REPORT AND ACCOUNTS 2017

NFU Mutual
INSURANCE | PENSIONS | INVESTMENTS

CONTENTS

CHAIRMAN'S STATEMENT

Our results for 2017 are really pleasing with a great retention rate, premium growth and profitability in our General Insurance business coupled with good investment returns and a substantial increase in cash invested by members in the Pensions and Investment part of the business. Further details are to be found in the statements made by the Group Chief Executive and the Group Finance Director. For me it is a pleasure to introduce this annual report for 2017 and to be able to say that our financial success will again be shared with our members through high levels of Mutual Bonus.

One of the greatest pleasures of my role is getting the opportunity to meet other farmers from across the UK and from all sectors of farming. This gives me a good insight into what is going well and what is causing difficulty for our members.

Unsurprisingly, the main topic of conversation when I meet farmers is Brexit. Farmers need to know how agriculture and environment policy will change once we leave the European Union in order to be able to plan and invest for the future. In particular the ability to continue to trade in a tariff free environment will be fundamental to the future success of farming in the UK. The National Farmers' Unions are providing strong leadership, pressing their case hard to the UK and devolved Governments and providing expert briefing materials to their members. We applaud their work and continued our financial support for them during 2017 with a total of £7.5m in financial donations.

> "Farmers have always been great advocates of business diversification"

Farmers have always been great advocates of business diversification. Building resilience into business in this climate of uncertainty is common sense. We are seeing an increasing proportion of farmers looking to spread risk and drive economies of scale by exploring new income streams which complement their traditional activities.

We understand the value of diversification because we have done it ourselves. In his statement to the 1997 AGM, our then Chairman Alun Evans said 'We recognise that our ability to serve the UK's farmers will strengthen if we can spread our risks beyond a single industry. It is in the long-term interests of our farmer customers that we can grow.' A year later, this statement was put into practice with the approval of a new set of Articles of Association that provided unrestricted access to NFU Mutual products to non-farming customers.

As a result, over the last twenty years we've gone from being a farming insurer to one where our heartland now includes a wide variety of businesses with links to the food supply chain and the countryside. This is business which complements our traditional heartland very neatly. We also continue to attract members with homes and vehicles from rural and suburban communities around the UK. We seek out and try to attract people who identify with our values and, judging by the number that stay with us at renewal, we seem to be getting that right.

Around half of our General Insurance premium now comes from the non-farming sectors, although we remain resolute in our core belief that no one will ever be more important to us than farmers and the rural community. The growth we have achieved in the last 20 years has reinforced the resilience of our already strong mutual business and puts us in a good position as we face Brexit uncertainty.

The other half of our business is our Pensions and Investments business which we call our Life business. This part of NFU Mutual is really important in offering the financial products members need throughout their lives to provide financial security for themselves, their families and their businesses. We have a great team of financial advisers to provide advice on pensions, protection and investments suited to personal and business needs. We have around 126,000 members within our Life business with assets under management of £12bn at the end of 2017.

We have been developing the Life business over the last few years. 2016 saw the launch of a brand new range of family and business protection policies in partnership with a leading provider. These have been really popular amongst farming members in particular. We are excited about the development of a new online investments platform (due to become available to members in 2018), which will provide investors with the opportunity to manage their portfolios in one place. We have been working on this development and on widening the range of products we can offer to investors for a number of years and there is a much more detail to follow as we roll out these changes.

> “We are excited about the development of a new online investments platform, which will provide investors with the opportunity to manage their portfolios in one place”

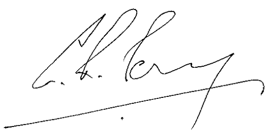
All this work reflects our ambition to grow our Life business and in recognition of the increasing complexity that comes with this ambition, we will shortly be appointing a Non-Executive Director with investment expertise.

Despite our customer base becoming more diverse, I believe there is one fundamental that binds everything together: our belief in the importance of delivering the insurance cover our members need through an attentive, local and personal service. This is what sets us apart from other insurers, and is made possible by our unique network of offices across the UK. In contrast to the banks and post offices that are increasingly withdrawing from the high street, we continue to invest in our network and this will remain central to how we deliver our services for the foreseeable future.

The other thing that differentiates us from many of our competitors is our mutual status. We pride ourselves on our ability to act in the long-term interests of our members, and this includes supporting the communities in which we live and work. Please look at the Corporate Social Responsibility section of this report to see the work we have done to try to improve farm safety, drive down rural crime, help relieve hardship amongst struggling farming families and educate young people.

Whatever Brexit holds for the future, I am very positive about the outlook for NFU Mutual in 2018 and beyond. Our people are the driving force behind our success and I would like to thank our staff, Agents and their staff for their continued support and dedication.

Finally, I need to thank you, our members for your ongoing loyalty to NFU Mutual.



Richard Percy
Chairman

FINANCIAL HIGHLIGHTS

Group

£540m
Profit for the financial year
2016: £1,026m

£20.1bn
Total funds under management
2016: £18.8bn

General Insurance

£1,484m
GWPI before Mutual Bonus[1]
2016: £1,397m

£102m
Underwriting Profit[2]
2016: £151m

92.5%
Combined Operating Ratio (COR)[3]
2016: 88.3%

Life

£71m
APE – New Business[4]
2016: £57m

£12bn
Life Funds under Management[5]
2016: £11bn

1 GWPI Gross Written Premium Income. 2 Underwriting profit / loss consists of the balance on the Technical Account adjusted for earned Mutual Bonus allocated investment return and other income. 3 Proportion of Total Technical Charges (Page 69) as a percentage of earned premiums before earned Mutual Bonus and after allowing for reinsurance. 4 An industry measure, which is equal to new regular annualised premiums plus 10% of new single premiums. 5 This includes Life investments, RBS/NFU Pension schemes and 2 NFUM OEICS.

GROUP CHIEF EXECUTIVE'S STATEMENT

I am pleased to report that over the course of the year we have once again seen consistently strong performance from both the general insurance (GI) and the pensions and investments (Life) sides of our business. We will be maintaining the high levels of Mutual Bonus introduced in 2017 for a further year whilst also continuing to invest in further enhancing our services.

Our continued commitment to managing our business in the long-term interests of our customers remains unchanged, as does our belief in the importance of maintaining a strong physical presence in our members' communities. Our strategy has always been to provide an attentive, local, personal service to our members, and this continues to set us apart from our competitors and deliver value to our business – with the Group achieving an overall profit of £540m in 2017.

General Insurance

The general insurance (GI) side of the business (motor, commercial and home insurance) has continued to deliver solid growth over the year, with our focus firmly set on attracting new members who share our values. Our premium income before Mutual Bonus rose from £1,397m to £1,484m.

Generally benign weather conditions also meant that we – like many insurers – benefited from a strong underwriting result, which contributed £102m pre-tax to our overall GI profit of £540m after tax. An additional contributor to this figure was the consistently strong performance of our investment and property portfolios.

Whilst we remain committed to attracting new business, we recognise that our continued success is very much driven by our ability to retain existing members through the delivery of quality insurance cover and exceptional service. With this in mind, it is very pleasing to be able to report that we saw another record year in terms of the proportion of members who chose to stay with us when they reached renewal (94.8%).

We firmly believe in the importance of recognising the loyalty of our members and from July we introduced a ten percentage point increase in Mutual Bonus. This resulted in a total Mutual Bonus payout of £168.3m, up from £79.1m in 2016. We had initially planned to phase this increase back over subsequent years, however our strong financial performance and capital position means that we are able to maintain the same levels for a further year. As a result, we expect to return some £235m through Mutual Bonus to our members in 2018.

The consistent hard work and commitment of our staff and Agents was pleasingly recognised when we were named 'Best Car Insurer' for the tenth time in the Auto Express Driver Power survey – an annual poll of 20,000 motor insurance customers. We were particularly proud to be ranked number 1 out of 39 insurers across all seven judging criteria. We were also awarded Moneywise's 'Most Trusted Home Insurance Provider' for the fifth time, and were again named as a Which? 'Recommended Provider' for both home and motor insurance.

We introduced a number of new products and product enhancements to our offering over the year, including our Home Emergency add-on for home insurance customers, which provides excellent value for money and covers a wide range of perils. In recognition of the trauma and disruption caused when a member's home is flooded, we introduced Flood Resilience cover as standard on our buildings insurance policies, which provides the owners of flooded homes with the option to install flood resilience measures during the repair process without having to pay the full cost. And after the successful launch of our Farm Essentials product in 2016, we enhanced our insurance offering for small farms further still with the launch of our Smallholder insurance extension.

Life

Our nationwide network of financial advisers continues to enable us to help our members understand and reach decisions on the investments, pensions and protection products most appropriate to their financial position and long-term plans. This resulted in us achieving an Annual Premium Equivalent (APE) of £71.4m at the end of 2017, compared to £56.7m in 2016.

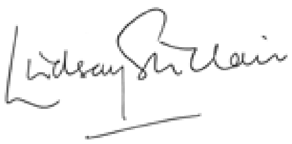
We have also seen continuing take-up of a suite of protection products, which were launched to our members in 2016 in partnership with a leading provider and we continue to emphasise the importance of putting plans in place to protect your family and your wealth, should the worst happen.

One area that our members have always valued highly is our With-Profits offering and in 2017, our With-Profits policyholders benefited from our continued excellent investment performance. We were able to add over £50m in annual bonuses to our 61,890 With-Profits policies and a further £72m as a terminal bonus for policies that matured or where money was taken out of the With-Profits fund.

> "Our strong performance, in the face of continued economic and political uncertainty, has provided NFU Mutual with a positive outlook for the future"

In conclusion

Against a background of much economic and political uncertainty, our strong performance in 2017 augurs well for the coming year. And taking the view that better never stops, we continue to invest in our products and services in order to respond to the evolving needs of our members and the constantly shifting world in which they live. In the midst of so much change, our business philosophy remains the same as it has always been – providing our members with the insurance cover they need, at a fair price and with a first-class, personal service. I would like to thank our staff and Agents (and their staff) for all their efforts in enabling us to do this, and to thank our members for their great loyalty. We will continue to work hard to maintain that.



Lindsay Sinclair
Group Chief Executive

BUSINESS MODEL AND STRATEGY

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 as a mutual remains the same: 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.

No one is more important to us than farmers and the rural community.

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. At the end of 2017 we had 665 (2016: 634) NFU Mutual Agents working out of 311 (2016: 310) offices. Our Agency model provides specialist advice for customers with complex insurance needs alongside non-advised products for those whose requirements are less complex and standard.

Our life assurance, investments and pensions business is sold through our Financial Advisers and supported by Product Information Consultants. At the end of 2017 this direct sales force numbered 112 compared with 110 at the end of 2016.

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

Our Strategy

Our strategy supports our long term objectives as a Group:

- To deliver sustainable profitable growth
- To be a great company to do business with
- To be a great place to work

NFU Mutual places the customer at the heart of our business considerations, ensuring that we prioritise investment in strategic developments to improve overall member value. Our focus is to sustain our business for current and future policyholders, to provide the benefits of broad cover and an excellent customer experience. We work hard to earn the loyalty of our members, by putting long term relationships before short term profits.

Our investment strategy underpins our financial strength and stability, with an asset portfolio of £20.1bn which is managed in-house by a dedicated investment and property management team. In the short term our investments are subject to market volatility and fluctuations. Our strategy is long term and focuses on building quality portfolios for both our Life and General Business funds.

This longer term investment strategy, 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.

As the UK's leading rural insurer, 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. Our Risk Management Services offer both the provision of health and safety consultancy and undertake Loss Control surveys on behalf of NFU Mutual. NFU Mutual Young Drivers' Scheme is aimed at raising awareness of driver safety and improving driving skills on rural roads. We make a financial contribution to support the farming industry as well as funding the work of the NFU Mutual Charitable Trust.

General 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, business 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 risk management.

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 complement the Agency network over the long term.

Life Business Strategy

We remain firmly committed to sustainably growing our Life business profitably over the coming years. Members require high quality advice, delivered by our team of dedicated Financial Advisers, in addition to easy access to quality products on a non-advised basis.

The objectives of the strategy are to:

- Ensure the long-term profitability of the Life business
- Make the Advisory business profitable on a standalone basis
- Provide the Life Fund with an adequate return on investment

The Life Strategy will:

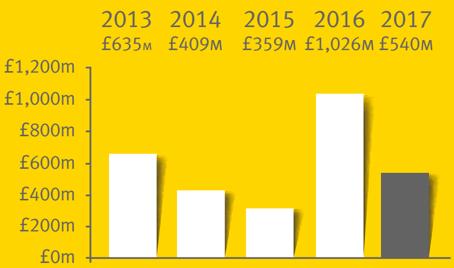
- Build on and grow our advised proposition
- Explore and deepen our distribution channels and invest in these to enhance customer experience and profitability
- Provide access to quality products and services that meet customers needs

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.

> “The General Insurance strategy and business model ensures that the Group continues to meet changing member needs and expectations”

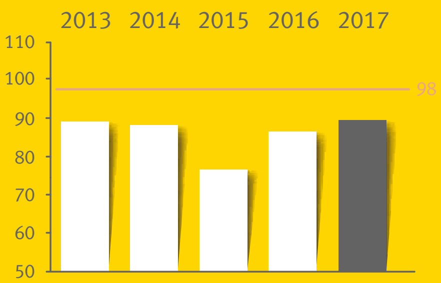
KEY PERFORMANCE INDICATORS

Group



Profit for the financial year[1]

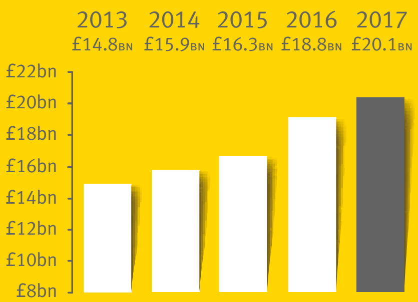
Our total profit after tax was £540m. The result is a reflection of solid results from our General Business complemented by strong investment and property returns which were lower than 2016 reflecting market volatility.



Combined Operating Ratio (COR)[2]

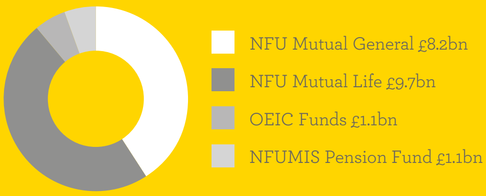
(General Business)

COR measures our overall business profitability. At 92.5% (2016:88.3%) this is a very pleasing result and remains significantly better than our long term target of 98%, despite higher claims costs, our investment in change capability and an increase in statutory reserves to reflect the increase in mutual bonus discount.



Funds under Management[3]

The year ended with a strong set of investment and property returns benefiting from our diversified portfolio mix. Our funds under management increased by £1.3bn to £20.1bn over the year.

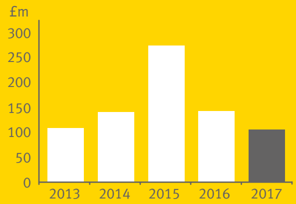


1 Balance on the Non-Technical Account (page 71). **2** Proportion of Total Technical Charges (page 69) as a percentage of earned premiums before earned Mutual Bonus and after allowing for reinsurance. Earned Mutual Bonus takes into account the net movement of unearned Mutual Bonus which amounts to a decrease of £57m (2016: £12m decrease) in the year. **3** Value of assets covering Life and General business funds. Funds under Management represents the value of investment on the Balance Sheet (page 72) made up of General Insurance Business of £8.2bn and Life Business of £9.6bn plus policyholder investment OEICS of £1.1bn and the assets of the Company's Retirement Benefit Scheme of £1.1bn.

General Business

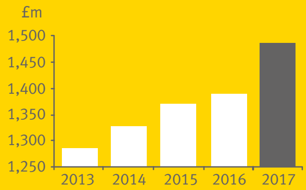
Underwriting Profit and Loss[1]

Our underwriting Profit and Loss result reflects higher claims costs, our investment in change capability and an increase in statutory reserves. This led to an underwriting profit of £102m in the year.



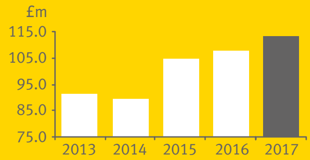
Gross Written Premium Income (GWPI)[2]

Gross Written Premium Income of £1,484m showed an increase across both farming and non-farming accounts (2016: £1,397m) reflecting record levels of persistency and new business.



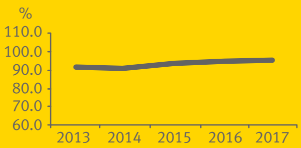
New Business[3]

New Business written at £113.3m (2016: £108.6m), continued to benefit from our strong customer offering and new products and product enhancements.



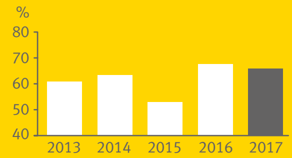
Persistency[4]

Renewal persistency increased to 94.8% (2016: 93.7%) which is the highest levels seen in recent years.



Gross Earned Loss Ratio (GELR)[5]

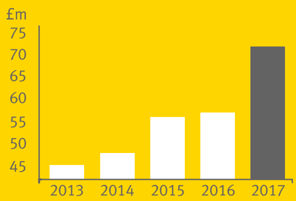
The Gross Earned Loss Ratio ended the year at 66.5% (2016: 67.5%) and reflects the principal features as described for the Underwriting Profit and Loss.



Life Business

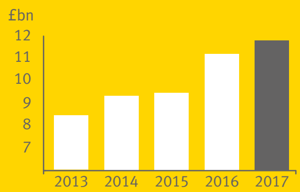
Annual Premium Equivalent (APE)[6]

Our Annual Premium Equivalent from new life insurance and investment-related premiums was £71.4m, a significant increase on last year (£56.7m) reflecting strong investor confidence in both the market and our products.



Life Funds under Management[7]

Our funds under management increased by £1.0bn to £11.9bn over the year reflecting the same economic and political themes described within the Group Funds under Management.



1 The balance on the Technical Account (page 69) adjusted for earned Mutual Bonus, allocated investment return and other income. **2** Overall total premium income underwritten in the year. **3** Total new business premium income received. **4** Percentage of customers renewing each year. **5** Proportion of claims incurred as a percentage of earned premiums adjusted for earned Mutual Bonus before allowing for reinsurance. **6** Industry measure equal to new regular annualised premium plus 10% of new single premium. **7** This includes Life investments, RBS/NFU Pension schemes and 2 NFUM OEICS.


NFU Mutual

BUSINESS REVIEW 2017

Finance Director, Kim Arif

2017 saw another successful year for NFU Mutual with strong results in both the General Insurance and Life businesses.

The General Insurance Business saw premium growth of 6.2% and delivered our seventh consecutive year of underwriting profit. For our Life Business 2017 also saw a significant increase in new business volumes with APE at highest ever recorded levels.

In the General and Life Insurance markets, our continued focus on investment in our customer service, proposition, staff and Agents, ensures that we are in a great position to build further on our financial strength, safeguarding and enhancing the value generated for our members in the longer term.

Financial Performance – General Insurance

The profit after tax of £540m (2016: profit of £1,026m) reflects the excellent results seen from our General business with an pre-tax underwriting result of £102m (2016: £151m). The year ended with another strong investment performance with total pre-tax investment returns of £669m (2016: £1,166m).

Mutual Bonus written in 2017 totalled £168m (2016: £79m), a significant increase in the year reflecting our commitment to delivering value back to our members.

The year saw premium growth of 6.2%, with strong performance in retaining existing business through exceptional ongoing persistency levels (the percentage of policyholders renewing each year). This sales growth was achieved along with lower levels of large claims. NFU Mutual remains focused on preventing the underlying causes of claims through education and support including farm safety and safe driving campaigns.

Ongoing development of underwriting capability, together with focused claims and cost management, led to a year end Combined Operating Ratio (COR) of 92.5% (2016: 88.3%). Following the Ogden tables review for bodily injury claims by the Lord Chancellor, whereby rates were amended to minus 0.75%, expectations were for a higher level of claims experience within 2017. However, the guidance from the Lord Chancellor in September was that discount rates may be adjusted to 0-1% and reviewed every three years. This would reduce the cost of the most serious claims, but they would still be much more expensive than they were before the Discount Rate was changed in March 2017. Taking all this into account, the impact on claims behaviour throughout the year saw settlement at higher levels of discount than expected, in our plan, but at a lower level than previously experienced. We have set our reserves at the lower end of 0-1% guidance plus a margin for uncertainty.

On a longer-term 10 year basis the average COR continues to be within our 98% rolling target. Our underlying General Insurance result for the year, as reflected in the balance on the General Business Technical Account (Page 69), is a profit of £22m (2016: £178m).

Gross Written Premium Income of £1,484m showed a 6.2% increase over last year, (2016: £1,397m). In a challenging market place we exceeded our retained targets and new business written ended the year at £113.3m (2016: £108.6m). Persistency levels further increased to record levels over recent years at 94.8% (2016: 93.7%). Despite continued market pressure on premium, all lines of business have performed at higher than expected persistency levels with Motor at 94.4%, Commercial at 94.9% and Personal at 95.4%. Our core farming persistency also remained strong, at 95.8% over the year (2016: 94.8%).

Gross Earned Loss Ratio (GELR)

The GELR is the cost of claims incurred as a percentage of earned premiums before allowing for reinsurance. The year ended with a GELR at 66.5% (2016: 67.5%) which is better than we had forecast. This was largely due to benign weather conditions leading to fewer flood and freeze claims than we would predict in an average year.

Our focus continues to be on improving the quality and discipline of underwriting, pricing and risk selection, particularly for employers' liability and motor fleet business where performance is challenging, together with further improvements in the management of claims costs and reserving.

Combined Operating Ratio (COR)

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, which remains significantly better than our long term target of 98%, despite higher claims costs, our investment in change capability and an increase in statutory reserves to reflect the increase in mutual bonus discount.

Financial Performance – Life and Pensions

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

Within the manufacturer part of the business, overall new business volumes saw a significant increase of over 25% (2016: -1.4%) to £71.4m Annual Premium Equivalent (APE – an industry measure which is equal to new regular annualised premiums plus 10% of new single premiums) (2016: £56.7m). On a gross total premium received basis, the total Life and Pension premium income was £271m (2016: £240m) and Investment related contract premiums was £465m (2016: £325m). The growth in our 2017 business volumes reflects both the improvement in our overall product proposition and the impact of a generally buoyant market, despite the political and economic uncertainty (e.g. Brexit).

2017 saw increased volumes of ISA business written as customers took advantage of the increased ISA allowance introduced from April. In particular we saw increased take up of our With-Profits ISA product.

Volumes of wider investment business have also grown significantly as investors seek to find higher returns in the current climate of low interest rates, with sales of Investment Bonds performing particularly well. With-Profits products form a key part of our offering, and sales of these also increased. Policy persistency levels were better than expected.

NFU Mutual continued its strategy of focusing on a core set of products (including With-Profits) and outsourcing other products to specialist providers. Protection, an outsourced product, saw a strong performance.

Within the adviser part of the business, income of £15.4m was generated in relation to giving advice (2016: £10.1m) driven by a continued focus on adviser quality and effectiveness. Opportunities provided by the new protection product also contributed to an increase in adviser income.

