Annual Report & Financial Statements 2019

National Friendly

CONTACT DETAILS

Head Office
11–12 Queen Square, Bristol BS1 4NT
Telephone 0117 244 6062
enquiries@nationalfriendly.co.uk
www.nationalfriendly.co.uk

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: Jonathan Long
Secretary: Dawn Carey

ADVISORS

Bankers
HSBC,
60 Queen Victoria Street,
London, EC4N 4TR

Chief Actuary & With-Profits Actuary
Christopher Critchlow, OAC plc,
141-142 Fenchurch Street, London,
EC3M 6BL

Custodians
Northern Trust,
50 Bank Street, Canary Wharf,
London, E14 5NT

Independent Auditor
Ernst & Young LLP,
The Paragon, 32 Counterslip,
Bristol, BS1 6BX

Internal Auditor
Mazars LLP,
James Tudor House, 90 Victoria St,
Bristol, BS1 6DP

Investment Managers
(Equity and Fixed Income Fund)
Fidelity Investment Limited, 25 Cannon Street,
London, EC4M 5TA

(Unit Linked Fund)
Church House Investments,
York House, 6 Coldharbour,
Sherbourne, Dorset, DT9 4JW

Solicitors
DAC Beachcroft LLP,
100 Fetter Lane, London, EC4A 1BN

Hogan Lovells,
Atlantic House, Holborn Viaduct,
London, EC1A 2FG

Keystone Law,
Audley House, 13 Palace Street,
London, SW1E 5HX

Thrings LLP,
The Paragon, Counterslip, Bristol, BS1 6BX

Property Manager
Mellersh and Harding LLP,
68 Pall Mall
London, SW1Y 5ES

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CHAIRMAN'S REVIEW

I am pleased to present our Annual Report and Accounts following a hugely successful year for the Society in 2019. Having re-opened to new business in 2016, we have seen our newly issued policy count grow each year and, in particular, in 2019 our annualised new business premium income grew to £8 million compared to £1.8 million in 2018 representing significant growth.

An important driver to our new business has been our Guaranteed Life Assurance product, available to those aged 50 and over, and a variant where we undertake partial underwriting to allow a reduced deferred period before a claim can be made and a possible reduction in premium.

2019 also saw the launch of our Immediate Needs Annuity product, which aims to provide a monthly income for people entering into a nursing or care home, guaranteed for life, in exchange for a lump sum premium. Initial sales and feedback have been very positive and we hope to grow this source of income significantly over the coming years. A substantial element of this product is reinsured with a high credit quality reinsurer reducing the risk and capital strain for the Society.

Furthermore, 2019 saw the implementation of the final phase of our new policy administration system, Odyssey, which is now fully functional and in use allowing us to administer far higher volumes of policies without increasing incremental cost.

All of these have helped us in delivering our overall strategy of:

"being a forward thinking and trusted mutual that meets the health, welfare and protection needs of our customers."

We will continue to build upon this through in the coming years, developing and launching new products that complement our strategy and using our system infrastructure to best effect.

At the time of writing this review we are witnessing an unprecedented outbreak of a pandemic with COVID-19 taking its toll across the country. We have followed Government guidelines and remained focused on protecting the health and wellbeing of our colleagues and those around us, as well as continuing to service our members and business partners. Business continues as usual including sales performance in line with targets, and we activated our business continuity processes so that colleagues across all teams have been able to work from home and remain available to help meet the needs of our members with both existing policies and new business. This pandemic has also created uncertainty and volatility in the financial markets and global economy having a significant impact on asset values and yields, and resulting in a reduced capital position for the Society as at the end of March 2020. The Board has considered a number of options, some already in progress, to restore this position and strengthen it for the long term.

On this note, I would like to finish by thanking all colleagues for their continued hard work, dedication and commitment in driving the Society forward in achieving our strategy and best serving you all as members.

Tracy Morshead
Chairman
26 August 2020

National Friendly

STRATEGIC REPORT

The Society's vision is:

"To be a forward thinking and trusted mutual that meets the health, welfare and protection needs of our customers"

Overall Strategy

The Society's aim as an organisation is to provide for its policyholders products and services that look after their health and welfare to give certainty and control over their wellbeing both now and in the future. This service will be delivered in a timely, personal and friendly manner using technology as appropriate.

The Society has three key objectives to achieve net growth in its customer base, whilst managing regulatory capital and acting in the best interests of the Society's policyholders in protecting and enhancing member value:

- Expanding the current proposition with further new products and services.
- Promoting customer retention, offering alternatives when products mature or reach trigger points such as price and benefit review.
- Establishing a presence in the later life care market in accordance with the long-term strategy.

The Society continues to develop its overall welfare and healthcare proposition. The Society's long-term proposition remains in the health and welfare market providing both insurance and investment products to help members to insure and / or save towards meeting their long-term care needs.

Business Performance

The Society's business plan and key performance indicators ('KPIs') for 2019 have continued to focus on developing and launching new products in line with its strategy, whilst maintaining a strong capital base and controlling costs in order to enhance Own Funds and ultimately member value in the long term.

The main risk for the Society is that premiums and investment income are insufficient to pay the contractual benefits on a policy or the actual demographic experience and / or expenses of administering a group of policies is worse than that assumed in the calculation of future liabilities.

The following KPIs are used to measure ongoing success:

Own Funds – this is an economic Solvency II measure of the Society's net assets after liabilities and represents the long-term value to its members (Embedded Value), and allows the Board to establish the impact of management activity over the long term.

Solvency Coverage Requirements (SCR) ratio – This is a measure of how much surplus capital is available after the solvency capital requirements (a risk-based calculation, based on the actual risks on the balance sheet) that an insurer is required to hold.

Capital Management

The Society's capital position is assessed in accordance with the Solvency II regulations 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 liabilities plus a risk margin. The Society is required to hold sufficient own funds (assets less technical provisions) to meet the SCR, which represents the amount of risk capital required to withstand a set of events at the 1/200 confidence level which covers market, underwriting, counterparty and operational risks.

The Own Funds reduced from £20.5m in 2018 to £18.3m in 2019. The main reason for the reduction was the maturing of business although this was to some extent offset by strong investment returns across all major asset classes.

Significant new business growth, particularly on the Guaranteed Life Assurance products resulted in further reductions in the Society's assets over the year with additional commission, expenses and claims from policies written in the year. Although the costs relating to the distribution of products is incurred in the initial year, the profits from these policies will be realised over a longer term.

The Staff Superannuation Fund also contributed to a reduction in Own Funds due to an increase to the deficit and further contributions paid into the Fund.

The Solvency Capital Requirement (SCR) increased overall. Again, this was driven by the growth in new business and particularly in respect of mortality and lapse risk attributable to the Guaranteed Life Assurance products.

After allowing for the required SCR, the excess capital at 31 December 2019 reduced to £5.2m, from £8.8m at 31 December 2018 providing a SCR coverage ratio of 140% (2018: 176%).

The above result also takes account of a transitional measure for interest rates ('TMIR') approved by the regulator to enable the Society to smoothly transition to Solvency II. It allows the gradual move from using Solvency I discount rates to the prescribed Solvency II risk free rates set by the European Insurance and Pension Authority ("EIOPA") for pre 2016 policies over a period of 16 years, as these policies mature. Before taking account of the transitional measure, the excess assets position was £3.8m (2018: £6.7m).

Impact of Covid-19

The impact of the pandemic and resulting volatility in the financial markets and reduced interest rates has had a significant impact on the Society's asset values and yields resulting in the Society falling below its SCR reporting a solvency coverage ratio of 92% as at 31st March 2020. The Board took immediate management actions and these, coupled with gradual improvements in market conditions, despite further falls in interest rates and an increased pension scheme deficit, resulted in an improved solvency coverage of 100% as at 30 June 2020. Throughout this time, the Society has maintained significant capital resources to meets its Minimum Capital Requirement (MCR), reporting a coverage ratio of 400% as at 30 June 2020.

The Society notified the regulator, the Prudential Regulation Authority (PRA), on 27th May 2020 of its March 2020 position. Although solvency coverage had improved to 100% by end of June 2020, the Board has prepared and provided the PRA with a capital recovery plan, which includes proposed management actions around potential asset sales and consideration of reinsurance arrangements to further strengthen the capital position for the long term in line with the Society's capital management framework/risk appetite.

STRATEGIC REPORT

New business

The Society has continued to widen its product offering in order to further protect and enhance the long-term interests of its policyholders through:

i. Writing profitable new business that strengthens embedded value for all policyholders;

ii. Providing an affordable option for new and existing policyholders to help fund their later life care needs;

iii. Increasing policy count and related income, against robust cost control; and

iv. Maximising the use of its existing expertise, resources and systems.

The Society's aim is to provide existing and new customers with products that address their welfare and care needs at every stage of life. Later Life Care (long-term care) is one of the key aims, and it is felt that the Society's best route into this market at this early stage is to develop and distribute products in partnership with major reinsurers.

The launch of an Immediate Needs Annuity product in mid-2019 has further expanded our later life product portfolio and as an already developed market, gives us a relatively straightforward entry to a sustainable line of business. It will also help us to develop relationships with Financial Advisers who may be interested in selling pre-funded later life products as and when we develop them in the future. A substantial element of this product is reinsured with a high credit quality reinsurer reducing the risk and capital strain for the Society.

We measure new sales by their annualised new business premium income ('API') and deposits to new savings and investment policies. In 2019, the Society's new business API and investment deposits exceeded £8m, compared with £1.8m in 2018 representing an increase of over 341% from the prior year.

However, in the situation where lapses are higher or lower than expected, we are able to take management actions to address potential increases in per policy expenses.

Cost Control

Administration costs are closely controlled and monitored against budgets and reported to both the Executive Committee and the Board. Writing new profitable business helps to reduce the per policy expenses.

Project Asterix, being the development of a new policy administration system, is now completed with the final stage of migrating the healthcare policies onto the system achieved in January 2019. The implementation of the new system, and resulting decommissioning of legacy systems is delivering efficiencies in providing the ability to write new business and at a higher volume without the need for additional administration staff and cost savings in respect of IT server and maintenance.

Brexit

The Society is a UK based insurer providing regulated products to UK domiciled customers only. We are aware that a very small number of our members have, since taking out their policy, moved to a country within the EU and we will continue to meet the liabilities on these policies as they fall due.

As the UK transitions to leave the EU, the Board will continue to consider how we may be impacted in the future and what, if any actions, we need to take. We are also proactively working with our partners in particular our reinsurers to understand any impacts on their business and the actions they are taking to address these. Overall, we do not anticipate any material impact on our business and operations.

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 in achieving this.

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 policyholders. These risks are summarised below:

Risk	Impact	Mitigating Activities
Regulatory Capital Requirements		
The Society is unable to meet its regulatory capital requirements	Regulatory intervention. Transfer of engagements or Run off.	Close monitoring of capital management at Board level both with and without the approved transitional measure. This includes scenario analysis and key sensitivities such as morbidity, lapse and expense assumptions. Quarterly roll-forward of Solvency Coverage allowing for updated market conditions, expense assumptions and change in the in-force book. Constant review of expenses including organisation restructuring to ensure right cost base. Regular estimates of the solvency position showing the latest estimate of the undiversified solvency II capital against each of the relevant risks.
Insurance Risk		
Morbidity Risk		
Morbidity (claims higher than expected) experience deteriorates over and above expectations.	Increased reserves results in reduced excess assets	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 done on a twice yearly basis. Any new business will be written on an insured / re-insured basis either mitigating or significantly reducing the morbidity risk of new policies. Continuous audit & monitoring of claims payments as well as audit review of administrator to confirm that paid claims are valid. Review of premiums on Healthcare policies considers actual claims experience to inform expected future claims and proposed premium changes.
Lapse Risk		
Lapses are higher or lower than projected.	Lapses exceeding levels of new business result in higher per policy expenses. Lower than predicted lapses in some product lines could result in increased technical provisions.	Lapse rates are regularly monitored and reported so that sufficient reserves are held reflecting up to date lapse assumptions. Understanding the reasons for the lapses and taking action as needed.

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Risk Management (Continued)

Risk	Impact	Mitigating Activities
Pension Scheme Risk Volatility of pension scheme valuation	Any change in valuation is reflected in the Society's UK GAAP and Solvency II balance sheets.	Review the investment strategy of the pension scheme with the objective of reducing volatility. However, any proposed changes to strategy would need to be approved through the pension trustees. Use interest rate swaps to hedge against adverse interest rate movements on the Society's balance sheet. Exploring options of potential scheme buy-out to third party insurer or by the Society.
Interest Rate Risk Lower interest rates have an adverse impact on calculation of long-term liabilities.	Increased value of long term liabilities reduces SCR coverage.	Look to match as closely as possible assets against technical provisions. Use of transition measures to recognise the impact of low interest rates under the new Solvency II regime when compared with historic Solvency 1 position. Review investment strategy to achieve the best outcomes from a Solvency II perspective whilst achieving the right return for policyholders. The 10-year EIOPA rate versus the rate at the last full valuation is monitored.
Expense Risk Inability to sell sufficient new policies to reverse the declining book and address the expense overrun.	Ongoing administration costs against continued decline in policies and income result in higher net cost to administer each policy Increasing per policy costs against declining book.	Expenses are closely monitored and organisational restructuring to ensure the right cost base. Writing new profitable contracts of insurance to reverse a trend of continued increase in per policy costs. Clear marketing strategy and development of profitable products that meet customer needs and demand against an effective and cost efficient distribution strategy. Close monitoring of ongoing expenses against sales volumes. New models have been developed showing an estimate of the per policy expenses if business volumes continue at current run rates compared to the current per policy expense assumption so that management action can be taken in the event of material variances.

Risk	Impact	Mitigating Activities
Operational Risk The Society's subsidiary, National Friendly Financial Solutions, does not generate a profit	The subsidiary does not provide a positive financial contribution to the Society, resulting in an increase in expense reserves resulting from lower recharges.	NFFS has its own business plan with stretching targets to include: • Increase in performance and productivity • Reducing the dependency on one key lead provider • Acquisition of new client books Performance against plan is closely monitored and action taken as appropriate to control cost.
Governance Loss of key personnel and unable to recruit in qualified persons to fulfil key function roles including at Board level.	Loss of knowledge and expertise. Persons unwilling to take roles in highly regulated environment.	• Competitive remuneration structure with ongoing development opportunities. • Established agreements in place with recruitment agencies should the need arise. • Some functions may be outsourced. • Use of specialist contractors as a short-term solution.
Pandemic Risk The Society impacted by a global pandemic (COVID-19) putting increased strain on its systems, staff and investments. See further comments in respect of COVID-19 below.	Inability to operate business critical operations at full capacity with potential detriment to customer and suppliers. Brokers/sales channels unable to operate at forecasted levels resulting in fewer new policy sales. Health & Wellbeing of staff. Economic downturn resulting in reduced value of Society assets and / or increase in long-term liabilities resulting in reduced solvency coverage.	**Operations** The Society has implemented working from home protocols and social isolation in line with Government guidelines whilst maintaining service through homeworking. We will continue to monitor the situation and take further action as necessary. We are able to continue to pay customers, suppliers and staff remotely using electronic means where possible. There has been no material impact on sales performance as both the in-house and broker sales channels continue to operate remotely. Sales performance is monitored against targets on a daily basis Regular communication to staff providing guidance and directing staff to Government and NHS advice. **Market Risk** The Board monitors the impact of changing market conditions on the Society's regulatory solvency position and actions to manage the risk profile are implemented as required.

