

**NFU MUTUAL INVESTMENT SERVICES LIMITED**

**ANNUAL REPORT AND FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2020**

**Registered Number: 01860029**

**Registered Office:**  
Tiddington Road,  
Stratford-upon-Avon,  
Warwickshire,  
CV37 7BJ



**NFU MUTUAL INVESTMENT SERVICES LIMITED**

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(Unaudited)

## **NFU MUTUAL INVESTMENT SERVICES LIMITED**

### **STRATEGIC REPORT**

#### **FOR THE YEAR ENDED 31 DECEMBER 2020**

The directors present the Strategic Report and audited financial statements of NFU Mutual Investment Services Limited (the Company) for the year ended 31 December 2020.

#### **REVIEW OF THE BUSINESS**

Since the outbreak of the Coronavirus in early 2020 the Company has successfully maintained its ability to service its customers despite challenging conditions.

The principal activity of the Company is the investment management of the NFU Mutual Retirement Benefit Scheme (NFUM RBS).

During 2020 NFU Mutual Investment Services Limited (the Company) recorded a profit before taxation of £113,414 (2019 loss: £147,131). The net assets of the company as at the balance sheet date were £980,525 (2019: £2,138,659).

With the outbreak of the worldwide Coronavirus and substantial market fluctuations, the impact on the Company's capital position has been limited which remains within the Company's risk appetite due to the nature of assets held by the Company.

#### **KEY PERFORMANCE INDICATORS**

	<u>2020</u>	<u>2019</u>
Management fee income	£368,611	£422,021
Profit/(Loss) for the financial year	£91,866	£ (119,176)
Return on assets ((profit/(loss)/net assets)	9.4%	(5.6) %
Net assets	£980,525	£2,138,659
Funds under management	£1,034,186,629	£1,021,246,805

#### **PRINCIPAL RISKS AND UNCERTAINTIES**

##### **Coronavirus**

The risk associated with the outbreak of Coronavirus has been considered by the Group, further details and shown in the Group Annual Report.

##### **Operational Risk**

There is a risk that internal processes and procedures fail, resulting in the recording of the Company's income and expenses being incorrect. This could lead to the Company incurring financial losses as a result of these failures. Capital required to cover operational risk is held at a Group level. A letter of guarantee from the Parent Company, the National Farmers Union Mutual Insurance Society Limited, is in place covering the 15 months starting 1 January 2021. This states that the Parent Company would reimburse the costs of any operational risk failure in the eventuality that MISCO is unable to meet that requirement.

## **NFU MUTUAL INVESTMENT SERVICES LIMITED**

### **STRATEGIC REPORT (continued)**

#### **FOR THE YEAR ENDED 31 DECEMBER 2020**

##### **Financial Risk Management**

The Company is exposed to financial risk through its financial assets and financial liabilities. In particular, the key risks relate to credit and market risk.

##### **Credit Risk**

There is a risk that interest or principal will not be returned on the firm's cash deposits placed with financial institutions. This is considered a low risk owing to the capital regime to which the institutions selected are subject.

A further risk is from the non-payment of fees by the NFUM Retirement pension scheme administered at the period end. This risk is mitigated through credit control and invoicing arrangements with the individual client.

In accordance with the rules of the Financial Conduct Authority, the Company has published information on its risk management objectives and policies, methods of mitigation and its regulatory capital requirements and resources. These disclosures can be found on pages 20-22.

##### **Market Risk**

The Company's income is derived in part from a management service charge levied based on the fund values of the NFU Mutual Retirement Benefit Scheme. It follows that if the values of these funds go down then the income level within the Company will diminish. The management considers this risk to be insignificant due to the Company having sufficient reserves to ensure that a fall in income will be absorbed.

##### **Liquidity Risk**

The Company's income is dependent upon prompt settlement of charges levied upon clients in order to meet its financial and regulatory obligations. This position is managed by ensuring that cash on short term deposits is sufficient to cover the Company's obligations as they fall due.

#### **FUTURE OUTLOOK**

Looking into 2021 the Company expects the levels of income to continue for the foreseeable future as the company continues to provide investment management services to the NFU Mutual Retirement Benefit Scheme.

