REPORT AND ACCOUNTS 2021

NFU Mutual
INSURANCE | PENSIONS | INVESTMENTS

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CHAIRMAN'S STATEMENT

Despite the challenges of the last 12 months, I am pleased to reflect on 2021 as another year when NFU Mutual focused on serving our members whilst remaining resilient.

In 2021 the Group achieved an overall profit of £182m (2020: £143m loss), and over the last year we have been strategically investing in our capabilities to protect and enhance this organisation for customers now and in years to come.

In my last statement I talked of forthcoming changes and plans for growth. Since taking over as Group Chief Executive on 1st April 2021, Nick Turner has continued to build and strengthen NFU Mutual to deliver our three strategic objectives. Under his leadership we will continue to grow and provide our customers with a first-class service, even during turbulent times.

Nick Turner was previously Sales and Agency Director, and so it's my pleasure to now welcome his successor in that role, Nick Watson, who joined our Board in May 2021. Nick Watson has over 30 years of financial services experience, 24 of which have been in insurance. He has a strong reputation working with broker networks – experience which is proving invaluable when working alongside and supporting our Agency network.

Like many other businesses, the pandemic has tested us at NFU Mutual, however by staying true to our strategy, we've continued to deliver a great service to our members. Despite seeing strong premium growth with an increase in Gross Written Premium Income* to £1,825m (2020: 1,705m), in 2021 our core General Insurance business delivered an underwriting loss of £89m (2020: £109m profit) which reflects a challenging year for claims costs due to the economic and inflationary effects of Brexit and Coronavirus. This result also reflects the surge in claims experienced towards the end of the year as many of our members were significantly impacted by Storm Arwen, and we provided claims support quickly and efficiently to help.

We pride ourselves on being active and responsible members of our community. Our 2021 results are published this year against the backdrop of the awful situation in Ukraine. We are seeing extraordinary efforts by farmers, rural communities and the farming unions to support and show solidarity with the people of Ukraine. NFU Mutual stands together with our communities across the UK to support the humanitarian effort. We confirmed in early 2022 that we will divest from Russian holdings at the earliest opportunity and through our Charitable Trust we have donated £150,000 to the Disasters Emergency Committee Appeal. We support the issues that are important to our members and our thoughts go to all of those affected.

In 2021, in response to the ongoing impact of the Coronavirus pandemic, we doubled the donations of our Agency Giving Fund to £2m and donated an additional £750k in funding to our Charitable Trust.

* Gross Written Premium Income before Mutual Bonus as a non statutory performance, see Glossary on page 168.

By working closely with our Agency network and charity partners, in the last year we've donated more than £3 million to national and local organisations delivering vital services and practical and emotional help during these challenging times.

Brexit and supply chain issues have presented many challenges for our customers. The disruption within the agricultural supply chain and sharp price inflation has put immense pressure on our farming members. We continue to focus on farming and the rural community and in 2021 we made voluntary donations totaling £7.78m to the Farming Unions who are continuing to support rural businesses and families around the UK.

In 2021 we also continued our support of The Farm Safety Foundation, which included delivering their bite-sized 'mental health in farming' training sessions for NFU Mutual agents and farmers. We also invested £430,000 to support local, regional and national initiatives to continue to help farmers and rural communities tackle the menace of rural crime. This included funding a dedicated agricultural vehicle theft unit at the National Vehicle Crime Intelligence Service to help identify and recover stolen vehicles, as well as supporting the newly established ACE (Agricultural and Construction Equipment) police unit.

We know that road safety is a major concern for our customers and so in December we launched a new campaign, teaming up with The British Horse Society, British Cycling and THINK! – the UK Government's road safety campaign – to try to reduce the risks for all rural road users.

Standing up and being part of the solution is a key driver for NFU Mutual as a responsible business. We are continuing our work on climate change, and as a farmer and businessman myself, I know the importance of the role agriculture and business have to play.

In 2021 we developed our Net Zero Roadmap which outlines our ambition to become a net zero business by 2050, including targets for a 25% reduction in our own emissions by 2025 and a 50% reduction by 2030. NFU Mutual has been an active and responsible member of our communities for over 110 years, and in 2021 we undertook a series of initiatives to help reduce our direct impacts on the environment.

Over the last year we offered our customers access to a network of mechanical repairers who offer a green parts alternative for mechanical damage claims. Providing our customers with the option of using these undamaged and reusable parts from original equipment manufacturers means they can opt for a solution to reduce environmental impact whilst also speeding up the repair process and limiting costs. Towards the end of the year we also ran a pilot to extend this into our bodyshop network and asked customers if they would like to use green parts. This has given us some useful insight which will now help inform our longer-term strategy of reducing the carbon footprint of repairs.

Continuing our work in this area, last year we also partnered with NFU Energy on their Renewable Energy Solutions service, which will help and support NFU Members with their insurance needs at every stage of their renewable energy journey.

We use 100% renewable electricity across all of our managed office sites occupied by NFU Mutual employees and during 2021 we started our roll out of upgraded building management systems, which gives us tighter control of our energy consumption.

At NFU Mutual we're responsible for the occupational offices we work from and the investment properties we manage to deliver long-term financial performance. Our property investment team support positive environmental and social outcomes alongside investment performance and in 2021 committed to £400m of transactions that will assist in improving exposure to energy efficient investments.

It's important to us that we partner with like-minded suppliers and work closely with them to ensure they share our values, something we know is also important to our members. In 2021, we continued to support social enterprises and signed up to become a partner on the Buy Social Corporate Challenge, which helps businesses to direct their procurement spend towards social enterprises. An example of this is our stationery supplier, WildHearts, which reinvests profits to provide education and business loans to help people around the world work their way out of poverty.

Continually working to improve and enhance the way we do business to protect our members and all our futures is something we feel passionately about, and I know this is a focus we share with our network of Agencies across the UK. Each small improvement we make can collectively drive positive change and I would like to thank our agencies and their staff for the important role they play in our shared vision. NFU Mutual employees have also worked tirelessly over the last year to ensure we continue to deliver for our customers, and I would also like to thank them for their ongoing commitment.

I'm proud to be Chairman of an organisation that year on year delivers on its promises and attracts such loyalty from its members – thank you all.

Jim McLaren
Chairman

FINANCIAL HIGHLIGHTS

GROUP

£182m
Profit for the financial year
2020: £143m Loss

£22.2bn
Total Funds under Management*
2020: £20.8bn

GENERAL INSURANCE

£1,825m
GWPI before Mutual Bonus*
2020: £1,705m

(£89m)
Underwriting Loss*
2020: £109m profit

105.4%
Combined Operating Ratio (COR)*
2020: 93.1%

FINANCIAL SERVICES LIFE

£72.7m
APE – New Business*
2020: £59.8m

£13.7bn
Life Funds under Management*
2020: £12.8bn

* We use a range of performance measures (APM) to assess business performance some of which are not defined or specified under the requirements of Financial Reporting Standards. They provide readers with important additional information on our business. A glossary explains why we have chosen to use them (page 168).

CHIEF EXECUTIVE'S STATEMENT

In this, my first statement as Group Chief Executive of NFU Mutual, I am pleased to be able to report a good year of performance across the business.

As a Board member of NFU Mutual for over eight years, I am committed to now leading this business to deliver on our three long-term objectives: to be a great company to do business with, deliver sustainable profitable growth and be a great place to work.

In 2021, our organisation delivered a healthy set of results - a reflection of our long-term strategy and the continued loyalty of our members.

The Group achieved an overall profit of £182m (2020: £143m loss). Our investments performed well and funds under management rose by 6.8% to £22.2bn (2020: £20.8bn) as we saw a recovery in investment and underlying stock returns. We invest for the long-term and therefore have the foundation to remain stable when external factors affect the value of investments; as seen in recent years, and most lately following the crisis in Ukraine.

Our General Insurance (GI) business was impacted by the ongoing economic conditions. This, coupled with a surge in claims in the later months due to weather events, led to an underwriting loss of £89m (2020: £109m profit).

During another year of lockdowns and unprecedented uncertainty, in 2021 our GI premiums grew by 7.0% to £1825m (2020: £1,705m), which includes £111m (2020: £107m) of new business which is a real achievement.

Attracting new customers who appreciate the way we do business and continuing to support our existing customers has always been our focus. Unlike many other insurers, we've been rewarding our loyal customers with a Mutual Bonus for over 20 years. In 2021 we were again able to provide a significant Mutual Bonus of £250m (2020: £252m) to our renewing GI customers.

Building long-term relationships is at the heart of NFU Mutual. We don't penalise members for their loyalty and we believe that's why they stay with us. In 2021 the percentage of GI policies renewed remained high with exceptional persistency levels of 95.5% (2020: 95.5%).

I believe the loyalty shown by our members tells us that they are receiving the insurance cover they need, at the right price and with a first-class service. In 2021 we were named a Which? Recommended Provider for home and motor for the 11th consecutive year – an accolade that we value because it's independent and based on the views of their members.

At NFU Mutual we carefully balance delivering excellent service to our customers whilst ensuring the business is run effectively. As a mutual, supporting our customers and paying their claims comes first.

In 2021 our Combined Operating Ratio was impacted by claims and ended the year at 105.4% (2020: 93.1%). We saw healthy persistency and premium growth which helped to reduce this impact; however, it was outweighed by the rising costs of paying claims due to inflation and the overall economic environment. We remain within our target to achieve a COR of 98% over the long-term – a result which reflects our strategy to write profitable and sustainable business whilst offering outstanding levels of customer service.

Turning to Financial Services, our pensions, protection and investments experienced a good year in 2021. I'm pleased to report that new sales growth measured by Annual Premium Equivalent (APE) grew by 21.6% to £72.7m (2020: £59.8m) as retail investor confidence picked-up.

Our solvency ratio remains steady at 204% (2020: 205%), and after a turbulent year our focus on investing for the long-term continues to serve our members well, helping us build on our financial strength and the resilience of the business year on year.

I have heard many real-life stories over the years of how this organisation and its people have supported customers. This isn't something we just say, it's central to what we do at NFU Mutual. Our work in local communities sets us apart and is something I am proud of.

In my first nine months as Group Chief Executive I continue to see the lengths our people will go to provide such great levels of customer support. In 2021, Storm Arwen caused significant damage and disruption to parts of the UK, affecting more than 7,000 of our customers. Our emergency claims response programme provided our customers with same-day payments to make emergency purchases, such as arranging alternative accommodation and starting repair work. Our claims handlers and out of hours teams worked closely with our Agencies who were out in force as part of the national effort to assist customers and ensure we were there to support their urgent needs.

I see the commitment every day in the people who work here. It's a strength that can be hard to achieve and even harder to maintain and that's why I'm delighted that for the seventh year running, we have achieved 'World Class' status in the annual Gallup survey, with 82% of our people saying they feel engaged. To put this into perspective, Gallup's world poll found that just 11% of employees within the UK are engaged.

Having a positive impact on the communities we work in is one of the things we stand for, and our customers tell us it's one of the reasons they like to do business with us. We're committed to being a responsible organisation, not only through our community and charity work but also through our approach to climate change.

At NFU Mutual, we acknowledge there is an urgent need for action – not only to respect the wishes of our members who strive to be part of the climate solution, but also to actively reduce our own environmental impact to help drive the transition to a low carbon economy.

We all have a part to play in helping to restore and protect our planet now and in the years to come, and so in 2021 we developed our Net Zero Roadmap, which sets out our ambition to become a net zero business by 2050. Taking into account best practice guidance to ensure our targets and ambitions are credible, this roadmap will ensure our organisation can make a meaningful contribution to limiting global warming and builds on the initiatives already in progress across the business.

We also continue to prioritise supporting our people and in the last 12 months have embraced the opportunity to review the way we work post pandemic by developing our working policies to enable hybrid working, where possible.

Daily life has changed considerably as a result of the Coronavirus pandemic and looking after our employees' wellbeing during these unprecedented times was very important during 2021.

In line with our plans, and using what we learnt during 2020 about how to deliver digital learning to our employees more effectively, we have increased our virtual learning and now have a wider range of development programmes being delivered digitally to support our people wherever they are based.

I know this support is gratefully received and the approach and commitment of our people in the last year has been emphasised throughout the pandemic. The resilience they have shown in response to the crisis has been tremendous, ensuring they continue to deliver the very best for customers, our communities and for one another.

Our network of over 295 agency offices across the UK also continue to work tirelessly to provide excellent service for their communities, playing a key role in local life. I would like to thank every one of those agencies and their people – your work is integral to our success.

Finally, NFU Mutual customers – we will continue to work hard to ensure that you all receive quality insurance cover, at the right price and with a first-class personal service and I would like to thank you for your continued loyalty.

Nick Turner
Group Chief Executive

BUSINESS MODEL AND STRATEGY

NFU Mutual was founded in 1910 by seven Warwickshire farmers and since then we have become the UK's leading rural insurer and part of the fabric of rural life. We remain true to our heritage; no-one is more important to us than farmers and the rural community and, as a mutual, we are concerned with the long-term interests of our members rather than short-term profits.

Our strategy is to provide an attentive, local, personal service that is second to none. Whether communicating with our members face-to-face, on the phone or online, our philosophy remains the same: to provide our members with the insurance cover they need, at a fair price and with a first-class, personal service.

BUSINESS MODEL

We operate our General Insurance business primarily through a network of Tied Agents, located mainly in rural areas throughout the United Kingdom, and supported by Regional Service Centres. Our Agency model provides specialist advice for customers with complex insurance needs alongside a range of products for those whose requirements are less complex and more standard.

Our Financial Advisers offer advice on life assurance, investment and pension products, supported by Non-Advised Sales Consultants who provide non-advised services.

We offer a broad range of products to meet the needs of our members.

OUR STRATEGY

Our strategy supports the achievement of our three long-term objectives and has a particular focus on four areas, as shown on the wheel below. This strategy covers both our General Insurance and Financial Services (Life and Investments) businesses.

SUSTAINABLE PROFITABLE GROWTH

To deliver Sustainable Profitable Growth we concentrate on a limited number of areas called **Cornerstones**. These include defending and growing our core farming markets and replicating the success and expertise we have in farming in other niche sectors of the market.

Our investment strategy underpins our financial strength and stability, with an asset portfolio of £22.2bn (2020: £20.8bn) which

is managed by a dedicated investment and property management team. Although in the short term our investments are subject to normal market volatility, our strategy is long-term and focuses on building quality portfolios for both our Life and General Insurance Business funds.

This long-term view, together with our efficient business model combining product manufacture with effective distribution, enables us to invest for the future with confidence and deliver value for our members.

GREAT COMPANY TO DO BUSINESS WITH

Our customers are at the heart of our business and we constantly strive to improve the value provided to them through our products and services. Delivering long-term **customer value** remains central to our culture and shapes where we prioritise strategic developments.

Value is not just about the price, product features and investment performance. It extends to being efficient and making it easy for our customers to access what they need from us. Most importantly, it is about providing an excellent experience, especially when it is most needed such as during a claim. We work hard to earn the loyalty of our members, by putting long-term relationships before short-term profits.

As the UK's leading rural insurer, we take the support we offer to our members and rural communities very seriously, and this extends beyond insurance into our **Responsible Business** activity. We champion education and awareness campaigns on a number of key issues affecting those who live and work in rural communities. The Farm Safety Foundation helps to raise awareness and reduce risk across the industry and our Risk Management Services subsidiary provides wide-ranging risk management advice to customers. The NFU Mutual Young Drivers' Scheme is aimed at raising awareness of driver safety and improving driving skills on rural roads. We make a voluntary financial contribution to farming unions to support the farming industry as well as funding the work of the NFU Mutual Charitable Trust.

GREAT PLACE TO WORK

Fundamental to achieving our Great Place to Work objective is the **Winning Performance Culture** we have instilled and continue to improve, through a highly engaged workforce, supported by great leadership.

GENERAL INSURANCE BUSINESS STRATEGY

Our long-term strategy to generate both customer and business value differentiates us in an increasingly commoditised and competitive general insurance market.

We aim to provide the protection our members need for their assets, businesses and livelihoods through the provision of highly-rated products offering a broad range of cover as standard.

Our value for money approach extends to our claims service and proactive claims management. We focus on working alongside our members in the fields of rehabilitation for injury claims as well as offering proactive support to claims incidents (such as major localised flooding) together with services aimed specifically at managing risks better.

The General Insurance strategy and business model ensures that the Group continues to meet changing member needs and expectations. The focus remains on developing the Agency model to enhance the customer experience through relationship building, ensuring that we maintain our award-winning service and low-cost base. We will continue to develop and improve access to our products and services through other channels to augment the Agency network over the long term.

The vast majority of products we sell are manufactured in-house. The remainder of our business is represented by specialist business lines, which are sourced from carefully chosen providers.

Key Performance Indicators used:

- Persistency
- Gross Written Premium Income
- Underwriting Profit
- Combined Operating Ratio
- New Business
- Employee Engagement Score

Key performance indicators are calculated excluding Mutual Bonus.

Refer to Strategic Objective KPIs on pages 12 to 13 for more information.

FINANCIAL SERVICES BUSINESS STRATEGY

We remain firmly committed to growing our Financial Services business sustainably by strengthening our relationships with and understanding of our customers, to help meet a broad range of their financial needs.

We aim to provide our customers with high quality advice, delivered by our team of dedicated Financial Advisers, in addition to easy access to quality products without advice when it is not required. This offer is reinforced by a range of high-quality investment funds.

The objectives of the strategy designed to meet this aim are to:

- Ensure the business is sustainably profitable on an overall basis
- Make the Distribution business profitable on a standalone basis.

The Financial Services strategy will:

- Build on and enhance our advised proposition and its performance
- Explore and deepen our distribution channels and invest in these to enhance customer experience and profitability
- Provide access to quality products and services that meet customers' needs
- Use improved data and analytics capabilities to drive customer, adviser and agent insights.

We will continue our successful approach adopted over recent years of providing in-house products and services where we demonstrably add value, otherwise working with carefully selected partners.

This strategy supports two of the four Cornerstones: drive cross sell and deliver financial services aspirations.

Key Performance Indicators used:

- Annual Premium Equivalent
- Life Funds under Management
- Employee Engagement score

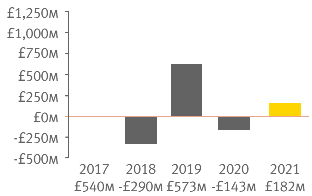
Refer to Strategic Objective KPIs on pages 12 to 13 for more information.

STRATEGIC OBJECTIVE KPIs

SUSTAINABLE PROFITABLE GROWTH (GROUP)

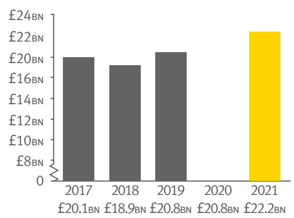
FINANCIAL PERFORMANCE

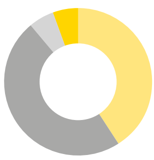
The Group performed well in difficult circumstances, achieving an overall profit of £182m (2020: £143m loss). Our core insurance business was affected by the challenging economic environment and the storms towards the end of the year, however good premium growth was seen and our underlying financial, capital and solvency position has remained very strong.



FUNDS UNDER MANAGEMENT*

The reopening of economies drove a resurgence in growth, leading to a strong year for equity and property assets which boosted overall Group funds to £22.2bn (2020: £20.8bn). The General Business Fund achieved a 2021 return of 7.3% and the three-year annualised return is 5.9%.



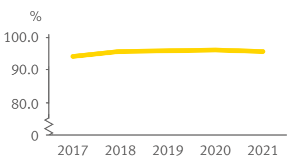


- NFU Mutual General £8.5bn (2020: £8.0bn)
- NFU Mutual Life £10.8bn (2020: £10.3bn)
- OEIC* Funds £1.7bn (2020: £1.4bn)
- NFUMIS Pension Fund £1.2bn (2020: £1.1bn)

GREAT COMPANY TO DO BUSINESS WITH

PERSISTENCY (GENERAL INSURANCE BUSINESS)*

Our persistency levels remained high at 95.5% (2020: 95.5%), with customers maintaining their strong loyalty throughout the Coronavirus pandemic.



GREAT PLACE TO WORK

EMPLOYEE ENGAGEMENT

Our employee engagement remained at world class levels in 2021. We were again awarded the Gallup Exceptional Workplace Award – the only UK-headquartered company to achieve this in 2021 and for the second year running.

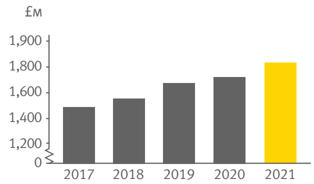
GALLUP

* OEIC - Open Ended Investment Company

SUSTAINABLE PROFITABLE GROWTH (GENERAL BUSINESS)

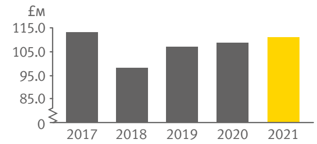
GROSS WRITTEN PREMIUM INCOME (GWPI)*

Our Gross Written Premium Income before Mutual Bonus of £1,825m (2020: £1,705m) showed a 7.0% increase, with excellent levels of customers renewing their policies.



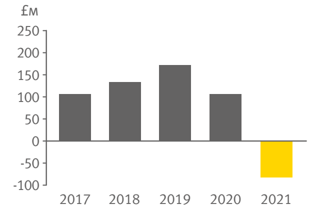
NEW BUSINESS

New business increased by 3.6% in the year to £110.9m (2020: £107m) reflecting a strong performance on Advised Commercial products.



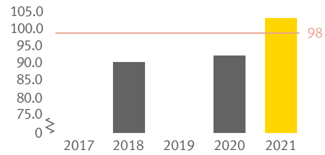
UNDERWRITING PROFIT AND LOSS*

Our General Insurance business ended the year with an underwriting loss of £89m (2020: £109m profit). This result reflects a challenging year for claims costs impacted by the economic and inflationary effects of Brexit and Coronavirus, as well as weather events.



COMBINED OPERATING RATIO (COR)*

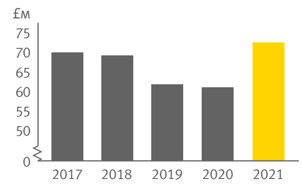
In 2021, our Combined Operating Ratio (COR) was affected by claims costs, the ongoing pandemic and supply chain challenges, ending the year at 105.4% (2020: 93.1%). Our healthy persistency levels and premium growth helped to reduce the impact and we remain within our target to achieve a COR of 98% over the long-term – a result which reflects our strategy to write profitable and sustainable business whilst offering outstanding levels of customer service.



SUSTAINABLE PROFITABLE GROWTH (LIFE BUSINESS)

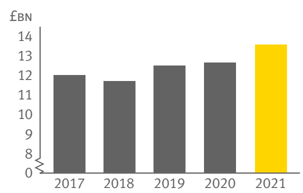
ANNUAL PREMIUM EQUIVALENT (APE)**

Our pensions and investments business achieved an Annual Premium Equivalent (APE) of £72.7m (2020: £59.8m) reflecting a strong set of results for pensions and investment business as retail investor confidence returned.



LIFE FUNDS UNDER MANAGEMENT*

Life fund values increased in 2021 to £13.7bn (2020: £12.8bn) reflecting healthy investment returns across the mixed asset and equity portfolios that form the majority of the underlying funds.



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BUSINESS REVIEW 2021

Finance Director, Richard Morley

The Group achieved a solid performance in 2021, delivering an overall profit of £182m (2020: £143m loss). Our investments did well and delivered a positive return, more than covering the cost of mutual bonus and the underwriting loss.

The General Insurance (GI) business was affected by the difficult economic environment and also the storms in the later months of 2021, and therefore ended the year with an underwriting loss of £89m (2020: £109m profit).

Our pensions and investments business continued to perform well, achieving an Annual Premium Equivalent (APE) of £72.7m (2020: £59.8m).

	2021	2020
Underwriting (Loss) / Profit	(£89m)	£109M
Mutual Bonus Earned	(£251M)	(£255M)
Allocated Investment Return	£46M	£39M
Balance on the Technical Account	**(£294M)**	**(£107M)**
Investment Return	£555M	(£30M)
Other Income and Expenses	(£41M)	(£35M)
Taxation	(£38M)	£29M
Profit / (Loss) for the year	**£182M**	**(£143M)**

Mutual bonus earned is calculated as mutual bonus writtten (£250m) and the movement in the unearned mutual bonus reserve (£1m)

FINANCIAL PERFORMANCE – GROUP

Ending the year with a net positive return, the performance of our investment portfolio reflects the recovery that has been seen across the markets. Our underlying financial, capital and solvency position has remained very strong and operating performance within our core insurance business continues, as demonstrated by solid premium growth and consistent underwriting.

Our balance sheet remains strong with assets under management increasing to £22.2bn in 2021 (2020: £20.8bn). Our investment strategy is focused on long-term growth and underpins our resilience to market volatility.

Our Solvency Coverage Ratio (which measures how much of our "own funds" are available to cover our regulatory capital requirements) was at 204% 31st December 2021 (2020: 205%).

GENERAL INSURANCE

GROSS WRITTEN PREMIUM INCOME

GWPI of £1,825m, a growth of 7.0%, with strong persistency of 95.5%.

Gross Written Premium Income has increased to just over £1,825m with a 7.0% increase on last year (2020: £1,705m). The strong performance is underpinned by exceptional ongoing persistency levels (the percentage of policies renewed each year) of 95.5% (2020: 95.5%) with our local, personal approach generating higher volumes of advised sales than in previous years.

New Business has increased by 3.6% in the year to £110.9m (2020: £107.0m); representing a strong performance on Advised Commercial products, supported by sales and marketing initiatives and our competitive proposition.

UNDERWRITING PROFIT

The underwriting loss of £89m reflects the challenging economic environment and weather conditions as we continue to support our customers and pay out on claims.

The underwriting loss of £89m (2020: £109m profit) reflects strong premium growth, however, the claims result has been impacted by the economic and inflationary conditions, resulting from Brexit and Coronavirus, alongside weather events.

Claims cost in 2021 saw a favourable impact, as a result of Coronavirus restrictions, with fewer journeys and lower claims volumes. However, this was more than offset by the economic and inflationary effect of the ongoing pandemic, supply chain challenges as well as weather events. In addition, reserves relating to prior year claims have been impacted by higher than predicted inflation and settlement delays as a result of Brexit and the Coronavirus pandemic.

Cost leadership remains a continued focus, with strong management of business as usual expenditure, enabling us to continue to invest in our change programmes and systems. This enables us to modernise our business and provide the best offering to our members.

COMBINED OPERATING RATIO (COR)

COR at 105.4% reflects the net impact of claims to support our members including the impact of inflationary pressure on the cost of claims.

The combination of continued strong persistency and premium growth has helped to mitigate the impact, with a resulting COR of 105.4% (2020: 93.1%).

Across a 10 year rolling period we remain within the 98% target, with this result continuing to reflect our strategy to write profitable and sustainable business whilst offering outstanding levels of customer service and our ability to adapt to a continually changing environment. All of this underpins our commitment to provide savings in renewal premiums to our loyal customers through the form of Mutual Bonus.

COR is calculated as claims, expenses and commissions as a percentage of earned premiums (the element of the written premium that relates to the accounting period) before earned Mutual Bonus and after allowing for reinsurance.

MUTUAL BONUS

In 2021 we provided £250m (2020: £252m) in Mutual Bonus.

Our Mutual Bonus scheme enables us to reward the loyalty of our General Insurance customers with a saving on the renewal premium of their GI policies. The continued strength of our financial position means we are again able to provide a significant Mutual Bonus going forward for all our renewing members.

LIFE AND PENSIONS

ANNUAL PREMIUM EQUIVALENT (APE)

APE at £72.7m was up 21.6% in 2021, reflecting a strong set of results for pensions and investment business as retail investor confidence returned off the back of an adverse 2020 due to the Coronavirus pandemic and economic and political uncertainty.

The strong recovery in global markets throughout 2021 supported the increase in New Business sales to £72.7m APE (2020: £59.8m) as our network of Financial Advisers continued to meet more customers, where possible, to provide appropriate advice to support their long-term planning. Performance in our non-advised channel also improved on prior years, reflecting the challenging conditions as we enabled our customers to transact investments where advice was not needed.

Policy persistency levels remained high as customers continue to demonstrate their strong loyalty.

WITH-PROFITS

NFU Mutual remains committed to both the concept of With-Profits and to maintaining a viable Life business in the future, demonstrated by the launch of a new With-Profit fund on our pension product which has seen inflows of £64m over the last two years. Our With-Profits policies continue to offer smoothing of returns and an element of guarantee. In 2021, just under a third of NFU Mutual's investors (2020: 30%) continued to include a With-Profits option when investing into ISAs, pensions and bonds.

MY INVESTMENTS

Since its inception in 2018, NFU Mutual's My Investments platform has continued to grow. With 32,000 customers now on the platform and assets under management reaching £1.49 billion (of which £61m is With Profits business), NFU Mutual customers can access and manage their investments online, giving them greater choice and flexibility.

GROUP COMPANIES

AVON INSURANCE PLC

Avon Insurance continued to demonstrate strong profitability of £7.7m.

Avon Insurance is a wholly owned subsidiary which specialises in personal accident and accidental death insurance products. Avon Insurance closed to new business in 2013 but continues to service the existing book of more than 500,000 policies. In addition, Avon Insurance underwrites insurance cover for the Group, writing Motor Fleet, Property, Employers Liability and Public Liability insurance policies.

Avon's Gross Written Premium in 2021 was £20m (2020: £21m), with profit before tax and dividends of £7.7m (2020: £9.8m). Avon returned dividends to the Group of £8m (2020: £8m).

RISK MANAGEMENT SERVICES LIMITED (RMS)

Despite a challenging year caused by the pandemic, RMS have supported more customers than ever, offering remote video services where appropriate to keep both members and staff safe.

RMS is a wholly-owned subsidiary and specialises in both the provision of risk management consultancy, including health and safety advice for our customers, and undertaking Loss Control Surveys on behalf of NFU Mutual. The objective remains to deliver value to our customers by helping to identify and manage risk within their business resulting in fewer accidents and losses and in so doing return increased value to the NFU Mutual Group.

The ongoing Coronavirus pandemic continued to restrict RMS consultants from undertaking some site visits, although new techniques to undertake work remotely reduced the losses made by the business considerably compared to 2020.

New ways of working, facilitated by the introduction of new equipment has resulted in an improved RMS service and investment in a new IT system will enable further efficiencies and product enhancements in 2022 for the benefit of our members.

GROUP FUNDS UNDER MANAGEMENT

The reopening of economies drove a resurgence in growth, leading to a strong year for equity and property assets which boosted overall Group funds to £22.2bn (2020: £20.8bn). The General Business Fund achieved a return of 7.3% in 2021, taking three-year annualised returns to 5.9%.

Despite ongoing virus concerns, aided by the successful vaccine rollouts economic restrictions were more limited in 2021 and there was a strong recovery in global economic growth after the difficulties of 2020. Significant monetary and fiscal policy support also aided asset markets and equities benefitted from strong growth in corporate earnings. Rising inflation meant return on fixed interest assets were more mixed in 2021, but with commercial property also seeing good gains the overall investment assets under management by the Group increased by 6.8% in 2021 to £22.2bn.

GENERAL FUNDS UNDER MANAGEMENT

The General Business Fund saw the value of its assets increase from £8.0bn to £8.5bn in 2021 as it reported a 7.3% investment return on the year. The fund ended the year with an almost 50% combined exposure to equities and property and it was the strong double digit returns in these asset classes that drove the overall growth, with returns on fixed income assets and cash relatively flat in comparison. The main change to the portfolio during the year saw the strategic asset allocation introduce externally managed high yield bonds and emerging market debt, funded largely from cash holdings.

LIFE FUNDS UNDER MANAGEMENT

The overall Life funds under management saw an increase from £12.8bn to £13.7bn in 2021, as healthy investment returns were seen across the mixed asset and equity portfolios that form the vast bulk of the underlying funds. The With-Profits and lower risk mixed asset retail funds also introduced high yield bonds and emerging market debt during the year and the other main change saw a further move from UK to international equities in the higher risk mixed asset funds. The main Life fund achieved a gain of 11.9% in 2021 and a three-year annualised return of 8.2%. A strong year for the unitised retail fund range saw a 13.4% growth in assets, with a significant majority of funds performing well relative to their peer groups.

ASSET MARKET BACKGROUND

Equities and property drive strong returns.

Following the Covid-inspired difficulties of the previous year, 2021 saw a remarkable performance from equities and property as the reopening of economies drove a resurgence in both growth and inflation.

Despite concerns over the emergence of the more infectious Delta and Omicron virus variants, most developed equity markets benefitted from successful vaccine rollouts, strong corporate profit growth and significant monetary and fiscal policy support. Emerging markets lagged behind, primarily due to underperformance in China where tighter regulation and difficulties in the property market weighed on sentiment.

Most fixed income markets were held back by rising inflation and signs of central banks beginning to tighten monetary policy, whilst commercial property was boosted by significant strength in the industrial sector. Very low interest rates limited returns from cash deposits.

EQUITY RETURNS

Strong performance from developed equity markets.

There was a brief sell-off in equity markets during the final quarter as Omicron virus concerns grew, but strong corporate earnings growth and indications that the new variant appears to have milder health impacts enabled many markets to finish a strong year with further gains.

The UK market benefitted from an advanced vaccination programme and a strong recovery in economic growth after the challenges of 2020, with good corporate profit and dividend growth helping the main UK index achieve gains for the year of 18.3%. The biggest contributor to 2021 returns was from the energy sector, boosted by recovering demand and higher prices.

International equity markets overall achieved index gains of 20.0% for the year for UK investors (21.6% in local currencies). Once more, returns were led by the dominant US market and their strongly performing technology focused giants, with 12-month returns of 28.0%. Elsewhere, Europe also had a strong year, but Asian and emerging markets continued to lag behind, dragged down by a difficult year for Chinese equities.

FIXED INCOME RETURNS

Mixed year for fixed income assets.

Fixed income markets faced headwinds from improving economic growth expectations, rising inflation and moves at the end of the year towards monetary policy tightening. However, the losses were limited by recurring virus concerns and the still strong level of central bank policy support, with very low interest rates and extensive asset purchases helping keep bond yields relatively low.

Over the year, UK Gilts and corporate bonds saw modest market losses as yields rose gently from the exceptionally low levels seen at the start of the year. Inflation-linked bonds were the main beneficiaries in 2021, with index-linked gilts achieving gains. In our newly introduced asset classes, high yield bonds and emerging market debt were relatively flat since their introduction to some portfolios.

PROPERTY

Total returns for UK commercial property bounce back.

After a challenging year for UK property in 2020 culminating in negative property returns, the sector has performed strongly this last year producing annual returns of over 16%.

At an individual sector level, retail, and in particular shopping centres, have continued to struggle from a valuation perspective although retail parks have seen something of a resurgence as the year has progressed from both occupiers taking on more space and investors at a transactional level.

It is, however, the industrial and distribution sector of the market that is leading the way. Demand from investors has seen record volumes of transactional deals in the year and that has also been the case in terms of occupational demand across all parts of the UK. The sector has experienced both strong capital and rental growth with total returns in excess of 30%.

Doubts remain over the future of the UK office market as occupiers have been slow to return to the workplace post Coronavirus.

The NFU Mutual property fund strategy has been to continue to reduce our weighting to high street retail and shopping centres and increase our industrial sector exposure. We have maintained strong levels of occupancy and rental collection across the portfolio. The Life Fund property exposure delivered an annual return of 15.2% and the General Fund property exposure an annual return of 17.2%.

KEY STRATEGIC CHANGE INITIATIVES

DIGITAL CHANNEL OPTIONS FOR OUR CUSTOMERS

Supporting customers with paperless online channels.

We are developing a customer portal to enable customers to access their General Insurance product holdings online. The portal will enable customers to access documents and complete a range of self-service tasks. In 2021 we began the build phase, which is closely aligned to our enhanced policy management solution.

In addition to the customer portal, we're working on ways to communicate with our customers through the use of email and deliver paperless solutions for our key General Insurance policy documents.

ENHANCED POLICY MANAGEMENT SOLUTION

Making our products easier to buy, sell and manage, including online services.

We are enhancing our products, processes and technology to support evolving customer needs and to provide what our customers expect – the right product for them, delivered in a way that suits them with NFU Mutual first-class service.

During 2021 we began building our new GI policy administration system, Guidewire PolicyCenter, and the first product, which will be a new Home product to replace our existing Personal Home and Lifestyle offering. This has been designed to better meet the needs of our customers, to be easier to sell and to administer for customers, Agents and NFU Mutual, and includes updated and simplified customer documentation. We have also begun building a new digital capability that will enable customers to perform a range of transactions online, including obtaining a quote and buying a policy; giving them more choice about how they do business with us. These online transactions form a key component of our wider digital offering, together with the other components delivered by the digital channel programme.

2022 will see the development of this first build phase. The programme will begin to build more new products and will start to introduce and move existing Personal Home and Lifestyle customers to the new Home product. This work is being carefully planned to ensure that everyone is fully prepared and supported, and to ensure our existing customers receive a great customer experience throughout.

FINANCIAL CONDUCT AUTHORITY FAIR PRICING

Still providing fair value for our customers.

In May 2021, the Financial Conduct Authority (FCA) published new rules to ensure that consumers get fair value for their insurance products. The new regulations prohibit 'price-walking' and mean that, from 1 January 2022, renewing home and motor insurance consumers are quoted prices "that are no more than they would be quoted as a new customer through the same channel".

In addition to the pricing changes, the FCA is also aiming to make it simpler for customers to stop their policies from being automatically renewed if they wish to do so. Product governance rules were also enhanced to ensure that firms can demonstrate 'fair value' on all their insurance products. The new rules will affect all insurers, including insurance brokers.

We welcome this positive change for the insurance industry and are proud of our record when it comes to providing NFU Mutual customers with value for money. The fair pricing rules align with our philosophy to provide the insurance cover our customers need, at the right price, with a first-class personal service whilst rewarding their loyalty.

We make it simple for our customers to opt out of their policy at any time. Our renewal letters are sent out well in advance of the renewal date to enable customers to shop around, make changes or cancel their policy if they wish to and we don't charge admin fees to change or cancel a policy.

Whilst our pricing strategy was largely already in line with the FCA's expectations, in 2021 we made the few changes necessary to ensure that we were compliant with the new requirements. At NFU Mutual, no existing home or motor customer will pay more than they would as a new customer for the same level of cover.

IT INFRASTRUCTURE CHANGES

Delivering change and adapting to a new hybrid way of working.

In 2021, as a key part of digitising the business, we provided new personal computing devices and updated desktop technology to over 3,000 staff, giving our people the tools that they need to do their jobs right. This involved delivering over 30,000 pieces of equipment to a mixture of home and office locations.

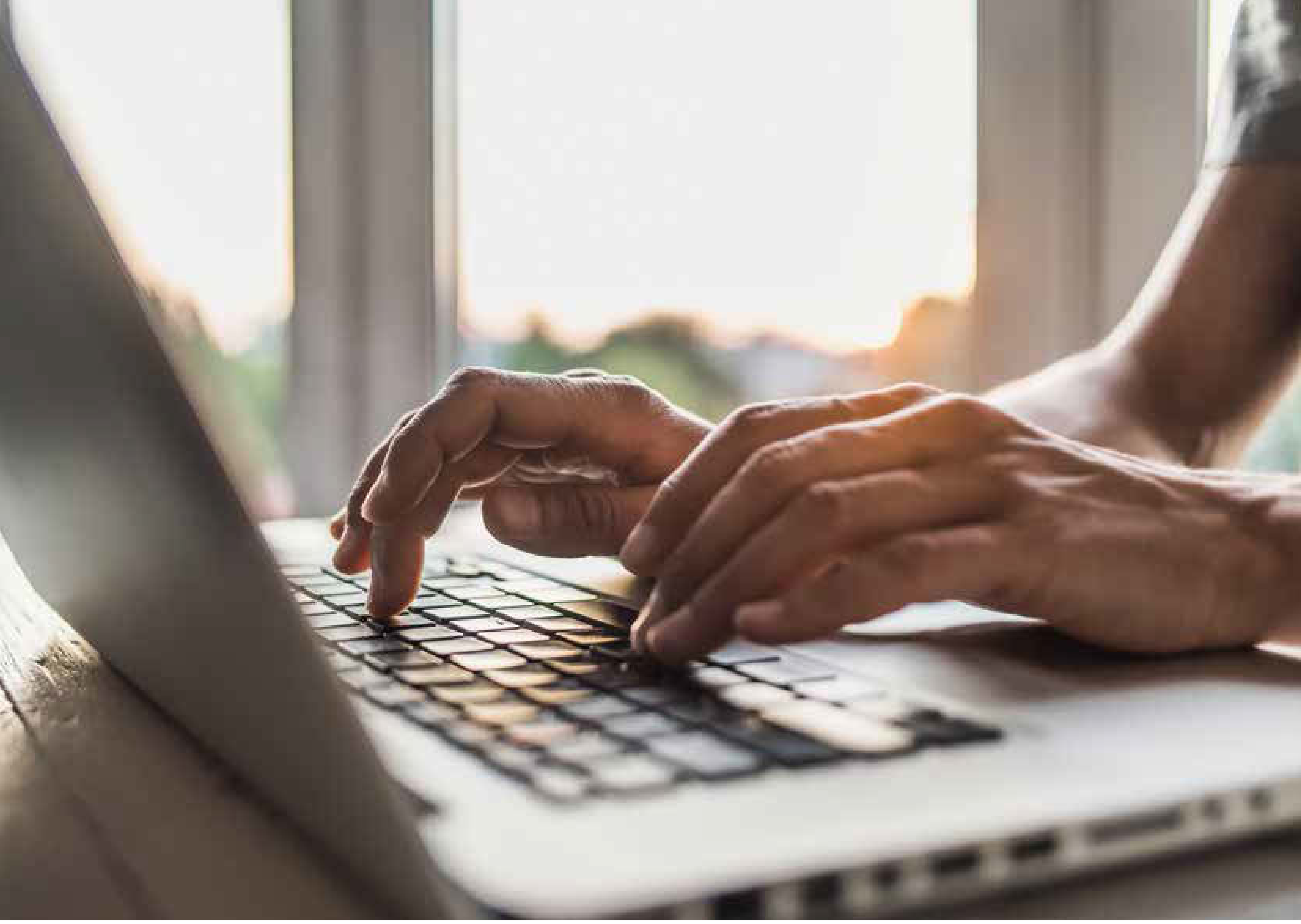
Like many companies, our ways of working have changed significantly from what was considered normal pre-pandemic, and we have adapted to this by ensuring our people and our offices are fully prepared for hybrid working.

The business uses collaboration technology extensively to work together and to add value, as evidenced by the 45,000 meetings, 20,000 calls and 2.5 million messages logged every month. We have also upgraded the collaboration technologies within the meeting rooms in the office estate, upgraded desks and breakout areas allowing our people to continue to deliver key services, regardless of location.

