REPORT AND ACCOUNTS 2019

NFU Mutual
INSURANCE | PENSIONS | INVESTMENTS

CONTENTS

CHAIRMAN'S STATEMENT

In 2019, after serving NFU Mutual for 16 years, Richard Percy stepped down from his role as Chairman and retired from our Board of Directors. Richard served as a Non-Executive Director for nine years before becoming Chairman for a further seven years and I would like to begin by thanking him for his long-standing service to our company.

As NFU Mutual Chairman I am pleased to report another set of very sound results on the back of what has been a challenging year for the industry and the wider business community.

Following the downturn in the financial markets in 2018, this year's strong overall Group result is testimony to our commitment towards our long-term strategy. It's this focus that underpins our resilience to market volatility, such as we are experiencing again in 2020, as a result of the worldwide Coronavirus outbreak.

Around half of our General Insurance (GI) premium now comes from non-farming sectors, and our membership is made up of a wide variety of businesses. From small, local, retail enterprises to large-scale, national food manufacturing operations, we continue to attract businesses that identify with our values and see the benefit of our integrated approach, offering both commercial insurance and risk management advice.

Our GI business produced very strong results and made an underwriting profit of £167m against a Gross Written Premium Income (GWPI) of £1,648m. Our Life results reflected low consumer confidence seen across the industry and led to us returning an Annual Premium Equivalent (APE) result of £60.1m. We continue to evolve the Life business and in 2019 our online My Investments platform was developed to include two new products, a Select Pension Plan and Junior ISA.

Like many businesses, NFU Mutual and the wider financial services industry continues to be challenged by unprecedented levels of uncertainty. These include regulatory issues like climate change and the future of technology and how they will impact on our business and those of our customers.

As a mixed arable and beef farmer, I understand the ongoing challenges for the farming industry. In 2019, NFU Mutual donated £7m to support the work of the Farming Unions across the UK and we will continue to support the agricultural industry with an insurance offering that fits with what farmers are looking for.

The issue of climate change is becoming all pervasive and regulatory changes in the transition to a low carbon economy, coupled with climatic changes themselves, will undoubtedly alter the way all businesses operate.

Through our regional network of agent offices NFU Mutual is closely keyed into our customers' requirements and is in the best position to really understand their needs in this ever-changing environment.

We continue to keep abreast of industry developments and the factors affecting our members, and this year launched our first Agri-tech report. The report highlights the way we are working closely with scientists, agricultural colleges and tech companies to help our members make the right choices to farm sustainably, profitably and safely.

In 2019 we continued to support police forces and other partners to raise awareness of the impact of rural crime. The 20th annual NFU Mutual Rural Crime Report created significant media exposure to highlight not only the cost of rural crime, but the effect it has on the people living, working and running businesses in rural communities. We will continue to work hard to support our communities in protecting their property and possessions.

Acting as a responsible business is part of our make-up and we take our responsibility to our members and rural communities very seriously, whether that be supporting the fight against rural crime, supporting mental health charities, Young Farmers' Clubs or the Farm Safety Foundation.

We welcomed David Roper as a new Non-Executive member of our Board in 2019. Having worked for PwC for nearly 30 years – the last 16 as a financial services partner

"We put long-term relationships before short-term profits and we believe that's why our customers continue to stay loyal to NFU Mutual."

– David will bring a wealth of commercial experience to NFU Mutual. His expertise will greatly complement the breadth of financial services and agricultural knowledge we have represented on our Board today.

NFU Mutual has been a steadfast organisation for its members since 1910. As a member of the Board since 2012, and now in my role as Chairman, I will continue to uphold its values and, most importantly, its commitment to put our members first.

We put long-term relationships before short-term profits, and we believe that's why our customers continue to stay loyal to NFU Mutual. In 2019 95.3% of members renewed their policy with us, which is a source of great pride. It's something we will never take for granted and that's one of the reasons why we'll continue to reward that loyalty through Mutual Bonus – a discount on your premium when you renew your policy with us. In 2019 we returned £258m in Mutual Bonus to our members and, from 1st July 2020, we will again be providing substantial levels of Mutual Bonus.

We continue to invest at all levels of our business and network of Agency offices throughout the UK to provide the attentive, local and personal service that our members have come to rely on.

At NFU Mutual we work entirely for our members. We are a people business and all of our fantastic staff strive every day on behalf of our highly valued members – I would like to say thank you to them all.

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

Jim McLaren
Chairman

FINANCIAL HIGHLIGHTS

GROUP

£573m

Profit for the financial year
2018: £290m loss

£20.8bn

Total Funds under Management
2018: £18.9bn

GENERAL INSURANCE

£1,648m

GWPI before Mutual Bonus
2018: £1,568m

£167m

Underwriting Profit
2018: £142m

88.9%

Combined Operating Ratio (COR)
2018: 90.1%

LIFE

£60.1m

APE – New Business
2018: £68.3m

£12.6bn

Life Funds under Management
2018: £11.3bn

GROUP CHIEF EXECUTIVE'S STATEMENT

2019 saw a year of much political, trading and investment uncertainty and now, in 2020, with the outbreak of Coronavirus, we are facing further uncertain economic and financial times. One thing that hasn't changed however, is our strategy of differentiating ourselves through our attentive, local, personal service. The company has and continues to do well despite these challenging business conditions, and I am pleased to report for 2019 an overall Group profit of £573m, including total pre-tax investment returns within our General Insurance business of £799m. As a result, as we move into 2020, we will be able to support our customers through difficult times by providing £250m of Mutual Bonus from 1st July 2020. These will be as follows:

Renewal year 2020 – 2021	Mutual Bonus
1st year of renewal	11.5%
2nd year of renewal	12.5%
3rd year of renewal	12.5%
4th year of renewal	13.5%
5th + year of renewal	16.5%

Our approach of rewarding customers for their loyalty through Mutual Bonus – in the form of a discount applied at renewal – continues to set us apart from the competition.

One of our three long-term objectives is to be a great company to do business with and one mark of our success is the percentage of customers who continue to do business with us. In a General Insurance market where 80% could be considered a respectable result, it is pleasing to note that 95.3% of our General Insurance customers continue to renew their policies with us.

Also pleasing was the outcome of management consultancy, Bain and Company's first UK consumer study into Net Promotor Scores (NPS), a measurement of customer experience and overall company perception. The study showed that NFU Mutual has the highest NPS in the UK, followed by First Direct, Volvo, Netflix and Amazon.

In 2019 we were named Most Trusted Insurance Provider in the Moneywise Customer Service Awards. We scored the highest in Auto Express' Driver Power survey to once again be named Best Car Insurer, and for the ninth year running we were Which? recommended providers for both car and home insurance. We also retained five stars from Defaqto for both car and home insurance.

At NFU Mutual we continue to value such awards and industry ratings because they tell us that we're offering the products, services and quality advice that our customers need.

Another of our three long-term objectives is to deliver sustainable, profitable growth, and I report on this on the following pages for our General Insurance (motor, commercial and home insurance) and Life (pensions, investments and protection) businesses.

GENERAL INSURANCE

The General Insurance (GI) side of the business performed strongly again in 2019 with Gross Written Premium Income

> Our approach of rewarding customers for their loyalty through Mutual Bonus continues to set us apart from the competition.

(GWPI) before Mutual Bonus rising from £1,568m in 2018 to £1,648m representing a 5.1% increase.

Although some parts of the UK experienced some very difficult weather conditions, the overall claims impact has been in line with our plans for the year. Despite a handful of very large bodily injury claims towards the end of the year, we ended 2019 with an underwriting profit before tax of £167m – our ninth consecutive year of underwriting profit.

LIFE

On the Life side of the business, With-Profits continued to be a popular fund choice for our policyholders in 2019, and those members continued to benefit from excellent investment performance during the year, with the underlying assets of the fund delivering a return of over 12.8% in 2019. We were able to add over £65m in annual bonuses to our 70,000 With-Profits policies and over £70m as a terminal bonus for policies that matured or where money was taken out of the With-Profits fund.

However, the economic uncertainty that continued throughout 2019 was reflected in a continued lack of retail investor confidence. Whilst our nationwide network of financial advisers saw more customers seeking advice on what products were most appropriate to their financial position and long-term plans, we also saw a continued reluctance to make decisions on investments, pensions and protection. As a result, new sales growth, as measured by Annual Premium Equivalent (APE), came in at £60.1m in 2019 compared to £68.3m the year before.

Ironically, in such a year of uncertainty, stock markets performed very well. As a long-term investor ourselves, managing both General Business and Life funds with our award-winning in-house investment team at the helm, we saw funds under management grow by £1.9bn to £20.8bn and produce the substantial investment gains mentioned earlier.

Last but not least, given the great importance of the role played by all our staff, our Agents and their staff in providing our customers with a first-class service, is our third long-term objective of being a great place to work.

We continued to be scored very highly by our staff through the annual survey run by Gallup and in 2019 we won their Great Workplace Award for the fourth year running. NFU Mutual is one of 40 organisations from around the world who have been commended for their high levels of employee engagement and is the only UK-headquartered company on the list.

I'd like to thank all of our staff, our Agents and their staff for their continued commitment, diligence and hard work which is so fundamental to the future success of our business. I'd also like to thank all of our members for their great loyalty to NFU Mutual.

Lindsay Sinclair
Group Chief Executive

BUSINESS MODEL AND STRATEGY

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

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

> "Our strategy is to provide an attentive, local, personal service that is second to none."

BUSINESS MODEL

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

Our Financial Advisers offer advice on life assurance, investment and pension products, supported by Product Information Consultants.

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

SUSTAINABLE PROFITABLE GROWTH

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

Our investment strategy underpins our financial strength and stability, with an asset portfolio of £20.8bn which is primarily managed in-house by a dedicated investment and property management team. Although in the short term our investments are subject to normal market volatility, our strategy is long-term and focuses on building quality portfolios for both our Life and General Insurance Business funds.

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

GREAT COMPANY TO DO BUSINESS WITH

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

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

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

GREAT PLACE TO WORK

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

GENERAL INSURANCE BUSINESS STRATEGY

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

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

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

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.

Key Performance Indicators used:
- Persistency
- Gross Written Premium Income
- Underwriting Profit
- Combined Operating Ratio
- New Business

FINANCIAL SERVICES BUSINESS STRATEGY

We remain firmly committed to sustainably growing our Financial Services business by meeting a broad range of customers' financial needs. We provide our customers with high quality advice, delivered by our team of dedicated Financial Advisers, in addition to easy access to quality products without advice when it is not required.

The objectives of the strategy designed to meet this aim are to:
- Ensure the long-term profitability of the Financial Services business.
- Make the Advisory business profitable on a standalone basis
- Provide the Life fund with an adequate return on investment.

The Financial Services Strategy will:
- Build on and enhance 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.

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

Key Performance Indicators used:
- Annual Premium Equivalent
- Life Funds under Management

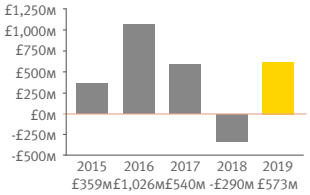

NFU Mutual

STRATEGIC OBJECTIVE KPIs

SUSTAINABLE PROFITABLE GROWTH (GROUP)

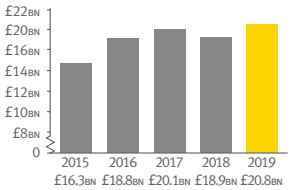
FINANCIAL PERFORMANCE

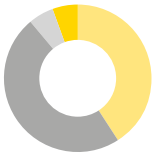
The Group made a profit in 2019 of £573m (2018: £290m loss), reflecting an upturn in investment markets delivering strong realised and unrealised gains. This has been supported by strong operating performance within our core insurance business with both solid premium growth and good underwriting performance overall.



FUNDS UNDER MANAGEMENT*

The Group's funds under management increased to £20.8bn (2018: £18.9m) reflecting the upturn in investment markets. The General Business fund achieved a 2019 return of 10.7% and the three-year annualised return was a healthy 5.1%.



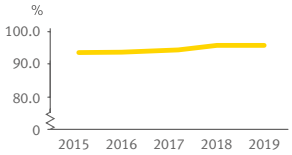


- NFU Mutual General £8.2bn (2018: £7.6bn)
- NFU Mutual Life £10.2bn (2018: £9.2bn)
- OEIC Funds £1.3bn (2018: £1.1bn)
- NFUMIS Pension Fund £1.1bn (2018: £1.0bn)

GREAT COMPANY TO DO BUSINESS WITH

PERSISTENCY (GENERAL INSURANCE BUSINESS)*

Our exceptional persistency levels have continued throughout 2019 at 95.3% (2018: 95.5%).



GREAT PLACE TO WORK

EMPLOYEE ENGAGEMENT

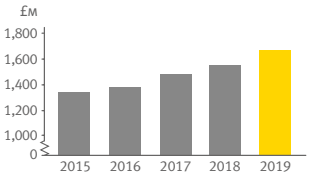
During the year we received the 2019 Gallup Great Workplace award, the only UK-headquartered company to do so and one of a total of 40 companies worldwide. We maintained our position in the 90th percentile of Gallup's company database for the fifth year running.

GALLUP

SUSTAINABLE PROFITABLE GROWTH (GENERAL INSURANCE BUSINESS)

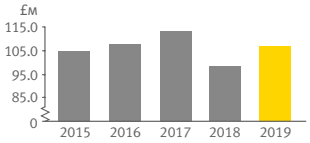
GROSS WRITTEN PREMIUM INCOME (GWPI)

Our Gross Written Premium Income of £1,648m (2018: £1,568m) showed a 5.1% increase over last year with exceptional levels of members renewing their policies. Our GWPI is before Mutual Bonus.



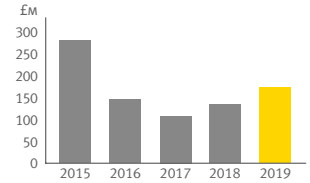
NEW BUSINESS

New Business written of £105.8m (2018: £97.7m) was an 8.3% increase with strong performance across all lines of business.



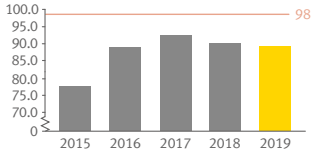
UNDERWRITING PROFIT AND LOSS

The General Insurance (GI) business delivered another strong performance in 2019, resulting in an underwriting profit of £167m (2018: £142m) with a combination of premium growth and lower levels of claims incurred. This is the ninth year running of underwriting profits.



COMBINED OPERATING RATIO (COR)*

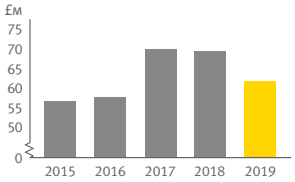
The combination of continued positive underwriting performance, together with strong premium growth has contributed to a COR of 88.9% (2018: 90.1%). On a longer-term ten-year basis the average COR continues to be within our 98% target.



SUSTAINABLE PROFITABLE GROWTH (LIFE BUSINESS)

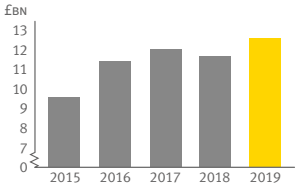
ANNUAL PREMIUM EQUIVALENT (APE)*

Our APE of £60.1m (2018: £68.3m) has seen a decline from previous years reflecting the ongoing economic uncertainty and lack of investor confidence experienced during 2019.



LIFE FUNDS UNDER MANAGEMENT

Life fund values increased in 2019 to £12.6bn (2018: £11.3bn) reflecting the improvement in global stock markets throughout the year.



* Alternative performance measures (APMs) are not defined or specified under the requirements of Financial Reporting Standards. They provide readers with important additional information on our business. A glossary explains why we have chosen to use them (page 152).

BUSINESS REVIEW 2019

Finance Director, Richard Morley

The General Insurance (GI) business delivered another strong performance in 2019, with an underwriting profit of £167m. Our pensions and investments business also performed well in very challenging market conditions, achieving an Annual Premium Equivalent (APE) of £60.1m.

2019 saw an upturn in investment markets and helped to generate Group profits in excess of £570m. After the decline seen in 2018, overall investment assets returned to growth in 2019 and increased by over 10% to £20.8bn. With the outbreak of the worldwide Coronavirus, we have seen substantial market falls in early 2020, but being a company with a strong Balance Sheet, that invests for the long-term, we are resilient to such market volatility. Our Solvency Coverage Ratio (which measures how much of our "own funds" are available to cover our regulatory capital requirements) was 201% at 31st December 2019 and remained strong at an estimated 180% at the end of March 2020.

FINANCIAL PERFORMANCE – GROUP

	2019	2018
Profit / (Loss) for the year	£573m	(£290m)

GENERAL INSURANCE

GWPI

GWPI of £1,648m, a growth of 5.1%, with strong persistency of 95.3%.

Gross Written Premium Income has increased to over £1.6bn with a 5.1% increase over last year (2018: £1,568m). The strong performance underpinned by exceptional ongoing persistency levels (the percentage of policyholders renewing each year) of 95.3% (2018: 95.5%) with our local, personal approach generating higher volumes of advised sales than in previous years.

New Business has also increased by 8.3% in the year to £105.8m (2018: £97.7m); a strong result in a competitive market with our advised commercial product selling particularly well.

UNDERWRITING PROFIT

The underwriting profit of £167m marks our ninth consecutive year of underwriting profits.

The underwriting profit of £167m reflects a combination of premium growth and lower levels of claims, and demonstrates our strategic delivery of sustainable profitable growth.

The favourable claims experience is across all lines of business and is primarily due to benign weather, reducing the impact of weather-related claims.

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

COMBINED OPERATING RATIO (COR)

COR at 88.9% continues to be better than the long-term target of 98%.

The combination of the excellent underwriting performance, strong persistency and premium growth has contributed to a COR of 88.9% which is well within our long-term target of 98%.

This result reflects our strategy to write profitable and sustainable business whilst offering outstanding levels of customer service. This financial strength underpins our commitment to provide discounts in renewals premiums to our loyal customers through the form of Mutual Bonus.

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

MUTUAL BONUS

We believe in recognising loyalty and sharing our success. One way we achieve this is through Mutual Bonus – a discount applied to the General Insurance premium at renewal. Last year we provided £258m in Mutual Bonus discounts.

We value our long-term relationships and utilise Mutual Bonus as our way of rewarding loyalty and sharing our success by providing a discount on the General Insurance premium. For 2019 this was at record levels of £258m (2018: £253m), as the financial strength of the company enabled loyalty discounts to be delivered to our members.

FINANCIAL RESULT FOR THE YEAR

Our investment portfolio saw significant gains in the year which supported a profit of £573m.

Our overall profit of £573m (2018: loss of £290m) reflects both the strong underwriting performance and the significant increase in investment performance from the upturn in stock markets. The FTSE 100 grew by 12% in 2019 whilst our total assets under management grew by 10% to £20.8bn. Our investment strategy is focused on long-term growth and underpins our resilience to market volatility, as experienced in 2018 and again in early 2020, to deliver long-run profitability; with overall profits of £2.2bn over the past five years and £3.6bn over a ten-year period.

FINANCIAL PERFORMANCE – LIFE AND PENSIONS

ANNUAL PREMIUM EQUIVALENT (APE)

APE at £60.1m was down by 11% in 2019 against a backdrop of uncertainty in the UK and worldwide economies which affected investor confidence.

Market conditions were very challenging in 2019 with investor confidence and political uncertainty impacting Life sales. Overall New Business volumes saw a decline to £60.1m APE (2018: £68.3m) but our network of Financial Advisers continued to meet with our members to provide appropriate advice to support their long-term planning.

NFU Mutual continued our strategy of focusing on a core set of products (including With-Profits) and outsourcing other products to specialist providers. Protection, which is an outsourced product, saw continued strong performance in 2019, albeit slightly down on 2018.

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

WITH-PROFITS

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 2019, just under half of NFU Mutual's customers continued to choose a With-Profits option when investing into ISAs, pensions and bonds.

FINANCIAL PERFORMANCE – GROUP COMPANIES

AVON INSURANCE PLC

Avon Insurance continued to demonstrate strong profitability of £10.0m, up 19% on 2018.

Avon Insurance is a wholly-owned subsidiary which specialises in personal accident and accidental death insurance products. Since closing to new business in 2013, Avon has continued to service the existing base of over 580,000 policies. In addition, Avon Insurance underwrites insurance cover for the Group including Motor, Employers' Liability and Public Liability policies.

Avon's Gross Written Premium in 2019 was £23m (2018: £24m), with profit before tax and dividends of £10.0m (2018: £8.4m). Avon returned dividends to the Group of £9m (2018: £9m), and has a level of solvency which adequately supports the existing business.

RISK MANAGEMENT SERVICES LIMITED (RMS)

RMS improved profitability in 2019 with continued investment in change to support our members needs.

RMS is a wholly-owned subsidiary and specialises in both the provision of risk management consultancy, including health and safety, for our customers and undertaking Loss Control Surveys on behalf of NFU Mutual. In 2019 RMS delivered a programme of changes designed to provide NFU Mutual customers with a broader range of risk management products and services. The objective was to help customers to identify and manage risk within their business resulting in fewer accidents and losses. This programme of work will continue into 2020 as NFU Mutual aims to provide members with assistance and guidance for all of their risk management needs.

GROUP FUNDS UNDER MANAGEMENT

The overall Group funds under management by over 10% to £20.8bn following a strong year for asset markets, with our General Business fund achieving a 2019 return of 10.7% and three-year annualised return of 5.1%.

After the decline seen in 2018, overall investment assets under management by the Group returned to growth in 2019 and increased by over 10% to £20.8bn, reflecting healthy gains for the asset classes that we invest in, especially equities.

General Funds under Management

The General fund saw its assets increase to £8.2bn in 2019, with growth from all areas, but particularly benefiting from the 44% of the fund invested in equities, achieving gains of around 20%. It was an exceptionally busy year for trading activity in the fund, with shifts in asset allocation away from UK equities and government bonds towards international equities and corporate bonds. There were also significant changes in the way international equities were sourced, moving to a mix of internally and externally managed, and corporate bond exposure was extended to US and European issues hedged back to sterling.

Life Funds under Management

Strong returns from equity markets were also the primary driver of the growth in overall Life funds under management in 2019 from £11.3bn to £12.6bn. The main Life fund delivered three-year annualised returns of 5.5%. The unitised retail fund range achieved a healthy growth in assets in 2019 and a significant majority of funds remained well placed against peers over the three-year period. 2019 saw the performance of NFU Mutual's range of equity funds recognised by the winning of a prestigious Lipper group award.

ASSET MARKET BACKGROUND

Healthy market returns despite uncertain global background.

Much of the news in 2019 was dominated by the trade disputes between the US and China, Brexit uncertainty and a deterioration in global economic indicators. However, the change in central bank policies early in the year from monetary tightening towards easing, led by the US Central Bank, helped investors' risk appetites improve and, despite the uncertain global background, equities recovered strongly from their 2018 losses.

The final quarter of the year saw positive developments in US-China trade talks that reduced the risk of further tariff escalation. Alongside signs that the previous weakening of global economic growth (especially in manufacturing) was bottoming out, this gave investors encouragement that the long economic growth cycle could continue through 2020.

After a long period of UK political uncertainty, the December election result provided certainty with the decisive Conservative majority viewed as a positive for Brexit progress prospects. This helped sentiment towards sterling assets, although the rally in sterling lost some momentum when it was announced there would be no transition period extension beyond the end of 2020.

EQUITY RETURNS

A strong year for global equity markets.

Supported by income from dividends of over 4% and some positive final quarter political developments, the UK equity FTSE All-Share index delivered total returns (capital plus income) of 19% in 2019. The more domestically focused FTSE 250 mid cap index was even stronger with gains of 29%.

International equity markets were also strong throughout 2019, although the strength in sterling reduced returns for UK-based investors to a still very healthy 23%. Gains were seen from all regions, with the high-flying technology sector leading the US to be the strongest market once again and Europe also saw returns in excess of 20%.

FIXED INCOME RETURNS

Solid 2019 returns from our fixed income assets.

Concerns over the health of the global economy, political uncertainty and central bank monetary easing had proved to be a winning combination for fixed-income markets in 2019. The improved political and economic environment in the final quarter saw bond yields increase from the exceptionally low levels seen in previous months, but over the whole of 2019 UK government bonds and corporate bonds delivered returns of 7% and 9 % respectively.

PROPERTY

2019 has represented a challenging year for UK real-estate and the impact upon forecast property total returns.

The well-publicised downturn in the retail sector has been the key driver of lower overall returns for the market. The sector has experienced a number of well-known brand and tenant failures including the likes of the Arcadia retail group and Mothercare, and this has had a considerable impact on UK-wide retail rental values, increased supply of vacant units and ultimately lower capital values. This trend is set to continue in 2020.

However, there are also some positive factors impacting property investment. The persistence of low interest rates and the continuing attractiveness of UK property to overseas investors is expected to support pricing at the quality end of the UK market. At a sector level, positive return performance has continued in the

industrial sector and transactional activity levels have been on an upward curve in some of the newer alternative sectors including the build to rent elements of the residential market.

For the NFU Mutual property portfolio, this year's focus has been upon protecting fund rental income. We have secured a number of significant lettings across the portfolio, particularly within the office sector and our asset acquisitions have primarily been within the industrial sector where we still see scope for future growth. Alongside continued investment into the residential, build to rent sector and regional offices, we have successfully reduced our overall fund exposure to the retail sector in anticipation of continuing poorer returns in the short-term.

KEY STRATEGIC CHANGE INITIATIVES

ENHANCED POLICY MANAGEMENT SOLUTION

Making our products easier to buy, sell and manage.

Our strapline describes the agreed strategic objective for the programme, known as BRIDGE – making our products easier to buy, easier to sell and easier to manage. We're enhancing our products, processes and technology to meet our customers' evolving expectations, to ensure we continue to deliver the right products in a way that suits them and with NFU Mutual's first class service. We will do this by giving our people and Agents improved tools to support point of sale and policy administration, a new product set better aligned to customers' needs and digital capability to provide customers with a wider choice of channels.

In 2019, BRIDGE has delivered the key outputs for the 'Initiate' stage, with a cross functional team working to confirm the business case, target operating model and solution delivery plan.

Like our other significant change programmes, BRIDGE is a long-term programme expected to last a number of years, delivered through a series of releases and will include a replacement for the iFaces policy management system.

NEW CLAIMS SYSTEM

Delivering new capabilities and ways of working to improve the service we provide our customers when they make a claim.

Following the successful deployment of our new motor claims handling system in 2018 – Guidewire's ClaimCenter - we started handling new non-motor claims on the system in the second half of 2019. This deployment will continue into the first half of 2020 and will allow us to complete implementation of new ways of working across all our claims teams so we can continue to focus upon improving the excellent claims service we already provide.

CUSTOMER RELATIONSHIP MANAGEMENT (CRM) PROGRAMME

Enhancing customer relationships through greater insight.

The CRM programme is delivering functionality that will ensure NFU Mutual continues to remain dominant in customer experience and provides a platform for business growth. The system creates the opportunity for NFU Mutual to enhance customer relationships and experience, through a 360-degree view of customer interactions. All agencies and Mutual Direct now have access to CRM, providing the capability to further embed customer relationships and identify and meet customer needs.

