



# With-Profits Bond

## Your Policy Explained

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**A simple way to invest a lump sum for the years ahead**

Our with-profits fund aims to increase the value of your investment over the medium to long term.



The Financial Conduct Authority is a financial services regulator. It requires us, National Friendly, to give you this important information to help you decide whether our With-Profits Bond is right for you.

This document gives you a summary of National Friendly's With-Profits Bond so you can get an idea of whether it's right for you. You should read this document carefully so that you understand what you are buying, and then keep it safe for future reference.

Where we address 'you' we mean the policyholder or any adult acting on behalf of a child policyholder. On a joint policy, mentions of 'you' will apply to both policyholders.

There's more detail in our Policy Conditions which you can ask us for at any time. If you take out a policy then we'll include a copy of the Policy Conditions in your welcome pack along with a reminder of your cover details in your Policy Schedule. We've been around for over 155 years so we've got a long history of looking after people. We want to make sure your policy meets your needs both now and in the future.

## Definitions

**Assets:** investments held within the Society's with-profits fund.

**Bonus:** An amount we may add to your policy.

**Enhancement:** This is the amount of 5% we add to the initial amount you invest.

**Equities:** Shares in the stock market, typically held through equity funds.

**Market value reduction:** This is a change we make to the value of your policy during difficult financial conditions, for example when interest rates are low, so every member gets a fair share of the fund when they make a partial or full withdrawal from it.

**Smoothing:** This means holding back money that could be distributed as annual bonuses to help protect against difficult financial conditions in the future.

**Surrender:** To cash in your policy.

## What is a With-Profits Bond?

The With-Profits Bond is a policy that allows you to invest a single lump sum payment in our with-profits fund.

It offers the potential for growth because bonuses may be added to your policy, although this is not guaranteed. It also offers the option to take one-off and regular withdrawals.

It should be considered a medium to long-term investment.

As a whole of life policy there is no maturity date.

## Key Features of the With-Profits Bond

Each bond is purchased with a single payment of at least £2,500 and is designed to be held for at least five years. We'll add an initial enhancement of 5% at the start of the policy. It's a low-medium risk investment with the potential for growth through annual and final bonuses.

The policy has life cover of at least 101% of your initial investment, adjusted for withdrawals you have made, but we will pay the actual value of the bond on death if that is higher.

Money is invested for you in our with-profits fund so you don't have to manage it but here are a few things you need to know:

- This policy is not designed to be a short-term investment
- If you cash in your policy in the first five years, surrender charges will apply when you surrender (cash in) your policy, you could get less than you have paid in
- The actual amount you get back depends on the performance of the fund over the term you hold it. This means bonuses may not be added when you cash it in
- We will keep back some of the investment return in good years to help maintain bonus rates in years which have not been so good
- We could also apply what's known as a market value reduction if we need to due to the market conditions when you take out your money
- Over time, the impact of inflation will reduce what the payout will buy
- The effect of deductions we make might be higher, and the growth rates we show might be lower, than the examples we provide in this document
- If the government changes tax legislation on this type of policy, this could affect how much you get back

### **Are there limits to the amount I can invest?**

Yes, you must invest at least £2,500 for each bond. The maximum in total you can invest in one or more of our With-Profits Bonds is £50,000.

### **What is the enhancement?**

When you invest your single payment, we'll add a 5% enhancement to the policy value. For example, we'll add £125 to a £2,500 investment and its value will rise to £2,625. We'll apply any bonuses we declare to the increased value, in this case £2,625.

### **Who can invest in the With-Profits Bond?**

You may invest in one or more With-Profits Bonds if:

- You are a UK resident for tax purposes and aged between 16-75.
- You are buying the bond on behalf of a child policyholder under 16 and both of you are UK residents.
- The child's parent or guardian must act on the child's behalf until the child reaches 16 years of age. From then on, the child will assume full responsibility.
- You are paying for someone else's policy. You must be a UK resident for tax purposes over the age of 16 to invest in a With-Profits Bond for the benefit of another person.

If you are a payer who is not a policyholder or parent/guardian on a child's policy, you will not have access to any information about the policy, and you will not be able to give any instructions or make any changes to it.

