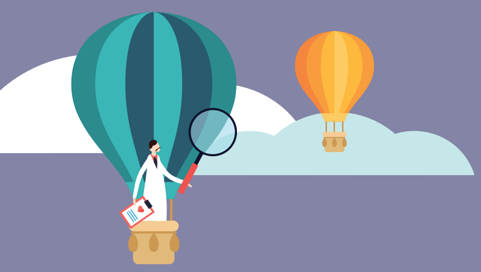
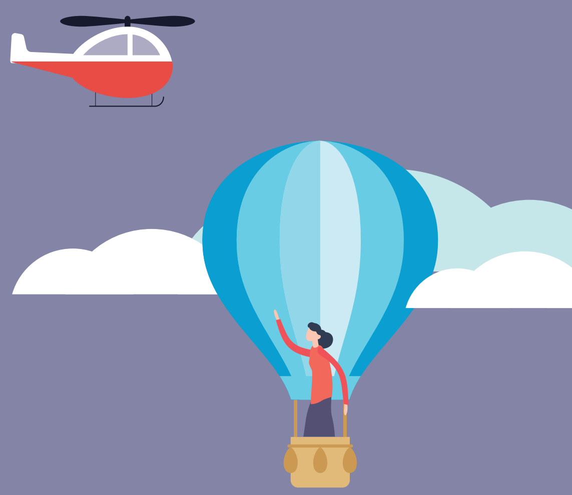
National Friendly





Annual Report and Financial Statements

For the Year Ended 31 December 2021

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Advisors

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

External Actuaries
Sally Butters FIA (With-Profits Actuary), OAC plc,
141-142 Fenchurch Street, London, EC3M 6BL

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

Internal Auditor
PricewaterhouseCoopers LLP,
2 Glass Wharf,
Bristol, BS2 0FR

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

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

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

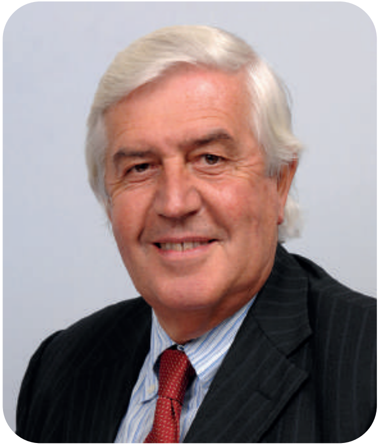
Solicitors
DAC Beachcroft LLP,
100 Fetter Lane, London, EC4A 1BN

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

Contact Details

Head Office
11-12 Queen Square, Bristol BS1 4NT
Telephone 0117 244 6062
info@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: Graham Singleton
Secretary: Keith Meeres



Chair’s Review

As a mutual Friendly Society, our fundamental reason for being is to provide for our members in their time of need.

It is with pride that I read some of the correspondence from our members, who having been unfortunate enough to need to claim on their insurance, have then taken time to write directly to the members of staff who have been involved, thanking them for making everything so simple and for taking care to help them.

“I just wanted to say thank you for processing the claim so quickly. I have had to deal with a lot of financial institutions since my husband’s death. National Friendly was one of the most efficient and easiest to deal with.”

“I have been lucky enough [as has my wife] to be a policy holder for some years, I have in the last 4 years regrettably claimed a lot and you have been fair and provided very good value, particularly when compared with others. Your operatives/consultants who you speak to on the phone are kind and considerate and from what I can gather, the way that you are treated is head and shoulders above some of the more well-known health providers”

I mention this because for me it confirms that as a Society we are meeting the fundamental need of our members as we have promised to do, and importantly it is one of the reasons why we should seek to expand our reach so that more members can in due course benefit from our expertise. The other motive for expanding is affordability; the more members we have, the more we can invest in the services we provide and the scope of benefits our policies can offer.

I am reminded of the World Health Organisation’s definition of good health, namely “a state of complete physical, mental and social well-being and not merely the absence of disease and infirmity”.

In the UK, COVID-19 is now hopefully receding as a serious threat to health, but in its wake NHS waiting times are the highest they have ever been for certain treatments, projected to fall back by 2025 at the earliest. Many people have experienced the challenge of income uncertainty, the government’s furlough scheme effectively being a massive state sponsored income protection arrangement which has now ended.

These two factors mean that market circumstances are also highly favourable for a Society such as ourselves to expand our member offerings, building on our strengths of expertise in health and sickness protection products. 2021 saw the launch of our new income protection product range and in February 2022 the launch of a comprehensive private medical insurance plan which complements our current medical plan.

We have also worked hard to expand our distribution network, sourcing brokers and strategic business partners who value our mutual ethos and want to work with a Society that provides excellent products and services for its members.

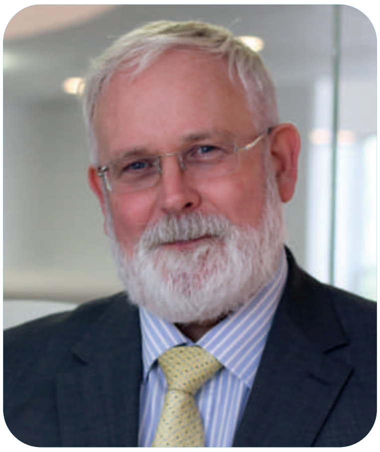
2021 has been a year of significant investment in our strategic capability, whilst not losing sight of what matters most – delivering what you, our members, expect from us. The Chief Executive’s Review gives more details.

I am very grateful for the support of my Board colleagues and the team of staff led by Chief Executive Graham Singleton. In September Julie Hansen was elected to the Board but for personal reasons stepped down in November. On receiving Julie's resignation, the Nomination Committee met and recommended to the Board that Mike Hughes, who had joined the Board of our wholly owned subsidiary National Friendly Financial Solutions in September, be invited to join the main Society Board. Mike subsequently accepted the invitation. Mike has a wealth of financial services experience in a wide variety of different organisations and is a strong champion of the mutual model.

