REPORT AND ACCOUNTS 2020

NFU Mutual
INSURANCE | PENSIONS | INVESTMENTS

CONTENTS

CHAIRMAN'S STATEMENT

When writing my first statement as NFU Mutual Chairman at the start of 2020, I noted how NFU Mutual's long-term strategy underpins our resilience to market volatility, such as the market turbulence we had started to experience with the outbreak of the Coronavirus pandemic. Since making that statement, the outbreak rapidly developed into a crisis that has affected the lives and livelihoods of us all, and indeed continues to do so into 2021.

Like all businesses, the resilience of this organisation has been tested over the last year so I am very pleased to be able to report a strong set of results which are testimony to our financial strength and robust strategy.

In 2020, our core General Insurance business achieved an underwriting profit of £109m. This strong result represents our tenth year of underwriting profit, alongside a 3.5% increase over the last year in Gross Written Premium Income* to £1,705m, before Mutual Bonus. The Financial Services side of our business saw new sales, as measured by Annual Premium Equivalent (APE), of £59.8m compared with £60.1m in 2019.

The value of our investments were affected by the downturn in markets due to the Coronavirus pandemic, and didn't perform as well as we had originally forecast at the start of this year. This position contributed to us reporting an overall loss of £143m for the Group. Despite the challenging circumstances, our financial position remains strong. Our consistently healthy solvency ratio of 205% in 2020 (2019: 201%), ensures we remain resilient to such external factors.

Our 2020 result has been achieved in a challenging year, and I am particularly proud of what this company and its people have done to meet our objective of delivering sustainable, profitable growth.

We are committed to ensuring that NFU Mutual customers continue to receive the attentive, local personal service they have come to expect. One of the ways we do this is through our Agency network. Our Agents and their staff remain central to the organisation and during the last year they have shown that they are as dedicated as ever to supporting our valued customers and providing them with a first-class service.

Being a great company to do business with remains a primary objective for us. We pride ourselves in rewarding our loyal customers and we do this through Mutual Bonus which provides a saving on the renewal premium of your General Insurance policy. In 2020 we provided £252m in Mutual Bonus (2019: £258m) to our loyal members and in 2021 we expect to again provide a significant Mutual Bonus to those customers who renew their General Insurance with us.

To support our customers through the pandemic we announced a Coronavirus support package. This included updates to pricing, cover and claims - for example we have provided enhanced RAC Breakdown Cover automatically at no extra cost to over 600,000 private car and light goods vehicle customers from 22 May 2020 to 30th June 2021. By providing assistance at, or within, a quarter of a mile of their home, as well as national recovery, we have so far helped to keep more than 5,000 of our customers and

*Gross Written Premium Income before Mutual Bonus as a non statutory performance measure, see Glossary on page 158.

key workers on the road whilst lockdown restrictions changed across the UK.

This Coronavirus support package also included increased charitable funding and in 2020 our newly created Agency Giving Fund, alongside our regular Community Giving Fund, has so far donated more than £1m to local charities working in our Agencies' local communities.

The NFU Mutual Charitable Trust has also donated £1m to support larger charities such as Farming Help in England and Wales, Rural Support in Northern Ireland and RSABI in Scotland. With our support, the Farm Safety Foundation has been able to continue its great work which in 2020 included delivering training remotely and virtual events to prepare the next generation of farmers to be responsible, confident and safe.

It is clear the events of the last year have brought out the very best in many people, but unfortunately the worst in a few, with crime continuing to plague the countryside and hamper our farming members efforts to keep the nation fed. This is why we will continue to fight crime alongside the UK farming unions and other partners, using our expertise and support to protect our members and their families, farms and livelihoods.

Farming and the rural community remain a focus for us, and farmers have shown huge resilience and entrepreneurial flair in diversifying their businesses over the years. Like many other farmers, my own family farming business diversified long before the term was widely used to describe adding value, capturing markets, developing employment or better utilising existing assets, interests and talents.

In 2020, NFU Mutual published our second Diversification Report to provide insight and analysis into what is working for many farming businesses and to help others explore similar opportunities.

Diversified income streams can help some farmers secure their business and add resilience, particularly during uncertain times like these. As the leading rural insurer protecting three quarters of UK farms and thousands of rural businesses, NFU Mutual understands the risks and needs of customers entering new markets. As the farming community continues to adapt and find different ways of getting its products and services to customers, we will also continue to develop our offering to ensure we can provide the products and services our customers are looking for.

Another key area for development within the agriculture industry is agri-tech. From precision growing, livestock sensors, autonomous tractors and drones, technology is helping farmers to farm more sustainably, profitably and safely. We have been working with scientists, universities and tech companies to further develop our understanding of new technologies and therefore ensure we can continue to support our customers in the future.

We know there will be big changes to the agricultural industry in 2021 as the transition away from the Basic Payment Scheme begins, following the UK's exit from the European Union. At NFU Mutual we have always supported farmers and the rural community and in 2020 we made a voluntary donation of £7.5m to the farming unions. We will continue to provide financial support to them as they make the case for UK agriculture to the UK and devolved Governments and to provide expert advice to their farming union members.

Climate change is also an important focus for us. At NFU Mutual we are embedding considerations of climate change within our existing frameworks, processes and decision-making to enable us to respond proportionately to challenges as they arise.

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

As a long-term investor looking to build quality portfolios, our Fund Managers also consider Environmental, Social and Corporate Governance factors (ESG) throughout the investment process.

Change is a word I have used a great deal this year, and a big change for any organisation is the retirement of its Group Chief Executive. Lindsay Sinclair announced in the autumn that he would retire in March 2021 after nearly 13 years at NFU Mutual and I would like to thank him for his exemplary leadership. His career with NFU Mutual began just before the financial crisis when he joined the business as CEO in 2008. Since then he has safely guided and strengthened this organisation culminating in another year of strong performance against the backdrop of perhaps the most challenging times yet.

Through his tenure, Lindsay has successfully focused our strategy to build NFU Mutual into the tenth largest insurance company in the UK. Under his leadership the organisation has undergone significant investment in modernising systems and developing our people, which has put us in an excellent position to face the challenges of the last year. He has developed a strong leadership team, including Nick Turner, who after seven years as Sales and Agency Director and Board member, will take over from Lindsay as Group Chief Executive in April 2021. Nick's contribution has been crucial to the development of our long-term strategy and I know he will embrace the role and lead this unique and superb business as it progresses from strength to strength.

There have also been changes to NFU Mutual's Board this year. Two of our Non-Executive Directors, Eileen McCusker and Christopher Stooke announced they would be retiring from their positions. As longstanding members of our Board, Eileen and Chris have provided invaluable expertise, and I would like to thank them both for the substantial contribution they have made to our organisation. At the same time, it is also a pleasure to welcome two new faces to our Board. Alan Fairhead brings with him more than 40 years of domestic and international General Insurance experience in underwriting and operational management. Ross Ainslie has over 30 years' experience in the financial services industry including actuarial, life insurance and pensions businesses. As Non-Executive Directors I know both Alan and Ross's backgrounds will complement and enrich the expertise on our Board.

I would like to finish by thanking our people – I am particularly proud of the way our staff, our Agencies and their staff, have stepped up and embraced all of the changes experienced over the last year, and indeed continue to do so. Being a great place to work is a key objective for us, and the ethos and commitment shown by our people for the benefit of our customers over the last year in particular, has been astounding.

Finally, I would like to thank you – our members. The Coronavirus pandemic has meant that socially we have missed out this year on meeting our customers, particularly at the many agricultural shows we attend across the country. This has been a huge loss, however your loyalty, particularly in a year like the last, is a source of great pride for me and I hope to meet more of you as we return to more 'normal' times in the future. Thank you.

Jim McLaren
Chairman

FINANCIAL HIGHLIGHTS

GROUP

(£143m)
Loss for the financial year
2019: £573m Profit

£20.8bn
Total Funds under Management*
2019: £20.8bn

GENERAL INSURANCE

£1,705m
GWPI before Mutual Bonus*
2019: £1,648m

£109m
Underwriting Profit*
2019: £167m

93.1%
Combined Operating Ratio (COR)*
2019: 88.9%

FINANCIAL SERVICES LIFE

£59.8m
APE – New Business*
2019: £60.1m

£12.8bn
Life Funds under Management*
2019: £12.6bn

* We use a range of performance measures (APM) to assess business performance some of which are not defined or specified under the requirements of Financial Reporting Standards. They provide readers with important additional information on our business. A glossary explains why we have chosen to use them (page 158).

GROUP CHIEF EXECUTIVE'S STATEMENT

In this year of crisis I am pleased to be able to report that, in the face of so much challenge and adversity, the business has continued to provide the responsive, local, personal service that we are known for. The long-running and significant programme of investment that we have been making in our people and in IT certainly showed its worth this year. After the national lockdown was announced in March, we quickly got 99% of our 6,500 employees, agents and their staff working very capably from home, with the necessary tools and equipment. It has been a superb effort by all concerned that has continued into 2021 and is reflected in a strong overall performance of the business, as measured by our three long-term objectives.

TO BE A GREAT COMPANY TO DO BUSINESS WITH

A very good indicator of this is always the extent to which members continue to renew their policies with us, and in 2020 that increased to 95.5% (2019: 95.3%). That is quite impressive in more normal times, when across the insurance industry a 'persistency' rate around 80% is usually seen as a good achievement, let alone against the background of the unfolding Coronavirus crisis and the impact it was having across society.

Independent and objective customer surveys also confirmed that we continued to deliver a first-class service For the tenth consecutive year we were named as a Which? Recommended Provider for both home and motor insurance based on their research of members' views. We were also awarded their top accolade for the sixth time in eight years and named as the Which? Insurance Brand of the Year, with Which? paying special attention to the improvements we had made to our insurance covers to help customers during the Covid-19 lockdown, and how well we kept customers informed.

TO DELIVER SUSTAINABLE, PROFITABLE GROWTH

Our strategy has always had a twin focus; both to develop more business from our existing customer base and to attract good quality new business from new customers. The UK insurance market is highly competitive but by remaining true to ourselves, we have continued to grow, even in the most challenging of times. In 2020, our general insurance premiums grew by 3.5% to £1,705m (2019: £1,648m) with new business accounting for nearly £107m (2019: £106m). Over the past ten years our premium has grown from £1,205m in 2010 to our current position, and where we were then ranked as the fifteenth largest UK insurance company, we are now ranked as the tenth. Our share of UK farm insurance has grown steadily over the past ten years from 70% to 77% and like all good farmers we have also been diversifying our risks and opportunities, resulting in a fairly even 50/50 split in our total premiums between farm and non-farm business today.

With regard to profitability, we price our products with a view to achieving an average 2% trading profit and this has been underpinned in recent years with a significant investment in pricing sophistication and efficient claims processing.

The downturn in the markets due to the Coronavirus pandemic affected the value of our investment portfolio which inevitably didn't perform as well as we had expected. This contributed to us reporting an overall loss, at Group level, of £143m for the year, however despite this loss I am pleased to report that our underlying financial, capital and solvency position has remained very strong.

In 2020 we achieved an underwriting profit for the 10th year in a row. The continued strength of our financial position means that we are again able to announce a significant Mutual Bonus for all our renewing General Insurance members.

For the 12 months from 1st July 2021, the following rates of Mutual Bonus will apply:

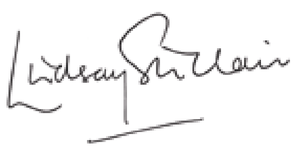
Renewal year 2021 – 2022	Mutual Bonus
1st year of renewal	10%
2nd year of renewal	11%
3rd year of renewal	11%
4th year of renewal	12%
5th + year of renewal	15%

The Financial Services side of our business was more impacted than the General Insurance side due to the restrictions on face-to-face meetings in the early months of the crisis, combined with a drop in retail investor confidence as stock markets fell and then returned with greater volatility and uncertainty. In 2020, our new sales growth, as measured by Annual Premium Equivalent (APE), was £59.8m compared with £60.1m in 2019. This did, in fact, turn out at the higher end of our expectations, given the circumstances, but what was particularly impressive was the ability of our Financial Advisers to continue to meet the needs of members for quality financial advice, which is especially important in such uncertain times.

TO BE A GREAT PLACE TO WORK

The great engagement of our employees is critical to our success. One key way we measure our progress is through an annual survey of our employees conducted by Gallup. This follows a standard format, used by some 3,000 companies worldwide, and provides us with useful benchmarks and insights that inform further activities by the various teams in the company. The survey also enables Gallup to analyse the results against other key aspects and there is a clear and strong correlation between engagement and a company's financial/commercial performance. This year the survey results placed us at the very top level for engagement - just one of five companies around the world to achieve this, and for the third year in a row.

One thing that has not changed is our strategy of differentiating ourselves from the competition through our attentive, local, personal service. Over the years our Agents and their staff have become part of the fabric of their local communities and supporting our members is a constant part of who they are and what they do. In 2020, as part of the Coronavirus support package that we announced shortly after the country went into lockdown in March, we created an Agency Giving Fund of £1m for our Agencies to allocate to local charities in their communities. A typical piece of feedback came from Hope House Children's Hospice in Wales who told us: "We're extremely thankful to NFU Mutual Oswestry for nominating our charity to receive a donation from the NFU Mutual Agency Giving Fund. The money will go a long way to helping us continue in uncertain times, and we will never forget their kindness when we need it the most."



Lindsay Sinclair
Group Chief Executive

Through the NFU Mutual Charitable Trust we have also provided a further £1m in donations for national charities focused on relieving hardship in local communities, recognising that they too were unable to rely on their usual fundraising activities.

The effects of Coronavirus are far reaching, but none more so than for the people who have lost their lives and the families they have left behind. Tragically, three of our employees have passed away since the start of the pandemic and our thoughts remain with their family and friends.

Such sad losses do put everything into perspective. In October 2020 I announced that I would be retiring from the business at the end of March 2021. After more than twelve years of service as Group Chief Executive of NFU Mutual, I look back with immense pride at how much we have been able to achieve, how far the business has come and how strongly we are positioned to face the challenges of the future. I was delighted to announce Nick Turner as my successor. Nick has been part of my team since he joined the business just over seven years ago as our Sales and Agency Director. He has played a key role in our success over these years and knows the business very well indeed. He is a passionate believer in our long-term strategy, and I am sure that NFU Mutual will continue to thrive under his leadership.

Finally, I would like to sincerely thank everyone I have worked with at NFU Mutual, employees, Agents and their staff, the farming unions and many others – not least the many customers that I have had the great pleasure of getting to know over the years.

BUSINESS MODEL AND STRATEGY

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

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

BUSINESS MODEL

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

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

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

OUR STRATEGY

Our strategy supports 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 (2019: £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 managing risks better.

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

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

Key Performance Indicators used:

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

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

FINANCIAL SERVICES BUSINESS STRATEGY

We remain firmly committed to growing our Financial Services business sustainably by 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 business is sustainably profitable on an overall basis
- Make the Advisory business profitable on a standalone basis

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:

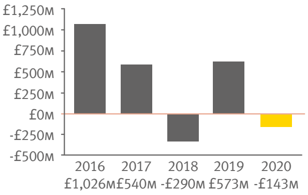
- Annual Premium Equivalent
- Life Funds under Management
- Employee Engagement score

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

STRATEGIC OBJECTIVE KPIs

SUSTAINABLE PROFITABLE GROWTH (GROUP)

FINANCIAL PERFORMANCE

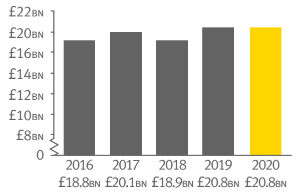


The overall result for the year was a loss of £143m. Whilst ending the year with a net positive return, the performance of our investment portfolio was affected by the downturn in markets and this contributed to us reporting this overall loss, at Group level.

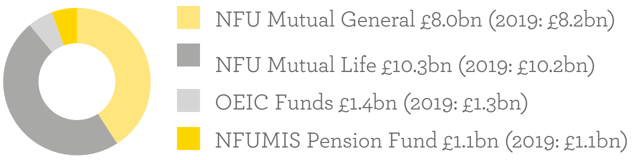
Our strategy is focused on long-term profitable growth and underpins our resilience to market volatility, with overall profits of £1.7bn seen over the past five years and £3.4bn over a ten-year period.

Our underlying financial, capital and solvency position has remained very strong and operating performance within our core insurance business has been satisfactory, with solid premium growth and good underwriting performance seen.

FUNDS UNDER MANAGEMENT*

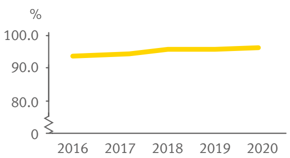


The Group's funds under management remained at £20.8bn, with the adverse Coronavirus impact on stock markets during the first quarter subsequently recovered in the remainder of 2020. The General Business Fund achieved a 2020 return of 0.1% (2019:10.7%) and the three -year annualised return was 2.2%.



GREAT COMPANY TO DO BUSINESS WITH

PERSISTENCY (GENERAL INSURANCE BUSINESS)*



Our persistency levels remained high at 95.5% (2019: 95.3%), with customers maintaining their strong loyalty throughout the Coronavirus pandemic.

GREAT PLACE TO WORK

EMPLOYEE ENGAGEMENT

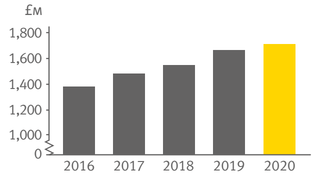
GALLUP

During the year we received the 2020 Gallup Exceptional Workplace award, the only UK-headquartered company to do so and one of 40 companies worldwide. We maintained our position in the top decile of Gallup's company database for the sixth year running.

SUSTAINABLE PROFITABLE GROWTH (GENERAL INSURANCE BUSINESS)

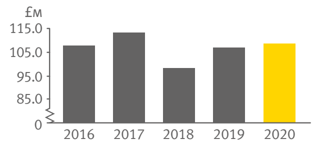
GROSS WRITTEN PREMIUM INCOME (GWPI)*

Our Gross Written Premium Income before Mutual Bonus of £1,705m (2019: £1,648m) showed a 3.5% increase, with an excellent percentage of members choosing to renew their policies.



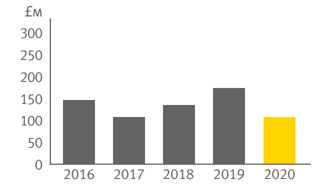
NEW BUSINESS

New Business has increased by 1.1% in the year to £107.0m (2019: £105.8m); representing a strong performance despite a challenging year, supported by sales and marketing initiatives and our competitive proposition.



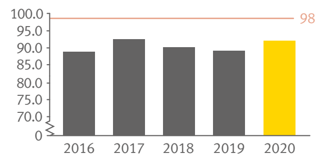
UNDERWRITING PROFIT AND LOSS*

Despite the tough market conditions, our core General Insurance business achieved another strong performance in 2020, resulting in an underwriting profit of £109m (2019: £167m). This result represents our tenth year of underwriting profit and reflects continued premium growth alongside positive underwriting performance.



COMBINED OPERATING RATIO (COR)*

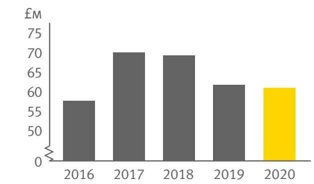
The combination of excellent underwriting performance, strong persistency, premium growth and claims experience has contributed to a COR of 93.1% (2019: 88.9%) which, whilst above last year, is well within our long-term target of 98%.



SUSTAINABLE PROFITABLE GROWTH (LIFE BUSINESS)

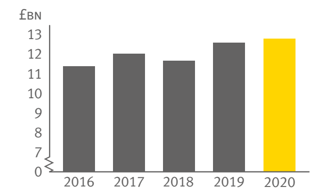
ANNUAL PREMIUM EQUIVALENT (APE)*

Our pensions and investments business achieved an Annual Premium Equivalent (APE) of £59.8m (2019: £60.1m) against the continued backdrop of uncertainty, predominantly due to lack of retail investor confidence resulting from the Coronavirus pandemic and Brexit.



LIFE FUNDS UNDER MANAGEMENT*

Life fund values increased in 2020 to £12.8bn (2019: £12.6bn) due to positive investment returns from most of the underlying funds. The Life fund achieved a return of 0.4% in 2020 (2019: 12.8%) and a 3-year annualised return of 2.9%.



* We use a range of performance measures (APM) to assess business performance some of which are not defined or specified under the requirements of Financial Reporting Standards. They provide readers with important additional information on our business. A glossary explains why we have chosen to use them (page 158).

BUSINESS REVIEW 2020

Finance Director, Richard Morley

The General Insurance (GI) business delivered another strong performance in 2020, with an underwriting profit of £109m. Our pensions and investments business also performed well in very challenging market conditions, achieving an Annual Premium Equivalent (APE) of £59.8m. Our overall Group loss of £143m reflects the combined impact of underwriting profit more than offset by overall investment returns and mutual bonus paid to our members.

FINANCIAL PERFORMANCE – GROUP

	2020	2019
(Loss) / Profit for the year	(£143m)	£573m

Whilst ending the year with a net positive return, the performance of our investment portfolio was affected by the downturn in markets and this contributed to us reporting this overall loss at Group level. Our underlying financial, capital and solvency position has remained very strong and operating performance within our core insurance business continues as demonstrated by solid premium growth and good underwriting performance.

Our balance sheet remains strong, with assets under management unchanged from 2019 at £20.8bn, with the adverse Coronavirus impact on stock markets during the first quarter subsequently recovered in the remainder of 2020. Our investment strategy is focused on long-term growth and underpins our resilience to market volatility, with overall profits of £1.7bn seen over the past five years and £3.4bn over a ten-year period.

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

GENERAL INSURANCE

GROSS WRITTEN PREMIUM INCOME

GWPI of £1,705m, a growth of 3.5%, with strong persistency of 95.5%.

Gross Written Premium Income has increased to just under £1,705m with a 3.5% increase on last year (2019: £1,648m). The strong performance is underpinned by exceptional ongoing persistency levels (the percentage of policyholders renewing each year) of 95.5% (2019: 95.3%) with our local, personal approach generating higher volumes of advised sales than in previous years.

New Business has increased by 1.1% in the year to £107.0m (2019: £105.8m); representing a strong performance despite a challenging year, supported by sales and marketing initiatives and our competitive proposition.

UNDERWRITING PROFIT

The underwriting profit of £109m marks our tenth consecutive year of underwriting profits.

The underwriting profit of £109m reflects a combination of premium growth and lower levels of claims and continues to demonstrate our strategic delivery of sustainable profitable growth.

Despite high levels of weather claims earlier in the year, claims remained favourable. This is primarily due to lower motor claims volumes, reflecting fewer journeys as a result of the Coronavirus restrictions.

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

COMBINED OPERATING RATIO (COR)

COR at 93.1% continues to be better than the long-term target of 98%.

The combination of excellent underwriting performance, strong persistency, premium growth and low claims experience has contributed to a COR of 93.1% (2019: 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 and our ability to adapt to a continually changing environment. All of this underpins our commitment to provide savings in renewal premiums to our loyal customers through the form of Mutual Bonus.

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

MUTUAL BONUS

In 2020 we provided £252m (2019: £258m) in Mutual Bonus.

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

LIFE AND PENSIONS

ANNUAL PREMIUM EQUIVALENT (APE)

APE at £59.8m was down 0.5% in 2020 against a continued backdrop of economic and political uncertainty in the UK and worldwide economies, predominantly due to the Coronavirus pandemic, affecting retail investor confidence.