With-Profits Governance

NFU Mutual remains committed to both the concept of With-Profits and to maintaining a viable Life business into the future.

Our With-Profits policies offer smoothing of returns and an element of guarantee. In 2017 over half of NFU Mutual's customers continued to choose a With-Profits option when investing into ISAs, pensions and bonds.

> “In 2017 over half of NFU Mutual's customers continued to choose a With-Profits option when investing into ISAs, pensions and bonds.”

Financial Performance – Group

Avon

Avon Insurance is a wholly owned subsidiary and specialises in personal accident and accidental death insurance products. Following the decision in 2013 to close Avon to new business, the focus in 2017 remained successfully servicing the existing customer base. Avon's Gross Written Premium in 2017 was £27m (2016: £29m), with profit before tax and dividends of £11.2m (2016: £50m).

Avon returned £7m of dividends to the Group in 2017 (2016: £43m) and has a level of solvency which adequately supports existing business.

Risk Management Services Limited (RMS)

RMS is a wholly owned subsidiary and specialises in both the provision of health and safety consultancy for our customers and undertaking Loss Control surveys on behalf of NFU Mutual.

In 2017 RMS delivered a programme of changes designed to provide NFU Mutual customers with a broader range of risk management products and services. The objective is to help customers to identify and manage risk within their business resulting in fewer accidents and losses.

This programme of work will continue into 2018 as NFU Mutual aims to provide members with assistance and guidance for all of their risk management needs.

Funds Under Management

Investment markets entered 2017 still trying to work through the reverberations from the UK's decision to leave the European Union and the election of Donald Trump as US President. There were also concerns around forthcoming European elections and ongoing geopolitical issues such as in North Korea and the Middle East.

However, 2017 proved to be a year where the feared downside political and geopolitical risks largely failed to materialise, whilst the main upside, in the form of US tax reform, was delivered in December. The broadening global economic recovery and healthy corporate earnings proved to be the dominant drivers of risk assets in 2017.

US and emerging market economic growth has remained firm, but the most significant development during 2017 was the good domestic demand led recovery seen in Continental Europe. Unfortunately, the UK economy has gone against the trend and seen some weakening of growth as the impact of currency induced rising inflation and Brexit related uncertainty began to bite. The November Budget confirmed lower than expected UK economic growth forecasts of around 1.5% in coming years.

Modest UK economic growth, higher inflation and political uncertainty following the June election did not provide an ideal backdrop for domestic investors. However, UK listed companies derive most of their revenues and profits from outside

the UK so are benefitting from the low level of sterling post-Brexit and the improving global economy.

2017 saw consistent gains for global equity markets with remarkably little volatility or drawdowns. Overall international equity gains of around 20% were reduced by currency headwinds to a 13.5% return for UK based investors, with Asia Pacific and Emerging Markets leading the way with sterling based gains of over 20%.

Whilst lagging behind international equity markets, the UK market made steady progress throughout 2017 and like many markets reached new all-time highs. Supported by a good dividend yield of almost 4% the UK FTSE All-Share index achieved total return growth of 13.1% in 2017.

Now that deflation risks have subsided and global growth is on a firmer footing, central banks have been looking to gradually withdraw the exceptional level of monetary policy support they have provided since the financial crisis. Interest rates are beginning to gradually move away from their extremely low levels in many countries and central bank balance sheet expansion through quantitative easing is starting to be reined in.

With very low bond yields and the expected normalisation of monetary policy, fixed income asset returns were limited throughout 2017. UK government bonds and corporate bonds achieved gains of 1.8% and 4.3% respectively.

In spite of all the Brexit uncertainties and potential threats to UK property, the commercial property market has positively surpassed expectations in 2017 for both levels of transactional activity and performance. Driven by significant levels of overseas capital, making the most of sterling's recent weakness, transactional volumes have been consistently high. Accelerating rental growth across many sectors of the market has helped to drive capital value growth and after a sluggish start to the year total returns reached just over 10%. The industrial sector in particular has seen unprecedented levels of investor and occupier demand which has culminated in high levels of rental growth and positive yield movement.

There is a note of caution however. Yields across many sectors of the property market are currently at or are nearing historic lows and capital growth is expected to flatten. Forecast total returns for 2018 are currently circa 4-5% driven very much by income.

With pricing levels reaching some historic highs and with the strong level of investor demand the NFU Mutual property team have taken opportunities to sell a number of assets. Achieving pricing beyond valuation levels the fund has sold a small hotel portfolio, a large supermarket in Ashford, a distribution hub let to Tesco in Bristol, and most recently exchanged contracts to sell a mixed use retail and office property on Old Bond Street in London, achieving a market leading yield.

The capital generated from these sales is being utilised to fund new acquisitions with a stated strategy to keep building upon the funds income yield. New acquisitions have been in the out of town retail park and industrial sectors.

Levels of occupier demand across the NFU Mutual portfolio have been strong with conversion rates in to new lettings being positive. The out of town retail and our high street retail assets in areas such as Cheltenham and Sheffield have seen particularly encouraging levels of letting activity.

Our joint venture property development vehicle, and its 'value add' Opportunity Fund, have made positive contributions to overall property fund returns primarily through achieving a number of sales of completed development and asset management projects.

Overall investment assets under management by the Group increased by over £1.2bn to end 2017 at £20.1bn. The General Business Fund achieved a return of 8.9% in 2017, with good exposure to the stronger performing asset classes helping the fund outperform its internal benchmark. 2017 saw us take the opportunity to capitalise on the investment performance of 2016 by de-risking the fund by almost £1.5bn of net equity sales. There were also commercial property sales, with the combined proceeds largely moving into corporate bonds and cash. Good investment performance across much of the unitised fund range resulted in many funds delivering top quartile performance amongst peers.

Areas of Focus and Key Strategic Change Initiatives

New Claims System

During 2017, we prepared for the implementation of a new claims system – Guidewire's ClaimCenter – which will be rolled out for motor claims (including agricultural vehicles) during 2018. The new system will introduce new ways of working and ensure we are able to deliver the excellent customer experience our customers expect from us when they need us the most – when they make a claim.

In line with the introduction of ClaimCenter we announced that we will establish a new customer contact centre in Glasgow and bring our First Notification of Loss team in-house. We also announced the closure of our claims teams in Chester and Stratford Regional Service Centres, which will allow us to realise the benefits that the new system will bring.

Customer Relationship Management (CRM)

The CRM programme is a revolutionary approach to how NFU Mutual manages customer relationships and interactions. More than 130 agencies are using a pilot of Microsoft Dynamics, the CRM system the programme is implementing. We are planning to go live with full rollout across the agency network in 2018. This will be followed by a rollout to corporate users within the business.

> “The Price Improvement Programme has delivered improved pricing sophistication to NFU Mutual General Insurance”

Price Improvement Programme

The Price Improvement Programme has delivered improved pricing sophistication to NFU Mutual General Insurance. This was achieved by enhancing our core pricing capability and establishing a new pricing strategy.

The programme has already implemented the changes required to Light Goods Vehicles and Home Insurance, with final changes to Commercial pricing to come in the first half of 2018. This was a significant investment for NFU Mutual, which supports our core strategic objectives of sustainable, profitable growth and being a great company to do business with.

Counter Fraud

In order to protect the interests of all policyholders, NFU Mutual takes a zero tolerance approach to fraud related activity.

Our Group Counter Fraud system (GCFS), launched in January 2018, is a groundbreaking solution for the prevention and detection of General Insurance fraud and financial crime. It will enable quicker decision making, in relation to underwriting and claims, and ensure that we are more effectively identifying fraud related activity. This means we can better protect our members and continue to manage the cost of premiums.

Financial Services

During 2017 the Financial Services business was re-structured, reducing operating costs by circa £1.4m per year. Work on the development of a new online investments platform (due to become available to members in 2018), will provide investors with the opportunity to manage their portfolios in one place. Work on this development and on widening the range of products we can offer to investors has been ongoing for a number of years and all this work reflects our ambition to grow our Life business.

Future Regulatory Developments affecting the Group

General Data Protection Regulation

The General Data Protection Regulation (GDPR) programme was set up to ensure NFU Mutual continues to safeguard and manage the personal data we hold on our customers and partners in line with the regulatory requirements.

Cyber Programme

We continue to invest in our cyber security capabilities in order to provide our customers and partners with the protection that they have come to expect. Our investment remains in line with industry levels within our sector.

Solvency II

Throughout the year the Group submitted its quantitative Solvency II information to the Regulator in accordance with the PRA's guidelines with qualitative information being published in the Group's Solvency and Financial Condition Report which is available on the company's website.

New Regulatory Framework

The Financial Conduct Authority's (FCA) 2017 Business Plan informed the financial services industry that focus would be on the treatment of existing customers and also consumer vulnerability and access. Papers were published throughout the year targeting these specific topics and smarter clearer communications with customers continues to be a key theme.

The FCA has set out it's initial views on 'what good looks like' for retail consumers and wants to see markets where:

- High-quality, good value products and services that meet consumers' needs are available;
- Consumers can buy the products and services they need and the way in which they are sold is clear, fair and not misleading;
- The needs of vulnerable consumers are taken into account.

The regulatory position regarding Brexit has not changed. NFU Mutual will continue to abide by EU legislation under UK law, this includes the implementation of the European Union's Packaged Retail and Insurance-based Investment Products (PRIIPs), Markets in Financial Instruments Directive (MIFID II) and the Insurance Distribution Directive (IDD).

The extended implementation date for PRIIPs, applying to all investment firms, came into effect on 1 January 2018. The aim of this new Regulation is to encourage efficient EU markets by helping investors to better understand and compare the key features, risk, rewards and costs of different PRIIPs by producing a short and consumer-friendly Key Information Document (KID). The MIFID II implementation date of 3 January 2018 introduced new requirements for information disclosure to customers, including proposed investment strategies and risks.

The Insurance Distribution Directive (IDD) aims to improve the way insurance products are sold so that they will bring real benefits to consumers and retail investors in the European Union.

The implementation date for when IDD requirements will apply is expected to be confirmed as 1 October 2018. The IDD proposals include mandatory Continuing Professional Development (CPD) requirements for those involved in insurance distribution as well as increasing transparency around price and costs of products. IDD requirements also include increasing the amount of information given to customers to support New Policy Sales and Renewals alongside the introduction of standardised pre-sale Insurance Product Information Documents (IPIDs) to enable comparisons across similar products. Firms are expected to review their Product Oversight and Governance processes and where necessary bring these in to line with the new requirements. NFU Mutual is well placed in it's planning and implementation to meet the requirements of IDD.

On the horizon for 2018/2019 is the Senior Managers and Certification Regime (SM&CR) which will replace the current Approved Persons Regime and change how individuals working in financial services are regulated. The aim of SM&CR is to reduce harm to consumers and strengthen market integrity by making individuals more accountable for their conduct and competence.

Claims Compensation Reform

The injury claims environment remains challenging in terms of delivering effective claims cost control. Since 2010, the Government has introduced a number of changes to the way that low value injury claims are dealt with, which delivered short-term improvements in the frequency and cost of these claims.

The Government has restated its intention to proceed with the further reform of motor whiplash claims in England and Wales. The aim of the reforms is to reduce significantly the frequency and cost of whiplash claims, leading to noticeable reductions in motor insurance premiums. We expect the changes to come into effect in 2019, and we continue to work closely with the Association of British Insurers in order to achieve the best outcomes for our members.
2017 was a turbulent year for the most severe personal injury claims, where injuries result in long-term loss of salary and/or the need to pay for long-term care. In March 2017, the Lord Chancellor changed the Ogden Discount Rate, which is used by the Courts to determine the cost of future losses for severely injured people, from +2.5% to -0.75%. The effect was a very significant increase in the cost of serious personal injury claims.

In September 2017, the new Lord Chancellor responded to a public consultation to say that the Government intended to legislate to change the methodology used to set the Ogden Discount Rate and then to set a new rate, which could be in the 0% to +1% range. This would reduce the cost of the most serious claims, but they would still be much more expensive than they were before the Discount Rate was changed in March 2017. Following the new legislation, we anticipate that the new rate will be set some time in 2018.

It remains likely that there will be continued volatility for Motor, Employers' Liability and Public Liability claims costs and frequency over the next few years.

Corporate Interest Restriction and loss reform

Finance (No.2) Act 2017 introduced new legislation with effect from 1 April 2017 limiting the corporation tax relief available for interest costs to 30% of adjusted earnings or, if higher, the group's interest ratio. The rules replace the previous worldwide debt cap legislation.

NFU Mutual is normally in a net interest income position due to positive investment returns on fixed interest securities. However, if yields rise significantly, interest losses could be incurred which would be subject to the new restriction rules. NFU Mutual is managing this risk by making a fair value accounting election, which means that market value movements are excluded from the interest restriction calculations.

Loss reforms mean that losses carried forward can only be relieved against 50% of future period profits. The rules also enhance flexibility by allowing companies to claim group relief for losses in a subsequent period.

NFU Mutual will make use of the special provisions for insurance companies which allow 1:200 year shock losses to be excluded from the 50% restriction. This prevents an adverse impact on the Solvency Capital Requirement because a full tax asset for shock losses can continue to be recognised.

Corporate Criminal Offence

HM Revenue and Customs have increased powers to tackle businesses who are involved with tax evasion. The Criminal Finances Act 2017 introduced the new offence of failing to prevent the facilitation of tax evasion with effect from 30 September 2017. Companies are required to have reasonable procedures in place to prevent persons acting in the capacity of an associated person from facilitating tax evasion or face unlimited fines.

NFU Mutual has completed a high level risk assessment and is documenting further activities to comply with the new legislation.

Country-by-Country Reporting

The UK Government has introduced new reporting regulations for multinational groups following an initiative by the Organisation for Economic Co-operation and Development to improve global tax transparency.

NFU Mutual is classified as a multinational group due to its Channel Islands subsidiaries and submitted its first country-by-country report in 2017 which HM Revenue and Customs will share with the tax authorities in Guernsey and Jersey.

Scottish Rate of Income Tax

The Scottish rate of income tax applies to income from employment and pensions for individuals who live in Scotland. It does not apply to savings income, dividends or capital gains, which continue to be taxed at full UK tax rates.

Tax relief on pension contributions is subject to transitional rules for the two year period ending April 2018, during which time pension providers can continue to claim tax relief at the UK basic tax rate for all members. Any members who are Scottish taxpayers are required to make adjustments via their self-assessment tax returns.

NFU Mutual has prepared changes to policy administration systems to claim tax relief on pension contributions at the Scottish rate of income tax with effect from 6 April 2018.

Overall NFU Mutual's capital strength puts it in a great position to respond to changes in regulation and market conditions, which enable it to support future growth and continue to deliver key projects to further enhance our customer experience.

Kim Arif
Finance Director

RISK AND RISK MANAGEMENT

Effectively identifying and managing the risks we face as an organisation is critical to ensuring our continued success and our ability to deliver business plans and long-term objectives.

At NFU Mutual, risk management is a continuous process of balancing the benefits that arise from taking risks against the potential adverse impacts of issues occurring.

A strong risk culture embedded throughout the company is key to this process, with a focus on benefits for members and policyholders. At NFU Mutual a robust risk management strategy and framework, overseen by experienced risk teams and risk governance committees, underpin the culture.

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
- Reducing unwelcome surprises
- Optimising potential for long-term growth
- 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
- Supporting regulatory reporting requirements to the public and others to give greater understanding of how we manage our risks

A Great Place to Work

- A highly visible, risk aware culture which is led by senior management
- An open, honest, respectful and transparent environment in which employees are openly encouraged to 'do the right things'
- Clear accountabilities for employees
- Reward and remuneration that is linked to the management of risks. We focus on rewarding the right behaviours, as part of a culture which ensures ethical behaviour is required at all times

Risk Management Framework

Due to the nature of risk, it is not possible or practical to predict every risk that may occur. An effective risk management framework ensures that an understanding of risks and controls is embedded at every level of the organisation, with a clear view to accountabilities and responsibilities, to ensure that new risks or changing exposures are quickly identified, addressed and, where appropriate, escalated.

Risk-based decision making safeguards the Group from excessive risk exposure by ensuring we remain within our risk appetites.

Each component within NFU Mutual's Risk Management Framework contributes to the identification, assessment, management 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;
- Controls built into everyday business processes; and
- Monitoring and recording of 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 calculations to assess the levels 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 (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 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 there remain significant challenges in evidencing that operational risk data for modelling, testing and validation meets the Internal Model requirements.

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. More details on risk can be found in Note 2 pages 82-91.

Additional detail on NFU Mutual's regulatory capital requirements at 31 December 2017 can be found in the Solvency and Financial Condition Report, available on NFU Mutual's website from end of May 2018.

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 of the 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 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 table below summarises 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 assessments and mitigating actions for these risks have been reviewed and discussed at governance committees throughout 2017 and as part of the preparation for the Own Risk Solvency Assessment. (Note 2 to the Accounts on pages 82 – 91 covers our disclosures on financial risk management in detail)

RISK	RISK OWNER
Disruption of the relationship with the National Farming Unions	Sales & Agency Director

RISK DESCRIPTION
There is a risk that significant disruption in our relationship with one or more of the farming unions affects our ability to deliver our strategic cornerstone to defend and grow our share of the farming market.

MITIGATING ACTIONS
Relationships with the unions, Group Secretaries and wider agency network are strong and have been managed actively at all levels across the organisation during the year to ensure the affiliation remains positive for all parties.

RISK	RISK OWNER
Britain leaving the EU (Brexit)	Strategy & Marketing Director

RISK DESCRIPTION
There is a risk that some farming sectors are significantly and adversely impacted by final Brexit settlements e.g. farming subsidies, leading to a material shift in the demand for, and the appropriateness of, NFU Mutual products. There are also legal and regulatory risks which may arise as a result of Brexit negotiations and / or preparations.

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

RISK	RISK OWNER
Competitor activity	Strategy & Marketing Director

RISK DESCRIPTION
There is a risk that a new or existing competitor seeks to challenge our position as market leader in farming insurance.

MITIGATING ACTIONS
The 5 Year Project Roadmap allows for the continued investment in developing the farming proposition. Competitor activity is monitored regularly.

RISK	RISK OWNER
Reduction in demand for key products and distribution channels	Strategy & Marketing Director

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

MITIGATING ACTIONS
Competitor activity, customer numbers, customer persistency and new business volumes are monitored regularly. Customer surveys are completed during the year. Work continues on both the Pricing Improvement Programme (PIP) and the Life Aspiration Design and Delivery Programme (LADDER) which aim to deliver propositions and pricing that will attract target customers. These programmes are supported by clear sales and growth strategies.

RISK	RISK OWNER
Cyber	IT Director

RISK DESCRIPTION

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

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

MITIGATING ACTIONS

The investment in NFU Mutual's IT systems over the past few years has strengthened the level of technology protection.

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

In addition, a key element of the Data Foundations programme (sponsored by the Finance Director) has implemented a framework for assessing the management and quality of our data.

RISK	RISK OWNER
General Data Protection Regulation (GDPR)	Chief Risk Officer

RISK DESCRIPTION

The European General Data Protection Regulation (GDPR) represents the most significant change to data protection in the UK and EU since 1995. In May 2018 the GDPR will replace the current EU Directive 95/46/EC, under which the UK Data Protection Act 1998 was formed. The new regulation gives more compensation rights to the:
- InformationCommissioner's Office, which will be given the ability to fine companies 4% of their Group turnover; rather than a maximum of £0.5m.
- Individuals, who can sue companies for distress rather than just indemnify them for their loss. This is expected to significantly increase costs to companies if this follows the same path as the US.

MITIGATING ACTIONS

A project team is working alongside the wider business to ensure that NFU Mutual is prepared for the forthcoming implementation of the directive.

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 7 – 9
Principal risks and uncertainties	Risk Management pages 20 – 26 and notes pages 82 – 91
Performance and development during the year	CEO's Statement page 5 and Business Review page 13, Directors' Report page 27
Information about future developments	Business Review page 13
Employee information and Corporate Social Responsibility (CSR)	Directors' Report page 27 and CSR Report page 50
Financial and non financial KPIs	Key Performance Indicators and Business Review pages 10 – 19 Supporting our communities pages 50-53

Long-Term Viability Statement

The Directors have assessed the viability of the Group over the next three years taking into account the current position of the Group as reported on pages 72 – 73 and after carrying out a robust assessment of the principal risks, as shown in the Strategic Report on pages 25 – 26, including those that would threaten the Group's business model, future performance, solvency or liquidity.

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 shown on page 73, as they fall due. In doing so the Board recognises 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.

In making this statement the Directors have considered the areas focused upon during the year by the Board Risk Committee and the Audit Committee summarised on pages 41 – 45, which specifically included the reasonableness of the overall level of General Insurance reserves, and the operation of the Group's governance and internal control framework as set out in the Governance Report on pages 34 – 47. In addition the Group's regulatory Solvency II Own Risk & Solvency Assessment (ORSA) supports the strength of the Group, its current solvency and liquidity position given the principal risks facing the business (in severe but reasonable scenarios), the Group's strategy, the Board's risk appetite and the effectiveness of any mitigation actions.

The Group has undertaken extensive stress testing on it's solvency, liquidity and performance as required by the regulator from prescribed events, including significant General Insurance claims events and erosion within external investment markets, which have shown that the business continues to be in a robust position.

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.

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.

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 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. 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. 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 Relationship 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 with HMRC and to deliver accurate and timely tax returns, including relevant additional information to aid HMRC's understanding of our business transactions.

Signed on behalf of the Board of Directors

Richard Percy
Chairman

Lindsay Sinclair
Group Chief Executive

15 March 2018

DIRECTORS' REPORT

The Directors present their report and the audited consolidated financial statements of the parent company and its subsidiaries for the year ended 31 December 2017.

Results and Mutual Bonus

Consolidated profit after tax including realised and unrealised gains/losses for the year was £540m (2016: £1,026m). Mutual Bonus to policyholders for 2017 was £168.3m (2016: £79m).

The financial results and balance sheet position has 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 current Directors are set out on pages 32 – 33. Adam Quinney and Sally-Ann Hibberd resigned from the Board on 31 August 2017 and 29 January 2018 respectively.

The Governance Report is on pages 34 – 47 which includes provision of Directors' indemnity. In accordance with the UK Corporate Governance Code all Directors will stand for re-election at the 2018 AGM.

Our Employees

As at 31 December 2017, there were 3,756 employees (2016: 3,644) within the Group, an increase of 3% since last year. This increase in employee numbers has arisen as a result of the short term need to support and deliver the Group's portfolio of organisational change. Of our employees, 51% are female and 49% are male. 86% of our workforce is full time and 14% is part time. Our rate of voluntary employee turnover for 2017 was 9%, against an industry benchmark of 10%.

Our People Strategy aims to support the Group in achieving its three long term 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 our Guiding Principles.
- Facilitating a Great Place to Work through focusing on building world class employee engagement.

The above is achieved through the attraction and retention of the best talent in the marketplace and by enabling our managers to provide strong and effective leadership which motivates, engages and develops our employees so that they are able to perform at the highest level. This is underpinned by effective reward practices, employment policies and career development tools.

