REPORT AND ACCOUNTS 2018

NFU Mutual

INSURANCE | PENSIONS | INVESTMENTS

CONTENTS

Overview

Strategic Report

Governance

Financial Statements

CHAIRMAN'S STATEMENT

For a number of years, our accounts have been heavily influenced by the recovery of the investments markets which have improved consistently since the end of the financial crisis.

In 2016 and 2017, the profits from our investments overshadowed the results from our core insurance business and in previous annual reports, we have tried to focus attention on the insurance result.

The downturn in the financial markets towards the end of the year negatively affected our overall group 2018 result but I think it is still right to focus attention on our insurance business, which continued to perform strongly. The value of our investments go up and down, just like the value of farmland and, just like the farmer, it is right to concentrate on the core business rather than the change in value of the investment.

We have always taken a long-term view on our investments and our great financial strength means we are resilient to short-term changes in the markets. It is because of this that we are able to stick to the plan we set out in 2016 of phasing our current high levels of Mutual Bonus discount back to more usual levels over a number of years. I'm pleased to report that from 1st July 2019 we will only be reducing this discount by one percentage point.

It is also pleasing that both our General Insurance and Life businesses produced sound results again last year, against a backdrop of uncertainty across the financial services industry.

In our GI business, we made an underwriting profit of £142m, against a gross written premium (GWPI) of £1,568m. This is now our eighth consecutive year of delivering an underwriting profit. Low consumer confidence influenced our Life results, as both UK and global markets fell significantly in response to increased uncertainty. Despite this, we achieved Annual Premium Equivalent (APE) of £68.3m, the second highest sales performance in our history, which reflects the continued focus and investment in the Life side of the business.

> "The performance of our core insurance business shows our philosophy of combining high quality products with a local, personal service continues to be a winning formula"

The performance of our core insurance business shows our philosophy of combining high quality products with a local, personal service continues to be a winning formula.

Loyalty matters to us and as a mutual, I feel proud that NFU Mutual does not operate to maximise profit for shareholders, but instead delivers products and services that are valued by members, while supporting farming and the wider communities that we live and work in.

We value the long-term relationships that help us to truly understand our members' needs and this is certainly a factor in us achieving a persistency rate of 95.5% across our General Insurance products. Long-term relationships help us to price our insurance to cover your claims and our costs leaving a small margin to reinvest in the business or give back to members through Mutual Bonus.

After the weather, the main topic of conversation when I meet farmers is still Brexit. Farmers need to know how policies on agriculture and the environment will change once we leave the European Union in order to be able to plan and invest for the future. The food processing businesses we work with also have to deal with uncertainty.

In unprecedented times the Farming Unions are providing strong leadership, pressing their case hard to the UK and devolved Governments

and providing expert briefing materials to their members. We applaud their work to ensure a future for a productive home-produced food and drink sector after we leave. We continued our financial support for them during 2018 with a total of £7m in financial donations.

Building resilience into business in this climate of uncertainty is common sense. We are seeing an increasing proportion of farmers looking to spread risk and drive economies of scale by exploring new income streams which complement their traditional activities. As a result, we are working with our farming members to support their growth plans and provide protection if things go wrong.

From drones to robotics, a host of technological innovations are set to revolutionise agriculture and horticulture. We are working closely with universities and companies at the forefront of these developments so we can understand the risks involved and provide insurance for hi-tech farming. I was particularly proud that NFU Mutual provided bespoke insurance cover for Harper Adams University, which made their ground-breaking trial of drone spraying possible. As a business, innovation remains high on our agenda, so watch this space for further developments.

Weather remains an important factor for all insurance companies and we are no different. The summer's intense drought brought huge problems for the farming community, in the shape of reduced yields, fire risk and feed shortage. As straw and other livestock feed prices shot up, we responded by temporarily removing the underinsurance clause on stored crops because we understand that when you are busy on the farm, insurance is not the first thought. Scientists tell us that we can expect more intense heatwaves together with more extreme storms and floods, and we will continue to work hard to ensure that we are ready to meet the needs of our members.

Another challenge to the communities we serve is rural crime. Every farmer I meet has experience of what seems to be a new breed of brazen criminals – but we are helping the fight back. Our claims statistics provide one of the most robust measures of rural crime in the UK and we are using them to demonstrate the scale of the problem to police forces and to Government through our national rural crime campaign. We are part of initiatives such as Scottish Partnership Against Rural Crime (SPARC), where we have teamed up with Police Scotland and other partners to fund and operate a number of security schemes. We feel a responsibility to be involved in this work which continues to be such a pressing problem for our members and communities.

Although the farming and rural community will forever remain a focus for us, I am pleased that we are now being recognised as the insurer for the food and drink processing sector and are growing strongly in retail and hospitality. We now insure some of the biggest food producers in the UK. These sectors closely complement our core business areas and allows us to protect members throughout the entire supply chain, from field to fork.

Today around half of our General Insurance premium comes from non-farming sectors.

“Today around half of our General Insurance premium comes from non-farming sectors. This does not undermine our relationship with farmers and the rural community in any way”

This does not undermine our relationship with farmers and the rural community in any way and, if anything, it strengthens it, because the growth we have achieved in the last 20 years has reinforced the resilience of our already strong mutual business and puts us in a good position as we face Brexit uncertainty.

A large part of our activity is in pensions and investments which we call our Life business. This part of NFU Mutual is really important in offering the financial products members need throughout their lives to provide financial security for themselves, their families and their businesses. We have a great team of financial advisers to provide advice on pensions, protection and investments suited to personal and business needs. We have around 124,000 members investing in our Life fund which stands at £10.3bn at the end of 2018.

We have been developing the Life business over the last few years culminating in the launch of a new online investments platform in December. This provides investors with the opportunity to view their valuations on a range of NFU Mutual investments daily. We are going to continue to develop the platform to widen the range of products we offer to investors.

As Chairman of NFU Mutual, it is a pleasure to welcome some new faces to the Board. Ali Capper will be well known to many people across the horticultural industry as a leading member of a number of farming and horticultural organisations, not least for her role as chairman of the NFU Horticulture & Potatoes Board. Ali's experience and understanding of the needs of farming, growing and rural communities, and the challenges they face, will be invaluable to our Board over the coming years.

Ali's expertise in farming is matched and complemented by the wealth of financial experience of our other new Non-Executive Director, Jon Bailie. Jon has more than 30 years' experience in the asset management industry, and has worked across the globe for several prestigious financial services brands. Jon's presence on the Board will be a great asset to the organisation as we continue to grow and prosper.

In April 2018, we suffered a sad loss, the sudden death of our Finance Director Kim Arif. Kim will be missed by all at NFU Mutual. Richard Morley was appointed by the Board as Finance Director in October, after a period in the role on an acting basis.

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

Another distinct advantage we have over many other insurers is our mutual status. We pride ourselves on being a responsible business, able to act in the long-term interests of our members, and this includes supporting the communities in which we live and work. Please look at the Corporate Social Responsibility section of this report to see the work we have done to try to improve farm safety, drive down rural crime, help relieve hardship amongst struggling farming families and educate young people.

Whatever may be in store for us all in 2019, I am very positive about the outlook for NFU Mutual. Our people are the driving force behind our success and I would like to thank our staff, Agents and their staff for their continued support and dedication.

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

Richard Percy
Chairman

FINANCIAL HIGHLIGHTS

Group

(£290m)
Loss for the financial year
2017: £540m profit

£18.9bn
Total funds under management
2017: £20.1bn

General Insurance

£1,568m
GWPI before Mutual Bonus
2017: £1,484m

£142m
Underwriting Profit
2017: £102m

90.1%
Combined Operating Ratio (COR)
2017:92.5%

Life

£68.3m
APE – New Business
2017: £71m

£11.3bn
Life Funds under Management
2017: £11.9bn

Alternative performance measures (APMs) are not defined or specified under the requirements of Financial Reporting Standards. These provide readers with important additional information on our business. A glossary explains why we have chosen to use them. (Page 124)

GROUP CHIEF EXECUTIVE'S STATEMENT

During 2018, we again saw both the General Insurance (GI) and the pensions and investments (Life) sides of our business perform strongly in a highly competitive environment.

Although the insurance industry in general has been criticised for not rewarding loyalty, we will again be paying out a high level of Mutual Bonus this year, to demonstrate not only our commitment to our longstanding customers, but also to underline that we are truly thankful for their continued faith in the way we do business.

It is with great pride that I reveal that our GI persistency figure this year is 95.5%, reinforcing that our members have faith in the service we provide and reward us by staying with us year after year.

However, we are not complacent and we recognise that to keep up with market challenges, we must adapt and keep improving. That is why, we are investing in our business infrastructure to ensure that we continue to provide an attentive, local, personal service to our members. This strategy continues to set us apart from our competitors and deliver value to our business.

There is no doubt that worldwide uncertainty about international trade affected economic performances over the course of the year, both here in the UK and abroad. As a direct result, the overall value of our investments dipped in 2018 and this is the reason why we have reported an overall loss, at Group level, of £290m for the year. Despite this loss, our financial strength remains in excellent shape, our solvency levels are very healthy, and we are well positioned for the challenges that 2019 will bring.

I cannot reflect on 2018 without a great deal of sadness at the passing of Kim Arif in April. It was a privilege to know and work with Kim. He was highly respected by his colleagues and the wider industry. Kim played an integral role in our success and growth at NFU Mutual during his 27 years with us. He is deeply missed by us all.

Richard Morley was appointed as our new Finance Director after an extensive recruitment process. Richard joined NFU Mutual in 2011 after many years working in finance in several blue chip companies. There were a number of strong candidates for the Finance Directors role, but Richard's financial acumen along with a deep understanding of NFU Mutual and our members, makes him a perfect match for our business. You can read more about Richard's assessment of NFU Mutual's finances in his Business Review.

General Insurance

Throughout 2018, the GI side of the business (motor, commercial and home insurance) continued to perform to a high standard, with gross written premium income before Mutual Bonus rising from £1,484m to £1,568m.

Last year saw us pay out on an unusually high percentage of very large claims and we were also affected by a slight surge in storm claims in the first quarter of 2018. However, benign weather conditions from then on meant we were able to deliver a strong underwriting profit before tax, at £142m, which was a 41% uplift on our 2017 performance.

We reward the loyalty of our members, and in 2018, we paid out a total of £253m in Mutual Bonus back to our customers. This is by far the largest amount of Mutual Bonus we have ever returned, and I am particularly pleased that we are able to say thank you to our long-standing members, who continue to show their commitment to NFU Mutual. As set out in 2016, our intention was to gradually reduce Mutual Bonus rates over a number of years in order to return to more usual levels. Because of our strong financial position we are able to meet this aim and will only be reducing the rates by one percentage point, across all bands, from 1st July 2019.

In 2018, Which? once again honoured us with their top accolade, Insurance Provider of the Year. This is always a special award for us, and we were particularly delighted to be awarded this for the fourth time since 2014. In addition, we were again chosen to be Which? Recommended Provider (WRP) for home and car insurance, while, for the sixth year in succession, we were named Most Trusted Home Insurer by Moneywise. We retained five stars from Defaqto for both home and car insurance – just as we have done every year since 2009.

As a business which prides itself on doing the best thing for our members, we are exceptionally pleased to win these awards, which are external recognition that we are providing our members with the cover and customer service they are looking for. Long may that continue.

Life

Our nationwide network of financial advisers continues to help our members understand and reach decisions on the investments, pensions and protection products most appropriate to their financial position and long-term plans. Despite the uncertainty in the UK and worldwide economies, we achieved a very respectable Annual Premium Equivalent (APE) result of £68.3m. Given the market conditions, it is not surprising that this is a little lower than the 2017 result.

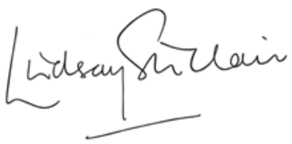
In December, we launched our new My Investments online service, offering customers online access to our Select ISA and Select Investment Plan. This new platform gives our customers the opportunity to choose on-demand access to view their investment, without the need for paper statements. This was an important step forward for us as we evolve our Life business and has been well received by members.

One area that our members have always valued highly is our With-Profits offering and in 2018 our With-Profits policyholders benefited from our continued excellent investment performance. We were able to add over £63m in annual bonuses to our 70,000 With-Profits policies and a further £72m as a terminal bonus for policies that matured or where money was taken out of the With-Profits fund.

In conclusion

In an environment of so much political and economic uncertainty, our 2018 performance was strong. Our core business in both General Insurance and Life continues to thrive and our customers – our members – continue to renew their policies with us at record levels. Despite our investment returns delivering a loss, our financial strength is exceptional and we are well positioned to continue to deliver value to our members in 2019 and beyond.

In the midst of so much change, our business philosophy remains the same as it has always been – providing our members with the insurance cover they need, at a fair price and with a first-class personal service. I would like to thank our staff, Agents and their staff for all their efforts in enabling us to do this, and to thank our members for their great loyalty. We will continue to work hard to maintain that.



Lindsay Sinclair
Group Chief Executive

BUSINESS MODEL AND STRATEGY

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

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

Business Model

We operate our General Insurance business primarily through a network of Tied Agents, located mainly in rural areas throughout the United Kingdom, and supported by Regional Service Centres. At the end of 2018 we had 654 (2017: 665) NFU Mutual Agents working out of 310 (2017: 311) offices. 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 life assurance, investments and pensions products are sold through our Financial Advisers and supported by Product Information Consultants. At the end of 2018 this direct sales force numbered 110 compared with 112 at the end of 2017.

We offer a broad range of products to meet the needs of our members. The majority of products we sell are manufactured in-house. The remainder of our business is represented by specialist business lines, which are sourced from carefully chosen providers.

Our Strategy

Our strategy supports achievement of our three long-term objectives and has a particular focus on four areas, as shown on the wheel below.

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 markets.

GREAT COMPANY TO DO BUSINESS WITH

With our customers being at the heart of our business, we strive to **improve the value** provided to them through our product 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 and product features, it extends to being efficient, making it easy for our customers to access what they need from us and, most importantly, providing an excellent customer service, 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 **responsibility** for our members and rural communities very seriously and this extends beyond insurance. We champion education and awareness campaigns on a number of key issues affecting those who live and work in rural communities. The Farm Safety Foundation helps to raise awareness and reduce risk across the industry. Our Risk Management Services provide wide-ranging risk management advice to customers as well as undertaking Loss Control surveys on behalf of NFU Mutual. The NFU Mutual Young Drivers' Scheme is aimed at raising awareness of driver safety and improving driving skills on rural roads. We make a financial contribution to support the farming industry as well as funding the work of the NFU Mutual Charitable Trust.

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 with great leadership.

Our investment strategy underpins our financial strength and stability, with an asset portfolio of £18.9bn which is primarily managed in-house by a dedicated investment and property management team. In the short-term our investments are subject to market volatility and fluctuations. Our strategy is long-term and focuses on building quality portfolios for both our Life and General Business funds.

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

General Business Strategy

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

We aim to provide the protection our members need for their assets, 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 risk management.

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

Life Business Strategy

We remain firmly committed to sustainably growing our Life business 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 are to:

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

The Life Strategy will:

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

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

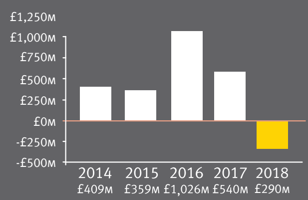
“The General Insurance strategy and business model ensures that the Group continues to meet changing member needs and expectations”

STRATEGIC OBJECTIVE KPIs

Sustainable Profitable Growth (Group)

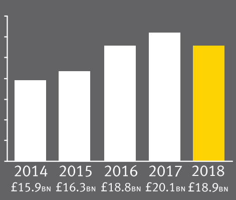
FINANCIAL PERFORMANCE

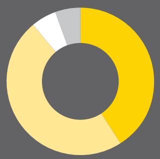
The Group made a loss in 2018 of £290m, reflecting unrealised losses following the downturn in investment markets in the final quarter of the year. Strong operating performance within our core insurance business was seen in the year with both solid premium growth and good underwriting performance overall.



FUNDS UNDER MANAGEMENT

The Group's funds under management reduced to £18.9bn reflecting the market downturn. However, as a company we utilise our financial strength and long-term view to ensure we are resilient to short-term changes in performance to deliver and maximise long-term benefits. The General Business fund performance on a three year annualised return was a healthy 7.3%.



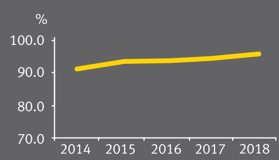


- NFU Mutual General £7.6bn (2017: £8.2bn)
- NFU Mutual Life £9.2bn (2017: £9.7bn)
- OEIC Funds £1.1bn (2017: £1.1bn)
- NFUMIS Pension Fund £1.0bn (2017: £1.1bn)

Great Company to do Business With

PERSISTENCY (GENERAL BUSINESS)

Our exceptional persistency levels have continued to improve and 2018 was no different, increasing to 95.5% from 94.8% in 2017.



Great Place to Work

EMPLOYEE ENGAGEMENT

During the year we received the 2018 Gallup Great Workplace award, the only UK-headquartered company to do so and we maintained our 90th percentile of Gallup's company database for the fourth year running. In addition we were awarded in 2018 the PRCA (Public Relations and Communications Association) National Employee Engagement Award for our engagement, employee volunteering and community support activities.

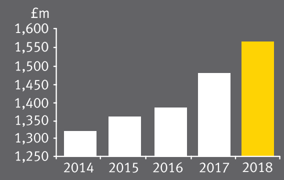
GALLUP

Alternative performance measures (APMs) are not defined or specified under the requirements of Financial Reporting Standards. These provide readers with important additional information on our business. A glossary explains why we have chosen to use them. (Page 124)

Sustainable Profitable Growth (General Business)

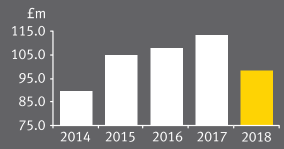
GROSS WRITTEN PREMIUM INCOME (GWPI)

Our Gross Written Premium Income of £1,568m showed a 5.7% increase over last year with record levels of members renewing their policies.



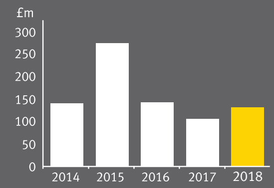
NEW BUSINESS

New Business written of £97.7m (2017: £113.3m) with lower Motor and Commercial sales than 2017 reflecting the competitive market conditions.



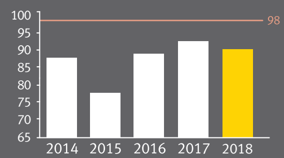
UNDERWRITING PROFIT AND LOSS

The General Insurance (GI) business delivered another strong performance in 2018, resulting in an underwriting profit of £142m with a combination of higher earned premiums and lower levels of claims incurred.



COMBINED OPERATING RATIO (COR)

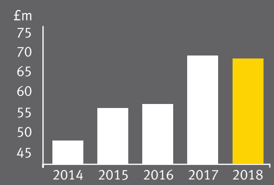
The combination of continued positive underwriting performance, together with strong premium growth has contributed to a COR of 90.1%. On a longer-term ten year basis the average COR continues to be within our 98% target.



Sustainable Profitable Growth (Life business)

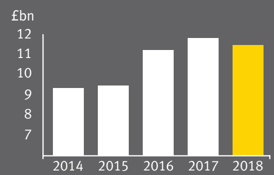
ANNUAL PREMIUM EQUIVALENT (APE)

Our APE of £68.3m maintains the growth momentum achieved last year, with only a modest 4% reduction despite tough market conditions and reduced investor confidence during the year.



LIFE FUNDS UNDER MANAGEMENT

Life fund values reduced in 2018 to £11.3bn (from £11.9bn) reflecting the decline in global stock markets in the final quarter of the year.



BUSINESS REVIEW 2018

Finance Director, Richard Morley

The General Insurance (GI) business delivered a strong performance in 2018, resulting in an underwriting profit of £142m. Our pensions and investments business also performed well, and achieved an Annual Premium Equivalent (APE) of £68.3m, our second highest sales performance in this area.

Throughout 2018 there was global political, social and economic uncertainty, which led to instability in investment markets. As a result of this, the value of our investment portfolio has been significantly impacted, leading to an overall Group loss of £290m. Despite this loss, our financial position remains in excellent shape, our solvency levels are very strong, and we are well positioned for 2019.

Our core insurance business continues to flourish and we saw members renew their policies with us more than ever before. We also saw a healthy growth in new members.

Financial Performance – Group

	2018	2017
(Loss)/Profit for the year	-£290m	£540m

General Insurance

	2018	2017
GWPI	£1,568m	£1,484m
U/W Profit	£142m	£102m
COR	90.1%	92.5%
Mutual Bonus	£253m	£168m

GWPI

GWPI of £1,568m, a growth of 5.7%, with strong persistency of 95.5%

Gross Written Premium Income of £1,568m showed a 5.7% increase over last year, (2017: £1,484m) with the strong performance underpinned by exceptional ongoing persistency levels (the percentage of policyholders renewing each year).

Overall, we significantly exceeded our retained business targets with persistency levels further increasing to record levels of 95.5% (2017: 94.8%). However, in a challenging market place New Business written ended the year at £97.7m (2017: £113.3m).

UNDERWRITING PROFIT

Underwriting profit of £142m (up 40.2%) reflecting a combination of higher earned premiums and lower levels of claims incurred.

The underwriting profit of £142m reflects the strong sales performance and a continued lower claims experience across all lines of business.

