Annual Report and Financial Statements

For the Year Ended
31 December 2022

National Friendly

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Established 1868
Registered and incorporated Friendly Society no. 369F
Member of the Association of Financial Mutuals.
Authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

Chief Executive Officer: Graham Singleton

Secretary: Nicola Moore

Chair's Report

"A question our Board of Directors debated this year as part of its annual strategic review was whether there is a need for National Friendly in the insurance sector."

A question our Board of Directors debated this year as part of its annual strategic review was whether there is a need for National Friendly in the insurance sector. The conclusion was a resounding yes. While there are various insurers offering mass market, simplified insurance solutions, there are relatively few that provide a more tailored solution for members with non-standard needs which is also affordable to most people, offers value which reflects our mutual ownership, and provides a high quality of service for our members.

The Society was founded in 1868 to meet two core member needs. Firstly, to provide stability by paying a lump sum on the death of members to fund their burial arrangements. Secondly, to offer support by providing funds when medical treatment was required (the NHS wasn't founded until 1948). Those two fundamental needs are as true today as they were back then and our fundamental purpose remains to provide peace of mind to members in times of need.

With our purpose front of mind, we remain focused on delivering strong health and protection products. They are designed for those seeking medical, income protection or later life insurance and care cover that's affordable and offers comparable excellent value for money. This is in conjunction with excellent levels of service.

We aspire to deliver at every stage of a member's dealings with the Society an excellent service which is underpinned by a highly skilled and personable workforce for whom the core aim is also to meet the member's need at every stage of their journey with the Society. While for some a digital experience may be preferred, we will always ensure that a knowledgeable person is available in that time of need to answer questions, and provide guidance and comfort as required.

The Board recognises the importance and value of inclusion and diversity and a Diversity, Equity and Inclusion Forum is being set up to bring staff from across the Society to act as a listening post and capture and discuss related issues.

In the Autumn, we launched a new personal medical insurance plan, My PMI. It offers both traditional, comprehensive medical insurance coverage, but also a more basic level of cover for members with limited budgets. This affordable cover was developed for those who need essential cover such as speedy access to diagnostic tests, offering true peace of mind and an ability to source treatment privately or via the NHS. All our products have affordability as a core criteria, making them particularly attractive as the cost of living crisis grips the UK.

The insurance regulatory agenda continues to evolve and there are two specific components of change which we welcome. The first is the Consumer Duty regulation sponsored by the Financial Conduct Authority – this aims to set industry standards which we already aspire to deliver for our members. The second concerns a material reduction of the Risk Margin, one particular aspect of the regulatory solvency rules. The current margin is particularly onerous for a Society such as ours and so this regulatory change is eagerly anticipated, enabling us to invest more in improving our products and distribution.

In 2022, the Society has identified the physical and transitional climate change risks together with the main impacts and mitigating activities. Whilst the Society does not anticipate a material impact to performance in the short term, planning was undertaken to review our emissions and carbon footprint to transition towards a more sustainable business.

Our Society relies heavily on the intermediary market for sourcing new members and the distribution of our products. Accordingly, I express my thanks to those intermediaries who have put their trust in us to meet their clients' needs. Their feedback has been invaluable in evolving our product proposition, to ensure that our products in turn evolve with changing member needs. Our distribution network has also steadily grown on the back of recommendations from existing trusted business partners, for which we are very grateful.

As we continually strive to serve our members, their views, opinions and direct feedback are always welcome. To be successful we must remain agile in our thinking, and continuously develop our products and services, as members' needs evolve with the passage of time.

This year's AGM will be our first hybrid AGM, where members can attend in person or, if more convenient, virtually. Our hope is that this will enable more members to attend and ask questions to either myself, the Board, or the Executive team. Full details of how to attend electronically will be included in the usual notice of the meeting sent to all members.

Thank you to my Board colleagues for their support and commitment during a challenging 2022. My sincere thanks also to the broader Executive Team, led by our Chief Executive Graham Singleton, and to all our colleagues.

Finally, I would like to thank you, our members, who have put your trust in us to meet your insurance needs now and in future years to come.

Geoff Brown

Chair
28 June 2023

Chief Executive's Review

"Our primary purpose is to look after the health and protection of our members in their time of need."

2022 has once again been a challenging year, but also one of significant progress for the Society. It took slightly longer than we anticipated for us to get meaningful traction with new business sales. However, despite various headwinds, National Friendly succeeded in growing the membership from 36,942 members to 42,553 members. The first such increase in membership since pre-2011, I am pleased to say that this growth has continued strongly in 2023.

2021 was about building a platform for growth; 2022 was about sourcing growth opportunities and building on the solid foundations of 2021. We have successfully evolved strategic business partnerships and delivered strong sustainable growth, underpinned by a portfolio of insurance protection solutions rather than just a single product. Our aim is to be the 'go to' Friendly Society which can service more than one protection need. Our ethos is to provide a level of affordable cover and we use a tailored underwriting approach, where appropriate, aiming to provide some cover rather than no cover, which may be a typical outcome with other insurance providers – particularly for income protection or personal medical insurance.

The cost-of-living crisis emphasises the importance of value for money and affordability – two core values underlying our various product propositions. Our Accident Only Income Protection provides valuable cover at an affordable price for those who are less concerned about illness, or who cannot secure standard Income Protection cover due to pre-existing conditions. Similarly, our new personal medical insurance plan, My PMI, launched in the Autumn and provides an affordable diagnostics-only option which complements the National Health Service where one of the biggest initial barriers is securing an initial diagnosis.

Highlights from the year, aside of the points already mentioned include:

» Continued strong focus on effective cost and capital management. During the year we broadened our use of reassurance as a risk management tool, both at the product level and broader portfolio level.

» Continued agile development of the Society's IT estate and operational capability. We see and welcome digitisation as a growing force for change. Where members want hard copy policy documents then these will continue to be provided but increasingly electronic communications will become the default.

» Broadening the Society's distribution footprint further by:
  - securing relationships with some of the UK's largest intermediary networks who are increasingly seeing the value for clients of friendly society sponsored products
  - increasing the number of brokers selling our products on an exclusive basis.

» Enhancing our dedicated sales team with various new hires and establishing a strong marketing team.

» Being nominated by intermediaries for industry awards at both Cover and Health and Protection conferences. Cover Magazine and Health and Protection Review are insurance industry publications who host these awards. We were nominated for:
  - Outstanding Protection Product Innovation for our Accident Only Income Protection product
  - Outstanding Individual Health Insurance for our Extensive product
  - Best New Product/Enhancement for our Accident Only Income Protection
  - Doing it Better Award for our Corporate Social Responsibility and employee wellbeing

» In addition, we implemented an objective customer services feedback mechanism that provides an industry standard Net Promoter Score from all customer services interactions with members. This also includes the ability for members to provide valuable verbatim feedback. The scores achieved objectively confirm that we deliver a personalised and excellent level of service.

None of the above would be achieved without the dedication of everyone at National Friendly to whom I convey my express thanks. Like all organisations, we periodically have the need to recruit. Even in a very competitive employment market, we have been and continue to be fortunate enough to attract talented individuals looking for an organisation where every contribution matters. Together we have an opportunity to make a true difference to our members' lives.

Growth is very important and 2023 has continued strongly from 2022. At the heart of the Society however, we always embody our 155+ years of heritage. The principles that we were founded on and the core, simple, guiding aim "to look after the health and protection of our members in their time of need".

Graham Singleton

Chief Executive
28 June 2023

Strategic Report

2022 was once again a challenging year but one in which the Society made significant progress. Gross written premiums for the year increased notably from £22.1m in 2021 to £26.1m because of the strong new business volumes in the latter half of the year and continued sales of the Society's immediate needs care plan.

Fundamentally, the Society supported its members by paying out the following benefits in 2022:

» Over £6 million of healthcare costs
» Over £4 million of care costs (at home or residential home)
» Over £1 million towards funeral costs and bequests

In early 2022, the Society successfully transitioned its claims management service to Alliance Health Group (AHG), seeking an improved service. Existing claims continued to be administered by the incumbent provider for several months to minimise disruption to members.

2022 has been a year of significant market volatility. The marked uplift in the yield curve and corresponding increase in the corporate bond spread has led to a notable reduction in the market value of the Society's corporate bond and gilt holdings. However, this is matched by a reduction in the Society's long term business provision driven by an increase in the risk-free rate. The Society's assets and liabilities remain well matched.

Cost control remains a key area of focus for the Group. In March 2022, following a review of the operating model, six roles were made redundant. Group administrative expenses totalled £4.6m for the year (2021: £4.5m) which included exceptional expenditure of £0.1m associated with the restructuring exercise. A number of further cost saving measures were implemented during the year, these will benefit the Group from 2023 onwards such as the in-sourcing of the internal audit function and system enhancements to enable the electronic mailing of member documents as an alternative to traditional post. Costs are analysed versus budget on a monthly basis.

The Society's subsidiary, National Friendly Financial Solutions also continues to receive much scrutiny. This entity provides a dedicated direct sales operation for National Friendly products alongside delivering Independent Financial Advice and Compare & Buy services.

In 2022, a review of the lead generation strategy was undertaken as the quality of the external leads purchased proved to be poor compared with prior years. Following this, external lead spend was a reduced to a minimum with a focus upon internal marketing activities. Within the Group's operating model review, the IFA and Compare & Buy operations were restructured to improve operational efficiencies and better align operational resources. Whilst NFFS made a standalone operational loss of £523k with capital contributions totalling £390k made by the Society to NFFS during the year, the sales made contributed £235k of new business value, post commission payments for the Society as its parent company. Following these strategic changes implemented in 2022, NFFS aims to deliver an inaugural profit in 2023.

Business Performance

The financial performance of the Society is closely monitored month on month, comparing actual results against that anticipated in the Society's business plan and corresponding Own Risk and Solvency Assessment ("ORSA").

The key performance indicators ("KPIs") are those detailed in the table below. These KPIs are used to measure ongoing success and have been monitored throughout the year.

Key Performance Indicators:	31 December	
	2022	2021
Absolute Level of Own Funds	£17.6m	£15.5m
SCR coverage ratio		
• With Transitional Measures Relief	142%	144%
• Without Transitional Measures Relief	142%	140%
MCR coverage ratio		
• With Transitional Measures Relief	511%	497%
• Without Transitional Measures Relief	511%	487%
Gross new premiums written in the year	£17.0m	£12.2m

The Society's capital position is assessed in accordance with the PRA Rulebook and the Society manages its business on this basis. This is a risk-based approach to the assessment of capital requirements whereby Technical Provisions are calculated as the sum of the best estimate of liabilities plus a risk margin.

Own Funds – This is the solvency regulatory measure of the Society's net assets after liabilities. It represents the long-term value attributable to its members and allows the Board to establish the impact of management activity over the long term.

Own Funds have increased by £2.1m during the year with the decrease in the Society's liabilities exceeding the reduction in asset values, predominantly driven by market movements during the year.

Solvency Capital Requirement ("SCR") coverage ratio – This is a measure of how many times over the Own Funds covers the SCR. The SCR is the capital that an insurer is required to hold, to withstand a set of events covering market, underwriting, counterparty and operational risks such that the resulting level of capital would only be breached during a 1-in-200-year event. The SCR is calculated using the prescribed Standard Formula set out in the regulations. The regulatory requirement is for the SCR coverage ratio to exceed 100%, and in addition to this the Society has a Solvency Risk Appetite which is set on a Red-Amber-Green scale to provide additional security to members.

The SCR coverage ratio has decreased slightly to 142% (prior year; 144%).

Minimum Capital Requirement ("MCR") coverage ratio – This is a measure of how many times over the surplus capital covers the MCR. The MCR is the absolute minimum regulatory capital required to sustain the Society; if this is breached then immediate action would be taken by the regulator.

The above SCR and MCR results allow for the transitional measure on interest rates ('TMIR') approved by the regulator to enable the Society to smoothly transition to Solvency II. TMIR allows the gradual move from using Solvency I discount rates to the prescribed Solvency II risk free rates for pre-2016 policies over a period of 16 years, as these policies mature. At the current year end the TMIR has zero value, but could revert to a non-zero value in future.

In 2022, the year end MCR coverage ratio was 511% (2021; 497%).

Gross New Premiums Written – The target is an increase in membership numbers whilst maintaining strong control over costs.

In addition to this metric, which represents new premiums written during 2022, new Business sales are measured by their annualised new business premium income ("API") plus deposits to new savings and investment policies. In 2022, the new business API grew by 66% (2021: 28% growth), driven by strong sales growth, particularly of the Society's guaranteed life assurance product and annualised sales of the immediate needs care plan.

Previous Annual Reports highlighted the Society's aim to introduce a KPI measuring member engagement and overall advocacy. Medallia, an objective customer services feedback mechanism was implemented in H2 2022. This provides a Net Promotor Score from all customer services interactions with members and allows members to provide feedback. The scores achieved and corresponding feedback are regularly reviewed by Management with the latest NPS score of 62.3% demonstrating the excellent level of service provided by the Society. Achieving a net promoter score over 60% indicates that our members are highly likely to recommend our services to others.

Strategic Report (continued)

Investment Performance

Group investment assets are held in government bonds, corporate bonds, equities, commercial property and bank deposits.

In 2022, the total investment asset value decreased from £79.8m to £56.4m, driven by market movements and matched by a corresponding reduction in the value of liabilities. The decrease in asset values was predominantly due to a £21.1m unrealised and realised loss across the corporate and government securities, equities and derivatives portfolio which resulted from the significant uplift in the yield curve and corresponding increase in the corporate bond spread. The Society's cash balance was impacted by increased intermediary commission payments as sales volumes grew in H2 together with a £1.1m contribution from the Society to the Staff Superannuation Pension Fund to reduce the deficit.

Risk Management

Long-term sustainability through capital management remains a priority for the Society and writing new contracts of insurance in sufficient volume is integral to achieving this.

The Board has identified key risks to business strategy and mitigation plans have been put in place to ensure the Society remains sustainable and continues to operate in the best interests of its policyholders. These risks are summarised in the table on the next page:

> “ From a Finance and back-end point of view the service we have had from National Friendly has been one of the best and we enjoy dealing with the team. We have worked with the company for a number of years now and NF have been very accommodating and worked with us to ensure both parties are benefiting from the relationship. ”
>
> **- Freedom to Insure, Adviser**

Risk	Impact	Mitigating Activities
Solvency Risk The Society falls outside its own Solvency Risk Appetite target (and in the extreme is unable to meet its Solvency Capital Requirement)	» Regulatory intervention » Run off or transfer of engagements	» Close monitoring of capital management at Board level. This includes scenario analysis and key sensitivities including morbidity, lapse, expense and climate change assumptions » Quarterly evaluation of solvency coverage allowing for updated market conditions, new business and change in the in-force book » Monthly estimates of the solvency position allowing approximately for updated market conditions, new business and business in force, showing the latest estimate of the undiversified Solvency II capital against each of the relevant risks » Ongoing review of expenditure » Mitigating actions as set out under specific risks below, e.g. asset de-risking and reinsurance.
***Market Risk:** The risk that the Society's solvency coverage is adversely affected by changes to financial market conditions, which impact the fair value of assets held.*		
Interest Rate Risk Adverse changes in the level and/or shape of market yields	» Differential movements in asset and liability values, reducing SCR coverage	» De-risking through close matching of assets and liabilities, both for the Society and the pension scheme » Ongoing daily monitoring of interest rates, in addition to quarterly valuations and monthly solvency estimates » Use of the Transitional Measure on Interest Rates to recognise the impact of low interest rates under the Solvency II regime when compared with historic Solvency I position.
***Credit Risk:** The risk that a counterparty is unable to fulfil its obligations to the Society, thereby leading to a loss of financial assets.*		
Bank Risk Inability of an institution to return cash deposits made. Overreliance upon a single banking institution	» Financial loss	» Institutional cash concentration is governed by the Investment & Liquidity Policy and is closely monitored on a weekly basis » Deposit placements will only be made to authorised institutions with a Standard & Poor's short term rating of A-1 or above.
Corporate Bond Risk Spread risk may arise on corporate bond assets. This represents the reduction in market value of a bond asset due to the widening of credit spreads following a downgraded assessment of asset quality Default risk arises if a bond's contractual coupon or redemption payments are not made in full	» Adverse impact upon SCR coverage » Financial loss (in the case of default)	» Bond rating limits set out in the Investment & Liquidity Policy, linked to the Society's solvency strength » Investment Manager selection and monitoring of bond investments, alerting the Society of rating downgrades below stated thresholds » Regular review of and tracking against Investment & Liquidity Policy with any necessary action taken if required, in collaboration with the Board.
***Insurance Risks:** The risk that the actual demographic (mortality, lapse, longevity and morbidity) experience and/or expenses of administering policies is worse than assumed in the calculation of best estimate liabilities*		
Mortality Risk The risk of policyholders dying, on average, sooner than expected (assurance products)	» Increased reserves resulting in reduced SCR coverage » Greater total claims than expected	» Regular review of mortality actual versus experience data » Underwriting approach is reviewed on a regular basis

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CHIEF EXECUTIVES REVIEW
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Strategic Report (continued)

Risk Management (continued)

Risk	Impact	Mitigating Activities
Longevity Risk The risk of policyholders dying, on average, later than expected (annuity products)	» Increased reserves resulting in reduced SCR coverage » Greater total claims than expected	» Regular review of mortality actual versus experience data » Underwriting approach is reviewed on a regular basis » Reinsurance obtained for certain products
Morbidity Risk The risk of policyholders on average falling sick more frequently than expected and/or periods or cost of sickness exceeding that expected	» Increased reserves resulting in reduced SCR coverage » Greater total claims than expected	» Regular review of morbidity actual versus experience data » Management of morbidity claims remains a key focus. Morbidity data tracking spreadsheets have been developed for the business administered by the Third Party Administrator so that they can be produced on a monthly basis. This covers all healthcare products. All other product morbidity tracking is undertaken on a twice-yearly basis. » Reinsurance obtained for certain products
Lapse Risk The risk of policyholders lapsing their policies on average more or less than expected, to the detriment of the Society	» Increased reserves resulting in reduced SCR coverage » Greater claims having to be paid out in total	» Reinsurance cover implemented in 2022 » Regular review of lapse actual versus experience data
Expense Risk Expenses of running the Society are higher than expected, and therefore not supportable by the margins in the products written	» Increased reserves resulting in reduced SCR coverage » Greater expenses having to be paid	» Careful compilation of annual budgets » Rigorous budget monitoring throughout the year » Ongoing tracking of performance versus sales plan » Scrutiny of any exceptional/unbudgeted costs » Pricing of products and reserving on the basis of covering expected costs
Strategic Risks: *The risk of internal or external factors impacting the Society's strategy and the environment in which it operates. These include, for instance, failing to deliver strategic initiatives in accordance with the Society's requirement and resources*		
Strategy Risk The Society fails to have a suitable range of products and is too dependent upon one product type	» Society fails to be diverse and grow in the market	» Society has a sustainable business model offering a diverse range of products » Ongoing monitoring of product-level business volumes

Risk	Impact	Mitigating Activities
Climate Change Risk Physical risks which could arise as a result of weather-related events Transitional risks which may arise as a result of transitioning to a low carbon economy	» Impacts of changes in climatic conditions upon morbidity and mortality rates » Disruption to operations through severe weather related incidents » Potential increased cost during transition » Reputational damage if Society is not considered to be acting appropriately in relation to climate change » The value of the Society's investment assets could be impacted should certain industries become less attractive or new regulations come into place	» Whilst the Society does not expect a material impact to performance in the short term, similar to other organisations, it continues to work to evaluate the impact of this risk through the embedding of the climate change risk management process and measurement of progress against targets. » Climate change risk scenarios included within Society's 2022 ORSA » Regular review of morbidity actual versus expected data plus mortality rates » Implementation of robust business continuity and operational resilience plans » Ongoing monitoring of ESG rating of investment portfolio
Distribution Risk Failure to establish and maintain an effective process to supply products and services to members/ customers	» Failure to meet sales targets, grow within the market and enhance own funds » Per policy expenses may not be at an optimum level, causing a further deterioration in the capital base	» Development and delivery of multi-channel distribution strategy set out within the business plan » Ongoing review of product offering, pricing and key characteristics » Diverse product offering
Subsidiary Risk The Society's wholly owned subsidiary, National Friendly Financial Solutions does not generate a profit	» Subsidiary does not provide a positive financial contribution to the Society	» NFFS has a revised business plan in place which focuses upon direct sales leads from internally generated marketing activity » Financial position and performance of the subsidiary is closely monitored and reviewed on a monthly basis
Operational Risk – The risk of direct or indirect loss (actual or potential) resulting from inadequate or failed internal processes, people and systems or from external events. This includes risks relating to compliance, business processes, information technology, outsourcing, cyber and financial reporting		
Operational Resilience The Society is unable to resist, absorb, and recover from an adverse occurrence which means the Society is unable to deliver its important business services within its impact tolerances, which causes intolerable harm to its customers	» Potential poor outcomes for members	» Regular testing to ensure the Society can operate within impact tolerances for important business services

Strategic Report (continued)

Risk Management (continued)

Risk	Impact	Mitigating Activities
Outsourcing Risk Failure of third parties to adequately perform key services required by the Society	» Failure to provide expected high service levels » Additional costs » Potential poor outcome for members	» Ongoing review of management information and performance against service level agreements with each third party
Sales & Marketing Risk The Society fails to meet its new business targets	» Failure to achieve diverse mix of sales » The assumed allowance per policy for expenses is not sufficient to cover our actual renewal expenses	» Constant sales monitoring by product is in place and regular feedback from intermediaries is reviewed » Profitability modelling is conducted and reviewed

Our Members

Engaging with our members
As a mutual Friendly Society, engaging and communicating effectively with members is key. This is mainly done through the AGM, which took place on Thursday 30 June 2022 at our Head Office with our members attending the event in person.

The Board and the Executive Committee attended the AGM, giving members the opportunity to ask questions about the position of the Society, the events of the past year and where they would like to see the Society going in the future. All members were encouraged to submit questions ahead of the AGM which were considered at the meeting. A summary of the questions and responses plus the meeting minutes can be viewed on our website at www.nationalfriendly.co.uk/agm

As previously described, Medallia, a customer services feedback tool was implemented in the Autumn of 2022. During 2023, this same service will be rolled out to other areas of the business such as our underwriting and claims service teams.

Fair customer outcomes
Our fundamental focus at National Friendly is delivering against our purpose - providing peace of mind to our members in their time of need.

We aim to achieve this by:

» making available products which meet fundamental member needs
» simple and transparent pricing underpinned by fair value
» culturally putting the members needs at the heart of everything we do
» aiming to help everyone understand our products, how they work, and how they can help members financially; now and in the future
» treating each member as an individual
» writing all communications in plain, jargon-free English
» making sure our advisers in National Friendly Financial Solutions Limited are helpful and provide advice that is useful to the individual member
» making it easy for all members to provide feedback, including drawing matters to our attention for remediation or making a complaint, move to another provider or cancel their policy if it is no longer right for them

Our People

We pride ourselves on the commitment of our people who continue to deliver a high quality of service to members and contribute to the achievement of the Society's strategic objectives.

The Society is dedicated to the ongoing development of its workforce, recognising the importance of continuing development and supporting our staff to achieve their goals. Every member of staff has agreed objectives and annual appraisals to assess performance against these objectives and demonstration of the Society's values.