Engagement

We continue to focus on both employee engagement, and internal customer engagement of our Agents and their staff. In 2015 we achieved our long term goal of becoming a 'world class' workplace (defined as the 90th percentile of Gallup's company database), and we have maintained this high standard in 2016 and 2017 by embedding high quality leadership behaviours in all of our managers and team leaders across the business.

In addition, we continue to develop the leadership capability of our managers to support engagement within their teams, and continue to learn from external benchmarking and best practice provided by Gallup.

Our formal and informal consultation forums support employee engagement with effective communication and helping to provide an employee voice. This aids discussion and effective decision making on key business issues; a foundation of sustainable business success, to the benefit of all.

Performance Management

Improving the clarity of performance expectations continues to be an area of focus for us. We set stretching performance standards, which are realised through the setting, agreeing and regular review of individual objectives that link to our company strategy. This ensures all employees have a clear line of sight from their individual contribution to the delivery of enhanced organisational performance.

During 2017, we have been reviewing our approach to performance management and objective setting, which resulted in the launch of an updated programme of training and resources for managers, as well as improvements and efficiencies in our appraisal processes.

Reward

Our Reward Framework is reviewed regularly in order 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. We have a Remuneration Committee in place which formally oversees our overall approach to Reward across the Group. Reward at NFU Mutual is a combination of base pay and variable pay, including a Group Bonus Scheme which rewards all employees for the success of the business. Reward practices are consistently benchmarked externally to ensure our approach remains market competitive.

Development

We are committed to the training and development of our employees, to optimise both individual and business performance. During 2017 we continued to improve the leadership and technical capabilities of our employees through our Learning Academies. Our Graduate Trainee Schemes, now in their seventh year, are building an internal pipeline of future Talent to strengthen technical and leadership succession. Over the seven years that the Graduate Trainee Scheme has been in place, we have successfully recruited 102 Professional Trainees. Our Apprenticeship Scheme was introduced in 2017 and in the last 12 months 60 apprentices have been employed within the business.

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 customer facing Agents and Financial Advisers. Our Agents Leadership Framework is now well established and was enhanced in 2017 with the launch of additional Business Leadership Development Centres. We also commenced a Chartered Financial Planners Programme in 2016 which was continued and developed in 2017.

Diversity

The Group has a strong commitment to the equal opportunities and diversity of its employees. This is demonstrated through our Equality and Dignity at Work Policy, which supports the recruitment, training, career development and promotion of a diverse workforce. We offer occupational health support in place to enable employees who become disabled during employment to continue in their career with us, either through training or redeployment. This is also endorsed by our Disability Confident Employer status, awarded in recognition of our HR policies and processes being fair in the way we treat people with disabilities.

Compliance

NFU Mutual aims to comply with all laws and regulations wherever we operate and have 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 2017 amounted to more than £600,000, which included a donation to the NFU Mutual Charitable Trust of £300,000 (which distributes awards at its discretion), £300,000 to the Farm Safety Foundation and £16,000 to the Community Giving Fund and Charity Matching Fund.

See the Corporate Social Responsibility (CSR) section on pages 50 – 53 for full details of our community, charity and environment activity.

Principal Risks

The Directors have carried out a robust assessment of the principal risks facing the Group as shown on pages 20 – 24, including those that would threaten its business model, future performance, solvency or liquidity which supports the Long-Term Viability Statement made on page 25.

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 page 25. The Directors consider that NFU Mutual and the Group have adequate resources to continue in operation 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 be 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.

In accordance with Section 418 of the Companies Act 2006, Directors' reports shall include a statement, in the case of each Director in office at the date the Directors' report is approved, that:

a) so far as each Director is aware, there is no relevant audit information of which the company's auditors are unaware; and

b) 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 company's auditors are aware of the information.

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 report on page 1.

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

In accordance with EU rules on maximum tenure of audit firms, a competitive tender process has been carried out as PwC were approaching the maximum duration of continuous appointment. The Directors (following a recommendation from the Audit Committee) have recommended that Deloitte LLP be appointed as the Group's auditor with effect from the 2018 AGM, at which resolutions concerning Deloitte's appointment and authorising the Directors to set their remuneration will be proposed. Further information on the tender process can be found in the Audit Committee Report on page 41.

Signed on behalf of the Board of Directors

Richard Percy
Chairman

Lindsay Sinclair
Group Chief Executive

15 March 2018

BOARD OF DIRECTORS

Richard Percy

Richard was appointed to the Board in 2003 and appointed Chairman in 2012. A farmer for more than 30 years, he has contributed to a number of DEFRA working groups, including those tackling farming regulation and farm business resilience. He was an NFU Council Delegate for 10 years, and for six years was a member of the Board of the Environment Agency. He is also a Director of Apsley Developments Limited.

Lindsay Sinclair

Lindsay was appointed Group Chief Executive in 2008 and is responsible for managing the conduct of the Group's business. During his career he has run retail businesses around the world for Barclays, ING and Standard Chartered. He is a Board member of ICMIF and sits on the General Insurance Committee of the Association of British Insurers. He recently joined the steering group of The Prince's Farm Resilience Programme.

Kim Arif

Kim has been a Director since 2007. He has responsibility for a number of areas including Group Finance, Investments, Properties, Actuarial Functions, Procurement, Risk and Compliance. Kim has been with the Group since 1990, having joined the Life side of the business as an Actuary. He is a Fellow of the Institute of Actuaries, and whilst at NFU Mutual has attended the Harvard Advanced Management Programme.

Steve Bower

Steve became a Director in July 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.

Brian Duffin

Brian was appointed to the Board in 2014. He is an Actuary with extensive financial services experience. Brian was previously Group Chief Executive of Scottish Life and an Executive Director of Royal London Group. He is a Non-Executive Director of the Debt Management Office, Chairman of Scottish Equitable Policyholder's Trust, GEC 1972 Pension Plan and of Aviva's With Profits Committee. Brian is also the Deputy Chairman of the Church of Scotland Investors Trust.

Christine Kennedy

Christine was appointed to the Board in 2014. A partner in her family's County Down beef farm for nearly 30 years, Christine was previously the Director of Commodities and Food for the Ulster Farmers Union and a co-opted member of the UFU Board. She has been an Independent Panel Member for the Department of Agriculture and Rural Development, and is a Director of Countryside Services Ltd, a member of the NI Food Advisory Committee for the FSA, and also a Trustee of Donaghadee YFC.

Eileen McCusker

Eileen was appointed to the Board in 2012. She has over 30 years' domestic and international insurance industry experience across underwriting, regional and operational management and sales. Previously the CEO of XL International Property and Casualty, she has also worked with Commercial Union and Winterthur International. Eileen is a Non-Executive Director of Allied World Syndicate 2232 which is a Lloyds syndicate.

Jim McLaren

Jim was appointed to the Board in 2012. He served as President of NFU Scotland from 2007 to 2011, having served previously as the organisation's Milk Committee Chairman before becoming Vice President in 2006. Since 2011 Jim has been Chairman of Quality Meat Scotland Limited. He is a former Director of Scotland's Rural College (SRUC). Jim is a mixed beef and arable farmer from Perthshire in Central Scotland.

Christopher Stooke

Chris was appointed to the Board in 2011 and appointed Senior Independent Director in 2014. A Chartered Accountant, Chris has extensive insurance experience, having held a number of practice and management positions at PwC and been Chief Financial Officer of Catlin Group. He is Chairman of Chaucer Syndicates and Miles Smith and a Non-Executive Director at both King's College Hospital and South London Theatre Centre.

Nick Turner

Nick was appointed to the Board in 2013 as the Sales and Agency Director. He is responsible for the growth of the General Insurance and Life sides of the business. Nick joined NFU Mutual from AXA where he was Managing Director, Intermediary & Partnerships – Personal Lines. His career spans more than 25 years, largely in the fields of Life and Wealth Management. Nick was previously President of the Personal Finance Society.

GOVERNANCE REPORT

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 feeds into how we do business and how we serve our members. Leadership, culture and good governance are essential considerations for the Board and underpin the decisions that we make on a daily basis to enable us to build a business that can deliver sustainable performance.

Governance Overview

The Board's role is to provide entrepreneurial leadership of the Group within a framework of prudent and effective controls, which enable risk to be assessed and managed. The Board is responsible for stewardship of the Group, overseeing its conduct and affairs to create sustainable value for the benefit of the members. The Board 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. The role of Chairman is to lead the Board in determining its strategy and achieving its objectives and to ensure that we keep a close eye on governance. The Chairman also ensures that adequate time is allocated to the discussion of all agenda items with a particular focus on strategic issues. In addition, he facilitates the effective contribution of the Non-Executive Directors and ensures constructive relations between the Executive and Non-Executive Directors.

The Executive team, led by Lindsay Sinclair, is charged with developing the strategy and successfully executing the operational plans agreed in pursuit of our long-term objectives, in line with the Board's risk appetite and whilst complying with regulatory and legal requirements. Managing our risks effectively creates additional value for the business and in turn provides distinct competitive advantage.

The Board's policy is to appoint and retain Non-Executive Directors who can apply their wider business knowledge and experience to their oversight of the Group, and to review and refresh regularly the skills on the Board. Non-Executive Directors need to be able to present objective, rigorous and constructive challenge to management, drawing on their wider experiences to question assumptions and viewpoints. The Non-Executive Directors should also assist management in the development of the Group's strategy. To be effective, a Non-Executive Director needs to acquire a sound understanding of the industry and the Group so as to be able to evaluate properly the information provided. Farming and the rural community is core to everything that we do, therefore, our Board members bring a mix of both farming and non-farming experience to the table.

We believe our governance arrangements continue to be right for NFU Mutual. They support our strategy and business model and enable us to respond to any challenges we face. Strong contributions and challenge is encouraged from all of our Directors by creating an open and constructive atmosphere. This is aided by having Directors who bring a broad range and balance of skills, experience and attributes.

Our Approach to Governance

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 believes that best practice in corporate governance should be embedded throughout the Group to ensure the business runs smoothly. This aids effective decision making and supports the objectives for the benefit of members. 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. The Board and its Committees work together to review strategy, business performance and to manage the business risks.

The Board is proud of NFU Mutual's local governance framework which allows our members to communicate directly with the business.

The UK Corporate Governance Code

NFU Mutual chooses to follow the UK Corporate Governance Code (the Code). Further information on the Code can be found on the Financial Reporting Council's website.

The Code is a guide to effective board practice and is based on the principles of good governance: accountability, transparency, probity and a focus on the sustainable success of an entity over the longer term. The Board believes that its practices are consistent with each of the principles of the Code, are appropriate and offer the necessary level of protection for our members. NFU Mutual complies with all relevant provisions of the Code except the provision explained below. Further details of how NFU Mutual applies the Code can be found throughout the Governance Report.

The Group does not ask its members to approve any new, or significant changes to existing, long-term incentive schemes. Whilst not required to do so, NFU Mutual canvasses members' views on its remuneration policies by asking them to vote on the Directors' Remuneration Report, which contains details of such schemes.

Leadership – Our Board

What is the involvement of our Directors?

The time demand on Non-Executive Directors in financial services has increased noticeably in recent years as governance processes have become more robust. More recently the commitment for a Non-Executive Director can be around 50 days per year, including time for meetings, Continuing Professional Development and regulatory briefings. The table below records the number of meetings of the Board that each Director has attended. As well as the regular Board meetings, there are two strategy sessions per year and Board Committee meetings which are generally held on the day before the Board meeting.

At NFU Mutual the involvement of our Non-Executive Directors goes further, with regular opportunities to meet members, staff and Agents via national and local shows and events, NFU conferences and Regional Advisory Board meetings. The Chairman also has a higher level of involvement with external parties such as the farming unions, Prudential Regulation Authority, Financial Conduct Authority, shows and events. The Chairman's significant commitments outside of NFU Mutual are set out in his profile on page 32. There have been no changes to these during the year and the Chairman remains able to devote sufficient time to his role. Each Non-Executive Director has demonstrated that they have sufficient time to devote to the role.

Name of Director	A	B
Chairman		
Richard Percy	10	10
Senior Independent Director		
Chris Stooke	10	10
Chief Executive		
Lindsay Sinclair	10	10
Executive Directors		
Kim Arif	10	10
Steve Bower	10	10
Nick Turner	10	10
Non-Executive Directors		
Brian Duffin	10	10
Sally-Ann Hibberd	9	10
Christine Kennedy	10	10
Eileen McCusker	10	10
Jim McLaren	9	10
Adam Quinney[1]	6	6

[1] Resigned from the Board on 31 August 2017

A = Number of meetings the Director actually attended in 2017.

B = Maximum number of meetings the Director could have attended in 2017.

Effectiveness

How do we make sure our Board is effective?

The effectiveness of the Board is vital to the success of the Group. In order to be effective as a Board, we need to ensure there is constructive and challenging debate. The Board takes this into account when considering new appointments. In addition, diversity of the Board is important. The Board considers diversity in the widest possible way taking into account differences of approach and experience to ensure effective engagement of stakeholders and delivery of business strategy.

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. An external evaluation was undertaken in 2017 and included Director appraisal and a Board audit conducted by Socia. Socia did not undertake any other work for the Group during the year. The Board received a full report of the evaluation and agreed an action plan to further improve its and individual Directors' effectiveness. The outcomes of the appraisal process were reported back to the Board as a whole and, following a full discussion, an action plan was agreed to address the items raised. Each Director received individual feedback to support their development needs. The Board was considered to be operating effectively.

Our Non-Executive Directors meet independently at least once a year and informally on a regular basis.

All Directors are subject to election by the members at the AGM following their appointment. In addition, all Directors are subject to re-election at the AGM on an annual basis. Non-Executive Directors are appointed for three year terms subject to 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.

The Chairman's performance is appraised annually in a session led by the Senior Independent Director, which the Chairman does not attend. In 2017, the appraisal concluded that the Chairman continues to operate to a high level, exhibiting positive leadership and ensuring that the necessary conditions for effective discussion at an individual and Board level are met.

The Board's structure

The Board is structured with four Executive Directors and six 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. 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.

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. Under the Code, the Chairman is not considered to be independent following his appointment as Chairman, however, the Board considered him to be independent prior to his appointment as Chairman. In 2017, the Board considered all of the Non-Executive Directors to be independent in accordance with the Code.

The Board regularly considers and, if appropriate, authorises Directors' potential conflicts of interest in accordance with the Companies Act 2006. The decision to authorise a potential conflict of interest can only be made by Directors who have no interest in the matter being considered.

During 2017 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.

How does the Board keep itself up to date?

New Non-Executive Directors participate in a comprehensive formal induction programme. This provides information about the Group's structure and strategy, 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 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 2017 Continuing Professional Development (CPD) sessions were provided on a number of subjects including FCA appointed representatives, the EU's General Data Protection Regulation, the link between product design and capital in the life fund, cyber security and measuring performance. In 2017 as well as the regular CPD sessions the Board received a number of presentations from external speakers on subjects including investment management, the state of the farming economy and Brexit. In addition, the Board receives regular market and company updates as part of the Board agenda.

"The Board regularly considers and, if appropriate, authorises Directors' potential conflicts of interest in accordance with the Companies Act 2006"

What did the Board focus on during 2017?

The Board considers that the Group made good progress during the year towards its objectives. The Board has a schedule of matters reserved to it for consideration and a calendar of regular reporting and decision items. The Board receives regular updates on the insurance and investment markets and the agricultural industry. The annual cycle of work includes risk management, financial reporting and solvency updates and strategic planning. The Board holds two strategy sessions each year; these consider progress towards the Group's strategic aims as well as the annual and medium-term plans.

During the year the Board received regular reports on the progress of the Group's major change programmes. It also reviewed cyber risk and the work ongoing around the Group to ensure that cyber risks are controlled and mitigated. This will be a continuing area of focus for the Board. The Board also considered the impact of the Ogden discount rate change on reserves and pricing. Each month the Directors consider the business results and any emerging trends at a Group, industry and economic level. The Board considered the Group's capital management and received monthly reports on the Group's solvency coverage. It reviewed the Group's risk appetite, reinsurance programmes, Mutual Bonus rates, bonus rates for With-Profits products, employee engagement, various corporate governance papers and approval of significant contracts. The Board received reports on all contact with the regulators including the PRA and FCA. It also considered compliance and financial crime reports and the annual whistleblowing report. The Board also considered the potential impact of Brexit on the Group and its members. In addition, the Board continued to provide oversight and challenge to management on the execution of the medium-term plan.

Accountability

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

The Board also oversees the effectiveness of risk management via its risk governance framework, which consists of committees from Board level to business unit and divisional level and ensures effective Group wide risk oversight.

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

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.

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.

Engagement / Relations with Members

How does NFU Mutual communicate with its members?

The Board believes it is important to obtain the views of its members and understand issues that concern them. To facilitate this, the Group has a Member Relations function which is responsible for developing its Member Relations strategy and member communications. The local governance structure enables members to provide NFU Mutual with valuable feedback on a wide range of issues which helps us to continue to provide excellent customer service and value for money. A key part of this structure is the Group's network of Regional Advisory Boards made up entirely of members. The Regional Advisory Boards maintain close links with the company's main 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 eight Regional Advisory Boards, five 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 with senior management. Member Forum meetings take place throughout the regions with 44 meetings being held in 2017.

NFU Mutual's AGM is an important opportunity for the Group to communicate with members. Directors attend the AGM and members have the opportunity to ask questions during the meeting and to meet Directors following the conclusion of the formal part of the meeting.

NFU Mutual also has an online customer panel, Mutual Voice, which it uses to gather customer views on a range of topics.

How does NFU Mutual engage with companies as an institutional investor?

The Financial Reporting Council's UK Stewardship Code aims to enhance the engagement between institutional investors and companies to improve governance in those companies and enhance shareholder value. A statement of the Group's compliance with the Code can be found on the NFU Mutual website nfumutual.co.uk.

Our Committees

The Board delegates clearly defined responsibilities to its Committees. Each Committee reports to the Board on activity following each meeting. The terms of reference for each Committee can be found on the NFU Mutual website nfumutual.co.uk. Reports from the Nomination, Audit, Board Risk and With-Profits Committees follow; the Remuneration Committee report can be found in the Directors' Remuneration Report at page 54.

Nomination Committee Report

What does the Nomination Committee do?

The Nomination Committee has overall responsibility for succession planning and leading the process for new appointments to the Board and the senior executive team. Its purpose is to ensure that the succession planning process and any new appointments bring a balance of skills, knowledge, experience and diversity to the Board and senior management.

The Committee considers whether the Board should recommend Non-Executive Directors for re-election at the next AGM. This review considers the Directors' performance appraisal and their ability to contribute to the Board in light of the knowledge, skills and experience required to ensure the continuing balance and progressive refreshing of the Board.

Prior to the appointment of a new Non-Executive Director the Committee considers the skills, knowledge and experience required to complement the existing Board members. A search firm is used to assist with the appointment process. Each shortlisted candidate is subject to a rigorous interview and appraisal process before the Committee recommends a candidate to the Board for appointment. For all appointments candidates are appointed against objective criteria with due regard for diversity on the Board. Diversity, for NFU Mutual, includes but is not limited to gender. A variety of aspects of diversity are considered including professional and industry experience, an understanding of different geographical regions, different perspectives and skills. Each of these components is equally important and ensuring that we have the right mix of each is vital. In making new appointments, the Board will have regard to gender but will remain focused on recruiting, on merit, the best candidate for the role.

In addition, diversity is considered when appointing to senior positions within the Group. The proportion of women in senior positions has increased over the past few years.

What did the Committee focus on during the year?

In 2017 the Nomination Committee kept under review the Board and Committee composition and succession planning requirements. It considered the outcome of the Board appraisal process which allowed it to review and reflect on the skills offered by individual Directors and any gaps which needed to be addressed. This also allowed it to identify the skills required for a new Non-Executive Director appointment and to consider further training and development opportunities. The Committee undertook a thorough search to find suitable candidates from a financial services background for the new Non-Executive Director. A search company, Egon Zehnder, was employed to prepare a list of potential candidates for the Committee to consider. An appointment will be made in 2018 following shortlisted candidates being subject to a rigorous interview process. Egon Zehnder does not have any other connections with the company.

The Committee also considered whether Christine Kennedy, Jim McLaren and Chris Stooke should be recommended for re-election at the end of their three year terms. The Committee recommended, and the Board accepted, that each of these Non-Executive Directors should stand for a further three year term at the 2018 AGM. These Directors are the only Non-Executive Directors whose three year terms will end at the 2018 AGM. The Committee also recommended to the Board that all Non-Executive Directors should stand for annual re-election at the 2018 AGM. During the year, the Committee reviewed the composition of Committees and recommended to the Board changes to reflect the resignation of Adam Quinney.

The Committee undertook an annual review of its performance and effectiveness which concluded that overall the Committee was effective in carrying out its duties. The Committee also reviewed and approved its terms of reference during the year.

Name of Director	A	B
Richard Percy (Committee Chairman)	4	4
Brian Duffin	4	4
Christine Kennedy	4	4
Eileen McCusker[1]	-	-
Lindsay Sinclair	4	4
Chris Stooke	4	4

[1]Appointed to the Committee on 2 February 2018.
A = Number of meetings the Director actually attended in 2017.
B = Maximum number of meetings the Director could have attended in 2017.

Audit Committee Report

What does the Audit Committee do?

The principal role of the Audit Committee is to assist the Board in discharging its responsibilities for maintaining the integrity of the Group's financial statements, the oversight of the Group's system of internal controls and the performance of the internal and external auditors. While the Board as a whole has a duty to act in the best interests of NFU Mutual, the Committee has a particular role to ensure that the interests of the members are properly protected in relation to financial reporting and the effectiveness of the Group's system of internal controls. The key responsibilities of the Committee are to:

- Review the significant issues and judgements of management, and the methodology and assumptions used in relation to the Group's financial statements, including the reserving position relating to the Group's Life Assurance and General Insurance operations.
- Review the Group's going concern assumptions.
- Assess the effectiveness of the Group's system of internal controls, including financial reporting, financial controls and the Internal Audit function.
- Consider and make recommendations to the Board on the appointment, reappointment, dismissal or resignation, effectiveness and remuneration of the external auditor.
- Assess the independence and objectivity of the external auditor.
- Take responsibility for the oversight of the Internal Audit function.

External Auditors

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. The formal tender was undertaken by the Committee during 2017; further details can be found below. 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 auditors. These recommendations are then put to the members for approval at the AGM.

Independence of External Auditors

The Committee continually reviews the nature and extent of non-audit services provided to the Group by the external auditors 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 auditors 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 auditors. One such policy relates to the use of the external auditors for non-audit work. The policy states that the external auditors 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, there are certain services which the external auditors would not be allowed to undertake for the Group. These services include those related to the accounting records or financial statements; the financial information system design or implementation; actuarial services; and outsourcing of Internal Audit services. PwC undertook a number of non-audit related assignments during 2017 and these were approved by the Committee in accordance with the policy and are considered to be consistent with the professional and ethical standards expected of the external auditors 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. The 2017 financial year was the fifth and final year of the current audit engagement partner's appointment.