Market conditions were very challenging in 2020, a trend seen over the last few years, with investor confidence and political uncertainty impacting Life sales. Overall New Business volumes saw a small decline to £59.8m APE (2019: £60.1m) as our network of Financial Advisers continued to meet customers, where possible, to provide appropriate advice to support their long-term planning. Performance in our non-advised channel improved on prior years, enabling customers to transact investments where advice was not needed.

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, supported by the launch of a new With-Profit fund on our pension product in 2020. Our With-Profits policies offer smoothing of returns and an element of guarantee. In 2020, just under a third of NFU Mutual's investors (2019: 41%) continued to include a With-Profits option when investing into ISAs, pensions and bonds.

GROUP COMPANIES

AVON INSURANCE PLC

Avon Insurance continued to demonstrate strong profitability of £9.8m.

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 more than 540,000 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 2020 was £21m (2019: £23m), with profit before tax and dividends of £9.8m (2019: £10m). Avon returned dividends to the Group of £8m (2019: £9m).

RISK MANAGEMENT SERVICES LIMITED (RMS)

RMS continued to provide essential health and safety advice to members during the Coronavirus pandemic.

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. The objective remains to help customers to identify and manage risk within their business resulting in fewer accidents and losses. During the first national lockdown of 2020, RMS consultants were unable to undertake site visits and this resulted in a loss for the business. During this time RMS adapted quickly to advise our members on how they could re-open their businesses in a Covid-secure way. RMS also continued to support members with health and safety advice, and to deliver loss control surveys for our underwriting teams, by introducing remote surveys and consultancy.

A programme of change designed to modernise and improve RMS service and efficiency is planned for 2021. This aims to more closely align RMS to NFU Mutual so that a holistic proposition can be offered to members providing assistance and guidance for all their risk management needs and delivering value back to the member and to NFU Mutual through reduced losses.

GROUP FUNDS UNDER MANAGEMENT

Despite a volatile year due to the Coronavirus pandemic, a strong market recovery saw overall Group funds under management remain at £20.8bn, with our General Business Fund achieving a 2020 return of 0.1% and three-year annualised returns of 2.2%.

The positive momentum seen in 2019 was reversed in the first quarter of 2020 as the spreading virus and its economic impact initially led to significant declines in global equity markets. However, the subsequent recovery alongside growth in fixed income assets enabled the overall investment assets under management by the Group to end 2020 unchanged at £20.8bn.

GENERAL FUNDS UNDER MANAGEMENT

The General Business Fund saw its asset value decrease slightly to £8.0bn, with healthy gains from its international equity and fixed income holdings offset by declines from its UK equity and commercial property assets. It was another busy year for trading activity in the fund as strategic asset allocation changes and the impact of market volatility led to reduced exposure to UK and international equities in favour of cash and corporate bonds. The overall equity exposure moved from 43.7% at the start of 2020 to 30.9% at the end.

LIFE FUNDS UNDER MANAGEMENT

The overall Life funds under management saw an increase from £12.6bn to £12.8bn in 2020 due to positive investment returns from most of the underlying funds. The most notable asset allocation feature within the funds was a further shift within equities from the UK to international markets. Thanks to a strong finish to the year as equities recovered, the main Life Fund achieved a gain of 0.4% in 2020 and a three-year annualised return of 2.9%. The unitised retail fund range saw a 3% growth in assets, and despite some mixed performance relative to peer group funds in 2020 the longer-term positions remained healthy.

PROPERTY FUNDS

Sitting within both the General and Life funds, the NFU Mutual property portfolio and its tenant line up has proved to be resilient to the impact of the pandemic with good levels of rent collection and portfolio voids remaining at low levels. Although strategically reducing our portfolio exposure to the retail sector over the last few years we have not been immune to the impact of falling rental and capital values, but the diversified nature of our funds has meant we have partially offset these losses.

ASSET MARKET BACKGROUND

A volatile year with very mixed returns.

After a positive start to the year for asset markets, 2020 saw a dramatic change when the spread of Coronavirus outside of China led to economic lockdowns and a significant global recession. Initially equity markets saw falls of around 30% alongside declines in corporate bond and commercial property values, with only government bonds and cash proving resilient. However, despite continued waves of the virus and further containment measures throughout the year, equities and corporate bonds recovered strongly due to optimism over an eventual recovery aided by vaccines, and exceptional levels of fiscal and monetary policy support being provided by governments and central banks around the world. The announcement of effective vaccines in November proved especially helpful to equities and the final quarter also benefited from well-received US election results and the last-minute avoidance of a 'no deal' Brexit.

EQUITY RETURNS

Large variation in 2020 global equity performance.

It was a year when Coronavirus and the associated containment measures had a significant impact on equity markets. Consumer and service-related sectors bore the brunt of the lockdown measures and companies in areas such as travel and leisure, oil and gas and banking were seen as Coronavirus 'losers' and saw heavy underperformance for most of the year. Meanwhile, sectors seen as Coronavirus 'winners' such as technology-related companies outperformed the market. Some markets such as China benefited from an early economic recovery from the virus, but it was the sector mix of different countries that was a significant driver of relative performance.

UK equities suffered from a worse than average economic impact from the virus and a sector mix that was more heavily exposed to struggling areas, and despite a strong recovery ended the year at a loss. International equities by contrast, driven by the US with its large exposure to technology companies, saw an impressive gain for UK investors.

FIXED INCOME RETURNS

Solid 2020 returns for our fixed income assets.

Government bonds benefited from their 'safe-haven' status in difficult times and were further supported by governments and central banks committing to keep interest rates low and delivering significant asset purchases. From already extremely low levels by historic standards, this took UK government bond yields down towards 0% and enabled gilts to achieve a solid return in 2020. After an initial drop on concerns over increased company defaults, corporate bonds also recovered towards the end of the year.

PROPERTY

A challenging year for UK property returns.

UK-wide restrictions imposed as a result of the Coronavirus pandemic have had a significant impact on the UK commercial property market, both at an investor and occupational level. The short-term outlook still looks very uncertain; there continues to be further downside risk across many property sectors, although at the same time, some sectors of the market are experiencing strong levels of growth and acquisition opportunities at historic low pricing levels. Long-term returns underpinned by income return still provide a case for property in a diversified portfolio.

Overall the downturn has been particularly evident in terms of weakness in levels of occupational demand from prospective tenants, and with sharp rises in the volume of tenant failures and need for financial support, ability to pay rent has been materially impacted and rent collection rates have fallen. In this context the quality of the NFU Mutual property portfolio has ensured that our collection rates have remained robust and ahead of the market.

At a sector level the market has become very polarised with the retail, leisure and hospitality sectors being severely hit with even more familiar high street names either going out of business or reducing store numbers. The industrial and distribution sectors however continue to benefit from the growth of online retail with increased levels of tenant demand for space and resultant rental growth and positive yield movement.

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 are enhancing our products, processes and technology to provide what our customers expect – the right product for them, delivered in a way that suits them and with NFU Mutual first-class service. We will deliver new tools and technology to support our colleagues and agency network in point of sale and policy administration, a new product set designed to support the ability to meet customers' evolving needs and digital capability to provide customers with a wider choice of channels.

During 2020 we contracted to secure the services of a System Integrator and delivery partner PricewaterhouseCoopers (PwC), and Assurance Solution partner Business Agility. These partnership appointments formalise a 'tripartite' model of working, with us working as one team, providing BRIDGE with a firm foundation to progress. We are currently preparing for a fully remote build phase to counter any challenges the Coronavirus pandemic may present, and BRIDGE core build activity will begin in the first quarter 2021 and over time Guidwire PolicyCenter will become our core policy administration system.

NEW CLAIMS SYSTEM

Delivering a sustainable market-leading claims service.

During 2020 we completed the deployment of our new Claims system, Guidewire's ClaimCenter, with all claims now notified and managed within our digital system.

The introduction of this technology, alongside new ways of working and how we are organised, has enabled us to deliver improved levels of customer satisfaction – this has seen motor customer scores improve from approximately 77% to 85% since introduction, with property customers now scoring a 90% satisfaction rate.

CUSTOMER RELATIONSHIP MANAGEMENT (CRM) PROGRAMME

Enhancing customer relationships through greater insight.

The CRM programme has delivered 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 single shared view of customer interactions.

In 2020, additional functionality was delivered including integration with our core policy administration system and the ability to log and handle complaints in CRM. Access was extended to teams in Customer Services and together with Agencies and Mutual Direct we now have more than 4,500 people using CRM providing the capability to further embed customer relationships and meet customer needs.

In 2021 a new Group CRM Office will be established to continue to maintain CRM, identify further opportunities to build on the successes achieved by the programme and to improve adoption levels by maintaining our support helpline and local support teams to assist in embedding and driving value from CRM.

FINANCIAL SERVICES SYSTEM AND PRODUCT DEVELOPMENTS

Evolving our Financial Services business.

NFU Mutual's Financial Services business continued to add to the range of products available on its My Investments online investment platform. Early in 2020 an industry first was achieved, launching two With-Profits funds for the Select Pension Plan to help customers wanting smoothed investment returns to both build a pension pot and when taking retirement income.

Working in partnership with AIG an enhanced Critical Illness product was launched in October giving customers greater choice and flexibility in meeting their needs.

HIGH NET WORTH

Ongoing development of our Bespoke proposition.

Our Bespoke product range has been designed to protect customers with higher value homes and assets. Our ambition is to sustainably and profitably grow in the high net worth market, whilst continuing to effectively meet the needs of our customers.

Richard Morley
Finance Director

During 2020, we have continued to strengthen our position through;

- Improving our Travel cover.
- Enhancing our Home cover, including the launch of Personal Cyber.
- Improving our surveying process.

IT INFRASTRUCTURE CHANGES

Evolving the way we work in challenging times.

In 2020 we delivered and adopted a wide range of new technologies to mitigate some of the challenges faced during the Coronavirus pandemic. We completed the rollout of SharePoint and migrating personal drives to OneDrive, which helped our people securely and collaboratively manage their information. We also accelerated the launch of Microsoft Teams to enable people across NFU Mutual to have rich meetings, with much more functionality and support to come in 2021. This year we have also improved ways to access tools and systems, increased the number of people with mobile access, upgraded meeting rooms, adopted a range of productivity tools, and provided a huge variety of virtual support and training.

We have also been preparing for the rollout of new computer equipment for everyone across NFU Mutual, making sure everyone has the right device to work smartly now and in the future. In 2021, all staff will get a new device, monitor and peripherals, with a large number receiving laptops, making sure that they can continue to make the most of new tools, improve their digital ways of working and create opportunities to optimise the way that they work.


NFU

RISK AND RISK MANAGEMENT

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

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

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

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

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

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

SUSTAINABLE PROFITABLE GROWTH

- Improving the robustness of risk and capital management
- Minimising unwelcome surprises
- Optimising potential for long-term growth
- 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 page 66) 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 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 the Control Environment is appropriate and operating effectively.

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

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

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

RISK MANAGEMENT FRAMEWORK

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

This includes:

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

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

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

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

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

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

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

More details on risk can be found in Note 2, pages 118 to 128. Additional detail on NFU Mutual's regulatory capital requirements at 31st December 2020 can be found in the Solvency and Financial Condition Report, available on NFU Mutual's website from the end of May 2021.

RISK GOVERNANCE AND OVERSIGHT

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

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

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

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

PRINCIPAL RISKS AND UNCERTAINTIES

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

The assessment and mitigating actions for these risks have been reviewed and discussed at governance committees and as part of the preparation for the Own Risk and Solvency Assessment. (Note 2 to the Accounts on pages 118 to 128 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: The ongoing Covid-19 Coronavirus pandemic impacts the viability of the business and disrupts customer service** There is a risk that, if the worldwide Coronavirus pandemic worsens and there is a significant future wave of infection: a) The profitability of the company is significantly impacted, even to such an extent that it threatens the viability of the business. Specifically: - there is an economic crisis resulting in a fall in financial markets and a corresponding reduction in the company's asset values. - there is an increase in insurance risk that increases our exposure and liability e.g. Court / Regulatory rulings on coverage or changes in mortality impacting life and pension provisions. b) Customer service degrades due to the ongoing government restrictions on the workforce or significant levels of absenteeism due to high workforce virus infection rates.
Link to long-term strategic objective	Sustainable Profitable Growth Great Company to do Business With Great Place to Work
Mitigation	a) The company maintains a Financial Risk Mitigation Plan, with actions approved by the Board to ensure Solvency is maintained within the company's Risk Appetite. This plan was invoked at the height of the crisis in 2020. b) A Crisis Management Plan was initiated at the start of the crisis, with an Executive 'Gold Team' and a Senior Management 'Sliver Team' managing operational issues, reporting through to Board Risk Committee and the Board. This approach, combined with oversight from the Risk Management Function, continues to provide assurance that a strong control environment is maintained in line with risk appetite and that operational issues are resolved on a timely basis, in line with government guidance. c) All Covid-19 impacts on company liabilities have been assessed and provisions made as appropriate. The overall impact on both the GI and the Life business is assessed to be small due to the nature of our policy exposure, which includes consideration of the recent ruling in the FCA court case. d) Board Risk Committee have reviewed scenarios and stress analysis undertaken by the financial risk team to ensure the impact of any future pandemic wave could be withstood by the company and that there are appropriate actions agreed to protect the company's solvency position. e) The business has shown resilience in being able to maintain both critical and support services without compromising the application of the risk management framework. We continue to monitor the situation closely and are prepared to act swiftly if necessary.

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

Principal Risk and Uncertainty	**Strategic: NFU Mutual is unable to deliver the required change** The risk of inefficient or ineffective change delivery, adversely impacting operational capability and /or NFU Mutual's reputation.
Link to long-term strategic objective	Sustainable Profitable Growth Great Company to do Business With Great Place to Work
Mitigation	Our strategic and operational plans are reviewed regularly by the Board. These take account of our resources and the scale and diversity of change currently underway and planned. 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 customer base changes substantially beyond expectations** Unexpected changes to NFU Mutual's current or target customer base which impact on insurable risks, including changes to the farming industry or other target trade sectors, customer use of technology and demographic changes. This could be caused by events including a reputation-damaging event impacting our standing in the farming community, longer term economic and social changes from Covid-19, 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 propositions are regularly reviewed and updated to reflect customer developments.

Principal Risk and Uncertainty	**Strategic / Financial / Operational Risk: Brexit** Following the UK's departure from the EU, and the agreed trade deal, the future relationship has the potential to impact NFU Mutual's risk profile in a number of areas. These include: • 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 because of internal issues or external drivers, including regulation. This can result in the needs of customers not being met or errors in work for customers leading to increased complaints, a reduction in new business sales or increased lapses and adverse media coverage of customer experiences.
Link to long-term strategic objective	Sustainable Profitable Growth Great Company to do Business With
Mitigation	We are delivering updated technology platforms across both GI and Life businesses, for both policy sale and servicing and operating model work 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. Continue to develop the 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 and related media comment 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 2021 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 autonomous vehicles and AgriTech.
Description	At NFU Mutual, we have already experienced an increase in the average cost of motor property claims as a result of greater technology within cars affecting the cost of repair for otherwise minor collisions. As driving technology 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. NFU Mutual's climate change strategy groups risks into seven different categories to ensure appropriate focus across the whole business, coverage of all risk types and consideration of both the asset and liability sides of the balance sheet. Throughout 2020, key climate risk exposures have been identified and assessed against the Group's emerging risk framework with the Group's most significant risk exposures in this space being: • Climate change drives changing customer needs / expectations / behaviours that NFU Mutual needs to respond to. (strategic risk) • NFU Mutual invests in assets whose values are impacted by the physical and transitional climate change impacts. (market risk) • Climate change transitional measures increase costs of asset ownership. (market risk) • Existing capital models cannot adequately model risks from climate change. (operational risk)

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

CLIMATE CHANGE RISK

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

1. GOVERNANCE

NFU Mutual recognises that climate change will have a significant impact on our business and our customers. Embedding consideration of climate change within existing frameworks, processes and decision making enables the Group to respond proportionately to challenges as they arise, both now and in the future. Risks from climate change are therefore considered, alongside all other risks faced by the Group, within existing risk governance and risk management frameworks.

BOARD

- Set climate change strategy
- Set risk appetite for risks from climate change
- Oversee NFU Mutual's climate response

RISK GOVERNANCE COMMITTEES

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

BUSINESS UNITS

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

RISK MANAGEMENT FUNCTION

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

Board

The Board is ultimately accountable for setting and overseeing NFU Mutual's response to climate change and in May 2020 it agreed a climate change strategy for the Group. The strategy will deliver the interrelated goals of protecting the Group from potential negative impacts and realising potential opportunities that align with our long-term strategic objectives and improve the Group's sustainability.

The Board received regular climate change updates during 2020, with agenda items in May and September and a CPD session in January. Climate change is also specifically referenced in the Terms of Reference for relevant Board sub-committees, namely the Board Risk Committee and the Board Investment Committee, to ensure an appropriate degree of climate focussed oversight is maintained.

CLIMATE CHANGE MISSION STATEMENT

Qualitative statement setting out NFU Mutual's climate change ambitions

CLIMATE CHANGE CATEGORIES

Mission statement translated into more focussed appetites, used to drive quantifiable activity and risk management

Customer	Employees	Insurance	Investments	Premises	Supply Chain	Solvency

GREENHOUSE GAS EMISSIONS TARGET

Group level quantitative target for reducing NFU Mutual's contribution to global warming.

Risk Governance

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

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

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

Role of Management

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

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

2. STRATEGY

NFU Mutual's climate change strategy groups risks into seven different categories to ensure appropriate focus across the whole business, coverage of all risk types and consideration of both the asset and liability sides of the balance sheet. Throughout 2020, key climate risk exposures have been identified and assessed against the Group's emerging risk framework. The Group's most significant risk exposures are:

- Climate change drives changing customer needs / expectations / behaviours that NFU Mutual needs to respond to. (strategic risk) This risk could have either a positive or negative impact on the Group's risk profile depending on the effectiveness of mitigating actions
- NFU Mutual invests in assets whose values are impacted by the physical and transitional climate change impacts. (market risk). This encompasses the risk of 'stranded assets', where NFU Mutual's investment strategy fails to predict or respond to deterioration in asset values driven by climate change. It also recognises the potential upside risk of improved investment performance achieved through leveraging climate factors within the Group's investment strategy.
- Climate change transitional measures increase costs of asset ownership. (market risk) Measures introduced by the government to drive the transition to a low carbon economy could have a significant financial impact on NFU Mutual's property portfolio, for example requirements to install green infrastructure or meet minimum energy efficiency requirements.
- Existing capital models cannot adequately model risks from climate change. (operational risk) NFU Mutual's capital models are used to calculate regulatory capital requirements, support business decision making and model capital impacts in stress scenario

testing. Failure of the models to adequately model risks from climate change could therefore have a significant impact on the Group and could also result in negative regulatory outcomes.

NFU Mutual's capital models are used to calculate regulatory capital requirements, support business decision making and model capital impacts in stress scenario testing. Failure of the models to adequately model risks from climate change could therefore have a significant impact on the Group and could also result in negative regulatory outcomes.

The potential impacts of climate change are wide ranging and impact beyond normal business planning timescales, therefore scenario testing is a key tool for understanding the resilience of a firm. NFU Mutual participated in the Prudential Regulation Authority's climate exploratory scenario in 2019 and this year developed a tailored scenario to model the plausible worst case if the Group failed to take appropriate action in response to climate change. NFU Mutual will continue to develop its climate change scenario testing capability to align with evolving business need, industry best practice and regulatory expectations.

3. RISK MANAGEMENT

NFU Mutual's approach to managing risks from climate change is to consider climate change as an external impact that will affect the risk profile of the Group, across all risk types and business areas. Climate change impacts are therefore evaluated alongside all other factors that impact the Group's risk profile, and climate driven risk exposures are managed predominantly using existing business processes and controls.

In addition to embedding climate change within existing frameworks and processes, the following enhancements also ensure that NFU Mutual manages the risks from climate change effectively, including:

- NFU Mutual's climate change strategy provides additional focus on identifying and managing risk from climate change by setting out the Board's expectations and ensuring a consistent and aligned response across the Group.
- Risk Management System functionality enables risks to be flagged as climate driven, which facilitates aggregate risk exposure monitoring and reporting to governance committees.
- A log of climate change impacts has been developed and metrics identified to track and monitor risk exposures on an on-going basis.

4. METRICS

Standard risk management processes ensure that appropriate metrics are identified and monitored to track risk exposure for each risk identified, including risks from climate change. In addition to these, NFU Mutual has internal measures to track the Group's sustainability performance, including energy, business travel, waste and water.

Energy – Streamlined Energy and Carbon Reporting

2020 has been an unprecedented year, seeing the majority of our employees working from home and supplier restrictions postponing construction works. This has seen reductions in our gas and electric consumption but also many planned improvements to our property portfolio have been deferred to 2021. However, we have used this time to focus on reviewing and consolidating the way we manage our energy and have set up a new partnership with Inenco Group Ltd to provide improved energy and water data, to enhance the way we can monitor and target our performance in the coming years.

In addition, NFU Mutual has proactively taken steps to improve its sustainability, with initiatives progressed during 2020 including:

- Introduced an electric vehicle charging pilot scheme in our Stratford-upon-Avon offices installing 21 charging points to support and encourage the use of electric vehicles.
- Implemented a new infrastructure and software provision to continuously monitor the performance of key buildings and, with the use of analytics, to target energy reductions.

NFU Mutual's greenhouse gas emissions, reportable under Streamlined Energy and Carbon Reporting (SECR) regulations, in 2020 were 3,606 tonnes CO2e. An 'operational control' approach has been used to define the Greenhouse Gas emissions boundary. This approach captures emissions associated with UK electricity and natural gas consumption associated with the operation of all buildings occupied by the NFU Mutual Group, plus business miles travelled in both company-owned and employee-owned vehicles.

This information was collected and reported in line with the methodology set out in the UK Government's Environmental Reporting Guidelines 2019, and fuel, energy and emissions have been calculated using the latest conversion factors from the UK Government. There are no material omissions from the mandatory reporting scope.

- **Emissions –** greenhouse gas emissions by year 1st October 2019 – 30 September 2020 (tonnes CO2e)

Emissions source	2020	Share %
Fuel combustion: Natural gas	887	24.6
Fuel combustion: Transport	1,031	28.6
Purchased electricity	1,688	46.8
Total emissions (tCO2e)	**3,606**	**100**
Revenue (£m)	£1,705	
Intensity: (tCO2e per £m)	2.12	
Intensity: (tCO2e per m2)	67.8	

For the purposes of this report we have used standard emissions conversion factors, however all NFU Mutual Group electricity consumption is procured from a Renewable Energy Guarantee of Origin certificated (REGO) supply.

- **Energy consumption –** energy consumption by year 1st October 2019 – 30th September 2020 (kWh)

Emissions source	2020	Share %
Natural gas for heating	4,822,013	30.8
Electricity	6,665,427	42.6
Transport fuel	4,164,572	26.6
Total	**15,652,012**	**100%**

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 9 to 11).

