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Stratford-upon-Avon
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nfumutual.co.uk

8 May 2018

EXTERNAL AUDIT TENDER

In 2017, NFU Mutual's Audit Committee undertook a formal tender for the role of external auditor for the 2018 financial year. The tender was undertaken to comply with the EU Audit Directive which requires mandatory rotation of audit firms. As a result, PricewaterhouseCoopers was not invited to participate in the tender.

Having reviewed the external audit market, the Committee invited three firms to participate in the tender. To select this shortlist, the Committee considered:

- the results of the Financial Reporting Council's assessment of audit quality for each firm, with firms with a good track record of audits scoring in the highest tier being preferred;
- each firm's Transparency Report for 2016 to determine their level of experience of auditing companies within the insurance industry; and
- each firm's geographical location for the core audit team.

Audit firms undertaking significant strategic consultancy services for the Group were excluded from the tender. One audit firm decided not to tender due to other commitments.

Each of the remaining two firms was given access to the same information and to senior management, including meetings with the Chief Executive, Finance Director, Group Head of Internal Audit, senior Finance Managers and the Audit Committee Chairman, to allow them to prepare for the tender. A review panel was set up comprising the Audit Committee, Chief Executive, Finance Director, senior Finance Managers and Chief Risk Officer. Selection criteria were used to assess the tenders. The criteria included the firm's approach to auditing key aspects of reporting, risk and audit quality, the skills, experience and effectiveness of the audit partner and team, industry specific experience, cultural fit, planning for the transition from PricewaterhouseCoopers and succession planning for the audit partner and team.

Having reviewed the tenders against the selection criteria, the panel recommended that Deloitte be appointed as external auditor for the 2018 financial year. The Audit Committee subsequently reviewed this recommendation and agreed that the appointment of Deloitte should be recommended to the Board for approval. The Audit Committee believed that Deloitte was a better match against the selection criteria than the other candidate Mazars LLP. The Committee confirms that the recommendation is free from influence by a third party and that there is no contractual restriction on NFU Mutual's choice of auditor. The Board, having considered the recommendation, approved the appointment. At the AGM, a resolution will be proposed to appoint Deloitte as external auditor for the 2018 financial year.

In accordance with relevant legislation, PricewaterhouseCoopers has presented a letter setting out the reasons for its resignation as external auditor. A copy of this letter is set out overleaf.



The Directors
The National Farmers Union Mutual Insurance Society Limited
Tiddington Road
Stratford upon Avon
Warwickshire
CV37 7BJ

8 May 2018

Dear Sirs,

Statement of Reasons connected with ceasing to hold office as Auditors

In accordance with Section 519 of the Companies Act 2006 (the “Act”), we set out below the reasons connected with PricewaterhouseCoopers LLP, registered auditor number CO01004062, ceasing to hold office as auditors of The National Farmers Union Mutual Insurance Society Limited, registered no: 111982 (the “Company”) effective from 20 June 2018.

The reason we are ceasing to hold office is that the Company undertook a competitive tender process for the position of statutory auditor and we mutually agreed with the Audit Committee not to participate due to the time of our tenure.

There are no reasons for and no other matters connected with our ceasing to hold office as auditors of the Company that we consider need to be brought to the attention of the Company’s members or creditors.

Yours faithfully,

PricewaterhouseCoopers LLP