STRATEGIC REPORT

Viability Statement

The Directors confirm that they have a reasonable expectation that the Society is well placed to manage its business risks, including those presented by the current pandemic, and will continue to meet its liabilities, as they fall due; in particular financial projections for the next five years are incorporated into the Own Risk and Solvency Assessment ('ORSA'), and therefore, the Directors expect the Society to continue in operation over this period. The Directors' assessment has been made with reference to the Society's current position and prospects, the Society's strategy, the 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 projections make certain assumptions about the level of new business, economic and demographic risks, insurance risks including morbidity, lapses and future expense assumptions. In addition, the Directors have considered the proposed management actions in the capital recovery plan submitted to the PRA and specific COVID-19 stress scenarios that included the impact of a further 15% decrease in equity values, 15% decrease in property values and reductions in interest rates from the position as at 30 June 2020.

The ORSA projections are stress tested in robust downside scenarios including stresses for worsening morbidity, lapses and expenses over and above the assumptions. Under all of these stress tests, the projections demonstrate that the Society continues to meet all of its liabilities as they fall due. 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.

COVID -19

The Society has assessed the key risks presented by the unprecedented situation created by COVID-19 and this has been a key area of focus for the management and Board in maintaining strong corporate governance.

The key priority has been the safety and wellbeing of the staff whilst continuing to meet the needs of customers and business partners. The Society has robust business continuity plans providing the ability for all teams to work from home through existing well-established procedures including IT systems and controls. We will continue to monitor government advice closely to ensure we look after the health and wellbeing of our employees and the communities within which we work.

We are reliant on a number of outsourced suppliers and in this respect; they have provided the assurance that they are able to continue to provide the required services without disruption to customers.

We have not experienced any material impact on the operations or sales performance, management information and the core services provided to customers, including dealing with claims and payments to customers and suppliers.

Investment Performance

The Society's investments are held in a number of asset classes in particular fixed income, property and equities. These portfolios are managed by external property and fund managers whose performance is monitored on a regular basis by the Investment Committee.

Property

Sentiment in the commercial property market during 2019 was dominated by the uncertainty surrounding Brexit and the poor performance of the UK retail sector. Overseas investors continued their dominance of the core office markets with Central London property returns proving more attractive than many competing European and international cities.

The Society's portfolio performed well during 2019 providing a total return of 7.8% including a healthy income return of 5.6%. This compared favourably with a total return for All UK commercial property of 2.2%. Overall UK returns were depleted as a result of the poor performance from UK retail assets where the sector returned -6.2%, the lowest since 2008. With 85% of the Society's portfolio invested in non-retail assets, the strong performance of the warehouse and office sectors has benefitted the Society.

Targeted property sales during the year yielded total receipts in excess of 9% above valuation. Two prime acquisitions in Leeds and Birmingham were welcome additions to the portfolio with both let to substantial tenants on long unexpired leases. Ongoing lease events, asset management opportunities, and a limited exposure to the retail market should continue to drive income from the portfolio during 2020.

Fixed Income

UK bonds posted positive returns over the period with corporate bonds outperforming government bonds. The Society's portfolio performed well in absolute terms with returns of over 11% for the 12-month period and in relative terms versus the benchmark.

Global recession worries from intensifying US-China frictions and the threat of a no-deal Brexit drove investors to safe haven assets such as UK government bonds. However, this trend began to reverse somewhat towards the end of the period as recessionary fears started to fade and the general election result boosted hopes that the UK will be able to win approval to leave the EU by the extended deadline of January 31, 2020.

UK Equity

The Society converted its UK equity portfolio from a managed fund to an index-tracking basis at the end of March and has matched the return of the FTSE All-share index over the period. The UK stock market performed strongly during the year but underperformed other developed markets. Returns were supported by interest rate cuts from the major central banks over the period.

In addition, with a step towards the resolution of the UK's exit from the European Union (EU), a large majority for the Conservative Party in the UK elections at the end of the year, was positively received by equity markets. The elections also meant that the UK could now focus on executing Brexit, with a transition period that ends in 2020. Overall, real estate and health care were among the best performing sectors, while energy and communication services underperformed the broader market.

With-profits Review

Against a backdrop of continued low interest rates and general economic and political uncertainty, the Society has been able to maintain annual bonuses across its with-profits product range.

We were, however, not immune from these uncertainties, and, due to poor market returns over the last quarter of 2018, the Society has had to reduce rates of final bonus paid across most of its product range during 2019. This resulted in pay-outs generally falling in 2019 compared to those in 2018.

As pension contracts continue to have a relatively high level of benefits (compared to premiums paid) additional annual bonuses were not awarded in 2019.

In general, investment returns during 2019 for with-profits policies were higher than the previous year. However, the Covid-19 pandemic in 2020 has resulted in large industry wide market falls, which will be taken into account at the next bonus declaration. We would generally expect short-term investment fluctuations to be reflected in changes to final bonus rates rather than changes to annual bonuses, which are set having regard to the level of return available on fixed interest assets.

STRATEGIC REPORT

Our Members

Engaging with our members

Being a mutual friendly society it is very important for us to engage with our customers and we do this through our Annual General Meeting ('AGM') and Focus Group.

Our AGM

All our members are invited to attend our AGM giving us the valuable opportunity to meet our members and also giving the members an opportunity to meet the Board and Executive Committee of National Friendly.

In 2019, the AGM took place on 18th July at the Hallam Conference Centre, London. The Board and the Executive Committee are always present at the AGM, giving the membership the opportunity to ask the panel 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. Following the main presentation the members are also welcome to talk to the Board and the senior management team independently on a one-on-one basis if they so wish.

Our Focus Group

Our Member Focus Group currently consists of 23 members from across the Society and meets to discuss relevant issues and ideas going forward, usually twice a year. Our Focus Group members have a wide range of policies held with us and have diversity in age, gender and national coverage.

Fair customer outcomes

Our customers and their best interests are always at the forefront of our thinking which we firmly believe delivers fair customer outcomes at every step of the way.

To demonstrate our commitment to providing fair outcomes, we:

- Make sure that fair treatment of customers is central to the Society's culture and values.
- Design and market products that meet our customers' needs and perform as we have led them to expect.
- Provide customers with clear information and keep them appropriately informed before, during and after point of sale.
- Make sure that any advice provided by National Friendly Financial Solutions is suitable and addresses the customer's needs.
- Use incentives for staff that reward behaviours that are consistent with the principles of fair customer outcomes.
- Maintain service levels and processes that support customers who need to make a claim or complaint.
- Do not create barriers for customers to change product or switch provider.
- Have in place internal controls to monitor our achievement of these principles.

Corporate Social Responsibility ('CSR')

Our vision

Our 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.

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

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

Community

We work with local charities to support our CSR strategic vision and in this respect, we continue to work with Ablaze and in 2020 will be working with Children's Hospice South West as our chosen Charity of the Year.

Ablaze – Reading Buddies Programme

Ablaze is a charity formed and supported by Bristol's business community to connect local firms with education and help improve the opportunities available to Bristol's young people. Their objective is to tackle the inequality of opportunity for young people in the West of England region. Since 2005, thousands of young people across the wider Bristol region have been supported by businesses and community volunteers delivering Ablaze programmes in schools.

The Society has supported Ablaze since 2010 through its 'Reading Buddy Programme' as six of our staff members visit a local primary school during their lunch hour every week to read with the children. The Reading

Buddy Programme is intended to increase the amount of reading out loud opportunities pupils have, inspire them to read more and encourage them to gain a love of books.

Queen Square Association

The Society is a member of the Queen Square Association, a registered charity, formed in June 1999 comprising interested residents and occupants of Queen Square, Bristol.

Its aims are to protect, maintain, repair, beautify, restore and advance the historical value of Queen Square for the benefit of its members and those visiting Bristol, and has the responsibility of raising funds along with the help of lottery funding.

The Association also recognises that an improved environment can be highly beneficial to the businesses situated on the Square, and we play an active role in building a positive relationship with our neighbours.

People

We pride ourselves on the quality of our staff and keeping them involved as we develop our strategy. We have a committed workforce who continues to deliver a high quality of service to our members and contribute to the achievement of our strategic objectives.

The Society recognises the importance of continuing development and supporting our staff to achieve their goals and 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

STRATEGIC REPORT

Corporate Social Responsibility ('CSR') (continued)

Environment

We recognise that, like any organisation, the activities we undertake will have an impact on the environment around us. We therefore continually seek initiatives from our staff so that we operate on as much of a carbon neutral basis as is possible. Our strategy is therefore to:

- Reduce our energy consumption and increase energy efficiency through the appropriate use of office equipment, lighting and heating.
- Eliminate waste where practicable.
- Make use of recycled or recyclable material.
- Work with suppliers who adopt similar or higher environmental standards.

The printers we use are sourced from accredited Forest Stewardship Council ('FSC') printing companies, meaning that our choice of paper is produced from well-managed forests and/or recycled materials. They are Bristol based and less than three miles away from our office.

We use both digital and lithoprint technology to print our policy literature, enabling us to select the most economical way of printing. Two types of ink are used. Toner is used for digital printing and vegetable-based ink is used for for lithoprint.

We also send policy literature electronically. If you would prefer to receive your policy documentation via email, please contact our Customer Services team on 0333 014 6244 and they will update your records accordingly.

Our Foundation Fund

National Friendly's Foundation Fund provides strong support to our approach to CSR albeit under the direction of an independent Board, the Foundation Fund Committee.

The Foundation Fund has the general aim of making discretionary grants for the following purposes:

- To provide benevolent support to any member of the Society or their family at a time of need.
- For any activity or undertaking which promotes the engagement of the Society with its membership.
- To provide additional services or benefits to any or all of the Society's members/families.

The objectives of the Foundation Fund are in line with the Society's long standing aims of supporting its members at times of need. The aim is to award grants and disbursements that, regardless of relative value, are meaningful and make a significant difference to the recipients.

Members of the Society or employees can make applications by submitting a completed application form. Dispersals are reviewed and agreed by the Foundation Fund Committee.

Our Charity of the Year

Our staff choose a 'Charity of the Year' to raise funds for on an annual basis. Firstly, all staff are invited to nominate charities, which they are passionate about. The CSR committee, against pre-agreed selection criteria, then reviews nominations to create a shortlist. All staff then vote from the shortlist for their preferred charity of the year and the charity with the most votes is selected.

Throughout 2019 the staff have been working hard to raise money for our nominated charity, Southmead Hospital Charity's NICU fund. The neonatal unit has a specialist team who provide intensive care, high dependency care, special care and transitional care for hundreds of babies each year who are born prematurely or with medical conditions that mean they need extra support. The unit is one of the only Regional Neonatal Intensive Care Units for the South Western Delivery Network. The money raised by staff will help more patients in Bristol and the South West receive the very best possible care.

Staff are encouraged to take part in as many fundraising activities as possible throughout the year, ranging from themed bake sales, photography competitions and a host of sponsored sporting events.

Thanks to everybody's enthusiasm and commitment, staff were able to raise £8,693 against our fundraising target of £5,000. Funds raised are matched by the Society's Foundation Fund, up to the sum of £5,000, which brought the total funds raised to £13,693. Furthermore, with the support of the Bristol Hippodrome and their bucket collections, this total has been boosted by a further £12,858, bringing our grand total to £26,551. A cheque for this amount was presented to Southmead Hospital Charity's NICU fund in January 2020.

Adrian Brown, Southmead Hospital's Corporate and Community Manager, said:

"A huge thank you to everyone at National Friendly for their support and generosity throughout 2019. They have raised a fantastic amount, which will directly benefit the babies and parents in our Neonatal Intensive Care Unit, and all the staff on the unit are extremely grateful for their support. National Friendly are a wonderful partner to work with and their efforts have highlighted the impact a business can have on their community by supporting a local charity."

Our charity of the year for 2020 is Children's Hospice South West. .

The Society's fundraising target for 2020 is £5,000, which will be matched by £1 for every £1 by the Foundation Fund, and staff are looking forward to taking part in a number of exciting events this year. As always, we are very grateful to our staff and their friends and families for all their efforts.

On behalf of the Board

Jonathan Long

Chief Executive Officer

26 August 2020

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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 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.

1. 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 so that it continues to act in the best interests of its members. It aims to achieve this 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 and as an organisation, it will endeavour to work together to embed them and to promote them. 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 2019, the Board has focused 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: independent advice and a comparison non advised service;
- National Friendly Software Solutions Limited owns the intellectual property rights to a policy administration system. It licences this software to National Friendly as well as marketing the system to other similar insurers.

2. Principle Two – Board Composition

Role of the Board

The Board is the main decision making body for National Friendly and its subsidiary companies. 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 six 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 maintains a schedule of matters reserved for the Board's discussion and decision and it 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.

Chairperson and Chief Executive

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

The Non-Executive Chairman has no involvement in the day to day business of the Society and is responsible for leadership of the Board and making sure that the Board acts effectively. 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, 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 Executive and Non-Executive 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').

The terms and conditions of appointment of Non-Executive Directors are available for inspection at the Society's Head Office and can be viewed by contacting the Secretary.

Professional Development

The Chairman 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 Chairman, on governance matters.

Board Balance and Independence

The Board consisted of four Non-Executive Directors and two Executive Directors for the majority of 2019, with one Executive Director leaving in April 2019 and returning in December 2019. An additional Non-Executive Director was appointed in December 2019.

The Board continues to review its own balance, completeness and appropriateness to meet the complexities of the business end 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.

Peter McIlwraith, Tracy Morshead and Mark Jackson have served on the Board for more than nine years from the date of first election and therefore are subject to annual re-election after having considered their continued independence, together with their skills and expertise in delivering the Society's objectives.

The Board has appointed Peter McIlwraith as 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 Chairman or Chief Executive Officer has failed to resolve or for which such contact is inappropriate. The AFM Code requires that the SID is an independent Non-Executive Director and defines independence as having served on the Board for less than nine years. Although it is recognised that Peter McIlwraith has served on the Board for a period longer than nine years, his independence is assessed at least annually before each annual re-election at the AGM.

In addition, the Society has started the process of reviewing its composition of the Board to include the appointment of new Non-Executive Directors to replace long-serving Non-Executive Directors.

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.

A formal performance evaluation scheme is in place for Society staff including the Executive Directors. The Chairman undertakes a performance appraisal of the Chief Executive against agreed objectives. The next evaluation of the Board's effectiveness will be undertaken once the composition of the Board has been reviewed and refreshed in 2020.

CORPORATE GOVERNANCE REPORT

3. 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 Compliance Manager 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 24-26. 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 Chairman 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.

4. 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 that 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 own funds and excess assets in the long term.

Risk

Risk management is an integral part of the Society's business activities. 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, so 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 Board Risk & Compliance Committee.

5. 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.

6. 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, a Members' Focus Group and Research Community have been established. Engagement with the Focus Group has been positive and feedback valued. The Board also firmly believes in the principles of Treating Customers Fairly and adheres to these in its day-to-day operation.