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

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

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

- the ongoing impact of the worldwide Coronavirus pandemic on both the financial and operational position of the company (see further detail in Going Concern Statement on pages 44 and 45)
- the continued strength of the balance sheet and the Group's overall solvency and liquidity position
- the operation of the Group's governance and internal control framework as set out in the Governance Report (pages 50 to 75)
- the robust and embedded Risk Management Framework (page 25), which identifies and reports to the Board (via the Risk Director), key operational risks that could threaten the Group's business model along with mitigating management actions
- the review of principal financial risks (market, credit, liquidity and insurance as shown on pages 118 to 128) 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 surge or extreme financial market volatility. This analysis is reported and reviewed by Risk Committees and subcommittees and in 2020 included the scenario of a second wave Coronavirus pandemic, as well an assessment of scenarios that would reduce Group solvency to below 100%, thus putting the viability of the company at risk. This analysis showed the Group to be in a robust position, with management actions in place to ensure solvency levels could be retained at acceptable levels.
- the Board's conclusion that there is limited impact on the business from Britain leaving the EU (Brexit) on 31st December 2020 and the 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 108. In doing so the Board recognise that such future assessments are subject to a level of uncertainty that increases with time, and therefore future outcomes cannot be guaranteed or predicted with absolute certainty.

NFU MUTUAL GROUP TAX STRATEGY

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

Approach to tax risk management and governance arrangements

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

The Group's Senior Accounting Officer appointed in accordance with Finance Act 2009 (Sch.46), and supported by the Tax Manager, is responsible for the tax strategy and managing tax risk within the Group. Ultimate responsibility is placed with the Finance Director. The Group's tax risk position is reported regularly 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. NFU Mutual has a policy to not engage in arrangements for tax avoidance purposes, including tax havens, that are unacceptable to HMRC. The main taxes managed by the Group are Corporation Tax, Value Added Tax, PAYE, National Insurance, Stamp Duty taxes, Insurance Premium Tax and other policyholder taxes. International taxes borne by the Group include withholding taxes on overseas investment income received by the Group's investment funds. Taxes and levies are paid to other tax jurisdictions for certain insurance risks located outside the UK.

NFU Mutual continues to evolve as an organisation in an ever-changing economic and regulatory environment. 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.

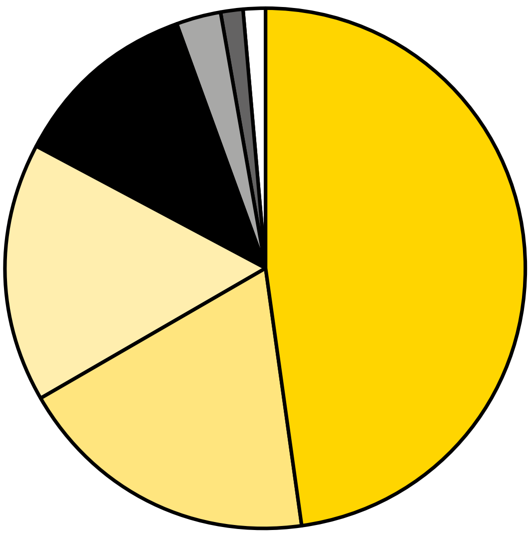
We are committed to engaging professionally with HMRC in matters concerning any current, future or past tax risks. If clarification is required in the application of tax legislation, we will seek to raise this with HMRC and work with them to reach agreement before tax returns are submitted.

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.

Total Tax Contribution

The Group's 2020 total tax contribution was £369m (2019: £374m) summarised in the chart below. The tax contribution consists of taxes borne of £129m (2019: £137m) and taxes collected of £240m (2019: £237m). Taxes borne by the Group such as corporation tax directly impact the Group's business results. Taxes collected by the Group are received from employees and policyholders for onward payment to HMRC and other tax authorities. Insurance premium tax collected of £170m (2019: £163m) was paid by our policyholders.

Total Tax Contribution



Premium taxes	£170m
People (employment) taxes	£67m
VAT	£57m
Corporation tax	£56m
Tax deducted at source	£10m
Withholding taxes	£5m
Property taxes	£4m

STRATEGIC REPORT

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

Business Model and Strategy	Business Model and Strategy pages 9 to 11
Principal risks and uncertainties	Risk Management pages 27 to 30 and Note 2 pages 118 to 128
Performance and development during the year	Group Chief Executive's Statement pages 5 to 7, Business Review pages 14 to 21 and Directors' Report pages 41 to 46
Information about future developments	Business Review: Key Strategic Change Initiatives pages 20 to 21
Employee information and Corporate Social Responsibility (CSR)	Directors' Report pages 41 to 42 and Supporting Our Communities pages 79 to 84
Financial and non-financial KPIs	Key Performance Indicators and Business Review pages 12 to 21 Supporting Our Communities pages 79 to 84
Corporate Governance Statements (Section 172)	S.172 Statement pages 57 to 58

Jim McLaren
Chairman

Lindsay Sinclair
Chief Executive

25 March 2021

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 2020.

RESULTS AND MUTUAL BONUS

Consolidated loss after tax including realised and unrealised gains/losses for the year was £143m (2019: consolidated profit of £573m). Mutual Bonus to policyholders for 2020 was £252m (2019: £258m).

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 47 to 49. Eileen McCusker and Chris Stooke retired from the Board on 7th August 2020 and 31st December 2020 respectively. Alan Fairhead was appointed to the Board on 1st November 2020 and Ross Ainslie was appointed to the Board on 1st March 2021.

During 2020 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 2020, there were 4,080 employees (2019: 4,047) within the Group. Of our employees, 50% are female and 50% are male; 86% of our workforce is full-time and 14% is part-time. Our annual rate of voluntary employee turnover for 2020 was 5.87% against an industry benchmark of 11.2%.

ENGAGEMENT

We continue to focus on both employee engagement, and internal customer engagement of our Agents and their staff. In 2015 we 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 sixth year running in 2020.

During the year we received the 2020 Gallup Exceptional Workplace award; the only UK-headquartered company to do so and one of a total of 40 companies worldwide.

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

PERFORMANCE MANAGEMENT

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

REWARD

Reward at NFU Mutual is a combination of market competitive base pay, employee benefits and variable pay, including a Group Bonus Scheme which rewards all employees for the success of the business. Our 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 and in 2020 we have continued to invest in the leadership and technical capabilities of our employees. Our Graduate Trainee Schemes, now in their ninth year, are building an internal pipeline of future talent to strengthen technical and leadership succession. In 2020, for the second year running, we achieved second place in the prestigious Job Crowd awards for the top companies for graduates in the Accountancy and Insurance sector. We currently have 143 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 2020 we created 24 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.

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. 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 2020 amounted to £2.284 million, which included donations to the NFU Mutual Charitable Trust of £950,000 (which distributes awards at its discretion), £316,000 to the Farm Safety Foundation, £1 million through the Agency Giving Fund and £18,000 through the Community Giving Fund.

See the Supporting Our Communities section on pages 79 to 84 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 50 to 75.

PRINCIPAL RISKS

The Directors have carried out a robust assessment of the principal risks facing the Group as shown on pages 27 to 30, including those that would threaten its business model, future performance, solvency or liquidity which supports the Long-Term Viability Statement made on page 37.

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 37 and 40.

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 to the Board annually. It includes Stress and Scenario Testing, which covers a wide range of scenarios to thoroughly test the

Groups' resilience to industry events such as floods, windstorms or longevity changes occurring at the same time, as well as severe investment market movements. In addition during 2020, following the outbreak of the Coronavirus pandemic, consideration was given to the potential impact of a second wave of infection, as well as scenarios that would reduce Group solvency to below 100%. This analysis showed the Group to be in a robust position, with management actions in place to ensure solvency levels could be retained at acceptable levels.

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

Solvency: Despite all the financial market volatility, NFU Mutual has remained solvent throughout 2020 and its Solvency Coverage Ratio was maintained within the Risk Appetite set by the Board and the Group's SCR Coverage Ratio sits at a robust 205% (unaudited) at 31st December 2020.

Liquidity: The company holds over £7.4bn at 31st December 2020 (2019: £8.3bn) 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 year following the outbreak, with Business Continuity Plans initiated across the business where required, to ensure service is maintained to customers. Operational issues and working practices are kept under constant review and will be amended in line with government guidance. Business Interruption Assessments were carried out for all key outsourced suppliers to ensure operational integrity. A support package was launched during the year 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 claims.

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

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

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

- select suitable accounting policies and then apply them consistently
- make judgements and accounting estimates that are reasonable and prudent
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements

- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business
- consider the annual Report and Accounts taken as a whole to ensure that it is fair, balanced and understandable and provides the information necessary for members to assess the company's performance, business model and strategy.

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

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

DISCLOSURE OF INFORMATION TO AUDITORS

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

INDEPENDENT AUDITORS

A resolution will be proposed at the 2021 Annual General Meeting to reappoint Deloitte LLP as auditors.

Jim McLaren
Chairman

Lindsay Sinclair
Chief Executive

25th March 2021

OUR BOARD OF DIRECTORS

JIM MCLAREN MBE – CHAIRMAN

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

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.

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.

Lindsay will be retiring from NFU Mutual in March 2021.

JON BAILIE – NON-EXECUTIVE DIRECTOR

Jon was appointed to the Board in 2018 and is Chair of the Board Investment Committee and of the board of N.F.U. Mutual Unit Managers Limited.

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

STEVE BOWER – CUSTOMER SERVICES DIRECTOR

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

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

ALI CAPPER – NON-EXECUTIVE DIRECTOR

Ali was appointed to the Board in 2018.

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 is a Nuffield Scholar. 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 OBE – NON-EXECUTIVE DIRECTOR

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

Brian was Group Chief Executive of Scottish Life and an Executive Director of Royal London Group. He is Chairman of Scottish Equitable Policyholders Trust, the GEC 1972 Pension Plan, Aviva's With-Profits Committee, the Trustee of the Church of Scotland Investors Trust and is a Trustee of the Baillie Gifford Staff Pension Scheme.

ALAN FAIRHEAD – NON-EXECUTIVE DIRECTOR

Alan was appointed to the Board in 2020 and is Chair of the Board Risk Committee.

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

CHRISTINE KENNEDY OBE – 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 beef farm for 30 years, Christine was the Director of Commodities and Food for the UFU and served on its Board. She was a member of the NI Food Advisory Committee and is Chairperson of the NI panel of the Council for Awards of Royal Agricultural Societies. Christine is also a member of the Rural Affairs Committee of the UFU and a Trustee of Donaghadee YFC.

ROSS AINSLIE – NON-EXECUTIVE DIRECTOR

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

RICHARD MORLEY – FINANCE DIRECTOR

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

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

DAVID ROPER – NON-EXECUTIVE DIRECTOR

David was appointed to the Board in 2019 and is Chair of the Audit Committee.

He graduated from Cambridge University with a degree in Music and subsequently trained as an accountant before joining PwC in 1990. He rose through that organisation to become a Director and then a Partner specialising in the financial services sector, working in London, Manchester and Birmingham. He is the Senior Independent Director of Atom Bank and is also 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.

NICK TURNER – SALES & 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 businesses.

Nick joined NFU Mutual from AXA where he was Managing Director, Intermediary & Partnerships – Personal Lines. His career spans more than 35 years, largely in the fields of Life and Wealth Management. Nick is a former President of the Chartered Insurance Institute and was previously President of the Personal Finance Society.

Nick will be appointed NFU Mutual Group Chief Executive in April 2021.

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 retirements of Eileen McCusker and Chris Stooke as Non-Executive Directors. Both of them have contributed significantly to the Group throughout their time on the Board. The experience that they both brought to the Board has been invaluable and has contributed to the good governance of the Group.

Alan Fairhead joined the Board on 1st November and Ross Ainslie on 1st March 2021. Alan brings over 40 years of General Insurance experience from both an underwriting and operational management point of view. His risk management experience will be invaluable, and he has taken over as Board Risk Committee Chair with effect from 1st January 2021. Ross is an actuary by background and has held senior management positions with a number of life insurance companies.

As reported earlier Lindsay Sinclair will be retiring from the Group on 31st March. I would like to thank him for his commitment to and leadership of the Group. Throughout his tenure, Lindsay has successfully focused on developing the Group's strategy and ensuring that it complies with corporate governance best practice. I am delighted to welcome Nick Turner into the role of CEO with effect from 1st April and look forward to working with him to ensure the continued success of the NFU Mutual Group.

2020 has been a challenging year for everyone and a number of organisations struggled to respond to the fast changing environment as the Coronavirus pandemic emerged. I am pleased to be able to say that NFU Mutual coped, and indeed, thrived throughout this year. The Board was kept informed at all times and was able to quickly make decisions when required. We have all adapted to the different working conditions and it was especially pleasing to see so many of the Group's employees, agents and their staff working from home so quickly. Our governance and risk frameworks ensured that we could respond quickly and appropriately as required. Our business continuity planning came to the fore and we have been able to maintain, and in some cases, strengthen our control environment throughout this period.

Unfortunately we have not been able to meet with our members and other stakeholders in the usual way this year through national and local shows and events and NFU conferences. However, we have continued to engage with stakeholders where possible with virtual Regional Advisory Board meetings and meetings with the farming unions to understand the issues facing the agricultural industry and rural communities. I look forward to being able to attend shows and events again and having the opportunity to personally meet with many of our members.

Jim McLaren
Chairman

CORPORATE GOVERNANCE CODE

NFU Mutual has chosen to follow the UK Corporate Governance Code (Code) for several years. 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 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.

LEADERSHIP AND COMPANY PURPOSE

PURPOSE

As set out in in more detail in the Business Model and Strategy section on pages 9 to 11, NFU Mutual has a strong purpose, strategy and values which underpin everything that we do. We aim to provide our members with the insurance cover they need, at a fair price, and with a first-class service. Our strategy is to differentiate ourselves, through an attentive, local, personal service that is second-to-none. As a mutual, we are concerned with the long-term interests of our members, rather than short-term profits. At NFU Mutual, founded originally in 1910 by seven Warwickshire farmers, no-one will ever be more important to us than farmers and the rural community. As a result, we have become the UK's leading rural insurer and part of the fabric of rural life.

GOVERNANCE FRAMEWORK

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

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

BOARD ACTIVITY

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

The Board met twelve 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 updated 2020-2022 Medium Term Plan and 2020 Business Plan to reflect the impact of the Coronavirus pandemic and the 2021-2023 Medium Term Plan and 2021 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 climate change strategy
- Throughout the year, the Board received regular reports on the key strategic projects which are reported in the Business Review on pages 14 to 21
- The Board considered, and approved, the Group's climate change strategy.

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 and the impact of the Coronavirus pandemic on these matters
- 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 the Coronavirus pandemic
- 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 Chief Executive and the appointment of two new Non-Executive Directors.

STAKEHOLDER ENGAGEMENT

- The Board regularly considered the Group's relationship with various stakeholder groups. It discussed employee engagement, customers, Agents and, through its Responsible Business Report, the impact on and relationship with the wider community
- In particular, the Board considered the impact of the Coronavirus pandemic on employees, customers, Agents and 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	12	12
Senior Independent Director		
Brian Duffin [1]	12	12
Chris Stooke [2]	12	12
Chief Executive		
Lindsay Sinclair	12	12
Executive Directors		
Steve Bower	12	12
Richard Morley	11	12
Nick Turner	12	12
Non-Executive Directors		
Jon Bailie	12	12
Ali Capper	12	12
Alan Fairhead [3]	2	2
Christine Kennedy	12	12
Eileen McCusker [4]	8	8
David Roper	12	12
Ross Ainslie [5]	-	-

1. Appointed Senior Independent Director 1st January 2021
2. Retired from Board 31st December
3. Appointed to the Board 1st November
4. Retired from Board 7th August 2020
5. Appointed to the Board 1st March 2021

A = Number of meetings the Director attended in 2020.
B = Maximum number of meetings the Director could have attended in 2020.

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. Normally, 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. This year, due to the pandemic, the Spring Regional Advisory Board meetings were cancelled. The Autumn meetings were held remotely. Throughout the pandemic, the Board kept the Regional Advisory Board Chairs informed of how the business was managing the pandemic situation. These updates were shared with Regional Advisory Board members to help them in their discussions with customers. NFU Mutual's AGM is an important opportunity for the Group to communicate with members. Although the 2020 AGM was a closed meeting, members were able to submit questions which were responded to by the business or directly by Directors as appropriate. NFU Mutual also has an online customer panel, Mutual Voice, which it uses to gather customer views on a range of topics. It also regularly carries out customer research to understand customers' view of NFU Mutual, and their requirements for products and service.
Our people	Our people are essential to meeting our purpose and delivering the required products and service to our members.	The Board receives regular updates on the engagement of employees through its annual engagement survey. In addition, NFU Mutual has a national employee consultation group which provides representation on strategic business issues. The Board and management team is committed to communicating with, listening to, and engaging employees in consultation and considers the position of our people in all relevant Board decisions.
Our Agents	Our Agents are also essential to meeting our purpose and delivering the required products and attentive, local, personal service to our members.	NFU Mutual engages with its Agents through the Agency Liaison Group and National Association of Group Secretaries which are both representative bodies of the Agents. Directors also regularly meet with individual Agents. In addition, a number of strategic change programmes which are expected to impact on Agents and their offices have set up focus groups to ensure that they are engaging with Agents and their views are taken into account, especially around the implementation of those change programmes.

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

S.172 STATEMENT

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

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

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

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

The Board has spent a lot of time this year considering the impact of the Coronavirus pandemic. At the start of March when the stock markets fell significantly the Board spent time considering the impact on the Group's investments and its solvency. The Board made a number of capital management decisions to ensure that the Group's solvency remained robust. In making these decisions, the Board carefully considered any impact on customers as well as the long-term sustainable success of the Group and regulatory expectations. In this, as in all of its decisions, the Board carefully considered the need to act fairly between the members of NFU Mutual and to ensure that one group of members would not benefit to the detriment of other members.

Throughout the year the Board has considered the Group's business continuity plans to respond to the pandemic and the move to the work from home environment. As part of this it has considered the impact of the current environment on our employees and Agents, and their staff, as well as on customers. The initial focus was on ensuring that the business could continue to deliver first-class service to customers. However, the position and opinion of our people was just as important. The Board has received regular updates on how the pandemic has impacted on employees and Agents and on how they are responding to it. The Board has ensured that employees have the ability to work from home safely and has also considered the steps being taken to support employees' well being and to ensure that the Group's culture is maintained.

Given the unprecedented and wide-ranging impact of the pandemic, the Board decided to implement a Coronavirus support package. The package aimed to help customers, the community and Agencies. For customers there were updates to pricing, cover and claims. For Agencies there was consideration of how the Group could continue to support the Agencies to transition to the new way of working. For the community, an additional £750,000 was donated to the NFU Mutual Charitable Trust to enable it to donate over £1 million this year. The majority of the Trust's donations were provided to organisations supporting communities, with a focus on rural communities, across the UK to respond to the pandemic. The Agency Giving Fund was also created to support local charities in each of the communities that our Agencies operate in. The Board has received regular feedback on the impact of these packages.

During the year, the Board agreed to appoint Nick Turner as the Group CEO with effect from Lindsay Sinclair's retirement at the end of March 2021. The Board also agreed the appointment of two new Non-Executive Directors: Alan Fairhead and Ross Ainslie. In all Board appointments, the Board carefully considers the skills, experience and knowledge required to ensure the continued long-term success of the business, it also considers the needs of customers and other stakeholders, regulatory expectations and the Group's reputation.

In considering the 2021 Business Plan and 2021 – 2023 Medium Term Plan the Board took into account a wide range of factors. The Plans include the implementation of the next phase of the strategic roadmap and the Strategic Change Projects as described on pages 20 to 21. In developing the various plans consideration was given to, amongst other things, customer needs and expectations, the impact on employees, the continued financial strength of the Group and regulatory requirements. A number of areas of research are undertaken to inform the business on customer needs and expectations. Research is also undertaken with external consultants and suppliers to ensure that the business is aware of emerging trends. The Board also took into account the impact of its plans on Agencies; the views of Agents are regularly reported to the Board.

In 2020 the Board also agreed its climate change strategy which is explained in more detail on pages 32 to 36. The aim is to ensure we respond to the changing insurance needs of our members and to actively reduce the Group's environmental impact. In all considerations of climate change the Board considers the views of all of its stakeholders including its members and customers, its people, its suppliers and regulators and the communities the Group operates within. It is also considering its reputation and long-term success of the company and its financial strength.

DIVISION OF RESPONSIBILITIES

BOARD ROLES

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

CHAIRMAN

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

SENIOR INDEPENDENT DIRECTOR

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

NON-EXECUTIVE DIRECTORS

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

CHIEF EXECUTIVE

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

OTHER EXECUTIVE DIRECTORS

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

COMPANY SECRETARY

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

BOARD INDEPENDENCE

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

affect, the Director's judgement. The results of the Board's performance evaluation are also taken into account.

In 2020, the Board considered all of the Non-Executive Directors to be independent in accordance with the Code. Chris Stooke was on the Board for more than nine years from appointment. Chris was originally due to step down from the Board just before his tenure reached nine years. However, when the Coronavirus pandemic hit, the Board asked Chris to remain in post for an additional six months as the Board believed it would benefit from his experience during this difficult time. The Board remained satisfied that at all times Chris remained independent and he demonstrated this through his challenge of the management team as required and his role on the various Board Committees. Chris retired from the Board on 31st December.

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 2020. Each Director has confirmed that they have been able to allocate sufficient time to discharge their responsibilities effectively.

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

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

COMPOSITION, SUCCESSION AND EVALUATION

THE BOARD

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

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

BOARD EVALUATION

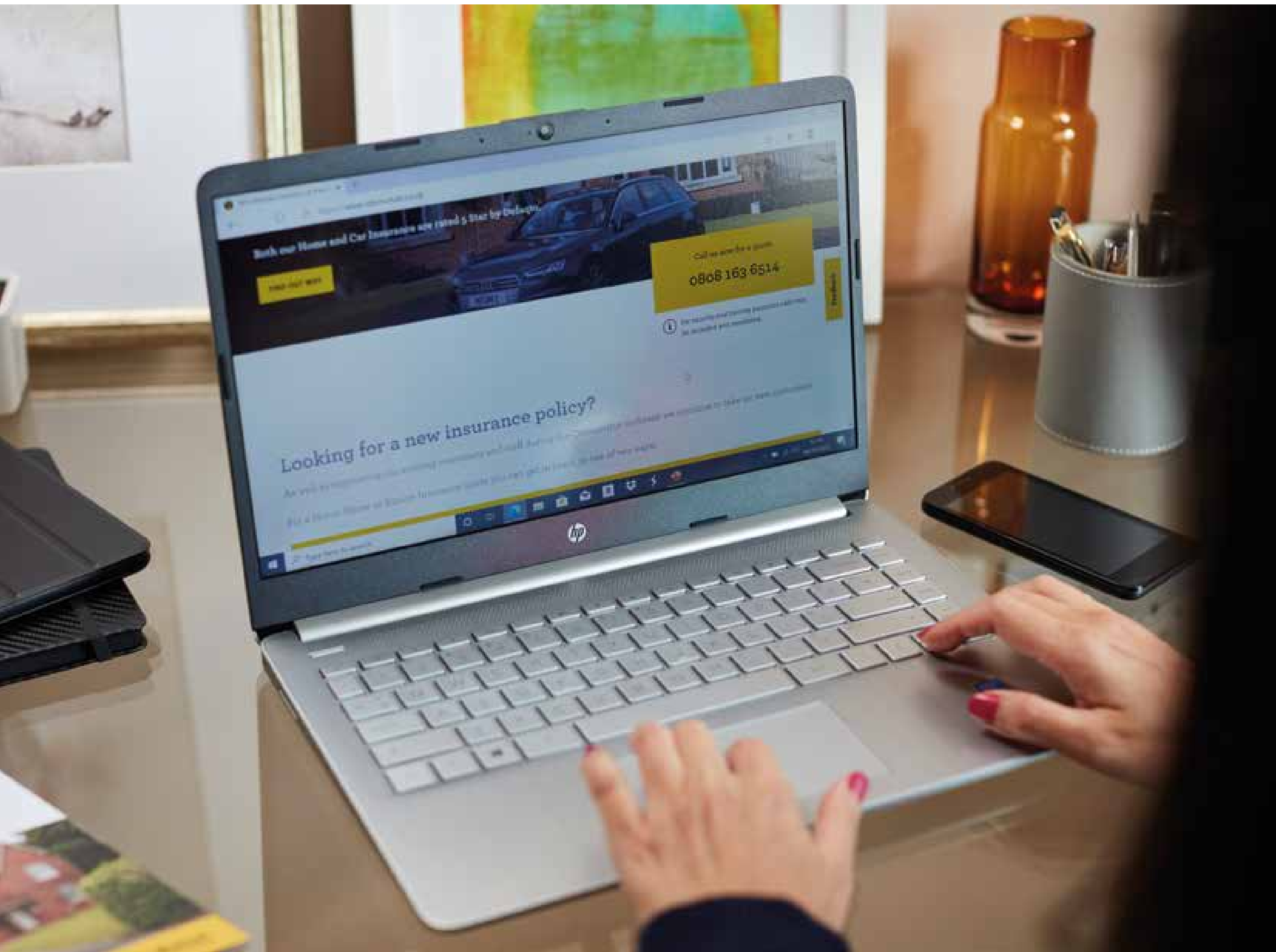
The Board is committed to continually improving its effectiveness and the Group's overall performance. To facilitate this, the Board has implemented a three-year review cycle consisting of an external evaluation one year and individual appraisals with Directors conducted by the Chairman in the other two years. An external evaluation was undertaken in 2020 by Socia. Socia conducted individual interviews with each of the Executive and Non-Executive Directors. Following completion of the interviews, all Directors received individual written feedback on their performance and held a one to one session to discuss that feedback with Socia. An overarching view of the effectiveness of the Board was also provided. The output of the process was then reviewed and discussed in depth by the full Board. The process concluded that the Board continues to operate effectively. Socia does not have any other links with the Group.

