solvency II breakdown is required, using splits derived from a separate analysis of claims by type within each class to determine an appropriate proportion of the reserve class results to assign to each Solvency II class. The use of the same groupings for Solvency II calculations as the main UK GAAP Reserving analysis brings benefits in terms of ease of integration and appropriateness of results for business use.

In addition to the classes noted above, actual periodic payment cases already settled and in payment are valued using individual cashflow projections based on expected life expectancy and payment indexation. In aggregate these Periodical Payment Order (PPO) cases (net of reinsurance) amount to less than £15m for the NFUM and nil for Avon Insurance on the balance sheet at the valuation date.

D.2.a.i.4 General Valuation Principles

NFUM and Avon Insurance

Our actuarial best estimates are calculated as a probability weighted average of future cashflows, which are discounted using the EIOPA defined risk free interest rates.

All future cashflows have included relevant Events Not in Data ("ENID") such as potential latent claims and the risk of further legal changes.

The full impact of the post-year end change to the Ogden Discount Rate has been reflected in our best estimate.

For annual premiums where the whole premium had already been collected before the valuation date, there is no further positive premium cashflow. For NFU Mutual, a portion of customers pay monthly through our Flexible Payment Plan, giving rise to future premium cashflows beyond the valuation date. For Avon Insurance, almost all PA Plans renewing business is on a monthly basis. The other part of the premium provision is the cashflow related to the expected claims and expenses on the unearned portion of those policies.

Our provisions include expenses associated with managing the activity associated with the claims and premium cashflows. This includes, where relevant, investment management expenses, claims handling expenses and general administrative expenses.

D.2.a.i.5 Risk Margin (NFUM: unaudited)

NFUM and Avon Insurance

We calculate the Risk Margin using the 'Cost of Capital' approach in line with the requirements of the current Solvency II regulations. This requires a projection in each future year of the SCR for the reference undertaking to whom we must assume the insurance business is transferred. This projection assumes no application of the Volatility Adjustment, Matching Adjustment or Transitional Deductions.

Our risk margin calculation includes:

- historic reserve risk (including ENID);
- Premium and catastrophe risk for existing liabilities;
- an allowance for credit risk;
- operational risk.

Our approach has been to project the various risk elements of the future SCR separately and combine them in our stochastic model to calculate a forecast SCR for each future year.

For each risk item we have made separate assumptions about the SCR run off pattern based on the nature of the risk, and proportionate to their magnitude.

We calculate the Cost of Capital in each year as a percentage of the projected SCR using the rate specified in the Solvency II regulations, currently 6%. The risk margin is the sum of the discounted values of the Cost of Capital in each future year. For discounting, we use the risk free interest rate term structure applicable to the UK currency as defined by EIOPA and no adjustment is made for the volatility adjustment or the matching adjustment.

Avon Insurance

For Avon Insurance in previous years, the Risk Margin had been assumed to be immaterial – on the grounds of the very short tail nature of the net risks on the balance sheet - but further validation carried out in 2016 demonstrated that the risk margin was material and this has now been incorporated. For Avon insurance the calculation of the risk margin follows the same approach as the NFUM approach described above, but uses the Standard Formula SCR.

D.2.a.i.6 Gross Claims

NFUM and Avon Insurance

For claims provisions, we calculate the value of best estimate liabilities using standard actuarial reserving techniques where data volumes are sufficient – primarily chain ladder and loss ratio approaches. Where data volumes or development patterns are not suited to statistical methods, we use other actuarial models to estimate claims numbers and costs. We calculate the value of all modelled liabilities on grouped claims data.

For premium liabilities, we have applied expected loss ratios set using expert judgement based on a combination of the following sources:

- Historical loss ratios for each class of business
- Expected claims inflation and rate revisions forecast in the latest Business Plan for 2017.
- For NFUM only, loss year forecasts used as inputs for the Internal Model.

D.2.a.i.7 Future Premiums Receivable

For annual premium policies where the whole premium had already been collected before the valuation date, there is no further positive premium cashflow. For the NFUM members who choose to pay monthly through our Flexible Payment Plan, we expect to receive further premiums over the remaining exposure period. We make an assumption that the levels of policy lapses during this period are consistent with recent experience.

D.2.a.i.8 ENID Loading

For ENID in the claims provision, we have recognised that our UK GAAP best estimate for the NFUM and Avon Insurance already allow for future Legal Change risks and Latent Claims. Both of these items are 'not in data' in the sense that they are not materially present within the main claims triangles, though in order to estimate amounts for them, we have taken on board internal scenario tests; industry papers; and NFUM commissioned external reports where relevant.

These items are already based on probability weighted ranges of outcomes, including favourable scenarios such as less than expected (or even nil) Latent Claims costs, and the potential for increases in the Ogden rate as well as decreases. Scenario workshops are held with subject matter experts to validate the relevant scenarios. To avoid double counting, we have agreed that no additional loading for Claims Provision ENID is required.

To ensure the Premium Provision claims amount includes an appropriate allowance for these items we have taken the latest loss year cost of legal change and latent risks from the claims provision. We have reduced the cost from the full amount as we are only required to hold provisions for unexpired risks and Written But Not Incepted (WBNI) policies at the valuation date.

D.2.a.i.9 Reinsurance & Bad Debt

NFUM

For the NFUM the most material treaties are: Motor & Liability Excess of Loss; Property Excess of Loss; and (if we had a weather catastrophe outstanding at the valuation date) our Property Catastrophe Cover.

For our Claims Provision, the reinsurance recoveries are calculated in the same way as the actuarial analysis of best estimate reserves underpinning the current statutory reporting booked figures, including both statistical, additional IBNR and Latent Claims items.

Future reinsurance premiums from the Business Plans only provide the initial reinsurance premiums. For a full probability weighted approach, we need to allow for the expected cost of reinstatements on our treaties (specifically weather catastrophe for NFU Mutual) as well as the upfront premiums. To do this we have taken reinsurance premium information from our Internal Model. Future reinsurance recoveries on unearned exposure and WBNI have also been based on our Internal Model forecasts for NFU Mutual. As an adjustment to the full expected recoveries, it is necessary to make a reduction for the potential credit risk of the counterparties involved (i.e. the possibility of 'bad debt'). For NFU Mutual, we have based our assumptions on the Internal Model calculations of counterparty default as a proportion of prior year recoveries. The Internal Model assessment incorporates an assessment of the default probability for our historic reinsurers and the potential for the proportion of recoveries at risk given default.

Avon Insurance

For Avon Insurance the most material treaties are: PA Plans Quota Share, and the Reinsurance of the Historic run off book and ongoing Group Insurances to NFU Mutual. In addition there is a PA Plans Catastrophe Excess of Loss Cover, which provides additional cover over the quota share for extreme events.

For Avon Insurance the future reinsurance recoveries on unearned exposure have also been based on our business plan forecasts.

For Avon Insurance we have applied deterministic rating default probabilities to external organisations, and treated NFUM as AAA S&P rating, given their strong solvency coverage.

D.2.a.i.10 Expenses

NFUM and Avon Insurance

- Claims provisions; we have allowed for the standard claims handling expense reserve from UK GAAP, with the addition of an amount for investment management expenses taken from our business plans. The claims handling reserve already covers the full period of time from valuation date to run off.
- Premium provisions; we have included allowances for expected expenses pertaining to either the unearned portion of our written business, or the Written But Not Incepted business. This includes, where relevant, acquisition costs including commission, and the administration or management expenses of running our business. Our starting point is the business plan expense forecasts, which includes all relevant expenses. However that figure represents the full year, including costs associated with business we have not yet written (whether future new business or renewals). Our approach is therefore to derive suitable proportions of the relevant total company expenses to incorporate as expense cashflows within our premium provision. Our primary measure of the proportion is the total unearned and WBNI premium compared to the total Earned Premium for the full year from our business plan.

D.2.a.i.11 Cashflow patterns and discounting

All of our reserves for NFUM and Avon Insurance have been discounted using relevant risk free interest rates. The cashflow patterns used are based on expected run off patterns calculated by the reserving team, and based on historic experience.

D.2.a.i.(*2*) Valuation Methods – Life (NFUM)

There have been no material changes made to valuation methods over the year.

D.2.a.i.1 Technical Provisions Calculated as a Whole

We calculate the technical provisions as the sum of the best estimate liability and a risk margin. There are no contracts for which the technical provisions are calculated as a whole.

D.2.a.i.2 Contract Boundaries

We only calculate technical provisions for policies that are in force at the valuation date. Future new business is excluded.

The valuation includes future contractual premiums for all policies except unit linked contracts. Future premiums on unit linked contracts, such as stakeholder pensions, are not contractual. In addition there is no significant insurance risk on these contracts hence future premiums should be excluded under the Solvency II regulations.

Some policyholders with personal pension and stakeholder contracts elected the option to automatically increase their premiums as part of the terms of their contracts. We exclude those automatic premium increases from the valuation of technical provisions on the grounds of materiality.

Some retirement and savings contracts provide the policyholders with the option to pay discretionary additional premiums in future (top-ups) which we exclude from the calculation of technical provisions since they are not contractual.

Some unitised with-profit contracts provide death cover, for which we have the option to increase premiums to cover the cost of providing the cover. We calculate the technical provisions by assuming that the current level of premium continues for the entire duration of the contract.

D.2.a.i.3 Unbundling

Some of our unitised policies allow policyholders to invest in both the with-profit and unit linked funds. We unbundle these contracts into the respective with-profit and unit linked components and calculate the technical provisions separately.

Some traditional with-profit contracts also provide non-profit benefits. We value the with-profit and non-profit benefits separately when calculating the value of technical provisions.

D.2.a.i.4 General Valuation Principles

We calculate the risk margin for the entire life insurance portfolio and then allocate it to lines of business. In contrast, we calculate the best estimate liabilities at product level.

We calculate the value of best estimate liabilities accurately via projection models for all contracts, with the exception of a few minor contracts for which we estimate the value of the liabilities using methods that are appropriate and proportionate to the nature and size of the liabilities.

We calculate the value of all modelled liabilities other than stochastic liabilities on a policy by policy basis. We calculate the value of stochastic liabilities using grouped policy data.

The best estimate liabilities are not subject to a minimum value of zero or a surrender value floor.

D.2.a.i.5 Risk Margin (unaudited)

We calculate the risk margin using the 'Cost of Capital' approach in line with the requirements of the current Solvency II regulations. This requires a projection in each future year of the SCR for the reference undertaking to whom we must assume the insurance business is transferred. This projection assumes no application of the volatility adjustment, matching adjustment or transitional measures.

We project the SCR for the reference undertaking by projecting its components in line with the run-off of net of reinsurance best estimate liabilities. The projected components are then aggregated using the same method and factors that are used to aggregate the components of our SCR at the valuation date.

We calculate the Cost of Capital in each year as a percentage of the projected SCR for the reference undertaking using the rate specified in the Solvency II regulations; currently 6%. The risk margin is the sum of the discounted values of the Cost of Capital in each future year. For discounting, we use the risk free interest rate term structure applicable to the UK currency and no adjustment is made for the volatility adjustment or the matching adjustment.

We calculate the reference undertaking's SCR for each product by allocating components of the reference undertaking's SCR at the valuation date to each product in proportion to net of reinsurance best estimate liabilities where applicable e.g. the longevity component of the reference undertaking's SCR is allocated only to annuity type products in proportion to their best estimate liabilities, and similarly the disability component is allocated only to health products. The components for each product are then aggregated using the same method and factors that are used to calculate our overall SCR at the valuation date. The reference undertaking's SCR for each line of business is then the sum of the reference undertaking's SCR for all products in that line of business.

D.2.a.i.6 Insurance contracts with profit participation

We calculate the value of the best estimate liabilities as the sum of asset shares and stochastic liabilities less the present value of future profits.

We calculate asset shares on either a prospective or retrospective basis. The asset share on a retrospective basis is the historic accumulation of premiums plus investment income less charges and benefit outgo. This applies to all contracts except paid up and Whole of Life contracts for which we calculate asset shares on a prospective basis. The prospective asset share is the discounted value of future benefit and expense outgo less premium income on a best-estimate basis allowing for all future bonuses.

We calculate the value of stochastic liabilities (cost of options and guarantees and the cost of smoothing) using simulation on a market consistent basis. Simulation involves the calculation of the liabilities under a large number of scenarios (typically 1000) and taking the average value as the best estimate liability. Due to the large number of calculations involved, we group policies into homogeneous groups to reduce the time required to complete the calculations. We check and ensure that the difference between liabilities calculated using grouped and ungrouped policy data is immaterial.

There are a few minor contracts for which we do not calculate the stochastic liabilities using simulation. For these contracts we estimate the stochastic liabilities by assuming that the stochastic liabilities on similar contracts vary linearly in proportion to the size of asset shares.

Our models use gross discount rates to calculate the value of stochastic liabilities. We make an out–of-model adjustment to allow for tax on life insurance business.

D.2.a.i.7 Unit linked and index linked contracts

We calculate the best estimate liabilities for these contracts as the bid value of units, plus the cost of guarantees, less the present value of future profits. The benefit payable under unit linked and index linked contracts is usually the value of units, however some contracts have options and guarantees which also impact the benefits payable.

The present value of future profit for unit linked business is the discounted value of future annual management charges less mortality costs (any excess of benefits payable on death over the value of units) and expense outgo, allowing for tax on life insurance business, and assuming that all policies become paid-up at the valuation date. The present value of future profits for index linked bonds is included in the unit price, hence for these contracts the best estimate liability is just the value of units as there are no options or guarantees.

We calculate the cost of options and guarantees using stochastic simulation, based on the same approach as described for with-profits contracts. The only contract with material guarantees is the unit-linked Classic bond. The Homebonus contract also has attaching guarantees which are valued approximately given the immaterial number of policies remaining in force.

D.2.a.i.8 Other life insurance

We calculate the best estimate liabilities for Other life insurance contracts as the present value of future cashflows.

The cashflow consists of premium income less benefit and expense outgo allowing for tax on life insurance business. The premium income for paid-up policies is zero.

Some Other life insurance liabilities are reinsured with third parties, and for these contracts we increase the net of reinsurance best estimate liabilities to allow for the risk of reinsurer default. This increase in liabilities is the present value of expected future losses due to reinsurer default, allowing for the amounts which we expect to recover from the reinsurer in the event of default.

Some of our term assurance and endowment assurance contracts provide policyholders with guaranteed insurability options which, for example, allow them to increase the level of cover or extend the period of cover without evidence of good health. We use an approximate valuation method for these options on the grounds of proportionality as all of the contracts are now closed to new business and the cost of the options is approximately £1m.

D.2.a.i.9 Health insurance

We calculate the best estimate liabilities for Health insurance as the present value of future cashflows.

The cashflow consists of premium income less benefit and expense outgo allowing for tax on life insurance business.

Some Health insurance liabilities are reinsured with third parties, and for these contracts we increase the net of reinsurance best estimate liabilities to allow for the risk of reinsurer default. This increase in liabilities is the present value of expected future losses due to reinsurer default, allowing for the amounts which we expect to recover from the reinsurer in the event of default.

D.2.a.i.10 Health and Life reinsurance

We calculate the Health and Life reinsurance liabilities using the same methods as those used to calculate corresponding gross best estimate liabilities. The only exception is in respect of liabilities for income protection contracts which are wholly reinsured, and for which we take the liability values calculated by the reinsurer to be the gross and reinsured best estimate liabilities.

We reduce the value of reinsured liabilities to allow for the risk of reinsurer default when calculating the value of net of reinsurance best estimate liabilities. We calculate the reduction as the present value of expected future losses due to reinsurer default allowing for the amounts recoverable from the reinsurer in the event of default.

D.2.a.ii.(*1*) Material Assumptions – General Insurance (NFUM, Avon Insurance)

The following table summarises the most material assumptions (or groups of assumptions) in calculating GI technical provisions:

NFUM

Category	Assumption
Gross Claims Provisions	That the gross best estimate reserves under UK GAAP are appropriate. Further information can be found within the NFUM Report and Accounts Notes 1(g) and 2(c).
Premium Provisions - Reinsurance & Bad Debt	That similar reinsurance purchase will hold in January 2018 (as per Medium Term Plan) which underlies the reinsurance premium calculation.
Claims Provision – Expenses	That the best estimate value from the UK GAAP claims handling reserve is appropriate. Further information can be found within the NFUM Report and Accounts Notes (2) and (3).
Premium Provision – Future Claims	That the choices of future loss ratio assumptions for non-weather claims are appropriate.
	That the choices of future loss ratio assumptions for weather claims are appropriate.
Risk Margin (unaudited)	That the SCR run off pattern assumptions within the risk margin calculation are appropriate.

Avon Insurance

Category	Assumption
Gross Claims Provisions	That the gross best estimate reserves under UK GAAP are appropriate. Further information can be found within the Avon Insurance statutory accounts Notes (2) and (3).
Claims Provisions – Reinsurance & Bad Debt	That the best estimate reinsurance reserve under UK GAAP is appropriate. Further information can be found within the Avon Insurance statutory accounts Notes (2) and (3).
Risk Margin	That the SCR run off pattern assumptions within the risk margin calculation are appropriate.
Reinsurance premiums	That the PA Plans quota share reinsurance premiums have already been settled prior to the valuation date, so no further reinsurance premiums are due.
Contract Boundaries	That it is appropriate to treat the PA Plans renewing business as having a monthly term.

There have been no material changes to assumptions during the period.

D.2.a.ii.1 Gross Claims Provisions

Group and NFUM

As part of the reserving work undertaken for UK GAAP, the GI Actuarial Reserving team carry out analysis to arrive at their 'best estimate' ultimate cost of claims for both the NFUM and Avon Insurance. This best estimate is intended to be as close as possible to a probability weighted average of a range of possible outcomes. Given that we already have this estimate of the expected cost of all future claim cash flows relating to claim events prior to the valuation date, it is logical to use a consistent approach in setting the Solvency II Technical Provisions. Margins for prudence permitted under UK GAAP are eliminated for Solvency II purposes.

For the NFUM the methodology for assessing the best estimate of the ultimate cost of claims under UK GAAP can be split into three categories:

• Statistical – where there is a reasonable volume of historical data and historical experience is expected to be a suitable guide to the future, statistical methods are appropriate.

• Additional IBNR – for some current risks the historical experience may be insufficient for statistical methods to give a reasonable estimate of future cost. In this case additional reserves may need to be held over and above the statistical estimates. Note IBNR stands for 'Incurred but not reported'.

• Latent Claims – for some perils the damage caused can take many years or even decades to be recognised. In these cases there will usually be no data on which to base an estimate and alternative methods may be required.

The 'Additional IBNR' and 'Latent Claims' elements of the UK GAAP reserve fall under the Solvency II terminology of 'Events Not in Data', which considers whether any further provisions are required in order to meet Solvency II requirements. Solvency II also requires the Technical Provisions to be discounted.

There are many expert judgements underlying the calculation of the best estimate claims provision under UK GAAP which, as a result of this choice of methodology, also feed into the Solvency II Technical Provisions. The most material of which are the aggregate expert judgements when setting development factors within statistical reserving techniques, and specific expert judgements related to the potential number and cost of latent claims.

The aggregate materiality of the judgements underlying our best estimate claims figure is not unexpected given the overall size of the reserve and the uncertainties inherent in any assessment of the appropriate level of reserves. The latent risk component is the area of greatest uncertainty in relative terms.

Avon Insurance

For Avon Insurance, the business that we reserve for can be split into three categories:

- PA Plans business – this business was written until 2013 when it closed to new business.
- Group Insurances – Avon provides group insurances cover to NFU Mutual. The Group insurances are reinsured through NFU Mutual's external reinsurance treaties.
- Historical business which is currently in run off – This business was written prior to 2003.

As with NFUM's technical provisions, the additional IBNR and latent claims elements of the UK GAAP best estimate reserves fall under the terminology of 'Events Not in Data', which considers whether any further provisions are required in order to meet Solvency II requirements. Solvency II also requires the Technical Provisions to be discounted.

There are many expert judgements underlying the calculation of the best estimate claims provision under UK GAAP which, as a result of this choice of methodology, also feed into the Solvency II Technical Provisions.

Given that non-PA Plans business is fully reinsured by NFU Mutual, on a net basis, the materiality of the judgements underlying our best estimate claims figure relates to PA Plans business only.

D.2.a.ii.2 Claims Provisions – Reinsurance and Bad Debt

Group and NFUM

The Group has reinsurance arrangements in place that include risk excess which limits the financial impact from any one claim and catastrophe coverage. The greatest likelihood of significant losses arises from storm or flood damage, and catastrophe or crystallisation of latent risks. The Group has reinsurance cover to limit its exposure to loss at a level approved by the Board.

Avon Insurance

In assessing our claims provisions, we can take credit for expected recoveries from prior loss year reinsurance treaties. The current reinsurance arrangements in place for Avon's business are as follows:

- Group Insurances and historical book – 100% quota share arrangement with NFU Mutual. There is an aggregate cap of £75m which applies to the historical book only.
- PA Plans – Approximately 80% of PA plans policies are reinsured on a 50% quota share basis. There is also Catastrophe cover for all PA Plans policies.

For PA plans, the Reinsurance Claims Provisions under Solvency II are calculated using the same ratio of gross to net provisions as the UK GAAP booked reserves.

The method of using the gross to net ratio from the UK GAAP technical reserves does constitute an expert judgement.

D.2.a.ii.3 Claims Provisions – Expenses

The Group allows for the standard claims handling expense reserve from UK GAAP adjusted to remove prudence, with the addition of an amount for investment management expenses taken from our Business Plan for 2017 and projected forward over the run-off period. There are a number of assumptions – such as expected claims numbers and handling expenses per claim – underlying the calculation.

D.2.a.ii.4 Premium Provision – Reinsurance

Group and NFUM
Under Solvency II future reinsurance premiums cash flows in relation to business outstanding at the valuation date need to be allowed for. For a full probability weighted approach, we need to allow for the expected cost of reinstatements on our treaties (specifically weather catastrophe) as well as the upfront premiums.