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 in reviewing the Group's controls. The Committee seeks assurance from the work of the Internal Audit department which provides objective assurance of the effectiveness of those arrangements.

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 Chairman. The Committee Chairman 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 reviews and approves the scope of the Internal Audit programme and receives regular reports from the Group Head of Internal Audit on the work of Internal Audit and on management's response to recommendations for control improvements.

Employees

The Committee also takes responsibility 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 Chairman is NFU Mutual's Whisteblowing 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.

Membership of the Committee

The Board is satisfied that the Committee's members bring a wide range and depth of financial and commercial experience across various industries and that Chris Stooke meets the specific requirement for recent and relevant financial experience.

Name of Director	A	B
Chris Stooke (Committee Chairman)	7	7
Sally-Ann Hibberd [1]	6	7
Christine Kennedy[2]	2	2
Eileen McCusker[3]	-	-
Jim McLaren	6	7
Adam Quinney[4]	5	5

[1] Resigned on 29 January 2018
[2] Appointed to the Committee on 1 September 2017
[3] Appointed to the Committee on 2 February 2018
[4] Resigned on 31 August 2017
A = Number of meetings the Director actually attended in 2017.
B = Maximum number of meetings the Director could have attended in 2017.

What did the Committee focus on during the year?

Financial statements and accounting policies

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 auditors' proposed audit plan. The debate around the plan included consideration of PwC'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 with PwC to ensure that the business is transparent and provides the required level of disclosure regarding significant issues considered by the Committee in relation to financial statements, as well as how these issues were addressed, whilst being mindful of matters that may be business sensitive. 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 their preparation. Its 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. In particular, the Committee considered the following significant issues during the year.

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 has been a significant area of focus for the Committee over the past few years. The Committee, together with the Board, has received 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 also undertaken 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. The paper also set out the key assumptions behind the reserves and the governance process around setting the reserves. The Committee had a particular focus this year on the impact of the Ogden discount rate change on the reserves. The change to the discount rate to -0.75% was announced and took effect in March 2017. However, the guidance from the Lord Chancellor in September was that discount rates may be adjusted to 0-1% and reviewed every three years. Prior to the announcement of the revised rate, the Society had undertaken scenario work to understand the potential impact of a rate change. Following the announcement the Committee considered the impact on the reserves. It has closely monitored the progress of the Government's review of the discount rate methodology.

The Committee also gave full consideration to PwC'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.

As part of the audit, PwC undertakes a benchmarking exercise to allow the Committee to see how the Group's assumptions compare to the rest of the market. Having considered the reports provided by management and PwC, 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 PwC's Audit Opinion on page 64. The Committee has requested that PwC bring to the Committee's attention any findings as a result of their audit work with a monetary value of over £1m. 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. 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

During the year, the Committee undertook a formal tender for the role of external auditor for the 2018 financial year. The tender was undertaken to comply with the EU Audit Directive which requires mandatory rotation of audit firms. PwC was not invited to participate in the tender due to the length of their tenure as auditors.

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

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

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

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

Having reviewed the tenders against the selection criteria the panel recommended that Deloitte LLP be appointed as external auditor for the 2018 financial year. The Committee subsequently reviewed this recommendation and agreed that the appointment of Deloitte LLP should be recommended to the Board for approval. The Committee believed that Deloitte LLP was a better match against the selection criteria than the other candidate, Mazars LLP. The Committee confirms that the recommendation is free from influence by a third party and that there is no contractual restriction on NFU Mutual's choice of auditor. The Board, having considered the recommendation, approved the appointment. The Committee is now working with PwC and Deloitte LLP to ensure an orderly transition of the audit while ensuring minimal disruption to the business.

In addition, the Committee met regularly with PwC throughout the year to discuss its remit and any issues arising from the audit. This included one meeting without members of the management team being present.

Internal Audit

The Committee reviewed and approved the activity of Internal Audit during 2017. 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 these themes. If an audit of a particular 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.

During 2017 audit activity covered both the General Insurance and Financial Services operations. The internal audit programme continued to include a focus on IT controls with audits of individual systems, applications and processes. The Committee also received presentations on IT controls throughout the year to provide assurance of the work being undertaken to further improve the control culture and to address cyber security risks. There was a continuing focus on the major change programmes with wide ranging audits designed to ensure appropriate governance was in place for each project to enable it to deliver to plan. There were also audits focused on specific business areas such as Group Strategy, Prudential Risk, Compliance Consultancy and the Financial Crime Unit. In December 2017 and January 2018 the Committee approved the 2018 plan, budget and resources of Internal Audit. It also approved the Internal Audit Charter.

Internal Audit Effectiveness Review

Every five years an independent external review of the function is undertaken. In 2014 Deloitte LLP was engaged to undertake this review. The Committee is satisfied that all actions arising from the review have been concluded. In late 2015, Deloitte were appointed as co-source partner to support the resourcing and development of the Internal Audit function. Following the recommendation to appoint Deloitte as the Group's external auditor, Deloitte stood down as co-source partner with effect from 31 December 2017. The Committee has concluded that the Internal Audit function is performing well, is sufficiently resourced and demonstrates continued improvement.

Other matters

The Committee considered quarterly reports on financial crime with a focus on actions being taken to further enhance identification of potentially fraudulent claims. Reports were also received on tax risk management, accounting developments, the arrangements under Solvency II and whistleblowing.

Committee performance and effectiveness

The Committee undertook an annual review of its performance and effectiveness which concluded that overall the Committee was effective in carrying out its duties and was operating in a proactive manner. The Committee also reviewed and approved its terms of reference during the year.

Continuing Professional Development (CPD)

The Committee continued its programme of continuous development with CPD and business awareness sessions on internal audit held in the year. The Committee has developed a knowledge matrix to help identify future training opportunities.

Board Risk Committee Report

What does the Board Risk Committee do?

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.

What did the Committee focus on during the year?

During 2017 the Committee considered regular reports from the subordinate risk committees that operate across the Group; these included a focus on IT, data, business continuity and disaster recovery risks, cyber risks, adherence to risk appetites, a review of the control culture and emerging risks. It received the Chief Risk Officer's annual report on the effectiveness of risk governance and risk management. The Committee also considered the impact of market movements on the Group's solvency position and risk appetite. It undertook a review of the Solvency II Internal Model. Stress scenarios were considered during the year to further develop understanding of how major developments could affect the Group's risk position and the recovery from such scenarios. The Committee kept under review the risks arising from Brexit and received regular Conduct and Prudential compliance reports. It also considered the refreshed investment mandates and beliefs. The Committee received reports from the Chief Actuaries on the Life and General Insurance businesses and considered the technical provision assumptions and outcomes.

During the year the Committee reviewed its own effectiveness and concluded that it continues to operate effectively.

Name of Director	A	B
Eileen McCusker (Committee Chairman)	4	4
Brian Duffin	4	4
Sally-Ann Hibberd[1]	4	4
Jim McLaren	4	4
Richard Percy	4	4
Chris Stooke	4	4

[1] Resigned on 29 January 2018.
A = Number of meetings the Director actually attended in 2017.
B = Maximum number of meetings the Director could have attended in 2017.

"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"

With-Profits Committee Report

What does the With-Profits Committee do?

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.

What did the Committee focus on during the year?

During 2017, 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 Report to With-Profits Policyholders and Policyholders' Reasonable Expectations were reviewed to ensure compliance with the Principles and Practices of Financial Management for With-Profits business. This considered key decisions and payouts against target ranges. The Committee considered how expenses are allocated to With-Profits products. It also considered actions required in relation to products such as deferred annuities and whole of life to meet the FCA's requirements to ensure the fair treatment of longstanding customers in the life insurance sector. The Committee received regular updates on the Life Aspiration Design and Delivery Programme (LADDER) to understand its potential impact on With-Profits members.

At each meeting the Committee reviews the With-Profits management information which includes, amongst other things, the level of new business sales, the mix of business, asset share and complaints data. The Committee incorporates CPD in its meetings. The Committee also reviewed its own effectiveness and concluded that it was operating effectively.

Name of Director	A	B
Brian Duffin (Committee Chairman)	4	4
Kim Arif	4	4
Gina Fusco	3	4
Eileen McCusker	4	4
Jim McLaren	3	4

A = Number of meetings the Director actually attended in 2017.
B = Maximum number of meetings the Director could have attended in 2017.

Remuneration

Details of the work of the Remuneration Committee can be found in the Directors' Remuneration Report.

Name of Director	A	B
Jim McLaren (Committee Chairman)	5	6
Eileen McCusker	6	6
Christine Kennedy	6	6

A = Number of meetings the Director actually attended in 2017.
B = Maximum number of meetings the Director could have attended in 2017.

Signed on behalf of the Board of Directors

Richard Percy
Chairman

Lindsay Sinclair
Group Chief Executive

15 March 2018

CORPORATE GOVERNANCE

1. NFU Mutual Board of Directors (Richard Percy*)

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 (Richard Percy*)

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 (Chris Stooke*)

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 (Jim McLaren*)

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 (Eileen McCusker*)

Oversees the development, implementation and maintenance of the Group's overall 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 (Lindsay Sinclair*)

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*)

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.

* The Chair of each Committee is shown in brackets

REGIONAL ADVISORY BOARD MEMBERS

England

North

R. Thornton, Northumberland (Chair)
M. Cringle, Isle of Man
G. Poskitt, Yorkshire (West Riding)
M. Roberts, Shropshire & Cheshire
T. Seymour, North Riding & Durham
R. Thornhill, Nottinghamshire & Derbyshire
T. Wilson, Cumbria
G. Young, Lancashire

Midlands

D. Christensen, Oxfordshire (Chair)
A. Capper, Worcestershire
D. Farrington, Northamptonshire
C. Parker, Leicestershire & Rutland
J. Prince, Staffordshire
J. Walton, Warwickshire

East

J. Finnis, Essex (Chair)
R. Barlow, Holland (Lincs)
N. Rome, Cambridgeshire
G, Spiers, Beds & Hunts

South West

J. Hebditch, M.B.E., Somerset (Chair)
M. Hambly, Cornwall
P. Harris, Dorset
M. Lockyer, Wiltshire
A. Rew, Devon
A. Snell, Herefordshire
M. Weaver, Gloucestershire

South East

R. F. Colebrook, Surrey (Chair)
M. Hole, East Sussex
J. Regan, Kent
M. Robins, Berkshire
R. Shepherd, Hampshire
G. Torrance, West Sussex
I. Waller, Buckinghamshire

Northern Ireland

J. Thompson, County Antrim (Chair)
S. B. Bell, County Down
S. Brown, County Tyrone
T. Forgrave, North
G. Furey, County Down
I. Marshall, County Armagh
G. McHenry, County Antrim
T. Roulston, West

Scotland

G. Baird, East (Chair)
J. Baird, West
A. Bowie, East
K. Campbell, West
H. Fraser, Highlands (North)
S. Howie, North East
M. Kennedy, Central & West
A. Moir, East

Wales

D. Davies, J.P, O.B.E (Chair)
J. Bletcher, Clywd
J. Davies, Ceredigion
H. Evans, Merionethshire
R. Jenkins, Montgomeryshire
T. Lloyd, Anglesey
E. Noble, Mid Gwynedd
G. Price, Brecon & Radnor
G. Probert, Monmouthshire & Glamorgan
G. Richards, Carmarthenshire & Pembrokeshire

SUPPORTING OUR COMMUNITIES

NFU Mutual has been an integral part of the British countryside for more than 100 years, meeting the needs of over 900,000 members through insurance, investments and pensions, to life assurance and risk management.

We have also been quietly, but resolutely, tackling a wide range of issues that are essential to building a more sustainable future for the communities we support.

Supporting our communities includes developing schemes and initiatives that reflect our member's values, working with the police to fight rural crime, reducing death and injury on our farms, teaching young drivers how to stay safe on rural roads and supporting schemes to protect the environment.

Championing Rural Communities

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 within the UK. In 2017 the Trust made donations of £249,360 to alleviate hardship, support future farming generations and improve the knowledge of the value of farming.

The NFU Mutual Charitable Trust Centenary Award – creating a legacy for the agricultural community

The Centenary Award was first launched by the NFU Mutual Charitable Trust in 2010 to celebrate NFU Mutual's 100th birthday, and NFU Mutual donated £250,000 to fund the scheme. The annual award scheme provides bursaries to pay up to 75% of course fees for selected students who are undertaking a postgraduate course (Masters or PhD) in agricultural within the UK.

Our Centenary Award aims to give outstanding agricultural students the opportunity to continue their studies, supporting young people wanting to make a difference to both farming and rural communities.

To select the students, the award's judging panel look for applicants who are not only excellent academic performers, but are also passionate about making an impact within UK agriculture.

In 2017, the NFU Mutual Charitable Trust once again provided bursaries for four postgraduate agricultural students, and 33 young people have now received help through the award to further their education.

Information about the scheme can be found on our website **nfumutual.co.uk**.

The Farm Safety Foundation – protecting the farmers of the future

While UK farmers are among the best in the world, farming remains one of our country's most hazardous industries; accounting for 1.5% of workers but 15-20% of all worker fatalities (HSE).

Every year too many agricultural workers suffer serious, life-changing or fatal injuries. In 2016/2017, 33 farm workers lost their lives in the workplace according to the latest HSE Fatal Injuries in Agriculture report. This may be less than the previous year, however there are still 33 families and communities mourning the loss of a loved one.

As a mutual insurer that has cared about the countryside, farmers and their families for more than a century, NFU Mutual took the decision in 2014 to establish The Farm Safety Foundation, a charity to help young farmers challenge their behaviours and change their attitude to farming safely.

Over the years The Farm Safety Foundation has been recognised nationally for the ground-breaking work it is doing within the industry, receiving the prestigious Business in the Community Samworth Brothers Rural Action Award 2016. In 2017, the Foundation won a silver award in the Not-For-Profit category at the Midlands CIPR PRide Awards, as well as being shortlisted at the Drum Network Awards for Charity Campaign of the Year.

Since 2014, the Farm Safety Foundation has been working closely with the National Federation of Young Farmers' Clubs, Wales Young Farmers' Club, Scottish Association of Young Farmers and Young Farmers Club of Ulster, the Health & Safety Executive and the Farm Safety Partnerships of England, Scotland, Wales and Northern Ireland to encourage young farmers aged between 16 and 40 to think about the consequences of a life changing accident.

Through the special 'Introduction to Farm Safety' training course, which has been delivered to more than 3,500 young farming students in 36 different agricultural colleges across the UK, industry wide initiatives such as Farm Safety Week and support of the Young Farmers' Clubs, the Foundation will continue to inform, influence, motivate and advise young farmers to make a change and make farming a safe industry for all.

Supporting local communities

The Community Giving Fund

Since its inception in 2005, the CGF has donated more than £140,000 to support community initiatives and charitable events local to our branch network and to boost staff fundraising initiatives.

In 2017, the fund helped more than 85 community groups and charities, donating just over £16,000.

Employee Volunteering Programme

Each member of NFU Mutual staff is offered the opportunity to volunteer one day a year along with their colleagues to work on a project facilitated by volunteering partners such as the National Trust or other community initiatives. In 2017, 116 members of staff voluntarily gave 812 hours of their time to benefit the communities close to their place of work, while at the same time learning new skills, working collaboratively with their colleagues and gaining a sense of shared achievement.

Rural Crime

As the insurer of three quarters of the UK's farmers and many rural homes and businesses, we are continuing to take a leading role in the fight against rural crime. The success of our unique scheme with police to tackle tractor theft has helped to almost halve the cost of tractor theft since its peak in 2010. We are now seeing encouraging results from the "Ewe Hostels" initiative which we are funding to tackle livestock theft by training police, sharing data and providing secure housing for livestock held during police investigations.

Helping to Protect the Environment

We are working towards a more sustainable future at NFU Mutual – in more ways than one:

Waste management

We adhere to Defra's "waste hierarchy" which ranks waste management options according to what's best for the environment – and it gives top priority to preventing waste in the first place. If waste is created, the recommendations are to re-use, recycle then recover and lastly, disposal.

Food waste bins were introduced across Stratford head office sites in 2017 and this waste is collected separately and processed at an anaerobic digestion facility. This facility converts the waste into energy and the left over product from this process, called digestate, is used as a biofertiliser on land - something which is a good fit with our commitment to the rural community.

All waste materials that were not re-used or recycled from our Stratford offices were sent to an energy from waste plant, thus avoiding landfill.

Where suitable, second hand office furniture is offered to staff for a nominal fee which goes to charity, or the furniture is given straight to the charities themselves.

Our Group Procurement function also supports our waste reduction approach through the supply chain. Detailed questions are asked of prospective providers at the early stages of a tender, to ascertain organisational synergies and to understand how a supplier could help to deliver our responsible business aims. We also continue to work with our supply chains to find solutions for industry wide waste challenges.

Energy efficiency – Our participation in the Carbon Reduction Commitment (the Government's energy efficiency legislation) requires us to record precise measurements of gas and electricity for all our buildings. With a large and varied property portfolio spread across the UK, it makes good business sense that all our buildings are energy efficient and therefore cost effective to run.

Claims Waste

We're also recycling furniture to save lives. Our partnership with the British Heart Foundation and ServiceMaster Clean means that we stop some of the furniture we replace from an insurance claim from going to landfill by donating it to BHF shops. This has the double impact of helping to protect the environment and funding life-saving heart research.

Looking after our members

Stationery Supplies

We're proud to be transforming lives at home and abroad by purchasing our office stationery supplies in a socially responsible way. Our partnership with social enterprise 'WildHearts Office' enables us to make a difference, while supporting our responsible business aims. Through our spend with WildHearts Office we have created the following impact:

- So far we have helped 1,843 people work their way out of poverty in developing countries through access to microfinance -enabling them to set up small businesses and work their own way out of poverty
- We've funded 921 Love to Learn school starter packs as part of WildHearts' Global Literacy Programme
- We have also helped to fund the free delivery of Micro-Tyco to schools across the UK, enabling young people to develop their enterprise and employability skills.

Farm Safety Foundation:
In 2017,

1,516

agricultural students in 30 different land-based colleges & universities across the UK received the Introduction to Farm Safety training.

Community Giving Fund: 85 **community groups and charities received donations in 2017**

NFU Mutual charitable Trust: £271,795 donated in 2017 (made up of £249,360 from general donation, plus £22,435 from Centenary Award)

£565,360 donated to charities in 2017.

(Via Charitable Trust, Farm Safety Foundation, donations to Young Farmers, and Community Giving Fund)

Student awards:

8

future agricultural leaders helped in 2017 (4 from undergraduate award and 4 from postgraduate award)

Employee volunteering: 116 employees **took part in 2017, amounting to 812 hours.**

DIRECTORS' REMUNERATION REPORT

Chairman of the Remuneration Committee, Jim McLaren

I am very pleased to present the Remuneration Committee's report for the year to 31 December 2017. The report has been structured broadly in accordance with the remuneration disclosure regime that applies to London Stock Exchange listed companies, to ensure that our remuneration policies and practices are presented in a clear and informative way.

The remuneration policies are designed to 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 has delivered a set of strong results in 2017, hitting or exceeding all our key performance indicators, and this is reflected in bonus payments across all staff.

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. NFU Mutual's strong business performance in the 2017 financial year is reflected in the incentive payment outcomes for all staff including those for executives.

Base salaries for Executive Directors increased from 1 May 2017 by between 1.9% and 3.9%, compared with the range of pay increases for all staff in the business of between 0% and 10%.

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.

The Committee would welcome your support at the AGM.

Remuneration Committee
- Jim McLaren (Chairman)
- Eileen McCusker
- Christine Kennedy

"NFU Mutual has delivered a set of strong results in 2017, hitting or exceeding all our key performance indicators, and this is reflected in bonus payments across all staff."

The Remuneration Committee

All members of the Committee are Non-Executive Directors who meet throughout the year. The Chairman of the Committee reports to the subsequent meeting of the Board on the Committee's work.

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 and the General Counsel & Company Secretary. It also sets the proposed level of fees for the Chairman. All of these fees and remuneration are based on market relevancy and objective advice from our external remuneration consultants.

The Committee's practice is to appoint a number of remuneration consultants, who may also provide other services to the Group. Data provided by remuneration specialists, Korn Ferry Hay Group Limited, Willis Towers Watson and New Bridge Street, was used to benchmark executive pay during the year. New Bridge Street also provided advice and guidance to the Committee during the year. New Bridge Street is a signatory to the Remuneration Consultants' Code of Conduct, which requires its advice 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 particular skills and knowledge important to the success of the business

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

In order to comply with the best practice principles set out in the Financial Conduct Authority's Remuneration Code, a process has been implemented to ensure 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 Business Risk and Compliance functions. This risk assessment focuses on financial, behavioural, regulatory and operational risks.

Remuneration policy

Reward at NFU Mutual is a combination of base pay, variable pay and a market competitive 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 collegial culture.

A full version of the Remuneration Policy Table is available on **nfumutual.co.uk**.

Comparability of policy across the company

The following notes outline any differences in the Company's policy on the remuneration of its Executives from other employees within the Group by reference to each element of remuneration:

Base Salary: there are no differences in the policy. The Committee takes into account the Group's overall salary budget and percentage increases made to other employees with similar levels of performance in setting Executives' salaries.

Benefits: there are no differences in policy although the benefits available vary by level, for example, car or car allowances vary by level.

Annual Bonus: the Group Bonus Scheme applies throughout the company. The Short Term Incentive Plan applies to staff above a certain level where their roles more directly influence the success of the business, with maximum bonus opportunity varying by level.

Since 2014, one third of the annual bonus award (Group Bonus Scheme and Short term Incentive Plan) has been deferred for three years post award for CEO and Executive Directors only.

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

From 2018, all UK companies with over 250 employees are required to report on their Gender Pay Gap. This measures the difference between the average pay of all men and women in a company. Gender Pay is very different to equal pay where legislation focuses on earnings for men and women doing the same (or similar) work.

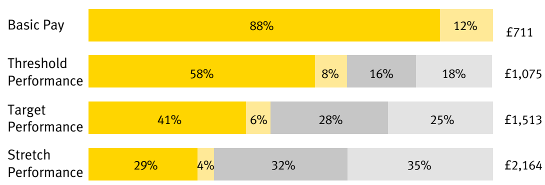
There are no differences in NFU Mutual's Remuneration Policy, or how it is applied, based on gender. NFU Mutual's Gender Pay Gap results compare positively with the data published for the Finance and Insurance Activities sector by the Office of National Statistics (ONS) in 2017. Our full Gender Pay Report will be available by the 4th April deadline on **nfumutual.co.uk**.

Relative importance of remuneration elements

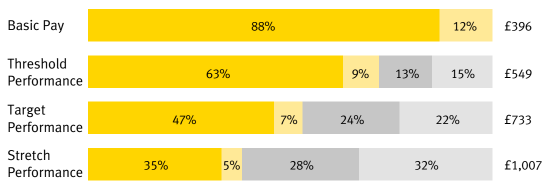
The Committee's view is that performance-related elements of the remuneration package for Executive Directors should be a substantial portion of the total. This serves to align the actions of such Directors with the interests of members.