In 2020, access to CRM will be extended to additional business areas and new functionality will be delivered, including integration with our core policy administration system, complaints, customer action requests (referrals) and renewals. We will continue to build on the success achieved in 2019 in relation to improved adoption levels by maintaining our support helpline and face-to-face local support teams to assist in embedding and driving value from CRM.

FINANCIAL SERVICES SYSTEM AND PRODUCT DEVELOPMENTS

Evolving our Financial Services business and launching the My Investments platform.

NFU Mutual's Financial Services (Life) business proposition was further improved in 2019, since the launch of My Investments the year before. My Investments is a secure online investment platform designed to improve the investment service for customers by making it easier for their Financial Adviser to manage their financial products whilst allowing customers to view and monitor their accounts online.

Following the launch of a Select ISA (Stocks & Shares) and Select Investment Plan in 2018, two further products have been launched in 2019 – including a Select Pension Plan and Junior ISA.

HIGH NET WORTH

Development of our Bespoke product range to ensure members' needs are met.

Our Bespoke product range has been designed to protect customers with higher value homes and assets. During 2019, a project was put in place to support the continued growth of our Bespoke proposition.

Our ambition is to generate sustainable profitable growth in the high net worth market. To support this and the continued growth of our proposition during 2019, the project:

- Invested in developing our claims service both internally and through third-party specialists
- Relaunched the Bespoke proposition with a new look and feel, which aligns with the NFU Mutual brand
- Refreshed our NFU Mutual Bespoke policy to bring it up to market par.

IT INFRASTRUCTURE CHANGES

Continue to modernise our workplace systems through Office 365.

We're continuing to modernise our workplace through the introduction of new cloud-based Office 365 tools and storage. In July we introduced Skype for Business to help our colleagues hold better audio conference calls and virtual meetings.

During November we moved our colleagues and Agencies on to the latest version of Microsoft Office 365, which helps improve collaboration through new features such as co-authoring on documents, and ensures we're always working on the latest version of Office with regular updates from Microsoft. We're continuing our rollout of SharePoint across the business, helping us more securely manage how information is stored and shared with colleagues. In 2020 we're replacing our desktops, laptops and computer accessories, alongside introducing a new operating system, making sure people can continue make the most of the new tools and enable new digital ways of working.

Richard Morley
Finance Director

RISK AND RISK MANAGEMENT

Risk is an essential part of the Group's business operations and successful risk taking is required to achieve the Group's business objectives.

To ensure that all risks are managed effectively the Group is committed to:

- Embedding a common risk culture across the business;
- Implementing effective systems and processes of risk management;
- Helping senior management to improve their control and co-ordination of risk taking across the business;
- Retaining, developing and attracting the appropriate resource in the risk function; and
- Ensuring the Group meets its regulatory requirements.

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

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

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

SUSTAINABLE PROFITABLE GROWTH

- Improving the robustness of risk and capital management.
- 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 other stakeholders, in order to give greater understanding of how we manage our risks.

A GREAT PLACE TO WORK

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

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

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

- **Line 1:** Implement the control environment (see pages 60 to 61) by adhering to Group policies and controls, and actively identifying and managing risks using the Risk Management Framework.
- **Line 2:** Define key components of the control environment such as Risk Management, Governance and Compliance Frameworks and provide assurance to governance that risks are being effectively managed across the Group.
- **Line 3:** Provide the Board with an independent, objective and impartial view that Risk Management, Financial and Internal Control Frameworks are appropriate and operating effectively.

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

- Executive Management has primary responsibility for designing, implementing, embedding and maintaining an effective Risk Management Framework
- Managers are accountable for the management of risk in their business area. They are responsible for documenting their risks and controls via individual Risk Logs
- Decisions taken by management are consistent with NFU Mutual's strategic objectives and risk appetites. Financial models are used to inform decision making
- The interests of members and other stakeholders are protected by ensuring that excessive powers are not delegated to individuals
- A common Risk Management Framework is used throughout the organisation to manage risk, supported by appropriate policy and control standards
- The Group has common definitions of risk for both financial and operational risks
- Key roles, responsibilities and authorities relating to risk are clearly identified and documented
- Risk management arrangements and risk exposures are subject to independent oversight
- All employees across each of the Three Lines of Defence have appropriate access to, and understanding of, the Group's Risk Management Framework and processes to enable them to operate effectively
- Employees are individually responsible for understanding and managing the risk they take on behalf of the Group and for ensuring that they act within delegated authorities

During 2019 a five-module risk management training programme was launched across the Group to increase the risk management knowledge and capability of employees and Non-Executive Directors. Certain modules are mandatory dependant upon role and the programme has been accredited by the Institute of Risk Management.

RISK MANAGEMENT FRAMEWORK

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

This includes:

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

The outputs of the Risk Management Framework underpin our assessment of the level of capital we need to hold to cover the risks to which we are exposed.

Pillar I of the Solvency II legislation requires that firms hold enough capital to survive 1-in-200-year risk events occurring over a 12-month period. This is called the Solvency Capital Requirement, or SCR. To calculate this figure, firms have the choice of using a prescribed 'Standard Formula', developing their own Internal Model (subject to supervisory approval), or using a combination of both (known as a Partial Internal Model).

NFU Mutual has regulatory approval to use a Partial Internal Model; where Insurance Risk, Market Risk, Credit Risk and Liquidity Risk are calculated using an Internal Model for the Group, excluding Avon Insurance PLC (which uses the Standard Formula to calculate the financial risk SCR, given the low materiality of its capital requirement in comparison to the Group as a whole). This forms a key component of our Own Risk and Solvency Assessment (ORSA) where we consider strategic business planning, risk and capital management as an integrated process.

Operational risk capital for the Group is based on the Standard Formula as we believe this provides an appropriate quantification for NFU Mutual's operational risk exposures.

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

During 2019 the operational risk appetite statements were reviewed and each statement is now linked to one or more of the long-term strategic objectives. The operational risk appetite statements are considered in the assessment of the impact of an operational risk, loss event or near miss and reporting of breaches and potential breaches is now embedded in the quarterly governance committee reporting.

More details on risk can be found in Note 2, pages 112 to 122. Additional detail on NFU Mutual's regulatory capital requirements at 31st December 2019 can be found in the Solvency and Financial Condition Report, available on NFU Mutual's website from the end of May 2020.

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 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 the Board and its sub-committees can be found on the NFU Mutual website.

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

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

PRINCIPAL RISKS AND UNCERTAINTIES

The following tables summarise the principal risks and uncertainties currently faced by NFU Mutual due to the nature of our business and the market in which we operate. The risk associated with the worldwide outbreak of Coronavirus has been added as an additional risk, which has arisen since year end, but will have impacts long into the future.

The assessment and mitigating actions for these risks have been reviewed and discussed at governance committees and as part of the preparation for the Own Risk and Solvency Assessment. (Note 2 to the Accounts on pages 112 to 122 covers our disclosures on financial risk management in detail.)

NFU Mutual faces a number of risks associated with being an insurance company such as those relating to regulatory compliance and changes in economic conditions. The following summarises the principal risks which are most important to us because of our defined strategy and our long-term strategic objectives.

The risks are categorised as:

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

Operational – The risk of reductions in earnings and /or value through financial or reputational loss, from inadequate or failed internal processes and systems or from people related or external events.

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

PRINCIPAL RISKS AND UNCERTAINTIES

Principal Risk and Uncertainty	**Operational & Financial Risk: Coronavirus impacts the viability of the business and disrupts customer service** a) There is a risk that, as a result of the worldwide outbreak of Coronavirus, the profitability of the company is impacted to such an extent that it threatens the viability of the business, primarily as a result of lower asset values driven by the fall in financial markets. b) In addition, given a potentially reduced workforce due to illness from the virus and restrictions on workforce mobility (with significant numbers working from home) there is a risk of customer service degradation.
Link to long-term strategic objective	Sustainable Profitable Growth Great Company to do Business With Great Place to Work
Mitigation	a) Our Financial Risk Mitigation Plan has been initiated, with actions approved by the Board to ensure Solvency is maintained within the company's Risk Appetite. b) Our crisis Management Plan has also been initiated, with an Executive 'Gold Team' and a Senior Management 'Silver Team' managing operational issues on a daily basis, reporting through to Board Risk Committee and the Board. Measures taken to date include the facilitation of home working for the majority of the workforce and the launch of a £32m support package for agents and customers, including extending cover for Key Workers, capping future rate increases and ensuring we provide fast payment of customer claims.

Principal Risk and Uncertainty	**Operational Risk: Information Security** There is a risk that third-parties and other unauthorised users may attempt to gain access to our systems for misuse of customer and company data, or disrupt the business using malware and viruses. This could lead to corrupted or lost data, business interruption, compliance breaches, regulatory fines and reputational damage.
Link to long-term strategic objective	Sustainable Profitable Growth Great Company to do Business With
Mitigation	There are two programmes focusing on further developing and embedding policies and processes to reduce vulnerabilities. Cyber security awareness is part of our induction training for all employees.

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

Principal Risk and Uncertainty	**Strategic: NFU Mutual's farming customer base changes in size substantially beyond expectations** Changes to the farming industry which impact on insurable risks, or other unexpected changes to NFU Mutual's current or target customer base. This could be caused by events including a reputation-damaging event impacting our standing in the farming community, competitor actions or an environmental event affecting the need for farmers to have cover.
Link to long-term strategic objective	Sustainable Profitable Growth Great Company to do Business With
Mitigation	We continue to grow wider market business to reduce the reliance on farming. Our farming proposition is regularly reviewed and updated to reflect farming developments.

PRINCIPAL RISKS AND UNCERTAINTIES

Principal Risk and Uncertainty	**Strategic / Financial / Operational Risk: Brexit** Following the UK's departure from the EU, the outcome of the negotiations about their future relationship has the potential to impact NFU Mutual's risk profile in a number of areas. These include: • Financial market and interest rate movements impacting the values of investments and liabilities • Changes resulting from Brexit having a significant impact on our customers, particularly farming policyholders • Changes to regulation impacting services, for example insuring risks in the Republic of Ireland and requirements for Green Cards for motor policyholders travelling to the EU.
Link to long-term strategic objective	Sustainable Profitable Growth Great Company to do Business With
Mitigation	As a UK insurer NFU Mutual has less exposure than others to risks arising from the UK's departure from the EU. A significant amount of work has been undertaken to identify potential risks and these are managed within the Group's risk management and governance frameworks. In addition, a team of key stakeholders meet regularly to monitor progress on agreed actions and there is regular reporting to governance committees including the Executive Committee and the Board.

Principal Risk and Uncertainty	**Strategic: Reduction in demand for Financial Services propositions** There is a risk that the number of contracts sold or administered is lower than planned as a result of drivers including competitor actions, regulation changes or an adverse political / economic environment reducing retail investor confidence.
Link to long-term strategic objective	Sustainable Profitable Growth Great Company to do Business With
Mitigation	We continue to develop and improve our Financial Services proposition to ensure it represents value for money. This includes ongoing enhancements to the My Investments platform.

Principal Risk and Uncertainty	**Strategic: Reduction in demand for GI propositions** This could be caused through events including the non-availability from NFU Mutual of preferred customer sales channels, increased competition, adverse media or reputational events impacting sales.
Link to long-term strategic objective	Sustainable Profitable Growth Great Company to do Business With
Mitigation	We continue to develop and improve our GI proposition to ensure it represents value for money. This includes our focus on the agency network as the primary distribution channel, whilst developing online capability.

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

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

Principal Risk and Uncertainty	**Strategic: NFU Mutual no longer writes 'material' volumes of With-Profits business and, as a result, the With-Profits Fund has to close to new business** This could occur as a result of product design not meeting our customers' needs, poor investment performance, ineffective sales activity or promotions, sales activity focused on channels not used by potential customers, increased competition, adverse media or reputational event impacting sales, regulatory change concerning With-Profits policies or other regulatory changes impacting on the attractiveness of our products.
Link to long-term strategic objective	Sustainable Profitable Growth Great Company to do Business With
Mitigation	We carefully monitor competitor sales of With-Profits to understand how the product is perceived in the market. Sales of NFU Mutual's With-Profits offering is regularly reviewed. We already offer With-Profits over a range of different products and we continue to develop the proposition to meet customer needs, for example by making it available on the My Investments platform.

EMERGING RISKS

Emerging risks which may have the potential to change the risk profile of the Group in 2020 or beyond are detailed below with the events that are being monitored in order to determine relevance and impact. These have been identified by business areas in line with the Risk Management Framework.

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

Risk	**Strategic / Operational / Financial Risk:** Climate Change
Description	Risks from climate change are generally categorised in terms of physical risks that arise directly from rising global temperatures, and transition risks that arise through the actions, initiatives and behaviours aimed at limiting the rise in global temperatures. Both types of risk have the potential to impact the success of NFU Mutual's business model and the Group is therefore focussed on understanding the threats and opportunities arising from climate change. Our close links to farming ensure that we remain well placed to understand and respond to the insurance needs of our core market, as they adapt to changes caused by climate change. Climate change is also incorporated into our investment strategy, including the delivery of a revised Environment, Society and Governance (ESG) policy during 2019 and further work planned for 2020. In April 2019, the Prudential Regulation Authority (PRA) published its expectations of financial services firms for managing risks from climate change. In response to this, NFU Mutual set up an internal taskforce to deliver the Regulator's expectations and, as a result, has made a number of changes to risk governance and risk management, including allocating senior manager to lead the Group's response to climate change, ensuring senior governance committees have explicit oversight responsibilities for risks from climate change, and amending risk management tools so that risks from climate change can be more easily captured and reported.

Risk	**Operational Risk:** Operational Resilience
Description	In July 2018, the Bank of England, PRA and FCA published a joint Discussion Paper on Operational Resilience outlining four key areas of focus: • The understanding and mapping of key business services – which allows senior leaders to be able to make risk-based investment and change management decisions based on the importance of the service • The creation and monitoring of impact tolerances – to understand what effects arising from operational events are deemed acceptable, and when these effects impact the operational capability of a business service • Current future business continuity approaches – with a particular focus on outsourcing and substitutability of critical systems that support business services • Board and Executive oversight and challenge The subsequent Consultation Paper and Supervisory Statements outline additional requirements relating understanding and reporting of key business services, impact tolerances, planning of business continuity exercises, and board and executive-level oversight. These requirements may necessitate additional risk management activities across the Group to align to the new requirements and NFU Mutual will be undertaking a review in 2020 to consider the extent to which existing risk management activities are aligned to expectations and identify any changes that are required.

LONG-TERM VIABILITY STATEMENT

NFU Mutual's strategic long-term objectives of sustainable profitable growth, great company to do business with and being a great place to work are integral to the Group's prospects for the long term which are reflected in our business model and strategy (pages 7 to 10).

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

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

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

- the impact of the worldwide Coronavirus outbreak on both the financial and operational position of the company (see further detail in Going Concern Statement on p39)
- the ongoing strength of the balance sheet and the Group's overall solvency and liquidity position.
- the operation of the Group's governance and internal control framework as set out in the Governance Report (pages 44 to 69).

> 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.

- the robust and embedded Risk Management Framework (pages 24 to 25), which identifies and reports to the Board (via the Risk Director), key operational risks that could threaten the Group's business model along with mitigating management actions.
- the review of principal financial risks (market, credit, liquidity and insurance as shown on pages 112 to 122) undertaken within the ORSA process where we consider strategic business planning, risk and capital management as an integrated process.
- ongoing extensive stress testing undertaken on the Group's solvency, liquidity and financial performance resulting from events such as a significant General Insurance claims event and erosion within external investment markets (as seen during early 2020 as a result of the worldwide Coronavirus outbreak), which is reported and reviewed by Risk Committees and sub-committees.
- the consideration given to Britain leaving the EU (Brexit), with various scenarios considered and plans developed to mitigate identified risk (including a 'No Deal' scenario) and the Board's conclusion that there is no viability risk within our three-year horizon.

Based upon this assessment, the Directors have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due as shown on page 103. In doing so the Board recognise that such future assessments are subject to a level of uncertainty that increases with time, and therefore future outcomes cannot be guaranteed or predicted with absolute certainty.

NFU MUTUAL GROUP TAX STRATEGY

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

APPROACH TO TAX RISK MANAGEMENT AND GOVERNANCE ARRANGEMENTS

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

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

The 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

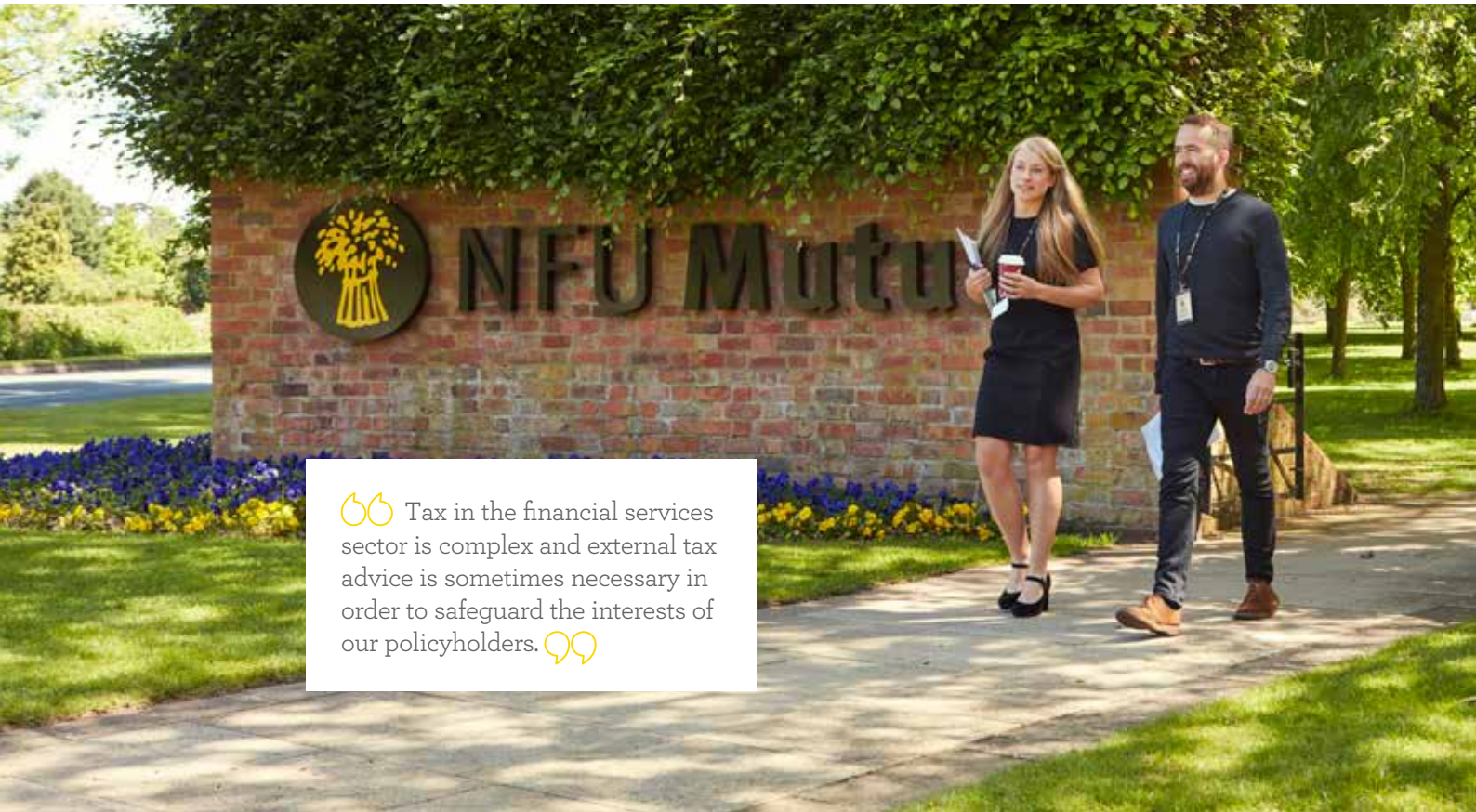
NFU Mutual's Risk Management Framework includes risk appetites that articulate the amount of risk the business is prepared to accept. We do not accept any risk of public sanction due to failure to respond appropriately to tax legislation that is applicable to the Group. The risk appetite for any regulatory 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 Compliance Manager and discussions during the year on developments within the business and how the Group is responding to changes in tax legislation which may impact us.

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

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



"Tax in the financial services sector is complex and external tax advice is sometimes necessary in order to safeguard the interests of our policyholders."

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 to 10
Principal risks and uncertainties	Risk Management pages 26 to 29 and Notes pages 112 to 122
Performance and development during the year	Group Chief Executive's Statement pages 5 to 6, Business Review page 14 to 21 and Directors' Report page 35 to 40
Information about future developments	Business Review: Key Strategic Change Initiatives pages 19 to 21
Employee information and Corporate Social Responsibility (CSR)	Directors' Report page 36 and Supporting Our Communities pages 73 to 78
Financial and non-financial KPIs	Key Performance Indicators and Business Review pages 12 to 21 Supporting Our Communities pages 73 to 78
Corporate Governance Statements (Section 172)	S.172 Statement page 52

Jim McLaren
Chairman

Lindsay Sinclair
Chief Executive

23rd April 2020

DIRECTORS' REPORT

The Directors present their report and the audited, consolidated financial statements of the parent company and its subsidiaries for the year ended 31st December 2019.

RESULTS AND MUTUAL BONUS

Consolidated profit after tax including realised and unrealised gains/losses for the year was £573m (2018: £290m loss). Mutual Bonus to policyholders for 2019 was £258m (2018: £253m).

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

STATUS OF THE COMPANY

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

DIRECTORS

Brief biographies of the Directors are set out on pages 41 to 43. Richard Percy retired from the Board on 30th September 2019 and David Roper was appointed to the Board on 1st September 2019.

During 2019 and up to the date of the signing of the financial statements, the Group maintained an insurance policy indemnifying the Directors and Officers against loss or attaching legal liabilities arising in the course of their duties. In addition, the Group has put in place deeds of indemnity for the benefit of the Directors and Company Secretary of the Group and its associated companies. The deeds of indemnity are qualifying third-party indemnity provisions in accordance with the Companies Act 2006.

OUR EMPLOYEES

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

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

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

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

KEY METRICS

As at 31st December 2019, there were 4,047 employees (2018: 3,884) within the Group. Of our employees, 50% are female and 50% are male; 85% of our workforce is full-time and 15% is part-time. Our annual rate of voluntary employee turnover for 2019 was 9.14% against an industry benchmark of 13.4%.

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 by achieving above the 90th percentile of Gallup's company database, and we maintained this high standard for the fifth year running in 2019 by developing the leadership capability of our managers to support engagement within their teams.

During the year we received the 2019 Gallup Great Workplace award for the second year running; the only UK-headquartered company to do so.

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

PERFORMANCE MANAGEMENT

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

REWARD

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

PEOPLE DEVELOPMENT

We provide a broad range of training and development opportunities for our employees and Agents, to optimise both individual and business performance. During 2019 we continued to invest in the leadership and technical capabilities of our employees. Our Graduate Trainee Schemes, now in their eighth year, are building an internal pipeline of future talent to strengthen technical and leadership succession. In 2019, for the first time, we entered the Guardian Top 300 Graduate Employers list and this year we also achieved second place in the prestigious Job Crowd awards for the top companies for graduates in the Accountancy and Insurance sector. We currently have 132 Graduate Trainees and former Trainees either on schemes or successfully appointed to roles across the business. Our Apprenticeship Scheme was introduced in 2017, and in 2019 we created 45 additional apprenticeship places across the business.

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

> We have invested in development programmes that will further drive professional standards and competence and support continuous professional development.

DIVERSITY

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

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

Since 2018, NFU Mutual has been a signatory to the Women in Finance Charter and we are confident that our continued encouragement, support and focused development of all employees to reach their full potential, will lead to a more diverse workforce overall, delivering greater innovation and hence better customer outcomes.

COMPLIANCE

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

CHARITABLE DONATIONS

Charitable donations during 2019 amounted to more than £500,000, which included a donation to the NFU Mutual Charitable Trust of £200,000 (which distributes awards at its discretion), £300,000 to the Farm Safety Foundation, and £17,000 to the Community Giving Fund.

See the Supporting Our Communities section on pages 73 to 78 for full details of our community, charity and environment activity.

STATEMENT OF ENGAGEMENT WITH SUPPLIERS, CUSTOMERS AND OTHERS

Information on how the Group engages with suppliers, customers and others that it is in a business relationship with can be found in the Governance Report on pages 48 to 51.

PRINCIPAL RISKS

The Directors have carried out a robust assessment of the principal risks facing the Group as shown on pages 26 to 29, including those that would threaten its business model, future performance, solvency or liquidity which supports the Long-Term Viability Statement made on pages 31 to 32.

GOING CONCERN BASIS OF ACCOUNTING

The accounts have been prepared on a going concern basis.

The Directors have reviewed the Group's business activities, financial position, principal risks and uncertainties and financial commentary as set out in the Long-Term Viability Statement and Strategic Report on pages 31 to 32 and 34.

As part of NFU Mutual's Risk Management Framework, the group produces its Own Risk & Solvency Assessment (ORSA) to demonstrate an integrated approach to strategic planning, risk management and

capital management. This is presented to the Board annually. It includes Stress and Scenario Testing, which covers a wide range of scenarios to thoroughly test the Groups resilience to industry events such as floods, windstorms or longevity changes occurring at the same time, as well as severe investment market movements, such as we have seen following the outbreak of Coronavirus in early 2020. The analysis doesn't include a formal pandemic health scenario given that mortality risk on the Group is low, with longevity risk being much more material.

The ORSA is key in providing the Board with assurance that the Going Concern Basis of Accounting remains appropriate. Nonetheless, given the wide-reaching financial impact of Coronavirus, the following additional assessment has been undertaken for the 2019 year end.

Solvency: NFU Mutual remains solvent and its Solvency Coverage Ratio remains within the Risk Appetite set by the Board. This is despite the fall in financial markets and the reduction in the value of 'Other Financial Investments' (Note 17) of over 14% in the first quarter. At 31st December 2019 the Group's SCR Coverage Ratio was a robust 201% (unaudited) and remains strong at an estimated (unaudited) 180% at the end of March 2020.

Liquidity: The company holds at the 31st March 2020, over £6.4bn (March 2020) of broadly liquid assets (i.e. available within 1 month). This puts the company in a robust position to manage its liquidity risk and meet its obligations to pay claims and suppliers over the next 12 months.

Resilience: The Executive Committee and an Executive Crisis Management Team have led the company through the outbreak with Business Continuity Plans initiated across the business to ensure service is maintained to customers. The timescales are kept under constant review and will be amended in line with government guidance.

Business Interruption Assessments have been carried out for all key outsourced suppliers to ensure operational integrity. A support package of £32m has been launched to provide assistance to our Customers and Agents, including extending cover for Key Workers, capping future rate increases and ensuring we provide fast payment of customer claimed.

Given all the above, 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

> "The Directors have prepared the Group and parent company financial statements in accordance with United Kingdom Accounting Standards, including FRS102."

and fair view of the state of affairs of the company and the Group and of the profit or loss of the company and Group for that period. In preparing these financial statements, the Directors are required to:

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and the Group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors confirm that their responsibilities have been fulfilled and that they consider the annual Report and Accounts taken as a whole to be fair, balanced and understandable, and provide the information necessary for members to assess the company's performance, business model and strategy.