The annual reinsurance premiums are provided by the reinsurance department, as well as the contractual terms including minimum contractually obliged premiums and payment terms. We also make use of the modelled cost of reinstatements from the Internal Model.

The Technical Provisions include allowance for business which is written but not incepted, and may incept after the valuation date. These contracts will not expire until 2018, by which time the 2017 reinsurance programme will have ended. When we calculate quarterly Technical Provisions during 2017, the reinsurance arrangements assumed for 2018 will become increasingly material. Our approach is to assume that equivalent reinsurance cover will be purchased, at rates which are proportionately reduced for the remaining unearned exposure. This is considered appropriate as Technical Provisions are calculated on a going concern basis.

Avon Insurance
For Avon Insurance the reinsurance premium for the unexpired PA Plans exposure has already been settled at the valuation date, so no further reinsurance premium provision is required."

D.2.a.ii.5 Premium Provision – Future Claims

NFUM continues to select expected loss ratios using expert judgement. We do this separately for weather and non-weather related claims, as weather related claims require a longer term view to remove the volatility associated with the most recent experience.

Non-weather loss ratios are assessed based on a combination of the following sources:

- Our latest view of historical loss ratios (excluding weather claims) for each class of business, including the most recent experience based on best estimate reserves at year end.
- Expected claims inflation and rate revisions forecast in the latest Business Plan for 2017.
- Detailed 2017 loss year forecasts (excluding weather claims) which are produced as inputs for the Internal Model.

Weather loss ratios are assessed based on a combination of the following sources:

- Historical weather claims experience at an aggregate level, split by:
  - ‘catastrophe’ events as per the Internal Model definition.
  - ‘non-catastrophe’ related weather claims for flood, storm and freeze perils.
- Expected weather claims forecast in the latest Business Plan for 2017.

- Internal Model outputs for the expected cost of weather events in 2017 (split by catastrophe and non-catastrophe events).

The choice of non-weather loss ratios is based on a combination of sources. For each account class, we review historical loss ratios against the forecasts produced for the Internal Model. We consider recent trends in the loss ratio and our knowledge of rate revisions recently taken as well as those included in the business plan for 2017.

The choice of weather loss ratios is based on a combination of sources. We carry out our analysis at a total level and then allocate the total weather claims by class based on Internal Model assumptions. We consider ‘catastrophe’ and ‘non-catastrophe’ related weather claims separately. For non-catastrophe claims, we compare the long term average experience against the expected cost of these claims in the Internal Model and the business plan forecast for weather claims.

For catastrophe claims, we have relatively little data on which to base a probability weighted average cost which includes the most extreme events. The Internal Model is designed for assessing extreme events and makes use of sophisticated external catastrophe models which account for the locations and vulnerability of our exposure.

D.2.a.ii.6 Risk Margin

Group (unaudited), NFUM (unaudited) and Avon Insurance

Solvency II requires insurers to hold an additional ‘Risk Margin’ on their balance sheet. This Risk Margin is designed to represent the amount an insurance company would require to take on NFUM or Avon Insurance obligations at the valuation date.

The calculation requires a forecast of the SCR capital requirement, and so is carried out by the Financial Risk team using the Internal Capital Model for the Group and NFUM and the Standard Formula SCR for Avon.

To calculate the Risk Margin the Financial Risk team have carried out the following steps:

- Calculated an opening SCR to transfer liabilities to a third party. This is the capital required by a third party to take on the Technical Provisions and allows for all ‘non-hedgeable’ risk types.
- Forecast the SCR requirement into the future to run off of liabilities.
- Discounting: The future years SCRs are discounted using the same method as the technical provision best estimates.
- Cost of Capital: Solvency II rules prescribe a 6% cost of capital charge. This approximates the additional return a third party would require for holding this SCR and

so represents the additional premium that would need to be paid by NFUM in the event of transferring the liabilities.

The calculation approach that the Financial Risk team have used to assess the risk margin generally follows a set process using prescribed data, such as the EIOPA defined yield curve, the Cost of Capital and output from the Internal Model. However the process also includes a number of expert judgements, which we believe are reasonable in taking a proportionate approach to the modelling complexity. The most material of which, for the Group, NFUM and Avon is the choice of SCR run off pattern. The run off patterns have been set by risk category and taking into account industry practice and expert judgement on the nature of the capital requirements for each risk over the run off period.

D.2.a.ii.7 Contract Boundaries

Avon Insurance

For Avon Insurance we have treated the PA Plans policies as monthly renewable, and therefore the premium provision allows for half a month of unexpired risk. This is in line with our understanding of the appropriate approach for such contracts in line with Second Line guidance from EIOPA.

D.2.a.ii.(*2*) Material Assumptions – Life (NFUM)All material changes to valuation assumptions made over the year are disclosed in the following sections:

D.2.a.ii.1 New business and Basis margins

We calculate the value of technical provisions assuming we will remain open to new business, although future new business is excluded from the valuation.

We use best estimate assumptions which are based on the latest available relevant information. Economic assumptions are derived from, and are consistent with market data at the valuation date. Non-economic assumptions are based on an analysis of relevant appropriate data, taking into account trends, expected future developments and allowance for events not present in the data.

D.2.a.ii.2 Management Actions

When calculating stochastic liabilities we assume that the with-profit asset mix at the valuation date will apply in future. We also assume that regular and final bonus rates in the stochastic projections are changed annually to target 100% of asset share, whilst allowing for a smoothing of benefits in line with the rules set out in our Principles and Practices of Financial Management (PPFM); the document which details our approach to managing our with-profits business.

D.2.a.ii.3 Economic Assumptions

We use the risk free rates and volatility adjustments derived and published by EIOPA to calculate deterministic liabilities. As all our liabilities are denominated in UK pound sterling, we use the curves derived for the UK currency. We apply the volatility adjustment to discount liabilities for all contracts other than i) level and fixed escalation pension annuities in payment (for which a matching adjustment is used) and ii) when calculating a present value of future profits on unitised business. We calculate the matching adjustment based on fundamental spread information published by EIOPA (December 2016: 65bps).

Our models are designed to take, as inputs, forward rates up to 60 years. The models use forward rates at term 60 years for terms above 60 years. We have assessed and concluded that the impact of using forward rates at term 60 for terms above 60 years is immaterial since virtually all of our liabilities are extinguished within the first 60 years of our projections.

The discount rate which was used in calculating prospective asset shares at 31 December 2016 was the yield on a 15 year swap provided by EIOPA (December 2016: Gross 1.56%, Net 1.25%), netted down for tax at the basic rate of tax (20%) for life insurance business.

For calculating stochastic liabilities we use investment returns, inflation and discount rates that are generated using the Moody's Economic Scenario Generator and are applicable to, and internally consistent within, each scenario. Underpinning these investment returns and discount rates are the risk-free rates and volatility adjustment, as provided by EIOPA.

We assume the current tax rates will continue to apply in future. These are the tax rates which are used to net down future investment returns and expenses for life business.

D.2.a.ii.4 Economic Scenario Generator

We use a Moody's Economic Scenario Generator (ESG) to produce the investment returns, inflation and discount rates which we use to calculate the value of stochastic liabilities.

We calibrate the ESG to produce market values that are consistent with the market values of assets at the valuation date. The risk free interest rate term structure (including the volatility adjustment) is an input in the ESG calibration and will provide the start values of the projected interest rates for each simulation.

In 2016 we have amended our interest rate model from the Extended two Factor Black-Karasinski model (Ex2FBK) to the Libor Market Model Plus (LMM+) model, in order to allow modelling of potential negative interest rates.

Our ESG is a constant volatility model and we make separate volatility assumptions for UK equity returns (December 2016: 28.0%), Overseas equity returns (December 2016: 28.6%) and Property returns (December 2016: 15.0%). We derive the equity assumptions based primarily on market data, with an element of judgement. For property the assumption is based on an analysis of historical data, again with an element of judgement. This year we have amended our volatility calibration from using lognormal to normal implied swaption volatilities in order to allow modelling of negative interest rates.

The assets backing asset shares are invested in UK shares, overseas shares, property, fixed interest securities, index linked securities and cash. We derive the correlations between the returns on these assets based on judgement and analysis of historical data. We have assumed positive correlation between UK equities and property (December 2016: 50%) and negative correlation between UK equities and bonds (December 2016: -30%).

D.2.a.ii.5 Guaranteed Annuity Option

We assume that a proportion of pure endowment pension policyholders, that varies by age, give up their GAO to take other benefits, including cash. These proportions are as follows:

Product	Duration	Lapse Rate %	
		1 January 2016	31 December 2016
Pure Endowment Pensions	Age 60	16.9	44.8
	Age 61	17.8	55.3
	Age 62	16.9	43.3
	Age 63	15.1	45.6
	Age 64	14.9	37.4
	Age 65	12.8	9.9
	Age 66	13.7	25.7
	Age 67	13.8	23.9
	Age 68 - 75	10.0	19.2

Setting these assumptions includes a significant amount of expert judgement, as other plausible levels for these assumptions could materially impact the liability values they are used to calculate.

For those remaining policyholders who choose to annuitise their pure endowment pension with us, we assume that all of these policyholders will exercise the option to buy annuities from us on guaranteed rates if it is beneficial to them to do so. However, customers are encouraged to consider all aspects of their particular situations before deciding on a course of action.

D.2.a.ii.6 Expenses and Charges

We set the per-policy expenses with regards to budgeted per-policy expenses for the year following the valuation date.

Allocating these budgeted expenses down to this life product maintenance expense level includes a significant element of expert judgement. This is because other plausible levels for these assumptions could materially impact the liability values they are used to calculate.

The expenses are inflated in future in liability projections at the assumed future expense inflation rates. We set the expense inflation assumption on 31 December 2016 as the price inflation assumption plus a margin of 0.75%. This is reduced from the previous year-end, when a margin of 1.2% was assumed. Setting this margin assumption includes a significant element of expert judgement, as there are other levels for this assumption which could be equally valid and could materially impact the liability values they are used to calculate.

The assumed price inflation for calculating prospective asset shares is set as the long term inflation rate based on data from the Bank of England.

The price inflation rates for calculating stochastic liabilities are derived from the ESG and, as above, we assume that the 0.75% margin for expense inflation over price inflation applies for the entire duration of the projection.

We assume future annual management and guarantee charges remain at the level of these charges applied to the relevant contracts at the valuation date.

D.2.a.ii.7 Demographic Assumptions

These are the rates of mortality, morbidity, policy lapse, policy surrender, rates of conversion from premium paying to paid-up status, rates of premium reduction and retirement rates. They are all derived from an analysis of recent historical experience, taking into account trends and likely future developments.

- Retirement Ages

We assume that all policyholders will retire in the age range 60 to 75 and that all remaining policyholders at age 75 will retire at that age.

The setting of retirement age assumptions includes a significant element of expert judgement, as there are other levels for this assumption which could be equally valid and could materially impact the liability values they are used to calculate.

- Mortality and Morbidity

We express our mortality assumptions as a percentage of standard tables, showing them separately for males and females. We use standard tables that are appropriate to the type of contracts being valued. The assumptions for annuitant mortality include an assumption for expected long term mortality improvements. Similarly, morbidity assumptions for valuing critical illness contracts are expressed as percentages of standard tables, with appropriate allowance for deterioration of experience over time.

Our main annuitant mortality assumptions as at 31 December 2016 are summarised in the table below. These are unchanged from the previous year-end.

	Male	**Female**
Base table	PCMA08	PCFA08
% adjustment	96%	98%
Improvement basis	CMI – 2014	CMI – 2014
	Long term rates of mortality improvement varying by age, but broadly equivalent to 1.75% p.a. overall	Long term rates of mortality improvement varying by age, but broadly equivalent to 1.75% p.a. overall

Setting both the percentage adjustment and long term rate assumptions above includes a significant element of expert judgement, as other plausible levels for these assumptions could materially impact the liability values they are used to calculate.

(a) PUP Rates, Lapse Rates, Premium Reductions and Withdrawals

All unit linked policies are assumed to be paid-up at the valuation date since we do not take credit for future premiums payable due to the requirements of the contract boundary rules. The rates of conversion to paid-up status for the remaining contracts are based on an analysis of recent past experience and vary by product type and duration in force.

The rates at which we assume policyholders surrender their policies vary by product type and duration in force.

The most significant lapse rate assumptions for the main products as at 31 December 2016 are summarised in the table below:

Category	Product	Duration	Lapse Rate %	
			1 January 2016	31 December 2016
With-profits	Pure Endowment Pensions – Regular premium	All before age 60	0.46	0.46
	Pure Endowment Pensions – Single premium	All before age 60	0.55	0.55
	Deferred Annuity Pensions – Regular premium	All before age 60	0.93	0.98
	Deferred Annuity Pensions – Single premium	All before age 60	1.00	0.98
	Individual Personal Pension	All before age 60	2.61 for three years 0.94 thereafter	2.61 for three years 0.94 thereafter
	Endowment	1-10	1.78	1.06
		11-30	1.06	1.06
		31+	0.78	1.06
Unit linked	Personal Pension – Individual	All before age 60	2.61 for three years, 0.94 thereafter	2.61 for three years, 0.94 thereafter
	Stakeholder – Individual	All before age 60	2.64 for three years, 0.98 thereafter	2.64 for three years, 0.98 thereafter
	Capital Investment Bond	All	3.11	3.11
	Flexibond	Pre 2013 contracts, 1-3	1.27, 2.27, 2.74	1.2, 2.03, 2.55
		Pre 2013 contracts 4+	4.13	3.93
		All post 2012 contracts	4.13	3.93

Policyholders with investments in the Capital Investment Bond and the Flexibond can make annual regular withdrawals of up to 10% of the fund without the application of a market value reduction factor. The assumed rates of regular withdrawals vary by product type and duration in force. We also make similar assumptions for Classic Bonds, Vintage Bonds, Capital Access Bonds and Shrewd Saving Plan ISA contracts.

We assume that 10% of Classic and Vintage Bond policyholders switch out of the guarantee fund in the year following each fifth year anniversary, and that there are no Personal Pension Plan switches out of the Unitised With-Profit fund.

D.2.a.ii.8 Reinsurer Default

We derive the probability of reinsurer default assumption by considering the reinsurer's current credit rating and the expected changes to that credit rating in future. The probability of default therefore varies by the reinsurer's credit rating. We assume the probability of default derived at the valuation date applies for all future years.

We derive the recovery rate by analysing relevant historical data. Due to limited data availability for this analysis, we currently assume the same recovery rate for all reinsurers.

D.2.a.iii. Value of Technical Provisions

The value of the Technical Provisions for the Group, NFUM and Avon Investments are shown below:

Technical Provisions – 31 December 2016

	NFUM		NFUM £m	Avon £m	Intra-Group Reinsurance £m	Group £m
	GI £m	Life £m				
Gross	2,064	7,857	9,921	30	(24)	9,927
Reinsurance	(107)	(34)	(140)	(25)	24	(141)
Net	**1,957**	**7,823**	**9,781**	**5**	**-**	**9,786**

Internal reinsurance representing the agreement between NFUM and Avon Insurance.

D.2.a.iii.(*1*) Value of Technical Provisions – General Insurance (NFUM, Avon Insurance)

Technical Provisions – 31 December 2016

NFUM:

SII Class of Business	Gross	Reinsurance	Net		
	Best Estimate Liabilities £m	Best Estimate Liabilities £m	Best Estimate Liabilities £m	Risk Margin £m (unaudited)	Total Technical Provisions £m
Income Protection Insurance	3	-	4	-	4
Motor Vehicle Liability Insurance	451	24	427	39	466
Other Motor Insurance	109	(1)	109	12	122
Marine, Aviation & Transport Insurance	-	-	-	-	-
Fire and Other Damage to Property Insurance	249	(5)	254	18	272
General Liability Insurance	787	40	747	254	1,001
Legal Expenses Insurance	-	-	-	-	-
Assistance	1	-	1	-	1
Miscellaneous Financial Loss	17	(1)	18	1	19
Motor Vehicle Liability Proportional Reinsurance	1	-	-	-	-
Other Motor Proportional Reinsurance	-	-	-	-	-
General Liability Proportional Reinsurance	23	2	21	-	21
Annuities from Non Life relating to other than Health Insurance	64	48	16	35	51
Total General Insurance Business	**1,705**	**107**	**1,598**	**359**	**1,957**

Avon Insurance:

SII Class of Business	Gross	Reinsurance	Net		
	Best Estimate Liabilities £m	Best Estimate Liabilities £m	Best Estimate Liabilities £m	Risk Margin £m	Total Technical Provisions £m
Income Protection Insurance	4	1	3	-	3
Motor Vehicle Liability Insurance	1	1	-	-	-
Other Motor Insurance	-	-	-	-	-
General Liability Insurance	23	23	-	2	2
Total	**28**	**25**	**3**	**2**	**5**

D.2.a.iii.(*2*) Value of Technical Provisions – Life (NFUM)

The Technical Provisions, split by line of business, are summarised in the table below. The technical provisions shown do not include the transitional measure of £420m (unaudited).

NFUM:

	Best Estimate Liabilities £m	Risk Margin £m (unaudited).	Technical Provisions £m
Health insurance	11	8	19
Insurance with profit participation	3,766	171	3,937
Index-linked and unit-linked insurance	2,816	61	2,877
Other life insurance	1,344	99	1,443
Annuities stemming from non-life insurance contracts and relating to health insurance obligations	-	-	-
Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance obligations	-	-	-
Gross of Reinsurance Total	**7,937**	**340**	**8,276**
Health reinsurance	4		4
Life reinsurance	29		29
Net of Reinsurance Total	**7,903**	**340**	**8,243**
Transitional measure (unaudited).			(420)
Net Technical Provision			**7,823**

The Insurance with profit participation best estimate liabilities include stochastic liabilities which are summarised in the table below:

	Liabilities £m
Cost of Options	333
Cost of Guarantees	361
Cost of Smoothing	2
Total	**696**

D.2.a.iii.1 Health Insurance

The Health Insurance liabilities are all non-linked and include Critical Illness contracts which were classified as PHI business.

D.2.a.iii.2 Insurance with profit participation

The with-profits liabilities include both traditional and unitised with-profit contracts in almost equal proportion, with the smoothing costs also split in a similar way. All option costs are in respect of traditional with-profit contracts which also account for approximately two thirds of the cost of guarantees.

D.2.a.iii.2.i Cost of Options

The cost of options is in respect of guaranteed annuity rates on Post 1982 Section 226 pensions which were sold as pure endowment contracts. The policyholders have the option to buy annuities from us on contractually guaranteed terms, or in the open market if more beneficial. The cost of the option has increased significantly in the recent past due to the fall in interest rates over the last few years. This has made the option more valuable to policyholders, thereby increasing the likelihood that they will exercise the option. However, as well as the option for policyholders to transfer their benefits to other annuity providers, the recent changes to pension legislation also now allow policyholders to take all of their benefits as cash or move into drawdown, but in doing so they give up the GAO in these instances. Some policyholders have exercised these other options and we expect a material proportion to continue to do so in the future.

The products where the GAO is available are now closed to new business, hence the liability values will fall over time as policies mature. The policyholders are on average expected to reach the highest vesting ages of 75 years in 16 years' time, but can claim their GAO benefits at any age above 59 years. We estimated the future rates of retirement for these policyholders by considering relevant past experience, with an allowance for average retirement ages increasing into the future.

D.2.a.iii.2.ii Cost of Guarantees

The cost of guarantees is in respect of guaranteed benefits on death, surrender or maturity. The guaranteed benefit on maturity for unitised with profit contracts is the value of the unit fund without application of a Market Value Reduction (MVR), and for traditional with-profit contracts it is the sum assured plus declared regular bonuses.

The guaranteed benefit on death varies by contract but is usually similar to the maturity benefit or may be a return of premium with interest. Some endowment contracts were taken out to pay off the mortgage on death or maturity, and for these contracts the guaranteed death benefit would be the amount required to pay off the outstanding loan.

The guaranteed benefit on surrender also varies by contract type. For traditional with-profit contracts it is typically the return of premium (with or without interest) or the discounted value of maturity benefits if higher. An MVR may apply on most forms of surrender for unitised with-profits contracts.

- Personal Pensions and Deferred Annuities

Most of the guarantee costs (approximately £251m) are in respect of guaranteed benefits on personal pensions (both traditional and unitised) and deferred annuity pensions. These contracts provide a guaranteed lump sum or annuity at retirement.

The sum assured and regular bonuses declared to the date of retirement or death are guaranteed between the ages of 60 and 75 for traditional contracts. In addition the return of premiums with interest is also guaranteed on death or surrender. For unitised with-profit contracts the unit fund, without application of an MVR, is guaranteed on the policyholder's selected retirement date.

There has been a significant increase in these guarantee costs due to the fall of interest rates over the last few years. The traditional personal pensions and deferred annuities are now closed to new business, hence over time the guarantee costs will fall as policies mature. The unitised personal pension product with high guarantees is closed to new business. Other unitised personal pension products with lower guarantees are still open to new business, but over time guarantee costs will fall as policies with high guarantees mature and are replaced by policies with lower levels of guarantees.

- With-profits Life Annuities

The cost of guarantee on with-profit annuities in payment (approximately £35m) is in respect of current annuity payments which are guaranteed for life. The current annuity is the sum assured plus declared regular bonuses. This contract is closed to new business.

- Whole of Life

The cost of guarantees on with-profit Whole of life contracts (approximately £16m) is in respect of the guaranteed sum assured plus declared regular bonuses payable on death. This contract is closed to new business.

- With-profit Bonds

The cost of guarantees on bond type products (Capital Investment Bond, Flexibond and Vintage bond) is relatively small (approximately £44m). The Vintage Bond is closed to new business, the Capital Investment bond only accepts top-ups, and the Flexibond is open to new business.