In 2021 we commenced our Finance Modernisation programme which will introduce a new suite of financial software and applications to modernise and improve efficiencies within our finance function. This project will future proof against changes in the regulatory and operational landscape and support agile insight and analysis for strategic decision making.

We continue to promote the use of the new desktop applications and offer training and support to our people through a dedicated virtual team, whose focus is purely on the evolution of technology and its adoption across the business – a key factor in the smooth transition from office-based to a hybrid mode of working.

We are embracing evergreen IT, automatically refreshing and updating software, to ensure that our people are able to take advantage of new tools and features from key suppliers to optimise the way we work.



DATA CENTRE OF EXCELLENCE

Improving data for greater insight.

The role of data in our business is critical in delivering our company objectives both now and in the future. It's also integral in allowing us to make informed, data driven decisions across the business.

In 2021 we appointed a Chief Data Officer to lead our Data Centre of Excellence (DCE) and drive the delivery of our data strategy. Our data change programme is working across our entire business to build and embed the data-focused people, process and technology capabilities we need to remain competitive in evolving markets, and ensure we continue to deliver an exceptional customer experience.

Richard Morley
Finance Director

RISK AND RISK MANAGEMENT

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:

- Continuing to drive a common risk culture across the business;
- Ensuring the implementation of effective systems and processes of risk management;
- Supporting senior management to continually develop their control and co-ordination of risk taking across the business;
- Ongoing retention, development and attraction of the appropriate resource in the risk function; and
- Continuing to ensure the Group meets its regulatory requirements.

All Group-wide risk management activities are supported and co-ordinated by the Risk Management Function (part of the wider Risk Division), led by the Risk Director. This team has close relationships with the wider business, including governance committees and departmental managers. The central risk team is also responsible for managing Group risk governance and oversight.

In order for the Group to optimise its performance, risk and return are considered together. NFU Mutual believes this is best done by managers being accountable for managing risk within their teams.

The risk strategy and risk management framework are aligned to the business strategy and allow us to balance risk and return in the delivery of the strategic objectives in the following ways:

SUSTAINABLE PROFITABLE GROWTH

- Improving the robustness of risk and capital management;
- Minimising unwelcome surprises;
- Optimising potential for long-term growth; and
- Giving a better understanding of the strengths and weaknesses of the business at various levels of the company resulting in stronger risk-based decisions.

A GREAT COMPANY TO DO BUSINESS WITH

- Adding value for members through increased efficiencies, better returns and informed pricing; and
- Supporting regulatory reporting requirements to the public and other stakeholders, in order to give greater understanding of how we manage our risks.

A GREAT PLACE TO WORK

- Maintaining a highly visible, risk-aware culture led by senior management;
- Creating an open, honest, respectful and transparent environment in which employees are encouraged to 'do the right things';
- Ensuring employees have clear accountabilities; and
- Linking reward and remuneration directly to risk management; rewarding the right behaviours, as part of a culture that maintains ethical behaviour at all times.

A robust risk management strategy and framework, overseen by experienced risk teams and risk governance committees, underpins a strong risk culture with a focus on benefits for members and policyholders.

The Group's approach to risk management ensures there is effective, independent checking or 'oversight' of key decisions by operating a 'Three Lines of Defence' model, with clearly defined responsibilities:

- **1st Line of Defence:** Implement the control environment (see page 70) by adhering to Group policies and controls, and actively identifying and managing risks using the Risk Management Framework.
- **2nd Line of Defence:** Define key components of the Control Environment, including the Risk Management Framework, and provide assurance to governance that risks are being effectively managed across the Group.
- **3rd Line of Defence:** Provide the Board with an independent, objective and impartial view that the Control Environment is appropriate and operating effectively.

The core principles that underpin our 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 in their business area. They are responsible for documenting their risks and controls via the risk recording tool;
- Decisions taken by management are consistent with NFU Mutual's strategic objectives and risk appetites. Financial models are used to inform 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;
- Key roles, responsibilities and authorities relating to risk are clearly identified and documented;
- Risk management arrangements and risk exposures are subject to independent oversight;
- All employees across each of the Three Lines of Defence have appropriate access to, and understanding of, the Group's Risk Management Framework and processes to enable them to operate effectively; and
- Employees are individually responsible for understanding and managing the risk they take on behalf of the Group and for ensuring that they act within delegated authorities and risk appetites.

A five-module risk management training programme exists across the Group to increase the risk management knowledge and capability of employees and Non-Executive Directors. Certain modules are mandatory dependant upon role and the programme has been accredited by the Institute of Risk Management.

RISK MANAGEMENT FRAMEWORK

Each component within NFU Mutual's risk management framework contributes to the identification, assessment, management, monitoring and reporting of risks.

This includes:

- Risk policies that clearly define the nature of the risk, and the accountabilities and controls for each risk type;
- Risk appetites that articulate the amount of risk the business is prepared to accept in pursuit of the long-term strategic objectives;
- Risk and control assessment, with controls built into everyday business processes; and
- A centralised risk reporting tool to record and monitor risk and issue information with regular reviews by senior management, risk governance committees and the Board.

The outputs of the risk management framework underpin our assessment of the level of capital we need to hold to cover the risks to which we are exposed.

Pillar I of the Solvency II legislation requires that firms hold enough capital to survive 1-in-200-year risk events occurring over a 12-month period. This is called the Solvency Capital Requirement, or SCR. To calculate this 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).

NFU Mutual has regulatory approval 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 PLC (which uses 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 our Own Risk and 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 as we believe this provides an appropriate quantification for NFU Mutual's operational risk exposures.

Further to our regulatory requirements, risk appetites are set by the Board to outline the amount of risk the Group is prepared to take to achieve its business strategy.

The operational risk appetite statements are considered in the assessment of the impact of an operational risk, loss event or near miss and reporting of breaches and potential breaches is now embedded in the quarterly governance committee reporting.

More details on risk can be found in Note 2, pages 128 to 138. Additional detail on NFU Mutual's regulatory capital requirements at 31st December 2021 can be found in the Solvency and Financial Condition Report, available on NFU Mutual's website from the end of May 2021.

RISK GOVERNANCE AND OVERSIGHT

The NFU Mutual Board is ultimately accountable for all activities carried out by the Group. To ensure it retains an appropriate level of oversight, the Board has established a structure of risk governance committees to which they delegate authority for overseeing designated risks on their behalf.

The risk governance framework aligns to the operational needs of the business and ensures that risk oversight is in place at all levels throughout the Group and encompasses all risks faced by the Group. Each risk governance committee has clearly defined terms of reference detailing its accountabilities, and these are reviewed annually to ensure the committee is operating effectively and fulfilling its responsibilities. The terms of reference for the Board and its sub-committees can be found on the NFU Mutual website.

The Board approves an overall financial risk appetite and capital constraints for the General Insurance business and the Life business that are aligned to the objectives of each business. The risk management committees ensure that the Life and General Insurance businesses are managed in line with these and escalate any issues to the Board.

The flow of information is critical to the success of the risk governance framework and therefore a formal reporting framework is in place to ensure consistent, accurate and timely information is received by all committees and there are clearly defined roles for communication between committees.

PRINCIPAL RISKS AND UNCERTAINTIES

The following tables summarise the principal risks and uncertainties currently faced by NFU Mutual due to the nature of our business and the market in which we operate. The risk associated with the worldwide outbreak of Coronavirus in 2020 continues to be a key risk, and will have impacts long into the future.

The assessment and mitigating actions for these risks have been reviewed and discussed at governance committees and as part of the preparation for the Own Risk and Solvency Assessment. (Note 2 to the Accounts on pages 128 to 138 covers our disclosures on financial risk management in detail.)

The risks are categorised as:

Strategic – The risk to achieving our long-term objectives caused by poor decision making in the creation of our business strategy, unforeseen disruption to the strategy or the delivery of it.

Operational – 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.

Financial – The risk of loss resulting from the exposure to our balance sheet.

PRINCIPAL RISKS AND UNCERTAINTIES

Principal Risk and Uncertainty	**Operational & Financial Risk: Coronavirus pandemic** There is a risk that, if the Coronavirus pandemic worsens and there is a significant future wave of infection: a) The profitability of the company is significantly impacted, even to such an extent that it threatens the viability of the business. Specifically: • there is an economic crisis resulting in a fall in financial markets and a corresponding reduction in the company's asset values. • there is an increase in insurance risk that increases our exposure and liability e.g. Court / Regulatory rulings on coverage or changes in mortality impacting life and pension provisions. b) Customer service degrades due to the ongoing government restrictions on the workforce or significant levels of absenteeism due to high workforce virus infection rates.
Link to long-term strategic objective	Sustainable Profitable Growth Great Company to do Business With Great Place to Work
Mitigation	a) The company maintains a Financial Risk Mitigation Plan, with actions approved by the Board to ensure Solvency is maintained within the company's Risk Appetite. This plan was invoked at the height of the crisis in 2020. b) A Crisis Management Plan was initiated at the start of the crisis, with an Executive 'Gold Team' and a Senior Management 'Silver Team' managing operational issues, reporting through to Board Risk Committee and the Board. This approach, combined with oversight from the Risk Management Function, continues to provide assurance that a strong control environment is maintained in line with risk appetite and that operational issues are resolved on a timely basis, in line with government guidance. c) All Covid-19 impacts on company liabilities have been assessed and provisions made as appropriate. The overall impact on both the GI and the Life business is assessed to be small due to the nature of our policy exposure. d) Board Risk Committee have reviewed scenarios and stress analysis undertaken by the financial risk team to ensure the impact of any future pandemic wave could be withstood by the company and that there are appropriate actions agreed to protect the company's solvency position. e) The business has shown resilience in being able to maintain both critical and support services without compromising the application of the risk management framework. We continue to monitor the situation closely and are prepared to act swiftly if necessary.

Principal Risk and Uncertainty	**Operational Risk: Information Security** There is a risk that third-parties and other unauthorised users may attempt to gain access to our systems for misuse of customer and company data, or disrupt the business using malware and viruses. This could lead to corrupted or lost data, business interruption, compliance breaches, regulatory fines and reputational damage.
Link to long-term strategic objective	Sustainable Profitable Growth Great Company to do Business With
Mitigation	Significant progress has been made in enhancing the control environment and this will continue throughout 2022 in line with the Security Improvement Plan approved by ExCo. Cyber security awareness remains part of our induction training for all employees.

Principal Risk and Uncertainty	**Strategic: NFU Mutual is unable to deliver the required change** The risk of insufficient, inefficient or ineffective change delivery, adversely impacting operational capability and /or NFU Mutual's reputation.
Link to long-term strategic objective	Sustainable Profitable Growth Great Company to do Business With Great Place to Work
Mitigation	Our strategic and operational plans are reviewed regularly by the Board. These take account of our resources and the scale and diversity of change currently underway and planned over the medium and longer terms. Specific change programme monitoring and reporting takes place at project, programme, portfolio and strategic level, to ensure appropriate risk-based decisions are made and that the allocation of resources is optimised to support delivery of our long-term objectives.

Principal Risk and Uncertainty	**Strategic: NFU Mutual's customer base changes substantially beyond expectations** Unexpected changes to NFU Mutual's current or target customer base which impact on insurable risks, including changes to the farming industry or other significant target trade sectors, customer demographic or behavioural changes. This could be caused by events including a reputation-damaging event impacting our standing in the farming community, longer term economic and social changes from Covid-19, government policy changes impacting the sectors in which NFU Mutual operates, or an environmental event affecting the needs of our farming customers such as climate change.
Link to long-term strategic objective	Sustainable Profitable Growth Great Company to do Business With
Mitigation	We continue to grow wider market business to diversify our exposures and reduce the reliance on farming. Our propositions are regularly reviewed and updated to reflect customer developments.

PRINCIPAL RISKS AND UNCERTAINTIES

Principal Risk and Uncertainty	**Strategic: Reduction in demand for Financial Services propositions** There is a risk that the number of contracts sold or administered is lower than planned. This could occur as a result of propositions not meeting our customers' needs or as a result of drivers including poor investment performance, competitor actions, regulation changes or an adverse political/economic environment reducing retail investor confidence.
Link to long-term strategic objective	Sustainable Profitable Growth Great Company to do Business With
Mitigation	We continue to develop and improve our Financial Services proposition to reflect customer and market developments and ensure it represents value for money. This includes ongoing enhancements to the My Investments platform.

Principal Risk and Uncertainty	**Strategic: Reduction in demand for GI propositions** There is a risk that demand for our GI propositions is lower than planned. This could occur as a result of propositions not meeting our customers' needs or preferences, as a result of drivers including increased competition, new types of competitors entering the market, regulation changes impacting the competitive landscape in which NFU Mutual operates, adverse media or reputational events impacting sales and retention.
Link to long-term strategic objective	Sustainable Profitable Growth Great Company to do Business With
Mitigation	We continue to develop and improve our GI proposition to reflect customer and market developments and offer fair value. This includes our continued focus on the agency network as the primary distribution channel, whilst developing online capability.

Principal Risk and Uncertainty	**Strategic & Operational Risk: Infrastructure is unable to support the GI and / or Life proposition** There is a risk that systems, processes and people, including those services delivered by our outsourcing suppliers, are not sufficient to support our propositions because of internal issues or external drivers, including regulation. This can result in the needs of customers not being met or errors in work for customers leading to increased complaints, a reduction in new business sales or increased lapses and adverse media coverage of customer experiences.
Link to long-term strategic objective	Sustainable Profitable Growth Great Company to do Business With
Mitigation	We are delivering updated technology platforms across both GI and Life businesses, for both policy sale and servicing and operating model work which identifies where we need to improve our capabilities. Our Supplier Outsourcing and Third Party Policy ensures the effective management and oversight of our external partners.

Principal Risk and Uncertainty	**Strategic: Agency network becomes vulnerable** There is a risk that individual agencies or wider parts of the network are not viable. This risk could materialise from ineffective agency leadership/ management, a deteriorating rural economy or an unexpected change to business mix away from the agency network to other distribution channels.
Link to long-term strategic objective	Great Company to do Business With
Mitigation	Continue to develop individual agency management information to better understand their economics. Continue to develop the target operating model for the agency network and test its robustness.

EMERGING RISKS

Emerging risks which may have the potential to change the risk profile of the Group in 2022 or beyond are detailed below with the events that are being monitored in order to determine relevance and impact. These have been identified by business areas in line with the Risk Management Framework.

Risk	**Strategic & Operational Risk: Emerging technology:** Development of new technology that has a profound impact on the insurance industry including developments such as autonomous vehicles and AgriTech.
Description	At NFU Mutual, we have already experienced an increase in the average cost of motor property claims as a result of greater technology within cars affecting the cost of repair for otherwise minor collisions. As driving technology develops, this can be expected to continue and in due course lead to changes in risk profile which are likely to require changes to cover or rating sophistication. Alongside the driver technology noted above, farming too will change with the increasing use of technology to automate and enhance farming businesses of all types, several examples of which are already in place. In this case, to defend its farming book, NFU Mutual will need to be at the forefront in monitoring and responding to industry changes to ensure our cover and pricing remain appropriate.

Principal Emerging Risk and Uncertainty	**Strategic & Operational Risk: Climate change** There is a risk that climate has a material impact on NFU Mutual's business model as a result of physical risks that arise directly from rising global temperatures, and transition risks that arise through actions, initiatives and behaviours aimed at limiting the rise in global temperatures
Mitigation	NFU Mutual has implemented a climate change strategy, agreed by the Board, to ensure the Group is resilient to the impacts of climate change, takes advantage of opportunities that arise in core markets, and also defines and implements a roadmap to Net Zero.

Risk	**Operational Risk: Volume of Regulatory Change** There is a risk that NFU Mutual fails to keep pace with the volume of regulatory change resulting in customer, regulatory and reputational damage.
Description	After a decade of global regulatory reforms defined by the financial crisis and misconduct issues, the regulatory environment within the insurance industry is now changing profoundly and keeping up with the pace of change is one of the greatest challenges facing the organisation. There has been, and continues, to be increasing regulatory focus to align product, customer and value with growing attention on use of artificial intelligence, operational resilience, cyber security, digital ethics, fair pricing and value measures and scorecards. This therefore amalgamates a number of distinct emerging risks but it remains imperative that we stay ahead of these evolving requirements and trends.

CLIMATE CHANGE RISK

Climate change is a global challenge that is wide ranging, affects us all and will continue to do so for years to come. The effectiveness of actions taken in the short term will determine climate change trajectory and outcomes in the medium and long term.

Tackling climate change is therefore a shared global responsibility and we all have our part to play. As a UK based insurer with rural communities at our heart, NFU Mutual is both responding to the insurance needs of our members and actively reducing our own environmental impact to help drive the transition to a low carbon economy.

NFU Mutual included Task Force on Climate-Related Financial Disclosures (TFCD) aligned disclosure in its Annual Report for the first time in 2020 and this year the content has been expanded to highlight progress made in managing financial risks from climate change. NFU Mutual will fall within scope of mandatory TCFD aligned disclosure requirements proposed by both the UK Government and the Financial Services Regulators, therefore work is underway that will ensure compliance with requirements as they come into effect over the next few years.

1. GOVERNANCE

NFU Mutual has embedded consideration of climate change within existing frameworks, processes and decision making to enable the Group to respond proportionately to challenges as they arise, both now and in the future. Risks from climate change are therefore considered, alongside all other risks faced by the Group, within existing risk governance and risk management frameworks.

BOARD

- Set climate change strategy and approve risk appetite
- Oversee NFU Mutual's climate response

RISK GOVERNANCE COMMITTEES

- Approve risks outside of risk appetite
- Monitor risk exposure/position against risk appetite
- Review scope and outputs of stress scenario testing

BUSINESS UNITS

- Identify and manage risks from climate change
- Escalate risks outside of risk appetite for approval
- Risk exposure monitoring
- Climate related stress scenario analysis

RISK MANAGEMENT FUNCTION

- Facilitate the implementation of climate change strategy
- Embed risks from climate change in risk management and risk governance frameworks
- Aggregate risk reporting and stress scenario analysis

Board

The Board is ultimately accountable for setting NFU Mutual's climate change strategy and overseeing the Group's response to risks that may arise. It therefore considers regular agenda items in relation to these. Following agreement of the Group's climate change strategy in 2020, the Board has overseen progress made in identifying and embedding risks from climate change and also the development of a Net Zero Roadmap for the Group. In 2021 the Board agreed Group level climate related objectives that focussed on delivering key aspects of the climate change strategy.

Additional oversight of risks from climate change is undertaken by sub-committees of the Board, specifically the Board Risk Committee and Board Investment Committee, which have specific accountabilities set out in their Terms of Reference.

NFU Mutual's Board Risk Committee has oversight of material risks facing the Group, including risks arising from climate change, and for ensuring these are identified, with appropriate arrangements in place to manage and mitigate them effectively. During 2021 the Committee reviewed NFU Mutual's aggregate risk exposure to both transitional and physical risks from climate change, and monitored the Group's progress to embed risks from climate change in line with PRA expectations set out in SS3/19 'Enhancing Banks' and Insurers' approaches to managing the financial risks from climate change'. The Committee also reviewed the outputs from NFU Mutual's 2021 climate scenario analysis work.

NFU Mutual's Board Investment Committee oversees the activities of the Investment Function and monitors compliance with agreed strategies and constraints. 'During 2021 the Committee reviewed NFU Mutual's investment related Environmental, Social and Governance (ESG) policies and also its approach to sector-based classification of climate risks, which has been embedded within regular exposure management MI.

Risk Governance

All risk governance committees consider risks from climate change on a regular basis, with specific climate related agenda items presented at least twice a year.

Risks from climate change are also considered by risk governance committees as part of other internal reporting mechanisms such as risk dashboards, risk escalation and public and regulatory disclosures.

The PRA's supervisory statement SS3/19 – "Enhancing banks' and insurers' approaches to managing the financial risks from climate change" requires firms to allocate responsibility for identifying and managing financial risks from climate change to the relevant existing Senior Manager Function (SMF) within a firm's organisational structure. The NFU Mutual Board has allocated this accountability to the Risk Director (SMF 4) as part of a broader responsibility for all aspects of NFU Mutual's climate change response. The Risk Director attends the Board and relevant Board sub-committees as well as chairing Risk Governance committees. This ensures appropriate visibility and oversight of climate related risks at Board and senior manager level across the Group.

The Risk Director chairs a Climate Change Steering Group which is responsible for ensuring the Group's climate change strategy and objectives are delivered on behalf of the Board.

Business Units

Managers are responsible for ensuring that all risks within their area, including those from climate change, are effectively identified, managed and reported on. For climate change, this requires an understanding of potential impacts and how these could affect their department's risk profile, and also establishing an effective climate aware culture across the department.

Cross-departmental management committees also take risks into account, including risks from climate change, when making operational decisions.

2. STRATEGY

Risks from climate change are captured within NFU Mutual's risk management framework and are classed as either active or emerging risks. Active risks are those facing the business in the current environment and emerging risks are those risks that may occur in the future where the nature or scale of impact is not yet clear. Risks from climate change may arise in the short, medium or long term. NFU Mutual defines short-term as within the next 3 years, medium-term as 3 to 5 years and long term as over 5 years.

Longer term risks are also considered as part of NFU Mutual's climate scenario analysis. Scenario analysis is a key tool for understanding the resilience of a firm to a range of future outcomes and is particularly relevant to climate change because the impacts will be wide ranging and extend beyond normal business planning timescales. The future trajectory of climate change is also uncertain, with dependencies on actions taken in the short term to define medium and long-term outcomes.

In 2021 NFU Mutual's climate change scenario work was based on the Bank of England's Climate Biennial Exploratory Scenario (CBES) and considered potential impacts to NFU Mutual over the next 30 years under three different transition pathways – early policy action, late policy action and no additional policy action. The analysis involved teams from across the organisation to ensure broad engagement and input from multiple perspectives. The scenarios considered transitional impacts that could arise, including steps taken nationally and globally to decarbonise economies, changes to public sentiment, evolving insurance needs arising from the move to a low carbon economy and potential economic impacts of each transition pathway. Physical impacts arising from the changing climate were also considered, including frequency and severity of extreme weather events such as storms and heatwaves, changes to sea levels and increasing average UK temperatures.

Investment Risk

Climate change will have an impact on the value of assets within NFU Mutual's investment portfolios. Factors that could affect equity and bond values include the resilience of underlying entities to physical impacts from climate change, their ability to transition successfully to a low carbon economy and public and market perception. Similarly, property portfolios will be impacted by the resilience of physical assets to changing weather and climate, their energy efficiency and compliance with climate related legislation. Income from property portfolios will also be impacted by adaptation costs necessary to transition assets to low carbon technology and exposure to tenants that are negatively impacted by climate change.

NFU Mutual has metrics in place to monitor exposure to industries that are sensitive to climate change across its investment portfolios. Metrics are also in place for tracking the energy performance of properties and exposure levels to extreme weather events.

In 2021 NFU Mutual reviewed and strengthened its investment ESG policies to ensure climate factors are considered in day to day decision making and manage the impact that climate change could have on investment related portfolios. The Group has applied to become a signatory of the UN Principles for Responsible Investment and the resources available through this initiative will be used to inform NFU Mutual's responsible investment programme going forward.

As a responsible asset owner, NFU Mutual actively engages with the companies it invests in, including using voting rights to accelerate change and move towards more sustainable practices.

A detailed ESG plan is in place to ensure that NFU Mutual's property portfolio remains resilient to the impacts of climate change over the short, medium and long term. In 2021 NFU Mutual committed to over £400m of transactions, assisting to improve its exposure to energy efficient property investments, with almost 50% of the property investment portfolio now being A or B rated in terms of energy efficiency.

Insurance Risk

Transitioning to a low carbon economy will impact NFU Mutual's motor and property portfolios, through the move away from fossil fuel and associated increase in low carbon solutions such as electric vehicles, solar panels and alternative heating systems. Physical impacts caused by changing climate and weather patterns will also have an impact on claims from storms, flooding and subsidence. NFU Mutual has metrics in place to monitor exposure to physical impacts of climate change including storm and flood risk exposures.

UK Agriculture

UK agriculture will be directly impacted by climate change and will need to adapt to weather and environmental changes, developments in UK government policy and opportunities to diversify into green solutions. As the UK's leading rural insurer, climate change will impact NFU Mutual's claims experience, either directly from weather events or as a result of climate related adaptions. Farming adaptation and diversification will also impact the insurance solutions necessary to meet changing customer needs. As part of NFU Mutual's 2021 climate scenario analysis, the farming sector was specifically considered to understand the potential climate change impacts in each of the three scenarios. NFU Mutual actively engages with its farming members and maintains a close relationship with UK farming unions to understand how climate change is impacting the industry and to ensure the Group adapts successfully to the evolving needs of its members.

Opportunities

Actions taken to manage financial risks from climate change can deliver benefits beyond NFU Mutual, benefitting members and contributing to the global transition to a low carbon economy. Examples of actions that NFU Mutual have taken include:

- **Partnering with NFU Energy –** In 2021, NFU Mutual partnered with NFU Energy on their Renewable Energy Solutions service, which will help and support NFU members with their insurance needs for small-scale renewable energy projects. As the exclusive insurance partner for NFU Energy's Renewable Energy Solutions service, NFU Mutual offers a range of insurance options to suit farmers' needs.
- **Improving the sustainability of motor claims experience.** NFU Mutual offers a green repair alternative solution for mechanical damage claims and in 2021, we have broadened this recycled repair offering by piloting the use of green parts, where customers choose this option, in our repair network using carefully selected repairers. Where a vehicle cannot be repaired, NFU Mutual uses a salvage supplier that is market-leading in its sustainability ambitions, to ensure the maximum amount of the vehicle is reused and recycled. The supplier recycles an average of 96.3% of every vehicle dismantled.
- **Investing in Green bonds.** NFU Mutual has invested over £100m into "Green" Corporate and Government bonds, including nearly £30m into the inaugural Green Gilt issuance.

3. RISK MANAGEMENT

Climate change has the potential to impact all risk types within NFU Mutual's risk universe, it is therefore evaluated alongside all other factors, both internal and external, that affect the Group's risk profile, using existing risk management processes and controls.

Material investment and insurance risks arising from climate change are captured on the Group's Financial Risk Log and monitored using quantitative metrics to assess whether they remain within defined thresholds. Performance is reported to relevant committees, including the Board Investment Committee and Group Financial Risk Committee as part of existing management information processes.

Risks from climate change are assessed using NFU Mutual's existing risk appetite framework that covers all risks within the Group's risk universe, both financial and non-financial. Where a risk exceeds the stated risk appetite it is escalated to the accountable committee and actions are agreed to mitigate the exposure and return the risk to within risk appetite

In addition to standard risk management practices, climate specific risk management activities are undertaken to further strengthen NFU Mutual's response. During 2021 NFU Mutual developed reporting for the Board Risk Committee on aggregate exposure to risks from climate change. The breadth and depth of climate scenario analysis also continues to improve, with three future pathways considered, based on the early, late and no additional policy action scenarios outlined in the Bank of England's Climate Biennial Exploratory Scenario (CBES) exercise.

Throughout 2021 there has been a focus on improving awareness and understanding of risks from climate change across the business, through various activities facilitated by the Risk Division. This has enabled all business areas to identify and capture potential risks from climate change over the short, medium and long term. NFU Mutual also actively monitors the changing external environment, as the pace and profile of climate related activity continues to increase, especially in relation to transitional action such as government policy and regulatory proposals.

4. METRICS AND TARGETS

Progress has been made in strengthening metrics available to measure exposures to material risks, specifically within investment and underwriting portfolios, and also to measure the Group's carbon footprint. Metrics in place for key risk exposures are outlined in section 2. Measuring exposures to risks from climate change is a significant challenge for the whole financial services sector because the quality and granularity of data currently available is not sufficiently robust to accurately measure exposures. Methodologies and best practice to calculate exposures are also still developing.

Targets

NFU Mutual's Board agreed short-term targets for own emissions from company cars and occupied premises in June 2021, with a goal to reduce emissions by 15% for each source by 2022 and 2023 respectively using a 2019 base year. These targets were implemented to drive immediate action and also as a first step in the development of NFU Mutual's Net Zero Roadmap.

NFU Mutual recognises the importance of reducing its carbon footprint beyond the scope of its own operations and also that targets and ambitions need to align to science-based methodology to limit global temperature rises to 1.5°c. In developing its Net Zero Roadmap, the Group has taken account of best practice guidance available to ensure that its targets and ambitions are credible and make a meaningful contribution to limiting global warming. Work to date has focussed on emissions from NFU Mutual's own operations and those arising from investment portfolios. NFU Mutual's Net Zero Roadmap was approved by the Board in December with the following targets and ambitions:

NFU Mutual aims to become a Net Zero company by 2050

Own Emissions

NFU Mutual has set targets to:

- Deliver 25% reduction in own emissions by 2025 and 50% reduction by 2030, compared to 2019 base year
- Maintain 100% renewable electricity purchase for occupied premises.

Investments

NFU Mutual aims to deliver 50% emissions reduction in NFU Mutual's equity and corporate bond portfolio by 2030, compared to 2019 base year.

NFU Mutual's carbon footprint extends beyond its own operations and investment portfolios, therefore the Net Zero Roadmap will continue to develop and incorporate a broader range of emissions into plans to deliver the long-term goal of a net zero business by 2050.

Energy – Streamlined Energy and Carbon Reporting

NFU Mutual's greenhouse gas emissions, reportable under Streamlined Energy and Carbon Reporting (SECR) regulations, in 2021 were 3,012 tonnes CO2e, at an intensity of 59.9 kg CO2e per square metre of floor space. Compared to the previous 12-month period, total emissions have reduced 16% and emissions intensity has fallen by 12%. Both 2020 and 2021 emissions have been impacted by the Covid pandemic and are therefore not representative of normal operating performance. These include emissions associated with electricity and natural gas consumption, fuel used in company cars and in employee-owned cars when used for business purposes.

Greenhouse gas emissions

Table 1 – Greenhouse gas emissions by source (tonnes CO2e)

Emissions source	2020 tCO2e	2021 tCO2e	Share	Change
Natural gas for heating	887	1,000	33%	+13%
Transport fuel	1,031	616	20%	-40%
Purchased electricity	1,688	1,395	46%	-17%
Total emissions (tCO2e)	**3,606**	**3,012**	**100%**	**-16%**
Square meters of floor space	53,197m²	50,286m²		-5%
Intensity: (kgCO2e per m²)	67.8kg	59.9kg		-12%

NFU Mutual has invested in the procurement of zero-carbon electricity for many of its sites. Firms have two options for reporting zero carbon electricity, either as zero emissions, or to disclose actual consumption by converting usage into emissions using UK Government conversion factors.

For transparency, NFU Mutual has selected the second option, therefore the carbon figures from electricity were calculated using the standard national figures for the carbon intensity of UK grid electricity. The figures above show significant decreases in emissions from electricity use and transport, and a significant increase in emissions from natural gas consumption, these all reflect changes in consumption (kWh), as can be seen in Table 3 below.

NFU Mutual is pleased to report a 9% reduction in electricity consumption, which was partly due to efficiency measures, and partly due to a reduction in managed floor area. A reduction in the intensity of UK grid electricity, used in UK Government conversion factors, has also improved NFU Mutual's emissions performance, as shown in Table 1 above. The reduction in transport emissions was largely due to covid-related reductions in vehicle movements, whereas the 13% increase in natural gas was due to a mixture of colder weather and increased ventilation levels to reduce covid transmission – leading to increased heat demand.

Figure 1 Greenhouse gas emissions by source (%)

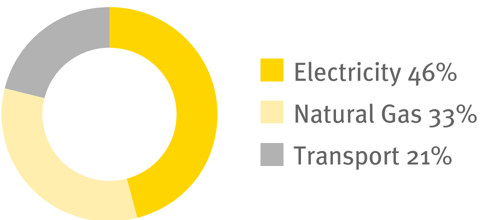


Table 2 Greenhouse gas emissions by scope (tonnes CO2e)

Emissions source	2020 (tCO2e)	2021 (tCO2e)	Share	Change
Scope 1	1,893	1,617	54%	-15%
Scope 2	1,554	1,282	42%	-18%
Scope 3	159	113	4%	-22%
Total emissions (tCO2e)	**3,606**	**3,012**	**100%**	**-16%**

Scope 1: Natural gas and company-operated transport.
Scope 2: Electricity.
Scope 3: Losses from electricity distribution and transmission, and private vehicles used for business travel. This only includes emissions reportable under SECR and may not reflect the entire carbon footprint of the organisation.

Energy consumption

Table 3 Energy consumption by year (kWh)

Emissions source	2020 kWh	2021 kWh	Share	Change
Natural gas for heating	4,822,013	5,461,176	39%	+13%
Purchased electricity	6,665,427	6,036,068	43%	-9%
Transport fuel	4,164,572	2,506,593	18%	-40%
Total	**15,652,012**	**14,003,837**	**100%**	**-11%**

Approach to calculating emissions

An 'operational control' approach, as defined by the Greenhouse Gas Protocol Corporate Accounting and Reporting Standard, has been used to define the Greenhouse Gas emissions boundary; this includes all sites where NFU Mutual has authority to introduce and implement operating policies, and therefore excludes its agency network and investment properties.

This approach captures emissions associated with the operation of buildings, plus company-owned and grey fleet transport. This report covers UK operations only, as required by SECR for Non-Quoted Large Companies. As a UK based insurer all NFU Mutual operated buildings are situated in the UK and fall within the scope of SECR.

This information was collected and reported in line with the methodology set out in the UK Government's Environmental Reporting Guidelines, 2019, with fuel, energy and emissions calculated using the latest conversion factors from UK Government. Approximately one percent of gas consumption has been estimated due to gaps in data availability.

There are no material omissions from the mandatory reporting scope.

NFU Mutual's SECR reporting period is 1st October 2020 to 30th September 2021. It was decided to set back the reporting period by a quarter against the financial year (1st January 2021 to 31st December 2021) to allow for lag times in receiving data.

Energy and carbon efficiency initiatives

In 2020 the Covid pandemic impacted NFU Mutual's ability to progress carbon efficiency initiatives, with supplier restrictions postponing construction works and resulting in planned improvements to the Group's property portfolio being deferred.

The focus in 2020 was therefore to review and consolidate the way energy was managed, with a new partnership established with Inenco Group Ltd to provide improved energy and water data. New infrastructure and software were also implemented to continuously monitor the performance of key buildings, using data analytics to target energy reductions.

NFU Mutual has continued to improve its energy management capability in 2021, with additional automatic meter reading (AMR) meters being installed, to provide improved data collection of energy used, and Building Management Systems being networked across key sites. An energy management audit was also completed in Q4 2021 to coincide with premises being re-occupied following the Covid pandemic.

Energy efficiency initiatives progressed during 2021 have included improvements to occupied premises, such as an LED lighting upgrade at its Bristol office and an air conditioning upgrade at its Lakehouse office in Stratford upon Avon.

NFU Mutual has also progressed activities to reduce its carbon footprint, including the purchase of electricity through a 100% low-carbon tariff in 2021, and the completion of work started in 2020 to implement an electric vehicle charging scheme and install 21 electric vehicle chargers across its Stratford sites.

1 This was prior to the Government 'Plan B' announcement on the 8th December.


NFU Mutual

LONG TERM VIABILITY DISCLOSURE

NFU Mutual's strategic long-term objectives of sustainable profitable growth, great company to do business with and being a great place to work are integral to the Group's prospects for the long term which are reflected in our business model and strategy (pages 9 to 11).

Given the strong financial position of the Group, the Directors have determined that a period of three years is an appropriate period over which to provide its viability statement. This timescale is consistent with the period over which the Group's regulatory ORSA requirement has been considered, as well as the time horizon over which its medium-term business plan has been constructed.

The long-term nature of the life business is reflected in technical provisions which allow for expected cash flows over the lifetime of these policies and their ongoing capital requirements.

The Directors have assessed the prospects and viability of the Group over the next three years, taking into account:

- the impact of Coronavirus restrictions on both the financial and operational position of the company (see further detail in Going Concern Statement on pages 48 to 49);
- the continued strength of the balance sheet and the Group's overall solvency and liquidity position;
- the operation of the Group's governance and internal control framework as set out in the Governance Report (pages 54 to 81);
- the robust and embedded Risk Management Framework (page 25), which identifies and reports to the Board (via the Risk Director), key operational risks that could threaten the Group's business model along with mitigating management actions;
- the review of principal financial risks (market, credit, liquidity and insurance as shown on pages 128 to 138) undertaken within the ORSA process where we consider strategic business planning, risk and capital management as an integrated process; and
- ongoing extensive stress testing undertaken on the Group's solvency, liquidity and financial performance resulting from events such as a significant General Insurance claims surge or extreme financial market volatility. This analysis is reported and reviewed by Risk Committees and subcommittees. In 2021, this included the scenarios of more frequent pandemics and the long term effects of Covid-19, as well as the UK splitting into its constituent countries, and an assessment of scenarios that would reduce group solvency to below 100%, thus putting the viability of the company at risk. This analysis showed the group to be in a robust position, with management actions in place to ensure solvency levels could be retained at acceptable levels.

Based upon this assessment, the Directors have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due as shown on page 119. In doing so the Board recognise that such future assessments are subject to a level of uncertainty that increases with time, and therefore future outcomes cannot be guaranteed or predicted with absolute certainty.

NFU MUTUAL GROUP TAX STRATEGY

NFU Mutual recognises its responsibilities to its policyholders and society to pay the right amount of tax. Our tax strategy reflects our strong risk management culture and core values as a mutual organisation. The publication of the Group's tax strategy complies with the requirements of Finance Act 2016(Sch.19).

Approach to tax risk management and governance arrangements

The NFU Mutual Board has established a structure of risk governance committees to which they delegate authority for overseeing all risks faced by the Group.

The Group's Senior Accounting Officer appointed in accordance with Finance Act 2009(Sch.46), and supported by the Tax Manager, is responsible for the tax strategy and managing tax risk within the Group. Ultimate responsibility is placed with the Finance Director. The Group's tax risk position is regularly reported to the Audit Committee. The Group operates three lines of defence with the active third line supported by Group Internal Audit.

The tax strategy is aligned with the Group's risk and governance framework, which includes a formal assessment of tax related risks and a reporting process to ensure the business is managed in line with risk appetite. The risk rating of an issue will determine how far it is escalated through the risk governance committees, including ultimately to the Board.

The main tax risks linked to our business include operational risks through changes in legislation, meeting our compliance obligations across all taxes and managing tax risk during business change programmes. The risks are managed using the Group's risk framework and the tax risk management activities of the Group tax function.

Attitude to tax planning

We are committed to paying the right amount of tax across the entire Group. This means complying with tax legislation and meeting our responsibility to provide value for our policyholders while seeking to safeguard NFU Mutual's reputation with the public, HMRC, our employees and our policyholders.

NFU Mutual is a UK based insurer with operations extending to the Channel Islands and Isle of Man. NFU Mutual has a policy to not engage in arrangements for tax avoidance purposes, including tax havens, that are unacceptable to HMRC. The main taxes managed by the Group are Corporation Tax, Value Added Tax, PAYE, National Insurance, Stamp Duty taxes, Insurance Premium Tax and other policyholder taxes. International taxes borne by the Group include withholding taxes on overseas investment income received by the Group's investment funds. Taxes and levies are paid to other tax jurisdictions for certain insurance risks located outside the UK.

NFU Mutual continues to evolve as an organisation in an ever-changing economic and regulatory environment. This includes maintaining awareness and compliance with ongoing consultations and legislative changes, such as the digitisation of taxes and global tax agendas including the proposed 15% global minimum corporate tax rate and the UK's additional 1.25% National Insurance and dividend tax rates to support health and social care. Tax in the financial services sector is complex and external tax advice is sometimes necessary in order to safeguard the interests of our policyholders and ensure our tax position is managed efficiently within the law.

The level of tax risk the Group is prepared to accept

NFU Mutual's risk management framework includes risk appetites that articulate the amount of risk the business is prepared to accept. We do not accept any risk of public sanction due to failure to respond appropriately to tax legislation that is applicable to the Group. The risk appetite for any regulatory or legislative fine is zero. This reflects our responsibility to all our stakeholders.

Approach to working with HMRC

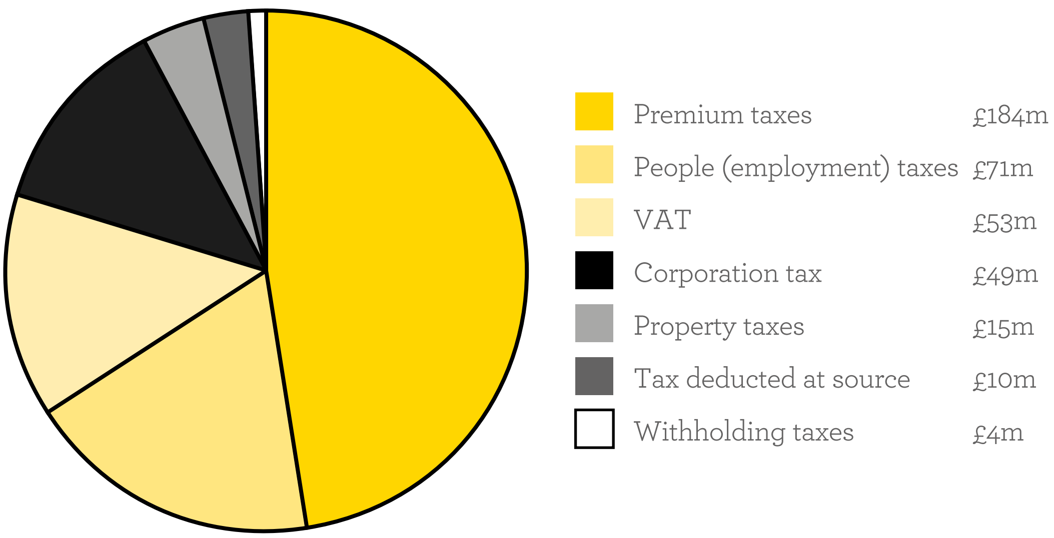
We meet our statutory obligations by adopting an open and transparent approach in our dealings with HMRC. This includes annual review meetings with the Customer Compliance Manager and discussions during the year on developments within the business and how the Group is responding to changes in tax legislation which may impact us.

We are committed to engaging professionally with HMRC in matters concerning any current, future or past tax risks. If clarification is required in the application of tax legislation, we will seek to raise this with HMRC and work with them to reach agreement before tax returns are submitted.

We seek to maintain our "low risk" rating within HMRC's new business risk rating program, and to deliver accurate and timely tax returns, including relevant additional information to aid HMRC's understanding of our business transactions.

The Group's 2021 total tax contribution was £386m (2020 £369m) summarised in the chart below. The tax contribution consists of taxes borne of £134m (2020 £129m) and taxes collected of £252m (2020 £240m). Taxes borne by the Group such as corporation tax directly impact the Group's business results. Taxes collected by the Group are received from employees and policyholders for onward payment to HMRC and other tax authorities. Insurance premium tax collected of £184m (2020 £170m) was paid by our policyholders.