The Society's values are:

» Customer Orientated
» Fair
» Focused
» Innovative
» United
» Responsive
» Empowered

Corporate Social Responsibility ('CSR')

Working with the local community is how the Society started and grew its name and reputation over 150 years ago. Its approach to CSR is a practical one; we look at ways in which we can make a fundamental difference to our people, the community and environment.

The CSR Committee meets regularly to discuss new initiatives and drive the strategic vision, which is to:

» Develop two-way community involvement with the business
» Improve the health, safety and wellbeing of our people
» Operate ethical employment practices
» Achieve high standards in the environmental management of the business

The Society can point proudly to a track record of supporting Bristol charities large and small. Past initiatives have included: projects to help ward off loneliness amongst the elderly, funding of Long Covid and other medical research, and the sponsorship of The Bristol Hippodrome's Creative Learning Programme.

In 2022, we continued our support of the local community and fundraised extensively for our charity of the year.

Charity of the year
Our colleagues nominate and choose our charity of the year annually, and in 2022 Cruse Bereavement was selected. Cruse offer support to those who are struggling to cope after someone known to them has died. After an initial telephone assessment, clients are allocated a bereavement volunteer who then gets in touch and delivers a one to one session, or they can join a drop-in group or a specialist group meeting. Cruse are based in the centre of Bristol and meet our criteria as a registered charity offering a service in areas we cannot. As a provider that administers a large number of death claims each year, we know only too well from our customers that the bereaved need emotional support as well as the financial support we can provide. We are proud to have been associated with Cruse and wish the charity all the best in its endeavours.

Over the course of the year we have raised over £10,000 by participating in various events, including the Bristol 10k Run and bake sales. Included in this was a donation made for every member who provided us with their email address so that we could send their AGM pack digitally rather than via the post.

The Matinee Mingle
National Friendly, in partnership with Age UK, has continued to fund and support The Bristol Hippodrome's "Matinee Mingle", which was set up when they noticed large numbers of patrons attending alone. A club was created for the over 60s to help strengthen communities and reduce social isolation. This was continued into 2022 as we recognised the importance in reducing loneliness within the community, which was exacerbated as a result of the Covid-19 Pandemic.

Awards
National Friendly is proud to have won the 2022 LifeSearch Award for Doing Good. Helping people to prepare for life's uncertainties is at the heart of what we do. National Friendly has been insuring people's health and providing them with protection for over 150 years. Looking after those around us, especially within the Bristol community, is the very essence of who we are.

Strategic Report (continued)

Business and community play a vital role in today's society and we continue to educate the importance of health & protection to our members, brokers, and the general public to improve the health, safety, and well-being of those within our community.

National Friendly were also a proud finalist in the Civic category of the Bristol Life Awards.

Our Colleagues
Our colleagues are important for the Society's ongoing success, and over the course of 2022 we have focused on mental health and wellbeing to encourage a strong sense of togetherness.

We trained our first mental health first aiders to ensure there was support in place day to day alongside our 24/7 Employee Assistance Programme, provided by Health Assured. We undertook an internal campaign during Mental Health Week in May, labelled 'Five Ways to Wellbeing'. This provided colleagues with introductions to mindfulness and ways to combat loneliness.

We recognised the impact that the cost-of-living crisis was having on our colleagues and provided a cost of living pay rise for those on lower incomes as well as a one-off payment for all employees in October 2022.

We undertook an office refurbishment during the year, bringing a brighter and more comfortable environment for people to work and collaborate in. As part of this we installed defibrillators on all our floors which are available to all occupants of the building and are available for public use from 9am to 5pm on weekdays.

At the end of 2022 we reinstated our Social Club, which offers colleagues additional outside of work activities to attend. We have a large number of our staff included within these events and expect them to be well attended throughout 2023.

Environment and Climate Change
The Society recognises that, like any organisation, the activities it undertakes will have an impact on the environment around us. Its strategy is to ensure a safe, clean, healthy and sustainable working environment for our colleagues as standard. But it will also:

» Reduce energy consumption by 5% over 3 years through energy efficient practices.
» Reduce and eliminate waste where practicable and use safe, professional, and ethical disposal methods.
» Make use of recycled, recyclable or low carbon materials.
» Work with suppliers who adopt sustainable procurement options and certification of Fairtrade labelled products.
» Encourage hybrid working and low emission methods of commuting to work for staff
» Aim to be a NetZero Society by 2035.

The Society recognises its responsibility to consider the implications of climate change upon our members and community, therefore we aim to provide all policy literature electronically and will increasingly seek to do this wherever possible. If you would prefer to receive your policy documentation via email, please contact the Customer Services team on 0333 014 6244 and they will update our records accordingly.

Overarching responsibility for the oversight of the impact of climate change upon the Society is held by the Board. This has been delegated to the Head of Risk and Strategic Projects as the senior manager responsible. The Society's physical and transitional risks have been identified and we have started planning to review our emissions and carbon footprint to transition towards a more sustainable business. Furthermore, climate change was considered in the Society's 2022 ORSA scenarios (indirectly by considering potential climate related drivers of economic and demographic scenarios, rather than via a separate climate change scenario).

In 2023, the Society will continue to develop and embed its climate risk management process, target setting, and measurement.

Viability Statement

Throughout 2022, the Society maintained capital reserves in excess of its' SCR and MCR.

The Directors confirm that they have a reasonable expectation that the Society is well placed to manage its business risks and will continue to meet its liabilities as they fall due. Financial projections for the next five years are incorporated into the Society's ORSA, and these confirm the Directors' expectation that the Society will continue in operation over this period with Own Funds and financial resilience progressively increasing over time. The Directors' assessment has been made with reference to the Society's current position and prospects, the Society's strategy, its risk appetite and principal risks and how these are managed, as detailed above.

The strategy and associated principal risks underpin the Society's plans and scenario testing, which the Directors review at least annually and form an integral part of the ORSA process. The central projection, the Directors' best estimate of future experience, makes certain assumptions about the level of new business, economic and demographic risks, insurance risks including morbidity, lapses and future expense assumptions. The Society makes extensive use of reassurance to mitigate the impact of various business risks and from June 2023 this has included financial reassurance to mitigate the new business strain arising from writing increasing levels of new business. The product pricing allows for the economic cost of such financing which is transitionary whilst the in force portfolio grows to a level where new business strain becomes self-funded.

The ORSA central projection is stress tested in downside scenarios including stresses for worsening economic and demographic experience, lapses and expenses over and above the central assumptions. Under these stress tests, the projections demonstrate that the Society continues to meet all of its liabilities as they fall due, executing pre-planned management actions where necessary to enable this. The Board recognises that such future assessments are subject to a level of uncertainty that increases with time and therefore, future outcomes cannot be guaranteed or predicted with absolute certainty.

Graham Singleton
Chief Executive
28 June 2023

"Excellent company. Professional, friendly, and caring Peter Mann was my personal Financial consultant who helped me and fully explained everything. He kept me updated and put in a great effort to get me the best deal possible. Could not have completed my policy without him. I highly recommend him for his patience and hard work. I trusted Peter one hundred percent on his focus and determination to get best deal possible for me.

Big thank you to Peter, I appreciated all the hard work and effort you put into this for me."

- Marie Mcintosh, Member

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Corporate Governance Report

Corporate Governance Review

The Board is of the view that good corporate governance is fundamental to the Society's operations. To comply with best practice in corporate governance it aims to voluntarily adhere to the principles of the Association of Financial Mutuals Corporate Governance Code published in January 2019 ("AFM Code"). The AFM Code provides a high-level approach to corporate governance, based on six key principles, whilst providing flexibility for the Society to explain the application and relevance of its corporate governance arrangements.

The Society has applied the AFM Code and provided statements to explain how it has followed each key principle in the way that is most appropriate to its business model and objectives.

Principle One - Purpose and Leadership

The Society's long-term objective remains to protect and enhance member value through improved Own Funds and excess assets. It aims to continue to act in the best interest of its members by providing policyholders with products and services that help to look after their health and welfare and provide certainty and control over their wellbeing both now and in the future.

The Board formally reviews the Society's purpose and goals, at least annually, against the latest circumstances and market factors in order to guide the ongoing strategy, decisions and culture.

The Society's mutual ethos and values are essential to its future success. The Society's current values are customer orientated and help to define its culture through promoting fairness and innovation whilst empowering colleagues to work together, responding to our customers' needs.

The Board sets key targets and objectives, which it monitors on a regular basis throughout the year. These targets change in line with the Society's objectives and priorities. For 2022, the Board maintained its focus on developing and launching products in line with the Society's strategy whilst managing capital to achieve long-term sustainability.

The principal activities of the Society's subsidiaries are as follows:

» National Friendly Financial Solutions Limited provides telephone based financial services: distribution of National Friendly products and an independent advice and comparison non-advised service;
» National Friendly Software Solutions Limited owns the intellectual property rights to a policy administration system. It licences this software to the Society as well as marketing the system to other similar insurers.

Principle Two - Board Composition

Role of the Board
The Board is the main decision-making body for National Friendly. It determines the strategic direction and has responsibility for the overall management of the Society's business affairs. The Board sets the Society's values and standards and has overall responsibility for establishing that obligations to members and other stakeholders are understood and met. The Board monitors and oversees the Society's operations with the purpose of maintaining competent management, sound planning, robust and prudent risk and capital management, an effective internal control environment, a culture of risk awareness and ethical behaviour, and compliance with statutory and regulatory obligations.

The Board meets a minimum of eight times a year and more often if necessary. Additionally, it meets at least once a year to undertake a detailed review of the Society's strategy.

The Board sets out its responsibilities and the structure of delegation of authority by the Board to management, as required by regulation and the Society's rules.
The Society maintains liability insurance for all officers throughout the year.

Chair and Chief Executive
The role of the Chair and Chief Executive are held by different people and are distinct and separate in their purpose.

The Non-Executive Chair is responsible for leadership of the Board and making sure that the Board acts effectively and is not involved in the day to day business of the Society. The Chief Executive has overall responsibility for managing the Society and its subsidiaries and for implementing the strategies and policies agreed by the Board.

Appointments to the Board
The appointment and re-election of Directors is considered by the Nominations Committee (see page 25), which makes recommendations to the Board. The Society seeks to have broad experience and diversity on the Board. There is focus to increase Board diversity without compromising on the calibre of directors and therefore, Board appointments are always made on merit as well as the skills, knowledge and experience of the Board as a whole.

All Directors are subject to election by members at the AGM following their appointment and re-election at least every three years. Any Non-Executive Director who has served the Society for longer than nine years or has attained age 70 is subject to annual re-election. In addition, all Executives and Non-Executives performing a Senior Management function are subject to approval from the Prudential Regulation Authority ('PRA') and / or the Financial Conduct Authority ('FCA') under the Senior Managers & Certification Regime ('SM&CR').

Professional Development
The Chair ensures that, on appointment, all Directors receive a comprehensive induction programme. Non-Executive Directors update their skills, knowledge and familiarity with the Society through meetings with the Executive, including access to key functions and through attending external seminars and training.

The Board has access to independent professional advice at the Society's expense where they consider it necessary to discharge their responsibilities. In addition, all Directors have access to the advice and services of the Secretary who is responsible for ensuring the Board procedures are complied with and advising the Board, through the Chair, on governance matters.

Board Balance and Independence
The Board consists of four Non-Executive Directors and three Executive Directors with One Non-Executive and one Executive Director being appointed at the 2022 AGM.

The Board continues to review its own balance, completeness and appropriateness to meet the complexities of the business and to ensure that there is adequate succession planning. The Board has and will continue to assess the balance of skills, experience and knowledge and as necessary will appoint individuals to meet the Society's business needs.

Mark Searles continued as the Senior Independent Director ('SID'). The SID provides a sounding board for the Chair and serves as an intermediary for other directors. The SID is also available to members if they have concerns where contact through the Chair or Chief Executive Officer has failed to resolve a matter or for which such contact is inappropriate.

The Society considers the review of the Board's performance to be an essential part of good corporate governance. The evaluation considers the balance of skills, experience, independence and knowledge of the members of the Board, including its diversity, how the Board works together as a unit, and other factors relevant to its effectiveness.

The composition and effectiveness of the Board was reviewed in 2022. The evaluation considers the balance of skills, experience, independence and knowledge of the members of the Board, including its diversity, how the Board works together as a unit, and other factors relevant to its effectiveness.

Corporate Governance Report
(continued)

Principle Three - Director Responsibilities Accountability

Board members have a clear understanding of their accountability and responsibilities.

The Directors, Committee members and the wider management team complete annual declarations on Code of Ethics and Conduct, confirming that they have behaved in accordance with the Society's expected behaviours and values.

The SM&CR provides a regulatory framework for the standards of fitness and propriety, conduct and accountability to be applied to individuals in positions of responsibility at insurers. All Directors, including Non-Executive Directors not formally approved by the regulator are subject to the regulators' Conduct Rules.

In addition, each Director has declared any potential conflicts of interest. Appropriate safeguards are implemented where there could be any potential conflicts. These declarations are collated by the Head of Legal and Compliance and reported to the Board as appropriate.

Committees
The Board has established sub committees, under its overall authority, and delegated certain governance responsibilities. Further details of the responsibilities and activities of these Committees are provided on pages 25-26. A Non-Executive Director chairs each committee and all members are considered to have appropriate skills and expertise to undertake their role within the committees.

Information
The Chair has responsibility for overseeing that all Directors receive accurate, timely and clear information, which is fundamental to the effective function of the Board. The information covers all key aspects of the business including the strategy, risks and opportunities, operational matters and financial performance and market conditions.

The Society has robust systems and controls in place to ensure the integrity of the information. Key information is collated from the Society's various finance and administration systems and prepared by relevant internal functions, managed by employees that are appropriately qualified. Financial information is externally audited on an annual basis and the internal audit function provides independent assurance on the effectiveness of the system of internal control.

Principle Four - Opportunity and Risk Opportunity

The Board considers long-term strategy and opportunities each year as part of the annual planning process. Informed decisions on the future strategy and opportunities are based on financial projections for the next five years. These make certain assumptions about the level of new business, economic and demographic risks, insurance risks including morbidity, lapses and future expense assumptions. The overall objective remains to achieve a sustainable and growing business in order to enhance member value through improved levels of Own Funds and excess assets.

Risk
Risk management is an integral part of the Society's business activities to ensure that the strategic objectives are met. The integrated approach ensures that value is created by identifying the right balance between risk and reward, whilst making sure that obligations are met and the outcomes remain in the best interest of policyholders.

The extent to which the Society tolerates risks is described by the performance indicators, operational parameters and process controls set out in its 'Risk Appetite'.

The Society's risk appetite includes the level of action/ mitigation to be implemented against identified risks. There is direct interaction between the risk appetite and those risks highlighted in the risk assessment. Risks are rated on impact and probability and it has been determined that any risk with a residual risk rating 'high' will require an action plan which will state what action is to be taken and on what timescale.

The management of risk is the responsibility of the Board and staff at all levels of the Society. The Board is supported in its role in this regard by sub-committees, who ensure that inherent and emerging risks are identified and managed appropriately and in a timely manner. The Strategic Report includes key risks that are presented at least quarterly and monitored by the Risk & Compliance Committee.

Principle Five - Remuneration

The Remuneration Committee has clear terms of reference and is responsible for making recommendations to the Board concerning the remuneration strategy, framework and benefits for Executive Directors and key function holders. In doing so, the Committee can take advice from external consultants on best market practices and remuneration benchmarking.

The Board has established a clear remuneration policy that outlines the key remuneration principles and framework for the Society. The Society's approach to remuneration is an integral part of the Business strategy and the policy is designed to attract, retain and motivate competent, experienced and skilled staff. This policy covers all Directors and employees of the Society.

Principle Six - Stakeholders

The Board recognises that good governance and effective communication are essential on a day-to-day basis to deliver purpose and protect the Society's brand, reputation and relationship with stakeholders including its members, intermediaries, suppliers and employees.

The Society's strategy is aligned with long-term aspirations for sustainability and enhancing member value.

The Board is committed to maintaining good communications with members. In order to fulfil this commitment, the Society has launched an email feedback for members who contact our Customer Service Department and this will be rolled out to cover Claims and Underwriting in 2023. The Board has consistently embraced in the Society's day to day operations the principles of Treating Customers Fairly and similarly embraces the broader Consumer Duty regulatory principles coming into effect during 2023.

Communication with staff is undertaken through regular dialogue with staff, monthly via all staff meetings, within teams, individually and through the organisation's intranet (with upward feedback positively encouraged). Open meetings are also conducted with the Chief Executive and other members of the Executive Committee.

The Society is committed to the ongoing development of its staff and actively engaging with its workforce. An annual strategy briefing for all staff has been established and 2023 will see for the first time completion of a professionally administered employee engagement survey, something which will be repeated annually thereafter. A special focus for 2023 is revisiting what the Society's values should be and in turn the associated behaviours through several professionally facilitated all staff workshops.

It is important to the business that any malpractice, misconduct or wrongdoing by employees, agency workers and contractors of the Society is reported and properly dealt with. The Society therefore encourages all individuals to raise any concerns that they may have about the conduct of others in the business or the way in which the business operates.

A Whistleblowing Policy is in place with an appointed Independent Whistleblowing Champion. The Society's policy sets out the way in which individuals may raise any concerns that they have and how those concerns will be dealt with.

> "National Friendly gives helpful, friendly advice.
>
> They've always been there in my hour of need!"
>
> **- Teresa Shakespeare-Smith, Member**

Corporate Governance Report
(continued)

The Board

Geoff Brown
(Chair)

Geoff is a qualified Actuary who has held a variety of director and senior management roles in the Life and General insurance industry.
He spent most of his career in the health and care sector including 20 years with international healthcare company, Bupa, where he had a number of executive roles and responsibilities. Latterly he was Chief Risk Officer of the Bupa Group, prior to this he was Director of Compliance and Chief Actuary of the UK division. He served as Director of Bupa Health Assurance Limited, Bupa Insurance Limited, Bupa Insurance Services Limited and The Coventry & Warwickshire Hospital Saturday Fund.

Geoff is also currently a Non-Executive Director of Medicover Forsakrings AB (publ.) and Chair of its Compliance and Risk Committee. Medicover is a Swedish insurer that provides healthcare insurance propositions for individuals and companies in Poland, Romania and Hungary.

Geoff joined the National Friendly Board as a Non-Executive Director in June 2014, he was appointed Chair in May 2021.

Graham Singleton
(Chief Executive Officer)

Graham is a qualified Actuary with over 35 years' experience in the financial services industry. He spent most of his career in Life and Pensions. He held Chief Actuary and Chief Financial Officer roles in various companies before latterly becoming CEO of the Phoenix Resolution Life Companies and Swiss Re's UK insurer Reassure Limited, and its Life and Pensions Outsourcing business Admin Re Limited. He has performed non-executive and consulting work covering a variety of financial services disciplines and is currently a non-executive director of a specialist life company called AULA.

Graham was appointed CEO in February 2021.

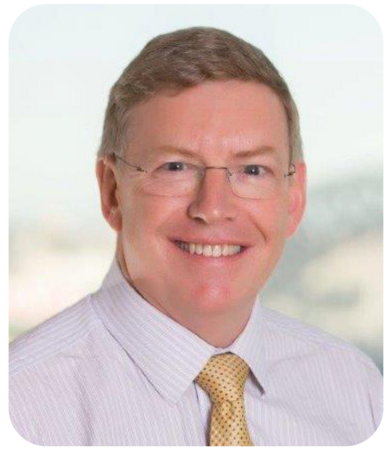
Julian Ellacott
(Chief Actuary)

Julian joined the Society in July 2020 to lead the internal Actuarial Function. He qualified as a Fellow of the Institute of Actuaries in 2003, and has over 20 years' experience working in the life insurance sector. He spent nearly 10 years working for the international consultancy Watson Wyatt (now part of WTW), advising all types of insurer, from friendly societies to multinationals. For the 11 years immediately prior to joining to the Society he worked for Just Retirement (now Just Group), in a variety of actuarial roles spanning risk and capital management, pricing and corporate development. Julian was appointed to the Board as an Executive Director in May 2021, and was also asked to act as Chief Actuary for the Society.

Ceri Gooder
(Finance Director)

Ceri joined National Friendly in September 2021 and was appointed to the Board on 28 October 2022, following regulatory approval. Prior to this, she spent 6 years working for Computershare, a global provider of financial administration services where she held various roles including that of Finance Director of Computershare Ireland and leading an FP&A and commercial finance team across the EMEA region. Ceri began her career in practise working for the professional services firm Ernst & Young in its Audit & Corporate Finance departments. She is a Chartered Accountant, qualifying with the Institute of Chartered Accountants Scotland in 2011.

Mark Searles
(Senior Independent Director)



Mark has held senior executive and Board positions within the Financial Services and Technology sectors in the UK, Europe and Australasia. He most recently spent 9 years in Australia, as Group CEO & Managing Director of AUB Group Ltd, Australasia's largest, listed, equity-based Risk Management group. Prior to moving to Australia, Mark held senior management positions with Zurich; LloydsTSB; HSBC; Sage and American Express. Having decided to retire from his executive career and return to the UK, Mark was appointed a Non-Executive Director of NDFS in June 2020 and also a Director of a Haberdashers Education Academy Trust (Chairing the Audit & Risk Committee) in addition to holding various advisory roles. In May 2021 he was invited to act as Senior Independent Director for NDFS and to become Chair of National Friendly Financial Solutions Ltd.

Corporate Governance Report
(continued)

The Board (continued)

Mary Gavigan
(Non-Executive Director)

Mary is a Fellow of the Institute of Chartered Accountants in England & Wales. She specialised in the Financial Services (FS) sector for over 30 years acting as consultant and advisor with a focus on restructuring and business transformation. She has also held interim Chief Finance Officer roles during her career. Mary spent most of her career at KPMG and other advisory firms. Mary is on the board of the stock exchange listed Investment Fund group Amedeo Air Four Plus Ltd where she sits on the audit committee. She is also a Non-Executive Director of TransRe London Limited where she is Chair of its Risk and Audit Committee and a member of its Investment Committee. Mary's charity work includes involvement with Epilepsy Research UK. Mary joined the National Friendly Board as a Non-Executive Director in September 2020 and acts as Chair of the Audit Committee.

Mike Hughes
(Non-Executive Director)

Mike is an avid supporter of mutuality, relocating to Bristol in 1990 to join Bristol & West Building Society where he worked for 10 years before it de-mutualised. More recently he has been a Non-Executive Director of a Midlands-based Building Society. All his career has been involved in the Regulated Financial Services sector. He was CEO of a Plc providing financial advice nationally, a Director of a retail bank and helped launch one of the first banks to be approved by the newly-formed FCA. In recent years he has held a number of Non-Executive positions including two subsidiaries of Aegon Plc and an asset management company, as well as being Independent Chairman for a fund services business. For the past 8 years he has been a trustee of Youth Adventure Trust, a Wiltshire based Charity supporting vulnerable young people and is currently a Non-Executive Director of The Equity Release Council, a not-for-profit organisation dedicated to safeguarding customers in later life. Mike has an MBA from the University of Warwick. He sits on the National Friendly Financial Solutions Board as Non-Executive Director, joining in September 2021 and joined the main National Friendly Board in November 2021.

Committee Information

The Terms of Reference of the Audit, Risk & Compliance, Investment, Nomination and Remuneration Committees are available on the Governance section on the Society's website or by request from the Secretary.