### **How you can take out a With-Profits Bond**

- You can take out a policy yourself, by getting an illustration then completing an application online
- You can speak to one of our friendly sales team
- You can buy a policy with the help of an adviser if you have one.

### **Paying for your policy**

You will make a single payment by direct debit, cheque, a debit card or using the money from a maturing National Friendly policy.

## Who might the With-Profits Bond be suitable for?

This policy might be suitable for someone who:

- Wishes to invest a single payment of a minimum of £2,500 for at least five years
- Doesn't want to invest wholly in higher risk funds, but wants to invest in a mix of investments which is what our with-profits fund offers
- Wants the option to make withdrawals and is familiar with the tax treatment for withdrawals from the policy and the deductions which will be applied

You should consider carefully whether this policy is right for you. National Friendly is not able to make any personal recommendations on whether you should or should not take out this policy. If you need help deciding a financial adviser can advise you whether it's right for you.

## Who might it not be suitable for?

This policy might not be suitable for someone who:

- Does not want to invest for at least five years
- Wants an investment which has no risk to the capital or potential for growth
- Is unfamiliar with the tax treatment for withdrawals from the policy and the deductions which will be applied

## How your money is invested

We will invest your money into our with-profits fund. The fund invests in three main asset classes:

- Equities (stocks and shares)
- Fixed interest securities (government and corporate bonds); and
- Commercial property

This mix of investments helps to reduce the impact on the fund should one or more of the asset classes above underperform.

To find out more about the with-profits fund, you should read our '[Principles and Practices of Financial Management](#)' which can be found on our website or by asking us to send you a copy.

## The deductions we take

We take charges for the cost of setting up and administering your policy. They will be reflected in the amount you get back when you cash it in.

We also have to pay specialist investment and property management companies.

We'll pay these costs by taking some money out of the investment returns achieved by the fund before we calculate and declare the appropriate level of bonuses on policies like yours.

If you take out some or all of your money there may be a surrender charge (see **What are the surrender charges?**) and a market value reduction may be applied (see **What is a market value reduction?**). Both are explained on page 6.

For more information please also see our '[Principles and Practices of Financial Management](#)'

The total amount of the deductions we take will vary each year depending on the actual costs incurred.

The example illustration at the end of this document shows the effect deductions have on the value of a £5,000 investment over a 15 year period. Please ask us for a personalised illustration for your chosen investment sum over a set number of years.

## How bonuses work

There are two main types of bonus which could be added on this policy. These are annual bonuses and final bonuses.

Each year we will assess the past performance of the with-profits fund and assess its expected future performance before declaring a bonus, which could be zero.

As a responsible holder of your money, we set annual bonuses at levels that our Board considers to be sustainable in the long term. They will study market conditions, in particular current and projected interest rates.

This means it is unlikely that annual bonuses will be added to your policy when interest rates are low and for a while afterwards. This could mean that for a number of years, zero bonuses are declared.

Any bonuses that are declared will be added to the value of your bond. An interim bonus will be in place between annual bonus declarations but unlike the annual bonus, this could go up or down and could be zero.

To cover the risk of periods where investment performance is poor, we might hold back some bonus when investment performance has been good in case the markets later get worse.

Holding money back in this way is called 'smoothing.' It's ironing out the ups and downs of investment performance.

Our aim is to pay you a fair share of the performance of the fund over the term you hold the policy.

We may apply a final bonus to your policy to ensure that this is achieved.

### How will I know how much the policy is worth?

Once a year we will send you a statement showing any annual bonuses declared and the resulting total value of the policy.

At all other times, we can provide a current cash-in value. See **How much will I get back when I cash in my policy?** on page 7.

### Can I make withdrawals from the policy?

You can make regular or occasional withdrawals from your With-Profits Bond at any time, as long as you withdraw at least £500 and you keep a minimum of £2,500 in your policy. Any amount you withdraw will be calculated as a percentage of the value of your bond and taken into consideration when you take all of the money out of your bond in the future.