Total Tax Contribution



STRATEGIC REPORT

The information that fulfils the Companies Act requirements for the Strategic Report can be found as follows:

Business Model and Strategy	Business Model and Strategy pages 9 to 11
Principal risks and uncertainties	Risk Management pages 23 to 39 and Note 2 pages 128 to 138
Performance and development during the year	Group Chief Executive's Statement pages 5 to 7, Business Review pages 14 to 22 and Directors' Report pages 45 to 50
Information about future developments	Business Review: Key Strategic Change Initiatives pages 20 to 22
Employee information and Corporate Social Responsibility (CSR)	Directors' Report pages 45 to 47 and Supporting Our Communities pages 85 to 93
Financial and non-financial KPIs	Key Performance Indicators and Business Review pages 12 to 22 Supporting Our Communities pages 85 to 93
Corporate Governance Statements (Section 172)	S.172 Statement pages 62 to 63

Jim McLaren
Chairman

Nick Turner
Group Chief Executive

28th March 2022

DIRECTORS' REPORT

The Directors present their report and the audited, consolidated financial statements of the parent company and its subsidiaries for the year ended 31st December 2021.

RESULTS AND MUTUAL BONUS

Consolidated profit after tax including realised and unrealised gains/losses for the year was £182m (2020: consolidated loss of £143m). Mutual Bonus to policyholders for 2021 was £250m (2020: £252m).

The financial results and balance sheet position have been prepared in accordance with United Kingdom Accounting Standards, including Financial Reporting Standard 102 & 103.

STATUS OF THE COMPANY

The National Farmers Union Mutual Insurance Society Limited is a company limited by guarantee, registered under the Companies Act 2006.

DIRECTORS

Brief biographies of the Directors are set out on pages 51 to 53. Lindsay Sinclair retired from the Board on 31st March 2021. Ross Ainslie was appointed to the Board on 1st March 2021 and Nick Watson on 24th May 2021.

During 2021 and up to the date of the signing of the financial statements, the Group maintained an insurance policy indemnifying the Directors and Officers against loss or attaching legal liabilities arising in the course of their duties. In addition, the Group has put in place deeds of indemnity for the benefit of the Directors and Company Secretary of the Group and its associated companies. The deeds of indemnity are qualifying third-party indemnity provisions in accordance with the Companies Act 2006.

OUR EMPLOYEES

Central to our People Strategy is our aim to ensure that we maintain NFU Mutual as a great place to work and that our employees are engaged and able to do the best work of their careers.

Our People Strategy is a key cornerstone enabling the business to deliver on its three long-term business objectives, by:

- Continuing to develop and embed a Winning Performance Culture which delivers business results through our people;
- Ensuring that we recruit, retain and develop capable people within our business who deliver technical expertise, customer service excellence, and behave in line with NFU Mutual's guiding principles of delivering sustainable profitable growth, creating a great place to work and creating a great company to do business with; and
- Focusing on building world-class employee engagement (defined as the 90th percentile of Gallup's company database).

We make it a priority to attract and retain the best talent in the marketplace, and by enabling our managers to provide strong and effective leadership which motivates, engages and develops our employees, we help them to perform at the highest level. This is underpinned by effective employment policies, reward practices, career development tools and a progressive people-centric culture.

KEY METRICS

As at 31st December 2021, there were 4,043 employees (2020: 4,080) within the Group. Of our employees, 50% are female and 50% are male; 86% of our workforce is full-time and 14% is part-time. Our annual rate of voluntary employee turnover for 2021 was 10.6% against an industry benchmark of 11.2%.

ENGAGEMENT

We continue to focus on both employee engagement, and internal customer engagement of our Agents and their staff. In 2015 we attained our long-term goal of becoming a world-class workplace by achieving above the 90th percentile of Gallup's company database, and we maintained this high standard for the seventh year running in 2021.

During the year we received the 2021 Gallup Exceptional Workplace award; the only UK-headquartered company to do so and one of a total of 39 companies worldwide.

Our formal and informal consultation forums support employee engagement with effective communication and helping to provide an employee voice. Through these groups we involve our employees in the review and development of our workforce policies and procedures and encourage a two-way dialogue. In addition, employees may raise issues through our informal and formal grievance procedures and our anonymous whistleblowing facility Safecall.

PERFORMANCE MANAGEMENT

Improving the clarity of performance expectations continues to be an area of focus for us. We establish clear performance standards, which are embedded through the setting, agreeing and regular review of individual objectives that link to our company strategy. This ensures all employees understand their individual contribution to the delivery of enhanced organisational performance. 100% of employees receive mid-year and end of year performance reviews and more than 90% have active Personal Development Plans. Employees are also encouraged to provide feedback on the leadership, guidance and support they receive from their managers through the 'Supporting Me' process.

REWARD

Reward at NFU Mutual is a combination of market competitive base pay, employee benefits and variable pay, including a Group Bonus Scheme which rewards all employees for the success of the business. Our Remuneration Committee oversees our overall approach to reward across the Group, and regularly reviews our reward framework to ensure our reward schemes and employee benefits are consistently aligned to our business objectives, support our focus on performance management and are market competitive.

PEOPLE DEVELOPMENT

We provide a broad range of training and development opportunities for our employees and Agents, to optimise both individual and business performance and in 2021 we have continued to invest in the leadership and technical capabilities of our employees. Our Graduate Trainee Schemes, now in their tenth year, are building an internal pipeline of future talent to strengthen technical and leadership succession. In 2021, for the third year running, we achieved second place in the prestigious Job Crowd awards for the top companies for graduates in the Accountancy and Insurance sector. We currently have 138 Graduate Trainees and former Trainees either on scheme or successfully appointed to roles across the business. Our Apprenticeship Scheme was introduced in 2017, and in 2021 we created 28 places across the business.

To enable our staff and Agents to provide our customers with the highest quality service and advice, we have invested in development programmes that will further drive professional standards and competence and support continuous professional development of our Agents and Financial Advisers. Our Agents Leadership Framework is now well established and focuses on developing our new Agents.

DIVERSITY

NFU Mutual is committed to providing an inclusive environment at all levels of the organisation. As part of our strategic objective of being a great place to work, we have created a work environment that rewards success, supports personal development and wellbeing, and recognises the fact that diversity and inclusion can increase the breadth and quality of debate. We have an inclusive culture that acknowledges and supports individual differences, and we encourage all employees to develop to their full potential and to take part in a broad range of career development initiatives.

We have been awarded Disability Confident Employer status, in recognition of our HR policies and processes being fair in the way we treat people with disabilities. We offer occupational health support to enable employees who become disabled during employment to continue in their career with us, either through training or redeployment.

Since 2018, NFU Mutual has been a signatory to the Women in Finance Charter. In 2021 we delivered our commitment to the Charter by increasing female representation in senior management and exceeding our published target. Currently 39% of our senior management population are women, compared with 36% when we signed the Charter. We are confident that our continued encouragement, support and focused development of all employees to reach their full potential, will lead to a more diverse workforce overall, delivering greater innovation and hence better customer outcomes.

COMPLIANCE

NFU Mutual aims to comply with all laws and regulations wherever we operate and has a comprehensive anti-bribery and anti-corruption policy that applies to all colleagues, including Directors, contractors and others acting on our behalf.

CHARITABLE DONATIONS

Charitable donations during 2021 amounted to £3.3 million, which included donations to the NFU Mutual Charitable Trust of £1 million (which distributes awards at its discretion), £300,000 to the Farm Safety Foundation, and £2 million through the Agency Giving Fund.

See the Supporting Our Communities section on pages 85 to 93 for full details of our community, charity and environment activity.

STATEMENT OF ENGAGEMENT WITH SUPPLIERS, CUSTOMERS AND OTHERS

Information on how the Group engages with suppliers, customers and others that it is in a business relationship with can be found in the Governance Report on pages 54 to 83.

PRINCIPAL RISKS

The Directors have carried out a robust assessment of the principal risks facing the Group as shown on pages 27 to 31, including those that would threaten its business model, future performance, solvency or liquidity which supports the Long-Term Viability Statement made on page 41.

GOING CONCERN BASIS OF ACCOUNTING

The accounts have been prepared on a going concern basis.

The Directors have reviewed the Group's business activities, financial position, principal risks and uncertainties and financial commentary as set out in the Long-Term Viability Statement and Strategic Report on pages 41 and 44.

As part of NFU Mutual's Risk Management Framework, the group produces its Own Risk & Solvency Assessment (ORSA) to demonstrate an integrated approach to strategic planning, risk management and capital management. This is presented to the Board annually. It includes Stress and

Scenario Testing, which covers a wide range of scenarios to thoroughly test the Groups resilience to industry events such as floods, windstorms or longevity changes occurring at the same time, as well as severe investment market movements. In addition during 2021, following the outbreak of the Coronavirus pandemic in 2020, consideration was given to the potential impact of more frequent pandemics, and the long term effects of Covid-19, as well as scenarios that would reduce group solvency to below 100%. This analysis showed the group to be in a robust position, with management actions in place to ensure solvency levels could be retained at acceptable levels. Although at its infancy, scenario testing has also been undertaken in terms of climate related risk. Looking into 2022, in light of the recent crisis in Ukraine, scenario testing focussing on the potential economic fall out, both in the short and longer term, will also be considered.

The ORSA is key in providing the Board with assurance that the Going Concern Basis of Accounting remains appropriate. Nonetheless, in light of the ongoing and uncertain economic impact of the Coronavirus pandemic, the following points are highlighted as key considerations for directors when approving the going concern basis of accounting:

Solvency: Despite all the financial market volatility, NFU Mutual has remained robustly solvent throughout 2021 and its Solvency Coverage Ratio was maintained within the Risk Appetite set by the Board and the Group's SCR Coverage Ratio sits at 204% at 31st December 2021.

Liquidity: The company holds over £10.1bn at 31st December 2021 (£7.4bn: 2020) of broadly liquid assets (i.e. available within 1 month). This puts the company in a robust position to manage its liquidity risk and meet its obligations to pay claims and suppliers over the next 12 months.

Resilience: The Executive Committee and a Crisis Management Team have continued to lead the company through the year following the ongoing Coronavirus restrictions, with Business Continuity Plans initiated across the business where required, to ensure service is maintained to customers. Operational issues and working practices are kept under constant review and will be amended in line with government guidance.

The financial performance of key strategic suppliers are monitored monthly, to identify any early warning indicators of impending financial difficulty. NFU Mutual continued to provide support to customers and the community in 2021, with an additional £2m allocated to the Agency Giving Fund and an additional £750k given in funding to our Charitable Trust, as well as The Farm Safety Foundation delivering bite-sized 'mental health in farming' training sessions for agents and farmers.

Given all the above, the Directors consider that NFU Mutual and the Group have adequate resources to continue in operation for a period of at least 12 months and are satisfied that it is appropriate to continue to adopt the going concern basis in preparing the financial statements.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors have prepared the Group and parent company financial statements in accordance with United Kingdom Accounting Standards, including FRS102, the Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and the Group and of the profit or loss of the company and Group for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently
- make judgements and accounting estimates that are reasonable and prudent
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business
- consider the annual Report and Accounts taken as a whole to ensure that it is fair, balanced and understandable and provides the information necessary for members to assess the company's performance, business model and strategy.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and the Group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. The Directors confirm that their responsibilities have been fulfilled and that they consider the annual Report and Accounts taken as a whole to be fair, balanced and understandable, and provide the information necessary for members to assess the company's performance, business model and strategy.

There have been no post-balance sheet events that require disclosure in the financial statements, we have considered the likely future events in the Chairman's statement on pages 1 to 3.

DISCLOSURE OF INFORMATION TO AUDITORS

The Directors confirm that, so far as each Director is aware, there is no relevant audit information of which the Society's auditors are unaware and that each Director has taken all the steps that he/she ought to have taken as a Director, in order to make himself/herself aware of any relevant audit information and to establish that the Society's auditors are aware of that information.

INDEPENDENT AUDITORS

A resolution will be proposed at the 2022 Annual General Meeting to reappoint Deloitte LLP as auditors.

Jim McLaren
Chairman

Nick Turner
Group Chief Executive

28th March 2022

OUR BOARD OF DIRECTORS

JIM MCLAREN MBE, CHAIRMAN

Jim was appointed to the Board in 2012 and appointed Chairman in 2019. He is also Chair of the Nomination Committee, and previously Chaired the Remuneration Committee. He served as President of NFU Scotland from 2007 to 2011, having served as Vice President in 2006. Jim was Chairman of Quality Meat Scotland Limited from 2012 to 2019 and is a former Director of Scotland's Rural College. Jim is a mixed beef and arable farmer from Perthshire in Central Scotland and a Fellow of the Royal Agricultural Societies.

NICK TURNER, GROUP CHIEF EXECUTIVE

Nick was appointed NFU Mutual Group Chief Executive in April 2021 and is responsible for managing the Group business. He was appointed to the Board in 2013 and was previously Sales and Agency Director where he led the growth of the General Insurance and Life businesses. Nick joined NFU Mutual from AXA where he was Managing Director, Intermediary & Partnerships – Personal Lines. His career spans more than 35 years, largely in the fields of Life and Wealth Management. Nick is a former President of the Chartered Insurance Institute and was previously President of the Personal Finance Society.

ROSS AINSLIE, NON-EXECUTIVE DIRECTOR

Ross was appointed to the Board in 2021. A Fellow and former Council member of the Faculty of Actuaries, he has over 30 years' experience in the insurance industry. After working at Scottish Provident and at reinsurer Gen Re, he became Managing Director of Bright Grey and Scottish Provident in 2009. He is a Non-Executive Director of Longevitas, an actuarial software provider, and has been a member of the Standard Life With-Profits Committee since 2013.

JON BAILIE, NON-EXECUTIVE DIRECTOR

Jon was appointed to the Board in 2018 and is Chair of the Board Investment Committee and of the board of NFU Mutual Unit Managers Limited. He has extensive investment management experience, having held senior positions at Pioneer Investments, AXA Investment Managers and Russell Investments. He is a Non-Executive Director of Openwork Wealth Management, a former Board member of the Pensions Infrastructure Platform and was previously Chairman of the Management Committee of Pantheon Ventures, a global private equity business.

STEVE BOWER, CUSTOMER SERVICES DIRECTOR

Steve became a Director in 2010 and is responsible for General Insurance Customer Services, which includes Underwriting, Claims and Re-insurance, at our Head Office and our seven regional centres. Steve's career at NFU Mutual spans three decades and during that time he has held a variety of roles including Sales Manager, Regional Manager and Chief Manager – Life Services.

ALI CAPPER, NON-EXECUTIVE DIRECTOR

Ali was appointed to the Board in 2018 and is Chair of the Remuneration Committee. She is a member of NFU National Horticulture and Potatoes Board, a Director of the Oxford Farming Conference, the British Hop Association, Wye Hops Limited and Wye Fruit Limited, Executive Chair of British Apples and Pears and is a Nuffield Scholar. She is a previous Board member of Cargill Growers Association. Before becoming a partner with her husband Richard at Stocks Farm, Ali worked in advertising for 16 years where she progressed to Client Services Director.

BRIAN DUFFIN OBE, NON-EXECUTIVE DIRECTOR

Brian was appointed to the Board in 2014. He is Senior Independent Director, Chairs the With-Profits Committee and is Chairman of the Trustee of the Group's Staff Retirement Benefit Scheme. Brian was Group Chief Executive of Scottish Life and an Executive Director of Royal London Group. He is Chairman of Scottish Equitable Policyholders Trust, Aviva's With-Profits Committee, the Church of Scotland Investors Trust and is a Trustee of the Baillie Gifford Staff Pension Scheme.

ALAN FAIRHEAD, NON-EXECUTIVE DIRECTOR

Alan was appointed to the Board in 2020 and is Chair of the Board Risk Committee. A Chartered Insurer and Fellow of the Chartered Insurance Institute, he has over 40 years' domestic and international General Insurance experience in underwriting and operational management. After a career spanning 21 years at Guardian Royal Exchange he progressed through Zurich Insurance Group to become CEO of Zurich Specialties London Ltd before becoming Global Chief Underwriting Officer based in Zurich. Alan is Non-Executive Director of Everest Insurance (Ireland) DAC where he is also Chair of their Board Risk Committee.

CHRISTINE KENNEDY OBE, NON-EXECUTIVE DIRECTOR

Christine was appointed to the Board in 2014 and is a Trustee of the NFU Mutual Charitable Trust. A partner in her family's beef farm for 30 years, Christine was the Director of Commodities and Food for the UFU and served on its Board. She was a member of the NI Food Advisory Committee and is Chairperson of the NI panel of the Council for Awards of Royal Agricultural Societies. Christine is also a member of the Rural Affairs Committee of the UFU, a Trustee of Donaghadee YFC and is a Director of Countryside Services.

RICHARD MORLEY, FINANCE DIRECTOR

Richard joined NFU Mutual in 2011 and was appointed to the Board in 2018. His responsibilities include Financial & Regulatory Reporting, Financial Planning & Analysis, Investments, Property and Procurement. He has held a variety of Finance leadership roles for Thames Water, BNP-Paribas and Lloyds Banking Group. Richard is a qualified accountant (FCMA) and is a Non-Executive Director of The Institute of Agriculture & Horticulture.

DAVID ROPER, NON-EXECUTIVE DIRECTOR

David was appointed to the Board in 2019. He graduated from Cambridge University with a degree in Music and subsequently trained as an accountant before joining PwC in 1990. He rose through that organisation to become a Director and then a Partner specialising in the financial services sector, working in London, Manchester and Birmingham. He is the Senior Independent Director of Atom Bank and is also Chair of the National Youth Choirs of Great Britain and Deputy Chairman of the City of Birmingham Symphony Orchestra.

NICK WATSON, SALES AND AGENCY DIRECTOR

Nick was appointed to the Board in 2021 as Sales and Agency Director. He brings 30 years of financial services experience; 24 of which have been in insurance – spanning both life and general insurance.

Nick joined from AXA, where he was Commercial Distribution and Trading Director, leading their broker distribution and trading strategy in the UK Commercial market - responsible for intermediary marketing, broker development, and the branch network trading performance. Prior to AXA Nick also spent 13 years with Aviva in both the UK and Europe, leading distribution and operations functions within GI and Life divisions. Nick also has experience of the UK broking market having previously led part of the Towergate MGA business and an online wholesale broking business.

GOVERNANCE REPORT

CHAIRMAN'S INTRODUCTION

One of the key aspects of mutuality is trust. We have built up trust with our members over generations by having a deep understanding of their requirements and, most importantly, by doing the right thing. Good governance underpins our values and culture, how we do business and how we serve our members. It ensures that we deliver on our core purpose to provide our members with the insurance cover and financial planning they need, through high quality products at a fair price and with a first-class personal service.

NFU Mutual 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 is responsible for leading and overseeing the governance of the Group, and for setting the tone for the Group's culture, values and behaviours. As Chairman, it is my role to ensure that the Board promotes the highest standards of governance for the Group. Our governance framework ensures we are making decisions in the right way for our members and to promote the long-term success of the Group. In an ever-changing environment, good corporate governance helps ensure that there is effective debate, challenge and support in decision making and a continued focus on the strategic objectives.

2021 has seen changes at Board level with the retirement of Lindsay Sinclair as Group Chief Executive after nearly 13 years in the role. Lindsay's exemplary leadership guided and strengthened the business throughout that period. I was delighted to welcome Nick Turner as the new Group Chief Executive in April 2021. Nick joined the business in 2013 as sales and agency director and as CEO will continue the strong and effective leadership of the business, delivering NFU Mutual's successful strategy. Nick Watson. was recruited from Axa as Sales and Agency Director and joined the Board as an Executive Director on appointment in May. In addition, Ross Ainslie was appointed as a Non-Executive Director on 1st March 2021. Ross is an actuary by background and has held senior management positions with a number of life insurance companies.

Stakeholder engagement continues to be very important to us as a mutual. As Government restrictions eased during the year many of the events at which the Board is able to meet members, staff and other stakeholders started to be held face to face again. I was especially delighted to see so many of our members attend our AGM in June. This is a key opportunity for the Board to engage with our members and I look forward to being able to welcome members again in 2022. National and local shows and events, NFU conferences and Regional Advisory Board meetings provide us with the opportunity to talk to members, staff, Agents and the wider community about the Group and its plans, progress and development. These events are also an opportunity for members to discuss areas of interest or raise any concerns with the Board.

I continue, together with the rest of the Board, to regularly meet with the Farming Unions to understand the issues facing the agricultural industry and rural communities and with the Prudential Regulatory Authority and Financial Conduct Authority. These latter meetings ensure that the Regulators are aware of the good work that NFU Mutual is doing to ensure it delivers on its purpose and strategy for customers. They also allow the Regulators to understand our governance and gain confidence that we are acting in the right manner to deliver sustainable long-term products and service for our customers. As a Board, we are conscious of the impact the business and our decisions have on members, customers, employees, and suppliers, as well as on the community and our environment. The Board has spent time during the year considering the Group's ESG framework and will continue to work on developing, and delivering against, its ESG strategy, including a focus on how the Group responds to issues surrounding climate change.

Jim McLaren
Chairman

CORPORATE GOVERNANCE CODE

NFU Mutual has chosen to follow the UK Corporate Governance Code (The Code) for several years and has applied the 2018 version of the Code. The Code emphasises the value of good governance to long-term sustainable success. The information in this report demonstrates how NFU Mutual is applying the principles of the Code.

During the year NFU Mutual did not comply with the provision in the Code which indicates that the tenure of the Chairman should not exceed nine years from the time they were appointed to the Board. Jim McLaren was appointed as a Non-Executive Director in January 2012 and appointed Chairman in October 2019. Therefore, he has served over nine years on the Board.

The Board has considered this position carefully and believes it is appropriate for NFU Mutual. As a composite insurer which also offers investment products NFU Mutual is a complicated business. In addition, many of its core customers continue to be from the agricultural sector and rural community. The agricultural sector has specific needs and characteristics. The Board believes it is vital to the long-term success of the Group that the Chair has in-depth knowledge of the technical aspects of the business and a good understanding of the agricultural sector. The Board believes it can take several years' service on the Board for an individual to gain the depth of knowledge required of a Chair. Therefore, its preference would normally be to appoint the Chair from its pool of Non-Executive Directors. For the stability of the Group, and the Board, and for effective succession planning it is believed that it is appropriate for a Chair, subject to continued satisfactory performance and annual re-election by the members, to serve for around five to six years from their appointment as Chair. This means that by the end of their period of appointment as Chair it is highly likely that they will have served more than nine years on the Board.

LEADERSHIP AND COMPANY PURPOSE

PURPOSE

As set out in in more detail in the Business Model and Strategy section on pages 9 to 13, NFU Mutual has a strong purpose, strategy and values which underpin everything that we do. We aim to provide our members with the insurance cover they need, at a fair price, and with a first-class service. Our strategy is to differentiate ourselves, through an attentive, local, personal service that is second-to-none. As a mutual, we are concerned with the long-term interests of our members, rather than short-term profits. At NFU Mutual, founded originally in 1910 by seven Warwickshire farmers, no-one will ever be more important to us than farmers and the rural community. As a result, we have become the UK's leading rural insurer and part of the fabric of rural life.

GOVERNANCE FRAMEWORK

The Board sets the tone from the top on the Group's governance, culture and values. Its role is to promote the long-term success of NFU Mutual through the setting of a clear purpose and sustainable strategy which creates value for both our members and wider society. The successful execution of this strategy and oversight of its delivery are supported by sound systems of governance, at the centre of which is our governance framework that defines relevant decision making authorities and responsibilities.

The Board provides entrepreneurial leadership of the Group within a framework of prudent and effective controls, which enable risk to be assessed and managed. It is responsible for stewardship of the Group, overseeing its conduct and affairs to create sustainable value for the benefit of the members. It sets the Group's strategic aims, monitors management's performance against those strategic aims, sets the Group's risk appetite and ensures the Group is adequately resourced and that effective financial controls and risk management systems are in place. The Board also sets the values and supports the culture of the Group.

BOARD ACTIVITY

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 employees, relationships with suppliers and members, the environment and the community, the Group's high standards of business conduct and the need to act fairly towards members. Such considerations are taken into account in all Board decisions whilst ensuring the Board operates in the long-term interests of the company. The Board and its Committees work together to review strategy, business performance and to manage the business risks.

The Board met eleven times during the year; details of Director attendance at each meeting can be found below. In line with the Board's responsibility for the overall strategic direction of NFU Mutual, strategy related issues are discussed at each meeting. The Board holds two dedicated strategy sessions each year: these consider progress towards the Group's strategic aims as well as the annual and medium-term plans. An overview of the Board's key activities is set out below.

STRATEGY AND BUSINESS RESULTS

- The Board reviewed and approved the 2022-2024 Medium Term Plan and 2022 Business Plan
- The Board received and considered the monthly business results which reported performance against plan
- The Board held a strategy day considering progress against the overall strategy and in particular the areas of focus for the General Insurance business
- Throughout the year, the Board received regular reports on the key strategic projects which are reported in the Business Review on pages 14 to 22
- The Board received regular reports on the FCA Fair Pricing regime, the progress towards implementation, and the impact on the business and customers
- The Board received updates on the implementation of NFU Mutual's climate change strategy and approved its Net Zero roadmap
- The Board approved NFU Mutual's ESG framework and the creation of an ESG strategy for the Group.

FINANCIAL REPORTING, RISK AND CONTROLS

- The Board approved the Annual Report and Accounts and the Solvency and Financial Condition Report
- The Board monitored the Group's financial performance and its solvency coverage
- The Board considered and approved the proposed rates for Mutual Bonus
- The Board considered the Risk Director's Report and regular reviews of risks during the year such as those related to Brexit, interest rates, inflation and the Coronavirus pandemic
- The Board received updates from the Audit Committee and Board Risk Committee Chairs on key areas discussed, including risks and controls.
- The Board considered the proposed approach to the PRA's operational resilience requirements
- The Board approved changes to the Group's risk appetite framework.

GOVERNANCE

- The Board discussed the outcome of the Board's effectiveness evaluation and the Chairman's appraisal
- The Board considered Board and senior management succession planning
- The Board approved the arrangements for NFU Mutual's AGM
- The Board considered its compliance with the UK Corporate Governance Code.

STAKEHOLDER ENGAGEMENT

- The Board regularly considered the Group's relationship with various stakeholder groups. It discussed employee engagement, customers, Agents and, through its Responsible Business Report, the impact on and relationship with the wider community
- In particular, the Board considered the impact of the Coronavirus pandemic on employees, customers, Agents, suppliers and the wider community and approved a further Coronavirus support package to assist customers and the community to deal with the negative impacts of the pandemic
- Board members met throughout the year with the Prudential Regulatory Authority and Financial Conduct Authority.

Name of Director	A	B
Chairman		
Jim McLaren	11	11
Senior Independent Director		
Brian Duffin	11	11
Chief Executive		
Lindsay Sinclair [1]	3	3
Nick Turner [2]	11	11
Executive Directors		
Steve Bower	11	11
Richard Morley	10	11
Nick Watson [3]	7	7
Non-Executive Directors		
Ross Ainslie [4]	9	9
Jon Bailie	11	11
Ali Capper	11	11
Alan Fairhead	11	11
Christine Kennedy	11	11
David Roper	11	11

1. Retired from Board 31st March 2021
2. Appointed Chief Executive 1st April 2021
3. Appointed to the Board 24th May
4. Appointed to the Board 1st March 2021

A = Number of meetings the Director attended in 2021.
B = Maximum number of meetings the Director could have attended in 2021.

STAKEHOLDER ENGAGEMENT

The Board understands that the long-term sustainable success of NFU Mutual is dependent on effective engagement with our key stakeholders. The Directors recognise the role that each stakeholder group plays in our success and our responsibilities towards them. By understanding our stakeholders, we can factor into Board discussions the potential impact of our decisions on each stakeholder group and consider their needs and concerns.

Our stakeholders	Why they are important	How we are engaging
Members and Customers	Our customers are at the heart of everything we do. They are the users of our products and services. Our members own the company and are also our customers.	Our primary route of engagement with customers and members is through the Group's network of Regional Advisory Boards made up entirely of members. The Regional Advisory Boards maintain close links with the Board and senior management through a series of meetings and with members via a network of Member Forums. The Regional Advisory Boards are briefed regularly on the Group's performance and key initiatives and provide valuable feedback to management and the Board. There are currently seven Regional Advisory Boards, four in England and one each in Scotland, Wales and Northern Ireland. Each Regional Advisory Board meets twice a year with the Chairs attending a further two meetings a year. Directors and members of senior management attend each of these meetings. Throughout the pandemic, the Board kept the Regional Advisory Board Chairs informed of how the business was managing the pandemic situation. These updates were shared with Regional Advisory Board members to help them in their discussions with customers. In addition, eleven Member Forum meetings were held during the year. NFU Mutual's AGM is an important opportunity for the Group to communicate with members. All Directors attended the 2021 AGM and members were invited to ask questions of the Board during the meeting. In addition, all questions submitted in advance of the meeting were responded to by the business or by directors directly as appropriate. NFU Mutual also has an online customer panel, Mutual Voice, which it uses to gather customer views on a range of topics. It also regularly carries out customer research to understand customers' view of NFU Mutual, and their requirements for products and service.
Our people	Our people are essential to meeting our purpose and delivering the required products and service to our members.	The Board receives regular updates on the engagement of employees through its annual engagement survey. In addition, NFU Mutual has a national employee consultation group which provides representation on strategic business issues. The Board and management team is committed to communicating with, listening to, and engaging employees in consultation and considers the position of our people in all relevant Board decisions.
Our Agents	Our Agents are also essential to meeting our purpose and delivering the required products and attentive, local, personal service to our members.	NFU Mutual engages with its Agents through the Agency Liaison Group and National Association of Group Secretaries which are both representative bodies of the Agents. Directors also regularly meet with individual Agents. In addition, a number of strategic change programmes which are expected to impact on Agents and their offices have set up focus groups to ensure that they are engaging with Agents and their views are taken into account, especially around the implementation of those change programmes.

Our stakeholders	Why they are important	How we are engaging
Business Suppliers and Partners and Companies we invest in	Our business suppliers and partners provide us with the tools and services we need to be able to deliver to our customers.	NFU Mutual works with its suppliers to ensure performance and to identify opportunities for enhanced value and innovation. Our Business Relationship Managers hold regular meetings with our key suppliers to ensure there is regular engagement in line with our procurement policies and practices. NFU Mutual follows the UK Stewardship Code in respect of its role as an institutional investor. It regularly engages with the companies it has invested in to encourage them to adopt and follow best practice in relation to governance.
Regulators	NFU Mutual is subject to financial services regulations and requires regulatory approval to operate.	There is a programme of regular meetings between Board members and the Regulators.
Communities	NFU Mutual seeks to tackle a wide range of issues that are essential to building a more sustainable future for the communities we support.	The Board receives regular reports on the Responsible Business activities, including on the activity of the NFU Mutual Charitable Trust and the Farm Safety Foundation.

S.172 STATEMENT

S.172 of the Companies Act 2006 requires Directors to act in the way which they consider, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole. In doing this, Directors should take into account factors which will affect the success of the company such as the long-term consequences of any decision, the interests of employees, the needs of its customers, relationships with suppliers, regulators and other stakeholders and the wider community and the company's reputation.

The section above sets out details of NFU Mutual's key stakeholders and the principal ways it engages with them. The relevance of each stakeholder group will be different for each issue considered by the Board. Therefore, it is important that the Board understands the needs of each stakeholder group during its discussions and as part of its decision making. Together with the consideration of long-term consequences, and the maintenance of our reputation for high standards of business conduct, this is integral to the way the Board operates.

The views of stakeholders are heard by the Board through information provided by management and by Directors' direct engagement with stakeholders. Consideration of stakeholders is at the heart of what we do as a business. Our members and customers are at the heart of our strategy and our strategic objectives directly link into the requirements under s.172:

- To deliver Sustainable Profitable Growth – requires the Board to consider the long-term consequences of decisions and the needs of our customers
- To be a Great Company to do Business With – requires the Board to put our customers and members at the heart of what we do; it also ensures that suppliers and business partners, including the Agents, are fully considered
- To be a Great Place to Work – requires the Board to consider the needs and expectations of employees, including their engagement.

The Board has again spent time considering the impact of the Coronavirus pandemic. The Board continued to monitor the Group's business continuity plans to respond to the pandemic and then as Government guidance changed started to consider the return to the office and the move to a hybrid method of working. When Government guidance changed again in December, the Group reverted back to working from home wherever possible. Throughout the pandemic the impact on our employees and Agents, and their staff, and customers was considered. There was a focus on ensuring that the business continued to deliver first-class service to customers whilst considering the wellbeing of our people. The Board has received regular updates on how the pandemic has impacted employees and Agents and on how they are responding to it. The Board has ensured that employees have the ability to work from home safely and has also considered the steps being taken to support employees' wellbeing and to ensure that the Group's culture is maintained. The employee engagement survey included additional questions to enable the Board to understand employee's experiences of working from home

Given the unprecedented, wide-ranging and continued impact of the pandemic, the Board decided to implement a further Coronavirus support package in 2021. The package aimed to help customers, and the community. For customers the package included extended and flexible cover for key customer segments as well as new initiatives to further support customers in difficult times. For the community, an additional £750,000 was donated to the NFU Mutual Charitable Trust to enable it to support charities supporting agriculture and the rural communities during the pandemic. £2 million was given to the Agency Giving Fund to further support local charities in each of the communities that our Agencies operate in. The Board has received regular feedback on the impact of these packages.

In considering the 2022 Business Plan and 2022 – 2024 Medium Term Plan the Board took into account a wide range of factors. The Plans include the continued implementation of the strategic roadmap and the Strategic Change Projects as described on pages 20 to 22. In developing the various plans consideration was given to, amongst other things, customer needs and expectations, the impact on employees, the continued financial strength of the Group and regulatory requirements. A number of areas of research are undertaken to inform the business on customer needs and expectations. Research is also undertaken with external consultants and suppliers to ensure that the business is aware of emerging trends. The Board also took into account the impact of its plans on Agencies; the views of Agents are regularly reported to the Board.

The Board agreed a new ESG framework during the year to bring together all aspects of ESG activity. It also considered NFU Mutual's position against a number of factors under each of the Environment, Social and Governance areas. In considering ESG, the Board particularly listens to and considers the expectations of customers and members, employees and Agents, the Regulators, and our local communities. As part of the work on ESG the Board has asked the business to continue to develop mechanisms for tracking and reporting emerging themes and stakeholder perceptions.

DIVISION OF RESPONSIBILITIES

BOARD ROLES

There is clear division between executive and non-executive responsibilities which ensures accountability and oversight. The roles of Chairman and Chief Executive are held separately, and their responsibilities are well defined and set out in writing.

CHAIRMAN

- Responsible for the effective running of the Board and ensuring it is appropriately balanced to deliver the Group's strategic objectives
- Promotes a culture that is rooted in the principles of good governance and enables transparency, debate and challenge
- Ensures that the Board, as a whole, plays a full and constructive part in the development of strategy and that there is sufficient time for Board discussion
- Ensures effective engagement between the Board and its members
- Ensures the views of all stakeholders are understood and considered appropriately in Board discussions.

SENIOR INDEPENDENT DIRECTOR

- Provides a sounding board for the Chairman in matters of governance or the performance of the Board
- Available to members if they have concerns which have not been resolved through the normal channels of communication with the company
- At least annually leads a meeting of the Non-Executive Directors without the Chairman present to appraise the Chairman's performance
- Acts as an intermediary for Non-Executive Directors when necessary.

NON-EXECUTIVE DIRECTORS

- Provide constructive challenge to the executives and help to develop proposals on strategy
- Scrutinise the performance of management in meeting agreed goals and objectives and monitor the reporting of performance
- Review Group financial information, ensuring the systems of internal control and risk management are robust and defensible
- Determine an appropriate policy, and levels of remuneration, for the senior executives
- Appoint and, where necessary, remove senior management and review the succession plans for the Board and key members of senior management
- Provide independent insight and support based on relevant experience
- Promote the highest standards of integrity and corporate governance throughout the Group and particularly at Board level.

CHIEF EXECUTIVE

- Executes the Group's strategy and long-term objectives together with implementing the decisions of the Board and its committees
- Keeps the Chairman and Board appraised of important and strategic issues facing the Group
- Ensures that the Group's business is conducted with the highest standard of integrity, in keeping with the culture and values
- Manages the Group's risk profile.

OTHER EXECUTIVE DIRECTORS

- Support the Chief Executive in developing and implementing strategy
- Oversee the day to day activities of the Group
- Manage, motivate and develop staff
- Develop business plans in collaboration with the Board
- Ensure that the policies and practices set by the Board are adopted at all levels of the Group.

COMPANY SECRETARY

- Complies with Board procedures and supports the Chairman
- Ensures the Board has high quality information, adequate time and appropriate resources in order to function effectively and efficiently
- Advises and keeps the Board updated on corporate governance developments
- Is responsible for the organisation of the Annual General Meeting
- Provides advice, services and support to all Directors as and when required.

BOARD INDEPENDENCE

In order for the Board to operate effectively, it is important that a majority of the Board is independent. This allows the Non-Executive Directors to fulfil their responsibilities around providing constructive challenge and helps ensure integrity. Each year the Board considers whether each Non-Executive Director, excluding the Chairman, is independent of the Group. In undertaking this review, the Board considers whether there are any relationships or circumstances which are likely to affect, or could appear to affect, the Director's judgement. The results of the Board's performance evaluation are also taken into account.

In 2021, the Board considered all of the Non Executive Directors, other than the Chairman, to be independent in accordance with the Code. Our Non-Executive Directors meet without the Executive Directors at least once a year and informally on a regular basis. These meetings are useful to safeguard the independence of our Non-Executive Directors by providing them with time to discuss their views in a more private environment.

Any Director who has concerns about the running of the Group or a proposed course of action is encouraged to express those concerns which are then minuted. Each Director has confirmed that they have been able to allocate sufficient time to discharge their responsibilities effectively.

The Non-Executive Directors have direct access to the senior management team. Contact with the business and employees is encouraged and provides the opportunity to develop a deeper understanding of the Group's operations or to request information about specific areas. The development of these relationships with management strengthen both the role of the Non-Executive Directors and their ability to constructively challenge and offer guidance in respect of strategic decision making.

Directors are required to notify the Chairman as soon as they become aware of a situation that could give rise to a conflict or potential conflict of interest. The register of potential conflicts of interest is regularly reviewed by the Board to ensure it remains up to date. The Board is satisfied that any potential conflicts have been effectively managed throughout the year. Non-Executive Directors are required to seek approval from the Board before taking on any additional commitments to allow the Board to consider whether such commitment would impact on their ability to fulfil their responsibilities to the Group.

COMPOSITION, SUCCESSION AND EVALUATION

THE BOARD

The Board is structured with four Executive Directors and eight Non-Executive Directors who bring to the Board a mixture of farming and wider commercial experience, with a focus on financial services. This structure is believed to provide the Board with the appropriate balance, not only to manage the business, but also to understand the needs of our core customer base. All appointments to the Board are subject to a rigorous appointment process; further information can be found in the Nomination Committee report below. This ensures that NFU Mutual recruits the best Directors to manage the business given the size and complexity of the Group. The Board and its Committees have the appropriate range and balance of skills, experience, knowledge and independence to enable them to carry out their duties and responsibilities.

All Directors are subject to election by the members at the AGM following their appointment and to re-election on an annual basis. Non-Executive Directors are appointed for three-year terms subject to that annual re-election. The Nomination Committee specifically considers whether any Director coming to the end of their three-year term should be recommended for re-election at the subsequent AGM.

BOARD EVALUATION

The Board is committed to continually improving its effectiveness and the Group's overall performance. To facilitate this, the Board has implemented a three-year review cycle consisting of an external evaluation one year and individual appraisals with Directors conducted by the Chairman in the other two years. Following an external evaluation in 2020 an internal review was undertaken in 2021. Some minor recommendations for improvement were made and these will be followed up during 2022.

The annual appraisal of the Chairman was coordinated by the Senior Independent Director and all Directors provided input. The appraisal concluded that Jim McLaren continues to provide effective leadership of the Group.

BOARD INDUCTION AND DEVELOPMENT

New Non-Executive Directors participate in a comprehensive formal tailored induction programme. This provides information about the Group's structure, strategy and operations, Non-Executive Directors' duties, corporate governance and Board Committees. Directors meet key managers and have the opportunity to visit various parts of the business to gain a thorough understanding of the business and its operations. Each new Non-Executive Director is provided with a mentor to assist them in their first few months on the Board. The purpose of the induction programme is to ensure that any new Director is adequately informed and equipped to participate in Board discussions, with a sound understanding of the long-term strategy, business operations, market and industry knowledge and Group culture.

The Board believes strongly in the development of Directors and employees. Each Director is required to commit to continuing their professional development. Any knowledge or skills gaps identified during the appraisal process are addressed in a timely manner. During 2021, Continuing Professional Development (CPD) sessions were provided on a number of subjects including the lessons learnt from the major change programme to implement a new General Insurance claims system, Mutual Bonus, the FCA Fair Pricing regime, externally managed investments and the approach adopted by the major change programme to implement a new General Insurance policy system. In addition, the Board receives regular market and company updates as part of the Board agenda.

NOMINATION COMMITTEE REPORT

COMMITTEE COMPOSITION

The Committee is comprised of the Chairman and Non-Executive Directors. A majority of the Committee members should be independent. The Committee is chaired by the Chairman unless it is considering the succession to the chairmanship when it will be chaired by the Senior Independent Director or another independent Non-Executive Director if the Senior Independent Director is one of the candidates for the role of Chairman.

Name of Director	A	B
Jim McLaren (Committee Chair)	4	4
Brian Duffin	4	4
Christine Kennedy	4	4

A = Meetings attended
B = Maximum meetings

ROLE OF THE COMMITTEE

The Committee has overall responsibility for leading the process for new appointments to the Board and ensuring that these appointments bring the required skills and experience to the Board to support the Board's role in development and oversight of the Group's strategy. As part of this, the Committee reviews the structure, size and composition of the Board to ensure the Board is made up of the right people with the necessary skills and experience whilst striving to achieve a Board composition that promotes diversity of thought and approach.

The Committee's key responsibilities are:

- Regularly reassessing the structure, size and composition of the Board and recommending any suggested changes to the Board.
- Reviewing the criteria for identifying and nominating candidates based on the specification for a prospective appointment including the required skills and capabilities.
- Considering succession planning for Directors and other senior executives, taking into account the promotion of diversity and inclusion, the challenges and opportunities facing the company, and what skills and expertise will be needed by the Board in future, ensuring the continued ability of the Group to compete effectively in the market place.
- Reviewing the time commitment required from Non-Executive Directors and assessing the Non-Executive Directors' other significant commitments to ensure that they continue to be able to fulfil their duties effectively.