Audit Committee

Members
Mary Gavigan (Chair)
Mark Searles
Mike Hughes
Geoff Brown*

The Audit Committee meets at least four times a year at appropriate times in the financial reporting and audit cycle. The main function of the Committee is to assist the Board in fulfilling its oversight responsibilities, specifically the ongoing review, monitoring and assessment of:

» The integrity of the financial statements and reviewing significant financial reporting judgements contained in them.
» The effectiveness of internal control and risk management processes.
» The effectiveness of the internal and external audit functions and processes.
» The recommendation to the Board in relation to the appointment, reappointment, remuneration and removal of the external auditors.
» The objectivity and independence of the external auditor in respect of the provision of any non-audit services.
» The arrangements by which staff within the Society may raise concerns, in confidence, about possible improprieties in matters of financial reporting or other matters.

The Executive Directors and internal and external auditors attend meetings of the Committee as appropriate. The internal and external auditors may also meet separately with the Committee without the Executive Directors or any other members of staff present.

Internal audits of the regulated business during 2022 were conducted by PwC and reported to the Committee. Internal audit will be performed in house from March 2023.

*From September 2021 onwards, the Chair of the Board was also a member of the Audit Committee. Whilst this is not in compliance with the AFM Governance Code. The Board decided that it was particularly important at a time of significant change in membership of the Board that the Audit Committee could benefit from the Chair's experience of the Society and his actuarial skills and qualifications.

Investment Committee

Members
Mike Hughes - Chair 28 April 2022 onwards
Geoff Brown Chair - Until 28 April 2022
Mary Gavigan
Mark Searles
Graham Singleton
Julian Ellacott
Ceri Gooder - 28 October 2022 onwards

The Investment Committee meets as required but at least three times a year to review compliance with the terms of the Principles and Practices of Financial Management in relation to the investment strategy and oversee its continuing appropriateness in the light of changing circumstances with consideration to the needs of both with-profits and non-with-profits policyholders. The Committee also has responsibility for:

» Appointing the Society's Investment Fund Managers.
» Determining the asset allocation and performance benchmarks.
» Monitoring the performance of the Funds and of the Fund Managers.

Nomination Committee

Members
Mark Searles (Chair)
Mary Gavigan
Geoff Brown
Mike Hughes

The Nomination Committee meets as appropriate to review the structure, size and composition of the Board and to make recommendations to the Board with regard to any adjustments that are deemed necessary. Nominations for appointment to the Board are considered for approval by the full Board.

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Committee Information (continued)

Professional recruitment consultants can be and are consulted to ensure that non-executive vacancies on the Board are considered appropriately.

Membership of the Committee may be altered as appropriate in particular to address circumstances where one of its members is being considered for re-appointment.

Remuneration Committee

Members

Mike Hughes - Chair 16 October 2022 onwards
Mary Gavigan - Chair until 16 October 2022
Mark Searles
Geoff Brown

The Remuneration Committee meets at least twice a year to establish, implement and maintain a remuneration policy and practices in line with the Society's risk management strategy, risk profile, objectives and risk management practices.

Further details on Directors' remuneration are set out in the Directors' Remuneration Report on pages 40-43.

Risk & Compliance Committee

Members

Geoff Brown (Chair)
Mark Searles
Mary Gavigan
Mike Hughes
Graham Singleton
Julian Ellacott
Ceri Gooder - 28 October 2022 onwards

The Risk Management Committee meets at least four times a year. The main function of the Committee is to assist the Board in its leadership and oversight of risk across the Society including the understanding and, where appropriate, optimisation of current and future risk strategy, overall risk appetite and tolerance, risk management framework including risk policies, process and controls, and the promotion of a risk awareness culture throughout the Society. The Committee has the additional responsibility of providing oversight of the Society's governance and regulatory compliance arrangements and their on-going effectiveness.

The Chair of the Committee meets the Head of Legal & Compliance and Head of Risk at least once a year, without management present, to discuss their remit and any issues arising from the risk and control assessments that have been carried out.

With-Profits Advisory Arrangement

Members

Geoff Brown (Chair)
Mark Searles
Mary Gavigan
Mike Hughes

The With-Profits Actuary attends meetings of the Advisory Arrangement as appropriate.

The With-Profits Advisory Arrangement meets as required and at least once a year to independently monitor and bring independent judgment on the extent to which procedures, systems and controls are adequate and effective to enable the Society to comply with the requirements of the FCA Handbook over the management and governance of with-profits business.

Executive Committee

The Executive Committee forms part of the Society's corporate governance structure. The Board is the main decision-making body and the Executive Committee, whilst not a sub-committee of the Board, is charged through the authority of the Chief Executive with running the Society's business within the delegated authority of the Board.

Attendance of Directors at Board and Committee meetings held during the year to 31 December 2022

	Board		Audit Committee		Remuneration Committee		Nominations Committee	
	Meetings attended	Meetings held	Meetings attended	Meetings held	Meetings attended	Meetings held	Meetings attended	Meetings held
Non-Executive								
Geoff Brown	12	12	5	5	4	4	3	3
Mary Gavigan	12	12	5	5	4	4	3	3
Mike Hughes	12	12	5	5	4	4	3	3
Mark Searles	12	12	5	5	4	4	3	3
Executive								
Graham Singleton	12	12	5*	5*	4*	4*	3*	3*
Julian Ellacott	12	12	5*	5*	4*	4*	3*	3*
Ceri Gooder**	2	12	1*	5*	-	-	-	-

	Investment Committee		Risk & Compliance Committee		With Profit Advisory Arrangement	
	Meetings attended	Meetings held	Meetings attended	Meetings held	Meetings attended	Meetings held
Non-Executive						
Geoff Brown	4	4	4	4	4	4
Mary Gavigan	4	4	4	4	4	4
Mike Hughes	4	4	4	4	4	4
Mark Searles	4	4	4	4	4	4
Executive						
Graham Singleton	4	4	4	4	3*	3*
Julian Ellacott	4	4	4	4	3*	3*
Ceri Gooder**	1	4	1	4	1*	3*

** Attendance on an invitation basis.*

*** Represents number of meetings attended following her appointment to the Board on 28 October 2022.*

Directors' Report

Statement of Responsibilities of the Directors
The Board is required to prepare financial statements for each financial year, which give a true and fair view of the state of affairs of the Society as at the end of the financial year and of the results for that year. In preparing these financial statements the Board is required to:

» Select suitable accounting policies and then apply them consistently.
» Make judgements and estimates that are reasonable and prudent.
» State where applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.
» Prepare the statements on a going concern basis, unless it is inappropriate to assume that the Society will continue in business.
» Prepare the financial statements in accordance with the Friendly Societies (Accounts and Related Provisions) Regulations 1994 and in accordance with the applicable accounting standards in the United Kingdom.

In following the Friendly Societies (Accounts and Related Provisions) Regulations 1994, this includes the two updates to this regulation: the Friendly Societies (Accounts and Related Provisions) (Amendment) Regulations 2005; and the Friendly Societies (Accounts and Related Provisions) (Amendment) Regulations 2008.

The Directors confirm that the financial statements comply with the above.

The Directors are responsible for keeping appropriate accounting records which disclose with reasonable accuracy, at any time, the financial position of the Society and to enable it to ensure that the financial statements comply with the Friendly Societies Act 1992. They are also responsible for safeguarding the assets of the Society and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors consider that 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 performance, business model and strategy of the Society and the Group.

The maintenance and integrity of the National Deposit Friendly Society Limited and Group website is also the responsibility of the Directors.

Disclosure of Information to Auditors
The Directors that held office at the date of approval of this Directors' Report confirm that, so far as they are aware, there is no relevant audit information of which the Society's auditors are unaware, and each Director has taken all the steps they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Society's auditors are aware of that information.

Going Concern
The Society's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report for the year. The financial position of the Society, its cash flows, liquidity position, capital position and borrowing facilities have also been considered by the Board. The Society's policies and processes for managing capital are highlighted in Note 2 to the financial statements. The Society has adequate financial resources, supported by long-term relationships with its policyholders and suppliers. Therefore, the Directors believe that the Society is well placed to manage its business risks in respect of liquidity and cash flows, have considered stresses to the solvency and liquidity of the entity to 31 December 2024 and are satisfied that these appropriately demonstrate the resilience of the business after considering the stresses and any mitigating actions to manage such risks to 31 December 2024. After making enquiries, the Directors have a reasonable expectation that the Society has adequate resources to continue in operational existence for a period to 31 December 2024. Accordingly, the financial statements have been prepared on a going concern basis.

Annual General Meeting
The 2022 Annual General Meeting was held in Bristol on 30 June 2022 and was attended by Board Members and Officers of the Society.

A number of resolutions were voted on including:

» The Annual Accounts
» The Board Report
» The Auditor's Report for the year ended 31 December 2021. These form part of the Annual Report and Financial Statements
» To approve the Directors' Remuneration Report
» To approve changes to the Society's Rules
» Re-appointment of Ernst & Young LLP as Auditors
» To re-elect Geoff Brown as a Non-Executive Director
» To elect Mike Hughes as Non-Executive Director
» To elect Ceri Gooder as an Executive Director

The response from members submitting their postal/proxy forms was 7.72% of members eligible to vote electing to do so.

In 2023, the AGM is planned to be held both virtually and in person with members invited to attend the event. Members will also be able to submit questions ahead of the date.

Employees
The average number of Directors and staff employed by the Group and Society is disclosed in Note 9 on page 79. The aggregate remuneration paid to Directors and staff employed by the Group during the year amounted to £5.0 million (2021: £4.0 million).

Charitable Donations
The Society made charitable donations of £2,506 (2021: £9,455). There were no political donations (2021: £nil).

Change of Secretary
Keith Meeres resigned as Secretary on 1 October 2022 with Nicola Moore subsequently appointed Secretary on the same date.

Re-appointment of Auditors
A resolution to re-appoint Ernst & Young LLP ('EY') as the Society's external auditors will be proposed at the forthcoming AGM.

Approved by Order of the Board
Graham Singleton
Chief Executive
28 June 2023

Audit Committee Report

The role of the Audit Committee is to support the Board in fulfilling its oversight responsibilities with regards to the integrity and effectiveness of the systems of internal control, financial processes, financial statements and performance of the internal audit function. The Audit Committee and Risk and Compliance Committee work together effectively to cover all relevant issues and ensure that any pertinent areas of overlap are appropriately addressed. The Committee met five times during the financial year, reporting its activities and making recommendations to the Board.

The key responsibilities of the Committee are noted below together with examples of how it discharges its duties.

Audit Committee Key Responsibilities	
Financial Reporting	1. Reviewing the Society's financial statements and critical accounting policies, judgements and estimates. These include the assumptions to be used in respect of morbidity, mortality, longevity, persistency and expenses. 2. Considering the appropriateness of the going concern basis for preparing the financial statements. 3. Providing advice to the Board on whether the Annual Report and Financial Statements, taken as a whole, are fair, comprehensible and provide stakeholders with the necessary information to understand the Society's position and prospects.
External Audit	1. Overseeing the continued objectivity and independence of the external auditor, including the level and appropriateness of non-audit services provided. 2. Considering the appointment, performance and remuneration of the external auditors. 3. Considering the planning, scope and findings of the annual external audit including the receipt of, and responses to, the auditor's letter to those charged with governance. 4. Reviewing the effectiveness of the external audit process, considering relevant UK professional and regulatory requirements.
Internal Controls and Risk Management	1. Reviewing the adequacy and effectiveness of the Society's financial controls and internal control and risk management systems in conjunction with reviewing reports produced by internal and external audit. 2. Reviewing the statements to be included in the Annual Report concerning internal controls and risk management.
Internal Audit	1. Considering and approving the strategic and annual plans. 2. Considering management responses to recommendations. 3. Monitoring and reviewing the effectiveness of internal audit. 4. Considering the appointment, performance and remuneration of the internal audit firm.

Membership, skills and experience

The Audit Committee acts independently of the Executive to ensure that the interests of members are properly protected in relation to financial reporting and internal control.

All members of the Audit Committee are Non-Executive Directors with Executive Directors, senior representatives from the external and outsourced internal audit firms regularly attending Committee meetings. The Chair of the Audit Committee is a Chartered Accountant who specialises in financial services with significant relevant accounting and audit competence. The Committee has substantial experience and competence relevant to the life and health insurance sector. The Committee has reviewed the collective skills of members and concluded that the balance of skills, knowledge and experience of the Committee is appropriate.

Internal Control and Risk Management

Details of the risk management systems in place are provided within the Risk and Compliance Committee report on pages 40 – 43. The Audit Committee was satisfied that the internal controls embedded within the year-end financial reporting were appropriately designed and operating effectively.

The Audit Committee and Risk and Compliance Committee work together effectively to cover all relevant issues and ensure that any pertinent areas of overlap are appropriately addressed.

Whistleblowing

The Committee is responsible for reviewing the adequacy and security of the Society's whistleblowing arrangements for its employees and contractors to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters. As part of this responsibility, the Audit Committee ensured that whistleblowing arrangements allow proportionate and independent investigation of such matters.

Internal Audit

The Group currently outsources its internal audit function with PwC appointed following a comprehensive re-tender in October 21. During 2022, the Audit Committee monitored the effectiveness of internal audit and the internal audit programme, approving the current year audit plan and budget and confirming that appropriate resources were in place to execute the plan effectively.

In 2022, internal audit carried out a significant number of audits of varying size and complexity. The findings from each individual review are presented to the Audit Committee including management responses. The Audit Committee considers the adequacy of management responses and the implications of significant findings on the effectiveness of the overall internal control system and the risk management framework.

During the year internal audit reports were received on a wide range of subjects, including:

- IT network infrastructure
- Pricing
- Operational resilience
- Governance
- Outsourced PMI Claims Processing

Subsequent to 2022, it was decided to further enhance the Group's internal audit programme at a reduced cost by insourcing the function. A dedicated, experienced in-house Internal Audit Manager has replaced PwC in March 2023. This process was overseen by the Audit Committee with recommendations to the Board.

Independent External Auditor

The Audit Committee is responsible for assessing the effectiveness of the annual audit process, monitoring the independence and objectivity of the external auditor and making recommendations to the Board in relation to the appointment of the external auditor.

EY was appointed as the Society's external auditor in September 2017, a resolution proposing the re-appointment of EY as the Society's external auditor was put to members at the 2022 AGM and subsequently approved.

The Committee continues to assess the independence and objectivity of the external auditor and the effectiveness of the audit process on an ongoing basis. The external auditor is required to rotate the audit partner responsible for the Society audit engagement every five years. The first rotation took place in 2022 following the completion of the 2021 audit with Robin Enstone replacing Andy Blackmore as audit engagement partner.

The Society has policies in place which aim to safeguard and support the independence and objectivity of the external independent auditors. One such policy requires the prior approval of the Audit Committee for the engagement of the independent auditors for non-audit work. The external auditor did not undertake any non-audit assignments during 2022.

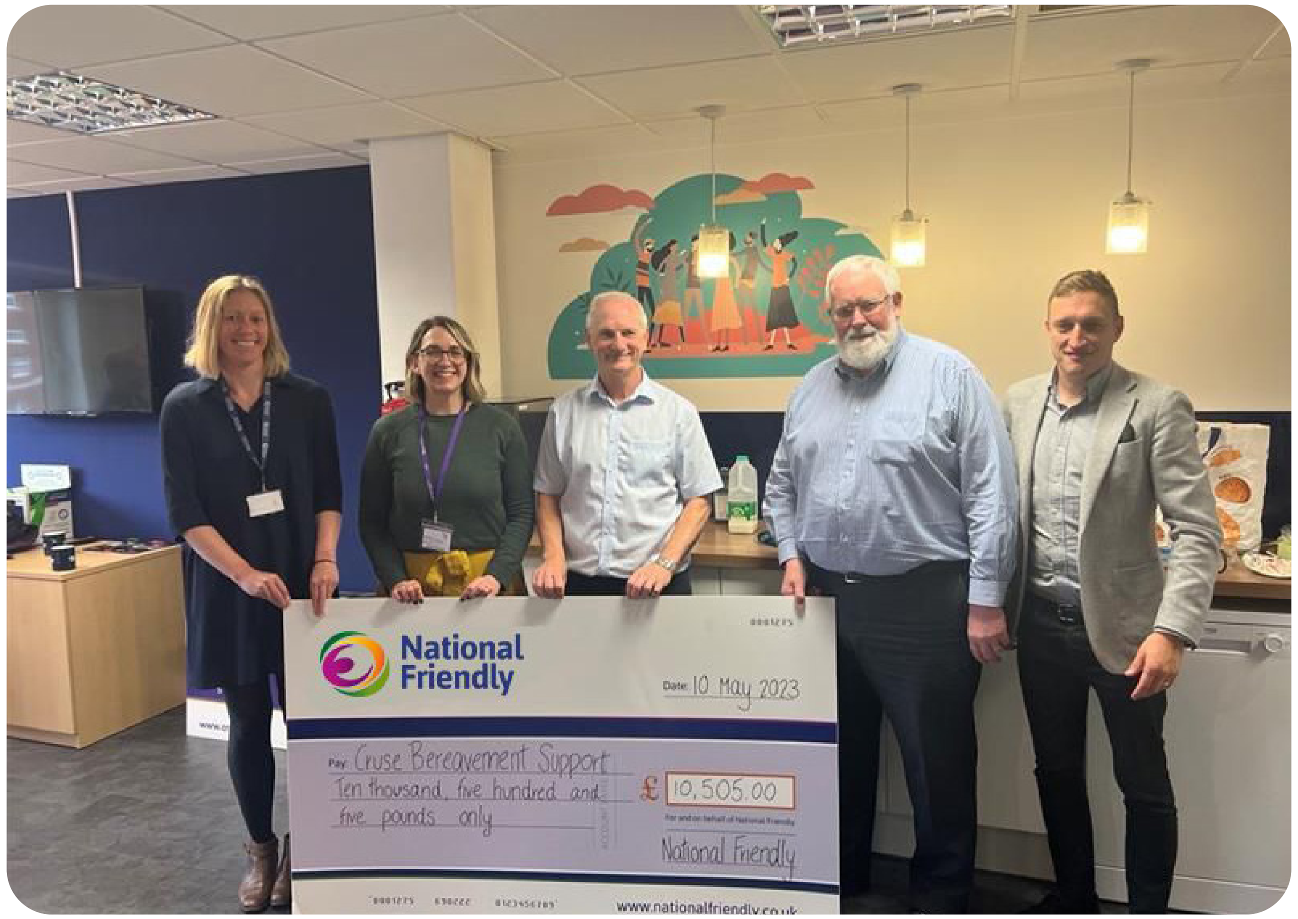
Audit Committee Report (continued)

Financial Reporting - Areas of particular focus
The Audit Committee considered the following significant judgments and estimates, in light of the reports received from external auditors and discussions with external auditors and management.

Significant Issue	How it was addressed
Assessment of actuarial demographic assumptions for morbidity, mortality, longevity and persistency	The Society has in place procedures to analyse experience on its insurance contracts. Statistical analyses are used alongside available industry data to assess the best estimate demographic assumptions. The overarching process for setting assumptions has not changed for the 2022 year-end, although it is appropriate to note that the impact of the COVID-19 and its aftermath continue to make it hard to discern trends in the experience and hence to set assumptions with confidence. Valuation assumptions are set with regard to the Society's own experience (in particular given the uniqueness of the healthcare policies) taking into account trends in the actual versus expected experience. As much relevant data as possible is used to improve the reliability of any estimates of future experience. Lapse experience is monitored monthly throughout the year. Allowance is made for significant non-recurring events in experience, but which are unlikely to influence subsequent experience. The analysis of morbidity also took in the analysis of medical claims cost experience, which was complicated by the transition from AXA to AHG early in the year. As such, particular judgement has had to be applied in the derivation of assumptions for future claims costs, taking into account both short term and longer term factors. The Audit Committee is satisfied of the reasonableness of this approach.
Assessment of assumptions relating to expenses	Renewal expenses are determined using per policy expenses equal to the level of expected administration costs in 4 years' time divided by the expected volume of business in force at that time. An Additional Expense Reserve is held on top of this, to cover the shortfall in expense margins over a 4-year period, until the volume of business reaches scale. The projection of the expected volume of business is based on the management target sales projection in the 2023-2025 Business Plan, as well as demographic and lapse assumptions. The Audit Committee is satisfied that, considering all material factors, the approach is reasonable and one that reflects its best estimate of future experience.
Assessment of expense inflation assumption	The methodology for deriving an expense inflation assumption for the 2022 year-end has been updated relative to that applied in previous years. The updated methodology incorporates separate assumptions for salary related and non-salary related inflation, taking into account the fact that the Society has greater control over the former than the latter. These assumptions are then applied to the respective renewal expenses and projected into the future. Following challenge of the Chief Actuary and management on this key assumption and consideration of the Bank of England monetary policy reporting, the Audit Committee is satisfied of the reasonableness of this approach.
Review of internal audit findings in relation to private medical insurance claims costs	An internal audit review identified that duplicate invoices, which had been submitted in error by third party care providers, were not identified by the third party administrator. Following this, the outsourced third party administrator undertook a substantive review of all impacted invoices. System controls were implemented by the administrator to ensure such invoices were subject to additional review steps. Staff training was also undertaken to highlight this issue. The internal audit actions and corresponding outcomes were presented to and challenged by the Audit Committee.

Mary Gavigan

Chair of the Audit Committee
28 June 2023



Investment Committee Report

The purpose of the Investment Committee is to assist the Board in overseeing the Group's Investment Strategy and compliance with the terms of the Principles & Practices of Financial Management ("PPFM").

Investment Committee Key Responsibilities
Set the Investment & Liquidity Policy in compliance with the terms of the PPFM for with-profit policyholders and in line with the requirements of other non with-profit policyholders.
Oversee the application of the Investment & Liquidity Policy.
Periodically review the Investment & Liquidity Policy particularly in respect of capital requirements, overall market conditions and environmental, social and governance considerations.
Develop and review the appropriateness of key risk indicators and tolerances and information provided by third parties such as financial institutions, asset managers and rating agencies.
Appoint and monitor the performance of the Society's external investment and property managers and custodian.

Membership

The Committee comprises all members of the Board and met four times during the year. Senior representatives from the external investment and property managers routinely attend meetings and provide a comprehensive performance update. In April, Mike Hughes replaced Geoff Brown as Chair of the Committee.

Progress in 2022

The Committee's key areas of focus during 2022 were:

» Overseeing the duration matching of the Group's assets and liabilities during a year of extreme interest rate volatility.

» Continuing to review the Society's property portfolio, and authorising a further property sale to minimise the property exposure in the Society's Own Funds (with remaining properties backing with-profit liabilities).

» Overseeing the re-tender of the Group's longstanding outsourced investment management contract. Proposals were received from four experienced investment managers and, following a comprehensive selection process, Royal London Asset Management was appointed to succeed Fidelity in Q1 2023.

Risk and Compliance Committee Report

The Risk and Compliance Committee assists the Board in its leadership and oversight of risk.

The Society faces a broad range of risks reflecting its responsibilities as a financial institution. These risks include those resulting from its responsibilities in the areas of capital management, and financial stability as well as its day-to-day operational activities.

Such risks can be significant and are managed through detailed processes that emphasise the importance of integrity, maintaining high quality staff, and regulatory accountability.