Reinsurance recoveries were higher than previous years in relation to some significant very large claims.

Expenses are very closely managed and we continue to invest in our systems and change programmes to maximise business efficiencies.

Our focus remains on improving the quality and discipline of underwriting, pricing and risk selection, together with further improvements in the management of claims costs and reserving.

COMBINED OPERATING RATIO (COR)

COR at 90.1% continues to be better than the long-term target of 98%

The combination of the excellent underwriting performance, strong persistency and premium growth has contributed to a COR of 90.1% which is an improvement on 2017 of 2.4%.

This was our eighth consecutive year of underwriting profits resulting in a strong COR. This financial strength underpins our commitment to provide discounts on 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

We believe in recognising loyalty and sharing our success. One way we acheive this is through Mutual Bonus – a discount applied to the General Insurance premium at renewal. Last year we gave back £253m in Mutual Bonus discounts.

We value our long-term relationships and utilise Mutual Bonus as our way of rewarding loyalty and sharing our success by providing a discount on the General Insurance Premium. For 2018 this was at record levels of £253m (2017: £168m), as the financial strength of the company enabled loyalty discounts to be delivered to our members.

FINANCIAL RESULT FOR THE YEAR

Due primarily to unrealised losses in our investment portfolio our overall financial performance was a loss of £290m. We have always taken a long-term view on our investments and our great financial strength means we are resilient to short- term changes in the market.

Our overall loss of £290m (2017: profit of £540m) reflects the decline in investment income and losses in our investment portfolio alongside the increase in Mutual Bonus loyalty discount.

Our investments strategy is based on a long- term view, with our financial strength providing resilience to short-term changes in the markets. We have experienced strong returns in prior years with total profits generating in excess of £2bn over five years and £3.4bn over a ten year period.

“Policy persistency levels were better than expected as customers maintained their strong loyalty”

Financial Performance – Life and Pensions

	2018	2017
APE	£68.3m	£71.4m
Funds under Management	£11.3bn	£11.9bn

ANNUAL PREMIUM EQUIVALENT (APE)

APE at £68.3m, our second highest reported result, despite uncertainty in the UK and worldwide economies.

NFU Mutual continued its strategy of focussing on a core set of products (including With-Profits) and outsourcing other product to specialist providers. Protection, an outsourced product, saw a strong performance in 2018 with 12% growth.

Overall new business volumes however saw a decline of 4% (2017: +25%) to £68.3m APE (2017: £71.4m). This small reduction is a reflection of the continued political and economic uncertainty in the market place, especially in the second half of the year.

Policy persistency levels were better than expected as customers continue to maintain their strong loyalty.

WITH-PROFITS GOVERNANCE

NFU Mutual remains committed to both the concept of With-Profits and to maintaining a viable Life business into the future. Our With-Profits policies offer smoothing of returns and an element of guarantee. In 2018, just under half of NFU Mutual's customers continued to choose a With-Profits option when investing into ISAs, pensions and bonds.

Financial Performance – Group

Avon continued to demonstrate strong profitability of £8.4m

AVON INSURANCE PLC

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 policyholders. In addition, Avon Insurance underwrites insurance cover for the Group including Motor, Employers Liability and Public Liability policies.

Avon's Gross Written Premium in 2018 was £24m, (2017: £27m), with profit before tax and dividends of £8.4m, (2017: £11.2m). Avon returned dividends to the Group of £9m, (2017: £7m) and has a level of solvency which adequately supports the existing business.

RISK MANAGEMENT SERVICES LIMITED (RMS)

RMS improved profitability in 2018 with continued investment in change to support our members needs.

RMS is a wholly-owned subsidiary and specialises in both the provision of health and safety consultancy for our customers and undertaking Loss Control Surveys on behalf of NFU Mutual. In 2018 RMS delivered a programme of changes designed to provide NFU Mutual customers with a broader range of risk management products and services. The objective was to help customers to identify and manage risk within their business resulting in fewer accidents and losses. This programme of work will continue into 2019 as NFU Mutual aims to provide members with assistance and guidance for all of their risk management needs.

GROUP FUNDS UNDER MANAGEMENT

The overall Group funds reduced to £18.9bn following the 2018 downturn in equity markets, however our General Business Fund three year annualised returns were a healthy 7.3%.

After seeing strong gains in recent years, overall investment assets under management by the Group fell by 6% in 2018 to £18.9bn reflecting the downturn in equity markeats.

General Funds under Management

The General Fund saw gains from our cash and government bond holdings outweighed by losses on our other assets in 2018, leading to assets under management falling to £7.6bn. Trading activity in 2018 saw the large cash position reduced by over £700m largely in favour of short-dated corporate bonds and commercial property.

Life Funds under Management

The 2018 downturn in equity markets reduced overall Life funds under management to £11.3bn from £11.9bn. The main Life Fund was still able to deliver healthy 3 year annualised returns of 6.8%. The unitised retail fund range remained well placed throughout the year and ended 2018 with a large proportion of funds delivering top quartile performance amongst peers over three years.

ASSET MARKET BACKGROUND

Geopolitics and growth concerns undermined market confidence.

After the relative calm of 2017, investment markets returned to more normal levels of volatility in 2018 and a final quarter sell-off resulted in equity markets seeing their biggest annual losses since the 2008 financial crisis.

Fuelled by President Trump's fiscal stimulus package, the still dominant US saw strong economic and corporate profit growth in 2018 and as a result the Federal Reserve increased interest rates and withdrew liquidity. However, with concerns over slowing growth in Europe and China and the potential impact of trade wars, investors worried that the withdrawal of central bank support could bring an end to the long period of economic growth.

The UK continued to be held back by fears of a bad or 'no-deal' Brexit and the economy weakened from its relatively healthy position at the time of the 2016 referendum. Brexit dominated the domestic headlines and signs of progress have remained limited. Despite increasing signs of a negative impact on corporate sentiment the UK markets have largely been driven by the same factors as other countries.

EQUITY RETURNS

Final quarter downturn resulted in widespread equity losses.

A 10% fall in the final quarter took 2018 UK equity market returns to a loss of 9.5% despite income from dividends of around 4%.

Currency benefits from the further drop in sterling softened the impact on international equity returns for UK-based investors, but the fourth quarter losses resulted in 2018 returns of -3.1%. Losses were widespread across countries, but despite the late sell-off the US still ended the year as one of the few markets with positive returns in sterling terms.

FIXED INCOME RETURNS

Relatively flat 2018 returns from our fixed income assets.

Although the gentle normalisation of monetary policy after a decade of very loose conditions was beginning to put some pressure on fixed income asset returns, 2018 saw a late rally as government bonds benefited from their 'safe haven' status in times of market stress. UK government bonds and corporate bonds delivered 2018 returns of 0.6% and -1.5% respectively.

PROPERTY

NFU Mutual completed a major property investment acquisition programme.

Within the UK commercial property market volumes of transactional activity were down 10% on 2017. Despite this, levels of interest from overseas investors strengthened off the back of a positive currency position and perceived security offered by the UK property market.

The central London market remained surprisingly robust throughout the year but it was the industrial sector that drove overall market returns through unprecedented levels of rental and capital growth. The retail sector is, however, experiencing turbulent times with rents and capital values under pressure.

In 2018 NFU Mutual was very active in the transactional market with an acquisitions and sales programme totalling £675m adding to increased sector and locational diversification. New acquisitions were focused upon the industrial sector alongside selective purchases within the hotel and private rented residential sector.

Our existing joint venture vehicle, Salmon Harvester Properties, and its Opportunity Fund delivered very strong returns and in 2018 we formed the Aver property fund with partners, Ergo UK Real Estate, to focus upon the value-add and opportunistic sectors of the market.

Key Strategic Change Initiatives

CUSTOMER RELATIONSHIP MANAGEMENT (CRM) PROGRAMME

Enhancing customer relationships through greater insight.

The CRM programme provides the opportunity for NFU Mutual to enhance customer relationships, through a 360 degree view of customer interactions. All agencies now have access to CRM, providing the capability to further embed customer relationships and identify new sales opportunities.

In July 2018 we launched CRM to our Customer Support Centre and Mutual Direct teams. In 2019, CRM will extend to other areas of the business, supporting adherence to GDPR and other key business processes including; complaints, underwriting, and renewals.

NEW CLAIMS SYSTEM

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

In July we started to deploy our new motor claims handling solution – Guidewire's ClaimCenter. We also introduced a new customer contact centre in Glasgow to bring our First Notification of Loss process in-house. This has allowed us to implement new ways of working across all our motor claims teams so we can continue to improve the excellent claims service we already provide. This deployment is now complete so our focus moves to our non-motor customers and bringing our new claims solution and ways of working to them during the second half of 2019.

PRICE IMPROVEMENT PROGRAMME (PIP)

Introducing a new pricing programme and functionality through our Price Improvement Programme (PIP).

The Price Improvement Programme closed in July having introduced a new pricing strategy and function; equipped with tools that support the development and management of prices that deliver customer fairness and Sustainable Profitable Growth. It delivered more accurate and fair prices for Core Commercial, Home and Light Goods Vehicles (LGV) insurance.

FINANCIAL SERVICES SYSTEM AND PRODUCT DEVELOPMENTS

Evolving our Financial Services business and launching the My Investments platform, through the LADDER programme.

NFU Mutual's Financial Services (Life) business proposition was further improved in 2018, with the launch of 'My Investments'. 'My Investments' is a secure online investment platform designed to improve the investment service for customers by making it easier for their Financial Adviser to manage their financial products whilst allowing customers to view and monitor their accounts online.

2018 saw the launch of two products on 'My Investments': Select ISA (Stocks & Shares) and Select Investment Plan. In addition, circa 25,000 existing investors were migrated to the new platform.

2019 will see further improvements on the platform including the launch of a pension plan, Junior ISA and With-Profits (for the pension plan).

EVOLVE365

Evolve365 will modernise our workplace and support the adoption of new and improved technology in the coming years.

Evolve365 is part of the IT Digital Transformation Strategy and is about allowing colleagues to work together, effectively and securely by delivering new and improved tools and services, promoting new ways of working and increasing collaboration. The strategy will reduce our IT cost base and work has started to achieve this by implementing cloud-based Office365 tools and services, such as migrating to Skype for Business and Outlook, improving access to tools on mobile devices and delivering SharePoint, (which allows us to apply retention rules automatically to meet our GDPR requirements and support cyber security). To promote and support these changes, Evolve365 Ways of Working Festivals were hosted, various training sessions and materials were developed, and a champion's network established. Evolve365 supports the corporate objectives of making NFU Mutual a Great Place to Work and making us a Great Company to do Business With, by giving colleagues the tools they need to do their job and to working with the business to develop their knowledge and confidence in using them.

Richard Morley
Finance Director

RISK AND RISK MANAGEMENT

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

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

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

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

Sustainable Profitable Growth

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

A Great Company to do Business With

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

A Great Place to Work

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

Risk Management Framework

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

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

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

This includes:

- Risk policies that clearly define the nature of the risk, and the accountabilities and controls for each risk type
- Risk appetites that articulate the amount of risk the business is prepared to accept
- Controls built into everyday business processes, and
- Monitoring and recording of risk and issue information with regular reviews by senior management, risk governance committees and the Board.

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

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

NFU Mutual has regulatory approval to use a Partial Internal Model; where Insurance Risk, Market Risk, Credit Risk and Liquidity Risk are calculated using an Internal Model for the Group excluding Avon Insurance 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 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, and that there would be little business or regulatory benefit in developing a bespoke model component for this area.

Further to our regulatory requirements, risk appetites are set by the Board to outline the amount of risk the Group is prepared to take to achieve its business strategy. More details on risk can be found in Note 2 pages 86 to 96. Additional detail on NFU Mutual's regulatory capital requirements at 31st December 2018 can be found in the Solvency and Financial Condition Report, available on NFU Mutual's website from the end of May 2019.

Risk Governance and Oversight

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

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

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

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

Principal Risks and Uncertainties

The table below summarises the principal risks and uncertainties currently faced by NFU Mutual due to the nature of our business and the market in which we operate. The assessments and mitigating actions for these risks have been reviewed and discussed at governance committees throughout 2018 and as part of the preparation for the Own Risk Solvency Assessment. (Note 2 to the Accounts on pages 86 to 96 covers our disclosures on financial risk management in detail).

RISK	RISK OWNER
NFU Mutual's farming customer base reduces in size substantially beyond expectations	Strategy and Marketing Director

POTENTIAL DRIVERS

A new or existing competitor targets taking a significant market share in farming insurance.

The loss of Relationships with the National Farming Unions reduces brand with farming customers.

Farming consolidation reduces farming market and results in market needs changing.

The Brexit process causes significant farming impact.

A new type of farming competitor emerges.

CONTROLS / RECENT ACTIONS

Continue to focus on growing wider market business to reduce reliance on farming.

Advertise focussing on rural / countryside matters.

Encourage Agents to deepen existing relationships.

RISK	RISK OWNER
Changes in the rural or wider economy jeopardises the profitability / future of some Agencies.	Sales and Agency Director

POTENTIAL DRIVERS

Some farming sectors are significantly and adversely impacted by final Brexit settlements, leading to farmers exiting the market and therefore reduction in sales.

Increase in costs / reduction in income makes agency less attractive proposition.

CONTROLS / RECENT ACTIONS

Continue to develop individual agency Management Information.

Ensure communications to agency network continue to emphasise need to plan ahead considering potential Brexit implications.

RISK	RISK OWNER
Development of new technology that has a profound impact on the insurance industry.	Strategy and Marketing Director

POTENTIAL DRIVERS

Drones become more widely used to provide additional data or information on risks to insurers.

Introduction of driverless cars result in fundamental change to market requirements for motor insurance.

CONTROLS / RECENT ACTIONS

Strategy continue to monitor market developments closely

RISK	RISK OWNER
Reduction in demand for NFU Mutual's GI proposition.	Strategy and Marketing Director

POTENTIAL DRIVERS

A lack of availability of "quote and buy" services.

The loss of business confidence in the wider economy.

A new type of competitor emerges

Aggregator sites growth pushes out demand for face to face advice.

Major reputational damage.

A reduction in quality of service / service standards.

New risks emerge that NFU Mutual is unable or unwilling to cover.

A lack of data leads to inability to correctly price or provide covers.

CONTROLS / RECENT ACTIONS

Focus on the value of NFU Mutual's face-to-face model.

Continue to develop infrastructure for long-term improved internet capability.

RISK	RISK OWNER
NFU Mutual's infrastructure is unable to support GI proposition for the course of the business plan.	Customer Services Director

POTENTIAL DRIVERS

The current GI IT infrastructure fails to provide a reliable service.

Organisational design leads to falling service standards.

Lack of appropriate skills available to support specialist covers.

CONTROLS / RECENT ACTIONS

A new claims system has been launched.

A new Policy Administration System project underway.

RISK	RISK OWNER
Reduction in demand for Life proposition	Strategy and Marketing Director

POTENTIAL DRIVERS

Online automated guidance ("Robo advice")/ Direct to Customer (Internet) sales channel grows.

Customers become reluctant to pay for Life advice.

Customers' demands evolve.

An improved competitor offering.

Major reputational damage.

A decrease in quality of service / service standards.

CONTROLS / RECENT ACTIONS

The launch of My Investment platform will provide a real time update on portfolio platform and provides value for money.

Funds selection will ensure that funds offered will be competitive and appropriate.

An ongoing focus on ensuring advised proposition represents value for money.

RISK	RISK OWNER
NFU Mutual no longer writes "material" volumes of with-profits new business.	Risk Director

POTENTIAL DRIVERS

My Investments platform drives people from With-Profits

Negative publicity on With Profits products generally in the wider Life Insurance market.

CONTROLS / RECENT ACTIONS

With-Profits is available on My Investments platform

RISK	RISK OWNER
NFU Mutual's infrastructure is unable to support Life proposition for the course of the business plan.	Sales and Agency Director

POTENTIAL DRIVERS

Current Life operational infrastructure becomes unable to support existing NFU Mutual proposition

The volume of regulatory changes becomes unsupportable.

Organisational design leads to falling service standards

Current Life infrastructure is too expensive, resulting in an unprofitable adviser arm

Life projects fail to deliver expected infrastructure improvements.

CONTROLS / RECENT ACTIONS

Delivering updated technology platform, including Point of Sale and My Investments.

RISK	RISK OWNER
NFU Mutual unable to deliver required change for business plan.	HR Director

POTENTIAL DRIVERS

Change Programmes fail to deliver.

The volume of staff is insufficient to meet the change requirements.

A lack of subject matter experts means change cannot be designed, managed, or delivered.

The technical skills required for change are unavailable.

Requirements of incoming new projects cause substantive portfolio impact, leading to resource bottlenecks and requires significant management oversight which diverts attention and resources from other priorities.

CONTROLS / RECENT ACTIONS

Increased Group Change capability / resource now in place.

Management Information shows the resource requirements clearly for projects and programmes.

Implemented software which will track achievement of forecasted business benefits.

In addition NFU Mutual is considering a number of emerging risks – these are defined as risks where the impact, likelihood or exact timing is currently uncertain. A selection of risks currently being tracked are described below.

Emerging Risk Title	Detail
Sudden and Unexpected Increase to Life Expectancy	For a new advance in medical science to have an impact, it will need to go through a cycle of testing and approval and then the treatment become widely available to the general population. The availability of new treatments is largely a factor of government spending. Therefore, whilst this is an area of rapid development, we believe the proximity remains distant and the likelihood and impact difficult to predict.
Whiplash Reforms	Government are changing the rules around personal injury. A consultation has been completed 23/02/17 and a bill was published. The reforms will be implemented through a mix of primary and secondary legislation.
Changing buyer behaviour - technology	Increasing use of technology, especially among younger generations, may start to affect sales volumes in terms of both new business and retentions.
Changes to working methods	There is growing evidence across financial services industries of use of contractors impacting office space available, leading to the operational need to restructure offices or create more space. Also there is the likelihood of more colleagues wishing to work from home. This may lead to a need to change operational support infrastructure.

Emerging Risk Title	Detail
Changing dynamics of car ownership	The characteristics of the UK market are changing e.g. diesel car sales are reducing and alternative ownership models are being created. This may lead to a reduction in the size of the private car insurance market
Artificial Intelligence (AI)	Development of AI may lead to significant changes in business systems and processes requiring significant changes to current processes
Environmental change	There is the clear potential for aspects of global warming to directly impact the insurance industry. For example the changing nature of the way in which we experience flood events, both in terms of likelihood and severity, could require changes in our approach to flood risks.
Autonomous car technologies	Autonomous vehicles are designed to perform all safety critical driving functions for the entirety of a journey. By 2020 these may be launched, but limited to a specific domain, meaning that it does not cover every driving scenario. However by 2025 vehicles which can function in all environments, including dirt roads may arrive. This will fundamentally change the way in which insurance will operate for many motor vehicles, as liability shifts from the “driver” to other parties such as the manufacturer of the vehicle or guidance system.

Strategic Report

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

Business Model and Strategy	Business Model and Strategy pages 7 to 9
Principal risks and uncertainties	Risk Management pages 20 to 27 and notes pages 86 to 96
Performance and development during the year	CEO's Statement page 5 and Business Review page 13, Directors' Report page 31
Information about future developments	Business Review: Key Strategic Change Initiatives page 18
Employee information and Corporate Social Responsibility (CSR)	Directors' Report page 31 and CSR Report page 54
Financial and non financial KPIs	Key Performance Indicators and Business Review pages 10 to 19 Supporting our Communities pages 54 to 57


NFU Mutual

Long-Term Viability Statement

The NFU Muual's strategic long term objectives of sustainable profitable growth, great company to do business with and being a great place to work are integral to the Group's prospects for the long term which are reflected in our business model and strategy (pages 7 to 9).

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 life time 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 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 38 to 51).
- the robust and embedded risk management framework, (pages 21 to 27), which identifies and reports to the Board (via the Chief Risk Officer), 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 86 to 96) undertaken within the ORSA process where we consider strategic business planning, risk and capital management as an integrated process.
- ongoing extensive stress testing undertaken on the Group's solvency, liquidity and financial performance resulting from events such as a significant General Insurance claims event and erosion within external investment markets, which is reported and reviewed by Risk Committees and sub committees.
- the consideration given to Britain leaving the EU (Brexit), with various scenarios considered and plans developed to mitigate identified risk (including a 'No Deal scenario') and the Board's conclusion that there is no viability risk within our 3 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 77. 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.

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. 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.

Signed on behalf of the Board of Directors

Richard Percy
Chairman

Lindsay Sinclair
Group Chief Executive

21st March 2019

DIRECTORS' REPORT

The Directors present their report and the audited consolidated financial statements of the parent company and its subsidiaries for the year ended 31 December 2018.

Results and Mutual Bonus

Consolidated loss after tax including realised and unrealised gains/losses for the year was £290m (2017: £540m profit). Mutual Bonus to policyholders for 2018 was £253m (2017: £168.3m).

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 current Directors are set out on pages 36 to 37. Sally-Ann Hibberd resigned from the Board on 29th January 2018. Sadly Kim Arif died on 23rd April 2018. Jon Bailie, Ali Capper and Richard Morley were appointed to the Board on 19th March 2018, 9th April 2018 and 26th October 2018.

The Governance Report is on pages 38 to 51 which includes provision of Directors' indemnity. In accordance with the UK Corporate Governance Code all Directors will stand for re-election at the 2019 AGM.