The Capital Investment Bond (CIB) provides a guarantee that no MVR will apply on the 10^{th} anniversary of the policy. For those CIB policies that did not surrender on the 10^{th} anniversary, the shadow fund was increased where necessary so that it equalled the value of with-profit units at the 10^{th} anniversary. There is also a guarantee that no MVR will apply on regular withdrawals up to 10%.

The Flexibond provides a guarantee that no MVR will apply on regular withdrawals up to 10%.

The Vintage Bond provides a guarantee that no MVR will apply on death. In addition there is also a guarantee that an MVR does not apply on the 5th policy anniversary and subsequent quinquennial anniversaries.

- Guarantee Charges

The cost of guarantees is in part offset by the charges for the cost of guarantees. We currently only charge With-profit Annuities, With-profit Vintage Bond and Unit linked Classic Bond policies for the cost of guarantees. However we may prospectively charge other policies for the cost of guarantees in future provided we get advice from the With Profits Actuary that it is appropriate to do so as stated in our PPFM.

- Non-contractual guarantees

The cost of guarantees also includes the cost of guarantees on Minimum Cost Endowment policies (approximately £7m). We provide discretionary guarantee on Minimum Cost Endowment policies written before 1 January 1998. Minimum Cost Endowment contracts written on or after 1 January 1998 provide a guarantee that the maturity payout will not be less than the minimum guaranteed death benefit. There is no such guarantee on policies written before 1 January 1998, and the majority of policies are in this category. As stated in our PPFM, we have applied a statement of intent to these policies that it is our intention to pay at least the guaranteed minimum death benefit on maturity as long as circumstances permit.

- Other products

There are guarantee costs on other products which are less significant in comparison to those described above. The main product in this category is the Insurance ISA which provides a guarantee that no MVR applies on death and the cost of this guarantee is approximately £6m as at 31 December 2016.

D.2.a.iii.2.iii Cost of Smoothing

The Cost of Smoothing is the discounted value of the amount by which the projected payouts are above or below asset share (or the guaranteed benefit if higher). Although it is our intention to pay the asset share over the long term, this cost will vary depending on the degree to which bonus rates at the valuation date achieve this aim, and asset share movements since the bonus rates were set.

D.2.a.iii.3 Index linked and unit linked insurance

Most of these liabilities are unit linked (£2.81bn) and only £5m is in respect of index linked liabilities.

The unit linked liability is largely just the value of units, however allowance is also made for the cost of guarantees and present value of future profits. It includes the cost of guarantees on Classic bond contracts (£1m), which is net of the value of charges for those guarantees. The Classic bond provides a guarantee that the unit price on the fifth anniversary will not be less than the unit price on the previous fifth anniversary. The present value of future profits, adjusted to allow for some additional liabilities such as budgeted project expenses and staff pension scheme liabilities, is small (£37m).

The main index linked liabilities are those for structured bonds (£5m).

D.2.a.iii.4 Other Life Insurance

- Pension annuities in payment

The liability for level and fixed escalation pension annuities in payment is £1.15bn and these are the only contracts for which we use a matching adjustment. These annuities are payable for life and some contracts have a minimum guaranteed payment period.

The liability for index linked pension annuities in payment is £7m. These annuities are payable for life and some contracts have a minimum guaranteed payment period.

- Protection business contracts

The majority of these contracts are non-profit whole of life (£10m) and level term assurance (£19m) contracts which provide a fixed lump sum on death. The low cost decreasing term assurance contracts (£13m) were designed to provide non-profit benefits on with-profit whole of life contracts.

- Other contracts

These mostly consist of non-profit and index linked Life annuities in payment (£135m), non-profit deferred annuities and other minor contracts.

D.2.a.iii.5 Non-Life Annuities – Health

We do not have any non-life annuities within the life business.

D.2.a.iii.6 Non-Life Annuities – Other than Health

We do not have any non-life annuities within the life business.

D.2.a.iv.(*1*) Analysis of Material Changes in the Value of Technical Provisions – General Insurance (NFUM, Avon Insurance)

The following tables show the most significant changes to the Solvency II technical provisions over the past year for NFUM (the start and end points are the sum of best estimate plus risk margin, net of reinsurance).

NFUM

Provision		NFUM	Explanation
2015 Year End Technical Provision (unaudited)		**£1,698m**	
Claims Provision	Claims Provision Net Claims	£75m	Increase in the UK GAAP Best Estimate - includes general claims experience trends and change in personal injury (Ogden) discount rate.
	Claims Provision expenses	£16m	This is mostly driven by an increase in the claims handling reserve.
Premium Provision	Premium Provision Premiums	(£63m)	A material increase in future monthly premium payers expected and an increase in future expected WBNI premium
	Premium Provision Expenses	£51m	Increase in administration expenses. Change in approach to allowing for claims handling reserve, to be consistent with the Internal Model.
	Premium Provision Loading for Ogden	£18m	Increased future claims costs associated with the change in the personal injury discount rate.
Change in Impact of Discounting		£33m	There has been a decrease in the yield curve over 2016; causing an increase in liabilities.
Risk Margin (unaudited)		£114m	Reflecting updated Internal Model output, updated yield curve, and some improvements in methodology.
Other		£15m	Various small changes.
2016 Year End Technical Provision		**£1,957m**	

Avon Insurance:

Provision	Amount	Explanation
2015 Year End Technical Provision (unaudited)	**£2.4m**	
Risk Margin	£2.3m	During the year we revised our approach to the risk margin. Details in section D.2.a.i.5
Allowance for NFUM credit risk	£0.1m	Allowance for the probability of NFUM failing to meet its reinsurance obligations to Avon. No allowance was made last year.
Premium provision – PA plans	£0.2m	During the year we revised our approach to the premium provision.
Other	£0.2m	Various small changes.
2016 Year End Technical Provision	**£5.2m**	

D.2.a.iv.(*2*) Analysis of Modelling Changes on the Value of Technical Provisions – Life (NFUM)

Changes in valuation assumptions and methods over 2016 (as detailed earlier in the report) have impacted the value of technical provisions since the previous year-end and resulted in the following movements:

Area of change	Report Reference Life Sections (*2*)	Impact on 1 January 2016 Best Estimate Liabilities £m (unaudited)
Persistency assumptions	D.2.a.ii.7	(29.8)
Expense assumptions	D.2.a.ii.6	(23.0)
Expense inflation assumptions	D.2.a.ii.6	(14.8)
Modelling methodology changes	D.2.a.ii.4	(16.9)
		(84.5)

D.2.b.(*1*) Level of Uncertainty within the Technical Provisions – General Insurance (NFUM, Avon Insurance)

The uncertainty in our Solvency II technical provisions calculations is of a similar nature to that in the best estimate reserving analysis used for UK GAAP. Actual outcomes could differ from the values calculated for claims provisions due to unexpected changes in items such as:

- the propensity to claim;
- levels of claims inflation (for NFU Mutual);
- proportion of claims settled as PPO compared to lump sum;
- legal changes;
- changes in NFUM or Avon claims processes which alter our claims development patterns.

Exposure to long tail latent risk is especially uncertain and therefore is a material driver of the overall uncertainty in our claims provisions.

In addition for the premium provision component, outcomes could differ due to experience being out of line with our plans. This could be for reasons such as:

- unexpected changes in mix of business;
- claims experience (numbers or average costs) being higher or lower than our forecasts;
- expenses being higher or lower than expected;
- changes in persistency or levels of new business.

Finally given the complexity of the calculations involved in estimating these technical provisions, there may be changes over time due to improvements to our calculation methods. For NFU Mutual, based on the Internal Model for Reserve Risk there is roughly a 50% chance that over the course of 2017 our estimate of the technical provisions (including latent claims) will change by more than £200m (10%). The latent risk component is the area of greatest uncertainty in relative terms.

For Avon the key uncertainty is the assessment of the best estimate reserve for PA Plans business, which makes up £2.78m (96%) of the Technical Provisions on a net basis (excluding Risk Margin). Based on a standard actuarial 'bootstrapping' approach, there is roughly a 50% chance that these reserves will turn out to be more than 10% different from the chosen estimate.

D.2.b.(*2*) Level of Uncertainty within the Technical Provisions – Life (NFUM)

Liability Type / Risk Margin	Amount £m	Percentage
Unit Liability	2,826	34.0%
Retrospective Asset Shares	2,890	36.0%
Prospective Asset Shares	256	3.0%
Present Value of Future Cashflow	1,345	16.0%
Present Value of Future Profit	(146)	(2.0)%
Cost of Options	333	4.0%
Cost of Guarantees	361	4.0%
Cost of Smoothing	2	0.0%
Other Liabilities	69	1.0%
Reinsurance Assets	(33)	0.0%
Risk Margin (unaudited)	340	4.0%
Gross Technical Provisions	**8,243**	**100.0%**

The table above shows the amount and percentage of Technical Provisions split by type.

The level of uncertainty largely depends on the type and method of calculation of the technical provisions. The more significant areas of uncertainty involve provisions calculated via cashflow projection, where expert judgements are made in setting projection assumptions and projection models may include a degree of simplification compared to reality.

D.2.b.i Unit Liabilities and Asset shares

Nearly 73% of our technical provisions are unit reserves or asset shares which have a very low level of uncertainty.

- **Unit liabilities**

The unit liability is simply the market value of assets backing the units adjusted for tax.

- **Asset shares**

Asset shares calculated on a retrospective basis make up 92% of the total asset shares. The calculation of these asset shares uses historic accounting data made up of the actual values of premiums paid, investment returns earned and expenses incurred. Data validation processes minimise the likelihood of potential errors, rendering their likely impact as immaterial.

In relative terms the values of prospective asset shares have a higher degree of uncertainty as the calculation involves the projection of future premiums, benefits, bonuses and expenses, and requires assumptions to be made about future experience. The bonuses declared on contracts for which we calculate the asset shares on a prospective basis are based on bonuses declared on relevant premium paying policies hence the benefits paid may diverge from asset share over time. The prospective asset shares however only account for approximately 3% of the total technical provisions and their calculation is designed to target asset shares on relevant premium paying contracts.

D.2.b.ii Present value of future cashflow

- **Level and Fixed Escalation Annuities**

The liability for pension annuities in payment of this type (£1.15bn) is the largest component of this liability type. While adequate allowance has been made for future annuitant mortality improvements in the valuation basis, there is still a degree of uncertainty due to the long term nature of the liabilities.

- **RPI linked Annuities**

The liability for RPI linked annuities (£114m) is in respect of Structured Settlements. Many of the annuitants are impaired lives and this has been taken into account when setting the mortality assumptions. However the relatively small number policyholders involved increases the risk that mortality experience may vary significantly from our assumptions.

Some of the annuitants are relatively young hence we have to make assumptions about future inflation over a much longer time horizon.

- **Protection business**

Whole of life contracts are long term in nature and therefore require us to make assumptions about future experience over longer periods. Traditional non-profit whole of life (£10m) and term assurance (£19m) contracts are however only a small proportion of the technical provisions.

- **Other liabilities**

These mainly consist of life annuities, group contracts and other minor contracts. The liabilities are all calculated using standard actuarial valuation techniques and form a small proportion of the technical provisions.

- **Present value of future profit**

The present value of future profit is attributable to unit-linked and unitised with-profits contracts. It is the discounted value of future annual management charges less mortality costs (any excess of benefits payable on death over the value of units) and expense outgo, allowing for tax on life insurance business, and assuming that all unit-linked policies become paid-up at the valuation date. These projected cashflows involve a degree of uncertainty, most significantly in respect of future maintenance expense costs attributable to these contracts.

D.2.b.iii Stochastic Liabilities

The stochastic liabilities (Cost of Options and Guarantees and Cost of Smoothing) have the highest degree of uncertainty compared to all the other liabilities. The liabilities calculated under different scenarios (typically 1,000) show variability, and the best estimate liability is taken to be the average value from these results. The liabilities are also calculated using grouped data, which increases the level of approximation compared to individual policy data. The stochastic liabilities however only account for approximately 8% of the technical provisions. We make checks to ensure that the difference between liabilities calculated using grouped and ungrouped data is of low materiality, if not immaterial. In addition we also check that the impact of calculating the liabilities using a larger number of simulations is also of low materiality, if not immaterial.

D.2.b.iv Other liabilities

The Other liabilities largely consist of provisions for budgeted project expenses and costs associated with the staff pension scheme and these only account for approximately 1% of the technical provisions. The actual project expenses may differ from budget due to expense over/under runs and the proposed changes to pension legislation may also impact the staff pension scheme liabilities.

D.2.b.v Reinsurance assets

We reduce the value of reinsurance assets to allow for the risk of reinsurer default. The probabilities of reinsurer default are based on an analysis of global corporate default rates which are not industry specific, and are therefore an approximation of expected default experience for our specific reinsurers. There is also limited data on our reinsurers' recovery rates. The reinsurance assets however constitute less than 1% of the technical provisions.

D.2.b.vi Risk margin (unaudited)

When calculating the Risk Margin we assume that the run-off of components of the SCR is in line with the best estimate liabilities, which is a simplification. In addition we make an approximate allowance for non-linearity within the projection of the SCR. These approximations could lead to a deviation of the calculated risk margin from the true value but the risk margin only accounts for approximately 4% of the value of technical provisions.

D.2.c.(*1*) Comparison of Technical Provisions Valuation Methods, Bases, Assumptions and Values for Solvency Purposes UK GAAP – General Insurance (NFUM, Avon Insurance)

There are no changes to assumptions where the same items are being valued. However the following items are key areas of difference between SII and UK GAAP:

Solvency II starts from a best estimate view of claims provisions so our calculations will use the actuarial best estimate view of claims costs, rather than the prudent level of margin booked under UK GAAP.

Solvency II requests that firms ensure that their best estimate reserve represents the average of "all possible outcomes". This has led to all firms considering the need for additional 'Events Not in Data' (ENID) which go beyond standard reserving methods (e.g. chain ladder) to ensure that the overall provision covers any possible scenario which might not be within a firm's data. It has also been noted that to ensure a balanced average, it is important to consider both positive (i.e. beneficial) and negative (i.e. adverse) ENID events. Following our review of ENID we were satisfied that sufficient allowance had already been made within our UK GAAP best estimate.

Unlike UK GAAP, Solvency II requires a cashflow view of premium provisions. Specifically this means that rather than reserving an unearned portion of the previous year's written premiums, we are required to look only at the cashflows which will result from those. For annual premiums where the whole premium had already been collected before the valuation date, there is no further positive premium cashflow. For those who pay monthly through our Flexible Payment Plan, NFUM will receive further premiums. The other part of the premium provision is the cashflow related to the expected claims and expenses on the unearned portion of those policies.

Solvency II asks firms to consider at the valuation date any future business which they may be obliged to accept even if they closed to business on 1st January. This includes both new business quotes and any issued renewals. Collectively these are referred to as Written but not Incepted ("WBNI") business. Within these components it is appropriate to allow for the level of strike rate on new business quotes and persistency on renewals. There is no UK GAAP equivalent, and within Solvency II this component can be referred to by a number of alternative names, including "tacit business" and "Bound but not Incepted" (BBNI) business.

Solvency II reserves are discounted. Currently the Group, NFUM and Avon Insurance (in common with the industry) only discount PPO claims in our UK GAAP Technical Provisions. For Solvency II claims provisions, all premium provisions and expense provisions are discounted. The discount rates are provided by EIOPA and are based on Swap Rates.

Solvency II requires firms to hold provisions for relevant expenses associated with managing the activity associated with the claims and premium cashflows. This includes, where relevant, investment management expenses, claims handling expenses and general administrative expenses.

Finally having arrived at a view of technical provisions for both premiums and claims, the Solvency II rules describe an explicit risk margin required to be held above best estimate. This margin is intended to cover the cost of capital that a third party would incur if they were to take on NFU Mutual's liabilities in the event of our firm closing. The risk margin must allow not just for the reserve risk, but also for the operational risks and credit risks which may come with the administration of our liabilities.

The following tables demonstrate the value of Technical provision between UK GAAP and Solvency II basis as at 31 December 2016 are listed below:

NFUM:

	£m
Claims Outstanding	1,876
Provision for Unearned Premium	635
Credits arising out of direct insurance operations	(26)
Reinsurers share of technical provisions	(161)
UK GAAP Technical Provisions (net of reinsurance)	**2,324**
Differences	
Release of prudence margins and addition of Solvency II Risk Margin (unaudited)	88
Treat premium debtor asset as a negative liability	(446)
Replace Unearned Premium Reserve and AURR with future cashflow based Premium Provisions (including WBNI)	33
Discounting of future cash flows	(43)
Other differences	2
Solvency II Technical Provisions (net of reinsurance)	**1,957**

Avon Insurance

	£m
UK GAAP Technical Provisions (net of reinsurance)	**4.4**
Differences	
Release of prudence margins and addition of Solvency II Risk Margin	2.1
Replace Unearned Premium Reserve and AURR with future cashflow based Premium Provisions (including WBNI)	(0.5)
Treatment of claims handling reserve and investment management expenses	(0.9)
Discounting of future cash-flows	-
Allowance for bad debt for reinsurance recoveries	0.1
Solvency II Technical Provisions (net of reinsurance)	**5.2**

D.2.c.(*2*) Comparison of Technical Provisions Valuation Methods, Bases, Assumptions and Values for Solvency Purposes UK GAAP– Life (NFUM)

D.2.c.i Solvency II vs Statutory Accounts

As at year end 2016 the technical provisions used for UK GAAP reporting in the statutory accounts are based on Solvency 1 realistic peak liabilities. The resulting differences between the statutory accounts and Solvency II technical provisions and associated assets are therefore as follows:

NFUM:

	£m
Statutory Accounts	
Technical Provisions net of reinsurance	8120
Present Value of Future Profits	(152)
Deferred Acquisition Cost	(28)
Technical Provisions net of associated assets	**7940**
Margins for prudence	(76)
PVFP differences	(72)
Surplus distribution	(23)
Risk free interest rates	77
Contract boundaries	59
Risk Margin (unaudited)	340
Transitional Measures on Technical Provisions (unaudited)	(420)
Solvency II	
Technical Provisions net of reinsurance	**7823**

Further detail on these elements of difference are given in the following passages.

- Bases / Methods
    - Non-profit and Unit-linked business – margins for prudence

The statutory accounts technical provisions for non-profit and unit-linked business are set as Pillar 1 statutory peak reserves under Solvency I, with a corresponding present value of future profits asset which allows for the release of some of the prudence margins from these reserves. The Solvency II technical provisions for non-profit and unit-linked business are set as best estimate reserves. The key difference on a net basis is that some margins for prudence remain under the statutory accounts basis, whereas no such margins remain on a Solvency II basis.
The overall impact of these margins for prudence was a £76m reduction in technical provisions under Solvency II, compared to the statutory accounts.

- Investment business – PVFP differences

Under the Solvency II technical provisions a present value of future profits asset is calculated for both non-profit and unit-linked business. In the statutory accounts the present value of future profits asset is not allowed on investment business (primarily unit linked business). Instead on investment business a deferred acquisition cost asset is calculated and the non-unit reserve component of the technical provision is removed. This difference led to a £72m reduction in technical provisions under Solvency II, compared to the statutory accounts.

- With-profits business – surplus distribution

Within the statutory accounts we reserve for excess surplus which is to be distributed to policyholders over the twelve months following the valuation date. However, under Solvency II, future distributions of this type may not be reserved for in advance of the distribution being made. As a result the impact of this was a £23m reduction in technical provisions under Solvency II compared to the statutory accounts.

- Assumptions
    - Risk Free Interest Rates

For the statutory accounts the risk-free curve is based on gilt yields with no adjustment, whereas for Solvency II the risk-free curve is based on swap yields less an adjustment for credit risk.

For Solvency II, firms may, with regulatory approval, use a volatility adjustment calculated by EIOPA which is added on to the risk-free curve. As at 2016 year end this was a 30bps uplift, which we used when calculating the technical provisions for all classes of business except, i) those for which we used a matching adjustment (see below) and ii) when calculating a present value of future profits on unitised business. For the statutory accounts no such adjustment was allowable.

For Solvency II firms may, with regulatory approval, use a matching adjustment on certain liabilities. This adjustment is calculated by the firm based on the yield on assets held within a separate notional ring fenced Matching Adjustment Fund. The Group, NFUM use a matching adjustment on level and fixed escalation pension in payment annuities. As at 2016 year end this was a 65bps uplift to the yield curve. For statutory accounts liabilities a liquidity margin was used when calculating the technical provisions on non-profit pension in payment annuities. As at 2016 year end this was a 35bps uplift to the yield curve.

The overall impact of these differences in risk free interest rates was a £77m increase in technical provisions under Solvency II compared to the statutory accounts.

- Contract Boundaries

Solvency II regulations deem the future premiums payable into our unit-linked funds to be 'outside the boundary of the contract', given that there is no significant compulsion for our policyholders to pay them. As a result we must replace our best-estimate premium cessation rates used for statutory accounts technical provisions with 100% premium cessation rates when calculating the unit-linked technical provisions on a Solvency II basis. The resulting impact is an increase in the technical provisions on unit linked business of £59m under Solvency II compared to the statutory accounts.

However, as noted in the PVFP differences section above, the present value of future profits on unit linked business is replaced by a deferred acquisition cost asset within the statutory accounts.

- Risk Margin (unaudited)

Under Solvency II the Risk Margin is the discounted cost of holding capital to back the non-hedgeable risks in the SCR, at the EIOPA cost of 6% per annum. This liability does not appear within the statutory accounts technical provisions. The overall impact of this difference was a £340m increase in technical provisions under Solvency II compared to the statutory accounts.

- Transitional Measure (unaudited)

For Solvency II firms may, with regulatory approval, apply a transitional measure to allow a smooth transition from the capital requirements under Solvency 1 to the capital requirements under Solvency II over a 16 year period.

We have applied the Transitional Measure on Technical Provisions to all of our pre-2016 business. This transitional measure is not relevant within the statutory accounts.

The overall impact of these differences was a £420m decrease in technical provisions under Solvency II compared to the statutory accounts.