#### **SECTION 172**

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

## **NFU MUTUAL INVESTMENT SERVICES LIMITED**

### **STRATEGIC REPORT (continued)**

#### **FOR THE YEAR ENDED 31 DECEMBER 2020**

The company's key stakeholders and the principal ways it engages with them are:

- **People** – The Board receives regular updates on the engagement of employees through the annual engagement survey. In addition, the Group had formal and informal consultation forums which support employee engagement with effective communication and help provide an employee voice. Through these groups employees are involved in the review and development of workforce policies and procedures and two-way dialogue is encouraged.
- **Suppliers** – The Group works with its suppliers to ensure performance and to identify opportunities for enhanced value and innovation. Business Relationship Managers hold regular meetings with key suppliers to ensure there is regular engagement in line with our procurement policies and practices.
- **Customers** – the Board regularly engages with its customer, the Retirement Benefit Scheme of the National Farmers Union Mutual Insurance Society Limited. The Board provides regular updates on the investment market and the performance of the scheme's assets to the Trustees and receives regular reports on the Trustees' views, expectations and future intentions with respect to its investment manager.
- **Regulators** – There is regular dialogue with all relevant regulators concerning regulatory matters relevant to the business.

The relevance of each stakeholder group will be different for each issue considered by the Board. Therefore, it is important that the Board understands the needs of each stakeholder group during its discussions and as part of its decision making. Together with the consideration of the long term consequences and the maintenance of our reputation for high standards of business conduct, this is integral to the way the Board operates.

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

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

On behalf of the Board



J. Priestley  
Director  
23 April 2021

## **NFU MUTUAL INVESTMENT SERVICES LIMITED**

### **DIRECTORS' REPORT**

#### **FOR THE YEAR ENDED 31 DECEMBER 2020**

The directors present their report and audited financial statements of the Company for the year ended 31 December 2020.

#### **PRINCIPAL ACTIVITIES**

The principal activity of the Company is the investment management of the NFU Mutual Retirement Benefit Scheme.

#### **DIVIDENDS AND TRANSFERS TO RESERVES**

The directors recommend the payment of a dividend totalling £1.25m (2019: nil).

The profit for the financial year of £91,866 (2019 loss: £119,176) will be transferred to reserves.

#### **DIRECTORS**

The directors during the year and up to the date of signing the financial statements were as follows:

N. D. Bryan  
P. A. Glover  
C. Judd  
J. Priestley

The Company Secretary during the year and up to the date of signing the financial statements was:

J. D. Creechan

The Parent Company, The National Farmers Union Mutual Insurance Society Limited, has put in place deeds of indemnity for the benefit of the Directors and Company Secretary of the Parent Company and of its associated Companies. The deeds of indemnity are qualifying third party indemnity provisions in accordance with the Companies Act 2006. The indemnity provisions were in force throughout the financial year and at the date the financial statements were approved.

#### **FINANCIAL RISK MANAGEMENT**

See Strategic Report on page 2.

#### **FUTURE OUTLOOK**

See Strategic Report on page 3.

**NFU MUTUAL INVESTMENT SERVICES LIMITED**

**DIRECTORS' REPORT (continued)**

**FOR THE YEAR ENDED 31 DECEMBER 2020**

**GOING CONCERN BASIS OF ACCOUNTING**

The accounts have been prepared on a going concern basis.

The Directors have reviewed the Company's business activities, financial position, principal risks and uncertainties, financial commentary as set out in the Strategic Report on pages 1 and its liquidity and operational resilience as part of the NFUM Group response to the outbreak of Coronavirus in early 2020. Further details are shown in the Group Annual Report.

The Directors consider that the Company has adequate resources and continues to have a strong capital position which remained within the Company's risk appetite as at 31 December 2020 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 DISCLOSURE OF INFORMATION TO INDEPENDENT AUDITORS**

The auditors, Deloitte LLP have indicated their willingness to continue in office and a resolution that they be reappointed will be proposed at the Annual General Meeting.

Each of the directors at the date of approval of this report confirms that:

- so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- the director has taken all the steps that they ought to have taken as director in order to make them self-aware of any relevant audit information and to establish that the Company's auditors are aware of that information:

The confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

On behalf of Board



J. Priestley  
Director  
23 April 2021

**NFU MUTUAL INVESTMENT SERVICES LIMITED**

**STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2020**

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law).