The charts below illustrate the mix in 2017, between the fixed and performance-related pay of Executive Directors at threshold, on target and at stretch performance levels.

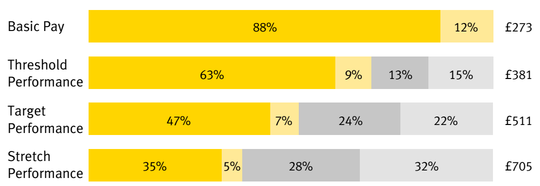
Chief Executive (Lindsay Sinclair) total remuneration potential for the 2017 performance year (£'000)



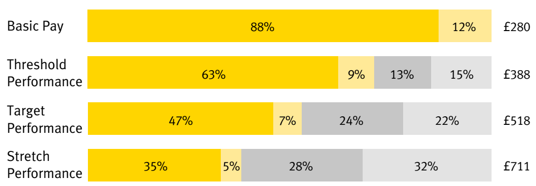
Finance Director (Kim Arif) total remuneration potential for the 2017 performance year (£'000)



Customer Services Director (Steve Bower) total remuneration potential for the 2017 performance year (£'000)



Sales & Agency Director (Nicholas Turner) total remuneration potential for the 2017 performance year (£'000)



1 1/3 of Annual Bonus (GBS and STIP) will be deferred for 3 years
2 Kim Arif basic pay includes 4% cash allowance

Base Salary and Value of Benefits | Pension | Annual Bonus[1] | 2015 – 17 LTIP

Executive Directors' recruitment, retention and service contracts

The Company's policy is to pay appropriately to attract individuals with the skills and experience relevant to the role to be filled, taking into account remuneration across the Group, including other senior appointees, and that offered by other similar sized companies. Base salaries are set against the 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. Any Director appointed by the Board during the year holds 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 has taken account of the pay arrangements for other colleagues in the Group. The same principles apply to remuneration policy for all colleagues, that pay should be benchmarked against relevant markets to ensure competitiveness whilst controlling costs, that there should be performance based components and that performance-related pay should be 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 policy requires that the rate of increases for other employees be considered.

The table below shows actual total remuneration for Executive Directors for 2017 and 2016. (Audited by PricewaterhouseCoopers LLP)

	2017 £					
	Base Pay	Benefits	Company Pension Contribution[4]	STIP[2]	2015 - 2017 LTIP	2017 Total
Lindsay Sinclair	558,497	£69,119	83,775	£693,025	£718,695	**£2,123,111**
Kim Arif[1,3]	334,677	£13,116	48,271	£286,776	£306,504	**£989,344**
Steve Bower[3]	225,773	£13,476	33,866	£200,309	£219,150	**£692,574**
Nick Turner	229,787	£16,166	34,468	£203,477	£214,553	**£698,451**

	2016 £					
	Base Pay	Benefits	Company Pension Contribution	STIP	2014 - 2016 LTIP	2016 Total
Lindsay Sinclair	540,915	72,959	81,137	479,388	635,346	**1,809,745**
Kim Arif[1,3]	323,544	12,577	46,665	195,695	273,996	**852,477**
Steve Bower[3]	220,978	13,298	33,147	138,557	196,654	**602,634**
Nick Turner	223,725	15,041	33,559	141,577	187,864	**601,766**

1 Base pay figure includes an annual allowance calculated as 4% of base pay.
2 1/3 of STIP payment will be deferred for 3 years.
3 Benefits figure includes car allowance
4 Cash allowance in lieu of company pension contribution

Base salaries and benefits

The average base salary increase across the Group in May 2017 was 2.27%, with increases ranging from 0% to 10%. The annual base salary levels of the Executive Directors with effect from 1 May 2017 are as follows:

Name	May 2017	May 2016	Increase
Lindsay Sinclair (Group Chief Executive)	£563,435	£548,622	2.7%
Kim Arif (Finance Director)	£325,882	£313,650	3.9%
Steve Bower (Customer Services Director)	£227,624	£222,072	2.5%
Nick Turner (Sales and Agency Director)	£231,224	£226,913	1.9%

The salary increases in May 2017 were related to 2016 performance.

The value of benefits for Executive Directors is included in the table of remuneration on page 57.

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. 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 Performance 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 2017, the same targets were used in the STIP as in the Group's staff bonus scheme payable to all staff of the Group.

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

For the Executive Directors, STIP comprises the Group Bonus Scheme or GBS (the Group's staff bonus scheme) and the Short Term Incentive Plan. These have been aligned to support the Group's long term objectives. The tables on page 59 detail the balanced scorecard of performance measures of the bonus schemes in 2017.

Since 2014, one third of the CEO and Executive Directors' STIP 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 company overall annual pay increase percentages.

Bonus Scheme Measures

The measures in each of the three bonus schemes are reviewed by the Committee with advice from its external advisers, New Bridge Street, on an annual basis and amended as appropriate.

Group Bonus Scheme 2017 Measures

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

Short Term Incentive Plan for Executives 2017 Measures

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

Long Term Performance Incentive Plan (LTIP) – 3 year performance period

Principles of the LTIP

The NFU Mutual LTIP is a cash-based plan, vesting after 3 years subject to performance conditions, which are based on three 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.

2017 – 2019 LTIP grant

A new LTIP grant was made in 2017 to cover the performance period 2017 to 2019. The 2017-2019 LTIP grants were set at the levels detailed in the table below.

Role	Maximum payment following year-end 2019 (% of base salary at time of grant)
Chief Executive	150%
Executive Directors	108%

The 2017-2019 LTIP will vest at the end of 2019, 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) Life Persistency (Average of annual results)	25%

Summary of LTIP grants and vesting

The table below details the payments from the 2015-2017 LTIP scheme and the grants made in 2016 and 2017.

LTIP 3 Year Cycle £	Cycle Ending	Plan Start Date	LTIP Grant brought forward - 1 January 2017	2017 - 2019 LTIP New Grant	LTIP Grant carried forward - 31 December 2017	Vesting Date	2015 – 2017 Scheme Performance	2017 Payment
Lindsay Sinclair	2017	1 Jan 2015	759,720		-	31 Dec 2017	94.6%	718,695
	2018	1 Jan 2016	788,250		788,250	31 Dec 2018		
	2019	1 Jan 2017	-	822,933	822,933	31 Dec 2019		
Kim Arif	2017	1 Jan 2015	324,000		-	31 Dec 2017	94.6%	306,504
	2018	1 Jan 2016	330,480		330,480	31 Dec 2018		
	2019	1 Jan 2017	-	338,742	338,742	31 Dec 2019		
Steve Bower	2017	1 Jan 2015	231,660		-	31 Dec 2017	94.6%	219,150
	2018	1 Jan 2016	236,293		236,293	31 Dec 2018		
	2019	1 Jan 2017	-	239,838	239,838	31 Dec 2019		
Nick Turner	2017	1 Jan 2015	226,800		-	31 Dec 2017	94.6%	214,553
	2018	1 Jan 2016	234,738		234,738	31 Dec 2018		
	2019	1 Jan 2017	-	245,066	245,066	31 Dec 2019		

A new LTIP grant will be made in 2018 to cover the performance period 2018 to 2020, and this will vest at the end of 2020, dependent on the extent to which performance objectives in relation to that grant are achieved.

Clawback of variable pay

Clawback of part or all of any variable pay award (STIP or LTIP) already vested or already paid, can apply at the Remuneration Committee's discretion 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 if, either during the performance period or during the three years following completion of the performance period, an Executive commits gross misconduct or there has been 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 a clawback requirement in relation to the STIP or an earlier LTIP grant.

Directors' Pension Arrangements

Lindsay Sinclair and Nick Turner are not members of the company pension scheme and receive a cash allowance in lieu of pension. The company provides Death in Service cover at 4 times salary.

Kim Arif and Steve Bower are Defined Benefit members 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 2017 is £159,600.

Defined Benefits earned by the Directors

(Audited by PricewaterhouseCoopers LLP)

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

	Single Pension Figure at 31.12.17	Single Pension Figure at 31.12.16 (£)	Transfer value of accrued pension value at 31.12.17 (£)	Accrued pension at 31.12.17 (£ pa)	Normal pension age
Kim Arif	-[1]	-[1]	1,459,200	54,600	60
Steve Bower	-[2]	-[2]	1,612,100	63,100	60

[1] Based on the member ceasing to accrue pension from 5 April 2012, 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 31 December 2017. 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.

[2] Based on the member ceasing to accrue pension from 5 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 31 December 2017. 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.

Kim Arif's and Steve Bower's Defined Benefit membership terms were altered with effect from 6 April 2012 and 6 April 2014 respectively, in order to enable both Executive Directors to register for Fixed Protection with HMRC. From these respective dates, no further pensionable service accrues and Mr Arif and Mr Bower are no longer required to contribute to the Scheme. Mr Arif and Mr Bower now receive a cash allowance in place of pension. The company provides Death in Service cover at 4 times salary.

The pension costs of those Executive Directors with a Defined Benefit pension are charged over their estimated service lives, based upon actuarial advice.

Directors' Contracts

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

	Date of contract	Unexpired Term as at 31 December 2017	Notice period
Executive Directors			
Lindsay Sinclair	1 August 2008	12 month rolling term	12 months
Kim Arif	6 April 2007	12 month rolling term	12 months
Steve Bower	5 July 2010	12 month rolling term	12 months
Nick Turner	1 January 2013	12 month rolling term	12 months

Non-Executive Directors

(Audited by PricewaterhouseCoopers LLP)

Non-Executive Directors	Responsibilities	2017 Total Fees (£)	Taxable Expenses from 1 January 2017 31 December 2017	2016 Total Fees (£)	Taxable Expenses from 1 January 2016 - 31 December 2016
Adam Quinney[1]		32,083	-	11,250	-
Brian Duffin	With-Profits Committee Chair Chair of the Company's Pension Scheme Trustee	72,500	5,578	65,000	5,169
Sally-Ann Hibberd		48,750	879	45,000	2,008
Christine Kennedy		48,750	2,870	45,000	3,271
Eileen McCusker	Board Risk Committee Chair	62,562	3,684	55,250	5,543
Jim McLaren	Remuneration Committee Chair	58,750	5,503	47,500	3,894
Richard Percy	Chairman, Nomination Committee Chair	181,250	4,464	158,333	-
Chris Stooke	Senior Independent Director, Audit Committee Chair	65,188	1,660	59,752	1,783

1 Resigned from Board 31 August 2017

* The expenses quoted are those which the Non-Executive Directors have incurred for travel or accommodation whilst 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 have therefore 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 and medical insurance for 18 former directors or widows in 2017 was £240,996 (2016: £235,813).

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.

	Date of letter of appointment	Unexpired Term as at 31 December 2017	Notice period
Non-Executive Directors			
Brian Duffin	25 February 2016	2 Years 6 Months	1 Month
Sally-Ann Hibberd	25 February 2016	6 Months	1 Month
Christine Kennedy	25 February 2016	6 Months	1 Month
Eileen McCusker	25 February 2016	1 Year 6 Months	1 Month
Jim Mclaren	25 February 2016	6 Months	1 Month
Richard Percy	29 February 2016	1 Year 6 Months	1 Month
Chris Stooke	25 February 2016	6 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 (with the exception of Sally-Ann Hibberd).

Jim McLaren
Chairman of the Remuneration Committee

Independent auditors' report to the members of The National Farmers Union Mutual Insurance Society Limited

Report on the audit of the financial statements

Opinion

In our opinion, The National Farmers Union Mutual Insurance Society Limited's group financial statements and parent company financial statements (the "financial statements"):

- give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2017 and of the group's profit and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report 2017 (the "Annual Report"), which comprise: the Consolidated and Company Balance Sheets as at 31 December 2017; the Consolidated Profit and Loss Account and Consolidated Statement of Other Comprehensive Income, the Consolidated Statement of Cash Flows - General Business the Consolidated and Parent Company Statement of Changes in Equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the parent company.

Other than those disclosed in note 14 to the financial statements, we have provided no non-audit services to the group or the parent company in the period from 1 January 2017 to 31 December 2017.

Our audit approach

Context

The National Farmers Union Mutual Insurance Society Limited writes both General and Life Insurance business. There have been no significant changes in the business impacting the current financial year.

Overview

Materiality

- Overall group materiality: £74.8 million (2016: £67.0 million), based on 1% of total equity.
- Overall parent company materiality: £74.8 million (2016: £67.0 million), based on 1% of total equity.

Audit Scope

- The financial statements are a consolidation of 20 non dormant reporting units.
- We performed audits of the complete financial information of 2 reporting units and consolidation procedures that represent over 98% of total equity.
- Specific audit procedures were performance on balances included in a further 4 reporting units. This included procedures over investment properties, balances relating to the defined benefit scheme and operating expenses relating to the life advisory business.

Key Audit Matters

- The valuation of general insurance claims outstanding (Group and parent).
- The valuation of life insurance reserves (Group and parent).

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

We gained an understanding of the legal and regulatory framework applicable to the group and the industry in which it operates, and considered the risk of acts by the group which were contrary to applicable laws and regulations, including fraud. We designed audit procedures at group and significant component level to respond to the risk, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. We focused on laws and regulations that could give rise to a material misstatement in the group and parent company financial statements, including, but not limited to, the Companies Act 2006, UK Tax Legislation, the Financial Services and Markets Act 2000, the Financial Conduct Authority's Client Asset Sourcebook and the Prudential Regulation Authority's regulations. Our tests included, but were not limited to, review of the financial statement disclosures to underlying supporting documentation, reviewing correspondences with the regulators, enquiries of management and review of internal audit reports in so far as they related to the financial statements. There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it.

We did not identify any key audit matters relating to irregularities, including fraud. As in all of our audits we also addressed the risk of management override of internal controls, including testing journals and evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the 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) identified by the auditors, including 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, and any comments we make on the results of our procedures thereon, 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. This is not a complete list of all risks identified by our audit.

Key audit matter	How our audit addressed the key audit matter
The valuation of general insurance claims outstanding Refer to page 43 (Audit Committee Report), pages 77-78 (accounting policies) and pages 85-86 and 98 (notes). The group claims outstanding liabilities at the year-end of £1,713 million includes the estimated cost of settling general insurance claims incurred at the balance sheet date. This balance comprises estimates for claims that have been reported to the group and those claims that have been 'Incurred But Not Reported' (the 'IBNR'). IBNR includes an estimate for claims that are likely to have occurred based on past experience (the 'non-latent' reserves) and claims arising from historic periods of exposure that the group may be liable for (the 'latent' reserves). Given the judgement required in estimating the future costs of claims, this was an area of significant focus in our audit. The directors apply significant judgement in estimating how claims will develop in light of environmental factors at the balance sheet date, trends in the insurance market that could be expected to affect the group's liability, changes in the group's underwriting policies or mix of types of policy written and also any risks that are specific to the group's policyholders (for example, those relating to farming). Elements of the group's insurance portfolio are also impacted by seasonal claims experience which must be allowed for. A reserve is also estimated for specific uncertainties including Periodic Payment Orders (PPOs). On 20 March 2017, the Ogden discount rate was changed from 2.5% to -0.75% by the Ministry of Justice. Following a consultation, the Lord Chancellor announced on 7 September 2017 that the government would legislate to change the basis on which the discount rate is set. Subject to the proposed new legislation being passed, and based on current investment conditions, the government expected that the discount rate would be set at between 0% and 1%. The Society has decided to base its best estimate Ogden reserves on a probability weighted average of potential outcomes. The estimation of latent IBNR liabilities is particularly uncertain given there will be greater variations between the initial estimate and final outcomes than for other claims because of the length of time to settle such claims or because there is very limited claims experience (if any) to date. Therefore the methodology and assumptions require greater levels of judgement. The group's booked claims reserves include a margin above the projected best estimate of ultimate claims costs.	The procedures we have performed to address the valuation of the IBNR claims outstanding included: • Testing the underlying data including its accuracy and completeness; • Understanding and evaluating the consistency between the claims estimation process and the group's reserving principles; and • Testing the approach and assumptions used against recognised actuarial practices and by applying our industry knowledge and experience for the latent and non-latent reserves. Further testing was also performed on specific assumptions as set out below. We performed a substantial amount of our work on the 30 September 2017 position, rolling forward our work to provide evidence in relation to the year-end liabilities. We independently estimated liabilities using standard actuarial techniques in respect of six classes of business (Car, Commercial Vehicle, Employers' Liability, Fleets, PPCL, and Household classes) which collectively represent 74% of the booked non-latent liabilities on a gross of reinsurance basis. In doing so we considered trends in the group's claim data and regulatory changes. We have assessed the reasonableness of the remaining 26% of booked non-latent liabilities (Tractor and Miscellaneous classes) based on a review of key indicators, and by using our understanding of the portfolio and our market knowledge. We assessed the Society's probability-based best estimate of the future Ogden rate and found it was supported by the evidence obtained. We independently evaluated the group's calculation framework for latent liabilities and assessed the reasonableness of assumptions selected using publicly available information and our view of the market for similar claim types. We performed the following procedures to roll-forward our work as at 30 September 2017 to the year end booked reserve: • Checked the movement in reserves between 30 September 2017 and 31 December 2017 in light of our actual versus expected analysis; and • Completed audit testing work on the accuracy and completeness of the underlying year end data. We considered the group's best estimates relative to our own estimates and found them to be reasonable. We also considered the level of margin booked by the group above its own calculated best estimate and considered its appropriateness based on the rationale for the movement compared to the prior year, specific risks impacting the group and our industry knowledge. Through the procedures performed we found the assumptions used to value the general insurance claims outstanding to be in line with the stated accounting policy and reasonable in light of the uncertainty in the reserves.

Key audit matter	How our audit addressed the key audit matter
The valuation of life insurance reserves Refer to page 43 (Audit Committee Report), page 79 (accounting policies) and pages 87 and 91-96 (notes). The group financial statements include liabilities for the estimated cost of settling benefits and claims associated with life insurance products written by the group totalling £5,288 million for the long-term business provision and £175 million for the technical provisions for linked liabilities – insurance contracts. The long-term nature of the liabilities means that calculating an appropriate valuation involves a range of significant assumptions giving rise to valuation uncertainty. In addition, these are impacted by a number of significant legislative changes in the UK life insurance market that have been made over the past few years, including the changes to pension legislation from April 2015. Although the group has seen changes in the behaviour of some of their pension policyholders in accessing their savings, the extent of the impact is uncertain and there is not yet clear evidence of consistent patterns across the market. Judgement is applied to consider the required allowance for such changes. The valuation of life reserves was therefore an area of significant focus in our audit. In particular, we focussed on the three sets of assumptions set out in the rows below.	The procedures we have performed to test the valuation of the life insurance reserves included: • Testing the underlying company data, including key reconciliations; • Comparing the methodology, models and assumptions used against recognised actuarial practices and by applying our industry knowledge and experience; • Evaluating changes in assumptions against recent experience analyses. For example, considering any changes in the proportion of policyholders taking guaranteed annuity options at retirement when assessing the appropriateness of GAO assumptions; • Considering the Group's annuitant longevity assumptions, specifically the adoption of the CMI 2016 model which was released in 2017, making use of our in-house benchmarking to compare with the approach followed by peers. More detail is provided below in section (a); • Evaluating the level of margins that have been applied to reflect uncertainty or the future expected impact changes in legislation; • Evaluating the economic assumptions used in the valuation of life insurance reserves (such as valuation interest rates) for appropriateness, including comparing against our industry knowledge; and • Comparing the overall change in life insurance reserves since 31 December 2016, to the expected impacts from known changes in methodology, models and assumptions. Further testing was also conducted on specific key assumptions set out below.
a) Longevity assumptions The group has a large annuity book and the life expectancy of its policyholders is a significant assumption in setting an appropriate reserve. Selecting an appropriate longevity assumption is highly judgemental; the group uses past experience together with data provided by an independent industry body to set this assumption. A key change in 2017 is the move to the latest mortality improvement model (CMI 2016).The CMI 2016 model reflects the latest mortality data in the UK, where a slowing down of mortality improvements has been observed.	In respect of longevity assumptions we: • Assessed the group's mortality data to determine whether management's best estimate assumptions were appropriate and consistent with the trends observed; • Considered the appropriateness of the annuitant mortality tables used in comparison to the group's experience; • Considered the adoption of the Continuous Mortality Investigation (CMI) 2016 model, including management's analysis to justify their decision,; and • Used this information to critically assess and challenge the judgements made by management and to determine whether there was any evidence of management bias. Through the procedures performed we found that management's longevity assumptions were appropriate.
b) persistency assumptions The expected rate of policies lapsing is taken into account in setting the life insurance reserves as it impacts the expected benefits payable and the profits and cash flows that are expected to arise. Setting the persistency assumptions is judgemental as policyholder behaviour is driven by a range of social, legal and economic factors which need to be taken into account. The group primarily use their past experience to set their assumption, supplemented by expert judgement taking into account wider regulatory considerations. In the current year the group has continued to be impacted by the change in pension legislation from April 2015, although the long term impact of the changes remains uncertain.	In respect of persistency assumptions we: • Understood the process for setting the assumptions, including the degree of oversight provided and the validity of the experience analysis performed by the group's actuaries; • Obtained discussion papers setting out factors assessed by management to determine the assumptions and considered these based on our understanding of the wider market and of the group's own experience; • Tested whether there was adequate governance approvals and explanation for changing rates and the input of assumptions into the valuation models; and • Tested that assumptions were supportable based on observed persistency experience and analysing the limited experience for lines of business that may be affected by legislative changes such as the pension freedoms and auto-enrolment. Through the procedures performed we determined that management's persistency assumptions were appropriate in light of the trends experienced and expected impact of legislative changes.
c) Expense assumptions The expense assumptions applied to the long term liabilities are based on the current cost per policy incurred by the Life business, adjusted for assumptions on future business performance and other economic factors. The group performs an exercise to understand the effort required and costs involved in acquiring new business and maintaining existing business at a product level, and allocates expenses to these activities accordingly. This exercise requires some judgement as it is based around budgets and future business performance which are forward looking.	In respect of expense assumptions we; • Assessed whether the expense allocation between the General and Life businesses appropriately reflects the long term expense profile of each business, giving consideration to strategic initiatives such as the Life Aspirations Design and Delivery Programme (LADDER); • Tested the completeness of the expenses used in the calculation of the current cost per policy by reconciling the total expenses incurred by the life business per the underlying accounting records to the total expenses input into the expense model; • Tested the number of policies used in setting expense assumptions by agreeing these to the policy administration systems; • Challenged the appropriateness of management's judgements made in setting the assumptions and changes in methodology such as the allocation of costs to different products; • Enquired of management the reasons for any significant changes in assumptions since the prior year, obtained supporting evidence for these changes and assessed whether appropriate governance controls are in place; • Calculated high level sensitivities on the judgemental assumptions used in the allocation process and assessed those that have a material impact on the per policy expense calculation; and • Recalculated the per policy expense across a sample of policies. From the evidence obtained we found the assumptions and methodology used to be appropriate.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the group and the parent company, the accounting processes and controls, and the industry in which they operate.