Looking ahead, after much debate we are seeking to transition to a virtual Annual General Meeting ("AGM") in future years, subject to the motion being passed at this year's meeting. We will be one of the last mutual Friendly Societies to adopt a virtual AGM and the rationale is two-fold. The costs (which come directly from members' funds) of hosting an in-person AGM have grown disproportionate to the actual number of in person attendees. Equally, speaking with other Societies their experience of virtual AGMs has been a marked increase in participation, and we very much do want you to have a say on key matters which impact the Society day-to-day. It is your Society – please vote on the resolutions we put forward.

Lastly it remains for me to thank you, our members, for your continued support and also thank both our existing and new strategic business partners. As a mutual Friendly Society we have delivered and will continue to deliver member products and services which make a real difference to people's lives.

Geoff Brown
Chair
13 April 2022



Chief Executive's Review

Whilst I reflected on 2021, my mind was drawn to a conversation I had with one of our members during the AGM.

The member, who was also on our staff for a considerable period of time, reminded me that prior to the launch of the NHS, the Society membership was over two million. At the time, private health insurance provision was the norm for those who could afford to set aside regular premiums. This funded their medical insurance and ultimately access to the medical care they might need.

Much has changed since, with the NHS becoming a comprehensive provider of "cradle to grave" healthcare, despite challenges we hear regarding waiting lists in some instances of three or four years. Our membership is now much reduced as historic policies have steadily matured, standing at just over 35,000 at the end of the year.

All organisations, if they are to endure, must have a business model where ultimately income exceeds operating expenses - even if only marginally. If we are to continue to develop and enhance member value and services, we need to grow and once again increase our membership from where it is currently.

During 2021 we began a major transformation journey, leveraging our 150 years' experience in the health and protection market to sustainably increase the Society's membership, underpinned by the fundamental purpose of what the Society was founded on – to provide peace of mind to our members in times of need.

Using our technical expertise and that of our strategic business partners, and by embracing the new technology driven distribution platforms such as price comparison websites, the aim is to broaden our product range and our access to potential new members. At the same time, we will ensure that we continue to deliver the personal and high-quality service our members expect and we see as making the Society stand out in the marketplace.

It is a two-year journey with 2021 very much being the foundation year, a year with considerable investment in product research and development, people, investment in core services for existing and new prospective members and increased access to distribution partners who share the Society's values. A major service improvement for our medical insurance members is our new claims management service delivered in partnership with AHG Group. The AHG consultant led referral process specialises in getting members faster access to correct diagnosis and ultimately faster treatment.

Products

» In February we became one of only four UK insurers offering immediate care plans (products which fund the provision of long-term care for the balance of the member's life) using a common market application process facilitated by the Medicals Direct Group.

» In April we entered the income protection market, initially with an accident only income protection product, and in November with the full income protection product (recently rated 'gold' by independent Protection Review), having invested in a state-of-the-art underwriting capability in partnership with Munich Re.

» In December we finalised the design of a new comprehensive medical insurance plan to complement our current tailored insurance plan, with an expectation of launching in Spring 2022. As outlined above, we also finalised a new medical claims management contract with AHG Group. This went live for all our private medical insurance customers in February 2022.

Distribution

» In 2021 and early 2022 we signed contracts:
  - with a number of major insurance broker networks which will be using National Friendly for the first time.
  - with a number of the major quotation services used by insurance advisors to source products most appropriate to their client's needs.
  - with a number of brokers to sell our products exclusively.

» Combined with the expansion of the dedicated direct sales operation, these increase the accessibility and availability of the Society's products to a wider range of potential customers.

People

» We welcomed several new executives as part of the establishment of a very experienced and talented management team.

» We committed to adopting as the new normal a hybrid office/home operating model, enabling staff to embrace a more balanced work/home life balance which works for them.

Technology

» We continued to invest in our technology ensuring:
  - We achieved the Cyber Essentials kite mark in September.
  - Every staff member has access to IT equipment which enables them to easily work from home or in the office.

The transformation also maximises the Society's past investment in its administration system, which is able to rapidly implement new products and handle the associated processing capabilities.

COVID-19

We retained for most of 2021 a strong bias to home working to as far as possible protect our staff from workplace infection, whilst being very mindful of the mental health challenges that working from home can lead to for some.

We continued to deliver smooth operations and excellent customer service throughout which is testament to the dedication of all my colleagues.

The biggest COVID-19 impact was not on us directly as an organisation but rather our distribution partners, a number of whom were impacted by serious COVID-19 outbreaks. We are however very grateful for all our distributors strong and continued commitment to the Society in these challenging times.

Conclusion

I stated it is a two-year transformation plan. The second year is essentially delivery and consolidation of the various growth initiatives commenced in 2021. We listen intently to both member and distribution partner feedback and are always seeking to improve the products and services we provide to our members.

I thank everybody, our Board, our colleagues and business partners for the strong support in 2021. I am very confident that 2022 will be even more successful as we grow our membership base, diversify our product range and continue to build on our 150 years of heritage whilst remaining true to the principles that the Society was founded on; we are a proud Mutual that looks after the health and protection of our members in their time of need.

Graham Singleton
Chief Executive
13th April 2022

Strategic Report

Overview

2021 remained a challenging operating environment, as the COVID-19 pandemic continued to affect all of our lives, but one in which the Society continued to make progress. Gross written premiums for the year increased significantly from £16.3m to £22.1m as a consequence of the competitive immediate care plan gaining traction with a number of new intermediaries following National Friendly's participation in the common market application process.

Furthermore, in 2021, the Society supported its members by paying out the following benefits:

- Over £6 million of healthcare costs
- Over £2 million of care costs (at home or residential home)
- Nearly £1 million towards funeral costs and bequests
- Around £7 million of savings

In May the product pricing framework was refreshed, ensuring that all new products as well as being priced competitively for prospective new members, contribute to the financial security of the Society as a whole. The pricing of all products was reviewed during 2021 against this framework. National Friendly's re-insurers also continued to provide strong technical support throughout, enabling us to compete with the best in the market.