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 of the profit or loss of the Company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 102, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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 enable them to ensure that the financial statements comply with the Companies Act 2006.

The directors are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

On behalf of the Board



J. Priestley  
Director  
23 April 2021

## **NFU MUTUAL INVESTMENT SERVICES LIMITED**

### **Independent auditors' report to the members of NFU Mutual Investment Services Limited**

#### **Report on the audit of the financial statements**

##### **Opinion**

In our opinion the financial statements of NFU Mutual Investment Services Limited (the 'company'):

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

We have audited the financial statements which comprise:

- the profit and loss account;
- the balance sheet;
- the statement of changes in equity; and
- the related notes 1 to 11.

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 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, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

##### **Conclusions relating to going concern**

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

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

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

## **NFU MUTUAL INVESTMENT SERVICES LIMITED**

### **Other information**

The other information comprises the capital requirements directive – pillar three disclosure information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

### **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 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 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.

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](http://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**

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

We considered the nature of the company's industry and its control environment, and reviewed the company's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management about their own identification and assessment of the risks of irregularities.

## **NFU MUTUAL INVESTMENT SERVICES LIMITED**

We obtained an understanding of the legal and regulatory frameworks that the company operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the financial statements. These included UK Companies Act of 2006 and tax legislation; and
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the company's ability to operate or to avoid a material penalty. These included the Financial Conduct Authority's regulations, the company's operating license and regulatory solvency requirements.

We discussed among the audit engagement team regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

As a result of performing the above, we identified the greatest potential for fraud in the following areas, and our specific procedures performed to address it are described below:

- Revenue recognition pinpointed on the accuracy and cut-off assertions of the management fees earned by the company. We obtained an understanding of the relevant controls over the revenue recognition process including evaluating the design and implementation of the key management controls over the management fees earned by the company.
- We focused our fraud risk procedures on revenue transactions recognised on either side of year end for the cut-off assertion. This also included inspection of third party correspondence to verify that revenue was recognised in the correct period and in line with timing of when the service was rendered by the company.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

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

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management and in-house legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance, reviewing internal audit report and reviewing correspondence with HMRC and the Financial Conduct Authority.

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

## **NFU MUTUAL INVESTMENT SERVICES LIMITED**

### **Matters on which we are required to report by exception**

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.

### **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, England

23 April 2021

**NFU MUTUAL INVESTMENT SERVICES LIMITED**

**PROFIT AND LOSS ACCOUNT**

**FOR THE YEAR ENDED 31 DECEMBER 2020**

	<u>Note</u>	<u>2020</u> £	<u>2019</u> £
TURNOVER	4	368,611	422,021
Administrative expenses		<u>(259,950)</u>	<u>(584,552)</u>
OPERATING PROFIT/(LOSS)		108,661	(162,531)
Interest receivable and similar income		<u>4,753</u>	<u>15,400</u>
PROFIT/(LOSS) BEFORE TAXATION	5	113,414	(147,131)
Tax (charge)/credit for the year	6	<u>(21,548)</u>	<u>27,955</u>
PROFIT / (LOSS) FOR THE FINANCIAL YEAR		<u>91,866</u>	<u>(119,176)</u>

All results are derived from continuing operations.

The Company has no other comprehensive income other than in the profit above, and therefore no separate statement of other comprehensive income has been presented.

The notes on pages 15-19 form an integral part of these financial statements.

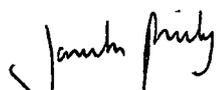
**NFU MUTUAL INVESTMENT SERVICES LIMITED**

**BALANCE SHEET**

**AS AT 31 DECEMBER 2020**

	<u>Note</u>	<u>2020</u> £	<u>2019</u> £
<b><u>CURRENT ASSETS</u></b>			
Debtors	7	17,179	58,436
Deposits with credit institutions		2,000,000	2,000,000
Cash at bank and in hand		497,546	671,404
		<u>2,514,725</u>	<u>2,729,840</u>
<b><u>LIABILITIES</u></b>			
Creditors: Amounts falling due within one year	8	(1,534,200)	(591,181)
<b>NET CURRENT ASSETS</b>		<u>980,525</u>	<u>2,138,659</u>
<b>NET ASSETS</b>		<u>980,525</u>	<u>2,138,659</u>
<b><u>CAPITAL AND RESERVES</u></b>			
Called up share capital	9	100,000	100,000
Retained earnings		880,525	2,038,659
<b>TOTAL EQUITY</b>		<u>980,525</u>	<u>2,138,659</u>

The financial statements on pages 12 to 19 were approved and authorised for issue by the Board of directors on 23 April 2021 and were signed on its behalf by:

  
J. Priestley  
Director  
23 April 2021

NFU MUTUAL INVESTMENT SERVICES LIMITED  
Company Number: 01860029

The notes on pages 15 to 19 form an integral part of these financial statements.