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 2018, there were 3,884 employees (2017: 3,756) within the Group. Of our employees, 51% are female and 49% are male, 84% of our workforce is full time and 16% is part time. Our rate of voluntary employee turnover for 2018 was 9.33% against an industry benchmark of 13.4%.

Engagement

We continue to focus on both employee engagement, and internal customer engagement of our Agents and their staff. In 2015 we achieved our long-term goal of becoming a world-class workplace by achieving the 90th percentile of Gallup's company database, and we maintained this high standard for the fourth year running in 2018 by developing the leadership capability of our managers to support engagement within their teams.

During the year we received the 2018 Gallup Great Workplace award, the only UK-headquartered company to do so, and the PRCA (Public Relations and Communications Association) National Employee Engagement award for our employee engagement achievements, and initiatives such as employee volunteering and community support activities.

Our formal and informal consultation forums support employee engagement with effective communication and helping to provide an employee voice.

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.

Reward

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

People Development

We provide a broad range of training and development opportunities for our employees and Agents, to optimise both individual and business performance. During 2018 we continued to invest in the leadership and technical capabilities of our employees. Our Graduate Trainee Schemes, now in their eighth year, are building an internal pipeline of future talent to strengthen technical and leadership succession. In 2018 we were voted first in the prestigious Job Crowd awards as the top company for graduates in the Banking & Finance sector (with intakes of up to 30 graduates). We currently have 123 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 2018 we created more than 80 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 was enhanced in 2018, focusing on developing our new Agents.

Diversity

As part of NFU Mutual's 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.

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

Compliance

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

Charitable Donations

Charitable donations during 2018 amounted to more than £600,000, which included a donation to the NFU Mutual Charitable Trust of £300,000 (which distributes awards at its discretion), £300,000 to the Farm Safety Foundation, £12,000 to the Community Giving Fund and Charity Matching Fund and £20,000 to Insurance United Against Dementia.

See the Corporate Social Responsibility (CSR) section on pages 54 to 57 for full details of our community, charity and environment activity.

Principal Risks

The Directors have carried out a robust assessment of the principal risks facing the Group as shown on pages 20 to 27, including those that would threaten its business model, future performance, solvency or liquidity which supports the Long-Term Viability Statement made on page 29.

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 27 and 29. The Directors consider that NFU Mutual and the Group have adequate resources to continue in operation and are satisfied that it is appropriate to continue to adopt the going concern basis in preparing the financial statements.

Statement of Directors' Responsibilities

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

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

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

- select suitable accounting policies and then apply them consistently
- 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
- the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business
- consider the annual Report and Accounts taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the Company's performance, business model and strategy.

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

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

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

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

There have been no post balance sheet events that require disclosure in the financial statements, we have considered the likely future events in the Chairman's report on page 1.

Disclosure of Information to Auditors

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

Independent Auditors

A resolution will be proposed at the 2019 Annual General Meeting to reappoint Deloitte LLP as auditors.

Signed on behalf of the Board of Directors

Richard Percy
Chairman

Lindsay Sinclair
Group Chief Executive

21st March 2019

BOARD OF DIRECTORS

Richard Percy

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

Lindsay Sinclair

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

Jon Bailie

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

Steve Bower

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

Ali Capper

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 English Apples & Pears and a Trustee of Nuffield Farming Scholarship Trust. She is a previous Board member of Cargill Growers Association. Ali worked in advertising for 16 years where she progressed to Client Services Director before becoming a farmer.

Brian Duffin

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

Christine Kennedy

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

Eileen McCusker

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

Jim McLaren

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

Richard Morley

Richard was appointed to the Board in 2018 as Finance Director. His responsibilities include Financial & Regulatory Reporting, Planning & Analysis, Actuarial Finance, Property and Procurement. He joined NFU Mutual in 2011 as Head of Finance. Prior to that he held a variety of Finance leadership roles for Thames Water, BNP-Paribas and Lloyds Banking Group. He is a qualified accountant and Fellow of the Chartered Institute of Management Accountant (FCMA).

Christopher Stooke

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

Nick Turner

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

GOVERNANCE REPORT

One of the key aspects of mutuality is trust. We have built up trust with our members over generations by having a deep understanding of their requirements and, most importantly, by doing the right thing. Good governance feeds into how we do business and how we serve our members. Leadership, culture and good governance are essential considerations for the Board and underpin the decisions that we make on a daily basis to enable us to build a business that can deliver sustainable performance.

Governance Overview

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

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

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

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

Our Approach to Governance

NFU Mutual is committed to business integrity, high ethical values and professionalism in all its activities. As an essential part of this commitment, the Board supports the highest standards in corporate governance. The Board believes that best practice in corporate governance should be embedded throughout the Group to ensure the business runs smoothly. This aids effective decision making and supports the objectives for the benefit of members. The Board has a clear view of the leadership and activities of the Group, including business results, key risks and developments. Directors are required to consider the long-term consequences of any decision on the Group's employees, relationships with suppliers and members, the environment and the community, the Group's high standards of business conduct and the need to act fairly towards members. 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 is proud of NFU Mutual's local governance framework which allows our members to communicate directly with the business.

The UK Corporate Governance Code

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

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

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

Leadership – Our Board

WHAT IS THE INVOLVEMENT OF OUR DIRECTORS?

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

At NFU Mutual the involvement of our Non-Executive Directors goes further, with regular opportunities to meet members, staff and Agents via national and local shows and events, NFU conferences and Regional Advisory Board meetings. The Chairman also has a higher level of involvement with external parties such as the farming unions, Prudential Regulation Authority, Financial Conduct Authority, shows and events. The significant commitments of the Non-Executive Directors outside of NFU Mutual are set out in their profiles on pages 32 to 33. There have been no changes to the Chairman's significant commitments during the year and he remains able to devote sufficient time to his role. Each Non-Executive Director has demonstrated that they have sufficient time to devote to the role.

Name of Director	A	B
Chairman		
Richard Percy	10	10
Senior Independent Director		
Chris Stooke	10	10
Chief Executive		
Lindsay Sinclair	10	10
Executive Directors		
Kim Arif[1]	2	2
Steve Bower	10	10
Richard Morley[2]	2	2
Nick Turner	10	10
Non-Executive Directors		
Jon Bailie[3]	6	8
Ali Capper[4]	6	8
Brian Duffin	10	10
Sally-Ann Hibberd[5]	1	1
Christine Kennedy	10	10
Eileen McCusker	9	10
Jim McLaren	10	10

Effectiveness

HOW DO WE MAKE SURE OUR BOARD IS EFFECTIVE?

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

The Board is committed to continually improving its effectiveness and the Group's overall performance. To facilitate this, the Board has implemented a three year review cycle consisting of an external evaluation one year and individual appraisals with Directors conducted by the Chairman in the other two years. The last external evaluation was undertaken in 2017. In 2018 an internal evaluation was carried out. This consisted of a questionnaire completed by each Director and member of the Executive team and individual meetings with the Chairman. The evaluation considered Board effectiveness and individual Non-Executive Director appraisals. The Board received a full report of the evaluation and agreed an action plan to further improve its and individual Directors' effectiveness. The Board was considered to be operating effectively.

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

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

The Chairman's performance is appraised annually in a session led by the Senior Independent Director, which the Chairman does not attend. In 2018, the appraisal concluded that the Chairman continues to operate to a high level, exhibiting positive leadership and ensuring that the necessary conditions for effective discussion at an individual and Board level are met.

1 Died 23 April 2018
2 Appointed to the Board 26 October 2018
3 Appointed to the Board 19 March 2018
4 Appointed to the Board 9 April 2018
5 Resigned from the Board 29 January 2018

A = Number of meetings the Director actually attended in 2018.
B = Maximum number of meetings the Director could have attended in 2018.

The Board's structure

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.

Each year the Board considers whether each Non-Executive Director, excluding the Chairman, is independent of the Group. In undertaking this review, the Board considers whether there are any relationships or circumstances which are likely to affect, or could appear to affect, the Director's judgement. The results of the Board's performance evaluation are also taken into account. Under the Code, the Chairman is not considered to be independent following his appointment as Chairman, however, the Board considered him to be independent prior to his appointment as Chairman. In 2018, the Board considered all of the Non-Executive Directors to be independent in accordance with the Code.

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

During 2018 and up to the date of the signing of the financial statements, the Group maintained an insurance policy indemnifying the Directors and Officers against loss or attaching legal liabilities arising in the course of their duties. In addition the Group has put in place deeds of indemnity for the benefit of the Directors and Company Secretary of the Group and its associated companies. The deeds of indemnity are qualifying third party indemnity provisions in accordance with the Companies Act 2006.

How does the Board keep itself up to date?

New Non-Executive Directors participate in a comprehensive formal induction programme. This provides information about the Group's structure and strategy, Directors' duties, corporate governance and Board Committees. Directors meet key managers and have the opportunity to visit various parts of the business to gain a thorough understanding of the business and its operations. Each new Non-Executive Director is provided with a mentor to assist them in their first few months on the Board.

The Board believes strongly in the development of Directors and employees. Each Director is required to commit to continuing their professional development. Any knowledge or skills gaps identified during the appraisal process are addressed in a timely manner. During 2018 Continuing Professional Development (CPD) sessions were provided on a number of subjects including pensions regulations and the Group's Retirement Benefit Scheme, key technology developments, cyber insurance, the Claims customer journey, General Insurance pricing and the Senior Managers and Certification Regime. In addition, the Board receives regular market and company updates as part of the Board agenda.

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

What did the Board focus on during 2018?

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

During the year the Board received regular reports on the progress of the Group's major change programmes, including the programme to achieve compliance with the General Data Protection Regulation. Each month the Directors consider the business results and any emerging trends at a Group, industry and economic level. The Board considered the Group's capital management and received monthly reports on the Group's solvency coverage. It reviewed the Group's risk appetite, reinsurance programmes, Mutual Bonus rates, bonus rates for With-Profits products and the With-Profits distribution strategy, employee engagement, various corporate governance papers, approval of donations to NFU Mutual Charitable Trust and the Farm Safety Foundation and approval of significant contracts. The Board received reports on all contact with the regulators including the PRA and FCA. It also considered compliance and financial crime reports, an update on the new counter fraud system and the annual whistleblowing report. The Board also considered the potential impact of Brexit on the Group and its members. In addition, the Board continued to provide oversight and challenge to management on the execution of the medium-term plan.

Accountability

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

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

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

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

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

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

Engagement / Relations with Members

HOW DOES NFU MUTUAL COMMUNICATE WITH ITS MEMBERS?

The Board believes it is important to obtain the views of its members and understand issues that concern them. To facilitate this, the Group has a Member Relations function which is responsible for developing its Member Relations strategy and member communications. The local governance structure enables members to provide NFU Mutual with valuable feedback on a wide range of issues which helps us to continue to provide excellent customer service and value for money. A key part of this structure is the Group's network of Regional Advisory Boards made up entirely of members. The Regional Advisory Boards maintain close links with the company's main Board and senior management through a series of meetings and with members via a network of Member Forums. The Regional Advisory Boards are briefed regularly on the Group's performance and key initiatives, and provide valuable feedback to management and the Board.

There are currently eight Regional Advisory Boards, five in England and one each in Scotland, Wales and Northern Ireland. Each Regional Advisory Board meets twice a year with the Chairs attending a further two meetings a year with senior management. Member Forum meetings take place throughout the regions with 35 meetings being held in 2018.

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

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

HOW DOES NFU MUTUAL ENGAGE WITH COMPANIES AS AN INSTITUTIONAL INVESTOR?

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

OUR COMMITTEES

The Board delegates clearly defined responsibilities to the Nomination, Audit, Board Risk and Remuneration Committees. The With Profits and Investment Committees are advisory Committees. Each Committee reports to the Board on activity following each meeting. The terms of reference for each Committee can be found on the NFU Mutual website nfumutual.co.uk. Reports from the Nomination, Audit, Board Risk, Investments and With-Profits Committees follow; the Remuneration Committee report can be found in the Directors' Remuneration Report at page 58.

Nomination Committee Report

WHAT DOES THE NOMINATION COMMITTEE DO?

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

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

Prior to the appointment of a new Non-Executive Director the Committee considers the skills, knowledge and experience required to complement the existing Board members. A search firm is used to assist with the appointment process. Each shortlisted candidate is subject to a rigorous interview and appraisal process before the Committee recommends a candidate to the Board for appointment. For all appointments candidates are appointed against objective criteria with due regard for diversity on the Board. 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 Committee bases appointments on objective selection criteria highlighting the specific skills and experience needed to oversee the running of a complex and significant financial services company. Selection takes into account the extent to which the candidate's skills, experience and diversity could strengthen the Board and enable it to be fully effective. The Nomination Committee is responsible for monitoring the diversity of the Board on an ongoing basis. It will review the Board Diversity Policy every two years.

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

WHAT DID THE COMMITTEE FOCUS ON DURING THE YEAR?

In 2018 the main focus of the Nomination Committee was addressing Board composition changes. During the year two Non-Executive Directors, Jon Bailie and Ali Capper, were appointed together with a new Finance Director, Richard Morley. The Committee led the process for each of these appointments. At the start of the selection process the Committee considered the specific skills and experience it was looking for from candidates. The Board decided to appoint one Non-Executive Director from a financial services background and one from a farming background. For the Finance Director role the Committee consider internal and external candidates to find the best individual to fulfil the role for the Group. A search firm, Egon Zehnder, assisted with each of the appointment processes by providing a pool of potential candidates for the roles and appraising each candidate. The shortlisted candidates were subject to a rigorous interview process during which they were assessed against objective criteria. Egon Zehnder does not have any other connections with the company.

The Committee also considered the outcomes of the Board appraisal process. These were fed into the Board's succession planning work. Potential skills and experience required for future Non-Executive Director appointments have been identified.

Eileen McCusker was the only Non-Executive Director whose three year term came to an end during 2018. Following consideration, the Committee recommended, and the Board accepted, that she should stand for a further term. The Committee also recommended to the Board that all Non-Executive Directors should stand for annual re-election at the 2019 AGM. During the year, the Committee reviewed the composition of Committees and recommended to the Board changes to reflect the changes to the Board.

The Committee considered the Board Diversity Policy; more details of which are included above. The Committee also considered the Women in Finance Charter which NFU Mutual signed up to during the year. This supports the progression of women in senior management with a focus on the management pipeline and the need to recognise diversity.

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

Name of Director	A	B
Richard Percy (Committee Chairman)	8	8
Brian Duffin	8	8
Christine Kennedy[1]	8	8
Eileen McCusker	4	4
Lindsay Sinclair	8	8
Chris Stooke	8	8

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

Audit Committee Report

WHAT DOES THE AUDIT COMMITTEE DO?

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

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

EXTERNAL AUDITORS

The Committee oversees the Group's relationship with, and monitors the performance of, the external auditors. The Board has committed to formally tender for the position of external auditors at least every ten years. A formal tender was undertaken by the Committee during 2017. Each year, the Committee undertakes a full review of the effectiveness, performance, independence and objectivity of the external auditor. Following this review, the Committee makes recommendations to the Board in relation to the appointment, reappointment and removal of the external auditors. These recommendations are then put to the members for approval at the AGM.

INDEPENDENCE OF EXTERNAL AUDITORS

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

The Committee recognises that the independence of the external auditors is a fundamental safeguard for the interests of NFU Mutual's members. The Group has policies in place to safeguard and support the independence and objectivity of the external auditors. One such policy relates to the use of the external auditors for non-audit work. The policy states that the external auditors can only be used to provide services which do not conflict with the auditors' independence. The policy requires the prior approval of the Committee for the engagement of the auditors for non-audit work where the level of fees payable for non-audit services would exceed a set threshold. In addition, there are certain services which the external auditors would not be allowed to undertake for the Group. These services include those related to the accounting records or financial statements; the financial information system design or implementation; actuarial services; and outsourcing of Internal Audit services. Deloitte undertook a small number of non-audit related assignments during 2018; these were all assurance activities related to the audit work. All non-audit work was approved by the Committee in accordance with the policy and are considered to be consistent with the professional and ethical standards expected of the external auditors in this regard. In addition, key external audit staff, including the audit partner, are changed on a regular basis in accordance with best practice to ensure continued objectivity. The 2018 financial year was the first year of the current audit engagement partner's appointment.

All audit and non-audit fees are disclosed in note 14.

INTERNAL CONTROLS

The Board has ultimate responsibility for the Group's system of internal control and risk management and reviewing its effectiveness. The Committee works alongside the Board Risk Committee in reviewing the Group's controls. The Committee seeks assurance from the work of the Internal Audit department which provides objective assurance of the effectiveness of those arrangements.

INTERNAL AUDIT

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

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

EMPLOYEES

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

MEMBERSHIP OF THE COMMITTEE

The Board is satisfied that the Committee's members bring a wide range and depth of financial and commercial experience across various industries and that Chris Stooke meets the specific requirement for recent and relevant financial experience. The Committee as a whole has competence relevant to the sector in which the company operates.

Name of Director	A	B
Chris Stooke (Committee Chairman)	7	7
Jon Bailie[1]	2	3
Sally-Ann Hibberd[2]	1	1
Christine Kennedy	7	7
Eileen McCusker[3]	3	3
Jim McLaren	7	7

[1] Appointed to the Committee 1st May 2018
[2] Resigned from Committee 29th January 2018
[3] Appointed to the Committee 2nd February 2018 and resigned 1st May 2018

A = Number of meetings the Director actually attended in 2018.
B = Maximum number of meetings the Director could have attended in 2018.

What did the Committee focus on during the year?

FINANCIAL STATEMENTS AND ACCOUNTING POLICIES

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

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

NFU Mutual has worked with Deloitte to ensure that the business is transparent and provides the required level of disclosure regarding significant issues considered by the Committee in relation to financial statements, as well as how these issues were addressed, whilst being mindful of matters that may be business sensitive. As part of its review of the annual Report and Accounts, the Committee places particular emphasis on their fair presentation, the reasonableness of the significant judgement factors and the appropriateness of the significant accounting policies used in their preparation. Its review considered whether the annual Report and Accounts provided the information necessary for members to assess the Group's position, performance, business model and strategy. In particular, the Committee considered the following significant issues during the year.

GENERAL INSURANCE RESERVES

The valuation of the General Insurance reserves involves a significant degree of caution and expert judgement. The assumptions and methodology behind the valuation of the reserves has been a significant area of focus for the Committee. The Committee, together with the Board, has received regular reports from management to explain the reserving philosophy, the key reserve assumptions, claims trends and the impact on reserves of industry factors such as personal injury claims inflation, Periodic Payment Orders and emerging regulatory risks and changes, and also reports from third party experts. The Board and the Committee have also undertaken CPD in this area 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. The paper also set out the key assumptions behind the reserves and the governance process around setting the reserves. The Committee focuses in particular on the methodology, judgements and assumptions used to set the reserves for claims arising from historic periods of exposure that the Group may be responsible for. It remains satisfied with the approach to this areas of the reserves. The Committee has also followed progress of the Civil Liability Bill which includes a proposed method to determine future Ogden discount rate changes. Under current economic conditions, it is anticipated that, under the proposed method, there will be an increase in the discount rate from the current -0.75%. NFU Mutual has undertaken scenario work to understand the potential impact on the reserves of a rate change.

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. For the 2018 financial year end NFU Mutual has adopted an updated mortality projections model. 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. During the year, NFU Mutual has updated the software it used to model its life insurance reserves. The Committee is satisfied with the controls in place to manage this process.

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

LEVELS OF MATERIALITY

The external auditors set a level of materiality to assist them with planning their audit work; further details of which can be found in Deloitte's Audit Opinion on page 68. 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 £1.6m. 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

In 2017, following a formal tender, the Committee selected Deloitte as its external auditor for the 2018 financial year. During the year the Committee worked with PwC and Deloitte to ensure an orderly transition of the audit while ensuring minimal disruption to the business.

The Committee met regularly with Deloitte throughout the year to discuss its remit and any issues arising from the audit. This included at least one meeting without members of the management team being present.

INTERNAL AUDIT

The Committee reviewed and approved the activity of Internal Audit during 2018. The audit plan is set by reference to the audit universe, the principal risks facing the business, any emerging risks and hot topics for auditing reported at an industry level. The audits carried out covered an extensive sample of controls across a range of risk types and business units covering business as usual activity together with assessments of the major change programmes. The Committee received quarterly reports on all audits undertaken, management's response to audit findings and progress in addressing identified issues. The reports highlight any themes emerging across the audit findings and allow the Committee to challenge the management team's response to these themes. If an audit of a particular area of the business raises particular concerns, the Committee requests that the Director responsible for that

area of the business attends the Committee meeting to explain what action will be taken to improve the control culture.

During 2018 audit activity covered both the General Insurance and Financial Services operations. The internal audit programme continued to include a focus on IT controls with audits of individual systems, applications and processes. The Committee also received presentations on IT controls to provide assurance of the work being undertaken to further improve the control culture and to address cyber security risks. During the year it was decided to pass this work to the Board Risk Committee to ensure that the impact on the Group's risk appetite was fully considered. There was a continuing focus on the major change programmes with wide ranging audits designed to ensure appropriate governance was in place for each project to enable it to deliver to plan. There were also audits focused on specific business areas such as General Insurance Pricing, Investments, IT, Financial Reporting, National Intermediary Service and the Regional Service Centres. In addition, Internal Audit undertook data analytics reviews in HR and Financial Services division. In December 2018 and January 2019 the Committee approved the 2019 plan, budget and resources of Internal Audit. It also approved the Internal Audit Charter.