As an example, if the value of your policy was £5,000 and you wished to make a withdrawal of £1,000, this would represent 20% of your policy value. If, in the future, your policy value had increased to £6,000, the amount you would receive if you cashed in your policy would be £6,000 reduced by 20% (£1,200), giving a final surrender value of £4,800.

Please note this example ignores any surrender charge or market value reduction that might apply. The policy values shown are purely illustrative and not indicative of the actual growth potential of the With-Profits Bond.

Please also see **What tax do I have to pay?** in relation to withdrawals, on page 8.

### What happens if you die during the policy term?

The amount payable on death will be the higher of:

- 101% of your original investment (not including the 5% enhancement), less an adjustment for any withdrawals you have made
- or
- Your fund value including bonuses applied, adjusted for any withdrawals

We will send a form for completion by the claimant and will ask for proof of death and documentation which proves entitlement to the money.

We'll pay the death benefit to the beneficiaries or representatives of the policyholder under our death claim process.

We'll require sight of probate or letters of administration where the claim is more than £25,000.

Please see page 7 for details of how making a nomination or placing the policy in trust might help speed up payment.

### **Joint policies**

If you take out a With-Profits Bond with another individual, you can decide at outset whether the policy pays out on the first or the second death.

If you choose first death, then in the event of either policyholder's death the With-Profits Bond will end and the surviving policyholder will receive the life assurance payment set out above.

If you choose second death, then in the event of both policyholders' deaths the money in the With-Profits Bond will be payable to the legal beneficiary(ies).

If the parent or guardian acting on behalf of a child policyholder under age 16 dies, then another parent or guardian must apply to act on behalf of the child up to the child's 16th birthday. At age 16, the child will then take responsibility for the bond.

### **What are the surrender charges?**

Charges will apply in the first five years to any amount withdrawn or, when taking all your money out, the total of your original investment plus enhancement. The charges are::

Year 1 = 5%  
Year 2 = 4%  
Year 3 = 3%  
Year 4 = 2%  
Year 5 = 1%

The relevant adjustment will be made to your

bond value before any type of withdrawal is taken.

### **What is a market value reduction?**

This is a deduction made from the value of your fund if you make a withdrawal in excess of 5% of the amount you paid in during, or following, a period of market volatility or poor investment returns.

The market value reduction is designed to give all investors a fair share of the with-profits fund.

If you tell us you want to take money out of the Fund, we'll let you know if a market value reduction will be applied before your withdrawal takes place. This is in case you wish to change your mind.

When a market value reduction is applied it will reduce the amount you receive and could mean you get back less than you paid in. A market value reduction is not applied in the event of death.

### **How much will I get back when I cash in my policy?**

The amount you get back on full surrender will depend on:

- The amount you originally paid in
- The enhancement we added at outset
- Any annual bonuses added to your policy
- Any final bonus added to your policy
- Any withdrawals you've made
- Any surrender charge applicable
- Any market value reduction

You could get back less than you invested.

## How will I know how much the policy is worth?

We'll send a statement showing the annual bonuses declared for each full year you hold the policy and any withdrawals you have made.

We can provide you with a current surrender value at any time on request.

## Can I place the With-Profits Bond in trust?

Yes. You can arrange this either when you take out the policy or at a later date. Placing the With-Profits Bond into trust can ensure that the money in the bond goes to your intended beneficiaries and may have certain tax advantages, however it may restrict how you can use the benefits for yourself.

We cannot provide any advice on which trust is best for you and recommend you seek legal advice before making a decision. We have a limited range of trust forms available to help you. If you would like details please contact our customer services team. If you would like details of other trusts you should arrange this yourself through a solicitor.

As an alternative to a trust, you can nominate one or more beneficiaries to receive the money from your bond on death. Please see **What is a nomination?** below.

## What is a nomination?

This is a form that allows policyholders over 16 years old to nominate (name) who they would like to receive the value of their National Friendly policies up to £5,000 in the event of their death. This form is only available on policies with a single policyholder.

Making a nomination means benefits can be paid out without the need for a grant of probate or equivalent. This can speed up the payment to the nominated beneficiaries. Anything over

£5,000 will be paid out in accordance with our death claims process. We'll need to see a copy of probate or letters of administration where your claim is more than £25,000.