In July the PRA changed the definition of the mandatory "risk free" discount rate used to discount the actuarial liabilities from the London Interbank Offered Rate ("LIBOR") to the Sterling Overnight Interbank Average Rate ("SONIA"). This impacted the whole industry and for the Society resulted in a reduction in Solvency Capital Requirement ("SCR") coverage ratio of eight basis points at the time of transition. This change also introduced further asymmetry between the behaviour of the assets and liabilities when yields move and the assets are not government backed securities. Accordingly, the Board determined to de-risk the Society's balance sheet by reinvesting a significant proportion of non-government bond assets backing non-profit liabilities in either cash or government stock as appropriate. The de-risking included selling property and equity assets and corporate bonds. All properties were sold around or in excess of their carrying value and the corporate bonds similarly at historically low corporate bond spreads. Assets matching the with profit business continue to be invested in a full basket of assets – properties, equities, corporate bonds as well as cash. The final outcome was a situation where the Society is heavily insulated from extreme investment shocks, ensuring capital security whilst its Solvency coverage ratio returns to a positive above the Solvency Risk Appetite, at which point an investment strategy involving higher risk/reward could once again be considered.

A very important aspect of member services is the claims service for private medical insurance clients. The Society re-tendered its claims management service in May and are delighted to have successfully concluded a service agreement with Alliance Health Group (AHG), the UK's largest independent healthcare organization which is owned by doctors. This change will benefit both existing private medical insurance members and prospective new members.

John West and Oliver Jones receiving the LifeSearch 'Doing Good' Award.

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The transformation previously referenced resulted in a number of exceptional costs in 2021. Group administrative expenses totalled £4.5m for the year (prior year; £4.0m) but included a number of exceptional expenditure items including search fees for various new expert hires and legal support in connection with a regulatory matter outlined below. Costs continue to be managed very tightly and tracked compared with budget on a monthly basis.

As noted within the 2020 Annual Report, following a review of the Society's subsidiary National Friendly Financial Solutions in Q1 2021, the Board became aware of an internal control breakdown associated with one of NFFS's introducer relationships that sourced leads for the NFFS direct sales operation. The Board sought advice and a full investigation was undertaken with the relevant regulatory parties informed. Subsequently, the Society was given permission by the regulators in September 2021 to undertake a remediation exercise which was completed in December 2021 and customers were compensated appropriately. The total compensation paid out as a result was less than £20,000. The approach to onboarding introducer appointed representatives and appointed representatives has been reviewed and enhanced.

Business Performance

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

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

Key Performance Indicators:	31st December	
	2021	2020
Absolute Level of Own Funds	£15.5m	£16.0m
SCR coverage ratio		
• With Transitional Measures Relief	144%	143%
• Without Transitional Measures Relief	140%	131%
MCR coverage ratio		
• With Transitional Measures Relief	497%	479%
• Without Transitional Measures Relief	487%	442%
Gross new premiums written in the year	£12.2m	£9.5m

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

Own Funds have decreased by £0.5m during the year. Although the Society's liabilities reduced (owing mainly to the maturing of with profits policies), this was offset by a reduction in asset values predominantly driven by market movements during the year.

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

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

The SCR coverage ratio has increased slightly to 144% (prior year; 143%). The eight basis point adverse impact of the change in mandatory 'risk free' discount rate from LIBOR to SONIA described on page 8 was offset by the balance sheet de-risking activities undertaken during the year, as well as by changes in assumptions.

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

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

In 2021, the year end MCR coverage ratio was 497% (2020: 479%).

Strategic Report (continued)

Business Performance (continued)

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

New Business sales are measured by their annualised new business premium income ("API") plus deposits to new savings and investment policies. In 2021, the new business API grew by 28%, driven by strong sales of the immediate care plan launched during the year.

The previous year's Annual Report highlighted the Society's aim to introduce a KPI measuring member engagement and overall advocacy. Whilst somewhat delayed, this will be launched in 2022, utilising the Medallia platform to monitor and understand our performance through the customer journey. The aim is to continuously improve how we meet our members' needs both through product design, pricing and service.

Investment Performance

Group investment assets are held in bank deposits, government bonds, corporate bonds, equities and commercial property. As described on page 8, there was a significant shift in the asset composition during 2021 as property, equity and corporate bonds were sold and reinvested in cash and government bonds. The Society sold six properties during the year, all around or in excess of their carrying value.

In 2021, the total investment asset value decreased from £89.8m to £79.8m predominantly due to a £6.4m unrealised loss across the corporate and government securities, equities and derivatives portfolio driven by increases in market yields (and, as noted earlier, this reduction in value was largely matched by a reduction in the value of liabilities). The Society's cash balance was impacted by a £0.9m contribution from the Society to the Staff Superannuation Pension Fund to reduce the deficit, exceptional administration costs incurred during the year and a net cash outflow in early months prior to the growth in sales of our immediate care plan.

Risk Management

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

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

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

Strategic Report (continued)

Investment Performance (continued)