INTERNAL AUDIT EFFECTIVENESS REVIEW

Every five years an independent external review of the function is undertaken; the last external evaluation was undertaken in 2014. An internal review was undertaken by the Committee in 2018; the Committee concluded that the Internal Audit function is performing well, is sufficiently resourced and demonstrates continued improvement.

OTHER MATTERS

The Committee undertook a thorough review of the Group's Solvency and Financial Condition Report. It considered quarterly reports on financial crime with a focus on actions being taken to further enhance identification of potentially fraudulent claims. Reports were also received on tax risk management, accounting developments, the transitional arrangements under Solvency II and whistleblowing.

COMMITTEE PERFORMANCE AND EFFECTIVENESS

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

CONTINUING PROFESSIONAL DEVELOPMENT (CPD)

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

Board Risk Committee Report

WHAT DOES THE BOARD RISK COMMITTEE DO?

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

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

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

WHAT DID THE COMMITTEE FOCUS ON DURING THE YEAR?

During 2018 the Committee considered regular reports from the subordinate risk committees that operate across the Group; these included disaster recovery risks, cyber and IT risks, a review of the control culture and emerging risks. It received the Chief Risk Officer's annual report on the effectiveness of risk governance and risk management. The Committee also considered the Group's financial and operational risk appetites and adherence to them. It considered the Solvency II technical provisions, the validation of the Internal Model and any proposed changes to the Model. It undertook a policy and strategy review and received its annual report from the Audit Committee. The Committee considered the second line activity and, in particular, the work to review the people and IT risk profiles. The Life fund investment mandates were also reviewed.

The Committee received the results of the stress and scenario testing undertaken by the Group during the year. This work had a focus on the recovery and resolution planning to enable the Group to recover from a stress scenario. One of the main scenarios considered was a major fall in the equity markets. The Committee considered the actions available to the Group to protect its solvency position in such a scenario. The group has clear procedures in place to manage such a scenario. The Committee also kept under review the risks arising from Brexit and received regular Conduct and Prudential compliance reports. It also considered the refreshed investment mandates and beliefs. The Committee received reports from the Chief Actuaries on the Life and General Insurance businesses and considered the technical provision assumptions and outcomes.

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

Name of Director	A	B
Eileen McCusker (Committee Chairman)	3	4
Ali Capper*	0	3
Brian Duffin	4	4
Jim McLaren	4	4
Richard Percy	4	4
Chris Stooke	4	4

A = Number of meetings the Director actually attended in 2018.
B = Maximum number of meetings the Director could have attended in 2018.
* Unfortunately Mrs Capper was unable to attend Committee meetings due to commitments that pre-dated her appointment to the Board. Mrs Capper reviewed all Committee papers and provided feedback to the Committee as appropriate.

With-Profits Committee Report

WHAT DOES THE WITH-PROFITS COMMITTEE DO?

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

WHAT DID THE COMMITTEE FOCUS ON DURING THE YEAR?

During 2018, the Committee reviewed the methodology and assumptions for the reversionary and terminal bonus rates and approved the bonus rates (for recommendation to the Board). The Report to With-Profits Policyholders and Policyholders' Reasonable Expectations were reviewed to ensure compliance with the Principles and Practices of Financial Management for With-Profits business. This considered key decisions and payouts against target ranges. The Committee considered how expenses are allocated to With-Profits products. It also considered actions required in relation to products such as whole of life to meet the FCA's requirements to ensure the fair treatment of longstanding customers in the life insurance sector. The With-Profits distribution strategy was considered for recommendation to the Board. The Committee also considered the Life fund investment mandate for impacts on With-Profits policyholders. The Committee considered strategic investments in the Life fund and received regular updates on the Life Aspiration Design and Delivery Programme (LADDER) to understand its potential impact on With-Profits members.

> “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”

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

Name of Director	A	B
Brian Duffin (Committee Chairman)	4	4
Kim Arif[1]	1	1
Eileen McCusker[2]	1	1
Jim McLaren	4	4
Chris Stooke[3]	4	4

[1] Died 23rd April 2018
[2] Resigned from the Committee 1st May 2018
[3] Appointed to the Committee 1st May 2018

A = Number of meetings the Director actually attended in 2018.
B = Maximum number of meetings the Director could have attended in 2018.

Investment Committee

WHAT DOES THE INVESTMENT COMMITTEE DO?

The Investment Committee, which is chaired by Jon Bailie, was set up in 2018 to provide 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.

WHAT DID THE COMMITTEE focus on during the year?

The Committee focused on the set up of the Committee including agreeing its terms of reference. It also considered the management information it will need in order to fulfil its duties. The Committee reviewed the Investment Beliefs and the General Insurance and Life mandates, benchmarks and constraints. The Committee also considered the potential impact of a no deal Brexit on the Group's investments and the subsequent impact on its solvency capital requirement cover and risk appetite.

Name of Director	A	B
Jon Bailie (Committee Chairman)	3	3
Richard Morley	3	3

A = Number of meetings the Director actually attended in 2018.
B = Maximum number of meetings the Director could have attended in 2018.

The rest of the Committee is made up of members of management with appropriate expertise to the duties of the Committee.

Remuneration Committee

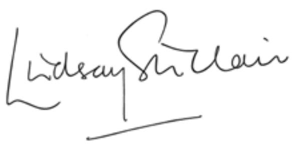
Details of the work of the Remuneration Committee can be found in the Directors' Remuneration Report. The Chair of the Committee, Jim McLaren had served on the Remuneration Committee for at least 12 months before being appointed as Chair.

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

A = Number of meetings the Director actually attended in 2018.
B = Maximum number of meetings the Director could have attended in 2018.

Signed on behalf of the Board of Directors

Richard Percy
Chairman



Lindsay Sinclair
Group Chief Executive

21st March 2019

CORPORATE GOVERNANCE

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

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

2. Nomination Committee

(Richard Percy*)

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

3. Audit Committee

(Chris Stooke*)

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

4. Remuneration Committee

(Jim McLaren*)

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

* The Chair of each Committee is shown in brackets

5. Board Risk Committee

(Eileen McCusker*)

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

6. Executive Committee

(Lindsay Sinclair*)

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

7. Group Operational Risk Committee (Iain Baker*)

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

8. With-Profits Committee

(Brian Duffin*)

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

REGIONAL ADVISORY BOARD MEMBERS

England

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

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

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

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

SOUTH EAST
J. Regan, Kent (Chair)
P. Allen, Hertfordshire
M. Hole, East Sussex
L. Matthews, Surrey
M. Robins, Berkshire
R. Shepherd, Hampshire & Isle of Wight
G. Torrance, West Sussex
I. Waller, Buckinghamshire

Northern Ireland

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

Scotland

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

Wales

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

SUPPORTING OUR COMMUNITIES

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

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

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

Championing Rural Communities

THE NFU MUTUAL CHARITABLE TRUST – SUPPORTING AGRICULTURAL AND RURAL CHARITIES

Established in 1998, the NFU Mutual Charitable Trust promotes and supports charitable causes in agriculture and rural development within the UK. In 2018 the Trust made donations of £249,360 to alleviate hardship, support future farming generations and improve the knowledge of the value of farming.

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

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

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

In 2018, the NFU Mutual Charitable Trust provided bursaries for four postgraduate agricultural students, and 36 young people have now received help through the award to further their education.

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

THE FARM SAFETY FOUNDATION – PROTECTING THE FARMERS OF THE FUTURE

The Farm Safety Foundation was set up by NFU Mutual in 2014 to raise awareness of farm safety among the next generation of farmers, to challenge and change their attitudes to risk-taking and to reduce the number of life-changing and life-ending accidents that continue to give farming the poorest safety record of any occupation in the UK.

Farming is important to the UK economy and the conservation of our beautiful countryside. It is also an industry where many farmers work alone, against time pressures and encounter a variety of risks. In just a few seconds a farm accident can change the lives of a farming family forever.

The Foundation works closely with partners in the industry to engage, educate and communicate strong and relatable farm safety messages. Over the past five years, the Foundation's unique farm safety training has been developed and delivered to over 4,200 agriculture students in 41 different land-based colleges and colleges throughout the UK and to over 2,500 young farmers at Young Farmers Clubs in England alone.

Through national campaigns such as Farm Safety Week, Yellow Wellies – Who Would Fill Your Boots? and Mind Your Head, the Farm Safety Foundation is constantly tackling the stigma around risk-taking and poor mental health, ensuring that that next generation of farmers is resilient and equipped with strategies and skills to live well and farm well.

The team works tirelessly to create change. Through the direct work and ambitious Yellow Wellies campaign, the Foundation is helping young farmers and the wider farming community to challenge and change their attitudes to health and safety in the workplace and we are proud to be driving this.

Over the years the charity has been recognised nationally for the ground-breaking work it is doing within the industry, receiving the prestigious Business in the Community Samworth Brothers Rural Action Award 2016. In 2017, the Foundation won a silver award in the Not-For-Profit category at the Midlands CIPR PRide Awards, as well as being shortlisted at the Drum Network Awards for Charity Campaign of the Year. In 2018, the charity won Gold at the CIPR Excellence Awards in the Not-for-Profit category, as well as Gold at the Midlands CIPR PRide Awards for its mental health campaign 'Mind Your Head'.

Supporting local communities

THE COMMUNITY GIVING FUND

Since its inception in 2005, the CGF has donated more than £150,000 to support community initiatives and charitable events local to our branch network and to boost staff fundraising initiatives.

In 2018, the fund helped more than 65 community groups and charities, donating more than £12,000.

EMPLOYEE VOLUNTEERING PROGRAMME

Each member of NFU Mutual staff is offered the opportunity to volunteer one day a year along with their colleagues to work on a project facilitated by volunteering partners such as the National Trust or other community initiatives. In 2018, 345 members of staff voluntarily gave 2,415 hours of their time to benefit the communities close to their place of work, while at the same time learning new skills, working collaboratively with their colleagues and gaining a sense of shared achievement.

RURAL CRIME

As the insurer of three quarters of the UK's farmers and many rural homes and businesses, we are continuing to take a leading role in the fight against rural crime. The success of our unique scheme with police to tackle tractor theft has helped to almost halve the cost of tractor theft since its peak in 2010. Since we started investing in tackling rural crime, NFU Mutual has spent £1.2m working with police all over the UK. We also now inform the national policing strategy on rural crime, with our crime statistics held up as the authority on the scale of the issue.

Helping to Protect the Environment

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

WASTE MANAGEMENT

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

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

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

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

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

HOW WE DID IN 2018

£7.3m
donated to British farming unions

2,415
hours volunteered in the community

70
local causes supported

31
new apprentices welcomed

Voted No.1
for graduates in the banking finance sector*

£518,300
donated to rural charities

21,542
single-use cups saved from landfill

2,702
young farmers taught farm safety

* Ranked the number one company for graduates in the Banking and Finance Sector for companies with a smaller graduate intake (less than 30 per year)

to work with our supply chains to find solutions for industry-wide waste challenges.

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

CLAIMS WASTE

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

Looking after our members

STATIONERY SUPPLIES

We are proud to have transformed 4,200 lives at home and abroad by purchasing our office stationery supplies in a socially responsible way. Our partnership with social enterprise 'WildHearts Office' enables us to make a difference, while supporting our responsible business aims. Our spend with WildHearts Office has had the following impact:

- So far we have helped 2,800 people work their way out of poverty in developing countries through access to microfinance - enabling them to set up small businesses and work their own way out of poverty
- We have funded 1,400 Love to Learn school starter packs as part of WildHearts' Global Literacy Programme
- We have also helped to fund the free delivery of Micro-Tyco to schools across the UK, enabling young people to develop their enterprise and employability skills.

DIRECTORS' REMUNERATION REPORT

Chairman of the Remuneration Committee, Jim McLaren

I am very pleased to present the Remuneration Committee's report for the year to 31st December 2018. The report has been structured broadly in accordance with the remuneration disclosure regime that applies to London Stock Exchange listed companies, to ensure that our remuneration policies and practices are presented in a clear and informative way.

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

The performance of NFU Mutual during 2018 was strong across both our General Insurance and Life Business areas, delivering good outcomes across the key financial performance indicators linked to bonus payments for all staff. All of this was achieved in an environment of increased political and economic uncertainty.

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 2018 for the vast majority of staff fell between 0.5% and 10%. Base salaries for Executive Directors increased by between 2.75% and 3.73%.

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

The Committee would welcome your support at the AGM.

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

"The performance of NFU Mutual during 2018 was strong across both our General Insurance and Life Business areas, delivering good outcomes across the key financial performance indicators linked to bonus payments for all staff."

The Remuneration Committee

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

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

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

A review of the Executive Remuneration Policy, undertaken by Korn Ferry during the year, concluded that it continues to support the remuneration strategy, taking account of external market practice and the needs of the business as a mutual entity.

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.

Following the sad passing of Kim Arif, Richard Morley replaced Mr Arif as Group Finance Director in May 2018 on an interim basis, and was formally confirmed into the position on 1 November 2018. Mr Arif's basic pay and benefits up to his date of death are reported with this report, as well as his prorated STIP (Short-Term Incentive Plan) and GBS (Group Bonus Scheme) awards up to 31st March 2018. Mr Arif's unvested LTIP (Long-Term Incentive Plan) awards are reported in full.

In the case of Mr Morley, his basic earnings from 1st November 2018, covering base pay and benefits, are included with this report together with prorated 2018 GBS and STIP awards from 1st November 2018. All of Mr Morley's unvested LTIP awards are reported on a full award value basis.

Remuneration policy

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

A full version of the Remuneration Policy Table, which explains the different elements which form part of the Executive Directors' and Non-Executive Directors' remuneration at NFU Mutual is available on **nfumutual.co.uk**.

Comparability of policy across the company

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

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

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

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.

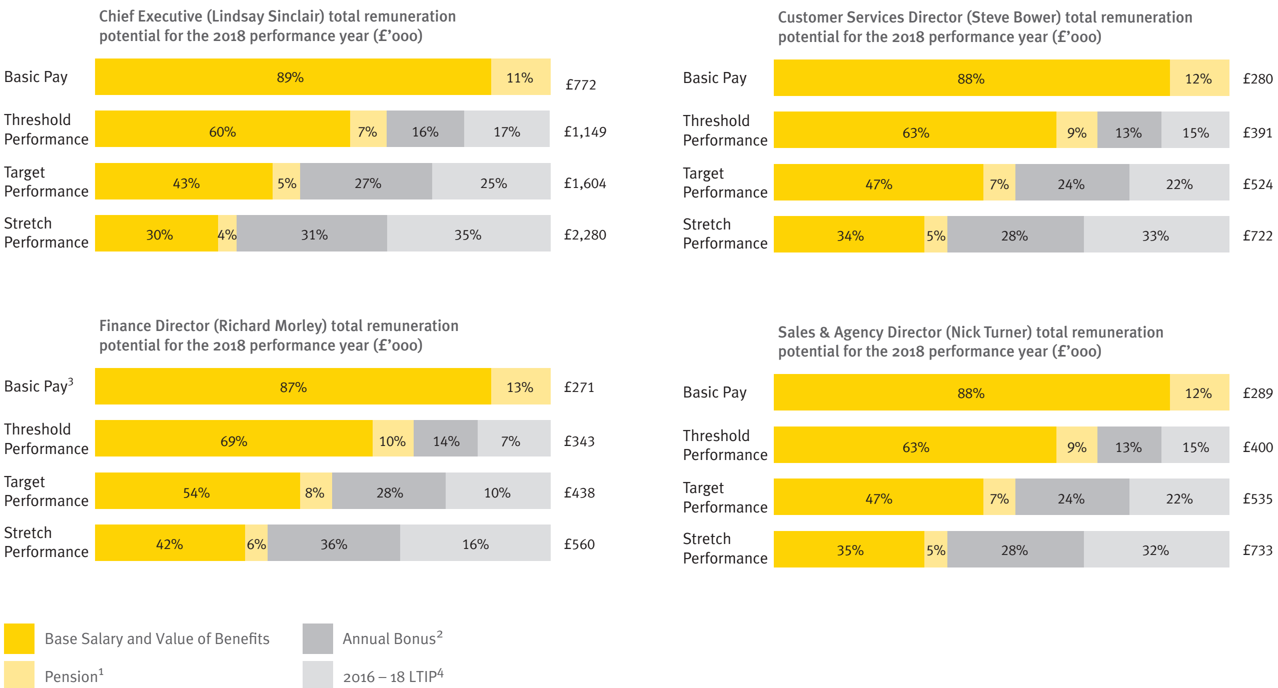
From 2018, all UK companies with over 250 employees are required to report on their Gender Pay Gap. This measures the difference between the average pay of all men and women in a company. Gender Pay is different to equal pay where legislation focuses on earnings for men and women doing the same (or similar) 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 2018 compare positively with the data published for the Finance and Insurance Activities sector by the Office of National Statistics (ONS) in 2018. Our full Gender Pay Report for the year to 5th April 2018 will be available from 4th April 2019 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 2018, between the fixed and performance-related pay of Executive Directors at threshold target and stretch performance levels.



1 Cash in lieu of Company Pension Contribution
2 1/3 of Annual Bonus (GBS and STIP) will be deferred for 3 years
3 Based on annualised base salary + annualised full year value of benefits at 1st November 2018
4 Based on full LTIP award for 2016 which vests on 31st December 2018

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.

The table below shows actual total remuneration for Executive Directors for 2018 and 2017. (2018 audited by Deloitte LLP, 2017 audited by PwC LLP).

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

	2017 £					
	Base Pay	Benefits	Cash allowance in Lieu of Company Pension Contribution[4]	Annual Bonus[2]	2015 - 2017 LTIP	2017 Total
Lindsay Sinclair [5]	558,497	69,119	83,775	693,025	718,695	2,123,111
Kim Arif [1 3]	334,677	13,116	48,271	286,776	306,504	989,344
Steve Bower [3]	225,773	13,476	33,866	200,309	219,150	692,574
Richard Morley [7]	-	-	-	-	-	-
Nick Turner	229,787	16,166	34,468	203,477	214,553	698,451

[1] Base pay figure included an annual allowance calculated as 4% of base pay.
[2] 1/3 of Annual Bonus payment will be deferred for 3 years.
[3] Benefits figure includes car allowance.
[4] Cash allowance in lieu of company pension contribution.
[5] The CEO's benefits include the use of the company driver. These costs increased by £35,499 in 2018 as a result of alternative arrangements necessitated by the illness of the company driver.
[6] The full vested LTIP amount for the 2016 to 2018 award is reported as by the end of the Scheme performance period (31st December 2018) Mr Morley was an Executive Director.
[7] 2017 earnings for Mr Morley are not reported as he was not an Executive Director during 2017.

Base salaries and benefits

The average base salary increase across the Group in May 2018 was 2.37%, with increases ranging from 0.4% to 15.75%. The annual base salary levels of the Executive Directors with effect from 1st May 2018 are as follows:

Name	May 2018	May 2017	Increase
Lindsay Sinclair (Group Chief Executive)	£584,470	£563,435	3.73%
Steve Bower (Customer Services Director)	£233,884	£227,624	2.75%
Nick Turner (Sales and Agency Director)	£238,161	£231,224	3%

The salary increases in May 2018 were related to 2017 performance.

Mr Morley was appointed as an Executive Director on 1st November 2018 therefore details of his May 2018 salary increase are not included in this table.

The value of benefits for Executive Directors is included in the table of remuneration on page 61.

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 2018, 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 63 detail the balanced scorecard of performance measures of the bonus schemes in 2018. 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, Aon New Bridge Street, on an annual basis and amended as appropriate.

GROUP BONUS SCHEME 2018 MEASURES

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

SHORT-TERM INCENTIVE PLAN FOR EXECUTIVES 2018 MEASURES

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

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

PRINCIPLES OF THE LTIP

The NFU Mutual LTIP is a cash-based plan, vesting after 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.

2018 – 2020 LTIP GRANT

A new LTIP grant was made in 2018 to cover the performance period 2018 to 2020. The 2018-2020 LTIP grants were set at the levels detailed in the table below.

Role	Maximum payment following year-end 2020 (% of base salary at time of grant)
Chief Executive	166%
Executive Directors	108%

Following a market review by the Remuneration Committee supported by our independent advisers Aon New Bridge Street, including all elements of the CEO remuneration package, it was agreed to increase the LTIP Maximum of the CEO from 150% of base salary to 166% of base salary for the 2018 LTIP award, to align the overall CEO Maximum package with external peers.

The 2018-2020 LTIP will vest at the end of 2020, dependent on the extent to which performance objectives in relation to that grant are achieved.

Performance Conditions

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

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

SUMMARY OF LTIP GRANTS AND VESTING

The table below details the payments from the 2016-2018 LTIP scheme and the grants made in 2017 and 2018.

	LTIP 3 Cycle £					
	Plan Start Date	Cycle Ending	Grant Value	Vesting Date	2016-2018 Scheme Performance	2018 Payment
Lindsay Sinclair	01-Jan-16	2018	788,250	31-Dec-18	88.80%	699,966
	01-Jan-17	2019	822,933	31-Dec-19		
	01-Jan-18	2020	935,302	31-Dec-20		
Kim Arif*	01-Jan-16	2018	330,480	31-Dec-18	88.80%	293,466
	01-Jan-17	2019	338,742	31-Dec-19		
	01-Jan-18	2020	351,953	31-Dec-20		
Richard Morley**	01-Jan-16	2018	90,995	31-Dec-18	88.80%	80,803
	01-Jan-17	2019	121,648	31-Dec-19		
	01-Jan-18	2020	161,976	31-Dec-20		
Steve Bower	01-Jan-16	2018	236,293	31-Dec-18	88.80%	209,828
	01-Jan-17	2019	239,838	31-Dec-19		
	01-Jan-18	2020	245,834	31-Dec-20		
Nick Turner	01-Jan-16	2018	234,738	31-Dec-18	88.80%	208,447
	01-Jan-17	2019	245,066	31-Dec-19		
	01-Jan-18	2020	249,722	31-Dec-20		

* Grant and payment value is shown on a full 3-year award basis. Actual payments will be adjusted to reflect a performance end date of March 2018.