The Society is also exposed to some significant financial risks including solvency risk, largely due to both its holding in investments and in respect of claims management. The Society accepts that these balance sheet risks are significant and manages them carefully including the use of reinsurance where appropriate.

In terms of operational issues, the Society makes resources available to control operational risks to acceptable levels. In doing so, the Society recognises that it is not possible or necessarily desirable to eliminate all risks inherent in its activities. Acceptance of some risk is often necessary to foster innovation within business practices.

The Society's risk management framework seeks to ensure that there is an effective process in place to manage risks across the Society. Risk management is integral to all aspects of the Society's activities and is the responsibility of all staff. Senior Managers have a particular responsibility to evaluate their risk environment, to put in place appropriate controls and to monitor the effectiveness of those controls. The risk management culture emphasises careful analysis and management of risk in all business processes.

Risks are identified, assessed and managed at both a strategic, operational and financial level.

This includes the understanding and, where appropriate, optimisation of current and future risk strategy, overall risk appetite and tolerance, risk management including risk policies, process and controls and the promotion of a risk awareness culture throughout the Society.

The Committee is also responsible for the oversight of regulatory compliance including conduct and regulatory risk, and the policies and procedures within the Society. This also includes the risk and compliance oversight for the wholly owned subsidiary National Friendly Financial Solutions Limited.

Embedding a strong ethos of risk management is a key priority across the Society with an effective policy and a programme led by the Board, delegated through this Committee and to the Society's Executive Risk & Compliance Working Group.

Risk and Compliance Committee Key Responsibilities
Review and recommend to the Board the approval of the risk mwanagement, compliance and governance framework across the Society.
Review, monitor and challenge the Society's risk management framework, including the capability to identify, mitigate and manage emerging and new risks in conjunction with the Audit Committee.
Oversee the Society's ongoing compliance with statutory and regulatory requirements and ability to identify emerging regulatory trends.
Review and oversight of strategic risks when there is significant change to the Society's strategic business plan.
Oversee and provide input and challenge to the production of the Society's Own Risk Solvency Assessment and related stress tests and make recommendations.
Make recommendations concerning the Society's overall risk appetite, tolerances and strategy.
Review any material breaches of risk appetite and risk tolerance together with the adequacy and implementation of proposed actions, ensuring that all matters are reported appropriately to the Board.
Monitor and review the Society's management of the risks of climate change.
Review, update and test operational resilience, including the Society's business continuity plans on a regular basis.
Review the Society's procedures for the prevention and detection of bribery and corruption; oversee anti-money laundering and financial crime systems and controls.

Risk and Compliance Committee Report (continued)

Membership

The Terms of Reference and membership of the Committee were reviewed during the year. The Committee comprises all members of the Board and met four times during the financial year.

At each meeting the Committee receives and reviews a comprehensive risk management report featuring dashboard reporting of the current risk assessment versus appetite alongside a Legal & Compliance functional report highlighting any regulatory or compliance issues that the Committee need to be made aware of, and then report upwards to the Board.

During 2022 the Committee also received the Society's:

» Annual Risk Management Report.
» Annual Compliance Reports for both the regulated entities within the Society, including a regulated complaints trend analysis report.
» Annual Money Laundering/Financial Crime Report, including a review of sanctions processes and procedures.
» Annual Whistleblowing Report.

Progress in 2022

The Society continued to refresh and strengthen its approach, and systems and controls to risk management during the year and will further embed this capability within the business - in particular, the:

» Review and refresh of the Society's risk appetite, reporting, MI, statements and policy, including the articulation of the associated measures and triggers for action.
» Review of emerging and horizon risks as they arise in the external environment; focusing on the cost-of-living crisis and the impact this could have on the Society.
» Further development of our onboarding of third parties, including brokers, IFAs, Appointed Representatives, Outsourcers and Key Suppliers. Implementation of a new checklist and a review of all contracts in line with SS2/21 (Third Party Risk Management Oversight).
» Review of the compliance and regulatory reporting to the Committee.
» Review the complaints trend and root cause analysis for the Society.
» Review of the regulatory developments process to ensure the Committee is aware of the regulatory rule changes that will affect the Society's business.
» Review and approval of the Consumer Duty implementation plan to ensure that the Society will meet the regulatory requirements for the implementation and embedding of this Duty into the business.
» In line with SS1/21 (Operational Resilience) Identified and mapped our important business services, agreed our impact tolerances for these services. Drafted and agreed a self-assessment template for ongoing testing of our resilience within impact tolerances.
» Review of the product governance framework and policy to ensure that as NDFS is a product manufacturer then all the necessary systems and controls are in place to ensure fair value is embedded within the products for the customer.
» Review of the anti-money laundering and sanctions checking oversight within the business and its third parties following the FCA updates of increased sanctions after the outbreak of hostilities in Ukraine.
» Review of the conduct risk policies for the Society, as well as the Solvency II policies prior to submission to NDFS Board for approval.
» Review the governance process in place for the Society, especially in respect of the Senior Manager and Certified functions, and the ongoing fitness and propriety for the individuals concerned.
» Review of our strategic and emerging risk profiles.
» Review of our climate change risk profile and evaluating our approach to enhancing climate change risk management and disclosures. The Committee identified several transitional and physical risks and began our plans to review our emissions and carbon footprint to transition towards a more sustainable business.
» Improved risk reporting to the Board to assist in its effective oversight, including our risk appetite dashboard and quarterly reporting. Development of Broker Exposure Report to monitor our active distributors.
» Continued improvements to our wider information technology capabilities and IT operational resilience controls.

Risk management

The Committee reviews the whole risk management framework at least annually and receive regular reports from the Executive Risk& Compliance Working Group.

Risk is assessed and managed under the following risk categories:

Risk	Definition
Solvency Risk	The risk that the Society is unable to meet its solvency capital requirements.
Market Risk	The risk that the Society's solvency coverage is adversely affected by changes to financial market conditions, which impact the fair value of assets held.
Credit Risk	The risk that a counterparty is unable to fulfil its obligations to the Society, thereby leading to a loss of financial assets.
Insurance Risk	The risk that the actual demographic (mortality, morbidity, lapse, longevity) experience and/or expenses of administering policies is worse than assumed in the calculation of best estimate liabilities.
Liquidity Risk	The risk that the Society is not able to meet its financial obligations to policyholders and other creditors when they become due and payable.
Strategic Risk	The risk of internal or external factors impacting the Society's strategy and the environment in which it operates. These include, for instance, failing to deliver strategic initiatives in accordance with the Society's requirement and resources. Distribution risk in which the society fails to meet its distribution targets and establish and maintain an effective process to supply products to customers is a key strategic risk, significantly impacting new sales volumes and corresponding business growth.
Operational Risk	The risk of direct or indirect loss (actual or potential) resulting from inadequate or failed internal processes, people and systems or from external events. This includes risks relating to compliance, business processes, information technology, outsourcing, cyber, and financial reporting.
Pension Risk	The risk of loss arising from the operation of the Society's pension scheme.
Conduct Risk	The risk that the Society's behaviour results in poor outcomes and does not provide fair value for customers and the market as a whole.
Emerging Risk	The risk of a newly developing or unforeseen risk, that the Society has not yet assessed, so the potential for harm or loss is not fully known.

The Board has identified key threats to business strategy and mitigation plans have been put in place so that the Society can remain sustainable and continue to operate in the best interests of its members. These risks are summarised on pages 11 – 15.

Geoff Brown

Chair of the Risk and Compliance Committee
28 June 2023

Nominations Committee Report

The Nomination Committee meets as appropriate to review the structure, size and composition of the Board (including the necessary balance of skills, experience and diversity) and to make recommendations to the Board with regard to any adjustments that are deemed necessary. Nominations for appointment to the Board are considered for approval by the full Board.

Independent executive recruitment consultants can be and are consulted to ensure that an extensive and robust search is undertaken to identify suitable candidates for non-executive Board vacancies.

All members of the Nominations Committee are Non-Executive Directors. However, membership of the Committee may be altered as appropriate in particular to address circumstances where one of its members is being considered for re-appointment.

During the year, the Committee oversaw the selection process leading to the appointment in October of Ceri Gooder as Executive Director following approval by the FCA to the Society's Board. The Committee also had oversight/recommendation to the Board of the re-election process of Director's and re-appointment of the Chair and Senior Independent Director in addition to providing recommendations to the Board pertaining to Committee composition.

At all times, the Committee has ensured best practice is followed in the recommendation of new Board Director appointments and has taken responsibility for managing the processes necessary in ensuring the relevant outcomes have been achieved on behalf of our members.

Mark Searles

Chair of the Nomination Committee
28 June 2023

> “What a great experience it is dealing with this company. I took out a private health insurance policy last year and cannot believe how helpful Stuart was in explaining how it all works. I had a frozen shoulder just 5 months after taking out the cover and everyone was so helpful in sorting out a consultation and treatment.
>
> I have been so impressed I have now recommended it to several friends and my husband has also taken out a private health insurance. It is a mutual, so much nicer, in my opinion, than the larger corporate companies. It seems that they really do care.”
>
> **- Jane DA, Member**

Directors' Remuneration Report

Introduction

The Society is committed to a framework which recognises and rewards the contribution that individuals make. This Report of the Directors on remuneration explains how the Society applies the relevant principles set out in the Annotated Code of Corporate Governance.

The Remuneration Committee keeps abreast of relevant developments and best practice and is authorised to seek advice from external advisers at its discretion.

Remuneration Committee

The Remuneration Committee is appointed by the Board and all members of the Committee are Non-Executive Directors. The Chief Executive and/or other relevant Executive Officers attend meetings as appropriate.

The Committee, within the terms of the Remuneration policy agreed by the Board, sets the level of remuneration for the Chief Executive and other Executive Directors. The Committee also sets the proposed level of fees for the Chair, having taken advice from the Executive Directors. The Chair takes no part in the setting of his own remuneration.

Policy

The Society's approach to remuneration is an integral part of the Business strategy and the policy is designed to attract, retain and motivate competent, experienced and skilled staff. The policy is based on the following principles:

a. Reward and remuneration will be clear and competitive within the market so that individuals are motivated and the Society is able to attract and retain key talent.
b. Remuneration will be determined fairly and objectively across the Society.
c. Variable reward for the Directors and key function holders will be linked to strategic personal objectives.
d. Total remuneration will comprise a fixed base salary as well as a variable discretionary bonus and other financial and non-financial employee benefits.
e. The remuneration policy will be transparent and accessible to all Society staff.

Remuneration for Executive Directors consists of a fixed salary, variable incentive pay, pension and other benefits including company car allowance. Aside from the variable pay component, all benefits including pension arrangements, are on the same terms as employees.

For each Executive Director, the Remuneration Committee determines an appropriate level of remuneration, taking account of their specific role and responsibilities. The Committee has access to external advisers for guidance and benchmarking. Each year, the Committee reviews the level of Directors' remuneration so that it continues to be competitive and provides proper and risk-based incentives to the Executive.

The Society requires that the Directors do not use personal hedging strategies or insurance that could be used to undermine the risk alignment effects embedded in their remuneration arrangements.

Remuneration for Non-Executive Directors comprises a basic fee plus a supplement for the Chair of the Board, Committee Chairs and for the Senior Independent Non-Executive Director, both based primarily upon the time commitment required for the roles.

Summary

This report, together with the disclosures below, is provided to give members a full explanation of the policy and application of directors' remuneration. A resolution will be put to the Annual General Meeting inviting members to vote on the Directors' Remuneration Report. This vote is advisory and the Board will consider any action that may be required following the outcome of the vote.

Mike Hughes
Chair of the Remuneration Committee
28 June 2023

Directors' emoluments for the year ended 31 December 2022

	Salaries & Fees	Performance Related Pay	Other Benefits[1]	Payment in Lieu of Notice	Total 2022	Total 2021
	£	£	£	£	£	£
Chair						
Tracy Morshead[2]	-	-	-	-	-	26,240
Geoff Brown[3]	57,250	-	-	-	57,250	51,216
Executive Directors						
Julian Ellacott[4]	135,000	6,500	26,505	-	168,005	99,087
Ceri Gooder[5]	20,952	-	4,024	-	24,976	-
Sandy Richards[6]	-	-	-	-	-	129,524
Graham Singleton[7]	173,114	6,895	30,089	-	210,098	151,183
Non-Executive Directors						
Mary Gavigan	42,250	-	-	-	42,250	37,250
Julie Hansen[8]	-	-	-	-	-	8,125
Mike Hughes[9]	40,417	-	-	-	40,417	9,567
Mark Searles	47,250	-	-	-	47,250	40,646
Graham Singleton[7]	-	-	-	-	-	39,563
Total					**590,246**	**592,401**

[1] Other benefits include pension scheme contributions, car benefits and allowances, medical and other benefits in kind or equivalent monetary value.

[2] Tracy Morshead resigned as Chair of the Board on 20 May 2021.

[3] Geoff Brown was appointed Chair of the Board on 20 May 2021, prior to that date he was a Non-Executive Director.

[4] Julian Ellacott was appointed to the Board on 20 May 2021, the remuneration disclosed in the table above relates solely to the period in which he served as a Director.

[5] Ceri Gooder was appointed to the Board on 28 October 2022, the remuneration disclosed in the table above relates solely to the period in which she served as a Director.

[6] Sandy Richards resigned as Executive Director on 5 April 2021.

[7] Graham Singleton served as a Non-Executive Director until 31 March 2021. On 1 April 2021 he was appointed Chief Executive Officer. Included within his remuneration as a Non-Executive Director is £31,500 relating to his services as Interim Chief Executive Officer during February 2021 and March 2021.

[8] Julie Hansen was appointed as a Non-Executive Director on 1 September 2021, she resigned as a Non-Executive Director on 30 November 2021.

[9] Mike Hughes was appointed as a Non-Executive Director of National Friendly Financial Solutions Limited on 1 September 2021, he was appointed to the Society's Board on 25 November 2021 and continues to provide Non-Executive support to National Friendly Financial Solutions Limited. The remuneration above for the comparative period of 1 September 2021 to 31 December 2021 was paid by National Friendly Financial Solutions Limited. From 1 January 2022 his remuneration was paid by the Society.

Directors' Remuneration Report (continued)

At the 2022 AGM, members voted on the resolution to approve the 2021 Directors' Remuneration Report. The Society is committed to on-going member dialogue and takes an active interest in voting outcomes. Where there are substantial votes against the resolutions in relation to Directors' remuneration, the reasons for any such vote would be sought and any actions in response detailed in the next Directors' Remuneration Report.

The following table sets out the actual voting in respect of the approval of the 2021 Directors' Remuneration Report:

Number of votes cast for	Percentage of votes cast for	Number of votes cast against	Percentage of votes cast against	Total votes cast	Number of votes withheld
2142	94.28%	75	3.30%	2272	55

Executive Directors

Base Salaries
Base pay will normally be reviewed annually in April. Pay rises are not guaranteed, but the review will take into consideration any increase in cost-of-living and, where appropriate other external market factors, in line with the approach taken for all employees.

Pay reviews may take place at other times of the year to reflect a change in role and/or significant change in responsibilities. The Committee may consult with external advisors as appropriate for such pay reviews, who can undertake a job evaluation to provide a guide salary range relevant to the role. The evaluation considers the demands of the role and then applying factors derived from salary research data, takes account of the Society's size, sector and location.

Performance Related Pay
The Executive Directors are eligible for annual Performance Related Pay. This comprises two component parts; a short term incentive plan with a maximum potential cash bonus of 30% of base salary (50% for the Chief Executive) and a deferred incentive plan of the same quantum payable in April 2026. Performance is assessed on a collective basis against corporate objectives identified within the Society's balanced score card and delivery of personal objectives.

LTIP
Whilst there is a deferred component to the performance related pay, there is currently no formal Long Term Incentive Plan ("LTIP") scheme in operation. The Remuneration Committee is seeking to introduce this in 2023, considering the Society's medium and long term objectives over an extended time horizon, whilst taking account of the Society's risk profile.

Retirement and Related Benefits
The Executive Directors are members of a defined contribution pension scheme which is available to all employees. The Society contributes up to a maximum of 12% of base salary per Director, dependent upon personal contribution levels. The Chief Executive receives an allowance in lieu of a contribution to a defined contribution pension scheme, the cost to the Society is the same as a 12% contribution to a pension scheme.

Other Benefits
Executive Directors are entitled to death in service benefit of four times basic salary and a company car or car cash allowance. Other benefits available to all staff are also available to Executive Directors such as private medical insurance, salary sacrifice schemes for pension contributions and the cycle to work initiatives and for season ticket loans.

Directors' Contract
The Executive Directors have service agreements which incorporate their terms and conditions of employment. Executive Directors are employed on contracts subject to no more than twelve months' notice in accordance with corporate governance best practice.

Non-Executive Directors
All Non-Executive Directors including the Chair have letters of appointment which set out their duties and responsibilities. The appointment of Non-Executive Directors is usually for a period of three years and is subject to election and re-election at the Society's AGM. After nine years of service or when a director reaches the age of 70, re-election becomes an annual process.

Fees are benchmarked against similar roles in comparable organisations. Fees are calculated on an annual rather than a daily basis. However, it is assumed that to fulfil the basic role of a Non-Executive Director, sufficient time and commitment is required each month for review work and attendance at regular Board meetings, the Society's AGM, Special General Meetings where appropriate, other ad hoc meetings with regulators and advisers as may be required and training courses.

Non-Executive Directors remuneration is not performance related nor pensionable and Non-Executive Directors do not participate in any incentive plans. However, a formal annual appraisal process is undertaken where the views of all Directors are taken into consideration and the outcome of this is ratified by the Board.

Fees for Non-Executive Directors are determined by the Executive Directors and subject to approval of the Board as a whole. They are designed to recognise the responsibilities of Non-Executive Directors and to attract individuals with the necessary skills and experience to contribute to the objectives of the Society.

"We have been using National Friendly for over 4 years. We have found them to be very professional, imaginative with their products, helpful and always willing to assist. Their IP product has been well received by our clients as to their Over 50's product and the benefits attached are again appreciated and used by our older clients.

All new additions to the National Friendly products are presented to our team in a timely manner and again well received. National Friendly are in the top three providers that we use."

- Your Choice Cover, Adviser

Independent Auditor's Report

Independent Auditor's Report to the members of National Deposit Friendly Society Limited

Opinion

In our opinion:

- National Deposit Friendly Society Limited's Group and Society's financial statements (the "financial statements") give a true and fair view of the state of the Group's and of the Society's affairs as at 31 December 2022 and of the Group's and Society's income and expenditure for the year then ended;
- the Group and Society's financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Friendly Societies Act 1992.

We have audited the financial statements of National Deposit Friendly Society Limited (the 'Society') and its subsidiaries (the 'Group') for the year ended 31 December 2022 which comprise:

Group	Society
Consolidated balance sheet as at 31 December 2022	Balance sheet as at 31 December 2022
Consolidated income statement for the year then ended	Income statement for the year then ended
Consolidated statement of comprehensive income for the year then ended	Statement of comprehensive income for the year then ended
Related notes 1 to 28 to the financial statements, including a summary of significant accounting policies	Related notes 1 to 28 to the financial statements including a summary of significant accounting policies

The financial reporting framework that has been applied in the preparation of the Group's and Society's financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" and FRS 103 "Insurance Contracts" (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 Society in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including 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 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. Our evaluation of the directors' assessment of the Group and Society's ability to continue to adopt the going concern basis of accounting included:

- confirming our understanding of management's going concern assessment process and obtaining management's assessment which covers the period through to 31 December 2024;
- assessing the accuracy of management's analysis by agreeing figures to audited or publicly available information where applicable;
- evaluating the liquidity and solvency position of the Group and Society by reviewing base case liquidity and solvency projections;
- obtaining and reviewing the latest Board approved Own Risk and Solvency Assessment (ORSA), assessing whether the stress testing included in the ORSA were reasonable stress tests and considering the solvency position under each stress scenario;
- obtaining and evaluating the latest Board approved liquidity forecast and financial reinsurance arrangement, assessing whether the stress testing included were reasonable stress tests and considering the liquidity position under each stress scenario and the level of headroom;
- reading the Society's Business plan and reviewing all correspondence with the Prudential Regulation Authority in relation to the plan;
- assessing the plausibility of available management actions to mitigate the impact of the key risks by comparing them to our understanding of the Group and Society;
- performing inquiries of management and those charged with governance to identify risks or events that may impact the Group and Society's ability to continue as a going concern. We also reviewed management's assessment approved by the Board, minutes of meetings of the Board and its committees; and
- assessing the appropriateness of the going concern disclosures by comparing the consistency with management's assessment and for compliance with the relevant reporting requirements

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group and Society's ability to continue as a going concern for the period to 31 December 2024.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's ability to continue as a going concern.

Overview of our audit approach	
Audit scope	» We performed an audit of the complete financial information of the Society and audit procedures on specific balances for a further two components. » The components where we performed full or specific audit procedures accounted for 100% of the Long Term Business Provision measure used to calculate materiality, and 100% of Gross Written Premium and 100% of Total assets.
Key audit matters	» Inappropriate actuarial demographic assumptions for morbidity, mortality longevity and persistency » Inappropriate actuarial expense assumptions
Materiality	» Overall Group materiality of £739k which represents 1% of Gross Long Term Business Provision.

An overview of the scope of the parent company and group audits

<u>Tailoring the scope</u>

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each company within the Group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account size, risk profile, the organisation of the group and effectiveness of group-wide controls, the potential impact of climate change, changes in the business environment and other factors such as recent Internal audit results when assessing the level of work to be performed at each component.

In assessing the risk of material misstatement to the Group financial statements, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements, we selected all 3 components covering entities within the Group.

The audits of the three components were performed by the Group audit team. These audits covered 100% of the material line items within the Group's income statement and balance sheet accounts.

Independent Auditor's Report
(continued)

Independent Auditor's Report to the members of National Deposit Friendly Society Limited (continued)

Climate change

Stakeholders are increasingly interested on the impact climate change will have on companies. The Group and Society has determined that the most significant future impacts from climate change on its operations will be from physical and transitional risks. These are explained on page 13 in the principal risks and uncertainties section within the Strategic report. They have also explained their climate commitments on pages 16 to 17 within the Strategic report. All of these disclosures form part of the "Other information," rather than the audited financial statements. Our procedures on these unaudited disclosures therefore consisted solely of considering whether they are materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appear to be materially misstated, in line with our responsibilities on "Other information".

In planning and performing our audit we assessed the potential impacts of climate change on the Group's and Society's business and any consequential material impact on its financial statements.

The Group and Society has explained in its Basis of Preparation note how the impact of climate change has been considered for their financial statements.

Our audit effort in considering the impact of climate change on the financial statements was focused on evaluating management's assessment of the impact of climate risk, including physical and transitional risk and the resulting conclusion that there was no material impact from climate change and the adequacy of the Group's disclosures on page 56 of the financial statements which explain the rationale.

Based on our work we have not identified the impact of climate change on the financial statements to be a key audit matter or to impact a key audit matter.