The annual appraisal of the Chairman was coordinated by the Senior Independent Director and all Directors provided input. The appraisal concluded that Jim McLaren had made an excellent start in his first year since taking over the role, particularly in providing leadership to NFU Mutual, its management and Board, in the challenging circumstances caused by the Coronavirus pandemic.

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 2020, Continuing Professional Development (CPD) sessions were provided on a number of subjects including climate change, media strategy, and the Senior Managers and Certification Regime. In addition, the Board receives regular market and company updates as part of the Board agenda.



NOMINATION COMMITTEE REPORT

COMMITTEE COMPOSITION

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

Name of Director	A	B
Jim McLaren (Committee Chair)	9	9
Brian Duffin	9	9
Christine Kennedy	9	9
Lindsay Sinclair [1]	9	9
Chris Stooke [2]	9	9

1 Stood down from Committee 31st December 2020
2 Retired from Board 31st December 2020
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 2020

During 2020 the Committee focused in particular on the succession plans for Lindsay Sinclair, including the appointment of a new Chief Executive and the appointment of two new Non-Executive Directors.

The Nomination Committee led the CEO appointment process. This included an external market search conducted by our partners, Egon Zehnder, candidate assessments, consideration of our internal succession plan and panel interview. Following this process, the Committee recommended that Nick Turner, our internal succession candidate, be appointed as CEO from 1st April 2021, upon Lindsay Sinclair's retirement. The Board then approved the appointment subject to regulatory approval.

An application in respect of Nick Turner's appointment as CEO was made to the PRA and FCA. Following an interview with the PRA, regulatory approval for his appointment was obtained.

The Committee also led the process for the appointment of two new Non-Executive Directors to replace Eileen McCusker and Chris Stooke 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 Non-Executive Directors who had recent insurance and risk management experience for the first appointment and pensions and with-profits experience for the second. The Committee appointed Egon Zehnder to assist with the search for the first appointment and Sainty Hird for the second. Both firms were instructed to undertake a full market search for candidates meeting the specified criteria. A shortlist of candidates was compiled for interview. Following a through and rigorous interview and appraisal process the Committee recommended to the Board the appointment of Alan Fairhead and Ross Ainslie as Non-Executive Directors.

The Committee considered changes to the composition of the Board Committees to reflect the various changes to the Board composition during the year. It also considered, and recommended to the Board, the appointment of Brian Duffin as Senior Independent Director to replace Chris Stooke. During the year the Board also recommended the re-appointment of Jon Bailie, Ali Capper and Christine Kennedy for further three-year terms 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 undertook unconscious bias training during 2020 to further support its drive to ensure that appointment processes are fully inclusive.

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

The Group is a signatory to the Women in Finance charter. The Charter reflects the Government's aspiration to see gender balance at all levels across financial services firms. Trisha Jones, the HR Director, is responsible and accountable for gender diversity and inclusion. The Group has set a target of having at least 38% female representation in senior management by 2021. At the end of September 2020, the Group had 39% female representation in senior management. At 31st December 2020, the gender balance ratio of the members of the Executive Committee plus the Company Secretary and their direct reports was 29:39 (female:male).

AUDIT, RISK AND INTERNAL CONTROL

ACCOUNTABILITY

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

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

CONTROL ENVIRONMENT

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

- Acting with integrity and with due skill, care and diligence.
- Acting in a prudent manner and ensuring we maintain adequate financial resources at all times.
- Having effective risk strategies and risk management systems.
- Organising and controlling our business responsibly and effectively, including having effective resolution strategies defined.
- Observing standards of market conduct.
- Ensuring fair outcomes for customers (Treating Customers Fairly) through the provision of suitable advice, meeting information needs, protecting client assets and managing conflicts of interest.
- Maintaining an open and cooperative relationship with our regulators.

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

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

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

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

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

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

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

AUDIT COMMITTEE REPORT

COMMITTEE COMPOSITION

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

Name of Director	A	B
David Roper (Committee Chair) [1]	7	7
Jon Bailie	7	7
Christine Kennedy	7	7
Chris Stooke [2]	7	7
Ross Ainslie [3]	-	-

1 Appointed Committee Chairman 1st January 2021
2 Retired from Board 31st December 2020; Committee Chair until his retirement
3 Appointed to Committee 1st March 2021
A = Meetings attended
B = Maximum meetings

THE ROLE OF THE COMMITTEE

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

FINANCIAL REPORTING

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

EXTERNAL AUDIT

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

RISK MANAGEMENT AND INTERNAL CONTROL

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

INTERNAL AUDIT

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

THE COMMITTEE'S FOCUS IN 2020

FINANCIAL REPORTING

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

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

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

NFU Mutual has worked to ensure that the business is transparent and provides the required level of disclosure regarding significant issues considered by the Committee in relation to the financial statements, as well as how these issues were addressed. As part of its review of the Annual Report and Accounts, the Committee places particular emphasis on their fair presentation, the reasonableness of the significant judgement factors and the appropriateness of the significant accounting policies used in the preparation. There has been particular focus on the Going Concern Basis of Accounting, which is detailed on pages 44 to 45 in light of the ongoing impact of the Coronavirus pandemic. The review considered whether the Annual Report and Accounts provided the information necessary for members to assess the Group's position, performance, business model and strategy.

SIGNIFICANT ISSUES

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

GENERAL INSURANCE RESERVES

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

The Committee received a report from management setting out the year end position of the claims reserves and highlighting the reasons for movements in the reserves during the year; this included consideration of the impact of the Coronavirus pandemic on recent claims experience and the judgement handed down by the Supreme Court on the FCA test case relating to Business Interruption, which determined that non-damage denial of access clauses would not respond to the pandemic and the resulting Government restrictions. 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. 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 provides an additional layer of assurance for the Committee. An independent assessment of the statistical reserves was also commissioned during the year at the request of the regulator. There were no significant issues highlighted by this assessment. The Committee remains satisfied with the approach to this area of the reserves.

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

LIFE INSURANCE RESERVES

The valuation of the Life Insurance reserves also involves a significant degree of judgement. The valuation of the liabilities of certain lines of business is particularly sensitive to the assumptions in relation to policyholder mortality and longevity. These assumptions are based on industry guidance and NFU Mutual's past experience and expectation of future changes. Persistency assumptions are also used in determining the level of reserves to be held. Past experience is used to set these assumptions taking into account regulatory and market changes which could affect the likelihood of policyholders cancelling their policies. Expense assumptions are also kept under close review to ensure that these can be relied upon. The potential impact of the Coronavirus pandemic on all assumptions underlying the reserves was also reviewed and adjustments made where deemed appropriate. Experience to date and the reinsurance position were assessed along with specific reference to our Critical Illness, Annuities and Protection policies where mortality trends are most relevant. The potential impact of Long Covid was also considered.

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

LEVELS OF MATERIALITY

The external auditors set a level of materiality to assist them with planning their audit work; further details of which can be found in Deloitte's Audit Report on pages 98 to 104. 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 £1.5m. In addition, there are certain areas, such as fraud, where the Committee's tolerance is such that any findings from either internal or external audit are brought to the Committee's attention.

The basis on which the external auditors have determined the level of auditing materiality in respect of the annual Report and Accounts has been considered by the Committee. 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 2020 financial year was the third year of the current audit engagement partner's appointment.

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

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

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

Deloitte undertook a small number of non-audit assignments during 2020; these were mostly assurance activities related to the audit work. All non-audit work was approved by the Committee in accordance with the policy and is considered to be consistent with the professional and ethical standards expected of the external auditor in this regard. In addition, key external audit staff, including the audit partner, are changed on a regular basis in accordance with best practice to ensure continued objectivity. All audit and non-audit fees are disclosed in Note 14.

INTERNAL CONTROLS

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

INTERNAL AUDIT

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

The Committee reviewed and approved the activity of Internal Audit during 2020 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.

In 2019 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 but highlighted some suggested opportunities for further improvements. During 2020, the Committee agreed an action plan which included areas to improve the efficiency and impact of Internal Audit's processes and enhance the reporting to the Committee. The Committee monitored progress against that plan and is satisfied with the outcome.

WHISTLEBLOWING

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

BOARD RISK COMMITTEE REPORT

COMMITTEE COMPOSITION

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

Name of Director	A	B
Alan Fairhead (Committee Chair) [1]	-	-
Ali Capper	4	4
Brian Duffin	4	4
Eileen McCusker [2]	2	2
Jim McLaren	4	4
David Roper [3]	-	-
Chris Stooke [4]	4	4

1 Appointed to Committee and as Committee Chair 1st January 2021
2 Retired from Board and as Committee Chair 7th August 2020
3 Appointed to Committee 1st January 2021
4 Appointed as interim Committee Chair 8th August 2020; retired from Board 31st December 2020
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 2020

The Committee considered the financial risk appetite and capital optimisation work with a particular focus on ensuring the continued resilience of the Group's solvency position. It also spent time considering the impact of the Coronavirus pandemic, including reviewing the output of agile assurance reviews which confirmed that the risk profile was not greatly changed by the changed working environment, processes and procedures. As part of the Chief Risk Officer's Report, the Committee reviewed the response to the pandemic, including the implementation of the Group's business continuity plans and the lessons learned.

The financial risk team has again spent a lot of time working on stress and scenario testing and the recovery and resolution planning to enable the Group to recover from a stress scenario. This work covers a wide range of scenarios to thoroughly test the Group's resilience to severe 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. The focus of the scenarios reported to the Committee this year were climate change and the second wave of the Coronavirus pandemic. The Committee was satisfied with the output of the stress and scenario testing and the plans to respond to such events.

The Committee has also considered the Group's operational resilience and the response to the Coronavirus pandemic is a major part of the work around this. The Committee has continued to focus on the ongoing work to mitigate Cyber and IT risks and the data protection risk profile. It has also considered how climate risks are embedded in the Group's risk framework. The Committee receives quarterly reports from each of its subordinate risk committees which ensure that it is fully aware of emerging risks and issues across the Group. It also considers the assurance activity being undertaken across all lines of defence. In addition, the Committee received the Risk Director's annual report on the effectiveness of risk governance and risk management.

The Committee continues to receive regular reports from the Chief Actuaries for Life and General Insurance covering, amongst other things, their Underwriting and Reinsurance Opinions and progress on actions resulting from their second line review and validation of the assumptions underlying the internal model. During the year the committee considered the strategic review of the Internal Model, changes made to the assumptions in the Internal Model and use of the Internal Model around the business as a factor in decision making.

WITH PROFITS COMMITTEE REPORT

COMMITTEE COMPOSITION

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

Name of Director	A	B
Brian Duffin (Committee Chair)	5	5
Ali Capper	5	5
Chris Stooke [1]	5	5
Ross Ainslie [2]	-	-

1 Resigned from Board 31st December 2020
2 Appointed to Committee 1st March 2021
A = Meetings attended
B = Maximum meetings

THE ROLE OF THE COMMITTEE

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

THE COMMITTEE'S FOCUS IN 2020

The Committee reviewed the methodology and assumptions for the reversionary and terminal bonus rates and approved the bonus rates (for recommendation to the Board). Following the significant market movements arising in early 2020 following the outbreak of the Coronavirus pandemic the Committee agreed, in accordance with the Group's Principles and Practices of Financial Management for With-Profits business, to recommend revised terminal bonus rates to the Board. The Board accepted the Committee's recommendations. The Committee also considered the actions being taken to respond to the impact of the market falls and volatility on the With-Profits fund. Actions to further improve the fund's resilience to market falls have been considered.

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

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 2020

The Committee reviewed the performance of the Group's investment portfolios in light of market movements and volatility. It also considered the potential implications of Brexit on the investment portfolio. It considered how the strategic asset allocation had changed throughout the year especially in light of the market falls in the first quarter. The ESG policy was reviewed and consideration given to future developments in this area and to climate change risk in the investment portfolios. The Committee also considered the limited use of derivatives within the portfolios and the controls around their use.

REMUNERATION COMMITTEE

COMMITTEE COMPOSITION

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

Name of Director	A	B
Christine Kennedy (Committee Chair)	7	7
Ali Capper	7	7
Eileen McCusker [1]	4	4
David Roper [2]	2	2

1 Retired from Board 7th August 2020
2 Appointed to Committee 24th September 2020
A = Meetings attended
B = Maximum meetings

Details of the work of the Remuneration Committee can be found in the Directors' Remuneration Report on pages 85 to 97.

Jim McLaren
Chairman

Lindsay Sinclair
Chief Executive

25th March 2021

CORPORATE GOVERNANCE

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

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

2. NOMINATION COMMITTEE (JIM MCLAREN*)

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

3. AUDIT COMMITTEE (DAVID ROPER*)

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

4. REMUNERATION COMMITTEE (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 (ALAN FAIRHEAD*)

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

6. EXECUTIVE COMMITTEE (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.

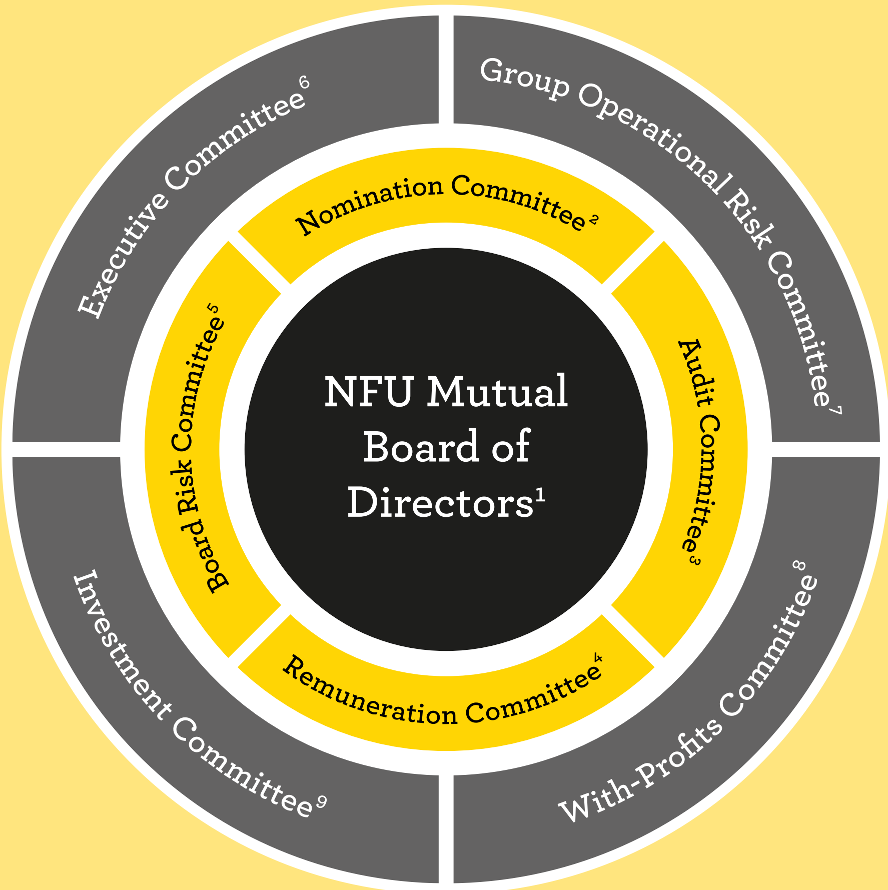
8. WITH-PROFITS COMMITTEE (BRIAN DUFFIN*)

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 BOARD MEMBERS

EAST

J. Finnis, Essex (Chair)
J. Andrews, Norfolk
N. Rome, Cambridgeshire
G. Speirs, Beds & Hunts

MIDLANDS

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

NORTH

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

SOUTH EAST

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

SOUTH WEST

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

NORTHERN IRELAND

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

SCOTLAND

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

WALES

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

SUPPORTING OUR COMMUNITIES

At NFU Mutual, we have been supporting our customers, their families and the communities they live in for over 100 years.

So, when the global pandemic struck, we wanted to act. As part of our Coronavirus Support Package for our members and our communities, we allocated circa £1.8 million* during 2020 to assist both national and local frontline charities across all corners of the UK.

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, educating young drivers, and supporting schemes to protect the environment.

*Charitable elements of our 'support package': £1m Agency Giving Fund, additional £750,000 donated to the NFU Mutual Charitable Trust.

LOOKING AFTER OUR MEMBERS

Promoting Flood Resilience

2020 saw significant flooding across the UK in the aftermath of Storms Ciara and Dennis in February, along with further localised flooding in August. We have continued to advise our members how to rebuild and protect against future flooding, as well as share the cost of flood-resilient repairs under our Personal policies. We remain committed to working with the Government, other insurers and industry experts in raising awareness of flood resilience so that those who have sadly been affected, or are at risk of flooding in the future, can take steps to limit the impact.

Educating Young Drivers

Keeping young drivers safe is a priority for us. That is 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 members who are aged between 17 and 21 for cars, and 24 for vans and light goods vehicles, when they take out their own motor insurance policy.

The course is created in partnership with, and delivered by Drive Doctors, who use informative, interactive events and programmes to change the long-term attitude of drivers on the road. Since 2014, more than 3,000 young people have undertaken the advanced training course.

RAC Breakdown Cover

To support our members during the pandemic, we provided enhanced RAC Breakdown Cover automatically at no extra cost to over 600,000 private car and light goods vehicle customers from 22 May 2020, and this will run until 30th June 2021. This enhancement formed part of our Coronavirus Support Package and provided assistance at, or within, a quarter of a mile of their home, as well as national recovery to help keep our customers and key workers on the road while lockdown restrictions changed across the UK.

Rural Crime

NFU Mutual invested £430,000 to tackle rural crime during 2020, including a police UK-wide agricultural vehicle crime tracking and recovery unit. The National Vehicle Crime Intelligence Service (NaVCIS) co-ordinates farm machinery theft intelligence between NFU Mutual, police forces, Border Force and Interpol.

CHAMPIONING RURAL COMMUNITIES

Supporting Farming Unions

We continue to provide funding for the UK's main farming unions as they work with government to keep agriculture running. In 2020, NFU Mutual donated £7.54m to farming unions to carry out their vital role.

The NFU Mutual Charitable Trust – supporting agricultural and rural charities

Established in 1998, the NFU Mutual Charitable Trust promotes and supports charitable causes in agriculture and rural development in the UK. In 2020, NFU Mutual made an additional £750,000 donation to the NFU Mutual Charitable Trust as part of our Coronavirus Support Package. This enabled the Trust to donate £1,092,500 throughout the year to support national organisations reaching the isolated and vulnerable families facing financial challenges due to Coronavirus. The funding will support those experiencing stress or worry, help families facing financial challenges and encourage physical and mental wellbeing in our communities.

The Addington Fund, The Farming Community Network, Forage Aid, the National Emergencies Trust: Coronavirus Appeal, The Prince's Countryside Fund, The Royal Agricultural Benevolent Institution

(RABI), RSABI, Rural Support and Samaritans have all benefitted from donations. The donations will allow these charities to continue to provide crucial support services, such as: freephone telephone helplines, e-counselling, signposting and outreach and one-off grants to support individuals and families.

Supporting the next generation in agriculture

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

In 2020, the NFU Mutual Charitable Trust provided bursaries for three postgraduate agricultural students, and 43 young people have now received help through the award to further their education.

The Farm Safety Foundation – protecting the farmers of the future

NFU Mutual set up the Farm Safety Foundation in 2014 to preserve and protect the physical and mental wellbeing of young farmers aged 16-40. The Foundation (or Yellow Wellies as some know them) has been raising awareness of some serious issues facing the farming community.

Over the years, its unique safety training, research and annual Farm Safety Week and Mind Your Head campaigns have helped to address the stigma of risk-taking and poor mental health in the agricultural sector.

Since the charity was established, its unique farm safety training has been delivered to over 8,000 agriculture students in 44 different land-based colleges and universities

throughout the UK, and to over 4,000 young farmers at Young Farmers' Clubs in England and Northern Ireland.

Coping with the stress of Covid-19

Amongst the many practical issues we faced from Covid-19, mental health was also a serious concern. As part of NFU Mutual's Coronavirus Support Package, an additional donation was given to the Farm Safety Foundation in 2020 to support and extend its mental health work. The charity put together a practical guide to coping with the stress of Covid-19. It outlined what mental health actually means, offered some top tips for working at home and building resilience, identified the triggers and signs of mental ill health, and talked about the sources of support available.

Supporting Local Communities – The NFU Mutual Agency Giving Fund

In light of the national emergency our country faced during 2020, we allocated a special £1m fund to support local frontline charities who had been affected by the impact of Coronavirus; to help our communities deal with the unfolding situation and increase their resilience for the future.

The NFU Mutual Agency Giving Fund formed part of the support package NFU Mutual committed for the benefit of its members and communities affected by Coronavirus.

To ensure this fund was donated to where it mattered most, we asked our local Agents who have over 300 offices across the UK, to nominate a local charity. Donations have been spread across the country, as well as across a range of different sectors, providing emergency relief and helping to build long-term resilience. The majority of these selected charities provided front-line health care, brought food and emergency subsistence to vulnerable people, or gave emotional and social assistance such as mental health support groups.

HELPING TO PROTECT THE ENVIRONMENT

Tackling climate change is a shared global responsibility and we all have a part to play. NFU Mutual is both responding to the insurance needs of our members and actively reducing our own environmental impact to help drive the transition to a low carbon economy. In 2020 we defined our Climate Change Strategy, and our mission statement to deliver this was approved by our Board. Further details on this can be found in the Risk and Risk Management section of this report.