** Full amounts of all outstanding awards are indicated and reflect periods before and following Mr Morley's appointment as an Executive Director.

A new LTIP grant will be made in 2019 to cover the performance period 2019 to 2021, and this will vest at the end of 2021, 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 Arif was a Defined Benefit member of the Group's Pension Scheme and 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 2018 is £166,200.

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 31.12.18	Single Pension Figure at 31.12.17 (£)	2018 Transfer value of accrued pension value (£) [3]	2018 Accrued pension value[3] (£ pa)	Normal pension age
Kim Arif	-[1]	-[1]	1,476,300	56,200	60
Steve Bower	-[2]	-[2]	1,721,700	65,000	60

[1] Based on the member ceasing to accrue pension from 5th April 2012, although he continued to accrue contingent spouse's benefits on death-in-service and death-after-retirement up to his death on 23rd April 2018, which is reflected in the calculation of the transfer value at point of death. The Administrators confirmed that the continued accrual of the contingent spouse's benefits up to death was unaffected by the broader Closure of the Scheme to future accrual.

[2] 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.

[3] For Mr Arif, the 'Transfer Value of accrued pension value' and 'Accrued pension value' are indicated as at the point of his death on 23rd April 2018. For Mr Bower, both values are assessed as at 31st December 2018.

Mr Arif's and Mr Bower's Defined Benefit membership terms were altered with effect from 6th April 2012 and 6th April 2014 respectively, in order to enable both Executive Directors to register for Fixed Protection with HMRC. From these respective dates, no further pensionable service was accrued and Mr Arif and Mr Bower were no longer required to contribute to the Scheme. For the period up to his death, Mr Arif received a cash allowance in place of pension. Mr Bower continues to receives 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.

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

Non-Executive Directors

(Audited by Deloitte LLP)

Non-Executive Directors	Responsibilities	2018 Total Fees (£)	Taxable Expenses from 1st January 2018 - 31st December 2018*	2017 Total Fees (£)	Taxable Expenses from 1 January 2017 - 31st December 2017
Jon Bailie	Investment Committee Chair	40,894	3,041	-	-
Ali Capper		38,008	1,010	-	-
Brian Duffin	With-Profits Committee Chair Chair of the Company's Pension Scheme Trustee	78,000	4,696	72,500	5,578
Sally-Ann Hibberd[1]		3,623	1,658	48,750	879
Christine Kennedy		54,500	4,863	48,750	2,870
Eileen McCusker	Board Risk Committee Chair	66,500	4,271	62,562	3,684
Jim McLaren	Remuneration Committee Chair	64,500	8,038	58,750	5,503
Richard Percy	Chairman, Nomination Committee Chair	185,000	3,570	181,250	4,464
Chris Stooke	Senior Independent Director, Audit Committee Chair	71,450	3,140	65,188	1,660

1 Resigned from Board 29th January 2018

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

None of the Non-Executive Directors accrue pension benefits with NFU Mutual. Some former Non- Executive Directors or their widows still receive a pension, on an ex gratia, non-contractual and unfunded basis. The total cost of these pensions for 14 former Directors or widows in 2018 was £211,306 (2017: £240,996).

Non-Executive Directors' letters of appointment

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

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

	Date of letter of appointment	Unexpired Term as at 31st December 2018	Notice period
Non-Executive Directors			
Jon Bailie	1st February 2018	2 years 2 months	1 month
Ali Capper	15th March 2018	2 years 3 months	1 month
Brian Duffin	25th February 2016	1 year	1 month
Sally-Ann Hibberd	25th February 2016	Resigned 29 January 2018	1 month
Christine Kennedy	25th February 2016	1 year and 10 months	1 month
Eileen McCusker	25th February 2016	2 year 6 months	1 month
Jim Mclaren	25th February 2016	2 years	1 month
Richard Percy	29th February 2016	2 year 5 months	1 month
Chris Stooke	25th February 2016	1 year and 6 months	1 month

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

Jim McLaren
Chairman of the Remuneration Committee

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

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of The National Farmers Union Mutual Insurance Society Limited (the 'parent company') and its subsidiaries (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 2018 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 and parent company balance sheets;
- the consolidated profit and loss account;
- the consolidated statement of comprehensive income;
- the consolidated statement of cash flows;
- the consolidated and parent company statements of changes in equity; and,
- the notes to the financial statements 1 to 35, excluding the capital adequacy disclosures in 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).

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. 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.

Summary of our audit approach

Key audit matters

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

- General business reserves; Latent reserving assumptions, and bodily injury assumptions and methodology
- Life insurance reserves; Annuitant mortality assumptions

Materiality

The materiality that we used for the group financial statements was £70.8 million, which was determined on the basis of 1% of total equity.

Scoping

Our group audit included full scope audits of the parent and Avon Insurance plc. We will also issue statutory audit opinions for nine other subsidiaries which are components of the group. The audit work for these subsidiaries is performed to lower statutory materiality levels, but for group purposes we have performed specified audit procedures at group materiality levels. For other components, we have performed analytical review procedures.

Conclusions relating to going concern, principal risks and viability statement

Going concern

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

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

Principal risks and viability statement

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

- the disclosures on pages 20 – 26 that describe the principal risks and explain how they are being managed or mitigated;
- the directors' confirmation that they have carried out a robust assessment of the principal risks facing the group, including those that would threaten its business model, future performance, solvency or liquidity; or
- the directors' explanation on page 29 as to how they have assessed the prospects of the group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

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

Key audit matters

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

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

General business reserves; Latent reserving assumptions, and bodily injury assumptions and methodology	
Key audit matter description	The valuation of the general insurance liabilities is a complex process involving inherent uncertainty and one of the largest areas of management judgement within the group's financial statements. Gross reserves for outstanding claims and incurred but not reported claims amount to £1,842m in 2018 (2017: £1,916m), as set out in note 8 to the financial statements. The accounting and risk management policies are set out in notes 1 and 2 respectively, with insurance risk being discussed in note 2c. Due to the high level of judgement and estimation involved, we have determined that there was a potential for fraud through possible manipulation of this balance. The Group Audit Committee refers to this key audit matter in their report on page 47. Following review of management's reserving reports and data, and on the basis of materiality, we consider the following to be our specific areas of significant risk: i) Statistical reserves, specifically focusing on Third Party Bodily Injury (TPBI) methodology and assumptions. ii) Latent reserves, specifically long tail farming related exposures; the limited availability of relevant information causes the methodology and assumptions to be more judgemental and as such we focus on these areas. Our work has focused on the material assumptions used as part of the Company's latent reserving including: • likelihood of the peril giving rise to a claim; • the number of policyholders exposed; • the probability of making a claim and these being upheld; • the average cost of a claim; • the period of time before claims arise and change of risk over time; • reinsurance recovery assumptions; and • future inflation assumptions.
How the scope of our audit responded to the key audit matter	With involvement from Deloitte Actuarial specialists we have performed the following procedures: i) Statistical reserves • Evaluated the design and implementation of the internal controls relevant to the statistical reserve valuation process; • Reviewed and challenged management's selection of TPBI methodology and assumptions. Our work has focused on material classes of business; we challenged assumptions through review of NFU Mutual's documented approach to deriving each of the assumptions through assessment of external expert opinions, internal expert judgement and evidence gathered from research compared to industry data; • Reviewed the methodology used by NFU Mutual's Actuarial team to calculate the statistical reserves and, where applicable, compare to industry standard practices; • Used market benchmarking to assess the reasonableness of key assumptions; • Graphical review testing of management's output using our inhouse reserving software; and • Inspected the results of management's sensitivity tests. ii) Latent reserves – • Evaluated the design and implementation of the internal controls relevant to Latent reserving; • Reviewed and challenged management's documented model methodology, and documented approach to deriving key assumptions. Where external reports have been used by NFU Mutual to drive the selection of key assumptions, we assessed that these reports have not been used inappropriately or out of context; • Where external reports have been used by management to drive the selection of key assumptions, check that these reports have not been used inappropriately or out of context; • Challenged management on sensitivity testing performed by NFU Mutual of 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 • Reviewed management's Latent Claims Best Estimate Parameterisation report to assess the adequacy of communication of key uncertainties to applicable stakeholders. Other procedures performed to address risks common across both identified key audit matters include: • Critically reviewed management's general reserving papers as presented to the Group Audit Committee in March 2019 • Reviewed and challenged management's approach to selecting levels of margin to assess whether they accounted for specific areas of uncertainty in the best estimate and that there is consistency period on period. In doing so, we used benchmarking from peer organisations to assess the reasonableness of management's approach. • Performed procedures over the accuracy and completeness of data used in reserving, adopting a controls reliance approach by testing design and implementation as well as operating effectiveness of key controls over the reserving data reconciliation process and data flow, supported by direct testing of key claims data extracted from the policy administration systems. • Reconciled the output of the actuarial reserving process to the general ledger.
Key observations	Through the procedures performed, we found the assumptions and methodology used to value the general insurance claims outstanding to be in line with the stated accounting policy and reasonable in light of the uncertainty in the reserves. Overall we consider that the methodology applied and significant assumptions used by management in the 2018 latent reserving assumptions, and bodily injury assumptions and methodology are reasonable.

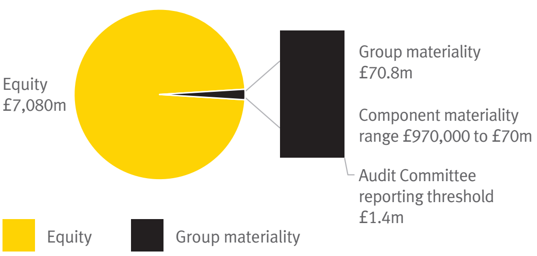
Life insurance reserves; Annuitant mortality assumptions	
Key audit matter description	The assumptions for annuitant mortality (both base mortality assumptions and mortality improvements) used in the actuarial reserving process are fundamental in ensuring that the appropriate level of actuarial liabilities 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 in the significant annuitant assumptions identified are as follows: • Mortality (improvement) – Management's view/interpretation of populations 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") 2017 tables; and • Mortality (base) – Factors which affect the assumptions underlying mortality experience (e.g. age, gender, pension band etc), management's view on the credibility of the experience and the period over which it is analysed. Given the nature of these assumptions, these are subject to significant management estimates, and due to the size of the balance (2018: £5,061m, 2017: £5,165m), as set out in note 4 to the financial statements, could materially affect the financial statements if incorrectly or inconsistently determined or applied. The accounting and risk management policies are set out in notes 1 and 2 respectively, with insurance risk being discussed in note 2c. Due to the high level of judgements and estimates involved, we have determined that there was a potential for fraud through possible manipulation of this balance. The Group Audit Committee refers to this key audit matter in their report on page 47.
How the scope of our audit responded to the key audit matter	With involvement from Deloitte Actuarial specialists we have performed the following procedures: • Critically reviewed management's life reserving papers as presented to the Group Audit Committee in March 2019; • Evaluated the design and implementation of the internal controls relevant to life reserves; • Evaluated the in-year experience study relating to base annuitant mortality experience across the material annuity products; • Challenged key judgements made by comparing these against our in-house view of annuitant mortality improvement assumptions; Replicated the assumptions tables created using the external CMI 2017 model on a sample basis; • Where appropriate, we have compared the assumptions selected by Management to those used by peer annuity companies; • Performed procedures over the accuracy and completeness of data used in reserving, by testing design and implementation of key controls over the reserving data reconciliation process and data flow, supported by direct testing of key claims data extracted from the policy administration systems; and • Reconciled the output of the actuarial reserving process to the general ledger.
Key observations	Through the procedures performed we found the assumptions and methodology used to value the life insurance reserves to be in line with the stated accounting policy and reasonable in light of the uncertainty in the reserves. Overall we consider that the methodology applied and significant assumptions used by management in the 2018 life insurance reserves, annuitant mortality assumptions, are reasonable.

Our application of 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	£70.8m	£70m
Basis for determining materiality	1% of total equity	1% of total equity
Rationale for the benchmark applied	We have used total equity as a base for our materiality to reflect the parent and group's strategic ambition as a mutual to deliver longer-term sustainable profit growth and improve overall member value. By using total equity as a basis, our judgement on materiality is in line with the focus and risk profile of both the group and parent company.	



We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £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.

An overview of the scope of our audit

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 the Avon Insurance plc insurance subsidiary. Our testing covered 96% of PBT, 93% of revenue and 98% of net assets, all work was performed by the Group engagement team. All other trading components, consolidated in the financial statements, were subject to analytical review or specified account balance procedures.

Our Group audit work was executed at levels of materiality applicable to each individual entity which were lower than group materiality and ranged from £970,000 to £70m. For other components, such as the Channel Island entities, 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 directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon.

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

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

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

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

- Fair, balanced and understandable – the statement given by the directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for members to assess the group's position and performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- Audit committee reporting – the section describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee.

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.

Auditor's responsibilities for the audit of the financial statements

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

Details of the extent to which the audit was considered capable of detecting irregularities, including fraud are set out below.

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

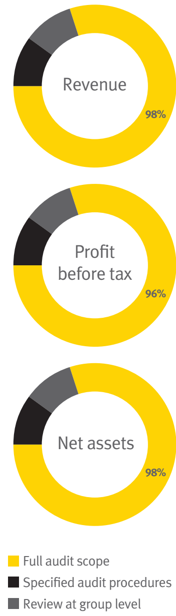
Extent to which the audit was considered capable of detecting irregularities, including fraud

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

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, our procedures included the following:

- enquiring of management, internal audit and the audit committee, including obtaining and reviewing supporting documentation, concerning the group's 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 related to fraud or noncompliance with laws and regulations
- discussing among the engagement team and involving relevant internal specialists and experts, including actuarial, tax, pensions and IT teams regarding how and where fraud might occur in the financial statements and any potential indicators of fraud. As part of this discussion we identified potential for fraud in the following areas – life and general insurance reserving valuation and revenue recognition



- obtaining an understanding of the legal and regulatory frameworks that the group operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of the group. The key laws and regulations we considered in this context included the Companies Act and pension and tax legislation . In addition, as a regulated insurer, compliance with the group's regulatory solvency requirements regulated by the PRA and FCA were fundamental to the group's ability to continue as a going concern.

Audit response to risks identified
As a result of performing the above, we identified General business reserves; Latent reserving assumptions, and bodily injury assumptions and methodology, and Life insurance reserves; Annuitant mortality assumptions as key audit matters. 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 the risks identified included the following:
- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above;
- enquiring of management, the audit committee and legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with HMRC / PRA and FCA; and
- in addressing the risk of fraud through revenue recognition we have assessed the reconciliation and evaluated controls in place, performed a review of manual Gross Written Premiums postings and performed substantive testing over underlying data;
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

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

Report on other legal and regulatory requirements

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 of 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.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records
Under the Companies Act 2006 we are required to report to you if, in our opinion:
- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

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 these matters.

Other matters

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 of the firm is 1 year.

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).

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
21 March 2019

Consolidated Profit and Loss Account
Technical Account – General Business

2018 £m	2017 £m	for the year ended 31 December
1,568	1,484	Gross written premium before Mutual Bonus
(253)	(168)	Mutual Bonus
1,315	**1,316**	**Gross written premium (note 6)**
(114)	(93)	Outwards reinsurance
1,201	**1,223**	**Net premiums written**
(12)	10	Change in the gross provision for unearned premiums
1	1	Change in the gross provision for reinsured unearned premiums
(11)	**11**	**Change in the net provision for unearned premiums**
1,190	**1,234**	**Earned premiums, net of reinsurance**
35	30	Allocated investment return transferred from the Non-Technical Account (note 9)
-	1	Other technical income
1,225	**1,265**	**Total technical income**
1,082	932	Gross claims paid
(48)	(9)	Reinsurers' share of gross claims paid
1,034	**923**	**Net claims paid**
(78)	24	Change in gross provision for claims
(11)	(16)	Change in reinsurers' share
(89)	**8**	**Change in net provisions for claims**
945	**931**	**Claims incurred, net of reinsurance**
326	307	Net operating expenses (note 7)
6	5	Other technical charges, net of reinsurance
1,277	**1,243**	**Total technical charges**
(52)	**22**	**Balance on the Technical Account – General Business**

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

2018 £m	2017 £m	For the year ended 31 December
248	271	Gross written premium (note 6)
(6)	(6)	Outwards reinsurance
242	**265**	**Earned premiums, net of reinsurance**
614	504	Investment income (note 9)
-	324	Unrealised gain on investments (note 9)
26	24	Fee income from investment contracts
100	76	Other technical income net of reinsurance
982	**1,193**	**Total technical income**
324	324	Gross claims paid
(7)	(5)	Reinsurers' share
317	**319**	**Net claims paid**
4	7	Change in gross provision for claims
321	**326**	**Claims incurred, net of reinsurance**
(125)	140	Gross change in Long-Term Business Provision
-	-	Reinsurers' share
(125)	**140**	**Net change in the Long-Term Business provision**
(33)	(47)	Changes in technical provision for linked liabilities, net of reinsurance
(183)	383	Movements in investment contract liabilities
(341)	**476**	**Net change in technical provisions**
131	125	Net operating expenses (note 7)
1,030	-	Unrealised loss on investments (note 9)
3	4	Investment expenses and charges (note 9)
(35)	40	Tax attributable to the Long-Term Business (note 15)
(137)	193	Transfer from / to the fund for future appropriations
10	-	Profit attributable to minority interest
982	**1,193**	**Total technical charges**
-	**-**	**Balance on the Technical Account – Long-Term Business**

Consolidated Profit and Loss Account
Non-Technical Account

2018 £m	2017 £m	For the year ended 31 December
(52)	22	Balance on the Technical Account – General Business
405	995	Investment Income (note 9)
(675)	(326)	Unrealised loss on investments (note 9)
(35)	(30)	Allocated investment return transferred to the Technical Account – General Business (note 9)
(7)	(8)	Support payments to the Farmers' Unions
18	17	Other Income
(30)	(30)	Other Charges
(376)	**640**	**(Loss) / Profit on ordinary activities before taxation (note 14)**
86	(100)	Tax credit / (charge) on ordinary activities (note 15)
(290)	**540**	**(Loss) / Profit for the financial year (note 24)**

All results are derived from continuing operations.