The group's financial statements consist of a consolidation of 20 non-dormant reporting units, however the group primarily operates through the Society encompassing the Life and General Businesses. These two business units are material to the group and therefore required an audit of their complete financial information which was performed by the group engagement team.

In establishing the overall group audit approach we considered whether sufficient appropriate audit evidence had been obtained for the group financial statements in performing work over these two units alone. We determined that additional work needed to be performed on a number of balances within some of the other reporting units. These included investment properties, operating expenses and balances relating to the defined benefit scheme. Together with consolidation procedures performed at the group level, the reporting units where we performed work accounted for over 98% of total equity at a group level enabling us to conclude that sufficient appropriate audit evidence had been obtained for the group opinion.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

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

Group and Parent Company Financial Statements
Overall materiality
£74.8 million (2016: £67.0 million)

How we determined it
1% of total equity

Rationale for benchmark applied
In establishing an appropriate benchmark to use, we considered various financial measures including those used by the Society in their own reporting processes and other relevant measures such as the Group's regulatory capital surplus. Consistent with previous years, total equity was considered to be the most appropriate metric as it reflects the underlying interests of the Group's members.

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. Materiality allocated to both full scope components was £67.0 million, with lower materiality allocated to other components where we audited specific balances.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £1.0 million (Group audit) (2016: £1.0 million) and £1.0 million (Parent company audit) (2016: £1.0 million) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Going concern

In accordance with ISAs (UK) we report as follows:

Reporting obligation
We are required to report if we have anything material to add or draw attention to in respect of the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the directors' identification of any material uncertainties to the group's and the parent company's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements.

Outcome
We have nothing material to add or to draw attention to. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's and parent company's ability to continue as a going concern.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report, Directors' Report and Corporate Governance Statement, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, the Companies Act 2006, (CA06) and ISAs (UK) require us also to report certain opinions and matters as described below (required by ISAs (UK) unless otherwise stated).

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2017 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. (CA06)

In light of the knowledge and understanding of the group and parent company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report. (CA06)

The directors' assessment of the prospects of the group and of the principal risks that would threaten the solvency or liquidity of the group

As a result of the directors' voluntary reporting on how they have applied the UK Corporate Governance Code (the "Code"), we are required to report to you if we have anything material to add or draw attention to regarding:

- The directors' confirmation on page 29 of the Annual Report that they have carried out a robust assessment of the principal risks facing the group, including those that would threaten its business model, future performance, solvency or liquidity.
- The disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.
- The directors' explanation on page 25 of the Annual Report as to how they have assessed the prospects of the group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We have nothing to report in respect of this responsibility.

Other Code Provisions

As a result of the directors' voluntary reporting on how they have applied the Code, we are required to report to you if, in our opinion:

- The statement given by the directors, on page 31, that they consider the Annual Report taken as a whole to be fair, balanced and understandable, and provides the information necessary for the members to assess the group's and parent company's position and performance, business model and strategy is materially inconsistent with our knowledge of the group and parent company obtained in the course of performing our audit.
- The section of the Annual Report on page 43-44 describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

We have nothing to report in respect of this responsibility.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities set out on page 29, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they 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.

Auditors' 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 auditors' 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 auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the parent company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

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
- certain disclosures of directors' remuneration specified by law are not made; or
- the parent company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the audit committee, we were appointed by the members in 1986 to audit the financial statements for the year ended 31 December 1986 and subsequent financial periods. The period of total uninterrupted engagement is 32 years, covering the years ended 31 December 1986 to 31 December 2017.

Other voluntary reporting

Other Code provisions

The directors have prepared a corporate governance statement and requested that we review it as though the parent company were a premium listed company. We have nothing to report in respect of the requirement for the auditors of premium listed companies to report when the directors' statement relating to the parent company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified, under the Listing Rules, for review by the auditors.

Joanne Leeson (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Bristol
15 March 2018

Consolidated Profit and Loss Account
Technical Account – General Business

2017 £m	2016 £m	for the year ended 31 December
1,484	1,397	Gross written premium before Mutual Bonus
(168)	(79)	Mutual Bonus
1,316	**1,318**	**Gross written premium (note 6)**
(93)	(88)	Outwards reinsurance
1,223	**1,230**	**Net premiums written**
10	(4)	Change in the gross provision for unearned premiums
1	-	Change in the gross provision for reinsured unearned premiums
11	**(4)**	**Change in the net provision for unearned premiums**
1,234	**1,226**	**Earned premiums, net of reinsurance**
30	85	Allocated investment return transferred from the Non-Technical Account (note 9)
1	9	Other technical income
1,265	**1,320**	**Total technical income**
932	874	Gross claims paid
(9)	(6)	Reinsurers' share of gross claims paid
923	**868**	**Net claims paid**
24	58	Change in gross provision for claims
(16)	(7)	Change in reinsurers' share
8	**51**	**Change in net provisions for claims**
931	**919**	**Claims incurred, net of reinsurance**
307	280	Net operating expenses (note 7)
5	5	Other technical charges, net of reinsurance
-	(62)	Decrease in Equalisation Provision
1,243	**1,142**	**Total technical charges**
22	**178**	**Balance on the Technical Account – General Business**

Consolidated Profit and Loss Account
Technical Account – Long-Term Business

2017 £m	2016 £m	For the year ended 31 December
271	240	Gross written premium (note 6)
(6)	(6)	Outwards reinsurance
265	**234**	**Earned premiums, net of reinsurance**
504	447	Investment income (note 9)
324	837	Unrealised gain on investments (note 9)
24	21	Fee income from investment contracts
76	27	Other technical income net of reinsurance
1,193	**1,566**	**Total technical income**
324	312	Gross claims paid
(5)	(6)	Reinsurers' share
319	**306**	**Net claims paid**
7	-	Change in gross provision for claims
326	**306**	**Claims incurred, net of reinsurance**
115	552	Gross change in Long-Term Business Provision
-	(2)	Reinsurers' share
115	**550**	**Net change in the Long-Term Business provision**
(22)	26	Changes in technical provision for linked liabilities, net of reinsurance
383	386	Movements in investment contract liabilities
476	**962**	**Net change in technical provisions**
125	87	Net operating expenses (note 7)
4	3	Investment expenses and charges (note 9)
40	75	Tax attributable to the Long-Term Business (note 15)
29	(32)	Present Value of Future Profit on non-participating fund written out of the With-Profits fund
193	165	Transfer to the fund for future appropriations
1,193	**1,566**	**Total technical charges**
-	**-**	**Balance on the Technical Account – Long-Term Business**

Consolidated Profit and Loss Account
Non-Technical Account

2017 £m	2016 £m	For the year ended 31 December
22	178	Balance on the Technical Account – General Business
995	554	Investment Income (note 9)
(326)	612	Unrealised (loss) / gain on investments (note 9)
(30)	(85)	Allocated investment return transferred to the Technical Account – General Business (note 9)
(8)	(8)	Support payments to the Farmers' Unions
17	16	Other Income
(30)	(24)	Other Charges
640	**1,243**	**Profit on ordinary activities before taxation (note 14)**
(100)	(217)	Tax charge on ordinary activities (note 15)
540	**1,026**	**Profit for the financial year (note 24)**

All results are derived from continuing operations.

Neither gains and losses of an insurance group arising on the holding or disposal of investments; nor the effect of fair value accounting for financial instruments are required to be included in a note of historical profits and losses. There are no other differences between the profit on ordinary activities before tax or the profit for the financial year stated above and their historical cost equivalents.

Consolidated Statement of Other Comprehensive Income

2017 £m	2016 £m	For the year ended 31 December
540	**1,026**	**Profit for the financial year**
84	(102)	Actuarial gain / (loss) on pension scheme (note 28)
(15)	19	Movement on deferred tax on pension scheme
609	**943**	**Total comprehensive income recognised since last Annual Report**

Consolidated and Company Balance Sheets

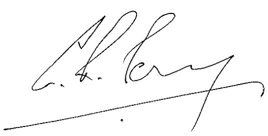
Consolidated 2017 £m	Consolidated 2016 £m	Parent Company 2017 £m	Parent Company 2016 £m	As at the 31 December
				Assets
				Investments
1,515	1,536	1,328	1,366	Land and Buildings (note 17)
365	424	769	747	Investments in group undertakings and participating interests (note 16)
12,582	11,735	12,468	11,619	Other financial investments (note 16)
14,462	**13,695**	**14,565**	**13,732**	
123	152	123	152	Present Value of Future Profits on non-participating business written out of the With-Profits fund
3,379	3,017	3,379	3,017	Assets held to cover linked liabilities (note 18)
				Reinsurers' share of technical provisions
8	7	8	6	Provision for unearned premiums
20	20	20	20	Long-term business provision
175	159	170	155	Claims outstanding (note 8)
51	59	51	59	Technical provision for linked liabilities
254	**245**	**249**	**240**	
				Debtors
				Debtors arising out of direct insurance operations
467	454	460	448	Due from policyholders
5	2	5	2	Due from intermediaries
472	**456**	**465**	**450**	
5	5	5	5	Debtors arising out of reinsurance operations
-	-	48	51	Amounts due from group undertakings
47	33	34	23	Other debtors (note 19)
524	**494**	**552**	**529**	
				Other Assets
29	25	28	24	Tangible assets (note 20)
29	48	-	-	Stocks (note 21)
277	217	249	188	Cash at bank and in hand
335	**290**	**277**	**212**	
				Prepayments and accrued income
60	55	59	55	Accrued interest and rent
98	87	98	87	General business deferred acquisition costs
28	28	28	28	Long-term business deferred acquisition costs
16	9	21	16	Other prepayments and accrued income
202	**179**	**206**	**186**	
19,279	**18,072**	**19,351**	**18,068**	**Total assets excluding pension asset**
63	-	-	-	Pension asset (note 28)
19,342	**18,072**	**19,351**	**18,068**	**Total assets including pension asset**

Consolidated and Company Balance Sheets

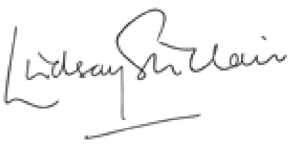
Consolidated 2017 £m	Consolidated 2016 £m	Parent Company 2017 £m	Parent Company 2016 £m	As at 31 December
				Liabilities
				Reserves
-	-	244	142	Revaluation reserve
250	250	250	250	Other reserve
5,942	5,333	5,755	5,213	Profit and loss account
5	5	-	-	Equity minority interests
1,298	1,105	1,335	1,145	Fund for future appropriation
7,495	**6,693**	**7,584**	**6,750**	**Total Equity**
				Technical provisions
625	635	624	635	Provision for unearned premiums
5,288	5,173	5,288	5,173	Long-term business provision
1,916	1,885	1,908	1,876	Claims outstanding (note 8)
-	-	-	-	Claims equalisation provision
7,829	**7,693**	**7,820**	**7,684**	
175	195	175	195	Technical provision for linked liabilities – Insurance contracts
3,215	2,832	3,215	2,832	Technical provision for linked liabilities – Investment contracts
254	255	243	259	Provision for other risks and charges (note 26)
11,473	**10,975**	**11,453**	**10,970**	
				Creditors
34	26	32	26	Creditors arising out of direct insurance operations
17	14	14	12	Creditors arising out of reinsurance operations
42	28	-	-	Amounts due to credit institutions (note 33)
-	-	46	40	Amounts owed to group undertakings
158	214	147	205	Other creditors including taxation and social security (note 27)
123	102	75	65	Accruals and deferred income
-	20	-	-	Pension Liability (note 28)
19,342	**18,072**	**19,351**	**18,068**	**Total liabilities**

These financial statements on pages 69 – 116 were approved and authorised for issue by the board of directors on the 15 March 2018 and were signed on its behalf by:

Signed on behalf of the Board of Directors



Richard Percy
Chairman



Lindsay Sinclair
Group Chief Executive

NFU Mutual is The National Farmers Union Mutual Insurance Society Limited (No. 111982).

Consolidated Statement of Cash Flows – General Business

2017 £m	2016 £m	For the year ended 31 December
(19)	28	Net cash from operating activities (note 32)
994	554	Interest and dividend Income
(181)	(98)	Taxation paid
794	**484**	**Net cash generated from operating activities**
		Cash flow from investing activities
(15)	(7)	Payments to acquire tangible assets
(134)	(405)	Payments to acquire shares and other variable yield securities
893	276	Receipts from the sale of shares and other variable yield securities
(1,158)	(98)	Payments to acquire debt securities and other fixed / variable income securities
135	325	Receipts from the sale of debt securities and other fixed / variable income securities
(36)	(21)	Payments to acquire investment properties
121	51	Receipts from the sale of investment properties
(194)	**121**	**Net cash (used)/generated in investing activities**
600	**605**	**Net increase in cash and cash equivalents**
829	224	Cash and cash equivalents at the beginning of the year
1,429	**829**	**Cash and cash equivalents at the end of the year**
173	141	Cash at bank and in hand (note 32)
1,256	688	Short term deposits (included in Other Financial Investments)
1,429	**829**	**Cash and cash equivalents at the end of the year**

Statement of Changes in Equity

Revaluation Reserves £m	Other Reserve (Note 24) £m	Profit and Loss Account (Note 24) £m	Fund for Future Appropriations (Note 24) £m	Total 2017 £m	Equity Minority Interests £m	Total Equity 2017 £m	Total Equity 2016 £m	Consolidated
-	250	5,333	1,105	6,688	5	6,693	5,585	Balance at 1 January
-	-	540	-	540	-	540	1,026	Transfer from Non-Technical Account
-	-	-	193	193	-	193	165	Transfer to the fund for future appropriations
-	-	84	-	84	-	84	(102)	Actuarial gain / (loss) on pension scheme
-	-	(15)	-	(15)	-	(15)	19	Movement on deferred tax on pension scheme
-	**250**	**5,942**	**1,298**	**7,490**	**5**	**7,495**	**6,693**	**Balance at 31 December**
								Parent Company
142	250	5,213	1,145	6,750	-	6,750	5,647	Balance at 1 January
-	-	542	-	542	-	542	1,075	Transfer from Non-Technical Account
-	-	-	190	190	-	190	181	Transfer to the fund for future appropriations
102	-	-	-	102	-	102	(153)	Revaluation of subsidiaries
244	**250**	**5,755**	**1,335**	**7,584**	**-**	**7,584**	**6,750**	**Balance 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 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 Company's 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. 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 31 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 Venture

Joint Ventures are where the Group holds 50% or more of the equity of an undertaking and where the control is shared equally between invested parties. Joint ventures are accounted for using the equity method of accounting.

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 is less than the original cost and in the opinion of the Directors, the diminution in value is permanent, then an impairment provision is made. If the diminution in value is considered to be temporary then the investment is carried at cost. Any movements in the impairment provision are charged to the Profit and Loss Account as incurred.

d) Going Concern

The Groups' business activities, together with the factors likely to affect its future development, performance and position are set out in the Business Review on pages 13 – 19. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the notes to the accounts on pages 76 – 116. In particular the notes to the financial statements include the Groups' 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.

f) Use of Estimates

The presentation of the Financial Statements is dependent on and sensitive to accounting policies, assumptions and estimates. Estimates used are based on management's judgement of the current facts, circumstances and future events which contribute to a true and fair view. It should be noted that actual results may differ. Details of significant estimation techniques used involving General and Long-Term contracts are set out on page 86 – 87.

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.

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.

Reinsurance premiums inwards are accounted for when the contract is entered into, depending on the terms of the individual contract. Bonuses granted to policyholders on future renewal of their policies are recognised as a reduction to premiums written when policies are renewed.

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 cost of notified but not settled claims are estimated on an individual case by case basis by claims handlers using their experience of past settlements and known and expected legislative changes. 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 employers' liability, where the IBNR proportion of the total reserve is high, will typically display greater variations between initial estimates and final outcomes because of the greater degree of difficulty of estimating these reserves. IBNR claims are estimated using techniques which use past trends to forecast separately the expected number of claims and the expected average cost of claims. Separate allowance is made for large claims. An allowance is made for expected changes in future trends, such as changes in company processes, changes in the legal environment, changes in mix of business and changes in expected claims inflation. In addition, exposure base 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 arises.

Equalisation Provision
Under FRS 103 unless otherwise required by the regulatory framework that applies to the entity, a firm shall not recognise as a liability any provisions for possible future claims, if those claims arise under insurance contracts that are not in existence at the end of the reporting period, such as equalisation provisions. The new Solvency II regulatory framework that came into force on the 1 January 2016 does not allow for equalisation provisions to be held and therefore the entire claims equalisation reserve was released in 2016 to the General Insurance technical account to ensure ongoing compliance with FRS103. Prior to 2016 amounts were set aside as equalisation provisions and included within technical provisions in accordance with the PRA's Handbook for the purpose of mitigating exceptionally high loss ratios in future years as required by the then Schedule 3 of SI2008/410.

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 the value of related assets at the balance sheet date and the yield derived therefrom. Other assumptions reflect a prudent assessment of future experience of mortality, morbidity, expenses and inflation.

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 exception to this is movements in the fair value of investment in subsidiaries and associates 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, rather than an allocation of the current year investment returns in isolation. 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 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 Finance Act 2012 with effect from 1 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 requirement 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 held at fair value through the Profit or loss 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 amortized 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 the Long-Term Business Profit and Loss 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. Financial instruments are further classified between current and non-current

assets or liabilities. The current classification is used when the expected settlement of the asset or liability will occur within 12 months of the balance sheet date.

l) Land and Buildings

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

Investment Properties

The requirement of the Companies Act 2006 is to depreciate all properties. This requirement conflicts with the generally accepted accounting principle set out in FRS102. The Directors consider that, as these properties are held for investment, to depreciate them would not give a true and fair view and that it is necessary to adopt FRS102 in order to give a true and fair view. As such in accordance with FRS102, no depreciation or amortisation is provided in respect of investment properties with over 20 years to run.

Depreciation is only one of the factors reflected in the annual valuations, and the amounts which might otherwise have been shown cannot reasonably be separately identified or quantified. The properties are fair valued through the Non-Technical Profit and Loss Account for General Insurance business and for Long Term business the Technical Account annually by independent external chartered surveyors at open market value, in accordance with the RICS Appraisal and Valuation Manual.

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 an overall unrealised gain materialise on owner occupied properties the reported movement would be recorded through the Statement of Other Comprehensive Income.

m) Present Value of Future Profits (PVFP) on Non-Participating Contracts written out of the With-Profits fund

The value of the PVFP is determined in accordance with the PRA's realistic capital regime that existed under Solvency I. Its purpose is to release some, but not all, of the margins for prudence contained within the Long-Term Business Provision for Non-Participating Contracts. The underlying assumptions are based on current market nominal and real yields and estimates of the future experience of mortality, morbidity and expenses. These estimates of future experience include reasonable adjustments to reflect risk and uncertainty. Where relevant an allowance is made for guarantees or options within the contracts on a market consistent valuation basis.

n) 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 2017, Unit Linked Personal Pension Account and Unit Linked Flexibond along with the main investment product open to top ups during 2017, 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 Unit Linked Flexibond. 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.

o) 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.

p) Stock

Stock comprised 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.

q) 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

r) Retirement Benefits Schemes

The Group operates a Defined Benefit pension scheme for a number of its employees. The pension surplus (2016: 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 in the scheme on the basis described in note 1(j) and is shown separately from the Defined Benefit pension scheme surplus. Payments to the Defined Contribution retirement benefit scheme are charged as an expense when incurred.

s) 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.

t) 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.

u) 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 20 – 24. 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	As at 31 December 2017
3,519	-	1,932	435	2,545	-	8,431	Shares and other variable yield securities
768	184	520	43	-	-	1,515	Land and buildings
1	-	57	4	-	-	62	Property investments (Note 16)
365	-	-	-	-	-	365	Associates and Joint Ventures
1,972	-	1,072	819	338	1,282	5,483	Debt securities and other fixed / variable income securities
1,413	16	197	153	277	55	2,111	Cash and deposits with credit institutions
183	-	-	-	-	71	254	Reinsurance assets
571	124	153	94	55	124	1,121	Other assets
8,792	**324**	**3,931**	**1,548**	**3,215**	**1,532**	**19,342**	**Total assets**
-	-	3,931	-	-	1,357	5,288	Long-Term Business provision
-	-	-	-	3,215	175	3,390	Technical provision for linked liabilities
625	-	-	-	-	-	625	Provision for unearned premium
1,883	-	-	33	-	-	1,916	Claims outstanding
308	103	-	217	-	-	628	Other liabilities
2,816	**103**	**3,931**	**250**	**3,215**	**1,532**	**11,847**	**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	As at 31 December 2016
4,590	-	1,804	314	2,204	-	8,912	Shares and other variable yield securities
812	166	481	77	-	-	1,536	Land and buildings
4	-	79	12	-	-	95	Property investments
424	-	-	-	-	-	424	Associates and Joint Ventures
957	-	1,146	707	303	1,389	4,502	Debt securities and other fixed / variable income securities
1	-	-	-	-	-	1	Loans and receivables
815	14	93	133	279	11	1,345	Cash and deposits with credit institutions
166	-	-	-	-	79	245	Reinsurance assets
508	86	134	86	46	152	1,012	Other assets
8,277	**266**	**3,737**	**1,329**	**2,832**	**1,631**	**18,072**	**Total assets**
-	-	3,737	-	-	1,436	5,173	Long-Term Business provision
-	-	-	-	2,832	195	3,027	Technical provision for linked liabilities
635	-	-	-	-	-	635	Provision for unearned premium
1,860	-	-	25	-	-	1,885	Claims outstanding
345	115	-	199	-	-	659	Other liabilities
2,840	**115**	**3,737**	**224**	**2,832**	**1,631**	**11,379**	**Total liabilities**

b) Market Risk

The Groups 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 delegates authority to the Group Investment/Market Risk Committee by setting limits of authority for market dealing by the Group and meets quarterly. At these, senior management meet to discuss compliance issues, matching positions, solvency, liquidity management, investment return, mix and concentration across the Group.

(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 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) below. The Long-Term business fund holds some derivatives primarily for efficient investment management or to structure specific products.

(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 risk for both our General and Life business as discussed below.

General Business

The technical provisions are not discounted for General business with the exception of payment protection orders (PPO's) 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 20 – 24 the Group considers its exposure to currency risk to be sufficiently mitigated by the Group's Investment Strategy. 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
(130)	130	Net assets at 31/12/17
(184)	184	Net assets at 31/12/16
		Long-Term Business
(48)	48	FFA at 31/12/17
(39)	39	FFA at 31/12/16

NFU Mutual does not have any overseas liabilities and currently does not hedge any of its currency risk. 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.

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.