Responsible Investment Strategy

As long-term investors looking to build quality portfolios, our Fund Managers consider Environmental, Social and Governance factors (ESG) throughout the investment process across all asset classes.

Our Fund Managers use a mixture of internal and external research when considering an investee company and frequently meet with management teams or their representatives to ensure that their interests are aligned with our own and that we are comfortable the company has a strong culture.

Good governance and an awareness of social responsibilities and the impact of their business on the environment are qualities we seek in the companies we invest in, and these ESG factors play an increasingly important role alongside the more traditional financial metrics when evaluating our investments. Where individual fund mandates allow, this has included avoiding areas we consider harmful such as predatory lenders, certain munitions and climate unfriendly companies with no plans to help towards the vital path to a decarbonised future.

We also actively engage with the companies we invest in to influence responsible practices in their business through voting rights. Our investment voting history is available on our website. In 2020, NFU Mutual set up an ESG Forum with key stakeholders representing across our business to bring an additional focus to this subject and to consider how we wish to further develop our strategies in this important area.

Responsible Property Investment

At NFU Mutual we are responsible for managing two property portfolios. Firstly, the offices we occupy and work from, and secondly, a property investment portfolio that we manage to deliver long-term investment performance. We are 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 across our portfolio to reduce carbon emissions and the use of natural resources. In 2020, our Property Investment team developed a high-level strategy for managing risks and future requirements of ESG and climate commitments. Opportunities for further portfolio energy efficiencies have been identified.

Reducing Our Impact at Home

Due to the impact of Covid-19, most of our employees worked from home for much of the year. This meant we saw a vast reduction in the waste produced within our offices in 2020. Despite the challenges faced, our current waste processes were maintained throughout the year, ensuring that we exceeded our recycling target of 60%. In 2020, we recycled 66% of our waste. During 2020 we also conducted a waste review and tender to provide a consolidated and standard approach to waste management across our head office buildings in Stratford upon Avon and our Regional Service Centres. The implementation of this has been deferred until at least 2021 due to the ongoing pandemic and contractual changes with our national soft service provider.

Our emissions report is included in the Risk and Risk Management section of this document on page 36.

Recycling to Improve Lives

At NFU Mutual we are proud that all of our waste is either reused, recycled or disposed of responsibly. That is 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. In 2020, we gave 217 pieces of furniture to local groups, including schools, sports clubs, hospices and community centres where it was put to excellent use.

VALUING OUR PEOPLE

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

Employee Wellbeing

We want all employees to be as well as they can be at home and at work. Daily life changed considerably as a result of Covid-19 and supporting our employees' wellbeing during these unprecedented times was very important to us. In 2020, we rolled out a programme of wellbeing weeks for our employees, delivering over 1,300 hours of individual training, education and activity. This covered a broad range of topics to support both physical and mental wellbeing, including, exercise, mindfulness, nutrition and sleep.

Developing Our People

We deliver top quality learning and development solutions to meet the needs of our people and our business. Our improved online training offers flexible learning for Agents and their staff to develop, wherever they are located in the UK. In 2020, we delivered at least 33,526 pieces of individual learning to the Agency Network. For our employees, we provide personal, technical and specialist development opportunities as well as talent programmes which help them to perform in their roles and to plan their career with NFU Mutual. In 2020, we welcomed 49 individuals onto our Apprenticeship Programme, and 21 graduates onto our Professional Training Scheme.

HOW WE DID IN 2020

£7.54m
donated to Farming Unions

1,300
hours of training, education & activities to support employee wellbeing

£1m
donated to local causes through the NFU Mutual Agency Giving Fund

49
new apprentices welcomed

21
graduates joined our Professional Training Scheme

£1,092, 500
donated to charities through the NFU Mutual Charitable Trust

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

217
pieces of office furniture donated to the local community

2,160
young farmers taught farm safety

DIRECTORS' REMUNERATION REPORT

I am pleased to present the Remuneration Committee's report for the year to 31st December 2020. 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.

NFU Mutual's performance during 2020 was strong, particularly across our core General Insurance offering, delivering good outcomes across the key financial performance indicators. This strong business performance was achieved despite the difficult conditions presented by the global Coronavirus pandemic. I am pleased that we have been able to prioritise both physical and mental wellbeing during the deepening crisis, enabling employees to continue to contribute to the Group's success without the need to call on government support such as the Coronavirus Job Retention Scheme.

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 range of pay increases from 1st May 2020 for the vast majority of staff was between 1% and 5%.

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)
- Ali Capper
- David Roper

THE REMUNERATION COMMITTEE

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

Following Eileen McCusker's retirement from the Remuneration Committee on 7th August 2020, David Roper was appointed as a member of the Remuneration Committee on 24th September.

The Committee, within the terms of the policy agreed by the Board, sets the level of remuneration for the Group Chief Executive, members of the Executive Committee and the General Counsel & Company Secretary. It also sets the proposed level of fees for the Chairman. All of these fees and remuneration are based on market relevancy and objective advice from our external remuneration consultants.

The Committee's practice is to appoint a number of remuneration consultants including Aon plc and Alvarez & Marsal, who may also provide other services to the Group. Data provided by Aon plc and Alvarez & Marsal was used to benchmark executive pay during the year. Aon plc and Alvarez & Marsal also provided advice and guidance to the Committee during the year. Both firms are signatories 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.

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**

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' 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 has been reviewed and all new external appointments will be aligned from January 2021 to 12%.

Annual Bonus: the GBS applies throughout the company. The 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 LTIP.

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

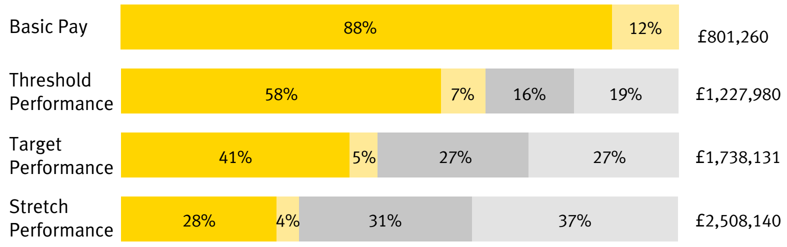
There are no differences in NFU Mutual's Remuneration Policy, or how it is applied, based on gender. NFU Mutual's Gender Pay Gap results for the year to 5th April 2020 compare positively with the data published for the Finance and Insurance Activities sector by the Office of National Statistics (ONS) in 2020. Our full Gender Pay Report for the year to 5th April 2020 will be available from 1st April 2021 on **nfumutual.co.uk**

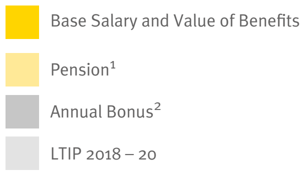
RELATIVE IMPORTANCE OF REMUNERATION ELEMENTS

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

The charts below illustrate the mix in 2020, between the fixed and performance-related pay of Executive Directors at threshold target and stretch performance levels.

Chief Executive (Lindsay Sinclair) total remuneration potential for the 2020 performance year

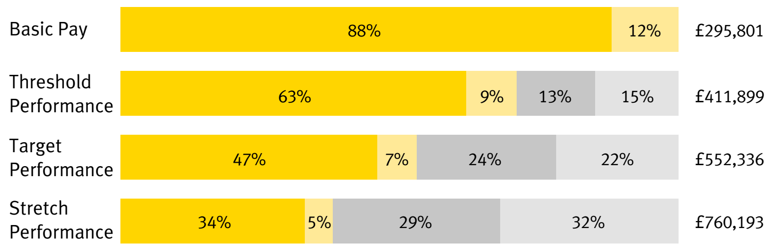




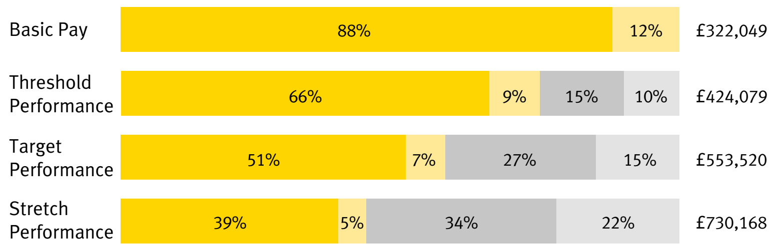
[1] Cash in lieu of Company Pension Contribution

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

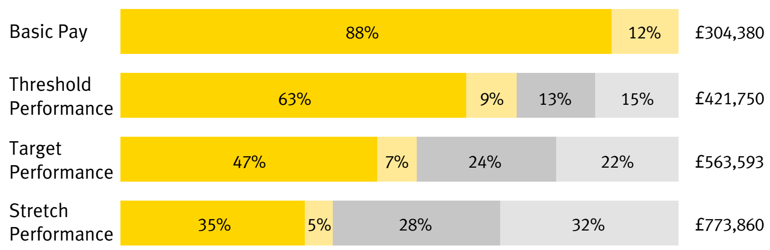
Customer Services Director (Steve Bower) total remuneration potential for the 2020 performance year



Finance Director (Richard Morley) total remuneration potential for the 2020 performance year



Sales & Agency Director (Nick Turner) total remuneration potential for the 2020 performance year



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 2020. (Both years were audited by Deloitte LLP.)

2020 £

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

2019 £

	Base Pay	Pension[3]	Benefits[2]	Annual Bonus[1]	2017 - 2019 LTIP	2019 Total	Fixed Pay	Variable Pay
Lindsay Sinclair[4]	598,497	89,775	115,361	568,446	734,879	2,106,958	803,633	1,306,325
Steve Bower	237,782	35,667	13,544	160,760	214,175	661,928	286,993	374,935
Richard Morley	240,483	36,072	11,568	163,103	113,808	565,034	288,123	276,911
Nick Turner	241,336	36,200	19,428	162,901	218,844	678,709	296,964	381,745

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 See further note in the Base Salaries and Benefits section below.

Mr Kim Arif was NFU Mutual's Finance Director until his death in 2018. A prorated payment relating to the 2017 – 2019 LTIP of £126,040 was paid in April 2020 and a prorated payment relating to the 2018 – 2020 LTIP of £23,267 will be paid in April 2021. These payments are paid to Mr Arif's Estate.

BASE SALARIES AND BENEFITS

The average base salary increase across the Group in May 2020 was 2.59% with the vast majority of increases ranging from 1% to 5%. The annual base salary levels of the Executive Directors with effect from 1st May 2020 were as follows:

Name	May 2020	May 2019	Increase
Lindsay Sinclair (Group Chief Executive)	£627,299	£605,510	3.6%
Steve Bower (Customer Services Director)	£248,361	£239,731	3.6%
Richard Morley (Finance Director)	£279,708	£243,225	15%*
Nick Turner (Sales and Agency Director)	£249,726	£242,924	2.8%

* Mr Morley was appointed on 1 November 2018 and his salary is progressing in line with our established practice and our principle of aligning with market pay levels.

The salary increases in May 2020 were related to 2019 performance.

The value of benefits for Executive Directors is included in the table of remuneration on page 90.

VARIABLE PAY

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

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

Payments made under these plans are not pensionable.

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

The STIP measures annual achievement in respect of Group strategic goals (e.g. annual business targets for growth in premium income, controlling costs, customer retention and profitability). In 2020, 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 92 detail the balanced scorecard of performance measures of the bonus schemes in 2020. All Executive Directors participate in both the STIP and the GBS.

Role	Maximum STIP Bonus (% of base salary)
Chief Executive	123% (113% STIP; 10% GBS)
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 three bonus schemes are reviewed by the Committee with advice from its external advisers including Aon plc and Alvarez & Marsal, on an annual basis and amended as appropriate.

GROUP BONUS SCHEME 2020 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 2020 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.

2020 – 2022 LTIP Grant

A new LTIP grant was made in 2020 to cover the performance period 2020 to 2022. The 2020-2022 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 2020 – 2022 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 2018 to 2020 LTIP scheme which will vest at the end of 2020 and the 2019 to 2021 LTIP scheme which will vest at the end of 2021.

SUMMARY OF LTIP GRANTS AND VESTING

The table below details the vesting outcomes from the 2018-2020 LTIP scheme and the grants made in 2019 and 2020.

LTIP 3 Cycle £

	Plan Start Date	Cycle Ending	Grant Value	Vesting Date	2018-2020 Scheme Performance	2020 Payment
Lindsay Sinclair	01-Jan-18 01-Jan-19 01-Jan-20	2020 2021 2022	935,302 970,220 1,005,147	31-Dec-20 31-Dec-21 31-Dec-22	79.33%	741,975
Steve Bower	01-Jan-18 01-Jan-19 01-Jan-20	2020 2021 2022	245,834 252,595 258,910	31-Dec-20 31-Dec-21 31-Dec-22	79.33%	195,020
Richard Morley	01-Jan-18 01-Jan-19 01-Jan-20	2020 2021 2022	161,976 253,800 262,683	31-Dec-20 31-Dec-21 31-Dec-22	79.33%	128,496
Nick Turner	01-Jan-18 01-Jan-19 01-Jan-20	2020 2021 2022	249,722 257,214 262,358	31-Dec-20 31-Dec-21 31-Dec-22	79.33%	198,104

A new LTIP grant will be made in 2021 to cover the performance period 2021 to 2023, and this will vest at the end of 2023, dependent on the extent to which performance objectives in relation to that grant are achieved.

CLAWBACK OF VARIABLE PAY

Clawback of part or all of any variable pay award (STIP or LTIP) already vested or already paid, can apply at the Remuneration Committee's discretion if, in the three years following completion of the performance period, it was found that the vesting or payment was made on the basis of materially mis-stated performance or if, either during the performance period or during the three years following completion of the performance period, an Executive commits gross misconduct or there has been a major failure of management resulting in substantial damage to the business or reputation of NFU Mutual.

The amount vesting under any LTIP grant can also be reduced, at the discretion of the Remuneration Committee, to meet a clawback requirement in relation to the STIP or an earlier LTIP grant.

DIRECTORS' PENSION ARRANGEMENTS

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

Mr Bower continues to be a Defined Benefit member of the Group's pension scheme. This provides a pension on retirement of one sixtieth of final pensionable salary, for each year's membership of the pension scheme, subject to a Scheme Specific Cap, which limits the amount of salary that counts towards pension benefits. The Scheme Specific Cap for 2020 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.

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

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

	Single Pension Figure at 31.12.2020	Single Pension Figure at 31.12.2020 (£)	2020 Transfer value of accrued pension value (£)	2020 Accrued pension value (£ pa)	Normal pension age
Steve Bower	-[1]	-[1]	2,590,600	66,600[2]	60

1 Based on the member ceasing to accrue pension from 5th April 2014, although he continues to accrue contingent spouse's benefits on death-in-service and death-after-retirement, which is reflected in the calculation of the transfer value at 31st December 2018. The Administrators have confirmed that the continued accrual of the contingent spouse's benefits is unaffected by the broader closure of the Scheme to future accrual.

2 The accrued pension figure disclosed this year reflects a change in approach compared to prior years, in order to reflect the precise timing of increases in accrued pension within the Scheme for members with Fixed Protection from the Lifetime Allowance. The corresponding figure as at 31 December 2019 using the same approach would have been £65,000 pa.

Mr Bower continues to receive a cash allowance in place of pension. The company provides Death in Service cover at four times salary.

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

DIRECTORS' CONTRACTS

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

	Date of contract	Unexpired Term as at 31st December 2020	Notice period
Lindsay Sinclair*	1st August 2008	3 months	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

* Lindsay Sinclair will retire from the Group on 31st March 2021

NON-EXECUTIVE DIRECTORS (AUDITED BY DELOITTE LLP)

Non-Executive Directors	2020 Committee Responsibilities	2020 Total Fees (£)	Taxable Expenses from 1st January 2020 - 31st December 2020*	2019 Total Fees (£)	Taxable Expenses from 1st January 2019 - 31st December 2019*
Jon Bailie	Investment Committee Chair N.F.U. Mutual Unit Managers Limited Chair Audit Committee Member	75,375	946	60,667	1,539
Ali Capper	Board Risk Committee Member With-Profits Committee Member Remuneration Committee Member	66,875	-	57,250	868
Brian Duffin	With-Profits Committee Chair Chair of the Company's Pension Scheme Trustee Nomination Committee Member Board Risk Committee Member Senior Independent Director (from 01/01/2021)	87,375	3,149	83,250	4,450
Alan Fairhead (appointed to Board 01/11/2020)	Board Risk Committee Chair (from 01/01/2021) Director of N.F.U. Mutual Unit Managers Limited (from 05/01/2021)	8,917	501	-	-
Christine Kennedy	Remuneration Committee Chair Nomination Committee Member Audit Committee Member	72,375	3,079	62,417	4,831
Eileen McCusker (retired from Board 07/08/2020)	Board Risk Committee Chair Remuneration Committee Member	43,708	537	70,250	4,093
Jim McLaren[1]	Chairman Nomination Committee Chair Board Risk Committee Member	179,563	5,596	95,000	7,458
Richard Percy (retired from Board 30/09/2019)	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
David Roper[2]	Audit Committee Chair (Chair from 01/01/2021; Committee member throughout 2020) Director of N.F.U. Mutual Unit Managers Limited (until 05/01/2021) Remuneration Committee Member (from 21/09/2020) Board Risk Committee Member (from 01/01/2020)	63,803	-	19,667	-
Chris Stooke (retired from Board 31/12/2020)	Senior Independent Director Audit Committee Chair Interim Board Risk Committee Chair (appointed 08/08/2020) Board Risk Committee Member Nomination Committee Member With Profits Committee Member	88,303	1,672	78,763	2,026

* 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).

1 Jim McLaren became Chairman of the Board from 30th September 2019
2 David Roper joined the Board on 24th September 2019

None of the Non-Executive Directors accrue pension benefits with NFU Mutual. Some former Non-Executive Directors or their widows still receive a pension, on an ex gratia, non-contractual and unfunded basis. The total cost of these pensions for 13 former Directors or widows in 2020 was £218,841 (2019: £208,806).

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 2020	Notice period
Jon Bailie [1]	1st February 2018	2 months	1 month
Ali Capper [2]	15th March 2018	3 months	1 month
Brian Duffin	25th February 2016	2 years	1 month
Alan Fairhead	5th October 2020	2 years 10 months	1 month
Christine Kennedy	25th February 2016	2 years 10 months	1 month
Jim McLaren	30th September 2019	1 year	1 month
David Roper	8th April 2019	1 year 8 months	1 month

1 Reappointed for a further three-year term with effect from 19th March 2021.
2 Reappointed for a further three-year term with effect from 9th April 2021

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

Christine Kennedy
Chair of the Remuneration Committee

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

Report on the audit of the financial statements

1. Opinion

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

- give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2020 and of the group's loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:
- the consolidated profit and loss account;
- the consolidated statement of other comprehensive income;
- the consolidated and parent company balance sheets;
- the consolidated statement of cash flows;
- the statement of changes in equity; and
- the notes to the financial statements 1 to 34, 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 Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

2. Basis for opinion

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

We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services provided to the group and parent company for the year are disclosed in note 14 to the financial statements. We confirm that 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:

- General business claims outstanding latent reserving assumptions;
- General business claims outstanding non-latent bodily injury assumptions and methodology; and
- Long-term business provision annuitant mortality assumptions

Within this report, key audit matters are identified as follows:
<> Similar level of risk

Materiality

The materiality that we used for the group financial statements was £75 million which was determined on the basis of 1% of net assets.

Scoping

Our group audit included full scope audits of the parent company and Avon Insurance plc. Our testing covered 94% of Loss before tax (LBT), 98% of revenue and 95% of net assets. All work was performed by the Group engagement team while other trading components, consolidated in the financial statements, were subject to analytical review or audit of specified account balances.

Significant changes in our approach

Coronavirus – event after the reporting date has not been considered a key audit matter in the current year as the parent company and group has not been significantly affected by the pandemic and the associated government imposed lockdown measures implemented.

4. Conclusions relating to going concern

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

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

- Enquiring of senior management in relation to their going concern assessment including impacts of Covid-19 and Brexit, and the steps they will take in the event that economic and other factors deteriorate further due to government imposed lockdowns;
- Challenging management's key assumptions underpinning the going concern basis of accounting, by assessing the reasonableness of significant movements in forecast cash flows and considering their consistency with other available information and our understanding of the group businesses. This included assessing management's stress and scenario testing and performing reverse stress testing. We also challenged whether the future forecasts and assumptions were used consistently across the preparation of the financial statements;
- Evaluating the historical accuracy of forecasts made by management by comparing them to actual results;
- Assessing the group's operational resilience, business continuity plans, monitoring of outsourced operations, and ability to continue to serve customers, comply with regulations and maintain appropriate internal controls as this relates to ability to continue as a going concern;
- Evaluating the appropriateness of disclosures in the 2020 financial statements relating to going concern and the principal risks and uncertainties that the group and parent company faces, with particular focus on Covid-19 and Brexit.

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

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

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

5. Key audit matters

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

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

5.1 General Business Claims Outstanding: Latent reserving assumptions	
Key audit matter description	The valuation of the general business claims outstanding is a complex process involving inherent uncertainty and is one of the most significant areas of management judgement within the group's financial statements. The most significant and sensitive judgements in the determination of the carrying value of latent general insurance claims outstanding are on specific farming latent perils. The derivation of the specific farming latent peril assumptions, which are long tail in nature, including the consideration of the limitations of available relevant and data increases the level of uncertainty in the determination of the appropriate reserves. Included in liabilities are general business claims outstanding reserves, with a balance at 31 December 2020 of £1,881m (2019: £1,812m), as set out in note 8 to the financial statements. Given the size of the specific farming latent assumptions out of the total balance of the general business claims outstanding reserves, incorrect or inconsistent determination or application of the assumptions could materially affect the financial statements. The accounting and risk management policies are set out in notes 1 and 2 respectively, with insurance risk being discussed in note 2c. Due to the high level of judgement and estimates involved, we have determined that there was a potential risk of fraud through possible manipulation of this balance. The Group Audit Committee refers to this key audit matter in their report on page 69.
How the scope of our audit responded to the key audit matter	With the involvement of our actuarial specialists we performed the following procedures : • We obtained an understanding of the relevant controls in place to mitigate the risk of inappropriate assumptions being used in valuing the general business latent reserves. • We challenged management's documented model methodology, and documented approach to deriving material latent assumptions. • We challenged management's process for commissioning third party reports and challenged management on the up-to-date completeness of information used to inform assumptions underlying the best estimate; • We inspected the methodology for calculating exposure ranges for latent claims and where possible agreed this data back to audited policyholder data to corroborate management judgements; • We challenged management's sensitivity testing on key assumptions. 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 • We challenged management's process for eliminating redundant latent reserves where exposure and the likelihood of claim occurrence are trending downwards. We also performed the following wider audit procedures as part of testing the general business claims outstanding reserves: • We tested the mechanical accuracy of the model used to estimate the general business claims outstanding reserves, and agreed a sample of key data inputs back to underlying source data; • We tested the accuracy and completeness of data used in general business claims outstanding reserving, and agreed a sample of key data inputs back to underlying sources; • We assessed the impact of Covid-19 on the valuation of management's general insurance reserves for new latent claim types; • We increased our focus on the evaluation of the audit evidence obtained regarding the key assumptions adopted by management. This included both corroborative and contradictory audit evidence from our knowledge of the industry around the latent long-term business provision reserving, other available information from other wider audit procedures carried out and our understanding of the parent company and group; • We reviewed and challenged management's approach to selecting levels of latent 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; • We performed a 'stand back' test and considered whether management's general business claims outstanding were within an acceptable reasonable range; • We also assessed whether the financial statements disclosures in relation to the valuation of the general insurance liabilities are reasonable.
Key observations	We found management's general insurance latent reserving key assumptions to be reasonable. We concluded that the overall general insurance reserves were within an acceptable range and the related disclosures are reasonable.