D.2.d.(*1*) Matching Adjustment – General Insurance

For non-life we have not applied a matching adjustment.

D.2.d.(*2*) Matching Adjustment – Life

We use a matching adjustment on our in-force pension annuity business, excluding any annuities that have an inflation link or participate in profit. This liability includes the policies themselves plus the expenses associated with maintaining these policies over their expected future lifetime.

A ring-fenced portfolio of assets is maintained to support these liabilities. These assets are primarily sterling government and corporate bonds of a suitable duration to closely match the expected cashflows from the liabilities.

The impact of the matching adjustment reducing from 65 basis points at 31 December 2016 to nil would be an increase in technical provisions of £79m (unaudited). The impact of this change on the Solvency Capital Requirement would be an increase of £90m (unaudited), with no impact on the basic own funds or the amounts of own funds eligible to cover the Minimum Capital Requirement and the Solvency Capital Requirement. There would be an impact on the Minimum Capital Requirement of a £23m (unaudited) increase.

D.2.e.(*1*) Volatility Adjustment – General Insurance (NFUM, Avon Insurance)

For non-life we have not applied a volatility adjustment.

D.2.e.(*2*) Volatility Adjustment – Life (NFUM)

We use a volatility adjustment on all of our in force liabilities, except those where we use a matching adjustment and when calculating a present value of future profits on unitised business.

Our latest analysis at 31 December 2016 shows the impact on technical provisions and eligible own funds of changing the volatility adjustment to zero is £82m (unaudited).

The impact of this change on the Solvency Capital Requirement would be an increase of £42m (unaudited), with no impact on the basic own funds or the amounts of own funds eligible to cover the Minimum Capital Requirement and the Solvency Capital Requirement. There would be an impact on the Minimum Capital Requirement of an £11m (unaudited) increase.

D.2.f. Transitional risk-free interest rate term structure

The transitional risk-free interest rate term structure is not being applied for either General Insurance or Life business.

D.2.g.(*1*) Transitional Deduction – General Insurance (NFUM, Avon Insurance)

Avon Insurance

For General Insurance we have not applied a transitional deduction.

D.2.g.(*2*) Transitional Deduction – Life (NFUM) (unaudited)

We have used the transitional deduction referred to Article 308d of Directive 2009/138/EC. The impact on the financial position of not applying this transitional measure on technical provisions is a £420m increase in life technical provisions, with a resulting reduction in basic own funds of £154m. The impact of this change on the Solvency Capital Requirement is nil, with the impact on the Minimum Capital Requirement also being nil. The amounts of own funds eligible to cover the Minimum Capital Requirement and the Solvency Capital Requirement are reduced by £154m, in line with the basic own funds.

D.2.h.(*1*) Reinsurance Recoverables – General Insurance (NFUM, Avon Insurance)

We calculate the value of reinsured liabilities based on the existing reinsurance arrangements at the valuation date. Details of our methods are provided in our response to section D2.a above.

Special purpose vehicles:
We do not use special purpose vehicles.

D.2.h(*2*) Reinsurance Recoverables – Life (NFUM)

Reinsurance contracts:
We calculate the value of reinsured liabilities based on the existing reinsurance arrangements at the valuation date. In April 2016 we closed our treaty with Scor Re to new business when we stopped writing new protection business - there have been no other changes to existing reinsurance arrangements .

We calculate the value of reinsured liabilities using methods and assumptions similar to those used to calculate the gross of reinsurance liabilities. The only exception is in respect of income protection business which is fully reinsured with the reinsurer and for which the liabilities are taken to be the liability values calculated by the reinsurer.

We reduce the value of all reinsured liabilities to allow for the risk of reinsurer default when calculating the value of best estimate liabilities net of reinsurance.

Special purpose vehicles:
We do not use special purpose vehicles

D.2.i. (*1*) Material Changes in Assumptions used for Technical Provisions – General Insurance (NFUM, Avon Insurance)

All material changes in relevant assumptions made in the calculation of technical provisions compared to the previous reporting period are disclosed in D.2.a.

D.2.i.(*2*) Material Changes in Assumptions used for Technical Provisions – Life (NFUM)

All material changes in relevant assumptions made in the calculation of technical provisions compared to the previous reporting period are disclosed in D.2.a.

D.3. Other Liabilities

D.3.a. Other Liabilities Valuation Methods, Bases, Assumptions and Values

- Financial Liabilities

The amounts owed by the Group to credit institutions as at 31 December 2016 amounted to £39.5m representing amounts utilised by the SHP Opportunity Fund supporting property fund purchases (£28.5m) and an amount which is offset against monies held at the same credit institutions (£11.0m). These financial liabilities are valued at the total amount outstanding without discounting or taking into account with firms own credit risk.

Avon Insurance plc has no significant financial liabilities as at 31 December 2016.

- Leases

The Group and Avon Insurance plc had no material finance or operating lease arrangements during the period.

- Deferred Tax Liabilities

NFUM has recognised deferred tax liabilities of £221m arising predominately from the unrealised gains on investments as disclosed in the NFUM Report & Accounts, adjusted for the tax effect of the increase in technical provisions under Solvency II.

Avon Insurance plc has no significant deferred tax liabilities as at 31 December 2016.

- Employee Benefits

The Group has recognised as a liability the NFUM's Defined Benefit Scheme's deficit of £20.0m (£15.9m net of deferred tax) as at 31 December 2016. For the NFUM the scheme deficit is recognised in a subsidiary which is then reflected in NFUM through its reported value of investments in subsidiary undertakings. The Solvency II valuation is consistent with the value under UK GAAP. Further information can be found in the NFUM Report and Accounts, Note 28.

Avon Insurance plc had no significant employee benefits liabilities as at 31 December 2016.

- Other Liabilities

NFUM

These are short term amounts predominantly reflecting tax and property creditors for expenses already incurred or committed to by NFU Mutual. These values are already well defined in terms of their initial recognition under UK GAAP (consistent with IFRS) and will all fall due within 12 months. In view of the short term nature of these liabilities, it is deemed that no reassessment of likelihood of payment is warranted, and no discounting effect should be applied. As at 31 December 2016 these amounted to £294m (of which £199m represented Taxation payments in respect of 2016 payable in 2017).

The value of these liabilities is the same on both a Solvency II and UK GAAP (FRS102/103) basis.

Avon Insurance plc has no significant other liabilities as at 31 December 2016.

Other Liabilities predominately constitutes amounts owed to other group undertaking of £10.4m (2015 £26.0m), the value of Other Liabilities is the same on both Solvency II and UK GAAP (FRS102/103). Further information can be found in the Avon Insurance's statutory accounts page 9.

D.3.b. Comparison of Other Liabilities Valuation Methods, Bases, Assumptions and Values for Solvency Purposes

The valuation base for all non-technical provision liabilities is the UK GAAP valuation contained within the Statutory Accounts, subsequently adjusted (if relevant) according to the published Implementing Technical Standards of Solvency II.

The firm does not adopt any additional or alternative Valuation Methods for any of its major asset or liability classes, and has adopted the optional elements of UK GAAP that bring its valuations in line with those contained in IFRS as such there are no material differences between Solvency II and UK GAAP/IFRS valuations.

D.4. Alternative Methods for Valuation

D.4.a. Alternative Methods for Valuation

The valuation base for all classes of assets and liabilities is consistent with the UK GAAP valuation as disclosed within the Statutory Accounts, subsequently adjusted according to the published Implementing Technical Standards of Solvency II.

Alternative valuation methods have been adopted for investment property where there is no readily available market value. For these assets an external firm of independent chartered surveyors has been used to value the assets on an open market value taking into consideration any uncertainty in economic conditions, experience of similar valuations and on the assumption that the property could be disposed of with vacant possession, further details of which can be found in NFUM Report & Accounts Note 17. Valuations as at 31 December 2016 are Group £1,906m and NFUM £1,317m. Further details can be found in NFUM Report & Accounts Note 17. Avon Insurance does not use any alternative valuation methods for its assets and liabilities.

D.5. Any Other disclosures

D.5.a. Other Material Information

There are no material differences between the valuation basis, methods and assumptions applied at the Group level and those applied at the solo level except for the treatment of the solo's minority interest in Salmon Harvester Properties Ltd which is required to be shown at the consolidated Group level under Solvency II.

The Group, NFUM or Avon Insurance do not have any significant contingent liabilities as at 31 December 2016 and there have been no significant subsequent events since that date.

E. CAPITAL MANAGEMENT

E.1. Own Funds

E.1.a. Objectives, Policies and Processes for Managing Own Funds and Material Changes over the Reporting Period

The Group and NFU Mutual

The Own Funds of the Group solely comprise the excess of Assets over Liabilities (net of any intra group transactions) represented by its accumulated retained profits.

The Group and NFUM has an established business objective of "Sustainable profitable growth" at the cornerstone of which is a long-term specific General Business target of a 98% Combined Operating Ratio within its Underwriting Result, and this forms an integral part of its business planning. The firm operates short, medium and long term plans over 1, 3 and 5 years respectively.
To support the protection of existing Own Funds, the firm has established processes and policies in specific areas such as Investment Strategy and Risk Management.

The NFUM Board sets a Group level risk appetite which is based on the Solvency II Group balance sheet. The target range is set based on the Solvency II Coverage ratio at Group level (i.e. the ratio of Group Eligible Own Funds to the Solvency II Capital Requirement). The position against risk appetite is regularly monitored at risk committees and reported in the monthly Board pack. If the Group moves outside of its target range for risk appetite then the relevant committees are informed and appropriate strategies are agreed to return the fund to the target range. For example, should the Group fall below its target range then strategies to improve the solvency position of the Group could include investment re-allocations such as selling high risk assets and investing the proceeds in assets of lower risk.

Beyond the movement in Own Funds relating to the increase driven by retained profits, there have been no material changes to Own Funds in the period.

Avon Insurance

The business objectives for Avon Insurance plc are aligned to those of the Group, to support the protection of its Own Funds the firm takes advantage of the established processes and policies of the Group in specific areas such as Investment Strategy and Risk Management. Other than the decapitalisation and repatriation of two of its non-trading subsidiaries capital, there have been no material changes to its Own Funds in the period.

E.1.b. Structure, Amount and Quality of Own Funds by Tier and Analysis of Change over the Reporting Period

The Group and NFUM

The Own Funds solely comprise the excess of Assets over Liabilities represented by its accumulated retained profits, and as such are all designated Tier One funds. The Group has no capital instruments in issue at the end of the period.
Own funds, being solely retained profits and reserves, are all denominated in pounds sterling (GBP) though the underlying assets and liabilities may, in some cases, be expressed in other major currencies and are therefore valued at the exchange rates in force at the end of the period.

Below illustrates the items reflecting the different valuation basis, methodology and assumption used in arriving at the value of Own Funds for Solvency II when compared to the value of Equity as reported under UK GAAP (FRS102/103). There is no significant difference between the Group and NFUM figures.

	Group £m	NFUM £m	Avon £m
Equity, UK GAAP (FRS102/103)	**6,691**	**6,750**	**32.3**
Change in Life Technical Provisions	297	297	-
Change in GI Technical Provisions	367	367	(0.8)
Premium debtors (included with Technical Provisions)	(444)	(444)	-
Deferred Acquisition Costs (DAC)	(114)	(114)	-
Excess Ring Fenced Funds (in excess of Life SCR) (unaudited)	(266)	(266)	-
Present Value of Future Profits (PVFP)	(152)	(152)	-
Removal of fair value of subsidiaries	-	(62)	-
Other (ie Deferred Tax)	30	30	0.2
Own Funds, Solvency II	**6,409**	**6,406**	**31.7**

Beyond the movement in Own Funds relating to the increase driven by retained profits, there have been no material changes to Own Funds in the period.

To the extent that retained profits exist within the subsidiary companies in the Group, these Own Funds accrue to those companies, but given the nature of the underlying assets and liabilities, and the wholly owned nature of those subsidiaries, the transferability of those Own Funds (in excess of capital requirements where applicable) is not considered to be in doubt.

Avon Insurance

The Own Funds of the Avon Insurance plc solely comprise the excess of Assets over Liabilities represented by its accumulated retained profits and its issued ordinary share capital of £20m is designated Tier One funds (any dividends declared can be cancelled at any point prior to a payment). The firm has no capital instruments other than its share capital in issue at the end of the period.

E.1.c. Own Funds covering the Solvency Capital Requirement by Tier

The Group and NFUM

The Group's and NFUM's Eligible Own Funds to SCR ratio at the end of the period is 181%. This reflects a significant excess over the SCR requirement and reinforces the Groups intention that it retain significant capital above the SCR requirement to enable business to continue without significant disruption in the event of the occurrence of a significant capital stress.

All of the Group's Own Funds are considered available to meet its SCR since they reflect unrestricted Tier One Capital. Furthermore, the Group remains subject to a capital restriction reflecting an excess of capital above the requirement within its Ring-Fenced funds which may provide further cover in the event of a capital stress within those funds.

The Group is headed by a regulated Insurance Company which calculates its SCR via the use of an Internal Model, and incorporates risk modelling for its regulated subsidiaries on a look-through basis within its own calculation. As such, this ensures that all risks are captured at the consolidated level, and the double use of eligible own funds is avoided.

Avon Insurance

Avon Insurance plc Eligible Own Funds to SCR ratio at the end of the period is 381%. This reflects a significant excess over the SCR requirement and reinforces the firms intention that it retain significant capital above the SCR requirement to enable business to continue without significant disruption in the event of the occurrence of a significant capital stress.

E.1.d. Own Funds Covering the Minimum Capital Requirement by Tier

Group and NFUM

All of the Group's Own Funds are considered available to meet its MCR since they reflect unrestricted Tier One Capital. Furthermore, the Group remains subject to a capital restriction reflecting an excess of capital above the requirement within its Ring-Fenced funds which may provide further cover in the event of a capital stress within those funds.

Avon Insurance

All of Avon Insurance plc's Own Funds are considered available to meet its MCR since they reflect unrestricted Tier One Capital.

E.1.e. Analysis of Differences between Own Funds and Net Assets on a Financial Reporting Basis

Group and NFUM

Being a Company Limited by Guarantee, the Firm and Group have no equity instruments in issue. The only changes from Statutory Financial Statements therefore relate to the valuation changes as a result of Solvency II rules, and are all contained within the Reconciliation Reserve.

The major element of the Reconciliation Reserve within the Group and NFUM is the accumulated valuation differences between Solvency II and Statutory Accounting values.

These include both those items whereby SII calls for no value to be carried (eg. Deferred Acquisition costs) and, more significantly, those significant changes incurred as a result of the different methods of calculating Technical Provisions. On a Statutory Accounting basis the Group carries Technical Provisions at a level in excess of that called for by Solvency II due, in most part, to its prudent reserving. This largely reflects the fact that to carry increased Reserving Risk (via lower case estimates) and to potentially have to call for further capital from members in the event of under-reserving would be unwelcome as a Mutual Insurer.

This change in valuations is subsequently reduced by the calculation for Deferred Tax that would be payable on the 'profit' potentially released by this reduced Technical Provision.

Avon Insurance

Other than those shown in the table E.1.b. there are no valuation differences in respect of Avon Insurance plc's Own Funds and its reports Net Assets in its Financial Report and Accounts.

E.1.f. Nature and Amount of Basic Own funds subject to Transitional Arrangements

The Group, NFUM and Avon Insurance plc have no Own Funds that are affected by transitional arrangements.

E.1.g. Nature and Amount of each Material Item of Ancillary Own Funds

The Group, NFUM and Avon Insurance plc have no Ancillary Own Funds.

E.1.h. Deductions from and Restrictions on Availability and Transferability of Own Funds

At Group, NFUM and Avon Insurance plc levels there are no reported material Own Funds items that suffer from a lack of fungibility or transferability.

The Group and NFU Mutual

The Own Funds reported at Group level reflect the amount remaining following a deduction for Own funds held in the Ring-Fenced Fund (Life Division) in excess of it's own SCR. The Ring – Fenced Fund covers the whole of the Life business due to the inclusion With-Profits business that is not ring – fenced from other Life Business.

The total excess of Assets over Liabilities in the Ring-Fenced Fund is approximately £1,229m of which £266m is subsequently deducted as being in excess of the SCR of the fund. The Group Own Funds have been determinated net of inter group transactions. There are no items within Own Funds which represent amounts not issued by the Parent.

E.2. Solvency Capital Requirement (SCR) and Minimum Capital Requirement (MCR)

E.2.a. Amount of the SCR and MCR

Group and NFUM (unaudited)

The NFUM uses the deduction and aggregation method to calculate the Group's SCR. The Solvency Capital Requirement for the Group at 31 December 2016 has been assessed as £3,544m and that of the solo Solvency Capital Requirement NFUM as at 31 December 2016 as £3,544m. This is calculated via the Internal Model with the exception of Operational Risk where the standard formula is used.

The method used to incorporate Group Undertakings is shown in QRT templates S32.01.22.

Avon Insurance

The Solvency Capital Requirement for the subsidiary company Avon Insurance (calculated on the standard formula) is £8m.

The Minimum Capital Requirements for the Group, NFUM and Avon Insurance are shown in the QRT templates SCR – S.25.2.21 and MCR – S.28.02.01 attached to this document.

The Solvency II regulation describes two methods for the calculation of Group SCR figures. These are:

- Method 1 – Accounting Consolidation-Based Method.
- Method 2 – Deduction and Aggregation Method.

In the context of the definitions above, the Group calculation method is a consolidated accounting (method 1).

NFUM does not currently claim any diversification benefit between the Life and General Insurance Funds. This diversification benefit exists, however, NFUM does not currently have the capability to justify this benefit to the standards required under Solvency II. This is a known limitation of the current Group SCR calculation but is an area that NFUM may revisit in the future.

Given the wide variety of risk exposures of the Group then substantial diversification benefits exist and are allowed for in the capital calculation. The amount of diversification benefit between risk categories is shown in the QRT template S.25.2.22 attached (unaudited)to this document.

E.2.b. SCR split by Risk Category

For the Group, NFUM and Avon Insurance this is shown in the QRT templates S.25.2.22 (unaudited), S.25.2.21 (unaudited) and S.25.1.21 (audited) attached to this document.

E.2.c. Use of Simplified Calculations within the Standard Formula

For the Group, NFUM and Avon Insurance those components of the Solvency Capital Requirement where the standard formula is used, the companies do not use simplified calculations.

E.2.d. Use of Undertaking Specific Parameters within the Standard Formula

The Group, NFUM and Avon Insurance do not use undertaking-specific parameters to calculate the standard formula elements of the Solvency Capital Requirement.

E.2.e. Statement on the use of the Supervisor's Option not to Disclose Capital Add On

Not applicable in respect of the Group, NFUM and Avon Insurance

E.2.f. Amount of and Justification for any Capital Add On Applied by the Supervisor

Not applicable in respect of the Group, NFUM and Avon Insurance

E.2.g. Inputs used to calculate the MCR

Group, NFUM and Avon Insurance

The Group calculates the Minimum Capital Requirement (MCR) as a linear function of technical provisions and the capital at risk. The technical provisions and the capital at risk are the balance sheet values at the calculation date.

The technical provisions used to calculate the MCR exclude the risk margin, are after deduction of the amounts recoverable from reinsurance contracts and are subject to a floor of zero. The MCR is subject to a cap and a floor, both of which are expressed as percentages of the Solvency

Capital Requirement (SCR) at the valuation date. The percentages of the SCR which we use are the values stipulated in the Solvency II regulations.

The MCR is also subject to an absolute floor expressed in monetary terms, and for this we use the monetary value stipulated in the Solvency II regulations. As the monetary amount is expressed in euros, we convert it to pounds sterling using bid exchange rates.

E.2.h. Analysis of Material Changes in SCR and MCR

The Group and NFUM

Solvency Capital Requirement (unaudited)
At the Group and NFUM level the Solvency Capital Requirement has significantly increased over the reporting period. The main reason is the higher asset values at the reporting date due to positive investment performance. These higher asset values give rise to a higher capital requirement for Market Risk.

Minimum Capital Requirement
The Minimum Capital Requirement also increased over the reporting period. The Minimum Capital Requirement is currently restricted to 25% of the Solvency Capital Requirement. As a result the Minimum Capital Requirement increased for the reasons described for the Solvency Capital Requirement above.

Avon Insurance

In respect of Avon Insurance plc the Solvency Capital Requirement has reduced over the reporting period following the payment of dividend to its parent company.

The Minimum Capital Requirement is also subject to an absolute floor expressed in monetary terms, and for this we use the monetary value stipulated in the Solvency II regulations. As the monetary amount is expressed in euros, we convert it to pounds sterling using bid exchange rates.

E.3. Use of a Duration Based Equity Risk Sub-Module in Calculating SCR

E.3.a. Is a Duration-Based Equity Risk Sub-Module being used? (Group and NFUM: unaudited)

The Group and NFUM and Avon Insurance do not use the duration-based equity risk sub-module for the calculation of their Solvency Capital Requirement.

E.3.b. Resulting SCR for the Duration-Based Equity Risk Sub-Module (Group and NFUM: unaudited)

The Group, NFUM and Avon Insurance do not use the duration-based equity risk sub-module for the calculation of their Solvency Capital Requirement.

E.4. Internal Model Details (unaudited)

The Group and NFUM use an Internal Model. Avon Insurance uses the Standard Model.

E.4.a. Use of the Internal Model

The Group and NFUM uses its Internal Model for the following purposes:

- Calculation of the SCR for reporting under Solvency II.
- The capital risk appetite at Group and Life Fund levels are based on the Solvency II balance sheet and hence rely on Internal Model output.
- Internal Model output is used to allocate capital for pricing purposes.
- The Internal Model is used to produce much of the content of the Own Risk and Solvency Assessment (ORSA) reporting including the ranking of our most material risks.

The Group and NFUM maintains business continuity plans to ensure that the Internal Model remains effective in the event of disruptive events, and internal and external changes.