THE COMMITTEE'S FOCUS IN 2021

During 2021 the Committee focused on the appointments of Ross Ainslie as a Non-Executive Director and Nick Watson as Sales and Agency Director. The Committee led the process for both appointments.

For the appointment of Ross Ainslie, the Committee used its succession planning work and the outcome of the Board evaluation process to consider what skills and experience the Board needed over the next few years. As a result of that consideration, the Committee decided to focus on finding a Non-Executive Director who had pensions and with-profits experience. The Committee appointed Sainty Hird to assist with the process. Sainty Hird was instructed to undertake a full market search for candidates meeting the specified criteria. A shortlist of candidates was compiled for interview. Following a through and rigorous interview and appraisal process the Committee recommended to the Board the appointment of Ross Ainslie as Non-Executive Director.

A through process was also followed for the appointment of the Sales and Agency Director. Egon Zehnder was used to assist with that process. Egon Zehnder conducted a full market search to propose a short list of candidates to the Committee; three candidates were selected for a thorough and rigorous interview and appraisal process following which the Committee recommended to the Board the appointment of Nick Watson as Sales and Agency Director.

The Committee considered changes to the composition of the Board Committees to reflect the various changes to the Board composition during the year. The Committee continues to focus on Board and senior management succession planning and is actively planning for expected Board changes over the next few years. The Committee looks to recruit directors with particular skill sets in advance of Director retirements to ensure there is no gap in the combined skills, knowledge and experience of the Board.

INCLUSION AND DIVERSITY

The Nomination Committee and Board are committed to ensuring that together the Directors possess the correct diversity of skills, experience, knowledge and perspectives to support the long-term success of the Group. The Board Diversity Policy recognises that diversity increases the breadth and quality of debate improving the overall effectiveness of decision making and providing better protection for members. Diversity is a wider principle than measurable factors such as age, gender, race or tenure. Other aspects such as skills, experience or diversity of approach are equally valuable in enhancing the quality of collective decision making.

The Board has not set specific targets for Board diversity. It does not believe that this is required as the Committee considers diversity, in its widest sense, during its Board composition reviews, succession planning and consideration of criteria for Board and senior management appointments. The Committee has previously undertaken unconscious bias training to further support its drive to ensure that appointment processes are fully inclusive.

As stated above, Egon Zehnder and Sainty Hird were used by the Committee during the year to support its Board composition activities. Neither firm has any other link to the Group or any Director. Egon Zehnder is an accredited firm under the enhanced voluntary code of conduct for executive search firms which aims to raise the standards and professionalism in the recruitment of women to boards. The Committee expects both firms to consider diversity and inclusion in all searches which they undertake on the Group's behalf.

The Group is a signatory to the Women in Finance charter. The Charter reflects the Government's aspiration to see gender balance at all levels across financial services firms. Trisha Jones, the HR Director, is responsible and accountable for gender diversity and inclusion. The Group set a target of having at least 38% female representation in senior management by 2021. At the end of September 2021, the Group had 40% female representation in senior management. At 31st December 2021, the gender balance ratio of the members of the Executive Committee plus the Company Secretary and their direct reports was 28:38 (female:male).

AUDIT, RISK AND INTERNAL CONTROL

ACCOUNTABILITY

The Board of Directors has ultimate accountability for ensuring that all risks to which the Group is exposed are managed effectively. The Board also oversees the effectiveness of risk management via its risk governance framework, which consists of committees from Board level to divisional level and ensures effective Group-wide risk oversight.

The committees oversee the effectiveness of risk management for the areas within their scope in line with delegated accountabilities and act as an escalation point for issues. This framework of business focused oversight and flow of information throughout the risk governance framework ensures the Board is appropriately informed and can be assured that all risks are being managed effectively or are escalated appropriately.

CONTROL ENVIRONMENT

The NFU Mutual Control Environment is a continuous set of processes and frameworks that ensure we manage risks effectively, meet our regulatory and customer obligations and achieve our business objectives by:

- Acting with integrity and with due skill, care and diligence.
- Acting in a prudent manner and ensuring we maintain adequate financial resources at all times.
- Having effective risk strategies and risk management systems.
- Organising and controlling our business responsibly and effectively, including having effective resolution strategies defined.

- Observing standards of market conduct.
- Ensuring fair outcomes for customers (Treating Customers Fairly) through the provision of suitable advice, meeting information needs, protecting client assets and managing conflicts of interest.
- Maintaining an open and cooperative relationship with our regulators.

Whilst managers are accountable for ensuring the effective operation of the Control Environment within their business units, the Board and its committees continuously monitor adherence to these processes and frameworks through:

- Discussing and challenging reports from business units
- Monitoring management information, and
- By considering the findings of assurance reviews and audit reports.

In addition, in accordance with the Audit Charter, the Group Head of Internal Audit provides an annual report on the governance, risk and control framework of NFU Mutual witnessed during its audit activity.

The ORSA (Own Risk and Solvency Assessment) is part of Solvency II legislation. It is a continuous process that requires insurers to consider a forward-looking view of their solvency position that takes into account:

- Strategic and business planning process
- Risk management framework and process
- Capital management plans, requirements and performance management
- Decision making in terms of monitoring risk profile, solvency monitoring, risk appetite, support for strategic decisions and evidence of risk governance and Regulatory Capital Model use.

The ORSA process gives assurance that NFU Mutual has sufficient capital to meet strategic objectives and achieve business plans, and provides transparency of both risk and capital in strategic and business decision making.

The Board continually monitors the company's risk management framework and internal control system. It has reviewed the effectiveness of those systems and is satisfied that the Group's risk management framework and system of internal controls are robust and effective.

AUDIT COMMITTEE REPORT

COMMITTEE COMPOSITION

The Committee is comprised entirely of independent Non-Executive Directors. The Committee's members as a whole bring a wide range and depth of financial and commercial experience across various industries. David Roper meets the specific requirement for at least one member of the Committee to have recent and relevant financial experience. The Committee as a whole has competence relevant to the sector in which the company operates.

Name of Director	A	B
David Roper (Committee Chair)	7	7
Jon Bailie	7	7
Christine Kennedy	7	7
Ross Ainslie [1]	6	6

1 Appointed to Committee 1st March 2021
A = Meetings attended
B = Maximum meetings

THE ROLE OF THE COMMITTEE

The Audit Committee's principal role is to assist the Board in monitoring the integrity of the Group's financial statements, monitoring the effectiveness of the internal control framework and the independence and objectivity of the internal and external auditors. Its key responsibilities are:

FINANCIAL REPORTING

- Review the integrity of the annual financial statements and Solvency II disclosures;
- Review the appropriateness of accounting policies and practices.
- Review the significant issues and judgements considered in relation to the financial statements, including how each was addressed.
- Review the content of the Annual Report and Accounts and advise the Board on whether taken as a whole, they are fair, balanced and understandable.

EXTERNAL AUDIT

- Review and monitor the objectivity and independence of the external auditor, including the policy to govern the provision of non-audit services.
- Review and monitor the effectiveness of the external audit process and the ongoing relationship with the external auditor.
- Review and make recommendations to the Board on the tendering of the external audit contract, and the appointment, remuneration and terms of engagement of the external auditor.

RISK MANAGEMENT AND INTERNAL CONTROL

- Review and monitor the effectiveness of the internal control and risk management systems, with a particular focus on those areas that are relevant to the accounting systems and financial statements.
- Review the framework and analysis to support both the going concern and the long-term viability statement.
- Oversee appropriate whistleblowing arrangements.

INTERNAL AUDIT

- Review and approve the Internal Audit Plan and monitor its implementation.
- Review and monitor the effectiveness of the Internal Audit function.

THE COMMITTEE'S FOCUS IN 2021

FINANCIAL REPORTING

The Group has an internal control and risk management framework in place under which it operates, and which supports the preparation of the consolidated financial statements. This includes policies to ensure that adequate accounting records are maintained, and transactions accurately recorded so that the Annual Report and Accounts give a fair, balanced and understandable assessment of the Group.

The Committee has reviewed the going concern assumptions and principles underpinning the viability statement and considers that these remain appropriate.

During the year the Committee reviewed the external auditor's proposed audit plan. The debate around the plan included consideration of Deloitte's risk assessment of the Group, the significant audit risks it would focus on and the impact of these risks on the proposed audit work.

NFU Mutual has worked to ensure that the business is transparent and provides the required level of disclosure regarding significant issues considered by the Committee in relation to the financial statements, as well as how these issues were addressed. As part of its review of the Annual Report and Accounts, the Committee places particular emphasis on their fair presentation, the reasonableness of the significant judgement factors and the appropriateness of the significant accounting policies used in the preparation. There has been particular focus on the Going Concern Basis of Accounting, which is detailed on pages 48 to 49 in light of the ongoing effects of the Coronavirus pandemic and associated economic pressures. The review considered whether the Annual Report and Accounts provided the information necessary for members to assess the Group's position, performance, business model and strategy.

SIGNIFICANT ISSUES

The significant issues that the Committee considered during the year are set out below.

GENERAL INSURANCE RESERVES

The valuation of the General Insurance reserves involves a significant degree of caution and expert judgement. The assumptions and methodology behind the valuation of the reserves have been significant areas of focus for the Committee. The Committee receives regular reports from management to explain the reserving philosophy, the key reserve assumptions, claims trends and the impact on reserves of industry factors such as personal injury claims inflation, Periodic Payment Orders and emerging regulatory risks and changes, and also reports from third party experts. The Board and the Committee have put in place a programme of CPD in this area to further aid Directors' understanding of how NFU Mutual reserves for its claims liabilities.

The Committee received a report from management setting out the year end position of the claims reserves and highlighting the reasons for movements in the reserves during the year; this included consideration of both the impact of the Coronavirus pandemic on recent claims experience, high claims inflation, and the impact of recent weather events. The paper also set out the key assumptions behind the reserves and the governance process around setting the reserves for claims arising from historic periods of exposure that the Group may be responsible for.

In addition, during the year, the 2nd line actuarial function has undertaken assurance review activity over a wide range of reserving processes and assumptions. This provides an additional layer of assurance for the Committee. The Committee remains satisfied with the approach to this area of the reserves.

The Committee also gave full consideration to Deloitte's report on its audit in this area which considered, amongst other things, whether the overall level of General Insurance reserves is reasonable. Having given full attention to all of the reports provided and challenged management as appropriate, the Committee is satisfied with management's analysis of the reserves and believes that the methodology and assumptions applied in calculating the General Insurance reserves are appropriate.

LIFE INSURANCE RESERVES

The valuation of the Life Insurance reserves also involves a significant degree of judgement. The valuation of the liabilities of certain lines of business is particularly sensitive to the assumptions in relation to policyholder mortality and longevity. These assumptions are based on industry guidance and NFU Mutual's past experience and expectation of future changes. Persistency assumptions are also used in determining the level of reserves to be held. Past experience is used to set these assumptions taking into account regulatory and market changes which could affect the likelihood of policyholders cancelling their policies. Expense assumptions are also kept under close review to ensure that these can be relied upon.

The Committee received a comprehensive report from management setting out the year end position of the reserves and highlighting the reasons for movements in those reserves during the year. The potential impact of the Coronavirus pandemic on all assumptions underlying these reserves was reviewed and adjustments made where deemed appropriate. Experience to date and the reinsurance position were assessed along with specific reference to our Critical Illness, Annuities and Protection policies where mortality trends are most relevant. The potential impact of Long Covid was also considered.

Having considered the reports provided by management and Deloitte, the Committee is satisfied that the assumptions used in this area remain appropriate.

LEVELS OF MATERIALITY

The external auditors set a level of materiality to assist them with planning their audit work; further details of which can be found in Deloitte's Audit Report on pages 108 to 114. The Committee has requested that Deloitte bring to the Committee's attention any findings as a result of their audit work with a monetary value of over £2.5m. In addition, there are certain areas, such as fraud, where the Committee's tolerance is such that any findings from either internal or external audit are brought to the Committee's attention.

The basis on which the external auditors have determined the level of auditing materiality in respect of the annual Report and Accounts has been considered by the Committee and it is satisfied that an appropriate level of materiality has been selected. The management team continues to monitor its activities at levels which the Committee considers support the key performance indicators. These levels of materiality have been deemed appropriate by the Committee in reflecting the members' interests.

EXTERNAL AUDIT

The Committee oversees the Group's relationship with, and monitors the performance of, the external auditors. The Board has committed to formally tender for the position of external auditors at least every ten years. A formal tender was undertaken by the Committee during 2017 following which Deloitte was appointed external auditor from the 2018 financial year. The 2021 financial year was the fourth year of the current audit engagement partner's appointment.

Each year, the Committee undertakes a full review of the effectiveness, performance, independence and objectivity of the external auditor. Following this review, the Committee makes recommendations to the Board in relation to the appointment, reappointment and removal of the external auditor. These recommendations are then put to the members for approval at the AGM. The Committee's conclusion was that it was satisfied with the performance of Deloitte and that Deloitte remained objective. Therefore, it recommended that Deloitte should continue to act as the Group's external auditor.

The Committee continually reviews the nature and extent of non-audit services provided to the Group by the external auditor and receives confirmation from them, at least annually, that in their professional judgement, they are independent with respect to the audit.

The Committee recognises that the independence of the external auditor is a fundamental safeguard for the interests of NFU Mutual's members. The Group has policies in place to safeguard and support the independence and objectivity of the external auditor. One such policy relates to the use of the external auditor for non-audit work. The policy states that the external auditor can only be used to provide services which do not conflict with the auditors' independence. The policy requires the prior approval of the Committee for the engagement of the auditors for non-audit work where the level of fees payable for non-audit services would exceed a set threshold. In addition, the external auditor is only allowed to undertake certain services for the Group as set out in the FRC's Ethical Standard.

Deloitte undertook a small number of non-audit assignments during 2021; these were mostly assurance activities related to the audit work. All non-audit work was approved by the Committee in accordance with the policy and is considered to be consistent with the professional and ethical standards expected of the external auditor in this regard. In addition, key external audit staff, including the audit partner, are changed on a regular basis in accordance with best practice to ensure continued objectivity. All audit and non-audit fees are disclosed in Note 14.

INTERNAL CONTROLS

The Board has ultimate responsibility for the Group's system of internal control and risk management and reviewing its effectiveness. The Committee works alongside the Board Risk Committee to ensure that the Group operates within a framework of prudent and effective controls that allow risk to be identified, assessed and managed. The Audit Committee has not identified any weaknesses which were determined to be significant to the preparation of the financial statements. The Audit Committee also noted that there were no significant changes to the control environment identified in the current year, which would be significant to the preparation of the financial statements. Where areas for improvement were identified, processes are in place to ensure that the necessary actions are taken, and progress is monitored by the Audit Committee.

INTERNAL AUDIT

The primary role of Internal Audit is to assist the Board and management team to protect the assets, reputation and sustainability of the Group. This is achieved by providing an independent, objective and impartial view to the Committee and the management team that effective controls, governance and risk management exist within the Group in accordance with its risk appetite. Internal Audit's charter, which is available on NFU Mutual's website, nfumutual.co.uk, sets out the purpose, scope and responsibilities of the function and how it maintains independence from the first and second line management of the Group. To further reinforce the independence of Internal Audit, the reporting line of the Head of Internal Audit is to the Audit Committee Chair. The Committee Chair meets with the Head of Internal Audit on a monthly basis. The whole Committee meets with the Head of Internal Audit, without management, on a quarterly basis.

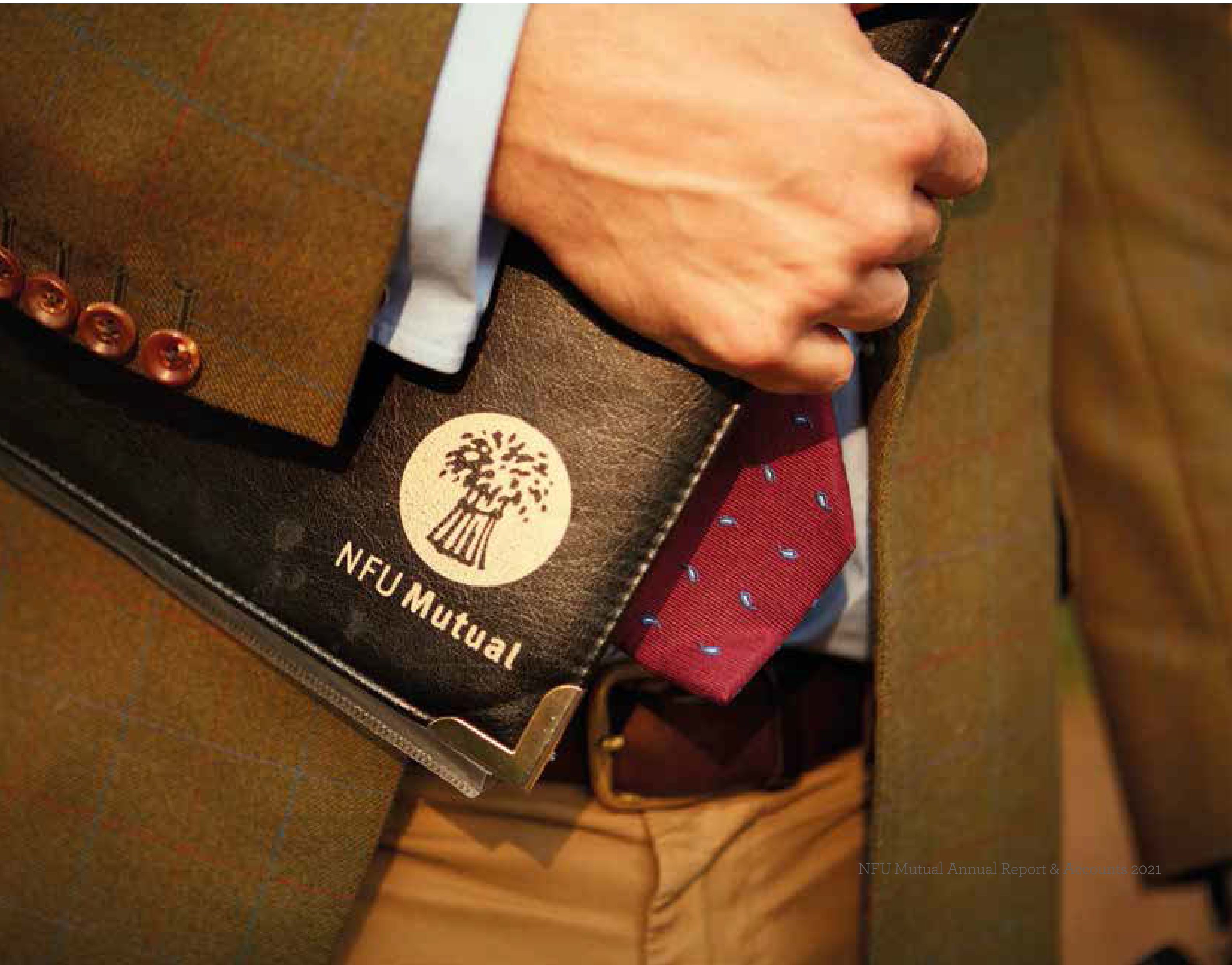
The Committee reviewed and approved the activity of Internal Audit during 2021 and the Committee was satisfied that Internal Audit has the appropriate resources to undertake its work. The audit plan is set by reference to the audit universe, the principal risks facing the business, any emerging risks and hot topics for auditing reported at an industry level. The audits carried out covered an extensive sample of controls across a range of risk types and business units covering business as usual activity together with assessments of the major change programmes. The Committee received quarterly reports on all audits undertaken, management's response to audit findings and progress in addressing identified issues. The reports highlight any themes emerging across the audit findings and allow the Committee to challenge the management team's response to those themes. If an audit of an area of the business raises particular concerns, the Committee requests that the Director responsible for that area of the business attends the Committee meeting to explain what action will be taken to improve the control culture.

The Committee remains satisfied with the effectiveness of the Internal Audit department.

In January 2022, the Group Head of Internal Audit, Rob Lucas retired. During 2021 the Committee assisted with the process to recruit a new Group Head of Internal Audit. David Roper, as Committee chair, was fully involved in the recruitment process and participated in the second stage interviews along with members of the Executive team. The Committee was kept informed of progress throughout the process and was asked to contribute to it. The Committee was happy to endorse the appointment of Waseem Ahmed as the new Group Head of Internal Audit.

WHISTLEBLOWING

The Committee is responsible for the Group's arrangements for its employees to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters. The Audit Committee Chair, David Roper, is NFU Mutual's Whistleblower's Champion. This role is responsible for the oversight of the independence, autonomy and effectiveness of the policies and procedures on whistleblowing. The Committee receives an annual whistleblowing report and regular updates on any matters raised through the various reporting mechanisms.



BOARD RISK COMMITTEE REPORT

COMMITTEE COMPOSITION

The Committee is comprised entirely of independent Non-Executive Directors. The Committee's members as a whole bring a wide range and depth of financial and commercial experience across various industries. Alan Fairhead and Brian Duffin are considered to meet the specific requirement for at least one member of the Committee to have recent and relevant risk management experience.

Name of Director	A	B
Alan Fairhead (Committee Chair)	4	4
Ali Capper	4	4
Brian Duffin	4	4
Jim McLaren	4	4
David Roper	4	4

A = Meetings attended
B = Maximum meetings

THE ROLE OF THE COMMITTEE

The Board Risk Committee's principal purpose is to assist the Board in its oversight of risk within the Group with a particular focus on the Group's risk appetite, risk profile and effectiveness of the Group's risk management framework.

The Committee considers and recommends to the Board the Group's risk appetite, limits and constraints. In advising the Board on the risk appetite strategy, it considers the current and prospective macroeconomic and financial environment. The Committee keeps the risk assessment processes under review to ensure that qualitative and quantitative measures are used to inform the Board's decision making. It ensures that material risks faced by the Group have been identified and that appropriate arrangements are in place to manage and mitigate those risks effectively. The Committee also provides oversight and challenge of the design and execution of stress and scenario testing. It keeps emerging risks under review and considers how these might impact on the Group.

The Committee also approves and monitors compliance with the ORSA policy which gives assurance that NFU Mutual has sufficient capital to meet its strategic objectives and to deliver its business plans. It ensures that risk and capital are considered when strategic and business decisions are being taken.

THE COMMITTEE'S FOCUS IN 2021

The Committee considered the financial risk appetite and capital optimisation work with a particular focus on actions to ensure the continued resilience of the Group's solvency position.

The financial risk team has again spent a lot of time working on stress and scenario testing and the recovery and resolution planning to enable the Group to recover from a stress scenario. This work covers a wide range of scenarios to thoroughly test the Group's resilience to severe events including investment market movements and industry events such as floods, windstorms or longevity changes occurring at the same time. The Committee considered the actions available to the Group in the event such scenarios were to occur. The Committee was satisfied with the output of the stress and scenario testing and the plans to respond to such events.

The Committee has also considered the Group's operational resilience and the work being done to respond to the PRA and FCA's expectations in this area. The Committee has continued to focus on the ongoing work to mitigate Cyber and IT risks and the data protection risk profile. The Committee receives quarterly reports from each of its subordinate risk committees which ensure that it is fully aware of emerging risks and issues across the Group. It also considers the assurance activity being undertaken across all lines of defence. In addition, the Committee received the Risk Director's annual report on the effectiveness of risk governance and risk management.

The Committee continues to receive regular reports from the Chief Actuaries for Life and General Insurance covering, amongst other things, their Underwriting and Reinsurance Opinions and progress on actions resulting from their second line reviews and validation of the assumptions underlying the internal model. During the year an external review of the methodology used for the validation was undertaken. The review findings were reported to the Committee together with progress against the actions raised as a result of the review. The committee considered the strategic review of the Internal Model, changes made to the assumptions in the Internal Model and use of the Internal Model around the business as a factor in decision making.

WITH PROFITS COMMITTEE REPORT

COMMITTEE COMPOSITION

The Committee is required to have a majority of independent members. It is currently comprised of three independent Non-Executive Directors and one member of management with appropriate expertise to the duties of the Committee.

Name of Director	A	B
Brian Duffin (Committee Chair)	4	4
Ross Ainslie [1]	3	3
Ali Capper	4	4

1 Appointed to Committee 1st March 2021
A = Meetings attended
B = Maximum meetings

THE ROLE OF THE COMMITTEE

The With-Profits Committee advises the Board on the management of the Group's With-Profits business and monitors compliance with its Principles and Practices of Financial Management for With-Profits business. The Committee plays an important role in setting bonus rates for With-Profits products and makes recommendations to the Board. To ensure that the With-Profits policyholders are protected, the Committee receives regular updates on projects and initiatives that could affect these individuals.

THE COMMITTEE'S FOCUS IN 2021

The Committee reviewed the methodology and assumptions for the reversionary and terminal bonus rates and approved the bonus rates (for recommendation to the Board). The Committee also considered actions to further improve the fund's resilience to significant stress scenarios such as material interest yield movements and market falls.

The Committee also reviewed the Report to With-Profits Policyholders and Policyholders' Reasonable Expectations to ensure compliance with the Principles and Practices of Financial Management for With-Profits business. This review considered key decisions made during the previous year and payouts against target ranges. The Committee considered how expenses are allocated to With-Profits products. The Committee also considered strategic investments in the Life fund.

BOARD INVESTMENT COMMITTEE REPORT

COMMITTEE COMPOSITION

The Committee is comprised of two Non-Executive and two Executive Directors and one member of senior management with expertise appropriate to the duties of the Committee.

Name of Director	A	B
Jon Bailie (Committee Chair)	7	7
Ross Ainslie [1]	2	2
Richard Morley	7	7
Lindsay Sinclair [2]	2	2
Nick Turner [3]	5	5

1 Appointed to Committee 1st October 2021
2 Resigned from Board 31st March 2021
3 Appointed to Committee 1st April 2021
A = Meetings attended
B = Maximum meetings

THE ROLE OF THE COMMITTEE

The Board Investment Committee provides assurance to the Board over the Group's investment activity and that an appropriate investment strategy is in place. It provides assurance that the investment strategy is performing effectively, and that investment activity adheres to the strategy. The Committee reviews, challenges and approves the asset allocations for each fund. It has oversight of the investment mandates, investment operating model and service providers, the framework of constraints and limits of authority, and any material outsourcing of investment management. It has oversight of all risks associated with investment functions, including those related to climate change.

THE COMMITTEE'S FOCUS IN 2021

The Committee reviewed the performance of the Group's investment portfolios throughout the year. It considered the Group's ESG policies in relation to investments and ensured that all external fund managers were aligned with the Groups' position on ESG and in particular climate risk. It reviewed the fund mandates and strategic asset allocation for all Group funds.

The Committee oversaw the process for the Group to sign up to the 2020 UK Stewardship Code and the United Nations Principles for Responsible Investment. The Committee oversaw an enhancement of the management information in respect of the externally managed funds and the platform used to manage those funds. It received the second line assurance review of investment benchmarking and approved the recommendations coming out of that review. It considered the implementation of new asset classes within the portfolio to improve diversification of risks and rewards and approved the exploration of further asset classes. The Committee considered a financial and operational risk review of the Investment function.

REMUNERATION COMMITTEE

COMMITTEE COMPOSITION

The Committee is comprised entirely of independent Non-Executive Directors. Ali Capper had more than 12 months' experience on a Remuneration Committee prior to appointment as Chair as required by the Code.

Name of Director	A	B
Ali Capper (Committee Chair) [1]	5	5
Christine Kennedy [2]	5	5
David Roper	5	5

1 Appointed Committee Chair 6th July 2021
2 Committee Chair until 6th July 2021
A = Meetings attended
B = Maximum meetings

Details of the work of the Remuneration Committee can be found in the Directors' Remuneration Report on pages 95 to 107.

Jim McLaren
Chairman

Nick Turner
Group Chief Executive

28th March 2022

CORPORATE GOVERNANCE

1. NFU MUTUAL BOARD OF DIRECTORS (JIM MCLAREN*)

Determines the strategy and policies of NFU Mutual and sets the guidelines within which the business is managed. The Board works closely with management to assess whether the necessary level of financial and management resource is in place to enable the company to meet its objectives. The Non-Executive Directors provide a level of challenge and external perspective and expertise to the Group.

2. NOMINATION COMMITTEE (JIM MCLAREN*)

Reviews the structure, size and composition of the Board, taking into account the skills, knowledge and experience of Directors, and makes recommendations to the Board on potential candidates for Board and Committee appointments.

3. AUDIT COMMITTEE (DAVID ROPER*)

Reviews and challenges management on the effectiveness of systems for risk management, internal controls and audit. The Audit Committee provides direction and guidance to Group Internal Audit, and reviews and challenges the actions and judgement of management in relation to the annual financial statements before they are presented to the Board.

4. REMUNERATION COMMITTEE (ALI CAPPER*)

Determines and agrees with the Board the framework for the remuneration of executive management, sets the level of remuneration for the Group Chief Executive, members of the Executive Committee and the General Counsel & Company Secretary. The Committee also sets the proposed level of fees for the Chairman, having taken advice from external Renumeration Consultants and Executive Directors.

5. BOARD RISK COMMITTEE (ALAN FAIRHEAD*)

Oversees the development, implementation and maintenance of the Group's Risk Management Framework, as well as its risk appetite, strategy, principles and policies to ensure they are in line with emerging regulatory, corporate governance and industry best practice. The Committee also oversees the Group's risk exposures and facilitates the involvement of Non-Executive Directors in risk issues. It oversees adherence to Group risk policies and standards, as well as reviewing the work of the Group Risk function.

6. EXECUTIVE COMMITTEE (NICK TURNER*)

Consolidates all aspects of risks within the Group, monitors the risk profile in respect to the risk appetite set by the Board, and provides challenge to the current risk profile and strategy. The Committee considers the development and implementation of strategy, operational plans, policies and budgets, the assessment and control of risk and the prioritisation and allocation of resources in each area of operation.

7. GROUP OPERATIONAL RISK COMMITTEE (IAIN BAKER, RISK DIRECTOR*)

Reviews and recommends the Group's standards for operational risk appetite, operational risk framework and high level operational risk policies.

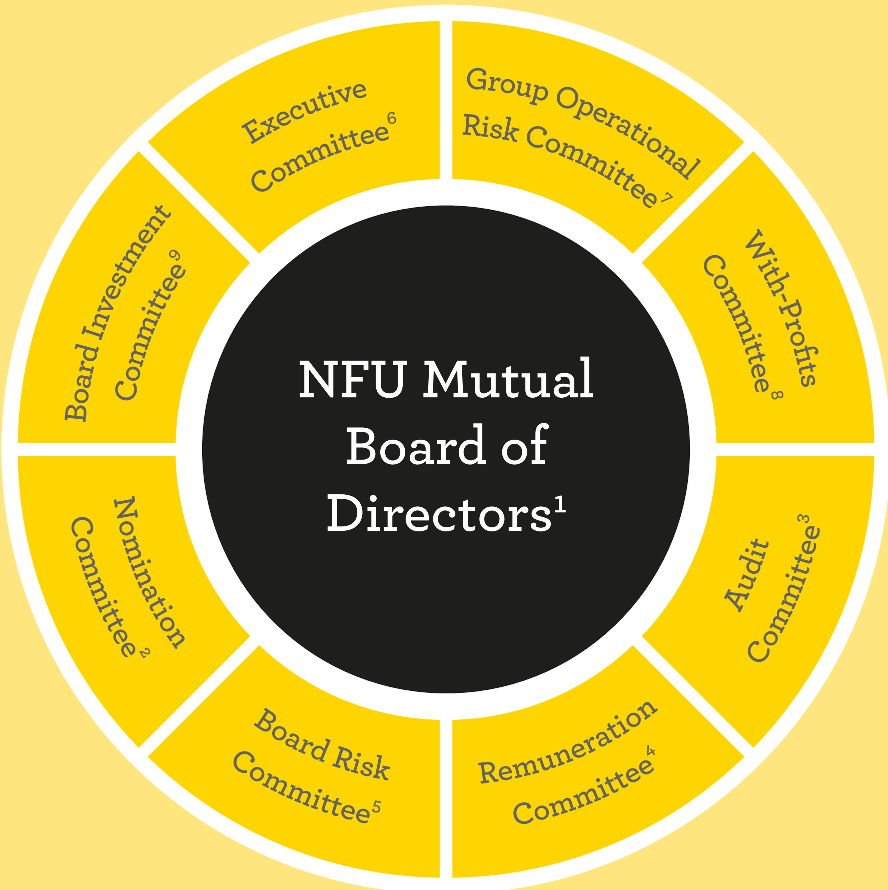
8. WITH-PROFITS COMMITTEE (BRIAN DUFFIN*)

Considers the interests of the With-Profits policyholders and is accountable for managing the capital and risks associated with the With-Profits funds in line with regulatory requirements.

9. BOARD INVESTMENT COMMITTEE (JON BAILIE*)

Provides assurance over the Group's investment activity.

* The Chair of each Committee is shown in brackets.



REGIONAL ADVISORY BOARD MEMBERS

ENGLAND – MIDLANDS & EAST

D. Christensen, Oxon & Bucks (Chair)
J. Andrews, Norfolk
D. Farrington, Northamptonshire
G. Gittus, Suffolk
O. Lee, Leicestershire & Rutland
J. Prince, Staffordshire
N. Rome, Cambs., Holland (Lincs.) & Hunts
A. Silvester, Worcestershire
J. Walton, Warwickshire

NORTH

G. Poskitt, East & West Riding & York (Chair)
M. Cringle, Isle of Man
J. Longmire, Cumbria
M. Neesham, Lincolnshire
M. Roberts, Shropshire & Cheshire
T. Seymour, North Riding & Durham
R. Thornhill, Nottinghamshire & Derbyshire
G. Young, Lancashire
M. Young, Northumberland

SOUTH EAST

J. Regan, Kent (Chair)
P. Allen, Hertfordshire
M. Hole, Sussex
L. Matthews, Surrey
R. Shepherd, Hampshire & Isle of Wight

SOUTH WEST

M. Hambly, Cornwall (Chair)
R. Hill, Dorset
M. Lockyer, Wiltshire
J. Small, Somerset
A. Snell, Herefordshire
D. Wastenage, Devon
M. Weaver, Gloucestershire

NORTHERN IRELAND

S. B. Bell, County Down (Chair)
M. Blair, County Antrim
S. Brown, County Tyrone
T. Forgrave, North
I. Marshall, County Armagh
T. Roulston, West

SCOTLAND

J. Baird, West (Chair)
A. Bowie, East
R. Christie, South
H. Fraser, Highlands (North)
S. Howie, North East

WALES

T. Lloyd, Anglesey (Chair)
D. Evans, Carmarthenshire & Pembrokeshire
S. Evans, Montgomeryshire & Ceredigion
E. Noble, Mid Gwynedd & Merionethshire
G. Price, Brecon & Radnor
G. Probert, Monmouthshire & Glamorganshire
E. Roberts, Clwyd

SUPPORTING OUR COMMUNITIES

At NFU Mutual, we are committed to making positive impacts for our members, our people, for farming and rural communities, and for the environment, by doing business the right way.

We pride ourselves on having been active and responsible members of our community for over 100 years. During the pandemic this support has mattered more than ever, and in 2021 we extended a number of initiatives to assist both national and local frontline charities across all corners of the UK, including:

- Doubling the donations of our Agency Giving Fund to £2m.
- Donating an additional £750k in funding to the NFU Mutual Charitable Trust, increasing the annual donation to £1million.
- Supporting the Farm Safety Foundation to deliver their bite-sized 'mental health in farming' training sessions for NFU Mutual agents and farmers.

During these challenging times we have continued our work to tackle a wide range of issues that are essential to building a more sustainable future for the communities we serve, such as working with the police to fight rural crime, reducing death and injury on farms, educating young drivers, and supporting schemes to protect the environment. At the end of the year, we also launched a new campaign to address rural road safety.

LOOKING AFTER OUR MEMBERS

As the UK's leading rural insurer providing cover to three quarters of farms and rural businesses, we're in a unique position to understand issues affecting our members and their communities.

Rural Road Safety

We know that road safety is a major concern for our customers – and it is for us too. Our aim is to make rural roads a safer place to be for anyone who lives in, works in, or visits the countryside – from motorists, motorcyclists and agricultural vehicle drivers to horse riders, pedestrians and cyclists. In 2021, we teamed up with The British Horse Society, British Cycling and THINK! – the UK Government's road safety campaign – to try to reduce the risks for all rural road users. Our initiative launched in December, which included an interactive road safety guide, expert tips and advice and a prize draw to win high vis safety merchandise.

Educating Young Drivers

Keeping young drivers safe is a priority for us. Our Young Drivers' Scheme is an interactive training programme that gives young drivers the advanced skills they need to stay safe, particularly on rural roads, through in-vehicle driver training with an advanced-level instructor and a series of online education modules. Created in partnership with Drive Doctors, the scheme is available to children of members who are aged between 17and 21 years for cars, and 24 years for vans and light goods vehicles, when they take out their own motor insurance policy. Since we set up the initiative in 2014, nearly 2,000 young drivers have enrolled on the course.

Supporting Driving Confidence

Our research showed that with lockdown eased and road travel resumed, drivers were facing unique concerns regarding their confidence behind the wheel. So, in 2021, as part of our support for customers during the pandemic, we ran a prize draw offering 1,000 car and light goods vehicle insurance customers a free two-hour personalised driving confidence session worth £150 each. The sessions are delivered by advanced driving instructors from Drive Doctors and are tailored to the specific needs of the driver.

RAC Breakdown Cover

To support customers during the Coronavirus pandemic, between May 2020 and July 2021 we provided more than 600,000 car and light goods vehicle (LGV) customers with enhanced RAC breakdown cover, at no extra cost. This is in addition to the 'Mutual Assist' breakdown cover our car insurance customers already receive as standard. We did this to make sure our customers who were key workers were able to get where they needed, safe in the knowledge that if they broke down, we'd be on hand to help get them back on the road. We also wanted to support customers who were experiencing issues starting their vehicles at home due to less frequent driving during the national lockdowns. For many of our customers who live in remote areas of the countryside without access to a nearby garage, this support has been a lifeline.

Since May 2020, we're proud to say that over 8,000 customers have benefitted from the enhanced service in their time of need.

Rural Crime

NFU Mutual invested more than £430,000 during 2021 to support local, regional and national initiatives which help farmers and rural communities tackle the menace of rural crime. Our commitment included launching a project with leading manufacturers to provide free trackers and immobilisers to quad theft victims after a paid claim, so they don't suffer repeat thefts. We are proud to fund a dedicated agricultural-vehicle theft unit at the National Vehicle Crime Intelligence Service to help identify and recover stolen vehicles, as well as supporting the newly established ACE (Agricultural and Construction Equipment) police unit.

Rehabilitation Programme
Rehabilitation is an integral part of our personal injury claims strategy and we continue to provide support to an increasing number of claimants. If one of our members is legally responsible for an accident where somebody has been injured, we'll do everything we can to help that person back to health and independence. During 2021, we provided rehabilitation to 611 claimants and an additional 922 physiotherapy referrals for those who have suffered minor injuries. The healthcare system, both public and private, has been badly affected by the pandemic, and we have worked alongside our suppliers to ensure our clinical models have adapted whilst continuing to provide the injured claimants with the best possible service.

Emergency claims response
When our communities are impacted by weather events, we understand how devastating this can be and act quickly to support our customers and local businesses. In November 2021, storm Arwen caused significant damage and disruption to parts of the UK, affecting more than 7,000 customers. To ensure we were there to support their urgent needs, we worked closely with our network of over 295 Agency offices and supply chain to deliver our emergency claims response programme. This provided our customers with same-day payments to make emergency purchases, such as arranging alternative accommodation and starting repair work.

CHAMPIONING RURAL COMMUNITIES

Supporting Farming Unions
We continue to provide funding for the UK's main farming unions as they work with government to keep agriculture running, supporting rural businesses and families around the UK. In 2021, NFU Mutual donated £7.78m to farming unions to carry out their vital role.

The NFU Mutual Charitable Trust – supporting agricultural and rural charities
Established in 1998, the NFU Mutual Charitable Trust promotes and supports charitable causes in agriculture and rural development in the UK. In 2021, NFU Mutual made an additional £750,000 donation to the NFU Mutual Charitable Trust as part of our Coronavirus Support initiatives. This enabled the Trust to donate £1,051,700 throughout the year, and the funding has helped to support a range of initiatives, including projects that tackle isolation, support mental health and wellbeing, and enrich young lives through agricultural education and innovation.

The Addington Fund, The Farming Community Network, The Prince's Countryside Fund, The Royal Agricultural Benevolent Institution (RABI), RSABI, Rural Support, FareShare and Samaritans have all benefitted from donations. The donations will allow these charities to continue to provide their crucial support services.

Supporting the next generation in agriculture
The NFU Mutual Charitable Trust Centenary Award was first launched by the Trust in 2010 to celebrate our 100th birthday, and NFU Mutual donated £250,000 to fund the award. The annual scheme provides bursaries to pay up to 75% of course fees for selected students who are undertaking a postgraduate course (Masters or PhD) in agriculture in the UK. Our aim for the Centenary Award is to create a long-standing legacy; to demonstrate our commitment to young people and the countryside, and support research and innovation.

The NFU Mutual Charitable Trust identified three topics of interest for eligible students. At least one of these areas must form part of the applicant's postgraduate course: sustainable agriculture and climate change; international agricultural development; the application of science and innovative technology to the agricultural industry. In 2021, the NFU Mutual Charitable Trust provided bursaries for three postgraduate agricultural students, and 46 individuals have now received help through the award to further their education.

The Farm Safety Foundation – protecting the farmers of the future

NFU Mutual set up the Farm Safety Foundation as an independent registered charity in 2014 to preserve and protect the physical and mental wellbeing of the next generation of farmers. Since this time, the Foundation (or Yellow Wellies as many know them) has been raising awareness of some serious issues facing the farming community. Working closely with partners and stakeholders nationally and internationally, the charity helps raise awareness of, and address the attitudes and behaviours around, risk-taking and poor mental health in the agricultural sector.

Since the charity was established, its award-winning farm safety training has been delivered to over 11,000 agriculture students in 44 different land-based colleges and universities throughout the UK, and to over 5,000 young farmers at Young Farmers' Clubs in England, Scotland and Northern Ireland.

Supporting Local Communities – The NFU Mutual Agency Giving Fund

In light of the national emergency our country was continuing to face during 2021, we allocated a special £2m fund called the Agency Giving Fund to support local frontline charities who had been affected by Coronavirus.

To ensure funding was distributed to where it mattered most, we asked our local Agency and branch offices, with 295 locations nationwide, to nominate local charities. Donations have been spread across the country, provided emergency relief and helped build long-term resilience. Supported causes include frontline health charities, mental health outreach programmes, and food parcel deliveries.