We also offer you the option to place the benefits of the policy in trust, as an alternative to a nomination. Please see **Can I place the With-Profits Bond in trust?** above.

## Will it affect my entitlement to state benefits?

The policy value and any income taken from it may be taken into account in assessing your entitlement to means-tested state benefits. You should contact your local benefits agency for further information.

## What tax do I have to pay?

The following summary is based on our understanding of current tax law and practice, which may be subject to change in the future, and should not be relied upon for tax planning. The value of any tax treatment depends on individual circumstances. National Friendly cannot provide tax advice. You should seek expert tax advice if needed.

### Income tax

National Friendly pays tax on assets within the with-profits fund. Policyholders can't claim this back. Withdrawals of up to 5% of the original investment can be made each policy year without the policyholder(s) incurring any immediate tax liability. Withdrawals up to 5% a year are allowed to build up, so if the 5% allowance is not used in full in any year it can be carried forward to future policy years up to a maximum of 100% of the amount you paid in.

If you withdraw more than the 5% a year allowed, this is considered for tax purposes a chargeable event. This means the withdrawal will be assessed for tax and we'll issue you with a chargeable event certificate which you may need to pass on to HM Revenue & Customs.

We'll also send a chargeable event certificate if you cash the bond in completely and will factor in any previous withdrawals when assessing your tax liability.

You may need to get specialist tax advice to work out whether you are liable for tax on gains the bond has made.

However, in general terms:

**Non-taxpayers and basic rate taxpayers:** will not have to pay any income tax on any gain when taking withdrawals from, or cashing in their With-Profits Bond, because tax has already been paid by National Friendly on the assets in the with-profits fund.

**Higher-rate taxpayers and trustees:** may have to pay income tax on any gain if they make withdrawals of more than 5% per year of the amount they paid in or when they cash the policy in completely.

### **Inheritance tax**

The money paid out from the With-Profits Bond forms part of the policyholder's estate and may be liable to inheritance tax upon death.

## **If you want to cancel the policy**

You can change your mind within 30 days of getting your welcome pack and we'll give you back the amount you paid.

Just let us know if you decide it isn't right for you using the contact details on the back page. We might ask your reasons for cancelling, but don't worry, there won't be any barriers to closing it if that's what you want.

You can surrender the policy at any time after the first 30 days, but you may receive less than you have paid in. Please contact us if this is what you'd like to do.

## **Who regulates National Friendly?**

National Deposit Friendly Society Limited is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and Prudential Regulation Authority. Our firm reference number is 110008.

You can check this on the financial services register at [register.fca.org.uk](https://register.fca.org.uk) or by calling the FCA on **0800 111 6768**



## Further information

### If we get things wrong

We hope you never need to complain about your policy or the service we give you. But, you have the right to complain if you need to, and we'd like the chance to put things right.

You can tell us what's gone wrong by telephone, email or post.

- Phone us: **0333 014 6244** 8am-6pm Monday to Friday excluding bank holidays. Calls from UK landlines and mobiles cost no more than a call to an 01 or 02 number and will count towards any inclusive minutes.
- Email us: [complaints@nationalfriendly.co.uk](mailto:complaints@nationalfriendly.co.uk)

- Write to us:

**Complaints Coordinator**

**National Friendly**

**11-12 Queen Square**

**Bristol**

**BS1 4NT**

If your complaint meets the definition, under the guidelines set out by our regulator, the Financial Conduct Authority (FCA), we will acknowledge your complaint promptly, carry out a thorough and impartial review and keep you updated of the progress.