E.4.b. Scope of the Internal Model by Business Units and Risk Categories

The Standard Formula is a "one size fits all" approach, and consequently it does not accurately represent NFU Mutual's risk exposure and therefore capital requirement. As a result the Group and NFUM uses a Partial Internal Model;

The main differences between the Group and NFUM Partial Internal Model and the Solvency II Standard Formula are:

- The Standard Formula does not explicitly allow for the cost of guarantees associated with NFU Mutual's with-profits business. This is allowed for in the Internal Model such as via allowance for Equity Volatility Risk as described in section C2.a.i.
- The Standard Formula does not allow for the specific reserving exposures of the Group and NFUM, for example those relating to exposure to the farming market. These exposures are modelled within the Partial Internal Model.

Avon Insurance
Avon Insurance is assessed via Standard Formula given the low materiality of its capital requirement in comparison to the Group as a whole.

E.4.c. Integration of the Partial Internal Model into the Standard Formula

The Group and NFUM only

The capital requirement for those risks calculated using the Internal Model is added to the capital requirements for the components calculated via Standard Formula (Operational Risk and Avon Insurance). As a result of this method no allowance for diversification benefit is taken between the Internal Model and Standard Formula components.

E.4.d. Methodology for the Calculation of the Probability Distribution Forecast and the SCR

The Group and NFUM only

The Group and NFUM calculates a notional SCR for the Life Fund. A further notional SCR is calculated for the General Insurance Fund. The Group and NFUM SCR is calculated by adding together these two notional SCRs. The same approach is used to calculate other outcomes on the probability distribution forecast when required.

E.4.e. Methodology and Assumption Differences between the Internal Model and the Standard Formula

The Group and NFUM only

For Group and NFUM Solvency II Capital Requirements are higher under the Internal Model than on the Solvency II Standard Formula.

Market Risk is higher under the Internal Model. A key reason is the additional risks faced by the Group and NFUM which are not covered by the Standard Formula. An example of these risks is Equity Volatility Risk which is caused by the long term guarantees on with-profits business.

Underwriting Risk is also higher under the Internal Model. A major reason for this is that the Standard Formula does not allow for the specific reserve exposures of NFU Mutual.

Diversification between risk categories is higher under the Internal Model. To a large extent this is a consequence of the greater capital requirements on Market and Underwriting Risk. Given these risks are larger under the Internal Model then there is more scope for diversification benefit between them. Part of the difference also arises due to difference in assumptions between the Internal Model and the Standard Formula. For example a higher level of diversification is appropriate on the Group and NFUM Partial Internal Model than is used in the Solvency II Standard Formula.

E.4.f. Risk Measure and Time Period used in the Internal Model

The Group and NFUM only

The risk measure and time period used in the Internal Model are the same as those set out in Article 101(3) of Directive 2009/138/EC.

E.4.g. Nature and Appropriateness of the Data used by the Internal Model

The Group and NFUM only

A large amount of data is required to calculate the Group and NFUM Solvency Capital Requirement. Data is required both to determine the risks to which the Group and NFUM is exposed over the SCR period and to inform the assumptions and judgements needed to model the capital required against these risks. The data used is from a variety of sources, both internal and external.

Solvency II requires that all data used in the Internal Model adheres to certain quality standards, based on the criteria of accuracy, completeness and appropriateness. These standards are set out in the NFUM Data Quality Policy.

NFUM maintains a directory of all data used in the Internal Model, specifying the source, characteristics and usage. Any deficiencies in the data or uncertainties over the quality of the data used are included in the data deficiency log. Such deficiencies and uncertainties are taken into account in the assumption setting and expert judgement process.

E.5. Non-Compliance with the MCR and Significant non-Compliance with the SCR

E.5.a. Maximum Amount, Period, Origin, Consequences and Remedial Action for any Non-Compliance with the MCR during the Reporting Period

Over the reporting period own funds for the Group, NFUM and Avon Insurance exceeded the Minimum Capital Requirement at all times.

E.5.b. Amount of Non-Compliance with the MCR at the Reporting Date

The Group, NFUM and Avon Insurance own funds exceeded their respective Minimum Capital Requirement at the reporting date.

E.5.c. Maximum Amount, Period, Origin, Consequences and Remedial Action for any Significant Non-Compliance with the SCR during the Reporting Period

Over the reporting period own funds for the Group, NFUM and Avon Insurance exceeded their respective Solvency Capital Requirement at all times.

E.5.d. Amount of Significant Non-Compliance with the SCR at the Reporting Date

The Group, NFUM and Avon Insurance own funds exceeded their respective Solvency Capital Requirement at the reporting date.

E.6. Any Other Disclosures

E.6.a. Other Disclosures

None

The National Farmers Union Mutual Insurance Society Group

Solvency and Financial Condition Report

Disclosures

31 December

2016

(Monetary amounts in GBP thousands)

General information

Participating undertaking name	The National Farmers Union Mutual Insurance Society Group
Group identification code	2138007R6SO8SJRB9Z36
Type of code of group	LEI
Country of the group supervisor	GB
Language of reporting	en
Reporting reference date	31 December 2016
Currency used for reporting	GBP
Accounting standards	The group is using local GAAP (other than IFRS)
Method of Calculation of the group SCR	Partial internal model
Method of group solvency calculation	Method 1 is used exclusively
Matching adjustment	Use of matching adjustment
Volatility adjustment	No use of volatility adjustment
Transitional measure on the risk-free interest rate	No use of transitional measure on the risk-free interest rate
Transitional measure on technical provisions	Use of transitional measure on technical provisions

List of reported templates

S.02.01.02 - Balance sheet
S.05.01.02 - Premiums, claims and expenses by line of business
S.05.01.02 - Premiums, claims and expenses by line of business
S.05.02.01 - Premiums, claims and expenses by country
S.05.02.01 - Premiums, claims and expenses by country
S.22.01.22 - Impact of long term guarantees measures and transitionals
S.23.01.22 - Own Funds
S.25.02.22 - Solvency Capital Requirement - for groups using the standard formula and partial internal model
S.25.02.22 - Solvency Capital Requirement - for groups using the standard formula and partial internal model
S.32.01.22 - Undertakings in the scope of the group

S.02.01.02

Balance sheet

		Solvency II value
	Assets	C0010
R0030	Intangible assets	0
R0040	Deferred tax assets	221
R0050	Pension benefit surplus	0
R0060	Property, plant & equipment held for own use	86,065
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	13,970,700
R0080	*Property (other than for own use)*	1,905,987
R0090	*Holdings in related undertakings, including participations*	9,114
R0100	*Equities*	6,513,757
R0110	*Equities - listed*	6,511,527
R0120	*Equities - unlisted*	2,230
R0130	*Bonds*	4,215,416
R0140	*Government Bonds*	2,758,105
R0150	*Corporate Bonds*	1,353,089
R0160	*Structured notes*	10,338
R0170	*Collateralised securities*	93,884
R0180	*Collective Investments Undertakings*	399,327
R0190	*Derivatives*	
R0200	*Deposits other than cash equivalents*	927,100
R0210	*Other investments*	0
R0220	Assets held for index-linked and unit-linked contracts	2,878,342
R0230	Loans and mortgages	1,529
R0240	*Loans on policies*	0
R0250	*Loans and mortgages to individuals*	503
R0260	*Other loans and mortgages*	1,027
R0270	Reinsurance recoverables from:	141,085
R0280	*Non-life and health similar to non-life*	59,472
R0290	*Non-life excluding health*	58,888
R0300	*Health similar to non-life*	585
R0310	*Life and health similar to life, excluding index-linked and unit-linked*	81,613
R0320	*Health similar to life*	4,316
R0330	*Life excluding health and index-linked and unit-linked*	77,297
R0340	*Life index-linked and unit-linked*	0
R0350	Deposits to cedants	0
R0360	Insurance and intermediaries receivables	8,574
R0370	Reinsurance receivables	4,389
R0380	Receivables (trade, not insurance)	24,867
R0390	Own shares (held directly)	0
R0400	Amounts due in respect of own fund items or initial fund called up but not yet paid in	0
R0410	Cash and cash equivalents	225,093
R0420	Any other assets, not elsewhere shown	49,050
R0500	**Total assets**	17,389,914

S.02.01.02

Balance sheet

		Solvency II value
	Liabilities	C0010
R0510	Technical provisions - non-life	1,971,283
R0520	*Technical provisions - non-life (excluding health)*	1,963,692
R0530	*TP calculated as a whole*	148
R0540	*Best Estimate*	1,637,331
R0550	*Risk margin*	326,213
R0560	*Technical provisions - health (similar to non-life)*	7,591
R0570	*TP calculated as a whole*	0
R0580	*Best Estimate*	7,119
R0590	*Risk margin*	472
R0600	Technical provisions - life (excluding index-linked and unit-linked)	5,187,660
R0610	*Technical provisions - health (similar to life)*	9,180
R0620	*TP calculated as a whole*	0
R0630	*Best Estimate*	10,863
R0640	*Risk margin*	-1,683
R0650	*Technical provisions - life (excluding health and index-linked and unit-linked)*	5,178,480
R0660	*TP calculated as a whole*	0
R0670	*Best Estimate*	5,093,728
R0680	*Risk margin*	84,752
R0690	Technical provisions - index-linked and unit-linked	2,768,098
R0700	*TP calculated as a whole*	0
R0710	*Best Estimate*	2,757,143
R0720	*Risk margin*	10,956
R0740	Contingent liabilities	0
R0750	Provisions other than technical provisions	32,961
R0760	Pension benefit obligations	15,920
R0770	Deposits from reinsurers	0
R0780	Deferred tax liabilities	220,754
R0790	Derivatives	0
R0800	Debts owed to credit institutions	39,565
R0810	Financial liabilities other than debts owed to credit institutions	1,157
R0820	Insurance & intermediaries payables	9,541
R0830	Reinsurance payables	13,861
R0840	Payables (trade, not insurance)	54,016
R0850	Subordinated liabilities	0
R0860	*Subordinated liabilities not in BOF*	0
R0870	*Subordinated liabilities in BOF*	0
R0880	Any other liabilities, not elsewhere shown	294,421
R0900	**Total liabilities**	10,609,238
R1000	**Excess of assets over liabilities**	6,780,676

S.05.01.02

Premiums, claims and expenses by line of business

Non-life

		Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)												Line of business for: accepted non-proportional reinsurance				Total
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Misc. financial loss	Health	Casualty	Marine, aviation and transport	Property	
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0200
	Premiums written																	
R0110	Gross - Direct Business	0	41,487	0	264,752	255,037	4,705	514,498	192,557	0	11,551	933	33,322					1,318,842
R0120	Gross - Proportional reinsurance accepted																	0
R0130	Gross - Non-proportional reinsurance accepted																	0
R0140	Reinsurers' share	0	9,850	0	10,068	9,463	31	43,987	9,111	0	3,598	0	2,583					88,691
R0200	Net	0	31,637	0	254,684	245,574	4,674	470,511	183,446	0	7,953	933	30,739					1,230,151
	Premiums earned																	
R0210	Gross - Direct Business	0	41,811	0	263,890	254,316	4,792	514,558	190,280	0	10,857	931	33,395					1,314,830
R0220	Gross - Proportional reinsurance accepted																	0
R0230	Gross - Non-proportional reinsurance accepted																	0
R0240	Reinsurers' share	0	9,892	0	10,068	9,463	31	43,690	9,115	0	3,598	0	2,583					88,440
R0300	Net	0	31,919	0	253,822	244,853	4,761	470,868	181,165	0	7,260	931	30,812					1,226,390
	Claims incurred																	
R0310	Gross - Direct Business	0	13,045	0	188,827	154,166	2,381	313,477	168,108	0	-34	-7,961	19,117					851,127
R0320	Gross - Proportional reinsurance accepted																	0
R0330	Gross - Non-proportional reinsurance accepted																	0
R0340	Reinsurers' share	0	978	0	8,544	-554	0	331	2,757	0	0	0	0					12,056
R0400	Net	0	12,067	0	180,283	154,721	2,381	313,146	165,351	0	-34	-7,961	19,117					839,071
	Changes in other technical provisions																	
R0410	Gross - Direct Business	0	1	0	-5,384	-1,005	24	-63,084	-11,358	0	0	0	466					-80,340
R0420	Gross - Proportional reinsurance accepted																	0
R0430	Gross - Non-proportional reinsurance accepted																	0
R0440	Reinsurers' share	0	0	0	0	0	0	0	0	0	0	0	0					0
R0500	Net	0	1	0	-5,384	-1,005	24	-63,084	-11,358	0	0	0	466					-80,340
R0550	**Expenses incurred**	0	11,570	0	76,077	87,217	8,181	115,038	64,418	0	1,230	979	12,495					377,204
R1200	**Other expenses**																	-1,131
R1300	**Total expenses**																	376,073

S.05.01.02

Premiums, claims and expenses by line of business

Life

		Line of Business for: life insurance obligations						Life reinsurance obligations		Total
		Health insurance	Insurance with profit participation	Index-linked and unit-linked insurance	Other life insurance	Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance obligations	Health reinsurance	Life reinsurance	
		C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0300
	Premiums written									
R1410	Gross	2,658	210,634	210,321	6,668		0	0	0	430,281
R1420	Reinsurers' share	815	1,779	0	3,325		0	0	0	5,919
R1500	Net	1,844	208,855	210,321	3,343		0	0	0	424,362
	Premiums earned									
R1510	Gross	2,658	210,634	210,321	6,668		0	0	0	430,281
R1520	Reinsurers' share	815	1,779	0	3,325		0	0	0	5,919
R1600	Net	1,844	208,855	210,321	3,343		0	0	0	424,362
	Claims incurred									
R1610	Gross	4,400	218,532	208,989	75,528		-211	0	0	507,238
R1620	Reinsurers' share	759	1,826	0	2,915		841	0	0	6,342
R1700	Net	3,641	216,706	208,989	72,612		-1,052	0	0	500,897
	Changes in other technical provisions									
R1710	Gross	4,091	470,263	365,169	108,210		0	0	0	947,733
R1720	Reinsurers' share	833	0	0	12,289		0	0	0	13,122
R1800	Net	3,258	470,263	365,169	95,921		0	0	0	934,611
R1900	**Expenses incurred**	0	15,626	42,730	0		0	0	0	58,356
R2500	**Other expenses**									0
R2600	**Total expenses**									58,356

S.05.02.01

Premiums, claims and expenses by country

Non-life

		C0010	C0020	C0030	C0040	C0050	C0060	C0070
		Home Country	Top 5 countries (by amount of gross premiums written) - non-life obligations			Top 5 countries (by amount of gross premiums written) - non-life obligations		Total Top 5 and home country
R0010								
		C0080	C0090	C0100	C0110	C0120	C0130	C0140
	Premiums written							
R0110	Gross - Direct Business	1,318,842						1,318,842
R0120	Gross - Proportional reinsurance accepted	0						0
R0130	Gross - Non-proportional reinsurance accepted	0						0
R0140	Reinsurers' share	88,691						88,691
R0200	Net	1,230,151	0	0	0	0	0	1,230,151
	Premiums earned							
R0210	Gross - Direct Business	1,314,830						1,314,830
R0220	Gross - Proportional reinsurance accepted	0						0
R0230	Gross - Non-proportional reinsurance accepted	0						0
R0240	Reinsurers' share	88,440						88,440
R0300	Net	1,226,390	0	0	0	0	0	1,226,390
	Claims incurred							
R0310	Gross - Direct Business	851,127						851,127
R0320	Gross - Proportional reinsurance accepted	0						0
R0330	Gross - Non-proportional reinsurance accepted	0						0
R0340	Reinsurers' share	12,056						12,056
R0400	Net	839,071	0	0	0	0	0	839,071
	Changes in other technical provisions							
R0410	Gross - Direct Business	-80,340						-80,340
R0420	Gross - Proportional reinsurance accepted	0						0
R0430	Gross - Non-proportional reinsurance accepted	0						0
R0440	Reinsurers' share	0						0
R0500	Net	-80,340	0	0	0	0	0	-80,340
R0550	**Expenses incurred**	377,204						377,204
R1200	**Other expenses**							-1,131
R1300	**Total expenses**							376,073

S.05.02.01

Premiums, claims and expenses by country

Life

		C0150	C0160	C0170	C0180	C0190	C0200	C0210
		Home Country	Top 5 countries (by amount of gross premiums written) - life obligations			Top 5 countries (by amount of gross premiums written) - life obligations		Total Top 5 and home country
R1400								
		C0220	C0230	C0240	C0250	C0260	C0270	C0280
	Premiums written							
R1410	Gross	430,281						430,281
R1420	Reinsurers' share	5,919						5,919
R1500	Net	424,362	0	0	0	0	0	424,362
	Premiums earned							
R1510	Gross	430,281						430,281
R1520	Reinsurers' share	5,919						5,919
R1600	Net	424,362	0	0	0	0	0	424,362
	Claims incurred							
R1610	Gross	507,238						507,238
R1620	Reinsurers' share	6,342						6,342
R1700	Net	500,897	0	0	0	0	0	500,897
	Changes in other technical provisions							
R1710	Gross	947,733						947,733
R1720	Reinsurers' share	13,122						13,122
R1800	Net	934,611	0	0	0	0	0	934,611
R1900	**Expenses incurred**	58,356						58,356
R2500	**Other expenses**							0
R2600	**Total expenses**							58,356

S.22.01.22

Impact of long term guarantees measures and transitionals

		Amount with Long Term Guarantee measures and transitionals	Impact of transitional on technical provisions	Impact of transitional on interest rate	Impact of volatility adjustment set to zero	Impact of matching adjustment set to zero
		C0010	C0030	C0050	C0070	C0090
R0010	Technical provisions	9,785,957	419,580	0	82,222	79,392
R0020	Basic own funds	6,409,266	-153,645	0	-82,222	-79,392
R0050	Eligible own funds to meet Solvency Capital Requirement	6,409,266	-153,645	0	-82,222	-79,392
R0090	Solvency Capital Requirement	3,544,165	0	0	42,169	90,472

S.23.01.22

Own Funds

	Basic own funds before deduction for participations in other financial sector	**Total**	**Tier 1 unrestricted**	**Tier 1 restricted**	**Tier 2**	**Tier 3**
		C0010	C0020	C0030	C0040	C0050
R0010	Ordinary share capital (gross of own shares)	0	0		0	
R0020	*Non-available called but not paid in ordinary share capital at group level*	0	0		0	
R0030	Share premium account related to ordinary share capital	0	0		0	
R0040	Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings	0	0		0	
R0050	Subordinated mutual member accounts	0		0	0	0
R0060	*Non-available subordinated mutual member accounts at group level*	0		0	0	0
R0070	Surplus funds	0	0			
R0080	*Non-available surplus funds at group level*	0	0			
R0090	Preference shares	0		0	0	0
R0100	*Non-available preference shares at group level*	0		0	0	0
R0110	Share premium account related to preference shares	0		0	0	0
R0120	*Non-available share premium account related to preference shares at group level*	0		0	0	0
R0130	Reconciliation reserve	6,514,741	6,514,741			
R0140	Subordinated liabilities	0		0	0	0
R0150	*Non-available subordinated liabilities at group level*	0		0	0	0
R0160	An amount equal to the value of net deferred tax assets	0				0
R0170	*The amount equal to the value of net deferred tax assets not available at the group level*	0				0
R0180	Other items approved by supervisory authority as basic own funds not specified above	0	0	0	0	0
R0190	*Non available own funds related to other own funds items approved by supervisory authority*	0	0	0	0	0
R0200	Minority interests (if not reported as part of a specific own fund item)	0	0	0	0	0
R0210	*Non-available minority interests at group level*	105,475	105,475	0	0	0
R0220	**Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds**	0				
R0230	**Deductions for participations in other financial undertakings, including non-regulated undertakings carrying out financial activities**	0	0	0	0	0
R0240	*whereof deducted according to art 228 of the Directive 2009/138/EC*	0	0	0	0	
R0250	Deductions for participations where there is non-availability of information (Article 229)	0	0	0	0	0
R0260	Deduction for participations included by using D&A when a combination of methods is used	0	0	0	0	0
R0270	**Total of non-available own fund items**	105,475	105,475	0	0	0
R0280	**Total deductions**	105,475	105,475	0	0	0
R0290	**Total basic own funds after deductions**	6,409,266	6,409,266	0	0	0
	Ancillary own funds					
R0300	Unpaid and uncalled ordinary share capital callable on demand	0			0	
R0310	Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	0			0	
R0320	Unpaid and uncalled preference shares callable on demand	0			0	0
R0330	A legally binding commitment to subscribe and pay for subordinated liabilities on demand	0			0	0
R0340	Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	0			0	
R0350	Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	0			0	0
R0360	Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0			0	
R0370	Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0			0	0
R0380	Non available ancillary own funds at group level	0			0	0
R0390	Other ancillary own funds	0			0	0
R0400	**Total ancillary own funds**	0			0	0
	Own funds of other financial sectors					
R0410	Credit Institutions, investment firms, financial insitutions, alternative investment fund manager, financial institutions	0	0	0	0	
R0420	Institutions for occupational retirement provision	0	0	0	0	0
R0430	Non regulated entities carrying out financial activities	0	0	0	0	
R0440	**Total own funds of other financial sectors**	0	0	0	0	0

S.23.01.22

Own Funds

	Basic own funds before deduction for participations in other financial sector	Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
	Own funds when using the D&A, exclusively or in combination of method 1					
R0450	Own funds aggregated when using the D&A and combination of method	0	0	0	0	0
R0460	Own funds aggregated when using the D&A and combination of method net of IGT	0	0	0	0	0
R0520	Total available own funds to meet the consolidated group SCR (excluding own funds from other financial sector and from the undertakings included via D&A)	6,409,266	6,409,266	0	0	0
R0530	Total available own funds to meet the minimum consolidated group SCR	6,409,266	6,409,266	0	0	
R0560	Total eligible own funds to meet the consolidated group SCR (excluding own funds from other financial sector and from the undertakings included via D&A)	6,409,266	6,409,266	0	0	0
R0570	Total eligible own funds to meet the minimum consolidated group SCR (group)	6,409,266	6,409,266	0	0	
R0610	**Minimum consolidated Group SCR**	889,373				
R0650	**Ratio of Eligible own funds to Minimum Consolidated Group SCR**	720.65%				
R0660	**Total eligible own funds to meet the group SCR (including own funds from other financial sector and from the undertakings included via D&A)**	6,409,266	6,409,266	0	0	0
R0680	**Group SCR**	3,544,165				
R0690	**Ratio of Eligible own funds to group SCR including other financial sectors and the undertakings included via D&A**	180.84%				