Key audit matters

Key audit matters are those matters that, in our professional judgment, 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 our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Inappropriate actuarial demographic assumptions for morbidity, mortality, longevity and persistency (2022 Long Term Business Provision: £40,890k, 2021 Long Term Business Provision: £72,534k) *Refer to the Audit Committee Report (page 32); Accounting policies (page 56); and Note 20 of the Consolidated Financial Statements (page 90)* The assumptions underpinning the valuation of the long-term business provision as at 31 December 2022 are disclosed in note 20 to the financial statements. The valuation of the long–term liabilities the Society holds is inherently uncertain due to the dependency on a number of key assumptions, including morbidity, mortality, longevity and persistency and the risk resides around these assumptions being incorrect. Each of these assumptions presents different capital requirements across the Society's life and health business. In addition, these assumptions have different sensitivities, and for some assumptions small changes will have a material impact on the Group's reported result. Demographic assumptions are set based on internal and market experience, overlaid with the application of judgement in particular around expectations of future trends and external factors. We have also considered a heightened fraud risk related to management override of controls over the posting of the estimates journals to the GL via manual journals due to the judgemental nature of the estimates and the manual postings of journals.	To obtain sufficient audit evidence to conclude on the appropriateness of actuarial assumptions, we engaged our actuarial specialists as part of our audit team and performed the following procedures: We obtained an understanding and tested the design and operating effectiveness of key controls over management's process for setting and updating the demographic actuarial assumptions. We tested that the policy records data used in the process for setting and updating demographic and expense assumptions was complete and accurate by agreeing back to the policy administration system. We audited the results of management's experience analysis to assess whether this justified the adopted assumptions, checked that the assumptions used are consistent with the experience analysis and reviewed the judgements made (such as the weight put on recent years' experience and the exclusion of any data due to the pandemic), and explanations provided by management as to why experience had changed, to ensure they were reasonable. In respect of longevity improvements, we have evaluated the use of the chosen industry standard Continuous Mortality Investigation ('CMI') model and the parameters used to validate that it was appropriate relative to the industry and Society experience. We concluded on whether the final assumptions were within a reasonable range based on our expert judgement, management's internal experience analysis and benchmarking to peers. We reviewed the disclosures that have been made regarding the sensitivity of the valuation of the Long Term Business Provision to changes in the key actuarial assumptions.	Based on the analysis of past demographic experience, industry practice and the financial and regulatory requirements, we determined that: The persistency assumptions used by management are in the middle of our reasonable range; The longevity assumptions are within the middle of our reasonable range; The morbidity assumptions are outside of our reasonable range; The mortality assumptions are at the bottom end of our reasonable range; The claims inflation assumptions are outside our reasonable range, which has meant on an aggregate basis, the demographic assumptions were outside our reasonable range by an amount that is not material; The sensitivity disclosures in respect of the valuation of the Long Term Business Provision to changes in the key actuarial assumptions are appropriate and in line with UKGAAP reporting requirements.
Inappropriate actuarial expense assumptions (2022 Long Term Business Provision: £40,890k, 2021 Long Term Business Provision: £72,534k) *Refer to the Audit Committee Report (page 32); Accounting policies (page 56); and Note 20 of the Consolidated Financial Statements (page 90)* The assumptions underpinning the valuation of the long term business provision as at 31 December 2022 are disclosed in note 20 to the financial statements. Whilst less significant than the demographic assumptions referred to as part of the key audit matter above, we consider expense assumptions to be a key part of the actuarial valuation. Expense assumptions are set based on the anticipated costs associated with administering the business, including expenses inflation as well as the split between acquisition / maintenance and between different classes of business	To obtain sufficient audit evidence to conclude on the appropriateness of actuarial assumptions, we engaged our actuarial specialists as part of our audit team and performed the following procedures: We obtained an understanding and tested the design and operating effectiveness of key controls over management's process and governance for setting expense assumptions. We compared the methodology and assumptions with market practice. We tested that the expense inputs into the model including the future expected costs savings and the split between maintenance and acquisition expenses and to product type. We tested whether the split between maintenance and acquisition expenses and whether the allocation of expenses between various product types and between new business and in–force business was reasonable by agreeing to actual data as well as future business plans. We assessed the judgements around new business volumes and potential growth in policy counts impacting the allocation of overheads. We assessed whether the expense savings included in the prior year assumptions have been realised in the current year. We reviewed the disclosures that have been made regarding the sensitivity of the valuation of the Long Term Business Provision to changes in the key actuarial assumptions.	We determined that the expense assumptions used by management are towards the bottom end of a reasonable range based on industry practice and the financial and regulatory requirements. The sensitivity disclosures in respect of the valuation of the Long Term Business Provision to changes in the key actuarial assumptions are appropriate and in line with UKGAAP reporting requirements.

Independent Auditor's Report (continued)

Independent Auditor's Report to the members of National Deposit Friendly Society Limited (continued)

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality
The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Group and Society to be £739k (2021: £720k), which is 1% of Gross Long term Business Provision (2021: 1% of Net Long term Business Provision). We believe that Long Term Business Provision is the key driver of Own Funds which are then used to calculate the solvency coverage ratio. We have changed our materiality measure from using the Net Long Term Business Provision (LTBP) per the balance sheet (which is a net position of those product classes with both negative and positive net present value of cashflows) given the growth in new business.

Performance materiality
The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Group and Society's overall control environment, our judgement was that performance materiality was 50% (2021: 50%) of our planning materiality, namely £370k (2021: £360). We have set performance materiality at this percentage based on our assessment of the risk of misstatement.

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the Group as a whole and our assessment of the risk of misstatement at that component. In the current year, the range of performance materiality allocated to components was £74k to £370k (2021: £72k to £360k).

Reporting threshold
An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £37k (2021: £36k), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

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

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this 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 the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matters prescribed by the Friendly Societies Act 1992

In our opinion, based on the work undertaken in the course of the audit, the information given in the Report of the Board of Management for the financial year for which the annual accounts are prepared is consistent with the annual accounts and those reports have been prepared in accordance with the Friendly Societies Act 1992 and the regulations made under it.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Group and the Society and its environment obtained in the course of the audit, we have nothing to report in respect of the following matters in relation to which the Friendly Societies Act 1992 requires us to report to you if, in our opinion:

» proper accounting records have not been kept; or
» the annual accounts are not in agreement with the accounting records; or
» we have not received all the information, explanations and access to documents we require for our audit.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 28, 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 and Society'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.

Explanation as to what extent 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 irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the Society and management.

Independent Auditor's Report
(continued)

Independent Auditor's Report to the members of National Deposit Friendly Society Limited (continued)

» We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and Society determined that the most significant are direct laws and regulations related to elements of the Friendly Societies Act 1992 and tax legislation, and the financial reporting framework. Our considerations of other laws and regulations that may have a material effect, as well as industry specific laws/regulations on the financial statements included permissions and supervisory requirements of the Prudential Regulation Authority ('PRA') and the Financial Conduct Authority ('FCA').

» We understood how the Group and Society is complying with those frameworks by making enquiries of senior management and those charged with governance for their awareness of any non-compliance of laws or regulations. We also reviewed correspondence between the Society and its subsidiaries and UK regulatory bodies; reviewed minutes of the Board and its committees; and gained an understanding of the Group's approach to governance.

» We assessed the susceptibility of the Group and Society's financial statements to material misstatement, including how fraud might occur by considering the controls that the Group and Society has established to address risks identified by the Group and Society, or that otherwise seek to prevent, deter or detect fraud. We also considered areas of significant judgement, performance targets, economic or external pressures and the impact these have on the control environment. Where this risk was considered to be higher, we performed audit procedures to address each identified fraud risk, including the procedures over the demographic and expense assumptions noted under the key audit matters section above. With regard to revenue recognition fraud risk we tied back all but an immaterial amount of the gross premium income to cash received during the year and additional procedures included testing a sample of manual journals. In addition we tested controls and reconciliations performed by the Customer Services and Finance Teams with regards to generation and collection of gross premium income via direct debit. We have also tested the monthly journal upload of investment income into the general ledger to investment managers reports. These procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error.

» Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. For direct laws and regulations, we considered the extent of compliance with those laws and regulations as part of our procedures on the related financial statement items. For both direct and other laws and regulations, our procedures involved: making enquiry of senior management and the Audit Committee for their awareness of any non-compliance of laws or regulations, inquiring about the policies that have been established to prevent non-compliance with laws and regulations by officers and employees, inquiring about the Group and Society's methods of enforcing and monitoring compliance with such policies, inspecting significant correspondence with the FCA and PRA and reviewing minutes of the Board and its committees and the complaints log.

The Group and Society operates in the insurance industry which is a highly regulated environment. As such the Senior Statutory Auditor considered the experience and expertise of the engagement team to ensure that the team had the appropriate competence and capabilities, which included the use of specialists where appropriate.

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

Other matters we are required to address

» Following the recommendation from the audit committee we were appointed by the Society on 6 September 2017 to audit the financial statements for the year ending 31 December 2017 and subsequent financial periods.

» The period of total uninterrupted engagement including previous renewals and reappointments is 6 years, covering the years ending 31 December 2017 to 31 December 2022.

» The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Society and we remain independent of the Group and Society in conducting the audit.

» The audit opinion is consistent with the additional report to the audit committee.

Use of our report

This report is made solely to the Society's members, as a body, in accordance with Part VI of the Friendly Societies Act 1992. 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.

Robin Enstone
(Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Bristol

Consolidated Income Statement

For the year ended 31 December 2022

		Group				Society			
		2022		2021		2022		2021	
	Note	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Gross premiums written and payments to deposit	4	26,092		22,052		26,092		22,052	
Outward reinsurance premiums		(5,728)		(3,631)		(5,728)		(3,631)	
Earned premiums net of reinsurance			20,364		18,421		20,364		18,421
Investment income	5		(9,353)		3,878		(9,353)		3,878
Other technical income	6		538		556		23		35
			11,549		**22,855**		**11,034**		**22,334**
Gross claims paid		18,560		16,248		18,560		16,248	
Reinsurers' share		(5,561)		(3,157)		(5,561)		(3,157)	
Net claims paid			12,999		13,091		12,999		13,091
Change in provision for claims			996		58		996		58
Change in long term funds									
Long term business provision – gross amount		(31,644)		(8,443)		(31,644)		(8,443)	
Movement in reinsurers' share		1,085		(1,016)		1,085		(1,016)	
Long term business provision – net of reinsurance amount			(30,559)		(9,459)		(30,559)		(9,459)
Investment contract liabilities			(1)		(2)		(1)		(2)
Provision for linked liabilities – insurance contracts	22		(200)		105		(200)		105
Provision for linked liabilities – investment contracts	22		(51)		(14)		(51)		(14)
Bonuses and rebates			9		(2)		9		(2)
Net operating expenses	7a								
Acquisition costs		11,970		7,446		10,989		7,148	
Administrative expenses		3,729		4,534		3,730		4,052	
			15,699		11,980		14,719		11,200
Other technical charges – project costs	7b		15		56		-		1
- other			116		81		94		79
Investment expenses	8		677		591		677		591
Unrealised losses on investments	5		11,033		5,226		11,033		5,226
Loss on investment in subsidiary	26		-		-		542		309
Tax attributable to long term business	11a		6		76		6		63
Transfer to/(from) the fund for future appropriations			810		1,068		770		1,088
			11,549		**22,855**		**11,034**		**22,334**
Balance after transfer to/(from) the fund for future appropriations			-		-		-		-

The information on pages 56 to 99 form an integral part of these financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2022

		Group		Society	
		2022	2021	2022	2021
	Note	£'000	£'000	£'000	£'000
Balance transferred from income statement		-	-	-	-
Actuarial gain/(loss) on pension scheme	21	1,733	(969)	1,733	(969)
Revaluation of occupied land and buildings	18	(210)	180	(210)	180
Total comprehensive income		**1,523**	**(789)**	1,523	(789)
Transfer to/(from) the fund for future appropriations		1,523	(789)	**1,523**	**(789)**
Total comprehensive income after transfer		-	-	-	-

The information on pages 56 to 99 form an integral part of these financial statements.

Consolidated Balance Sheet

As at 31 December 2022

		Group				Society			
		2022		2021		2022		2021	
ASSETS	Note	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Intangible assets	17		2,730		2,814		69		109
Investments Land and buildings	12	8,451		9,040		8,451		9,040	
Investment in subsidiaries	26	-		-		422		574	
Other financial investments	13	47,951		70,765		47,951		70,765	
			56,402		**79,805**		**56,824**		**80,379**
Assets held to cover linked liabilities	16		1,513		1,780		1,513		1,780
Debtors – Loans and receivables Debtors arising from direct insurance operations	3	132		113		78		75	
Other debtors	3	173		734		173		734	
			305		**847**		**251**		**809**
Other assets Tangible assets	18	2,849		3,312		2,849		3,312	
Cash at bank and in hand	14	690		6,384		654		6,278	
Deferred tax asset	11c	2,313		-		2,313		-	
			5,852		**9,696**		**5,816**		**9,590**
Prepayments and accrued income – Loans and Receivables Accrued interest and rent		603		1,318		603		1,318	
Other prepayments and accrued income		294		281		2,685		2,674	
			897		**1,599**		**3,288**		**3,992**
			67,699		**96,541**		**67,761**		**96,659**

The information on pages 56 to 99 form an integral part of these financial statements.

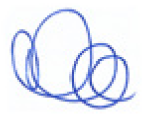
As at 31 December 2022

		Group				Society			
		2022		2021		2022		2021	
LIABILITIES	Note	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Fund for future appropriations	27		18,031		15,698		18,031		15,738
Technical provisions Long term business provision	20	40,890		72,534		40,890		72,534	
Investment contract liabilities		-		1		-		1	
Claims outstanding		3,531		2,535		3,531		2,535	
Provision for bonuses and rebates		37		28		37		28	
			44,458		**75,098**		**44,458**		**75,098**
Technical provision for linked liabilities – insurance contracts	22		1,149		1,349		1,149		1,349
Technical provision for linked liabilities – investment contracts	22		295		346		295		346
Reinsurers' share of technical provisions			1,928		843		1,928		843
Provision for other risks and charges									
Derivatives	28		-		1,109		-		1,109
Other creditors including taxation and social security		381		397		329		354	
Accruals and deferred income		1,457		1,312		1,571		1,433	
			1,838		**1,709**		**1,900**		**1,787**
Net pension liability	21	-		389		-		389	
			-		389		-		389
			67,699		**96,541**		**67,761**		**96,659**

The information on pages 56 to 99 form an integral part of these financial statements.

These financial statements were approved by the Board on 28 June 2023.

Graham Singleton
Chief Executive



Nicola Moore
Company Secretary

Notes to the Financial Statements

For the year ended 31 December 2022

01. Accounting Policies

These accounting policies have been applied consistently in the preparation of the financial statements.

General information

The Society is a registered friendly society incorporated and domiciled in the United Kingdom. The address of its registered office is 11-12 Queen Square, Bristol, BS1 4NT.

Statement of compliance

The Group and Society financial statements of National Deposit Friendly Society Limited have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102"), Financial Reporting Standard 103, "Insurance Contracts" ("FRS 103") and the Friendly Societies Act 1992.

Basis of preparation

The financial statements have been prepared on a going concern basis. The Society's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report for the year. The Board has also considered the Society's financial position, its cash flows, liquidity position and capital position. The Society's policies and processes for managing capital are highlighted in Note 2 to the financial statements. The Society has adequate financial resources, supported by long-term relationships with its policyholders and suppliers.

The Directors believe that the Society is well placed to manage its business risks in respect of liquidity and cash flows, have considered stresses to the solvency and liquidity of the entity to 31 December 2024 and are satisfied that these appropriately demonstrate the resilience of the business after considering the stresses and any mitigating actions to manage such risks to 31 December 2024. The Society makes extensive use of reassurance to mitigate the impact of various business risks and from June 2023 this has included financial reassurance to mitigate the new business strain arising from writing increasing levels of new business. The product pricing allows for the economic cost of such financing which is transitionary whilst the in force portfolio grows to a level where new business strain becomes self-funded. The Directors have a reasonable expectation that the Society has adequate resources to continue in operational existence for a period to 31 December 2024. Accordingly, the Society continues to adopt the going concern basis in preparing the annual report and financial statements.

The financial statements have been prepared under the historical cost convention modified for fair value and in accordance with The Friendly Societies (Accounts and Related Provisions) Regulations 1994, and United Kingdom Generally Accepted Accounting Practice, specifically FRS 102 and FRS 103.

In preparing these financial statements the directors have considered the impact of the physical and transition risks of climate change and identified this as a principal risk as set out on page 13, but have concluded that it does not have a material impact on the recognition and measurement of the assets and liabilities in these financial statements as at 31 December 2022. The Group and Society assets are reported at fair value under FRS102 (as set out in note 13) and therefore utilise market prices at the period end. These market prices will include the current expectations of the impact of climate change upon these investments. Insurance liabilities are determined based upon experience of past insurable events, and so the impact of any future climate change will be limited to the use of more forward looking assumptions. Future valuations of assets may differ as the market responds to any impact or assesses the impact of current requirements differently and the frequency and magnitude of future insurable events linked to the effect of climate risks could change. We further recognise that government and societal responses to climate change risks are still developing, and may partially mitigate, fully mitigate or even overcompensate for the primary effects.

Basis of consolidation

The Group financial statements comprise the assets, liabilities and income and expenditure account transactions of the Society and its subsidiaries National Friendly Financial Solutions Limited ("NFFS") and National Friendly Software Solutions Limited ("NFSS"). The net results are included in the fund for future appropriations for the Group. The activities of the Society and Group are accounted for in the income statement and statement of comprehensive income.

Premiums

Premiums are accounted for when due for payment.

Insurance commission

Insurance commission represents the value of commission receivable to the Society's subsidiary, NFFS, recognised on the effective commencement or renewal date of the policy, with a small amount within the Society relating to an annual rebate on a Reinsurance Treaty. All commission received relates to insurance business transacted in the United Kingdom.

Reinsurance

The Society cedes reinsurance in the normal course of business. The cost of reinsurance is recognised in the income statement at the date of issue. Premiums ceded and claims reimbursed are presented on a gross basis in the income statement and balance sheet as appropriate.

Reinsurance assets primarily include balances due from reinsurance companies for ceded insurance contract liabilities. Reinsurance assets are measured as the fair value of the technical provisions of the policies subject to the reinsurance treaty.

If the technical provisions on policies with a quota share reinsurance treaty are negative then the reinsurer's share of these provisions can be a liability. Reinsurance liabilities represent future premiums and/or fees which will be ceded to reinsurers, in excess of future receipts from the reinsurer.

Realised and unrealised gains and losses

Realised investment gains and losses represent the difference between the sale proceeds and original cost. Unrealised investment gains and losses represent the net movement in the market value of investments during the year after allowing for realised gains and losses recognised in the income statement.

Investment return

Investment return comprises the investment income and fair value gains and losses derived from assets held at fair value through profit and loss, rental income and fair value gains and losses derived from investment property and interest income derived from cash and cash equivalents.

Investment income derived from assets held at fair value through profit and loss includes dividends and interest income. Dividends are accounted for on the date the shares become quoted ex-dividend. UK dividends are shown excluding their irrecoverable associated tax credit. Interest income is recognised on the effective interest rate basis. Income from rents and securities is taken into account on an accruals basis. Bank interest is accrued in the period in which it arises.

Claims

Maturity claims and annuities are charged against income when due for payment. Claim payments whose beneficiaries cannot be traced are held in a suspense liability for an appropriate period of time, depending on the age of the customer and the nature of the policy, and then released if still unclaimed. Surrenders are accounted for when paid or, if earlier, on the date when the policy ceases to be included within the calculation of the long-term business provision. Death claims and all other claims including Healthcare are accounted for when notified.

Long term business provision

The Long Term Business Provision is determined by the Society's Board and is calculated on a Solvency II basis. It is calculated to be consistent with the PRA Rulebook: Solvency II Firms Technical Provisions Instrument 2015.

The Solvency II provisions, on which the Long Term Business Provision is based, are defined as the sum of the Best Estimate of Liabilities and the Risk Margin. The best estimate and risk margin are calculated separately. The best estimate of liabilities is calculated on a policy by policy basis for all contracts accepted on risk at the valuation date using a cash flow approach and generally accepted actuarial practises, plus allowance for related liabilities which are calculated in aggregate across all policies. The calculations generate probability weighted cash flows for each monthly time period within a policy's contract boundary. The cash flows are discounted using the PRA's risk-free yield curve and thus make allowances for the time value of money. The best estimate can be either an overall liability or asset, depending on the

Notes to the Financial Statements (continued)

For the year ended 31 December 2022

01. Accounting Policies (continued)

underlying cashflows that underpin its calculation. In the instance where the net present value of premiums is greater than the net present value of claims and per policy expenses the best estimate would be an overall asset. The best estimate liability presented in the balance sheet reflects the overall net position and does not separate the positive and negative cashflows associated with different product types.

The total risk margin is calculated as the sum of the present values of the cost of capital rate applied to the Solvency Capital Requirement of a reference undertaking willing to take on the Society's insurance portfolio, in each future year until the obligations are extinguished and there is no remaining SCR.

The Long Term Business Provision reported in the Financial Statements does not take account of any transitional measures approved by the PRA in respect of the transition from Solvency I to Solvency II.

Bonuses

Bonuses charged to the long-term business technical account in a given year comprise new reversionary bonuses declared in respect of that year which are provided within the calculation of the long term business provision.

Claims outstanding

The outstanding claims reserve provides for all the estimated (based on actuarial calculations) Healthcare, Healthguard, Optimum and Heathcover claims payable as at 31 December and represents the estimated ultimate cost of settling all claims which have occurred up to the balance sheet date.

Depreciation

Properties

No depreciation has been provided on investment properties in accordance with Section 16 "Investment Property" of FRS 102.

Intangible assets

Costs are capitalised as intangible assets, where the outcome is assessed to be reasonably certain as regards viability and feasibility and they meet the criteria laid out in Section 17 "Property, Plant and Equipment" or Section 18 "Intangible Assets other than Goodwill" of FRS 102. Amortisation is charged once the economic benefits of the project start to be realised.

Intangible assets represent the intellectual property rights for computer software and a customer book acquired from a third party from which future revenue is expected. Intangible assets are held at cost less accumulated amortisation.

Computer Software is amortised on the straight line basis over its remaining useful economic life, which is 8 years. Software under Construction is not amortised until completed, but is reviewed for impairment at least annually.

The Customer Book is amortised on the straight line basis over its useful economic life, which is 10 years.

The Website is amortised on the straight line basis over its useful economic life, which is 3 years.

Tangible fixed assets and depreciation

Land and buildings

The owner occupied floors of 11-12 Queen Square, Bristol used by the Group and Society as a head office are held as land and buildings in tangible fixed assets in accordance with Section 17 "Property, Plant and Equipment" of FRS 102. The property is held at fair value at the balance sheet date with revaluation gains recognised through other comprehensive income.

Land and buildings are not depreciated as the opinion of the directors is that the depreciation is not material and the property is revalued annually on a fair value basis.

Other tangible fixed assets

Tangible fixed assets other than land and buildings are held at cost less accumulated depreciation.
Depreciation has been provided at the following rates calculated to write off each asset over its estimated useful life:

» Computer equipment is depreciated at 25% per annum on a straight line basis;
» Office equipment is depreciated at 12.5% per annum on a straight line basis.
» Motor vehicles are depreciated at 33.33% per annum on a straight line basis.

Acquisition costs

Acquisition costs represent commission payable and other related expense of acquiring insurance policies written during the financial year.

Operating leases

The Group leases office machinery and equipment under contracts of operating leases. The lease expenses are accounted for as an operating expense as incurred.