**NFU MUTUAL INVESTMENT SERVICES LIMITED**

**STATEMENT OF CHANGES IN EQUITY**

**FOR THE YEAR ENDED 31 DECEMBER 2020**

	<u>Called up</u> <u>Share Capital</u>	<u>Retained Earnings</u>	<u>Total Equity</u> <u>2020</u>	<u>Total Equity</u> <u>2019</u>
	£	£	£	£
<b>Balance at 1 January</b>	100,000	2,038,659	2,138,659	2,257,835
<i>Profit/(Loss) for financial year</i>	-	91,866	91,866	(119,176)
Dividend	-	(1,250,000)	(1,250,000)	-
<b>Balance at 31 December</b>	<b>100,000</b>	<b>880,525</b>	<b>980,525</b>	<b>2,138,659</b>

# **NFU MUTUAL INVESTMENT SERVICES LIMITED**

## **NOTES TO FINANCIAL STATEMENTS**

### **FOR THE YEAR ENDED 31 DECEMBER 2020**

#### **1 ACCOUNTING POLICIES**

NFU Mutual Investment Services Limited is a private Company limited by shares and incorporated in England within the United Kingdom. The registered address is: Tiddington Road, Stratford Upon Avon, Warwickshire, CV37 7BJ.

These financial statements have been prepared on the going concern basis, under the historical cost convention, and in compliance with the Companies Act 2006 and applicable accounting standards and accounting policies in the United Kingdom, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" (FRS102). The going concern assessment has taken into account the impact of the Coronavirus outbreak in early 2020 and details can be found in the Directors' Report on page 6.

The principal accounting policies, which have been applied consistently throughout the year, are set out below.

- a) **Going concern**  
The Company made a profit on ordinary activities before taxation in the year of £113,414 (2019 loss: £147,131) and has total shareholders' funds of £980,525 (2019: £2,138,659) and a positive cash position. The Directors consider that the Company has adequate resources to continue in operational existence for a period of at least 12 months from the date of approval of the financial statements. For this reason, they continue to adopt the going concern basis in preparing the financial statements.
- b) **Turnover**  
Turnover represents management fee income and is recognised on an accrual's basis. It relates entirely to services provided in the UK.
- c) **Debtors**  
Debtors are amounts due from customers and other receivables arising from trading and services performed in the ordinary course of business. If collection is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets. Debtors are recognised initially at fair value and subsequently measured at amortised cost, less provision for impairment.
- d) **Deposits with Credit Institutions**  
Deposits with credit institutions represent deposits with qualifying credit institutions subject to time restrictions or penalties for early withdrawal.
- e) **Cash at bank and in hand**  
Cash at bank and in hand comprises cash in hand, demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of change in value.
- f) **Called up share capital**  
Ordinary shares are classified as equity.
- g) **Retained earnings**  
Retained earnings represent accumulated comprehensive income for the year and prior periods.

## **NFU MUTUAL INVESTMENT SERVICES LIMITED**

### **NOTES TO FINANCIAL STATEMENTS (Continued)**

#### **FOR THE YEAR ENDED 31 DECEMBER 2020**

h) **Creditors**

Creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade creditors are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Creditors are recognised initially at fair value less any associated impairment.

i) **Current and Deferred Taxation**

The tax expense for the period comprises current and deferred tax where applicable. The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company generates taxable income. A taxation credit is recognised where losses are utilised within the Group. The Company receives cash in respect of these losses.

j) **Administrative Expenses**

Administrative expenses are recognised on an accrual's basis in the period to which the services or goods received relate.

k) **Interest Receivable and similar income**

Interest receivable represents interest earned on cash at bank and on short term deposits and is recognised on an accrual's basis.

l) **Use of judgements, estimates and assumptions**

The preparation of the financial statements does not require management to make any judgements, estimates or assumptions in the process of applying the Company's accounting policies due to the simplistic nature of its operations.