Risk	Impact	Mitigating Activities
Longevity Risk The risk of policyholders dying, on average, later than expected (annuity products)	» Increased reserves resulting in reduced SCR coverage » Greater claims having to be paid out in total	» Regular review of mortality actual versus experience data » Underwriting approach is reviewed on a regular basis » Reinsurance obtained for certain products
Morbidity Risk The risk of policyholders on average falling sick more frequently than expected and/or periods or cost of sickness exceeding that expected	» Increased reserves resulting in reduced SCR coverage » Greater claims having to be paid out in total	» Regular review of morbidity actual versus experience data » Management of morbidity claims remains a key focus. Morbidity data tracking spreadsheets have been developed for the business administered by the Third Party Administrator so that they can be produced on a monthly basis. This covers all healthcare products. All other product morbidity tracking is undertaken on a twice yearly basis. » Reinsurance obtained for certain products
Lapse Risk The risk of policyholders lapsing their policies on average more or less than expected, to the detriment of the Society	» Increased reserves resulting in reduced SCR coverage » Greater claims having to be paid out in total	» Regular review of lapse actual versus experience data » Reinsurance under consideration
Expense Risk Expenses of running the Society are higher than expected, and therefore not supportable by the margins in the products written	» Increased reserves resulting in reduced SCR coverage » Greater expenses having to be paid	» Careful compilation of annual budgets » Rigorous budget monitoring throughout the year » Ongoing tracking of performance versus sales plan » Scrutiny of any exceptional/unbudgeted costs » Pricing of products and reserving on the basis of covering expected costs
Strategic Risks: *The risk of internal or external factors impacting the Society's strategy and the environment in which it operates. These include, for instance, failing to deliver strategic initiatives in accordance with the Society's requirement and resources*		
Strategy Risk The Society fails to have a suitable range of products and is too dependent upon one product type	» Society fails to be diverse and grow in the market	» Society has a sustainable business model offering a diverse range of products » Ongoing monitoring of product-level business volumes
Climate Change Risk Society fails to analyse the impact it has on climate change or vice versa. Failure to take necessary actions and make the relevant disclosures	» Higher claims as a result of climate change have not been accounted for and may cause financial loss » Reputational damage caused by poor ESG rating of investment portfolio	» Similar to other organisations, the Society is endeavouring to evaluate the impact of this risk. Senior management responsibility has been assigned to the Head of Risk and Strategic Projects » Monitoring and review of claims to identify any trends » Monitoring of investment portfolio

Risk	Impact	Mitigating Activities
Distribution Risk Failure to establish and maintain an effective process to supply products and services to members/ customers	» Failure to meet sales targets, grow within the market and enhance own funds » Per policy expenses may not be at an optimum level, causing a further deterioration in the capital base	» Development and delivery of multi-channel distribution strategy set out within the business plan » Ongoing review of product offering, pricing and key characteristics » Diverse product offering
Subsidiary Risk The Society's wholly owned subsidiary, National Friendly Financial Solutions does not generate a profit	» Subsidiary does not provide a positive financial contribution to the Society	» NFFS has a newly refreshed business plan in place and performance is closely monitored » Financial position and performance of the subsidiary is reviewed on a monthly basis
Operational Risk – The risk of direct or indirect loss (actual or potential) resulting from inadequate or failed internal processes, people and systems or from external events. This includes risks relating to compliance, business processes, information technology, outsourcing, cyber and financial reporting		
Operational Resilience Failure to comply with operational resilience requirements by being unable to deliver key business services within impact tolerances	» Potential poor outcomes for members	» Regular testing to ensure the Society can operate within impact tolerances for important business services
Outsourcing Risk Failure of third parties to adequately perform key services required by the Society	» Failure to provide expected high service levels » Additional costs » Potential poor outcome for members	» Ongoing review of service level agreements with each third party
Sales & Marketing Risk The Society fails to meet its new business targets	» Failure to achieve diverse mix of sales » The assumed allowance per policy for expenses is not sufficient to cover our actual renewal expenses	» Constant sales monitoring by product is in place and regular feedback from intermediaries is reviewed » Profitability modelling is conducted and reviewed

Strategic Report (continued)

Our Members

Engaging with our members
As a mutual Friendly Society, engaging and communicating effectively with members is key. This is principally undertaken through the AGM, which took place in 2021 on 30th September at The Bristol Hotel, Prince Street, Bristol BS1 4QF with members invited to attend the event in person.

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

In 2022, following the launch of our new medical insurance plan, the Society's Member Focus Group will be re-established comprising members holding a wide range of our policies with diversity in age, gender and national coverage. Furthermore, this Focus Group will provide key insights as the Society reviews and seeks to enhance its member benefits.

Fair customer outcomes
Our members and their best interests are always at the forefront of the Society's thinking which we firmly believe delivers fair member outcomes at every step of the way.

To demonstrate this commitment to providing fair outcomes, we:

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

Our People

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

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

The Society's values are:

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

Corporate Social Responsibility ("CSR")

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

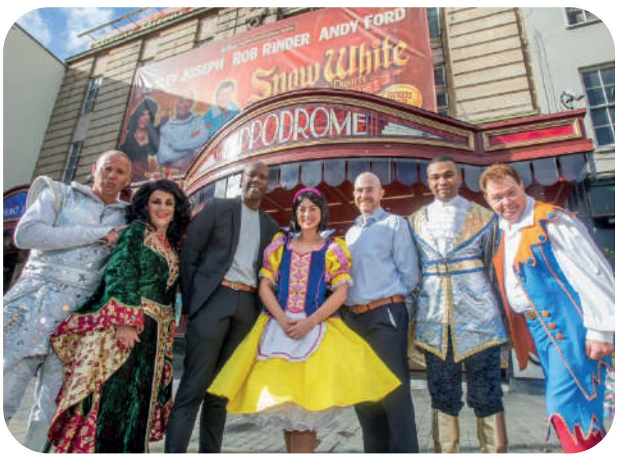
The CSR Committee meets regularly to discuss new initiatives and drive the strategic vision, which is to:

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

The Society can point proudly to a track record of supporting Bristol charities large and small. Initiatives have spanned projects to help ward off loneliness amongst the elderly, homelessness, funding of Long Covid and other medical research and the sponsorship of The Bristol Hippodrome's Creative Learning Programme, a schools-based project as outlined below:

The Matinee Mingle

With the issue of loneliness heightened by the pandemic, National Friendly funded the development and expansion of The Bristol Hippodrome's "Matinee Mingle" after the theatre noticed large numbers of patrons were attending alone. As a result, the Hippodrome created a club for the over 60s at the theatre to help strengthen communities and reduce social isolation. The club, "The Matinee Mingle," is now fully supported both financially and practically by National Friendly.