Project costs

Project costs comprise expenditure on business process improvements which are intended to deliver future financial benefits to the Group through reducing operating costs and/or creating operational efficiencies.

Pension costs

The Society operates a defined benefit pension scheme. This scheme closed to new entrants and future accrual on 31 May 2009. A pension asset or liability is calculated as the recoverable amount of the scheme's assets less the present value of the scheme's liabilities in accordance with the principles set out in the Section 28 "Employee Benefits" of FRS 102. The Society is currently making contributions to the scheme at the level agreed with the trustees with the objective of having sufficient assets to meet its liabilities. An asset is recognised on the basis of a reduction of future economic outflows to the scheme.

The pension cost for the scheme is analysed between current service cost, past service cost and net return on pension scheme. Current service cost is the actuarial calculated present value of the benefits earned by the active employees in each year. Past service costs relating to employee service in prior years arising in the current year as a result of the introduction of, or improvement to, retirement benefits, are recognised in the profit and loss account on a straight-line basis over the year in which the increase in benefits vest.

The actuarial gains and losses which arise from a valuation and from updating the latest actuarial valuation to reflect conditions at the balance sheet date are taken to the statement of comprehensive income for the year to the extent they are attributable to members. The attributable deferred taxation is shown separately in the statement of comprehensive income.

Payments made to the defined contribution scheme for current employees are charged as an expense as they fall due.

Taxation

Deferred tax is provided using the full provision method. Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date. It is calculated at rates expected to be applicable when the asset or liability crystallises on a non-discounted basis. Deferred tax assets are recognised only to the extent that there will be sufficient foreseeable future taxable profits from which the future reversal of timing differences can be deducted.

Investment in subsidiaries

Investments in subsidiary companies are held at fair value. The change in fair value through the year is recognised through "gain or loss on investment in subsidiary" in the income statement.

Fund for future appropriations

The fund for future appropriations incorporates amounts which have yet to be allocated to participating policyholders. Any surplus or deficit arising in the income statement or statement of comprehensive income is transferred to or from the fund on an annual basis. When circumstances are deemed to justify the distribution of surplus, surpluses are allocated by the directors to participating policyholders by way of bonuses. Any unallocated surplus is carried forward in the fund for future appropriations.

Notes to the Financial Statements (continued)

For the year ended 31 December 2022

01. Accounting Policies (continued)

Contract classification

The Society classifies its products for accounting purposes as insurance, investment or investment with discretionary participation features. Insurance contracts are those contracts that transfer significant insurance risk. Contracts that do not transfer significant insurance risk are investment contracts.

A discretionary participation feature is a contractual right held by a policyholder to receive additional payments as a supplement to guaranteed benefits:

» that are likely to be a significant proportion of the total contractual payments; and

» whose amount or timing is contractually at the discretion of the issuer and that are contractually based on:

- the performance of a specified pool of contracts, or a specified type of contract, or
- realised and/or unrealised investment returns on a specified type of contract, or
- the profit or loss of the company that issues the contracts.

Such contracts are more commonly known as "with-profits" or as "participating contracts".

Insurance contracts and participating investment contracts
The insurance and participating investment contract liabilities are determined annually in accordance with regulatory requirements.

The participating liabilities include an assessment of any future options and guarantees included in this business and are measured on a fair value basis.

The estimation techniques and assumptions are periodically reviewed, with any changes in estimates reflected in the income statement as they occur.

The long term business provision is calculated by the Society's Chief Actuary, having due regard to the actuarial principles laid down in the PRA Rulebook, and is approved by the Board.

Investment contracts

Investment contracts are those contracts that transfer financial risk with no significant insurance risk. These contracts are accounted for using deposit accounting. Premiums and claims are not recognised in the income statement in respect of these policies. The investment gain or loss on these policies is shown through the movement in the investment contract liabilities on the income statement and measured on a fair value basis.

Financial assets

The Society classifies its financial assets as fair value through the profit and loss or as loans and receivables. Assets held at fair value through the profit and loss are measured at fair value based on the active market price with gains and losses recognised in the Income Statement, whilst loans and receivables are held at amortised cost. This is in line with International Accounting Standard 39 "Financial Instruments" as allowed under Section 11 "Basic Financial Instruments" in FRS102. Financial assets are derecognised when the rights to receive future cash flows from the investments have expired or have been transferred and the Society has transferred substantially all risks and rewards of ownership. All financial assets are held at fair value through profit and loss other than mortgages, debtors arising from insurance operations, other debtors and accrued interest and rent which are held at amortised cost.

Investments

Listed securities are shown in the financial statements at bid price. Properties are shown in the financial statements at fair value.

Mortgages and loans are valued at amortised cost which is not materially different from the fair value of its future cash flows.

Derivatives

Previously the Society held some forward contracts for foreign currency exchange, these are no longer required following the de-risking of the Investment Portfolio. The Society also held some bond future contracts interest rate swap contracts. These derivatives were used to better match the duration of the fixed interest portfolio to its liabilities. Depending on whether the contract is in a favourable or adverse position they were classified as financial assets or financial liabilities respectively and were classified at fair value with any movements accounted for through the profit and loss. They were initially recognised and subsequently re-measured at their fair value. Changes in fair value were recognised through unrealised or realised gains and losses on the income statement.

All derivatives were carried as assets when fair value was positive and as liabilities when the fair value was negative. The derivatives were closed out prior to year end.

Cash flow statement

The Society, being a mutual life assurance company, is exempt from the requirement under Section 7 "Statement of Cash Flows" of FRS102 to produce a cash flow statement.

Key estimates and judgements

a. Technical Provisions - Valuation of investment and long-term insurance contracts

Technical provisions are calculated using policy data held on the Society's administration systems and assumptions set using internal and external data as inputs to actuarial valuation models. The assessment of the appropriate value of the technical provisions requires the Society to make significant judgements when determining the underlying assumptions. The principal economic assumption is the inflation rate for future expenses, while the principal non-economic assumption relates to future lapses. The non-economic assumptions are based on the Society's own experience. The valuation interest rates used to discount projected cash flows are a duration-specific risk-free yield curve specified by the PRA in the PRA Rulebook. Due to the long-term nature of these obligations, the estimates are subject to significant uncertainty. Further details on specific assumptions are provided in note 20 to these Financial Statements.

b. Valuation of Investment Properties

The Society owns a portfolio of Investment Properties which are held for long-term rental yield and capital growth. This portfolio is valued on a fair value basis on an annual basis by Society appointed Chartered Surveyors. The valuations have been prepared in accordance with the Royal Institution of Chartered Surveyors' Valuation – Professional Standards effective from 6th January 2014. In preparing these valuations, data and information available concerning rental yields, lease terms, voids and floor areas and enquiries within local market places have been used as contributing factors to each individual property's valuation. The most significant inputs into these valuations are the rental income and yield assumptions. Further information is provided in note 12.

c. Valuation of Financial Assets

The Society holds a number of financial assets such as equities, fixed income securities, derivatives, cash, mortgages and debtors. The Society has no financial assets held for trading, all investments are classified and valued at fair value. Equities, fixed income securities and derivatives are measured at market prices, or prices consistent with market ratings should no price be available. Mortgages and debtors are measured at amortised cost which is not materially different from the valuation of its future cash flows. Any unrealised or realised gains or losses are recognised in the Income Statement. Further details are provided in note 13.

d. Defined Benefit Pension Schemes

In determining the pension cost and the defined benefit obligation of the Society's defined benefit pension schemes, a number of assumptions are used. These assumptions include an appropriate discount rate, the level of salary escalation, price inflation and mortality rates. Further details are contained in note 21.

e. Valuation of Investment in Subsidiaries

Investment subsidiaries are held at fair value. The change in fair value through the year is recognised through the income statement. Judgement is required in assessing the fair values of the subsidiary companies which are not considered to be materially different from the net asset values in the respective subsidiary accounts.

Notes to the Financial Statements
(continued)

For the year ended 31 December 2022

02. Capital Management

The regulatory capital requirement for the Society is determined by the solvency regime set out in the PRA Rulebook. This is a risk-based approach to the assessment of capital requirements whereby Technical Provisions are calculated as the sum of the best estimate liabilities plus a risk margin. The Solvency Capital Requirement ("SCR") is the additional capital the Society is required to hold to withstand a set of adverse events (covering market, underwriting, counterparty and operational risks) with a 99.5% level of confidence. The Society aims to manage its capital to ensure that there is an appropriate level of surplus over the SCR, in line with its Solvency Risk Appetite. This is monitored formally through the Board and Risk & Compliance Committee on a quarterly basis and on an ongoing basis by the Actuarial Function.
The Society calculates its SCR in accordance with the Standard Formula. The liabilities are discounted using risk free discount rates prescribed by the PRA. These rates do not necessarily reflect the rates earned on the financial assets held by the Society.

The Society maintains a single long term business fund. The available capital for the fund is represented by the fund for future appropriations which represents the difference between the assets and liabilities of the Society and Group. For regulatory solvency purposes certain assets are deemed inadmissible for meeting the capital requirements. At the balance sheet date £0.4m (2021: £0.5m) of assets could not be included for regulatory capital purposes.

In addition, for statutory purposes under FRS 102 / 103, the Society calculates its FRS 102 / 103 liabilities on the same basis as for the regulatory solvency. The Society is eligible to use a Transitional Measure on the risk free Interest Rate (TMIR) for its regulatory solvency reporting to the PRA. The TMIR applied only to policies in force prior to 01/01/2016 and amortises over a 16-year period. At the balance sheet date, the TMIR adjustment is zero (2021: £0.3m).

The Capital Statement on the next page outlines the Society's Capital available for regulatory requirements. This is the Own Funds in the Solvency Balance Sheet. The impact of the TMIR is shown (nil at the balance sheet date).

Capital Statement

	Society	
	(Unaudited) 2022	(Unaudited) 2021
	£'000	£'000
Fund for future appropriations	18,031	15,738
Regulatory valuation adjustment	(435)	(526)
Transitional measures adjustment	-	325
Own Funds available to meet Solvency Capital Requirements	17,596	15,537

A reconciliation of the movements in the capital available to meet capital requirements at the start and end of the year is set out below:

	Society
	(Unaudited) 2022
	15,537
Available Own Funds at the start of the year	246
Model and methodology changes	(1,201)
Assumption changes	1,641
Change to the basis of the regulatory risk free yield curve	(325)
Capital strengthening actions	4,998
Inforce business movements	2,684
New business	(2,623)
One off/strategic expenses and expense overrun	(3,967)
Market movements	514
Other adjustments	92
Available Own Funds at the end of the year	**17,596**

Assumption Changes
A number of assumption changes have been made which overall resulted in a negative impact to Own Funds. The most significant change was an increase in mortality rates on the Guaranteed Partially Underwritten Life Assurance Product and an increase in morbidity rates across the Healthcare and Optimum products.

Mortality Experience has been materially worse than expected, although the underlying extent of this and how long lasting the trend might be is difficult to ascertain given the rapid growth of the book and also the impact of the COVID-19 pandemic and its aftermath.

Average health claims have increased significantly over 2022. Some additional strengthening has been allowed for, over and above that implied by the standard reference period, to reflect the expected continuation of some of the increase observed in 2022.

Pension Scheme revaluation
Following a re-investment exercise combined with favourable market movements, the Staff Superannuation Fund moved from a deficit position to a strong surplus position over 2022.

In Force Business Movements
Existing business continued to have a strong positive impact on Own Funds during the year.

CHAIR'S REVIEW
CHIEF EXECUTIVES REVIEW
STRATEGIC REPORT
CORPORATE GOVERNANCE REPORT
THE DIRECTORS' REPORT
AUDIT COMMITTEE REPORT
INVESTMENT COMMITTEE REPORT
RISK AND COMPLIANCE COMMITTEE REPORT
NOMINATIONS COMMITTEE REPORT
DIRECTORS' REMUNERATION REPORT
INDEPENDENT AUDITOR'S REPORT
CONSOLIDATED INCOME STATEMENT
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
CONSOLIDATED BALANCE SHEET
NOTES TO THE FINANCIAL STATEMENTS

Notes to the Financial Statements
(continued)

For the year ended 31 December 2022

02. Capital Management (continued)

New Business
Profitable new business written over 2022 has had a positive impact on Own Funds.

One offs/strategic expenses, and expense overrun
A number of one off expenses such as discretionary staff bonus payments and capital contributions made to National Friendly Financial Solutions plus expenses being greater than expected had an adverse impact on Own Funds.

Market Movements
The sharp rise in risk free rates over 2022 led to a fall in the value of the Society's bond holdings sitting within its Own Funds.

Impact of Mass Lapse Reinsurance
The Society executed a mass lapse reinsurance transaction on its Guaranteed Partially Underwritten Life Assurance product which resulted in a positive impact on Own Funds.

Options and guarantees
The Society has some With Profit retirement annuity contracts that have valuable Guaranteed Annuity Rates attached to them in a low interest rate environment.
In addition, there are some guarantees on mortgage endowments and With Profit bonds, although these are not material.

The net cost of guarantees is particularly sensitive to market risk and to longevity risk.

Assumptions used in the valuation of the Technical Provisions
The assumptions used in the valuation of the Technical Provisions, including those used to value options and guarantees, are determined by conducting an analysis of the Society's past experience and overlaying this with expert judgement.

Capital resource sensitivities
The Society's capital position is sensitive to changes in economic conditions and demographic assumptions, due to both changes in the value of the assets and the value of the liabilities. The main sensitivities arise from:

Market risk: The Society is exposed to reductions in the value of its assets.

The risk is reduced by matching fixed interest assets to the expected profile of the liabilities so that the assets and liabilities move in the same way under a fixed interest market stress scenario.

For With Profit business, the risk to available capital is further reduced by the fact that asset shares will reduce in a market risk scenario. This reduces exposure under the equity and property stresses in particular.

Lapse risk: The Society is exposed to the risk that lapses are higher or lower than expected. Whether this increases or reduces available capital varies by product. The highest impact Standard Formula lapse risk is the risk of a mass lapse scenario.

This risk is partly mitigated by using mass lapse reinsurance for the Guaranteed Partially Underwritten Life Assurance business, but the Society is exposed to residual mass lapse risk on this product, and on other products.

In the event of an adverse lapse scenario, management actions can be taken on some legacy Health contracts to increase the available capital. These are premium increases, increases to "own share" percentages (the proportion of claims that are paid by the members deposit account) and reduction to asset shares under market stresses.

New Health contracts have annually reviewable premiums to reduce exposure to underwriting risks.

Longevity risk: The Society is exposed to the risk that mortality rates reduce, particularly on annuity business. This risk is largely mitigated using reinsurance for the Immediate Needs Annuity business, but the Society is exposed to residual longevity risk on this product, and on other products.

Expense risk: The Society is exposed to the risk that expenses are higher than expected. This could materialise by lower than expected volumes of new business meaning the per policy expenses are increased.

The management actions as described under the lapse risk section can equally be applied in an expense risk scenario to increase the available capital.
In addition, an expense stress in relation to With Profit business can be charged to asset shares, further reducing the impact.

Morbidity risk: The Society is exposed to the risk that there are more morbidity claims than expected, or that they are of higher value.

This risk is partly mitigated by Quota Share and Excess of Loss reinsurance arrangements on some healthcare products, but the Society is exposed to residual morbidity risk on other products.

The management actions as described under the lapse risk section can equally be applied in a morbidity risk scenario to increase the available capital.

Mortality risk: The Society is exposed to the risk that mortality increases. This risk has increased over 2022 with Guaranteed Life Assurance contracts being sold. The Society's exposure to mortality risk is expected to increase as we continue to sell these contracts.

The following table shows the sensitivity of the Society's available Own Funds to changes in assumptions. The assumption changes shown are those as per the Solvency II standard formula.

	Society Impact (Unaudited) £'000
Property risk *Decrease in property values of 25%*	**(803)**
Interest rate risk *Increase in risk free yield curve as specified by the PRA (+1.2%)* *Decrease in risk free yield curve as specified by the PRA (c.-0.9%**)*	 (133) (1,213)
Equity risk *Decrease in equity values of 36.1%*	(233)
Credit spread risk *Decrease in corporate bond values of 6.2%*	(276)
Lapse risk *** *Increase in lapse rates of 50%* *Decrease in lapse rates of 50%* *Mass lapse of 40%*	 (2,408) (388) (8,764)
Longevity risk *Decrease in mortality rates of 20%*	(1,021)
Expense risk *Increase in per policy expenses of 10% and expense inflation of 1% p.a.*	(1,789)
Morbidity risk *Increase in morbidity rates of 5% and claim inflation of 1% p.a.*	(1,064)
Mortality risk *Increase in mortality rates of 15%*	(3,564)

*** For a 10-year term, which is the approximate average duration of the Society's liabilities*

**** The PRA Rulebook requires that the lapse stresses are applied only to lines of business where the stress would result in a decrease in Own Funds. As such, all of the lapse stresses reduce the available Own Funds.*

Notes to the Financial Statements (continued)

For the year ended 31 December 2022

03. Risk Management

The key risks that the Society and Group are exposed to and the way the Society and Group manage them is set out as follows:

Insurance risk

Insurance risk is the risk that arises from the inherent uncertainties as to the occurrence, amount and timing of insurance liabilities. Long term insurance risk arises from morbidity, persistency, mortality and expense variances. Systems are in place to measure, monitor and mitigate exposure to all these risks.

The valuation assumptions have been recommended by the Chief Actuary and approved by the Board. See note 20 for details of assumptions used in the calculation of the long-term business provision.

Financial risk

The Society is exposed to a range of financial risks through its financial assets, financial liabilities, reinsurance assets and insurance liabilities. The most important components of this financial risk are market risk (including interest rate risk, inflation risk, exchange rate risk and equity price risk), credit risk and liquidity risk. The Society also faces financial risks in respect of property valuations, concentration of investments and counter-party exposures.

Each of the exposures to risk are analysed regularly to assess their likely impact and probability.

i. Market risk

Market risk is the risk that as a result of market movements, the Society may be exposed to fluctuations in the value of its assets, the amount of its liabilities, or the income from its assets. Sources of general market risk include movements in interest rates, equities, exchange rates and real estate prices.

The Society has a low appetite for market risks and this is reflected in its investment strategy. The investment strategy is kept under regular review as part of the capital management plan.

a) Interest rate risk

Changes in interest rates impact the value of the Society's assets and liabilities. The risk to the Fund for Future Appropriation from changes in interest rates is reduced by close matching of assets to liabilities.

b) Inflation risk

The Society is exposed to increasing inflation through the inflation linked pension benefits payable through the Staff Superannuation Fund, through its own expense base and through Income Protection contracts which have inflation linked benefits. This risk is managed through a combination of holding some inflation linked assets, and the ability to vary premiums on some contracts (including policy fees) in line with inflation.

c) Exchange rate risk

Previously the Society held a number of fixed interest investments in foreign currencies which presented an exchange rate risk that was mitigated by holding Forward Contracts for foreign exchange as a natural hedge against the exchange rate risk. Following a de-risking of the Society's investment portfolio in the year, the Society no longer holds any fixed interest investments in foreign currencies. The Society's holdings shown by currencies are listed overleaf:

	Group & Society	
	2022	2021
Market Value - Equities	**£'000**	**£'000**
UK pound	1,348	1,403
	1,348	**1,403**

	Group & Society	
	2022	2021
Market Value - Fixed Interest	**£'000**	**£'000**
UK pound	44,817	65,286
	44,817	**65,286**

Exchange rate risk was previously hedged so a small change in the exchange rate would lead to a negligible change in the value of assets. All liabilities are denominated in sterling so a change in exchange rate will have no effect on the value of liabilities.

d) Equity price risk

Holdings in equities are by their nature subject to market movement. In order to mitigate this risk, the Society has engaged an external investment portfolio manager and the Investment Committee regularly reviews the level of equities notionally allocated to with profit life business to ensure the level of risk remains appropriate.

ii. Credit risk

Credit risk is the risk of loss incurred whenever a counterparty fails to perform its contractual obligations including failure to perform them in a timely manner.

The Society has a low appetite for credit risk on cash and cash is spread over a number of highly rated banks with a maximum limit on the exposure to any one financial institution.

The terms of the investment funds require an appropriate spread of holdings within specified parameters, with the majority of assets being 'A' rated bonds or higher. There are also limits on the maximum exposure to any single counterparty and on the level of exposure to lower rated bonds.

This results in a relatively modest exposure to lower rated and possibly riskier assets within the investment funds. However, the Society considers regular reviews from the fund manager so that the risk within the funds remains appropriate relative to the Society's appetite for credit risk.

The Society currently has a low level of exposure to re-assurer security, due to the nature of the reinsurance arrangements in place. Therefore, there are no specific actions envisaged to manage the risks in this section.

Notes to the Financial Statements
(continued)

For the year ended 31 December 2022

03. Risk Management (continued)

	Group	
	2022	2021
The assets bearing credit risk are summarised and analysed by credit rating below:	**£'000**	**£'000**
Listed fixed interest securities	44,817	65,286
Loans and receivables (Note 14)	958	2,216
Deposits with credit institutions	1,737	4,025
Cash at bank and in hand	690	6,384
	48,202	**77,911**
AAA	49	65
AA	35,630	50,372
A	9,003	21,738
BBB	2,644	4,109
Below BBB	-	-
Not rated	876	1,627
	48,202	**77,911**

	Society	
	2022	2021
The assets bearing credit risk are summarised and analysed by credit rating below:	**£'000**	**£'000**
Listed fixed interest securities	44,817	65,286
Loans and receivables (Note 14)	904	2,178
Deposits with credit institutions	1,737	4,025
Cash at bank and in hand	654	6,278
	48,112	**77,767**
AAA	49	65
AA	35,595	50,265
A	9,003	21,738
BBB	2,644	4,109
Below BBB	-	-
Not rated	821	1,590
	48,112	**77,767**

iii. Liquidity risk

Liquidity risk is the risk that the Society either does not have available sufficient financial resources to enable it to meet its obligations as they fall due, or can secure such resources only at excessive cost. For example, liquidity risk can arise from mismatching between expected asset and liability cash flows or from the inability to sell assets quickly.

The Society has a low appetite for liquidity risk and the risk is controlled by maintaining a prudent cash holding and primarily investing in liquid assets.
The Society also holds some interest rate swaps to manage the duration of the fixed interest portfolio, these were disposed of prior to the year end 2022. The Society will continue to monitor its emerging cash flow requirements.

Financial assets held over five years are long-term assets aiming to match the duration of liabilities. It is not possible to invest in fixed income investments with no maturity date. However, the Society carries out regular checks so that assets and liabilities are well matched by duration.

