

NFU MUTUAL 2023 AGM

Jim McLaren, Chairman

Good afternoon everyone, I would like to present my fourth annual report as Chairman of NFU Mutual.

When I reflect on our performance throughout 2022, what I am most proud of is the focus of our people, our agents and their people on serving the needs of our customers during what was for all of us an extremely difficult year.

In 2022 we experienced challenges on a global scale. All businesses, including NFU Mutual, were impacted by the economic effects of the geo-political landscape, with high levels of inflation and particularly tough market conditions leading to significant reductions in consumer, business, and investor confidence.

Despite the challenges, it was a year where we stood by our commitment to support our members and demonstrated that our financial and strategic foundations are solid. At NFU Mutual we are resolute in our focus on the long-term, and it's this focus that ensures we are resilient to short term market volatility. Our underlying financial, capital and solvency positions remain extremely strong, giving us the capital strength to continue to focus on our members and do what we are ultimately here to do – pay our customers' valid claims when they need us most.

In a moment I will hand over to NFU Mutual's Finance Director Richard Morley who will talk through the key components of our 2022 results. There were several factors that affected both our investment performance and General Insurance result in 2022 and these led to the Group delivering a loss of £1,049m.

As I have mentioned, at NFU Mutual we are here for the long-term and so I think it's important to remind ourselves of our financial performance over a ten-year period. Since 2013, our General Insurance (GI) business has generated a total income of £16bn and profits of £4bn before Mutual Bonus. In the last ten years we have also provided £1.7bn in Mutual Bonus to our loyal GI customers. Net profits generated stand at over £2.bn and our ten year Combined Operating Ratio is 92%. As a mutual insurer, we operate for our members, not to make profit for shareholders. We make decisions based on the long-term interests of those members and 2022 was no exception.

I would now like to introduce Richard Morley, NFU Mutual's Finance Director.



Richard Morley, Finance Director

Thank you Mr Chairman, and good afternoon to you all.

As the Chairman mentioned, a combination of factors affected our investment and General Insurance result in 2022 and these led to the Group reporting an overall loss of £1,049m.

There were three main elements to this loss, a £759m pre-tax largely unrealised or on-paper investment loss, an underwriting loss of £167m and the provision of £247m in Mutual Bonus to our loyal General Insurance members. I'd like to break down each of these elements and I'll start with the investment picture for 2022.

A volatile trading year for global markets impacted the value of our investments and, although they performed generally well in comparison to overall market performance, this none the less resulted in our funds under management reducing to £19.2bn.

The values of investments rise and fall, like the value of property and land, and like all investors we have experienced losses in previous years, as well as gains. Notably in 2018 when asset values were impacted by the downturn of financial markets but then recovered and increased in value the following year with a significant £799m investment profit and then again in 2021 with a £601m return.

Market fluctuations are therefore not uncommon, however the wide range of investment classes affected made for a particularly difficult time for investors in 2022. Returns on fixed interest assets were particularly impacted by rising inflation and interest rates through the year, with commercial property valuations also falling significantly in the later months. Our investment strategy is focused on delivering long-term growth and we were therefore well-placed for the changing market environment which helped us outperform many of the benchmarks and remain resilient to short-term market forces.

I should mention here that in a year where the business makes an investment profit, we of course pay tax on those profits, however in a year where we see a loss, albeit unrealised, we are eligible for tax relief and so in 2022 that figure came to £126m, bringing down the net unrealised investment loss to £633m.

Moving to the underwriting result for 2022. During the year we saw a rise in key commodity prices which added to post-pandemic recovery pressures and caused the highest levels of inflation seen in 40 years. This rising inflation, as well as last year's weather volatility, affected the General Insurance business which delivered an underwriting loss of £167m.

The weather in 2022 started in a similar fashion to the end of 2021 in the wake of Storm Arwen. February saw extreme weather conditions across the UK from storms Dudley, Eunice and Franklin, which resulted in nearly 13,000 claims. The impact on our customers was far-reaching - fallen trees, branches and debris caused damage to vehicles and machinery, while high wind speeds of up to 120mph ripped

roofing sheets and cladding off homes and farm buildings. We also saw widespread power outages disrupting farm work and transport routes.

At the other end of the weather scale, during the record-breaking heatwave in July, we received nearly 600 claims directly relating to the extreme temperatures. Many of these claims were from our farming customers with hundreds of devastating fires affecting fields, buildings, machinery, and agricultural vehicles. December then also brought a freeze with many parts of the country affected by ice, fog, and snow, causing a surge in escape of water claims when temperatures rose and pipes thawed.

Despite this, the business' underlying financial position remained strong, and as the Chairman mentioned earlier, we've seen overall post-tax profits in excess of £2bn over the past ten years. In 2022 our solvency ratio, which measures our ability to cope with the most extreme expected losses over the course of a year - improved by 14% to 218%, demonstrating our ability to adapt to difficult market conditions to safeguard our financial strength. This allows us to continue to focus on our members and pay their claims when they need us. Last year, we paid out on 97% of claims which I believe speaks volumes about this organisation.