Communication with staff is undertaken through regular dialogue with staff, as groups, 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 and engagement of its staff. Employee engagement surveys are also performed to highlight areas of improvement in communication of the Society's purpose and objectives. The Executive Committee considers the results of these surveys in order to identify initiatives to improve employee engagement and satisfaction. The Society achieved a 1* accreditation for very good levels of workplace engagement by Best Companies in January 2020.

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, which sets out the way in which individuals may raise any concerns that they have and how those concerns will be dealt with.

CORPORATE GOVERNANCE REPORT

The Board

Tracy Morshead

(Chairman)

Tracy has held senior management positions with three major Building Societies, Birmingham Midshires, Principality, where he was Managing Director, and Nationwide, where he was Divisional Director. He is a Fellow of the Chartered Institute of Marketing and is a chartered marketer. Tracy is Managing Director of Morshead's Old Books Limited. Tracy joined the National Friendly Board in June 2009 as a Non-Executive Director and was appointed as Chairman of the Board effective from 1 April 2014.

Jonathan Long

(Chief Executive Officer)

Jonathan was appointed as a Director on 1 May 2007. After qualifying as a Chartered Accountant at Coopers & Lybrand, he went on to perform a variety of financial, strategic and business development roles at Prudential and Barclays before joining the Society in 2006. Jonathan was appointed Chief Executive in 2011.

Sandy Richards

(Executive Director)

Sandy was appointed as a Director on 1 September 2014, heading up our Finance, Risk, Compliance and HR functions. She has over 30 years' experience in the financial services sector in a variety of risk, finance and business development roles at Arval UK Limited (a subsidiary of BNP Paribas), the Higher Education Funding Council for England and at the Royal Bank of Scotland Plc, before joining the Society in 2012. Sandy resigned as a Director on 5 April 2019, to take a role as Risk & Compliance Director for the RAC Group, returning to the Society and re-appointed as an Executive Director in December 2019. Sandy is a qualified Fellow Chartered Certified Accountant.

Peter McIlwraith

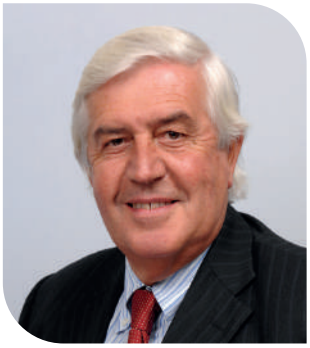
(Senior Independent Non-Executive Director)

Peter is a Chartered Accountant. He was a partner with PricewaterhouseCoopers (and prior to that Price Waterhouse) and was the Regional Chairman for the West and Wales and Senior Partner in Bristol from 1991 to 2001. Since then Peter has held a number of non-executive board positions in both the commercial and charitable sectors. Peter joined the National Friendly Board as a Non-Executive Director in April 2003.

Mark Jackson

(Non-Executive Director)

Mark is a former GP and successful businessman. Mark was CEO of Helphire (now Redde Plc) which he founded and was co-founder and Chairman of Assura Group both of which he was instrumental in floating on the London Stock Exchange. Mark currently sits on the Boards of Medigold and Exemplar Health Care Limited. Mark joined the National Friendly Board as a Non-Executive Director in June 2009.



Geoff Brown

(Non-Executive Director)

Geoff is a qualified Actuary and had 44 years of experience in the financial services industry before retiring in late 2013. He spent most of his career in the health and care sector including 20 years with international healthcare company BUPA Limited, where he held a variety of roles and responsibilities – most recently as Chief Risk Officer of the BUPA Group and prior to this as Director of Compliance and Chief Actuary of the UK division. 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.

Graham Singleton

(Non-Executive Director)

Graham is a qualified Actuary with over 35 years of 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 is now specialising in non-executive work covering a variety of financial services disciplines including consumer finance as a non-executive of the Very Group Finance Company Limited and general insurance for a niche provider of buildings insurance backed guarantees, Guaranteed Protection Insurance Limited. Graham joined the National Friendly Board as a Non-Executive Director in December 2019.

CORPORATE GOVERNANCE REPORT

Committee Information

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

Audit Committee

Members	Responsibilities
Peter McIlwraith (Chairman) Mark Jackson 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 are conducted by Mazars LLP and reported to the Committee.

Investment Committee

Members	Responsibilities
Tracy Morshead (Chairman) Geoff Brown Jonathan Long Peter McIlwraith Sandy Richards (resigned 5 April 2019, re-appointed 1 December 2019)	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 review 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	Responsibilities
Peter McIlwraith (Chairman) Geoff Brown Tracy Morshead	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. 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	Responsibilities
Peter McIlwraith (Chairman) Mark Jackson Tracy Morshead	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 31 - 34.

Risk & Compliance Committee

Members	Responsibilities
Geoff Brown (Chairman) Tracy Morshead Jonathan Long Sandy Richards (resigned 5 April 2019, re-appointed 1 December 2019)	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 Chairman of the Committee meets the Head of Finance & 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.

CORPORATE GOVERNANCE REPORT

With-Profits Advisory Arrangement

Members	Responsibilities
Geoff Brown (Chairman) Mark Jackson	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 (either individually or collectively) with running the Society's business within the delegated authority of the Board.

Attendance of Directors at Board and Committee meetings

	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	7	7	5	5	2	*	1	1
Mark Jackson	6	7	5	5	2	2	1	*
Peter McIlwraith	7	7	5	5	2	2	1	1
Tracy Morshead	5	7	2	*	2	2	1	1
Graham Singleton	1	1	1	*	-	-	-	-
Executive								
Jonathan Long	7	7	5	*	2	*	-	-
Sandy Richards	3	3	3	*	-	-	-	-

* Attendance on an invitation basis.

Attendance of Directors at Board and Committee meetings (continued)

	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	3	3	4	4	3	3
Mark Jackson	–	–	–	–	3	3
Peter McIlwraith	3	3	–	–	1	*
Tracy Morshead	2	3	4	4	2	*
Graham Singleton	1	*	1	*	1	*
Executive						
Jonathan Long	3	3	4	4	3	*
Sandy Richards	2	2	2	2	1	*

* Attendance on an invitation basis.

The Directors Report

Statement of Responsibilities of the Directors

The Board is required to prepare financial statements for each financial year, which give a fair and balanced 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 maintenance and integrity of the National Deposit Friendly Society Limited and Group website is also the responsibility of the Directors.

THE DIRECTORS' REPORT

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 he/she ought to have taken as a Director to make himself 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 Board has also considered the Society's financial position, its cash flows and liquidity 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.

In addition, the Directors have considered the proposed management actions in the capital recovery plan submitted to the PRA and specific COVID-19 stress scenarios that included the impact of a further 15% decrease in equity values, 15% decrease in property values and reductions in interest rates from the position as at 30 June 2020. These, alongside stresses for worsening morbidity, lapses and expenses considered as part of the ORSA process, demonstrate that the Society's capital was projected to remain above Minimum Capital Requirements and post management actions above the Solvency Capital Requirements with sufficient liquidity to meet liabilities for a period of at least 12 months from the date of approving the annual report and financial statements. Over 70% of the Society's investments are held in cash, fixed income and equities, which can be liquidated at short notice and therefore, the Society is confident that it can continue to meet its cash outflows, including claims and supplier payments, during this uncertain period.

Therefore, the Directors believe that the Society is well placed to manage its business risks in respect of liquidity and cash flows. After making enquiries, the Directors have a reasonable expectation that the Society has adequate resources to continue in operational existence for a period of at least 12 months from the date of approving the annual report and financial statements. Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements.

Annual General Meeting

The 2019 Annual General Meeting was held in London on 18th July and was attended by Members, Board Members, and Officers of the Society.

A number of resolutions were voted on including:

- The Board Report.
- The Directors' Remuneration Report.
- The Auditor's Report and the Annual Report and Financial Statements.
- To appoint Ernst & Young LLP as Auditors.
- Re-election of Tracy Morshead, Peter McIlwraith, Mark Jackson and Geoff Brown as Non-Executive Directors.

The response from members submitting their postal / proxy forms was 11.6% of members eligible to vote electing to do so. Although the AGM traditionally takes place in July, the 2020 AGM has been postponed until September 2020, and in accordance with recent legislation in light of COVID-19 and to prevent unnecessary travel, the Society will not be inviting attendees to the event.

Employees

The average number of Directors and staff employed by the Group and Society is disclosed in Note 9 on page 75.

The aggregate remuneration paid to Directors and staff employed by the Group during the year amounted to £3.4 million (2018: £3.0 million).

Charitable Donations

The Society made charitable donations of £6,672 (2018: £5,000). There were no political donations (2018: £nil).

Change of Secretary

Jonathan Long resigned as Secretary on 17th October 2019. On 17th October 2019 Dawn Carey was appointed as Secretary.

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

Jonathan Long

Chief Executive Officer

26 August 2020

AUDIT COMMITTEE REPORT

The Audit Committee's role is to assist the Board in meeting its responsibilities for the integrity of the Society's financial reporting, including the effectiveness of the internal control and risk management systems, and for monitoring the effectiveness and objectivity of the internal and external auditors. The Committee considers that it has met its responsibilities and performed its duties with appropriate levels of care and expertise over the year.

All members of the Audit Committee are Non-Executive Directors. The external and internal auditors regularly attend Committee meetings. The Committee reviews and approves their audit plans, receives reports from the auditors and has a regular dialogue with them. It considers the systems of internal control, reviews recommendations from the auditors, management responses thereto and monitors follow up actions.

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.

Independent External Auditor

The Committee, during the year, assessed the effectiveness of the audit process including feedback from management and agreed with management's view that there had been appropriate focus and challenge on the primary areas of audit risk. The independence and objectivity of the external auditor was considered and concluded to be satisfactory.

The Committee reviewed the external audit arrangement in late 2017 undertaking a formal tender process and recommended to appoint EY as the Society's External Auditors with effect from 6 September 2017. A resolution proposing the re-appointment of EY as the Society's external auditor was put to the members at the 2018 and 2019 AGMs and approval gained.

The Committee continues to assess the independence, the objectivity of the external audit 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 every five years.

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 Committee for the engagement of the independent auditors for non-audit work. The external auditor (EY) did not undertake any non-audit assignments during 2019.

AUDIT COMMITTEE REPORT

Areas of particular focus

The Audit Committee considered the significant issues in relation to the preparation of the financial statements, and has addressed them as follows:

Significant Issue	How it was addressed
Assessment of actuarial demographic assumptions for morbidity, longevity and persistency	The Society has in place procedures to analyse experience on its insurance contracts. Sophisticated valuation methodology is used whereby statistical analyses are used alongside available industry data to assess the best estimate demographic assumptions. The process for setting assumptions has not changed for 2019 year-end although new assumptions were included for the guaranteed life assurance products. Lapse experience is monitored on a monthly basis throughout the year. Valuation assumptions are set with regard to the Society's own experience (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. Allowance is made for significant non-recurring events which may trigger a short-term spike in lapses but which are unlikely to influence subsequent lapse experience.
Assessment of assumptions relating to expenses	Expenses are determined using per policy expenses equal to the level of expected administration costs in 5 years' time divided by the expected volume of business in force at that time. The new business assumption is based on the most recent sales projections. The Committee is satisfied that, considering all material factors, the approach is reasonable and one that reflects its best estimate of future experience.
Impact of COVID-19 on going concern and viability	The global outbreak of COVID-19 and subsequent volatility in the financial markets presented significant risks for the Society, resulting in a reduction in the Society capital position and it falling below its Solvency Capital Requirements as at 31 March 2020, as explained within the Strategic Report. In response to the Society's capital falling below the Solvency Capital Requirements, the Audit Committee has considered and overseen the Board's response in the following areas. The Board informed the PRA of its position and took immediate actions to restore the Society's solvency coverage to 100% as at 30 June 2020. This was despite further falls in interest rates and increased pension scheme deficit. Throughout this time, the Society maintained its Minimum Capital Requirements, reporting coverage ratio of 400% as at 30 June 2020. The Board has prepared a Capital Recovery Plan, setting out management actions that will further strengthen the Society's solvency coverage for the longer term. This Plan has been shared with the PRA. In preparing the Plan, the Board reviewed the ORSA and understood the mitigating actions available to management. It also reviewed the specific COVID-19 stresses, which included the impact of a further15% decrease in equity values, 15% decrease in property values and further reductions in risk free interest rates from the position as at 30 June 2020. The Board was satisfied that the stresses were appropriate and after considering the stresses and any mitigating actions, it concluded that there is a reasonable expectation that the Society will be able to continue in operation and meet its liabilities for a period of at least 12 months from the date of approving the annual report and financial statements and over the wider planning period and that it remains appropriate to prepare these financial statements on a going concern basis.
Adequate and Effective Control framework	The Society's Internal Auditors undertake financial, operational and strategic audits across the Society using a risk based approach. Internal audit services are provided by an outsourced partner and are fully independent from the operations of the Society. The Audit Committee agrees the planned internal audit work for the year and receives reports of findings for all reviews during the year and a report of progress. During 2019, internal audits were completed in areas including claims management, cyber security, intermediary commission processes, Management Information reporting, new business activities including premiums processing and a review of Compliance and Complaints processes. Internal Audit provided an overall annual opinion of 'Substantial Assurance' on the Society's framework of risk management, governance and internal control.

Furthermore, it is the role of the Audit Committee and the Board to consider key assumptions in the preparation of the financial statements including the valuation of property and determination of pension deficit.

Peter McIlwraith
Chairman of the Audit Committee
26 August 2020

DIRECTORS' REMUNERATION REPORT

Introduction

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

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

Remuneration Committee

Members	
Peter McIlwraith	- Committee Chairman
Mark Jackson	- Non Executive Director
Tracy Morshead	- Non Executive Director

The Remuneration Committee is appointed by the Board and all members of the Committee are Non-Executive Directors. The CEO 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 Chairman, having taken advice from the Executive Directors. The Chairman 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 up to date with the market so that individuals are motivated and the Society is able to attract and retain key talent.

b. Remuneration package will be competitive and recognise the relative remuneration in comparable market through benchmarking. External advisers appointed by the Society may undertake the benchmarking.

c. Remuneration will be determined fairly and objectively across the Society.

d. Variable reward for the Directors and key function holders will be linked to strategic objectives as well as considering current and future risks.

e. Total remuneration will include a fixed base salary as well as a variable discretionary bonus and other financial and non-financial employee benefits.

f. The remuneration policy will be transparent and accessible to all staff across the Society.

Remuneration for Executive Directors consists of a fixed salary, variable incentive pay, pension and other benefits including company car allowance. All benefits (other than variable pay), 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 the 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 Chairman of the Board also recognising his role as Non-Executive and Chairman of National Friendly Financial Solutions Limited and for the Senior Independent Non-Executive Director, both based primarily upon the time commitment required for the roles.

DIRECTORS' REMUNERATION REPORT

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.