2017						2016						General Business
Fixed Interest Securities		Equity		Property		Fixed Interest Securities		Equity		Property		
+1%	-1%	+10%	-10%	+10%	-10%	+1%	-1%	+10%	-10%	+10%	-10%	
(166)	207	352	(352)	95	(95)	(114)	151	459	(459)	98	(98)	Impact on profit before tax £m
(166)	**207**	**352**	**(352)**	**95**	**(95)**	**(114)**	**151**	**459**	**(459)**	**98**	**(98)**	**Total**

2017						2016						Long-Term Business
Fixed Interest Securities		Equity		Property		Fixed Interest Securities		Equity		Property		
+1%	-1%	+10%	-10%	+10%	-10%	+1%	-1%	+10%	-10%	+10%	-10%	
												Impact on FFA £m
(46)	85	-	-	-	-	(56)	101	-	-	-	-	Non-Participating contracts
51	(99)	69	(73)	14	(15)	63	(111)	56	(59)	18	(17)	With-Profit business
5	**(14)**	**69**	**(73)**	**14**	**(15)**	**7**	**(10)**	**56**	**(59)**	**18**	**(17)**	**Total**

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 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, etc.
- 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. Whilst 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 table below reflects 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 Group aims to maintain appropriate reserves in order to protect against adverse future claims experience and developments.

Analysis of Claims Development – Gross of Reinsurance

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Total
Estimate of ultimate claims costs £m											
At end of reporting year	833	900	984	950	970	946	911	889	950	1,007	
One year later	802	936	969	911	915	877	809	906	426		
Two years later	757	872	943	847	835	802	808	614			
Three years later	724	844	880	757	778	782	624				
Four years later	702	800	846	727	756	707					
Five years later	689	792	836	719	702						
Six years later	682	790	830	696							
Seven years later	681	790	813								
Eight years later	682	759									
Nine years later	667										
Current estimate of cumulative claims	667	759	813	696	702	707	624	614	426	1,007	7,015
Cumulative payments to date	(648)	(720)	(795)	(678)	(666)	(668)	(547)	(433)	(159)	(450)	(5,764)
Liability recognised in balance sheet	19	39	18	18	36	39	77	181	267	557	1,251
Reserve in respect of prior years											493
Reserve in respect of Long-Term Business											33
Other Reserves											131
Total Reserve included in Parent Company balance sheet, Gross of reinsurance											1,908
Reserve in respect of subsidiary undertakings											8
Total reserve included in consolidated balance sheet, Gross of reinsurance											1,916
Total consolidated reserve included in the balance sheet, Net of reinsurance											1,741

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 includes 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.

d) Credit Risk

General Business

As at 31 December 2017 £m	AAA/Aaa	AA/Aa	A/A	BBB/Bbb	BB/Bb	Other	Carrying Value in Balance Sheet
Debt securities and other fixed / variable income securities	199	965	409	365	32	2	1,972
Assets arising from reinsurance contract held	-	83	65	-	-	35	183
Cash and deposits with credit institutions	-	1,001	428	-	-	-	1,429
Other assets	-	-	-	-	-	530	530
	199	**2,049**	**902**	**365**	**32**	**567**	**4,114**
As at 31 December 2016 £m							
Debt securities and other fixed / variable income securities	18	524	202	178	32	3	957
Assets arising from reinsurance contract held	-	59	30	-	-	77	166
Cash and deposits with credit institutions	-	457	372	-	-	-	829
Other assets	-	-	-	-	-	514	514
	18	**1,040**	**604**	**178**	**32**	**594**	**2,466**

Long-Term Business

As at 31 December 2017 £m	AAA/Aaa	AA/Aa	A/A	BBB/Bbb	BB/Bb	Other	Carrying Value in Balance Sheet
Debt securities and other fixed / variable income securities	2,025	194	377	358	69	22	3,045
Reassurance assets	-	63	8	-	-	-	71
Cash and deposits with credit institutions	-	127	268	97	-	-	492
Other assets	13	2	7	9	1	49	81
	2,038	**386**	**660**	**464**	**70**	**71**	**3,689**
As at 31 December 2016 £m							
Debt securities and other fixed / variable income securities	2,110	190	367	346	67	21	3,101
Reassurance assets	-	70	9	-	-	-	79
Cash and deposits with credit institutions	-	70	201	18	-	-	289
Derivative financial instrument	-	-	10	-	-	-	10
Other assets	13	1	8	8	1	36	67
	2,123	**331**	**595**	**372**	**68**	**57**	**3,546**

Long-term business prior year cash balances of £59m have been reclassified from other assets to cash and deposits with credit institutions.

The tables provide information regarding an analysis of the credit profile for financial assets with external credit ratings for the Group as at 31 December 2017.

The Group considers the credit risk associated with these derivatives to be small, due to creditworthiness of the counterparty and the relatively small size of the transaction. These derivatives do not therefore materially change the concentration of risk faced by the Group. 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 31 December 2017 lent stock amounted to £455m (2016: £339m), broken down as UK Equity £114m, Eurobonds and International Equities £127m and Gilts £214m (2016: UK Equity £109.5m, Eurobonds and International Equities £83m and Gilts £147m).

As at 31 December 2017 accepted collateral, all in government stocks, amounted to £473m (2016: £353m).

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 2017 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 90 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 (< 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
						At 31 December 2017
						Financial Liabilities
-	-	42	-	42	42	Bank Loans and other overdrafts
3,328	-	-	-	3,328	3,215	Financial liabilities under non participating investment contracts
332	-	-	-	332	332	Creditors
3,660	**-**	**42**	**-**	**3,702**	**3,589**	**Total Financial Liabilities**
						Insurance Liabilities
264	259	700	2,862	4,085	3,931	Long-term business provision - with profit insurance contracts
79	78	223	998	1,378	1,357	Long-term business provision - non-participating insurance contracts
3	3	9	118	133	175	Liabilities under unit linked insurance contracts
703	280	300	591	1,874	1,844	Claims Outstanding (NFU Mutual General)
4	3	6	23	36	39	Claims Outstanding (Avon)
33	-	-	-	33	33	Claims Outstanding (Life)
1,086	**623**	**1,238**	**4,592**	**7,539**	**7,379**	**Total Insurance Liabilities**
4,746	**623**	**1,280**	**4,592**	**11,241**	**10,968**	**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**
						At 31 December 2016
						Financial Liabilities
-	-	28	-	28	28	Bank Loans and other overdrafts
3,134	-	-	-	3,134	2,832	Financial liabilities under non participating investment contracts
356	-	-	-	356	356	Creditors
3,490	**-**	**28**	**-**	**3,518**	**3,216**	**Total Financial Liabilities**
						Insurance Liabilities
263	245	656	2,685	3,849	3,737	Long-term business provision - with profit insurance contracts
79	78	225	1,099	1,481	1,436	Long-term business provision - non-participating insurance contracts
3	3	9	130	145	195	Liabilities under unit linked insurance contracts
690	279	292	588	1,849	1,820	Claims Outstanding (NFU Mutual General)
8	6	7	19	40	40	Claims Outstanding (Avon)
25	-	-	-	25	25	Claims Outstanding (Life)
1,068	**611**	**1,189**	**4,521**	**7,389**	**7,253**	**Total Insurance Liabilities**
4,558	**611**	**1,217**	**4,521**	**10,907**	**10,469**	**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 retained reserves.

The Group is headed by the NFU Mutual Insurance Society which from 1 January 2016 calculates 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 31 December 2017 is estimated to be £7,057m (2016: £6,431m) based on our Q4 submission of Quantitative Reporting Templates(QRT) to the regulator.

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

Group 2017 £m	Group 2016 £m	Parent 2017 £m	Parent 2016 £m	
7,490	**6,688**	**7,584**	**6,750**	**Statutory**
				Valuation method adjustments;
632	651	633	651	Net technical reserves
(456)	(444)	(456)	(444)	Premium Debtors
(123)	(152)	(123)	(152)	Present Value of Future Profits
(126)	(115)	(126)	(115)	Deferred acquisition costs
(52)	-	(52)	-	Pension Scheme Asset net of deferred tax
31	40	31	40	Deferred tax
(417)	(224)	(417)	(224)	Excess Ring-Fenced funds
-		(93)	(61)	Fair value subsidiaries
78	(13)	(19)	(18)	Other
7,057	**6,431**	**6,962**	**6,427**	**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, PVFP 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.

2017 Total Life business £m	2016 Total Life business £m	Analysis of Policyholder Liability
		With-Profits liabilities
514	632	Options and guarantees
3,415	3,102	Other policyholder obligation
3,929	**3,734**	**Total With-Profits liabilities**
3,390	3,027	Unit linked
1,359	1,439	Non-participating Life assurance
8,678	**8,200**	**Technical provision in balance sheet**

Assumptions

Overview

Assumptions are set on three different bases to perform the calculation of different reserves or assets 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 taken. For Non-Participating contracts reserves are set to be 'prudent' 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. For calculating the Present Value of Future Profits on Non-Participating contracts some, but not all, of the prudence in the Non-Participating contracts reserves is removed. Assumptions are therefore set to have lower margins for prudence than those used for calculating Non-Participating contracts reserves but to be more prudent than the best estimate assumptions used to calculate With-Profits business reserves.

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 31 December 2017. 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 24.3% (2016: 28.0%) and a property return volatility parameter of 15.0% (2016: 15.0%) have been used.

Non-Participating

Valuation rates of interest for valuing non-participating contracts are set with regard to the underlying yields (reduced for prudence), at the valuation date, on the long-term business fund assets hypothecated to back the liabilities.

Present Value of Future Profits on Non-Participating

For calculating the Present Value of Future Profits on non-participating contracts the 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 or the rate implied by a zero coupon government bond of an equivalent term plus 33 basis points (2016: 35 basis points) for pension annuities.

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 base table is updated from 2014 to the 2016 version. The percentage adjustments to the base table and improvements basis for the 2016 assumptions are given in brackets.

Male

	With-Profits	Non-Participating	Present Value of Future Profits
Base table	PMA08 (PMA08)	PMA08 (PMA08)	PMA08 (PMA08)
% adjustment	99% (96%)	95% (92%)	97% (94%)
Improvement model	CMI-2016 (CMI-2014)	CMI-2016 (CMI-2014)	CMI-2016 (CMI-2014)
% Long-Term rate	Average 1.75% (Average 1.75%)	Average 2.50% (Average 2.50%)	Average 2.25% (Average 2.25%)
Female			
Base table	PFA08 (PFA08)	PFA08 (PFA08)	PFA08 (PFA08)
% adjustment	87% (98%)	82% (92%)	85% (95%)
Improvement model	CMI-2016 (CMI-2014)	CMI-2016 (CMI-2014)	CMI-2016 (CMI-2014)
% Long-Term rate	Average 1.75% (Average 1.75%)	Average 2.50% (Average 2.50%)	Average 2.25% (Average 2.25%)

Lapse Rates With-Profits

Product	Duration	2017 Lapse rate %	2016 Lapse rate %
Pure Endowments – Regular	All before age 55*	0.36	0.46
Pure Endowments – Single	All before age 55*	0.36	0.55
Deferred Annuity – Regular	All before age 55*	0.36	0.98
Deferred Annuity – Single	All before age 55*	0.36	0.98
Personal Pension – Individual	All before age 55*	0.94	2.61 for one year, 0.94 thereafter
Endowment	All	1.06	1.06

*2016 Lapse rate % Durations are 'All before age 60'

Non-Participating / Present Value of Future Profits on non-participating

Product	Duration	Non-Participating		Present Value Future Profits	
		2017 Lapse rate %	2016 Lapse rate %	2017 Lapse rate %	2016 Lapse rate %
Personal Pension – Individual	All before age 55*	0.86	2.47 for one year, 0.86 thereafter	1.00	2.70 for one year, 1.00 thereafter
Stakeholder – Individual	All before age 55*	0.80	2.50 for one year, 0.89 thereafter	0.95	2.74 for one year, 1.04 thereafter
Capital Investment Bond	All	2.45	2.73	3.11	3.38
Flexibond (Pre RDR)	1	0.61	0.70	1.56	1.56
	2	1.36	1.43	2.50	2.44
	3	1.91	1.97	3.08	2.95
	4+	3.50	3.69	3.88	4.09
Flexibond (Post RDR)	1	0.61	3.69	1.56	4.09
	2	1.36	3.69	2.50	4.09
	3	1.91	3.69	3.08	4.09
	4+	3.50	3.69	3.88	4.09

*2016 Lapse rate % Durations are 'All before age 60'

Per-policy Expense Rates (£)

Product	With-profits	Non-participating	Present Value of Future Profits
Capital Invesment Bond / Flexibond	£141.90 (£116.85)	£156.00 (£128.5)	£149.00 (£122.69)
Stakeholder / Personal Pension	£131.03 (£117.28)	£144.13 (£129.01)	£137.58 (£123.14)
Individual Savings Account	£109.16 (£95.36)	£120.08 (£104.90)	£114.62 (£100.13)
Endowments / Whole of Life	£83.70 (£83.15)	£92.08 (£91.46)	£87.89 (£87.31)
Conventional Pensions	£97.34 (£99.93)	£107.07 (£109.92)	£102.21 (£104.93)
Annuities	£70.42 (£58.67)	£77.46 (£64.54)	£73.94 (£61.60)

Guaranteed Annuity Take Up Rates

With-Profits

Assumptions are made that on average 49% (2016: 77%) of policyholders 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) 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.

2017

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	(11)
With-Profits business	(13)	3	11	-
Investment business	-	-	-	-
Total	**(34)**	**2**	**19**	**(11)**

2016

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	(23)	(1)	8	(12)
With-Profits business	(14)	-	5	-
Investment business	-	-	-	-
Total	**(37)**	**(1)**	**13**	**(12)**

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
- The use of observable prices for recent arms length transactions;
- Quoted prices or dealer quotes for identical or similar assets in markets that are not active, the prices are not current, or price quotations vary substantially over time. Where possible the Group seeks at least two quotations for each bond and considers whether these are representative of fair value
- Inputs other than quoted prices that are observable for the assets i.e. interest rates and yield curves observable at commonly quoted intervals, credit risk and default rates
- Inputs that are derived principally from, or corroborated by, observable market data by correlation or other means
- Discounted cash flow analysis used to determine fair value for the remaining financial instruments and other pricing models. The Group closely monitors the valuation of assets in markets that have become less liquid

Determining whether a market is active requires the exercise of judgement and is determined based upon the facts and circumstances of the market for the instrument being measured. The techniques above maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. The relative weightings given to differing sources of information and the determination of non-observable inputs to valuation models can require the exercise of significant judgement.

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:

2017				2016				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
-	-	365	365	-	-	424	424	Investment in Group undertakings and participating interests
-	61	1	62	-	92	3	95	Property Investments
5,613	242	-	5,855	6,449	191	29	6,669	Shares and other variable-yield securities and unit trusts
1,153	3,862	2	5,017	1,470	2,585	2	4,057	Debt securities and other fixed / variable income securities
2,649	394	-	3,043	2,148	526	5	2,679	Assets held to cover linked liabilities
-	-	-	-	-	-	10	10	Derivative financial instruments
9,415	**4,559**	**368**	**14,342**	**10,067**	**3,394**	**473**	**13,934**	

Prior year comparison table has been updated to include the fair value of investment in Group undertakings and participating interests (see Note 16).

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 below 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.

2017 £m	2016 £m	
		Total funds
473	488	Balance as at 1 January
(61)	(4)	Total net losses recognised in the Profit and Loss Account
-	-	Purchases
(44)	(11)	Sales
-	-	Net transfers out of level 3
368	**473**	**Balance as at 31 December**
(61)	(4)	Total gains or (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 on ordinary activities before taxation and minority interests		Net Assets		
2017 £m	2016 £m	2017 £m	2016 £m	2017 £m	2016 £m	
1,316	1,318	610	1,158	6,192	5,583	General business
-	-	30	85	-	-	Allocated investment return
1,316	**1,318**	**640**	**1,243**	**6,192**	**5,583**	**General business total**
271	**240**	**-**	**-**	**1,298**	**1,105**	**Long-Term business**

b) Gross Written Premium

The gross premium income for the year by major class of business was as follows:

2017 £m	2016 £m	
		General Business
466	478	Fire and Other Damage to Property
206	209	Third-party liability
263	269	Motor (third party liability)
262	242	Motor (other classes)
32	35	Accident and Health
87	85	Miscellaneous
1,316	**1,318**	
		Long-Term Business
249	218	Life
22	22	Pensions
271	**240**	

The Long-Term business gross premium income for the year was further broken down as follows:

2017 Life £m	2017 Pensions £m	2016 Life £m	2016 Pensions £m	
16	11	16	11	Periodic
233	11	202	11	Single
249	**22**	**218**	**22**	
3	3	4	4	Non-linked With-Profits
7	3	8	2	Non-linked non-profit
239	16	206	16	Unitised (including unitised With-Profits)
249	**22**	**218**	**22**	

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:

2017 £m	2016 £m	
218	192	Life
1	-	Annuity
8	8	Pensions
227	**200**	
4	5	Periodic
223	195	Single
227	**200**	
1	-	Non-linked non-profit
226	200	Unitised
227	**200**	

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 Premium Earned – General Business

2017 £m	2016 £m	
476	478	Fire and Other Damage to Property
211	206	Third-party liability
262	268	Motor (third party liability)
260	241	Motor (other classes)
32	36	Accident and Health
85	85	Miscellaneous
1,326	**1,314**	

e) Gross Operating Expenses

Gross operating expenses excludes income received from Agents for services provided, commission income and the movement in deferred aquistion costs.

2017 £m	2016 £m	**General Business**
118	107	Fire and Other Damage to Property
53	47	Third-party liability
67	60	Motor (third party liability)
66	54	Motor (other classes)
6	11	Accident and Health
21	19	Miscellaneous
331	**298**	
		Long-Term Business
103	52	Life
27	36	Pensions
130	**88**	

f) Gross Claims Incurred and Reinsurance Balance

Gross Claims Incurred

2017 £m	2016 £m	**General Business**
932	874	Claims paid
24	58	Gross provision for claims
956	**932**	

Reinsurance balance

2017 £m	2016 £m	**General Business**
(9)	(6)	Claims paid
(16)	(7)	Gross provision for claims
(25)	**(13)**	

g) Reinsurance

The reinsurance balance amounted to a debit to the General Technical account of £68m (2016: £75m) and a debit to the Life Technical account of £1m (2016: credit £1m).

h) Geographical Analysis

Materially all premiums are written within the United Kingdom.

7 Net Operating Expenses

General business acquisition costs include commission related costs of £128m (2016: £117m). Guarantee fund levies included in administration expenses amounted to £20m (2016: £9m) in the consolidated General business financial statements.

General Business		Long-Term Business		
2017 £m	2016 £m	2017 £m	2016 £m	
206	181	101	61	Acquisition costs
(10)	(6)	-	-	Increase in deferred acquisition costs
111	105	24	26	Administrative expenses
307	**280**	**125**	**87**	

8 Movement in Insurance Liabilities

a) Movement in insurance liabilities and reinsurance assets

Consolidated 2017			Consolidated 2016			
Gross	Reinsurance	Net	Gross	Reinsurance	Net	
1,885	(159)	1,726	1,827	(152)	1,675	**Total at the beginning of the year**
						Movement in Liabilities
827	(78)	749	716	(20)	696	Arising from current year General Insurance claims
(398)	(64)	(462)	(593)	6	(587)	Arising from prior year General Insurance claims
(443)	122	(321)	(64)	6	(58)	Claims incurred but not reported reserve movements
38	4	42	(1)	1	-	Other General Insurance claims reserve movements
7	-	7	-	-	-	Long-Term claims reserve movement
1,916	**(175)**	**1,741**	**1,885**	**(159)**	**1,726**	**Total at the end of the year**

Parent Company 2017			Parent Company 2016			
Gross	Reinsurance	Net	Gross	Reinsurance	Net	
1,876	(155)	1,721	1,816	(146)	1,670	**Total at the beginning of the year**
						Movement in Liabilities
827	(78)	749	716	(20)	696	Arising from current year General Insurance claims
(398)	(64)	(462)	(593)	6	(587)	Arising from prior year General Insurance claims
(443)	127	(316)	(64)	5	(59)	Claims incurred but not reported reserve movements
39	-	39	1	-	1	Other General Insurance claims reserve movements
7	-	7	-	-	-	Long-Term claims reserve movement
1,908	**(170)**	**1,738**	**1,876**	**(155)**	**1,721**	**Total at the end of the year**

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 £58m (2016: £42m) for periodic payment orders. These reserves have been discounted using EIOPA risk free interest rates.

b) Movement in Prior Years' Provision for Claims Outstanding

The movement in prior year provisions for claims outstanding reflects our prudent approach to management of individual case estimates alongside our assessment of other general risks (including potential legislative changes, latent risks and other general uncertainties). 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 case reserves.

Positive run off deviations of £75m (2016: £90m) for motor and £90m (2016: £14m negative) liability were experienced in the year with all other classes of business reporting a net positive deviation of £5m (2016: £11m negative). The net run off deviation for property in the year was £nil (2016: £20m positive).

An Unexpired Risk Reserve is included within claims outstanding of £56m (2016: £14m).

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		
2017 £m	**2016 £m**	**2017 £m**	**2016 £m**	**Investment Income**
				Income from other financial investments:
3	1	1	1	Held to maturity interest income
-	-	2	2	Loans and receivables interest income
3	**1**	**3**	**3**	**Total interest income on financial assets not at fair value through the profit or loss**
230	165	251	237	Income on financial assets at fair value through profit or loss
233	**166**	**254**	**240**	**Income from financial assets**
55	31	43	25	Income from land and buildings
-	3	-	1	Net return on pension scheme
707	354	207	181	Net gains on realisation of investments
995	**554**	**504**	**447**	**Total income from other financial investments**
				Investment Expenses and Charges
-	-	(4)	(3)	Other investment management expenses
(326)	612	324	837	Net unrealised (loss) / gain on investments
669	**1,166**	**824**	**1,281**	**Total Investment Return**
				Investment return is analysed between:
-	-	824	1,281	Investment return retained in the Long-Term business technical account
30	85	-	-	Allocated investment return transferred to the General business technical account
639	1,081	-	-	Net investment return included in the Non-Technical account
669	**1,166**	**824**	**1,281**	**Total Investment Return**
381	966	531	1,018	Included in the total investment return are net gains on financial assets at fair value through profit or loss
381	**966**	**531**	**1,018**	**Total net realised and unrealised gains included in investment return**

10 General Business Longer Term Investment Rate of Return

The longer term rate of investment return is an estimate having regard to past performance, current trends and future expectations.

The longer term return credited to the Technical account for General business is based on the investments supporting the technical reserves of the General business as permitted under FRS103. A 1% point increase/decrease in the longer term rate of investment return would result in an increase/decrease in longer term investment return of £1m (2016: £10m).

Longer Term Rates of Investment returns Consolidated

2017	2016	
5.25%	5.50%	Equities
4.90%	5.25%	Properties
0.60%	1.30%	Government Bonds
1.40%	2.50%	Corporate Bonds

Investment returns over past five years:

2013-2017 £m	2012-2016 £m	
965	1,053	Actual return attributable to investment supporting the General business Technical Provisions
(433)	(496)	Longer term return credited to the Technical account for General business
532	**557**	

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 £7,154,896 (2016: £6,133,028) in respect of salaries and short term benefits.

The parent company does not employ any staff directly. As at the end of 2017 £nil (2016: £0.4m) in relation to the December 2017 contributions was due to be transferred to the pension scheme. Total employers contributions made to the pension scheme in 2017 were £10m (2016: £7m).