Now to the other contributing factor to our year end Group result, Mutual Bonus, which forms part of our Profit and Loss, and therefore contributes to the overall Group year-end result.

In 2022, our focus on our members was unwavering and we provided a significant Mutual Bonus of £247m to our renewing General Insurance members. Our ability to reward customer loyalty in this way, even during a year like 2022, is a result of our focus on the long-term and the solid financial position we have built over many years.

Sales performed well last year, and our Gross Written Premium Income showed an increase of 8.9% to £1,987m. We also saw excellent persistency levels of 95.2% as customers chose to renew with us and stay loyal despite the cost-of-living crisis. Although both factors mitigated some of the impact, our Combined Operating Ratio ended the year at 109.3%, however we remain aligned with our aim to achieve a COR of 98% over the long-term.

Our pensions and investments business was also affected by the cost-of living crisis and although customers continued to seek advice, their appetite and ability to invest was affected. This meant that despite a good start to the year the financial services business ended with a slightly reduced Annual Premium Equivalent of £69.8m.

To conclude on the financial results, what our 2022 performance has highlighted is that through the continued good management and operating model of the business, we have demonstrated the financial strength to support our customers during one of the toughest years in recent history.

I'd now like to hand back to the Chairman to continue with his annual report.

Jim McLaren, Chairman

Thank you Richard for that clear and informative summary of NFU Mutual's financial performance in 2022.

Richard has mentioned the effects of the economic situation on NFU Mutual but of course the effects on our members, their businesses and households, are huge and ongoing.

We always seek to support our customers wherever possible, including helping ease temporary financial pressures. At NFU Mutual we don't charge fees for adjustments, administration services, cancellations or crucially for paying by direct debit, allowing the cost of your insurance premium to be spread across the year.

NFU Mutual Agents also felt the effects of the tough economic environment and we continued to support their businesses and help them look after their staff and keep their livelihoods stable during uncertain times. They do hugely important work and I would like to thank everyone working in our Agency offices. They are central to our business and to us delivering a local, personal, and attentive service that is second to none.

What is also central to NFU Mutual is that we do business responsibly and in 2022 we refreshed our responsible business strategy with a focus on Environmental, Social and Governance (ESG) factors and this work flows through all areas of the business.

In 2022 we also continued our charitable work and donated to local front-line charities through the hugely successful Agency Giving Fund. I'd now like to show you a video which brings to life the ways the fund is helping improve lives.

[View Agency Giving Fund video >](#)

As well as the Agency Giving Fund we also donated to national and regional charities through the NFU Mutual Charitable Trust. We also provided financial support to the Farm Safety Foundation, to help them continue their vital work in raising awareness of farm safety and the mental wellbeing of farmers. In 2022 our charitable donations reached a total of £3.25m.

We continued to provide funding for the UK's main farming unions as they work with government to keep agriculture at the forefront of the minds of UK politicians, retailers and consumers and in 2022 made a voluntary donation of £8.1m to help them carry out their vital role. We are also continuing to help farmers to protect themselves from rural crime and last year we invested over £400,000 in rural crime initiatives.

Our aim is to make a positive impact on society not only through our charitable work but also through our response to climate change. In 2022, we became signatories to the Principles for Responsible Investment, an independent international network of investors working together to develop a more sustainable global financial system. We want to build a more sustainable future for the communities we serve, and early in 2022 we launched our roadmap to net zero emissions by 2050. It gives us a clear mission, underlines our commitment to our climate change strategy, and will help us drive improvements where we need to. Our roadmap will evolve over time and initially we have targeted emissions from our own operations and those arising from investment portfolios, with the aim of achieving a 50% reduction in both by 2030, compared to a 2019 base year. We also set a short-term target to achieve a 25% reduction in our own emissions by 2025, which we have already exceeded.

Our three long-term objectives remain central to how we do business at NFU Mutual – achieving sustainable profitable growth, being a great company to do business with, and a great place to work. These objectives really do run through NFU Mutual at all levels and in everything we do. By tethering all our activities to these measures it ensures that we are all always working towards the same goals. The culture that we have developed at NFU Mutual over the years is something that is not often experienced in business, and I would like to thank all of our people for their continued dedication.

I would especially like to thank our customers who are the defining part of this business. For many, NFU Mutual has been a constant for their family and businesses over several generations, and we really do value such loyalty.

We're extremely proud that we have been recognised over the years by Which?, the renowned consumer advocacy organisation, known for its unbiased recommendations.

You may have heard last week that we have again won the prestigious 'Which? Insurance Brand of the Year', and NFU Mutual is the only insurer to be a Which? Recommended Provider for both home and car insurance.

This esteemed recognition is a testament to our commitment to deliver customer excellence and satisfaction and I would like to congratulate the whole team on this fantastic achievement.

This organisation has been here for our members through many events in our long history, most recently a global recession and the worldwide pandemic. During 2022 we saw a series of weather events along with some of the toughest market conditions in over 20 years and levels of inflation not experienced in the working lives of the majority of the UK population.

Through prioritising our relationship with our members, calmly adapting to change and hard work, NFU Mutual has delivered for our customers, and will continue to do so for many years to come.

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