Peter McIlwraith
Chairman of the Remuneration Committee
26 August 2020

Directors' emoluments

	Salaries & Fees £	Performance Related Pay £	Other Benefits[1] £	Total 2019 £	Total 2018 £
Chairman					
Tracy Morshead [2]	49,950	–	–	49,950	49,950
Executive Directors					
Jonathan Long [3]	165,610	48,471	29,823	243,904	222,322
Sandy Richards [3,4]	43,949	36,000	8,764	88,713	159,938
Non-Executive Directors					
Geoff Brown	30,690	–	–	30,690	29,940
Mark Jackson	30,690	–	–	30,690	29,940
Peter McIlwraith	41,260	–	–	41,260	40,250
Graham Singleton [5]	2,558	–	–	2,558	-
TOTAL				**487,764**	**532,339**

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

[2] The Chairman also provides Non-Executive support and chairs the Board of National Friendly's subsidiary company, National Friendly Financial Solutions Limited.

[3] Performance related pay relates to 2018 but was awarded in 2019. Assessment of performance related pay for the Executive Directors for 2019 will be carried out in Q2 2020 following finalisation of the Annual Report and Accounts.

[4] Sandy Richards resigned as Executive Director on 5 April 2019. She was re-appointed as Executive Director on 1 December 2019.

[5] Graham Singleton was appointed as a Non-Executive Director on 1 December 2019.

One of the Executive Directors is a member of the National Deposit Staff Superannuation Scheme. This is a defined benefit retirement plan that closed to future accrual on 31 May 2009.

Pension Entitlement - Defined benefit retirement plan

	Years of Service	Pension accrued during 2019 £	Accrued pension as at 31/12/2019 £	Accrued pension as at 31/12/2018 £	Closing value at 31/12/2019 £	Opening value at 31/12/2018 £	Pension input amount over 2019 £
Jonathan Long	13	126	5,175	5,049	103,506	103,405	101

At the AGM, members voted on the resolution to approve the 2018 Directors' Remuneration Report. The Group is committed to on-going shareholder 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 will be sought, and any actions in response will be detailed in the next Directors' Remuneration Report.

The following table sets out the actual voting in respect of the approval of the 2018 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
2657	**92.87%**	**84**	**2.94%**	**2861**	**120**

Executive Directors

Base Salaries

Base pay will normally be reviewed annually in January taking into consideration RPI and CPI as a guide in any cost of living uplift.

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 an annual Performance Related Pay currently representing up to a maximum of 30% of base salaries. All Executive Directors participate on the same basis and this comprises two elements: the first is assessed on a collective basis against identified corporate objectives and the second element is an individual performance related programme where the Executive Directors are assessed against personal goals and objectives.

LTIP

There is currently no Long Term Incentive Plan ('LTIP') scheme in operation. The Remuneration Committee may give consideration to the terms of such a scheme in the future, 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.

DIRECTORS’ REMUNERATION REPORT

Other Benefits

Executive Directors are entitled to private medical insurance, 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 salary sacrifice schemes for pension contributions, child care voucher scheme and the cycle to work initiatives and for season ticket loans.

Directors’ Contract

The Executive Directors have service agreements that 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 Chairman have letters of appointment setting 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. 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.

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 Board ratifies the outcome of this.

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.

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 2019 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 which comprise:

Group	Society
Consolidated Income Statement for the year then ended	Income Statement for year then ended
Consolidated Statement of Comprehensive Income for the year then ended	Statement of Comprehensive Income for the year then ended
Consolidated Balance Sheet as at 31 December 2019	Balance Sheet as at 31 December 2019
Related notes 1 to 29 to the financial statements, including a summary of significant accounting policies	Related notes 1 to 29 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 and Society financial statements is applicable law and United Kingdom Accounting Standards, 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 below. 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.

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF NATIONAL DEPOSIT FRIENDLY SOCIETY LIMITED

Conclusions relating to principal risks, going concern and viability statement

The Society voluntarily complies with the provisions of the UK Corporate Governance Code- Annotated Version for Mutual Insurers dated January 2019 as issued by the Association of Financial Mutuals ('AFM') in the UK ('the Code'). As a result, we have nothing to report in respect of the following information in the annual report, in relation to which the ISAs (UK) require us to report to you whether we have anything material to add or draw attention to:

- the disclosures in the annual report set out on pages 9 to 11 that describe the principal risks and explain how they are being managed or mitigated;
- the directors' confirmation set out on page 9 in the annual report that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity;
- the directors' statements set out on page 28 in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements; or
- the directors' explanation set out on page 12 in the annual report as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Overview of our audit approach

Key audit matters	■ Inappropriate actuarial demographic assumptions for morbidity, longevity and persistency ■ Inappropriate actuarial expense assumptions ■ Inaccurate or incomplete data from policy admin systems is used within MoNET, including related data migrations to Odyssey in the year ■ Impact of COVID-19 on going concern and viability
Audit scope	■ We performed an audit of the complete financial information of the Society and two components. ■ The components where we performed full audit procedures accounted for 100% of the Fund for Future Appropriations measure used to calculate materiality, 100% of Gross Premium and other income and 100% of Total assets.
Materiality	■ Overall Group materiality of £540,000, which represents 3% of the Fund for Future Appropriations.

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, longevity and persistency The assumptions underpinning the valuation of the long term business provision as at 31 December 2019 are disclosed in note 20 to the financial statements. The long–term nature of the liabilities the Society holds is inherently uncertain due to the dependency on a number of key assumptions, including morbidity, 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.	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 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. 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 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 client 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 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 actuarial assumptions used by management in relation to morbidity, longevity and persistency are reasonable based on the analysis of experience, industry practice and the financial and regulatory requirements.

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF NATIONAL DEPOSIT FRIENDLY SOCIETY LIMITED

Risk (Continued)	Our response to the risk (Continued)	Key observations communicated to the Audit Committee (Continued)
Inappropriate actuarial expense assumptions The assumptions underpinning the valuation of the long term business provision as at 31 December 2019 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 and therefore an area of focus. 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 the split between maintenance and acquisition expenses and the allocation of expenses, between various product types and between new business and in–force business. We reviewed the disclosures 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 optimistic end of a reasonable range based on industry practice and the financial and regulatory requirements.
Inaccurate or incomplete data from policy admin systems is used within MoNET, including related data migrations to Odyssey in the year The effectiveness of the valuation process for calculating the long term business provision is contingent on the accuracy and completeness of the data extraction and conversion process used in the actuarial model (MoNET) and also the accuracy of the data migrations from the M2000 policy administration systems (PAS) to the new Odyssey PAS during the year.	To obtain assurance on the migration of policies we performed the following procedures: We reviewed the workpapers on the data migration prepared by internal audit and also tested the governance process over the migration exercise. Obtained the raw data of all the policies that were in M2000 at the date of migration and then performed completeness and accuracy test on the population before picking samples to test. Tested a sample from the policies that were in M2000 by following through to the business rules that were applied which resulted in either the policies being migrated to Odyssey or eliminated as they are no longer active policies. Obtained a list of all eliminated policies and tested a sample of policies through to the business rules to ensure they were correctly eliminated from Odyssey. Tested a sample of policies had been migrated accurately by reviewing the features of the policies in Odyssey reflect the information in M2000 and the underlying contracts. Tested the key controls over management's data collection, extraction and validation processes from the underlying policy administration systems through to MoNET.	We determined that data was migrated accurately from the M2000 PAS to the Odyssey PAS and that the data used in MoNET for the valuation of the long term business provision is complete and accurate.

Risk (Continued)	Our response to the risk (Continued)	Key observations communicated to the Audit Committee (Continued)

Impact of COVID-19 on going concern and viability
 	
(Refer to the Viability Statement on page 12, Going Concern on page 28, Audit Committee Report on page 30 Note 1 Basis of preparation on page 50 and Note 29 Events after the end of the reporting period on page 96)
 	
The global outbreak of COVID-19 presents operational, market and insurance risks to the group.
 	
COVID-19 is considered to be a non- adjusting post balance sheet event and as such no adjustments have been made to the valuation of assets and liabilities as at 31 December 2019.
 	
The Directors have performed an assessment of the impact of COVID-19 on the liquidity and capital position of the Society.. Based on this assessment, the Directors do not consider that COVID-19 gives rise to a material uncertainty over the going concern or viability of the Society.
 	
There is a risk around the appropriateness of modelling performed by the Society, that the Directors have drawn inappropriate conclusions regarding the going concern basis and viability and that the disclosures in the financial statements are inadequate or inappropriate.
	We read, assessed and challenged the Directors' Viability Statement and going concern assessment, including their expectation of the impact of COVID-19 on the operations, liquidity and capital position of the Society.
	
	In particular:
	
	• We obtained and reviewed the Own Risk & Solvency Assessment (ORSA) and the Society's 3 -5 years business plan;
	
	• Using our actuarial specialists acting as part of our audit team, we assessed the appropriateness of assumptions in the combined scenario used by management in their ORSA;
	
	• We obtained the capital recovery plan that management had produced and shared with the Prudential Regulation Authority and performed the following:
	
	  • Validated that the management actions implemented to improve the 30 June 2020 solvency coverage ratio had taken place;
	
	  • Using our actuarial specialists, considered whether the future management actions included in the capital recovery plan were realistically achievable based on our knowledge of the business and assessed whether the proposed impacts of those management actions were reasonable;
	
	  • Reviewed all correspondence with the Prudential Regulation Authority in relation to the capital recovery plan;
	
	• We obtained the liquidity and solvency forecasts prepared by the Society and assessed whether the base forecast was realistic by comparison with historic performance and our understanding of the business;
	
	• We challenged whether the alternative scenarios adopted by management for potential changes in premiums and claims due to COVID-19 were appropriate and tested that they had been accurately applied in the liquidity and capital forecasts;
		We have concluded that the Directors had an appropriate basis on which to make the assessment that COVID-19 does not give rise to a material uncertainty over the going concern or viability of the Society.
		
		We consider that the financial statement disclosures in respect of the impact of COVID-19 on going concern and viability are appropriate and consistent with the requirements of FRS102.

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF NATIONAL DEPOSIT FRIENDLY SOCIETY LIMITED

Risk (Continued)	Our response to the risk (Continued)	Key observations communicated to the Audit Committee (Continued)
Impact of COVID-19 on going concern and viability (continued)	• We considered management's assessment of the impact of volatility in investment markets, including the effect of management actions, on the Society's forecast solvency position; • We considered management's assessment of the operational impact on the business of COVID-19 by reference to the measures they have currently implemented or plan to put in place; and • We read the financial statement disclosures in respect of the viability statement, the going concern statement, the Audit Committee report, the basis of preparation and the post balance sheet impact of COVID-19, to determine whether they were consistent with the results of management's forecasts and in accordance with the requirements of FRS 102 and recommended additional clarifying disclosures on COVID-19 were made.	

An overview of the scope of our audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each entity 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, changes in the business environment and other factors when assessing the level of work to be performed at each entity.

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 three reporting components of the Group.

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

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 to be £540,000 (PY: £633,000), which is 3% of the Fund for Future Appropriations. We believe that the Fund for Future Appropriations provides us with the most appropriate basis for determining materiality as it reflects the underlying interests of the members of the Group.

We determined materiality for the Society to be £540,000 (PY: £633,000), which is 3% of the Fund for Future Appropriations.

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% of our planning materiality, namely £270,000 (PY: £316,000). We have set performance materiality at this percentage based on our assessment of the risk of misstatement.

Audit work of the components for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of Group 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 £54,000 to £270,000.

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 £27,000 (PY: £32,000), 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 set out on pages 5 to 34 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.

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF NATIONAL DEPOSIT FRIENDLY SOCIETY LIMITED

In connection with our audit of the financial statements, 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 audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. 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.

As a result of the directors' voluntary reporting on how they have applied the Code, we also have nothing to report in regard to our responsibility under ISAs (UK) to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- Fair, balanced and understandable set out on page 27 – the statement given by the directors that they consider 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 group's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- Audit committee reporting set out on pages 29-30 – the section describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee.

Other voluntary reporting

In accordance with terms of engagement from the Society we review whether the Corporate Governance Statement reflects the Society's compliance with the Code and this includes us performing:

- an assessment based on inquiry of the directors, the supporting documentation prepared by or for the Directors and our knowledge obtained during the audit of the financial statements, of whether the Society's summary of the process the Board (and where applicable its committees) has adopted in reviewing the effectiveness of internal control appropriately reflects that process; and
- a review of the Society's disclosure of the processes it has applied to deal with material internal control aspects of any significant problems disclosed in the annual report and financial statements.

We have nothing to report in respect of this review based on the matters above.

Opinion on matters prescribed by the Friendly Societies Act 1992

The Group and Society complies with Friendly Societies Act 1992 and the regulations made under it. In our opinion the Report of the Board of Management has been prepared in accordance with the Friendly Societies Act 1992 and the regulations made under it, and the information given in the Report of the Board of Management is consistent with the accounting records and consolidated financial statements for the financial year.

Opinions on other matters prescribed by the Friendly Societies Act 1992

In our opinion under the Friendly Societies Act 1992:

- satisfactory systems of control of the business and accounting records have been maintained by the Group and Society; and
- the Group and Society's financial statements are in agreement with the accounting records.

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 are required by the Friendly Societies Act 1992 to state in our report whether by exception the following:

- If we are of the opinion that proper accounting records have not been kept; or
- If we fail to obtain all the information and explanations and the access to documents which, to the best of our knowledge and belief, are necessary for the purposes of our audit.

We have no exceptions to report arising from this responsibility.

Responsibilities of directors

As explained more fully in the Statement of Responsibilities of the Directors set out on page 27, 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 Society or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

The objectives of our audit,

- in respect to fraud, are; to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management; and
- in respect to irregularities, considered to be non-compliance with laws and regulations, are to obtain sufficient appropriate audit evidence regarding compliance with the provisions of those laws and regulations generally recognized to have a direct effect on the determination of material amounts and disclosures in the financial statements ('direct laws and regulations'), and perform other audit procedures to help identify instances of non-compliance with other laws and regulations that may have a material effect on the financial statements. We are not responsible for preventing non-compliance with laws and regulations and our audit procedures cannot be expected to detect non-compliance with all laws and regulations.

Our approach was as follows:

- We obtained a general understanding of the legal and regulatory frameworks that are applicable to the Group and Society and determined that the direct laws and regulations, related to elements of company law and tax legislation, and the financial reporting framework. Our considerations of other laws and regulations that may have a material effect on the financial statements included permissions and supervisory requirements of the Prudential Regulation Authority ('PRA') and the Financial Conduct Authority ('FCA').
- We obtained a general understanding of how the Group and Society complies with these legal and regulatory frameworks by making enquiries of management, internal audit, and those responsible for legal and compliance matters. We also reviewed correspondence between the Group and Society and UK regulatory bodies; reviewed minutes of the Board and its Committees; and gained an understanding of the Group and Society's approach to governance, demonstrated by the Board's approval of the Group and Society's governance framework and the Board's review of the Group's risk management framework and internal control processes.
- 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.

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF NATIONAL DEPOSIT FRIENDLY SOCIETY LIMITED

- For both direct and other laws and regulations, our procedures involved: making enquiry of those charged with governance and senior management 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.
- 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.
- 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 entity, or that otherwise seek to prevent, deter or detect fraud. We also considered areas of significant judgement and complex transactions 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 actuarial assumptions noted above. With regard to revenue recognition fraud risk we tied back all the gross premium income received to cash received during the year and additional procedures included testing 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 address completeness and occurrence of revenue in conjunction with our journal entry testing. These procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error.