## **2 CASH FLOW STATEMENT AND RELATED PARTY DISCLOSURES**

FRS 102 allows a qualifying entity certain disclosure exemption, subject to certain conditions, which have been complied with. The Company has taken advantage of the exemption, under FRS 102 paragraph 1.12(b), from preparing a statement of cash flows, on the basis that it is a qualifying entity and its ultimate Parent Company, The National Farmers Union Mutual Insurance Society Limited, includes the Company's cash flows in its own consolidated financial statements. The National Farmers Union Mutual Insurance Society Limited consolidated financial statements are publicly available (see note 10).

In accordance with FRS 102 33.1A, the Company does not disclose transactions with members of The National Farmers Union Mutual Insurance Society Limited Group that are wholly owned. The Company does however disclose transactions with related parties which are not wholly owned within the same group.

The Company manages the investments of a related pension fund, The NFU Mutual Insurance Society Limited Retirement Benefit Scheme, during the year, for which it received investment management fees of £368,611 (2019: £422,021).

The amount outstanding in respect of the management of the investments of the pension fund as at 31st December 2020 was £13,219 (2019: £26,020).

**NFU MUTUAL INVESTMENT SERVICES LIMITED**

**NOTES TO FINANCIAL STATEMENTS (Continued)**

**FOR THE YEAR ENDED 31 DECEMBER 2020**

**3 DIRECTORS' EMOLUMENTS AND EMPLOYEE INFORMATION**

The directors received no emoluments for the year ended 31 December 2020 (2019: £nil). The Directors are remunerated by the ultimate Parent Company in respect of the services for the entire Group. The Directors' services in respect of the Company were incidental in comparison to their services within the Group, and therefore nil emoluments have been apportioned to the company (2019: £nil). There were no employees during the year ended 31 December 2020 (2019: nil).

**4 TURNOVER**

	<u>2020</u>	<u>2019</u>
	£	£
Management fee	368,611	422,021

All turnover was generated within the United Kingdom.

**5 PROFIT/(LOSS) BEFORE TAXATION**

	<u>2020</u>	<u>2019</u>
	£	£
The profit/(loss) before taxation is stated after charging:		
Fees payable to the Company's auditors for the audit of NFU Mutual Investment Services Limited (excluding VAT)	7,500	6,890

In accordance with SI 2008/489 the Company has not disclosed the fees payable to the Company's auditors for 'Other services' as this information is included in the consolidated financial statements of The National Farmers Union Mutual Insurance Society Limited.

**6 TAX ON PROFIT/(LOSS)**

	<u>2020</u>	<u>2019</u>
	£	£
The taxation charge/(credit) on the profit for the year:		
Profit/(Loss) before taxation	113,414	(147,131)
Profit/(Loss) multiplied by rate of Corporation tax in UK 19% (2019: 19%)	21,548	(27,955)
Total tax charge/(credit) for the year	<u>21,548</u>	<u>(27,955)</u>

The tax assessed for the year is the same as (2019: same as) the rate of corporation tax in the UK for the year ended 31 December 2020 of 19% (2019: 19%)

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

**NFU MUTUAL INVESTMENT SERVICES LIMITED****NOTES TO FINANCIAL STATEMENTS (Continued)****FOR THE YEAR ENDED 31 DECEMBER 2020****7 DEBTORS**

	<u>2020</u>	<u>2019</u>
	£	£
Trade debtors	17,179	30,481
Corporation tax	-	27,955
	<u>17,179</u>	<u>58,436</u>

**8 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR**

	<u>2020</u>	<u>2019</u>
	£	£
Amounts owed to Group undertakings	244,650	223,178
Other Creditor	1,250,000	350,000
UK Corporation tax	21,548	-
Other taxation and social security	18,002	18,003
	<u>1,534,200</u>	<u>591,181</u>

Amounts owed to group undertakings are unsecured, interest free, have no fixed date of repayment and are repayable on demand