Bristol schools Creative Learning Programme

National Friendly and The Bristol Hippodrome have also announced a wide-ranging Bristol schools Creative Learning Programme. The schools' workshop programme gives students a unique opportunity to develop and build communications skills in collaboration with theatre practitioner experts and offer in-school workshops for classes of up to 30 people to develop critical thinking, communications and creative thinking skills. The Bristol Hippodrome uses well known, successful drama practitioners to lead workshops, with the content designed to bring to life a school's existing learning objectives.

Fundraising for Long Covid research

Today, renowned researchers from Southmead Hospital, Bristol are working hard to find out more about COVID-19 and its long-term effects. Renowned for world-leading research through its specialist Research & Innovation Centre, each year 7,000 patients take part in over 500 research studies, now partly funded by National Friendly.

The research, the DISCOVER study, has recruited over 300 patients hospitalised with COVID-19 since March 2020. Working with Southmead Hospital Charity, National Friendly runs a fundraising appeal including donations from theatre-goers at The Bristol Hippodrome, which should raise £30,000 during 2022 to support the Long Covid research taking place at the hospital.

Children's Hospice South West ("CHSW") Business Club initiative

National Friendly worked with its former charity of the year, Children's Hospice South West, through 2021 to support their new CHSW Business Club, marking their 30th anniversary year. National Friendly has driven the initiative on behalf of CHSW, supporting the start-up financially, creating press stories and arranging radio interviews to generate awareness. 65 companies from Bristol signed up to the Business Club in 2021. National Friendly are committed to working closely with the charity in 2022 to grow the Business Club in Bristol and will be sponsoring events across the city.

Strategic Report (continued)

Corporate Social Responsibility ("CSR") (continued)

Environment and Climate Change
The Society recognise that, like any organisation, the activities it undertakes will have an impact on the environment around us. Its strategy is therefore to:

» Reduce 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, including printers sourced from accredited Forest Stewardship Council ('FSC') printing companies.
» Encourage low emission methods of commuting to work for staff

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

The Society recognises its responsibility to consider the implications of climate change upon our members and community.

Overarching responsibility for the oversight of the impact of climate change upon the Society is held by the Board. This has been delegated to the Head of Risk and Strategic Projects as the senior manager responsible. A risk assessment has been undertaken and the Society's risk management framework updated to embed climate risk throughout. Furthermore, a climate change impact downside scenario was included within the Society's 2021 ORSA.

In 2022, the Society will continue to develop its climate risk management, target setting and measurement.

Viability Statement

Throughout 2021, the Society maintained capital reserves in excess of its' SCR and MCR.

The Directors confirm that they have a reasonable expectation that the Society is well placed to manage its business risks, including those presented by the current pandemic, and will continue to meet its liabilities, as they fall due. Financial projections for the next five years are incorporated into the Society's ORSA, and these confirm the Directors' expectation that the Society will continue in operation over this period with Own Funds and financial resilience progressively increasing over time. The Directors' assessment has been made with reference to the Society's current position and prospects, the Society's strategy, 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 central projection, the Directors' best estimate of future experience, makes certain assumptions about the level of new business, economic and demographic risks, insurance risks including morbidity, lapses and future expense assumptions.

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

Graham Singleton
Chief Executive
13 April 2022

Corporate Governance Report

Corporate Governance Review

The Board considers good corporate governance to be fundamental to the Society's operations and adheres 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 upon six key principles.

The narrative below explains how the Society has followed each key principle in the way that is most appropriate to its business model and objectives.

Principle One - Purpose and Leadership

The Society's long-term objective remains to protect and enhance member value through improved Own Funds and excess assets. It aims to achieve this by providing policyholders with products and services that help to look after their health and welfare and provide peace of mind in their time of need, 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 it will endeavour to work to embed and promote them. The Society's 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. For 2021, the Board has maintained its focus on developing and launching products and increasing the number of issued policies through multiple channels in line with the Society's business plan whilst managing capital to achieve long-term sustainability.

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

- National Friendly Financial Solutions Limited is a telephone based financial service advisory company providing a distribution channel for National Friendly products and an independent advice and non-advised comparison service. It is authorised and regulated by the Financial Conduct Authority;
- National Friendly Software Solutions Limited owns the intellectual property rights to a policy administration system. It licences this software to the Society as well as marketing the system to other similar insurers.

Principle Two - Board Composition

Role of the Board

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

The Board meets a minimum of 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 sets out its responsibilities and the structure of delegation of authority from the Board to management, as required by regulation and the Society's rules.

The Society maintains liability insurance for all officers throughout the year.

Chair and Chief Executive

The role of the Chair and Chief Executive are held by different people and are distinct and separate in their purpose. The Non-Executive Chair is responsible for leadership of the Board and ensuring that the Board acts effectively whilst 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 Nomination Committee (see page 24), which makes recommendations to the Board. The Nomination Committee will consider all appointments on balance of skills, experience, knowledge and diversity.

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

Professional Development

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

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

Board Balance and Independence

The Board consists of four Non-Executive Directors and two Executive Directors.

The Board continues to review its own balance and completeness to meet the complexities of the business and ensure that there is adequate succession planning.

On 20th May 2021 (and subject to regulatory approval which was subsequently received), the Board appointed Mark Searles 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 Chair or Chief Executive has failed to resolve a matter or for which such contact is inappropriate.

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

The composition and effectiveness of the Board was reviewed and refreshed in 2020 and following this, a governance review was completed last year by the Society's internal auditors of the time, Mazars LLP. A further review of the Board's composition and effectiveness will be undertaken later in 2022.

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 in relation to the 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. All Directors, including Non-Executive Directors not formally approved by the regulator are subject to the regulators' Conduct Rules.

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

Corporate Governance Report
(continued)

Principle Three - Director Responsibilities (continued)

Committees
The Board has established sub committees, under its overall authority, and delegated certain governance responsibilities through clearly defined Terms of Reference. Further details of the responsibilities and activities of these Committees are provided on pages 24-25. Each committee is chaired by a Non-Executive Director and all members are considered to have appropriate skills and expertise to undertake their roles.