Other matters we are required to address

- We were appointed by the Society on 6 September 2017 to audit the financial statements for the year ending 31 December 2019 and subsequent financial periods.
- The period of total uninterrupted engagement is 3 years, covering the year ending 31 December 2019.
- 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 the 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 Group and Society's members, as a body, in accordance with Section 73 of the Friendly Societies Act 1992. Our audit work has been undertaken so that we might state to the Group and Society'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 Group and Society and the Group and Society's members as a body, for our audit work, for this report, or for the opinions we have formed.

Andy Blackmore

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

28 August 2020

Notes:

1. The maintenance and integrity of the National Deposit Friendly Society Limited web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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INCOME STATEMENT

For the year ended 31 December 2019

	Note	Group				Society			
		2019		2018		2019		2018	
		£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Gross premiums written and payments to deposit	4	14,371		9,979		14,371		9,979	
Outward reinsurance premiums		(861)		(225)		(861)		(225)	
Earned premiums net of reinsurance			13,510		9,754		13,510		9,754
Investment income	5		3,608		6,534		3,608		6,534
Unrealised gains on investments	5		7,855		-		7,855		-
Other technical income	6		439		568		29		96
			25,412		**16,856**		**25,002**		**16,384**
Gross claims paid		19,158		17,876		19,158		17,876	
Reinsurers' share		(266)		(69)		(266)		(69)	
Net claims paid			18,892		17,807		18,892		17,807
Change in provision for claims			318		365		318		365
Change in long term funds Long term business provision – gross amount		(4,989)		(13,295)		(4,989)		(13,295)	
Reinsurers' share		1,401		-		1,401		-	
Long term business provision – net of reinsurance amount			(3,588)		(13,295)		(3,588)		(13,295)
Investment contract liabilities			(14)		(6)		(14)		(6)
Provision for linked liabilities – insurance contracts	22		160		(154)		160		(154)
Provision for linked liabilities – investment contracts	22		48		(28)		48		(28)
Bonuses and rebates			(35)		(36)		(35)		(36)
Net operating expenses	7a								
Acquisition costs		4,319		3,041		4,137		2,786	
Administrative expenses		3,647		3,636		3,176		3,186	
			7,966		6,677		7,313		5,972
Other technical charges – project costs	7b		1,479		3,011		1,465		3,017
- other			43		46		51		47
Investment expenses	8		830		792		830		792
Unrealised losses on investments	5		-		7,909		-		7,909
Loss on investment in subsidiary	26		-		-		119		380
Tax attributable to long term business	11a		(20)		(11)		(21)		-
Transfer to/(from) the fund for future appropriations			(667)		(6,221)		(536)		(6,386)
			25,412		**16,856**		**25,002**		**16,384**
Balance after transfer to/(from) the fund for future appropriations			-		-		-		-

The information on pages 50 to 96 form an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2019

	Note	Group		Society	
		2019 £'000	2018 £'000	2019 £'000	2018 £'000
Balance transferred from income statement		-	-	-	-
Actuarial (loss)/gain on pension scheme	21	(1,169)	152	(1,169)	152
Revaluation of occupied land and buildings		241	269	241	269
Total comprehensive income		**(928)**	**421**	**(928)**	**421**
Transfer (from)/to the fund for future appropriations		(928)	421	(928)	421
Total comprehensive income after transfer		-	-	-	-

The information on pages 50 to 96 form an integral part of these financial statements.

BALANCE SHEET

As at 31 December 2019

		Group				Society			
	Note	2019		2018		2019		2018	
ASSETS		**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Intangible assets	**17**		3, 087		3,000		–		300
Investments									
Land and buildings	**12**	22,390		26,020		22,390		26,020	
Investment in subsidiaries	**26**	–		–		551		20	
Other financial investments	**13**	76,259		77,231		76,259		77,231	
			98,649		103,251		99,200		103,271
Assets held to cover linked liabilities	**16**		1,684		1,635		1,684		1,635
Reinsurers' share of technical provisions			–		101		–		101
Debtors – Loans and receivables									
Debtors arising from direct insurance operations	**3**	117		185		112		147	
Other debtors	**3**	689		752		689		760	
			806		937		801		907
Other assets									
Tangible assets	**18**	2,891		2,671		2,891		2,671	
Cash at bank and in hand	**14**	614		459		548		401	
Deferred tax asset	**11c**	10		11		–		–	
			3,515		3,141		3,439		3,072
Prepayments and accrued income – Loans and Receivables									
Accrued interest and rent		1,401		1,517		1,401		1,517	
Other prepayments and accrued income		235		554		2,925		3,244	
			1,636		2,071		4,326		4,761
			109,377		**114,136**		**109,450**		**114,047**

The information on pages 50 to 96 form an integral part of these financial statements.

As at 31 December 2019

		Group				Society			
	Note	2019		2018		2019		2018	
LIABILITIES		**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Fund for future appropriations	**27**		17,573		19,168		17,584		19,048
Technical provisions									
Long term business provision	**20**	83,145		88,134		83,145		88,134	
Investment contract liabilities		4		18		4		18	
Claims outstanding		2,532		2,214		2,532		2,214	
Provision for bonuses and rebates		85		120		85		120	
			85,766		90,486		85,766		90,486
Technical provision for linked liabilities – insurance contracts	**22**		1,196		1,036		1,196		1,036
Technical provision for linked liabilities – investment contracts	**22**		375		327		375		327
Reinsurers' share of technical provisions			1,300		-		1,300		-
Provision for other risks and charges									
Derivatives	**28**		199		787		199		787
Creditors									
Arising out of direct insurance operations		49		49		49		49	
Other creditors including taxation and social security		607		350		393		307	
Accruals and deferred income		981		1,254		1,257		1,328	
			1,637		1,653		1,699		1,684
Net pension liability	**21**	1,331		679		1,331		679	
			1,331		679		1,331		679
			109,377		**114,136**		**109,450**		**114,047**

The information on pages 50 to 96 form an integral part of these financial statements.

These financial statements were approved by the Board on 26 August 2020.

Jonathan Long
Chief Executive Officer

Sandy Richards
Executive Director

Dawn Carey
Secretary

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

1 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 and liquidity 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.

In addition, the Directors have considered the proposed management actions in the capital recovery plan submitted to the PRA and specific COVID-19 stress scenarios that included the impact of a further 15% decrease in equity values, 15% decrease in property values and reductions in interest rates from the position as at 30 June 2020. These, alongside stresses for worsening morbidity, lapses and expenses considered as part of the ORSA process, demonstrate that the Society's capital was projected to remain above Minimum Capital Requirements and post management actions above the Solvency Capital Requirements with sufficient liquidity to meet liabilities for a period of at least 12 months from the date of approving the annual report and financial statements. Over 70% of the Society's investments are held in cash, fixed income and equities, which can be liquidated at short notice and therefore, the Society is confident that it can continue to meet its cash outflows, including claims and supplier payments, during this uncertain period.

Therefore, the Directors believe that the Society is well placed to manage its business risks in respect of liquidity and cash flows. The Directors have a reasonable expectation that the Society has adequate resources to continue in operational existence for a period of at least 12 months from the date of approving the annual report and financial statements. 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. As of 1 January 2019 this includes Triennial Review 2017 Amendments, which has no impact on the accounts.

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 and National Friendly Software Solutions Limited. 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.

Premiums

Premiums are accounted for when due for payment.

Insurance commission

Insurance commission represents the value of commission receivable, recognised on the effective commencement or renewal date of the policy. All commission received relates to insurance business transacted in the United Kingdom.

1 Accounting policies (continued)

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 purchase. 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 excess premiums which will be ceded to reinsurers.

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. 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 comply with the PRA rulebook: Solvency II Firms Technical Provisions Instrument 2015.

Solvency II Provisions 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 practices. The calculations generate probability weighted cashflows for each monthly time period within a policy's contract boundary. The cash flows are discounted using the European Insurance and Occupational Pension Authority ("EIOPA") risk free yield curve and thus make allowance for the time value of money.

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 (SCR) 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 Technical Provisions and SCR reported in the Financial Statements do not take account of any transition 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.

NOTES TO THE FINANCIAL STATEMENTS

1 Accounting policies (continued)

Claims outstanding

The outstanding claims reserve provides for all the estimated (based on actuarial calculations) Healthcare and Healthguard 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

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 useful economic life, which is 10 years.

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

Projects costs are charged to the income statement with the exception of major projects where the outcome is assessed to be reasonably certain as regards viability and feasibility. These costs are capitalised if 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.

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

1 Accounting policies (continued)

trustees with the objective of having sufficient assets to meet its liabilities.

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 actuarially 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 technical account is transferred to or from the fund on an annual basis. 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.

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 Life Framework Directive, and is approved by the Board.

NOTES TO THE FINANCIAL STATEMENTS

1 Accounting policies (continued)

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

The Society holds some forward contracts for foreign currency exchange. The Society also holds some gilt future contracts 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 are classified as financial assets or financial liabilities respectively and are classified as fair value through the profit and loss. They are initially recognised and are subsequently re-measured at their fair value. Changes in fair value are recognised through unrealised or realised gains and losses on the income statement.

All derivatives are carried as assets when fair value is positive and as liabilities when the fair value is negative.

Foreign currencies

Some fixed interest investments are held in foreign currencies. The assets are held on the balance sheet in sterling using the year-end exchange rate, whilst the book cost is calculated using the exchange rate on the day of purchase. Any gains or losses on the exchange rates are recognised through unrealised or realised gains and losses in the income statement.

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.

1 Accounting policies (continued)

Key estimates and judgements

a. Classification of contracts

A key issue for the Society under FRS103 is that a distinction is made between insurance contracts, investment contracts and investment contracts with discretionary participation features. The Society issues contracts that transfer insurance risk, financial risk or both. Insurance contracts are those contracts that transfer significant insurance risk. Such contracts may also transfer financial risk.

Investment contracts are those that transfer financial risk with no significant insurance risk.

For each product type within the Society's portfolio, Management has reviewed the level of benefits under the contract to determine the appropriate contract classification. All with-profits contracts have been classified as participating contracts as these contracts entitle the holder to receive, as a supplement, guaranteed benefits, additional benefits or bonuses that are likely to be a significant portion of the total contractual benefits whose amount or timing is contractually at the discretion of the Society.

As a result of this review, three products, temporary annuities, CABF Unit-linked Whole of Life Flexiplan and CABF Unit Linked Whole Life Bond, have been classified as Investment Contracts.

b. 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 is longevity. The non-economic assumptions are based on the Society's own experience and projection of expenses. The valuation interest rates used to discount projected cash flows are a duration-specific risk-free yield curve specified by EIPOA (the European Insurance and Occupational Pensions Authority) under Solvency II regulations. 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.

c. 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 this valuations are the rental income and yield assumptions. Further information is provided in note 12.

NOTES TO THE FINANCIAL STATEMENTS

1 Accounting policies (continued)

Key estimates and judgements (continued)

d. 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 investment 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 detail are provided in note 13.

e. 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.

f. 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 value of the subsidiary companies which are not considered to be materially different from the net asset values in the respective subsidiary accounts.

g. Valuation of Intangible Assets

The Group holds intangible assets at cost less accumulated amortisation. The value of these assets are reviewed annually and impaired through the income statement if the carrying value is greater than the fair value of the expected future cashflows.

2 Capital management

The regulatory capital requirement for the Society is determined by the Solvency II regime. 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. This is monitored formally through the Board on a bi-annual basis and more regularly by the Actuarial Function.

The Society calculates its SCR in accordance with EIOPA's standard formula. The liabilities are discounted using risk free discount rates prescribed by EIOPA. These rates do not necessarily reflect the rates earned on the financial assets held by the Society. The Society complied with the prudential requirements regarding capital and technical provisions throughout 2019.

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 Solvency II regulatory purposes certain assets are deemed inadmissible for meeting the capital requirements. At the balance sheet date £0.5m (2018: £0.3m) 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 Solvency II, with the exception that the Society has adopted a Transitional Measure on the risk-free Interest Rate (TMIR) for its regulatory reporting to the PRA under Solvency II. The TMIR applies only to policies in force prior to the Solvency II regime and is released over a 16 year period.

The Capital Statement below outlines the Society's Capital available for regulatory requirements. This is the Solvency II Own Funds. The impact of the TMIR is shown.

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Capital Statement

	Society	
	2019 **£'000**	**2018** **£'000**
Fund for future appropriations	**17,584**	**19,048**
Regulatory valuation adjustment	(522)	(300)
Transitional measures adjustment	1,203	1,706
Capital available to meet regulatory capital requirements	**18,265**	**20,454**

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

NOTES TO THE FINANCIAL STATEMENTS

2 Capital management (continued)

	Society 2019 £'000
Available capital at the start of the year	**20,454**
Model and methodology changes	(272)
Assumption changes	(2,552)
Actual versus expected* investment income and gains	10,478
Actual versus expected* inflows	(424)
Actual versus expected* outflows	(6,279)
Actual versus expected in force data at end 2019	62
New business**	(54)
Change in Additional Expense Reserve (AER)***	(1,876)
Change in the Risk Margin (other than due to new business)	458
Impact of Staff Superannuation Fund****	(1,247)
Other adjustments	19
Change in TMIR	(502)
Available capital at the end of the year	**18,265**

* Other than for actual investment income, the actual versus expected are only in respect of business in force at 31/12/2018. New business is covered separately.

** New business is the total of premiums, claims, commission, acquisition expenses, the change in the BEL and the change in the Risk Margin due to new business.

*** Relating to 2020 cash-flows onwards. 2019 cash-flows are picked up in the expected outflows line.

**** Impact of Staff Superannuation Fund reflects the change in the assets, the change in the liabilities and the contributions the Society has made over 2019.

2 Capital management (continued)

- Model and methodology changes have reduced the available capital by £0.3m. The majority of this impact is due to data migrations.
- The Society's assets yielded an investment gain over 2019 of £11.4m. Expected investment returns (at the risk-free rate) over 2019 on assets held to back the liabilities were £0.9m. This has resulted in an actual versus expected impact of investment returns of £10.5m.
- Actual outflows were higher than expected by £6.3m. A key driver of this is crediting of high investment returns over the expected risk free rates to the with-profits liabilities.
- New business written over 2019 has reduced the available capital by £0.1m.
- The Additional Expense Reserve (AER) has increased by £0.4m. However, some of the 2018 AER related to expected expenses during 2019 and so are included in the actual versus expected outflows in the table. The change in the AER relating only to expenses from 2020 onwards, reduces Own Funds by £1.9m.
- The change in the Risk Margin (other than due to model changes and new business) has increased available capital by £0.5m.

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.

NOTES TO THE FINANCIAL STATEMENTS

2 Capital management (continued)

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.

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 reductions in "premium surplus" (a discretionary proportion of each premium that is paid into the member's 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 could be mitigated through reinsurance, but is not currently.

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.

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

Mortality risk:

The Society is exposed to the risk that mortality is increased. The risk has increased over 2019 with further variants of the Guaranteed Life Assurance product being sold. The Society's exposure to mortality risk is expected to increase as we continue to sell these products.