The monthly average number of persons (including Executive Directors) employed by the Group during the year was:

2017 Number	2016 Number	By activity
1,629	1,652	Underwriting and Claims
936	879	Administration and Finance
1,142	1,135	Sales and Marketing
3,707	**3,666**	

2017 £m	2016 £m	Staff costs for the above persons were
160	142	Wages and salaries
17	14	Social security costs
10	7	Other pension costs
187	**163**	

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 56 – 61.

No Directors accured any benefits under a defined benefit scheme during the year (2016 none).

2017 £	2016 £	By activity
5,073,313	4,404,760	Aggregate emolument
240,996	235,813	Excess retirement benefit to past Non-Executive Directors
		Highest paid Director
2,123,111	1,809,745	Total amount of emoluments

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 2017, for Directors and members of senior management and their close family and/or connected entities was £75,380 (2016: £90,725) for General business and £1,042,878 (2016: £397,282) for Life business. Claims paid and Life surrenders totalled £12,100 (2016: £44,771).

(b) The Society's pension scheme is a related party. Two Directors (Brian Duffin and Christine Kennedy) are trustees. The other two trustees are Richard Morley, (member of staff) and Richard Miles (retired member of staff). Mr Morley is a member, and thus potential beneficiary and Mr Miles is a beneficiary of the scheme.

c) Salmon Harvester Properties Opportunity Fund is a related party (98% owned). In 2017 related party transactions amounted to £nil (2016: £nil).

d) Salmon Harvester Properties Limited, a 50% owned subsidiary is a related party. As at the end of 2017 loans totalling £10,000,000 (2016: £31,000,000) had been made, with cumulative interest on the loan amounting to £16,756,402 (2016: £15,057,329). The interest rate on the loan is 3.5% above the Bank of England base rate.

e) **NFU Mutual OEIC is a related party.**
At 31 December 2017, the parent company held:

- 7,460,000 shares (2016: 7,460,000) in the UK Growth sub-fund valued at £3.6636 per share (2016: £3.166).
- 8,935,383 shares (2016: 8,935,383) in the Global Growth sub-fund valued at £2.6869 per share (2016: £2.313).
- 6,513,623 shares (2016: 6,513,623) in the Gilt & Corporate Bond sub-fund valued at £1.035 per share (2016: £1.114).
- 24,282,400 shares (2016: 25,048,528) in the Global Emerging Markets sub-fund valued at £1.78 per share (2016: £1.468).
- 25,334,256 shares (2016: 25,110,149) in the UK Equity Income sub-fund valued at £1.8233 per share (2016: £1.728).
- Nil shares (2016: nil) in the Deposit Fund sub-fund

NFU Mutual Portfolio Funds OEIC. At 31 December 2017, the parent company held:

- Nil shares (2016: 1,000,000 shares) in the Max 100% (prev. Adventurous) sub-fund (2016: valued at £1.704)
- Nil shares (2016: 41,288) in the Mixed 40-85% (prev. Balanced) sub-fund (2016: valued at £1.6659).
- 120,661,893 shares (2016: 98,902,748) in the Mixed 20-60% (prev. Cautious) sub-fund valued at £1.679 per share (2016: £1.5743).

14 Profit on Ordinary Activities Before Taxation

The profit on ordinary activities before taxation is stated after charging:

2017 £k	2016 £k	By activity
13,412	15,183	Depreciation
3,501	3,215	Operating lease rentals (plant and machinery)
341	334	Fees payable to the company's auditor for the audit of the parent company and consolidation
		Fees payable to the company's auditor and its associates for other services:
85	104	Audit of accounts of any associate of the company
-	25	Taxation advisory services
6	12	Taxation compliance services
321	387	Audit related assurance services
-	48	Other assurance services
78	7	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:
46	47	Audit of the Group pension scheme
83	83	Audits of unconsolidated Open Ended Investment Companies managed by the Group
5	4	Audit of NFU Mutual Charitable Trust
5	4	Audit of the Farm Safety Foundation

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		
2017 £m	**2016 £m**	**2017 £m**	**2016 £m**	
				Consolidated Income
128	193	21	37	Current taxation on income for the period
-	-	1	1	Adjustment to prior years
128	**193**	**22**	**38**	
4	4	4	3	Overseas taxation
132	**197**	**26**	**41**	**Total current taxation**
				Deferred taxation
(29)	25	14	34	Origination and reversal of timing differences
(3)	(5)	-	-	Impact of change of tax rate
(32)	**20**	**14**	**34**	**Total deferred taxation**
100	**217**	**40**	**75**	**Taxation on profit on ordinary activities**

b) Tax included in other comprehensive income

2017 £m	**2016 £m**	**Deferred Taxation**
15	(19)	Origination and reversal of timing differences
15	**(19)**	**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 (2016: lower) than the standard rate of Corporation Tax in the UK for the year ended 31 December 2017 of 19.25% (2016: 20%). The differences are explained right:

Since 1 April 2017 the UK Corporation Tax rate has been 19%. A blended rate of 19.25% applies for 2017 as the rate pre April 2017 was 20%. The rate for 2016 was 20%.

UK Corporation Tax rates were confirmed in the Finance Act 2017, which was enacted 27 April 2017. These include reductions to the main rate to reduce the rate to 19% from the 1 April 2017 and to 17% from the 1 April 2020. 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 Subsidiaries made in the Statement of Changes in Equity, since the parent company has control of subsidiaries and it is probable that the timing difference will not reverse in the future.

Consolidated taxation

2017 £m	2016 £m	
640	1,243	Profit before tax
123	248	Profit multiplied by the standard rate of corporation tax in the UK of 19.25% (2016: 20%)
		Effects of:
(3)	(5)	Impact of reduction in rate
14	(3)	Realised and unrealised gains on investments
(38)	(27)	Non-taxable income
(1)	(1)	Capital allowances in excess of depreciation
1	1	Disallowable expenses
4	4	Tax on overseas earnings
100	**217**	**Total taxation**

16 Investment in Group Undertakings and Participating Interests

a) Investment in Group Undertakings and Participating Interests

Consolidated		Parent Company General Business		Parent Company Long-Term Business		
2017 £m	2016 £m	2017 £m	2016 £m	2017 £m	2016 £m	**Valuation**
-	-	325	223	69	70	Shares in Group undertakings
-	-	-	-	10	31	Loans to Group undertakings
2	3	2	2	-	-	Participating interests in associated companies
363	421	363	421	-	-	Participating interests in Joint Ventures
365	**424**	**690**	**646**	**79**	**101**	**Investment in Group undertakings and participating interests**
						Cost
-	-	82	82	62	62	Shares in Group undertakings
-	-	-	-	10	31	Loans to Group undertakings
-	-	-	-	-	-	Participating interests in associated companies
282	282	282	282	-	-	Participating interests in Joint Ventures
282	**282**	**364**	**364**	**72**	**93**	**Investment in Group undertakings and participating interests**

There are no listed investments included in the above.

b) Other Financial Investments

Consolidated 2017 £m	Consolidated 2016 £m	Parent Company General Business 2017 £m	Parent Company General Business 2016 £m	Parent Company Long-Term Business 2017 £m	Parent Company Long-Term Business 2016 £m	
						Valuation
						Assets designated at fair value through profit or loss upon initial recognition:
5,855	6,669	3,519	4,590	2,336	2,079	Shares and other variable yield securities
5,017	4,057	1,936	919	3,045	3,101	Debt securities and other fixed / variable income securities
62	95	1	4	61	91	Property investments
						Assets at fair value through profit or loss, held for trading:
-	10	-	-	-	10	Derivative financial instruments
10,934	**10,831**	**5,456**	**5,513**	**5,442**	**5,281**	**Financial assets in fair value through profit or loss**
-	1	-	1	-	-	Loans secured by mortgages
1,648	903	1,207	639	363	185	Deposit with credit institutions
12,582	**11,735**	**6,663**	**6,153**	**5,805**	**5,466**	**Total Financial Assets**
						Included in the above are listed investments:
5,730	6,523	3,460	4,485	2,270	2,038	Shares and other variable yield securities
5,017	4,057	1,936	919	3,045	3,101	Debt securities and other fixed interest stocks
						Cost
						Assets designated at fair value through profit or loss upon initial recognition:
3,423	4,072	2,158	2,918	1,265	1,154	Shares and other variable yield securities
4,052	3,060	1,765	743	2,256	2,285	Debt securities and other fixed / variable income securities
44	54	9	11	35	43	Property investments
						Assets at fair value through profit or loss, held for trading:
-	9	-	-	-	9	Derivative financial instruments
7,519	**7,195**	**3,932**	**3,672**	**3,556**	**3,491**	**Financial assets in fair value through profit or loss**
-	1	-	1	-	-	Loans secured by mortgages
1,648	903	1,207	639	363	185	Deposit with credit institutions
9,167	**8,099**	**5,139**	**4,312**	**3,919**	**3,676**	**Total Financial Assets**

17 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	
1,319	161	661	101	-	498	60	Carrying value bfwd from prior year
19	11	19	-	-	-	11	Additions
(89)	(54)	(89)	(27)	-	-	(27)	Disposals
81	(12)	43	(5)	-	21	(7)	Changes in Fair Value
22	-	15	-	-	7	-	Other Changes
1,352	**106**	**649**	**69**	**-**	**526**	**37**	**Amount Cfwd at end of current year**

As at 31 December 2017 the book cost of the Investment properties is £1,024m (2016: £1,114m)

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	
56	-	46	-	-	-	-	Carrying value bfwd from prior year
-	-	-	-	-	-	-	Additions
(1)	-	(1)	-	-	-	-	Disposals
1	-	1	-	-	-	-	Changes in Fair Value
1	-	1	-	-	-	-	Other Changes (including amortisation)
57	**-**	**47**	**-**	**-**	**-**	**-**	**Amount Cfwd at end of current year**
1,409	**106**	**696**	**69**	**-**	**526**	**37**	**Total land and buildings**

As at 31 December 2017 the book cost of owner occupied properties is £100m (2016: £101m). The accumulated depreciation on owner occupied properties at 31 December 2017 is £22m (2016: £20m).

Land and buildings were valued at 31 December 2017 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 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.

18 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		Parent Company		
2017 £m	2016 £m	2017 £m	2016 £m	
3,379	3,017	3,379	3,017	Carrying value
2,389	2,230	2,389	2,230	Cost

19 Other Debtors

Consolidated		Parent Company General Business		Parent Company Life Business		
2017 £m	2016 £m	2017 £m	2016 £m	2017 £m	2016 £m	
47	33	18	15	16	8	Sundry debtors
47	**33**	**18**	**15**	**16**	**8**	

20 Tangible Assets

Tangible assets comprise fixtures, fittings and equipment.

Consolidated £m	Parent Company £m	
		Cost
167	162	As at 1 January 2017
15	14	Additions
-	-	Disposals
182	176	As at 31 December 2017
		Accumulated Depreciation
142	138	As at 1 January 2017
11	10	Charge for the year
153	148	As at 31 December 2017
		Net Book Value
29	28	As at 31 December 2017
25	24	As at 31 December 2016

21 Stocks

Stocks comprise properties under construction.

Consolidated		
2017 £m	2016 £m	
29	48	Stocks
29	**48**	

Parent Company		
2017 £m	2016 £m	
-	-	Stocks
-	**-**	

22 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	Holding Company
NFU Mutual Unit Managers Limited	Authorised Corporate Director of The NFU Mutual OEIC and the NFU Mutual Portfolio Funds OEIC
NFU Mutual Select Investments Limited	Platform Operator
NFU Mutual Pension Fund Trust Company Limited	Holds assets for the pension fund
Salmon Harvester Properties Limited (50% owned)	Property Development
SHP Opportunity Fund General Partner Limited (98% owned direct 2% owned by Salmon Harvester Properties Limited)	General Partner of Limited Partnership

Subsidiaries Held Through NFU Mutual Management Company Limited

Avon Insurance plc	General Insurance
NFU Mutual Investment Services Limited	Corporate Investment Management
NFU Mutual Risk Management Services Limited	Risk Reduction Services
NFU Mutual (Service Company) Limited	Service Company
Harvester Properties Limited	Property Development
Tiddington Finance Limited	Intra-Group Leasing and Financing
Hathaway Property Company Limited	Property Development

Subsidiaries Held Through NFU Mutual Select Investments Limited

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

Companies Incorporated in Other Jurisdictions

Guernsey

Islands' Insurance (Holdings) Limited[1]	Holding Company
Lancaster Court Limited[1]	Holding Company
The Islands' Insurance Brokers Limited[1]	Insurance Underwriting Agent & Insurance Broker
Farmers Re Limited[2]	Reinsurance

Jersey

The Islands' Insurance Managers Limited[3]	Holding Company
M. J. Touzel (Insurance Brokers) Limited[3]	Insurance Underwriting Agent & Insurance Broker

Subsidiaries Held Through Salmon Harvester Properties Limited

Salmon Harvester (Orbital A3) Limited	Property Special Purpose Vehicle
* FSH Airport (Edinburgh) Services Limited (50% owned by Salmon Harvester Properties Limited) [4]	Joint Venture Property Company
* FSH Nominees Limited (100% owned by FSH Airport (Edinburgh) Services Limited)[4]	Joint Venture Property Company
Ascot Business Park Management Company Limited	Property Special Purpose Vehicle
Ascot Business Park Parking Limited	Property Special Purpose Vehicle

Other investment in Group undertakings

Salmon Harvester Properties Limited SHP Opportunity Fund [5]	Limited Partner Act 1907

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

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] Heritage Hall, PO Box 230, Le Marchant Street, St Peter Port, Guernsey, GY1 4JH
[3] Kingsgate House, 55 The Esplanade, St Helier, Jersey, JE1 4HQ
[4] 11-15 Wigmore Street, London, W1A 2JZ
[5] 2nd Floor Prince Frederick House, 35-39 Maddox Street, London W1S 2PP

23 Associates and Joint Ventures

Associates

The Society's associated undertaking during the year was 50% (2016: 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. If this shareholding was accounted for as a joint venture there would not be a material impact on the net asset of the Group at 31 December 2017, or the result for the year ended 31 December 2017.

The loss attributed in relation to the associate in the year was £0.2m (2016: £0.3m) and is included within the consolidated profit and loss.

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 £37.8m (2016: £6.2m) and is included within the consolidated profit and loss.

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.

24 Reserves

Other reserves in the statement of changes in equity 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 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 £542m (2016: £1,075m). The parent company is exempt from the requirements to file with the registrar individual accounts by virtue s448A of the Companies Act 2006.

25 Other Technical Provision

Within the technical provision claims outstanding an unexpired risk reserve has been included for £56m (2016: £14m).

Avon run-off business was reinsured to NFU Mutual in 2006. The value of this included within claims outstanding in 2017 within the parent company is £31m (2016: £32m).

26 Provision for Other Risks and Charges

Consolidated		Parent Company General Business		Parent Company Long-Term Business		
2017 £m	2016 £m	2017 £m	2016 £m	2017 £m	2016 £m	
247	248	103	134	133	118	Deferred taxation
7	7	7	7	-	-	Motor Insurers' Bureau levy
-	-	-	-	-	-	Other provisions
254	**255**	**110**	**141**	**133**	**118**	**Balance at 31 December**

The Group is a member of the Motor Insurers' Bureau. Of the provision brought forward, £7m (2016: £7m) has been utilised during the year and a further charge of £7m (2016: £7m) made in 2017.

Consolidated taxation		Parent Company General Business		Parent Company Long-Term Business		
2017 £m	2016 £m	2017 £m	2016 £m	2017 £m	2016 £m	
						Deferred Taxation
248	213	134	113	118	83	Balance at 1 January
(16)	44	(30)	11	14	33	Unrealised gains / (loss) on investments
1	2	-	-	1	2	Deferred acquisition costs
15	(21)	-	-	-	-	Pension Scheme Asset
1	1	1	1	-	-	Capital allowances
(2)	9	(2)	9	-	-	Other short term timing differences
247	**248**	**103**	**134**	**133**	**118**	**Balance at 31 December**

Consolidated		Parent Company General Business		Parent Company Long-Term Business		
2017 £m	2016 £m	2017 £m	2016 £m	2017 £m	2016 £m	**The provision for Deferred Taxation comprises:**
244	260	103	133	141	127	Unrealised gains on investments
(6)	(7)	-	-	(6)	(7)	Deferred acquisition costs
11	(4)	-	-	-	-	Pension Scheme Asset
(7)	(8)	(6)	(7)	(1)	(1)	Capital allowances
5	7	6	8	(1)	(1)	Other short term timing differences
247	**248**	**103**	**134**	**133**	**118**	**Balance at 31 December**

There were unused tax losses of £11m (2016: £11m) 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.

The value of the net reversal of deferred tax balances expected to occur within one year of the Balance Sheet date is £28.0m (2016: £28.0m) for the Parent Company General business and £11m (2016: £12m) for the Parent Company Long-Term business. These primarily relate to the reversal of timing differences on portfolio equity and property investments.

27 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		
2017 £m	2016 £m	2017 £m	2016 £m	
108	165	106	165	Corporation tax
31	29	35	32	Other taxation
19	20	6	8	Other
158	**214**	**147**	**205**	**Balance at 31 December**

28 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 31 December 2016, but retains salary linkage for active members.The assets of the two sections of the scheme are held in separate trustee-administered funds and cover all material obligations to provide pensions to retired and current employees. 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 schemes' 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 31 December 2014. 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 2017. 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 2018.

The principal assumptions used by the actuaries were:

% Consolidated		
2017	**2016**	
4.65	4.75	Rate of increase in salaries
3.05	3.15	Rate of increase in pensions
2.40	2.55	Discount rate
3.15	3.25	Inflation
2.15	2.25	Pension increase for Deferred Benefits

Post retirement assumptions

Longevity at age 65 for current pensions

2017	2016
110% for males and 103% for females of S1NAL with CMI 2011 projections from 2002 to 2014 and thereafter CMI 2016 projections with 1.50%pa long term trend	110% for males and 103% for females of S1NAL with CMI 2011 projections from 2002 to 2014 and thereafter CMI 2014 projections with 1.50%pa long term trend

Mortality is assumed to follow the standard 92 series tables: S1NMAL for males and S1NFAL for females, both with allowance for medium cohort mortality improvements.

The net assets in the scheme and the expected rate of return were:

Consolidated 2017 % of total fair value of scheme assets	Consolidated 2017 £m	Consolidated 2016 % of total fair value of scheme assets	Consolidated 2016 £m	
45.73	502	43.93	452	Equities
9.88	108	10.31	106	Government Bonds
32.55	357	33.73	347	Corporate Bonds
8.32	91	9.87	101	Property
3.52	39	2.16	22	Other
	1,097		1,028	Total fair value of assets
	(1,034)		(1,048)	Present value of scheme liabilities
	63		(20)	Surplus / (Deficit) in the scheme

Of the surplus of £63m (2016: £20m deficit), £10m (2016: £3m 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)

2017 £m	2016 £m	
1,048	803	As at 1 January
1	14	Current service cost
(1)	(1)	Administrative expenses
26	30	Interest cost
(26)	(23)	Benefits paid
(14)	225	Net actuarial (profits) / loss
1,034	**1,048**	**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:

2017 £m	2016 £m	
1,166	1,150	Wholly or partly funded obligations
1,166	**1,150**	**As at 31 December**

The actual return on scheme assets in the year was a gain of £96m (2016: gain of £156m).

The tables over 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)

2017 £m	2016 £m	
1,028	895	At 1 January
26	33	Interest income on scheme assets
1	1	Contributions
(27)	(23)	Benefits paid
(1)	(1)	Administrative expenses
-	-	Net transfer out
70	123	Return on scheme assets greater than discount rate
1,097	**1,028**	**At 31 December**

Analysis of the amount charged to Operating Profit (included in Net Operating Expenses)

2017 £m	2016 £m	
18	26	Current service cost
-	-	Past service cost
18	**26**	**Total operating charge**
		Analysis of amount credited to profit and loss
26	33	Interest income on scheme assets
(26)	(30)	Interest on pension scheme liabilities
-	**3**	
		Analysis of amount recognised in statement of other comprehensive income
70	123	Return on scheme assets greater than discount rate
14	(225)	Remeasurement of the defined benefit obligation
84	**(102)**	**Actuarial gain / (loss) recognised in Statement of Other Comprehensive Income**

The actuarial gain of £14m due to demographic experience comprises a £7m gain due to assumption changes over the year and a £7m gain due to Scheme experience. The experience gain arises from actual increases awarded to the salaries over the year to the 31 December 2017 being lower than expected, partially offset by actual increases on both pensions in deferment and payment being higher than expected over the period. The assumption gain arises from lower inflation and adoption of CMI2016 for future payments in mortality, partially offset by a lower discount rate. The actuarial gain of £7m due to assumption changes over the year comprises of a loss of £22m in respect of changes in economic assumptions and a gain of £29m in respect of changes in demographic assumptions.

29 Capital Commitments

Capital expenditure contracted for but not provided in these financial statements at 31 December 2017 amounted to £18m (2016: £20m).

30 Operating Lease Commitments

The Group leases various properties under non-cancellable operating lease agreements. The lease 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:

2017 £m	2016 £m	
7	7	Within one year
15	20	Between one and five years
3	5	Later than five years
25	**32**	**As at 31 December**

31 Stock Lending

Holdings of UK Government, corporate fixed interest, UK equities and overseas securities with a value of £455m (2016: £339m) were on loan at 31 December 2017 under approved stock lending schemes. As at 31 December 2017 £473m (2016: £353m) was accepted by the Group in assets that it is permitted to sell or repledge 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.

32 Cash Flow Statement

a) Reconciliation of profit before tax to net cash inflow from operating activities

2017 £m	2016 £m	
540	**1,026**	**Profit for the financial year**
		Adjustments for:
100	217	Tax charge on ordinary activities
(994)	(554)	Interest and dividend income
(354)	**689**	**Operating (loss) / profit**
(43)	(38)	Increase in debtors, prepayments and accrued income
45	(23)	Increase / (Decrease) in creditors, accruals and deferred income
(4)	(8)	Decrease in technical provisions
326	(612)	Unrealised investment loss / (gain)
-	8	Non cash pension movement
11	12	Depreciation and disposals of tangible assets
(19)	**28**	**Net cash (outflow) / inflow from operating activities**

b) Analysis of changes in Cash and Cash Equivalents

As at January 2017	Cash Flows	As at December 2017	
217	60	277	Cash at Bank and in hand
(76)	(28)	(104)	Less: Long-Term business
141	**32**	**173**	
903	745	1,648	Short term deposits (note 16)
(215)	(177)	(392)	Less: Long-Term business
688	**568**	**1,256**	
829	**600**	**1,429**	**Cash and cash equivalents**

33 Amounts Owed to Credit Institutions

Consolidated		Parent Company		
2017 £m	2016 £m	2017 £m	2016 £m	
42	28	-	-	Bank loans
42	**28**	**-**	**-**	**Balance at 31 December**

The loan held with Salmon Harvester Properties Opportunity Fund is offered on a revolving facility. The interest rates are 2.125% above LIBOR on the first £25m and 2.750% above LIBOR on the second £19m. The current maturity date of the loan is 31 March 2018.

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