HELPING TO PROTECT THE ENVIRONMENT

At NFU Mutual, we acknowledge there is an urgent need for action on climate change – not only to respond to the insurance needs of our members, but also to actively reduce our own environmental impact.

We have assessed the potential impacts of climate change, and have developed a climate change strategy, with a clear mission and key deliverables to drive improvements where we need to. We recognise the importance of committing to emissions reduction beyond our own emissions and that targets and ambitions need to be established to help set our direction. During 2021, we developed a Net Zero Roadmap, where we plan to deliver the long-term goal of a net zero business by 2050. Further details on this area of activity can be found in the Climate Change section of this report.

During 2021 we have undertaken a series of initiatives which will help reduce our direct impacts on the environment.

Green Parts

We offer a green repair alternative solution for mechanical damage claims and in 2021 we have broadened this recycled repair offering by piloting the use of green parts, subject to customers consenting for these to be used, in our repair network using carefully selected repairers. This pilot will enable us to gain more customer insight which will help inform our longer-term strategy in this area.

Renewable energy

Renewable energy schemes are a popular way for farmers to diversify their business and make their farms sustainable for the future. Renewables are a key part of modern farming, and NFU Mutual's Voice of the Farmer 2021 research shows just 8% of farmers currently use renewables as part of their business.

Installing a renewable energy system can be an effective way of reducing farmers greenhouse gas emissions.

In 2021, NFU Mutual partnered with NFU Energy on their Renewable Energy Solutions service, which will help and support NFU Members with their insurance needs for small scale renewable energy projects.

NFU Mutual has proudly supported farmers on a variety of new initiatives from diversifying into new markets to adopting new technology. As the exclusive insurance partner for NFU Energy's Renewable Energy Solutions service, we can offer a range of insurance options to suit farmers' needs.

Reducing Our Impact

At NFU Mutual we are proud that all of our waste is either reused, recycled or disposed of responsibly. With many of our employees returning to the office, 2021 saw an increase in waste production compared to 2020 figures. In 2021 98 tonnes of waste was produced, compared to 88 tonnes in 2020. (Prior to the pandemic, in 2019 202 tonnes of waste was produced.) We continued with our existing waste processes, recycling 74% and exceeding our recycling target of 60%. We have also continued to increase our year-on-year recycling rate from 66% in 2020. During 2021, we tendered our waste service to source the best in class provider who can partner with us to identify and implement initiatives to further increase our recycling rate nationally. This will be rolled out during 2022.

We have 100% renewable electricity across all managed offices sites occupied by NFU Mutual employees and during 2021 we started our roll out of upgraded building management systems, which allows us to tighter control our energy consumption. In 2021, we also introduced 21 electric vehicle charge points at our main office sites in Warwickshire. It is hoped that this will encourage further employees to opt for hybrid and electric company cars.

Our emissions report is included in the Climate Change section of this document on page 32.

Recycling to Improve Lives

We run a well-established scheme which gives our unwanted office furniture a second life. So, rather than dispose of it, we donate it to local organisations. This year we developed a new partnership with 'Waste to Wonder', to help identify good causes who can recycle or reuse our old office furniture. In 2021, we gave 270 pieces of furniture to local groups, including schools, sports clubs, hospices and community centres where it was put to excellent use.

VALUING OUR PEOPLE

We work hard to create an environment where our employees can grow and flourish, where they are engaged and empowered to make a difference. One of NFU Mutual's strategic objectives is to be a Great Place to Work. We're committed to providing a friendly, fair and inclusive working environment that rewards success, encourages personal development and empowers all our employees to make meaningful differences wherever they can. Our employee engagement remained at world class levels in 2021. We were again awarded the Gallup Exceptional Workplace Award – the only UK-headquartered company to achieve this in 2021 and for the second year running.

Employee Wellbeing

At home or at work, we want to help our employees be as healthy as possible. Daily life changed considerably as a result of Covid-19 and looking after our employees during these unprecedented times and as we returned to the office was important. To support our employees' physical and mental wellbeing in 2021, we continued to offer a programme of Wellbeing activities, delivering more than 600 hours of training and education covering a broad range of topics, including managing stress and burnout, exercise, and financial wellbeing. Through our Employee Assistance provider, we have also supported employees with 611 counselling sessions including 42 online Cognitive Behaviour Therapy (CBT) sessions.

Supporting our people during lockdown

In 2021, we continued to support employees to work from home during lockdown and we commenced a phased return back to the office in line with government guidance, providing employees time to adjust to the new way of working, Reset workshops were delivered to provide additional support to help employees overcome any anxieties about returning. At the same time, have embraced the opportunity to review the way we work post pandemic, by developing our working policies to enable hybrid working, where possible.

To support this new way of working, more than 700 of our managers received training on how to successfully lead their teams in a hybrid working environment.

Developing Our People

It's essential that our employees can deliver on our commitment to our members. We provide top quality learning and development solutions to meet the needs of our people and our business, by supporting personal skills, business awareness, talent and leadership opportunities, and technical expertise. All of which help to ensure that we have some of the most capable people in the industry. Our improved online and virtual training offers flexible learning and talent development for our leaders and employees wherever they're located in the UK.

In 2021, we delivered more than 105,000 pieces of individual learning for employees via self-led, eLearning, workbooks or facilitated delivery. We also welcomed 26 starts onto our award-winning Apprenticeship programme and 21 graduates onto our Professional Trainee Scheme during 2021.

Gender Pay

Since 2018, all UK companies with over 250 employees have been required to produce an annual report on their Gender Pay Gap for the period 6th April to the 5th April of the following year. NFU Mutual's Gender Pay Gap results, for the year ending 5th April 2020, compare positively with the data published for the Finance and Insurance Activities Sector by the Office of National Statistics (ONS). Overall, there has been an improvement in the NFU Mutual results, both on pay and bonus calculations. Further details of our 2021 report can be found at: nfumutual.co.uk/about-us/gender-pay-gap.

Women in Finance

NFU Mutual has also been a signatory to the Women in Finance Charter since 2018. In 2021, we implemented a number of initiatives to support our work in this area, including gender balanced recruitment long lists, unconscious bias training for all managers and return-to-work coaching and career development support for those returning from long-term career breaks.

To date, more than 400 managers have received unconscious bias training, and this programme will be rolled out to all employees in 2022.

In 2021 we delivered our commitment to the Charter by increasing female representation in senior management and exceeding our published target. Currently 40% of our senior management population are women, compared with 36% when we signed the Charter.

We are confident that our continued encouragement, support and focused development of all employees to reach their full potential, will lead to a more diverse workforce overall, delivering greater innovation and better customer outcomes.

OPERATING OUR BUSINESS RESPONSIBLY

Responsible Investment

It's our responsibility to invest our members' money carefully. We encourage our fund managers to consider Environmental, Social and Governance factors (ESG), such as impact upon society or the climate, alongside traditional financial measures.

Our responsibilities when investing also extend into our shareholder engagement and voting decisions. We believe that strong stewardship and engagement can lead to improved corporate behaviours and help accelerate changes. Throughout 2021, our internal and external Fund Managers voted at 6,367 meetings on 63,574 resolutions, of which there were 9,528 votes against management.

Responsible Property Investment

At NFU Mutual we're responsible for the occupational offices we work from and the investment properties we manage to deliver long-term financial performance. 2021 has seen the Property Investment Team enact a strategy developed in 2020, that supports positive environmental and social outcomes alongside investment performance.

During the year the team has committed to over £400m of transactions, to assist in improving its exposure to energy efficient investments.

Almost 50% of the property investment portfolio is now exposed to the most energy efficient properties (A or B rated). During the year the Team has committed to only procure renewable electricity across all properties and for year-end will, for the first time, have improved MI to report on carbon emissions, in order to commence objective setting to reduce our carbon footprint.

Keeping good company

We partner with like-minded suppliers. We work closely with our suppliers to ensure they share our values, something we know is important to our members.

In 2021, we continued to support social enterprises. To support our commitment in this area, NFU Mutual signed up to become partner on the Buy Social Corporate Challenge, which helps businesses to direct their procurement spend towards social enterprises. Our stationery supplier, WildHearts, reinvests profits to provide education and business loans to help people around the world work their way out of poverty. We have also provided parental leave packs for our people though an organisation called From Babies With Love, who donate 100% of profits towards supporting vulnerable children.

HOW WE DID IN 2021

£7.78m
donated to
Farming Unions

105,819
pieces of individual learning
provided for employees

£2m
donated to local causes
through the NFU Mutual
Agency Giving Fund

26
new apprentices
welcomed

21
graduates joined our
Professional Training
Scheme

£1,051,700
donated to charities
through the NFU Mutual
Charitable Trust

£430,000
invested in schemes
across the UK
designed to tackle
rural crime

270
pieces of office
furniture donated to
the local community

3,880
young farmers
taught farm safety


NFU Mutual

DIRECTORS' REMUNERATION REPORT

Following my appointment as Chair of the Remuneration Committee on 6th July 2021, I am pleased to present the Remuneration Committee's report for the year to 31st December 2021. The report has been structured to reflect many of the disclosure requirements that apply to publicly-listed UK companies, to ensure that our remuneration policies and practices are presented in a clear and informative way.

The remuneration policies are designed to attract and retain the management talent needed to run the business successfully. The annual and long-term incentives help to align the total remuneration package directly to the performance delivered for our members and other stakeholders.

NFU Mutual's incentive schemes incorporate a wide range of financial and non-financial measures which are aligned to the company's long-term business strategy and these schemes enable all staff to share in the success of the company.

OVERVIEW OF 2021

NFU Mutual delivered a healthy set of results in 2021.

During another challenging year we continued to stand by our customers when they needed us the most. The Group also performed well in the range of important non-financial performance indicators, and this is reflected in the incentive plan outcomes.

We have continued to prioritise both the physical and mental wellbeing of our employees and achieved 'World Class' status in the annual Gallup Employee Engagement survey for the seventh year running.

The range of pay increases from 1st May 2021 for the vast majority of staff was between 1% and 5%, taking account of prevailing rates of salary inflation and the need to recognize employee development in role.

The Committee continues to monitor the effectiveness of our policies and seeks to ensure that they support the business and the interests of our members, and meet regulatory requirements.

The Committee would welcome your support at the AGM.

Remuneration Committee

- Ali Capper (Chair)
- Christine Kennedy
- David Roper

THE REMUNERATION COMMITTEE

All members of the Committee are Non-Executive Directors and the Committee reports to the meetings of the Board, on the Committee's work.

Ali Capper became Chair of the Committee on 6th July 2021, replacing Christine Kennedy who continues as a member of the Committee.

The Committee, within the terms of the policy agreed by the Board, sets the level of remuneration for the Group Chief Executive, members of the Executive Committee, General Counsel & Company Secretary and other Material Risk Taker roles. It also sets the proposed level of fees for the Board Chair. Fees and remuneration for all of these roles take account of comparative market information and objective advice from our external remuneration consultants.

The Committee's practice is to appoint external remuneration consultants. The main adviser during 2021 was the Executive Compensation Services practice of Alvarez & Marsal. Aon also provided market benchmarking information. Alvarez & Marsal and Aon plc are signatories to the Remuneration Consultants' Code of Conduct, which requires any advice to the Committee to be objective and impartial.

The composition and performance of the Committee is reviewed annually by the Board. The Committee's Terms of Reference are available on request and are on the Group's website.

The purpose of reward at NFU Mutual is to:

- Encourage employee alignment to the required performance and values of the business
- Recognise the contribution that employees make to the success of the business
- Allow all employees to share in that success
- Attract and retain employees with skills and knowledge important to the success of the business.

The Committee considers the reward package of other Group employees when determining the Directors' remuneration for the year. This includes annual base salary, benefits and bonus schemes.

EXECUTIVE ROLE CHANGES

Following the retirement of Lindsay Sinclair, Nick Turner was promoted to Group Chief Executive from 1st April 2021. Mr Sinclair's base salary and benefits up to his date of retirement are included in this report, as well as his pro-rata STIP (Short-Term Incentive Plan) and GBS (Group Bonus Scheme) awards that were payable for the period up to his retirement on 31st March 2021, based on the normal performance criteria. Mr Sinclair's unvested LTIP (Long-Term Incentive Plan) awards are also included in the report.

The report includes Mr Turner's remuneration from 1st January 2021 to 31st March 2021 in his role as Sales & Agency Director, and from 1st April 2021 to 31st December 2021 as Group Chief Executive.

Following the promotion of Mr Turner to Group Chief Executive, Nick Watson joined NFU Mutual as Sales & Agency Director effective 24th May 2021. Mr Watson's remuneration from the date of his appointment is included in this report.

The Group has structured remuneration to comply with the best practice principles set out in the Financial Conduct Authority's Remuneration Codes, and the PRA's remuneration guidelines for insurance firms. This includes ensuring that remuneration policies and incentive payments are consistent with the prudent management of risk. All proposed reward schemes are subject to risk assessment by the Group's Risk Function. This risk assessment focuses on financial, behavioural, regulatory and operational risks.

REMUNERATION POLICY

Reward at NFU Mutual is a combination of base salary, variable pay and a market competitive pension and benefits package. Reward supports our values and business culture by balancing the need to recognise and reward high performance with the requirement to support our collegiate culture.

The Remuneration Policy Table, which summarises the different elements of the Executive Directors' and Non-Executive Directors' remuneration at NFU Mutual, is available on **nfumutual.co.uk**

COMPARING REMUNERATION POLICY FOR EXECUTIVES WITH OTHER EMPLOYEES

Base salary, pension and benefits: these apply to all employees. The Committee takes into account the Group's overall salary budget and percentage increases made to the wider workforce when setting Executive salaries. Benefits are offered on similar terms throughout the Group although some benefits available vary by job level, such as car allowances.

Alignment of pension: in line with many other organisations, pension allowances for NFU Mutual's executives have been higher (15%) than the rest of the workforce (up to 12%). The Committee has reviewed this policy, and determined that for all new external appointments from January 2021 the pension allowance will be limited to 12%. The Committee has also decided to bring incumbent Executive Directors' pension allowances down to 12% from 1st January 2023 to align with the Corporate Governance Code.

Annual Bonus: the Group Bonus Scheme (GBS) applies on the same terms throughout the Group, dependent on Group performance. The Short-Term Incentive Plan (STIP) participation is for staff above a certain job level, whose roles more directly influence the success of the business. The maximum bonus opportunity varies by job level.

One third of the total annual bonus award (GBS and STIP) for the CEO and other Executive Directors is deferred for three years post award.

Long-Term Incentive Plan (LTIP): Executives and senior managers are eligible to participate in the LTIP.

GENDER PAY GAP

Since 2018, all UK organisations with over 250 employees have been required to report on their Gender Pay Gap. This measures the differences between the average pay of all men and women in the organisation regardless of their roles. The Gender Pay Gap measurement is different from the assessment of 'equal pay for equal work', which focuses on earnings for men and women doing the same (or similar) work.

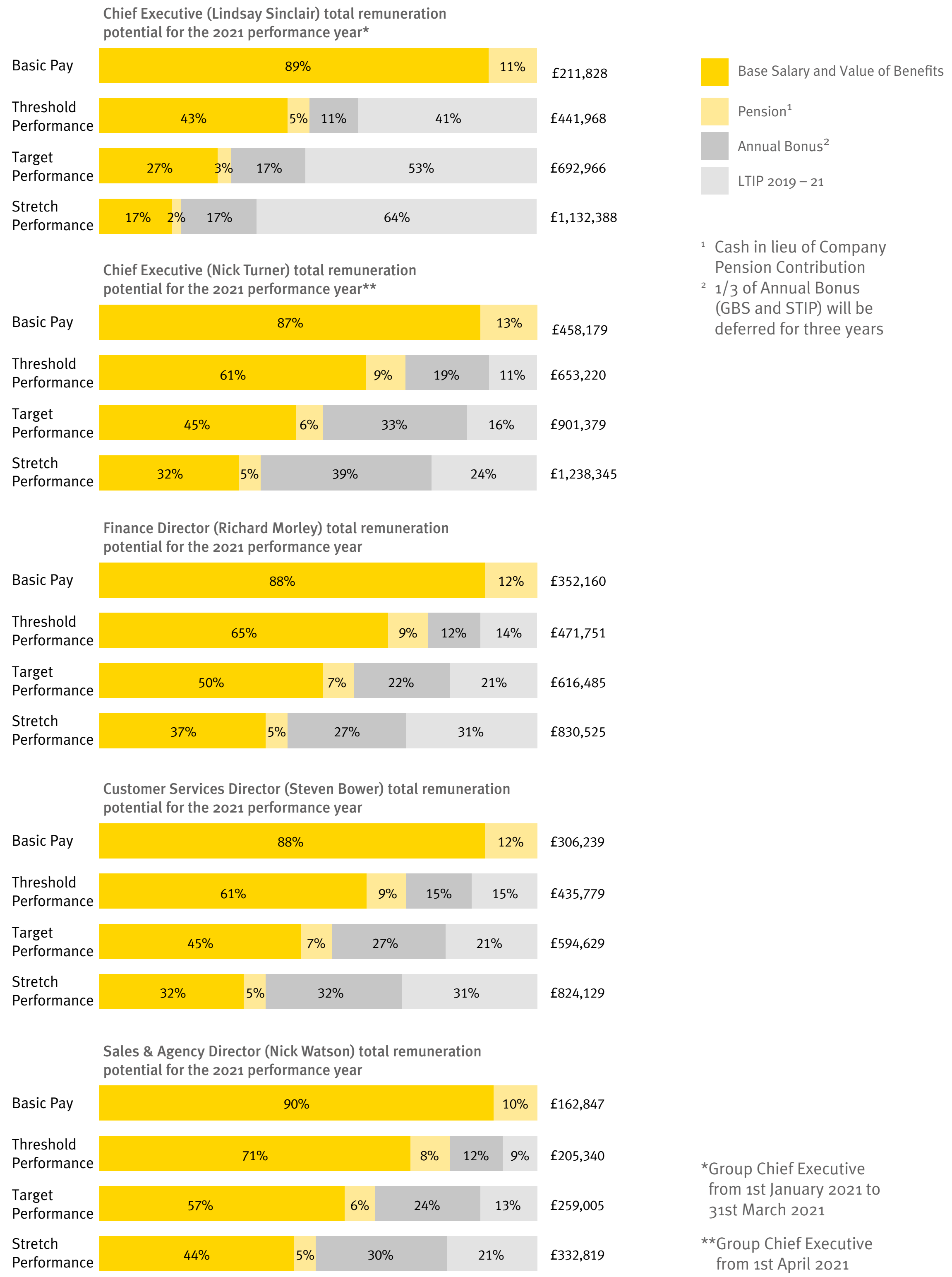
There are no differences in NFU Mutual's Remuneration Policy, or how it is applied, based on gender.

NFU Mutual's Gender Pay Gap results for the year to 5th April 2021 compare positively with the data published for the Finance and Insurance Activities sector by the Office of National Statistics (ONS) in 2021. NFU Mutual's mean Gender Pay Gap is 21.1% compared to the ONS figure of 29.9%. Our full Gender Pay Gap Report for the year to 5th April 2021 will be available from 5th April 2022 on **nfumutual.co.uk**

RELATIVE IMPORTANCE OF REMUNERATION ELEMENTS

Performance-related elements of the remuneration package for Executive Directors comprise a substantial portion of the total. This serves to drive behaviours that promote the best interests of the business, while ensuring that rewards outturns are aligned with the performance of the Group.

The charts below explain the mix in 2021, between the fixed pay and performance-related pay of Executive Directors at threshold, target and stretch performance levels.



RECRUITMENT, RETENTION AND SERVICE CONTRACTS FOR EXECUTIVE DIRECTORS

The Company's policy is to pay appropriately to attract individuals with the skills and experience required for each role. This also takes into account remuneration across the Group, including for other senior appointees, and remuneration offered by other similar-sized companies. Base salaries are set taking account of market data and internal comparisons. All other elements of remuneration are aligned to our policy.

The Executive Directors do not have a set duration of appointment. Contracts can be terminated by NFU Mutual or by the employee by giving 12 months' notice.

Any Director appointed by the Board during the year holds Board office only until the next Annual General Meeting and must then stand for election to continue in office.

CONSIDERATIONS ELSEWHERE IN THE GROUP

In setting the remuneration policy for Executive Directors, the Remuneration Committee takes into account the pay arrangements of other colleagues in the Group. The same principles apply to the remuneration policy for all colleagues: pay is benchmarked against relevant markets to ensure competitiveness, and performance-related pay elements are aligned with, and help drive, the achievement of the Company's business strategy. In determining any increase in the level of base salaries for Executive Directors, the rate of increases for other employees in the Group is considered.

For all employees, NFU Mutual adopts a transparent approach to communicating its pay philosophy and publishes its pay bands and guidance, which all employees can access. The remuneration policy is applied consistently across the entire workforce, including the Executive management team. We consult with Unite, which represents its members within the NFU Mutual workforce, regarding the annual pay award.

REMUNERATION FOR LEAVER AND NEW APPOINTEES DURING 2021

Lindsay Sinclair retired effective 31 March 2021. He received base salary, pension allowance and benefits up to his retirement date. He was also eligible for pro-rata STIP and GBS up to his retirement date, subject to the usual performance conditions. He retains his existing LTIP awards on a pro-rata basis for the portion of the performance periods in which he was in service. These will vest at the normal vesting dates, subject to the normal performance conditions.

Nick Turner was promoted to Group Chief Executive, effective 1st April 2021 from his previous role of Sales & Agency Director. His base salary as Group Chief Executive was set at £427,500. As Group Chief Executive, his total maximum bonus, including GBS, increased to 123% of base salary, and LTIP award opportunity for 2022 grants onwards increased to 166% of base salary, consistent with the levels that applied to his predecessor. Existing LTIP grants are pro-rated for time in role. For 2021 performance, his maximum annual bonus is pro-rated, being 88% of base salary for the period up to 31st March, when he was in the Sales & Agency Director role, and 123% of base salary for the period 1 April 2021 to 31st December 2021.

Nick Watson joined NFU Mutual as Sales & Agency Director, effective 24th May 2021 on a base salary of £228,000 and his maximum annual bonus and LTIP grant opportunity are set in line with other Group executives. His pension allowance is 12% of base salary, in line with other NFU Mutual employees. He also received replacement LTIP awards to replace the deferred awards he forfeited on leaving his previous employer to join NFU Mutual. These are as follows:

	Plan Start Date	Cycle Ending	Grant Value (£)	Vesting Date
Nick Watson	01 Jan 19 01 Jan 20	2021 2022	69,652 43,564	31 Dec 21 31 Dec 22

The tables below show actual total remuneration for Executive Directors for 2020 and 2021.

2021 £

	Base Pay	Pension[3]	Benefits[2]	Annual Bonus[1]	2019 - 2021 LTIP	2021 Total	Fixed Pay	Variable Pay
Lindsay Sinclair	178,868	23,524	9,437	150,973	516,642	879,444	211,828	667,615
Steve Bower	253,824	38,074	14,939	176,414	179,342	662,593	306,837	355,756
Nick Turner	383,057	57,458	17,664	382,151	207,141	1,047,471	458,179	589,292
Richard Morley	293,236	43,985	14,431	206,287	180,198	738,137	351,652	386,485
Nick Watson	138,429	16,611	7,807	116,454	49,453	328,754	162,847	165,907

2020 £

	Base Pay	Pension[3]	Benefits[2]	Annual Bonus[1]	2018 - 2020 LTIP	2020 Total	Fixed Pay	Variable Pay
Lindsay Sinclair[4]	620,036	93,005	88,219	716,268	741,975	2,259,503	801,260	1,458,243
Steve Bower	245,484	36,823	13,494	202,866	195,020	693,687	295,801	397,886
Richard Morley[5]	267,547	40,132	14,370	228,471	128,496	679,016	322,049	356,967
Nick Turner	247,459	37,119	19,802	203,981	198,104	706,465	304,380	402,085

1 1/3 of Annual Bonus payment will be deferred for three years. 2 Benefits figures includes car allowance.
3 Cash allowance in lieu of company pension contribution. 4 The CEO's benefits include the use of the company driver.
5 See further note in the Base Salaries and Benefits section below.

BASE SALARIES AND BENEFITS

The average base salary increase across the Group in May 2021 was 1.97% with the vast majority of increases ranging from 1% to 5%. The annual base salary levels of the Executive Directors with effect from 1st May 2021 were as follows:

Name	May 2021	May 2020	Increase
Lindsay Sinclair Group Chief Executive – (01/01/2021 – 31/03/2021)	N/A*	£627,299	N/A*
Nick Turner Group Chief Executive (01/04/2021 – 31/12/2021)	£427,500**	N/A	N/A
Nick Turner Sales and Agency Director (01/01/2021 – 31/03/2021)	N/A	£249,726	N/A
Steve Bower Customer Services Director	£256,556	£248,361	3.3%
Richard Morley Finance Director	£300,000	£279,708	7.2%***
Nick Watson Sales and Agency Director (24/05/2021 – 31/12/2021)	£228,000	N/A****	N/A****

* Mr Sinclair retired from NFUMutual on 30th March 2021
** Mr Turner was appointed as Group Chief Executive on 1st April 2021 and his promotional salary is based on advice from our Remuneration Advisers and Market data
*** Mr Morley was appointed on 1 November 2018 and his salary is progressing in line with our established practice and our principle of aligning with market pay levels.
**** Mr Watson was appointed by NFUMutual on 24th May 2021 and therefore has no comparable salary in 2020.

The salary increases in May 2021 took account of 2020 performance and, in the case of Mr Turner, reflected his promotion to Group Chief Executive.

The value of benefits for Executive Directors is included in the table of remuneration on page 100.

VARIABLE PAY

Variable pay at NFU Mutual is designed to enable managers and staff to share in the success of the Company and is payable upon achievement of a set of defined business performance targets. Performance incentive plans for senior managers and Executive Directors are structured to ensure a strong focus on both short and long-term business performance. The amounts paid depend on the Committee's measurement of company performance against the business targets for the relevant period. In addition to the all-employee Group Bonus Scheme (GBS), Executive Directors and senior managers participate in two variable performance incentive plans:

- A one-year Short-Term Performance Incentive Plan (STIP)
- A three-year Long-Term Performance Incentive Plan (LTIP).

Payments made under these plans are not pensionable.

SHORT-TERM INCENTIVE PLAN (STIP) – 1 YEAR PERFORMANCE PERIOD

The STIP measures annual achievement in respect of Group strategic goals (e.g. annual business targets for growth in premium income, controlling costs, customer retention and profitability).

In 2021, the same targets were used in the STIP as in the Group Bonus Scheme (GBS) which is payable to all employees. These are aligned to support the Group's long-term objectives.

The tables below detail the balanced scorecard of performance measures for the bonus schemes in 2021. All Executive Directors participate in both the STIP and the GBS.

Role	Maximum STIP Bonus (% of base salary)
Chief Executive	123% (113% STIP; 10% GBS)
Executive Directors	88% (78% STIP; 10% GBS)

Since 2014, one third of the CEO's and Executive Directors' total bonus award (including the Group Bonus Scheme award) has been deferred for three years post award (i.e. a one-year performance period followed by three-year deferral). The value of the deferred bonuses is linked to the average annual pay increase percentages for all employees of the Group.

BONUS SCHEME MEASURES

The metrics used in the bonus schemes are reviewed by the Committee with advice from its external advisers, on an annual basis and amended as appropriate.

GROUP BONUS SCHEME 2021 MEASURES

	Measure	Weighting
Great Company To Do Business With	Persistency (GI)	35%
Sustainable Profitable Growth	GI Combined Operating Ratio (COR) Manufacturer Profitability Adviser Profitability Gross Written Premium Income (GWPI) Life Business Growth (AC)	65%

SHORT-TERM INCENTIVE PLAN FOR EXECUTIVES 2021 MEASURES

	Measure	Weighting
A Great Company To Do Business With	Persistency (GI)	25%
A Great Place to Work	Company Overall Engagement Scores	20%
Sustainable Profitable Growth	GI Combined Operating Ratio (COR) Manufacturer Profitability Adviser Profitability Gross Written Premium Income (GWPI) Life Business Growth (AC)	55%

LONG-TERM INCENTIVE PLAN (LTIP) – 3-YEAR PERFORMANCE PERIOD

Principles of the LTIP

The NFU Mutual LTIP is a cash-based plan, vesting after three years subject to performance conditions, which are based on long-term objectives consistent with the overall objectives of the Group. These are that NFU Mutual should achieve Sustainable Profitable Growth, be a Great Company to do Business With, and be a Great Place to Work.

2021 – 2023 LTIP Grant

A new LTIP grant was made in 2021 to cover the performance period 2021 to 2023. The 2021-2023 LTIP grants were set at the levels detailed in the table below.

Role	Maximum payment following year-end 2023 (% of base salary at time of grant)
Chief Executive	166%
Executive Directors	108%

The 2021 – 2023 LTIP will vest on 31st December 2023, dependent on the extent to which performance objectives in relation to that grant are achieved.

PERFORMANCE CONDITIONS

The table below sets out the performance conditions applicable to the current LTIP schemes.

	Measure	Weighting
A Great Place to Work	Employee Engagement (Average of annual results against targets)	20%
Sustainable Profitable Growth	GI Combined Operating Ratio (Average results over LTIP period) GI – Company growth (Total GWPI over the LTIP period) Life Business – Adviser Credits (Total over the LTIP period) Life Business – Annual Premium Equivalent (Total over LTIP period)* Life – Manufacturer Profitability (Total over LTIP period) Life – Adviser Profitability (Total over LTIP period)	55%
A Great Company to do Business With	GI Persistency (Average of annual results)	25%

*This measure form part of the 2019 to 2021 LTIP scheme which will vest at the end of 2021.

SUMMARY OF LTIP GRANTS AND VESTING

The table below details the vesting outcomes from the 2019-2021 LTIP scheme and the grants made in 2020 and 2021.

LTIP 3 Cycle £

	Plan Start Date	Cycle Ending	Grant Value	Vesting Date	2019-2021 Scheme Performance	2021 Payment
Lindsay Sinclair	01-Jan-19	2021	970,220	31-Dec-21	71.00%	516,642
	01-Jan-20	2022	1,005,147	31-Dec-22		
	01-Jan-21	2023	1,041,316	31-Dec-23		
Nick Turner	01-Jan-19	2021	291,747	31-Dec-21	71.00%	207,140
	01-Jan-20	2022	344,547	31-Dec-22		
	01-Jan-21	2023	672,988	31-Dec-23		
Richard Morley	01-Jan-19	2021	253,800	31-Dec-21	71.00%	180,198
	01-Jan-20	2022	262,683	31-Dec-22		
	01-Jan-21	2023	302,085	31-Dec-23		
Steve Bower	01-Jan-19	2021	252,595	31-Dec-21	71.00%	179,542
	01-Jan-20	2022	258,910	31-Dec-22		
	01-Jan-21	2023	268,230	31-Dec-23		
Nick Watson*	01-Jan-19	2021	69,652	31-Dec-21	71.00%	49,453
	01-Jan-20	2022	43,564	31-Dec-22		
	01-Jan-21	2023	246,240	31-Dec-23		

*Mr Watson received replacement LTIP awards to replace the deferred awards he forfeited on leaving his previous employer to join NFU Mutual.

A new LTIP grant will be made in 2022 to cover the performance period 2022 to 2024, and this will vest at the end of 2024, dependent on the extent to which performance objectives in relation to that grant are achieved.

MALUS AND CLAWBACK OF VARIABLE PAY

Malus or clawback of part or all of any variable pay award (STIP or LTIP) including vested and already paid, can apply at the Remuneration Committee's discretion if certain circumstances arise. These are if:

- in the three years following completion of the performance period, it was found that the vesting or payment was made on the basis of materially mis-stated performance; or
- either during the performance period or during the three years following completion of the performance period, an Executive commits gross misconduct or has contributed to a major failure of management resulting in substantial damage to the business or reputation of NFU Mutual.

The amount vesting under any LTIP grant can also be reduced, at the discretion of the Remuneration Committee, to meet malus or clawback requirements in relation to the STIP or LTIP grants.

DIRECTORS' PENSION ARRANGEMENTS

Mr Turner, Mr Sinclair and Mr Watson are not members of the company pension scheme and receive a cash allowance in lieu of pension for time in service. Mr Morley is a deferred member of the Defined Contribution section of the company pension scheme and receives a cash allowance in lieu of pension. The Company provides Death in Service cover for Mr Turner, Mr Bower, Mr Watson and Mr Morley at four times salary.

Mr Bower continues to be a Defined Benefit member of the Group's pension scheme. This provides a pension on retirement of one sixtieth of final pensionable salary, for each year's membership of the pension scheme, subject to a Scheme Specific Cap, which limits the amount of salary that counts towards pension benefits. The Scheme Specific Cap for 2022 is £178,800.

Mr Bower's Defined Benefit membership terms were altered with effect from 6th April 2014, in order to enable him to register for Fixed Protection with HMRC. From this date, no further pensionable service was accrued, and Mr Bower was no longer required to contribute to the scheme. Mr Bower receives a cash allowance in lieu of pension.

The following table relates to the Executive Directors' pension arrangements through the Group's Retirement Benefit Scheme.

	Single Pension Figure at 31.12.2021	Single Pension Figure at 31.12.2020 (£)	2021 Transfer value of accrued pension value (£)	2021 Accrued pension value (£ pa)	Normal pension age
Steve Bower	-[1]	-[1]	2,665,600	67,700[2]	60

1 Based on the member ceasing to accrue pension from 5th April 2014, although he continues to accrue contingent spouse's benefits on death-in-service and death-after-retirement, which is reflected in the calculation of the transfer value at 31st December 2021. The Administrators have confirmed that the continued accrual of the contingent spouse's benefits is unaffected by the broader closure of the Scheme to future accrual.

The pension cost of any Executive Director with a Defined Benefit pension is charged over their estimated service life, based upon actuarial advice.

The Company provides Death in Service cover for Mr Turner, Mr Bower, Mr Watson and Mr Morley at four times salary.

DIRECTORS' CONTRACTS

Executive Directors have service contracts, which are terminable by the Group, on 12 months' notice.

	Date of contract	Unexpired Term as at 31st December 2021	Notice period
Nick Turner	1st April 2021	12 months rolling period	12 months
Nick Watson	24th May 2021	12 months rolling period	12 months
Richard Morley	1st May 2018	12 months rolling period	12 months
Steve Bower	5th July 2010	12 months rolling period	12 months

NON-EXECUTIVE DIRECTORS (AUDITED BY DELOITTE LLP)

Non-Executive Directors	2021 Committee Responsibilities	2021 Total Fees (£)	Taxable Expenses from 1st January 2021 - 31st December 2021*	2020 Total Fees (£)	Taxable Expenses from 1st January 2020 - 31st December 2020*
Ross Ainslie (appointed on 1st March 2021)	Audit Committee Member (from 01/03/2021) Board Investment Committee Member (from 01/10/2021) With Profits Committee Member (from 01/03/2021)	56,042	2,084	-	-
Jon Bailie	Board Investment Committee Chair N.F.U. Mutual Unit Managers Limited Chair Audit Committee Member	80,375	1,070	75,375	946
Ali Capper	Board Risk Committee Member With-Profits Committee Member Remuneration Committee Chair (Chair from 6th July 2021, Committee Member throughout 2021)	73,307	-	66,875	-
Brian Duffin	With-Profits Committee Chair Chair of the Company's Pension Scheme Trustee Nomination Committee Member Board Risk Committee Member Senior Independent Director (from 1st January 2021)	99,700	2,285	87,375	3,149
Alan Fairhead	Board Risk Committee Chair (from 1st January 2021) Director of N.F.U. Mutual Unit Managers Limited (from 5th January 2021)	78,000	1,457	8,917	501
Christine Kennedy	Remuneration Committee Member (Chair until 6th July 2021) Nomination Committee Member Audit Committee Member	73,625	2,258	72,375	3,079
Eileen McCusker (retired from Board 07/08/2020)	Board Risk Committee Chair (until 7th August 2020) Remuneration Committee Member (until 7th August 2020)	-	-	43,708	537
Jim McLaren	Chairman Nomination Committee Chair Board Risk Committee Member	198,750	6,446	179,563	5,596
David Roper	Audit Committee Chair Director of N.F.U. Mutual Unit Managers Limited (until 5th January 2021) Remuneration Committee Member Board Risk Committee Member	77,500	-	63,806	-
Chris Stooke (retired from Board 31/12/2020)	Senior Independent Director (until 31st December 2020) Audit Committee Chair (until 31st December 2020) Board Risk Committee Member (until 31st December 2020) Nomination Committee Member (until 31st December 2020) With-Profits Committee Member (until 31st December 2020)	-	123	88,303	1,672

* The expenses quoted are those which the Non-Executive Directors have incurred for travel or accommodation while on NED duties at Head Office. HMRC consider these to be taxable so the figure disclosed is the grossed up value of these expenses (other expenses incurred on NED duty which are not in respect of Head Office are not taxable and therefore have not been disclosed).

None of the Non-Executive Directors accrue pension benefits with NFU Mutual. Some former Non-Executive Directors or their widows still receive a pension, on an ex gratia, non-contractual and unfunded basis. The total cost of these pensions for 14 former Directors or widows in 2021 was £211,437.91 (2020: £218,841).

NON-EXECUTIVE DIRECTORS' LETTERS OF APPOINTMENT

The Non-Executive Directors do not have contracts of service but have letters of appointment. Such appointments are initially for a three-year term, although in accordance with the Annotated UK Corporate Governance Code, all Directors stand for re-election by members each year at the Company's Annual General Meeting. The letters of appointment set out the time commitment expected of the Non-Executive Directors in the performance of their duties.

Non-Executive Directors are not eligible to participate in any incentive plans, or company pension arrangements, and are not entitled to any compensation for any early termination of their appointment.

Non-Executive Directors	Date of letter of appointment	Unexpired Term as at 31st December 2021	Notice period
Ross Ainslie	1st March 2021	2 years 2 months	1 month
Jon Bailie	1st February 2018	2 years 2 months	1 month
Ali Capper	15th March 2018	2 years 3 months	1 month
Brian Duffin	25th February 2016	1 year	1 month
Alan Fairhead	5th October 2020	1 years 10 months	1 month
Christine Kennedy	25th February 2016	1 years 10 months	1 month
Jim McLaren	30th September 2019	2 year	1 month
David Roper	8th April 2019	8 months	1 month

Note: No Non-Executive Directors have contracts with compensation for early termination. There are no other provisions relevant to determining liability for early termination. All Directors will stand for election or annual re-election at the AGM, regardless of their unexpired term.

Ali Capper
Chair of the Remuneration Committee

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE NATIONAL FARMERS UNION MUTUAL INSURANCE SOCIETY LIMITED

Report on the audit of the financial statements

1. Opinion

In our opinion the financial statements of The National Farmers Union Mutual Insurance Society Limited (the 'parent company') and its subsidiaries (together the 'group'):

- give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2021 and of the group's loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the consolidated profit and loss account;
- the consolidated statement of other comprehensive income;
- the consolidated and parent company balance sheets;
- the consolidated statement of cash flows;
- the consolidated and parent company statements of changes in equity; and
- the notes to the financial statements 1 to 34, excluding the capital adequacy disclosures in note 3 calculated in accordance with the Solvency II regime which are marked as unaudited.

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

2. Basis for opinion

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

We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services provided to the group and parent company for the year are disclosed in note 14 to the financial statements. We confirm that we have not provided any non-audit services prohibited by the FRC's Ethical Standard to the group or the parent company.

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

3. Summary of our audit approach

Key audit matters

The key audit matters that we identified in the current year were:

- General Business Claims Outstanding: Latent reserving assumptions;
- General Business Claims Outstanding: Non-latent reserving assumptions and methodology; and
- Long-term business provision: annuitant mortality assumptions.

Within this report, key audit matters are identified as follows:

<> Similar level of risk to prior year

Materiality

The materiality that we used for the group financial statements was £120m which was determined on the basis of 1.5% of members reserves and equity.

Scoping

Our group audit included full scope audits of the parent company and Avon Insurance plc. Our testing covered 98% of Profit before tax (PBT), 98% of revenue and 99% of members reserves and equity.

Significant changes in our approach

We have changed the benchmark factor used to determine our materiality in the current year to 1.5% (2020: 1%) to align with the practice adopted by comparable peer group companies of similar size and risk profile.

4. Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the directors' assessment of the group's and parent company's ability to continue to adopt the going concern basis of accounting included:

- Challenging management's key assumptions underpinning the going concern basis of accounting, by assessing the reasonableness of significant movements in forecast cash flows and considering their consistency with other available information and our understanding of the group's businesses.
- Assessing the parent company's Own Risk and Solvency Assessment Report (ORSA) to support our understanding of the key risks faced by the parent company, its ability to continue as a going concern, and the longer-term viability of the company;

- Assessing management's stress and scenario testing. We also assessed whether management's forecasts and assumptions were applied consistently across the preparation of the financial statements;
- Evaluating the historical accuracy of forecasts made by management by comparing them to actual results; and
- Evaluating the appropriateness of disclosures in the financial statements relating to going concern with particular focus on Covid-19 and climate change.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's and parent company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In relation to the reporting on how the group has applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

5. Key audit matters

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

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

5.1. General Business Claims Outstanding: Latent reserving assumptions	
Key audit matter description	The most significant and sensitive judgements in the determination of the carrying value of latent general insurance claims outstanding are on specific farming latent perils which are long tail in nature. The derivation of the specific farming latent reserve assumptions includes the consideration of the limitations of available relevant and data which increases the level of uncertainty in the determination of the appropriate reserves. The valuation of the general business claims outstanding is a complex process involving inherent uncertainty and is one of the most significant areas of management judgement within the group's financial statements. Included in liabilities are general business claims outstanding reserves, with a balance at 31 December 2021 of £2,137m (2020: £1,881m) as set out in note 8 to the financial statements. Given the size of the specific farming latent assumptions out of the total balance of the general business claims outstanding reserves, incorrect or inconsistent determination or application of the assumptions could materially affect the financial statements. The accounting and risk management policies are set out in notes 1 and 2 respectively, with insurance risk being discussed in note 2c. Due to the high level of judgement and estimates involved, we have determined that there was a potential risk of fraud through possible manipulation of this balance. The group audit committee refers to this key audit matter in their report on page 73.
How the scope of our audit responded to the key audit matter	With the involvement of our actuarial specialists, we performed the following procedures: • We obtained an understanding of the relevant controls in place to mitigate the risk of inappropriate assumptions being used in valuing the general business latent reserves; • We inspected and challenged the continued appropriateness of management's documented model methodology, and approach to deriving material latent assumptions; • We reviewed and challenged management's process for commissioning third party reports and assessed the completeness of information used to inform assumptions underlying the best estimate and whether it was up to date; and • We considered any external developments connected with the key latent assumptions.
Key observations	We found management's general claims outstanding latent assumptions reserving key assumptions to be reasonable.