2 Capital management (continued)

The following table shows the sensitivity of the Society's available capital to changes in assumptions. The assumption changes shown are those as per the Solvency II standard formula. The sensitivities do not allow for the TMIR adjustment.

	Society
	Impact £'000
Property risk * Decrease in property values of 25%	**(1,672)**
Interest rate risk * Increase in risk free yield curve as specified by EIOPA (+1%) Decrease in risk free yield curve as specified by EIOPA (c.-0.3%**)	 **(1,967)** **464**
Equity risk * Decrease in equity values of 37.1%	**(919)**
Credit spread risk * Decrease in corporate bond values of 11.0%	**(3,869)**
Lapse risk *** Increase in lapse rates of 50% Decrease in lapse rates of 50% Mass lapse of 40%	 **(443)** **(1,526)** **(3,676)**
Longevity risk Decrease in mortality rates of 20%	**(1,902)**
Expense risk Increase in per policy expenses of 10% and expense inflation of 1% p.a.	**(1,994)**
Morbidity risk Increase in morbidity rates of 5% and claim inflation of 1% p.a.	**(1,041)**
Mortality risk Increase in mortality rates of 15%	**(1,013)**

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

*** Article 142 of the Solvency II Delegated Act 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 capital.

NOTES TO THE FINANCIAL STATEMENTS

3 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, 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 Own Funds from changes in interest rates is reduced by close matching of assets to liabilities.

b. Exchange rate risk

The Society has a number of fixed interest investments in foreign currencies which present an exchange rate risk that is mitigated by holding Forward Contracts for foreign exchange as a natural hedge against the exchange rate risk. The Society's holdings shown by currencies are listed overleaf:

3 Risk management (continued)

Market Value Equities	Group & Society 2019 £'000	Group & Society 2018 £'000
UK pound	10,338	12,453
Euro	–	195
Swiss franc	–	247
	10,338	**12,895**

Market Value Fixed Interest	Group & Society 2019 £'000	Group & Society 2018 £'000
UK pound	49,969	50,763
Australian dollar	–	234
Euro	572	567
USA dollar	11,161	10,068
	61,702	**61,632**

Exchange rate risk is hedged so a small change in the exchange rate will 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.

c. Equity price risk

Holdings in equities are by their nature subject to market movement. In order to mitigate this risk the Society employs an external investment portfolio manager and the Investment Committee regularly review 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 high rated banks with the 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 more risky 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 which will decline as the portfolio matures. Therefore, there are no specific actions envisaged to manage the risks in this section.

NOTES TO THE FINANCIAL STATEMENTS

3 Risk management (continued)

The assets bearing credit risk are summarised and analysed by credit rating below:

	Group	
	2019 £'000	2018 £'000
Derivative financial instruments	685	118
Listed fixed interest securities	61,702	61,632
Loans and receivables	2,516	2,570
Deposits with credit institutions	3,419	2,470
Cash at bank and in hand	614	459
	68,936	**67,249**
AAA	5,925	4,628
AA	25,693	24,732
A	25,305	24,448
BBB	10,172	7,844
Below BBB	-	-
Not rated	1,841	5,597
	68,936	**67,249**

The assets bearing credit risk are summarised and analysed by credit rating below:

	Society	
	2019 £'000	2018 £'000
Derivative financial instruments	685	118
Listed fixed interest securities	61,702	61,632
Loans and receivables (Note 14)	2,317	2,540
Deposits with credit institutions	3,419	2,470
Cash at bank and in hand	548	401
	68,671	**67,161**
AAA	5,925	4,628
AA	25,626	24,675
A	25,305	24,448
BBB	10,172	7,844
Below BBB	-	-
Not rated	1,643	5,566
	68,671	**67,161**

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3 Risk management (continued)

No credit limits were exceeded during the year. No financial assets are past due or impaired at the reporting date and management expects no significant losses from non-performance by these counterparties.

iii. Liquidity risk

Liquidity risk is the risk that the Society, although solvent, 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 primarily investing in liquid assets.

The Society also holds some gilt futures to manage the duration of the fixed interest portfolio. This strategy is intended to be maintained and the Society will also 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.

	Group				
	No maturity date	Within 1 year	1 - 5 years	Over 5 years	Total
Financial and insurance liabilities at 31/12/19	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Fund for future appropriation	17,573	–	–	–	**17,573**
Long term business provision	–	2,325	4,090	76,730	**83,145**
Investment contract liabilities	–	1	3	-	**4**
Claims outstanding	-	2,532	-	-	**2,532**
Provision for bonuses and rebates	-	19	41	25	**85**
Technical provision for linked liabilities – insurance contracts	-	1,196	-	-	**1,196**
Technical provision for linked liabilities – investment contracts	-	375	-	-	**375**
Reinsurers' share of technical provisions	-	-	1,230	70	**1,300**
Derivatives	-	199	-	-	**199**
Defined benefit pension liability	-	-	-	1,331	**1,331**
Creditors arising out of direct insurance operations	-	49	-	-	**49**
Other creditors including taxation and social security	-	607	-	-	**607**
Accruals and deferred income	-	981	-	-	**981**
Total financial and insurance liabilities	**17,573**	**8,284**	**5,364**	**78,156**	**109,377**

NOTES TO THE FINANCIAL STATEMENTS

3 Risk management (continued)

	Group				
	No maturity date	Within 1 year	1 - 5 years	Over 5 years	Total
Financial and insurance liabilities at 31/12/18	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Fund for future appropriation	19,168	-	-	-	**19,168**
Long term business provision	–	9,034	4,396	74,704	**88,134**
Investment contract liabilities	–	5	13	-	**18**
Claims outstanding	-	2,214	-	-	**2,214**
Provision for bonuses and rebates	-	65	33	22	**120**
Technical provision for linked liabilities – insurance contracts	-	1,036	-	-	**1,036**
Technical provision for linked liabilities – investment contracts	-	327	-	-	**327**
Derivatives	-	787	-	-	**787**
Defined benefit pension liability	-	-	-	679	**679**
Creditors arising out of direct insurance operations	-	49	-	-	**49**
Other creditors including taxation and social security	-	350	-	-	**350**
Accruals and deferred income	-	1,254	-	-	**1,254**
Total financial and insurance liabilities	**19,168**	**15,121**	**4,442**	**75,405**	**114,136**

3 Risk management (continued)

	Group				
Financial assets at 31/12/19	No maturity date £'000	Within 1 year £'000	1 - 5 years £'000	Over 5 years £'000	Total £'000
Equity investments	10,338	–	–	–	**10,338**
Fixed interest securities	–	158	6,801	54,743	**61,702**
Derivatives	–	685	–	–	**685**
Deposits with credit institutions	–	3,419	–	–	**3,419**
Mortgages	107	2	6	–	**115**
Assets held to cover linked liabilities	1,684	–	–	–	**1,684**
Debtors arising from direct insurance operations	–	117	–	–	**117**
Other debtors	–	689	–	–	**689**
Cash at bank and in hand	614	–	–	–	**614**
Accrued interest and rent	–	1,401	–	–	**1,401**
Total financial assets	**12,743**	**6,471**	**6,807**	**54,743**	**80,764**

	Group				
Financial assets at 31/12/18	No maturity date £'000	Within 1 year £'000	1 - 5 years £'000	Over 5 years £'000	Total £'000
Equity investments	12,895	–	–	–	**12,895**
Fixed interest securities	–	1,895	6,813	52,924	**61,632**
Derivatives	–	118	–	–	**118**
Deposits with credit institutions	–	2,470	–	–	**2,470**
Mortgages	95	5	13	3	**116**
Assets held to cover linked liabilities	1,635	–	–	–	**1,635**
Debtors arising from direct insurance operations	–	185	–	–	**185**
Other debtors	–	752	–	–	**752**
Cash at bank and in hand	459	–	–	–	**459**
Accrued interest and rent	–	1,517	–	–	**1,517**
Total financial assets	**15,084**	**6,942**	**6,826**	**52,927**	**81,779**

NOTES TO THE FINANCIAL STATEMENTS

3 Risk management (continued)

	Society				
	No maturity date	Within 1 year	1 - 5 years	Over 5 years	Total
Financial and insurance liabilities at 31/12/19	£'000	£'000	£'000	£'000	£'000
Fund for future appropriation	17,584	–	–	–	**17,584**
Long term business provision	–	2,325	4,090	76,730	**83,145**
Investment contract liabilities	–	1	3	–	**4**
Claims outstanding	–	2,532	–	–	**2,532**
Provision for bonuses and rebates	–	19	41	25	**85**
Technical provision for linked liabilities – insurance contracts	–	1,196	–	–	**1,196**
Technical provision for linked liabilities – investment contracts	–	375	–	–	**375**
Reinsurers' share of technical provisions	–	–	1,230	70	**1,300**
Derivatives	–	199	–	–	**199**
Defined benefit pension liability	–	–	–	1,331	**1,331**
Creditors arising out of direct insurance operations	–	49	–	–	**49**
Other creditors including taxation and social security	–	393	–	–	**393**
Accruals and deferred income	–	1,257	–	–	**1,257**
Total financial and insurance liabilities	**17,584**	**8,346**	**5,364**	**78,156**	**109,450**

	Society				
	No maturity date	Within 1 year	1 - 5 years	Over 5 years	Total
Financial and insurance liabilities at 31/12/18	£'000	£'000	£'000	£'000	£'000
Fund for future appropriation	19,048	–	–	–	**19,048**
Long term business provision	–	9,034	4,396	74,704	**88,134**
Investment contract liabilities	–	5	13	–	**18**
Claims outstanding	–	2,214	–	–	**2,214**
Provision for bonuses and rebates	–	65	33	22	**120**
Technical provision for linked liabilities – insurance contracts	–	1,036	–	–	**1,036**
Technical provision for linked liabilities – investment contracts	–	327	–	–	**327**
Derivatives	–	787	–	–	**787**
Defined benefit pension liability	–	–	–	679	**679**
Creditors arising out of direct insurance operations	–	49	–	–	**49**
Other creditors including taxation and social security	–	307	–	–	**307**
Accruals and deferred income	–	1,328	–	–	**1,328**
Total financial and insurance liabilities	**19,048**	**15,152**	**4,442**	**75,405**	**114,047**

3 Risk management (continued)

Financial assets at 31/12/19	Society No maturity date £'000	Within 1 year £'000	1 - 5 years £'000	Over 5 years £'000	Total £'000
Equity investments	10,338	–	–	–	**10,338**
Fixed interest securities	–	158	6,801	54,743	**61,702**
Derivatives	–	685	–	–	**685**
Deposits with credit institutions	–	3,419	–	–	**3,419**
Mortgages	107	2	6	–	**115**
Assets held to cover linked liabilities	1,684	–	–	–	**1,684**
Debtors arising from direct insurance operations	–	112	–	–	**112**
Other debtors	–	147	–	–	**147**
Cash at bank and in hand	548	–	–	–	**548**
Accrued interest and rent	–	1,401	–	–	**1,401**
Total financial assets	**12,677**	**6,466**	**6,807**	**54,743**	**80,693**

Financial assets at 31/12/18	Society No maturity date £'000	Within 1 year £'000	1 - 5 years £'000	Over 5 years £'000	Total £'000
Equity investments	12,895	–	–	–	**12,895**
Fixed interest securities	–	1,895	6,813	52,924	**61,632**
Derivatives	–	118	–	–	**118**
Deposits with credit institutions	–	2,470	–	–	**2,470**
Mortgages	95	5	13	3	**116**
Assets held to cover linked liabilities	1,635	–	–	–	**1,635**
Debtors arising from direct insurance operations	–	147	–	–	**147**
Other debtors	–	760	–	–	**760**
Cash at bank and in hand	401	–	–	–	**401**
Accrued interest and rent	–	1,517	–	–	**1,517**
Total financial assets	**15,026**	**6,912**	**6,826**	**52,927**	**81,691**

NOTES TO THE FINANCIAL STATEMENTS

3 Risk management (continued)

iv. Fair value estimation

The principal financial assets held at 31 December 2019, analysed by their fair value hierarchies are:

	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
Assets 2019 Financial assets at fair value through the profit and loss				
- Equity investments	10,338	-	-	10,338
- Fixed interest securities	19,448	42,254	-	61,702
- Derivatives	231	454	-	685
- Assets held to cover linked liabilities	-	1,684	-	1,684
Total assets	**30,017**	**44,392**	**-**	**74,409**

The principal financial assets held at 31 December 2018, analysed by their fair value hierarchies were:

	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
Assets 2018 Financial assets at fair value through the profit and loss				
- Equity investments	12,895	-	-	12,895
- Fixed interest securities	18,488	43,144	-	61,632
- Derivatives	113	5	-	118
- Assets held to cover linked liabilities	-	1,635	-	1,635
Total assets	**31,496**	**44,784**	**-**	**76,280**

3 Risk management (continued)

The principal financial liabilities held at 31 December 2019, analysed by their fair value hierarchies are:

	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
Liabilities 2019 Financial liabilities at fair value through the profit and loss				
– Investment contract liabilities	–	4	–	4
– Investment contracts on linked liability fund	–	375	–	375
– Derivatives	122	77	–	199
Total liabilities	**122**	**456**	**-**	**578**

The principal financial liabilities held at 31 December 2018, analysed by their fair value hierarchies are:

	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
Liabilities 2018 Financial liabilities at fair value through the profit and loss				
– Investment contract liabilities	–	18	–	18
– Investment contracts on linked liability fund	–	327	–	327
– Derivatives	432	355	–	787
Total liabilities	**432**	**700**	**-**	**1,132**

The basis for determining 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 prevailing at the valuation point.

Fixed Interest Securities

Fixed interest securities is 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

NOTES TO THE FINANCIAL STATEMENTS

3 Risk management (continued)

justify Level 1 classification. Their value is values are 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 holds the following derivatives: bond futures, forward currency contracts; and interest rate swaps. Bond futures values are derived from active market quotes and exchange statements and classified as Level 1 using the latest available market price at the valuation point. Forward currency contracts and interest rate swaps are traded Over-The-Counter ("OTC") and calculated both in-house and using dual OTC Vendors, on a mid-market basis, using appropriate up-to-date market prices of underlying instruments applied to industry standard valuation models. Forward currency contracts are valued by either observable foreign exchange rates, observable or calculated forward points and option valuation models. They are classified as Level 2. 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.

4 Gross premiums written and payments to deposit

	Group & Society	
Gross premiums written and payments to deposit	**2019 £'000**	**2018 £'000**
Assurance	2,658	2,147
Immediate needs annuities	3,610	-
Bonds and other single premiums	228	213
Healthcare policies	7,393	7,217
Payments to deposit	451	370
Unit linked	31	32
	14,371	**9,979**

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

	Group & Society	
Gross new premiums written	**2019 £'000**	**2018 £'000**
Assurance	2,544	945
Immediate needs annuities	3,610	-
Bonds and other single premiums	228	196
Healthcare policies	1,570	661
	7,952	**1,802**

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.