We will do everything we can to resolve things as quickly as possible and provide a written response within 8 weeks of receiving your complaint. The written response will inform you of the results of our review or explain why this isn't possible

If you're not happy with our response, you may be able to refer your complaint to the Financial Ombudsman Service (FOS). This service is free and using it in no way affects your legal rights to take civil action. You can find out more information at [www.financial-ombudsman.org.uk](http://www.financial-ombudsman.org.uk)

You can write to the FOS at **Financial Ombudsman Service, Exchange Tower, London E14 9SR**, phone them on **0800 023 4567**, or email them at : [complaint.info@financial-ombudsman.org.uk](mailto:complaint.info@financial-ombudsman.org.uk)

### Who you're protected by

You're covered by the Financial Services Compensation Scheme (FSCS). This means in the unlikely event that we can't pay your payout, you may be able to claim compensation from them. Full details of what you are protected for can be found at [www.fscs.org.uk](http://www.fscs.org.uk)

### Who we are

National Friendly is the trading name of National Deposit Friendly Society Ltd which is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

### How we do things – law, language and currency

In the event of a dispute we'll try to solve any disagreements quickly and efficiently. If you are not happy with the way we deal with any disagreement, and you want to take court proceedings, you must do this within the UK.

All correspondence will be in English and all currency used will be in GB pound (£).

### If you need your documents in other formats

We're able to give you all documents in Braille, large print or audio. If you'd like a copy, please contact us using the details on the back page.

## Example illustration

**Amount invested:** £5,000

**Investment term:** 15 years

### What this illustration shows

The following pages give examples of what you might get back at the end of 15 years. If you would like a personalised illustration for a different investment amount and/or number of years, please ask us.

### The projected growth rates

As we cannot predict how the fund will perform or what bonuses will be declared and allocated during the term of the policy, we provide three examples based on different projection rates. All firms are subject to the same rules governing the projection rates but their charges, which are separate, may vary. The mid projection must reflect the investment potential of the policy, subject to a prescribed maximum rate. The low and high projections must differ by a prescribed amount from the mid projection rate.

If the investment grows at	1.5% a year	4.5% a year	7.5% a year
<b>You might get back</b>	<b>£5,320</b>	<b>£8,290</b>	<b>£12,700</b>

- All figures showing what you might get back have been rounded down.
- These figures are only examples for illustrative purposes and are not guaranteed. They are not minimum or maximum amounts. What you will get back depends on how the investment grows, the effect of deductions and withdrawals, and on the tax treatment of the investment. You could get back more or less than these illustrative figures.
- You could get back less than you paid in.
- We'll send annual statements that will allow you to keep track of the policy benefits.
- Over time, inflation will reduce the purchasing power of money in your policy.
- For the purposes of this illustration we have assumed that the rates of growth shown in the table above will be subject to deductions, which may vary.

## The surrender value after 15 years

These examples show how much you might get back if you cash in your policy. The last two columns assume that investments will grow at 4.5% a year.

**Warning:** when you surrender your policy you could get back less than you paid in.

The early years			
End of year	Total paid to date	Effect of deductions to date	What you might get back
1	£5,000	£29	£5,190
2	£5,000	£47	£5,410
3	£5,000	£68	£5,630
4	£5,000	£91	£5,870
5	£5,000	£116	£6,110
10	£5,000	£641	£7,120
15	£5,000	£1,380	£8,290

### What are the deductions for?

We take charges (deductions) throughout your policy and this will be reflected in the amount we pay when you finally take your money out. We use the charges we take to pay the costs of setting up the plan, including marketing and acquisition costs and the costs of running the plan.

We also use the charges we take to pay asset management costs and, in certain circumstances, surrender charges and market value reductions. For further details, please see our ['Principles and Practices of Financial Management'](#) which can be found on our website or by asking us to send you a copy.

The effect of these deductions is shown in the tables above. These figures are best estimates based on our past experience but they could vary in the future. The last line shows that, over a 15-year term, the effect of the total deductions we take could be £1,380. Putting it another way, leaving out the cost of life cover, the projection rate allowing for these deductions would reduce from 4.5% to 3.4% a year.

# Here's how you can contact us

For information on this policy, to request a copy in Braille, large print, or audio, please get in touch.

You can call us on:

**0333 014 6244** 8am-6pm Monday to Friday excluding bank holidays.

Calls from UK landlines and mobiles cost no more than a call to an 01 or 02 number and will count towards any inclusive minutes.

Calls are recorded for training and quality purposes.

Or email us at:

**info@nationalfriendly.co.uk**

Or visit us at:

**www.nationalfriendly.co.uk**

Or mail us at:

**National Friendly**  
**11-12 Queen Square, Bristol**  
**BS1 4NT**

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