5.2. General Business Claims Outstanding: Non-latent assumptions and methodology	
Key audit matter description	The valuation of the general business claims outstanding is a complex process involving inherent uncertainty and is one of the most significant areas of management judgement within the group's financial statements. The most significant and sensitive judgements in the determination of the carrying value of non-latent general insurance claims outstanding are on third party bodily injury (TPBI) assumptions and methodology for motor and liability TPBI £1m+ classes. The determination of the bodily injury non-latent assumptions and methodology for claims above £1m is considered to be to be inherently more complex given their severity, the individual judgements applied, their individual significance and the likelihood of an inappropriate methodology or assumptions resulting in a material misstatement being greater in comparison to other perils and TPBI claims below £1m. Included in liabilities are general business claims outstanding reserves, with a balance at 31 December 2021 of £2,137m (2020: £1,881m), as set out in note 8 to the financial statements. Given the size of the TPBI non-latent reserves for claims above £1m attributed to the assumptions above as a proportion of the total balance of the general business claims outstanding reserves, incorrect or inconsistent determination or application of the assumptions and methodology could materially affect the financial statements. The accounting and risk management policies are set out in notes 1 and 2 respectively, with insurance risk being discussed in note 2c. Due to the high level of judgement and estimates involved, we have determined that there was a potential risk of fraud through possible manipulation of this balance. The group audit committee refers to this key audit matter in their report on page 73.
How the scope of our audit responded to the key audit matter	With the involvement of our actuarial specialists, we performed the following procedures: • We obtained an understanding of the relevant controls in place to mitigate the risk of inappropriate assumptions being used in valuing the general business non-latent reserves. • We inspected and challenged management's selected methodology and assumptions including market benchmarking (where appropriate market benchmarking exists) focusing on material classes of business in relation to TPBI for claims above £1m; and • We assessed the incurred and paid claims development against management's selected ultimate costs using our in-house reserving software to identify and quantify potential outliers including challenging management where appropriate.
Key observations	We found management's methodology for determining the general insurance claims outstanding non-latent reserves and the key assumptions to be reasonable.

5.3. Long-term Business Provision: Annuitant mortality assumptions	
Key audit matter description	The valuation of the long-term business provision is a complex process involving inherent uncertainty and is one of the most significant areas of management judgement within the group's financial statements. The assumptions for annuitant mortality (both base mortality and mortality improvements) used in the actuarial reserving process are fundamental in ensuring that the appropriate level of actuarial liabilities is held by the business. Based on our risk assessment process and understanding of this business, we focused on the most material annuity products that are highly sensitive to changes in the annuitant mortality assumptions. The key judgements centre upon: I. Mortality (base) – Factors which affect the assumptions underlying mortality experience (e.g., age, gender, pension band etc.), management's view on the credibility of the experience and the period over which it is analysed; II. Mortality (improvement) – Management's view on, and interpretation of population trends, internal analysis, industry analysis and related developments in respect of the future rate of mortality improvements, in particular, the most recent Continuous Mortality Investigation ("CMI") 2020 tables. Included in liabilities are long-term business provision reserves, with a balance at 31 December 2021 of £5,572m (2020: £5,556m) as set out in note 4 to the financial statements. Given the size of the reserves attributed to the annuitant mortality assumptions above out of the total balance of the long-term business provision reserves, inappropriate determination or application of the assumptions and methodology could materially affect the financial statements. The accounting and risk management policies are set out in notes 1 and 2 respectively, with insurance risk being discussed in note 2c. Due to the high level of judgement and estimates involved, we have determined that there was a potential risk of fraud through possible manipulation of this balance. The group audit committee refers to this key audit matter in their report on page 74.
How the scope of our audit responded to the key audit matter	With involvement of our actuarial specialists, we performed the following procedures on annuitant mortality assumptions: • We obtained an understanding of the relevant controls around life reserving annuitant mortality methodology and assumptions in place to mitigate the risk of inappropriate assumptions being used in valuing the long-term business provision; • We evaluated the in-year experience study relating to base annuitant mortality experience across the material annuity products; • We challenged key judgements made around adopted annuitant mortality improvement assumptions by referring to the latest available CMI 2020 mortality improvements model and considered the appropriates of fit to the underlying book; • We assessed whether any adjustments made to the latest available industry table CMI 2020 models are appropriately supported by evidence; and • Where appropriate, we compared the assumptions selected by management to those used by peer annuity companies.
Key observations	We found management's key annuitant mortality assumptions to be reasonable.

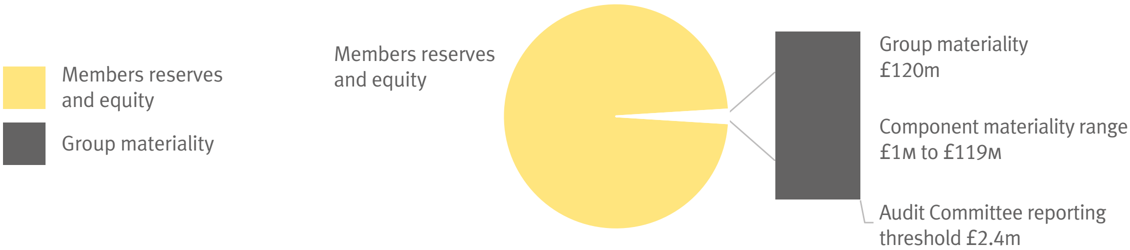
6. Our application of materiality

6.1 Materiality

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

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

	Group financial statements	Parent company financial statements
Materiality	£120m (2020: £75m)	£119m (2020: £71m)
Basis for determining materiality	1.5% of members reserves and equity (2020: 1% of members reserves and equity)	The parent company's materiality was determined at 1.5% (2020: 1%) of members reserves and equity and capped at 95% (2020: 95%) of group materiality. When determining materiality, as the parent company is a component of the group, we also considered that this materiality is appropriate for the consolidation of this set of financial statements into that group's results.
Rationale for the benchmark applied	We have used members reserves and equity as a base for our materiality to reflect the parent company's and group's strategic ambition as a mutual to deliver longer-term sustainable profit growth and improve overall member value. We have changed the benchmark factor used to determine our materiality in the current year to 1.5% to align with the practice adopted by comparable peer group companies of similar size and risk profile.	



6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole.

	Group financial statements	Parent company financial statements
Performance materiality	70% (2020: 70%) of group materiality	70% (2020: 70%) of parent company materiality
Basis and rationale for determining performance materiality	In determining performance materiality, we considered the following factors: • the quality of the parent company's and group's control environment, our ability to take a controls reliance approach in the areas specified in section 7.2; and • the low number of corrected and uncorrected misstatements identified in the prior year audit.	

6.3. Error reporting threshold

We agreed with the group audit committee that we would report to the committee all audit differences in excess of £2.4m (2020: £1.5m), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the group audit committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

7. An overview of the scope of our audit

7.1. Identification and scoping of components

Our group audit was scoped by obtaining an understanding of the group and its environment, including group-wide controls, and assessing the risks of material misstatement at the group level. Based on that assessment, we focused our group audit scope primarily on the audit work for the general and life insurance businesses in The National Farmers Union Mutual Insurance Society Limited (the "parent company"), as well as Avon Insurance plc, the group's other insurance subsidiary. Our testing covered 98% of PBT, 98% of revenue and 99% of members reserves and equity, and all work was performed by the group engagement team.

Our Group audit work was executed at levels of materiality applicable to each individual entity which were lower than group materiality and ranged from £891k to £119m (2020: £935k to £71m). For other components we have performed either analytical review or procedures over specified account balances.

At Group level we also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to audit or audit of specified account balances.

7.2. Our consideration of the control environment

The group IT landscape contains several IT systems, applications and tools used to support business processes and reporting. We identified key IT systems for the group in respect of the financial reporting system, underwriting, investment income, pensions and claims handling.

We utilised our IT specialists to perform testing of General IT Controls ("GITCs") of these systems, typically covering controls surrounding user access management, change management and interfaces with other systems relating to in scope IT systems (such as Navision, Hiportfolio, ClaimsCentre, Billing Centre). We also tested the relevant automated, application and reports generated from the IT systems. Based on the testing performed, we adopted a controls reliance across the key systems identified.

We took a controls reliance approach in relation to the gross written premium, claims handling and investment property which is consistent with 2020.

7.3. Our consideration of climate-related risks

The group continues to develop its assessment of the potential impacts of environmental, social and governance ("ESG") related risks, including climate change. There is particular emphasis on achieving net zero status by 2050, assessing the effect of climate change on managing the investment and insurance risks, and the wider community in which the group operates as outlined on pages 30, 32-39.

As part of our audit, we have obtained management's climate-related risk assessment and held discussions with management to understand the process of identifying climate-related risks, and the overall Group ESG agenda. Management has categorised this as an emerging risk that is constantly evolving and related assumptions are likely to change over time in the implementation of the climate change strategy, agreed by the Board, to ensure the group is resilient to the impact of climate change. We considered management's assessment based on our understanding of the group's operating environment.

We performed our own qualitative risk assessment of the potential impact of climate change on the group's account balances and classes of transactions. We read the climate change disclosure in the as outlined on pages 30, 32-39 and considered whether they are materially inconsistent with the financial statements or our knowledge obtained in the course of the audit.

8. Other information

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

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

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

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. 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.

9. Responsibilities of directors

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

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

10. Auditor's responsibilities for the audit of the financial statements

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

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

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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

11.1. Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the group's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- results of our enquiries of management, board risk committee, internal audit, and the audit committee about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the group's documentation of their policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - idetecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - ithe internal controls established to mitigate risks of fraud or non-compliance with laws and regulations;
- the matters discussed among the audit engagement team and relevant internal specialists, including actuarial, tax, pensions, financial instruments, property valuation and IT specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the following areas: general business claims outstanding: latent reserves, non-latent reserves and long-term provision. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory frameworks that the group operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act, pensions and tax legislation.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the group's ability to operate or to avoid a material penalty. These included the group's regulatory solvency requirements regulated by the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA).

11.2. Audit response to risks identified

As a result of performing the above, we identified general business claims outstanding: latent reserving assumptions, general business claims outstanding: non-latent assumptions and methodology and long-term business provision: annuitant mortality assumptions as key audit matters related to the potential risk of fraud. The key audit matters section of our report explains the matters in more detail and also describes the specific procedures we performed in response to those key audit matters.

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

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the audit committee and external legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA); and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

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

Report on other legal and regulatory requirements

12. Opinions on other matters prescribed by the Companies Act 2006

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

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

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

13. Corporate Governance Statement

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- the directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on page 48;
- the directors' explanation as to its assessment of the group's prospects, the period this assessment covers and why the period is appropriate set out on page 48;
- the directors' statement on fair, balanced and understandable set out on page 50;
- the board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 48;
- the section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on page 48; and
- the section describing the work of the audit committee [set out on page 72.

14. Matters on which we are required to report by exception

14.1. Adequacy of explanations received and accounting records

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

14.2. Directors' remuneration

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

We have nothing to report in respect of this matter.

15. Other matters which we are required to address

15.1. Auditor tenure

Following the recommendation of the group audit committee, we were appointed by the Board of Director on 20 June 2018 to audit the financial statements for the year ending 31 December 2018 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 4 years, covering the years ending 31 December 2018 to 31 December 2021.

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

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

16. Use of our report

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

Mark McQueen (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
28th March 2022

CONSOLIDATED PROFIT AND LOSS ACCOUNT TECHNICAL ACCOUNT – GENERAL BUSINESS

2021 £m	2020 £m	for the year ended 31 December
1,825	1,705	Gross written premium income before Mutual Bonus
(250)	(252)	Mutual Bonus
1,575	**1,453**	**Gross Written Premium (note 6)**
(117)	(106)	Outwards reinsurance
1,458	**1,347**	**Net premiums written**
(60)	(36)	Change in gross provision for unearned premiums
-	-	Change in the gross provision for reinsured unearned premiums
(60)	**(36)**	**Change in the net provision for unearned premiums**
1,398	**1,311**	**Earned premiums, net of reinsurance**
46	39	Allocated investment return transferred from the Non-Technical Account (note 9)
1,444	**1,350**	**Total technical income**
1,090	1,037	Gross claims paid
(22)	(7)	Reinsurers share of gross claims paid
1,068	**1,030**	**Net claims paid**
263	63	Change in gross provision for claims
(14)	(31)	Change in reinsurers' share
249	**32**	**Change in net provisions for claims**
1,317	**1,062**	**Claims incurred, net of reinsurance**
414	389	Net operating expenses (note 7)
7	6	Other technical charges, net of reinsurance
1,738	**1,457**	**Total technical charges**
(294)	**(107)**	**Balance on the Technical Account – General Business**

CONSOLIDATED PROFIT AND LOSS ACCOUNT
TECHNICAL ACCOUNT – LONG-TERM BUSINESS

2021 £m	2020 £m	For the year ended 31 December
185	172	Gross written premium (note 6)
(5)	(5)	Outwards reinsurance
180	**167**	**Earned premiums, net of reinsurance**
668	497	Investment income (note 9)
165	-	Unrealised gain on investments (note 9)
30	27	Fee income from investment contracts
48	27	Other technical income net of reinsurance
1,091	**718**	**Total technical income**
349	346	Gross claims paid (Note 6)
(6)	(7)	Reinsurers' share
343	**339**	**Net claims paid**
(7)	6	Change in gross provision for claims
336	**345**	**Claims incurred, net of reinsurance**
16	75	Gross change in long-term business provision
1	-	Reinsurers' share
17	**75**	**Net change in the long-term business provision**
81	68	Changes in technical provision for linked liabilities net of reinsurance
366	9	Movements in investment contract liabilities
464	**152**	**Net change in technical provisions**
104	80	Net operating expenses (note 7)
-	127	Unrealised loss on investments (note 9)
3	5	Investment expenses and charges (note 9)
47	13	Tax attributable to the Long-Term Business (note 15)
139	(3)	Transfer to / (from) the fund for future appropriations
(2)	(1)	Loss attributable to minority interest
1,091	**718**	**Total technical charges**
-	**-**	**Balance on the Technical Account – Long-Term Business**

CONSOLIDATED PROFIT AND LOSS ACCOUNT NON-TECHNICAL ACCOUNT

2021 £m	2020 £m	For the year ended 31 December
(294)	(107)	Balance on the Technical Account - General Business
260	372	Investment Income (note 9)
341	(363)	Unrealised gain / (loss) on investments (note 9)
(46)	(39)	Allocated investment return transferred to the Technical Account - General Business (note 9)
(8)	(8)	Support payments to the Farmers' Unions
6	6	Other Income
(39)	(33)	Other Charges
220	**(172)**	**Profit / (Loss) on ordinary activities before taxation (note 14)**
(38)	29	Tax (charge) / credit on ordinary activities (note 15)
182	**(143)**	**Profit / (Loss) for the financial year (note 25)**

All results are derived from continuing operations.

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME / (EXPENSE)

2021 £m	2020 £m	For the year ended 31 December
182	**(143)**	**Profit / (Loss) for the financial year**
177	(69)	Actuarial gain / (loss) on pension scheme (note 29)
(41)	12	Movement on deferred tax on pension scheme
318	**(200)**	**Total comprehensive income / (expense) recognised since last Annual Report**

CONSOLIDATED AND COMPANY BALANCE SHEETS

Consolidated 2021 £m	Consolidated 2020 £m	Parent Company 2021 £m	Parent Company 2020 £m	As at the 31 December
				Assets
				Investments
1,572	1,374	1,255	1,091	Land and Buildings (note 18)
575	493	1,120	887	Investments in Group undertakings and participating interests (note 16)
13,124	12,584	13,088	12,534	Other financial investments (note 17)
15,271	**14,451**	**15,463**	**14,512**	
4,138	**3,819**	**4,138**	**3,819**	**Assets held to cover linked liabilities (note 19)**
				Reinsurers' share of technical provisions
11	11	12	11	Provision for unearned premiums
13	14	13	14	Long-term business provision
236	222	233	217	Claims outstanding (note 8)
29	29	29	29	Technical provision for linked liabilities
289	**276**	**287**	**271**	
				Debtors
605	553	598	547	Debtors arising out of direct insurance operations – policyholders
11	10	13	10	Debtors arising out of direct insurance operations – Intermediaries
9	6	9	6	Debtors arising out of reinsurance operations
-	-	25	29	Amounts due from Group undertakings
72	69	44	53	Other debtors (note 20)
697	**638**	**689**	**645**	
				Other Assets
55	46	52	43	Tangible assets (note 21)
-	11	-	-	Stocks (note 22)
280	439	169	309	Cash at bank and in hand
335	**496**	**221**	**352**	
				Prepayments and accrued income
69	69	69	68	Accrued interest and rent
121	115	121	115	General business deferred acquisition costs
20	22	20	22	Long-term business deferred acquisition costs
16	17	17	18	Other prepayments and accrued income
226	**223**	**227**	**223**	
20,956	**19,903**	**21,025**	**19,822**	**Total assets excluding pension asset**
169	-	-	-	Pension asset (note 29)
21,125	**19,903**	**21,025**	**19,822**	**Total assets including pension asset**

CONSOLIDATED AND COMPANY BALANCE SHEETS

Consolidated		Parent Company		
2021 £m	**2020 £m**	**2021 £m**	**2020 £m**	**As at 31 December**
				Liabilities
				Reserves
-	-	290	144	Revaluation reserve (note 25)
250	250	250	250	Other reserve (note 25)
6,342	6,024	6,094	5,918	Profit and loss account (note 25)
32	28	-	-	Equity minority interests
1,379	1,240	1,413	1,266	Fund for future appropriation (note 25)
8,003	**7,542**	**8,047**	**7,578**	**Total members reserves and equity (note 25)**
				Technical provisions
771	711	771	710	Provision for unearned premiums
5,572	5,556	5,572	5,556	Long-term business provision (note 4)
2,137	1,881	2,131	1,873	Claims outstanding (note 8)
8,480	**8,148**	**8,474**	**8,139**	
				Technical provision for linked liabilities
120	121	120	121	Technical provision for linked liabilities – Insurance contracts (note 4)
3,949	3,583	3,949	3,583	Technical provision for linked liabilities – Investment contracts (note 4)
4,069	**3,704**	**4,069**	**3,704**	
				Provisions for other risks
206	116	166	117	Provision for taxation (note 27)
11	12	11	12	Other provisions (note 27)
217	**128**	**177**	**129**	
				Creditors
38	50	37	51	Creditors arising out of direct insurance operations
24	17	23	15	Creditors arising out of reinsurance operations
69	84	-	-	Amounts due to credit institutions (note 34)
-	-	67	57	Amounts owed to Group undertakings
61	82	55	73	Other creditors including taxation and social security (note 28)
164	142	76	76	Accruals and deferred income
356	**375**	**258**	**272**	
21,125	**19,897**	**21,025**	**19,822**	**Total liabilities excluding pension deficit**
-	6	-	-	Pension Liability (note 29)
21,125	**19,903**	**21,025**	**19,822**	**Total liabilities**

These financial statements on pages 115 to 167 were approved and authorised for issue by the Board of Directors on the 28th March 2022 and were signed on its behalf by:

Signed on behalf of the Board of Directors

Jim McLaren
Chairman

Nick Turner
Group Chief Executive

NFU Mutual is The National Farmers Union Mutual Insurance Society Limited (No. 00111982).

CONSOLIDATED STATEMENT OF CASH FLOWS – GENERAL BUSINESS

2021 £m	2020 (as restated) £m	For the year ended 31 December
(140)	(116)	Net cash from operating activities (note 33)
260	372	Interest and dividend Income
(29)	(3)	Taxation paid
91	**253**	**Net cash generated from operating activities**
		Cash flow from investing activities
(20)	(9)	Payments to acquire tangible assets
(297)	(121)	Payments to acquire shares and other variable yield securities
216	861	Receipts from the sale of shares and other variable yield securities
(1,551)	(1,467)	Payments to acquire debt securities and other fixed / variable income securities
1,256	919	Receipts from the sale of debt securities and other fixed / variable income securities
(204)	(21)	Payments to acquire investment properties
193	58	Receipts from the sale of investment properties
235	(360)	Net receipts / (payments) relating to term deposits with a maturity date greater than 3 months
(172)	**(140)**	**Net cash used from investing activities**
(81)	**113**	**Net (decrease) / increase in cash and cash equivalents**
285	172	Cash and cash equivalents at the beginning of the year
204	**285**	**Cash and cash equivalents at the end of the year**
140	272	Cash at bank and in hand (note 33)
64	13	Short-term deposits (included in Other Financial Investments)
204	**285**	**Cash and cash equivalents at the end of the year**

Prior year numbers have been restated to remove term deposits with a maturity date at acquisition greater than three months from cash and cash equivalents in accordance with the requirements of FRS 102 Section 7.2. (see Note 33)

STATEMENT OF CHANGES IN MEMBERS' RESERVES AND EQUITY

Revaluation Reserves (Note 25) £m	Other Reserve (Note 25) £m	Profit and Loss Account (Note 25) £m	Fund for Future Appropriations (Note 25) £m	Total members' reserves 2021 £m	Equity Minority Interests £m	Total members' reserves and equity 2021 £m	Total members' reserves and equity 2020 £m	Consolidated
-	250	6,024	1,240	7,514	28	7,542	7,732	As at 1 January
-	-	182	-	182	-	182	(143)	Transfer to / (from) Non-Technical Account
-	-	-	139	139	-	139	(3)	Transfer to / (from) the fund for future appropriations
-	-	177	-	177	-	177	(69)	Actuarial gain /(loss) loss on pension scheme
-	-	(41)	-	(41)	-	(41)	12	Movement on deferred tax on pension scheme
-	-	-	-	-	(2)	(2)	(1)	Loss attributable to Minority Interest
-	-	-	-	-	6	6	14	Funding from Minority Interest
-	**250**	**6,342**	**1,379**	**7,971**	**32**	**8,003**	**7,542**	**As at 31 December**
								Parent Company
144	250	5,918	1,266	7,578	-	7,578	7,800	As at 1 January
-	-	176	-	176	-	176	(123)	Transfer to / (from) Non-Technical Account
-	-	-	147	147	-	147	(18)	Transfer to / (from) the fund for future appropriations
146	-	-	-	146	-	146	(81)	Revaluation of subsidiaries
290	**250**	**6,094**	**1,413**	**8,047**	**-**	**8,047**	**7,578**	**As at 31 December**

NOTES TO FINANCIAL STATEMENTS

1 COMPLIANCE STATEMENT & ACCOUNTING POLICIES

Statement of Compliance

The Group and parent company financial statements have been prepared under the provision of The Large and Medium-sized Companies and Groups (Account and Reports) Regulations 2008 ("SI2008/410") relating to insurance groups and in accordance with United Kingdom Accounting Standards, including Financial Reporting Standard 102 & 103, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" (FRS102), and the Financial Reporting Standard 103, "Insurance Contracts", (FRS103) issued by the Financial Reporting Council. The financial statements comply with the provisions of the Companies Act 2006.

Basis of Preparation

The financial statements have been prepared on a going concern basis under the historical cost convention with the exception of land and buildings, and financial assets and liabilities which are stated at fair value. Further details can be found in the Directors' Report on page 45. A summary of the more important Group accounting policies is set out below:

A) CHANGES IN ACCOUNTING POLICY

The principal accounting policies applied in the preparation of these consolidated and separate financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

B) BASIS OF CONSOLIDATION

The consolidated financial statements include the assets and liabilities at 31st December of the parent company and its subsidiaries and also include the Group's share of net assets of associated companies. Similarly, the results of the parent company and its subsidiaries are included for the year ended 31 December together with the Group's share of the results of associated companies. Income from non-insurance subsidiaries is shown either in the Technical Account for Long-Term Business or in the Non-Technical Account for General Business. The accounting policies are applied consistently across the Group. All intercompany transactions, balances and unrealised surpluses and deficits on transactions between Group companies have been eliminated.

Subsidiaries – The results of subsidiary undertakings acquired or sold during the period are included within the consolidated results from the date of acquisition or up to the date of disposal. On acquisition of a subsidiary undertaking all of its assets and liabilities are recorded at their fair values determined using a valuation technique approach and reflects their condition at that date. Subsidiary undertakings are companies where the Group holds 50% or more of the equity and is able to exercise ultimate control.

Financial assets are derecognised when the rights to receive cash flows from the investments have expired or where they have been transferred and the Group has ceased to have contractual ownership.

Associates – Associated undertakings are companies other than subsidiary undertakings in which the Group holds 20% or more of the equity share capital for the long-term and over which the Group exercises significant influence, but does not have ultimate or joint control. Associated undertakings are accounted for using the equity method of accounting.

Joint Ventures – Joint Ventures are where the Group holds 50% or more of the equity of an undertaking and where there is joint control between invested parties. Joint ventures are accounted for using the equity method of accounting and are carried at fair value.

C) PARENT COMPANY INVESTMENTS IN GROUP UNDERTAKINGS

Group undertaking investments are measured at fair value with changes in fair value recognised in the parent company's statement of Other Comprehensive Income. If the value of the Group Undertakings carrying amount is increased as a result of a revaluation, the increase shall be recognised in other comprehensive income and accumulated in equity. However, the increase shall be recognised in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss. A decrease in the carrying amount as a result of a revaluation shall be recognised in other comprehensive income to the extent of any previously recognised revaluation increase accumulated in equity, in respect of that asset. If a revaluation decrease exceeds the accumulated revaluation gains accumulated in equity in respect of that asset, the excess shall be recognised in profit or loss.

D) GOING CONCERN

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Business Review on pages 14 to 22. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the notes to the accounts on pages 122 to 167. In particular the notes to the financial statements include the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its risk exposures.

The Group has considerable financial resources supported by a book of both Life and General Insurance business with traditionally high persistency levels. As a consequence, the Directors believe that the Group is well placed to manage its business risks successfully. For this reason the Directors continue to adopt the going concern basis in preparing the Annual Report and Accounts.

E) PRODUCT CLASSIFICATION

Insurance contracts are defined as a contract under which one party accepts significant insurance risk. As a general guideline the Group defines a significant insurance risk as the possibility of having to pay benefits on the occurrence of an insured event that is at least 10% more than the benefits payable if the insured event did not occur. Such contracts remain insurance contracts until all rights and obligations are extinguished or expire. Linked contracts written by the Group, where the liability under the contract is dependent on the value of the underlying financial assets, derivatives and/or investment property, are classified as investment contracts unless the contracts also contain features that transfer significant insurance risk. All With-Profits contracts contain a discretionary participation feature (DPF) which entitles the holder to receive, as a supplement to guaranteed benefits, additional benefits or bonuses;

- That are likely to be a significant portion of the total contractual benefits,
- Whose amount or timing is contractually at the discretion of the Group; and
- That are contractually based on:
  - i) The performance of a specified pool of contracts or a specified type of contract;
  - ii) Realised and/or unrealised investment returns on a specified pool of assets held by the Group; or
  - iii) The profit or loss of the Group, fund or other entity that issues the contract.

The terms and conditions of these contracts, together with UK regulations, set out the basis for the determination of the amounts on which the additional discretionary benefits are based, and within which the Group may exercise its discretion. All With-Profits contracts are classified as insurance contracts under the current accounting rules. Investment contracts are those contracts that transfer financial risk with no significant insurance risk. Where a unit linked contract allows a policyholder to select both With-Profits and Investment funds in one contract the With-Profit part of the contract is classified as insurance and the remainder is classified as Investment.

F) USE OF JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

i) The preparation of financial statements requires management to make judgements in the process of applying the Group's accounting policies. In selecting accounting policies where UK GAAP permits a choice of policy, the Directors have applied judgement in determining the most appropriate policy as follows:

- measurement for assets allows a choice of models for financial assets, investment property, property, plant and equipment and, in the parent company balance sheet, investments in Group entities. This is typically a choice between a cost and a fair value model. The Group and parent company have applied a fair value model to all these assets. The fair value model has been used in order to match asset valuations to the valuation of the related policyholder liabilities;
- the classification of contracts as insurance or investment contracts on initial recognition requires an assessment of whether significant insurance risk has been transferred to the Group;
- the determination of whether the Group has control over an entity. This decision requires the consideration of a number of factors. As set out in note 1 (b) these include the Group's interest of ownership, any other rights it has over the entity and the rights of third parties; and
- the allocation of investment income to the General Business Technical Account requires the use of long-term rates of return and an allocation of the appropriate investment assets.

ii) Details of significant estimation techniques used involving General and Long-Term contracts are set out on pages 132 to 134.

iii) The fair value of the parent company's investment in subsidiary and associate undertakings involved the use of valuation techniques and the estimation of future cash flows to be generated over a number of years. The estimation of the fair values requires the combination of assumptions including revenue growth, expense inflation and customer attrition rates. In addition the use of discount rates requires judgement.

iv) Pension schemes – note 29 sets out the major assumptions used to calculate the pension scheme asset/liability.

v) The sensitivity of the Group and parent company's assets and insurance contract liabilities to insurance risk and market risk is analysed in note 4.

G) GENERAL INSURANCE BUSINESS

Premiums and Claims – Premiums written relate to business incepted during the year, together with any differences between booked premiums for prior years and those previously accrued, and include estimates of premiums due but not yet receivable or notified to the company, less an allowance for cancellations.

Mutual Bonus represents premium discounts due to policyholders relating to business renewing during the year, together with any differences between booked Mutual Bonus for prior year and those previously accrued and include estimates of Mutual Bonus due but not yet paid.

Reinsurance outward premiums are accounted for when paid or payable, depending on the terms of the individual contract. The balance on the Technical Account – General Business is determined after making provision for unearned premiums, unexpired risks, outstanding claims and investment income.

Unearned premiums represent the proportion of premiums written in the year that relate to unexpired terms of policies in force at the balance sheet date. The provision for unearned premiums is calculated on a 365th inception basis. Provision for unexpired risks is maintained, when required, to cover the estimated excess of liabilities over the associated unearned premium after taking into account future investment return.

Claims incurred comprise claims and related expenses paid in the year and changes in the provisions for outstanding claims, including provisions for claims incurred but not reported and related expenses, together with any other adjustments to claims from previous years. Where applicable, deductions are made for salvage and other recoveries.

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

Notified Outstanding Claims Reserves – The costs of notified but not settled claims are estimated on an individual case by case basis by claims handlers using their experience of past settlements and known and expected legislative changes. Statistical techniques are then used to adjust the claims reserves where appropriate.

Incurred But Not Reported Claims Reserves – The estimation of claims Incurred But Not Reported (IBNR) is generally subject to a greater degree of uncertainty. Classes of business, such as employer's liability, where the IBNR proportion of the total reserve is high, will typically display greater variations between initial estimates and final outcomes because of the greater degree of difficulty of estimating these reserves. IBNR claims are estimated using techniques which use past trends to forecast separately the expected number of claims and the expected average cost of claims. A separate allowance is made for large claims. An allowance is made for expected changes in future trends, such as changes in company processes, changes in the legal environment, changes in mix of business and changes in expected claims inflation. Inherent legal uncertainties are also included in the claims reserves. In addition, exposure based techniques are adopted to estimate reserves required for new sources of loss not significantly evident in historic data. The business of the Group has a specific focus on farming-related exposures whose severity is dependent upon a range of factors (the costs of settling the claims, the number of claims and the likelihood of the event occurring) which have a high degree of uncertainty especially for longer tail risk. We apply a significant degree of caution and expert judgement in reflecting the uncertainties of such claims when setting overall reserves. Provisions are calculated gross of any reinsurance recoveries. A separate estimate is made of the amount that will be recoverable from reinsurers based upon the gross provisions and having due regard to collectability.

Unexpired Risks Provision – Provision has been made for any deficiencies arising when unearned premiums, net of associated acquisition costs, are insufficient to meet expected claims and expenses after taking into account future investment return on the investments supporting the unearned premiums provision and unexpired risk provision. The expected claims are calculated based on information available at the balance sheet date. Unexpired risk surpluses and deficits are offset where business classes are managed together and a provision is made if an aggregate deficit within that grouping arises. There is no offset of surpluses and deficits between groups that are not managed together.

H) LONG-TERM BUSINESS

Insurance Contracts

Premiums – Long-term insurance premiums are accounted for as they fall due for payment.

Claims – Claims arising from death are accounted for in the period in which the event is notified. Maturity claims are accounted for when they become due and surrenders are charged when payment is made or, if earlier, on the date that the policy ceases to be included within the calculation of the Long-Term Business provision. Annuities are charged against revenue in the period in which the annuity becomes due for payment. Claims payable include related internal and external claims handling costs. Reinsurance recoveries are accounted for in the same period as the related claim.

Liabilities – For Non-Participating contracts, and linked insurance business, liabilities are calculated using a gross premium valuation method. The valuation basis for these contracts reflects an assessment of future experience that is more prudent than 'best estimate'. For With-Profits business, liabilities are calculated in line with the PRA's realistic reporting regime that existed under Solvency I and consist of the asset shares (or equivalent) plus the cost of underlying policy guarantees associated with the business. These guarantee costs are calculated on a market consistent basis and include an appropriate allowance for both declared and future bonuses. Future reversionary and terminal bonuses are consistent with the Society's bonus policies as set out in the Principles and Practices of Financial Management (PPFM).

Reinsurance – Reinsurance premiums are accounted for when paid or payable, depending on the terms of the individual contract. Provisions are calculated gross of any reinsurance recoveries. A separate estimate is made of the amount that will be recoverable from reinsurers based upon the gross provisions and having due regard to collectability.

Investment Contracts – Investment contracts are accounted for using deposit accounting, under which amounts collected are credited directly to the balance sheet, as an adjustment to the liability to the policyholder. Financial liabilities in respect of investment contracts are carried in the balance sheet as 'Technical provisions for linked liabilities – investment contracts' at amortised cost. The amortised cost of these financial liabilities is the equivalent to the amount payable on demand without penalty. Fees from investment contracts and investment income gains on contract balances are recognised in the Profit and Loss Account in the year they are received.

I) INVESTMENT RETURN

Investment return comprises all investment income, including property rental income, realised investment gains and losses and movements in unrealised gains and losses, net of investment expenses and charges.

Account is taken of dividend income when the related investment goes 'ex-dividend' and other investment income is included on an accruals basis. Property rental income is accounted for on an accruals basis. Realised gains and losses on investments carried at fair value are calculated as the difference between net sales proceeds and purchase price. Movements in unrealised gains and losses on investments represent the difference between the valuation at the balance sheet date and their purchase price or, if they have been previously valued, their valuation at the last balance sheet date, together with the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current period.

Movement in unrealised gains and losses in investments are included in the Profit and Loss Account. The only exceptions to this are movements in the fair value of investment in subsidiaries and associate undertakings within the parent company which are taken to the revaluation reserve, through the Statement of Other Comprehensive Income.

General Insurance Business – Gains and losses on realisation of investments are included within investment income or investment expenses in the Non-Technical Account. Unrealised gains and losses are also included within the Non-Technical Account. Allocations from the Non-Technical Account are made to the Technical Account – General Business based on the longer-term investment return on investments supporting the general insurance technical provisions, where applicable. When allocating return to the cash and fixed interest securities supporting the technical reserves the actual investment income earned in the period is used. When allocating an investment return to property and equity assets, the longer-term rate of return to investible assets held during the period is used. This ensures that the effect of any short-term market movements is excluded.

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

Long-Term Business – Gains and losses on realisation of investments are included within investment income or investment expenses in the Technical Account. Unrealised gains and losses are also included within the Technical Account.

J) TAXATION

Current taxation charged in the Non-Technical Account and the Technical Account – Long-Term Business is based on profits and income including realised gains and losses on all investments for the year as determined in accordance with the relevant tax legislation, together with adjustments in respect of earlier years.

Deferred tax is calculated on material timing differences between taxable profits and total consolidated income as stated in the financial statements that arise from the inclusion of income and expenses in tax assessments in different periods from those in which they are recognised in the financial statements. Deferred tax is calculated using the tax rates that have been enacted or substantively enacted by the balance sheet date and are expected to apply to the reversal of the timing difference.

The taxation charge in the Technical Account – Long–Term Business has been calculated in accordance with the Corporation Tax legislation for long-term business which was introduced by the Finance Act 2012 with effect from 1st January 2013.

K) FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The Group has chosen to apply the recognition and measurement provisions of IAS39 (as adopted for use in the EU) and the disclosure requirements of FRS102. The Group classifies its Financial Instruments into the following categories: financial assets at fair value through profit or loss (FV), held to maturity and as loans and receivables. Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Financial Liabilities are measured at amortised cost, borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost, any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the Profit and Loss Account over the period of the borrowings using the effective interest method. Creditors are also financial liabilities and are recognised initially at fair value, net of directly attributable transaction costs. Creditors are subsequently stated at amortised cost, using the effective interest method.

Basic financial liabilities, including trade and other payables, bank loans and loans from fellow Group companies that are classified as debt, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction.

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are recognised at transaction price.

Investments – Listed investments are valued at fair value through the Profit and Loss Account. The fair values of listed investments are based on current bid price on the balance sheet date. For listed investments with no active market, fair value is determined by the use of FT Interactive via a daily price feed. The fair value of unquoted investments, for which no active market exists, are established using various valuation techniques. These include the use of price source data such as FT Interactive data, information taken from the companies' websites or by direct communication with the company to reflect the specific circumstances of the issuer. Net gains or losses arising from changes in the fair value of investments are presented in the Profit and Loss Account under 'unrealised gains on investments' or 'unrealised losses on investments' in the period in which they arise.

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity where there is the positive intention and ability to hold it to maturity. After initial measurement, held-to-maturity investments are measured at amortised cost using the effective interest rate method.

Derivatives – Derivative instruments are fair valued each year and classified as held-for-trading in accordance with IAS39 as per FRS102. Any movement in value is accounted for in either the Long-Term Business Technical Account or the General Insurance Non Technical Account.

All other Financial Instruments, Loans and Mortgages – The Group classifies other financial instruments, loans and mortgages as loans and receivables, using the effective interest rate method. They are initially measured at the value transferred but subsequently measured at amortised cost making an appropriate allowance for any estimated irrecoverable amounts. Any movement in the impairment provision is charged to the Profit and Loss Account as incurred. No adjustment is made to discount any balances to reflect the time value of money.

L) LAND AND BUILDINGS

Land and buildings consist of investment properties and owner occupied properties.

Investment Properties – Investment property is initially recognised at cost. The cost of a purchased investment property comprises its purchase price and any directly attributable expenditure such as legal and brokerage fees, property transfer taxes and other transaction costs.

Investment property is measured at fair value at each reporting date by independent external chartered surveyors at open market value, in accordance with the RICS Appraisal and Valuation Manual.

Changes in fair value are recognised through the Non-Technical Profit and Loss Account for General Insurance business and for Long-Term Business the Technical Account.

Owner Occupied Properties – Depreciation is charged at 2% of book cost on owner occupied properties.

Owner occupied properties are valued using the revaluation model. The properties are measured at fair value at the date of valuation less any subsequent depreciation and subsequent accumulated impairment losses in accordance with FRS102. To date the downward revaluation of owner occupied properties is taken through the Profit and Loss Account. Should overall unrealised gains materialise on owner occupied properties, the reported movement would be recorded through the Statement of Other Comprehensive Income.

M) ACQUISITION COSTS

General Business – General business acquisition costs, which represent commission and other related expenses, are deferred over the period in which the related premiums are earned.

Long-Term Business – For the two main investment contracts open to new business during 2021, Unit Linked Personal Pension Account and Unit Linked Flexibond, along with the main investment product open to top ups during 2021, Stakeholder Pension, certain costs have been deferred that relate to the acquisition of this business. The basis of this deferral has been a straight line method over 25 years for Unit Linked Personal Pension Account, 10 years for Stakeholder and 15 years for pre-retail distribution review Unit Linked Flexibond contracts and 5 years post-retail distribution review. These costs are deferred to the extent that they are expected to be recoverable out of future profits on these contracts. Costs relating to the acquisition of any other investment contracts or insurance contracts are not deferred but charged to the Profit and Loss Account as incurred.

N) FUND FOR FUTURE APPROPRIATIONS

The Fund for Future Appropriations incorporates Long-Term Business amounts which have not yet been attributed to participating policyholders. Transfers between the Fund for Future Appropriations and the Technical Account – Long-Term Business represent the changes in these unallocated amounts between balance sheet dates.

O) STOCK

Stock comprises properties under construction. Stock is valued at the lower of cost and net realisable value. Income on stock is recognised according to the nature of the contract and the stage reached in the contract by reference to the value of work done. A prudent estimate of the profit attributable to work completed is recognised once the outcome of the contract can be assessed with reasonable certainty. Cost involves interest relating to direct cost of development and other attributable outgoings. The costs of development projects not yet taken to the Profit and Loss Account, less foreseeable losses and payments in account are shown in stock.

P) TANGIBLE ASSETS

Tangible fixed assets are initially valued at cost. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use. Depreciation is provided to write off the cost of capitalised assets less the estimated residual value of tangible fixed assets, on a straight line basis over their useful economic lives as follows:

Motor vehicles	3 – 4 years
Fixtures, fittings and equipment	4 – 10 years
Computer assets	1 – 9 years

Q) RETIREMENT BENEFITS SCHEMES

The Group operates a Defined Benefit pension scheme for a number of its employees. The pension surplus or deficit recognised in the balance sheet is the fair value of the scheme's assets less the present value of its liabilities. The cost of providing benefits is determined using the Projected Unit Credit Method with actuarial valuations being carried out at each balance sheet date. The cost and returns on the pension scheme are taken through the Profit and Loss Account. Actuarial gains and losses are recognised in full in the period in which they occur. They are recognised outside the Profit and Loss Account and presented in the Statement of Other Comprehensive Income. Deferred taxation is provided on the surplus/deficit in the scheme on the basis described in note 1(j) and is shown separately from the Defined Benefit pension scheme surplus/deficit. Payments to the Defined Contribution retirement benefit scheme are charged as an expense when incurred.

R) PROVISIONS

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is more probable than not that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made.

S) STOCK LENDING

The Group engages in stock lending and receives assets as collateral that it is permitted to sell in the event of default of the owner of the collateral. Stocks that are lent continue to be recognised on the balance sheet as the Group retains the risks and rewards of ownership of these assets; collateral is not recognised except in the event of default of the counterparty.

T) EXEMPTIONS FOR QUALIFYING ENTITIES UNDER FRS102

FRS102 allows a qualifying entity certain disclosure exemptions, subject to compliance with certain conditions.

The parent company is a qualifying entity as it is a member of a group that prepares, (and is included in), publicly available consolidated financial statements which follow the true and fair view principles of presentation and disclosure.

The parent company has taken advantage of the exemption from preparing a Profit and Loss Account and from preparing a Statement of Cash Flows as permitted by section 408 of the Companies Act 2006, on the basis that it is a qualifying entity and the Consolidated Statement of Cash Flows, included in these financial statements, includes the parent company's cash flows.