**9 CALLED UP SHARE CAPITAL**

	<u>2020</u>	<u>2019</u>
	£	£
<b>Authorised:</b>		
100,000 ordinary shares of £1 each (2019: 100,000)	<u>100,000</u>	<u>100,000</u>
<b>Allotted and fully paid:</b>		
100,000 ordinary shares of £1 each (2019: 100,000)	<u>100,000</u>	<u>100,000</u>

**10 DIVIDENDS**

	<u>2020</u>	<u>2019</u>
	£	£
Interim declared of £12.50 per ordinary share	<u>1,250,000</u>	<u>-</u>

**NFU MUTUAL INVESTMENT SERVICES LIMITED**

**NOTES TO FINANCIAL STATEMENTS (Continued)**

**FOR THE YEAR ENDED 31 DECEMBER 2020**

11 **IMMEDIATE AND ULTIMATE PARENT UNDERTAKING**

The directors consider the immediate Parent Company as NFU Mutual Management Company Limited. The ultimate Parent Company and controlling party is The National Farmers Union Mutual Insurance Society Limited, a Company incorporated in England and Wales, and the only group to consolidate these financial statements. Copies of the consolidated financial statements of the ultimate controlling party can be obtained from the Secretary at the following address:

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

## **NFU MUTUAL INVESTMENT SERVICES LIMITED**

### **CAPITAL REQUIREMENTS DIRECTIVE – PILLAR THREE DISCLOSURE (Unaudited)**

#### **FOR THE YEAR ENDED 31 DECEMBER 2020**

##### **BACKGROUND**

The Capital Requirements Directive (CRD) sets out the regulatory capital framework applicable to financial institutions within the UK and European Union (EU). It requires senior management to assess the nature of risks within their business and to ensure that sufficient capital is available to mitigate those risks. The framework is based upon three pillars:

Pillar 1 – sets out the minimum capital requirement for the Company.

Pillar 2 – requires the firm and its regulatory supervisors to assess whether additional capital should be held to offset risks within the business not sufficiently covered by Pillar 1 capital.

Pillar 3 – firms are required to publish details of their risks, capital and risk management process.

##### **BASIS OF DISCLOSURE**

The FCA rules allow a firm to omit information or disclosures if it believes the information to be immaterial or where it believes the information to be confidential.

##### **SCOPE**

NFU Mutual Investment Services Limited is authorised and regulated by the Financial Conduct Authority (FCA) in the UK. It is a wholly owned subsidiary of The National Farmers Union Mutual Insurance Society Limited.

The Company structure and business model is such that it undertakes only limited activities, and can be considered 'simple' when reviewing the nature, size, scope and complexity of its business. It does not trade on its own behalf. There are no plans for changes to the structure or to set up new contracts with any new customers.

##### **RISK MANAGEMENT OBJECTIVES AND POLICIES**

NFU Mutual Investment Services Limited has a low risk appetite. The most significant risks facing the Company are detailed below, both of which may result in reputational damage to the Company.

- a) losses stemming from a failed internal process or procedure
- b) a fall in funds under management resulting in a fall in management charge and therefore income

In order to consider and control such risks, the Company has developed a risk management framework that is governed by both the Board of the Company and Parent Company committees.

Operational risk is the primary risk within the Company and as such is discussed further below.

##### **Operational Risk**

The largest potential single category of risk faced by the Company is operational risk, in that its actions may result in losses, litigation or reputational damage.

All of the Group's investment activities are undertaken by the Investments Department of The National Farmers Union Mutual Insurance Company Limited, by staff ultimately employed by NFU Mutual (Service Company) Limited. This department undertakes all of the investment activity for Group companies as a part of their daily duties.

## **NFU MUTUAL INVESTMENT SERVICES LIMITED**

### **CAPITAL REQUIREMENTS DIRECTIVE – PILLAR THREE DISCLOSURE (Unaudited)** **(Continued)**

#### **FOR THE YEAR ENDED 31 DECEMBER 2020**

As such it is subject to an established regime of Limits of Authority, Periodic Review and Board Reporting designed to mitigate the majority of risks associated with these activities.

The operational risk remains within the Parent Company, The National Farmers Union Mutual Insurance Society Limited, which is assessed as part of the Parent Company's overall group-wide operational risk assessment, which includes the collective activities of The National Farmers Union Mutual Insurance Society Limited's Investment Department.