	Reconcilliation reserve	C0060
R0700	Excess of assets over liabilities	6,780,676
R0710	Own shares (held directly and indirectly)	0
R0720	Forseeable dividends, distributions and charges	0
R0730	Other basic own fund items	0
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	265,935
R0750	Other non available own funds	0
R0760	**Reconciliation reserve**	6,514,741
	Expected profits	
R0770	Expected profits included in future premiums (EPIFP) - Life business	4,034
R0780	Expected profits included in future premiums (EPIFP) - Non- life business	44,841
R0790	**Total Expected profits included in future premiums (EPIFP)**	48,875

S.25.02.22

Solvency Capital Requirement - for groups using the standard formula and partial internal model

Row	Unique number of component	Component description	Calculation of the Solvency Capital Requirement	Amount modelled	USP	Simplifications
	C0010	C0020	C0030	C0070	C0080	C0090
1	10310I	Interest rate risk - Interest rates down more onerous.	55,531	55,531	0	0.00
2	10320I	Interest rates up - Interest rates up more onerous	61,281	61,281	0	0.00
3	10410I	Equity risk - Equity values	2,367,497	2,367,497	0	0.00
4	10420I	Equity risk - Equity volatility	77,865	77,865	0	0.00
5	10499I	Equity risk - Equity diversification	-16,406	-16,406	0	0.00
6	10600I	Property risk	464,965	464,965	0	0.00
7	10710I	Spread risk	337,729	337,729	0	0.00
8	10740I	Spread risk - Swap / gilt spread risk	166,247	166,247	0	0.00
9	10760I	Spread risk - Liability change due to matching adjustment.	-91,281	-91,281	0	0.00
10	10900I	Currency risk	486,227	486,227	0	0.00
11	11000I	Other market risk	212,413	212,413	0	0.00
12	19900I	Diversification within market risk	-1,083,913	-1,083,913	0	0.00
13	20110I	Type 1 counterparty risk	98,558	98,558	0	0.00
14	20220I	Type 2 counterparty risk	24,938	24,938	0	0.00
15	20330I	Other counterparty risk	0	0	0	0.00
16	29999I	Diversification within counterparty risk	-16,496	-16,496	0	0.00
17	30100I	Mortality risk	22,577	22,577	0	0.00
18	30210I	Longevity risk - Longevity mis-estimation	134,355	134,355	0	0.00
19	30220I	Longevity risk - Longevity trend	212,713	212,713	0	0.00
20	30230I	Longevity risk - Longevity diversification	-47,664	-47,664	0	0.00
21	30300I	Disability-morbidity risk	13,742	13,742	0	0.00
22	30400I	Mass lapse	13,622	13,622	0	0.00
23	30510I	Other lapse risk - Lapse levels	118,935	118,935	0	0.00
24	30590I	Other lapse risk - Retirement optionality.	172,711	172,711	0	0.00
25	30599I	Other lapse risk - Lapse diversification	-109,184	-109,184	0	0.00
26	30600I	Expense risk	128,597	128,597	0	0.00
27	30900I	Other life underwriting risk	0	0	0	0.00
28	39900I	Diversification within life underwriting risk	-250,577	-250,577	0	0.00
29	50150I	Premium risk	509,024	509,024	0	0.00
30	50210I	Reserve risk	860,742	860,742	0	0.00
31	50300I	Non-life catastrophe risk	400,736	400,736	0	0.00

S.25.02.22

Solvency Capital Requirement - for groups using the standard formula and partial internal model

Row	Unique number of component	Component description	Calculation of the Solvency Capital Requirement	Amount modelled	USP	Simplifications
	C0010	C0020	C0030	C0070	C0080	C0090
32	50500I	Other non-life underwriting risk	0	0	0	0.00
33	59900I	Diversification within non-life underwriting risk	-536,996	-536,996	0	0.00
34	70100I	Operational risk : Total	74,436	0	0	0.00
35	80110I	Other risks - Pension scheme	136,728	136,728	0	0.00
36	80160I	Other risks	0	0	0	0.00
37	80300I	Loss-absorbing capacity of deferred tax	-328,951	-328,951	0	0.00
38	80400I	Other adjustments	67,720	60,480	0	0.00

S.25.02.22

Solvency Capital Requirement - for groups using the standard formula and partial internal model

		C0100
	Calculation of Solvency Capital Requirement	
R0110	Total undiversified components	4,738,422
R0060	Diversification	-1,194,257
R0160	Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	0
R0200	**Solvency capital requirement excluding capital add-on**	3,544,165
R0210	Capital add-ons already set	0
R0220	**Solvency capital requirement for undertakings under consolidated method**	3,544,165
	Other information on SCR	
R0300	Amount/estimate of the overall loss-absorbing capacity of technical provisions	-215,821
R0310	Amount/estimate of the overall loss-absorbing capacity ot deferred taxes	-424,077
R0400	Capital requirement for duration-based equity risk sub-module	0
R0410	Total amount of Notional Solvency Capital Requirements for remaining part	2,581,130
R0420	Total amount of Notional Solvency Capital Requirement for ring fenced funds	809,184
R0430	Total amount of Notional Solvency Capital Requirement for matching adjustment portfolios	153,851
R0440	Diversification effects due to RFF nSCR aggregation for article 304	0
R0470	Minimum consolidated group solvency capital requirement	889,373
	Information on other entities	
R0500	Capital requirement for other financial sectors (Non-insurance capital requirements)	0
R0510	*Credit institutions, investment firms and financial institutions, alternative investment funds managers, UCITS management companies*	
R0520	*Institutions for occupational retirement provisions*	
R0530	*Capital requirement for non- regulated entities carrying out financial activities*	
R0540	Capital requirement for non-controlled participation requirements	
R0550	Capital requirement for residual undertakings	
	Overall SCR	
R0560	SCR for undertakings included via D and A	0
R0570	**Solvency capital requirement**	3,544,165

S.32.01.22

Undertakings in the scope of the group

Row	Country	Identification code of the undertaking	Type of code of the ID of the undertaking	Legal Name of the undertaking	Type of undertaking	Legal form	Category (mutual/non mutual)	Supervisory Authority
	C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080
1	GB	2138007R6SO8SJRE	LEI	The National Farmers Union Mutual Insurance Soc	Composite undertaking	Company limited by shares or by guarantee or unlimited	Mutual	PRA
2	GB	2138007R6SO8SJRE	Specific code	NFU Mutual Management Company Limited	Other	Company limited by shares or by guarantee or unlimited	Non-mutual	
3	GB	213800XFUL3GDVFI	LEI	Avon Insurance plc	Non life insurance undertaking	Company limited by shares or by guarantee or unlimited	Non-mutual	PRA
4	GB	2138007R6SO8SJRE	Specific code	Hathaway Property Company Limited	Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35	Company limited by shares or by guarantee or unlimited	Non-mutual	
5	GB	2138007R6SO8SJRE	Specific code	Harvester Properties Limited	Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35	Company limited by shares or by guarantee or unlimited	Non-mutual	
6	GG	2138007R6SO8SJRE	Specific code	Farmers RE Limited	Reinsurance undertaking	Company limited by shares or by guarantee or unlimited	Non-mutual	GFSC
7	GG	2138007R6SO8SJRE	Specific code	Islands Insurance Brokers Limited	Other	Company limited by shares or by guarantee or unlimited	Non-mutual	GFSC
8	GG	2138007R6SO8SJRE	Specific code	Islands Insurance Holdings Limited	Other	Company limited by shares or by guarantee or unlimited	Non-mutual	
9	JE	2138007R6SO8SJRE	Specific code	Islands Insurance Managers Limited	Other	Company limited by shares or by guarantee or unlimited	Non-mutual	
10	GG	2138007R6SO8SJRE	Specific code	Lancaster Court Limited	Other	Company limited by shares or by guarantee or unlimited	Non-mutual	
11	JE	2138007R6SO8SJRE	Specific code	M J Touzel Limited	Other	Company limited by shares or by guarantee or unlimited	Non-mutual	JFSC
12	GB	213800UTILPJXXGY	LEI	NFU Mutual Investment Services Limited	Credit institution, investment firm and financial institution	Company limited by shares or by guarantee or unlimited	Non-mutual	FCA
13	GB	2138007R6SO8SJRE	Specific code	Salmon Harvester Properties General Partnership	Other	Company limited by shares or by guarantee or unlimited	Non-mutual	
14	GB	2138007R6SO8SJRE	Specific code	NFU Mutual Service Company Limited	Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35	Company limited by shares or by guarantee or unlimited	Non-mutual	
15	GB	2138007R6SO8SJRE	Specific code	Tiddington Finance Limited	Other	Company limited by shares or by guarantee or unlimited	Non-mutual	
16	GB	213800EHDCBNHJO	LEI	NFU Mutual Unit Managers Limited	UCITS management companies as defined in Article 1 (54) of Delegated Regulation (EU) 2015/35	Company limited by shares or by guarantee or unlimited	Non-mutual	FCA
17	GB	2138007R6SO8SJRE	Specific code	NFU Mutual Risk Management Services Limited	Other	Company limited by shares or by guarantee or unlimited	Non-mutual	
18	GB	2138007R6SO8SJRE	Specific code	NFU Mutual Finance Limited	Other	Company limited by shares or by guarantee or unlimited	Non-mutual	
19	GB	2138007R6SO8SJRE	Specific code	Salmon Harvester Properties Unit Trust	Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35	Company limited by shares or by guarantee or unlimited	Non-mutual	
20	GB	2138007R6SO8SJRE	Specific code	Salmon Harvester Properties Limited	Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35	Company limited by shares or by guarantee or unlimited	Non-mutual	
21	GB	21380019SIIR265AC	LEI	NFU Mutual Select Investments Limited	Credit institution, investment firm and financial institution	Company limited by shares or by guarantee or unlimited	Non-mutual	FCA
22	GB	2138007R6SO8SJRE	Specific code	Tiddington nominees limited	Other	Company limited by shares or by guarantee or unlimited	Non-mutual	
23	GB	2138007R6SO8SJRE	Specific code	NFUM Trustee Ltd	Other	Company limited by shares or by guarantee or unlimited	Non-mutual	
24	GB	2138007R6SO8SJRE	Specific code	The Oaks property Trust	Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35	Unincorporated Trust	Non-mutual	

S.32.01.22

Undertakings in the scope of the grou

				Criteria of influence						Inclusion in the scope of Group supervision		Group solvency calculation
	Country	Identification code of the undertaking	Type of code of the ID of the undertaking	% capital share	% used for the establishment of consolidated accounts	% voting rights	Other criteria	Level of influence	Proportional share used for group solvency calculation	YES/NO	Date of decision if art. 214 is applied	Method used and under method 1, treatment of the undertaking
Row	C0010	C0020	C0030	C0180	C0190	C0200	C0210	C0220	C0230	C0240	C0250	C0260
1	GB	2138007R6SO8SJRE	LEI	100.00%	100.00%	100.00%		Dominant	100.00%	Included in the scope		Method 1: Full consolidation
2	GB	2138007R6SO8SJRE	Specific code	100.00%	100.00%	100.00%		Dominant	100.00%	Not included in the scope (art. 214 c)	2016-01-01	No inclusion in the scope of group supervision as defined in Art. 214 Directive 2009/138/EC
3	GB	213800XFUL3GDVFI	LEI	100.00%	100.00%	100.00%		Dominant	100.00%	Included in the scope		Method 1: Full consolidation
4	GB	2138007R6SO8SJRE	Specific code	100.00%	100.00%	100.00%		Dominant	100.00%	Not included in the scope (art. 214 c)		Method 1: Full consolidation
5	GB	2138007R6SO8SJRE	Specific code	100.00%	100.00%	100.00%		Dominant	100.00%	Not included in the scope (art. 214 c)		Method 1: Full consolidation
6	GG	2138007R6SO8SJRE	Specific code	100.00%	100.00%	100.00%		Dominant	100.00%	Not included in the scope (art. 214 b)		Method 1: Full consolidation
7	GG	2138007R6SO8SJRE	Specific code	100.00%	100.00%	100.00%		Dominant	100.00%	Not included in the scope (art. 214 c)	2016-01-01	No inclusion in the scope of group supervision as defined in Art. 214 Directive 2009/138/EC
8	GG	2138007R6SO8SJRE	Specific code	100.00%	100.00%	100.00%		Dominant	100.00%	Not included in the scope (art. 214 b)	2016-01-01	No inclusion in the scope of group supervision as defined in Art. 214 Directive 2009/138/EC
9	JE	2138007R6SO8SJRE	Specific code	100.00%	100.00%	100.00%		Dominant	100.00%	Not included in the scope (art. 214 c)	2016-01-01	No inclusion in the scope of group supervision as defined in Art. 214 Directive 2009/138/EC
10	GG	2138007R6SO8SJRE	Specific code	100.00%	100.00%	100.00%		Dominant	100.00%	Not included in the scope (art. 214 c)	2016-01-01	No inclusion in the scope of group supervision as defined in Art. 214 Directive 2009/138/EC
11	JE	2138007R6SO8SJRE	Specific code	100.00%	100.00%	100.00%		Dominant	100.00%	Not included in the scope (art. 214 c)	2016-01-01	No inclusion in the scope of group supervision as defined in Art. 214 Directive 2009/138/EC
12	GB	213800UTILPJXXGY	LEI	100.00%	100.00%	100.00%		Dominant	100.00%	Not included in the scope (art. 214 c)		Method 1: Full consolidation
13	GB	2138007R6SO8SJRE	Specific code	100.00%	100.00%	100.00%		Dominant	100.00%	Not included in the scope (art. 214 c)	2016-01-01	No inclusion in the scope of group supervision as defined in Art. 214 Directive 2009/138/EC
14	GB	2138007R6SO8SJRE	Specific code	100.00%	100.00%	100.00%		Dominant	100.00%	Not included in the scope (art. 214 c)		Method 1: Full consolidation
15	GB	2138007R6SO8SJRE	Specific code	100.00%	100.00%	100.00%		Dominant	100.00%	Not included in the scope (art. 214 c)	2016-01-01	No inclusion in the scope of group supervision as defined in Art. 214 Directive 2009/138/EC
16	GB	213800EHDCBNHJO	LEI	100.00%	100.00%	100.00%		Dominant	100.00%	Not included in the scope (art. 214 c)		Method 1: Full consolidation
17	GB	2138007R6SO8SJRE	Specific code	100.00%	100.00%	100.00%		Dominant	100.00%	Not included in the scope (art. 214 c)	2016-01-01	No inclusion in the scope of group supervision as defined in Art. 214 Directive 2009/138/EC
18	GB	2138007R6SO8SJRE	Specific code	50.00%	50.00%	50.00%		Significant	50.00%	Not included in the scope (art. 214 c)	2016-01-01	No inclusion in the scope of group supervision as defined in Art. 214 Directive 2009/138/EC
19	GB	2138007R6SO8SJRE	Specific code	99.00%	100.00%	99.00%		Dominant	100.00%	Not included in the scope (art. 214 c)		Method 1: Full consolidation
20	GB	2138007R6SO8SJRE	Specific code	50.00%	50.00%	50.00%		Dominant	50.00%	Not included in the scope (art. 214 c)		Method 1: Full consolidation
21	GB	21380019SIIR265AC	LEI	100.00%	100.00%	100.00%		Dominant	100.00%	Not included in the scope (art. 214 c)		Method 1: Full consolidation
22	GB	2138007R6SO8SJRE	Specific code	100.00%	100.00%	100.00%		Dominant	100.00%	Not included in the scope (art. 214 c)	2016-01-01	No inclusion in the scope of group supervision as defined in Art. 214 Directive 2009/138/EC
23	GB	2138007R6SO8SJRE	Specific code	100.00%	100.00%	100.00%		Dominant	100.00%	Not included in the scope (art. 214 c)	2016-01-01	No inclusion in the scope of group supervision as defined in Art. 214 Directive 2009/138/EC
24	GB	2138007R6SO8SJRE	Specific code	80.00%	80.00%	50.00%		Significant	80.00%	Not included in the scope (art. 214 c)		Method 1: Full consolidation

The National Farmers Union Mutual Insurance Society Limited

Solvency and Financial Condition Report

Disclosures

31 December

2016

(Monetary amounts in GBP thousands)

General information

Undertaking name	The National Farmers Union Mutual Insurance Society Limited
Undertaking identification code	2138007R6SO8SJRB9Z36
Type of code of undertaking	LEI
Type of undertaking	Undertakings pursuing both life and non-life insurance activity
Country of authorisation	GB
Language of reporting	en
Reporting reference date	31 December 2016
Currency used for reporting	GBP
Accounting standards	The undertaking is using local GAAP (other than IFRS)
Method of Calculation of the SCR	Partial internal model
Matching adjustment	Use of matching adjustment
Volatility adjustment	Use of volatility adjustment
Transitional measure on the risk-free interest rate	No use of transitional measure on the risk-free interest rate
Transitional measure on technical provisions	Use of transitional measure on technical provisions

List of reported templates

S.02.01.02 - Balance sheet
S.05.01.02 - Premiums, claims and expenses by line of business
S.05.01.02 - Premiums, claims and expenses by line of business
S.05.02.01 - Premiums, claims and expenses by country
S.05.02.01 - Premiums, claims and expenses by country
S.12.01.02 - Life and Health SLT Technical Provisions
S.17.01.02 - Non-Life Technical Provisions
S.19.01.21 - Non-Life insurance claims
S.22.01.21 - Impact of long term guarantees measures and transitionals
S.23.01.01 - Own Funds
S.25.02.21 - Solvency Capital Requirement - for undertakings using the standard formula and partial internal model
S.25.02.21 - Solvency Capital Requirement - for undertakings using the standard formula and partial internal model
S.28.02.01 - Minimum Capital Requirement - Both life and non-life insurance activity

S.02.01.02

Balance sheet

		Solvency II value
	Assets	C0010
R0030	Intangible assets	0
R0040	Deferred tax assets	0
R0050	Pension benefit surplus	0
R0060	Property, plant & equipment held for own use	80,465
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	13,766,382
R0080	*Property (other than for own use)*	1,317,146
R0090	*Holdings in related undertakings, including participations*	654,843
R0100	*Equities*	6,513,757
R0110	*Equities - listed*	6,511,527
R0120	*Equities - unlisted*	2,230
R0130	*Bonds*	4,177,229
R0140	*Government Bonds*	2,739,246
R0150	*Corporate Bonds*	1,333,761
R0160	*Structured notes*	10,338
R0170	*Collateralised securities*	93,884
R0180	*Collective Investments Undertakings*	279,103
R0190	*Derivatives*	
R0200	*Deposits other than cash equivalents*	824,304
R0210	*Other investments*	0
R0220	Assets held for index-linked and unit-linked contracts	2,878,342
R0230	Loans and mortgages	46,560
R0240	*Loans on policies*	0
R0250	*Loans and mortgages to individuals*	503
R0260	*Other loans and mortgages*	46,057
R0270	Reinsurance recoverables from:	140,157
R0280	*Non-life and health similar to non-life*	58,544
R0290	*Non-life excluding health*	58,888
R0300	*Health similar to non-life*	-343
R0310	*Life and health similar to life, excluding index-linked and unit-linked*	81,613
R0320	*Health similar to life*	4,316
R0330	*Life excluding health and index-linked and unit-linked*	77,297
R0340	*Life index-linked and unit-linked*	0
R0350	Deposits to cedants	0
R0360	Insurance and intermediaries receivables	7,789
R0370	Reinsurance receivables	4,389
R0380	Receivables (trade, not insurance)	18,554
R0390	Own shares (held directly)	0
R0400	Amounts due in respect of own fund items or initial fund called up but not yet paid in	0
R0410	Cash and cash equivalents	199,091
R0420	Any other assets, not elsewhere shown	68,221
R0500	**Total assets**	17,209,951

S.02.01.02

Balance sheet

		Solvency II value
	Liabilities	C0010
R0510	Technical provisions - non-life	1,964,996
R0520	*Technical provisions - non-life (excluding health)*	1,961,579
R0530	*TP calculated as a whole*	0
R0540	*Best Estimate*	1,637,217
R0550	*Risk margin*	324,362
R0560	*Technical provisions - health (similar to non-life)*	3,417
R0570	*TP calculated as a whole*	0
R0580	*Best Estimate*	3,411
R0590	*Risk margin*	5
R0600	Technical provisions - life (excluding index-linked and unit-linked)	5,187,660
R0610	*Technical provisions - health (similar to life)*	9,180
R0620	*TP calculated as a whole*	0
R0630	*Best Estimate*	10,863
R0640	*Risk margin*	-1,683
R0650	*Technical provisions - life (excluding health and index-linked and unit-linked)*	5,178,480
R0660	*TP calculated as a whole*	0
R0670	*Best Estimate*	5,093,728
R0680	*Risk margin*	84,752
R0690	Technical provisions - index-linked and unit-linked	2,768,098
R0700	*TP calculated as a whole*	0
R0710	*Best Estimate*	2,757,143
R0720	*Risk margin*	10,956
R0740	Contingent liabilities	0
R0750	Provisions other than technical provisions	32,961
R0760	Pension benefit obligations	0
R0770	Deposits from reinsurers	0
R0780	Deferred tax liabilities	220,754
R0790	Derivatives	
R0800	Debts owed to credit institutions	11,553
R0810	Financial liabilities other than debts owed to credit institutions	0
R0820	Insurance & intermediaries payables	9,541
R0830	Reinsurance payables	12,472
R0840	Payables (trade, not insurance)	17,293
R0850	Subordinated liabilities	0
R0860	*Subordinated liabilities not in BOF*	
R0870	*Subordinated liabilities in BOF*	0
R0880	Any other liabilities, not elsewhere shown	312,639
R0900	**Total liabilities**	10,537,966
R1000	**Excess of assets over liabilities**	6,671,984