Information
The Chair has responsibility for overseeing that all Directors receive accurate, timely and clear information thus enabling the Board to function effectively. 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.

From September 2021 onwards, the Chair of the Board was also a member of the Audit Committee which is not in compliance with the AFM Governance Code. The Board decided that it was particularly important at a time of significant change in membership of the Board that the Audit Committee could benefit from the Chair's experience of the Society and his actuarial skills and qualifications. In addition, Graham Singleton remained as Chair of the Audit Committee for a brief period following his appointment as Interim CEO (appointed Interim CEO in February, resigned as Audit Committee Chair in March) due to the timing of notifications during this period of transition. No Audit Committee meetings were held or decisions taken during this period. Membership of all Board Committees is reviewed at least annually and the Chair's ongoing membership of the Audit Committee will be reviewed again in 2022.

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.

Risk
Risk management is an integral part of the Society's business activities through the identification of key threats to business strategy with mitigation plans put in place to ensure the Society remains sustainable and continues to operate in the best interests of its 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 high residual risk rating will require an action plan which will state the action to be taken and on what timescale.

The governance of risk management is aligned to the three lines of defence:

» The first line of defence comprises the operational business areas who are responsible for the ongoing assessment of risk and performance of day to day controls.
» The second line of defence is represented by internal assurance (oversight and monitoring) of the operational business areas provided by Compliance and Risk
» Independent assurance on the effectiveness of the Society's systems and internal controls is provided by the internal audit function and other skilled external practitioners e.g. consulting actuaries.

As such, management of risk is the responsibility of the Board and staff at all levels of the Society. The Board is supported in its role in this regard by sub-committees, who ensure that inherent and emerging risks are identified and managed appropriately and in a timely manner. The Society's business plan and ORSA identify key risks that are monitored through robust reporting to the Risk & Compliance Committee.

Principle Five – Remuneration

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

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

Principle Six - Stakeholders

The Board is committed to maintaining good communications and developing its relationship with members. A balanced and comprehensive overview of the Society's position and strategy is provided within this Annual Report and Financial Statements whilst the Society's Annual General Meeting gives the membership the opportunity to vote for tabled resolutions and ask questions about the position of the Society, the events of the past year and where they would like to see the Society going in the future.

The Society is dedicated to the ongoing development of its staff and actively engaging with its workforce. Communication with staff is undertaken through regular dialogue with staff; as groups (including the recently re-established Employee Forum), individually and through the organisation's intranet. All-staff monthly Town Hall meetings are held incorporating contributions and updates from all areas of the business.

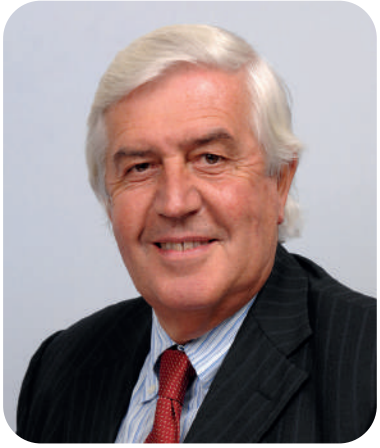
It is important to the business that any malpractice, misconduct or wrongdoing by employees, agency workers and contractors of the Society is reported and properly dealt with. The Society therefore encourages all individuals to raise any concerns that they may have about the conduct of others in the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

The Society works with a number of third party suppliers who provide a range of goods and services. Engagement of these suppliers is governed by the Society's outsourcing policy and purchasing policy with service quality monitored through an ongoing review of service level agreements with each third party.

Corporate Governance Report (continued)

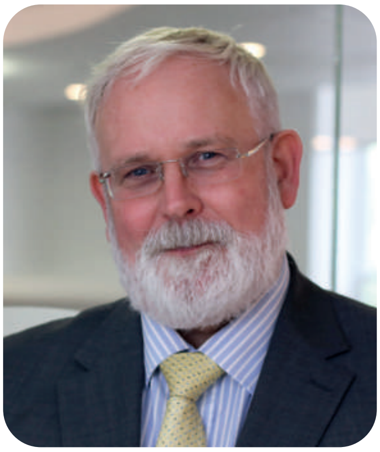
The Board

Geoff Brown



Geoff is a qualified Actuary and gained 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, he was appointed Chair in May 2021, as well as being Chair of Risk and Compliance Committee and Chair of the Investment Committee.

Graham Singleton (Chief Executive Officer)

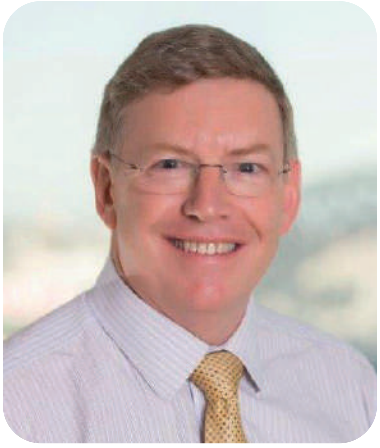


Graham is a qualified Actuary with over 35 years of experience in the financial services industry. He spent most of his career in Life and Pensions. He held Chief Actuary and Chief Financial Officer roles in various companies before latterly becoming CEO of the Phoenix Resolution Life Companies and Swiss Re's UK insurer Reassure Limited, and its Life and Pensions Outsourcing business Admin Re Limited. He has performed 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 and was appointed as Interim CEO in February 2021. The appointment was made permanent in April 2021.

Julian Ellacott (Chief Actuary)

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

Mark Searles (Senior Independent Director)



Mark has held senior executive and Board positions within Financial Services and Technology. He most recently spent 9 years in Australia, as Group CEO & Managing Director of AUB Group Ltd, Australasia's largest, listed, equity-based Risk Management group. Prior to moving to Australia, Mark held senior management positions with Zurich; Lloyds TSB; HSBC; Sage and American Express. Returning to the UK in 2019, he is currently a Haberdashers-appointed Governor of an Education Academy Trust (Chairing their Audit Committee) in addition to holding various Advisory roles. Mark joined the National Friendly Board as a Non-Executive Director in June 2020; and was invited to act as Senior Independent Director in May 2021. Mark also acts as the Chair for the Nomination Committee; and Independent Whistleblowing Champion for the Society.