Events after the reporting date are shown in Note 35 on page 151. There have been no other post-balance sheet events that require disclosure in the financial statements, we have considered the likely future events in the Chairman's statement on pages 1 to 3.

DISCLOSURE OF INFORMATION TO AUDITORS

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

INDEPENDENT AUDITORS

A resolution will be proposed at the 2020 Annual General Meeting to reappoint Deloitte LLP as auditors.

Jim McLaren
Chairman

Lindsay Sinclair
Chief Executive

23rd April 2020

OUR BOARD OF DIRECTORS

Jim McLaren, Chairman

Jim was appointed to the Board in 2012 and appointed Chairman in 2019. He is also Chair of the Nomination Committee.

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. Jim was Chairman of Quality Meat Scotland Limited and is a former Director of Scotland's Rural College. Jim is a mixed beef and arable farmer from Perthshire in Central Scotland. In 2017 he was awarded an MBE for his contribution to Scottish agriculture and the rural economy.

Lindsay Sinclair, Group Chief Executive

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 banking and insurance businesses around the world for Barclays, ING and Standard Chartered. He is a Board member of the global representative body of the cooperative and mutual insurance sector, ICMIF, and sits on the General Insurance Committee of the Association of British Insurers. He also sits on the steering group of The Prince's Farm Resilience Programme.

Jon Bailie, Non-Executive Director

Jon was appointed to the Board in 2018 and is Chair of the Board Investment Committee.

He has extensive investment management experience, having held senior positions at Pioneer Investments, AXA Investment Managers and Russell Investments. He is a Non-Executive Director of Openwork Wealth Management and a Board member of the Pensions Infrastructure Platform. He was previously Chairman of the Management Committee of Pantheon Ventures, a global private equity business.

Steve Bower, Customer Services Director

Steve became a Director in 2010 and is responsible for General Insurance Customer Services, which includes Underwriting, Claims and Reinsurance, at our Head Office and our seven regional centres.

Steve's career at NFU Mutual spans three decades and during that time he has held a variety of roles including Sales Manager, Regional Manager and Chief Manager – Life Services.

Ali Capper, Non-Executive Director

Ali was appointed to the Board in 2018.

She is Chair of the NFU National Horticulture Board, a director of the British Hop Association, Wye Hops Limited and Wye Fruit Limited, Executive Chair of British Apples and Pears and a Trustee of Nuffield Farming Scholarship Trust. She is a previous Board member of Cargill Growers Association. Ali worked in advertising for 16 years where she progressed to Client Services Director before becoming a farmer.

Brian Duffin, Non-Executive Director

Brian was appointed to the Board in 2014. He chairs the With-Profits Committee and is Chairman of the Trustee of the Group's Staff Retirement Benefit Scheme.

Brian was Group Chief Executive of Scottish Life and an Executive Director of Royal London Group. He is Chairman of Scottish Equitable Policyholders Trust, the GEC 1972 Pension Plan, Aviva's With Profits Committee and the Trustee of the Church of Scotland Investors Trust. In 2019 he was awarded an OBE for services to the pensions industry.

Christine Kennedy, Non-Executive Director

Christine was appointed to the Board in 2014. She is Chair of the Remuneration Committee and a Trustee of the NFU Mutual Charitable Trust.

A partner in her family's County Down beef farm for nearly 30 years, Christine was the Director of Commodities and Food for the UFU and served on its Board. She has been an Independent Panel Member for the Department of Agriculture and Rural Development, a member of the NI Food Advisory Committee for the Food Standards Agency and is a Director of Countryside Services Ltd, and a Trustee of Donaghadee YFC. She is also a NI panel member of the Council for Awards of Royal Agricultural Societies and is a member of the Rural Affairs Committee of the UFU. Christine was awarded an OBE in 2006 for services to the dairy industry and agriculture in Northern Ireland.

Eileen McCusker, Non-Executive Director

Eileen was appointed to the Board in 2012 and is Chair of the Board Risk Committee.

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 was also previously a Non-Executive Director of Allied World Syndicate 2232, a Lloyd's syndicate, as well as Lloyd's broker, Thompson Heath & Bond Ltd.

Richard Morley, Finance Director

Richard joined NFU Mutual in 2011 and was appointed to the Board in 2018. His responsibilities include Financial & Regulatory Reporting, Financial Planning & Analysis, Investments, Property and Procurement.

He has held a variety of Finance leadership roles for Thames Water, BNP-Paribas and Lloyds Banking Group. He is a qualified accountant and Fellow of the Chartered Institute of Management Accountants.

David Roper, Non-Executive Director

David was appointed to the Board in 2019.

He graduated from Cambridge University with a degree in Music and subsequently trained as an accountant before joining PwC in 1990. He rose through the organisation to become a Director and then a Partner specialising in the financial services sector, working in London, Manchester and Birmingham. He is on the Board of Atom Bank and is also Deputy Chairman of the City of Birmingham Symphony Orchestra, the Royal Northern College of Music and the Associated Board of the Royal Schools of Music.

Christopher Stooke, Non-Executive Director

Chris was appointed to the Board in 2011 and is Senior Independent Director and Chair of the Audit Committee.

A Chartered accountant, Chris held a number of practice and management positions at PwC and has extensive insurance experience, having been Chief Financial Officer at Catlin Group. He is Chairman of Chaucer Syndicates, a Non-Executive Director at King's College Hospital and a trustee at both Kings College Hospital Charity and South London Theatre. Chris was previously Chairman of Miles Smith.

Nick Turner, Sales and Agency Director

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 34 years, largely in the fields of Life and Wealth Management. Nick is President of the Chartered Insurance Institute and was previously President of the Personal Finance Society.

GOVERNANCE REPORT

CHAIRMAN'S INTRODUCTION

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

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

During the year there have been changes at Board level with the retirement of Richard Percy as Chairman at the end of September. I would like to thank Richard again for his dedicated service to the Group both as a Non-Executive Director and Chairman. I am very grateful for his contribution and support to the Group and for the support he has given me personally in my development to become Chairman. I am delighted to have been appointed as Chairman and to be leading the Group through what continues to be a period of change.

David Roper joined the Board on 1st September. David brings to the Board significant finance experience having been a partner in PwC's financial services team for 16 years. David is also a Non-Executive Director and Chair of the Audit Committee at Atom Bank. His financial experience, including his audit and risk management experience, and his knowledge of the financial services market will be important to the Group over the next few years.

"I would like to thank Richard again for his dedicated service to the Group both as a Non-Executive Director and Chairman."

Stakeholder engagement is very important to us as a mutual. The Board has regular opportunities to meet members, staff and Agents and other stakeholders through national and local shows and events, NFU conferences and Regional Advisory Board meetings. I personally attend many of these events and welcome the opportunity to talk to members, staff, Agents and the wider community about the Group and its plans, progress and development. These events are also an opportunity for members to discuss areas of interest or raise any concerns.

I also regularly meet with the Farming Unions to understand the issues facing the agricultural industry and rural communities and with the Prudential Regulatory Authority and Financial Conduct Authority. These latter meetings ensure that the Regulators are aware of the good work that NFU Mutual is doing to ensure it delivers on its purpose and strategy for customers. They also allow the Regulators to understand our governance and gain confidence that we are acting in the right manner to deliver sustainable long-term products and service for our customers. As a Board, we are conscious of the impact the business and our decisions have on members, customers, employees, and suppliers, as well as on the community and our environment. Further information on our stakeholder engagement is included within the Governance Report.

Jim McLaren
Chairman

CORPORATE GOVERNANCE CODE

NFU Mutual has chosen to follow the UK Corporate Governance Code (Code) for several years. From this reporting year, there is a requirement for all large private companies to report on the application of a corporate governance code. NFU Mutual has chosen to continue to follow the UK Corporate Governance Code and has applied the 2018 version of the Code. The revised Code emphasises the value of good governance to long-term sustainable success. The information in this report demonstrates how NFU Mutual is applying the principles of the Code.

During the year NFU Mutual did not comply with the new provision in the Code which indicates that the tenure of the Chairman should not exceed nine years from the time he or she was appointed to the Board. Richard Percy was appointed as a Non-Executive Director in June 2003 and appointed Chairman in January 2012. Therefore, he had served over nine years on the Board at the point of his retirement in September. Jim McLaren has been on the Board for less than nine years having been appointed as a Non-Executive Director in January 2012. Having only been appointed as Chairman in October it is expected that he will also serve more than nine years from his appointment to the Board.

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

LEADERSHIP AND COMPANY PURPOSE

PURPOSE

As set out in in more detail in the Business Model and Strategy section on pages 7 to 10, NFU Mutual has a strong purpose, strategy and values which underpin everything that we do. We aim to provide our members with the insurance cover they need, at a fair price, and with a first-class service. Our strategy is to differentiate ourselves, through an attentive, local, personal service that is second-to-none. As a mutual, we are concerned with the long-term interests of our members, rather than short-term profits. And as NFU Mutual, founded originally in 1910 by seven Warwickshire farmers, no-one will ever be more important to us than farmers and the rural community. As a result, we have become the UK's leading rural insurer and part of the fabric of rural life.

GOVERNANCE FRAMEWORK

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

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

BOARD ACTIVITY

The Board has a clear view of the leadership and activities of the Group, including business results, key risks and developments. Directors are required to consider the long-term consequences of any decision on the Group's employees, relationships with suppliers and members, the environment and the community, the Group's high standards of business conduct and the need to act fairly towards members. Such considerations are taken into account in all Board decisions whilst ensuring the Board operates in the long-term interests of the company. The Board and its Committees work together to review strategy, business performance and to manage the business risks.

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

STRATEGY AND BUSINESS RESULTS

- The Board reviewed and approved the 2020-2022 Medium Term Plan and 2020 Business Plan.
- The Board received and considered the monthly business results which reported performance against plan.
- The Board held a strategy day considering strategic developments and IT strategic changes.
- Throughout the year, the Board received regular reports on the key strategic projects which are reported in the Business Review on pages 19 to 21.

FINANCIAL REPORTING, RISK AND CONTROLS

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

GOVERNANCE

- The Board discussed the outcome of the Board's effectiveness evaluation.
- The Board considered Board succession and the appointment of a new Chairman and a new Non-Executive Director.
- The Board recommended to the members approval of new articles of association at the 2019 AGM

STAKEHOLDER ENGAGEMENT

- The Board regularly considered the Group's relationship with various stakeholder groups. It discussed employee engagement, customers, Agents and, through its Responsible Business Report, the impact on and relationship with the wider community.
- Board members met throughout the year with the Prudential Regulatory Authority and Financial Conduct Authority.

Name of Director	A	B
Chairman		
Jim McLaren[1]	11	11
Richard Percy[2]	8	8
Senior Independent Director		
Chris Stooke	11	11
Chief Executive		
Lindsay Sinclair	11	11
Executive Directors		
Steve Bower	11	11
Richard Morley	11	11
Nick Turner	11	11
Non-Executive Directors		
Jon Bailie	11	11
Ali Capper	11	11
Brian Duffin	11	11
Christine Kennedy	11	11
Eileen McCusker	10	11
David Roper[3]	4	4

1 Appointed as Chairman 1st October
2 Retired from Board and as Chairman 30th September
3 Appointed to the Board 1st September

A = Number of meetings the Director attended in 2019.
B = Maximum number of meetings the Director could have attended in 2019.

STAKEHOLDER ENGAGEMENT

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

Our stakeholders	Why they are important	How we are engaging
Customers and Members	Our customers are at the heart of everything we do. They are the users of our products and services. Our members own the company and are also our customers.	Our primary route of engagement with customers and members is through the Group's network of Regional Advisory Boards made up entirely of members. The Regional Advisory Boards maintain close links with the Board and senior management through a series of meetings and with members via a network of Member Forums. The Regional Advisory Boards are briefed regularly on the Group's performance and key initiatives, and provide valuable feedback to management and the Board. There are currently 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. Directors and members of senior management attend each of these meetings. Member Forum meetings take place throughout the regions with 28 meetings being held in 2019. 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.
Our people	Our people are essential to meeting our purpose and delivering the required products and service to our members.	The Board receives regular updates on the engagement of employees through its annual engagement survey. In addition, NFU Mutual has a national employee consultation group which provides representation on strategic business issues. The Board and management team is committed to communicating with and engaging employees in consultation.
Our Agents	Our Agents are also essential to meeting our purpose and delivering the required products and attentive, local, personal service to our members.	NFU Mutual engages with its Agents through the Agency Liaison Group and National Association of Group Secretaries which are both representative bodies of the Agents. Directors also regularly meet with individual Agents. In addition, a number of strategic change programmes which are expected to impact on Agents and their offices have set up focus groups to ensure that they are engaging with Agents and their views are taken into account, especially around the implementation of those change programmes.

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

S.172 STATEMENT

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

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

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

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

Each year the Board considers whether it is satisfied with NFU Mutual's performance as a mutual. This review considers the company's impact on a number of its stakeholder groups. As a mutual, NFU Mutual's aim is to deliver value to its members and put their long-term interests before short-term profits. The review considers whether NFU Mutual delivers value through offering the products and services its members and customers need and want.

It considers how successful NFU Mutual is in developing its relationships with its members to ensure that it understands their needs and how it can ensure that the business is sustainable for current and future generations of members. The Board also considers how the business makes a difference to people's lives, not only for its members but also across rural communities, for employees, and by protecting the environment.

DIVISION OF RESPONSIBILITIES

BOARD ROLES

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

CHAIRMAN

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

SENIOR INDEPENDENT DIRECTOR

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

NON-EXECUTIVE DIRECTORS

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

CHIEF EXECUTIVE

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

OTHER EXECUTIVE DIRECTORS

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

COMPANY SECRETARY

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

BOARD INDEPENDENCE

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

In 2019, the Board considered all of the Non-Executive Directors to be independent in accordance with the Code. In addition, Jim McLaren was considered to be independent upon appointment as Chairman. Our Non-Executive Directors meet without the Executive directors at least once a year and informally on a regular basis. These meetings are useful to safeguard the independence of our Non-Executive Directors by providing them with time to discuss their views in a more private environment.

Any Director who has concerns about the running of the Group or a proposed course of action is encouraged to express those concerns which are then minuted. No such concerns were raised during 2019. All Directors have confirmed that they have been able to allocate sufficient time to discharge their responsibilities effectively.

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

> "The Non-Executive Directors have direct access to the senior management team."

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

COMPOSITION, SUCCESSION AND EVALUATION

THE BOARD

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

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

BOARD EVALUATION

The Board is committed to continually improving its effectiveness and the Group's overall performance. To facilitate this, the Board has implemented a three-year review cycle consisting of an external evaluation one year and individual appraisals with Directors conducted by the Chairman in the other two years. The last external evaluation was undertaken in 2017. In 2019 an internal evaluation was carried out. This consisted of a questionnaire completed by each Director and member of the Executive team and individual meetings with the Chairman. The evaluation considered Board effectiveness and individual Non-Executive Director appraisals. The Board received a full report of the evaluation and agreed an action plan to further improve its and individual Directors' effectiveness. As a result of the evaluation, the Board was satisfied that it was operating effectively.

The Chairman's performance is appraised annually in a session led by the Senior Independent Director, which the Chairman does not attend. In 2019, the appraisal of Richard Percy concluded that he continued to operate to a high level, exhibiting positive leadership and ensuring that the necessary conditions for effective discussion at an individual and Board level were met. As Jim McLaren was appointed Chairman in October, his performance as Chairman has not yet been subject to appraisal. However, his performance as a Non-Executive Director was fully considered before his appointment as Chairman.

BOARD INDUCTION AND DEVELOPMENT

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

The Board believes strongly in the development of Directors and employees. Each Director is required to commit to continuing their professional development. Any knowledge or skills gaps identified during the appraisal process are addressed in a timely manner. During 2019, Continuing Professional Development (CPD) sessions were provided on a number of subjects including the rehabilitation programme, managing IT change, agricultural ecosystems, the Wrap platform, reinsurance, and the Group Data Office. In addition, the Board receives regular market and company updates as part of the Board agenda.

> In 2019, the appraisal of Richard Percy concluded that he continued to operate to a high level, exhibiting positive leadership and ensuring that the necessary conditions for effective discussion at an individual and Board level were met.

NOMINATION COMMITTEE REPORT

COMMITTEE COMPOSITION

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

Name of Director	A	B
Jim McLaren (Committee Chair) [1]	0	0
Brian Duffin	5	5
Christine Kennedy	5	5
Eileen McCusker	1	1
Richard Percy [2]	5	5
Lindsay Sinclair	5	5
Chris Stooke	5	5

1 Appointed to Committee and as Chairman 1st October
2 Committee Chairman until retirement 30th September
A = Meetings attended
B = Maximum meetings

ROLE OF THE COMMITTEE

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

The Committee's key responsibilities are:

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

THE COMMITTEE'S FOCUS IN 2019

During 2019 the Committee focused in particular on the succession plans for Richard Percy, including the appointment of a new Chairman and a new Non-Executive Director.

The Nomination Committee led the process to consider the appointment of a new Chairman. Egon Zehnder was used to provide an independent assessment of the skills, experience and abilities of each candidate for the position. This assessment also identified any development needs which fed into an agreed development plan. Progress in respect of the plan was monitored by the Committee. The Committee, having considered all of the information available to it, then recommended to the Board that Jim McLaren be elected as Chairman upon

Richard Percy's retirement. The Board then approved the appointment subject to regulatory approval.

An application in respect of Jim McLaren's appointment as Chairman was made to the PRA and FCA. Full details of his experience and skills were provided together with the Board's reasons for the appointment. Following an interview with the PRA, regulatory approval for his appointment was obtained.

The Committee also led the process for the appointment of a new Non-Executive Director to replace Richard Percy on the Board. The Committee used its succession planning work and the outcome of the Board evaluation process to consider what skills and experience the Board needed over the next few years. As a result of that consideration, the Committee decided to focus on finding a Non-Executive Director who had recent finance and risk management experience. The Committee appointed Egon Zehnder to undertake a full market search for candidates meeting the specified criteria. A shortlist of candidates was compiled for interview. Following a thorough and rigorous interview and appraisal process the Committee recommended to the Board the appointment of David Roper as a Non-Executive Director.

The Committee also considered changes to the composition of the Board Committees to reflect Richard Percy's retirement, Jim McLaren's appointment as Chairman and David Roper's appointment to the Board. During the year the Board also recommended the re-appointment of Brian Duffin for a further three-year term subject to annual re-election at the AGM.

INCLUSION AND DIVERSITY

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

The Board has not set specific targets for Board diversity. It does not believe that this is required as the Committee considers diversity, in its widest sense, during its Board composition reviews, succession planning and consideration of criteria for Board and senior management appointments. The Committee is planning to undertake unconscious bias training during 2020 to further support its drive to ensure that appointment processes are fully inclusive.

As stated above, Egon Zehnder was used by the Committee during the year to support its Board composition activities. Egon Zehnder has no other link to the Group or any Director. It is a signatory to the enhanced voluntary code of conduct for executive search firms which aims to raise the standards and professionalism in the recruitment of women to boards. The Committee expects Egon Zehnder to consider diversity and inclusion in all searches which it undertakes on the Group's behalf.

The Group is a signatory to the Women in Finance charter. The Charter reflects the Government's aspiration to see gender balance at all levels across financial services firms. Trisha Jones, the HR Director, is responsible and accountable for gender diversity and inclusion. The Group has set a target of having 38% female representation in senior management by 2021. In October 2018, when the Charter was signed this stood at 36%. The gender balance ratio of the members of the Executive Committee plus the Company Secretary and their direct reports is 3.1:4 (female:male).

AUDIT, RISK AND INTERNAL CONTROL

ACCOUNTABILITY

The Board of Directors has ultimate accountability for ensuring that all risks to which the Group is exposed are managed effectively. The Board 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 focused 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.

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

- discussing and challenging reports from business units,
- monitoring management information, and
- by considering the findings of assurance reviews and audit reports.

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

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

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

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

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

AUDIT COMMITTEE REPORT

COMMITTEE COMPOSITION

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

Name of Director	A	B
Chris Stooke (Committee Chair)	8	8
Jon Bailie	7	8
Christine Kennedy	8	8
Jim McLaren [1]	7	7
David Roper [2]	2	2

1 Resigned from Committee 30th September
2 Appointed to Committee 1st September
A = Meetings attended
B = Maximum meetings

THE ROLE OF THE COMMITTEE

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

FINANCIAL REPORTING

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

EXTERNAL AUDIT

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

RISK MANAGEMENT AND INTERNAL CONTROL

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

INTERNAL AUDIT

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

THE COMMITTEE'S FOCUS IN 2019

FINANCIAL REPORTING

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

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

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

NFU Mutual has worked to ensure that the business is transparent and provides the required level of disclosure regarding significant issues considered by the Committee in relation to the financial statements, as well as how these issues were addressed. As part of its review of the Annual Report and Accounts, the Committee places particular emphasis on their fair presentation, the reasonableness of the significant judgement factors and the appropriateness of the significant accounting policies used in the preparation. In light of the Coronavirus outbreak in early 2020, there has been particular focus on the appropriateness of the Going Concern Basis of Accounting which is detailed on pages 38 to 39 and the Events After Reporting Date disclosure in note 35. 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.

SIGNIFICANT ISSUES

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

GENERAL INSURANCE RESERVES

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

"The valuation of the General Insurance reserves involves a significant degree of caution and expert judgement."

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 focuses in particular on the methodology, judgements and assumptions used to set the reserves for claims arising from historic periods of exposure that the Group may be responsible for. It remains satisfied with the approach to this area of the reserves. In addition, during the year, the 2nd line actuarial function have undertaken assurance review activity over a wide range of reserving processes and assumptions. This provide an additional layer of assurance for the committee.

During the year the Government announced a change to the Ogden discount rate from -0.75% to -0.25%. Following the introduction of the Civil Liability Act, this rate is expected to remain unchanged for up to five years. The Committee considered the impact of the revised discount rate on the Group's reserves. Although the rate was lower than anticipated by the majority of the industry the impact on the Group's reserves was not significant as scenario work had previously been undertaken to understand the potential impact on the reserves of different rate changes.

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

LIFE INSURANCE RESERVES

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

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

LEVELS OF MATERIALITY

The external auditors set a level of materiality to assist them with planning their audit work; further details of which can be found in Deloitte's Audit Opinion on pages 92 to 98. The Committee has requested that Deloitte bring to the Committee's attention any findings as a result of their audit work with a monetary value of over £1.4m. 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

The Committee oversees the Group's relationship with, and monitors the performance of, the external auditors. The Board has committed to formally tender for the position of external auditors at least every ten years. A formal tender was undertaken by the Committee during 2017 following which Deloitte was appointed external auditor from the 2018 financial year. The 2019 financial year was the second year of the current audit engagement partner's appointment.

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

The Committee continually reviews the nature and extent of non-audit services provided to the Group by the external 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.

Deloitte undertook a small number of non-audit assignments during 2019; these were all assurance activities related to the audit work. All non-audit work was approved by the Committee in accordance with the policy and is considered to be consistent with the professional and ethical standards expected of the external auditor in this regard. In addition, key external audit staff, including the audit partner, are changed on a regular basis in accordance with best practice to ensure continued objectivity. All audit and non-audit fees are disclosed in Note 14.

INTERNAL CONTROLS

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

INTERNAL AUDIT

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

The Committee reviewed and approved the activity of Internal Audit during 2019 and the Committee was satisfied that Internal Audit has the appropriate resources to undertake its work. The audit plan is set by reference to the audit universe, the principal risks facing the business, any emerging risks and hot topics for auditing reported at an industry level. The audits carried out covered an extensive sample of controls across a range of risk types and business units covering business as usual activity together with assessments of the major change programmes. The Committee received quarterly reports on all audits undertaken, management's response to audit findings and progress in addressing identified issues. The reports highlight any themes emerging across the audit findings and allow the Committee to challenge the management team's response to 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 the year the Committee engaged Board Alchemy to conduct an external review of the effectiveness of Internal Audit. The review found that the Internal Audit function is effective. It made some suggestions for further improvements. An action plan to address those suggestions will be considered in 2020.

WHISTLEBLOWING

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

BOARD RISK COMMITTEE REPORT

COMMITTEE COMPOSITION

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

Name of Director	A	B
Eileen McCusker (Committee Chair)	5	5
Ali Capper	5	5
Brian Duffin	5	5
Jim McLaren	5	5
Richard Percy [1]	3	3
Chris Stooke	5	5

1 Resigned from Committee 30th September
A = Meetings attended
B = Maximum meetings

THE ROLE OF THE COMMITTEE

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

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

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

THE COMMITTEE'S FOCUS IN 2019

The Committee has continued to focus on the ongoing work to mitigate Cyber and IT risks and the data protection risk profile. During the year there has also been consideration of the impact on the Group's risk profile of changes to its investment strategy together with the impact of volatility in the investment markets on the Group's risk appetite position. Climate risks are becoming a greater focus of attention across the Group. The Committee receives quarterly reports from each of its subordinate risk committees which ensure that it is fully aware of emerging risks and issues across the Group. It also considers the assurance activity being undertaken across all lines of defence. In addition, the Committee received the Risk Director's annual report on the effectiveness of risk governance and risk management.

The Committee continues to receive regular reports from the Chief Actuaries for Life and General Insurance covering, amongst other

> "The Committee's members as a whole bring a wide range and depth of financial and commercial experience across various industries."

things, their Underwriting and Reinsurance Opinions and progress on actions resulting from their second line review and validation of the assumptions underlying the internal model. The financial risk team have again spent a lot of time working on stress and scenario testing and the recovery and resolution planning to enable the Group to recover from a stress scenario. This work covers a wide range of scenarios to thoroughly test the Group's resilience to severe investment market movements and industry events such as floods, windstorms or longevity changes occurring at the same time. The Committee considered the action available to the Group to protect its solvency position in such scenarios and clear procedures are in place to manage such a scenario. Management continue to monitor closely the developments in relation to Coronavirus with Board Risk Committee providing oversight as appropriate. Business continuity plans are well documented and tested and focus on the potential operational and financial impacts.

WITH PROFITS COMMITTEE REPORT

COMMITTEE COMPOSITION

The Committee is required to have a majority of independent members. It is currently comprised of five members, three of whom are independent Non-Executive Directors. The other two Committee members are members of management with appropriate expertise to the duties of the Committee.

Name of Director	A	B
Brian Duffin (Committee Chair)	4	4
Ali Capper [1]	2	2
Jim McLaren [2]	3	3
Chris Stooke	3	4

1 Appointed to Committee 1 September
2 Resigned from Committee 30 September
A = Meetings attended
B = Maximum meetings

THE ROLE OF THE COMMITTEE

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

THE COMMITTEE'S FOCUS IN 2019

The Committee reviewed the methodology and assumptions for the reversionary and terminal bonus rates and approved the bonus rates (for recommendation to the Board). It also reviewed the Report to With-Profits Policyholders and Policyholders' Reasonable Expectations to ensure compliance with the Principles and Practices of Financial Management for With-Profits business. This review considered key decisions made during the previous year and payouts against target ranges. The Committee considered how expenses are allocated to With-Profits products and approved actions to ensure that the whole of life product met the FCA's requirements to ensure the fair treatment of longstanding customers in the life insurance sector. The With-Profits distribution was recommended to the Board. The Committee considered strategic investments in the Life fund and received regular updates on the Life Aspiration Design and Delivery Programme (LADDER) to understand its potential impact on With-Profits members and products.