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

Consolidated Statement of Other Comprehensive Income

2018 £m	2017 £m	For the year ended 31 December
(290)	**540**	**(Loss) / Profit for the financial year**
1	84	Actuarial gain on pension scheme (note 28)
-	(15)	Movement on deferred tax on pension scheme
(289)	**609**	**Total comprehensive (expense) / income recognised since last Annual Report**

Consolidated and Company Balance Sheets

Consolidated 2018 £m	Consolidated 2017 £m	Parent Company 2018 £m	Parent Company 2017 £m	As at the 31 December
				Assets
				Investments
1,604	1,515	1,390	1,328	Land and Buildings (note 18)
426	365	847	769	Investments in Group undertakings and participating interests (note 16)
11,656	12,582	11,564	12,468	Other financial investments (note 17)
13,686	**14,462**	**13,801**	**14,565**	
3,165	3,379	3,165	3,379	Assets held to cover linked liabilities (note 19)
				Reinsurers' share of technical provisions
9	8	9	8	Provision for unearned premiums
14	14	14	14	Long-term business provision
186	175	180	170	Claims outstanding (note 8)
29	32	29	32	Technical provision for linked liabilities
238	**229**	**232**	**224**	
				Debtors
				Debtors arising out of direct insurance operations
481	467	477	460	Due from policyholders
5	5	5	5	Due from intermediaries
486	**472**	**482**	**465**	
4	5	4	5	Debtors arising out of reinsurance operations
-	-	28	48	Amounts due from Group undertakings
119	47	98	34	Other debtors including taxation (note 20)
609	**524**	**612**	**552**	
				Other Assets
34	29	32	28	Tangible assets (note 21)
20	29	-	-	Stocks (note 22)
205	277	164	249	Cash at bank and in hand
259	**335**	**196**	**277**	
				Prepayments and accrued income
66	60	65	59	Accrued interest and rent
104	98	104	98	General business deferred acquisition costs
27	28	27	28	Long-term business deferred acquisition costs
23	16	27	21	Other prepayments and accrued income
220	**202**	**223**	**206**	
18,177	**19,131**	**18,229**	**19,203**	**Total assets excluding pension asset**
64	63	-	-	Pension asset (note 29)
18,241	**19,194**	**18,229**	**19,203**	**Total assets including pension asset**

Consolidated and Company Balance Sheets

Consolidated 2018 £m	Consolidated 2017 £m	Parent Company 2018 £m	Parent Company 2017 £m	As at 31 December
				Liabilities
				Reserves
-	-	241	244	Revaluation reserve
250	250	250	250	Other reserve (note 25)
5,653	5,942	5,463	5,755	Profit and loss account (note 25)
15	5	-	-	Equity minority interests
1,161	1,298	1,200	1,335	Fund for future appropriation (note 25)
7,079	**7,495**	**7,154**	**7,584**	**Total Equity**
				Technical provisions
637	625	637	624	Provision for unearned premiums
5,061	5,186	5,061	5,186	Long-term business provision (note 4)
1,842	1,916	1,832	1,908	Claims outstanding (note 8)
7,540	**7,727**	**7,530**	**7,718**	
121	129	121	129	Technical provision for linked liabilities – Insurance contracts (note 4)
3,032	3,215	3,032	3,215	Technical provision for linked liabilities – Investment contracts (note 4)
179	254	168	243	Provision for other risks and charges (note 26)
10,872	**11,325**	**10,851**	**11,305**	
				Creditors
31	34	31	32	Creditors arising out of direct insurance operations
20	17	19	14	Creditors arising out of reinsurance operations
51	42	-	-	Amounts due to credit institutions (note 32)
-	-	49	46	Amounts owed to group undertakings
74	158	57	147	Other creditors including taxation and social security (note 27)
114	123	68	75	Accruals and deferred income
18,241	**19,194**	**18,229**	**19,203**	**Total liabilities**

These financial statements on pages 73 to 123 were approved and authorised for issue by the Board of Directors on the 21st March 2019 and were signed on its behalf by:

Signed on behalf of the Board of Directors

Richard Percy
Chairman

Lindsay Sinclair
Group Chief Executive

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

Consolidated Statement of Cash Flows – General Business

2018 £m	2017 £m	For the year ended 31 December
(197)	(19)	Net cash from operating activities (note 33)
405	994	Interest and dividend Income
(92)	(181)	Taxation paid
116	**794**	**Net cash generated from operating activities**
		Cash flow from investing activities
(13)	(15)	Payments to acquire tangible assets
(379)	(134)	Payments to acquire shares and other variable yield securities
167	893	Receipts from the sale of shares and other variable yield securities
(632)	(1,158)	Payments to acquire debt securities and other fixed / variable income securities
235	135	Receipts from the sale of debt securities and other fixed / variable income securities
(233)	(36)	Payments to acquire investment properties
72	121	Receipts from the sale of investment properties
(783)	**(194)**	**Net cash (used)/generated in investing activities**
(667)	**600**	**Net increase in cash and cash equivalents**
1,429	829	Cash and cash equivalents at the beginning of the year
762	**1,429**	**Cash and cash equivalents at the end of the year**
113	173	Cash at bank and in hand (note 33)
649	1,256	Short-term deposits (included in Other Financial Investments)
762	**1,429**	**Cash and cash equivalents at the end of the year**

Statement of Changes in Equity

Revaluation Reserves £m	Other Reserve (Note 24) £m	Profit and Loss Account (Note 24) £m	Fund for Future Appropriations (Note 24) £m	Total 2018 £m	Equity Minority Interests £m	Total Equity 2018 £m	Total Equity 2017 £m	**Consolidated**
-	250	5,942	1,298	7,490	5	7,495	6,693	Balance at 1 January
-	-	(290)	-	(290)	-	(290)	540	Transfer from Non-Technical Account
-	-	-	(137)	(137)	-	(137)	193	Transfer from / to the fund for future appropriations
-	-	1	-	1	-	1	84	Actuarial gain on pension scheme
-	-	-	-	-	-	-	(15)	Movement on deferred tax on pension scheme
-	-	-	-	-	10	10	-	Profit attributable to Minmority Interest
-	**250**	**5,653**	**1,161**	**7,064**	**15**	**7,079**	**7,495**	**Balance at 31 December**
								Parent Company
244	250	5,755	1,335	7,584	-	7,584	6,750	Balance at 1 January
-	-	(292)	-	(292)	-	(292)	542	Transfer from Non-Technical Account
-	-	-	(135)	(135)	-	(135)	190	Transfer to the fund for future appropriations
(3)	-	-	-	(3)	-	(3)	102	Revaluation of subsidiaries
241	**250**	**5,463**	**1,200**	**7,154**	**-**	**7,154**	**7,584**	**Balance at 31 December**

NOTES TO FINANCIAL STATEMENTS

1 Compliance Statement & Accounting Policies

Statement of Compliance

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

Basis of Preparation

The financial statements have been prepared on a going concern basis under the historical cost convention with the exception of land and buildings, and financial assets and liabilities which are stated at fair value. A summary of the more important Group accounting policies is set out below.

a) Changes in Accounting Policy

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

b) Basis of Consolidation

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

Subsidiaries

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

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

Associates

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

Joint 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 13 to 19. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the notes to the accounts on pages 80 to 123. 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
- 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 page 90 to 92.

- 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
- Pension schemes – note 29 sets out the major assumptions used to calculate the pension scheme asset/liability and the sensitivity of the schemes' liabilities to changes in key assumptions.
- 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.

Reinsurance premiums inwards are accounted for when the contract is entered into, depending on the terms of the individual contract. Bonuses granted to policyholders on future renewal of their policies are recognised as a reduction to premiums written when policies are renewed. Reinsurance outward premiums are accounted for when paid or payable, depending on the terms of the individual contract. The balance on the Technical Account – General Business is determined after making provision for unearned premiums, unexpired risks, outstanding claims and investment income.

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

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

Claims Provisions

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

Notified Outstanding Claims Reserves

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

Incurred But Not Reported Claims Reserves

The estimation of claims Incurred But Not Reported (IBNR) is generally subject to a greater degree of uncertainty. Classes of business, such as 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. 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 exception to this is movements in the fair value of investment in subsidiaries and associates within the parent company which are taken to the revaluation reserve, through the Statement of Other Comprehensive Income.

General Insurance Business
Gains and losses on realisation of investments are included within investment income or investment expenses in the Non-Technical Account. Unrealised gains and losses are also included within the Non-Technical Account. Allocations from the Non-Technical Account are made to the Technical Account – General business based on the longer-term investment return on investments supporting the general insurance technical provisions, 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 recognised in the financial statements. Deferred tax is calculated using the tax rates that have been enacted or substantively enacted by the balance sheet date and are expected to apply to the reversal of the timing difference.

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

k) Financial Assets and Financial Liabilities

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

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

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

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

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

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

Derivatives
Derivative instruments are fair valued each year and classified as held for trading in accordance with IAS39 as per FRS102. Any movement in value is accounted for in the Long-Term Business Profit and Loss Account.

All other Financial Instruments, Loans and Mortgages
The Group classifies other financial instruments, loans and mortgages as loans and receivables, using the effective interest rate method. They are initially measured at the value transferred but subsequently measured at amortised cost making an appropriate allowance for any estimated irrecoverable amounts. Any movement in the impairment provision is charged to the Profit and Loss Account as incurred. No adjustment is made to discount any balances to reflect the time value of money. Financial instruments are further classified between current and non-current assets or liabilities. The current classification is used when the expected settlement of the asset or liability will occur within 12 months of the balance sheet date.

l) Land and Buildings
Land and buildings consists of investment properties and owner occupied properties.

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

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

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

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

m) 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 2018, Unit Linked Personal Pension Account and Unit Linked Flexibond along with the main investment product open to top ups during 2018, Stakeholder Pension, certain costs have been deferred that relate to the acquisition of this business. The basis of this deferral has been a straight line method over 25 years for Unit Linked Personal Pension Account, 10 years for Stakeholder and 15 years for Unit Linked Flexibond. These costs are deferred to the extent that they are expected to be recoverable out of future profits on these contracts. Costs relating to the acquisition of any other investment contracts or insurance contracts are not deferred but charged to the Profit and Loss Account as incurred.

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

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

p) Tangible Assets

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

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

q) Retirement Benefits Schemes

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

r) Provisions

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

s) Stock Lending

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

t) Exemptions for qualifying entities under FRS102

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

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

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

2 Risk Management

a) Risk Management Framework

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

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

An explanation of the risk framework and the methods used to monitor and assess risk exposures can be found on pages 20 – 26. The following table presents an analysis of the balance sheet for each distinct category of assets and liabilities which are referred to in this note:

General Business		Long -Term Business					
General Insurance Contracts £m	Corporate General £m	Insurance With-Profit £m	Corporate Life £m	Investment Linked Contracts £m	Insurance Non-Participating £m	Total £m	Consolidated As at 31 December 2018
3,216	-	1,909	286	2,333	-	7,744	Shares and other variable yield securities
772	212	532	88	-	-	1,604	Land and buildings
-	-	49	8	-	-	57	Property investments (Note 17)
421	5	-	-	-	-	426	Associates and Joint Ventures
2,296	-	1,146	663	353	1,263	5,721	Debt securities and other fixed / variable income securities
744	18	127	268	337	-	1,494	Cash and deposits with credit institutions
195	-	-	-	-	43	238	Reinsurance assets
684	132	113	19	9	-	957	Other assets
8,328	**367**	**3,876**	**1,332**	**3,032**	**1,306**	**18,241**	**Total assets**
-	-	3,876	-	-	1,185	5,061	Long-Term Business provision
-	-	-	-	3,032	121	3,153	Technical provision for linked liabilities
637	-	-	-	-	-	637	Provision for unearned premium
1,806	-	-	36	-	-	1,842	Claims outstanding
213	121	-	135	-	-	469	Other liabilities
2,656	**121**	**3,876**	**171**	**3,032**	**1,306**	**11,162**	**Total liabilities**

General Business		Long -Term Business					
General Insurance Contracts £m	Corporate General £m	Insurance With-Profit £m	Corporate Life £m	Investment Linked Contracts £m	Insurance Non-Participating £m	Total £m	Consolidated As at 31 December 2017
3,519	-	1,932	435	2,545	-	8,431	Shares and other variable yield securities
768	184	520	43	-	-	1,515	Land and buildings
1	-	57	4	-	-	62	Property investments (Note 17)
365	-	-	-	-	-	365	Associates and Joint Ventures
1,972	-	1,072	819	338	1,282	5,483	Debt securities and other fixed / variable income securities
1,413	16	197	153	277	55	2,111	Cash and deposits with credit institutions
183	-	-	-	-	46	229	Reinsurance assets
571	124	151	94	55	3	998	Other assets
8,792	**324**	**3,929**	**1,548**	**3,215**	**1,386**	**19,194**	**Total assets**
-	-	3,929	-	-	1,257	5,186	Long-Term Business provision
-	-	-	-	3,215	129	3,344	Technical provision for linked liabilities
625	-	-	-	-	-	625	Provision for unearned premium
1,883	-	-	33	-	-	1,916	Claims outstanding
308	103	-	217	-	-	628	Other liabilities
2,816	**103**	**3,929**	**250**	**3,215**	**1,386**	**11,699**	**Total liabilities**

b) Market Risk

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

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

(i) Equity Risk

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

General Business

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

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

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

Long-Term Business

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

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

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

(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 business as discussed below.

General Business

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

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

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

Long-Term Business

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

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

(iv) Currency Risk

As described in the risk section on pages 20 to 26 the Group considers its exposure to currency risk to be sufficiently mitigated by the Group's Investment Strategy. A sensitivity analysis to changes in the value of sterling to other currencies is shown below:

10% increase in Sterling £m	10 % decrease in Sterling £m	General Business
(118)	118	Net assets at 31/12/18
(130)	130	Net assets at 31/12/17
		Long-Term Business
(45)	45	FFA at 31/12/18
(48)	48	FFA at 31/12/17

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

(v) Sensitivity Analysis

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

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

2018						2017						**General Business**
Fixed Interest Securities		Equity		Property		Fixed Interest Securities		Equity		Property		
+1%	-1%	+10%	-10%	+10%	-10%	+1%	-1%	+10%	-10%	+10%	-10%	
(163)	201	322	(322)	98	(98)	(166)	207	352	(352)	95	(95)	**Impact on profit before tax £m**
(163)	**201**	**322**	**(322)**	**98**	**(98)**	**(166)**	**207**	**352**	**(352)**	**95**	**(95)**	**Total**

2018						2017						**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
(37)	66	-	-	-	-	(46)	85	-	-	-	-	Non-Participating contracts
45	(75)	60	(64)	18	(19)	51	(99)	69	(73)	14	(15)	With-Profit business
-	1	-	-	-	-	-	-	-	-	-	-	Investment business
8	**(10)**	**60**	**(64)**	**18**	**(19)**	**5**	**(14)**	**69**	**(73)**	**14**	**(15)**	**Total**

Limitations of Sensitivity Analysis

The sensitivities shown in the tables in section (v) are calculated assuming all other variables remain constant. In reality it should be noted that there will be a correlation between the different variables, so it is unlikely only one factor will change in isolation. It should be noted that sensitivities are non-linear and therefore larger or smaller impacts should not be interpolated or extrapolated from these results. The sensitivities used in these accounting notes do not take into consideration the active management by the Group of its assets and liabilities. The Group's risk management framework incorporates levels which will trigger remedial action in order to mitigate any risk faced by the Group due to changes in market conditions.

c) Insurance Risk

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

General Insurance Contracts

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

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

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

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

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

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

- Changes in actuarial processes and methodology.
- Changes in risk profile.
- Changes in underwriting, rating and policy conditions.
- Changes in legislation and regulation e.g. PPOs, Ministry of Justice reforms, changes to the Ogden discount rate
- 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 table below reflects the cumulative incurred claims including both claims notified and Incurred But Not Reported (IBNR) for each successive accident year at each Statement of Financial Position date, together with the cumulative payments to date. The Group aims to maintain appropriate reserves in order to protect against adverse future claims experience and developments.

Analysis of Claims Development – Gross of Reinsurance

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Total
Estimate of ultimate claims costs £m											
At end of reporting year	900	984	950	970	946	911	889	950	1,007	1,105	
One year later	936	969	911	915	877	809	906	959	979		
Two years later	872	943	847	835	802	808	891	922			
Three years later	844	880	757	778	782	782	859				
Four years later	800	846	727	756	782	771					
Five years later	792	836	719	754	782						
Six years later	790	830	719	765							
Seven years later	790	832	721								
Eight years later	797	832									
Nine years later	802										
Current estimate of cumulative claims	802	832	721	765	782	771	859	922	979	1,105	8,538
Cumulative payments to date	(769)	(817)	(704)	(728)	(757)	(734)	(782)	(780)	(718)	(573)	(7,362)
Liability recognised in balance sheet	33	15	17	37	25	37	77	142	261	532	1,176
Reserve in respect of prior years											503
Reserve in respect of Long-Term Business											36
Other Reserves											117
Total Reserve included in Parent Company balance sheet, Gross of reinsurance											1,832
Reserve in respect of subsidiary undertakings											10
Total reserve included in consolidated balance sheet, Gross of reinsurance											1,842
Total consolidated reserve included in the balance sheet, Net of reinsurance											1,656

Analysis of Claims Development – Net of Reinsurance

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Total
Estimate of ultimate claims costs £m											
At end of reporting year	872	957	904	877	896	885	872	936	964	1,057	
One year later	897	939	893	861	846	801	884	944	947		
Two years later	837	918	826	783	784	795	876	906			
Three years later	814	864	739	740	779	772	845				
Four years later	777	830	721	742	778	766					
Five years later	767	820	717	740	779						
Six years later	763	827	717	744							
Seven years later	773	829	718								
Eight years later	775	824									
Nine years later	775										
Current estimate of cumulative claims	775	824	718	744	779	766	845	906	947	1,057	8,361
Cumulative payments to date	-761	-813	-704	-727	-756	-731	-780	-780	-716	-544	-7,312
Liability recognised in balance sheet	14	11	14	17	23	35	65	126	231	513	1,049
Reserve in respect of prior years											450
Reserve in respect of Long-Term Business											36
Other Reserves											117
Total Reserve included in Parent Company balance sheet, Net of reinsurance											1,652
Reserve in respect of subsidiary undertakings											4
Total reserve included in consolidated balance sheet, Net of reinsurance											1,656

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

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

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

Insurance risk for contracts is also affected by the contract holder's right to pay reduced future premiums, to cease future premiums, and to terminate the contract completely. The Group has factored the impact of contract holder's behaviour into the assumptions used to measure liabilities. 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 2018 £m**
192	1,095	377	541	27	64	2,296	Debt securities and other fixed / variable income securities
-	115	63	-	-	17	195	Assets arising from reinsurance contract held
-	127	635	-	-	-	762	Cash and deposits with credit institutions
-	-	-	-	-	630	630	Other assets
192	**1,337**	**1,075**	**541**	**27**	**711**	**3,883**	
							As at 31 December 2017 £m
199	965	409	365	32	2	1,972	Debt securities and other fixed / variable income securities
-	83	65	-	-	35	183	Assets arising from reinsurance contract held
-	1,001	428	-	-	-	1,429	Cash and deposits with credit institutions
-	-	-	-	-	530	530	Other assets
199	**2,049**	**902**	**365**	**32**	**567**	**4,114**	

Long-Term Business

AAA	AA	A	BBB	BB	Other	Carrying Value in Balance Sheet	**As at 31 December 2018 £m**
173	1,988	330	414	54	17	2,976	Debt securities and other fixed / variable income securities
-	40	3	-	-	-	43	Reassurance assets
3	57	331	-	-	-	391	Cash and deposits with credit institutions
3	11	6	10	1	39	70	Other assets
179	**2,096**	**670**	**424**	**55**	**56**	**3,480**	
							As at 31 December 2017 £m
210	2,009	377	358	69	22	3,045	Debt securities and other fixed / variable income securities
-	63	8	-	-	-	71	Reassurance assets
-	127	268	97	-	-	492	Cash and deposits with credit institutions
4	11	7	9	1	49	81	Other assets
214	**2,210**	**660**	**464**	**70**	**71**	**3,689**	

The tables provide information regarding an analysis of the credit profile for financial assets with external credit ratings for the Group as at 31 December 2018.

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

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

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

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

Stock lending refers to the lending of securities by one party to another. The terms of the loan will be governed by a "Securities Lending Agreement", which requires that the borrower provides the lender with collateral, in the form of cash, government securities, or a letter of credit of value equal to or greater than the loaned securities. As payment for the loan, the parties negotiate a fee and interest to be paid on the loan. As at 31 December 2018 lent stock amounted to £750m (2017: £455m), broken down as UK Equity £106m, Eurobonds and International Equities £231m and Gilts £413m (2017: UK Equity £114m, Eurobonds and International Equities £127m and Gilts £214m).

As at 31 December 2018 accepted collateral, all in government stocks, amounted to £782m (2017: £473m).

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 2018 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 95 represents our best estimate of the Life undiscounted claim profile arising from in force contracts. This claim profile allows for full and partial surrenders, regular withdrawals, death claims and retirements, as well as maturities. All assumptions on expected rates are consistent with our valuation assumptions and are based on an analysis of our experience over the past five years.

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

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

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

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

< 1 year or on demand	Between 1 year and 2 years	Between 2 years and 5 years	> 5 years	Total	Carrying value as per the balance sheet	Financial and Insurance Liabilities
						At 31 December 2018
						Financial Liabilities
-	-	51	-	51	51	Bank Loans and other overdrafts
3,329	-	-	-	3,329	3,032	Financial liabilities under non participating investment contracts
239	-	-	-	239	239	Creditors
3,568	**-**	**51**	**-**	**3,619**	**3,322**	**Total Financial Liabilities**
						Insurance Liabilities
255	248	684	2,855	4,042	3,876	Long-term business provision - with profit insurance contracts
80	77	219	949	1,325	1,185	Long-term business provision - non-participating insurance contracts
4	4	13	161	182	121	Liabilities under unit linked insurance contracts
658	241	305	595	1,799	1,767	Claims Outstanding (NFU Mutual General)
6	3	6	24	39	39	Claims Outstanding (Avon)
36	-	-	-	36	36	Claims Outstanding (Life)
1,039	**573**	**1,227**	**4,584**	**7,423**	**7,024**	**Total Insurance Liabilities**
4,607	**573**	**1,278**	**4,584**	**11,042**	**10,346**	**Total Financial and Insurance Liabilities**

< 1 year or on demand	Between 1 year and 2 years	Between 2 years and 5 years	> 5 years	Total	Carrying value as per the balance sheet	Financial and Insurance Liabilities
						At 31 December 2017
						Financial Liabilities
-	-	42	-	42	42	Bank Loans and other overdrafts
3,328	-	-	-	3,328	3,215	Financial liabilities under non participating investment contracts
332	-	-	-	332	332	Creditors
3,660	**-**	**42**	**-**	**3,702**	**3,589**	**Total Financial Liabilities**
						Insurance Liabilities
264	259	700	2,862	4,085	3,931	Long-term business provision - with profit insurance contracts
79	78	223	998	1,378	1,357	Long-term business provision - non-participating insurance contracts
3	3	9	118	133	175	Liabilities under unit linked insurance contracts
703	280	300	591	1,874	1,844	Claims Outstanding (NFU Mutual General)
4	3	6	23	36	39	Claims Outstanding (Avon)
33	-	-	-	33	33	Claims Outstanding (Life)
1,086	**623**	**1,238**	**4,592**	**7,539**	**7,379**	**Total Insurance Liabilities**
4,746	**623**	**1,280**	**4,592**	**11,241**	**10,968**	**Total Financial and Insurance Liabilities**

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 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 2018 is estimated to be £6,521m (2017: £7,057m) 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 Solvency II regulatory requirements are summarised below.