Mary Gavigan (Non-Executive Director)

Mary is a Fellow of the Institute of Chartered Accountants in England & Wales. She has specialised in the Financial Services sector for over 25 years acting as consultant and advisor as a FS (insurance) expert with a focus on restructuring and business transformation. She has also held interim Chief Finance Officer roles during her career. Mary spent most of her career at KPMG and other advisory firms. Mary is a Non-Executive Director at an Investment Fund, AA4P where she is a member of the Audit Committee. She is also a Non-Executive Director of STM Life Assurance PCC PLC where she Chairs its Audit Committee and is a member of its Risk Management Committee. Mary is a Trustee of the charity Epilepsy Research UK. Mary joined the National Friendly Board as a Non-Executive Director in September 2020 and is Chair of the Audit Committee and the Remuneration Committee.

Mike Hughes (Non-Executive Director)

Mike is an avid supporter of mutuality, relocating to Bristol in 1990 to join Bristol & West Building Society where he worked for 10 years before it de-mutualised. More recently he has been a Non-Executive Director of a Midlands-based Building Society. All of his career has been involved in the Regulated Financial Services sector. He was CEO of a PLC providing financial advice nationally, a Director of a retail bank and helped launch one of the first banks to be approved by the newly-formed FCA. In recent years he has held a number of Non-Executive positions including two subsidiaries of Aegon Plc and an asset management company, as well as being Independent Chairman for a fund services business. He is currently a trustee of Youth Adventure Trust, a Wiltshire based Charity supporting vulnerable young people. Mike has an MBA from the University of Warwick. He sits on the National Friendly Financial Solutions Board as Non-Executive Director, joining in September 2021 and joined the main National Friendly Board in November 2021. Mike is a member of the Society's Board Committees.

Corporate Governance Report
(continued)

Committee Information

The Terms of Reference of the Audit, Risk & Compliance, Investment, Nomination and Remuneration Committees are available for viewing upon request, and an overview of the corporate governance for the Society is uploaded to the Society's website, and available upon request to the Company Secretary.

Audit Committee
Current Members
Mary Gavigan (Chair) – Appointed to Chair 5 March 2021
Mark Searles
Geoff Brown – Resigned 20 May 2021; Re-appointed 30 September 2021
Mike Hughes – Appointed 1 December 2021
Other Members
Graham Singleton (Chair) – Resigned 5 March 2021

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 consider and assist the Board in fulfilling its oversight responsibilities with regards to the integrity and effectiveness of the systems of internal control, financial processes, financial statements and performance of the internal audit function.

The 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.

Investment Committee
Current Members
Geoff Brown (Chair) – Resigned 30 September 2020; Re-appointed 20 May 2021
Mary Gavigan
Graham Singleton
Mark Searles – Appointed 20 May 2021
Julian Ellacott – Appointed 20 May 2021
Mike Hughes – Appointed 1 December 2021
Other Members
Tracy Morshead (Chair) – Resigned 20 May 2021
Sandy Richards – Resigned 14 May 2021

The Investment Committee meets as required and at least three times a year to review compliance with the terms of the Principles and Practices of Financial Management ("PPFM") 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.

Nomination Committee
Current Members
Mark Searles (Chair)
Mary Gavigan
Geoff Brown – Resigned 30 September 2020; Re-appointed 20 May 2021
Mike Hughes – Appointed 1 December 2021
Other Members
Graham Singleton – Resigned 1 April 2021

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
Current Members
Mary Gavigan (Chair)
Mark Searles
Geoff Brown – Appointed 20 May 2021
Mike Hughes – Appointed 1 December 2021.

Other Members
Tracy Morshead – Resigned 20 May 2021

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 38-41.

Risk & Compliance Committee
Current Members
Geoff Brown (Chair)
Mark Searles – Appointed 20 May 2021
Mary Gavigan – Appointed 20 May 2021
Graham Singleton – Appointed 20 May 2021
Julian Ellacott – Appointed 20 May 2021
Mike Hughes – Appointed 1 December 2021
Other Members
Tracy Morshead – Resigned 20 May 2021
Sandy Richards – Resigned 14 May 2021

The Risk and Compliance 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.

With-Profits Advisory Arrangement
Current Members
Geoff Brown (Chair)
Mark Searles
Mary Gavigan – Appointed 20 May 2021
Mike Hughes – Appointed 1 December 2021

The With-Profits Actuary (Sally Butters) 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 (via delegation from the Chief Executive) with running the Society's business within the delegated authority of the Board.

Corporate Governance Report
(continued)

Attendance of Directors at Board and Committee meetings held during the year to 31 December 2021

	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	14	14	6	6	4	4	3	3
Mary Gavigan	14	14	6	6	4	4	3	3
Julie Hansen	2	2	1*	1*	-	-	-	-
Mike Hughes	2	2	1	1	1	1	-	-
Tracy Morshead	4	4	-	1	2	2	-	-
Mark Searles	14	14	6	6	4	4	3	3
Executive								
Graham Singleton	14	14	6*	6*	4*	4*	3*	3*
Sandy Richards	4	4	-	-	-	-	-	-
Julian Ellacott	5	5	3*	3*	1*	1*	2*	2*

	Investment Committee		Risk & Compliance Committee		With Profit Advisory Arrangement	
	Meetings attended	Meetings held	Meetings attended	Meetings held	Meetings attended	Meetings held
Non-Executive						
Geoff Brown	4	4	5	5	4	4
Mary Gavigan	4	4	5	5	4	4
Julie Hansen	1*	1*	1*	1*	1*	1*
Mike Hughes	1	1	1	1	1	1
Tracy Morshead	1	1	1	1	-	-
Mark Searles	4	4	5	5	4	4
Executive						
Graham Singleton	4	4	5	5	4*	4*
Sandy Richards	1	1	1	1	1*	1*
Julian Ellacott	3	3	3	3	2*	2*

** Attendance on an invitation basis.*

Directors' Report

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

» Select suitable accounting policies and then apply them consistently.