2 RISK MANAGEMENT

A) RISK MANAGEMENT FRAMEWORK

The risk management strategy forms an integral part of ensuring that risks are managed in alignment with NFU Mutual's objectives and business strategy, and to maintain the financial stability of our policyholders, our reputation, employees and assets. Further detail on corporate governance structure and the impact of current market conditions are provided in the Governance section, the Group Chief Executive's Statement and the Business Review. Key financial risks faced by the Group as a result of its activities are as follows:

- Market Risk
- Credit Risk
- Liquidity Risk
- Insurance Risk
- Operational Risk

An explanation of the risk framework and the methods used to monitor and assess risk exposures can be found on pages 23 to 39. The following table presents an analysis of the balance sheet for each distinct category of assets and liabilities which are referred to in this note:

General Business		Long -Term Business					
General Insurance Contracts £m	Corporate General £m	Insurance With-Profit £m	Corporate Life £m	Investment Linked Contracts £m	Insurance Non-Participating £m	Total £m	**Consolidated** **As at 31 December 2021**
2,816	-	2,174	138	3,170	-	8,298	Shares and other variable yield securities
1	-	-	2	-	-	3	Derivative financial instruments
754	317	479	22	-	-	1,572	Land and buildings
-	-	33	2	-	-	35	Property investments (Note 17)
443	80	50	2	-	-	575	Associates and Joint Ventures
3,805	-	1,559	1,262	571	1,126	8,323	Debt securities and other fixed / variable income securities
382	72	117	73	200	31	875	Cash and deposits with credit institutions
247	-	-	-	-	42	289	Reinsurance assets
929	48	81	89	8	-	1,155	Other assets
9,377	**517**	**4,493**	**1,590**	**3,949**	**1,199**	**21,125**	**Total assets**
-	-	4,493	-	-	1,079	5,572	Long-Term Business provision
-	-	-	-	3,949	120	4,069	Technical provision for linked liabilities
771	-	-	-	-	-	771	Provision for unearned premium
2,098	-	-	39	-	-	2,137	Claims outstanding
278	123	-	172	-	-	573	Other liabilities
3,147	**123**	**4,493**	**211**	**3,949**	**1,199**	**13,122**	**Total liabilities**

General Business		Long -Term Business					
General Insurance Contracts £m	Corporate General £m	Insurance With-Profit £m	Corporate Life £m	Investment Linked Contracts £m	Insurance Non-Participating £m	Total £m	**Consolidated** **As at 31 December 2020**
2,444	-	1,949	136	2,841	-	7,370	Shares and other variable yield securities
18	-	-	3	-		21	Derivative financial instruments
611	222	436	105	-	-	1,374	Land and buildings
-	-	39	4	-	-	43	Property investments (Note 17)
395	59	-	39	-	-	493	Associates and Joint Ventures
3,639	-	1,592	1,072	476	1,240	8,019	Debt securities and other fixed / variable income securities
712	58	226	73	260	54	1,383	Cash and deposits with credit institutions
233	-	-	-	-	43	276	Reinsurance assets
713	99	98	8	6	-	924	Other assets
8,765	**438**	**4,340**	**1,440**	**3,583**	**1,337**	**19,903**	**Total assets**
-	-	4,340	-	-	1,216	5,556	Long-Term Business provision
-	-	-	-	3,583	121	3,704	Technical provision for linked liabilities
711	-	-	-	-	-	711	Provision for unearned premium
1,835	-	-	46	-	-	1,881	Claims outstanding
180	175	-	154	-	-	509	Other liabilities
2,726	**175**	**4,340**	**200**	**3,583**	**1,337**	**12,361**	**Total liabilities**

Derivative financial instruments represent forward foreign exchange contracts to cover the currency risk associated with foreign currency denominated debt and fixed / variable income collective investment securities being held during the year and at 31st December 2021.

B) MARKET RISK

The Group's Market Risk Policy sets out the principles and framework for the management of the assets of the business. The Group invests in a broad mix of assets to reflect the nature of its underlying liabilities and its financial strength.

The Board Investment Committee (BIC) is responsible for providing independent scrutiny on investment matters and is required to report and make recommendations to the Board.

(i) Equity Risk

Investments held are listed and traded on the UK and other recognised stock exchanges (primarily in Europe, North America, and the Pacific Basin).

General Business – Equity price risk is significant to the General business in that a fall in equity prices will impact Profit Before Tax (PBT) and therefore reserves. It is the Group's policy to maintain a significant proportion of its free reserves, which is represented by the general businesses accumulated profit and loss reserves, in equity investments since its level of capitalisation will allow for short-term fluctuations whilst maximising returns over the longer-term.

Whilst acknowledging this risk, the management of the General business control this risk by predominately matching technical reserves with non-equity assets. In addition, the level of equity is used in determining our Solvency Capital and the level of capital available to support that risk.

A sensitivity analysis to changes in equity prices is given in section (v).

Long-Term Business – Equities are held within unit-linked funds, within asset shares as well as within the Long-Term Business's free assets.

The investment risk on equities within unit-linked funds and backing With-Profits business is primarily passed on to policyholders via a reduction in the value of the unit-linked funds or a reduction in the benefits paid to With-Profits policyholders. However, some residual risk remains with the Long-Term Business Fund. These risks include an increase in guarantee costs on With-Profits business and a fall in expected future management charges on unit-linked and unitised With-Profits business.

A proportion of NFU Mutual's free assets are invested in equities so an equity market fall directly impacts the size of the Long-Term business's free assets. A sensitivity analysis to changes in equity prices is given in section (v).

(ii) Property Price Risk

A property price fall has a much smaller impact on the Group's balance sheet than an equity price fall of similar percentage due to the much lower aggregate holdings of property compared to equities across the Group. A sensitivity analysis to changes in property prices is given in section (v).

(iii) Interest Rate Risk

Asset liability matching significantly reduces the Group's exposure to interest rate risk for both our General and Life businesses as discussed below.

General Business – The technical provisions are not discounted for General business with the exception of periodic payment orders so the value placed on these liabilities will not change as interest rates change. In contrast the value of the assets held to match these technical provisions will change as interest rates change. In particular, asset values of fixed interest securities fall as interest rates rise.

Management continually monitors the solvency position of the General business to ensure adequate capital is held to cover these liabilities.

A sensitivity analysis to changes in interest rates is shown in section (v).

Long-Term Business – Liabilities that arise out of the Group's Long-Term business operations are typically long- term in nature. The value of the Long-Term business liabilities is dependent on the level of interest rates. The key reasons for this are that the cost of guarantees on With-Profits business are very sensitive to the prevailing level of interest rates and that Non-Participating liabilities are discounted and hence dependent on valuation interest rates.

The Long-Term business holds fixed interest securities that are subject to interest rate risk. Fixed interest securities are held which, to a significant extent, match the expected liability cash flow on Non-Participating contracts and as such the interest rate risk arising from Non-Participating contracts is relatively small. We do not currently attempt to closely match the guarantee costs arising from With-Profits business, as a result a significant exposure to interest rates arises. This exposure is closely monitored to ensure that it remains aligned with the risk appetite set by the Board. Adequate capital is held to cover our exposure to this risk.

(iv) Currency Risk

As described in the risk section on pages 23 to 39 the Group considers its exposure to currency risk to be sufficiently mitigated by the Group's Investment Strategy , which includes the use of investment hedges on overseas fixed security exposures, diversification of currency exposures and caps on the total value of the portfolio that can be invested in non sterling denominated securities. A sensitivity analysis to changes in the value of sterling to other currencies is shown below:

10% increase in Sterling £m	10% decrease in Sterling £m	**General Business**
(129)	129	Net assets at 31/12/21
(134)	134	Net assets at 31/12/20
		Long-Term Business
(49)	46	Fund for Future Appropriation at 31/12/21
(57)	56	Fund for Future Appropriation at 31/12/20

NFU Mutual does not have any overseas liabilities. Management continually monitors the solvency position of the business to ensure adequate capital is held to cover any currency exposure.

(v) Sensitivity Analysis

The impact on the Group's results from sensitivities are detailed in the table below. For each sensitivity test the impact of a reasonably possible change in a single factor is shown, with other assumptions left unchanged. The sensitivities used represent an increase and decrease of 10% in the balance sheet value of equity and property investments held at the reporting date, while a 1% increase and decrease in the yields on the fixed interest securities has been used in assessing the profit and loss impact.

Market values and rates can move sharply over short periods. The percentage changes shown in this table are designed to show the sensitivity of our balance sheet to a range of market movements. However, the exact value of the changes are purely representative and are not necessarily of equal probability or minimum or maximum annual changes.

General Business	**2021**						**2020**					
	Fixed Interest Securities		Equity		Property		Fixed Interest Securities		Equity		Property	
	+1%	-1%	+10%	-10%	+10%	-10%	+1%	-1%	+10%	-10%	+10%	-10%
Impact on profit before tax £m	(225)	257	282	(282)	107	(107)	(205)	238	244	(244)	83	(83)
Total	**(225)**	**257**	**282**	**(282)**	**107**	**(107)**	**(205)**	**238**	**244**	**(244)**	**83**	**(83)**

Long-Term Business	**2021**						**2020**					
	Fixed Interest Securities		Equity		Property		Fixed Interest Securities		Equity		Property	
	+1%	-1%	+10%	-10%	+10%	-10%	+1%	-1%	+10%	-10%	+10%	-10%
Impact on Fund for Future Appropriation £m												
Non-Participating contracts	(42)	73	-	-	-	-	(38)	70				
With-Profit business	(21)	6	55	(54)	11	(12)	47	(93)	70	(70)	20	(21)
Investment business							-	(3)	-	-	-	-
Total	**(63)**	**79**	**55**	**(54)**	**11**	**(12)**	**9**	**(26)**	**70**	**(70)**	**20**	**(21)**

Limitations of Sensitivity Analysis

The sensitivities shown in the tables in section (v) are calculated assuming all other variables remain constant. In reality it should be noted that there will be a correlation between the different variables, so it is unlikely only one factor will change in isolation. It should be noted that sensitivities are non-linear (apart from General Business Equity and Property movements) and therefore larger or smaller impacts should not be interpolated or extrapolated from these results. The sensitivities used in these accounting notes do not take into consideration the active management by the Group of its assets and liabilities. The Group's Risk Management Framework incorporates levels which will trigger remedial action in order to mitigate any risk faced by the Group due to changes in market conditions.

C) INSURANCE RISK

For a portfolio of insurance contracts the principal risk that the Group faces is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency or severity of claims and benefits are greater than estimated. Insurance events are random and the actual number and amount of claims and benefits will vary from year to year from the level established using statistical techniques. Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. Factors that aggravate insurance risk include lack of risk diversification in terms of class and amount of risk, geographical location and type of industry covered. A more diversified portfolio is less likely to be affected across the board by a change in any subset of the portfolio. The Group has developed its insurance underwriting strategy to diversify the class of insurance risks accepted and within each of these classes to achieve a sufficiently large population of risks, to reduce the variability of the expected outcome. In addition the Group has a reinsurance programme which protects exposure to large claims.

General Insurance Contracts – The frequency and severity of claims can be affected by several factors, such as the risk profile of the business, inflation, legal rulings and weather events. The Group manages these risks through its underwriting strategy, adequate reinsurance arrangements and proactive claims handling. The underwriting strategy attempts to ensure that the underwritten risks are well controlled in terms of class and amount of risk, industry and geography.

As a mutual organisation it has consistently been our philosophy to reserve cautiously. Our conservative approach is designed to create a margin held in reserves to allow for adverse developments in open claims. Our booked claims reserves continue to include a margin above projected best estimate of ultimate claims costs.

Underwriting limits are in place to enforce appropriate acceptance criteria. The Group has the right not to renew individual policies, to reprice the risk on renewal, or to impose deductibles or other conditions. It also has the right to reject the payment of a fraudulent claim. Insurance contracts also entitle the Group to pursue third parties for payment of some or all costs. All Group motor insurance contracts offer unlimited third party insurance cover in accordance with UK legislation.

The reinsurance arrangements 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. The Group has reinsurance cover to limit its exposure to loss at a level approved by the Board. The risk that the current estimates of claim liabilities will be different from those ultimately paid out on existing claims is minimised through the use of active claims management, regular reviews of claims estimates, and the use of statistical methods to assess the likely ultimate cost of claims.

The Group is exposed at any given time to latent risk which, by its very nature, is uncertain and in many cases is only expected to emerge in the long-term. Therefore, a material element of our overall reserves exists in order to cover these risks. The Group assesses its exposure to latent risk regularly and uses statistical methods and specific inputs including external third party experts to estimate the value of this exposure. Uncertainty over value and timing does, however, mean that final outcomes could be significantly different from current estimates.

The claims provision is the estimated cost of outstanding claims from expired risks. The provision is calculated largely from using the Group's historic claims development data. How much past claim development will reflect future claims development will be impacted by the following factors:

- Changes in actuarial processes and methodology.
- Changes in risk profile.
- Changes in underwriting, rating and policy conditions.
- Changes in legislation and regulation e.g. PPOs, Ministry of Justice reforms, changes to the Ogden discount rate
- Changes in other external factors e.g. 'claims farming'/accident management firms.

It is therefore important that the impact of these items on claims development is understood. While every effort has been made to ensure the claims provision appropriately allows for such changes, there remains uncertainty in the eventual reserve outcome as a result. This uncertainty can change from year to year depending on the timing and magnitude of these items.

The Group has identified the major uncertainties surrounding the future development of claims. Where appropriate, these have been allowed for explicitly. An additional provision is also held within the claims provision to cover the uncertainty around further fluctuations in claims development with a given degree of confidence.

The following tables reflect the cumulative incurred claims including both claims notified and Incurred But Not Reported (IBNR) for each successive accident year at each Statement of Financial Position date, together with the cumulative payments to date. The tables have been updated in the year for the statement of financial position year's 2016 to 2019 to remove cumulated claims handling expenses. The Group aims to maintain appropriate reserves in order to protect against adverse future claims experience and developments.

ANALYSIS OF CLAIMS DEVELOPMENT – GROSS OF REINSURANCE

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Total
Estimate of ultimate claims costs £m											
At end of reporting year	970	946	911	889	909	958	1,051	981	1,006	1,152	
One year later	915	877	809	879	874	892	1,017	969	1,053		
Two years later	835	802	801	851	826	878	1,007	988			
Three years later	778	776	767	810	795	869	1,009				
Four years later	753	771	752	813	797	882					
Five years later	749	769	752	818	802						
Six years later	758	773	754	831							
Seven years later	766	776	756								
Eight years later	771	775									
Nine years later	771										
Current estimate of cumulative claims	771	775	756	831	802	882	1,009	988	1,053	1,152	9,019
Cumulative payments to date	-726	-756	-736	-783	-764	-792	-909	-815	-775	-460	-7,516
Liability recognised in balance sheet	45	19	20	48	38	90	100	173	278	692	1,503
Reserve in respect of prior years											492
Reserve in respect of Long-Term Business											39
Other Reserves											97
Total Reserve included in Parent Company balance sheet, Gross of reinsurance											2,131
Reserve in respect of subsidiary undertakings											6
Total Reserve included in consolidated balance sheet, Gross of reinsurance											2,137

ANALYSIS OF CLAIMS DEVELOPMENT – NET OF REINSURANCE

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	TOTAL
Estimate of ultimate claims costs £m											
At end of reporting year	877	896	885	872	894	913	1,002	959	981	1,131	
One year later	861	846	801	857	858	858	974	949	1,035		
Two years later	783	784	788	835	807	846	971	975			
Three years later	740	773	756	792	783	837	973				
Four years later	739	766	746	793	787	833					
Five years later	735	763	748	794	791						
Six years later	738	769	750	791							
Seven years later	739	771	752								
Eight years later	742	771									
Nine years later	742										
Current estimate of cumulative claims	742	771	752	791	791	833	973	975	1,035	1,131	8,794
Cumulative payments to date	-723	-755	-734	-769	-761	-780	-876	-815	-775	-460	-7,448
Liability recognised in balance sheet	19	16	18	22	30	53	97	160	260	671	1,346
Reserve in respect of prior years											415
Reserve in respect of Long-Term Business											39
Other Reserves											98
Total Reserve included in Parent Company balance sheet, Net of reinsurance											1,898
Reserve in respect of subsidiary undertakings											3
Total Reserve included in consolidated balance sheet, Net of reinsurance											1,901

Long-Term Insurance Contracts – For contracts where death is the insured risk, the most significant factors that could increase the overall frequency of claims are epidemics or widespread changes in lifestyle, and the Group manages these risks through its underwriting strategy and reinsurance arrangements. The Group no longer sells new protection business. Existing reinsurance arrangements limit the Group exposure on a significant proportion of protection business to a maximum of £0.6m on any single policy. Further exposure above the £0.6m retention limit is fully reinsured for mortality risk or above £0.3m for morbidity risk.

For contracts where survival is the insured risk, the most significant factor is continued improvement in medical science and social conditions that would increase longevity. This risk is managed by ensuring that both the pricing and reserving for the annuities contains adequate allowance for future improvements in longevity. The Group uses appropriate base tables of standard mortality according to the type of contract being written. An investigation into the actual experience of the Group over the last five years is carried out, and statistical methods are used to adjust the crude mortality rates to produce a best estimate of expected mortality for the future.

Policies which contain material options or guarantees include conventional life policies which have guaranteed benefits at maturity or death, conventional pension and unitised pensions which have guaranteed benefits at maturity and some conventional pension policies which have guaranteed annuity options. Investigations are undertaken in retirement rates and take up of options.

Insurance risk for contracts is also affected by the contract holder's right to pay reduced future premiums, to cease future premiums, and to terminate the contract completely. The Group has factored the impact of contract holder's behaviour into the assumptions used to measure liabilities. Sensitivity to assumptions on the long-term insurance liabilities is discussed further in Note 4.

D) CREDIT RISK

General Business

As at 31 December 2021 £m	AAA	AA	A	BBB	BB	Other	Carrying Value in Balance Sheet
Debt securities and other fixed / variable income securities	245	587	1,041	1,435	259	238	3,805
Assets arising from reinsurance contract held	-	137	100	-	-	10	247
Cash and deposits with credit institutions	-	-	454	-	-	-	454
Other assets	-	-	-	-	-	686	686
	245	**724**	**1,595**	**1,435**	**259**	**934**	**5,192**
As at 31 December 2020 £m							
Debt securities and other fixed / variable income securities	390	623	1,062	1,237	72	255	3,639
Assets arising from reinsurance contract held	-	151	66	-	-	16	233
Cash and deposits with credit institutions	-	9	636	-	-	125	770
Other assets	-	-	-	-	-	637	637
	390	**783**	**1,764**	**1,237**	**72**	**1,033**	**5,279**

Long-Term Business

As at 31 December 2021 £m	AAA	AA	A	BBB	BB	Other	Carrying Value in Balance Sheet
Debt securities and other fixed / variable income securities	235	1,896	471	889	152	199	3,842
Reinsurance assets	-	39	3	-	-	-	42
Cash and deposits with credit institutions	-	-	216	-	-	-	216
Other assets	2	10	5	16	1	56	90
	237	**1,945**	**695**	**905**	**153**	**255**	**4,190**
As at 31 December 2020 £m							
Debt securities and other fixed / variable income securities	137	2,004	525	921	82	125	3,794
Reinsurance assets	-	40	3	-	-	-	43
Cash and deposits with credit institutions	-	-	342	-	-	-	342
Other assets	3	9	5	14	1	52	84
	140	**2,053**	**875**	**935**	**83**	**177**	**4,263**

The tables provide information regarding an analysis of the credit profile for financial assets with external credit ratings for the Group as at 31st December 2021.

Credit risk associated with the Group's cash investments is mitigated by the use of a panel of credit institutions with whom the Group can place its cash deposits. These cash deposits are spread across these institutions with a range of maturity dates in order to avoid concentration risk.

General Insurance policies are cancelled following non payment of the premium which limits the Group's exposure to the charge for the time on risk. Consequently no material provisions or impairments are held against the General business assets as at the balance sheet date.

The carrying amount of assets included on the balance sheet represents the maximum credit exposure. The Group is not exposed to credit risk on unit-linked assets as this risk is borne by the holders of the contract concerned. The concentration of credit risk is substantially unchanged compared to prior year.

No credit limits were exceeded during the period. No financial assets are past their due date or impaired at the balance sheet date, management expects no significant losses from non-performance by these counterparties.

Stock lending refers to the lending of securities by one party to another. The terms of the loan will be governed by a "Securities Lending Agreement", which requires that the borrower provides the lender with collateral, in the form of cash, government securities, or a letter of credit of value equal to or greater than the loaned securities. As payment for the loan, the parties negotiate a fee and interest to be paid on the loan. As at 31st December 2021 lent stock amounted to £710m (2020: £949m), broken down as UK Equity £65m, Eurobonds and International Equities £320m and Gilts £325m (2020: UK Equity £82m, Eurobonds and International Equities £292m and Gilts £575m).

As at 31st December 2021 accepted collateral, all in government stocks, amounted to £756m (2020: £980m).

E) OPERATIONAL RISK

A Group-level committee is in place whose remit is to oversee the effectiveness of operational risk management and act as an escalation point for significant operational risk issues which covers operational risks such as business continuity, compliance and legal and financial crime.

F) LIQUIDITY RISK

General Business

All financial liabilities for 2021 are expected to mature within five years.

Long-Term Business

The only potentially material risk area in respect of liquidity for the Long-Term Business fund is that of large-scale surrender. Other potential risk areas are not considered to be material. For many contracts, policyholders have significant flexibility over when to cash in their policies. Contracts, can be surrendered (fully or sometimes partially) and some contracts allow regular withdrawals. Pension contracts generally allow the policyholder to take their policy benefits at a range of ages. All contracts will terminate on death and some contracts have maturity dates when the contract will terminate.

However, whilst the cash flow from any one contract can be unpredictable, the cash flow arising from a portfolio of policies tends to be more predictable. However, there is a small potential risk that an event may cause a change in normal behaviour and lead to a large scale surrender.

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

The table on page 137 represents our best estimate of the Life undiscounted claim profile arising from in-force contracts. This claim profile allows for full and partial surrenders, regular withdrawals, death claims and retirements, as well as maturities. All assumptions on expected rates are consistent with our valuation assumptions and are based on an analysis of our experience over the past five years.

Amounts under unit-linked contracts are generally repayable on demand and the Group is responsible for ensuring there is sufficient liquidity within the asset portfolio to enable liabilities to unit linked policyholders to be met as they fall due.

With-Profits contracts can be surrendered before maturity for a cash surrender value. The Group has discretion as set out in the Principles and Practices of Financial Management (PPFM) to impose market value reductions (MVRs) on early surrender of unitised With-Profits policies which reduce the amount payable on surrender. These MVRs contribute to managing the liquidity risk of the With-Profits fund and to ensuring equity of treatment between policyholders surrendering their policies and those remaining invested in the With-Profits fund. For conventional With-Profits policies the Group has discretion as set out in the PPFM to review terminal bonus rates which may form part of a surrender value to ensure equity of treatment between policyholders surrendering their policies and those remaining invested in the With-Profits fund.

The table below analyses the maturity of the Group's financial liabilities and insurance contract liabilities. The analysis of insurance contract liabilities is based on the projected settlement date. The analysis of investment contract liabilities is based on the earliest contractual repayment date and presents all such liabilities as due on the earliest period of the table (less than 1 year or on demand) because, as described above, the contractual terms provide for surrender by policyholders.

The analysis of other non-derivative financial liabilities and assets is based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table represent undiscounted cash flows:

< 1 year or on demand	Between 1 year and 2 years	Between 2 years and 5 years	> 5 years	Total	Carrying value as per the balance sheet	**Financial and Insurance Liabilities**
						As at 31 December 2021 £m
						Financial Liabilities
	40	29	-	69	69	Bank Loans and other overdrafts
3,949	-	-	-	3,949	3,949	Financial liabilities under non participating investment contracts
287	-	-	-	287	287	Creditors
4,236	**40**	**29**	**-**	**4,305**	**4,305**	**Total Financial Liabilities**
						Insurance Liabilities
339	289	773	3,091	4,492	4493	Long-term business provision - with profit insurance contracts
88	74	208	752	1,122	1079	Long-term business provision - non-participating insurance contracts
4	4	12	142	162	120	Liabilities under unit linked insurance contracts
780	326	311	674	2,091	2,066	Claims Outstanding (NFU Mutual General)
8	2	5	17	32	32	Claims Outstanding (Avon)
39	-	-	-	39	39	Claims Outstanding (Life)
1,258	**695**	**1,309**	**4,676**	**7,938**	**7,829**	**Total Insurance Liabilities**
5,494	**735**	**1,338**	**4,676**	**12,243**	**12,134**	**Total Financial and Insurance Liabilities**

< 1 year or on demand	Between 1 year and 2 years	Between 2 years and 5 years	> 5 years	Total	Carrying value as per the balance sheet	Financial and Insurance Liabilities As at 31 December 2020 £m
						Financial Liabilities
51	-	33	-	84	84	Bank Loans and other overdrafts
3,583	-	-	-	3,583	3,583	Financial liabilities under non participating investment contracts
291	-	-	-	291	291	Creditors
3,925	**-**	**33**	**-**	**3,958**	**3,958**	**Total Financial Liabilities**
						Insurance Liabilities
265	250	697	2,902	4,114	4,340	Long-term business provision - with profit insurance contracts
90	75	211	814	1,190	1,216	Long-term business provision - non-participating insurance contracts
4	4	12	133	153	121	Liabilities under unit linked insurance contracts
626	258	310	644	1,838	1,801	Claims Outstanding (NFU Mutual General)
5	3	5	21	34	34	Claims Outstanding (Avon)
46	-	-	-	46	46	Claims Outstanding (Life)
1,036	**590**	**1,235**	**4,514**	**7,375**	**7,558**	**Total Insurance Liabilities**
4,961	**590**	**1,268**	**4,514**	**11,333**	**11,516**	**Total Financial and Insurance Liabilities**

3 CAPITAL MANAGEMENT POLICY

NFU Mutual Insurance Society is a company limited by guarantee and does not therefore possess share capital. The company's capital takes the form of members reserves.

The Group is headed by the NFU Mutual Insurance Society which, since 1st January 2016, has calculated its Solvency II capital requirement via the use of an Internal Model. The Group incorporates risk modelling for its regulated subsidiaries on a look-through basis within its own calculation, previously the Group calculated its capital requirement under Solvency I regulation. As such, this ensures that all risks are captured at the consolidated level. The Society's General Insurance and Long-Term Business funds are required to hold sufficient capital to meet the Solvency II capital requirements. Both the Group and the regulated entities within it have complied with all externally imposed capital requirements throughout the year.

The Group has an established Own Risk and Solvency Assessment (ORSA) process for both the General and Long-Term Business which ensures compliance with the requirements to hold adequate capital to cover all types of risk faced by the business. To support the protection of existing Own Funds, the firm has established processes and policies in specific areas such as Investment Strategy and Risk Management.

Group Capital

The Group capital position remains strong. Assets that form part of the General Insurance fund, but are not required to cover its liabilities, are available to support Long-Term Business. The Own Funds comprises of the excess of assets over liabilities as measured under Solvency II. 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.

Own Funds available to cover the Solvency II Capital Requirement (SCR) as at 31st December 2021 is estimated to be £7,150m (2020: £7,082m) which is unaudited based on our Q4 submission of Quantitative Reporting Templates (QRT) to the regulator.

The effects on the value of the total reserves caused by the difference in valuation and recognition methods between the consolidated balance sheet and the Q4 QRT Solvency II regulatory requirements are summarised in the following unaudited numbers.

Group 2021 £m	Group 2020 £m	Parent 2021 £m	Parent 2020 £m	
7,971	**7,514**	**8,047**	**7,578**	**Statutory**
				Valuation method adjustments
368	375	368	376	Net technical reserves
(586)	(532)	(586)	(532)	Premium Debtors
(98)	(135)	(98)	(135)	Deferred acquisition costs
(129)	-	(129)	-	Pension Scheme Surplus
18	47	18	47	Deferred tax
(537)	(246)	(537)	(246)	Excess Ring-Fenced funds
-	-	(84)	(64)	Subsidiaries fair value excess over net assets
143	59	151	58	Other
7,150	**7,082**	**7,150**	**7,082**	**Own Funds Solvency II**

Technical reserves for Solvency II are based on the probability-weighted, discounted best estimate of future cashflows. Consequently the valuation of many constituent parts of the Solvency II Own Funds (e.g. premium debtors and deferred acquisition costs) are amended accordingly.

4 LONG-TERM INSURANCE LIABILITIES

This note sets out the disclosures in respect of the Long-Term Business.

2021 Total Life business £m	2020 Total Life business £m	Analysis of Policyholder Liability
		With-Profits liabilities
609	812	Options and guarantees
3,884	3,528	Other policyholder obligation
4,493	**4,340**	**Total With-Profits liabilities**
4,069	3,704	Unit linked
1,079	1,216	Non-participating Life assurance
9,641	**9,260**	**Technical provision in balance sheet**

ASSUMPTIONS

Overview – Assumptions are set on two different bases to perform the calculation of different reserves within the financial accounts. For With-Profits business reserves are set to be 'best estimate', so assumptions are set with no material margins for prudence included. For Non-Participating contracts reserves are set to be more prudent than best estimate, so assumptions are set to contain an appropriate margin for adverse deviation, such that there is no significant foreseeable risk that liabilities to the policyholders will not be met as they fall due.

KEY ECONOMIC ASSUMPTIONS

With-Profits – A market consistent approach is adopted for the valuation of With-Profits liabilities and so the economic basis that underpins the calculations is defined by market prices at 31st December 2021. The 'risk free' interest rate is calculated as being that implied by a zero coupon government bond of an equivalent term. A UK equity return volatility parameter of 20.5% (2020: 20.3%) and a property return volatility parameter of 15.0% (2020: 15.0%) have been used.

Non-Participating – The 'risk free' discount rate is calculated as being that implied by a zero coupon government bond of an equivalent term, for all business other than pension annuities. For pension annuities it is the rate implied by a zero coupon government bond of an equivalent term plus 59 basis points (2020: 34 basis points).

Key Non-Economic Assumptions – Where appropriate the non-economic assumptions used to calculate liabilities have been determined by reference to internal experience investigations. However, in many instances there is insufficient internal data from which to draw meaningful conclusions and in these circumstances reliance is put on industry-wide analysis.

Annuitant Mortality – The improvement model has been updated to the 2020 CMI model from the 2019 CMI model, the underlying base table remains unchanged. The percentage adjustments to the base table and improvements basis for the 2020 assumptions are given in brackets.

	With-Profits	Non-Participating
Male		
Base table	PMA08 (PMA08)	PMA08 (PMA08)
% adjustment	107% (107%)	105% (105%)
Improvement model	CMI-2020 (CMI-2019)	CMI-2020 (CMI-2019)
% Long-Term rate	Average 1.50% (Average 1.50%)	Average 2.00% (Average 2.00%)
Female		
Base table	PFA08 (PFA08)	PFA08 (PFA08)
% adjustment	94% (88%)	92% (86%)
Improvement model	CMI-2020 (CMI-2019)	CMI-2020 (CMI-2019)
% Long-Term rate	Average 1.50% (Average 1.50%)	Average 2.00% (Average 2.00%)

Lapse Rates With-Profits

Product	Duration	2021 Lapse rate %	2020 Lapse rate %
Pure Endowments	All before age 55	0.36	0.36
Deferred Annuity	All before age 55	0.36	0.36
Personal Pension – Individual	All before age 55	0.98	1.08
Endowment	All	1.12	1.17
Whole of Life	All	1.17	0.82
Select Pension Plan	All	1.13	1.12

Non-Participating

Product	Duration	Non-Participating 2021 Lapse rate %	Non-Participating 2020 Lapse rate %
Personal Pension – Individual	All before age 55	1.04	1.15
Stakeholder – Individual	All before age 55	1.19	1.19
Capital Investment Bond	All	3.11	3.11
Flexibond	1	1.22	1.22
	2	2.93	2.93
	3	2.94	2.94
	4	3.18	3.05
	5	2.75	3.05

Per-policy Expense Rates (£)

Product	With-Profits		Non-Participating	
	2021	2020	2021	2020
Capital Investment Bond / Flexibond	£169.99	£153.80	£178.49	£161.49
Stakeholder / Personal Pension	£158.06	£140.05	£165.96	£147.05
Individual Savings Account	£129.81	£121.20	£136.30	£127.26
Endowments / Whole of Life	£110.60	£101.25	£116.13	£106.31
Conventional Pensions	£127.64	£117.10	£134.02	£122.96
Annuities	£91.10	£77.55	£95.66	£81.43
Select Pension Plan (Accumulation)	£89.92	£90.58	N/A	N/A
Select Pension Plan (Decumulation)	£88.89	£75.00	N/A	N/A

GUARANTEED ANNUITY TAKE UP RATES

With-Profits – Assumptions are made that on average 58% of policyholders (2020: 67%) choose to vest their pure endowment pension with us. Of those who choose to vest their pure endowment pension with the Group it is assumed that 100% take up their guaranteed annuity rate option.

Sensitivity to Reserving Assumptions – The tables below show the impact on the Funds for Future Appropriation (FFA), and as such the profitability of the long-term business, of variations in some of the key reserving assumptions. Variations of 5% in other mortality and morbidity assumptions only have a small impact on the FFA. The effect on the FFA of changes in assumptions that are directionally opposite to those detailed below would be broadly symmetrical.

2021

Impact on FFA (£m)	Annuitant mortality 5% fall	Lapse rates 10% fall	Maintenance expenses 10% fall	Liquidity premium 10 basis point fall
Insurance Business				
Non-Participating contracts	(21)	(1)	8	(8)
With-Profits business	(16)	(1)	23	-
Investment business	-	-	-	-
Total	**(37)**	**(2)**	**31**	**(8)**

2020

Impact on FFA (£m)	Annuitant mortality 5% fall	Lapse rates 10% fall	Maintenance expenses 10% fall	Liquidity premium 10 basis point fall
Insurance Business				
Non-Participating contracts	(24)	(1)	8	(10)
With-Profits business	(19)	(3)	20	-
Investment business	-	-	-	-
Total	**(43)**	**(4)**	**28**	**(10)**

5 FINANCIAL INSTRUMENTS – FAIR VALUE METHODOLOGY

I) INVESTMENTS CARRIED AT FAIR VALUE HAVE BEEN CATEGORISED USING A FAIR VALUE HIERARCHY AS DETAILED BELOW:

Level 1 – Quoted market prices in active markets

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

Level 2 – Internal models or broker quotes with observable market parameters

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

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

- Quoted prices for similar assets in active markets;
- Inputs that are derived principally from, or corroborated by, observable market data by correlation or other means.

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

Property investment valuations are calculated by independent fund valuers Cushman and Wakefield. Property investments are valued by determining the appropriate yield for an investment based on market comparable data and risk fundamentals. The yield is multiplied by the open market value of the property. This is assessed against comparable market data.

Level 3 – Internal models with significant unobservable market parameters

Inputs to level 3 fair values are based on unobservable inputs for the assets at the last measurement date. If all significant inputs required to fair value an instrument are observable then the instrument is included in level 2, if not it is included in level 3.

II) AN ANALYSIS OF INVESTMENTS ACCORDING TO FAIR VALUE HIERARCHY IS GIVEN BELOW:

2021				2020				As at 31 December
Level 1 £m	Level 2 £m	Level 3 £m	Total £m	Level 1 £m	Level 2 £m	Level 3 £m	Total £m	**Assets**
								Financial assets at fair value through profit or loss
-	-	575	575	-	-	493	493	Investment in Group undertakings and participating interests
-	3	-	3	-	21	-	21	Derivative financial instruments
-	35	-	35	-	43	-	43	Property Investments
3,473	1,575	-	5,048	3,033	1,382	-	4,415	Shares and other variable-yield securities and unit trusts
1,493	6,155	-	7,648	2,189	5,242	1	7,432	Debt securities and other fixed / variable income securities
2,330	1,595	-	3,925	2,196	1,346	-	3,542	Assets held to cover linked liabilities
7,296	**9,363**	**575**	**17,234**	**7,418**	**8,034**	**494**	**15,946**	

The only material difference between the Fair Value hierarchy for the Group and the parent company is an increase in the value of investment in Group undertakings and therefore no separate disclosure has been made.

The majority of the Group's investments are valued based on quoted market information or observable market data.

III) THE TABLE SHOWS MOVEMENTS IN THE ASSETS MEASURED AT FAIR VALUE BASED ON VALUATION TECHNIQUES FOR WHICH ANY SIGNIFICANT INPUT IS NOT BASED ON OBSERVABLE MARKET DATA (LEVEL 3 ONLY)

The impact of changes in reasonable assumptions for assets categorised as level 3 is considered immaterial, therefore no separate disclosure has been shown.

2021 £m	2020 £m	
		Total funds
494	472	As at 1 January
76	(24)	Total net profit / (losses) recognised in the Profit and Loss Account
20	47	Purchases
(15)	(1)	Sales
575	**494**	**As at 31 December**
76	(24)	Total profit / (losses) for the period included in profit or loss for assets held at the end of the reporting period

6 SEGMENTAL INFORMATION

The segmental information is disclosed in accordance with The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008/410). The operating business segments are aggregated in line with the internal management of the business.

A) SEGMENTAL ANALYSIS

Gross Written Premium		Profit / (Loss) on ordinary activities before taxation and minority interests		Net Assets		
2021 £m	**2020 £m**	**2021 £m**	**2020 £m**	**2021 £m**	**2020 £m**	
1,575	1,453	174	(211)	6,592	6,274	General Business
-	-	46	39	-	-	Allocated investment return
1,575	**1,453**	**220**	**(172)**	**6,592**	**6,274**	**General Business total**
185	**172**	**-**	**-**	**1,379**	**1,240**	**Long-Term Business**

B) GROSS WRITTEN PREMIUM

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

2021 £m	2020 £m	
		General Business
612	507	Fire and Other Damage to Property
244	226	Third-party liability
359	399	Motor (third party liability)
257	196	Motor (other classes)
24	26	Accident and Health
79	99	Miscellaneous
1,575	**1,453**	
		Long-Term Business
132	133	Life
53	39	Pensions
185	**172**	

The Long-Term Business gross premium income for the year was further broken down as follows:

2021 Life £m	2021 Pensions £m	2020 Life £m	2020 Pensions £m	
15	11	16	11	Periodic
117	42	117	28	Single
132	**53**	**133**	**39**	
2	3	2	3	Non-linked With-Profits
5	2	6	1	Non-linked non-profit
125	48	125	35	Unitised (including unitised With-Profits)
132	**53**	**133**	**39**	

The gross premium income was written in the following areas:

- All General Business and Long-Term Business is materially written within the United Kingdom.
- All insurance premiums are direct insurance.
- There is no reinsurance inwards at a Group level.

C) NEW BUSINESS PREMIUMS – LONG-TERM BUSINESS

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

2021 £m	2020 £m	
110	109	Life
41	28	Pensions
151	**137**	
2	2	Periodic
149	135	Single
151	**137**	
-	-	Non-linked non-profit
151	137	Unitised
151	**137**	

In classifying new business premiums, the following bases of recognition have been adopted:

- Recurrent single premium contracts are included as new business, single premiums.
- Increments under existing Group pension schemes are classified as new business premiums. Where regular premiums are received other than annually, the reported regular new business premiums are on an annualised basis.

D) GROSS EARNED PREMIUM – GENERAL BUSINESS

2021 £m	2020 £m	
581	496	Fire and Other Damage to Property
231	223	Third-party liability
353	388	Motor (third party liability)
250	191	Motor (other classes)
24	26	Accident and Health
76	93	Miscellaneous
1,515	**1,417**	

E) GROSS OPERATING EXPENSES

Gross operating expenses excludes income received from Agents for services provided, commission income and the movement in deferred aquistion costs.

2021 £m	2020 £m	**General Business**
173	146	Fire and Other Damage to Property
70	64	Third-party liability
102	114	Motor (third party liability)
73	56	Motor (other classes)
3	4	Accident and Health
22	28	Miscellaneous
443	**412**	
		Long-Term Business
83	59	Life
21	21	Pensions
104	**80**	

F) GROSS CLAIMS INCURRED

Gross Claims Incurred

2021 £m	2020 £m	**General Business**
1,090	1,037	Claims paid
263	63	Change in the provision for claims
1,353	**1,100**	
599	502	Fire and Other Damage to Property
138	115	Third-party liability
508	402	Motor (third party liability)
32	17	Motor (other classes)
2	3	Accident and Health
74	61	Miscellaneous
1,353	**1,100**	

G) REINSURANCE BALANCE

Reinsurance balance

2021 £m	2020 £m	General Business
(22)	(7)	Claims paid
(14)	(31)	Change in the provision for claims
(36)	**(38)**	
(6)	(14)	Fire and Other Damage to Property
(11)	(8)	Third-party liability
(18)	(15)	Motor (third party liability)
(1)	(1)	Accident and Health
(36)	**(38)**	

H) REINSURANCE

The reinsurance balance amounted to a debit to the General Technical account of £81m (2020: £68m debit) and a credit to the Life Technical account of £1m (2020: £2m credit).

I) GEOGRAPHICAL ANALYSIS

Materially all premiums are written within the United Kingdom.

7 NET OPERATING EXPENSES

General business acquisition costs include commission related costs of £131m (2020: £124m). Guarantee fund levies included in administration expenses amounted to £31m (2020: £27m) in the consolidated General business financial statements. Net operating expenses includes income received from Agents for services provided.

General Business		Long-Term Business		
2021 £m	**2020 £m**	**2021 £m**	**2020 £m**	
234	224	62	52	Acquisition costs
(6)	(5)	2	3	(Increase) / decrease in deferred acquisition costs
186	170	40	25	Administrative expenses
414	**389**	**104**	**80**	

8 MOVEMENT IN INSURANCE LIABILITIES

A) MOVEMENT IN INSURANCE LIABILITIES AND REINSURANCE ASSETS

Consolidated 2021			Consolidated 2020			
Gross £m	Reinsurance £m	Net £m	Gross £m	Reinsurance £m	Net £m	
1,881	(222)	1,659	1,812	(191)	1,621	**As at 1 January**
						Movement in Liabilities
891	(64)	827	738	(84)	654	Arising from current year General Insurance claims
(617)	33	(584)	(695)	50	(645)	Arising from prior years General Insurance claims
(23)	17	(6)	26	4	30	Claims incurred but not reported reserve movements
12	-	12	(6)	(1)	(7)	Other General Insurance claims reserve movements
(7)	-	(7)	6	-	6	Long-Term claims reserve movement
2,137	**(236)**	**1,901**	**1,881**	**(222)**	**1,659**	**As at 31 December**

Parent Company 2021			Parent Company 2020			
Gross £m	Reinsurance £m	Net £m	Gross £m	Reinsurance £m	Net £m	
1,873	(217)	1,656	1,804	(187)	1,617	**As at 1 January**
						Movement in Liabilities
891	(64)	827	738	(84)	654	Arising from current year General Insurance claims
(617)	33	(584)	(695)	50	(645)	Arising from prior years General Insurance claims
(21)	15	(6)	25	4	29	Claims incurred but not reported reserve movements
12	-	12	(5)	-	(5)	Other General Insurance claims reserve movements
(7)	-	(7)	6	-	6	Long-Term claims reserve movement
2,131	**(233)**	**1,898**	**1,873**	**(217)**	**1,656**	**As at 31 December**

Other claims reserve movements includes unexpired risk reserve, claims handling reserve and inwards reinsurance.