Notes to the Financial Statements (continued)

For the year ended 31 December 2022

03. Risk Management (continued)

	Group				
	No maturity date	Within 1 year	1 - 5 years	Over 5 years	Total
Financial and insurance liabilities at 31/12/22	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Fund for future appropriation	18,031	-	-	-	**18,031**
Long term business provision	-	1,788	654	38,448	**40,890**
Investment contract liabilities	-	-	-	-	**-**
Claims outstanding	-	3,531	-	-	**3,531**
Provision for bonuses and rebates	-	10	15	12	**37**
Technical provision for linked liabilities – insurance contracts	-	1,149	-	-	**1,149**
Technical provision for linked liabilities – investment contracts	-	295	-	-	**295**
Reinsurers' share of technical provisions	-	64	(153)	2,017	**1,928**
Derivatives	-	-	-	-	**-**
Defined benefit pension liability	-	-	-	-	**-**
Other creditors including taxation and social security	-	381	-	-	**381**
Accruals and deferred income	-	1,457	-	-	**1,457**
Total financial and insurance liabilities	**18,031**	**8,675**	**516**	**40,477**	**67,699**

	Group				
	No maturity date	Within 1 year	1 - 5 years	Over 5 years	Total
Financial and insurance liabilities at 31/12/21	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Fund for future appropriation	15,698	-	-	-	**15,698**
Long term business provision	-	2,245	1,204	69,085	**72,534**
Investment contract liabilities	-	1	-	-	**1**
Claims outstanding	-	2,535	-	-	**2,535**
Provision for bonuses and rebates	-	7	11	10	**28**
Technical provision for linked liabilities – insurance contracts	-	1,349	-	-	**1,349**
Technical provision for linked liabilities – investment contracts	-	346	-	-	**346**
Reinsurers' share of technical provisions	-	-	843	-	**843**
Derivatives	-	1,109	-	-	**1,109**
Defined benefit pension liability	-	-	-	389	**389**
Other creditors including taxation and social security	-	397	-	-	**397**
Accruals and deferred income	-	1,312	-	-	**1,312**
Total financial and insurance liabilities	**15,698**	**9,301**	**2,058**	**69,484**	**96,541**

	Group				
	No maturity date	Within 1 year	1 - 5 years	Over 5 years	Total
Financial assets at 31/12/22	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Equity investments	1,348	-	-	-	**1,348**
Fixed interest securities	-	3,687	12,496	28,633	**44,816**
Derivatives	-	-	-	-	**-**
Deposits with credit institutions	-	1,737	-	-	**1,737**
Mortgages	47	2	1	-	**50**
Assets held to cover linked liabilities	1,513	-	-	-	**1,513**
Debtors arising from direct insurance operations	-	132	-	-	**132**
Other debtors	-	173	-	-	**173**
Cash at bank and in hand	690	-	-	-	**690**
Accrued interest and rent	-	603	-	-	**603**
Total financial assets	**3,598**	**6,334**	**12,497**	**28,633**	**51,062**

	Group				
	No maturity date	Within 1 year	1 - 5 years	Over 5 years	Total
Financial assets at 31/12/21	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Equity investments	1,403	-	-	-	**1,403**
Fixed interest securities	-	2,176	7,823	55,287	**65,286**
Derivatives	-	-	-	-	**-**
Deposits with credit institutions	-	4,025	-	-	**4,025**
Mortgages	44	2	5	-	**51**
Assets held to cover linked liabilities	1,780	-	-	-	**1,780**
Debtors arising from direct insurance operations	-	113	-	-	**113**
Other debtors	-	734	-	-	**734**
Cash at bank and in hand	6,384	-	-	-	**6,384**
Accrued interest and rent	-	1,318	-	-	**1,318**
Total financial assets	**9,611**	**8,368**	**7,828**	**55,287**	**81,094**

Notes to the Financial Statements
(continued)

For the year ended 31 December 2022

03. Risk Management (continued)

	Society				
	No maturity date	Within 1 year	1 - 5 years	Over 5 years	Total
Financial and insurance liabilities at 31/12/22	£'000	£'000	£'000	£'000	£'000
Fund for future appropriation	18,031	-	-	-	**18,031**
Long term business provision	-	1,788	654	38,448	**40,890**
Investment contract liabilities	-	-	-	-	**-**
Claims outstanding	-	3,531	-	-	**3,531**
Provision for bonuses and rebates	-	10	15	12	**37**
Technical provision for linked liabilities – insurance contracts	-	1,149	-	-	**1,149**
Technical provision for linked liabilities – investment contracts	-	295	-	-	**295**
Reinsurers' share of technical provisions	-	64	(153)	2,017	**1,928**
Derivatives	-	-	-	-	**-**
Defined benefit pension liability	-	-	-	-	**-**
Other creditors including taxation and social security	-	329	-	-	**329**
Accruals and deferred income	-	1,571	-	-	**1,571**
Total financial and insurance liabilities	**18,031**	**8,737**	**516**	**40,477**	**67,761**

	Society				
	No maturity date	Within 1 year	1 - 5 years	Over 5 years	Total
Financial and insurance liabilities at 31/12/21	£'000	£'000	£'000	£'000	£'000
Fund for future appropriation	15,738	-	-	-	**15,738**
Long term business provision	-	2,245	1,204	69,085	**72,534**
Investment contract liabilities	-	1	-	-	**1**
Claims outstanding	-	2,535	-	-	**2,535**
Provision for bonuses and rebates	-	7	11	10	**28**
Technical provision for linked liabilities – insurance contracts	-	1,349	-	-	**1,349**
Technical provision for linked liabilities – investment contracts	-	346	-	-	**346**
Reinsurers' share of technical provisions	-	-	843	-	**843**
Derivatives	-	1,109	-	-	**1,109**
Defined benefit pension liability	-	-	-	389	**389**
Other creditors including taxation and social security	-	354	-	-	**354**
Accruals and deferred income	-	1,433	-	-	**1,433**
Total financial and insurance liabilities	**15,738**	**9,379**	**2,058**	**69,484**	**96,659**

	Society				
	No maturity date	Within 1 year	1 - 5 years	Over 5 years	Total
Financial assets at 31/12/22	£'000	£'000	£'000	£'000	£'000
Equity investments	1,348	-	-	-	**1,348**
Fixed interest securities	-	3,687	12,496	28,633	**44,816**
Deposits with credit institutions	-	1,737	-	-	**1,737**
Mortgages	47	2	1	-	**50**
Assets held to cover linked liabilities	1,513	-	-	-	**1,513**
Debtors arising from direct insurance operations	-	78	-	-	**78**
Other debtors	-	173	-	-	**173**
Cash at bank and in hand	654	-	-	-	**654**
Accrued interest and rent	-	603	-	-	**603**
Total financial assets	**3,562**	**6,280**	**12,497**	**28,633**	**50,972**

	Society				
	No maturity date	Within 1 year	1 - 5 years	Over 5 years	Total
Financial assets at 31/12/21	£'000	£'000	£'000	£'000	£'000
Equity investments	1,403	-	-	-	**1,403**
Fixed interest securities	-	2,176	7,823	55,287	**65,286**
Deposits with credit institutions	-	4,025	-	-	**4,025**
Mortgages	44	2	5	-	**51**
Assets held to cover linked liabilities	1,780	-	-	-	**1,780**
Debtors arising from direct insurance operations	-	75	-	-	**75**
Other debtors	-	734	-	-	**734**
Cash at bank and in hand	6,278	-	-	-	**6,278**
Accrued interest and rent	-	1,318	-	-	**1,318**
Total financial assets	**9,505**	**8,330**	**7,828**	**55,287**	**80,950**

Notes to the Financial Statements
(continued)

For the year ended 31 December 2022

03. Risk Management (continued)

Fair value estimation

The basis for determining the fair value hierarchy is as follows:

Level 1 – Valued using unadjusted quoted price in active markets for identical financial instruments.
Level 2 – Valued using techniques based significantly on observed market data.
Level 3 – Valued using techniques incorporating information other than observable market data.

Equity Investments

The Society invests in equity instruments which are actively traded on public stock exchanges with readily available active prices on a regular basis. Such instruments are classified as Level 1. The value is determined with reference to the latest available market price at the valuation point.

Fixed Interest Securities

Fixed interest securities are made up of debt securities issued by sovereign governments ("gilts") and debt securities issued by corporate entities ("corporate bonds"). Gilts are highly liquid and traded in active markets resulting in a Level 1 classification. Their value is determined with reference to the latest available market price prevailing at the valuation point. Corporate bonds are Level 2 instruments as there is not sufficient third party trading data to justify Level 1 classification. Their value is determined with reference, where possible, to at least two external third party price quotations. This ensures the price used is independent and verifiable.

Derivatives

The Society previously held interest rate swaps, disposed of prior to the 2022 year end. For Interest rate swaps the most frequently applied valuation techniques include forward pricing and swap models, using present value calculations by estimating future cash flows and discounting them with the appropriate yield curves incorporating funding costs relevant for the position. These contracts are generally Level 2.

Assets held to cover linked liabilities

Assets held to cover linked liabilities consist of equity instruments held in funds which are measured based on their published net asset value they are classified as Level 2.

The principal financial assets held at 31 December 2022, analysed by their fair value hierarchies are:

	Level 1	Level 2	Level 3	Total
Assets 2022: Financial assets at fair value through the profit and loss	£'000	£'000	£'000	£'000
- Equity investments	1,348	-	-	1,348
- Fixed interest securities	34,763	10,053	-	44,816
- Assets held to cover linked liabilities	-	1,513	-	1,513
Total assets	**36,111**	**11,566**	**-**	**47,677**

The principal financial assets held at 31 December 2021, analysed by their fair value hierarchies were:

	Level 1	Level 2	Level 3	Total
Assets 2021: Financial assets at fair value through the profit and loss	£'000	£'000	£'000	£'000
- Equity investments	1,403	-	-	1,403
- Fixed interest securities	48,444	16,842	-	65,286
- Assets held to cover linked liabilities	-	1,780	-	1,780
Total assets	**49,847**	**18,622**	**-**	**68,469**

The principal financial liabilities held at 31 December 2022, analysed by their fair value hierarchies are:

	Level 1	Level 2	Level 3	Total
Liabilities 2022: Financial liabilities at fair value through the profit and loss	£'000	£'000	£'000	£'000
- Investment contract liabilities	-	-	-	-
- Investment contracts on linked liability fund	-	295	-	295
- Derivatives	-	-	-	-
Total liabilities	**-**	**295**	**-**	**295**

The principal financial liabilities held at 31 December 2021, analysed by their fair value hierarchies were:

	Level 1	Level 2	Level 3	Total
Liabilities 2021: Financial liabilities at fair value through the profit and loss	£'000	£'000	£'000	£'000
- Investment contract liabilities	-	1	-	1
- Investment contracts on linked liability fund	-	346	-	346
- Derivatives	-	1,109	-	1,109
Total liabilities	**-**	**1,456**	**-**	**1,456**

Notes to the Financial Statements
(continued)

For the year ended 31 December 2022

04. Gross premiums written and payments to deposit

	Group & Society					
	2022 Periodic	2022 Single	2022 Total	2021 Periodic	2021 Single	2021 Total
	£'000	£'000	£'000	£'000	£'000	£'000
Assurance	6,429	-	6,429	5,433	-	5,433
Income Protection	224	-	224	40	-	40
Immediate needs annuities	-	11,581	11,581	-	8,651	8,651
Bonds and other single premiums	-	178	178	-	266	266
Healthcare policies	7,287	-	7,287	7,195	-	7,195
Payments to deposit	370	-	370	443	-	443
Unit linked	23	-	23	24	-	24
	14,333	11,759	26,092	13,135	8,917	22,052

All business is direct insurance

The gross new premiums written in the year are detailed below:

	Group & Society					
	2022 Periodic	2022 Single	2022 Total	2021 Periodic	2021 Single	2021 Total
Gross new premiums written	£'000	£'000	£'000	£'000	£'000	£'000
Assurance	3,762	-	3,762	2,356	-	2,356
Income Protection	381	-	381	40	-	40
Immediate needs annuities	-	11,581	11,581	-	8,651	8,651
Bonds and other single premiums	-	178	178	-	266	266
Healthcare policies	1,084	-	1,084	846	-	846
	5,227	11,759	16,986	3,242	8,917	12,159

Gross new business premiums consist of the annual amount due for regular premium policies, regardless of whether such amounts relate in part or in whole to the next financial year, and the total amount due for single premium policies.

The Society only transacts long term business within the United Kingdom.

05. Investment Income

	Group		Society	
	2022	2021	2022	2021
	£'000	£'000	£'000	£'000
Income from land and buildings	**624**	**1,135**	**624**	**1,135**
Fixed interest stocks	1,338	1,634	1,338	1,634
Ordinary shares	40	201	40	201
Income from investments at fair value through profit and loss	**1,378**	**1,835**	**1,378**	**1,835**
Bank interest	27	5	27	5
Mortgages	2	2	2	2
Income from other investments	**29**	**7**	**29**	**7**
Income from investments	**2,031**	**2,977**	**2,031**	**2,977**
Net gains on realisation of land and buildings	(17)	39	(17)	39
Net gains on realisation of investments at fair value through profit and loss	(11,367)	808	(11,367)	808
Net gains on realisation of assets held to cover linked liabilities at fair value through profit and loss	-	54	-	54
Net gains on realisation of investments	**(11,384)**	**901**	**(11,384)**	**901**
Investment income	**(9,353)**	**3,878**	**(9,353)**	**3,878**
Net unrealised gains/(losses) on investments				
- Land and buildings	(1,060)	991	(1,060)	991
- Investments at fair value through profit and loss	(9,729)	(6,417)	(9,729)	(6,417)
- Assets held to cover linked liabilities at fair value through profit and loss	(244)	200	(244)	200
	(11,033)	**(5,226)**	**(11,033)**	**(5,226)**
Total investment return	**(20,386)**	**(1,348)**	**(20,386)**	**(1,348)**

There is no interest expense in respect of financial liabilities not at fair value through profit and loss.

Notes to the Financial Statements
(continued)

For the year ended 31 December 2022

06. Other technical income

	Group		Society	
	2022	2021	2022	2021
	£'000	£'000	£'000	£'000
Insurance commission	516	522	1	1
Other income	22	34	22	34
	538	**556**	**23**	**35**

07. Net operating expenses

	Group		Society	
	2022	2021	2022	2021
	£'000	£'000	£'000	£'000
a) Included in operating expenses are:				
Fees payable to external auditors:				
Audit of the Group and Society financial statements	311	221	306	216
Non-recurring fees in respect of the prior year	100	-	100	-
Fees payable to internal auditors in respect of:				
Internal audit	164	87	164	87
Actuarial fees	155	101	155	101
Depreciation of tangible assets	75	64	75	64
Amortisation of intangible assets	344	343	-	-
(b) Other technical charges – project costs:				
Distribution	15	55	-	-
Systems and processing	-	1	-	1
Total project costs	**15**	**56**	**-**	**1**

08. Investment expenses

	Group		Society	
	2022	2021	2022	2021
	£'000	£'000	£'000	£'000
Investment management expenses	222	176	222	176
Investment property direct costs	455	415	455	415
	677	**591**	**677**	**591**

09. Staff costs

	Group		Society	
	2022	2021	2022	2021
Average monthly number of employees:				
Administration	35	41	35	41
Distribution	40	35	28	25
	75	**76**	**63**	**66**

The average full-time equivalent is 73 (2021: 74) for the Group and 61 (2021: 64) for the Society. This excludes Non-Executive Directors of 4 (2021: 4).

	Group		Society	
	2022	2021	2022	2021
	£'000	£'000	£'000	£'000
Wages and salaries (inc. commission)	4,213	3,398	3,955	3,051
Social security costs	505	370	477	338
Pension costs	267	240	250	216
	4,985	**4,008**	**4,682**	**3,605**

This includes Directors' emoluments totalling £590,246 (2021: £592,401). Details of Directors' remuneration are set out on page 41.

CHAIR'S REVIEW
CHIEF EXECUTIVES REVIEW
STRATEGIC REPORT
CORPORATE GOVERNANCE REPORT
THE DIRECTORS' REPORT
AUDIT COMMITTEE REPORT
INVESTMENT COMMITTEE REPORT
RISK AND COMPLIANCE COMMITTEE REPORT
NOMINATIONS COMMITTEE REPORT
DIRECTORS' REMUNERATION REPORT
INDEPENDENT AUDITOR'S REPORT
CONSOLIDATED INCOME STATEMENT
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
CONSOLIDATED BALANCE SHEET
NOTES TO THE FINANCIAL STATEMENTS

Notes to the Financial Statements (continued)

For the year ended 31 December 2022

10. Directors' Emoluments

	Group & Society	
	2022	2021
	£'000	£'000
Aggregate emoluments	590	592

There are no retirement benefits accruing for Executive Directors as at 31 December 2022 (2021: none) under a defined benefit scheme. The aggregate amount of pension contribution made by the Society to a defined contribution scheme was £18,714 (2021: £16,312).

	Group & Society	
	2022	2021
Highest paid Director	£'000	£'000
Total emoluments	210	191
Defined benefit scheme: Pension accrued during the year	-	-
Defined contribution scheme: Contributions made by the Society	-	-

11. Taxation

	Group		Society	
	2022	2021	2022	2021
(a) Tax attributable to long term business	£'000	£'000	£'000	£'000
Tax (credited)/charged in the long-term business technical account comprises: **Current tax**				
UK corporation tax	-	-	-	-
Prior year adjustments	6	63	6	63
Total current tax	6	63	6	63
Deferred tax				
Origination and reversal of timing differences	-	13	-	-
Total deferred tax	-	13	-	-
Total tax credited in the long-term business technical account	6	76	6	63

	Group		Society	
	2022	2021	2022	2021
(b) Factors that may affect future tax charges	£'000	£'000	£'000	£'000
The deferred tax assets which have not been recognised due to the uncertainty of their recoverability in the foreseeable future comprise: Realised and unrealised capital losses	164	29	164	29
Expenses deductible in future years	838	239	838	239
Trade losses	1,568	1,397	-	-
Short term timing differences	3	4	-	-
Deferred tax asset not recognised	2,573	1,669	1,002	268

The tax charge for the Society which pays tax on its Basic Life Assurance and General Annuity Business ("BLAGAB") is provided at a rate of 20% (2021: 20%) computed in accordance with the legislation applicable to mutual life assurance companies whereby no tax is charged on pension business profits or permanent health insurance business profits. There is no tax on exempt Friendly Society business.

For subsidiaries of the Group, tax is provided at a rate of 19% (2021: 19%). Legislation to increase the main rate of corporation tax from 19% to 25% from 1 April 2023 was substantively enacted on 24 May 2021 and deferred taxes have been measured at 25% for temporary differences that are expected to reverse on or after 1 April 2023.

The tax expense for the subsidiaries is affected by current tax and the non-recognition of current year tax losses, as well as other timing differences. A reconciliation of the total tax expense can be found in the individual statutory accounts in each of National Deposit Friendly Societies' subsidiaries where material differences between accounting and taxable profits arise.

Unrecognised deferred tax assets may be realised, and therefore reduce future tax payable, when net gains chargeable to corporation tax are realised or when there is sufficient taxable income with which to offset carried forward expenses and/or losses. This will therefore depend substantially upon future movements in the stock market and on future taxable income which cannot be predicted with certainty. There are unused gross capital losses of £1,148,509 (2021: £1,146,599).

Expenses deductible in the Society in future periods are primarily driven by excess management expenses carried forward of £1,752,581 (2021: £878,217 and loan relationship deficits carried forward of £2,815,058 (2021: £270,194). The Pension Scheme surplus gives rise to £475,040 (2021: £267) of potential future taxable profit. Trade losses not recognised are made up of £6,270,391 (2021: £5,585,472) of trading losses incurred in the subsidiaries.

Notes to the Financial Statements
(continued)

For the year ended 31 December 2022

11. Taxation (continued)

	Group		Society	
	2022	2021	2022	2021
(c) Balance sheet The deferred tax balance included within other assets comprises:	£'000	£'000	£'000	£'000
Realised capital losses	90	200	90	200
Excess management expenses	95	-	95	-
Unrealised capital gains	(90)	(200)	(90)	(200)
Pension scheme surplus	(95)	-	(95)	-
Trade losses	-	-	-	-
Undiscounted deferred tax asset balance	-	-	-	-
(d) Reconciliation of deferred taxation balances				
Opening deferred tax asset	-	13	-	-
(Charge)/credit to income statement	-	(13)	-	-
Charge to statement of comprehensive income	-	-	-	-
	-	-	-	-

12. Investments Land and buildings

	Group		Society	
	2022	2022	2022	2022
Freehold investment properties	£'000 Cost	£'000 Valuation	£'000 Cost	£'000 Valuation
At 1 January	5,788	7,650	5,788	7,650
Additions	71	71	71	71
Transfer from owner occupied	185	400	185	400
Net losses on revaluation	-	(970)	-	(970)
At 31 December	6,044	7,151	6,044	7,151
Long leasehold properties				
At 1 January	1,831	1,390	1,831	1,390
Net losses on revaluation	-	(90)	-	(90)
At 31 December	1,831	1,300	1,831	1,300
Total freehold and long leasehold investment properties: At 31 December	7,875	8,451	7,875	8,451

The Society's properties are included at Fair Value. The Properties are valued by Mellersh and Harding LLP as at 31st December 2022 in accordance with the requirements of the Royal Institution of Chartered Surveyors' Valuation - Professional Standards effective from 6th January 2014.

Under the fair value measurement hierarchy, investment properties are classed as level 3 as they are valued using techniques incorporating information other than observable data.

Notes to the Financial Statements
(continued)

For the year ended 31 December 2022

13. Other financial investments

	Group & Society			
	2022	2022	2021	2021
	£'000 Cost	£'000 Valuation	£'000 Cost	£'000 Valuation
Fixed interest securities	52,987	44,816	62,712	65,286
Listed shares	1,384	1,348	1,345	1,403
Deposits with credit institutions	1,737	1,737	4,025	4,025
Mortgages	50	50	51	51
	56,158	47,951	68,133	70,765

Of the fixed interest securities £7,636,948 (2021: £8,226,346) relates to overseas fixed interest securities, with the remainder relating to UK fixed interest securities.

Of the listed shares £nil (2021: £nil) relates to overseas investments, with the remainder relating to UK investments.

Included within deposits with credit institutions is £nil (2021: £1,280,267) which related to cash in a cash margin account which enabled the Society to enter into the derivative contracts. This amount was held with the clearing house for the life of the contracts and refunded if market movements meant that the contract was favourable and used to pay for the liability if it was adverse.