S.05.01.02

Premiums, claims and expenses by line of business

Non-life

		Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)												Line of business for: accepted non-proportional reinsurance				Total
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Misc. financial loss	Health	Casualty	Marine, aviation and transport	Property	
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0200
	Premiums written																	
R0110	Gross - Direct Business		13,322		264,242	255,037	4,705	514,496	192,396	0	11,551	932	33,123					1,289,804
R0120	Gross - Proportional reinsurance accepted		0		510	0	0	1	161	0	0	1	199					872
R0130	Gross - Non-proportional reinsurance accepted																	0
R0140	Reinsurers' share		30		10,068	9,463	31	43,987	9,111	0	3,598	0	2,583					78,871
R0200	Net		13,291		254,684	245,574	4,674	470,511	183,446	0	7,953	933	30,739					1,211,805
	Premiums earned																	
R0210	Gross - Direct Business		13,517		263,379	254,316	4,792	514,555	190,107	0	10,857	930	33,163					1,285,616
R0220	Gross - Proportional reinsurance accepted		0		511	0	0	3	173	0	0	1	232					920
R0230	Gross - Non-proportional reinsurance accepted																	0
R0240	Reinsurers' share		30		10,068	9,463	31	43,690	9,115	0	3,598	0	2,583					78,577
R0300	Net		13,487		253,822	244,853	4,761	470,868	181,165	0	7,260	931	30,812					1,207,958
	Claims incurred																	
R0310	Gross - Direct Business		9,608		188,450	154,166	2,381	313,474	165,870	0	-34	-7,961	18,424					844,379
R0320	Gross - Proportional reinsurance accepted		0		475	0	0	7	-81	0	0	0	560					961
R0330	Gross - Non-proportional reinsurance accepted																	0
R0340	Reinsurers' share		0		8,544	-554	0	331	2,757	0	0	0	0					11,078
R0400	Net		9,608		180,381	154,721	2,381	313,151	163,031	0	-34	-7,961	18,983					834,262
	Changes in other technical provisions																	
R0410	Gross - Direct Business		0		-5,286	-1,005	24	-62,986	-6,604	0	0	0	260					-75,595
R0420	Gross - Proportional reinsurance accepted		0		0	0	0	0	0	0	0	0	0					0
R0430	Gross - Non-proportional reinsurance accepted																	0
R0440	Reinsurers' share		0		0	0	0	0	0	0	0	0	0					0
R0500	Net		0		-5,286	-1,005	24	-62,986	-6,604	0	0	0	260					-75,595
R0550	**Expenses incurred**		4,495		75,991	87,217	8,181	115,037	64,391	0	1,230	978	12,462					369,981
R1200	**Other expenses**																	-1,131
R1300	**Total expenses**																	368,850

S.05.01.02

Premiums, claims and expenses by line of business

Life

		Line of Business for: life insurance obligations						Life reinsurance obligations		
		Health insurance	Insurance with profit participation	Index-linked and unit-linked insurance	Other life insurance	Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance obligations	Health reinsurance	Life reinsurance	Total
		C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0300
	Premiums written									
R1410	Gross	2,658	210,634	210,321	6,668		0	0	0	430,281
R1420	Reinsurers' share	815	1,779	0	3,325		0	0	0	5,919
R1500	Net	1,844	208,855	210,321	3,343		0	0	0	424,362
	Premiums earned									
R1510	Gross	2,658	210,634	210,321	6,668		0	0	0	430,281
R1520	Reinsurers' share	815	1,779	0	3,325		0	0	0	5,919
R1600	Net	1,844	208,855	210,321	3,343		0	0	0	424,362
	Claims incurred									
R1610	Gross	4,400	218,532	208,989	75,528		-211	0	0	507,238
R1620	Reinsurers' share	759	1,826	0	2,915		841	0	0	6,342
R1700	Net	3,641	216,706	208,989	72,612		-1,052	0	0	500,897
	Changes in other technical provisions									
R1710	Gross	4,091	470,263	365,169	108,210		0	0	0	947,733
R1720	Reinsurers' share	833	0	0	12,289		0	0	0	13,122
R1800	Net	3,258	470,263	365,169	95,921		0	0	0	934,611
R1900	**Expenses incurred**	0	15,626	42,730	0		0	0	0	58,356
R2500	**Other expenses**									0
R2600	**Total expenses**									58,356

S.05.02.01

Premiums, claims and expenses by country

Non-life

		C0010	C0020	C0030	C0040	C0050	C0060	C0070
		Home Country	Top 5 countries (by amount of gross premiums written) - non-life obligations			Top 5 countries (by amount of gross premiums written) - non-life obligations		Total Top 5 and home country
R0010								
		C0080	C0090	C0100	C0110	C0120	C0130	C0140
	Premiums written							
R0110	Gross - Direct Business	1,289,804						1,289,804
R0120	Gross - Proportional reinsurance accepted	872						872
R0130	Gross - Non-proportional reinsurance accepted	0						0
R0140	Reinsurers' share	78,871						78,871
R0200	Net	1,211,805	0	0	0	0	0	1,211,805
	Premiums earned							
R0210	Gross - Direct Business	1,285,616						1,285,616
R0220	Gross - Proportional reinsurance accepted	920						920
R0230	Gross - Non-proportional reinsurance accepted	0						0
R0240	Reinsurers' share	78,577						78,577
R0300	Net	1,207,958	0	0	0	0	0	1,207,958
	Claims incurred							
R0310	Gross - Direct Business	844,379						844,379
R0320	Gross - Proportional reinsurance accepted	961						961
R0330	Gross - Non-proportional reinsurance accepted	0						0
R0340	Reinsurers' share	11,078						11,078
R0400	Net	834,262	0	0	0	0	0	834,262
	Changes in other technical provisions							
R0410	Gross - Direct Business	-75,595						-75,595
R0420	Gross - Proportional reinsurance accepted	0						0
R0430	Gross - Non-proportional reinsurance accepted	0						0
R0440	Reinsurers' share	0						0
R0500	Net	-75,595	0	0	0	0	0	-75,595
R0550	**Expenses incurred**	141,552						141,552
R1200	**Other expenses**							-1,131
R1300	**Total expenses**							140,421

S.05.02.01

Premiums, claims and expenses by country

Life

		C0150	C0160	C0170	C0180	C0190	C0200	C0210
		Home Country	Top 5 countries (by amount of gross premiums written) - life obligations			Top 5 countries (by amount of gross premiums written) - life obligations		Total Top 5 and home country
R1400								
		C0220	C0230	C0240	C0250	C0260	C0270	C0280
	Premiums written							
R1410	Gross	430,281						430,281
R1420	Reinsurers' share	5,919						5,919
R1500	Net	424,362	0	0	0	0	0	424,362
	Premiums earned							
R1510	Gross	430,281						430,281
R1520	Reinsurers' share	5,919						5,919
R1600	Net	424,362	0	0	0	0	0	424,362
	Claims incurred							
R1610	Gross	507,238						507,238
R1620	Reinsurers' share	6,342						6,342
R1700	Net	500,897	0	0	0	0	0	500,897
	Changes in other technical provisions							
R1710	Gross	947,733						947,733
R1720	Reinsurers' share	13,122						13,122
R1800	Net	934,611	0	0	0	0	0	934,611
R1900	**Expenses incurred**	58,356						58,356
R2500	**Other expenses**							0
R2600	**Total expenses**							58,356

S.12.01.02

Life and Health SLT Technical Provisions

		Insurance with profit participation	Index-linked and unit-linked insurance			Other life insurance			Annuities stemming from non-life insurance contracts and relating to insurance obligation other than health insurance obligations	Accepted reinsurance	Total (Life other than health insurance, including Unit-Linked)	Health insurance (direct business)			Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Health reinsurance (reinsurance accepted)	Total (Health similar to life insurance)
				Contracts without options and guarantees	Contracts with options or guarantees		Contracts without options and guarantees	Contracts with options or guarantees					Contracts without options and guarantees	Contracts with options or guarantees			
		C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0150	C0160	C0170	C0180	C0190	C0200	C0210
R0010	**Technical provisions calculated as a whole**	0	0			0			0	0	0	0				0	0
R0020	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole	0	0			0			0	0	0	0				0	0
	Technical provisions calculated as a sum of BE and RM																
	Best estimate																
R0030	**Gross Best Estimate**	3,765,931		2,789,587	26,375		1,343,800	0	64,117	0	7,989,810		11,105	0		0	11,105
R0080	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	0		0	0		29,150	0	48,146	0	77,297		4,316	0		0	4,316
R0090	Best estimate minus recoverables from reinsurance/SPV and Finite Re	3,765,931		2,789,587	26,375		1,314,650	0	15,971	0	7,912,513		6,789	0		0	6,789
R0100	**Risk margin**	171,395	60,886			99,212			34,730	0	366,223	8,201				0	8,201
	Amount of the transitional on Technical Provisions																
R0110	Technical Provisions calculated as a whole	0	0			0			0	0	0	0				0	0
R0120	Best estimate	-70,699		-58,819	0		-9,421	0	0	0	-138,939		-242	0		0	-242
R0130	Risk margin	-159,055	-49,930			-61,529			0	0	-270,515	-9,883				0	-9,883
R0200	**Technical provisions - total**	3,707,571	2,768,098			1,372,061			98,847	0	7,946,578	9,180				0	9,180

S.17.01.02

Non-Life Technical Provisions

		Direct business and accepted proportional reinsurance												Accepted non-proportional reinsurance				Total Non-Life obligation
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Miscellaneous financial loss	Non-proportional health reinsurance	Non-proportional casualty reinsurance	Non-proportional marine, aviation and transport reinsurance	Non-proportional property reinsurance	
		C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0170	C0180
R0010	**Technical provisions calculated as a whole**		0		0	0	0	0	0	0	0	0	0					0
R0050	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole		0		0	0	0	0	0	0	0	0	0					0
	Technical provisions calculated as a sum of BE and RM																	
	Best estimate																	
	Premium provisions																	
R0060	Gross		120		61,431	24,347	12	77,350	39,076	0	2	30	3,287					205,654
R0140	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default		-833		-5,859	-1,449	-78	-8,016	-3,379	0	-13	-219	-1,317					-21,163
R0150	**Net Best Estimate of Premium Provisions**		953		67,289	25,797	89	85,365	42,454	0	15	249	4,604					226,817
	Claims provisions																	
R0160	Gross		3,291		390,294	84,503	314	171,711	770,448	0	51	843	13,519					1,434,975
R0240	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default		490		30,164	865	46	3,277	44,730	0	8	128	0					79,707
R0250	**Net Best Estimate of Claims Provisions**		2,801		360,130	83,638	268	168,435	725,719	0	44	715	13,519					1,355,267
R0260	**Total best estimate - gross**		3,411		451,725	108,850	325	249,061	809,524	0	53	873	16,806					1,640,628
R0270	**Total best estimate - net**		3,755		427,419	109,435	357	253,800	768,173	0	59	964	18,123					1,582,084
R0280	**Risk margin**		5		38,970	12,260	1	18,127	253,852	0	0	0	1,152					324,367
	Amount of the transitional on Technical Provisions																	
R0290	Technical Provisions calculated as a whole		0		0	0	0	0	0	0	0	0	0					0
R0300	Best estimate		0		0	0	0	0	0	0	0	0	0					0
R0310	Risk margin		0		0	0	0	0	0	0	0	0	0					0
R0320	**Technical provisions - total**		3,417		490,695	121,110	326	267,189	1,063,376	0	53	873	17,958					1,964,996
R0330	**Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total**		-343		24,306	-585	-32	-4,739	41,351	0	-6	-91	-1,317					58,544
R0340	**Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total**		3,760		466,389	121,695	358	271,927	1,022,025	0	59	964	19,275					1,906,452

S.19.01.21

Non-Life insurance claims

Total Non-life business

Z0010 **Accident year / underwriting year** Accident Year

Gross Claims Paid (non-cumulative)
(absolute amount)

		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0170	C0180
	Year	**Development year** 0	1	2	3	4	5	6	7	8	9	10 & +	**In Current year**	**Sum of years (cumulative)**
R0100	Prior											3,920	3,920	3,920
R0160	N-9	314,256	225,501	76,313	51,050	36,114	15,823	4,566	4,895	1,634	1,194		1,194	731,344
R0170	N-8	298,584	216,694	64,214	42,595	25,752	8,925	4,879	2,041	903			903	664,587
R0180	N-7	327,969	252,950	71,299	46,139	38,281	7,612	4,214	1,227				1,227	749,691
R0190	N-6	359,501	279,898	79,632	52,628	21,914	12,135	2,540					2,540	808,246
R0200	N-5	332,965	201,131	75,800	40,311	33,397	8,192						8,192	691,797
R0210	N-4	336,551	219,396	69,424	49,979	23,949							23,949	699,298
R0220	N-3	321,840	233,837	80,025	52,024								52,024	687,726
R0230	N-2	352,968	209,323	63,180									63,180	625,471
R0240	N-1	340,692	233,065										233,065	573,758
R0250	N	361,554											361,554	361,554
R0260												**Total**	751,749	6,597,394

Gross Undiscounted Best Estimate Claims Provisions
(absolute amount)

		C0200	C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0290	C0300	C0360
	Year	**Development year** 0	1	2	3	4	5	6	7	8	9	10 & +	**Year end (discounted data)**
R0100	Prior											343,920	309,472
R0160	N-9	0	0	0	0	0	0	0	0	0	9,783		9,715
R0170	N-8	0	0	0	0	0	0	0	0	7,232			7,180
R0180	N-7	0	0	0	0	0	0	0	14,579				14,473
R0190	N-6	0	0	0	0	0	0	15,339					15,233
R0200	N-5	0	0	0	0	0	20,026						19,885
R0210	N-4	0	0	0	0	29,240							29,036
R0220	N-3	0	0	0	71,972								71,475
R0230	N-2	0	0	145,194									144,173
R0240	N-1	0	288,137										286,170
R0250	N	532,737											528,165
R0260												**Total**	1,434,975

S.22.01.21

Impact of long term guarantees measures and transitionals

		Amount with Long Term Guarantee measures and transitionals	Impact of transitional on technical provisions	Impact of transitional on interest rate	Impact of volatility adjustment set to zero	Impact of matching adjustment set to zero
		C0010	C0030	C0050	C0070	C0090
R0010	Technical provisions	9,780,598	419,580	0	82,222	79,392
R0020	Basic own funds	6,406,049	-153,645	0	-82,222	-79,392
R0050	Eligible own funds to meet Solvency Capital Requirement	6,406,049	-153,645	0	-82,222	-79,392
R0090	Solvency Capital Requirement	3,544,165	0	0	42,169	90,472
R0100	Eligible own funds to meet Minimum Capital Requirement	6,406,049	-153,645	0	-82,222	-79,392
R0110	Minimum Capital Requirement	886,041	0	0	10,542	22,618

S.23.01.01

Own Funds

		Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
	Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35	C0010	C0020	C0030	C0040	C0050
R0010	Ordinary share capital (gross of own shares)	0	0		0	
R0030	Share premium account related to ordinary share capital	0	0		0	
R0040	Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings	0	0		0	
R0050	Subordinated mutual member accounts	0		0	0	0
R0070	Surplus funds	0	0			
R0090	Preference shares	0		0	0	0
R0110	Share premium account related to preference shares	0		0	0	0
R0130	Reconciliation reserve	6,406,049	6,406,049			
R0140	Subordinated liabilities	0		0	0	0
R0160	An amount equal to the value of net deferred tax assets	0				0
R0180	Other own fund items approved by the supervisory authority as basic own funds not specified above	0	0	0	0	0
R0220	**Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds**	0				
R0230	**Deductions for participations in financial and credit institutions**	0	0	0	0	
R0290	**Total basic own funds after deductions**	6,406,049	6,406,049	0	0	0
	Ancillary own funds					
R0300	Unpaid and uncalled ordinary share capital callable on demand	0				
R0310	Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	0				
R0320	Unpaid and uncalled preference shares callable on demand	0				
R0330	A legally binding commitment to subscribe and pay for subordinated liabilities on demand	0				
R0340	Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	0				
R0350	Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	0				
R0360	Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0				
R0370	Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0				
R0390	Other ancillary own funds	0				
R0400	**Total ancillary own funds**	0			0	0
	Available and eligible own funds					
R0500	Total available own funds to meet the SCR	6,406,049	6,406,049	0	0	0
R0510	Total available own funds to meet the MCR	6,406,049	6,406,049	0	0	
R0540	Total eligible own funds to meet the SCR	6,406,049	6,406,049	0	0	0
R0550	Total eligible own funds to meet the MCR	6,406,049	6,406,049	0	0	
R0580	**SCR**	3,544,165				
R0600	**MCR**	886,041				
R0620	**Ratio of Eligible own funds to SCR**	180.75%				
R0640	**Ratio of Eligible own funds to MCR**	723.00%				

	Reconcilliation reserve	C0060
R0700	Excess of assets over liabilities	6,671,984
R0710	Own shares (held directly and indirectly)	0
R0720	Foreseeable dividends, distributions and charges	0
R0730	Other basic own fund items	0
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	265,935
R0760	**Reconciliation reserve**	6,406,049
	Expected profits	
R0770	Expected profits included in future premiums (EPIFP) - Life business	4,034
R0780	Expected profits included in future premiums (EPIFP) - Non- life business	44,841
R0790	**Total Expected profits included in future premiums (EPIFP)**	48,875

S.25.02.21

Solvency Capital Requirement - for undertakings using the standard formula and partial internal model

Row	Unique number of component	Component description	Calculation of the Solvency Capital Requirement	Amount modelled	USP	Simplifications
	C0010	C0020	C0030	C0070	C0080	C0090
1	10310I	Interest rate risk - Interest rates down more onerous.	55,531	55,531	0	0.00
2	10320I	Interest rates up - Interest rates up more onerous	61,281	61,281	0	0.00
3	10410I	Equity risk - Equity values	2,367,497	2,367,497	0	0.00
4	10420I	Equity risk - Equity volatility	77,865	77,865	0	0.00
5	10499I	Equity risk - Equity diversification	-16,406	-16,406	0	0.00
6	10600I	Property risk	464,965	464,965	0	0.00
7	10710I	Spread risk	337,729	337,729	0	0.00
8	10740I	Spread risk - Swap / gilt spread risk	166,247	166,247	0	0.00
9	10760I	Spread risk - Liability change due to matching adjustment.	-91,281	-91,281	0	0.00
10	10900I	Currency risk	486,227	486,227	0	0.00
11	11000I	Other market risk	212,413	212,413	0	0.00
12	19900I	Diversification within market risk	-1,083,913	-1,083,913	0	0.00
13	20110I	Type 1 counterparty risk	98,558	98,558	0	0.00
14	20220I	Type 2 counterparty risk	24,938	24,938	0	0.00
15	20330I	Other counterparty risk	0	0	0	0.00
16	29999I	Diversification within counterparty risk	-16,496	-16,496	0	0.00
17	30100I	Mortality risk	22,577	22,577	0	0.00
18	30210I	Longevity risk - Longevity mis-estimation	134,355	134,355	0	0.00
19	30220I	Longevity risk - Longevity trend	212,713	212,713	0	0.00
20	30230I	Longevity risk - Longevity diversification	-47,664	-47,664	0	0.00
21	30300I	Disability-morbidity risk	13,742	13,742	0	0.00
22	30400I	Mass lapse	13,622	13,622	0	0.00
23	30510I	Other lapse risk - Lapse levels	118,935	118,935	0	0.00
24	30590I	Other lapse risk - Retirement optionality.	172,711	172,711	0	0.00
25	30599I	Other lapse risk - Lapse diversification	-109,184	-109,184	0	0.00
26	30600I	Expense risk	128,597	128,597	0	0.00
27	30900I	Other life underwriting risk	0	0	0	0.00
28	39900I	Diversification within life underwriting risk	-250,577	-250,577	0	0.00
29	50150I	Premium risk	509,024	509,024	0	0.00
30	50210I	Reserve risk	860,742	860,742	0	0.00
31	50300I	Non-life catastrophe risk	400,736	400,736	0	0.00
32	50500I	Other non-life underwriting risk	0	0	0	0.00

S.25.02.21

Solvency Capital Requirement - for undertakings using the standard formula and partial internal model

	Unique number of component	Component description	Calculation of the Solvency Capital Requirement	Amount modelled	USP	Simplifications
Row	C0010	C0020	C0030	C0070	C0080	C0090
33	59900I	Diversification within non-life underwriting risk	-536,996	-536,996	0	0.00
34	70100I	Operational risk : Total	74,436	0	0	0.00
35	80110I	Other risks - Pension scheme	136,728	136,728	0	0.00
36	80160I	Other risks	0	0	0	0.00
37	80300I	Loss-absorbing capacity of deferred tax	-328,951	-328,951	0	0.00
38	80400I	Other adjustments	67,720	60,480	0	0.00

S.25.02.21

Solvency Capital Requirement - for undertakings using the standard formula and partial internal model

		C0100
	Calculation of Solvency Capital Requirement	
R0110	Total undiversified components	4,738,422
R0060	Diversification	-1,194,257
R0160	Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	0
R0200	**Solvency capital requirement excluding capital add-on**	3,544,165
R0210	Capital add-ons already set	0
R0220	**Solvency capital requirement**	3,544,165
	Other information on SCR	
R0300	Amount/estimate of the overall loss-absorbing capacity of technical provisions	-215,821
R0310	Amount/estimate of the overall loss-absorbing capacity ot deferred taxes	-424,077
R0400	Capital requirement for duration-based equity risk sub-module	0
R0410	Total amount of Notional Solvency Capital Requirements for remaining part	2,581,130
R0420	Total amount of Notional Solvency Capital Requirement for ring fenced funds	809,184
R0430	Total amount of Notional Solvency Capital Requirement for matching adjustment portfolios	153,851
R0440	Diversification effects due to RFF nSCR aggregation for article 304	0