INVESTMENT COMMITTEE REPORT

COMMITTEE COMPOSITION

The Committee is predominately comprised of members of management with expertise appropriate to the duties of the Committee. It is chaired by an independent Non-Executive Director and the Finance Director is also a member.

Name of Director	A	B
Jon Bailie (Committee Chair)	4	4
Richard Morley	4	4

A = Meetings attended
B = Maximum meetings

THE ROLE OF THE COMMITTEE

The Investment Committee provides assurance over the Group's investment activity. It considers and recommends to the Board the investment strategy.

It provides assurance that the investment strategy is performing effectively, and that investment activity adheres to the strategy. It has oversight of market risk within the Group.

THE COMMITTEE'S FOCUS IN 2019

The Committee considered the potential implications of Brexit on the Group's investment portfolio. It also considered climate risk in the investment portfolio and the Group's ESG policy. It considered the impact of market volatility on the investment portfolios and received regular reviews from the project to select external fund managers to manage certain aspects of the international equities portfolio.

REMUNERATION COMMITTEE

COMMITTEE COMPOSITION

The Committee is comprised entirely of independent Non-Executive Directors. The Chair of the Committee is required to have at least 12 months' experience on a Remuneration Committee prior to appointment as Chair. Christine Kennedy was appointed as Chair during the year; she has been a member of the Committee since 2016.

Name of Director	A	B
Christine Kennedy [1] (Committee Chair)	5	5
Ali Capper [2]	2	2
Eileen McCusker	5	5
Jim McLaren [3]	4	4

1 Appointed Committee Chair 14th October
2 Appointed to the Committee 1st July
3 Resigned from the Committee 30th September
A = Meetings attended
B = Maximum meetings

Details of the work of the Remuneration Committee can be found in the Directors' Remuneration Report on pages 79 to 91.

> The Investment Committee provides assurance over the Group's investment activity. It considers and recommends to the Board the investment strategy.

Jim McLaren
Chairman

Lindsay Sinclair
Chief Executive

23rd April 2020

CORPORATE GOVERNANCE

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

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

2. NOMINATION COMMITTEE (JIM MCLAREN*)

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

3. AUDIT COMMITTEE (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 (CHRISTINE KENNEDY*)

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 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.

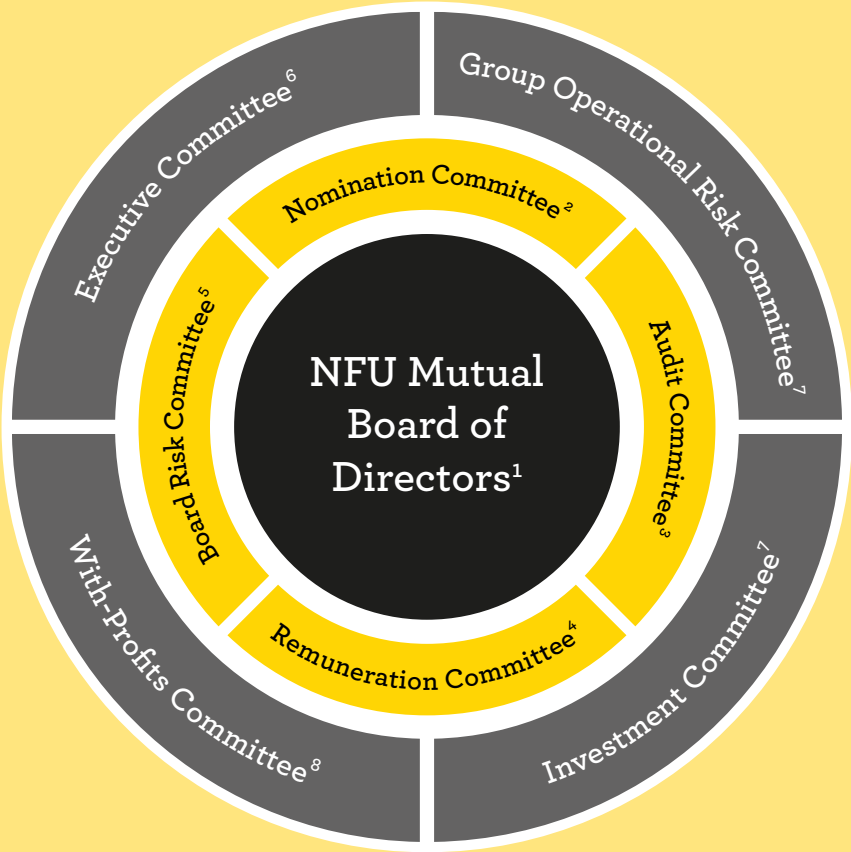
8. WITH-PROFITS COMMITTEE (BRIAN DUFFIN*)

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.

9. INVESTMENT COMMITTEE (JON BAILIE*)

Provides assurance over the Group's investment activity.

* The Chair of each Committee is shown in brackets.



REGIONAL ADVISORY BOARDS

ENGLAND – NORTH

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

ENGLAND – MIDLANDS

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

ENGLAND – EAST

J. Finnis, Essex (Chair)
J. Andrews, Norfolk
N. Rome, Cambridgeshire
G. Spiers, Bedfordshire and Huntingdonshire

ENGLAND – SOUTH WEST

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

ENGLAND – SOUTH EAST

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

NORTHERN IRELAND

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

SCOTLAND

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

WALES

T. Lloyd, Anglesey (Chair)
J. Bletcher, Clywd
E. Noble, Mid Gwynedd
G. Price, Brecon & Radnor
G. Probert, Monmouthshire & Glamorganshire

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 customers 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 members' values, working with the police to fight rural crime, reducing death and injury on farms, teaching young drivers how to stay safe on rural roads and supporting schemes to protect the environment.

LOOKING AFTER OUR MEMBERS

Promoting flood resilience

Being flooded can be devastating. We help our members build back better. As well as sharing the cost of flood-resilient repairs, we've been working with government, insurers and local authorities to align industry standards, create a flood resilience code of practice, and raise awareness of flood risks and flood resilience measures across communities where there is a real possibility of being flooded.

Educating Young Drivers

Keeping young drivers safe is a priority for us. That's why we developed the Young Drivers' Scheme, a flexible and interactive training programme designed to teach young drivers' skills that will keep them safer on the road. The scheme is available to children of our members who are aged between 17 and 21 years for cars, and 17 and 24 years for vans or other light goods vehicles.

The course is created in partnership with, and delivered by Drive Doctors, who use informative, interactive events and programmes to change the attitude of drivers on the road. Since 2014, around 2,000 young people have taken part in the advanced training course.

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 significantly reduce the cost of tractor theft since its peak in 2010. Since we started investing in tackling rural crime, NFU Mutual has spent more than £1.5m working with police all over the UK. We also now inform the national policing strategy on rural crime, with our crime statistics held up as the authority on the scale of the issue.

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 in the UK. In 2019 the Trust made donations of £224,500 to rural charities to alleviate hardship, support future farming generations and raise awareness of the value of farming.

The NFU Mutual Charitable Trust Centenary Award was first launched by the Trust in 2010 to celebrate NFU Mutual's 100th birthday, and NFU Mutual donated £250,000 to fund the award. 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 agriculture in 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.




Pictured above: Our 2019 Centenary Award winners.

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

In 2019, the NFU Mutual Charitable Trust provided bursaries for four postgraduate agricultural students, and 40 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

The Farm Safety Foundation is a small independent charity set up by NFU Mutual to raise awareness of farm safety among the next generation of farmers. It aims to challenge and change their attitudes to risk-taking in an attempt to reduce the number of life-changing and life-ending accidents that continue to give farming the poorest safety record of any occupation in the UK.

The Farm Safety Foundation works closely with partners in the industry to engage, educate and communicate strong and relatable farm safety messages. Through national campaigns about farm safety and mental health in farming, the Farm Safety Foundation works all year round to tackle the stigma around risk-taking and poor mental health, ensuring that the next generation of farmers is resilient and equipped with smart strategies and specific skills to live well and farm well.

Since the charity was established, its unique farm safety training has been delivered to over 6,500 agriculture students in 44 different land-based colleges and universities throughout the UK, and to over 3,500 young farmers at Young Farmers Clubs in England and Northern Ireland.

The team works tirelessly to create change. Through the education campaign, strong safety messages and ongoing engagement, the small but ambitious team is helping young farmers and the wider farming community to challenge and change their attitudes to health and safety in the workplace and we are proud to be driving this.

Over the years the charity has been recognised nationally for the ground-breaking work it is doing within the industry, receiving the prestigious Business

> In 2019, the fund helped 88 community groups and charities, donating more than £17,000

in the Community Samworth Brothers Rural Action Award 2016, Gold at the 2018 CIPR Excellence Awards in the Not-for-Profit category, as well as Gold at the Midlands 2018 CIPR PRide Awards for its mental health campaign and was recently awarded the Farm Safety Award in the 2019 Northern Ireland Farming Life Awards.

SUPPORTING LOCAL COMMUNITIES – THE NFU MUTUAL COMMUNITY GIVING FUND

Our Community Giving Fund allows us to support good causes local to our branch network and boost staff fundraising initiatives.

In 2019, the fund helped 88 community groups and charities, donating more than £17,000. We have enabled 'craft companion' sessions for the elderly, funded school initiatives to help young people learn about our wildlife, and even supported the purchase of a defibrillator for a local leisure centre.

HELPING TO PROTECT THE ENVIRONMENT

As we stand on the edge of a potential climate crisis, we may already be seeing the challenges we'll be facing in the future. Rising temperatures, flooding, changing rainfall patterns and damage to ecosystems are all concerns for our members*. With so many of our customers' livelihoods dependent on the health of the planet, and their businesses at the mercy of the weather, we're serious about doing more to reduce our environmental impact.

We've already begun work to ensure we're partnering with suppliers who share our worries and are able to meet our responsible business criteria. Like 87%* of our customers, we believe the environment is an important issue. So we acknowledge there is still much more to be done.

* Climate Change Research, Mutual Voice, Oct 2019, 477 customer responses

RESPONSIBLE PROPERTY INVESTMENT

At NFU Mutual we're responsible for managing two property portfolios. There are the offices we occupy and work from, but also a property investment portfolio that we manage to deliver long-term financial performance. We're developing our property investment plans in order to deliver a responsible business approach to investment. This supports positive environmental and social outcomes and considers factors such as energy consumption and generation, waste creation and pollution prevention across our portfolio to reduce carbon emissions and the use of natural resources.

REDUCING OUR IMPACT AT HOME

Our head office buildings in Stratford-upon-Avon are home to around 2,000 employees. In 2019 we reviewed our waste management process and set a target to recycle at least 60% of our waste by 2020. The figure we achieved was 64.3%. In addition, to minimise the impact of our travel emissions, we provide a bus service and lift share scheme for our Stratford staff. We also continue to develop and consider additional energy saving initiatives including a review of electric vehicle charging points to encourage the use of these vehicles.

PROMOTING ENERGY EFFICIENCY

Using less energy is good for everyone. When our members need to replace white goods as part of an insurance claim, we offer up to £500 per claim to help them upgrade their appliances to a more energy efficient model from the same brand.

RECYCLING TO IMPROVE LIVES

At NFU Mutual we're proud that all of our waste and anything we do not need is either reused, recycled or disposed of responsibly. That's also true of our unwanted office furniture. Rather than dispose of it, we donate it to local organisations where it can have a second life. Last year we gave 318 pieces of furniture to 13 local groups, including schools, hospices and youth centres where it was put to excellent use.

Valuing Our People

We work hard to create an environment where our employees can grow and flourish, where they are engaged and empowered to make a difference of their own.

EMPLOYEE VOLUNTEERING PROGRAMME

Each member of NFU Mutual staff is offered the opportunity to volunteer for one paid day a year along with their colleagues to work on a project facilitated by volunteering partners including the National Trust, foodbanks, dementia friendly gardens and care farms. In 2019, 626 members of staff voluntarily gave 4,382 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.

Dementia Friends

In 2019 we continued our support of the Alzheimer's Society's 'Dementia Friends' initiative, by holding awareness sessions for employees. Over the year, 430 employees volunteered to become a Dementia Friend through the programme, and helped to turn awareness of dementia into understanding and action. This initiative supports our approach to vulnerable customers and also helps employees who may be touched by dementia in their personal lives.

HOW WE DID IN 2019

£7.26m
donated to Farming Unions

4,382
hours volunteered in the community

88
local causes supported

29
new apprentices welcomed

Awarded Top company for Accountancy & Insurance: 1st place for Apprenticeships; 2nd place for Graduates

£224,500
donated to rural charities through the NFU Mutual Charitable Trust

£1.5m
invested in tackling rural crime since 2010

46,925
single-use cups saved from landfill

2,935
young farmers taught farm safety

DIRECTORS' REMUNERATION REPORT

Following my appointment as Chair of the Remuneration Committee from 14th October 2019, I am very pleased to present the Remuneration Committee's report for the year to 31st December 2019. 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 attract and retain the management talent needed to run the business successfully. The annual and long-term incentives help to align the total remuneration package directly to the performance delivered for our members and other stakeholders.

> "The performance of NFU Mutual was very strong in 2019"

As our Group Chairman indicated in his introductory statement to the Report & Accounts, the performance of NFU Mutual was very strong in 2019 over a range of performance measures in line with our three long-term strategic goals.

The Group made an overall profit in 2019 with our GI Business delivering strong underwriting profit against a GWPI of £1,626.3m. The Life business was affected by low consumer confidence and this was reflected in a lower performance in 2019 for this part of the business.

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.

The performance of the GI business and the Life business are reflected in both the pay awards, and the short term and long term incentive schemes we operate for our Executive Directors.

The range of salary increases from 1st May 2019 for the vast majority of staff fell between 0.5% and 10%. Base salaries for Executive Directors increased by between 2% and 3.6%.

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

- Christine Kennedy (Chair)
- Eileen McCusker
- Ali Capper

THE REMUNERATION COMMITTEE

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

On 1st October 2019, following Richard Percy's retirement as Chairman of NFU Mutual, Jim McLaren was appointed Chairman of NFU Mutual. On appointment he relinquished his role of Chairman of the Remuneration Committee and Christine Kennedy was, in turn, appointed to the Chair of the Remuneration Committee. Ali Capper was appointed as a Remuneration Committee member on 1st July 2019.

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 relevance, size, complexity and responsibilities of the role, as well as time commitment, and are determined following objective advice from our external remuneration consultants.

The Committee's practice is to appoint a remuneration consultant who may also provide other services to the Group. Data provided by remuneration specialists, Aon plc, was used to benchmark executive pay during the year. Aon plc also provided advice and guidance to the Committee during the year. Aon plc 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 Risk Function. 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, which explains the different elements which form part of the Executive Directors' and Non-Executive Directors' remuneration at NFU Mutual is available on **nfumutual.co.uk/about-us**

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.

In line with many other organisations, historically pension contributions for Directors have been higher (15%) than the rest of the workforce (up to 12%). This position will be reviewed, in the future, at the point at which any new Director is appointed.

Annual Bonus: the Group Bonus Scheme (GBS) applies throughout the company. The Short-Term Incentive Plan (STIP) 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 (GBS and STIP) has been deferred for three years post award for the CEO and Executive Directors.

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

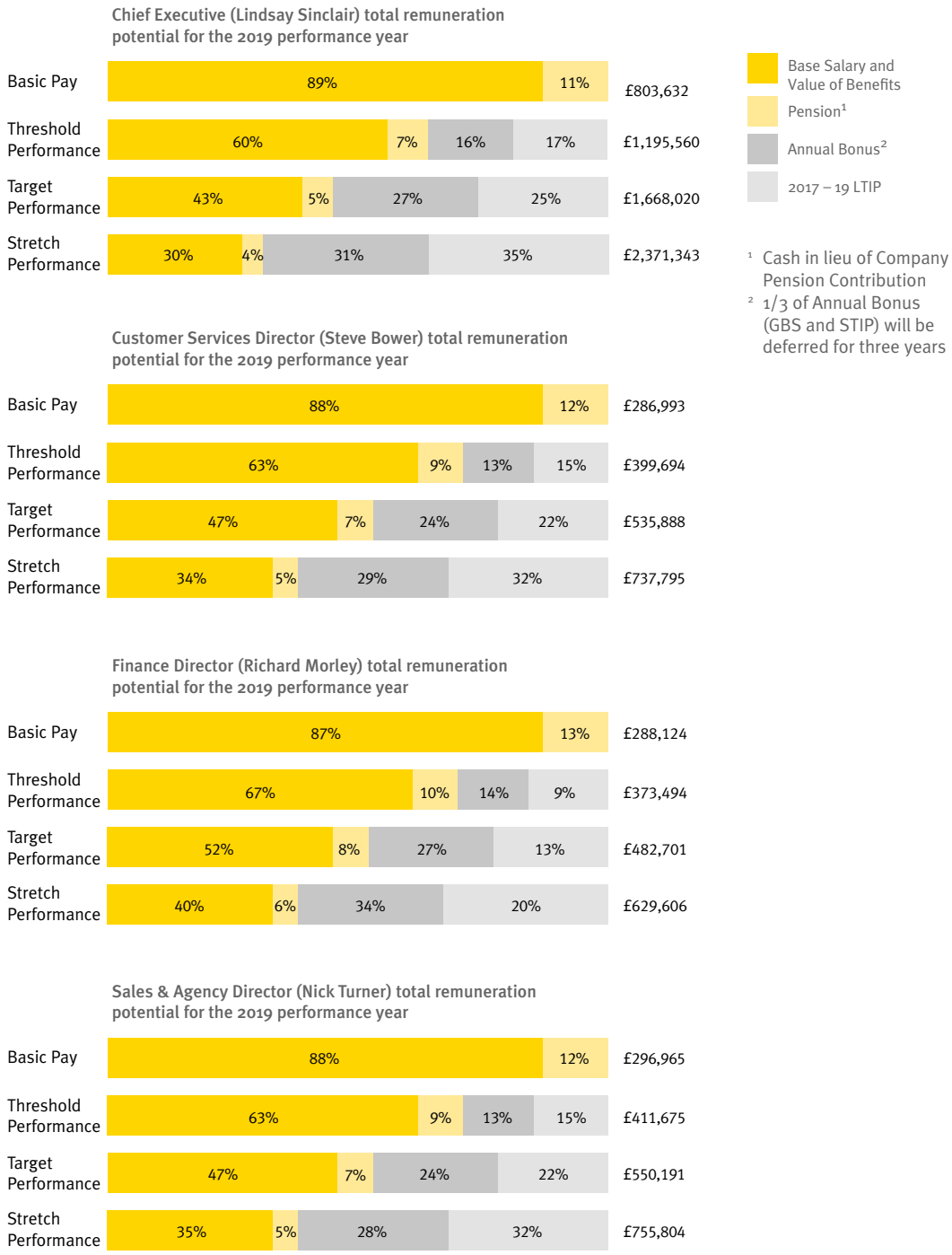
Since 2018, all UK companies with over 250 employees have been required to report on their Gender Pay Gap. This measures the difference between the average pay of all men and all women in a company. Gender Pay is different to equal pay, where legislation focuses on earnings for men and women doing the 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 for the year to 5th April 2019 compare positively with the data published for the Finance and Insurance Activities sector by the Office of National Statistics (ONS) in 2019. Our full Gender Pay Report for the year to 5th April 2019 was published on 3rd April 2020 and is available at **nfumutual.co.uk/about-us**

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 Directors with the interests of the business.

The charts below illustrate the mix in 2019, between the fixed and performance-related pay of Executive Directors at threshold, target and stretch performance levels.



[1] Cash in lieu of Company Pension Contribution

[2] 1/3 of Annual Bonus (GBS and STIP) will be deferred for three years

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 remuneration 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 Board office only until the next Annual General Meeting and must then stand for election to continue in office.

CONSIDERATIONS ELSEWHERE IN THE GROUP

In setting the remuneration policy for Executive Directors, the Remuneration Committee 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 ensuring that there are 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.

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

The tables below show actual total remuneration for Executive Directors for 2019 and 2018. (Both years were audited by Deloitte LLP.)

2019 £

	Base Pay	Pension[3]	Benefits[2]	Annual Bonus[1]	2017 - 2019 LTIP	2019 Total
Lindsay Sinclair[4]	598,497	89,775	115,361	568,446	734,879	2,106,958
Kim Arif[5]	-	-	-	-	126,040	126,040
Steve Bower	237,782	35,667	13,544	160,760	214,175	661,928
Richard Morley	240,483	36,072	11,568	163,103	113,808	565,034
Nick Turner	241,336	36,200	19,428	162,901	218,844	678,709

2018 £

	Base Pay	Pension[3]	Benefits[2]	Annual Bonus[1]	2016 - 2018 LTIP	2018 Total
Lindsay Sinclair [4]	577,458	86,619	108,407	619,005	699,966	2,091,454
Kim Arif [5]	112,972	16,294	4,380	61,708	220,100	415,454
Steve Bower	231,797	34,770	13,519	177,149	209,828	667,063
Richard Morley[6]	37,500	5,625	1,767	28,403	80,803	154,098
Nick Turner	235,849	35,377	17,828	180,388	208,447	677,890

[1] 1/3 of Annual Bonus payment will be deferred for three years.
[2] Benefits figure includes car allowance.
[3] Cash allowance in lieu of company pension contribution.
[4] The CEO's benefits include the use of the company driver.
[5] For 2018, Base Pay, Pension, Benefits and Annual Bonus are reported for Mr Arif from 1st January 2018 to 23rd April 2018. The 2016-2018 LTIP award reported in the 2018 table was prorated up to 31st March 2018 (27 months) and was paid to Mr Arif's Estate. For 2019, a prorated payment for the 2017-2019 LTIP (15 months up to 31st march 2018) is due to Mr Arif's Estate, and will be paid in April 2020.
[6] Base Pay, Pension, Benefits and Annual Bonus are prorated from the date of appointment on 1st November 2018 to 31st December 2018. The full LTIP award for 2016 which vested on 31st December 2018 is reported.

BASE SALARIES AND BENEFITS

The average base salary increase across the Group in May 2019 was 2.5% with increases ranging from 0.11% to 12.49%. The annual base salary levels of the Executive Directors with effect from 1st May 2019 are as follows:

Name	May 2019	May 2018	Increase
Lindsay Sinclair (Group Chief Executive)	£605,510	£584,470	3.6%
Steve Bower (Customer Services Director)	£239,731	£233,884	2.5%
Richard Morley (Finance Director)	£243,225	£235,000*	3.5%
Nick Turner (Sales and Agency Director)	£242,924	£238,161	2%

* Salary as at 30th April 2019. Appointed Executive Director on 1st November 2018 on a salary of £225,000, with a market adjustment to £235,000 on 1st January 2019.

The salary increases in May 2019 were related to 2018 performance.

The value of benefits for Executive Directors is included in the table of remuneration on page 84.

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) (including the all-employee Group Bonus Scheme, GBS).
- 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 2019, the same targets were used in the STIP as in the Group Bonus Scheme (GBS) which is payable to all staff. These have been aligned to support the Group's long-term objectives. The tables on page 86 detail the balanced scorecard of performance measures of the bonus schemes in 2019. The Executive Directors' annual bonus includes the STIP and the all-employee GBS.

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

Since 2014, one third of the CEO's 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 bonus schemes are reviewed by the Committee with advice from its external advisors, Aon plc, on an annual basis and amended as appropriate.

GROUP BONUS SCHEME 2019 MEASURES

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

SHORT-TERM INCENTIVE PLAN FOR EXECUTIVES 2019 MEASURES

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

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

Principles of the LTIP

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

2019 – 2021 LTIP Grant

A new LTIP grant was made in 2019 to cover the performance period 2019 to 2021. The 2019-2021 LTIP grants were set at the levels detailed in the table below.

Role	Maximum payment following year-end 2021 (% of base salary at time of grant)
Chief Executive	166%
Executive Directors	108%

The 2019-2021 LTIP will vest at the end of 2021, 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%

* These measures form part of the 2017 to 2019 LTIP scheme which will vest at the end of 2019 and the 2018 to 2020 LTIP scheme which will vest at the end of 2020.

SUMMARY OF LTIP GRANTS AND VESTING

The table below details the vesting outcomes from the 2017-2019 LTIP scheme and the grants made in 2018 and 2019.

	LTIP 3 Cycle £					
	Plan Start Date	Cycle Ending	Grant Value	Vesting Date	2017-2019 Scheme Performance	2019 Payment
Lindsay Sinclair	01-Jan-17	2019	822,933	31-Dec-19	89.30%	734,879
	01-Jan-18	2020	935,302	31-Dec-20		
	01-Jan-19	2021	970,220	31-Dec-21		
Steve Bower	01-Jan-17	2019	239,838	31-Dec-19	89.30%	214,175
	01-Jan-18	2020	245,834	31-Dec-20		
	01-Jan-19	2021	252,595	31-Dec-21		
Richard Morley	01-Jan-17	2019	127,444	31-Dec-19	89.30%	113,808
	01-Jan-18	2020	161,976	31-Dec-20		
	01-Jan-19	2021	253,800	31-Dec-21		
Nick Turner	01-Jan-17	2019	245,066	31-Dec-19	89.30%	218,844
	01-Jan-18	2020	249,722	31-Dec-20		
	01-Jan-19	2021	257,214	31-Dec-21		

A new LTIP grant will be made in 2020 to cover the performance period 2020 to 2022, and this will vest at the end of 2022, dependent on the extent to which performance objectives in relation to that grant are achieved.

MALUS & CLAWBACK OF VARIABLE PAY

Malus and clawback (recoupment) of part or all of any variable pay award (GBS, 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 malus or clawback requirement in relation to the GBS, STIP or an earlier LTIP grant.

During 2019 the Remuneration Committee considered and decided that no discretionary adjustments were required to the short-term or long-term bonus.

DIRECTORS' PENSION ARRANGEMENTS

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

Mr Bower continues to be a Defined Benefit member of the Group's pension scheme. This provides a pension on retirement of one sixtieth of final pensionable salary, for each year's membership of the pension scheme, subject to a Scheme Specific Cap, which limits the amount of salary that counts towards pension benefits. The Scheme Specific Cap for 2019 is £176,400.

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

DEFINED BENEFITS EARNED BY THE DIRECTORS (AUDITED BY DELOITTE LLP)

The following table relates to Mr Bower's pension arrangements through the Group's Retirement Benefit Scheme. The pension cost of Mr Bower's Defined Benefit pension is charged over his estimated service life, based upon actuarial advice.

	Single Pension Figure at 31st December 2019	Single Pension Figure at 31st December 2019 (£)	2019 Transfer value of accrued pension value (£)	2019 Accrued pension value (£ pa)	Normal pension age
Steve Bower	-[1]	-[1]	2,279,700	66,600	60

[1] Based on the member ceasing to accrue pension from 5th April 2014, although he continues to accrue contingent spouse's benefits on death-in-service and death-after-retirement, which is reflected in the calculation of the transfer value at 31st December 2019. 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.

