

Performance Summary

For the Year Ended
31 December 2022





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 reinsurance 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

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 Promoter 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.



Graham Singleton

Chief Executive
28 June 2023

Director's 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

Director's Remuneration Report (cont.)

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.

Consolidated Income Statement

For the year ended 31 December 2022

	Group				Society			
	2022		2021		2022		2021	
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Gross premiums written and payments to deposit	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		(9,353)		3,878		(9,353)		3,878
Other technical income		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		(200)		105		(200)		105
Provision for linked liabilities – investment contracts		(51)		(14)		(51)		(14)
Bonuses and rebates		9		(2)		9		(2)
Net operating expenses								
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		15		56		-		1
- other		116		81		94		79
Investment expenses		677		591		677		591
Unrealised losses on investments		11,033		5,226		11,033		5,226
Loss on investment in subsidiary		-		-		542		309
Tax attributable to long term business		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		-		-		-		-

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2022

	Group		Society	
	2022	2021	2022	2021
	£'000	£'000	£'000	£'000
Balance transferred from income statement	-	-	-	-
Actuarial gain/(loss) on pension scheme	1,733	(969)	1,733	(969)
Revaluation of occupied land and buildings	(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 financial statements and associated notes can be viewed in full in the 2022 Annual Report.

Consolidated Balance Sheet

As at 31 December 2022									
	Note	Group				Society			
		2022		2021		2022		2021	
		£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
ASSETS									
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 financial statements and associated notes can be viewed in full in the 2022 Annual Report.

As at 31 December 2022									
	Note	Group				Society			
		2022		2021		2022		2021	
		£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
LIABILITIES									
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	
			67,699		96,541		67,761		96,659

The financial statements and associated notes can be viewed in full in the 2022 Annual Report.


Graham Singleton
 Chief Executive


Nicola Moore
 Company Secretary



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