The group-wide assessment has identified two individual risks relating to investment transactions (covering both fraud and a breakdown in controls). The group does not, at this point, attempt to allocate its operational risk capital assessment beyond its insurance businesses and so capital required to cover operational risk is held at a Group level. A letter of guarantee from the Parent Company is in place covering the 15 months starting 1 January 2021. This states that the Parent Company would reimburse the costs of any operational risk failure in the eventuality that NFU Mutual Investment Services Limited is unable to meet that requirement.

NFU Mutual Investment Services Limited therefore concludes its operational risk requirement to be zero.

#### **Counterparty / Credit Risk**

Owing to the nature of the business undertaken, and the specific arrangements made with regard to the movement of client funds, there is very little credit risk.

The only significant risks are from the non-payment of fees by the scheme administered, which is a group scheme. This risk is mitigated through credit control and invoicing.

Equally, there is a risk that interest or principal will not be returned on the firm's cash deposits placed with financial institutions. This too is considered a low risk owing to the capital and client money regimes to which that organisation is subject.

As per FCA guidance the Company assigns internal capital equating to 8% of the exposure to counterparties and clients.

#### **Market Risk**

NFU Mutual Investment Services Limited has no direct exposure to market risk, since it holds no investments against which Market Risk might be applied.

The Company's exposure to market risk arises as a result of its charging structure for work undertaken. Ultimately the amount of fee income received would fall to the extent that a financial market downturn would result in a fall in funds under management upon which the fee income is calculated.

Sensitivity testing has shown that market risk is not material and therefore the Company assigns no capital to this exposure.

## **NFU MUTUAL INVESTMENT SERVICES LIMITED**

### **CAPITAL REQUIREMENTS DIRECTIVE – PILLAR THREE DISCLOSURE (Unaudited)** **(Continued)**

#### **FOR THE YEAR ENDED 31 DECEMBER 2020**

##### **Liquidity Risk**

NFU Mutual Investment Services Limited has few items of external cash-flow throughout the year, limiting its exposure to liquidity risk. The major items of external cash-flow that need to be met relate to taxation and to regulatory fees and levies. The advantage in assessing cash-flow relating to these items is that they will be paid on a known future date, and their planning is not therefore subject to any doubt or estimation.

Liquidity risk is not considered to be material and the Company assigns no capital to this exposure.

##### **CAPITAL RESOURCES DISCLOSURE**

##### **Capital Resources**

NFU Mutual Investment Services Limited is classified for regulatory and capital purposes as an IFPRU 125k Limited License Firm. In accordance with the rules (calculation of variable capital requirement for an IFPRU firm), the Company's Pillar I capital requirement has been determined as being the greater of the fixed overhead requirement and the credit risk capital requirement.

As at 31 December 2020, the greater of the two requirements was the Fixed Overhead Requirement (FOR) which based on the 2019 audited fixed costs was £59k (2019: £55k), against which the Company held total capital resources of £1.0m (2019: £2.1m). In 2021 the FOR is expected to increase slightly to £65k based on 2020 audited fixed costs.

##### **Pillar 2 requirement**

As required by the FCA, NFU Mutual Investment Services Limited has assessed the adequacy of its internal capital by undertaking the Internal Capital Adequacy Assessment Process (ICAAP) and producing a report on the Company's business and risk environment. The ICAAP is founded upon the existing risk framework taking into account future projections, sensitivity analysis and stress testing.

Through analysis and discussions with the Board of Directors as part of the ICAAP process, it was determined that Pillar I capital is sufficient to manage the business given the Company's risk appetite and the level of risk within the business. Therefore, NFU Mutual Investment Services Limited will continue to maintain its capital position equal or greater than its variable capital requirement.

##### **Current Capital Position**

NFU Mutual Investment Services Limited capital position for the purposes of regulatory reporting as at 31 December 2020 was as follows:

Tier One Capital	2020 £	2019 £
- Called up share capital	100,000	100,000
- Audited profit and loss account	880,525	2,038,659
Total Tier One Capital	<u>980,525</u>	<u>2,138,659</u>

The Company currently holds ample Tier 1 capital to cover its capital requirement, and its recent forecasts and stress testing indicate that this position will remain unthreatened.