5 Investment income

	Group		Society	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Income from land and buildings	**1,524**	**1,571**	**1,524**	**1,571**
Fixed interest stocks	2,331	2,712	2,331	2,712
Ordinary shares	428	469	428	469
Income from investments at fair value through profit and loss	**2,759**	**3,181**	**2,759**	**3,181**
Bank interest	19	16	19	16
Mortgages	3	4	3	4
Income from other investments	**22**	**20**	**22**	**20**
Income from investments	**4,305**	**4,772**	**4,305**	**4,772**
Net (losses)/gains on realisation of land and buildings	(370)	665	(370)	665
Net (losses)/gains on realisation of listed investments at fair value through profit and loss	(327)	1,097	(327)	1,097
Net gains on realisation of investments	**(697)**	**1,762**	**(697)**	**1,762**
Investment income	**3,608**	**6,534**	**3,608**	**6,534**
Net unrealised gains/(losses) on investments				
- Land and buildings	1,040	(373)	1,040	(373)
- Listed investments at fair value through profit and loss	6,647	(7,400)	6,647	(7,400)
- Assets held to cover linked liabilities at fair value through profit and loss	168	(136)	168	(136)
	7,855	**(7,909)**	**7,855**	**(7,909)**
Total investment return	**11,463**	**(1,375)**	**11,463**	**(1,375)**

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

6 Other technical income

	Group		Society	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Insurance commission	412	314	2	2
Other income	27	254	27	94
	439	**568**	**29**	**96**

NOTES TO THE FINANCIAL STATEMENTS

7 Net operating expenses

	Group		Society	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
a) Included in operating expenses are:				
Fees payable to external auditors:				
Audit of the Group and Society financial statements	194	149	188	149
Non-recurring audit fees in respect of prior year	-	33	-	33
Fees payable to internal auditors in respect of:				
Internal audit	51	45	51	45
Actuarial fees	17	66	17	66
Depreciation of tangible assets	62	58	62	58
(b) Other technical charges – project costs:				
Capital management	629	671	629	671
Distribution	40	18	26	-
Systems and processing	587	2,000	587	2,000
Risk management	223	322	223	346
Total project costs	**1,479**	**3,011**	**1,465**	**3,017**

8 Investment expenses

	Group		Society	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Investment management expenses	255	353	255	353
Investment property direct costs	575	439	575	439
	830	**792**	**830**	**792**

9 Staff costs

	Group		Society	
	2019	2018	2019	2018
Average monthly number of employees:				
Administration	38	38	38	38
Distribution	25	18	20	13
	63	**56**	**58**	**51**

The average full-time equivalent is 60 (2018: 54) for the Group and 55 (2018: 49) for the Society. Excludes Non-Executive Directors of 4 (2018: 4).

	Group		Society	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Wages and salaries (inc commission)	2,903	2,563	2,694	2,356
Social security costs	310	267	290	247
Pension costs	199	169	183	154
	3,412	**2,999**	**3,167**	**2,757**

This includes Executive Directors' emoluments totalling £332,617 (2018: £382,259). Details of Directors' remuneration are set out on page 32.

10 Directors' emoluments

	Group & Society	
	2019 £'000	2018 £'000
Aggregate emoluments	488	532

Retirement benefits are accruing to one Executive Director as at 31 December 2019 (2018: one) under a defined benefit scheme. The aggregate amount of pension contribution made by the Society to a defined contribution scheme was £5,274 (2018: £13,838).

NOTES TO THE FINANCIAL STATEMENTS

10 Directors' emoluments (continued)

Highest paid Director	Group & Society 2019 £'000	Group & Society 2018 £'000
Total emoluments and amounts receivable under long-term incentive schemes	244	222
Defined benefit scheme: Pension accrued during the year	-	-
Defined contribution scheme: Contributions made by the Society	-	-

11 Taxation

	Group		Society	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
(a) Tax attributable to long term business Tax (credited)/charged in the long term business technical account comprises:				
Current tax				
UK corporation tax	–	–	–	–
Prior year adjustments	(21)	–	(21)	–
Total current tax	**(21)**	**-**	**(21)**	**-**
Deferred tax				
Origination and reversal of timing differences	1	(11)	–	–
Total deferred tax	**1**	**(11)**	**-**	**-**
Total tax charged/(credited) in the long term business technical account	**(20)**	**(11)**	**(21)**	–

	Group		Society	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
(b) Factors that may affect future tax charges 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	112	264	112	264
Expenses deductible in future years	233	666	233	666
Trade losses	816	775	–	–
Short term timing differences	4	4	–	–
Deferred tax asset not recognised	**1,165**	**1,709**	**345**	**930**

11 Taxation (continued)

These 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 £1,772,340 (2018: £1,613,642).

Expenses deductible in the Society in future periods are primarily driven by excess management expenses carried forward of £928,526 (2018: £1,582,931), along with expenses for which tax relief is spread over 7 years of £44,927 (2018: £1,613,674). Future pension contributions and fixed asset timing differences make up a further £192,108 (2018: £133,106) of future tax deductions. Trade losses not recognised are made up of £4,797,294 (2018: £4,618,069) of trading losses incurred in National Friendly Financial Solutions Limited.

	Group		Society	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
(c) Balance sheet The deferred tax balance included within other assets comprises:				
Realised capital losses	243	59	243	59
Unrealised capital gains	(243)	(59)	(243)	(59)
Trade losses	10	11	–	–
Undiscounted deferred tax asset balance	**10**	**11**	–	–
d) Reconciliation of deferred taxation balances				
Opening deferred tax asset	11	–	–	–
(Charge)/credit to income statement	(1)	11	–	–
Credit/(charge) to statement of comprehensive income	–	–	–	–
	10	**11**	–	–

NOTES TO THE FINANCIAL STATEMENTS

12 Investments
Land and Buildings

	Group		Society	
	2019 £'000 Cost	2019 £'000 Valuation	2019 £'000 Cost	2019 £'000 Valuation
Freehold investment properties				
At 1 January	16,374	18,085	16,374	18,085
Additions	2,492	2,492	2,492	2,492
Disposals	(3,583)	(3,675)	(3,583)	(3,675)
Net gains on revaluation	–	378	–	378
At 31 December	**15,283**	**17,280**	**15,283**	**17,280**
Long leasehold properties				
At 1 January	8,016	7,875	8,016	7,875
Disposals	(3,581)	(2,625)	(3,581)	(2,625)
Net gains on revaluation	–	(200)	–	(200)
At 31 December	**4,435**	**5,050**	**4,435**	**5,050**
Freehold ground rents				
At 1 January	4	60	4	60
Disposals	–	–	–	–
Net gains on revaluation	–	–	–	–
At 31 December	**4**	**60**	**4**	**60**
Freehold and long leasehold investment properties: At 31 December	**19,722**	**22,390**	**19,722**	**22,390**

The Society's properties are included at Fair Value. The Properties are valued by Mellersh and Harding LLP as at 31st December 2019 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.

13 Other financial investments

	Group & Society			
	2019 £'000 Cost	2019 £'000 Valuation	2018 £'000 Cost	2018 £'000 Valuation
Fixed interest securities	53,130	61,702	57,037	61,632
Listed shares	9,939	10,338	14,019	12,895
Derivatives	–	685	–	118
Deposits with credit institutions	3,419	3,419	2,470	2,470
Mortgages	115	115	116	116
	66,603	**76,259**	**73,642**	**77,231**

Of the listed fixed interest securities £15,694,110 (2018: £24,704,160) relates to overseas fixed interest securities, with the remainder relating to UK fixed interest securities.

Of the listed shares £nil (2018: £3,006,877) relates to overseas investments, with the remainder relating to UK investments.

Derivatives consist of: forward contracts for foreign currency exchange to mitigate the risk of a change in foreign currency exchange rates; futures to manage the duration of the fixed interest portfolio; and held to hedge against the change in value of the liabilities of the Staff Superannuation Fund (SSF) which would result from a change in bond yields. The gain in the value of these contracts has been recognised through the income statement. The contracts will mature in 2020.

Included within deposits with credit institutions is £593,536 (2018: £794,585) which relates to cash in a cash margin account which enables the Society to enter into the forward contracts. This amount is held with the clearing house for the life of the contracts and is refunded if market movements mean that the contract is favourable and used to pay for the liability if it is adverse

NOTES TO THE FINANCIAL STATEMENTS

14 Financial assets

	Group			
	2019 £'000 Cost	2019 £'000 Valuation	2018 £'000 Cost	2018 £'000 Valuation
Financial assets at fair value through profit and loss				
Designated upon initial recognition	68,033	78,442	74,993	79,209
	68,033	**78,442**	**74,993**	**79,209**
Loans and receivables	2,322	2,322	2,570	2,570
Total financial assets	**70,355**	**80,764**	**77,563**	**81,779**
Included in the balance sheet as:				
Listed fixed interest securities	53,130	61,702	57,037	61,632
Listed shares	9,939	10,338	14,019	12,895
Derivatives	–	685	–	118
Deposits with credit institutions	3,419	3,419	2,470	2,470
Mortgages	115	115	116	116
Other financial investments (Note 13)	**66,603**	**76,259**	**73,642**	**77,231**
Assets held to cover linked liabilities (Note 16)	931	1,684	1,008	1,635
Debtors arising from direct insurance operations	117	117	185	185
Other debtors	689	689	752	752
Cash at bank and in hand	614	614	459	459
Accrued interest and rent	1,401	1,401	1,517	1,517
Total financial assets	**70,355**	**80,764**	**77,563**	**81,779**

14 Financial assets (continued)

	Society			
	2019 £'000 Cost	2019 £'000 Valuation	2018 £'000 Cost	2018 £'000 Valuation
Financial assets at fair value through profit and loss				
Designated upon initial recognition	67,967	78,376	74,935	79,151
	67,967	**78,376**	**74,935**	**79,151**
Loans and receivables	2,317	2,317	2,540	2,540
Total financial assets	**70,284**	**80,693**	**77,475**	**81,691**
Included in the balance sheet as:				
Listed fixed interest securities	53,130	61,702	57,037	61,632
Listed shares	9,939	10,338	14,019	12,895
Derivatives	–	685	–	118
Deposits with credit institutions	3,419	3,419	2,470	2,470
Mortgages	115	115	116	116
Other financial investments (Note 13)	**66,603**	**76,259**	**73,642**	**77,231**
Assets held to cover linked liabilities (Note 16)	931	1,684	1,008	1,635
Debtors arising from direct insurance operations	112	112	147	147
Other debtors	689	689	760	760
Cash at bank and in hand	548	548	401	401
Accrued interest and rent	1,401	1,401	1,517	1,517
Total financial assets	**70,284**	**80,693**	**77,475**	**81,690**

NOTES TO THE FINANCIAL STATEMENTS

15 Financial Liabilities

	Group			
	2019 £'000 Cost	2019 £'000 Valuation	2018 £'000 Cost	2018 £'000 Valuation
Financial liabilities at fair value through profit and loss				
Designated upon initial recognition	-	199	-	787
Other financial liabilities at amortised cost	2,016	2,016	1,998	1,998
Total financial liabilities	**2,016**	**2,215**	**1,998**	**2,785**
Included in the balance sheet as:				
Derivatives	-	199	-	787
Investment contract liabilities	4	4	18	18
Investment contract liabilities on linked liability fund	375	375	327	327
Arising out of direct insurance operations	49	49	49	49
Other creditors including taxation and social security	607	607	350	350
Accruals and deferred income	981	981	1,254	1,254
Total financial liabilities	**2,016**	**2,215**	**1,998**	**2,785**

	Society			
	2019 £'000 Cost	2019 £'000 Valuation	2018 £'000 Cost	2018 £'000 Valuation
Financial liabilities at fair value through profit and loss				
Designated upon initial recognition	-	199	-	787
Other financial liabilities at amortised cost	2,078	2,078	2,029	2,029
Total financial liabilities	**2,078**	**2,277**	**2,029**	**2,816**
Included in the balance sheet as:				
Derivatives	-	199	-	787
Investment contract liabilities	4	4	18	18
Investment contract liabilities on linked liability fund	375	375	327	327
Arising out of direct insurance operations	49	49	49	49
Other creditors including taxation and social security	393	393	307	307
Accruals and deferred income	1,257	1,257	1,328	1,328
Total financial liabilities	**2,078**	**2,277**	**2,029**	**2,816**

15 Financial Liabilities (continued)

Derivatives consist of forward contracts for foreign currency exchange to mitigate the risk of a change in foreign currency exchange rates. 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			
	2019 £'000 Cost	2019 £'000 Valuation	2018 £'000 Cost	2018 £'000 Valuation
Assets held to cover unit linked insurance contracts	709	1,282	764	1,244
Assets held to cover unit linked investment contracts	222	402	244	391
	931	**1,684**	**1,008**	**1,635**

Included within assets held to cover linked liabilities is £112,562 (2018: £272,100) 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

17 Intangible assets

	Group			
At 31 December 2018	**Software under Construction £'000**	**Customer Book £'000**	**Computer Software £'000**	**Total £'000**
Cost/Valuation	1,397	–	3,250	**4,647**
Accumulated depreciation and impairment	(1,097)	–	(550)	**(1,647)**
Net book amount	**300**	**-**	**2,700**	**3,000**
Year ended 31 December 2019				
Opening net book value	300	–	2,700	3,000
Additions	–	429	–	429
Transfers	(300)	–	300	–
Amortisation	–	(42)	(300)	(342)
Revaluation	–	–	–	–
Carrying amount	**-**	**387**	**2,700**	**3,087**
At 31 December 2019				
Cost/Valuation	–	429	3,550	3,979
Accumulated depreciation and impairment	–	(42)	(850)	(892)
Carrying amount	**-**	**387**	**2,700**	**3,087**

	Society	
At 31 December 2018	**Software under Construction £'000**	**Total £'000**
Cost/Valuation	1,397	**1,397**
Accumulated depreciation and impairment	(1,097)	**(1,097)**
Carrying amount	**300**	**300**
Year ended 31 December 2019		
Opening net book value	**300**	**300**
Transfers	(300)	**(300)**
Amortisation	–	–
Revaluation	–	–
Carrying amount	–	–
At 31 December 2019		
Cost/Valuation	–	–
Accumulated depreciation and impairment	–	–

18 Tangible assets

	Group				
At 31 December 2018	**Land & Buildings £'000**	**Computer Equipment £'000**	**Office Equipment £'000**	**Motor Vehicle £'000**	**Total £'000**
Cost/Valuation	2,499	494	170	99	**3,262**
Accumulated depreciation and impairment	–	(477)	(92)	(22)	**(591)**
Net book amount	**2,499**	**17**	**78**	**77**	**2,671**
Year ended 31 December 2019					
Opening net book value	2,499	17	78	77	**2,671**
Additions	–	2	17	22	**41**
Depreciation	–	(7)	(20)	(35)	**(62)**
Revaluation	241	–	–	–	**241**
Closing net book amount	**2,740**	**12**	**75**	**64**	**2,891**
At 31 December 2019					
Cost/Valuation	2,740	496	187	121	**3,544**
Accumulated depreciation and impairment	–	(484)	(112)	(57)	**(653)**
Net book amount	**2,740**	**12**	**75**	**64**	**2,891**

NOTES TO THE FINANCIAL STATEMENTS

18 Tangible assets (continued)

	Society				
At 31 December 2018	**Land & Buildings £'000**	**Computer Equipment £'000**	**Office Equipment £'000**	**Motor Vehicle £'000**	**Total £'000**
Cost/Valuation	2,499	494	170	99	**3,262**
Accumulated depreciation and impairment	-	(477)	(92)	(22)	**(591)**
Net book amount	**2,499**	**17**	**78**	**77**	**2,671**
Year ended 31 December 2019					
Opening net book value	2,499	17	78	77	**2,671**
Additions	-	2	17	22	**41**
Depreciation	-	(7)	(20)	(35)	**(62)**
Revaluation	241	-	-	-	**241**
Closing net book amount	**2,740**	**12**	**75**	**64**	**2,891**
At 31 December 2019					
Cost/Valuation	2,740	496	187	121	**3,544**
Accumulated depreciation and impairment	-	(484)	(112)	(57)	**(653)**
Net book amount	**2,740**	**12**	**75**	**64**	**2,891**

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 2019 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 £1,538,000 (2018: £1,538,000), a useful life of 100 years and a net book value of £1,446,000 (2018: £1,461,000).