DIRECTORS' CONTRACTS

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

Executive Directors	Date of contract	Unexpired Term as at 31st December 2019	Notice period
Lindsay Sinclair	1st August 2008	12 month rolling term	12 months
Steve Bower	5th July 2010	12 month rolling term	12 months
Richard Morley	1st November 2018	12 month rolling term	12 months
Nick Turner	1st January 2013	12 month rolling term	12 months

NON-EXECUTIVE DIRECTORS (AUDITED BY DELOITTE LLP)

Non-Executive Directors	2019 Committee Responsibilities	2019 Total Fees (£)	Taxable Expenses from 1st January 2019 - 31st December 2019*	2018 Total Fees (£)	Taxable Expenses from 1st January 2018 - 31st December 2018*
Jon Bailie	Investment Committee Chair N.F.U. Mutual Unit Managers Limited Chair (appointed 16th July 2019) Audit Committee Member	60,667	1,539	40,894	3,041
Ali Capper	Board Risk Committee Member With-Profits Committee Member (appointed 1st September 2019) Remuneration Committee Member (appointed 1st July 2019)	57,250	868	38,008	1,010
Brian Duffin	With-Profits Committee Chair Chair of the Company's Pension Scheme Trustee Nomination Committee Member Board Risk Committee Member	83,250	4,450	78,000	4,696
Christine Kennedy	Remuneration Committee Chair (appointed 14th October 2019) Nomination Committee Member Audit Committee Member Remuneration Committee Member (1st January 2019 to 13th October 2019)	62,417	4,831	54,500	4,863
Eileen McCusker	Board Risk Committee Chair Remuneration Committee Member Member of Nomination Committee to 30th June 2019	70,250	4,093	66,500	4,271
Jim McLaren	Chairman (appointed 1st October 2019) Nomination Committee Chair (appointed 1st October 2019) Remuneration Committee Chair (1st January 2019 to 30th September 2019) Audit Committee Member (1st January 2019 to 30th October 2019) Board Risk Committee Member With Profits Committee Member (1st January 2019 to 31st August 2019)	95,000	7,458	64,500	8,038
Richard Percy	Chairman (1st January 2019 to 30th September 2019) Nomination Committee Chair (1st January 2019 to 30th September 2019) Board Risk Committee Member (1st January 2019 to 30th September 2019)	146,250	3,041	185,000	3,570
David Roper	Audit Committee Member (appointed on 1st September 2019) Director of N.F.U. Mutual Unit Managers Limited (appointed on 1st October 2019)	19,667	-	N/A	N/A
Chris Stooke	Senior Independent Director Audit Committee Chair Board Risk Committee Member Nomination Committee Member With Profits Committee Member	78,763	2,026	71,450	3,140

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

None of the Non-Executive Directors accrues pension benefits with NFU Mutual. Some former Non-Executive Directors or their widows still receive a pension, on an ex-gratia, non-contractual and unfunded basis. The total cost of these pensions for 13 former Directors or widows in 2019 was £208,806 (2018: £211,306).

NON-EXECUTIVE DIRECTORS' LETTERS OF APPOINTMENT

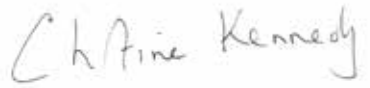
The Non-Executive Directors do not have contracts of service, but have letters of appointment. Such appointments are initially for a three-year term, although in accordance with the Annotated UK Corporate Governance Code, all Directors stand for re-election by members each year at the Company's Annual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

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

Non-Executive Directors	Date of letter of appointment	Unexpired Term as at 31st December 2019	Notice period
Jon Bailie	1st February 2018	1 year 2 months	1 month
Ali Capper	15th March 2018	1 year 3 months	1 month
Brian Duffin*	25th February 2016	0 years	1 month
Christine Kennedy	25th February 2016	10 months	1 month
Eileen McCusker	25th February 2016	1 year 6 months	1 month
Jim McLaren	30th September 2019	1 year	1 month
Richard Percy	29th February 2016	Retired 30th September 2019	1 month
David Roper	8th April 2019	2 years 8 months	1 month
Chris Stooke	25th February 2016	6 months	1 month

* Reappointed for a further three-year term with effect from 1st January 2020.

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 Non-Executive Directors will stand for election or annual re-election at the AGM, regardless of their unexpired term.



Christine Kennedy
Chair of the Remuneration Committee

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

Report on the audit of the financial statements
1. Opinion

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

- give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2019 and of the group's profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:
- the consolidated and parent company balance sheets;
- the consolidated profit and loss account;
- the consolidated statement of other comprehensive income;
- the consolidated statement of cash flows – general business;
- the consolidated and parent company statements of changes in equity; and,
- the notes to the financial statements 1 to 35, excluding the capital adequacy disclosures calculated in accordance with the Solvency II regime which are marked as unaudited.

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

2. Basis for opinion

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

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

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

3. Summary of our audit approach
Key audit matters

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

- Coronavirus – event after the end of the reporting period;
- General business reserves: Latent reserving assumptions, and bodily injury assumptions and methodology; and
- Life insurance reserves: Annuitant mortality assumptions.

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

- Newly identified
- Increased level of risk
- Similar level of risk
- Decreased level of risk

Materiality

The materiality that we used for the group financial statements was £78 million, which was determined on the basis of 1% of total equity.

Scoping

Our group audit included full scope audits of the parent and Avon Insurance plc. Our testing covered 95% of Profit before tax (PBT), 93% of revenue and 92% of net assets -all work was performed by the Group engagement team. All other trading components, consolidated in the financial statements, were subject to analytical review or audit of specified account balances.

Significant changes in our approach

There were no significant changes in our approach in the current year, in comparison to the prior year.

4. Conclusions relating to going concern, principal risks and viability statement
4.1 Going concern

- We have reviewed the directors' statement inthe financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the group's and the company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements.

Going concern is the basis of preparation of the financial statements that assumes an entity will remain in operation for a period of at least 12 months from the date of approval of the financial statements.

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

4.2. Principal risks and viability statement

Based solely on reading the directors' statements and considering whether they were consistent with the knowledge we obtained in the course of the audit, including the knowledge obtained in the evaluation of the directors' assessment of the group's and the parent company's ability to continue as a going concern, we are required to state whether we have anything material to add or draw attention to in relation to:

- the disclosures on pages 26-31 that describe the principal risks, procedures to identify emerging risks, and an explanation of how these are being managed or mitigated;

- the directors' confirmation on pages 31-32 that they have carried out a robust assessment of the principal and emerging risks facing the group, including those that would threaten its business model, future performance, solvency or liquidity; or
- the directors' explanation on pages 31-32 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.

Viability means the ability of the group to continue over the time horizon considered appropriate by the directors.

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

5. Key audit matters

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

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

5.1. Coronavirus – event after the end of the reporting period	
Key audit matter description	As disclosed in Note 35, subsequent to the balance sheet date a global pandemic of a new strain of Coronavirus ("the virus") has emerged. The virus, and responses taken by organisations and governments to manage its spread in markets to which the company is exposed, have led to increased volatility and economic disruption. Management judge the matter to be a non-adjusting event in accordance with accounting standards, since it is indicative of conditions that arose after the reporting period. It is therefore not reflected in the measurement of assets and liabilities at the balance sheet date. In response to Coronavirus, management has included in the financial statements, disclosure of the virus as a subsequent event, and has assessed the impact on going concern. To support this management performed actions to assess the financial and operational impacts of Coronavirus up to the date of approval of the financial statements. Key actions comprise: • Operation of a risk management framework and business continuity plan to ensure an appropriate capital surplus is maintained to meet liabilities as they fall due, including consideration of further deterioration in the financial markets to which the Group and Company is exposed. This includes having robust plans for certain management actions if the Group falls outside its approved risk appetite; • Frequent monitoring of the company's outsourced operations and its ability to continue to serve customers, comply with conduct regulations and maintain appropriate internal controls; • Frequent monitoring of the company's solvency coverage ratio; and • Monitoring the company's capital and liquidity position including asset credit quality, and taking action where defined triggers are met in relation to market and interest rate risks. The Group has made disclosures throughout the annual report and financial statements to reflect the results of its assessment, in line with applicable accounting standards, company law and corporate governance code provisions. Due to the inherent management judgement in, and the increased level of audit effort focused on, the appropriateness of the financial statement disclosures, we considered these to be a key audit matter. Refer to management's disclosure in notes 1 and 35 of the financial statements. Further detail is also included in the Directors' Report on page 38-39 and the Strategic Report on page 34. The Group Audit Committee refers to this key audit matter in their report on page 63.
How the scope of our audit responded to the key audit matter	We evaluated management's approach to assessing the impact of Coronavirus on the company and its financial statement disclosures by performing the following procedures: • Evaluated management's stress and scenario testing including reverse stress testing and challenged management's key assumptions, assessing its consistency with other available information and our understanding of the business; • Evaluated management's assessment of the risks facing the company including liquidity risk, asset credit risk and operational matters; • Made inquiries of senior management in relation to their assessment of the impacts of Coronavirus on the company, including further steps the company will take in case economic and other factors deteriorate further; • Inspected correspondence between the company and its regulators related to the company's responses to the emergence of Coronavirus; and • Assessed the disclosures made by management in the financial statements against applicable accounting standards and guidance issued by the Financial Reporting Council, assessed management's judgment that Coronavirus is a non-adjusting event and evaluated the consistency of the disclosures with our knowledge of the company.
Key observations	Based on the procedures performed above, and the evidence obtained, we consider that, in relation to the potential impact of COVID-19, the post balance sheet event disclosures in the financial statements are appropriate.

5.2. General business reserves; Latent reserving assumptions, and bodily injury assumptions and methodology	
Key audit matter description	The valuation of the general insurance liabilities is a complex process involving inherent uncertainty and is one of the most significant areas of management judgement within the group's financial statements. Gross reserves for outstanding claims and incurred but not reported claims amount to £1,812m in 2019 (2018: £1,842m), as set out in note 8 to the financial statements. The accounting and risk management policies are set out in notes 1 and 2 respectively, with insurance risk being discussed in note 2c. Due to the high level of judgement and estimation involved, we have determined that there was a potential for fraud through possible manipulation of this balance. The Group Audit Committee refers to this key audit matter in their report on pages 63-64. We consider the following to be our specific areas of significant judgement: i) Non-latent reserving - Third Party Bodily Injury (TPBI) best estimate assumptions and methodology, specifically certain classes of TPBI claims. ii) Latent reserving - long tail farming related perils, including the consideration of limited available relevant information and data which increases the level of uncertainty in the determination of the best estimate reserves.
How the scope of our audit responded to the key audit matter	With involvement from our Actuarial specialists we have performed the following procedures: i) Non-latent reserves • obtained an understanding of the internal controls relevant to the non-latent reserve valuation process; • reviewed and challenged management's selection of documented methodology and assumptions, focusing on material classes of business in relation to TPBI; • inspected the results of the application of management's assumptions at the balance sheet date; • used market benchmarking to assess the reasonableness of key assumptions; • graphical review testing of methodology weighting and management's output using our in-house reserving software; • inspected the consistency and appropriateness of management's sensitivity tests; and • inspected models used as at Q4 2019 to assess consistency with the documented methodology for significant risk classes/perils. ii) Latent reserves • obtained an understanding of the internal controls relevant to Latent reserving; • challenged management's documented model methodology, and documented approach to deriving key assumptions. Where external reports have been used by NFUM to drive the selection of key assumptions, we assessed that these reports have not been used inappropriately or out of context; • challenged management on sensitivity testing performed by NFUM on key assumptions. We focused our testing on the likelihood of claims arising and the probability of developing chronic symptoms. We challenged these sensitivities by assessing the rationale for each and the range of sources considered in the selection of each of these assumptions; and • reviewed management's Latent Claims Best Estimate Parameterisation report to assess the adequacy of communication of key uncertainties to applicable stakeholders. Other procedures performed to address risks common across both identified key audit matters include: • Reviewed management's general reserving papers as presented to the Group Audit Committee in December 2019. • Reviewed and challenged management's approach to selecting levels of margin to assess whether they accounted for specific areas of uncertainty in the best estimate and that there is consistency period on period. In doing so, we used benchmarking from peer organisations to assess the reasonableness of management's approach. • Performed procedures over the accuracy and completeness of data used in reserving. • Reconciled the output of the actuarial reserving process to the general ledger.
Key observations	Through the procedures performed, we found the assumptions and methodology used in valuation of the general business claims outstanding to be reasonable.

5.3. Life insurance reserves; Annuitant mortality assumptions	
Key audit matter description	The assumptions for annuitant mortality (both base mortality and mortality improvements) used in the actuarial reserving process are fundamental in ensuring that the appropriate level of actuarial liabilities are held by the business. Based on our risk assessment process and understanding of this business, we focused on the most material blocks of annuity business that are highly sensitive to changes in the annuitant mortality assumptions. The key judgements centre upon: • Mortality (improvement) – Management's view/interpretation of population trends, internal analysis, industry analysis and related developments in respect of the future rate of mortality improvements, in particular the most recent Continuous Mortality Investigation ("CMI") 2018 tables; and • Mortality (base) – Factors which affect the assumptions underlying mortality experience (e.g. age, gender, pension band etc.), management's view on the credibility of the experience and the period over which it is analysed. Given the nature of these assumptions, these are subject to significant management estimates, and due to the size of the balance (2019: £5,481m, 2018: £5,061m), as set out in note 4 to the financial statements, could materially affect the financial statements if incorrectly or inconsistently determined or applied. The accounting and risk management policies are set out in notes 1 and 2 respectively, with insurance risk being discussed in note 2c. Due to the high level of judgement and estimates involved, we have determined that there was a potential risk of fraud through possible manipulation of this balance. The Group Audit Committee refers to this key audit matter in their report on page 64.
How the scope of our audit responded to the key audit matter	With involvement from our actuarial specialists we have performed the following procedures: • obtained an understanding of the internal controls relevant to life reserves; • reviewed management's life reserving papers as presented to the Group Audit Committee in December 2019; • reviewed and challenged where appropriate the application of expert judgement and potential for management bias; • assessed basis papers to verify consistency with documented methodology; • evaluated the in-year experience study relating to base annuitant mortality experience across the material annuity products; • challenged key judgements made by comparing these against our in-house view of annuitant mortality improvement assumptions; • reviewed supporting evidence for any adjustments made to the CMI 2018 models to assess whether the adjustments are appropriately supported by evidence; • where appropriate, we have compared the assumptions selected by Management to those used by peer annuity companies; and • reconciled the output of the actuarial reserving process to the general ledger.
Key observations	Through the procedures performed we found the assumptions and methodology used to value the life insurance reserves to be in line with the stated policy and reasonable in light of the uncertainty in the reserves.

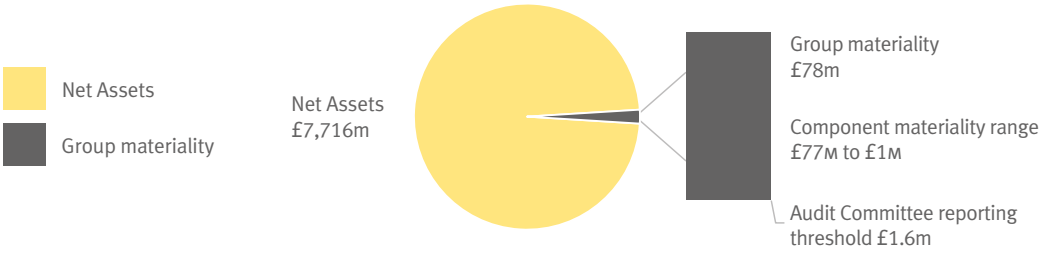
6. Our application of materiality

6.1 Materiality

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

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

	Group financial statements	Parent company financial statements
Materiality	£78M (2018: £71M)	£77M (2018: £70M)
Basis for determining materiality	1% of net assets (2018: 1% of net assets)	1% of net assets (2018: 1% of net assets)
Rationale for the benchmark applied	We have used net assets as a base for our materiality to reflect the parent and group's strategic ambition as a mutual to deliver longer-term sustainable profit growth and improve overall member value. By using net assets as a basis, our judgement on materiality is in line with the focus and risk profile of both the group and parent company.	



6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Group performance materiality was set at 70% of group materiality for the 2019 audit (2018: 70%). In determining performance materiality we have considered the quality of the group's control environment, our approach to test and rely on controls, and the low number of corrected and uncorrected misstatements identified in the prior year audit.

6.3. Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £1.6m (2018: £1.4m), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

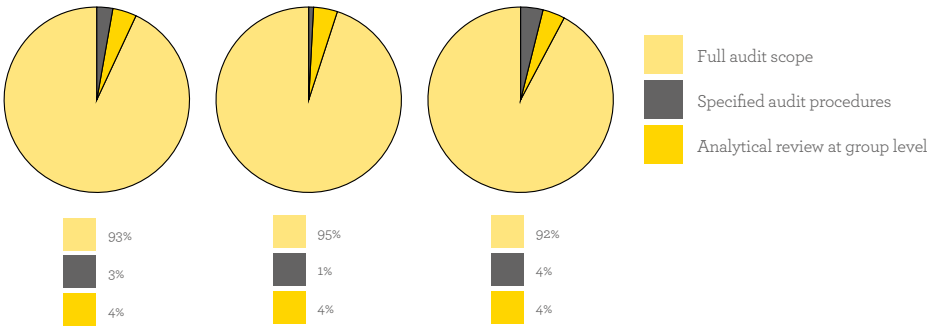
7. An overview of the scope of our audit

7.1. Identification and scoping of components

Our group audit was scoped by obtaining an understanding of the group and its environment, including group-wide controls, and assessing the risks of material misstatement at the group level. Based on that assessment, we focused our group audit scope primarily on the audit work for the general and life insurance businesses in the National Farmers Union Mutual Insurance Society (the "Society"), as well as Avon Insurance plc, the group's other insurance subsidiary. Our testing covered 95% of PBT, 93% of revenue and 92% of net assets, all work was performed by the group engagement team.

Our Group audit work was executed at levels of materiality applicable to each individual entity which were lower than group materiality and ranged from £945k to £77m (2018: £970k to £70m). For other components we have performed either analytical review or specified account balance procedures.

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



8. Other information

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

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

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 such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in 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.

In this context, matters that we are specifically required to report to you as uncorrected material misstatements of the other information include where we conclude that:

- Fair, balanced and understandable – the statement given by the directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's position and performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- Audit committee reporting – the section 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 these matters.

9. Responsibilities of directors

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

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

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

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

Details of the extent to which the audit was considered capable of detecting irregularities, including fraud and non-compliance with laws and regulations are set out below.

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

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

We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks, including obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.

11.1 Identifying and assessing potential risks related to irregularities

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

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

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the following areas: general business reserves and life insurance reserves. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. We also obtained an understanding of the legal and regulatory frameworks that the group operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act and pension and tax legislation. In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the group's ability to operate or to avoid a material penalty. These included the group's regulatory solvency requirements regulated by the PRA and FCA which are fundamental to the group's ability to continue as a going concern.

11.2. Audit response to risks identified

As a result of performing the above, we identified General business reserves and Life insurance reserves as key audit matters related to the potential risk of fraud. The key audit matters section of our report explains the matters in more detail and also describes the specific procedures we performed in response to those key audit matters.

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

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

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

Report on other legal and regulatory requirements.

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

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

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

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

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

13.1 Adequacy of explanations received and accounting records

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

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

We have nothing to report in respect of these matters.

13.2 Directors' remuneration

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

We have nothing to report in respect of this matter..

14. Other matters

14.1 Auditor tenure

Following the recommendation of the Audit Committee, we were appointed by the Board of Directors on 20 June 2018 to audit the financial statements for the year ending 31 December 2018 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 2 years, covering the years ending 31 December 2018 to 31 December 2019.

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

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

15. Use of our report

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

Mark McQueen (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
23rd April 2020

CONSOLIDATED PROFIT AND LOSS ACCOUNT TECHNICAL ACCOUNT – GENERAL BUSINESS

2019 £m	2018 £m	for the year ended 31 December
1,648	1,568	Gross written premium before Mutual Bonus
(258)	(253)	Mutual Bonus
1,390	**1,315**	**Gross written premium (note 6)**
(108)	(114)	Outwards reinsurance
1,282	**1,201**	**Net premiums written**
(38)	(12)	Change in the gross provision for unearned premiums
2	1	Change in the gross provision for reinsured unearned premiums
(36)	**(11)**	**Change in the net provision for unearned premiums**
1,246	**1,190**	**Earned premiums, net of reinsurance**
51	35	Allocated investment return transferred from the Non-Technical Account (note 9)
1,297	**1,225**	**Total technical income**
1,022	1,082	Gross claims paid
(10)	(48)	Reinsurers' share of gross claims paid
1,012	**1,034**	**Net claims paid**
(34)	(78)	Change in gross provision for claims
(5)	(11)	Change in reinsurers' share
(39)	**(89)**	**Change in net provisions for claims**
973	**945**	**Claims incurred, net of reinsurance**
358	326	Net operating expenses (note 7)
6	6	Other technical charges, net of reinsurance
1,337	**1,277**	**Total technical charges**
(40)	**(52)**	**Balance on the Technical Account – General Business**

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

2019 £m	2018 £m	For the year ended 31 December
210	248	Gross written premium (note 6)
(6)	(6)	Outwards reinsurance
204	**242**	**Earned premiums, net of reinsurance**
1,062	614	Investment income (note 9)
202	-	Unrealised gain on investments (note 9)
27	26	Fee income from investment contracts
37	100	Other technical income net of reinsurance
1,532	**982**	**Total technical income**
329	324	Gross claims paid
(6)	(7)	Reinsurers' share
323	**317**	**Net claims paid**
4	4	Change in gross provision for claims
327	**321**	**Claims incurred, net of reinsurance**
420	(125)	Gross change in Long-Term Business Provision
-	-	Reinsurers' share
420	**(125)**	**Net change in the Long-Term Business provision**
(9)	(33)	Changes in technical provision for linked liabilities, net of reinsurance
542	(183)	Movements in investment contract liabilities
953	**(341)**	**Net change in technical provisions**
101	131	Net operating expenses (note 7)
-	1,030	Unrealised loss on investments (note 9)
2	3	Investment expenses and charges (note 9)
73	(35)	Tax attributable to the Long-Term Business (note 15)
82	(137)	Transfer to / (from) the fund for future appropriations
(6)	10	(Loss) / Profit attributable to minority interest
1,532	**982**	**Total technical charges**
-	**-**	**Balance on the Technical Account – Long-Term Business**

CONSOLIDATED PROFIT AND LOSS ACCOUNT NON-TECHNICAL ACCOUNT

2019 £m	2018 £m	For the year ended 31 December
(40)	(52)	Balance on the Technical Account – General Business
980	405	Investment Income (note 9)
(181)	(675)	Unrealised loss on investments (note 9)
(51)	(35)	Allocated investment return transferred to the Technical Account – General Business (note 9)
(7)	(7)	Support payments to the Farmers' Unions
6	18	Other Income
(31)	(30)	Other Charges
676	**(376)**	**Profit / (Loss) on ordinary activities before taxation (note 14)**
(103)	86	Tax (charge) / credit on ordinary activities (note 15)
573	**(290)**	**Profit / (Loss) 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

2019 £m	2018 £m	For the year ended 31 December
573	**(290)**	**Profit / (loss) for the financial year**
(3)	1	Actuarial (loss) / gain on pension scheme (note 29)
1	-	Movement on deferred tax on pension scheme
571	**(289)**	**Total comprehensive income / (expense) recognised since last Annual Report**

CONSOLIDATED AND COMPANY BALANCE SHEETS

Consolidated		Parent Company		
2019 £m	2018 £m	2019 £m	2018 £m	**As at the 31 December**
				Assets
				Investments
1,576	1,604	1,308	1,390	Land and Buildings (note 18)
470	426	933	847	Investments in Group undertakings and participating interests (note 16)
12,760	11,656	12,662	11,564	Other financial investments (note 17)
14,806	**13,686**	**14,903**	**13,801**	
3,755	3,165	3,755	3,165	Assets held to cover linked liabilities (note 19)
				Reinsurers' share of technical provisions
11	9	10	9	Provision for unearned premiums
14	14	14	14	Long-term business provision
191	186	187	180	Claims outstanding (note 8)
29	29	29	29	Technical provision for linked liabilities
245	**238**	**240**	**232**	
				Debtors
				Debtors arising out of direct insurance operations
520	481	515	477	Due from policyholders
6	5	6	5	Due from intermediaries
526	**486**	**521**	**482**	
6	4	6	4	Debtors arising out of reinsurance operations
-	-	25	28	Amounts due from Group undertakings
63	119	53	98	Other debtors including taxation (note 20)
595	**609**	**605**	**612**	
				Other Assets
45	34	43	32	Tangible assets (note 21)
14	20	-	-	Stocks (note 22)
182	205	145	164	Cash at bank and in hand
241	**259**	**188**	**196**	
				Prepayments and accrued income
69	66	69	65	Accrued interest and rent
110	104	110	104	General business deferred acquisition costs
24	27	24	27	Long-term business deferred acquisition costs
20	23	23	27	Other prepayments and accrued income
223	**220**	**226**	**223**	
19,865	**18,177**	**19,917**	**18,229**	**Total assets excluding pension asset**
63	64	-	-	Pension asset (note 29)
19,928	**18,241**	**19,917**	**18,229**	**Total assets including pension asset**

CONSOLIDATED AND COMPANY BALANCE SHEETS

Consolidated		Parent Company		
2019 £m	2018 £m	2019 £m	2018 £m	**As at 31 December**
				Liabilities
				Reserves
-	-	225	241	Revaluation reserve
250	250	250	250	Other reserve (note 25)
6,224	5,653	6,041	5,463	Profit and loss account (note 25)
15	15	-	-	Equity minority interests
1,243	1,161	1,284	1,200	Fund for future appropriation (note 25)
7,732	**7,079**	**7,800**	**7,154**	**Total Equity**
				Technical provisions
675	637	674	637	Provision for unearned premiums
5,481	5,061	5,481	5,061	Long-term business provision (note 4)
1,812	1,842	1,804	1,832	Claims outstanding (note 8)
7,968	**7,540**	**7,959**	**7,530**	
121	121	121	121	Technical provision for linked liabilities – Insurance contracts (note 4)
3,574	3,032	3,574	3,032	Technical provision for linked liabilities – Investment contracts (note 4)
192	179	181	168	Provision for other risks and charges (note 27)
11,855	**10,872**	**11,835**	**10,851**	
				Creditors
46	31	47	31	Creditors arising out of direct insurance operations
18	20	17	19	Creditors arising out of reinsurance operations
51	51	-	-	Amounts due to credit institutions (note 34)
-	-	45	49	Amounts owed to Group undertakings
101	74	97	57	Other creditors including taxation and social security (note 28)
125	114	76	68	Accruals and deferred income
19,928	**18,241**	**19,917**	**18,229**	**Total liabilities**

These financial statements on pages 99 to 151 were approved and authorised for issue by the Board of Directors on the 23rd April 2020 and were signed on its behalf by:

Signed on behalf of the Board of Directors

Jim McLaren
Chairman

Lindsay Sinclair
Group Chief Executive

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

CONSOLIDATED STATEMENT OF CASH FLOWS – GENERAL BUSINESS

2019 £m	2018 £m	For the year ended 31 December
(157)	(197)	Net cash from operating activities (note 33)
980	405	Interest and dividend Income
(35)	(92)	Taxation paid
788	**116**	**Net cash generated from operating activities**
		Cash flow from investing activities
(19)	(13)	Payments to acquire tangible assets
(1,092)	(379)	Payments to acquire shares and other variable yield securities
690	167	Receipts from the sale of shares and other variable yield securities
(1,370)	(632)	Payments to acquire debt securities and other fixed / variable income securities
643	235	Receipts from the sale of debt securities and other fixed / variable income securities
(164)	(233)	Payments to acquire investment properties
59	72	Receipts from the sale of investment properties
(1,253)	**(783)**	**Net cash used in investing activities**
(465)	**(667)**	**Net decrease in cash and cash equivalents**
762	1,429	Cash and cash equivalents at the beginning of the year
297	**762**	**Cash and cash equivalents at the end of the year**
66	113	Cash at bank and in hand (note 33)
231	649	Short-term deposits (included in Other Financial Investments)
297	**762**	**Cash and cash equivalents at the end of the year**

STATEMENT OF CHANGES IN EQUITY

Revaluation Reserves (Note 25) £m	Other Reserve (Note 25) £m	Profit and Loss Account (Note 25) £m	Fund for Future Appropriations (Note 25) £m	Total 2019 £m	Equity Minority Interests £m	Total Equity 2019 £m	Total Equity 2018 £m	Consolidated
-	250	5,653	1,161	7,064	15	7,079	7,495	Balance at 1 January
-	-	573	-	573	-	573	(290)	Transfer from / (to) Non-Technical Account
-	-	-	82	82	-	82	(137)	Transfer to / (from) the fund for future appropriations
-	-	(3)	-	(3)	-	(3)	1	Actuarial (loss) / gain on pension scheme
-	-	1	-	1	-	1	-	Movement on deferred tax on pension scheme
-	-	-	-	-	(6)	(6)	10	(Loss) / Profit attributable to Minority Interest
-	-	-	-	-	6	6	-	Funding from Minority Interest
-	**250**	**6,224**	**1,243**	**7,717**	**15**	**7,732**	**7,079**	**Balance at 31 December**
								Parent Company
241	250	5,463	1,200	7,154	-	7,154	7,584	Balance at 1 January
-	-	578	-	578	-	578	(292)	Transfer from / (to) Non-Technical Account
-	-	-	84	84	-	84	(135)	Transfer to / (from) the fund for future appropriations
(16)	-	-	-	(16)	-	(16)	(3)	Revaluation of subsidiaries
225	**250**	**6,041**	**1,284**	**7,800**	**-**	**7,800**	**7,154**	**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 Companies Act 2006.