Group 2018 £m	Group 2017 £m	Parent 2018 £m	Parent 2017 £m	
7,064	**7,490**	**7,154**	**7,584**	**Statutory**
				Valuation method adjustments;
510	632	510	633	Net technical reserves
(468)	(456)	(468)	(456)	Premium Debtors
-	(123)	-	(123)	Present Value of Future Profits
(131)	(126)	(131)	(126)	Deferred acquisition costs
(53)	(52)	(53)	(52)	Pension Scheme Asset net of deferred tax
(50)	31	(50)	31	Deferred tax
(352)	(417)	(352)	(417)	Excess Ring-Fenced funds
-	-	(94)	(93)	Fair value subsidiaries
1	78	5	(19)	Other
6,521	**7,057**	**6,521**	**6,962**	**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.

2018 Total Life business £m	2017 Total Life business £m	Analysis of Policyholder Liability
		With-Profits liabilities
535	514	Options and guarantees
3,341	3,415	Other policyholder obligation
3,876	**3,929**	**Total With-Profits liabilities**
3,153	3,344	Unit linked
1,185	1,257	Non-participating Life assurance
8,214	**8,530**	**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 2018. 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 21.2% (2017: 24.3%) and a property return volatility parameter of 15.0% (2017: 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 53 basis points (2017: 33 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 base table is updated from the 2016 to the 2017 CMI model version. The percentage adjustments to the base table and improvements basis for the 2017 assumptions are given in brackets.

Male	With-Profits	Non-Participating
Base table	PMA08 (PMA08)	PMA08 (PMA08)
% adjustment	99% (99%)	97% (97%)
Improvement model	CMI-2017 (CMI-2016)	CMI-2017 (CMI-2016)
% Long-Term rate	Average 1.75% (Average 1.75%)	Average 2.25% (Average 2.25%)
Female		
Base table	PFA08 (PFA08)	PFA08 (PFA08)
% adjustment	87% (987%)	85% (85%)
Improvement model	CMI-2017 (CMI-2016)	CMI-2017 (CMI-2016)
% Long-Term rate	Average 1.75% (Average 1.75%)	Average 2.25% (Average 2.25%)

Lapse Rates With-Profits

Product	Duration	2018 Lapse rate %	2017 Lapse rate %
Pure Endowments – Regular	All before age 55	0.36	0.36
Pure Endowments – Single	All before age 55	0.36	0.36
Deferred Annuity – Regular	All before age 55	0.36	0.36
Deferred Annuity – Single	All before age 55	0.36	0.36
Personal Pension – Individual	All before age 55	0.94	0.94
Endowment	All	1.06	1.06

Non-Participating

Product	Duration	Non-Participating	
		2018 Lapse rate %	2017 Lapse rate %
Personal Pension – Individual	All before age 55	1.00	1.00
Stakeholder – Individual	All before age 55	1.07	0.95
Capital Investment Bond	All	3.11	3.11
Flexibond (Pre RDR)	1	1.51	1.56
	2	2.67	2.50
	3	2.80	3.08
	4+	3.55	3.88
Flexibond (Post RDR)	1	1.51	1.56
	2	2.67	2.50
	3	2.80	3.08
	4+	3.55	3.88

Per-policy Expense Rates (£)

Product	With-profits	Non-participating
Capital Invesment Bond / Flexibond	£152.77 (£141.90)	£160.41 (£149.00)
Stakeholder / Personal Pension	£140.22 (£131.03)	£147.23 (£137.58)
Individual Savings Account	£116.54 (£109.16)	£122.37 (£114.62)
Endowments / Whole of Life	£87.33 (£83.70)	£91.70 (£87.89)
Conventional Pensions	£101.13 (£97.34)	£106.19 (£102.21)
Annuities	£73.07 (£70.42)	£76.72 (£73.94)

Guaranteed Annuity Take Up Rates

With-Profits

Assumptions are made that on average 56% (2017: 49%) 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.

2018

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	(20)	(1)	7	(10)
With-Profits business	(13)	2	13	-
Investment business	-	-	-	-
Total	**(33)**	**1**	**20**	**(10)**

2017

Impact on FFA (£m)	Annuitant mortality 5% fall	Lapse rates 10% fall	Maintenance expenses 10% fall	Liquidity premium 10 basis point fall
Insurance Business				
Non-Participating contracts	(21)	(1)	8	(11)
With-Profits business	(13)	3	11	-
Investment business	-	-	-	-
Total	**(34)**	**2**	**19**	**(11)**

5 Financial Instruments – Fair Value Methodology

i) Investments carried at fair value have been categorised using a fair value hierarchy as detailed below:

Level 1 – Quoted market prices in active markets

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

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

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

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

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

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

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

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

ii) An analysis of investments according to fair value hierarchy is given below:

2018 Level 1 £m	2018 Level 2 £m	2018 Level 3 £m	2018 Total £m	2017 Level 1 £m	2017 Level 2 £m	2017 Level 3 £m	2017 Total £m	As at 31 December
								Assets
								Financial assets at fair value through profit or loss
-	-	426	426	-	-	365	365	Investment in Group undertakings and participating interests
-	57	-	57	-	61	1	62	Property Investments
5,130	249	-	5,379	5,613	242	-	5,855	Shares and other variable-yield securities and unit trusts
1,703	3,567	2	5,272	1,153	3,862	2	5,017	Debt securities and other fixed / variable income securities
2,470	344	-	2,814	2,649	394	-	3,043	Assets held to cover linked liabilities
9,303	**4,217**	**428**	**13,948**	**9,415**	**4,559**	**368**	**14,342**	

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

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

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

iii) The table right 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.

2018 £m	2017 £m	
		Total funds
368	473	Balance as at 1 January
(7)	(61)	Total net losses recognised in the Profit and Loss Account
68	-	Purchases
(1)	(44)	Sales
428	**368**	**Balance as at 31 December**
(7)	(61)	Total losses for the period included in profit or loss for assets held at the end of the reporting period

6 Segmental Information

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

a) Segmental analysis

Gross Written Premium		(Loss) / profit on ordinary activities before taxation and minority interests		Net Assets		
2018 £m	2017 £m	2018 £m	2017 £m	2018 £m	2017 £m	
1,315	1,316	(411)	610	5,903	6,192	General business
-	-	35	30	-	-	Allocated investment return
1,315	**1,316**	**(376)**	**640**	**5,903**	**6,192**	**General business total**
248	**271**	**-**	**-**	**1,161**	**1,298**	**Long-Term business**

b) Gross Written Premium

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

2018 £m	2017 £m	
		General Business
455	466	Fire and Other Damage to Property
206	206	Third-party liability
352	263	Motor (third party liability)
181	262	Motor (other classes)
30	32	Accident and Health
91	87	Miscellaneous
1,315	**1,316**	
		Long-Term Business
227	249	Life
21	22	Pensions
248	**271**	

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

2018 Life £m	2018 Pensions £m	2017 Life £m	2017 Pensions £m	
16	12	16	11	Periodic
211	9	233	11	Single
227	**21**	**249**	**22**	
3	3	3	3	Non-linked With-Profits
7	2	7	3	Non-linked non-profit
217	16	239	16	Unitised (including unitised With-Profits)
227	**21**	**249**	**22**	

The gross premium income was written in the following areas:

- All General business and Long-Term business is materially written within the United Kingdom.
- All insurance premiums are direct insurance.
- There is no reinsurance inwards at a Group level.

c) New Business Premiums – Long-Term Business

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

2018 £m	2017 £m	
211	218	Life
1	1	Annuity
6	8	Pensions
218	**227**	
3	4	Periodic
215	223	Single
218	**227**	
1	1	Non-linked non-profit
217	226	Unitised
218	**227**	

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

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

d) Gross Premium Earned – General Business

2018 £m	2017 £m	
455	476	Fire and Other Damage to Property
206	211	Third-party liability
347	262	Motor (third party liability)
179	260	Motor (other classes)
30	32	Accident and Health
86	85	Miscellaneous
1,303	**1,326**	

e) Gross Operating Expenses

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

2018 £m	2017 £m	**General Business**
122	118	Fire and Other Damage to Property
56	53	Third-party liability
94	67	Motor (third party liability)
48	66	Motor (other classes)
5	6	Accident and Health
24	21	Miscellaneous
349	**331**	
		Long-Term Business
126	103	Life
25	27	Pensions
151	**130**	

f) Gross Claims Incurred and Reinsurance Balance

Gross Claims Incurred

2018 £m	2017 £m	**General Business**
1,082	932	Claims paid
(78)	24	Gross provision for claims
1,004	**956**	

Reinsurance balance

2018 £m	2017 £m	**General Business**
(48)	(9)	Claims paid
(11)	(16)	Gross provision for claims
(59)	**(25)**	

g) Reinsurance

The reinsurance balance amounted to a debit to the General Technical account of £54m (2017: £68m) and a debit to the Life Technical account of £5m (2017: £1m).

h) Geographical Analysis

Materially all premiums are written within the United Kingdom.

7 Net Operating Expenses

General business acquisition costs include commission related costs of £136m (2017: £128m). Guarantee fund levies included in administration expenses amounted to £18m (2017: £20m) in the consolidated General business financial statements. Net operating expenses includes income received from Agents for services provided.

General Business 2018 £m	General Business 2017 £m	Long-Term Business 2018 £m	Long-Term Business 2017 £m	
215	206	108	101	Acquisition costs
(7)	(10)	1	-	Increase in deferred acquisition costs
118	111	22	24	Administrative expenses
326	**307**	**131**	**125**	

8 Movement in Insurance Liabilities

a) Movement in insurance liabilities and reinsurance assets

Consolidated 2018			Consolidated 2017			
Gross	Reinsurance	Net	Gross	Reinsurance	Net	
1,916	(175)	1,741	1,885	(159)	1,726	**Total at the beginning of the year**
						Movement in Liabilities
797	(46)	751	827	(78)	749	Arising from current year General Insurance claims
(928)	17	(911)	(398)	(64)	(462)	Arising from prior year General Insurance claims
67	21	88	(443)	122	(321)	Claims incurred but not reported reserve movements
(14)	(3)	(17)	38	4	42	Other General Insurance claims reserve movements
4	-	4	7	-	7	Long-Term claims reserve movement
1,842	**(186)**	**1,656**	**1,916**	**(175)**	**1,741**	**Total at the end of the year**

Parent Company 2018			Parent Company 2017			
Gross	Reinsurance	Net	Gross	Reinsurance	Net	
1,908	(170)	1,738	1,876	(155)	1,721	**Total at the beginning of the year**
						Movement in Liabilities
797	(46)	751	827	(78)	749	Arising from current year General Insurance claims
(928)	17	(911)	(398)	(64)	(462)	Arising from prior year General Insurance claims
67	19	86	(443)	127	(316)	Claims incurred but not reported reserve movements
(16)	-	(16)	39	-	39	Other General Insurance claims reserve movements
4	-	4	7	-	7	Long-Term claims reserve movement
1,832	**(180)**	**1,652**	**1,908**	**(170)**	**1,738**	**Total at the end of the year**

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

Within the net claims outstanding reserves the Company holds discounted reserves net of reinsurance of £25m (2017: £24m) for periodic payment orders. These reserves have been discounted using EIOPA risk free interest rates.

b) Movement in Prior Years' Provision for Claims Outstanding

The movement in prior year provision for claims outstanding reflects our prudent approach to management of individual case estimates alongside our assessment of other general risks (including potential legislative changes, latent risks and other general uncertainties). We reserve on a basis which would expect, on average, to produce releases on settlement of claims. We also look to provide for the potential for future legislative or regulatory changes that require strengthening of our case reserves.

Positive run off deviations of £75m (2017: £75m) for motor, £103m (2017: £90m) liability and £16m (2017: £nil) property were experienced in the year with all other classes of business reporting a net negative deviation of £30m (2017: £5m positive).

An Unexpired Risk Reserve is included within claims outstanding of £42m (2017: £56m).

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		
2018 £m	**2017 £m**	**2018 £m**	**2017 £m**	**Investment Income**
				Income from other financial investments:
6	3	3	1	Held to maturity interest income
-	-	-	2	Loans and receivables interest income
6	**3**	**3**	**3**	**Total interest income on financial assets not at fair value through the profit or loss**
169	230	273	251	Income on financial assets at fair value through profit or loss
175	**233**	**276**	**254**	**Income from financial assets**
99	55	86	43	Income from land and buildings
1	-	-	-	Net return on pension scheme
130	707	252	207	Net gains on realisation of investments
405	**995**	**614**	**504**	**Total income from other financial investments**
				Investment Expenses and Charges
-	-	(3)	(4)	Other investment management expenses
(675)	(326)	(1,030)	324	Net unrealised (loss) / gain on investments
(270)	**669**	**(419)**	**824**	**Total Investment Return**
				Investment return is analysed between:
-	-	(419)	824	Investment return retained in the Long-Term business technical account
35	30	-	-	Allocated investment return transferred to the General business technical account
(305)	639	-	-	Net investment return included in the Non-Technical account
(270)	**669**	**(419)**	**824**	**Total Investment Return**
(545)	381	(778)	531	Included in the total investment return are net (losses)/gains on financial assets at fair value through profit or loss
(545)	**381**	**(778)**	**531**	**Total net realised and unrealised (losses)/gains included in investment return**

10 General Business Longer-Term Investment Rate of Return

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

The longer-term return credited to the Technical account for General business is based on the investments supporting the technical reserves of the General business as permitted under FRS103. A 1% point increase/decrease in the longer-term rate of investment return would result in an increase/decrease in longer-term investment return of nil (2017: £1m).

Longer-term Rates of Investment returns Consolidated

2018	2017	
6.25%	5.25%	Equities
5.50%	4.90%	Properties
3.00%	0.60%	Government Bonds
4.50%	1.40%	Corporate Bonds

Investment returns over past five years:

2014-2018 £m	2013-2017 £m	
800	965	Actual return attributable to investment supporting the General business Technical Provisions
(360)	(433)	Longer-term return credited to the Technical account for General business
440	**532**	

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 £7,490,834 (2017: £7,069,010) in respect of salaries and short-term benefits.

The parent company does not employ any staff directly. As at the end of 2018 £nil (2017: £nil) in relation to the December 2018 contributions was due to be transferred to the pension scheme. Total employers contributions made to the pension scheme in 2018 were £11m (2017: £10m).

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

2018 Number	2017 Number	By activity
1,501	1,629	Underwriting and Claims
1,027	936	Administration and Finance
1,298	1,142	Sales and Marketing
3,826	**3,707**	

2018 £m	2017 £m	Staff costs for the above persons were
169	160	Wages and salaries
17	17	Social security costs
12	10	Other pension costs
198	**187**	

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 58 to 67.

No Directors accrued any benefits under a defined benefit scheme during the year (2017: none).

2018 £	2017 £	By activity
4,608,434	5,073,313	Aggregate emolument
211,306	240,996	Excess retirement benefit to past Non-Executive Directors
		Highest paid Director
2,091,454	2,123,111	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 2018, for Directors and members of senior management and/or connected entities was £85,595 (2017: £68,840) for General business and £166,978 (2017: £1,042,878) for Life business. Claims paid and Life surrenders totalled £915,304 (2017: £10,317).

(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 Opportunity Fund is a related party (98% owned). In 2018 related party transactions amounted to £nil (2017: £nil).

d) Salmon Harvester Properties Limited, a 50% owned subsidiary is a related party. As at the end of 2018 loans totalling £1,929,402 (2017:£10,000,000) had been made, with cumulative interest on the loan amounting to £39,790 (2017: £16,756,402). The interest rate on the loan is 3.5% above the Bank of England base rate.

e) **NFU Mutual OEIC is a related party.**
At 31 December 2018, the parent company held:

- Nil shares (2017: 7,460,000) in the UK Growth A sub-fund valued at £nil per share (2017: £3.6636).
- 18,699,849 shares (2017: nil) in the UK Growth C sub-fund valued at £1.3028 per share (2017: £nil).
- Nil shares (2017: 8,935,383) in the Global Growth A sub-fund valued at £nil per share (2017: £2.6869).
- 11,089,669 shares (2017: nil) in the Global Growth C sub-fund valued at £1.4924 per share (2017: £nil).
- Nil shares (2017: 6,513,623) in the Gilt & Corporate Bond A sub-fund valued at £nil per share (2017: £1.035).
- 6,542,048 shares (2017: nil) in the Gilt & Corporate Bond C sub-fund valued at £1.0479 per share (2017: £nil).
- 971,438 shares (2017: 24,282,400) in the Global Emerging Markets sub-fund valued at £40.0377 per share (2017: £1.78).
- 1,024,511 shares (2017: 25,334,256) in the UK Equity Income sub-fund valued at £40.4357 per share (2017: £1.8233).
- 965,838 shares (2017: nil) in the Gilt & Corporate Bond sub-fund valued at £30.5125 per share (2017: £nil).
- 716,693 shares (2017: Nil) in the UK Growth sub Fund valued at £37.716 per share (2017: £nil)

NFU Mutual Portfolio Funds OEIC. At 31 December 2018, the parent company held:

- 143,770,259 shares (2017: 120,661,893 shares) in the Mixed 20-60% sub-fund valued at £1.5599 per share (2017: £1.679)

14 Profit on Ordinary Activities Before Taxation

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

2018 £k	2017 £k	By activity
10,396	13,412	Depreciation
3,974	3,501	Operating lease rentals (plant and machinery)
375	341	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:
77	85	Audit of accounts of any associate of the company
-	6	Taxation compliance services
344	321	Audit related assurance services
6	78	All other non-audit services
		During the year the auditors also earned fees payable by entities outside the consolidated NFU Mutual Group in respect of the following:
-	46	Audit of the Group pension scheme
115	83	Audits of unconsolidated Open Ended Investment Companies managed by the Group
4	5	Audit of NFU Mutual Charitable Trust
4	5	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		
2018 £m	2017 £m	2018 £m	2017 £m	
				Consolidated Income
(71)	128	16	21	Current taxation on income for the period
1	-	(1)	1	Adjustment to prior years
(70)	**128**	**15**	**22**	
3	4	4	4	Overseas taxation
(67)	**132**	**19**	**26**	**Total current taxation**
				Deferred taxation
(18)	(29)	(55)	14	Origination and reversal of timing differences
1	-	1	-	Adjustment to prior years
(2)	(3)	-	-	Impact of change of tax rate
(19)	**(32)**	**(54)**	**14**	**Total deferred taxation**
(86)	**100**	**(35)**	**40**	**Taxation on (loss) / profit on ordinary activities**

b) Tax included in other comprehensive income

2018 £m	2017 £m	**Deferred Taxation**
-	15	Origination and reversal of timing differences
-	**15**	**Total tax expense included in other comprehensive income**

c) Reconciliation of tax charge for the period

The tax assessed for the period is higher (2017: lower) than the standard rate of Corporation Tax in the UK for the year ended 31 December 2018 of 19.00% (2017: 19.25%). The differences are explained right:

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

The Finance Act 2017 reduces the main rate of Corporation Tax from 19% to 17% from 1 April 2020. Deferred taxes at the balance sheet date have been measured using these enacted tax rates and are reflected in these financial statements.

No Deferred Tax has been provided on Revaluation of Subsidiaries made in the Statement of Changes in Equity, since the parent company has control of subsidiaries and it is probable that the timing difference will not reverse in the future.

Consolidated taxation 2018 £m	Consolidated taxation 2017 £m	
(376)	640	(Loss) / Profit before tax
(71)	123	(Loss) / Profit multiplied by the standard rate of corporation tax in the UK of 19.00% (2017: 19.25%)
		Effects of:
(2)	(3)	Impact of reduction in rate
7	14	Realised and unrealised gains on investments
(21)	(38)	Non-taxable income
(4)	(1)	Capital allowances in excess of depreciation
-	1	Disallowable expenses
2	-	Adjustment to prior years
3	4	Tax on overseas earnings
(86)	**100**	**Total taxation**

16 Investment in Group Undertakings and Participating Interests

Consolidated		Parent Company General Business		Parent Company Long-Term Business		
2018 £m	2017 £m	2018 £m	2017 £m	2018 £m	2017 £m	**Valuation**
-	-	327	325	97	69	Shares in Group undertakings
-	-	-	-	2	10	Loans to Group undertakings
2	2	2	2	-	-	Participating interests in associated companies
424	363	419	363	-	-	Participating interests in Joint Ventures
-	-	-	-	-	-	Loans to associated companies
426	**365**	**748**	**690**	**99**	**79**	**Investment in Group undertakings and participating interests**
						Cost
-	-	87	82	87	62	Shares in Group undertakings
-	-	-	-	2	10	Loans to Group undertakings
-	-	-	-	-	-	Participating interests in associated companies
262	194	262	194	-	-	Participating interests in Joint Ventures
-	-	-	-	-	-	Loans to associated companies
262	**194**	**349**	**276**	**89**	**72**	**Investment in Group undertakings and participating interests**

There are no listed investments included in the above.

