



# **With-Profits Fund**

Annual Report to Policyholders 2022

---

# Contents

<b>1. Introduction</b> .....	<b>2</b>
<b>2. Summary</b> .....	<b>2</b>
<b>3. Governance arrangement for with-profits business</b> .....	<b>3</b>
<b>4. How we have complied with our PPFM</b> .....	<b>3</b>
• <b>Bonus rates</b> .....	<b>3</b>
• <b>Surrender values</b> .....	<b>3</b>
• <b>Investment strategy</b> .....	<b>3</b>
• <b>Inherited estate</b> .....	<b>4</b>
• <b>Charges and expenses</b> .....	<b>4</b>
• <b>Arrangements for new business</b> .....	<b>4</b>
• <b>Equity between different groups of with-profits policyholders</b> .....	<b>4</b>
• <b>Changes to the PPFM and communications to policyholders</b> .....	<b>5</b>
<b>5. Conclusion</b> .....	<b>5</b>
<b>6. Report from the With-Profits Actuary</b> .....	<b>5</b>
<b>Glossary</b> .....	<b>6</b>
<b>Contact details</b> .....	<b>7</b>

## 1. Introduction

The purpose of this report is to explain how we have managed our with-profits fund during 2022 and to demonstrate that we have followed our published Principles and Practices of Financial Management (PPFM), which is available on our website: [www.nationalfriendly.co.uk/ppfm](http://www.nationalfriendly.co.uk/ppfm). This includes the setting of bonuses and the investment decisions we have made.

If you require more technical detail you can view our current PPFM, which sets out the meaning of any terms used in this report and is also available on our website. There is an explanation of terms attached to the back of this document.

## 2. Summary

In the opinion of the Board, the with-profits fund has been managed in accordance with our PPFM over the period 1 January 2022 to 31 December 2022.

This opinion takes into account all areas where discretion has been exercised or where there have been any competing rights, or interest, between different groups of policyholders.

Appropriate governance arrangements have been maintained throughout this period to ensure we comply with the PPFM in the conduct of with-profits business.

### 3. Governance arrangement for with-profits business

We have two key roles to provide reassurance that our with-profits business is being managed in accordance with our PPFM. They are the With-Profits Advisory Arrangement (WPAA) and the With-Profits Actuary.

The WPAA was established to monitor, advise and report on matters relating to the management and governance of our with-profits business.

In particular the WPAA provides independent judgement in the assessment of compliance with the PPFM and how any conflicting rights of policyholders are addressed.

The With-Profits Actuary is responsible for providing the Board with advice on areas of discretion as they relate to the fair treatment of with-profits policyholders. This includes making recommendations regarding bonus rates, reviewing communication to with-profits policyholders and ensuring the interests of with-profits policyholders are taken into account in a fair and balanced way.

The With-Profits Actuary's report to policyholders in respect of 2022 can be found at the end of this document.

### 4. How we have complied with our PPFM

There are a number of important areas where the Board has exercised its discretion in managing the with-profits business during 2022.

#### **Bonus rates**

Bonus rates were reviewed by the With-Profits Actuary and the WPAA and changes were approved by the Board and implemented with effect from 1 July 2022.

As part of the bonus recommendation, annual bonus rates were declared for the year 2021, replacing the interim bonus rates previously applicable (and those annual bonus rates are not subject to change whereas interim bonus rates may be changed). Revised interim bonus rates were also implemented for the year 2022 onwards. An upward trend in interest rates was observed over the whole of 2021 and the start of 2022. Since interest rates were above the point when the bonus rates were reduced from 1 July 2020, annual bonuses were increased from 1 July 2022 to the same levels which applied before 1 July 2020. Interim bonus rates were set to equal the annual bonus rates.

The Board was supplied with sufficient information for it to be content that bonus rates were consistent with the PPFM and reflected fair value to with-profits policyholders.

#### **Surrender values**

As part of the bonus declarations in 2022, surrender values for with-profits business were reviewed by the WPAA and the With-Profits Actuary.

Revised surrender values were approved by the Board and implemented with effect from 1 July 2022. No Market Value Reductions were applied to any with-profits policies during 2022.

#### **Investment strategy**

The investment strategy for the with-profits fund is monitored regularly, with any changes in strategy being approved by the Investment Committee, a sub-committee of the Board.

In the course of 2022, the Investment Committee has continued to review equity, fixed interest and property holdings where appropriate for potential disposal and to assess reinvestment opportunities in order to create value from this fund. The proportion depends on whether members hold a life or pensions policy and may vary over time. There were no changes made to the proportion during 2022.

## **Inherited estate**

The with-profits fund contains an amount of money over and above the amount expected to be paid to existing policyholders. This is known as the inherited estate.

The inherited estate provides working capital to cover statutory solvency requirements and to support current and future business. The inherited estate is currently defined as the Society's "own funds" and had a target range set between 200% and 300% of the Society's "solvency capital requirement" in accordance with the PRA Rulebook during 2022. The Board are looking to review this measure in line with their risk appetite and capital management plan.