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 2019 are £1,831,364 (2018: £nil).

20 Long term business provision

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

Rates of interest	Solvency II Best Estimate Assumptions
All contracts	Based on prescribed Solvency II rates

Rates of mortality	Solvency II Best Estimate Assumptions
Health contracts	Ranges from 69.0% to 78.2% (2018: 69.0% to 78.2%) of the AMN00 and AFN00 ultimate tables for assured lives depending on the contract.
Life contracts	Ranges from 29.7% to 400% (2018: 29.7% to 320%) of the AMN00, AFN00 and AMS00 ultimate table for assured lives depending on the contract, and for Guaranteed Life Assurance contracts CMI 2018 for future mortality improvements with a long term improvement of 1.25% per annum.
Pension and Annuity contracts	Ranges from 50.6% to 113.1% (2018: 51.2% to 113.4%) of the PNMA00 and PNFA00 mortality tables, and for annuities CMI 2018 for future mortality improvements with a long term improvement of 1.25% per annum.

Rates of morbidity	Solvency II Best Estimate Assumptions
Health contracts	Morbidity assumptions are based upon the Society's actual experience.

Rates of lapses	Solvency II Best Estimate Assumptions
All contracts	Lapse assumptions are based upon the Society's actual experience.

Expenses	Solvency II Best Estimate Assumptions
Death Benefits Only (DBO) contracts	£3.10 (2018: £3.02) per annum
Non-DBO Old Deposit contracts	£43.02 (2018: £47.29) per annum
Health contracts excluding Optimum combined	£70.79 (2018: £73.19) per annum
Optimum combined contracts	£85.13 (2018: £95.84) per annum
Income Protection contracts	£73.63 (2018: £51.78) per annum
All life assurance and pension policies	£28.68 (2018: £31.53) per annum
Per policy Expense Inflation	2.5% (2018: 2.5%) per annum
Tax relief on per policy expenses for taxable business	15%
Offset for with profits life assurance policies	The value of expenses detailed in the terms and conditions for that particular policy

Full details of the method and assumptions used in calculating the long term business provision are given in the Society's Solvency and Financial Condition Report.

NOTES TO THE FINANCIAL STATEMENTS

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 £15,925 over the period from April 2015 to March 2018, £25,000 from April 2018 to March 2019, £30,000 from April 2019 to March 2020, £35,000 from April 2020 to March 2021 and £40,000 from April 2021 to November 2022 inclusive. Along with one-off contributions of £500,000 in April 2018 and £250,000 in April 2019 and April 2021.

The most recent formal actuarial valuation of the Fund was carried out as at 31 December 2016. The calculations for the FRS102 disclosures have been carried out by running full actuarial calculations as at 31 December 2019.

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

	Group & Society	
The amounts recognised in the balance sheet are as follows:	**2019 £'000**	**2018 £'000**
Fair value of fund assets	20,044	18,985
Present value of funded obligations	(21,375)	(19,664)
Net (under) / overfunding in Fund	**(1,331)**	**(679)**
Liability recognised on the balance sheet	(1,331)	(679)
Net Defined Benefit Liability	**(1,331)**	**(679)**

21 Pensions (continued)

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

The amounts recognised in income statement are as follows:

	Group & Society	
	2019 £'000	2018 £'000
Net Interest expense	10	27
Expense recognised in the Income Statement	**10**	**27**

	Group & Society	
	2019 £'000	2018 £'000
Interest on obligation	519	516
Interest on assets	(509)	(489)
Net Interest expense	**10**	**27**

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

	Group & Society	
	2019 £'000	2018 £'000
Return on assets (not included in interest)	926	(884)
Actuarial (Losses)/Gains on obligation	(2,095)	1,036
Total Remeasurements recognised in Other Comprehensive Income	**(1,169)**	**152**
Cumulative amount of Remeasurements recognised in Other Comprehensive Income	**(2,905)**	**(1,736)**
Actual return on Fund assets	**1,435**	**(395)**

NOTES TO THE FINANCIAL STATEMENTS

21 Pensions (continued)

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

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

	Group & Society	
	2019 £'000	2018 £'000
Administration expenses paid from Fund	68	101
Other Items	**68**	**101**

The Society contributed £595,000 to the Fund over the year from 1 January 2019 to 31 December 2019 (2018: £772,775). No contributions were paid by members of the Fund over the period.

The Society expects to contribute £405,000 to the Fund over the year from 1 January 2020 to 31 December 2020. 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	
	2019 £'000	2018 £'000
Opening defined benefit obligation	19,664	21,138
Benefits paid	(903)	(954)
Interest on obligation	519	516
Experience gains	33	164
Losses/(gains) from changes in assumptions	2,062	(1,200)
Closing defined benefit obligation	**21,375**	**19,664**

The weighted average duration of the liabilities of the Fund was 15 years as at 31 December 2019.

21 Pensions (continued)

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

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

	Group & Society	
	2019 £'000	2018 £'000
Opening fair value of fund assets	18,985	19,662
Interest on assets	509	489
Return on assets (not included in interest)	926	(884)
Contributions by employer	595	773
Benefits paid	(903)	(954)
Administration expenses	(68)	(101)
Closing fair value of fund assets	**20,044**	**18,985**

The major categories of fund assets as a percentage of the total are as follows:	%	%
Equities	**32**	24
Gilts	**13**	15
Corporate bonds	**27**	26
Property	**19**	20
Cash	**9**	15

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	
	2019 %pa	2018 %pa
Discount rate at 31 December	1.8	2.7
Discount rate at 1 January	2.7	2.5
Inflation (Retail Price Index)	2.8	2.8
Rate of increase in pensionable salaries	2.8	2.8
Rate of increase in deferred pensions	2.0	2.0
Rate of increase in pensions in payment – service pre 06/04/2005	2.8	2.8
Rate of increase in pensions in payment – service post 06/04/2005	2.2	2.2

NOTES TO THE FINANCIAL STATEMENTS

21 Pensions (continued)

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 £183,372 (2018: £153,594), and contributions made by the Group amounted to £198,869 (2018: £168,668).

22 Technical provisions for linked liabilities

	Group & Society					
	Insurance contracts		Investment contracts		Total	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000	2019 £'000	2018 £'000
At 1 January	1,036	1,190	327	379	1,363	1,569
Payments made to policy holders of investment contracts	-	-	(28)	(24)	(28)	(24)
Change in technical provision as shown in the income statement	160	(154)	76	(28)	236	(182)
At 31 December	**1,196**	**1,036**	**375**	**327**	**1,571**	**1,363**

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

23 Assets attributable to the long term business fund

All assets shown on the Balance Sheet on page 48 are attributable to the long term business fund.

24 Operating lease commitments

The Society leases various motor vehicles and 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	2019 £'000	2018 £'000
Within one year	–	26
Between one and five years	–	–
After five years	20	–
Total	**20**	**26**

25 Related party transactions

National Friendly Financial Solutions Limited was charged £471,270 (2018: £449,458) by the Society in respect of service charges.

The Society paid National Friendly Financial Solutions Limited commission of £333,348 (2018: £145,639) for the sale of National Friendly products.

Contributions of £595,000 (2018: £772,775) were made to the National Deposit Friendly Society Staff Superannuation Fund, of which Jonathan Long is a Trustee, as agreed with the trustees with the objective of having sufficient assets to meet its liabilities.

During the year the Society paid National Friendly Software Solutions Limited £300,000 (2018: £300,000) in licence fees for the policy administration system. On 19 December 2019 National Friendly Software Solutions Limited acquired £300,000 of the Intellectual Property of Phase 2b of the policy administration system which the Society had developed through Project Asterix. The Society will re-licence this software from National Friendly Software Solutions Limited over ten years.

As at 31 December 2019, the Society owed National Friendly Financial Solutions Limited £193,953 (2018: £8,387 owed to the Society) and the Society owed National Friendly Software Solutions Limited £110,114 (2018: £110,114).

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 £322,617 (2018: £382,259). Director's remuneration is disclosed in the directors' remuneration report on page 32.

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 2019 and 2018, other 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.

NOTES TO THE FINANCIAL STATEMENTS

26 Subsidiary undertakings

The Society has two wholly owned subsidiary companies incorporated in the United Kingdom: National Friendly Financial Solutions Limited (formerly known as 425 Direct Limited) and National Friendly Software Solutions Limited (formerly known as ND Member Services Limited).

National Friendly Financial Solutions Limited operates a call centre giving financial advice. National Friendly Financial Solutions Limited is held by the Society at a fair value of £426,000 (2018: £20,000) after a revaluation loss of £244,000 (2018: £380,000). On 5 April 2019, National Friendly Financial Solutions Limited acquired a customer book for £429,000. During the year additional capital of £650,000 (2018: £365,000) was provided to National Friendly Financial Solutions Limited.

National Friendly Software Solutions Limited licences a policy administration system to its customers and is held by the Society at a fair value of £125,000 (2018: £1) after a revaluation gain of £125,000 (2018: £nil).

The results of all subsidiaries for the year ended 31 December 2019 have been consolidated into the Group financial statements.

	Group & Society	
	2019 £'000	**2018 £'000**
Fair value of investment in subsidiaries at 1 January	20	35
Additional share capital provided in the year	650	365
Unrealised loss in value of subsidiaries	(119)	(380)
Fair value of investment in subsidiaries at 31 December	**551**	**20**

27 Fund for Future Appropriations

		Group		Society	
	Note	**2019 £'000**	**2018 £'000**	**2019 £'000**	**2018 £'000**
As at 1 January		19,168	24,968	19,048	25,013
Transfer to/(from) the fund for future appropriations from income statement		(667)	(6,221)	(536)	(6,386)
Transfer to/(from) the fund for future appropriations from statement of comprehensive income		(928)	421	(928)	421
As at 31 December		**17,573**	**19,168**	**17,584**	**19,048**

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

28 Derivatives

Included within assets are forward currency contracts with a fair value of £395,000 (2018: £5,000) and a fair value within liabilities of £12,000 (2018: £355,000). The nominal contract value of these contracts is £13,792,000 (2018: £11,532,000). These are used to manage the exchange rate risk arising from investments in non-sterling denominated bonds. Cash flows under these 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. Fair value gains included in the income statement for 2019 in relation to the forward currency contracts amounted to £733,000 (2018: losses of £635,000).

Bond future contracts with a fair value of £231,000 (2018: £113,000) are held within assets and a fair value of £122,000 (2018: £432,000) within liabilities. The nominal contract value of these contracts is £23,734,000 (2018: £21,655,000) which are held to manage the duration of the fixed interest portfolio. Fair value gains for the year of £428,000 (2018: losses of £384,000) are included in the income statement in respect of bond future contracts.

Interest rate swaps with a fair value of £59,000 (2018: £nil) are held within assets and a fair value of £65,000 (2018: £nil) within liabilities. The nominal contract value of these contracts is £24,375,000 (2018: £nil), they are held to hedge against the change in value of the liabilities of the Staff Superannuation Fund (SSF) which would result from a change in bond yields. 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 £5,000 (2018: £nil) are included in the income statement in respect of interest rate swaps.

The asset position of the forward currency contracts at 31 December 2019 has primarily been driven by the increase in value of sterling against the US dollar by $0.04 in November and December 2019, the US dollar investments have decreased in value, but the derivative contracts held to protect against this risk have increased into an asset position.

The asset position of the Bond futures at 31 December 2019 has primarily been driven by the increase in US treasury 10 year gilt yield of 0.1% in December 2019. Whilst this decreases the value of the US dollar bonds, the derivative contracts held to protect against this risk have increased into an asset position.

The main driver of whether the interest rate swaps are in an asset or liability position is the LIBOR rate. At 31 December 2019 the LIBOR rate on which the floating leg of the interest rate swap is based was higher than the fixed rate for some contracts and lower in others. As a result the asset liability position is evenly split.

	Group & Society		
Derivatives held at 31 December 2019	**Contract value £'000**	**Fair value assets £'000**	**Fair value liabilities £'000**
Forward currency contracts	13,792	395	12
Bond futures	23,734	231	122
Interest rate swaps	24,375	59	65
Total derivatives	**61,901**	**685**	**199**

NOTES TO THE FINANCIAL STATEMENTS

28 Derivatives (continued)

	Group & Society		
Derivatives held at 31 December 2018	**Contract value £'000**	**Fair value assets £'000**	**Fair value liabilities £'000**
Forward currency contracts	11,532	5	355
Bond futures	21,655	113	432
Total derivatives	**33,187**	**118**	**787**

29 Events after the end of the reporting period

Subsequent to the Society's year-end, the full extent of the Coronavirus (COVID-19) pandemic has begun to emerge with significant volatility in financial markets around the world and Government-imposed restrictions on movement. Despite the significant stimulus packages announced by governments around the globe it is likely that many developed economies will enter a period of downturn, the severity and length of which are unknown.

COVID-19 is considered to be a non-adjusting post balance sheet event and as such no adjustments have been made to the valuation of assets and liabilities as at 31 December 2019.

The Society has continued to monitor solvency and although it complied with both the Minimum Capital Requirement and Solvency Capital Requirement (SCR) throughout 2019, the impact of the pandemic and resulting volatility in the financial markets and reduced interest rates has had a significant impact on asset values and yields resulting in the Society has fallen below its SCR reporting a solvency coverage ratio of 92% as at 31st March 2020.

The Society took immediate management actions and these, coupled with gradual improvements in market conditions, despite further falls in interest rates and an increased pension scheme deficit, resulted in an improved solvency coverage of 100% as at 30 June 2020. Throughout this time, the Society has maintained significant capital resources to meets its Minimum Capital Requirement, reporting a coverage ratio of 400% as at 30 June 2020. The Society has prepared and provided the Prudential Regulation Authority with a Capital Recovery Plan, which includes proposed management actions around potential asset sales and consideration of reinsurance arrangements to further strengthen the capital position for the long term in line with the Society's capital management framework/risk appetite.

At the date of approving these financial statements, the Society's trading performance to date is in line with plan and as noted in the going concern section on page 28, we have performed various stresses and under these stress scenarios, the Society's capital was projected to remain above Minimum Capital Requirements and sufficient liquidity to meet liabilities for a period of at least 12 months from the date of approving the annual report and financial statements.

YOUR NOTES

For further information or to request a copy in Braille, large print or audio please call us on:

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www.nationalfriendly.co.uk
info@nationalfriendly.co.uk

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