5.2 General Business Claims Outstanding: Non-latent assumptions and methodology

Key audit matter description	The valuation of the general business claims outstanding is a complex process involving inherent uncertainty and is one of the most significant areas of management judgement within the group's financial statements. The most significant and sensitive judgements in the determination of the carrying value of non-latent general insurance claims outstanding are on third party bodily injury (TPBI) assumptions and methodology for motor and liability TPBI £1m+ classes. The determination of the bodily injury non-latent assumptions and methodology for claims above £1m is considered to be to be inherently more complex given their severity, individual judgement applied, their individual significance and the likelihood of an unreasonable or inappropriate methodology or assumptions resulting in a material misstatement being greater in comparison to other perils and TPBI claims below £1m. Included in liabilities are general business claims outstanding reserves, with a balance at 31 December 2020 of £1,881m (2019: £1,812m), as set out in note 8 to the financial statements. Given the size of the TPBI non-latent reserves for claims above £1m attributed to the assumptions above as a proportion of the total balance of the general business claims outstanding reserves, incorrect or inconsistent determination or application of the assumptions and methodology could materially affect the financial statements. The accounting and risk management policies are set out in notes 1 and 2 respectively, with insurance risk being discussed in note 2c. Due to the high level of judgement and estimates involved, we have determined that there was a potential risk of fraud through possible manipulation of this balance. The Group Audit Committee refers to this key audit matter in their report on page 69.
How the scope of our audit responded to the key audit matter	With the involvement of our actuarial specialists we performed the following procedures: • We obtained an understanding of the relevant controls in place to mitigate the risk of inappropriate assumptions being used in valuing the general business non-latent reserves. • We challenged management's selection of applied methodology and assumptions, focusing on material classes of business in relation to TPBI for claims above £1m; • We assessed the documented methodology and assumptions used by management to calculate the non-latent reserves, including graphical review testing of methodology weighting and management's application outputs using our in-house reserving software, and where applicable comparison to industry standard practices; • We inspected the consistency and appropriateness of management's sensitivity tests; and • We performed independent re-projections for a sample of classes and perils in relation to TPBI claims above £1m. We also performed the following wider audit procedures as part of testing the general business claims outstanding: • We inspected the consistency and appropriateness of management's sensitivity tests; • We performed independent re-projections for a sample of classes and perils in relation to other perils outside the TPBI claims above £1m; • We 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; • We challenged management's selection of documented methodology and assumptions, with particular reference to the impact of Covid-19; • We increased our focus on the evaluation of the audit evidence obtained regarding the key assumptions adopted by management. This included both corroborative and contradictory audit evidence from our knowledge of the industry around general business claims outstanding reserving, other available information from other wider audit procedures carried out and our understanding of the parent company and group; • We reconciled the output of the actuarial reserving process to the general ledger; • We performed a 'stand back' test and considered whether management's general business claims outstanding were within an acceptable reasonable range; • We also assessed whether the financial statements disclosures in relation to the valuation of the general insurance liabilities are reasonable.
Key observations	We found management's methodology for determining the general insurance reserves and the key assumptions to be reasonable. We concluded that the overall general insurance reserves were within an acceptable range and the related disclosures are reasonable.

5.3 Long-term Business Provision: Annuitant mortality assumptions	
Key audit matter description	The valuation of the long-term business provision is a complex process involving inherent uncertainty and is one of the most significant areas of management judgement within the group's financial statements. The assumptions for annuitant mortality (both base mortality and mortality improvements) used in the actuarial reserving process are fundamental in ensuring that the appropriate level of actuarial liabilities 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: I. Mortality (base) – Factors which affect the assumptions underlying mortality experience (e.g., age, gender, pension band etc.), management's view on the credibility of the experience and the period over which it is analysed; II. Mortality (improvement) – Management's view/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") 2019 tables. Included in liabilities are long-term business provision reserves, with a balance at 31 December 2020 of £2,487m (2019: £2,376m) as set out in note 4 to the financial statements. Given the size of the reserves attributed to the annuitant mortality assumptions above out of the total balance of the long-term business provision reserves, incorrect or inconsistent determination or application of the assumptions and methodology could materially affect the financial statements. The accounting and risk management policies are set out in notes 1 and 2 respectively, with insurance risk being discussed in note 2c. Due to the high level of judgement and estimates involved, we have determined that there was a potential risk of fraud through possible manipulation of this balance. The Group Audit Committee refers to this key audit matter in their report on page 69.
How the scope of our audit responded to the key audit matter	With involvement of our actuarial specialists we performed the following procedures on annuitant mortality assumptions: • We obtained an understanding of the relevant controls around life reserving annuitant mortality methodology and assumptions in place to mitigate the risk of inappropriate assumptions being used in valuing the long-term business provision; • We evaluated the in-year experience study relating to base annuitant mortality experience across the material annuity products; • We challenged key judgements made around adopted annuitant mortality improvement assumptions by making reference to the latest available CMI 2019 mortality improvements model and considered the appropriates of fit to the underlying book ; • We inspected and validated supporting evidence for any adjustments made to the latest available industry table CMI 2019 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. We also performed the following wider audit procedures as part of testing the long-term business provision: • We tested the accuracy and completeness of data used in long term business reserving, and agreed a sample of key data inputs back to underlying sources; • We assessed the impact of Covid-19 on the valuation of long-term business provision; • We increased our focus on the evaluation of the audit evidence obtained regarding the key assumptions adopted by management. This included both corroborative and contradictory audit evidence from our knowledge of the industry around long-term business provision reserving, other available information from other wider audit procedures carried out and our understanding of the parent company and group; • We performed a 'stand back' test and considered whether management's long-term business provision were within an acceptable reasonable range; • We also assessed whether the financial statements disclosures in relation to the valuation of the long-term business provision are reasonable.
Key observations	We found that management's key annuitant mortality assumptions to be reasonable. We concluded that the valuation of long-term business provision and the related disclosure are reasonable.

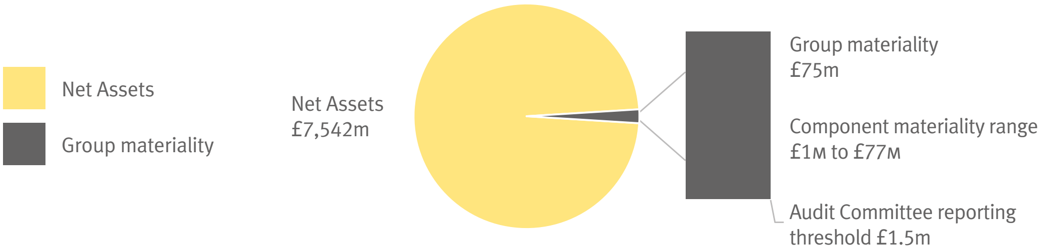
6. Our application of materiality

6.1 Materiality

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

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

	Group financial statements	Parent company financial statements
Materiality	£75M (2019: £78M)	£71M (2019: £77M)
Basis for determining materiality	1% of net assets (2019: 1% of net assets)	The parent company's materiality was determined at 1% of net assets and capped at group materiality 0.95% (2019: 0.99%). When determining materiality, as the parent company is component of the group, we also considered that this materiality is appropriate for the consolidation of this set of financial statements into that group's results.
Rationale for the benchmark applied	We have used net assets as a base for our materiality to reflect the parent company's and group's strategic ambition as a mutual to deliver longer-term sustainable profit growth and improve overall member value. 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 financial statements	Parent company financial statements
Performance materiality	70% (2019: 70%) of group materiality	70% (2019: 70%) of parent company materiality
Basis and rationale for determining performance materiality	In determining performance materiality we have considered the quality of the parent company's and 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 as well as the limited impact of remote working arrangements in light of Covid-19 and government imposed lockdown restrictions.	

6.3. Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £1.5m (2019: £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 94% of LBT, 98% of revenue and 95% 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 £935k to £71m (2019: £945k to £77m). 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.

Other information

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

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

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

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

8. 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.

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

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

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

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

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

10.1. 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:
  - o identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - o detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - o the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations;
- the matters discussed among the audit engagement team and relevant internal specialists, including actuarial, tax, pensions, financial instruments, property valuation and IT regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

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

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

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

10.2. Audit response to risks identified

As a result of performing the above, we identified general business claims outstanding and long-term business provision 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 HM Revenue and Customs (HMRC), Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA); and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other

- adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

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

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

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

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

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

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

12.1 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, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

12.2 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.

13. Other matters which we are required to address

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

- the directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on pages 44-45;
- the directors' explanation as to its assessment of the group's prospects, the period this assessment covers and why the period is appropriate set out on page 37;
- the directors' statement on fair, balanced and understandable set out on page 47;
- the board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 44;
- the section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on page 66; and
- the section describing the work of the Audit Committee set out on pages 67-68 .

14. Other matters which we are required to address

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 3 years, covering the years ending 31 December 2018 to 31 December 2020.

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
25 March 2021

CONSOLIDATED PROFIT AND LOSS ACCOUNT TECHNICAL ACCOUNT – GENERAL BUSINESS

2020 £m	2019 £m	for the year ended 31 December
1,705	1,648	Gross written premium before Mutual Bonus
(252)	(258)	Mutual Bonus
1,453	**1,390**	**Gross Written Premium (note 6)**
(106)	(108)	Outwards reinsurance
1,347	**1,282**	**Net premiums written**
(36)	(38)	Change in gross provision for unearned premiums
-	2	Change in the gross provision for reinsured unearned premiums
(36)	**(36)**	**Change in the net provision for unearned premiums**
1,311	**1,246**	**Earned premiums, net of reinsurance**
39	51	Allocated investment return transferred from the Non-Technical Account (note 9)
1,350	**1,297**	**Total technical income**
1,037	1,022	Gross claims paid
(7)	(10)	Reinsurers share of gross claims paid
1,030	**1,012**	**Net claims paid**
63	(34)	Change in gross provision for claims
(31)	(5)	Change in reinsurers' share
32	**(39)**	**Change in net provisions for claims**
1,062	**973**	**Claims incurred, net of reinsurance**
389	358	Net operating expenses (note 7)
6	6	Other technical charges, net of reinsurance
1,457	**1,337**	**Total technical charges**
(107)	**(40)**	**Balance on the Technical Account – General Business**

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

2020 £m	2019 £m	For the year ended 31 December
172	210	Gross written premium (note 6)
(5)	(6)	Outwards reinsurance
167	**204**	**Earned premiums, net of reinsurance**
497	1,062	Investment income (note 9)
-	202	Unrealised gain on investments (note 9)
27	27	Fee income from investment contracts
27	37	Other technical income net of reinsurance
718	**1,532**	**Total technical income**
346	329	Gross claims paid
(7)	(6)	Reinsurers' share
339	**323**	**Net claims paid**
6	4	Change in gross provision for claims
345	**327**	**Claims incurred, net of reinsurance**
75	420	Gross change in long-term business provision
-	-	Reinsurers' share
75	**420**	**Net change in the long-term business provision**
68	(9)	Changes in technical provision for linked liabilities net of reinsurance
9	542	Movements in investment contract liabilities
152	**953**	**Net change in technical provisions**
80	101	Net operating expenses (note 7)
127	-	Unrealised loss on investments (note 9)
5	2	Investment expenses and charges (note 9)
13	73	Tax attributable to the Long-Term Business (note 15)
(3)	82	Transfer (from) / to the fund for future appropriations
(1)	(6)	Loss attributable to minority interest
718	**1,532**	**Total technical charges**
-	**-**	**Balance on the Technical Account – Long-Term Business**

CONSOLIDATED PROFIT AND LOSS ACCOUNT NON-TECHNICAL ACCOUNT

2020 £m	2019 £m	For the year ended 31 December
(107)	(40)	Balance on the Technical Account - General Business
372	980	Investment Income (note 9)
(363)	(181)	Unrealised loss on investments (note 9)
(39)	(51)	Allocated investment return transferred to the Technical Account - General Business (note 9)
(8)	(7)	Support payments to the Farmers' Unions
6	6	Other Income
(33)	(31)	Other Charges
(172)	**676**	**(Loss) / Profit on ordinary activities before taxation (note 14)**
29	(103)	Tax credit / (charge) on ordinary activities (note 15)
(143)	**573**	**(Loss) / Profit for the financial year (note 25)**

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 (EXPENSE) / INCOME

2020 £m	2019 £m	For the year ended 31 December
(143)	**573**	**(Loss) / Profit for the financial year**
(69)	(3)	Actuarial loss on pension scheme (note 29)
12	1	Movement on deferred tax on pension scheme
(200)	**571**	**Total comprehensive (expense) / income recognised since last Annual Report**

CONSOLIDATED AND COMPANY BALANCE SHEETS

Consolidated 2020 £m	Consolidated 2019 £m	Parent Company 2020 £m	Parent Company 2019 £m	As at the 31 December
				Assets
				Investments
1,374	1,576	1,091	1,308	Land and Buildings (note 18)
493	470	887	933	Investments in Group undertakings and participating interests (note 16)
12,584	12,760	12,534	12,662	Other financial investments (note 17)
14,451	**14,806**	**14,512**	**14,903**	
3,819	3,755	3,819	3,755	Assets held to cover linked liabilities (note 19)
				Reinsurers' share of technical provisions
11	11	11	10	Provision for unearned premiums
14	14	14	14	Long-term business provision
222	191	217	187	Claims outstanding (note 8)
29	29	29	29	Technical provision for linked liabilities
276	**245**	**271**	**240**	
				Debtors
				Debtors arising out of direct insurance operations
553	520	547	515	Due from policyholders
10	6	10	6	Due from intermediaries
563	**526**	**557**	**521**	
6	6	6	6	Debtors arising out of reinsurance operations
-	-	29	25	Amounts due from Group undertakings
69	63	53	53	Other debtors (note 20)
638	**595**	**645**	**605**	
				Other Assets
46	45	43	43	Tangible assets (note 21)
11	14	-	-	Stocks (note 22)
439	182	309	145	Cash at bank and in hand
496	**241**	**352**	**188**	
				Prepayments and accrued income
69	69	68	69	Accrued interest and rent
115	110	115	110	General business deferred acquisition costs
22	24	22	24	Long-term business deferred acquisition costs
17	20	18	23	Other prepayments and accrued income
223	**223**	**223**	**226**	
19,903	**19,865**	**19,822**	**19,917**	**Total assets excluding pension asset**
-	63	-	-	Pension asset (note 29)
19,903	**19,928**	**19,822**	**19,917**	**Total assets including pension asset**

CONSOLIDATED AND COMPANY BALANCE SHEETS

Consolidated		Parent Company		
2020 £m	2019 £m	2020 £m	2019 £m	**As at 31 December**
				Liabilities
				Reserves
-	-	144	225	Revaluation reserve (note 25)
250	250	250	250	Other reserve (note 25)
6,024	6,224	5,918	6,041	Profit and loss account (note 25)
28	15	-	-	Equity minority interests
1,240	1,243	1,266	1,284	Fund for future appropriation (note 25)
7,542	**7,732**	**7,578**	**7,800**	**Total Equity**
				Technical provisions
711	675	710	674	Provision for unearned premiums
5,556	5,481	5,556	5,481	Long-term business provision (note 4)
1,881	1,812	1,873	1,804	Claims outstanding (note 8)
8,148	**7,968**	**8,139**	**7,959**	
121	121	121	121	Technical provision for linked liabilities – Insurance contracts (note 4)
3,583	3,574	3,583	3,574	Technical provision for linked liabilities – Investment contracts (note 4)
128	192	129	181	Provision for other risks and charges (note 27)
11,980	**11,855**	**11,972**	**11,835**	
				Creditors
50	46	51	47	Creditors arising out of direct insurance operations
17	18	15	17	Creditors arising out of reinsurance operations
84	51	-	-	Amounts due to credit institutions (note 34)
-	-	57	45	Amounts owed to Group undertakings
82	101	73	97	Other creditors including taxation and social security (note 28)
142	125	76	76	Accruals and deferred income
19,897	**19,928**	**19,822**	**19,917**	**Total liabilities excluding pension deficit**
6	-	-	-	Pension Liability (note 29)
19,903	**19,928**	**19,822**	**19,917**	**Total liabilities**

These financial statements on pages 105 to 157 were approved and authorised for issue by the Board of Directors on the 25th March 2021 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

2020 £m	2019 £m	For the year ended 31 December
(116)	(157)	Net cash from operating activities (note 33)
372	980	Interest and dividend Income
(3)	(35)	Taxation paid
253	**788**	**Net cash generated from operating activities**
		Cash flow from investing activities
(9)	(19)	Payments to acquire tangible assets
(121)	(1,092)	Payments to acquire shares and other variable yield securities
861	690	Receipts from the sale of shares and other variable yield securities
(1,467)	(1,370)	Payments to acquire debt securities and other fixed / variable income securities
919	643	Receipts from the sale of debt securities and other fixed / variable income securities
(21)	(164)	Payments to acquire investment properties
58	59	Receipts from the sale of investment properties
220	**(1,253)**	**Net cash from / (used) in investing activities**
473	**(465)**	**Net increase / (decrease) in cash and cash equivalents**
297	762	Cash and cash equivalents at the beginning of the year
770	**297**	**Cash and cash equivalents at the end of the year**
272	66	Cash at bank and in hand (note 33)
498	231	Short-term deposits (included in Other Financial Investments)
770	**297**	**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 2020 £m	Equity Minority Interests £m	Total Equity 2020 £m	Total Equity 2019 £m	**Consolidated**
-	250	6,224	1,243	7,717	15	7,732	7,079	As at 1 January
-	-	(143)	-	(143)	-	(143)	573	Transfer (to) / from Non-Technical Account
-	-	-	(3)	(3)	-	(3)	82	Transfer (from) / to the fund for future appropriations
-	-	(69)	-	(69)	-	(69)	(3)	Actuarial loss on pension scheme
-	-	12	-	12	-	12	1	Movement on deferred tax on pension scheme
-	-	-	-	-	(1)	(1)	(6)	Loss attributable to Minority Interest
-	-	-	-	-	14	14	6	Funding from Minority Interest
-	**250**	**6,024**	**1,240**	**7,514**	**28**	**7,542**	**7,732**	**As at 31 December**
								Parent Company
225	250	6,041	1,284	7,800	-	7,800	7,154	As at 1 January
-	-	(123)	-	(123)	-	(123)	578	Transfer (to) / from Non-Technical Account
-	-	-	(18)	(18)	-	(18)	84	Transfer (from) / to the fund for future appropriations
(81)	-	-	-	(81)	-	(81)	(16)	Revaluation of subsidiaries
144	**250**	**5,918**	**1,266**	**7,578**	**-**	**7,578**	**7,800**	**As at 31 December**

NOTES TO FINANCIAL STATEMENTS

1 COMPLIANCE STATEMENT & ACCOUNTING POLICIES

Statement of Compliance

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

Basis of Preparation

The financial statements have been prepared on a going concern basis under the historical cost convention with the exception of land and buildings, and financial assets and liabilities which are stated at fair value. Further details can be found in the Directors' Report on page 41. 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 112 to 157. 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 122 to 124.

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 separate allowance is made for large claims. An allowance is made for expected changes in future trends, such as changes in company processes, changes in the legal environment, changes in mix of business and changes in expected claims inflation. In addition, exposure base techniques are adopted to estimate reserves required for new sources of loss not significantly evident in historic data. The business of the Group has a specific focus on farming-related exposures whose severity is dependent upon a range of factors (the costs of settling the claims, the number of claims and the likelihood of the event occurring) which have a high degree of uncertainty especially for longer tail risk. We apply a significant degree of caution and expert judgement in reflecting the uncertainties of such claims when setting overall reserves. Provisions are calculated gross of any reinsurance recoveries. A separate estimate is made of the amount that will be recoverable from reinsurers based upon the gross provisions and having due regard to collectability.

Unexpired Risks Provision – Provision has been made for any deficiencies arising when unearned premiums, net of associated acquisition costs, are insufficient to meet expected claims and expenses after taking into account future investment return on the investments supporting the unearned premiums provision and unexpired risk provision. The expected claims are calculated based on information available at the balance sheet date. Unexpired risk surpluses and deficits are offset where business classes are managed together and a provision is made if an aggregate deficit arises.

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 amortised cost using the effective interest rate method.

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

All other Financial Instruments, Loans and Mortgages – The Group classifies other financial instruments, loans and mortgages as loans and receivables, using the effective interest rate method. They are initially measured at the value transferred but subsequently measured at amortised cost making an appropriate allowance for any estimated irrecoverable amounts. Any movement in the impairment provision is charged to the Profit and Loss Account as incurred. No adjustment is made to discount any balances to reflect the time value of money. 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 2020, Unit Linked Personal Pension Account and Unit Linked Flexibond, along with the main investment product open to top ups during 2020, Stakeholder Pension, certain costs have been deferred that relate to the acquisition of this business. The basis of this deferral has been a straight line method over 25 years for Unit Linked Personal Pension Account, 10 years for Stakeholder and 15 years for pre-retail distribution review Unit Linked Flexibond contracts and 5 years post-retail distribution review. These costs are deferred to the extent that they are expected to be recoverable out of future profits on these contracts. Costs relating to the acquisition of any other investment contracts or insurance contracts are not deferred but charged to the Profit and Loss Account as incurred.

N) FUND FOR FUTURE APPROPRIATIONS

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

O) STOCK

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

P) TANGIBLE ASSETS

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

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

Q) RETIREMENT BENEFITS SCHEMES

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

R) PROVISIONS

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

S) STOCK LENDING

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

T) EXEMPTIONS FOR QUALIFYING ENTITIES UNDER FRS102

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

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

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

2 RISK MANAGEMENT

A) RISK MANAGEMENT FRAMEWORK

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

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

An explanation of the risk framework and the methods used to monitor and assess risk exposures can be found on pages 23 to 32. 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:

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

Consolidated As at 31 December 2019	General Business: General Insurance Contracts £m	General Business: Corporate General £m	Long-Term Business: Insurance With-Profit £m	Long-Term Business: Corporate Life £m	Long-Term Business: Investment Linked Contracts £m	Long-Term Business: Insurance Non-Participating £m	Total £m
Shares and other variable yield securities	3,522	-	2,117	222	2,773	-	8,634
Derivative financial instruments	14	-	-	1	-	-	15
Land and buildings	749	230	592	5	-	-	1,576
Property investments (Note 17)	-	-	52	1	-	-	53
Associates and Joint Ventures	439	17	-	14	-	-	470
Debt securities and other fixed / variable income securities	3,004	-	1,341	871	398	1,232	6,846
Cash and deposits with credit institutions	279	18	125	297	392	27	1,138
Reinsurance assets	202	-	-	-	-	43	245
Other assets	672	132	72	63	11	1	951
Total assets	**8,881**	**397**	**4,299**	**1,474**	**3,574**	**1,303**	**19,928**
Long-Term Business provision	-	-	4,299	-	-	1,182	5,481
Technical provision for linked liabilities	-	-	-	-	3,574	121	3,695
Provision for unearned premium	675	-	-	-	-	-	675
Claims outstanding	1,772	-	-	40	-	-	1,812
Other liabilities	229	113	-	191	-	-	533
Total liabilities	**2,676**	**113**	**4,299**	**231**	**3,574**	**1,303**	**12,196**

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 2020.