During 2022 the inherited estate was below the lower limit of the target range.

## **Charges and expenses**

Charges to the with-profits fund and the way these are apportioned to products are reviewed on a regular basis. During 2022 charges made to the with-profits fund were in accordance with the PPFM and reflected the charges advised to policyholders in relevant disclosure material. Expenses in excess of these charges were borne by the inherited estate during 2022, with the exception of the cost of providing benefit guarantees. This cost was borne by the with-profits policyholders in accordance with the PPFM when the inherited estate is below the target range described in the previous section. This cost was borne by the with-profits policyholders throughout 2022.

## **Arrangements for new business**

When setting the planned levels of new sales, there is a requirement to ensure there is sufficient capital available to the with-profits fund to support new sales, without adversely affecting the expectations of existing with-profits policyholders. In addition, new business should be transacted only if it is expected to be beneficial to the with-profits policyholders. The Board had considered this and believe that this requirement was met.

## **Equity between different groups of with-profits policyholders**

Different groups of with-profits policyholders have potentially competing or conflicting interests, such as holders of:

- different products
- policies of different sizes or policy terms
- policies with different entry dates, maturity dates or dates of birth
- policies claiming for different reasons (e.g. maturity, death, surrender)
- policies exercising different policy options, who could receive different benefits relative to each other depending on how discretion is exercised.

The main area in which judgement is required in balancing the interests of different groups is with regard to the smoothing of policy benefits and the way in which policies are grouped when determining payouts. The approach taken to smoothing and grouping is described in the PPFM and was applied in determining payouts in 2022.

## **Changes to the PPFM and communications to policyholders**

No changes were made to the PPFM in 2022 as it was deemed by the Board that the existing wording did reflect current working practices and had a sufficient framework for the Society to manage and govern its with-profits business.

The PPFM is available on our website:

[www.nationalfriendly.co.uk/ppfm](http://www.nationalfriendly.co.uk/ppfm)

## **5. Conclusion**

During the period covered by this report (the calendar year 2022), the Board and the WPAA are satisfied that the Society has complied with its PPFM.

## **6. Report from the With-Profits Actuary**

As With-Profits Actuary to the Society, I am required to report to the with-profits policyholders on whether, in my opinion, the with-profits business of National Friendly has been managed over the year in a way that takes their interests into account in a reasonable and proportionate manner.

Policyholders should not rely solely on the information contained in this report when making financial decisions and this report does not represent financial advice.

I can confirm that, throughout 2022, I have had full access to the actuarial team and the Board of National Friendly to ensure that I have been informed and consulted on all important matters relating to the transaction of with-profits business. In addition, in preparing this report, I have taken account of the rules of the Financial Conduct Authority, the relevant standards published by the Financial Reporting Council and the Practice Standards of the Actuarial Profession.

In my opinion, the annual report by National Friendly to its with-profits policyholders, and the discretion exercised by National Friendly in respect of 2022, has taken the interests of its with-profits policyholders into account in a reasonable and proportionate manner.

I believe that the Society has complied appropriately with the requirements of its Principles and Practices of Financial Management. I also consider that the Society has paid due regard to the information needs of its members.

**Sally Butters, FIA**  
**With-Profits Actuary**  
**National Deposit Friendly Society Limited**  
**25 May 2023**

## Glossary

This glossary is used for reference purposes. It does not form part of the annual report to policyholders.

**Board** - The Board of National Deposit Friendly Society Limited.

**Bonus** - The additional return on your with-profits policy which the Society pays at its discretion, if financial conditions permit.

Bonuses are added to your policy in different ways – interim bonus (which is added during each year), annual bonus (which is consolidated at the end of each year) and final bonus (which might be added when your policy pays out).

**Inherited Estate** - Money over and above the amount expected to be paid to existing policyholders.

**Market Value Reduction** - This is a reduction any surrender value which might be applied if you choose to surrender when financial markets are depressed.

**Surrender Value** - The value which may be paid to you if you surrender your policy before its full term.

**With-Profits Actuary** - The actuary appointed by National Deposit Friendly Society Limited to advise them as to whether the assumptions used to calculate the future discretionary bonuses are consistent with the Society's PPFM in respect of the Society's classes of with profits business. The individual is registered with Prudential Regulation Authority and Financial Conduct Authority as Senior Manager Function 20a (With-Profits Actuary).

**With-profits policy** - A long-term contract of insurance policy issued by National Deposit Friendly Society Limited which provides benefits through eligibility to participate in distributions based on profits arising from the Society's business or from a particular part of the Society's business.

# Here's how you can contact us

To request a copy of this report 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**

National Friendly is a trading name of National Deposit Friendly Society Limited. Registered office: 11-12 Queen Square, Bristol BS1 4NT. Registered in England and Wales no. 369F. National Deposit Friendly Society Limited is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. Our Financial Services Register number is 110008. You can check this at: <https://register.fca.org.uk>. National Deposit Friendly Society Limited is covered by the Financial Services Compensation Scheme and Financial Ombudsman Service.