S.28.02.01

Minimum Capital Requirement - Both life and non-life insurance activity

		Non-life activities	Life activities
		$MCR_{(NL,NL)}$ Result	$MCR_{(NL,L)}$ Result
		C0010	C0020
R0010	**Linear formula component for non-life insurance and reinsurance obligations**	259,419	0

		Non-life activities		Life activities	
		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months	Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
		C0030	C0040	C0050	C0060
R0020	Medical expense insurance and proportional reinsurance	0	0		
R0030	Income protection insurance and proportional reinsurance	3,755	13,291		
R0040	Workers' compensation insurance and proportional reinsurance	0	0		
R0050	Motor vehicle liability insurance and proportional reinsurance	427,419	254,684		
R0060	Other motor insurance and proportional reinsurance	109,435	245,574		
R0070	Marine, aviation and transport insurance and proportional reinsurance	357	4,674		
R0080	Fire and other damage to property insurance and proportional reinsurance	253,800	470,511		
R0090	General liability insurance and proportional reinsurance	768,173	183,446		
R0100	Credit and suretyship insurance and proportional reinsurance	0	0		
R0110	Legal expenses insurance and proportional reinsurance	59	7,953		
R0120	Assistance and proportional reinsurance	964	933		
R0130	Miscellaneous financial loss insurance and proportional reinsurance	18,123	30,739		
R0140	Non-proportional health reinsurance	0	0		
R0150	Non-proportional casualty reinsurance	0	0		
R0160	Non-proportional marine, aviation and transport reinsurance	0	0		
R0170	Non-proportional property reinsurance	0	0		

		$MCR_{(L,NL)}$ Result	$MCR_{(L,L)}$ Result
		C0070	C0080
R0200	**Linear formula component for life insurance and reinsurance obligations**	335	69,155

		Non-life activities		Life activities	
		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk	Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk
		C0090	C0100	C0110	C0120
R0210	Obligations with profit participation - guaranteed benefits			2,404,186	
R0220	Obligations with profit participation - future discretionary benefits			1,318,001	
R0230	Index-linked and unit-linked insurance obligations			2,795,256	
R0240	Other life (re)insurance and health (re)insurance obligations	15,971		1,306,002	
R0250	Total capital at risk for all life (re)insurance obligations				2,490,515

	Overall MCR calculation	C0130
R0300	Linear MCR	328,910
R0310	SCR	3,544,165
R0320	MCR cap	1,594,874
R0330	MCR floor	886,041
R0340	Combined MCR	886,041
R0350	Absolute floor of the MCR	6,664
R0400	**Minimum Capital Requirement**	886,041

	Notional non-life and life MCR calculation	C0140	C0150
R0500	Notional linear MCR	259,755	69,155
R0510	Notional SCR excluding add-on (annual or latest calculation)	2,798,985	745,180
R0520	Notional MCR cap	1,259,543	335,331
R0530	Notional MCR floor	699,746	186,295
R0540	Notional combined MCR	699,746	186,295
R0550	Absolute floor of the notional MCR	3,332	3,332
R0560	**Notional MCR**	699,746	186,295

Avon Insurance plc

Solvency and Financial Condition Report

Disclosures

31 December

2016

(Monetary amounts in GBP thousands)

General information

Undertaking name	Avon Insurance plc
Undertaking identification code	213800XFUL3GDVFD4U46
Type of code of undertaking	LEI
Type of undertaking	Non-life undertakings
Country of authorisation	GB
Language of reporting	en
Reporting reference date	31 December 2016
Currency used for reporting	GBP
Accounting standards	The undertaking is using local GAAP (other than IFRS)
Method of Calculation of the SCR	Standard formula
Matching adjustment	No use of matching adjustment
Volatility adjustment	No use of volatility adjustment
Transitional measure on the risk-free interest rate	No use of transitional measure on the risk-free interest rate
Transitional measure on technical provisions	No use of transitional measure on technical provisions

List of reported templates

S.02.01.02 - Balance sheet
S.05.01.02 - Premiums, claims and expenses by line of business
S.05.02.01 - Premiums, claims and expenses by country
S.17.01.02 - Non-Life Technical Provisions
S.19.01.21 - Non-Life insurance claims
S.23.01.01 - Own Funds
S.25.01.21 - Solvency Capital Requirement - for undertakings on Standard Formula
S.28.01.01 - Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity

S.02.01.02

Balance sheet

		Solvency II value
	Assets	C0010
R0030	Intangible assets	0
R0040	Deferred tax assets	221
R0050	Pension benefit surplus	0
R0060	Property, plant & equipment held for own use	0
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	46,083
R0080	*Property (other than for own use)*	0
R0090	*Holdings in related undertakings, including participations*	0
R0100	*Equities*	0
R0110	*Equities - listed*	0
R0120	*Equities - unlisted*	0
R0130	*Bonds*	26,083
R0140	*Government Bonds*	10,113
R0150	*Corporate Bonds*	15,970
R0160	*Structured notes*	0
R0170	*Collateralised securities*	0
R0180	*Collective Investments Undertakings*	0
R0190	*Derivatives*	
R0200	*Deposits other than cash equivalents*	20,000
R0210	*Other investments*	0
R0220	Assets held for index-linked and unit-linked contracts	0
R0230	Loans and mortgages	0
R0240	*Loans on policies*	0
R0250	*Loans and mortgages to individuals*	0
R0260	*Other loans and mortgages*	0
R0270	Reinsurance recoverables from:	24,783
R0280	*Non-life and health similar to non-life*	24,783
R0290	*Non-life excluding health*	23,855
R0300	*Health similar to non-life*	928
R0310	*Life and health similar to life, excluding index-linked and unit-linked*	0
R0320	*Health similar to life*	0
R0330	*Life excluding health and index-linked and unit-linked*	0
R0340	*Life index-linked and unit-linked*	0
R0350	Deposits to cedants	0
R0360	Insurance and intermediaries receivables	347
R0370	Reinsurance receivables	0
R0380	Receivables (trade, not insurance)	3,294
R0390	Own shares (held directly)	0
R0400	Amounts due in respect of own fund items or initial fund called up but not yet paid in	0
R0410	Cash and cash equivalents	1,582
R0420	Any other assets, not elsewhere shown	1
R0500	**Total assets**	76,311

S.02.01.02

Balance sheet

		Solvency II value
	Liabilities	C0010
R0510	Technical provisions - non-life	29,994
R0520	*Technical provisions - non-life (excluding health)*	25,819
R0530	*TP calculated as a whole*	0
R0540	*Best Estimate*	23,968
R0550	*Risk margin*	1,851
R0560	*Technical provisions - health (similar to non-life)*	4,174
R0570	*TP calculated as a whole*	0
R0580	*Best Estimate*	3,708
R0590	*Risk margin*	466
R0600	Technical provisions - life (excluding index-linked and unit-linked)	0
R0610	*Technical provisions - health (similar to life)*	0
R0620	*TP calculated as a whole*	
R0630	*Best Estimate*	
R0640	*Risk margin*	
R0650	*Technical provisions - life (excluding health and index-linked and unit-linked)*	0
R0660	*TP calculated as a whole*	
R0670	*Best Estimate*	
R0680	*Risk margin*	
R0690	Technical provisions - index-linked and unit-linked	0
R0700	*TP calculated as a whole*	
R0710	*Best Estimate*	
R0720	*Risk margin*	
R0740	Contingent liabilities	0
R0750	Provisions other than technical provisions	0
R0760	Pension benefit obligations	0
R0770	Deposits from reinsurers	0
R0780	Deferred tax liabilities	0
R0790	Derivatives	
R0800	Debts owed to credit institutions	0
R0810	Financial liabilities other than debts owed to credit institutions	0
R0820	Insurance & intermediaries payables	0
R0830	Reinsurance payables	1,295
R0840	Payables (trade, not insurance)	0
R0850	Subordinated liabilities	0
R0860	*Subordinated liabilities not in BOF*	0
R0870	*Subordinated liabilities in BOF*	0
R0880	Any other liabilities, not elsewhere shown	13,369
R0900	**Total liabilities**	44,657
R1000	**Excess of assets over liabilities**	31,654

S.05.01.02

Premiums, claims and expenses by line of business

Non-life

		Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)												Line of business for: accepted non-proportional reinsurance				Total
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Misc. financial loss	Health	Casualty	Marine, aviation and transport	Property	
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0200
	Premiums written																	
R0110	Gross - Direct Business		28,166		510	0	0	1	161		0	1	199					29,038
R0120	Gross - Proportional reinsurance accepted		0		0	0	0	0	0		0	0	0					0
R0130	Gross - Non-proportional reinsurance accepted																	0
R0140	Reinsurers' share		9,820		510	0	0	1	195		0	1	199					10,727
R0200	Net		18,346		0	0	0	0	-35		0	0	0					18,311
	Premiums earned																	
R0210	Gross - Direct Business		28,294		511	0	0	3	173		0	1	232					29,214
R0220	Gross - Proportional reinsurance accepted		0		0	0	0	0	0		0	0	0					0
R0230	Gross - Non-proportional reinsurance accepted																	0
R0240	Reinsurers' share		9,862		511	0	0	3	208		0	1	232					10,817
R0300	Net		18,432		0	0	0	0	-35		0	0	0					18,397
	Claims incurred																	
R0310	Gross - Direct Business		3,437		377	0	0	2	2,238		0	0	693					6,748
R0320	Gross - Proportional reinsurance accepted		0		0	0	0	0	0		0	0	0					0
R0330	Gross - Non-proportional reinsurance accepted																	0
R0340	Reinsurers' share		978		475	0	0	7	-975		0	0	1,100					1,585
R0400	Net		2,459		-98	0	0	-5	3,214		0	0	-407					5,163
	Changes in other technical provisions																	
R0410	Gross - Direct Business		1		-98	0	0	-98	-4,755		0	0	206					-4,744
R0420	Gross - Proportional reinsurance accepted		0		0	0	0	0	0		0	0	0					0
R0430	Gross - Non-proportional reinsurance accepted																	0
R0440	Reinsurers' share		0		30	0	0	0	1,841		0	0	45					1,916
R0500	Net		1		-128	0	0	-98	-6,595		0	0	160					-6,660
R0550	**Expenses incurred**		7,075		86	0	0	0	27		0	0	34					7,223
R1200	**Other expenses**																	0
R1300	**Total expenses**																	7,223

S.05.02.01

Premiums, claims and expenses by country

Non-life

		C0010	C0020	C0030	C0040	C0050	C0060	C0070
		Home Country	Top 5 countries (by amount of gross premiums written) - non-life obligations			Top 5 countries (by amount of gross premiums written) - non-life obligations		Total Top 5 and home country
R0010								
		C0080	C0090	C0100	C0110	C0120	C0130	C0140
	Premiums written							
R0110	Gross - Direct Business	29,038						29,038
R0120	Gross - Proportional reinsurance accepted	0						0
R0130	Gross - Non-proportional reinsurance accepted	0						0
R0140	Reinsurers' share	10,727						10,727
R0200	Net	18,311	0	0	0	0	0	18,311
	Premiums earned							
R0210	Gross - Direct Business	29,214						29,214
R0220	Gross - Proportional reinsurance accepted	0						0
R0230	Gross - Non-proportional reinsurance accepted	0						0
R0240	Reinsurers' share	10,817						10,817
R0300	Net	18,397	0	0	0	0	0	18,397
	Claims incurred							
R0310	Gross - Direct Business	6,748						6,748
R0320	Gross - Proportional reinsurance accepted	0						0
R0330	Gross - Non-proportional reinsurance accepted	0						0
R0340	Reinsurers' share	1,585						1,585
R0400	Net	5,163	0	0	0	0	0	5,163
	Changes in other technical provisions							
R0410	Gross - Direct Business	-4,744						-4,744
R0420	Gross - Proportional reinsurance accepted	0						0
R0430	Gross - Non-proportional reinsurance accepted	0						0
R0440	Reinsurers' share	1,916						1,916
R0500	Net	-6,660	0	0	0	0	0	-6,660
R0550	**Expenses incurred**	7,223						7,223
R1200	**Other expenses**							0
R1300	**Total expenses**							7,223

S.17.01.02

Non-Life Technical Provisions

		Direct business and accepted proportional reinsurance												Accepted non-proportional reinsurance				
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Miscellaneous financial loss	Non-proportional health reinsurance	Non-proportional casualty reinsurance	Non-proportional marine, aviation and transport reinsurance	Non-proportional property reinsurance	Total Non-Life obligation
		C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0170	C0180
R0010	**Technical provisions calculated as a whole**		0		0	0	0	0	0		0	0	0					0
R0050	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole		0		0	0	0	0	0		0	0	0					0
	Technical provisions calculated as a sum of BE and RM																	
	Best estimate																	
	Premium provisions																	
R0060	Gross		303		5	2	0	0	219		0	0	0					529
R0140	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default		73		5	2	0	0	219		0	0	0					298
R0150	**Net Best Estimate of Premium Provisions**		231		0	0	0	0	0		0	0	0					231
	Claims provisions																	
R0160	Gross		3,404		502	193	0	0	23,048		0	0	0					27,147
R0240	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default		855		500	192	0	0	22,938		0	0	0					24,485
R0250	**Net Best Estimate of Claims Provisions**		2,549		2	1	0	0	110		0	0	0					2,663
R0260	**Total best estimate - gross**		3,708		507	195	0	0	23,267		0	0	0					27,676
R0270	**Total best estimate - net**		2,779		2	1	0	0	111		0	0	0					2,893
R0280	**Risk margin**		466		39	15	0	0	1,797		0	0	0					2,318
	Amount of the transitional on Technical Provisions																	
R0290	Technical Provisions calculated as a whole		0		0	0	0	0	0		0	0	0					0
R0300	Best estimate		0		0	0	0	0	0		0	0	0					0
R0310	Risk margin		0		0	0	0	0	0		0	0	0					0
R0320	**Technical provisions - total**		4,174		546	210	0	0	25,064		0	0	0					29,994
R0330	**Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total**		928		504	194	0	0	23,156		0	0	0					24,783
R0340	**Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total**		3,246		42	16	0	0	1,907		0	0	0					5,211

S.19.01.21

Non-Life insurance claims

Total Non-life business

Z0010	Accident year / underwriting year	Accident Year

Gross Claims Paid (non-cumulative)
(absolute amount)

	Year	C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0170	C0180
		Development year											In Current year	Sum of years (cumulative)
		0	1	2	3	4	5	6	7	8	9	10 & +		
R0100	Prior											1,517	1,517	1,517
R0160	N-9	1,737	1,984	404	136	57	0	0	0	0	0		0	4,317
R0170	N-8	1,399	2,088	168	11	24	14	0	0	0			0	3,704
R0180	N-7	1,542	1,153	256	313	16	0	0	0				0	3,280
R0190	N-6	1,987	1,868	357	26	2	16	0					0	4,255
R0200	N-5	2,956	1,862	177	70	123	24						24	5,212
R0210	N-4	2,470	1,602	511	78	100							100	4,761
R0220	N-3	2,288	1,120	629	196								196	4,232
R0230	N-2	2,686	1,862	79									79	4,626
R0240	N-1	2,359	1,520										1,520	3,879
R0250	N	2,482											2,482	2,482
R0260												Total	5,917	42,265

Gross Undiscounted Best Estimate Claims Provisions
(absolute amount)

	Year	C0200	C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0290	C0300	C0360
		Development year											Year end (discounted data)
		0	1	2	3	4	5	6	7	8	9	10 & +	
R0100	Prior											23,786	22,412
R0160	N-9	0	0	0	0	0	0	0	0	0	124		123
R0170	N-8	0	0	0	0	0	0	0	0	0			0
R0180	N-7	0	0	0	0	0	0	0	6				6
R0190	N-6	0	0	0	0	0	0	57					56
R0200	N-5	0	0	0	0	0	29						29
R0210	N-4	0	0	0	0	93							92
R0220	N-3	0	0	0	347								345
R0230	N-2	0	0	687									682
R0240	N-1	0	919										912
R0250	N	2,507											2,490
R0260												Total	27,147

S.23.01.01

Own Funds

	Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35	Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
R0010	Ordinary share capital (gross of own shares)	20,000	20,000		0	
R0030	Share premium account related to ordinary share capital	0	0		0	
R0040	Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings	0	0		0	
R0050	Subordinated mutual member accounts	0		0	0	0
R0070	Surplus funds	0	0			
R0090	Preference shares	0		0	0	0
R0110	Share premium account related to preference shares	0		0	0	0
R0130	Reconciliation reserve	11,434	11,434			
R0140	Subordinated liabilities	0		0	0	0
R0160	An amount equal to the value of net deferred tax assets	221				221
R0180	Other own fund items approved by the supervisory authority as basic own funds not specified above	0	0	0	0	0
R0220	**Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds**	0				
R0230	**Deductions for participations in financial and credit institutions**	0				
R0290	**Total basic own funds after deductions**	31,654	31,434	0	0	221
	Ancillary own funds					
R0300	Unpaid and uncalled ordinary share capital callable on demand	0				
R0310	Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	0				
R0320	Unpaid and uncalled preference shares callable on demand	0				
R0330	A legally binding commitment to subscribe and pay for subordinated liabilities on demand	0				
R0340	Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	0				
R0350	Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	0				
R0360	Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0				
R0370	Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0				
R0390	Other ancillary own funds	0				
R0400	**Total ancillary own funds**	0			0	0
	Available and eligible own funds					
R0500	Total available own funds to meet the SCR	31,654	31,434	0	0	221
R0510	Total available own funds to meet the MCR	31,434	31,434	0	0	
R0540	Total eligible own funds to meet the SCR	31,654	31,434	0	0	221
R0550	Total eligible own funds to meet the MCR	31,434	31,434	0	0	
R0580	**SCR**	8,303				
R0600	**MCR**	3,332				
R0620	**Ratio of Eligible own funds to SCR**	381.24%				
R0640	**Ratio of Eligible own funds to MCR**	943.43%				

	Reconcilliation reserve	C0060
R0700	Excess of assets over liabilities	31,654
R0710	Own shares (held directly and indirectly)	0
R0720	Foreseeable dividends, distributions and charges	0
R0730	Other basic own fund items	20,221
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	0
R0760	**Reconciliation reserve**	11,434
	Expected profits	
R0770	Expected profits included in future premiums (EPIFP) - Life business	0
R0780	Expected profits included in future premiums (EPIFP) - Non- life business	0
R0790	**Total Expected profits included in future premiums (EPIFP)**	0

S.25.01.21

Solvency Capital Requirement - for undertakings on Standard Formula

		Gross solvency capital requirement	USP	Simplifications
		C0110	C0080	C0090
R0010	Market risk	3,603		
R0020	Counterparty default risk	3,689		
R0030	Life underwriting risk	0		
R0040	Health underwriting risk	5,790		
R0050	Non-life underwriting risk	0		
R0060	Diversification	-3,708		
R0070	Intangible asset risk	0		
R0100	**Basic Solvency Capital Requirement**	9,374		

	Calculation of Solvency Capital Requirement	C0100
R0130	Operational risk	876
R0140	Loss-absorbing capacity of technical provisions	0
R0150	Loss-absorbing capacity of deferred taxes	-1,948
R0160	Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	0
R0200	**Solvency Capital Requirement excluding capital add-on**	8,303
R0210	Capital add-ons already set	0
R0220	**Solvency capital requirement**	8,303
	Other information on SCR	
R0400	Capital requirement for duration-based equity risk sub-module	0
R0410	Total amount of Notional Solvency Capital Requirements for remaining part	0
R0420	Total amount of Notional Solvency Capital Requirements for ring fenced funds	0
R0430	Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	0
R0440	Diversification effects due to RFF nSCR aggregation for article 304	0

S.28.01.01

Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity

	Linear formula component for non-life insurance and reinsurance obligations	C0010
R0010	MCR_{NL} Result	1,935

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
		C0020	C0030
R0020	Medical expense insurance and proportional reinsurance	0	0
R0030	Income protection insurance and proportional reinsurance	2,779	18,346
R0040	Workers' compensation insurance and proportional reinsurance	0	0
R0050	Motor vehicle liability insurance and proportional reinsurance	2	0
R0060	Other motor insurance and proportional reinsurance	1	0
R0070	Marine, aviation and transport insurance and proportional reinsurance	0	0
R0080	Fire and other damage to property insurance and proportional reinsurance	0	0
R0090	General liability insurance and proportional reinsurance	111	0
R0100	Credit and suretyship insurance and proportional reinsurance	0	0
R0110	Legal expenses insurance and proportional reinsurance	0	0
R0120	Assistance and proportional reinsurance	0	0
R0130	Miscellaneous financial loss insurance and proportional reinsurance	0	0
R0140	Non-proportional health reinsurance	0	0
R0150	Non-proportional casualty reinsurance	0	0
R0160	Non-proportional marine, aviation and transport reinsurance	0	0
R0170	Non-proportional property reinsurance	0	0

	Linear formula component for life insurance and reinsurance obligations	C0040
R0200	MCR_L Result	0

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk
		C0050	C0060
R0210	Obligations with profit participation - guaranteed benefits		
R0220	Obligations with profit participation - future discretionary benefits		
R0230	Index-linked and unit-linked insurance obligations		
R0240	Other life (re)insurance and health (re)insurance obligations		
R0250	Total capital at risk for all life (re)insurance obligations		

	Overall MCR calculation	C0070
R0300	Linear MCR	1,935
R0310	SCR	8,303
R0320	MCR cap	3,736
R0330	MCR floor	2,076
R0340	Combined MCR	2,076
R0350	Absolute floor of the MCR	3,332
R0400	**Minimum Capital Requirement**	3,332