B) MARKET RISK

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

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

(i) Equity Risk

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

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

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

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

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

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

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

(ii) Property Price Risk

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

(iii) Interest Rate Risk

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

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

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

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

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

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

(iv) Currency Risk

As described in the risk section on pages 23 to 32 the Group considers its exposure to currency risk to be sufficiently mitigated by the Group's Investment Strategy , which includes the use of investment hedges on overseas fixed security exposures, diversification of currency exposures and caps on the total value of the portfolio that can be invested in non sterling denominated securities. A sensitivity analysis to changes in the value of sterling to other currencies is shown below:

10% increase in Sterling £m	10 % decrease in Sterling £m	General Business
(134)	134	Net assets at 31/12/20
(119)	119	Net assets at 31/12/19
		Long-Term Business
(57)	56	FFA at 31/12/20
(37)	36	FFA at 31/12/19

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

(v) Sensitivity Analysis

The impact on the Group's results from sensitivities are detailed in the table below. For each sensitivity test the impact of a reasonably possible change in a single factor is shown, with other assumptions left unchanged. The sensitivities used represent an increase and decrease of 10% in the balance sheet value of equity and property investments held at the reporting date, while a 1% increase and decrease in the yields on the fixed interest securities has been used in assessing the profit and loss impact.

Market values and rates can move sharply over short periods. The percentage changes shown in this table are designed to show the sensitivity of our balance sheet to a range of market movements. However, the exact value of the changes are purely representative and are not necessarily of equal probability or minimum or maximum annual changes.

2020						2019						**General Business**
Fixed Interest Securities		Equity		Property		Fixed Interest Securities		Equity		Property		
+1%	-1%	+10%	-10%	+10%	-10%	+1%	-1%	+10%	-10%	+10%	-10%	
(205)	238	244	(244)	83	(83)	(171)	194	352	(352)	98	(98)	**Impact on profit before tax £m**
(205)	**238**	**244**	**(244)**	**83**	**(83)**	**(171)**	**194**	**352**	**(352)**	**98**	**(98)**	**Total**

2020						2019						**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
(38)	70					(32)	58	-	-	-	-	Non-Participating contracts
47	(93)	70	(70)	20	(21)	50	(90)	65	(66)	13	(14)	With-Profit business
-	(3)	-	-	-	-	(1)	-	-	-	-	-	Investment business
9	**(26)**	**70**	**(70)**	**20**	**(21)**	**17**	**(32)**	**65**	**(66)**	**13**	**(14)**	**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 tables have been updated in the year for the statement of financial position year's 2016 to 2019 to remove cumulated claims handling expenses. The Group aims to maintain appropriate reserves in order to protect against adverse future claims experience and developments.

ANALYSIS OF CLAIMS DEVELOPMENT – GROSS OF REINSURANCE

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Total
Estimate of ultimate claims costs £m											
At end of reporting year	950	970	946	911	889	909	958	1,051	981	1,006	
One year later	911	915	877	809	879	874	892	1,017	969		
Two years later	847	835	802	801	851	826	878	1,007			
Three years later	757	778	776	767	810	795	869				
Four years later	727	753	771	752	813	797					
Five years later	718	749	769	752	818						
Six years later	717	758	773	754							
Seven years later	718	766	776								
Eight years later	723	771									
Nine years later	724										
Current estimate of cumulative claims	724	771	776	754	818	797	869	1,007	969	1,006	8,491
Cumulative payments to date	(706)	(726)	(755)	(732)	(774)	(747)	(756)	(853)	(723)	(485)	(7,257)
Liability recognised in balance sheet	18	45	21	22	44	50	113	154	246	521	1,234
Reserve in respect of prior years											508
Reserve in respect of Long-Term Business											46
Other Reserves											85
Total Reserve included in Parent Company balance sheet, Gross of reinsurance											1,873
Reserve in respect of subsidiary undertakings											8
Total Reserve included in consolidated balance sheet, Gross of reinsurance											1,881

ANALYSIS OF CLAIMS DEVELOPMENT – NET OF REINSURANCE

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Total
Estimate of ultimate claims costs £m											
At end of reporting year	904	877	896	885	872	894	913	1,002	959	981	
One year later	893	861	846	801	857	858	858	974	949		
Two years later	826	783	784	788	835	807	846	971			
Three years later	739	740	773	756	792	783	837				
Four years later	721	739	766	746	793	787					
Five years later	716	735	763	748	794						
Six years later	715	738	769	750							
Seven years later	715	739	771								
Eight years later	720	742									
Nine years later	721										
Current estimate of cumulative claims	721	742	771	750	794	787	837	971	949	981	8,303
Cumulative payments to date	(706)	(723)	(752)	(729)	(768)	(744)	(747)	(823)	(723)	(484)	(7,199)
Liability recognised in balance sheet	15	19	19	21	26	43	90	148	226	497	1,104
Reserve in respect of prior years											421
Reserve in respect of Long-Term Business											46
Other Reserves											85
Total Reserve included in Parent Company balance sheet, Net of reinsurance											1,656
Reserve in respect of subsidiary undertakings											3
Total Reserve included in consolidated balance sheet, Net of reinsurance											1,659

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 2020 £m
390	623	1,062	1,237	72	255	3,639	Debt securities and other fixed / variable income securities
-	151	66	-	-	16	233	Assets arising from reinsurance contract held
-	9	636	-	-	125	770	Cash and deposits with credit institutions
-	-	-	-	-	637	637	Other assets
390	**783**	**1,764**	**1,237**	**72**	**1,033**	**5,279**	

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**	

Long-Term Business

AAA	AA	A	BBB	BB	Other	Carrying Value in Balance Sheet	As at 31 December 2020 £m
137	2,004	525	921	82	125	3,794	Debt securities and other fixed / variable income securities
-	40	3	-	-	-	43	Reinsurance assets
-	-	342	-	-	-	342	Cash and deposits with credit institutions
3	9	5	14	1	52	84	Other assets
140	**2,053**	**875**	**935**	**83**	**177**	**4,263**	

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**	

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 2020.

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 2020 lent stock amounted to £949m (2019: £806m), broken down as UK Equity £82m, Eurobonds and International Equities £292m and Gilts £575m (2019: UK Equity £152m, Eurobonds and International Equities £280m and Gilts £374m).

As at 31st December 2020 accepted collateral, all in government stocks, amounted to £980m (2019: £838m).

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 2020 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 127 represents our best estimate of the Life undiscounted claim profile arising from in-force contracts. This claim profile allows for full and partial surrenders, regular withdrawals, death claims and retirements, as well as maturities. All assumptions on expected rates are consistent with our valuation assumptions and are based on an analysis of our experience over the past five years.

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

With-Profits contracts can be surrendered before maturity for a cash surrender value. The Group has discretion as set out in the Principles and Practices of Financial Management (PPFM) to impose market value reductions (MVRs) on early surrender of unitised With-Profits policies which reduce the amount payable on surrender. These MVRs contribute to managing the liquidity risk of the With-Profits fund and to ensuring equity of treatment between policyholders surrendering their policies and those remaining invested in the With-Profits fund. For conventional With-Profits policies the Group has discretion as set out in the PPFM to review terminal bonus rates which may form part of a surrender value to ensure equity of treatment between policyholders surrendering their policies and those remaining invested in the With-Profits fund.

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

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

< 1 year or on demand	Between 1 year and 2 years	Between 2 years and 5 years	> 5 years	Total	Carrying value as per the balance sheet	Financial and Insurance Liabilities
						As at 31 December 2020
						Financial Liabilities
51	-	33	-	84	84	Bank Loans and other overdrafts
3,583	-	-	-	3,583	3,583	Financial liabilities under non participating investment contracts
291	-	-	-	291	291	Creditors
3,925	**-**	**33**	**-**	**3,958**	**3,958**	**Total Financial Liabilities**
						Insurance Liabilities
265	250	697	2,902	4,114	4,340	Long-term business provision - with profit insurance contracts
90	75	211	814	1,190	1,216	Long-term business provision - non-participating insurance contracts
4	4	12	133	153	121	Liabilities under unit linked insurance contracts
626	258	310	644	1,838	1,801	Claims Outstanding (NFU Mutual General)
5	3	5	21	34	34	Claims Outstanding (Avon)
46	-	-	-	46	46	Claims Outstanding (Life)
1,036	**590**	**1,235**	**4,514**	**7,375**	**7,558**	**Total Insurance Liabilities**
4,961	**590**	**1,268**	**4,514**	**11,333**	**11,516**	**Total Financial and Insurance Liabilities**

< 1 year or on demand	Between 1 year and 2 years	Between 2 years and 5 years	> 5 years	Total	Carrying value as per the balance sheet	Financial and Insurance Liabilities
						As at 31 December 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**

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 2020 is estimated to be £7,082m (2019: £7,087m) 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 2020 £m	Group 2019 £m	Parent 2020 £m	Parent 2019 £m	
7,514	**7,717**	**7,578**	**7,800**	**Statutory**
				Valuation method adjustments
375	318	376	318	Net technical reserves
(532)	(498)	(532)	(498)	Premium Debtors
(135)	(133)	(135)	(133)	Deferred acquisition costs
-	(52)	-	(52)	Pension Scheme Surplus
47	72	47	72	Deferred tax
(246)	(347)	(246)	(347)	Excess Ring-Fenced funds
-	-	(64)	(84)	Subsidiaries fair value excess over net assets
59	10	58	11	Other
7,082	**7,087**	**7,082**	**7,087**	**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.

2020 Total Life business £m	2019 Total Life business £m	Analysis of Policyholder Liability
		With-Profits liabilities
812	634	Options and guarantees
3,528	3,665	Other policyholder obligation
4,340	**4,299**	**Total With-Profits liabilities**
3,704	3,695	Unit linked
1,216	1,182	Non-participating Life assurance
9,260	**9,176**	**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 2020. The 'risk free' interest rate is calculated as being that implied by a zero coupon government bond of an equivalent term. A UK equity return volatility parameter of 20.3% (2019: 17.3%) and a property return volatility parameter of 15% (2019: 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 34 basis points (2019: 46 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 2019 CMI model from the 2018 CMI model; the underlying base table remains unchanged. The percentage adjustments to the base table and improvements basis for the 2019 assumptions are given in brackets.

Male

	With-Profits	Non-Participating
Base table	PMA08 (PMA08)	PMA08 (PMA08)
% adjustment	107% (107%)	105% (105%)
Improvement model	CMI-2019 (CMI-2018)	CMI-2019 (CMI-2018)
% Long-Term rate	Average 1.50% (Average 1.50%)	Average 2.00% (Average 2.00%)
Female		
Base table	PFA08 (PFA08)	PFA08 (PFA08)
% adjustment	88% (88%)	86% (86%)
Improvement model	CMI-2019 (CMI-2018)	CMI-2019 (CMI-2018)
% Long-Term rate	Average 1.50% (Average 1.50%)	Average 2.00% (Average 2.00%)

Lapse Rates With-Profits

Product	Duration	2020 Lapse rate %	2019 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	1.08	0.94
Endowment	All	1.17	1.17
Whole of Life	All	0.82	0.58
Select Pension Plan	All	1.12	N/A

Non-Participating

Product	Duration	Non-Participating	
		2020 Lapse rate %	2019 Lapse rate %
Personal Pension – Individual	All before age 55	1.15	1.00
Stakeholder – Individual	All before age 55	1.19	1.10
Capital Investment Bond	All	3.11	3.11
Flexibond	1	1.22	1.30
	2	2.93	3.04
	3	2.94	3.14
	4+	3.05	3.24

Per-policy Expense Rates (£)

Product	With-Profits		Non-Participating	
	2020	2019	2020	2019
Capital Investment Bond / Flexibond	£153.80	£145.22	£161.49	£152.48
Stakeholder / Personal Pension	£140.05	£131.38	£147.05	£137.95
Individual Savings Account	£121.20	£113.49	£127.26	£119.16
Endowments / Whole of Life	£101.25	£94.45	£106.31	£99.17
Conventional Pensions	£117.10	£106.19	£122.96	£111.50
Annuities	£77.55	£73.77	£81.43	£77.46
Select Pension Plan (Accumulation)	£90.58	N/A	N/A	N/A
Select Pension Plan (Decumulation)	£75.00	N/A	N/A	N/A

GUARANTEED ANNUITY TAKE UP RATES

With-Profits – Assumptions are made that on average 67% (2019: 57%) 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.

2020

Impact on FFA (£m)	Annuitant mortality 5% fall	Lapse rates 10% fall	Maintenance expenses 10% fall	Liquidity premium 10 basis point fall
Insurance Business				
Non-Participating contracts	(24)	(1)	8	(10)
With-Profits business	(19)	(3)	20	-
Investment business	-	-	-	-
Total	**(43)**	**(4)**	**28**	**(10)**

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)**

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:

2020				2019				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
-	-	493	493	-	-	470	470	Investment in Group undertakings and participating interests
-	21	-	21	-	15	-	15	Derivative financial instruments
-	43	-	43	-	53	-	53	Property Investments
3,033	1,382	-	4,415	4,141	1,651	-	5,792	Shares and other variable-yield securities and unit trusts
2,189	5,242	1	7,432	2,241	4,103	2	6,346	Debt securities and other fixed / variable income securities
2,196	1,346	-	3,542	2,211	1,131	-	3,342	Assets held to cover linked liabilities
7,418	**8,034**	**494**	**15,946**	**8,593**	**6,953**	**472**	**16,018**	

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.

2020 £m	2019 £m	
		Total funds
472	428	As at 1 January
(24)	12	Total net (losses) / profit recognised in the Profit and Loss Account
47	33	Purchases
(1)	(1)	Sales
494	**472**	**As at 31 December**
(24)	12	Total (losses) / profit 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		
2020 £m	2019 £m	2020 £m	2019 £m	2020 £m	2019 £m	
1,453	1,390	(211)	625	6,274	6,474	General Business
-	-	39	51	-	-	Allocated investment return
1,453	**1,390**	**(172)**	**676**	**6,274**	**6,474**	**General Business total**
172	**210**	**-**	**-**	**1,240**	**1,243**	**Long-Term Business**

B) GROSS WRITTEN PREMIUM

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

2020 £m	2019 £m	
		General Business
507	484	Fire and Other Damage to Property
226	215	Third-party liability
399	392	Motor (third party liability)
196	176	Motor (other classes)
26	28	Accident and Health
99	95	Miscellaneous
1,453	**1,390**	
		Long-Term Business
133	190	Life
39	20	Pensions
172	**210**	

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

2020 Life £m	2020 Pensions £m	2019 Life £m	2019 Pensions £m	
16	11	16	12	Periodic
117	28	174	8	Single
133	**39**	**190**	**20**	
2	3	3	3	Non-linked With-Profits
6	1	6	1	Non-linked non-profit
125	35	181	16	Unitised (including unitised With-Profits)
133	**39**	**190**	**20**	

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:

2020 £m	2019 £m	
109	172	Life
28	8	Pensions
137	**180**	
2	3	Periodic
135	177	Single
137	**180**	
-	-	Non-linked non-profit
137	180	Unitised
137	**180**	

In classifying new business premiums, the following bases of recognition have been adopted:

- Recurrent single premium contracts are included as new business, single premiums.
- Increments under existing Group pension schemes are classified as new business premiums. Where regular premiums are received other than annually, the reported regular new business premiums are on an annualised basis.

D) GROSS EARNED PREMIUM – GENERAL BUSINESS

2020 £m	2019 £m	
496	472	Fire and Other Damage to Property
223	212	Third-party liability
388	380	Motor (third party liability)
191	171	Motor (other classes)
26	28	Accident and Health
93	89	Miscellaneous
1,417	**1,352**	

E) GROSS OPERATING EXPENSES

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

2020 £m	2019 £m	**General Business**
146	133	Fire and Other Damage to Property
64	59	Third-party liability
114	107	Motor (third party liability)
56	48	Motor (other classes)
4	5	Accident and Health
28	25	Miscellaneous
412	**377**	
		Long-Term Business
59	78	Life
21	26	Pensions
80	**104**	

F) GROSS CLAIMS INCURRED AND REINSURANCE BALANCE

Gross Claims Incurred

2020 £m	2019 £m	General Business
1,037	1,022	Claims paid
63	(34)	Change in the provision for claims
1,100	**988**	

Reinsurance balance

2020 £m	2019 £m	General Business
(7)	(10)	Claims paid
(31)	(5)	Change in the provision for claims
(38)	**(15)**	

G) REINSURANCE

The reinsurance balance amounted to a debit to the General Technical account of £68m (2019: £91m debit) and a credit to the Life Technical account of £2m (2019: £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 £124m (2019: £143m). Guarantee fund levies included in administration expenses amounted to £27m (2019: £27m) in the consolidated General business financial statements. Net operating expenses arising in respect of services received from Agents.

General Business		Long-Term Business		
2020 £m	**2019 £m**	**2020 £m**	**2019 £m**	
224	214	52	80	Acquisition costs
(5)	(6)	3	-	(Increase) / decrease in deferred acquisition costs
170	150	25	21	Administrative expenses
389	**358**	**80**	**101**	

8 MOVEMENT IN INSURANCE LIABILITIES

A) MOVEMENT IN INSURANCE LIABILITIES AND REINSURANCE ASSETS

Consolidated 2020 Gross £m	Consolidated 2020 Reinsurance £m	Consolidated 2020 Net £m	Consolidated 2019 Gross £m	Consolidated 2019 Reinsurance £m	Consolidated 2019 Net £m	
1,812	(191)	1,621	1,842	(186)	1,656	**As at 1 January**
						Movement in Liabilities
738	(84)	654	762	(52)	710	Arising from current year General Insurance claims
(695)	50	(645)	(790)	58	(732)	Arising from prior year General Insurance claims
26	4	30	25	(13)	12	Claims incurred but not reported reserve movements
(6)	(1)	(7)	(31)	2	(29)	Other General Insurance claims reserve movements
6	-	6	4	-	4	Long-Term claims reserve movement
1,881	**(222)**	**1,659**	**1,812**	**(191)**	**1,621**	**As at 31 December**

Parent Company 2020 Gross £m	Parent Company 2020 Reinsurance £m	Parent Company 2020 Net £m	Parent Company 2019 Gross £m	Parent Company 2019 Reinsurance £m	Parent Company 2019 Net £m	
1,804	(187)	1,617	1,832	(180)	1,652	**As at 1 January**
						Movement in Liabilities
738	(84)	654	762	(52)	710	Arising from current year General Insurance claims
(695)	50	(645)	(790)	58	(732)	Arising from prior year General Insurance claims
25	4	29	26	(13)	13	Claims incurred but not reported reserve movements
(5)	-	(5)	(30)	-	(30)	Other General Insurance claims reserve movements
6	-	6	4	-	4	Long-Term claims reserve movement
1,873	**(217)**	**1,656**	**1,804**	**(187)**	**1,617**	**As at 31 December**

Other claims reserve movements includes unexpired risk reserve, claims handling reserve and inwards reinsurance.

Within the net claims outstanding reserves the Company holds discounted reserves net of reinsurance of £34m (2019: £32m) 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 £16.0m (2019: £17.6m).

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 £16m (2019: £64m) for liability and £22m (2019: £22m) for property were experienced in the year while motor reported a negative deviation of £4m (2019: £23m positive) with all other classes of business reporting a net negative deviation of £17m (2019: £20m). Positive run off deviations are calculated excluding claims handing costs.

An Unexpired Risk Reserve is included within claims outstanding of £13m (2019: £13m).

9 INVESTMENT RETURN

Investment return is initially recorded in the Non-Technical account. A transfer is made from the Non-Technical account to the Technical account of the longer-term investment return on investments supporting the General Insurance technical provisions.

Income from land and buildings represents rental income received in respect of operating leases.

General Business Technical Account		Long-Term Business Technical Account		
2020 £m	**2019 £m**	**2020 £m**	**2019 £m**	**Investment Income**
				Income from other financial investments:
1	4	4	6	Held to maturity interest income
-	-	-	-	Loans and receivables interest income
1	**4**	**4**	**6**	**Total interest income on financial assets not at fair value through the profit or loss**
122	186	186	281	Income on financial assets at fair value through profit or loss
123	**190**	**190**	**287**	**Income from financial assets**
43	38	32	25	Income from land and buildings
1	1	-	-	Net return on pension scheme
205	751	275	750	Net gains on realisation of investments
372	**980**	**497**	**1,062**	**Total income from other financial investments**
				Investment Expenses and Charges
-	-	(5)	(2)	Other investment management expenses
(363)	(181)	(127)	202	Net unrealised (loss) / gain on investments
9	**799**	**365**	**1,262**	**Total Investment Return**
				Investment return is analysed between:
-	-	365	1,262	Investment return retained in the Long-Term business technical account
39	51	-	-	Allocated investment return transferred to the General business technical account
(30)	748	-	-	Net investment return included in the Non-Technical account
9	**799**	**365**	**1,262**	**Total Investment Return**
(158)	570	148	952	Included in the total investment return are net (losses) / gains on financial assets at fair value through profit or (loss)
(158)	**570**	**148**	**952**	**Total net realised and unrealised (losses) / gains included in investment return**

10 GENERAL BUSINESS LONGER-TERM INVESTMENT RATE OF RETURN

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

During the year 100% (2019: 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 2.26% (2019: 2.51%) and for cash and short-term deposits was 0.25% (2019: 1.09%). A 1% point increase/decrease in these above rates would result in an increase/decrease in the allocated investment return of £18m (2019: £22m).

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

2016-2020 £m	2015-2019 £m	
520	573	Cumulative Actual return attributable to investment supporting the General business Technical Provisions
(241)	(302)	Cumulative Longer-term return credited to the Technical account for General business
279	**271**	

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 £7,828,256 (2019: £7,634,699) in respect of salaries and short-term benefits.

The parent company does not employ any staff directly. As at the end of 2020 nil (2019: £nil) in relation to the December 2020 contributions was due to be transferred to the pension scheme. Total employer's contributions made to the pension scheme in 2020 were £14m (2019: £12m).

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

2020 Number	2019 Number	By activity
1,688	1,606	Underwriting and Claims
1,153	1,107	Administration and Finance
1,226	1,255	Sales and Marketing
4,067	**3,968**	

2020 £m	2019 £m	Staff costs for the above persons were
196	173	Wages and salaries
20	17	Social security costs
14	12	Other pension costs
230	**202**	

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 85 to 97.

No Directors accrued any benefits under a defined benefit scheme during the year (2019: none).

2020 £	2019 £	By activity
5,024,965	4,812,183	Aggregate emolument
193,315	156,896	Excess retirement benefit to past Non-Executive Directors
		Highest paid Director
2,259,503	2,106,958	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 2020, for Directors and members of senior management and/or connected entities was £91,407 (2019: £97,584) for General business and £129,944 (2019: £1,708,950) for Life business. Claims paid and Life surrenders totalled £2,616 (2019: £18,747).

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

c) Salmon Harvester Properties Limited, a 50% owned subsidiary is a related party. As at the end of 2020 loans totalling £2,485,166 (2019: £3,161,230) had been made, with cumulative interest on the loan amounting to £326,094 (2019: £216,440). The interest rate on the loan is 3.5% above the Bank of England base rate.

d) **NFU Mutual OEIC is a related party. At 31st December 2020, the parent company held:**

nil shares (2019: 13,300,000) in the UK Growth C sub-fund valued at £0.00 per share (2019: £1.574).

6,740,268 shares (2019: 6,542,048) in the Gilt & Corporate Bond C sub-fund valued at £1.1338 per share (2019: £1.0982).

276,038 shares (2019: 386,616) in the Global Emerging Markets I sub-fund valued at £47.0183 per share (2019: £46.2244).