Basis of Preparation

The financial statements have been prepared on a going concern basis under the historical cost convention with the exception of land and buildings, and financial assets and liabilities which are stated at fair value. The going concern assessment has taken into account the impact of the Coronavirus outbreak in early 2020 and details can be found in the Directors' Report on page 39. A summary of the more important Group accounting policies is set out below:

A) CHANGES IN ACCOUNTING POLICY

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

B) BASIS OF CONSOLIDATION

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

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

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

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

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

C) PARENT COMPANY INVESTMENTS IN GROUP UNDERTAKINGS

Group undertaking investments are measured at fair value with changes in fair value recognised in the parent company's statement of Other Comprehensive Income. If the value 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 Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Business Review on pages 14 to 21. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the notes to the accounts on pages 106 to 151. In particular the notes to the financial statements include the Group's

objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its risk exposures.

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

E) PRODUCT CLASSIFICATION

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

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

The terms and conditions of these contracts, together with UK regulations, set out the basis for the determination of the amounts on which the additional discretionary benefits are based, and within which the Group may exercise its discretion. All With-Profits contracts are classified as insurance contracts under the current accounting rules. Investment contracts are those contracts that transfer financial risk with no significant insurance risk.

F) USE OF JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

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

ii) Details of significant estimation techniques used involving General and Long-Term contracts are set out on pages 116 to 118.

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

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

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

G) GENERAL INSURANCE BUSINESS

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

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

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

Incurred But Not Reported Claims Reserves – The estimation of claims Incurred But Not Reported (IBNR) is generally subject to a greater degree of uncertainty. Classes of business, such as employer's liability, where the IBNR proportion of the total reserve is high, will typically display greater variations between initial estimates and final outcomes because of the greater degree of difficulty of estimating these reserves. IBNR claims are estimated using techniques which use past trends to forecast separately the expected number of claims and the expected average cost of claims. A seperate 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.

H) LONG-TERM BUSINESS

Insurance Contracts

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

Claims – Claims arising from death are accounted for in the period in which the event is notified. Maturity claims are accounted for when they become due and surrenders are charged when payment is made or, if earlier, on the date that the policy ceases

to be included within the calculation of the Long-Term Business provision. Annuities are charged against revenue in the period in which the annuity becomes due for payment. Claims payable include related internal and external claims handling costs. Reinsurance recoveries are accounted for in the same period as the related claim.

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

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

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

I) INVESTMENT RETURN

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

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

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

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

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

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

J) TAXATION

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

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

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

K) FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The Group has chosen to apply the recognition and measurement provisions of IAS39 (as adopted for use in the EU) and the disclosure 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 either the Long-Term Business Technical Account or the General Insurance Non Technical Account.

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

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

M) ACQUISITION COSTS

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

Long-Term Business – For the two main investment contracts open to new business during 2019, Unit Linked Personal Pension Account and Unit Linked Flexibond, along with the main investment product open to top ups during 2019, Stakeholder Pension, certain costs have been deferred that relate to the acquisition of this business. The basis of this deferral has been a straight line method over 25 years for Unit Linked Personal Pension Account, 10 years for Stakeholder and 15 years for pre-retail distribution review Unit Linked Flexibond contracts and 8 years post-retail distribution review. These costs are deferred to the extent that they are expected to be recoverable out of future profits on these contracts. Costs relating to the acquisition of any other investment contracts or insurance contracts are not deferred but charged to the Profit and Loss Account as incurred.

N) FUND FOR FUTURE APPROPRIATIONS

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

O) STOCK

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

P) TANGIBLE ASSETS

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

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

Q) RETIREMENT BENEFITS SCHEMES

The Group operates a Defined Benefit pension scheme for a number of its employees. The pension surplus 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.

R) PROVISIONS

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

S) STOCK LENDING

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

T) EXEMPTIONS FOR QUALIFYING ENTITIES UNDER FRS102

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

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

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

2 RISK MANAGEMENT

A) RISK MANAGEMENT FRAMEWORK

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

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

An explanation of the risk framework and the methods used to monitor and assess risk exposures can be found on pages 22 to 31. The following table presents an analysis of the balance sheet for each distinct category of assets and liabilities which are referred to in this note:

General Business		Long -Term Business					
General Insurance Contracts £m	Corporate General £m	Insurance With-Profit £m	Corporate Life £m	Investment Linked Contracts £m	Insurance Non-Participating £m	Total £m	Consolidated As at 31 December 2019
3,522	-	2,117	222	2,773	-	8,634	Shares and other variable yield securities
14	-	-	1	-	-	15	Derivative financial instruments
749	230	592	5	-	-	1,576	Land and buildings
-	-	52	1	-	-	53	Property investments (Note 17)
439	17	-	14	-	-	470	Associates and Joint Ventures
3,004	-	1,341	871	398	1,232	6,864	Debt securities and other fixed / variable income securities
279	18	125	297	392	27	1,138	Cash and deposits with credit institutions
202	-	-	-	-	43	245	Reinsurance assets
672	132	72	63	11	1	951	Other assets
8,881	**397**	**4,299**	**1,474**	**3,574**	**1,303**	**19,928**	**Total assets**
-	-	4,299	-	-	1,182	5,481	Long-Term Business provision
-	-	-	-	3,574	121	3,695	Technical provision for linked liabilities
675	-	-	-	-	-	675	Provision for unearned premium
1,772	-	-	40	-	-	1,812	Claims outstanding
229	113	-	191	-	-	533	Other liabilities
2,676	**113**	**4,299**	**231**	**3,574**	**1,303**	**12,196**	**Total liabilities**

General Business		Long -Term Business					
General Insurance Contracts £m	Corporate General £m	Insurance With-Profit £m	Corporate Life £m	Investment Linked Contracts £m	Insurance Non-Participating £m	Total £m	Consolidated As at 31 December 2018
3,187	-	1,909	279	2,333	-	7,708	Shares and other variable yield securities
-	-	-	-	-	-	-	Derivative financial instruments
772	212	532	88	-	-	1,604	Land and buildings
-	-	49	8	-	-	57	Property investments (Note 17)
421	5	-	-	-	-	426	Associates and Joint Ventures
2,325	-	1,146	670	353	1,263	5,757	Debt securities and other fixed / variable income securities
744	18	127	268	337	-	1,494	Cash and deposits with credit institutions
195	-	-	-	-	43	238	Reinsurance assets
684	132	113	19	9	-	957	Other assets
8,328	**367**	**3,876**	**1,332**	**3,032**	**1,306**	**18,241**	**Total assets**
-	-	3,876	-	-	1,185	5,061	Long-Term Business provision
-	-	-	-	3,032	121	3,153	Technical provision for linked liabilities
637	-	-	-	-	-	637	Provision for unearned premium
1,806	-	-	36	-	-	1,842	Claims outstanding
213	121	-	135	-	-	469	Other liabilities
2,656	**121**	**3,876**	**171**	**3,032**	**1,306**	**11,162**	**Total liabilities**

Derivative financial instruments represent forward foreign exchange contracts to cover the currency risk associated with foreign currency denominated debt and fixed / variable income collective investment securities being held during the year and at 31st December 2019.

The prior year comparison table has been updated to reclass £36m of Gilt and Corporate Bond funds from shares and other variable yield securities to debt securities and other fixed/variable income securities.

B) MARKET RISK

The Group's Market Risk Policy sets out the principles and framework for the management of the assets of the business. The Group invests in a broad mix of assets to reflect the nature of its underlying liabilities and its financial strength.

The Board Investment Committee (BIC) is responsible for providing independent scrutiny on investment matters and is required to report and make recommendations to the Board.

(i) Equity Risk

Investments held are listed and traded on the UK and other recognised stock exchanges (primarily in Europe, North America, and the Pacific Basin).

General Business – Equity price risk is significant to the General business in that a fall in equity prices will impact Profit Before Tax (PBT) and therefore reserves. It is the Group's policy to maintain a significant proportion of its free reserves in equity investments since its level of capitalisation will allow for short-term fluctuations whilst maximising returns over the longer-term.

Whilst acknowledging this risk, the management of the General business control this risk by predominately matching technical reserves with non-equity assets. In addition, the level of equity is used in determining our Solvency Capital and the level of capital available to support that risk.

A sensitivity analysis to changes in equity prices is given in section (v).

Long-Term Business – Equities are held within unit-linked funds, within asset shares as well as within the Long-Term Business's free assets.

The investment risk on equities within unit-linked funds and backing With-Profits business is primarily passed on to policyholders via a reduction in the value of the unit-linked funds or a reduction in the benefits paid to With-Profits policyholders. However, some residual risk remains with the Long-Term Business Fund. These risks include an increase in guarantee costs on With-Profits business and a fall in expected future management charges on unit-linked and unitised With-Profits business.

A proportion of NFU Mutual's free assets are invested in equities so an equity market fall directly impacts the size of the Long-Term business's free assets. A sensitivity analysis to changes in equity prices is given in section (v).

(ii) Property Price Risk

A property price fall has a much smaller impact on the Group's balance sheet than an equity price fall of similar percentage due to the much lower aggregate holdings of property compared to equities across the Group. A sensitivity analysis to changes in property prices is given in section (v).

(iii) Interest Rate Risk

Asset liability matching significantly reduces the Group's exposure to interest rate risk for both our General and Life businesses as discussed below.

General Business – The technical provisions are not discounted for General business with the exception of payment protection orders so the value placed on these liabilities will not change as interest rates change. In contrast the value of the assets held to match these technical provisions will change as interest rates change. In particular, asset values of fixed interest securities fall as interest rates rise.

Management continually monitors the solvency position of the General business to ensure adequate capital is held to cover these liabilities.

A sensitivity analysis to changes in interest rates is shown in section (v).

Long-Term Business – Liabilities that arise out of the Group's Long-Term business operations are typically long- term in nature. The value of the Long-Term business liabilities is dependent on the level of interest rates. The key reasons for this are that the cost of guarantees on With-Profits business are very sensitive to the prevailing level of interest rates and that Non-Participating liabilities are discounted and hence dependent on valuation interest rates.

The Long-Term business holds fixed interest securities that are subject to interest rate risk. Fixed interest securities are held which, to a significant extent, match the expected liability cash flow on Non-Participating contracts and as such the interest rate risk arising from Non-Participating contracts is relatively small. We do not currently attempt to closely match the guarantee costs arising from With-Profits business, as a result a significant exposure to interest rates arises. This exposure is closely monitored to ensure that it remains aligned with the risk appetite set by the Board. Adequate capital is held to cover our exposure to this risk.

(iv) Currency Risk

As described in the risk section on pages 22 to 31 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
(119)	119	Net assets at 31/12/19
(118)	118	Net assets at 31/12/18
		Long-Term Business
(37)	36	FFA at 31/12/19
(45)	45	FFA at 31/12/18

NFU Mutual does not have any overseas liabilities. Management continually monitors the solvency position of the business to ensure adequate capital is held to cover any currency exposure.

(v) Sensitivity Analysis

The impact on the Group's results from sensitivities are detailed in the table below. For each sensitivity test the impact of a reasonably possible change in a single factor is shown, with other assumptions left unchanged.

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.

2019						2018						General Business
Fixed Interest Securities		Equity		Property		Fixed Interest Securities		Equity		Property		
+1%	-1%	+10%	-10%	+10%	-10%	+1%	-1%	+10%	-10%	+10%	-10%	
(171)	194	352	(352)	98	(98)	(163)	201	322	(322)	98	(98)	**Impact on profit before tax £m**
(171)	**194**	**352**	**(352)**	**98**	**(98)**	**(163)**	**201**	**322**	**(322)**	**98**	**(98)**	**Total**

2019						2018						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
(32)	58	-	-	-	-	(37)	66	-	-	-	-	Non-Participating contracts
50	(90)	65	(66)	13	(14)	45	(75)	60	(64)	18	(19)	With-Profit business
(1)	-	-	-	-	-	-	(1)	-	-	-	-	Investment business
17	**(32)**	**65**	**(66)**	**13**	**(14)**	**8**	**(10)**	**60**	**(64)**	**18**	**(19)**	**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 (apart from General Business Equity and Property movements) and therefore larger or smaller impacts should not be interpolated or extrapolated from these results. The sensitivities used in these accounting notes do not take into consideration the active management by the Group of its assets and liabilities. The Group's Risk Management Framework incorporates levels which will trigger remedial action in order to mitigate any risk faced by the Group due to changes in market conditions.

C) INSURANCE RISK

For a portfolio of insurance contracts the principal risk that the Group faces is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency or severity of claims and benefits are greater than estimated. Insurance events are random and the actual number and amount of claims and benefits will vary from year to year from the level established using statistical techniques. Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. Factors that aggravate insurance risk include lack of risk diversification in terms of class and amount of risk, geographical location and type of industry covered. A more diversified portfolio is less likely to be affected across the board by a change in any subset of the portfolio. The Group has developed its insurance underwriting strategy to diversify the class of insurance risks accepted and within each of these classes to achieve a sufficiently large population of risks, to reduce the variability of the expected outcome. In addition the Group has a reinsurance programme which protects exposure to large claims.

General Insurance Contracts – The frequency and severity of claims can be affected by several factors, such as the risk profile of the business, inflation, legal rulings and weather events. The Group manages these risks through its underwriting strategy, adequate reinsurance arrangements and proactive claims handling. The underwriting strategy attempts to ensure that the underwritten risks are well controlled in terms of class and amount of risk, industry and geography.

As a mutual organisation it has consistently been our philosophy to reserve cautiously. Our conservative approach is designed to create a margin held in reserves to allow for adverse developments in open claims. Our booked claims reserves continue to include a margin above projected best estimate of ultimate claims costs.

Underwriting limits are in place to enforce appropriate acceptance criteria. The Group has the right not to renew individual policies, to reprice the risk on renewal, or to impose deductibles or other conditions. It also has the right to reject the payment of a fraudulent claim. Insurance contracts also entitle the Group to pursue third parties for payment of some or all costs. All Group motor insurance contracts offer unlimited third party insurance cover in accordance with UK legislation.

The reinsurance arrangements include risk excess which limits the financial impact from any one claim and catastrophe coverage. The greatest likelihood of significant losses arises from storm or flood damage, and catastrophe. The Group has reinsurance cover to limit its exposure to loss at a level approved by the Board. The risk that the current estimates of claim liabilities will be different from those ultimately paid out on existing claims is minimised through the use of active claims management, regular reviews of claims estimates, and the use of statistical methods to assess the likely ultimate cost of claims.

The Group is exposed at any given time to latent risk which, by its very nature, is uncertain and in many cases is only expected to emerge in the long-term. Therefore, a material element of our overall reserves exists in order to cover these risks. The Group assesses its exposure to latent risk regularly and uses statistical methods and specific inputs including external third party experts to estimate the value of this exposure. Uncertainty over value and timing does, however, mean that final outcomes could be significantly different from current estimates.

The claims provision is the estimated cost of outstanding claims from expired risks. The provision is calculated largely from using the Group's historic claims development data. How much past claim development will reflect future claims development will be impacted by the following factors:

- Changes in actuarial processes and methodology.
- Changes in risk profile.
- Changes in underwriting, rating and policy conditions.
- Changes in legislation and regulation e.g. PPOs, Ministry of Justice reforms, changes to the Ogden discount rate
- Changes in other external factors e.g. 'claims farming'/accident management firms.

It is therefore important that the impact of these items on claims development is understood. While every effort has been made to ensure the claims provision appropriately allows for such changes, there remains uncertainty in the eventual reserve outcome as a result. This uncertainty can change from year to year depending on the timing and magnitude of these items.

The Group has identified the major uncertainties surrounding the future development of claims. Where appropriate, these have been allowed for explicitly. An additional provision is also held within the claims provision to cover the uncertainty around further fluctuations in claims development with a given degree of confidence.

The following tables reflect the cumulative incurred claims including both claims notified and Incurred But Not Reported (IBNR) for each successive accident year at each Statement of Financial Position date, together with the cumulative payments to date. The Group aims to maintain appropriate reserves in order to protect against adverse future claims experience and developments.

ANALYSIS OF CLAIMS DEVELOPMENT – GROSS OF REINSURANCE

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total
Estimate of ultimate claims costs £m											
At end of reporting year	984	950	970	946	911	889	950	1,007	1,105	1,055	
One year later	969	911	915	877	809	906	959	979	1,100		
Two years later	943	847	835	802	808	891	922	972			
Three years later	880	757	778	782	782	859	896				
Four years later	846	727	756	782	771	866					
Five years later	836	719	754	782	773						
Six years later	830	719	765	787							
Seven years later	832	721	772								
Eight years later	832	725									
Nine years later	835										
Current estimate of cumulative claims	835	725	772	787	773	866	896	972	1,100	1,055	8,781
Cumulative payments to date	(818)	(705)	(731)	(764)	(747)	(816)	(822)	(802)	(860)	(543)	(7,608)
Liability recognised in balance sheet	17	20	41	23	26	50	74	170	240	512	1,173
Reserve in respect of prior years											502
Reserve in respect of Long-Term Business											40
Other Reserves											88
Total Reserve included in Parent Company balance sheet, Gross of reinsurance											1,803
Reserve in respect of subsidiary undertakings											9
Total Reserve included in consolidated balance sheet, Gross of reinsurance											1,812
Total consolidated reserve included in the balance sheet, Net of reinsurance											1,621

ANALYSIS OF CLAIMS DEVELOPMENT – NET OF REINSURANCE

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total
Estimate of ultimate claims costs £m											
At end of reporting year	957	904	877	896	885	872	936	964	1,057	1,032	
One year later	939	893	861	846	801	884	944	947	1,059		
Two years later	918	826	783	784	795	876	906	943			
Three years later	864	739	740	779	772	845	886				
Four years later	830	721	742	778	766	851					
Five years later	820	717	740	779	769						
Six years later	827	717	744	784							
Seven years later	829	718	747								
Eight years later	824	723									
Nine years later	828										
Current estimate of cumulative claims	828	723	747	784	769	851	886	943	1,059	1,032	8,622
Cumulative payments to date	(814)	(706)	(728)	(763)	(742)	(815)	(824)	(795)	(831)	(543)	(7,561)
Liability recognised in balance sheet	14	17	19	21	27	36	62	148	228	489	1,061
Reserve in respect of prior years											428
Reserve in respect of Long-Term Business											40
Other Reserves											88
Total Reserve included in Parent Company balance sheet, Net of reinsurance											1,617
Reserve in respect of subsidiary undertakings											4
Total Reserve included in consolidated balance sheet, Net of reinsurance											1,621

Long-Term Insurance Contracts – For contracts where death is the insured risk, the most significant factors that could increase the overall frequency of claims are epidemics or widespread changes in lifestyle, and the Group manages these risks through its underwriting strategy and reinsurance arrangements. The Group no longer sells new protection business. Existing reinsurance arrangements limit the Group exposure on a significant proportion of protection business to a maximum of £0.6m on any single policy. Further exposure above the £0.6m retention limit is fully reinsured for mortality risk or above £0.3m for morbidity risk.

For contracts where survival is the insured risk, the most significant factor is continued improvement in medical science and social conditions that would increase longevity. This risk is managed by ensuring that both the pricing and reserving for the annuities contains adequate allowance for future improvements in longevity. The Group uses appropriate base tables of standard mortality according to the type of contract being written. An investigation into the actual experience of the Group over the last five years is carried out, and statistical methods are used to adjust the crude mortality rates to produce a best estimate of expected mortality for the future.

Policies which contain material options or guarantees include conventional life policies which have guaranteed benefits at maturity or death, conventional pension and unitised pensions which have guaranteed benefits at maturity and some conventional pension policies which have guaranteed annuity options. Investigations are undertaken in retirement rates and take up of options.

Insurance risk for contracts is also affected by the contract holder's right to pay reduced future premiums, to cease future premiums, and to terminate the contract completely. The Group has factored the impact of contract holder's behaviour into the assumptions used to measure liabilities. Sensitivity to assumptions on the long-term insurance liabilities is discussed further in Note 4.

D) CREDIT RISK

General Business

AAA	AA	A	BBB	BB	Other	Carrying Value in Balance Sheet	**As at 31 December 2019 £m**
303	680	917	921	21	162	3,004	Debt securities and other fixed / variable income securities
-	128	63	-	-	11	202	Assets arising from reinsurance contract held
-	85	189	-	-	23	297	Cash and deposits with credit institutions
-	-	-	-	-	577	577	Other assets
303	**893**	**1,169**	**921**	**21**	**773**	**4,080**	
							As at 31 December 2018 £m
192	1,095	377	541	27	93	2,325	Debt securities and other fixed / variable income securities
-	115	63	-	-	17	195	Assets arising from reinsurance contract held
-	127	635	-	-	-	762	Cash and deposits with credit institutions
-	-	-	-	-	630	630	Other assets
192	**1,337**	**1,075**	**541**	**27**	**740**	**3,912**	

Long-Term Business

AAA	AA	A	BBB	BB	Other	Carrying Value in Balance Sheet	**As at 31 December 2019 £m**
299	1,946	470	528	29	70	3,342	Debt securities and other fixed / variable income securities
-	40	3	-	-	-	43	Reinsurance assets
-	5	434	-	-	-	439	Cash and deposits with credit institutions
2	10	7	10	-	57	86	Other assets
301	**2,001**	**914**	**538**	**29**	**127**	**3,910**	
							As at 31 December 2018 £m
173	1,988	330	414	54	24	2,983	Debt securities and other fixed / variable income securities
-	40	3	-	-	-	43	Reinsurance assets
3	57	331	-	-	-	391	Cash and deposits with credit institutions
3	11	6	10	1	39	70	Other assets
179	**2,096**	**670**	**424**	**55**	**63**	**3,487**	

The tables provide information regarding an analysis of the credit profile for financial assets with external credit ratings for the Group as at 31st December 2019.

Credit risk associated with the Group's cash investments is mitigated by the use of a panel of credit institutions with whom the Group can place its cash deposits. These cash deposits are spread across these institutions with a range of maturity dates in order to avoid concentration risk.

General Insurance policies are cancelled following non payment of the premium which limits the Group's exposure to the charge for the time on risk. Consequently no material provisions or impairments are held against the General business assets as at the balance sheet date.

The carrying amount of assets included on the balance sheet represents the maximum credit exposure. The Group is not exposed to credit risk on unit-linked assets as this risk is borne by the holders of the contract concerned. The concentration of credit risk is substantially unchanged compared to prior year.

No credit limits were exceeded during the period. No financial assets are past their due date or impaired at the balance sheet date, management expects no significant losses from non-performance by these counterparties.

Stock lending refers to the lending of securities by one party to another. The terms of the loan will be governed by a "Securities Lending Agreement", which requires that the borrower provides the lender with collateral, in the form of cash, government securities, or a letter of credit of value equal to or greater than the loaned securities. As payment for the loan, the parties negotiate a fee and interest to be paid on the loan. As at 31st December 2019 lent stock amounted to £806m (2018: £750m), broken down as UK Equity £152m, Eurobonds and International Equities £280m and Gilts £374m (2018: UK Equity £106m, Eurobonds and International Equities £231m and Gilts £413m).

As at 31st December 2019 accepted collateral, all in government stocks, amounted to £838m (2018: £782m).

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 2019 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 121 represents our best estimate of the Life undiscounted claim profile arising from in-force contracts. This claim profile allows for full and partial surrenders, regular withdrawals, death claims and retirements, as well as maturities. All assumptions on expected rates are consistent with our valuation assumptions and are based on an analysis of our experience over the past five years.

Amounts under unit-linked contracts are generally repayable on demand and the Group is responsible for ensuring there is sufficient liquidity within the asset portfolio to enable liabilities to unit linked policyholders to be met as they fall due.

With-Profits contracts can be surrendered before maturity for a cash surrender value. The Group has discretion as set out in the Principles and Practices of Financial Management (PPFM) to impose market value reductions (MVRs) on early surrender of unitised With-Profits policies which reduce the amount payable on surrender. These MVRs contribute to managing the liquidity risk of the With-Profits fund and to ensuring equity of

treatment between policyholders surrendering their policies and those remaining invested in the With-Profits fund. For conventional With-Profits policies the Group has discretion as set out in the PPFM to review terminal bonus rates which may form part of a surrender value to ensure equity of treatment between policyholders surrendering their policies and those remaining invested in the With-Profits fund.