14. Financial assets

	Group			
	2022	2022	2021	2021
Financial assets at fair value through profit and loss	£'000 Cost	£'000 Valuation	£'000 Cost	£'000 Valuation
Designated upon initial recognition	57,705	50,104	75,373	78,878
	57,705	**50,104**	**75,373**	**78,878**
Loans and receivables	958	958	2,216	2,216
Total financial assets	**58,663**	**51,062**	**77,589**	**81,094**
Included in the balance sheet as:				
Listed fixed interest securities	52,987	44,816	62,712	65,286
Listed shares	1,384	1,348	1,345	1,403
Deposits with credit institutions	1,737	1,737	4,025	4,025
Mortgages	50	50	51	51
Other financial investments (Note 13)	**56,158**	**47,951**	**68,133**	**70,765**
Assets held to cover linked liabilities (Note 16)	907	1,513	907	1,780
Debtors arising from direct insurance operations	132	132	113	113
Other debtors	173	173	734	734
Cash at bank and in hand	690	690	6,384	6,384
Accrued interest and rent	603	603	1,318	1,318
Total financial assets	**58,663**	**51,062**	**77,589**	**81,094**

	Society			
	2022	2022	2021	2021
Financial assets at fair value through profit and loss	£'000 Cost	£'000 Valuation	£'000 Cost	£'000 Valuation
Designated upon initial recognition	57,669	50,068	75,266	78,772
	57,669	**50,068**	**75,266**	**78,772**
Loans and receivables	904	904	2,179	2,178
Total financial assets	**58,573**	**50,972**	**77,445**	**80,950**
Included in the balance sheet as:				
Listed fixed interest securities	52,987	44,816	62,712	65,286
Listed shares	1,384	1,348	1,345	1,403
Deposits with credit institutions	1,737	1,737	4,025	4,025
Mortgages	50	50	51	51
Other financial investments (Note 13)	**56,158**	**47,951**	**68,133**	**70,765**
Assets held to cover linked liabilities (Note 16)	907	1,513	907	1,780
Debtors arising from direct insurance operations	78	78	75	75
Other debtors	173	173	734	734
Cash at bank and in hand	654	654	6,278	6,278
Accrued interest and rent	603	603	1,318	1,318
Total financial assets	**58,573**	**50,972**	**77,445**	**80,950**

Notes to the Financial Statements
(continued)

For the year ended 31 December 2022

15. Financial Liabilities

	Group			
	2022	2022	2021	2021
Financial liabilities at fair value through profit and loss	£'000 Cost	£'000 Valuation	£'000 Cost	£'000 Valuation
Designated upon initial recognition	-	-	-	1,109
Other financial liabilities at amortised cost	2,133	2,133	2,056	2,056
Total financial liabilities	**2,133**	**2,133**	**2,056**	**3,165**
Included in the balance sheet as:				
Derivatives	-	-	-	1,109
Investment contract liabilities	-	-	1	1
Investment contract liabilities on linked liability fund	295	295	346	346
Other creditors including taxation and social security	381	381	397	397
Accruals and deferred income	1,457	1,457	1,312	1,312
Total financial liabilities	**2,133**	**2,133**	**2,056**	**3,165**

	Society			
	2022	2022	2021	2021
Financial liabilities at fair value through profit and loss	£'000 Cost	£'000 Valuation	£'000 Cost	£'000 Valuation
Designated upon initial recognition	-	-	-	1,109
Other financial liabilities at amortised cost	2,195	2,195	2,134	2,134
Total financial liabilities	**2,195**	**2,195**	**2,134**	**3,243**
Included in the balance sheet as:				
Derivatives	-	-	-	1,109
Investment contract liabilities	-	-	1	1
Investment contract liabilities on linked liability fund	295	295	346	346
Other creditors including taxation and social security	329	329	354	354
Accruals and deferred income	1,571	1,571	1,433	1,433
Total financial liabilities	**2,195**	**2,195**	**2,134**	**3,243**

Derivatives in the prior year consisted of interest rate swaps which were held to hedge against the change in value of the liabilities of the Society which would result from a change in bond yields. These were disposed of during the year. The loss in the value of these contracts has been recognised through the income statement forming a natural hedge. Other financial liabilities are carried in the balance sheet at amortised cost. Their fair values are not materially different from the values shown above.

16. Assets held to cover linked liabilities

	Group & Society			
	2022	2022	2021	2021
	£'000 Cost	£'000 Valuation	£'000 Cost	£'000 Valuation
Assets held to cover unit linked insurance contracts	722	1,204	722	1,416
Assets held to cover unit linked investment contracts	185	309	185	364
	907	**1,513**	**907**	**1,780**

Included within assets held to cover linked liabilities is £40,340 (2021: £57,481) representing units not yet purchased by policyholders.

An analysis of total financial assets, including assets held to cover linked liabilities is provided in Note 14 'Financial assets'.

Notes to the Financial Statements (continued)

For the year ended 31 December 2022

17. Intangible assets

	Group				
	Software under Construction	Customer Book	Website	Computer Software	Total
At 31 December 2021	£'000	£'000	£'000	£'000	£'000
Cost/Valuation	109	429	4	3,850	4,392
Accumulated depreciation and impairment	-	(126)	(2)	(1,450)	(1,578)
Carrying amount	109	303	2	2,400	2,814
Year ended 31 December 2022					
Opening net book value	109	303	2	2,400	2,814
Additions	260	-	-	-	260
Amortisation	-	(43)	(1)	(300)	(344)
Transfers	(300)	-	-	300	-
Carrying amount	69	260	1	2,400	2,730
At 31 December 2022					
Cost/Valuation	69	429	4	4,150	4,652
Accumulated depreciation and impairment	-	(169)	(3)	(1,750)	(1,922)
Carrying amount	69	260	1	2,400	2,730

	Society	
	Software under Construction	Total
At 31 December 2021	£'000	£'000
Cost/Valuation	109	109
Accumulated depreciation and impairment	-	-
Carrying amount	109	109
Year ended 31 December 2022		
Opening net book value	109	109
Additions	260	260
Disposals	(300)	(300)
Carrying amount	69	69
At 31 December 2022		
Cost/Valuation	69	69
Accumulated depreciation and impairment	-	-
Carrying amount	69	69

18. Tangible assets

	Group				
	Land & Buildings	Computer Equipment	Office Equipment	Motor Vehicle	Total
At 31 December 2021	£'000	£'000	£'000	£'000	£'000
Cost/Valuation	3,160	612	194	45	4,011
Accumulated depreciation and impairment	-	(517)	(155)	(27)	(699)
Net book amount	3,160	95	39	18	3,312
Year ended 31 December 2022					
Opening net book value	3,160	95	39	18	3,312
Additions	-	29	195	-	224
Disposals – cost	-	-	-	(22)	(22)
Transfer to investment property	(400)	-	-	-	(400)
Disposals – accumulated depreciation	-	-	-	20	20
Depreciation	-	(29)	(34)	(12)	(75)
Revaluation	(210)	-	-	-	(210)
Closing net book amount	2,550	95	200	4	2,849
At 31 December 2022					
Cost/Valuation	2,550	637	389	23	3,599
Accumulated depreciation and impairment	-	(542)	(189)	(19)	(750)
Net book amount	2,550	95	200	4	2,849

	Society				
	Land & Buildings	Computer Equipment	Office Equipment	Motor Vehicle	Total
At 31 December 2021	£'000	£'000	£'000	£'000	£'000
Cost/Valuation	3,160	612	194	45	4,011
Accumulated depreciation and impairment	-	(517)	(155)	(27)	(699)
Net book amount	3,160	95	39	18	3,312
Year ended 31 December 2022					
Opening net book value	3,160	95	39	18	3,312
Additions	-	29	195	-	224
Disposals – cost	-	-	-	(22)	(22)
Transfer to investment property	(400)	-	-	-	(400)
Disposals – accumulated depreciation	-	-	-	20	20
Depreciation	-	(29)	(34)	(12)	(75)
Revaluation	(210)	-	-	-	(210)
Closing net book amount	2,550	95	200	4	2,849
At 31 December 2022					
Cost/Valuation	2,550	637	389	23	3,599
Accumulated depreciation and impairment	-	(542)	(189)	(19)	(750)
Net book amount	2,550	95	200	4	2,849

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For the year ended 31 December 2022

18. Tangible assets (continued)

The net book value of land and buildings consists of the proportion of 11-12 Queen Square, Bristol utilised by the Society and Group as a head office, which is valued on a Fair Value basis.

The valuation was performed by Mellersh and Harding LLP as at 31st December 2022 in accordance with the requirements of the Royal Institution of Chartered Surveyors' Valuation - Professional Standards effective from 6th January 2014. Under the amortised cost model the land and buildings have a cost of £1,353,000 (2021: £1,538,000), a useful life of 100 years and a net book value of £1,231,000 (2021: £1,415,000).

Under the fair value measurement hierarchy, tangible fixed assets are classed as level 3 as they are valued using techniques incorporating information other than observable data.

19. Capital commitments

Amounts authorised and contracted for at 31 December 2022 are £18,000 (2021: £192,000).

20. Long term business provision

The long term business provision has been calculated on the basis of the following principal assumptions:

Rates of interest	Regulatory Regime Best Estimate Assumptions
All contracts	Based on prescribed regulatory solvency regime

Rates of mortality	Regulatory Regime Best Estimate Assumptions
Health contracts	Ranges up to 71.0% (2021: up to 71.0%) of the AMN00 and AFN00 ultimate tables for assured lives depending on the contract. Mortality assumptions are based upon the Society's actual experience.
Life contracts	Ranges up to 1,580% (2021: up to 1,360%) of the AMN00, AFN00 and AMS00 ultimate table for assured lives depending on the contract, and for Guaranteed Life Assurance contracts CMI 2021 (2021: CMI 2020) for future mortality improvements with a long term improvement of 1.25% per annum. Mortality assumptions are based upon the Society's actual experience.
Pension and Annuity contracts	Ranges from 58.2% to 113.1% (2021: 50.6% to 113.1%) of the PNMA00 and PNFA00 mortality tables, and for annuities CMI 2021 (2021: CMI 2020) for future mortality improvements with a long term improvement of 1.25% per annum. Mortality assumptions are based upon the Society's actual experience.

Rates of lapse	Regulatory Regime Best Estimate Assumptions
All contracts	Lapse assumptions are based upon the Society's actual experience, and vary according to factors including product type and policy duration.

Rates of morbidity	Regulatory Regime Best Estimate Assumptions
Health contracts	Morbidity assumptions are based upon the Society's actual experience, and vary according to factors including product type and age.

Future morbidity claims cost inflation	Regulatory Regime Best Estimate Assumptions
Health contracts	Morbidity claims cost inflation assumptions are based upon the Society's actual experience and expert judgement.

Expenses	Solvency II Best Estimate Assumptions
Death Benefits Only (DBO) contracts	£3.36 (2021: £3.26) per annum
Non-DBO Old Deposit contracts	£23.71 (2021: £25.64) per annum
Health contracts excluding Optimum combined	£65.80 (2021: £67.09) per annum
Optimum combined contracts	£71.06 (2021: £72.79) per annum
All life assurance and pension policies	£15.80 (2021: £17.09) per annum
Immediate Needs Annuity contracts	£23.71 (2021: £25.64) per annum
Income Protection contracts	£18.80 (2021: £17.09) per annum
Per policy Expense Inflation	Year 1 4.7% Year 2 3.5% Year 3 2.8% Year 4 2.6% Year 5 2.6% Year 6 2.6% Year 7 2.5% Year 8 2.5% Year 9 2.4% Year 10+ 2.3% (2021: 2.75%) per annum
Tax relief on per policy expenses for taxable business	0%
Offset for with profits life assurance policies	The value of expenses detailed in the terms and conditions for that particular policy

	2022 £'000	2021 £'000
Best Estimate Liability (BEL) – product classes with negative net present value of cashflows	67,948	82,804
Best Estimate Liability (BEL) – product classes with positive net present value of cashflows	(32,072)	(15,740)
Risk Margin (RM)	5,014	5,470
Long Term Business Provision (LTBP)	**40,890**	**72,534**

The Best Estimate Liability can be either an overall liability or asset, depending on the underlying cashflows that underpin its calculation. For product classes with a negative net present value of cashflows, the net present value of premiums is less than the net present value of claims and per policy expenses. Conversely, for product classes with a positive net present value of cash flows, the net present value of premiums exceeds that of the claims and per policy expenses.

Notes to the Financial Statements (continued)

For the year ended 31 December 2022

21. Pensions

National Deposit Staff Superannuation Fund

Nature of the Fund

The NDFS Staff Superannuation Fund operated by the Society is a funded defined benefit arrangement which provides retirement benefits based on final pensionable salary.

The Fund is closed to the future accrual of benefits with effect from 31 May 2009. All remaining active members were treated as having left Pensionable Service with effect from that date. These members receive increases in deferment equal to the higher of the increase in their pensionable salary and statutory deferred revaluation while they remain in employment with the Society.

The most recent actuarial valuation of the Fund indicated that the Fund had a deficit. The Society and the Trustees of the Fund have put in place a Schedule of Contributions and a Recovery Plan which detail the contributions that will be made to fund this deficit, which are monthly payments of £35,000 over the period from January 2021 to March 2021, £61,667 from April 2021 to December 2021, £65,000 from January 2022 to December 2022, £75,000 from January 2023 to December 2023, £85,000 from January 2024 to December 2024, £95,000 from January 2025 to December 2025, £105,000 from January 2026 to December 2026 and £115,000 from January 2027 to December 2027 inclusive.

In addition, one-off contributions were made of £280,000 in April 2021 and £280,000 in January 2022.
The most recent formal actuarial valuation of the Fund was carried out as at 31 December 2019. The calculations for the FRS102 disclosures have been carried out by running full actuarial calculations as at 31 December 2022.

Funding Policy

Following the cessation of accrual of benefits with effect from 31 May 2009, regular contributions to the Fund are no longer required. However, additional contributions are still made to cover any shortfalls that arise following each valuation. The funding method employed to calculate the value of previously accrued benefits is the Projected Unit Method. The Trustees determine the level of contributions payable to the Fund following agreement from the Society and advice of the Fund's Actuary.

Fund Amendments

There have been no amendments to the Fund during the year and no special events have occurred.

Employee benefit obligations for National Deposit Friendly Society Limited in respect of the National Deposit Friendly Society Staff Superannuation Fund

The amounts recognised in the balance sheet are as follows:

	Group & Society	
	2022 £'000	2021 £'000
Fair value of fund assets	15,689	20,355
Present value of funded obligations	(13,376)	(20,744)
Net (under) / overfunding in Fund	**2,313**	**(389)**
Asset recognised on the balance sheet	2,313	-
Liability recognised on the balance sheet	-	(389)
Net Defined Benefit Liability	**2,313**	**(389)**

The amounts recognised in income statement are as follows:

	Group & Society	
	2022 £'000	2021 £'000
Net Interest expense	(10)	15
Expense recognised in the Income Statement	**(10)**	**15**

	Group & Society	
	2022 £'000	2021 £'000
Interest on obligation	378	267
Interest on assets	(388)	(252)
Net Interest expense	**(10)**	**15**

The amounts recognised as Remeasurements in the Statement of Comprehensive Income are as follows:

	Group & Society	
	2022 £'000	2021 £'000
Return on assets (not included in interest)	(5,052)	(515)
Actuarial (Losses)/Gains on obligation	6,785	(454)
Total Remeasurements recognised in Other Comprehensive Income	**1,733**	**(969)**
Cumulative amount of Remeasurements recognised in Other Comprehensive Income	**(1,335)**	**(3,068)**
Actual return on Fund assets	**(4,665)**	**1,092**

The following other costs are included in the relevant sections of the accounts.

	Group & Society	
	2022 £'000	2021 £'000
Administration expenses paid from Fund	101	114
Other Items	**101**	**114**

The Society contributed £1,060,000 to the Fund over the year from 1 January 2022 to 31 December 2022 (2021: £940,000). No contributions were paid by members of the Fund over the period.

The Society expects to contribute £900,000 to the Fund over the year from 1 January 2023 to 31 December 2023. No contributions are expected by members of the Fund over the next year.

Changes in the present value of the Fund's Defined Benefit Obligation are as follows:

	Group & Society	
	2022 £'000	2021 £'000
Opening defined benefit obligation	20,744	21,006
Benefits paid	(961)	(982)
Interest on obligation	378	267
Experience losses/(gains)	273	360
(Gains)/losses from changes in assumptions	(7,058)	93
Closing defined benefit obligation	**13,376**	**20,744**

Notes to the Financial Statements
(continued)

For the year ended 31 December 2022

21. Pensions (continued)

The weighted average duration of the liabilities of the Fund was 13 years as at 31 December 2022.

Changes in the fair value of the Fund assets are as follows:

	Group & Society	
	2022 £'000	**2021 £'000**
Opening fair value of fund assets	20,355	20,774
Interest on assets	388	252
Return on assets (not included in interest)	(5,052)	(515)
Contributions by employer	1,060	940
Benefits paid	(961)	(982)
Administration expenses	(101)	(114)
Closing fair value of fund assets	**15,689**	**20,355**

The major categories of fund assets as a percentage of the total are as follows:

	%	%
Equities	**-**	-
Gilts	**44**	68
Corporate bonds	**34**	11
Property	**-**	21
Cash	**22**	-

All of the Fund's assets are classed as level 2 under the fair value hierarchy, as they are valued using techniques based on observed market data. The Fund holds no financial instruments issued by the Company (other than incidentally through investment in pooled funds), nor does it hold any property or other assets used by the Company.

Principal actuarial assumptions at the balance sheet date (expressed as weighted averages (where applicable)).

	Group & Society	
	2022 %pa	**2021 %pa**
Discount rate at 31 December	4.9	1.9
Discount rate at 1 January	1.9	1.3
Inflation (Retail Price Index)	2.8	3.3
Rate of increase in pensionable salaries	2.4	1.3
Rate of increase in deferred pensions	2.3	2.8
Rate of increase in pensions in payment – service pre 06/04/2005	2.8	3.2
Rate of increase in pensions in payment – service post 06/04/2005	2.0	2.2

Mortality assumptions

The mortality assumptions are based on standard mortality tables, which allow for future mortality improvements. The assumptions are that a member aged 65 will live on average until age 87 if they are male and until age 89 if female.

For a member currently aged 50 the assumptions are that if they attain age 65 they will live on average until age 88 if they are male and until age 90 if female.

Defined contribution scheme

The contributions to the defined contribution scheme made by the Society in the year amounted to £218,250 (2021: £216,498), and contributions made by the Group amounted to £235,273 (2021: £239,943).

22. Technical provisions for linked liabilities

	Group & Society					
	Insurance contracts		Investment contracts		Total	
	2022 £'000	**2021 £'000**	**2022 £'000**	**2021 £'000**	**2022 £'000**	**2021 £'000**
At 1 January	1,349	1,244	346	360	1,695	1,604
Payments made to policy holders of investment contracts	-	-	-	(35)	-	(35)
Change in technical provision as shown in the income statement	(200)	105	(51)	21	(251)	126
At 31 December	**1,149**	**1,349**	**295**	**346**	**1,444**	**1,695**

All movements in unit-linked insurance contracts including premium receipts and claims payments, are recorded in the Income Statement.

Notes to the Financial Statements (continued)

For the year ended 31 December 2022

23. Assets attributable to the long term business fund

All assets shown on the Balance Sheet on page 54 are attributable to the long term business fund.

24. Operating lease commitments

The Society leases various office equipment under cancellable operating lease agreements. The lease terms are for up to five years, with penalty for early cancellation.

	Group & Society	
Total future minimum lease payments: plant & machinery	2022 £'000	2021 £'000
Within one year	1	-
Between one and five years	20	1
After five years	4	24
Total	**25**	**25**

25. Related party transactions

National Friendly Financial Solutions Limited incurred charges of £382,000 (2021: £180,000) by the Society in respect of service charges for management, property, technology and shared support functions.

The Society paid National Friendly Financial Solutions Limited commission of £378,958 (2021: £411,821) for the sale of National Friendly products.

During the year the Society paid licence fees of £300,000 (2021: £300,000) to National Friendly Software Solutions Limited for the policy administration system. On 20 December 2022 National Friendly Software Solutions Limited acquired £300,000 of the Intellectual Property of Phase 3b of the policy administration system which the Society had developed. The Society will re-licence this software from National Friendly Software Solutions Limited over eight years.

As at 31 December 2022, the Society owed National Friendly Financial Solutions Limited £44,926 (2021: £46,775) and the Society owed National Friendly Software Solutions Limited £101,464 (2021: £101,464).

Key management personnel
All Directors and certain senior employees who have authority and responsibility for planning, directing and controlling the activities of the Group are considered to be key management personnel. Total key management personnel compensation is £590,246 (2021: £592,401). Director's remuneration is disclosed in the directors' remuneration report on page 41.

In addition, the directors of the Society may from time to time purchase insurance or investment products marketed by the Society in the ordinary course of business on the same terms as those prevailing at the time for comparable transactions with other persons. In 2022 and 2021, such transactions with the Society's directors' were not deemed to be significant both by virtue of their size and in context with the directors' financial position. All of these transactions are on normal commercial terms.

26. Subsidiary undertakings

The Society has two wholly owned subsidiary companies incorporated in the United Kingdom: National Friendly Financial Solutions Limited and National Friendly Software Solutions Limited.

National Friendly Financial Solutions Limited operates a call centre giving financial advice, it is authorised and regulated by the Financial Conduct Authority.

National Friendly Financial Solutions Limited is held by the Society at a fair value of £317,000 (2021: £469,000) after a revaluation loss of £542,000 (2021: £296,000). During the year, a capital contribution of £390,000 (2021: £290,000) was made.

National Friendly Software Solutions Limited licences a policy administration system to its customers and is held by the Society at a fair value of £105,000 (2021: £105,000) after a revaluation loss of £nil (2021: £13,000).

The results of all subsidiaries for the year ended 31 December 2022 have been consolidated into the Group financial statements.

	Group & Society	
	2022 £'000	2021 £'000
Fair value of investment in subsidiaries at 1 January	574	593
Capital contribution provided in the year	390	290
Unrealised loss in value of subsidiaries	(542)	(309)
Fair value of investment in subsidiaries at 31 December	**422**	**574**

27. Fund for Future Appropriations

	Group		Society	
	2022 £'000	2021 £'000	2022 £'000	2021 £'000
As at 1 January	15,698	15,419	15,738	15,439
Transfer to/(from) the fund for future appropriations from income statement	810	1,068	770	1,088
Transfer to/(from) the fund for future appropriations from statement of comprehensive income	1,523	(789)	1,523	(789)
As at 31 December	18,031	**15,698**	**18,031**	**15,738**

The Fund for Future Appropriations represents the estimated accumulated surplus in the funds that has not been allocated and is available to meet regulatory and other solvency requirements.

Notes to the Financial Statements
(continued)

For the year ended 31 December 2022

28. Derivatives

Interest rate swaps with a fair value of £nil (2021: £1,109,000) are held within liabilities. The nominal contract value of these contracts is £nil (2021: £11,400,000), they were held to hedge against the change in value of the liabilities of the Society which would result from a change in bond yields. These were disposed of in December 2022 due to a change in investment strategy. The SSF liabilities are determined as projected member benefits discounted at an interest rate determined from bond yields. Fair value losses for the year of £4,949,000 (2021: £2,513,000) are included in the income statement in respect of interest rate swaps.

The main driver of whether the interest rate swaps are in an asset or liability position is the SONIA rate. At the disposal date the SONIA rate on which the floating leg of the interest rate swap was based was lower than the fixed rate for all the contracts held, therefore a realised loss was recognised in the year.

Previously the Society held forward currency contracts to manage the exchange rate risk arising from investments in non-sterling denominated bonds and Bond future contracts to manage the duration of the fixed interest portfolio. These were disposed of in 2021 with the change in investment strategy. Cash flows under forward currency contracts are dependent on exchange rates at the dates on which the contracts mature. Movements in fair value arise due to variations in exchange rate and are reflected in the income statement. There were no fair value losses included in the income statement for 2022 in relation to the forward currency contracts (2021: £95,000). Fair value losses relating to Bond future contracts for the year were £nil (2021: £16,000), these are included in the income statement in respect of bond future contracts.

	Group & Society		
Derivatives held at 31 December 2022	**Contract value £'000**	**Fair value assets £'000**	**Fair value liabilities £'000**
Forward currency contracts	-	-	-
Bond futures	-	-	-
Interest rate swaps	-	-	-
Total derivatives	**-**	**-**	**-**

	Group & Society		
Derivatives held at 31 December 2021	**Contract value £'000**	**Fair value assets £'000**	**Fair value liabilities £'000**
Forward currency contracts	-	-	-
Bond futures	-	-	-
Interest rate swaps	11,400	-	1,109
Total derivatives	**11,400**	**-**	**1,109**

National Friendly

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