392,184 shares (2019: 1,041,413) in the UK Equity Income I sub-fund valued at £38.5309 per share (2019: £45.9034).

995,057 shares (2019: 965,838) in the Gilt & Corporate Bond I sub-fund valued at £33.4087 per share (2019: £32.1979).

395,682 shares (2019: 716,693) in the UK Growth I sub-fund valued at £41.7852 per share (2019: £45.5652).

NFU Mutual Portfolio Funds OEIC. At 31st December 2020, the Parent Company held:

163,581,853 shares (2019: 160,080,289) in the Mixed 20-60% sub-fund valued at £1.6936 per share (2019: £1.7254).

1,454,597 shares (2019: 10,789,669) in the Global Growth C sub-fund valued at £1.6712 per share (2019: £1.7349).

14 (LOSS) / PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

The (loss) / profit on ordinary activities before taxation is stated after charging:

2020 £k	2019 £k	By activity
10,224	10,547	Depreciation
3,577	3,980	Operating lease rentals (plant and machinery)
569	478	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:
99	81	Audit of accounts of any associate of the company
317	293	Audit related assurance services
105	4	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:
158	122	Audits of unconsolidated Open Ended Investment Companies managed by the Group
5	4	Audit of NFU Mutual Charitable Trust
5	4	Audit of the Farm Safety Foundation

15 TAX CHARGE ON ORDINARY ACTIVITIES

The Non-Technical account shows the taxation borne and chargeable on all underwriting results, unrealised and realised gains and losses, interest, dividends, rents and for subsidiaries on the results of the year. In the Technical Account – Long-Term business, taxation has been computed on the basis applicable to life assurance and pensions business.

A) ANALYSIS OF TAX CHARGE FOR THE YEAR

Non-Technical Account		Long-Term		
2020 £m	2019 £m	2020 £m	2019 £m	
				Consolidated Income
(2)	118	35	42	Current taxation on income for the period
1	(2)	-	-	Adjustment to prior years
(1)	**116**	**35**	**42**	
3	3	3	3	Overseas taxation
2	**119**	**38**	**45**	**Total current taxation**
				Deferred taxation
(33)	(14)	(25)	28	Origination and reversal of timing differences
(1)	-	-	-	Adjustment to prior years
3	(2)	-	-	Impact of change of tax rate (note 27)
(31)	**(16)**	**(25)**	**28**	**Total deferred taxation**
(29)	**103**	**13**	**73**	**Taxation on (loss) / profit on ordinary activities**

B) TAX INCLUDED IN OTHER COMPREHENSIVE INCOME

2020 £m	2019 £m	**Deferred Taxation**
(13)	(1)	Origination and reversal of timing differences
1	-	Impact of change of tax rate
(12)	**(1)**	**Total tax expense included in other comprehensive income**

C) RECONCILIATION OF TAX CHARGE FOR THE PERIOD

The tax assessed for the period is higher (2019: lower) than the standard rate of Corporation Tax in the UK for the year ended 31 December 2020 of 19% (2019: 19%). The differences are explained below:

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

Consolidated taxation		
2020 £m	2019 £m	
(172)	676	(Loss) / Profit before tax
(33)	129	(Loss) / Profit multiplied by the standard rate of corporation tax in the UK of 19% (2019: 19%)
		Effects of:
3	(2)	Impact of reduction in rate
7	1	Realised and unrealised gains on investments
(10)	(25)	Non-taxable income
-	(1)	Capital allowances in excess of depreciation
1	-	Disallowable expenses
-	(2)	Adjustment to prior years
3	3	Tax on overseas earnings
(29)	**103**	**Total taxation (credit) / charge**

16 INVESTMENT IN GROUP UNDERTAKINGS AND PARTICIPATING INTERESTS

Consolidated		Parent Company General Business		Parent Company Long-Term Business		
2020 £m	2019 £m	2020 £m	2019 £m	2020 £m	2019 £m	**Valuation**
-	-	309	355	168	137	Shares in Group undertakings
-	-	-	-	2	3	Loans to Group undertakings
86	34	1	2	-	-	Participating interests in associated companies
407	436	407	436	-	-	Participating interests in Joint Ventures
-	-	-	-	-	-	Loans to associated companies
493	**470**	**717**	**793**	**170**	**140**	**Investment in Group undertakings and participating interests**
						Cost
-	-	167	132	189	135	Shares in Group undertakings
-	-	-	-	2	3	Loans to Group undertakings
90	29	-	-	-	-	Participating interests in associated companies
270	270	270	270	-	-	Participating interests in Joint Ventures
-	-		-	-	-	Loans to associated companies
360	**299**	**437**	**402**	**191**	**138**	**Investment in Group undertakings and participating interests**

There are no listed investments included in the above.

17 OTHER FINANCIAL INVESTMENTS

Consolidated 2020 £m	Consolidated 2019 £m	Parent Company General Business 2020 £m	Parent Company General Business 2019 £m	Parent Company Long-Term Business 2020 £m	Parent Company Long-Term Business 2019 £m	
						Valuation
						Assets designated at fair value through profit or loss upon initial recognition:
4,415	5,792	2,444	3,522	1,971	2,270	Shares and other variable yield securities
7,432	6,346	3,618	2,976	3,794	3,342	Debt securities and other fixed / variable income securities
43	53	-	-	43	53	Property investments
						Assets at fair value through P&L, held for trading:
21	15	18	14	3	1	Derivative financial instruments
11,911	**12,206**	**6,080**	**6,512**	**5,811**	**5,666**	**Financial assets in fair value through profit or loss**
673	554	486	187	157	297	Deposit with credit institutions
12,584	**12,760**	**6,566**	**6,699**	**5,968**	**5,963**	**Total Financial Assets**
						Included in the above are listed investments:
4,352	5,667	2,411	3,496	1,941	2,184	Shares and other variable yield securities
7,432	6,308	3,618	2,946	3,794	3,335	Debt securities and other fixed interest stocks
						Cost
						Assets designated at fair value through profit or loss upon initial recognition:
3,500	4,306	2,000	2,741	1,500	1,564	Shares and other variable yield securities
6,386	5,572	3,474	2,925	2,893	2,624	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
9,929	**9,921**	**5,482**	**5,674**	**4,428**	**4,223**	**Financial assets in fair value through profit or loss**
673	554	486	187	157	297	Deposit with credit institutions
10,602	**10,475**	**5,968**	**5,861**	**4,585**	**4,520**	**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	
1,363	153	613	84	-	493	69	As at 1 January
-	-	-	-	-	-	-	Additions
(79)	-	(55)	-	-	(24)	-	Disposals
(119)	(8)	(74)	(8)	-	(60)	1	Changes in Fair Value
3	-	2	-	-	1	-	Other Changes (including amortisation)
1,168	**145**	**486**	**76**	**-**	**410**	**70**	**As at 31 December**

As at 31st December 2020 the book cost of the Investment properties is £1,339m (2019: £1,383m)

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	
60	-	49	-	-	-	-	As at 1 January
-	-	-	-	-	-	-	Additions
-	-	-	-	-	-	-	Disposals
1	-	-	-	-	-	-	Changes in Fair Value
-	-	-	-	-	-	-	Other Changes
61	**-**	**49**	**-**	**-**	**-**	**-**	**As at 31 December**
1,229	**145**	**535**	**76**	**-**	**410**	**70**	**Total land and buildings**

As at 31st December 2020 the book cost of owner occupied properties is £99m (2019: £100m). The accumulated depreciation on owner occupied properties at 31st December 2020 is £27m (2019: £25m).

Land and buildings were valued at 31st December 2020 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*		
2020 £m	2019 £m	2020 £m	2019 £m	
				Valuation
				Assets designated at fair value through profit and loss upon initial recognition:
2,955	2,842	2,955	2,842	Shares and other variable yield securities
587	500	587	500	Debt securities and other fixed interest/ variable income securities
3,542	**3,342**	**3,542**	**3,342**	**Financial assets in fair value through profit and loss**
271	402	271	402	Cash and Deposits with Credit Institutions
6	11	6	11	Accrued Interest
3,819	**3,755**	**3,819**	**3,755**	**Total Assets held to cover Linked Liabilities**
				Included in the above are listed investments:
2,653	2,540	2,653	2,540	Shares and other variable yield securities
587	500	587	500	Debt securities and other fixed interest/ variable income securities
				Cost
				Assets designated at fair value through profit and loss upon initial recognition:
2,278	2,141	2,278	2,141	Shares and other variable yield securities
530	455	530	455	Debt securities and other fixed interest/ variable income securities
2,808	**2,596**	**2,808**	**2,596**	**Total Financial Assets**
271	402	271	402	Cash and Deposits with Credit Institutions
6	11	6	11	Accrued Interest
3,085	**3,009**	**3,085**	**3,009**	**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		
2020 £m	2019 £m	2020 £m	2019 £m	
69	63	53	53	Sundry debtors
69	**63**	**53**	**53**	**As at 31 December**

21 TANGIBLE ASSETS

Tangible assets comprise fixtures, fittings and equipment.

Consolidated £m	Parent Company £m	
		Cost
214	207	As at 1 January 2020
9	8	Additions
(1)	(1)	Disposals
222	214	As at 31 December 2020
		Accumulated Depreciation
169	164	As at 1 January 2020
7	7	Charge for the year
176	171	As at 31 December 2020
		Net Book Value
46	43	As at 31 December 2020
45	43	As at 31 December 2019

22 STOCKS

Stocks comprise properties under construction.

Consolidated		Parent Company		
2020 £m	**2019 £m**	**2020 £m**	**2019 £m**	
11	14	-	-	Stocks
11	**14**	**-**	**-**	**As at 31 December**

23 SUBSIDIARIES

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

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

Directly Held Subsidiaries

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

Subsidiaries Held Through NFU Mutual Management Company Limited

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

Subsidiaries Held Through NFU Mutual Select Investments Limited

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

Subsidiaries Held Through Harvester Properties Limited

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

Subsidiaries Held Through Hathaway Opportunity Fund General Partner Limited

Globe Kingston Limited (No. 13054515)	Property Holding Company

Companies Incorporated in Other Jurisdictions

Guernsey

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

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% (2019: 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 loss attributed in relation to the associate in the year was £0.5m (2019: £nil) 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 loss attributed in relation to the joint venture in the year was £29.5m (2019: £9.2m profit) 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

The consolidated Statement of changes in Equity is presented as a primary financial statement and details the movements in the following balance sheet reserves.

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

Other reserves in the statement of changes in 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 profit and loss account represents accumulated annual profits and losses for the Groups general business which is reported annually as the total comprehensive income or expense.

The fund for future appropriations incorporates Long-Term business amounts which have not yet been attributed to current participating policyholders at the balance sheet date. Transfers between the fund for future appropriations and the Technical Account – Long-Term business represent the changes in these unallocated amounts between balance sheet dates.

The parent Company's loss for the financial year was £123m (2019: £578m profit). 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 (2019: £13m).

Avon run-off business was reinsured to NFU Mutual in 2006. The value of this included within claims outstanding in 2020 within the parent company is £26m (2019: £28m).

27 PROVISION FOR OTHER RISKS AND CHARGES

Consolidated		Parent Company General Business		Parent Company Long-Term Business		
2020 £m	**2019 £m**	**2020 £m**	**2019 £m**	**2020 £m**	**2019 £m**	
116	185	35	67	82	107	Deferred taxation
12	7	12	7	-	-	Motor Insurers' Bureau levy
128	**192**	**47**	**74**	**82**	**107**	**As 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 £12m made in 2020.

Consolidated		Parent Company General Business		Parent Company Long-Term Business		
2020 £m	**2019 £m**	**2020 £m**	**2019 £m**	**2020 £m**	**2019 £m**	
						Deferred Taxation
185	172	67	82	107	79	Balance at 1 January
(56)	12	(29)	(15)	(27)	27	Unrealised (loss) / gain on investments
1	1	-	-	1	1	Deferred acquisition costs
(12)	-	-	-	-	-	Pension Scheme (Deficit) / Surplus
(1)	2	-	2	-	-	Capital allowances
(1)	(2)	(3)	(2)	1	-	Other short-term timing differences
116	**185**	**35**	**67**	**82**	**107**	**As at 31 December**

Since 1 April 2017 the main rate of UK corporation tax rate has been 19%. Finance Act 2020 reversed the legislation in Finance Act 2017 which means the main rate of corporation tax remains at 19% rather than reducing to 17% from 1 April 2020, and the corporation tax rate from 1 April 2021 will stay at 19%. Deferred taxes at the balance sheet date have been measured using these enacted tax rates and reflected in these financial statements.

No deferred tax has been provided on revaluation of subsidiary companies made in the Statement of Changes in 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		
2020 £m	2019 £m	2020 £m	2019 £m	2020 £m	2019 £m	**The provision for Deferred Taxation comprises:**
121	177	36	65	85	112	Unrealised gains on investments
(2)	(3)	-	-	(2)	(3)	Deferred acquisition costs
(1)	11	-	-	-	-	Pension Scheme (Deficit) / Surplus
(1)	-	-	-	-	-	Capital allowances
(1)	-	(1)	2	(1)	(2)	Other short-term timing differences
116	**185**	**35**	**67**	**82**	**107**	**As at 31 December**

There were unused tax losses of £12m (2019: £12m) relating to group occupied properties disposed in previous years. They have not been recognised as their use is restricted.There is no current expiry limit on these tax losses.

The value of the net reversal of deferred tax balances expected to occur within one year of the Balance Sheet date is £9m (2019: £15m) for the parent company General business and £12m (2019: £11m) 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		
2020 £m	2019 £m	2020 £m	2019 £m	
19	40	21	41	Corporation tax
40	40	44	46	Other taxation
23	21	8	10	Other
82	**101**	**73**	**97**	**As 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. There have been no further developments and HMRC have not updated their guidance. Due to the continuing uncertainty of the value of the payments and the risk that HMRC no longer stand behind their guidance, the provisions as at 31st December 2020 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 2021.

The principal assumptions used by the actuaries were:

% Consolidated		
2020	**2019**	
4.35	4.45	Rate of increase in salaries
2.75	2.85	Rate of increase in pensions
1.30	1.90	Discount rate
2.85	2.95	Inflation
2.15	2.15	Pension increase for Deferred Benefits

Post retirement assumptions

Longevity at age 65 for current pensions

2020	2019
100% of S2NMA_L for males and 90% of S2NFA for females with CMI 2017 core projections from 2007 to 2017 and CMI 2019 core projections from 2017 with 1.50% per annum long-term trend	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.

Mortality is assumed to follow the standard SAPS 2 tables (light for males): S2NMA_L for males and S2NFA for females with a multiplier of 1.00 for males and 0.90 for females, both with allowance for CMI 2017 core projections from 2007 to 2017, switching to CMI 2019 core projections (including the default extended parameters) from 2017 with a 1.50% pa long-term trend.

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

Consolidated 2020		Consolidated 2019		
% of total fair value of scheme assets	£m	% of total fair value of scheme assets	£m	
44.22	503	45.79	517	Equities
45.51	517	41.44	468	Bonds
8.52	97	9.5	108	Property
1.75	20	3.27	37	Other
	1,137		1,130	Total fair value of assets
	(1,143)		(1,067)	Present value of scheme liabilities
	(6)		63	(Deficit) / Surplus in the scheme

Of the deficit of £6m (2019: £63m surplus), £1m (2019: £11m surplus) is attributable to the Long-Term business fund.

The equity investments and bonds which are held in the scheme assets are quoted and are valued at the current bid price. Scheme assets do not include any of the Society's own financial instruments or any property occupied by the Society.

Reconciliation of present value of scheme liabilities (excluding Defined Contribution scheme)

2020 £m	2019 £m	
1,067	956	As at 1 January
1	1	Current service cost
(1)	(1)	Administrative expenses
20	25	Interest cost
(37)	(31)	Benefits paid
93	117	Net Actuarial loss
1,143	**1,067**	**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:

2020 £m	2019 £m	
1,348	1,250	Wholly or partly funded obligations
1,143	1,067	Defined Benefit scheme
205	183	Defined Contribution scheme
1,348	**1,250**	**As at 31 December**

The actual return on scheme assets in the year was a gain of £46m (2019: gain of £141m).

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)

2020 £m	2019 £m	
1,130	1,020	At 1 January
21	27	Interest income on scheme assets
(37)	(31)	Benefits paid
(1)	(1)	Administrative expenses
-	1	Employers Contributions
24	114	Return on scheme assets greater than discount rate
1,137	**1,130**	**As at 31 December**

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

2020 £m	2019 £m	
26	24	Current service cost
-	-	Past service cost
26	**24**	**Total operating charge**
		Analysis of amount credited to profit and loss
21	27	Interest income on scheme assets
(20)	(25)	Interest on pension scheme liabilities
1	**2**	
		Analysis of amount recognised in statement of other comprehensive income
24	114	Return on scheme assets greater than discount rate
(93)	(117)	Remeasurement of the defined benefit obligation
(69)	**(3)**	**Actuarial loss recognised in Statement of Other Comprehensive Income**

The actuarial loss of £93m due to economic/demographic experience comprises a £110m loss due to assumption changes over the year and a £17m 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 31 December 2020 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 £110m due to assumption changes over the year comprises a loss of £116m in respect of changes in economic assumptions and a gain of £6m in respect of changes in demographic assumptions.

30 CAPITAL COMMITMENTS

Capital expenditure contracted for but not provided in these financial statements at 31st December 2020 amounted to £1m (2019: £3m).

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:

2020 £m	2019 £m	
8	7	Within one year
12	14	Between one and five years
1	1	Later than five years
21	**22**	**As at 31 December**

32 STOCK LENDING

Holdings of UK Government, corporate fixed interest, UK equities and overseas securities with a value of £949m (2019: £806m) were on loan at 31st December 2020 under approved stock lending schemes. As at 31st December 2020 £980m (2019: £838m) 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

2020 £m	2019 £m	
(143)	**573**	**(Loss) / Profit for the financial year**
		Adjustments for:
(29)	103	Tax (credit) / charge on ordinary activities
(372)	(980)	Interest and dividend income
(544)	**(304)**	**Operating loss**
(51)	19	(Increase) / Decrease in debtors, prepayments and accrued income
41	(55)	Increase / (Decrease) in creditors, accruals and deferred income
68	(3)	Increase / (Decrease) in technical provisions
363	181	Unrealised investment loss
(3)	(6)	Other non cash adjustments
10	11	Depreciation and disposals of tangible assets
(116)	**(157)**	**Net cash outflow from operating activities**

B) ANALYSIS OF CHANGES IN CASH AND CASH EQUIVALENTS

As at January 2020 £m	Cash Flows £m	As at December 2020 £m	
182	257	439	Cash at Bank and in hand
(116)	(51)	(167)	Less: Long-Term business
66	**206**	**272**	
554	119	673	Short-term deposits (note 17)
(323)	148	(175)	Less: Long-Term business
231	**267**	**498**	
297	**473**	**770**	**Cash and cash equivalents**

34 AMOUNTS OWED TO CREDIT INSTITUTIONS

Consolidated		Parent Company		
2020 £m	2019 £m	2020 £m	2019 £m	
84	51	-	-	Bank loans
84	**51**	**-**	**-**	**As 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 30th June 2021. The loan held with Aver Property Limited Partnership is also a term loan. The interest rate is fixed at 2.81% and is due to be repaid on the 27th February 2025.

GROUP KPIS – GLOSSARY

<table>
<tr><th>Performance Measures</th><th>Purpose</th><th>Definition</th></tr>
<tr><td>Annual Premium Equivalent (APE)*</td><td>To provide the reader with an indication of the level of new regular and single premium business income being generated from Life business activities. This is a widely used industry performance measure.</td><td>Industry measure equal to new regular annualised premium plus 10% of new single premium.</td></tr>
<tr><td>Combined Operating Ratio (COR)*</td><td>To provide the reader with an indication of the overall expenses in perspective to the level of business being generated from General Insurance activities.</td><td>Proportion of Total Technical Charges as a percentage of earned premiums before earned Mutual Bonus and after allowing for reinsurance. Earned Mutual Bonus takes into account the net movement of unearned Mutual Bonus which in 2020 was £3m (2019:nil).</td></tr>
<tr><td>Employee Engagement</td><td>To provide the reader with a measure of the overall engagement of the staff with the business.</td><td>Results of the annual Gallup survey.</td></tr>
<tr><td>Funds Under Management (General Insurance and Life business)*</td><td>To provide the reader with an measure of the assets being managed within the Group (and separately assets associated with long-term business).</td><td>Value of assets covering life and general business funds. Funds under Management represents the value of investment on the Balance Sheet made up of General Insurance business and Life business plus policyholder investment OEICS and the assets of the Company’s Retirement Benefit Scheme.
<table>
<tr><th></th><th></th><th>2020 £BN</th><th>2019 £BN</th></tr>
<tr><td>General Business</td><td>Mutual General</td><td>8.0</td><td>8.2</td></tr>
<tr><td rowspan="4">Life business</td><td>Mutual Life</td><td>10.3</td><td>10.2</td></tr>
<tr><td>RBS</td><td>1.4</td><td>1.1</td></tr>
<tr><td>OEICS</td><td>1.1</td><td>1.3</td></tr>
<tr><td>TOTAL</td><td>20.8</td><td>20.8</td></tr>
</table>
</td></tr>
<tr><td>Gross Written Premium Income (GWPI)</td><td>To provide the reader with a measure of the overall business as represented by total premiums from General Insurance activities.</td><td>Overall total premium income underwritten in the year, before Mutual Bonus.</td></tr>
<tr><td>New Business</td><td>To provide the reader with a measure of new business as represented by new business premiums from General Insurance activities.</td><td>Total new business premium income receivable.</td></tr>
<tr><td>Persistency*</td><td>To provide the reader with an indication of the overall reocurring business in perspective of the level of business being generated from General Insurance activities. This is a widely used industry performance measure.</td><td>Percentage of customers renewing each year.</td></tr>
<tr><td>Profit for the financial year</td><td>To provide the reader with a measure of profits achieved within the year from General Insurance activities.</td><td>Balance on the Non-Technical Account (Page 107).</td></tr>
<tr><td>Underwriting profit and loss</td><td>To provide the reader with a measure of profits before non claims expenses achieved within the year from General Insurance activities.</td><td>The balance on the Technical Account adjusted for earned Mutual Bonus, allocated investment return and other income. (Page 105).</td></tr>
<tr><td>Corporation tax contribution</td><td>To provide the reader with information on General Insurance tax contributions to society</td><td>Reconciliation of the Total tax contribution paid to the tax charge/(credit) in the Non-Technical account.
<table>
<tr><th></th><th>£M</th></tr>
<tr><td>Total tax contribution</td><td>369</td></tr>
<tr><td>Contributions unrelated to the corporation tax charge</td><td>(308)</td></tr>
<tr><td>Net corporation tax relating to prior/future periods</td><td>(21)</td></tr>
<tr><td>Deferred tax credit to the corporation tax charge</td><td>(56)</td></tr>
<tr><td>Total corporation tax credit</td><td>(16)</td></tr>
<tr><td>Represented by:</td><td></td></tr>
<tr><td>Taxation on (loss)/profit on ordinary activities (Note 15)</td><td></td></tr>
<tr><td>Non-Technical Account</td><td>(29)</td></tr>
<tr><td>Loren-Term Account</td><td>13</td></tr>
<tr><td>Total corporation tax credit</td><td>(16)</td></tr>
</table>
</td></tr>
</table>

*Alternative Performance Measures (APM)

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