The table below analyses the maturity of the Group's financial liabilities and insurance contract liabilities. The analysis of insurance contract liabilities is based on the projected settlement date. The analysis of investment contract liabilities is based on the earliest contractual repayment date and presents all such liabilities as due on the earliest period of the table (less than 1 year or on demand) because, as described above, the contractual terms provide for surrender by policyholders.

The analysis of other non-derivative financial liabilities and assets is based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table represent undiscounted cash flows:

< 1 year or on demand	Between 1 year and 2 years	Between 2 years and 5 years	> 5 years	Total	Carrying value as per the balance sheet	Financial and Insurance Liabilities
						At 31 December 2019
						Financial Liabilities
-	51	-	-	51	51	Bank Loans and other overdrafts
3,574	-	-	-	3,574	3,574	Financial liabilities under non participating investment contracts
290	-	-	-	290	290	Creditors
3,864	**51**	**-**	**-**	**3,915**	**3,915**	**Total Financial Liabilities**
						Insurance Liabilities
257	254	715	3,127	4,353	4,299	Long-term business provision - with profit insurance contracts
80	75	214	862	1,231	1,182	Long-term business provision - non-participating insurance contracts
4	4	13	147	168	121	Liabilities under unit linked insurance contracts
581	248	303	627	1,759	1,735	Claims Outstanding (NFU Mutual General)
6	3	5	23	37	37	Claims Outstanding (Avon)
40	-	-	-	40	40	Claims Outstanding (Life)
968	**584**	**1,250**	**4,786**	**7,588**	**7,414**	**Total Insurance Liabilities**
4,832	**635**	**1,250**	**4,786**	**11,503**	**11,329**	**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 2018
						Financial Liabilities
-	-	51	-	51	51	Bank Loans and other overdrafts
3,329	-	-	-	3,329	3,032	Financial liabilities under non participating investment contracts
239	-	-	-	239	239	Creditors
3,568	**-**	**51**	**-**	**3,619**	**3,322**	**Total Financial Liabilities**
						Insurance Liabilities
255	248	684	2,855	4,042	3,876	Long-term business provision - with profit insurance contracts
80	77	219	949	1,325	1,185	Long-term business provision - non-participating insurance contracts
4	4	13	161	182	121	Liabilities under unit linked insurance contracts
658	241	305	595	1,799	1,767	Claims Outstanding (NFU Mutual General)
6	3	6	24	39	39	Claims Outstanding (Avon)
36	-	-	-	36	36	Claims Outstanding (Life)
1,039	**573**	**1,227**	**4,584**	**7,423**	**7,024**	**Total Insurance Liabilities**
4,607	**573**	**1,278**	**4,584**	**11,042**	**10,346**	**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, since 1st January 2016, has calculated its Solvency II capital requirement via the use of an Internal Model. The Group incorporates risk modelling for its regulated subsidiaries on a look-through basis within its own calculation, previously the Group calculated its capital requirement under Solvency I regulation. As such, this ensures that all risks are captured at the consolidated level. The Society's General Insurance and Long-Term Business funds are required to hold sufficient capital to meet the Solvency II capital requirements. Both the Group and the regulated entities within it have complied with all externally imposed capital requirements throughout the year.

The Group has an established Own Risk and Solvency Assessment (ORSA) process for both the General and Long-Term Business which ensures compliance with the requirements to hold adequate capital to cover all types of risk faced by the business. To support the protection of existing Own Funds, the firm has established processes and policies in specific areas such as Investment Strategy and Risk Management.

Group Capital

The Group capital position remains strong. Assets that form part of the General Insurance fund, but are not required to cover its liabilities, are available to support Long-Term Business. The Own Funds comprises of the excess of assets over liabilities as measured under Solvency II. Beyond the movement in Own Funds relating to the increase driven by retained profits, there have been no material changes to Own Funds in the period.

Own Funds available to cover the Solvency II Capital Requirement (SCR) as at 31st December 2019 is estimated to be £7,087m (2018: £6,521m) which is unaudited 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 the Q4 QRT Solvency II regulatory requirements are summarised in the following unaudited numbers.

Group		Parent		
2019 £m	2018 £m	2019 £m	2018 £m	
7,717	**7,064**	**7,800**	**7,154**	**Statutory**
				Valuation method adjustments
318	510	318	510	Net technical reserves
(498)	(468)	(498)	(468)	Premium Debtors
(133)	(131)	(133)	(131)	Deferred acquisition costs
(52)	(53)	(52)	(53)	Pension Scheme Surplus
72	(50)	72	(50)	Deferred tax
(347)	(352)	(347)	(352)	Excess Ring-Fenced funds
-	-	(84)	(94)	Subsidiaries fair value excess over net assets
10	1	12	5	Other
7,087	**6,521**	**7,087**	**6,521**	**Own Funds Solvency II**

Technical reserves for Solvency II are based on the probability-weighted, discounted best estimate of future cashflows. Consequently the valuation of many constituent parts of the Solvency II own funds (e.g. premium debtors and deferred acquisition costs) are amended accordingly.

4 LONG-TERM INSURANCE LIABILITIES

This note sets out the disclosures in respect of the Long-Term Business.

2019 Total Life business £m	2018 Total Life business £m	Analysis of Policyholder Liability
		With-Profits liabilities
634	535	Options and guarantees
3,665	3,341	Other policyholder obligation
4,299	**3,876**	**Total With-Profits liabilities**
3,695	3,153	Unit linked
1,182	1,185	Non-participating Life assurance
9,176	**8,214**	**Technical provision in balance sheet**

ASSUMPTIONS

Overview – Assumptions are set on two different bases to perform the calculation of different reserves within the financial accounts. For With-Profits business reserves are set to be 'best estimate', so assumptions are set with no material margins for prudence included. For Non-Participating contracts reserves are set to be more prudent than best estimate, so assumptions are set to contain an appropriate margin for adverse deviation, such that there is no significant foreseeable risk that liabilities to the policyholders will not be met as they fall due.

KEY ECONOMIC ASSUMPTIONS

With-Profits – A market consistent approach is adopted for the valuation of With-Profits liabilities and so the economic basis that underpins the calculations is defined by market prices at 31st December 2019. 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 17.3% (2018: 21.2%) and a property return volatility parameter of 15.0% (2018: 15.0%) have been used.

Non-Participating – The 'risk free' discount rate is calculated as being that implied by a zero coupon government bond of an equivalent term, for all business other than pension annuities. For pension annuities it is the rate implied by a zero coupon government bond of an equivalent term plus 46 basis points (2018: 53 basis points).

Key Non-Economic Assumptions – Where appropriate the non-economic assumptions used to calculate liabilities have been determined by reference to internal experience investigations. However, in many instances there is insufficient internal data from which to draw meaningful conclusions and in these circumstances reliance is put on industrywide analysis.

Annuitant Mortality – The improvement model has been updated to the 2018 CMI model from the 2017 CMI model; the underlying base table remains unchanged. The percentage adjustments to the base table and improvements basis for the 2018 assumptions are given in brackets.

Male

	With-Profits	Non-Participating
Base table	PMA08 (PMA08)	PMA08 (PMA08)
% adjustment	107% (99%)	105% (97%)
Improvement model	CMI-2018 (CMI-2017)	CMI-2018 (CMI-2017)
% Long-Term rate	Average 1.50% (Average 1.75%)	Average 1.50% (Average 2.25%)
Female		
Base table	PFA08 (PFA08)	PFA08 (PFA08)
% adjustment	88% (87%)	86% (85%)
Improvement model	CMI-2018 (CMI-2017)	CMI-2018 (CMI-2017)
% Long-Term rate	Average 1.50% (Average 1.75%)	Average 1.50% (Average 2.25%)

Lapse Rates With-Profits

Product	Duration	2019 Lapse rate %	2018 Lapse rate %
Pure Endowments	All before age 55	0.36	0.36
Deferred Annuity	All before age 55	0.36	0.36
Personal Pension – Individual	All before age 55	0.94	0.94
Endowment	All	1.17	1.06
Whole of Life	All	0.58	0.58

Non-Participating

Product	Duration	Non-Participating	
		2019 Lapse rate %	2018 Lapse rate %
Personal Pension – Individual	All before age 55	1.00	1.00
Stakeholder – Individual	All before age 55	1.10	1.07
Capital Investment Bond	All	3.11	3.11
Flexibond	1	1.30	1.51
	2	3.04	2.67
	3	3.14	2.80
	4+	3.24	3.55

Per-policy Expense Rates (£)

Product	With-Profits		Non-Participating	
Capital Invesment Bond / Flexibond	£145.22	(£152.77)	£ 152.48	(£160.41)
Stakeholder / Personal Pension	£131.38	(£140.22)	£137.95	(£147.23)
Individual Savings Account	£113.49	(£116.54)	£119.16	(£122.37)
Endowments / Whole of Life	£94.45	(£87.33)	£99.17	(£91.70)
Conventional Pensions	£106.19	(£101.13)	£111.50	(£106.19)
Annuities	£73.77	(£73.07)	£77.46	(£76.72)

GUARANTEED ANNUITY TAKE UP RATES

With-Profits – Assumptions are made that on average 57% (2018: 56%) 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.

2019

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	(22)	(1)	8	(10)
With-Profits business	(16)	1	16	-
Investment business	-	-	-	-
Total	**(38)**	**-**	**24**	**(10)**

2018

Insurance Business				
Non-Participating contracts	(20)	(1)	7	(10)
With-Profits business	(13)	2	13	-
Investment business	-	-	-	-
Total	**(33)**	**1**	**20**	**(10)**

5 FINANCIAL INSTRUMENTS – FAIR VALUE METHODOLOGY

I) INVESTMENTS CARRIED AT FAIR VALUE HAVE BEEN CATEGORISED USING A FAIR VALUE HIERARCHY AS DETAILED BELOW:

Level 1 – Quoted market prices in active markets

Inputs to level 1 fair value are quoted prices (unadjusted) in active markets for identical assets. An active market is one in which transactions for the asset occurs with sufficient frequency and volume to provide pricing information on an ongoing basis. Instruments included in level 1 comprise primarily FTSE or equivalent listed equity instruments.

Level 2 – Internal models or broker quotes with observable market parameters

Inputs to level 2 fair values are inputs, other than quoted prices included within level 1, that are observable for the asset, either directly or indirectly. Level 2 includes both quoted prices for similar assets in an active market or an inactive identical market, and models using observable inputs or inputs derived from or corroborated by observable market data.

Where it is determined that there is no active market, fair value is established using a valuation technique. Level 2 valuation techniques include the following:

- Quoted prices for similar assets in active markets;
- Inputs that are derived principally from, or corroborated by, observable market data by correlation or other means.

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

Property investment valuations are calculated by independent fund valuers Cushman and Wakefield. Property investments are valued by determining the appropriate yield for an investment based on market comparable data and risk fundamentals. The yield is multiplied by the open market value of the property. This is assessed against comparable market data.

Level 3 – Internal models with significant unobservable market parameters

Inputs to level 3 fair values are based on unobservable inputs for the assets at the last measurement date. If all significant inputs required to fair value an instrument are observable then the instrument is included in level 2, if not it is included in level 3.

II) AN ANALYSIS OF INVESTMENTS ACCORDING TO FAIR VALUE HIERARCHY IS GIVEN BELOW:

2019				2018				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
-	-	470	470	-	-	426	426	Investment in Group undertakings and participating interests
-	15	-	15	-	-	-	-	Derivative financial instruments
-	53	-	53	-	57	-	57	Property Investments
4,141	1,651	-	5,792	5,130	213	-	5,343	Shares and other variable-yield securities and unit trusts
2,241	4,103	2	6,346	1,703	3,603	2	5,308	Debt securities and other fixed / variable income securities
2,211	1,131	-	3,342	2,470	344	-	2,814	Assets held to cover linked liabilities
8,593	**6,953**	**472**	**16,018**	**9,303**	**4,217**	**428**	**13,948**	

The only material difference between the Fair Value hierarchy for the Group and the parent company is an increase in the value of investment in Group undertakings and therefore no separate disclosure has been made.

The majority of the Group's investments are valued based on quoted market information or observable market data.

III) THE TABLE SHOWS MOVEMENTS IN THE ASSETS MEASURED AT FAIR VALUE BASED ON VALUATION TECHNIQUES FOR WHICH ANY SIGNIFICANT INPUT IS NOT BASED ON OBSERVABLE MARKET DATA (LEVEL 3 ONLY).

The impact of changes in reasonable assumptions for assets categorised as level 3 is considered immaterial, therefore no separate disclosure has been shown.

2019 £m	2018 £m	
		Total funds
428	368	Balance as at 1 January
12	(7)	Total net profit / (losses) recognised in the Profit and Loss Account
33	68	Purchases
(1)	(1)	Sales
472	**428**	**Balance as at 31 December**
12	(7)	Total profit / (losses) for the period included in profit or loss for assets held at the end of the reporting period

6 SEGMENTAL INFORMATION

The segmental information is disclosed in accordance with The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008/410). The operating business segments are aggregated in line with the internal management of the business.

A) SEGMENTAL ANALYSIS

Gross Written Premium		Profit / (Loss) on ordinary activities before taxation and minority interests		Net Assets		
2019 £m	2018 £m	2019 £m	2018 £m	2019 £m	2018 £m	
1,390	1,315	625	(411)	6,474	5,903	General Business
-	-	51	35	-	-	Allocated investment return
1,390	**1,315**	**676**	**(376)**	**6,474**	**5,903**	**General Business total**
210	**248**	**-**	**-**	**1,243**	**1,161**	**Long-Term Business**

B) GROSS WRITTEN PREMIUM

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

2019 £m	2018 £m	**General Business**
484	455	Fire and Other Damage to Property
215	206	Third-party liability
392	352	Motor (third party liability)
176	181	Motor (other classes)
28	30	Accident and Health
95	91	Miscellaneous
1,390	**1,315**	
		Long-Term Business
190	227	Life
20	21	Pensions
210	**248**	

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

2019 Life £m	2019 Pensions £m	2018 Life £m	2018 Pensions £m	
16	12	16	12	Periodic
174	8	211	9	Single
190	**20**	**227**	**21**	
3	3	3	3	Non-linked With-Profits
6	1	7	2	Non-linked non-profit
181	16	217	16	Unitised (including unitised With-Profits)
190	**20**	**227**	**21**	

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:

2019 £m	2018 £m	
172	211	Life
-	1	Annuity
8	6	Pensions
180	**218**	
3	3	Periodic
177	215	Single
180	**218**	
-	1	Non-linked non-profit
180	217	Unitised
180	**218**	

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

2019 £m	2018 £m	
472	455	Fire and Other Damage to Property
212	206	Third-party liability
380	347	Motor (third party liability)
171	179	Motor (other classes)
28	30	Accident and Health
89	86	Miscellaneous
1,352	**1,303**	

E) GROSS OPERATING EXPENSES

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

2019 £m	2018 £m	**General Business**
133	122	Fire and Other Damage to Property
59	56	Third-party liability
107	94	Motor (third party liability)
48	48	Motor (other classes)
5	5	Accident and Health
25	24	Miscellaneous
377	**349**	
		Long-Term Business
78	126	Life
26	25	Pensions
104	**151**	

F) GROSS CLAIMS INCURRED AND REINSURANCE BALANCE

Gross Claims Incurred

2019 £m	2018 £m	General Business
1,022	1,082	Claims paid
(34)	(78)	Gross provision for claims
988	**1,004**	

Reinsurance balance

2019 £m	2018 £m	General Business
(10)	(48)	Claims paid
(5)	(11)	Gross provision for claims
(15)	**(59)**	

G) REINSURANCE

The reinsurance balance amounted to a debit to the General Technical account of £91m (2018: £54m) and a credit to the Life Technical account of £1m (2018: £1m credit).

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 £143m(2018: £136m). Guarantee fund levies included in administration expenses amounted to £27m (2018: £18m) in the consolidated General business financial statements. Net operating expenses includes income received from Agents for services provided.

General Business		Long-Term Business		
2019 £m	2018 £m	2019 £m	2018 £m	
214	215	80	108	Acquisition costs
(6)	(7)	-	1	(Increase) / decrease in deferred acquisition costs
150	118	21	22	Administrative expenses
358	**326**	**101**	**131**	

8 MOVEMENT IN INSURANCE LIABILITIES

A) MOVEMENT IN INSURANCE LIABILITIES AND REINSURANCE ASSETS

Consolidated 2019			Consolidated 2018			
Gross £m	Reinsurance £m	Net £m	Gross £m	Reinsurance £m	Net £m	
1,842	(186)	1,656	1,916	(175)	1,741	**Total at the beginning of the year**
						Movement in Liabilities
762	(52)	710	797	(46)	751	Arising from current year General Insurance claims
(790)	58	(732)	(928)	17	(911)	Arising from prior year General Insurance claims
25	(13)	12	67	21	88	Claims incurred but not reported reserve movements
(31)	2	(29)	(14)	(3)	(17)	Other General Insurance claims reserve movements
4	-	4	4	-	4	Long-Term claims reserve movement
1,812	**(191)**	**1,621**	**1,842**	**(186)**	**1,656**	**Total at the end of the year**

Parent Company 2019			Parent Company 2018			
Gross £m	Reinsurance £m	Net £m	Gross £m	Reinsurance £m	Net £m	
1,832	(180)	1,652	1,908	(170)	1,738	**Total at the beginning of the year**
						Movement in Liabilities
762	(52)	710	797	(46)	751	Arising from current year General Insurance claims
(790)	58	(732)	(928)	17	(911)	Arising from prior year General Insurance claims
26	(13)	13	67	19	86	Claims incurred but not reported reserve movements
(30)	-	(30)	(16)	-	(16)	Other General Insurance claims reserve movements
4	-	4	4	-	4	Long-Term claims reserve movement
1,804	**(187)**	**1,617**	**1,832**	**(180)**	**1,652**	**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 £32m (2018: £25m) for periodic payment orders. These reserves have been discounted using EIOPA risk free interest rates.

Within the gross claims outstanding reserves are recoveries relating to salvage and subrogation of £17.6m (2018: £13.1m).

B) MOVEMENT IN PRIOR YEARS' PROVISION FOR CLAIMS OUTSTANDING

The movement in prior year provision for claims outstanding reflects our prudent approach to management of reserve 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 reserves.

Positive run off deviations of £23m (2018: £75m) for motor, £64m (2018: £103m) liability and £22m (2018: £16m) property were experienced in the year with all other classes of business reporting a net negative deviation of £20m (2018: £30m negative). Positive run off deviations are calculated excluding claims handing costs.

An Unexpired Risk Reserve is included within claims outstanding of £13m (2018: £42m).

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		
2019 £m	**2018* £m**	**2019 £m**	**2018* £m**	**Investment Income**
				Income from other financial investments:
4	6	6	3	Held to maturity interest income
-	-	-	-	Loans and receivables interest income
4	**6**	**6**	**3**	**Total interest income on financial assets not at fair value through the profit or loss**
186	169	281	273	Income on financial assets at fair value through profit or loss
190	**175**	**287**	**276**	**Income from financial assets**
38	40	25	21	Income from land and buildings
1	1	-	-	Net return on pension scheme
751	189	750	317	Net gains on realisation of investments
980	**405**	**1,062**	**614**	**Total income from other financial investments**
				Investment Expenses and Charges
-	-	(2)	(3)	Other investment management expenses
(181)	(675)	202	(1,030)	Net unrealised (loss) / gain on investments
799	**(270)**	**1,262**	**(419)**	**Total Investment Return**
				Investment return is analysed between:
-	-	1,262	(419)	Investment return retained in the Long-Term business technical account
51	35	-	-	Allocated investment return transferred to the General business technical account
748	(305)	-	-	Net investment return included in the Non-Technical account
799	**(270)**	**1,262**	**(419)**	**Total Investment Return**
570	(486)	952	(713)	Included in the total investment return are net gains / (losses) on financial assets at fair value through profit or (loss)
570	**(486)**	**952**	**(713)**	**Total net realised and unrealised gains / (losses) included in investment return**

* The prior year comparison table has been updated to reclass the profit and loss on the sale of land and buildings from income from land and buildings to net gains on realisation of investment.

10 GENERAL BUSINESS LONGER-TERM INVESTMENT RATE OF RETURN

The longer-term investment rate of return is based on the return on investments supporting the technical reserves of the General business as permitted under FRS103.

During the year 100% (2018: 100%) of the technical reserves were supported by fixed interest securities, cash and short term deposits.

The rate of investment return is based upon actual investment income earned in the period which for fixed interest securities was 2.51% (2018: 2.15%) and for cash and short term deposits was 1.09% (2018: 0.58%). A 1% point increase/decrease in these above rates would result in an increase/decrease in the allocated investment return of £22m (2018: £23m).

Allocation of Investment returns over past five years is shown below:

2015-2019 £m	2014-2018 £m	
573	800	Cumulative Actual return attributable to investment supporting the General business Technical Provisions
(302)	(360)	Cumulative Longer-term return credited to the Technical account for General business
271	**440**	

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 £7,634,699 (2018: £7,490,834) in respect of salaries and short-term benefits.

The parent company does not employ any staff directly. As at the end of 2019 nil (2018: £nil) in relation to the December 2019 contributions was due to be transferred to the pension scheme. Total employer's contributions made to the pension scheme in 2019 were £12m (2018: £11m).

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

2019 Number	2018 Number	By activity
1,606	1,501	Underwriting and Claims
1,107	1,027	Administration and Finance
1,255	1,298	Sales and Marketing
3,968	**3,826**	

2019 £m	2018 £m	Staff costs for the above persons were
173	169	Wages and salaries
17	17	Social security costs
12	12	Other pension costs
202	**198**	

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 79 to 91.

No Directors accrued any benefits under a defined benefit scheme during the year (2018: none).

2019 £	2018 £	By activity
4,812,183	4,608,434	Aggregate emolument
156,896	211,306	Excess retirement benefit to past Non-Executive Directors
		Highest paid Director
2,106,958	2,091,454	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 2019, for Directors and members of senior management and/or connected entities was £97,584 (2018: £85,595) for General business and £1,708,950 (2018: £166,978) for Life business. Claims paid and Life surrenders totalled £18,747 (2018: £915,304).

b) The Society's pension scheme is a related party. One Director (Brian Duffin) is a trustee. The other four trustees are Kevin Davies, Kenneth Graves, Jonathan Priestley (members of staff) and Andrew Spriggs (retired member in receipt of a pension from the scheme). Mr Davies, Mr Graves and Mr Priestley are members, and thus potential beneficiaries and Mr Spriggs is a beneficiary of the scheme.

c) Hathaway Opportunity Fund is a related party (100% owned). In 2019 related party transactions amounted to £nil (2018: £nil).

d) Salmon Harvester Properties Limited, a 50% owned subsidiary is a related party. As at the end of 2019 loans totalling £3,161,230 (2018:£1,929,402) had been made, with cumulative interest on the loan amounting to £216,440 (2018: £39,790). 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 31st December 2019, the parent company held:**

- 13,300,000 shares (2018: 18,699,849) in the UK Growth C sub-fund valued at £1.5740 per share (2018: £1.3028).
- 10,789,669 shares (2018: 11,089,669) in the Global Growth C sub-fund valued at £1.7349 per share (2018: £1.4924).
- 6,542,048 shares (2018: 6,542,048) in the Gilt & Corporate Bond C sub-fund valued at £1.0982 per share (2018: £1.0479).
- 383,616 shares (2018: 971,438) in the Global Emerging Markets I sub-fund valued at £46.2244 per share (2018: £40.0377).
- 1,041,413 shares (2018: 1,024,511) in the UK Equity Income I sub-fund valued at £45.9034 per share (2018: £40.4357).
- 965,838 shares (2018: 965,838) in the Gilt & Corporate Bond I sub-fund valued at £32.1979 per share (2018: £30.5125).
- 716,693 shares (2018: 716,693) in the UK Growth I sub-fund valued at £45.5652 per share (2018: £37.7176).

NFU Mutual Portfolio Funds OEIC. At 31st December 2019, the parent company held:

- 160,080,289 shares (2018: 143,770,259) in the Mixed 20-60% sub-fund valued at £1.7254 per share (2018: £1.5599).

14 PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

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

2019 £k	2018 £k	By activity
10,547	10,396	Depreciation
3,980	3,974	Operating lease rentals (plant and machinery)
478	375	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:
81	77	Audit of accounts of any associate of the company
293	344	Audit related assurance services
4	6	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:
122	115	Audits of unconsolidated Open Ended Investment Companies managed by the Group
4	4	Audit of NFU Mutual Charitable Trust
4	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		
2019 £m	**2018 £m**	**2019 £m**	**2018 £m**	
				Consolidated Income
118	(71)	42	16	Current taxation on income for the period
(2)	1	-	(1)	Adjustment to prior years
116	**(70)**	**42**	**15**	
3	3	3	4	Overseas taxation
119	**(67)**	**45**	**19**	**Total current taxation**
				Deferred taxation
(14)	(18)	28	(55)	Origination and reversal of timing differences
-	1	-	1	Adjustment to prior years
(2)	(2)	-	-	Impact of change of tax rate
(16)	**(19)**	**28**	**(54)**	**Total deferred taxation**
103	**(86)**	**73**	**(35)**	**Taxation on profit / (loss) on ordinary activities**

B) TAX INCLUDED IN OTHER COMPREHENSIVE INCOME

2019 £m	2018 £m	
		Deferred Taxation
(1)	-	Origination and reversal of timing differences
(1)	**-**	**Total tax expense included in other comprehensive income**

C) RECONCILIATION OF TAX CHARGE FOR THE PERIOD

The tax assessed for the period is lower (2018: lower) than the standard rate of Corporation Tax in the UK for the year ended 31st December 2019 of 19% (2018: 19%). The differences are explained below.

Since 1st April 2017 the UK Corporation Tax rate has been 19%.

Consolidated taxation		
2019 £m	2018 £m	
676	(376)	Profit / (Loss) before tax
129	(71)	Profit / (Loss) multiplied by the standard rate of corporation tax in the UK of 19.00% (2018: 19.00%)
		Effects of:
(2)	(2)	Impact of reduction in rate
1	7	Realised and unrealised gains on investments
(25)	(21)	Non-taxable income
(1)	(4)	Capital allowances in excess of depreciation
(2)	2	Adjustment to prior years
3	3	Tax on overseas earnings
103	**(86)**	**Total taxation**

16 INVESTMENT IN GROUP UNDERTAKINGS AND PARTICIPATING INTERESTS

Consolidated		Parent Company General Business		Parent Company Long-Term Business		
2019 £m	2018 £m	2019 £m	2018 £m	2019 £m	2018 £m	**Valuation**
-	-	355	327	137	97	Shares in Group undertakings
-	-	-	-	3	2	Loans to Group undertakings
2	2	2	2	-	-	Participating interests in associated companies
468	424	436	419	-	-	Participating interests in Joint Ventures
-	-	-	-	-	-	Loans to associated companies
470	**426**	**793**	**748**	**140**	**99**	**Investment in Group undertakings and participating interests**
						Cost
-	-	132	87	135	87	Shares in Group undertakings
-	-	-	-	3	2	Loans to Group undertakings
29	4	-	-	-	-	Participating interests in associated companies
270	262	270	262	-	-	Participating interests in Joint Ventures
-	-	-	-	-	-	Loans to associated companies
299	**266**	**402**	**349**	**138**	**89**	**Investment in Group undertakings and participating interests**

There are no listed investments included in the above.