Within the net claims outstanding reserves the Company holds discounted reserves net of reinsurance of £37m (2020: £34m) for periodic payment orders. These reserves have been discounted using risk free interest rates sourced from the PRA.

Within the gross claims outstanding reserves are recoveries relating to salvage and subrogation of £19.9m (2020: £16.0m).

B) MOVEMENT IN PRIOR YEARS' PROVISION FOR CLAIMS OUTSTANDING

We reserve on a basis which would expect, on average, to produce releases on settlement of claims. We also look to provide for the potential for future legislative or regulatory changes that require strengthening of our reserves. During 2021 we have seen increases in prior year provisions for claims outstanding. These increases reflect the uncertain claims environment, with higher than expected claims inflation (particularly in the cost of building materials and vehicle parts) as well as the impacts of the Covid-19 pandemic on the settlement of large bodily injury claims. The claims environment and inflationary outlook remain uncertain heading into 2022.

Positive run off deviations of £6m (2020: £16m) for liability and £3m (2020: £4m negative) for motor were experienced in the year while property reported a negative deviation of £31m (2020: £22m positive) with all other classes of business reporting a net negative deviation of £50m (2020: £17m). Positive run off deviations are calculated excluding claims handing costs.

An Unexpired Risk Reserve is included within claims outstanding of £15m (2020: £13m).

9 INVESTMENT RETURN

Investment return is initially recorded in the Non-Technical account. A transfer is made from the Non-Technical account to the Technical account of the longer-term investment return on investments supporting the General Insurance technical provisions.

Income from land and buildings represents rental income received in respect of operating leases.

General Business Technical Account		Long-Term Business Technical Account		
2021 £m	**2020 £m**	**2021 £m**	**2020 £m**	**Investment Income**
				Income from other financial investments:
3	1	1	4	Held to maturity interest income
-	-	-	-	Loans and receivables interest income
3	**1**	**1**	**4**	**Total interest income on financial assets not at fair value through the profit or loss**
131	122	204	186	Income on financial assets at fair value through profit or loss
134	**123**	**205**	**190**	**Income from financial assets**
35	43	27	32	Income from land and buildings
-	1	-	-	Net return on pension scheme
91	205	436	275	Net gains on realisation of investments
260	**372**	**668**	**497**	**Total income from other financial investments**
				Investment Expenses and Charges
-	-	(3)	(5)	Other investment management expenses
341	(363)	165	(127)	Net unrealised gains / losses on investments
601	**9**	**830**	**365**	**Total Investment Return**
				Investment return is analysed between:
-	-	830	365	Investment return retained in the Long-Term business technical account
46	39	-	-	Allocated investment return transferred to the General business technical account
555	(30)	-	-	Net investment return included in the Non-Technical account
601	**9**	**830**	**365**	**Total Investment Return**
432	(158)	601	148	Included in the total investment return are net gains / (losses) on financial assets at fair value through profit or (loss)
432	**(158)**	**601**	**148**	**Total net realised and unrealised gains / (losses) included in investment return**

10 GENERAL BUSINESS LONGER-TERM INVESTMENT RATE OF RETURN

The longer-term investment rate of return is based on the return on investments supporting the technical reserves of the General business as permitted under FRS103.

During the year 100% (2020: 100%) of the technical reserves were supported by fixed interest securities, cash and short-term deposits.

The rate of investment return is based upon actual investment income earned in the period which for fixed interest securities was 2.29% (2020: 2.26%) and for cash and short-term deposits was 0.49% (2020: 0.25%). A 1% point increase/decrease in these above rates would result in an increase/decrease in the allocated investment return of £24m and £19m respectively (2020: £22m and £18m).

Allocation of Investment returns over past five years is shown below:

2017-2021 £m	2016-2020 £m	
229	520	Cumulative Actual return attributable to investment supporting the General business Technical Provisions
(201)	(241)	Cumulative Longer-term return credited to the Technical account for General business
28	**279**	

11 EMPLOYEE INFORMATION

The Group provides a range of benefits to employees, including annual bonus arrangements, paid holiday arrangements and defined benefit and defined contribution pension plans.

Short-term benefits, including holiday pay and other similar non-monetary benefits, are recognised as an expense in the period in which the service is received. The Group operates a number of annual bonus plans for employees. An expense is recognised in the Profit and Loss Account when the Group has a legal or constructive obligation to make payments under the plans as a result of past events and a reliable estimate of the obligation can be made.

Key management includes Directors and members of senior management. The compensation paid or payable to key management for employees services was £9,496,257 (2020: £7,828,256) in respect of salaries and short-term benefits.

The parent company does not employ any staff directly. As at the end of 2021 £nil (2020: £nil) in relation to the December 2021 contributions was due to be transferred to the pension scheme. Total employer's contributions made to the pension scheme in 2021 were £15m (2020: £14m).

The monthly average number of persons (including Executive Directors) employed by the Group during the year was:

2021 Number	2020 Number	By activity
1,667	1,688	Underwriting and Claims
1,162	1,153	Administration and Finance
1,218	1,226	Sales and Marketing
4,047	**4,067**	

2021 £m	2020 £m	Staff costs for the above persons were
198	196	Wages and salaries
20	20	Social security costs
15	14	Other pension costs
233	**230**	

12 DIRECTORS' EMOLUMENTS

Disclosures on Directors' remuneration, long-term incentive schemes, pension contributions and pension entitlements required by the Companies Act 2006 are contained in the tables on pages 95 to 107.

No Directors accrued any benefits under a defined benefit scheme during the year (2020: none).

2021 £	2020 £	By activity
4,304,420	5,024,965	Aggregate emoluments
211,437	218,841	Excess retirement benefit to past Non-Executive Directors
		Highest paid Director
1,029,807	2,259,503	Total amount of emoluments

None of the Non-Executive Directors accrue pension benefits with NFU Mutual. Some former Non-Executive Directors or their widows still receive a pension, on an ex gratia, non-contractual and unfunded basis. The total cost of these pensions for 14 former Directors or widows in 2021 was 211,437 (2020: 218,841).

13 RELATED PARTY TRANSACTIONS

a) Directors and members of senior management are related parties. Directors of the Society are required, under its constitution, to be members – i.e., to maintain insurance policies with the Society. The total premium income involved in 2021, for Directors and members of senior management and/or connected entities was £91,683 (2020: £91,407) for General business and £146,478 (2020: £129,944) for Life business. Claims paid and Life surrenders totalled £15,437 (2020: £2,616).

b) The Society's pension scheme is a related party. One Director (Brian Duffin) is a trustee. The other four trustees are Kevin Davies, Kenneth Graves, Jonathan Priestley (members of staff) and Andrew Spriggs (retired member in receipt of a pension from the scheme). Mr Davies, Mr Graves and Mr Priestley are members, and thus potential beneficiaries and Mr Spriggs is a beneficiary of the scheme.

c) Salmon Harvester Properties Limited, a 50% owned subsidiary is a related party. As at the end of 2021 loans totalling nil (2020: £2,485,166) had been made, with cumulative interest on the loan amounting to nil (2020: £326,094).

d) **NFU Mutual OEIC is a related party. At 31st December 2021, the parent company held:**

6,900,971 shares (2020: 6,740,268) in the Gilt & Corporate Bond C sub-fund valued at £1.0977 per share (2020: £1.1338).

NIL shares (2020: 276,038) in the Global Emerging Markets I sub-fund valued at £NIL per share (2020: £47.0183).

321,752 shares (2020: 392,184) in the UK Equity Income I sub-fund valued at £44.3358 per share (2020: £38.5309).

1,018,747 shares (2020: 995,057) in the Gilt & Corporate Bond I sub-fund valued at £32.5076 per share (2020: £33.4087).

404,092 shares (2020: 395,682) in the UK Growth I sub-fund valued at £48.8614 per share (2020: £41.7852).

NFU Mutual Portfolio Funds OEIC. At 31st December 2021, the Parent Company held:

151,896,046 shares (2020: 163,581,853) in the Mixed 20-60% sub-fund valued at £1.8251 per share (2020: £1.6936).

1,460,970 shares (2020: 1,454,597) in the Global Growth C sub-fund valued at £1.9415 per share (2020: £1.6712).

14 PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

The profit / (loss) on ordinary activities before taxation is stated after charging:

2021 £k	2020 £k	By activity
12,877	10,224	Depreciation
3,755	3,577	Operating lease rentals (plant and machinery)
745	569	**Fees payable to the company's auditors for the audit of the parent company and consolidation**
		Fees payable to the company's auditors and its associates for other services:
99	99	Audit of accounts of any associate of the company
325	317	Audit related assurance services
6	105	All other non-audit services
		During the year the auditors also earned fees payable by entities outside the consolidated NFU Mutual Group in respect of the following:
160	158	Audits of unconsolidated Open Ended Investment Companies managed by the Group
5	5	Audit of NFU Mutual Charitable Trust
5	5	Audit of the Farm Safety Foundation
1,345	**1,258**	

15 TAX CHARGE ON ORDINARY ACTIVITIES

The Non-Technical account shows the taxation borne and chargeable on all underwriting results, unrealised and realised gains and losses, interest, dividends, rents and for subsidiaries on the results of the year. In the Technical Account – Long-Term business, taxation has been computed on the basis applicable to life assurance and pensions business.

A) ANALYSIS OF TAX CHARGE FOR THE YEAR

Non-Technical Account		Long-Term		
2021 £m	**2020 £m**	**2021 £m**	**2020 £m**	
				Consolidated Income
26	(2)	8	35	Current taxation on income for the period
1	1	-	-	Adjustment to prior years
27	**(1)**	**8**	**35**	
2	3	2	3	Overseas taxation
29	**2**	**10**	**38**	**Total current taxation**
				Deferred taxation
1	(33)	39	(25)	Origination and reversal of timing differences
(1)	(1)	(2)	-	Adjustment to prior years
9	3	-	-	Impact of change of tax rate (note 27)
9	**(31)**	**37**	**(25)**	**Total deferred taxation**
38	**(29)**	**47**	**13**	**Taxation on profit / (loss) on ordinary activities**

B) TAX INCLUDED IN OTHER COMPREHENSIVE INCOME

2021 £m	**2020 £m**	**Deferred Taxation**
41	(13)	Origination and reversal of timing differences
-	1	Impact of change of tax rate
41	**(12)**	**Total tax expense / (income) included in other comprehensive income**

C) RECONCILIATION OF TAX CHARGE FOR THE PERIOD

The tax assessed for the period is lower (2020: higher) than the standard rate of Corporation Tax in the UK for the year ended 31st December 2021 of 19% (2020: 19%). The differences are explained below:

Consolidated taxation 2021 £m	Consolidated taxation 2020 £m	
220	(172)	Profit / (Loss) before tax
42	(33)	Profit / (Loss) multiplied by the standard rate of corporation tax in the UK of 19% (2020: 19%)
		Effects of:
9	3	Impact of reduction in rate
(3)	7	Realised and unrealised gains on investments
(11)	(10)	Non-taxable income
(1)	1	Disallowable expenses
2	3	Tax on overseas earnings
38	**(29)**	**Total taxation charge / (credit)**

16 INVESTMENT IN GROUP UNDERTAKINGS AND PARTICIPATING INTERESTS

Consolidated		Parent Company General Business		Parent Company Long-Term Business		
2021 £m	2020 £m	2021 £m	2020 £m	2021 £m	2020 £m	**Valuation**
-	-	466	309	195	168	Shares in Group undertakings
-	-	-	-	-	2	Loans to Group undertakings
133	86	1	1	-	-	Participating interests in associated companies
442	407	458	407	-	-	Participating interests in Joint Ventures
575	**493**	**925**	**717**	**195**	**170**	**Investment in Group undertakings and participating interests**
						Cost
-	-	178	167	213	189	Shares in Group undertakings
-	-	-	-	-	2	Loans to Group undertakings
114	90	-	-	-	-	Participating interests in associated companies
255	270	255	270	-	-	Participating interests in Joint Ventures
369	**360**	**433**	**437**	**213**	**191**	**Investment in Group undertakings and participating interests**

There are no listed investments included in the above.

17 OTHER FINANCIAL INVESTMENTS

Consolidated 2021 £m	Consolidated 2020 £m	Parent Company General Business 2021 £m	Parent Company General Business 2020 £m	Parent Company Long-Term Business 2021 £m	Parent Company Long-Term Business 2020 £m	
						Valuation
						Assets designated at fair value through profit or loss upon initial recognition:
5,048	4,415	2,816	2,444	2,232	1,971	Shares and other variable yield securities
7,648	7,432	3,784	3,618	3,842	3,794	Debt securities and other fixed / variable income securities
35	43	-	-	35	43	Property investments
						Assets at fair value through P&L, held for trading:
3	21	1	18	2	3	Derivative financial instruments
12,734	**11,911**	**6,601**	**6,080**	**6,111**	**5,811**	**Financial assets in fair value through profit or loss**
390	673	305	486	71	157	Deposit with credit institutions
13,124	**12,584**	**6,906**	**6,566**	**6,182**	**5,968**	**Total Financial Assets**
						Included in the above are listed investments:
4,985	4,352	2,783	2,411	2,202	1,941	Shares and other variable yield securities
7,648	7,432	3,784	3,618	3,842	3,794	Debt securities and other fixed interest stocks
						Cost
						Assets designated at fair value through profit or loss upon initial recognition:
3,610	3,500	2,082	2,000	1,528	1,500	Shares and other variable yield securities
7,149	6,386	3,768	3,474	3,362	2,893	Debt securities and other fixed / variable income securities
32	43	-	8	32	35	Property investments
						Assets at fair value through P&L, held for trading:
-	-	-	-	-	-	Derivative financial instruments
10,791	**9,929**	**5,850**	**5,482**	**4,922**	**4,428**	**Financial assets at fair value through profit or loss**
390	673	305	486	71	157	Deposit with credit institutions
11,181	**10,602**	**6,155**	**5,968**	**4,993**	**4,585**	**Total Financial Assets**

18 INVESTMENTS: LAND AND BUILDINGS

Investment Properties: Reconciliation of movement in the year

Consolidated		Parent Company: General Business			Parent Company: Life business		
Freehold £m	Long Leasehold £m	Freehold £m	Long Leasehold £m	Leasehold £m	Freehold £m	Long Leasehold £m	
1,168	145	486	76	-	410	70	As at 1 January
146	-	141	-	-	5	-	Additions
(57)	(46)	(45)	(35)	-	(12)	(11)	Disposals
138	13	65	3	-	27	10	Changes in Fair Value
4	-	1	-	-	2	-	Other Changes (including amortisation)
1,399	**112**	**648**	**44**	**-**	**432**	**69**	**As at 31 December**

As at 31st December 2021 the book cost of the Investment properties is £1,362m (2020: £1,339m)

Owner Occupied Properties: Reconciliation of movement in the year

Consolidated		Parent Company: General Business			Parent Company: Life business		
Freehold £m	Long Leasehold £m	Freehold £m	Long Leasehold £m	Leasehold £m	Freehold £m	Long Leasehold £m	
61	-	49	-	-	-	-	As at 1 January
13	-	13	-	-	-	-	Additions
(13)	-	-	-	-	-	-	Disposals
-	-	-	-	-	-	-	Changes in Fair Value
-	-	-	-	-	-	-	Other Changes
61	**-**	**62**	**-**	**-**	**-**	**-**	**As at 31 December**
1,460	**112**	**710**	**44**	**-**	**432**	**69**	**Total land and buildings**

As at 31st December 2021 the book cost of owner occupied properties is £99m (2020: £99m). The accumulated depreciation on owner occupied properties at 31st December 2021 is £28m (2020: £27m).

Land and buildings were valued at 31st December 2021 on an open market existing use basis (and at market value based on vacant possession for owner occupied properties) by external firms of independent chartered surveyors. Cushman and Wakefield LLP values all of the investment portfolio except for two property investments which are valued by CBRE Ltd. William A MacKinnon-Little FRICS, I.R.R.V. values the Stratford residential premises portfolio and Knight Frank values Salmon Harvester Properties. Buildings occupied by the Group for its own purposes are depreciated at 2% of the book cost value.

All properties with the exception of Group occupied are held for use in operating leases.

19 ASSETS HELD TO COVER LINKED LIABILITIES

Certain linked products have been classified as investment contracts, while some are included within the definition of an insurance contract. The carrying value of the assets backing these investment and insurance contracts are as follows:

Consolidated 2021 £m	Consolidated 2020 £m	Parent Company* 2021 £m	Parent Company* 2020 £m	
				Valuation
				Assets designated at fair value through profit and loss upon initial recognition:
3,250	2,955	3,250	2,955	Shares and other variable yield securities
675	587	675	587	Debt securities and other fixed interest/ variable income securities
3,925	**3,542**	**3,925**	**3,542**	**Financial assets in fair value through profit and loss**
205	271	205	271	Cash and Deposits with Credit Institutions
8	6	8	6	Accrued Interest
4,138	**3,819**	**4,138**	**3,819**	**Total Assets held to cover Linked Liabilities**
				Included in the above are listed investments:
2,958	2,653	2,958	2,653	Shares and other variable yield securities
675	587	675	587	Debt securities and other fixed interest/ variable income securities
				Cost
				Assets designated at fair value through profit and loss upon initial recognition:
2,260	2,278	2,260	2,278	Shares and other variable yield securities
644	530	644	530	Debt securities and other fixed interest/ variable income securities
2,904	**2,808**	**2,904**	**2,808**	**Total Financial Assets**
205	271	205	271	Cash and Deposits with Credit Institutions
8	6	8	6	Accrued Interest
3,117	**3,085**	**3,117**	**3,085**	**Total Assets held to cover Linked Liabilities**

*All assets held to cover linked liabilities are held within the Long-Term Business.

20 OTHER DEBTORS

Consolidated 2021 £m	Consolidated 2020 £m	Parent Company Business 2021 £m	Parent Company Business 2020 £m	
72	69	44	53	Sundry debtors
72	**69**	**44**	**53**	**As at 31 December**

21 TANGIBLE ASSETS

Tangible assets comprise fixtures, fittings and equipment.

Consolidated £m	Parent Company £m	
		Cost
222	214	As at 1 January 2021
20	19	Additions
(1)	(1)	Disposals
241	232	As at 31 December 2021
		Accumulated Depreciation
176	171	As at 1 January 2021
10	9	Charge for the year
186	180	As at 31 December 2021
		Net Book Value
55	52	As at 31 December 2021
46	43	As at 31 December 2020

22 STOCKS

Stocks comprise properties under construction.

Consolidated		Parent Company		
2021 £m	**2020 £m**	**2021 £m**	**2020 £m**	
-	11	-	-	Stocks
-	**11**	**-**	**-**	**As at 31 December**

23 SUBSIDIARIES

The National Farmers Union Mutual Insurance Society Limited, a mutual company limited by guarantee, incorporated and domiciled in Great Britain and registered in England and Wales, is the ultimate holding company.

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

Directly Held Subsidiaries

NFU Mutual Management Company Limited (No. 1655167)	Holding Company
NFU Mutual Unit Managers Limited (No. 1837277)	Authorised Corporate Director of The NFU Mutual OEIC and the NFU Mutual Portfolio Funds OEIC
NFU Mutual Select Investments Limited (No. 8049488)	Platform Operator
NFU Mutual Pension Fund Trust Company Limited (No. 710041)	Holds assets for the pension fund
Salmon Harvester Properties Limited (50% owned) (No. 2921283)	Property Development
Hathaway Opportunity Fund General Partner Limited (No. 6278378)	General Partner of Limited Partnership

Subsidiaries Held Through NFU Mutual Management Company Limited

Avon Insurance plc (No. 209606)	General Insurance
NFU Mutual Investment Services Limited (No. 1860029)	Corporate Investment Management
NFU Mutual Risk Management Services Limited (No. 3350057)	Risk Reduction Services
NFU Mutual (Service Company) Limited (No. 5311498)	Service Company
Harvester Properties Limited (No. 2111204)	Property Development
Hathaway Property Company Limited (No. 5131317)	Property Development

Subsidiaries Held Through NFU Mutual Select Investments Limited

* Tiddington Nominees Limited (No. 1959973)	Custodian
* NFU Mutual Trustee Limited (No. 10353034)	Pension Bare Trustee

Subsidiaries Held Through Harvester Properties Limited

Aver Property General Partner Limited (No. 11660872)	General Partner of Limited Partnership
Aver Property Nominee (No. 11662963)	Property Holding Company

Subsidiaries Held Through Hathaway Opportunity Fund General Partner Limited

Globe Kingston Limited (No. 13054515)	Property Holding Company

Companies Incorporated in Other Jurisdictions

Guernsey

Lancaster Court Limited1 (No. 7059)	Holding Company
The Islands' Insurance Brokers Limited 1 (No. 6841)	Insurance Underwriting Agent & Insurance Broker

Jersey

Islands' Insurance (Holdings) Limited 2 (No. 138932)	Holding Company
The Islands' Insurance Managers Limited 2 (No. 4151)	Holding Company
M. J. Touzel (Insurance Brokers) Limited 2 (No. 2589)	Insurance Underwriting Agent & Insurance Broker

Subsidiaries Held Through Salmon Harvester Properties Limited

* Salmon Harvester (Orbital A3) Limited (No. 4125466)	Property Special Purpose Vehicle
* FSH Airport (Edinburgh) Services Limited (50% owned by Salmon Harvester Properties Limited) 3 (No. 4001890)	Joint Venture Property Company
* FSH Nominees Limited (100% owned by FSH Airport (Edinburgh) Services Limited) 3 (No. 4046945)	Joint Venture Property Company

Other investment in Group undertakings

Hathaway Opportunity Fund Limited Partnership 4 (No. LP012268)	Limited Partner Act 1907
Aver Property Limited Partnership (LP019862)	Limited Partner Act 1907
ACP (BTR Prime 1) LP (No. 2754)	Property Development

* 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 All subsidiary companies other than those companies identified as dormant have been included within the consolidated financial statements. Except where indicated, each of these companies is incorporated and registered in England and Wales, has an issued capital of ordinary shares only, is wholly owned by the parent company and has its registered office at Tiddington Road, Stratford upon Avon, Warwickshire CV37 7BJ.

The exceptions for Registered Offices are:
[1] Lancaster Court, Forest Lane, St Peter Port, Guernsey, GY1 1WJ
[2] Kingsgate House, 55 The Esplanade, St Helier, Jersey, JE1 4HQ
[3] 11-15 Wigmore Street, London, W1A 2JZ
[4] 21a Kingly Street, London, W1B 5QA

24 ASSOCIATES AND JOINT VENTURES

ASSOCIATES

The Society's associated undertaking during the year was 50% (2020: 50%) ordinary shareholding in NFU Mutual Finance Ltd. (finance leasing company), a company incorporated in Great Britain and registered in England and Wales.

This shareholding is accounted for as an associated company as a result of board representation and the allocation of issued and fully paid shares. The profit attributed in relation to the associate in the year was £0.1m (2020: £0.5m loss) and is included within the Consolidated Profit and Loss Account.

JOINT VENTURES

The Society's Joint Venture during the year was in the Oaks Property Trust. The Society funds 80% of the Trust with the remaining 20% being funded by the National Farmers Union Mutual Retirement Benefit Scheme.

The investment in the fund is accounted for as a joint venture as both the Society and the Retirement Benefit Scheme have equal control over the activities conducted by the Trust

The profit attributed in relation to the joint venture in the year was £66.3m (2020: loss of £29.5m) and is included in the Consolidated Profit and Loss Account.

The Society owns 50% of the share capital of Salmon Harvester Properties Limited, with the other 50% owned by Salmon Developments Limited. However the Society is deemed to have control by virtue of a majority on the Board of Directors and therefore treats Salmon Harvester Properties Limited as a subsidiary rather than a joint venture.

25 MEMBERS' RESERVES AND EQUITY

The consolidated Statement of Changes in Members Reserves and Equity is presented as a primary statement and has been re-named from Statement of Changes in Equity as previously disclosed to better reflect the nature of the balances disclosed. There are no changes to the balances or amounts presented.

The revaluation reserve represents the movement in fair value of the Parent Company's subsidiary and associated undertakings which is not a result of capital injections.

Other reserves in the statement of changes in reserves represent funds earmarked within the General business reserves to cover any solvency shortfall requirement of the Life fund. Any further requests for funds would be subject to Board approval.

The profit and loss account represents accumulated annual profits and losses for the Groups general business which is reported annually as the total comprehensive income or expense.

The fund for future appropriations incorporates Long-Term business amounts which have not yet been attributed to current participating policyholders at the balance sheet date. Transfers between the fund for future appropriations and the Technical Account – Long-Term business represent the changes in these unallocated amounts between balance sheet dates.

The parent Company's profit for the financial year was £176m (2020: £123m loss). The parent company is exempt from the requirements to file with the registrar individual accounts by virtue of s448A of the Companies Act 2006.

26 OTHER TECHNICAL PROVISION

Within the technical provision claims outstanding an unexpired risk reserve has been included for £15m (2020: £13m).

Avon run-off business was reinsured to NFU Mutual in 2006. The value of this included within claims outstanding in 2021 within the parent company is £27m (2020: £26m).

27 PROVISION FOR TAXATION / OTHER PROVISIONS

Consolidated		Parent Company General Business		Parent Company Long-Term Business		
2021 £m	2020 £m	2021 £m	2020 £m	2021 £m	2020 £m	
206	116	47	35	119	82	Deferred taxation
11	12	11	12	-	-	Motor Insurers' Bureau levy
217	**128**	**58**	**47**	**119**	**82**	**As at 31 December**

'The Group is a member of the Motor Insurers' Bureau. Of the provision brought forward, £12m has been utilised during the year and a further charge of £11m made in 2021.

Consolidated		Parent Company General Business		Parent Company Long-Term Business		
2021 £m	2020 £m	2021 £m	2020 £m	2021 £m	2020 £m	
						Deferred Taxation
116	185	35	67	82	107	Balance at 1 January
54	(56)	16	(29)	38	(27)	Unrealised gain / (loss) on investments
-	1	-	-	-	1	Deferred acquisition costs
41	(12)	-	-	-	-	Pension Scheme asset / (liability)
(2)	(1)	(1)	-	(1)	-	Capital allowances
(3)	(1)	(3)	(3)	-	1	Other short-term timing differences
206	**116**	**47**	**35**	**119**	**82**	**As at 31 December**

Since 1 April 2017 the main rate of UK corporation tax rate has been 19%.

Finance Act 2021 introduced an increase from 19% to 25% in the main rate of corporation tax from 1 April 2023. Deferred taxes at the balance sheet date have been measured using these enacted tax rates and reflected in these financial statements.

No deferred tax has been provided on revaluation of subsidiary companies made in the Statement of Changes in reserves since the parent company has control of subsidiaries and it is probable that the timing difference will not reverse in the future.

Consolidated		Parent Company General Business		Parent Company Long-Term Business		
2021 £m	2020 £m	2021 £m	2020 £m	2021 £m	2020 £m	**The provision for Deferred Taxation comprises:**
175	121	52	36	123	85	Unrealised gains on investments
(2)	(2)	-	-	(2)	(2)	Deferred acquisition costs
40	(1)	-	-	-	-	Pension Scheme asset / (liability)
(3)	(1)	(2)	(1)	(1)	-	Capital allowances
(4)	(1)	(3)	-	(1)	(1)	Other short-term timing differences
206	**116**	**47**	**35**	**119**	**82**	**As at 31 December**

There were unused tax losses of £12m (2020 £12m) relating to group occupied properties disposed in previous years. They have not been recognised as their use is restricted.There is no current expiry limit on these tax losses.

The value of the net reversal of deferred tax balances expected to occur within one year of the Balance Sheet date is £8m (2020 £9m) for the parent company General business and £20m (2020 £12m) for the parent company Long-Term business. These primarily relate to the reversal of timing differences on portfolio equity and property investments.

28 OTHER CREDITORS INCLUDING TAXATION AND SOCIAL SECURITY

All creditors are payable within a period of five years. Intergroup balances are payable on demand.

Consolidated		Parent Company		
2021 £m	2020 £m	2021 £m	2020 £m	
6	19	7	21	Corporation tax
36	40	43	44	Other taxation
19	23	5	8	Other
61	**82**	**55**	**73**	**As at 31 December**

The publication issued on 8th December 2021 on the taxation of foreign dividends has not led to HMRC updating their guidance. As recovery of the claims remains uncertain, the provisions as at 31 December 2021 have not been adjusted.

29 RETIREMENT BENEFIT SCHEMES

The Group operates the Retirement Benefit Scheme (RBS) of The National Farmers Union Mutual Insurance Society Limited which provides members with benefits on a Defined Benefit and Defined Contribution basis. The Defined Benefit Scheme closed to future accrual with effect from 31st December 2016, but retains salary linkage for active members.The assets of the two sections of the scheme are held in separate trustee-administered funds and cover all material obligations to provide pensions to retired and current employees. The Group also sponsors pension schemes based in the Channel Islands for a small group of employees in that region; liabilities for these schemes are immaterial in comparison to those of the RBS.

In all schemes, the appointment of trustees of the funds is determined by their trust documentation, and trustees are required to act in the best interests of the scheme's beneficiaries. The long-term investment objectives of the trustees and the employers are to limit the risk of the assets failing to meet the liabilities of the schemes over the long term, and to maximise returns consistent with an acceptable level of risk so as to control the long-term costs of these schemes. The figures in this note consolidate the results of all the Group's pension arrangements.

The Group works closely with the trustees of the RBS who are required to consult it on the funding of the scheme and its investment strategy. Following each actuarial valuation, the Group and the trustees agree the level of contributions needed. The most recent valuation was at 31st December 2020. At this date the assets of the RBS were in excess of the amounts required to cover the benefits that had accrued to members after allowing for future increases in earnings. Following consultation with the RBS trustees, the Group agreed to commence contributions to the scheme with affect from 1 January 2016. Prior to this date it was agreed that contributions would be suspended. Funding levels are monitored on an annual basis and are not expected to change in 2022.

The principal assumptions used by the actuaries were:

% Consolidated		
2021	**2020**	
3.85	4.35	Rate of increase in salaries
3.25	2.75	Rate of increase in pensions
1.85	1.30	Discount rate
3.35	2.85	Inflation
2.10	2.15	Pension increase for Deferred Benefits

Post retirement assumptions

Longevity at age 65 for current pensions

2021	2020
S2NMA_L for males and S2NFA for females with a multiplier of 1.00 for males and 0.90 for females.	S2NMA_L for males and S2NFA for females with a multiplier of 1.00 for males and 0.90 for females.
CMI 2017 core projections from 2007 to 2017, switching to CMI 2020 projections (with 0.15% initial addition) from 2017, with a 1.50% long term trend.	CMI 2017 core projections from 2007 to 2017, switching to CMI 2019 core projections from 2017 with a 1.50% long term trend.

Mortality is assumed to follow the standard SAPS 2 tables (light for males): S2NMA_L for males and S2NFA for females with a multiplier of 1.00 for males and 0.90 for females, both with allowance for CMI 2017 core projections from 2007 to 2017, switching to CMI 2020 core projections (including the default extended parameters) from 2017 with a 1.50% pa long-term trend.

The net assets in the scheme and the expected rate of return were:

Consolidated 2021		Consolidated 2020		
% of total fair value of scheme assets	£m	% of total fair value of scheme assets	£m	
38.61	463	44.22	503	Equities
50.21	602	45.51	517	Bonds
9.51	114	8.52	97	Property
1.67	20	1.75	20	Other
	1,199		1,137	Total fair value of assets
	(1,030)		(1,143)	Present value of scheme liabilities
	169		(6)	Surplus / (deficit)in the scheme

Of the surplus of £169m (2020: £6m deficit), £30m (2020: £1m deficit) is attributable to the Long-Term business fund.

The equity investments and bonds which are held in the scheme assets are quoted and are valued at the current bid price. Scheme assets do not include any of the Society's own financial instruments or any property occupied by the Society.

Reconciliation of present value of scheme liabilities (excluding Defined Contribution scheme)

2021 £m	2020 £m	
1,143	1,067	As at 1 January
1	1	Current service cost
14	20	Interest cost
(37)	(38)	Disbursements from Scheme Assets
(91)	93	Net Actuarial (gain) / loss
1,030	**1,143**	**As at 31 December**

The present value of unfunded and wholly or partly funded post retirement benefit obligations for Defined Benefit and Defined Contribution schemes are as follows:

2021 £m	2020 £m	
1,290	1,348	Wholly or partly funded obligations
1,030	1,143	Defined Benefit scheme
260	205	Defined Contribution scheme
1,290	**1,348**	**As at 31 December**

The actual return on scheme assets in the year was a gain of £101m (2020: gain of £46m).

The tables present an analysis of the Defined Benefit obligation and fair value of plan assets for all the Group's pension schemes and post retirement benefits (the latter are unfunded) and present the amounts recognised in the Profit and Loss Account including those related to post retirement healthcare.

Reconciliation of fair value of scheme assets (excluding Defined Contribution Scheme)

2021 £m	2020 £m	
1,137	1,130	As at 1 January
14	21	Interest income on scheme assets
(38)	(38)	Disbursements
86	24	Return on scheme assets greater than discount rate
1,199	**1,137**	**As at 31 December**

Analysis of the amount charged to Operating Profit (included in Net Operating Expenses)

2021 £m	2020 £m	
28	26	Current service cost
-	-	Past service cost
28	**26**	**Total operating charge**
		Analysis of amount credited to profit and loss
14	21	Interest income on scheme assets
(14)	(20)	Interest on pension scheme liabilities
-	**1**	
		Analysis of amount recognised in statement of other comprehensive income
86	24	Return on scheme assets greater than discount rate
91	(93)	Remeasurement of the defined benefit obligation
177	**(69)**	**Actuarial gain / (loss) recognised in Statement of Other Comprehensive Income**

The Scheme has moved from a small deficit to a large surplus in the year, mainly due to an increase in discount rate, the impact of allowing for updated census data and asset performance ahead of expectations over the year. This has been offset to an extent by actual inflation being higher than expected, an increase in market expectations of inflation and a change in mortality assumptions.

The actuarial gain of £91m due to economic/demographic experience comprises a £83m gain due to assumption changes over the year and a £8m gain due to Scheme experience. The actuarial loss of £83m due to assumption changes over the year comprises a gain of £85m in respect of changes in economic assumptions and a loss of £2m in respect of changes in demographic assumptions.

30 CAPITAL COMMITMENTS

Capital expenditure on Land and Buildings contracted for but not provided in these financial statements at 31st December 2021 amounted to £65m (2020: £1m).

31 OPERATING LEASE COMMITMENTS

The Group leases various properties under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights. The future aggregate minimum lease payments net of income under non-cancellable operating leases are as follows:

2021 £m	2020 £m	
7	8	Within one year
9	12	Between one and five years
1	1	Later than five years
17	**21**	**As at 31 December**

32 STOCK LENDING

Holdings of UK Government, corporate fixed interest, UK equities and overseas securities with a value of £710m (2020: £949m) were on loan at 31st December 2021 under approved stock lending schemes. As at 31st December 2021 £756m (2020: £980m) was accepted by the Group in assets that it is permitted to sell or replace in the event of default of the owner of the collateral. No collateral was sold or repledged during the year or in the prior year. The Company has an obligation to return these assets to the pledgor.

33 CASH FLOW STATEMENT

A) RECONCILIATION OF PROFIT BEFORE TAX TO NET CASH INFLOW FROM OPERATING ACTIVITIES

2021 £m	2020 £m	
182	**(143)**	**Profit / (loss) for the financial year**
		Adjustments for:
38	(29)	Tax charge / (credit) on ordinary activities
(260)	(372)	Interest and dividend income
(40)	**(544)**	
(62)	(51)	Increase in debtors, prepayments and accrued income
(16)	41	(Decrease) / increase in creditors, accruals and deferred income
309	68	Increase in technical provisions
(341)	363	Unrealised investment (gain) / loss
(2)	(3)	Other non cash adjustments
12	10	Depreciation and disposals of tangible assets
(140)	**(116)**	**Net cash outflow from operating activities**

B) ANALYSIS OF CHANGES IN CASH AND CASH EQUIVALENTS

As at January 2021 (Restated) £m	Cash Flows £m	As at December 2021 £m	
439	(159)	280	Cash at Bank and in hand
(167)	27	(140)	Less: Long-Term business
272	**(132)**	**140**	
673	(283)	390	Deposits with credit institutions (note 17)
(485)	235	(250)	Less: General business deposits with a maturity date greater than 3 months
(175)	99	(76)	Less: Long-Term business
13	**51**	**64**	
285	**(81)**	**204**	**Cash and cash equivalents**

Prior year numbers have been restated to remove term deposits with a maturity date at acquisition greater than three months from cash and cash equivalents in accordance with the requirements of FRS 102 Section 7.2.The impact of the restatement is to reduce cash and cash equivalents at 31 December 2020 by £485m, reduce opening cash and cash equivalents at 1 January 2020 by £125m and to recognise £360m of payments to acquire term deposits within cash flows from investing activities.

34 AMOUNTS OWED TO CREDIT INSTITUTIONS

Consolidated		Parent Company		
2021 £m	2020 £m	2021 £m	2020 £m	
69	84	-	-	Bank loans
69	**84**	**-**	**-**	**As at 31 December**

The loan held with Hathaway Opportunity Fund is a term loan. The interest rate is 2.75% above SONIA . The current maturity date of the loan is 30th June 2024. Loans held with Aver Property Limited Partnership comprise a term loan with a fixed interest rate at 2.81% and maturity date of 27th February 2025, and a term loan with a floating interest rate of 5.75% and maturity date of 18th March 2023.

35 EVENTS AFTER REPORTING DATE

There are no events after the reporting date to report.

GROUP KPIS – GLOSSARY

<table>
<tr><th>Performance Measures</th><th>Purpose</th><th>Definition</th></tr>
<tr><td>Gross Written Premium Income (GWPI)</td><td>To provide the reader with a measure of the overall business as represented by total premiums from General Insurance activities.</td><td>Overall total premium income in the year, before Mutual Bonus. Reconciliation of Technical Results KPI's to Alternative Performance Measure KPI's is shown in the table below.
<table>
<tr><th></th><th>GWPI</th><th>U/W Loss</th><th>COR</th></tr>
<tr><td>Technical Account KPI</td><td>£1,575m</td><td>(£294m)</td><td>124.3%</td></tr>
<tr><td>Allocated investment income</td><td>-</td><td>(£46m)</td><td></td></tr>
<tr><td>Mutual bonus written/earned</td><td>£250m</td><td>£251m</td><td></td></tr>
<tr><td>Alternative performance measure KPI</td><td>£1,825m</td><td>(£89m)</td><td>105.4%</td></tr>
</table></td></tr>
<tr><td>Underwriting profit and loss</td><td>To provide the reader with a measure of profits before non claims expenses achieved within the year from General Insurance activities.</td><td>The balance on the Technical Account adjusted for earned Mutual Bonus, allocated investment return and other income. (Page 115).</td></tr>
<tr><td>Combined Operating Ratio (COR)*</td><td>To provide the reader with an indication of the overall expenses in perspective to the level of business being generated from General Insurance activities.</td><td>Proportion of Total Technical Charges as a percentage of earned premiums before earned Mutual Bonus and after allowing for reinsurance. Earned Mutual Bonus takes into account the net movement of unearned Mutual Bonus which in 2021 was £1m (2020: £3m).</td></tr>
<tr><td>Annual Premium Equivalent (APE)*</td><td>To provide the reader with an indication of the level of new regular and single premium business income being generated from Life business activities. This is a widely used industry performance measure.</td><td>Industry measure equal to new regular annualised premium plus 10% of new single premium.</td></tr>
<tr><td>Employee Engagement</td><td>To provide the reader with a measure of the overall engagement of the staff with the business.</td><td>Results of the annual Gallup survey.</td></tr>
<tr><td>Funds Under Management (General Insurance and Life business)*</td><td>To provide the reader with an measure of the assets being managed within the Group (and separately assets associated with long-term business).</td><td>Value of assets covering life and general business funds. Funds under Management represents the value of investment on the Balance Sheet made up of General Insurance business and Life business plus policyholder investment OEICS and the assets of the Company's Retirement Benefit Scheme.
<table>
<tr><th></th><th></th><th>2021 £bn</th><th>2020 £bn</th></tr>
<tr><td>General Business</td><td>Mutual General</td><td>8.5</td><td>8.0</td></tr>
<tr><td rowspan="4">Life business</td><td>Mutual Life</td><td>10.8</td><td>10.3</td></tr>
<tr><td>RBS</td><td>1.2</td><td>1.1</td></tr>
<tr><td>OEICS</td><td>1.7</td><td>1.4</td></tr>
<tr><td>TOTAL</td><td>22.2</td><td>20.8</td></tr>
</table></td></tr>
<tr><td>New Business</td><td>To provide the reader with a measure of new business as represented by new business premiums from General Insurance activities.</td><td>Total new business premium income receivable.</td></tr>
<tr><td>Persistency*</td><td>To provide the reader with an indication of the overall reocurring business in perspective of the level of business being generated from General Insurance activities. This is a widely used industry performance measure.</td><td>Percentage of customers renewing each year.</td></tr>
<tr><td>Profit for the financial year</td><td>To provide the reader with a measure of profits achieved within the year from General Insurance activities.</td><td>Balance on the Non-Technical Account (Page 117).</td></tr>
<tr><td>Corporation tax contribution</td><td>To provide the reader with information on General Insurance tax contributions to society</td><td>Reconciliation of the Total tax contribution paid to the tax charge/(credit) in the Non-Technical account.
<table>
<tr><th></th><th>£m</th></tr>
<tr><td>Total tax contribution</td><td>386</td></tr>
<tr><td>Contributions unrelated to the corporation tax charge</td><td>(333)</td></tr>
<tr><td>Net corporation tax relating to prior/future periods</td><td>(14)</td></tr>
<tr><td>Deferred tax credit to the corporation tax charge</td><td>46</td></tr>
<tr><td>Total corporation tax credit</td><td>85</td></tr>
<tr><td>Represented by:</td><td></td></tr>
<tr><td>Taxation on (loss)/profit on ordinary activities (Note 15)</td><td></td></tr>
<tr><td>Non-Technical Account</td><td>38</td></tr>
<tr><td>Long-Term Account</td><td>47</td></tr>
<tr><td>Total corporation tax credit</td><td>85</td></tr>
</table></td></tr>
</table>

*Alternative Performance Measures (APM)

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NFU **Mutual**

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