17 Other Financial Investments

Consolidated 2018 £m	Consolidated 2017 £m	Parent Company General Business 2018 £m	Parent Company General Business 2017 £m	Parent Company Long-Term Business 2018 £m	Parent Company Long-Term Business 2017 £m	
						Valuation
						Assets designated at fair value through profit or loss upon initial recognition:
5,379	5,855	3,216	3,519	2,162	2,336	Shares and other variable yield securities
5,272	5,017	2,267	1,936	2,976	3,045	Debt securities and other fixed / variable income securities
57	62	-	1	57	61	Property investments
10,708	**10,934**	**5,483**	**5,456**	**5,195**	**5,442**	**Financial assets in fair value through profit or loss**
948	1,648	613	1,207	273	363	Deposit with credit institutions
11,656	**12,582**	**6,096**	**6,663**	**5,468**	**5,805**	**Total Financial Assets**
						Included in the above are listed investments:
5,216	5,730	3,134	3,460	2,081	2,270	Shares and other variable yield securities
5,273	5,017	2,267	1,936	2,976	3,045	Debt securities and other fixed interest stocks
						Cost
						Assets designated at fair value through profit or loss upon initial recognition:
3,820	3,423	2,369	2,158	1,451	1,265	Shares and other variable yield securities
4,528	4,052	2,167	1,765	2,335	2,256	Debt securities and other fixed / variable income securities
43	44	8	9	35	35	Property investments
8,391	**7,519**	**4,544**	**3,932**	**3,821**	**3,556**	**Financial assets in fair value through profit or loss**
948	1,648	613	1,207	273	363	Deposit with credit institutions
9,339	**9,167**	**5,157**	**5,139**	**4,094**	**3,919**	**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	Freehold £m	Long Leasehold £m	
1,352	106	649	69	526	37	Carrying value bfwd from prior year
224	45	92	16	101	29	Additions
(21)	(25)	(16)	(25)	(5)	-	Disposals
(161)	(3)	(77)	(5)	(80)	2	Changes in Fair Value
28	-	19	-	9	-	Other Changes
1,422	**123**	**667**	**55**	**551**	**68**	**Amount Cfwd at end of current year**

As at 31st December 2018 the book cost of the Investment properties is £1,356m (2017: £1,024m)

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	Freehold £m	Long Leasehold £m	
57	-	47	-	-	-	Carrying value bfwd from prior year
-	-	-	-	-	-	Additions
-	-	-	-	-	-	Disposals
2	-	2	-	-	-	Changes in Fair Value
-	-	-	-	-	-	Other Changes (including amortisation)
59	**-**	**49**	**-**	**-**	**-**	**Amount Cfwd at end of current year**
1,481	**123**	**716**	**55**	**551**	**68**	**Total land and buildings**

As at 31st December 2018 the book cost of owner occupied properties is £100m (2017: £100m). The accumulated depreciation on owner occupied properties at 31st December 2018 is £24m (2017: £22m).

Land and buildings were valued at 31 December 2018 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 2018 £m	Consolidated 2017 £m	Parent Company* 2018 £m	Parent Company* 2017 £m	
				Valuation
				Assets designated at fair value through profit and loss upon initial recognition:
2,365	2,577	2,365	2,577	Shares and other variable yield securities
449	466	449	466	Debt securities and other fixed interest/ variable income securities
2,814	**3,043**	**2,814**	**3,043**	**Financial assets in fair value through profit and loss**
341	327	341	327	Cash and Deposits with Credit Institutions
10	9	10	9	Accrued Interest
3,165	**3,379**	**3,165**	**3,379**	**Total Assets held to cover Linked Liabilities**
				Included in the above are listed investments:
2,119	2,352	2,119	2,352	Shares and other variable yield securities
449	466	449	466	Debt securities and other fixed interest/ variable income securities
				Cost
				Assets designated at fair value through profit and loss upon initial recognition:
1,846	1,669	1,846	1,669	Shares and other variable yield securities
417	385	417	385	Debt securities and other fixed interest/ variable income securities
2,263	**2,054**	**2,263**	**2,054**	**Total Financial Assets**
341	327	341	327	Cash and Deposits with Credit Institutions
10	8	10	8	Accrued Interest
2,614	**2,389**	**2,614**	**2,389**	**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 2018 £m	Consolidated 2017 £m	Parent Company Business 2018 £m	Parent Company Business 2017 £m	
51	-	52	-	Corporation tax
18	-	12	-	Other taxation
50	47	34	34	Sundry debtors
119	**47**	**98**	**34**	

21 Tangible Assets

Tangible assets comprise fixtures, fittings and equipment.

Consolidated £m	Parent Company £m	
		Cost
182	176	As at 1 January 2018
13	12	Additions
-	-	Disposals
195	188	As at 31 December 2018
		Accumulated Depreciation
153	148	As at 1 January 2018
8	8	Charge for the year
161	156	As at 31 December 2018
		Net Book Value
34	32	As at 31 December 2018
29	28	As at 31 December 2017

22 Stocks

Stocks comprise properties under construction.

Consolidated

2018 £m	2017 £m	
20	29	Stocks
20	**29**	

Parent Company

2018 £m	2017 £m	
-	-	Stocks
-	**-**	

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
SHP Opportunity Fund General Partner Limited (98% owned direct 2% owned by Salmon Harvester Properties Limited) (No. 6278378)	General Partner of Limited Partnership

Subsidiaries Held Through NFU Mutual Management Company Limited

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

Subsidiaries Held Through NFU Mutual Select Investments Limited

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

Companies Held Through Harvester Properties Limited

Aver Property General Partner Limited (No.11660872)	General Partner of Limited Partnership
Aver Property Nominee Limited (No. 11662963)	Property Holding Company
ACP (BTR Prime 1) General Partner Limited (No.12664)	General Partner of Limited Partnership

Companies Incorporated in Other Jurisdictions

Guernsey

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

Jersey

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

Subsidiaries Held Through Salmon Harvester Properties Limited

Salmon Harvester (Orbital A3) Limited (No. 4125466)	Property Special Purpose Vehicle
* FSH Airport (Edinburgh) Services Limited (50% owned by Salmon Harvester Properties Limited)[4] (No. 4001890)	Joint Venture Property Company
* FSH Nominees Limited (100% owned by FSH Airport (Edinburgh) Services Limited)[4] (No. 4046945)	Joint Venture Property Company
Ascot Business Park Management Company Limited (No. 6422086)	Property Special Purpose Vehicle
Ascot Business Park Parking Limited (No. 8282837)	Property Special Purpose Vehicle

Subsidiaries Held Through ACP (BTR Prime 1) LP

Apache HSRE (BTR Prime 1) LP (No. 2753)	Property Special Purpose Vehicle

Other investment in Group undertakings

SHP 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 (80% owned)(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] 2nd Floor Prince Frederick House, 35-39 Maddox Street, London W1S 2PP

24 Associates and Joint Ventures

Associates

The Society's associated undertaking during the year was 50% (2017: 50%) ordinary shareholding in NFU Mutual Finance Ltd. (finance leasing company), a company incorporated in Great Britain and registered in England and Wales.

This shareholding is accounted for as an associated company as a result of board representation and the allocation of issued and fully paid shares. The profit attributed in relation to the associate in the year was £0.1m (2017: £0.2m loss) and is included within the Consolidated Profit and Loss Account.

Joint Ventures

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

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

The profit attributed in relation to the joint venture in the year was £18.1m (2017: £37.8m) 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.

The Society owns 80% of the share capital of ACP (BTR Prime 1) LP, with the other 20% owned by Tower One Investment Company Limited. However, the Society is deemed to have control by virtue of a majority on the Board of Directors and therefore treats ACP (BTR Prime 1) LP as a subsidiary rather than a Joint Venture.

25 Reserves

Other reserves in the statement of changes in equity represent funds earmarked within the General business reserves to cover any solvency shortfall requirement of the Life fund. Any further requests for funds would be subject to Board approval. The fund for future appropriations incorporates Long-Term business amounts which have not yet been attributed to current participating policyholders at the balance sheet date. Transfers between the fund for future appropriations and the Technical Account – Long-Term business represent the changes in these unallocated amounts between balance sheet dates.

The parent company's loss for the financial year was £292m (2017: £542m profit). The parent company is exempt from the requirements to file with the registrar individual accounts by virtue s448A of the Companies Act 2006.

26 Other Technical Provision

Within the Technical Provision claims outstanding an unexpired risk reserve has been included for £42m (2017: £56m).

Avon run-off business was reinsured to NFU Mutual in 2006. The value of this included within claims outstanding in 2018 within the parent company is £30m (2017: £31m).

27 Provision for Other Risks and Charges

Consolidated		Parent Company General Business		Parent Company Long-Term Business		
2018 £m	2017 £m	2018 £m	2017 £m	2018 £m	2017 £m	
172	247	82	103	79	133	Deferred taxation
7	7	7	7	-	-	Motor Insurers' Bureau levy
179	**254**	**89**	**110**	**79**	**133**	**Balance at 31 December**

The Group is a member of the Motor Insurers' Bureau. Of the provision brought forward, £7m has been utilised during the year and a further charge of £7m made in 2018.

Consolidated taxation		Parent Company General Business		Parent Company Long-Term Business		
2018 £m	2017 £m	2018 £m	2017 £m	2018 £m	2017 £m	
						Deferred Taxation
247	248	103	134	133	118	Balance at 1 January
(79)	(16)	(23)	(30)	(56)	14	Unrealised (loss)/gains on investments
2	1	-	-	2	1	Deferred acquisition costs
-	15	-	-	-	-	Pension Scheme Asset
5	1	4	1	1	-	Capital allowances
(3)	(2)	(2)	(2)	(1)	-	Other short-term timing differences
172	**247**	**82**	**103**	**79**	**133**	**Balance at 31 December**

Consolidated		Parent Company General Business		Parent Company Long-Term Business		
2018 £m	2017 £m	2018 £m	2017 £m	2018 £m	2017 £m	**The provision for Deferred Taxation comprises:**
165	244	80	103	85	141	Unrealised gains on investments
(4)	(6)	-	-	(4)	(6)	Deferred acquisition costs
11	11	-	-	-	-	Pension Scheme Asset
(2)	(7)	(2)	(6)	-	(1)	Capital allowances
2	5	4	6	(2)	(1)	Other short-term timing differences
172	**247**	**82**	**103**	**79**	**133**	**Balance at 31 December**

There were unused tax losses of £12m (2017: £11m) relating to Group occupied properties disposed in previous years. They have not been recognised as their use is restricted. There is no current expiry limit on these.

The value of the net reversal of deferred tax balances expected to occur within one year of the Balance Sheet date is £19m (2017: £22m) for the parent company General business and £7m (2017: £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		
2018 £m	2017 £m	2018 £m	2017 £m	
-	108	-	106	Corporation tax
40	31	39	35	Other taxation
34	19	18	6	Other
74	**158**	**57**	**147**	**Balance at 31 December**

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 31 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 2019.

The Group is able to recover the pension surplus either through reduced contributions in the future or through refunds from the plan. The surplus of the scheme is accounted for in the consolidated balance sheet as a net defined benefit asset in accordance with FRS 102. As at the balance sheet date there were no plans to recover the asset from the pension scheme.

The principal assumptions used by the actuaries were:

% Consolidated		
2018	2017	
4.65	4.65	Rate of increase in salaries
3.05	3.05	Rate of increase in pensions
2.65	2.40	Discount rate
3.15	3.15	Inflation
2.15	2.15	Pension increase for Deferred Benefits

Post retirement assumptions

Longevity at age 65 for current pensions

2018	2017
100% of S2NMA_L for males and 90% of S2NFA for females with CMI 2017 core projections from 2007 with 1.5% pa long-term trend	110% for males and 103% for females of S1NAL with CMI 2011 projections from 2002 to 2014 and thereafter CMI 2016 projections with 1.50%pa long-term trend

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

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

Consolidated 2018 % of total fair value of scheme assets	Consolidated 2018 £m	Consolidated 2017 % of total fair value of scheme assets	Consolidated 2017 £m	
44.44	453	45.73	502	Equities
43.56	444	42.43	465	Bonds
10.26	105	8.32	91	Property
1.74	18	3.52	39	Other
	1,020		1,097	Total fair value of assets
	(956)		(1,034)	Present value of scheme liabilities
	64		63	Surplus / (Deficit) in the scheme

Of the surplus of £64m (2017: £63m surplus), £12m (2017: £10m 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)

2018 £m	2017 £m	
1,034	1,048	As at 1 January
1	1	Current service cost
-	-	Contributions
(1)	(1)	Administrative expenses
25	26	Interest cost
(26)	(26)	Benefits paid
(77)	(14)	Net actuarial (profits) / loss
956	**1,034**	**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:

2018 £m	2017 £m	
1,094	1,166	Wholly or partly funded obligations
956	1,034	Defined Benefit Scheme
138	132	Defined Contribution Scheme
1,094	**1,166**	**As at 31 December**

The actual return on scheme assets in the year was a loss of £50m (2017: gain of £96m).

The tables over present an analysis of the Defined Benefit obligation and fair value of plan assets for all the Group's pension schemes and post retirement benefits (the latter are unfunded) and present the amounts recognised in the Profit and Loss Account including those related to post retirement healthcare.

Reconciliation of fair value of scheme assets (excluding Defined Contribution Scheme)

2018 £m	2017 £m	
1,097	1,028	At 1 January
26	26	Interest income on scheme assets
-	1	Contributions
(26)	(27)	Benefits paid
(1)	(1)	Administrative expenses
-	-	Net transfer out
(76)	70	Return on scheme assets greater than discount rate
1,020	**1,097**	**At 31 December**

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

2018 £m	2017 £m	
22	18	Current service cost
-	-	Past service cost
22	**18**	**Total operating charge**
		Analysis of amount credited to profit and loss
26	26	Interest income on scheme assets
(25)	(26)	Interest on pension scheme liabilities
1	**-**	
		Analysis of amount recognised in statement of other comprehensive income
(76)	70	Return on scheme assets greater than discount rate
77	14	Remeasurement of the defined benefit obligation
1	**84**	**Actuarial gain recognised in Statement of Other Comprehensive Income**

The actuarial gain of £77m due to economic/demographic experience comprises a £74.7m gain due to assumption changes over the year and a £2.3m gain due to Scheme experience. The experience gain arises from updating calculations for the 31 December 2017 valuation, partially offset by actual increases awarded to salaries and increases on both pensions in deferment and payment over the year to 31 December 2018 being higher than expected and the scheme adopting revised commutation factors since the previous year end disclosures.

As requested by the Auditors, we note that the adoption of the revised commutation factors resulted in an actuarial loss of £6.4m. The assumption gain arises from a higher discount rate, a change to the mortality rates assumed for the Scheme membership and a decrease in the assumed proportion of members that have an eligible spouse at the time of death when compared to prior years disclosures. The actuarial gain of £74.4m due to assumption changes over the year comprises a gain of £47.3m in respect of changes in economic assumptions and a gain of £27.4m in respect of changes in demographic assumptions.

30 Capital Commitments

Capital expenditure contracted for but not provided in these financial statements at 31 December 2018 amounted to £36m (2017: £18m).

31 Operating Lease Commitments

The Group leases various properties under non-cancellable operating lease agreements. The lease have varying terms, escalation clauses and renewal rights. The future aggregate minimum lease payments net of income under non-cancellable operating leases are as follows:

2018 £m	2017 £m	
7	7	Within one year
16	15	Between one and five years
1	3	Later than five years
24	**25**	**As at 31 December**

32 Stock Lending

Holdings of UK Government, corporate fixed interest, UK equities and overseas securities with a value of £750m (2017: £455m) were on loan at 31 December 2018 under approved stock lending schemes. As at 31 December 2018 £782m (2017: £473m) was accepted by the Group in assets that it is permitted to sell or repledge in the event of default of the owner of the collateral. No collateral was sold or repledged during the year or in the prior year. The Company has an obligation to return these assets to the pledgor.

33 Cash Flow Statement

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

2018 £m	2017 £m	
(290)	**540**	**(Loss) / Profit for the financial year**
		Adjustments for:
(86)	100	Tax (credit) / charge on ordinary activities
(405)	(994)	Interest and dividend income
(781)	**(354)**	**Operating loss**
(102)	(43)	Increase in debtors, prepayments and accrued income
83	45	Increase in creditors, accruals and deferred income
(78)	(4)	Decrease in technical provisions
675	326	Unrealised investment loss
(5)	-	Non cash indexation adjustment
11	11	Depreciation and disposals of tangible assets
(197)	**(19)**	**Net cash outflow from operating activities**

b) Analysis of changes in Cash and Cash Equivalents

As at January 2018	Cash Flows	As at December 2018	
277	(72)	205	Cash at Bank and in hand
(104)	12	(92)	Less: Long-Term business
173	**(60)**	**113**	
1,648	(700)	948	Short-term deposits (note 17)
(392)	93	(299)	Less: Long-Term business
1,256	**(607)**	**649**	
1,429	**(667)**	**762**	**Cash and cash equivalents**

34 Amounts Owed to Credit Institutions

Consolidated		Parent Company		
2018 £m	2017 £m	2018 £m	2017 £m	
51	42	-	-	Bank loans
51	**42**	**-**	**-**	**Balance at 31 December**

The loan held with Salmon Harvester Properties Opportunity Fund is a term loan. The interest rates are 2.0% above LIBOR. The maturity date of the loan is 31st December 2018.

35 Change in Accounting Policy – Present Value of Future Profits

Disclosure of with-profits business PVFP

The Group has presented its financial statements for the period to 31 December 2018 in accordance with FRS103. The change in accounting policies used to determine the Long-Term business provision has not resulted in a change to the Consolidated Profit and Loss Account Income Statement for the financial year ended 31st December 2017 as presented in the restated consolidated Profit and Loss Account and Other Comprehensive Income Statement. The total equity of the Group has not changed since last reported.

In determining the long-term business provision, the value of PVFP relating to non-participating business written from within the With-Profits fund has not been taken into account as this is a more relevant and no less reliable reflection than the previous presentation, which showed a higher regulatory liability and separate PVFP asset to collectively reflect a realistic liability.

Previously, in the Consolidated Profit and Loss account movements over the period in PVFP were included as part of the gross change in Long-Term business provision and as a separate item as part of total technical charges. Similarly on the Balance Sheet the PVFP was included as part of Long-Term business provision and as a separate item under investments assets.

The adjustment identified above affects the presentation within the Group's Balance Sheet as shown below, (but does not alter the Group's Profit and Loss Account total or the Group's total equity).

Balance Sheet Restatement

Consolidated		Parent Company		
2017 £m	2017 £m	2017 £m	2017 £m	**Total Assets**
1 January	31 December	1 January	31 December	
18,072	**19,342**	**18,068**	**19,351**	**As previously reported**
152	123	152	123	Present Value of Future Profits relating to non-participating business written from within the with-profits fund
6	6	6	6	Reinsurers share of long-term business provision
21	19	21	19	Reinsurers share of technical provisions for linked liabilities
17,893	**19,194**	**17,889**	**19,203**	**As restated**

Consolidated		Parent Company		
2017 £m	2017 £m	2017 £m	2017 £m	**Total Liabilities**
1 January	31 December	1 January	31 December	
18,072	**19,342**	**18,068**	**19,351**	**As previously reported**
127	102	127	102	Long-Term Business Provision
52	46	52	46	Technical provisions for linked liabilities – Insurance contracts
17,893	**19,194**	**17,889**	**19,203**	**As restated**

Group KPI's – Glossary

Performance Measures	Purpose	Definition
Annual Premium Equivalent (APE)*	To provide the reader with an indication of the level of new regular and single premium business income being generated from Life business activities. This is a widely used industry performance measure.	Industry measure equal to new regular annualised premium plus 10% of new single premium.
Combined Operating Ratio (COR)*	To provide the reader with an indication of the overall expenses in perspective to the level of new business being generated from General Insurance activities.	Proportion of Total Technical Charges as a percentage of earned premiums before earned Mutual Bonus and after allowing for reinsurance. Earned Mutual Bonus takes into account the net movement of unearned Mutual Bonus which amounts to a decrease of £24m (2017:£57m decrease).
Employee Engagement	To provide the reader with a measure of the overall engagement of the staff with the business.	Results of the annual Gallup survey.
Funds Under Management (General Insurance and Life business)	To provide the reader with an measure of the assets being managed within the Group (and separately assets associated with long-term business).	Value of assets covering life and general business funds. Funds under Management represents the value of investment on the Balance Sheet made up of General Insurance business and Life business plus policyholder investment OEICS and the assets of the Company's Retirement Benefit Scheme.

General Business

	2018 £bn	2017 £bn
Mutual General	7.6	8.2
Life business		
Mutual Life	9.2	9.7
RBS	1.1	1.1
OEICS	1.0	1.1
Total	**18.9**	**20.1**

Performance Measures	Purpose	Definition
Gross Writen Premium Income (GWPI)	To provide the reader with a measure of the overall business as represented by total premiums from General Insurance activities.	Overall total premium income underwritten in the year.
New Business	To provide the reader with a measure of the new business as represented by new business premiums from General Insurance activities.	Total new business premium income received.
Persistency*	To provide the reader with an indication of the overall reocurring business in perspective of the level of new business being generated from General Insurance activities. This is a widely used industry performance measure.	Percentage of customers renewing each year.
Profit for the financial year	To provide the reader with a measure of profits achieved within the year from General Insurance activities.	Balance on the Non-Technical Account (Page 75).
Underwriting profit and loss	To provide the reader with a measure of profits before non claims expenses achieved within the year from General Insurance activities.	The balance on the Technical Account adjusted for earned Mutual Bonus, allocated investment return and other income. (Page 73).

*Alternative Performance Measures (APM)

NFU MUTUAL

Tiddington Road,
Stratford-upon-Avon,
CV37 7BJ

Tel: 01789 204 211

nfumutual.co.uk

REPORT AND ACCOUNTS 2018

nfumutual.co.uk

NFU Mutual

The National Farmers Union Mutual Insurance Society Limited (No. 111982). Registered in England.
Registered office: Tiddington Road, Stratford upon Avon, Warwickshire CV37 7BJ.
A member of the Association of British Insurers. Authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

MS010SEC0319