17 OTHER FINANCIAL INVESTMENTS

Consolidated		Parent Company General Business		Parent Company Long-Term Business		
2019 £m	2018 £m	2019 £m	2018 £m	2019 £m	2018 £m	
						Valuation
						Assets designated at fair value through profit or loss upon initial recognition:
5,792	5,343	3,522	3,187	2,270	2,155	Shares and other variable yield securities
6,346	5,308	2,976	2,296	3,342	2,983	Debt securities and other fixed / variable income securities
53	57	-	-	53	57	Property investments
						Assets at fair value through P&L, held for trading:
15	-	14	-	1	-	Derivative financial instruments
12,206	**10,708**	**6,512**	**5,483**	**5,666**	**5,195**	**Financial assets in fair value through profit or loss**
554	948	187	613	297	273	Deposit with credit institutions
12,760	**11,656**	**6,699**	**6,096**	**5,963**	**5,468**	**Total Financial Assets**
						Included in the above are listed investments:
5,667	5,216	3,496	3,134	2,184	2,081	Shares and other variable yield securities
6,308	5,273	2,946	2,267	3,335	2,976	Debt securities and other fixed interest stocks
						Cost
						Assets designated at fair value through profit or loss upon initial recognition:
4,306	3,784	2,741	2,339	1,564	1,444	Shares and other variable yield securities
5,572	4,564	2,925	2,197	2,624	2,342	Debt securities and other fixed / variable income securities
43	43	8	8	35	35	Property investments
						Assets at fair value through P&L, held for trading:
-	-	-	-	-	-	Derivative financial instruments
9,921	**8,391**	**5,674**	**4,544**	**4,223**	**3,821**	**Financial assets in fair value through profit or loss**
554	948	187	613	297	273	Deposit with credit institutions
10,475	**9,339**	**5,861**	**5,157**	**4,520**	**4,094**	**Total Financial Assets**

18 INVESTMENTS: LAND AND BUILDINGS

Investment Properties: Reconciliation of movement in the year

Consolidated		Parent Company: General Business			Parent Company: Life business		
Freehold £m	Long Leasehold £m	Freehold £m	Long Leasehold £m	Leasehold £m	Freehold £m	Long Leasehold £m	
1,422	123	667	55	-	551	68	Carrying value bfwd from prior year
129	26	60	26	-	-	-	Additions
(51)	-	(30)	-	-	(21)	-	Disposals
(159)	2	(82)	1	-	(60)	1	Changes in Fair Value
22	2	(2)	2	-	23	-	Other Changes (including amortisation)
1,363	**153**	**613**	**84**	**-**	**493**	**69**	**Amount Cfwd at end of current year**

As at 31st December 2019 the book cost of the Investment properties is £1,383m (2018: £1,356m)

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	
59	-	49	-	-	-	-	Carrying value bfwd from prior year
-	-	-	-	-	-	-	Additions
-	-	-	-	-	-	-	Disposals
1	-	-	-	-	-	-	Changes in Fair Value
-	-	-	-	-	-	-	Other Changes
60	**-**	**49**	**-**	**-**	**-**	**-**	**Amount Cfwd at end of current year**
1,423	**153**	**662**	**84**	**-**	**493**	**69**	**Total land and buildings**

As at 31st December 2019 the book cost of owner occupied properties is £100m (2018: £100m). The accumulated depreciation on owner occupied properties at 31st December 2019 is £25m (2018: £24m).

Land and buildings were valued at 31st December 2019 on an open market existing use basis (and at market value based on vacant possession for owner occupied properties) by external firms of independent chartered surveyors. Cushman and Wakefield LLP values all of the investment portfolio except for two property investments which are valued by CBRE Ltd. William A MacKinnon-Little FRICS, I.R.R.V. values the Stratford residential premises portfolio and Knight Frank values Salmon Harvester Properties. Buildings occupied by the Group for its own purposes are depreciated at 2% of the book cost value.

All properties with the exception of Group occupied are held for use in operating leases.

19 ASSETS HELD TO COVER LINKED LIABILITIES

Certain linked products have been classified as investment contracts, while some are included within the definition of an insurance contract. The carrying value of the assets backing these investment and insurance contracts are as follows:

Consolidated		Parent Company*		
2019 £m	2018 £m	2019 £m	2018 £m	
				Valuation
				Assets designated at fair value through profit and loss upon initial recognition:
2,842	2,365	2,842	2,365	Shares and other variable yield securities
500	449	500	449	Debt securities and other fixed interest/ variable income securities
3,342	**2,814**	**3,342**	**2,814**	**Financial assets in fair value through profit and loss**
402	341	402	341	Cash and Deposits with Credit Institutions
11	10	11	10	Accrued Interest
3,755	**3,165**	**3,755**	**3,165**	**Total Assets held to cover Linked Liabilities**
				Included in the above are listed investments:
2,540	2,119	2,540	2,119	Shares and other variable yield securities
500	449	500	449	Debt securities and other fixed interest/ variable income securities
				Cost
				Assets designated at fair value through profit and loss upon initial recognition:
2,141	1,846	2,141	1,846	Shares and other variable yield securities
455	417	455	417	Debt securities and other fixed interest/ variable income securities
2,596	**2,263**	**2,596**	**2,263**	**Total Financial Assets**
402	341	402	341	Cash and Deposits with Credit Institutions
11	10	11	10	Accrued Interest
3,009	**2,614**	**3,009**	**2,614**	**Total Assets held to cover Linked Liabilities**

*All assets held to cover linked liabilities are held within the Long-Term Business.

20 OTHER DEBTORS

Consolidated		Parent Company Business		
2019 £m	2018 £m	2019 £m	2018 £m	
-	51	-	52	Corporation tax
-	18	-	12	Other taxation
63	50	53	34	Sundry debtors
63	**119**	**53**	**98**	

21 TANGIBLE ASSETS

Tangible assets comprise fixtures, fittings and equipment.

Consolidated £m	Parent Company £m	
		Cost
195	188	As at 1 January 2019
19	19	Additions
-	-	Disposals
214	207	As at 31 December 2019
		Accumulated Depreciation
161	156	As at 1 January 2019
8	8	Charge for the year
169	164	As at 31 December 2019
		Net Book Value
45	43	As at 31 December 2019
34	32	As at 31 December 2018

22 STOCKS

Stocks comprise properties under construction.

Consolidated		Parent Company		
2019 £m	2018 £m	2019 £m	2018 £m	
14	20	-	-	Stocks
14	**20**	**-**	**-**	

23 SUBSIDIARIES

The National Farmers Union Mutual Insurance Society Limited, a mutual company limited by guarantee, incorporated and domiciled in Great Britain and registered in England and Wales, is the ultimate holding company.

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

Directly Held Subsidiaries

NFU Mutual Management Company Limited (No. 1655167)	Holding Company
NFU Mutual Unit Managers Limited (No. 1837277)	Authorised Corporate Director of The NFU Mutual OEIC and the NFU Mutual Portfolio Funds OEIC
NFU Mutual Select Investments Limited (No. 8049488)	Platform Operator
NFU Mutual Pension Fund Trust Company Limited (No. 710041)	Holds assets for the pension fund
Salmon Harvester Properties Limited (50% owned) (No. 2921283)	Property Development
Hathaway Opportunity Fund General Partner Limited (No. 6278378)	General Partner of Limited Partnership

Subsidiaries Held Through NFU Mutual Management Company Limited

Avon Insurance plc (No. 209606)	General Insurance
NFU Mutual Investment Services Limited (No. 1860029)	Corporate Investment Management
NFU Mutual Risk Management Services Limited (No. 3350057)	Risk Reduction Services
NFU Mutual (Service Company) Limited (No. 5311498)	Service Company
Harvester Properties Limited (No. 2111204)	Property Development
Hathaway Property Company Limited (No. 5131317)	Property Development

Subsidiaries Held Through NFU Mutual Select Investments Limited

* Tiddington Nominees Limited (No. 1959973)	Custodian
* NFU Mutual Trustee Limited (No. 10353034)	Pension Bare Trustee

Companies Held Through Harvester Properties Limited

Aver Property General Partner Limited (No.11660872)	General Partner of Limited Partnership
Aver Property Nominee Limited (No. 11662963)	Property Holding Company

Companies Incorporated in Other Jurisdictions

Guernsey

Islands' Insurance (Holdings) Limited[1] (No. 16433)	Holding Company
Lancaster Court Limited[1] (No. 7059)	Holding Company
The Islands' Insurance Brokers Limited[1] (No. 6841)	Insurance Underwriting Agent & Insurance Broker
Farmers Re Limited[2] (No. 24843)	Reinsurance

Jersey

The Islands' Insurance Managers Limited[3] (No. 4151)	Holding Company
M. J. Touzel (Insurance Brokers) Limited[3] (No. 2589)	Insurance Underwriting Agent & Insurance Broker

Subsidiaries Held Through Salmon Harvester Properties Limited

* Salmon Harvester (Orbital A3) Limited (No. 4125466)	Property Special Purpose Vehicle
* FSH Airport (Edinburgh) Services Limited (50% owned by Salmon Harvester Properties Limited)[4] (No. 4001890)	Joint Venture Property Company
* FSH Nominees Limited (100% owned by FSH Airport (Edinburgh) Services Limited)[4] (No. 4046945)	Joint Venture Property Company
* Ascot Business Park Parking Limited (No. 8282837)	Property Special Purpose Vehicle

Other investment in Group undertakings

Hathaway Opportunity Fund Limited Partnership[5] (No. LP012268)	Limited Partner Act 1907
Aver Property Limited Partnership (LP019862)	Limited Partner Act 1907
ACP (BTR Prime 1) LP (No. 2754)	Property Development

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

All subsidiary companies other than those companies identified as dormant have been included within the consolidated financial statements. Except where indicated, each of these companies is incorporated and registered in England and Wales, has an issued capital of ordinary shares only, is wholly owned by the parent company and has its registered office at Tiddington Road, Stratford upon Avon, Warwickshire CV37 7BJ.

The exceptions for Registered Offices are:
[1] Lancaster Court, Forest Lane, St Peter Port, Guernsey, GY1 1WJ
[2] 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] 21a Kingly Street, London, W1B 5QA

24 ASSOCIATES AND JOINT VENTURES

ASSOCIATES

The Society's associated undertaking during the year was 50% (2018: 50%) ordinary shareholding in NFU Mutual Finance Ltd. (finance leasing company), a company incorporated in Great Britain and registered in England and Wales.

This shareholding is accounted for as an associated company as a result of board representation and the allocation of issued and fully paid shares. The profit attributed in relation to the associate in the year was nil (2018: £0.1m profit) and is included within the Consolidated Profit and Loss Account.

JOINT VENTURES

The Society's Joint Venture during the year was in the Oaks Property Trust. The Society funds 80% of the Trust with the remaining 20% being funded by the National Farmers Union Mutual Retirement Benefit Scheme.

The investment in the fund is accounted for as a Joint Venture as both the Society and the Retirement Benefit Scheme have equal control over the activities conducted by the Trust.

The profit attributed in relation to the joint venture in the year was £9.2m (2018: £18.1m) and is included within the Consolidated Profit and Loss Account.

The Society owns 50% of the share capital of Salmon Harvester Properties Limited, with the other 50% owned by Salmon Developments Limited. However, the Society is deemed to have control by virtue of a majority on the Board of Directors and therefore treats Salmon Harvester Properties Limited as a subsidiary rather than a Joint Venture.

25 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 revaluation reserve represents the movement in fair value of the Parent Company's subsidiary and associated undertakings which is not a result of capital injections.

The parent Company's profit for the financial year was £578m (2018: £292m loss). The parent company is exempt from the requirements to file with the registrar individual accounts by virtue of s448A of the Companies Act 2006.

26 OTHER TECHNICAL PROVISION

Within the technical provision claims outstanding an unexpired risk reserve has been included for £13m (2018: £42m).

Avon run-off business was reinsured to NFU Mutual in 2006. The value of this included within claims outstanding in 2019 within the parent company is £28m (2018: £30m).

27 PROVISION FOR OTHER RISKS AND CHARGES

Consolidated		Parent Company General Business		Parent Company Long-Term Business		
2019 £m	2018 £m	2019 £m	2018 £m	2019 £m	2018 £m	
185	172	67	82	107	79	Deferred taxation
7	7	7	7	-	-	Motor Insurers' Bureau levy
192	**179**	**74**	**89**	**107**	**79**	**Balance at 31 December**

The Group is a member of the Motor Insurers' Bureau. Of the provision brought forward, £7m has been utilised during the year and a further charge of £7m made in 2019.

Consolidated		Parent Company General Business		Parent Company Long-Term Business		
2019 £m	2018 £m	2019 £m	2018 £m	2019 £m	2018 £m	
						Deferred Taxation
172	247	82	103	79	133	Balance at 1 January
12	(79)	(15)	(23)	27	(56)	Unrealised gains / (loss) on investments
1	2	-	-	1	2	Deferred acquisition costs
-	-	-	-	-	-	Pension Scheme Surplus
2	5	2	4	-	1	Capital allowances
(2)	(3)	(2)	(2)	-	(1)	Other short-term timing differences
185	**172**	**67**	**82**	**107**	**79**	**Balance at 31 December**

The Finance Act 2017 reduced the main rate of corporation tax from 19% to 17% from 1st April 2020. Deferred taxes at the balance sheet date have been measured using these enacted tax rates. The UK Government has announced that it intends not to implement the corporation tax rate change in April 2020. If the corporation tax rate stays at 19% this would increase the total deferred tax provision by £8m.

No deferred tax has been provided on revaluation of subsidiary companies 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		Parent Company General Business		Parent Company Long-Term Business		
2019 £m	2018 £m	2019 £m	2018 £m	2019 £m	2018 £m	**The provision for Deferred Taxation comprises:**
177	165	65	80	112	85	Unrealised gains on investments
(3)	(4)	-	-	(3)	(4)	Deferred acquisition costs
11	11	-	-	-	-	Pension Scheme Surplus
-	(2)	-	(2)	-	-	Capital allowances
-	2	2	4	(2)	(2)	Other short-term timing differences
185	**172**	**67**	**82**	**107**	**79**	**Balance at 31 December**

There were unused tax losses of £12m (2018: £12m) relating to Group occupied properties disposed in previous years. They have not been recognised as their use is restricted. There is no current expiry limit on these.

The value of the net reversal of deferred tax balances expected to occur within one year of the Balance Sheet date is £15m (2018: £19m) for the parent company General business and £11m (2018: £7m) for the parent company Long-Term business. These primarily relate to the reversal of timing differences on portfolio equity and property investments.

28 OTHER CREDITORS INCLUDING TAXATION AND SOCIAL SECURITY

All creditors are payable within a period of five years. Intergroup balances are payable on demand.

Consolidated		Parent Company		
2019 £m	2018 £m	2019 £m	2018 £m	
40	-	41	-	Corporation tax
40	40	46	39	Other taxation
21	34	10	18	Other
101	**74**	**97**	**57**	**Balance at 31 December**

HMRC issued guidance on 24th January 2020 relating to the treatment of taxation liabilities on foreign dividends which reduces the probability of payments being made to HMRC. Due to the continuing uncertainty of the value of the payments, the provisions as at 31st December 2019 have not been adjusted.

29 RETIREMENT BENEFIT SCHEMES

The Group operates the Retirement Benefit Scheme (RBS) of The National Farmers Union Mutual Insurance Society Limited which provides members with benefits on a Defined Benefit and Defined Contribution basis. The Defined Benefit Scheme closed to future accrual with effect from 31st December 2016, but retains salary linkage for active members.The assets of the two sections of the scheme are held in separate trustee-administered funds and cover all material obligations to provide pensions to retired and current employees. The Group also sponsors pension schemes based in the Channel Islands for a small group of employees in that region; liabilities for these schemes are immaterial in comparison to those of the RBS.

In all schemes, the appointment of trustees of the funds is determined by their trust documentation, and trustees are required to act in the best interests of the scheme's beneficiaries. The long- term investment objectives of the trustees and the employers are to limit the risk of the assets failing to meet the liabilities of the schemes over the long-term, and to maximise returns consistent with an acceptable level of risk so as to control the long-term costs of these schemes. The figures in this note consolidate the results of all the Group's pension arrangements.

The Group works closely with the trustees of the RBS who are required to consult it on the funding of the scheme and its investment strategy. Following each actuarial valuation, the Group and the trustees agree the level of contributions needed. The most recent valuation was at 31st December 2017. 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 1st January 2016. Prior to this date it was agreed that contributions would be suspended. Funding levels are monitored on an annual basis and are not expected to change in 2020.

The Group is able to recover the pension surplus either through reduced contributions in the future or through refunds from the plan. The surplus of the scheme is accounted for in the consolidated balance sheet as a net defined benefit asset in accordance with FRS 102. As at the balance sheet date there were no plans to recover the asset from the pension scheme.

The principal assumptions used by the actuaries were:

% Consolidated		
2019	2018	
4.45	4.65	Rate of increase in salaries
2.85	3.05	Rate of increase in pensions
1.90	2.65	Discount rate
2.95	3.15	Inflation
2.15	2.15	Pension increase for Deferred Benefits

Post retirement assumptions

Longevity at age 65 for current pensions

2019	2018
100% of S2NMA_L for males and 90% of S2NFA for females with CMI 2017 core projections from 2007 to 2017 and CMI 2018 projections from 2017 with 1.50% pa long term trend and a smoothing factor of 7.5.	100% of S2NMA_L for males and 90% of S2NFA for females with CMI 2017 core projections from 2007 with 1.5% pa long-term trend

Mortality is assumed to follow the standard SAP2 tables: S2NMAL for males and S2NFAL for females, with multiples of 1.00 for males and 0.90 for females.

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

Consolidated 2019		Consolidated 2018		
% of total fair value of scheme assets	£m	% of total fair value of scheme assets	£m	
45.79	517	44.44	453	Equities
41.44	468	43.56	444	Bonds
9.5	108	10.26	105	Property
3.27	37	1.74	18	Other
	1,130		1,020	Total fair value of assets
	(1,067)		(956)	Present value of scheme liabilities
	63		64	Surplus in the scheme

Of the surplus of £63m (2018: £64m surplus), £11m (2018: £12m surplus) is attributable to the Long-Term business fund. As a result of the market volatility in early 2020 arising from the Coronavirus outbreak, the net assets of the scheme have declined, reducing the reported Surplus of £63m to an estimated £36m (unaudited) deficit at 31st March 2020. Funding discussion will be held with the trustees after the next formal actuarial valuation in December 2020.

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)

2019 £m	2018 £m	
956	1,034	As at 1 January
1	1	Current service cost
(1)	(1)	Administrative expenses
25	25	Interest cost
(31)	(26)	Benefits paid
117	(77)	Net Actuarial loss/(profit)
1,067	**956**	**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:

2019 £m	2018 £m	
1,250	1,094	Wholly or partly funded obligations
1,067	956	Defined Benefit scheme
183	138	Defined Contribution scheme
1,250	**1,094**	**As at 31 December**

The actual return on scheme assets in the year was a gain of £141m (2018: loss of £50m).

The tables present an analysis of the Defined Benefit obligation and fair value of plan assets for all the Group's pension schemes and post retirement benefits (the latter are unfunded) and present the amounts recognised in the Profit and Loss Account including those related to post retirement healthcare.

Reconciliation of fair value of scheme assets (excluding Defined Contribution Scheme)

2019 £m	2018 £m	
1,020	1,097	At 1 January
27	26	Interest income on scheme assets
(31)	(26)	Benefits paid
(1)	(1)	Administrative expenses
1	-	Employers contributions
114	(76)	Return on scheme assets greater / (less) than discount rate
1,130	**1,020**	**At 31 December**

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

2019 £m	2018 £m	
24	22	Current service cost
-	-	Past service cost
24	**22**	**Total operating charge**
		Analysis of amount credited to profit and loss
27	26	Interest income on scheme assets
(25)	(25)	Interest on pension scheme liabilities
2	**1**	
		Analysis of amount recognised in statement of other comprehensive income
114	(76)	Return on scheme assets greater than discount rate
(117)	77	Remeasurement of the defined benefit obligation
(3)	**1**	**Actuarial (loss) / gain recognised in Statement of Other Comprehensive Income**

The actuarial loss of £117.0m due to economic/demographic experience comprises a £125.4m loss due to assumption changes over the year and a £8.4m gain due to scheme experience. The experience gain arises from actual increases awarded to salaries and increases on both pensions in deferment and payment over the year to 31st December 2019 being lower than expected. The assumptions loss arises from a lower discount rate, partially offset by a lower inflation assumption and a change to the mortality rates assumed for the scheme membership when compared to the prior year's disclosures. The actuarial loss of £125.4m due to assumption changes over the year comprises a loss of £131.9m in respect of changes in economic assumptions and a gain of £6.5m in respect of changes in demographic assumptions.

30 CAPITAL COMMITMENTS

Capital expenditure contracted for but not provided in these financial statements at 31st December 2019 amounted to £3m (2018: £36m).

31 OPERATING LEASE COMMITMENTS

The Group leases various properties under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights. The future aggregate minimum lease payments net of income under non-cancellable operating leases are as follows:

2019 £m	2018 £m	
7	7	Within one year
14	16	Between one and five years
1	1	Later than five years
22	**24**	**As at 31 December**

32 STOCK LENDING

Holdings of UK Government, corporate fixed interest, UK equities and overseas securities with a value of £806m (2018: £750m) were on loan at 31st December 2019 under approved stock lending schemes. As at 31st December 2019 £838m (2018: £782m) was accepted by the Group in assets that it is permitted to sell or replace in the event of default of the owner of the collateral. No collateral was sold or repledged during the year or in the prior year. The Company has an obligation to return these assets to the pledgor.

33 CASH FLOW STATEMENT

A) RECONCILIATION OF PROFIT BEFORE TAX TO NET CASH INFLOW FROM OPERATING ACTIVITIES

2019 £m	2018 £m	
573	**(290)**	**Profit / (Loss) for the financial year**
		Adjustments for:
103	(86)	Tax charge / (credit) on ordinary activities
(980)	(405)	Interest and dividend income
(304)	**(781)**	**Operating loss**
19	(102)	Decrease / (Increase) in debtors, prepayments and accrued income
(55)	83	(Decrease) / Increase in creditors, accruals and deferred income
(3)	(78)	Decrease in technical provisions
181	675	Unrealised investment loss
(6)	(5)	Non cash indexation adjustment
11	11	Depreciation and disposals of tangible assets
(157)	**(197)**	**Net cash outflow from operating activities**

B) ANALYSIS OF CHANGES IN CASH AND CASH EQUIVALENTS

As at January 2019 £m	Cash Flows £m	As at December 2019 £m	
205	(23)	182	Cash at Bank and in hand
(92)	(24)	(116)	Less: Long-Term business
113	**(47)**	**66**	
948	(394)	554	Short-term deposits (note 17)
(299)	(24)	(323)	Less: Long-Term business
649	**(418)**	**231**	
762	**(465)**	**297**	**Cash and cash equivalents**

34 AMOUNTS OWED TO CREDIT INSTITUTIONS

Consolidated		Parent Company		
2019 £m	2018 £m	2019 £m	2018 £m	
51	51	-	-	Bank loans
51	**51**	**-**	**-**	**Balance at 31 December**

The loan held with Hathaway Opportunity Fund is a term loan. The interest rate is 2.5% above LIBOR . The current maturity date of the loan is 31st December 2020.

35 EVENTS AFTER REPORTING DATE

The spread of Coronavirus from China into the wider world in early 2020 has had a significant impact on business, including NFU Mutual and its customers. Due to its economic and financial significance, the emergence of Coronavirus in 2020, is considered to be a non-adjusting post balance sheet event. It is not yet possible to determine the full quantitative impact of COVID-19 on the Group.

Financial markets have fallen around the world as a result of Coronavirus, causing NFU Mutual to experience a fall in the value of is 'Other Financial Instruments' in the General Insurance Fund, from 31st December 2019 to of 31st March 2020, of over 14%, generating an unrealised loss of circa £1bn (unaudited) (see Sensitivities in Note 2). This, combined with lower interest rates and yields, means there will also be impacts (both positive and negative) on the
long-term business provision and other technical provisions but these have not been quantified at this point.

The company initiated its Financial Risk Response Plan and actions were taken to ensure the Group remained within Solvency Risk Appetite. The Solvency Coverage Ratio remains strong and fell from 201% in December 2019 (unaudited) to an estimated 180% at 31st March 2020 (unaudited).

Considerable uncertainty remains in Financial Markets, and many of our customers face financial difficulties, but NFU Mutual has a strong Balance Sheet and solvency and is well positioned to face into further future volatility.

GROUP KPIS – GLOSSARY

Performance Measures	Purpose	Definition
Annual Premium Equivalent (APE)*	To provide the reader with an indication of the level of new regular and single premium business income being generated from Life business activities. This is a widely used industry performance measure.	Industry measure equal to new regular annualised premium plus 10% of new single premium.
Combined Operating Ratio (COR)*	To provide the reader with an indication of the overall expenses in perspective to the level of business being generated from General Insurance activities.	Proportion of Total Technical Charges as a percentage of earned premiums before earned Mutual Bonus and after allowing for reinsurance. Earned Mutual Bonus takes into account the net movement of unearned Mutual Bonus which in 2019 was nil (2018:£24m decrease).
Employee Engagement	To provide the reader with a measure of the overall engagement of the staff with the business.	Results of the annual Gallup survey.
Funds Under Management (General Insurance and Life business)*	To provide the reader with an measure of the assets being managed within the Group (and separately assets associated with long-term business).	Value of assets covering life and general business funds. Funds under Management represents the value of investment on the Balance Sheet made up of General Insurance business and Life business plus policyholder investment OEICS and the assets of the Company's Retirement Benefit Scheme. **General Business** Mutual General: 2019 £bn 8.2; 2018 £bn 7.6 **Life business** Mutual Life: 2019 £bn 10.2; 2018 £bn 9.2 RBS: 2019 £bn 1.1; 2018 £bn 1.1 OEICS: 2019 £bn 1.3; 2018 £bn 1.0 **Total: 2019 £bn 20.8; 2018 £bn 18.9**
Gross Written Premium Income (GWPI)	To provide the reader with a measure of the overall business as represented by total premiums from General Insurance activities.	Overall total premium income underwritten in the year, before Mutual Bonus.
New Business	To provide the reader with a measure of new business as represented by new business premiums from General Insurance activities.	Total new business premium income received.
Persistency*	To provide the reader with an indication of the overall reocurring business in perspective of the level of business being generated from General Insurance activities. This is a widely used industry performance measure.	Percentage of customers renewing each year.
Profit for the financial year	To provide the reader with a measure of profits achieved within the year from General Insurance activities.	Balance on the Non-Technical Account (Page 101).
Underwriting profit and loss	To provide the reader with a measure of profits before non claims expenses achieved within the year from General Insurance activities.	The balance on the Technical Account adjusted for earned Mutual Bonus, allocated investment return and other income. (Page 99).

*Alternative Performance Measures (APM)

NFU MUTUAL

Tiddington Road,
Stratford-upon-Avon,
CV37 7BJ

Tel: 01789 204 211

nfumutual.co.uk

NFU **Mutual**

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