» Make judgements and estimates that are reasonable and prudent.

» State where applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.

» Prepare the statements on a going concern basis, unless it is inappropriate to assume that the Society will continue in business.

» Prepare the financial statements in accordance with the Friendly Societies (Accounts and Related Provisions) Regulations 1994 and in accordance with the applicable accounting standards in the United Kingdom. In following the Friendly Societies (Accounts and Related Provisions) Regulations 1994, this includes the two updates to this regulation: the Friendly Societies (Accounts and Related Provisions) (Amendment) Regulations 2005; and the Friendly Societies (Accounts and Related Provisions) (Amendment) Regulations 2008.

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

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

The Directors consider that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for members to assess the performance, business model and strategy of the Society and the Group.

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

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

Going Concern
The Society's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report for the year. The financial position of the Society, its cash flows, liquidity position and borrowing facilities have also been considered by the Board. The Society's policies and processes for managing capital are highlighted in Note 2 to the financial statements. The Society has adequate financial resources, supported by long-standing relationships with its policyholders and suppliers. Therefore, the Directors believe that the Society is well placed to manage its business risks in respect of liquidity and cash flows. After making enquiries, the Directors have a reasonable expectation that the Society has adequate resources to continue in operational existence for a period to 31 December 2023. Accordingly, the financial statements have been prepared on a going concern basis.

Annual General Meeting
The 2021 Annual General Meeting was held in Bristol on 30th September 2021 and was attended by the Board and employees of the Society.

A number of resolutions were voted on including:

» To receive:
  - the Annual Accounts;
  - the Board's Report; and
  - the Auditor's Report for the year ended 31 December 2020. These form part of the Annual Report and Financial Statements.

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

» To approve the Directors' Remuneration Report for the year ended 31 December 2020. This also forms part of the Annual Report and Financial Statements.
» To approve the re-appointment of Ernst & Young LLP as Society Auditors.
» To re-elect Geoff Brown as a Non-Executive Director
» To elect Graham Singleton as an Executive Director
» To elect Julian Ellacott as an Executive Director
» To elect Julie Hansen as a Non-Executive Director

The response from members submitting their postal/proxy forms was 8.64% of members eligible to vote electing to do so.

Employees
The average number of Directors and staff employed by the Group and Society is disclosed in Note 9 on page 77.

The aggregate remuneration paid to Directors and staff employed by the Group during the year amounted to £4.0 million (2020: £3.9 million).

Charitable Donations
The Society made charitable donations of £9,455 (2020: £14,175). There were no political donations (2020: £nil).

Change of Secretary
Sandy Richards resigned as Secretary on 14 May 2021. Keith Meeres was appointed as Interim Secretary on 20 May 2021 and resigned on 2 December 2021. Carys Stedman-Lloyd was appointed as Secretary on 2 December 2021 and subsequently resigned on 7 March 2022. Keith Meeres was re-appointed as Secretary on 7 March 2022.

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

Approved by Order of the Board

Graham Singleton
Chief Executive
13 April 2022

Audit Committee Report

The role of the Audit Committee is to consider and assist the Board in fulfilling its oversight responsibilities with regards to the integrity and effectiveness of the system of internal control, financial processes, financial statements and performance of the internal audit function. The Committee met four times during the financial year and reports its activities to the Board, making recommendations to the Board.

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

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

Membership, skills and experience

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

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

Internal Control and Risk Management

Details of the risk management systems in place are provided within the Risk and Compliance Committee report on pages 34 - 36. The Audit Committee was satisfied that the internal controls embedded within the year-end financial reporting were appropriately designed and operating effectively.

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

Whistleblowing

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

Internal Audit

The Group outsources its internal audit function. For a number of years this has been undertaken by Mazars however, during Q3, it was agreed to re-tender this engagement. Proposals were received from four professional financial service firms and, following a comprehensive selection process, PwC was appointed to succeed Mazars in October 2021.

During 2021, alongside considering the appointment and remuneration of the new internal audit provider, the Audit Committee monitored the effectiveness of internal audit and the internal audit programme, approving the current year and 2022 audit plan and budgets and confirming that appropriate resources were in place to execute the plan effectively.

In 2021, internal audit carried out a significant number of audits of varying size and complexity. The findings from each individual review are presented to the Audit Committee including management responses. The Audit Committee considers the adequacy of management responses and the implications of significant findings on the effectiveness of the overall internal control system and the risk management framework.

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

- Intermediary onboarding and due diligence
- Outsourced pension administration
- Operational resilience
- Capital management

Independent External Auditor

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

EY was appointed as the Society's external auditor in September 2017, a resolution proposing the re-appointment of EY as the Society's external auditor was put to members at the 2020 AGM and subsequently approved.

The Committee continues to assess the independence and objectivity of the external auditor and the effectiveness of the audit process on an ongoing basis. The external auditor is required to rotate the audit partner responsible for the Society audit engagement every five years with the first rotation due to take place following the completion of the 2021 audit.

The Society has policies in place which aim to safeguard and support the independence and objectivity of the external independent auditors. One such policy requires the prior approval of the Audit Committee for the engagement of the independent auditors for non-audit work. The external auditor did not undertake any non-audit assignments during 2021.

Audit Committee Report (continued)

Financial Reporting - Areas of particular focus

The Audit Committee considered the following significant judgments and estimates, in light of the reports received from external auditors and discussions with external auditors and management.

Significant Issue	How it was addressed
Assessment of actuarial demographic assumptions for morbidity, mortality, longevity and persistency	The Society has in place procedures to analyse experience on its insurance contracts. Statistical analyses are used alongside available industry data to assess the best estimate demographic assumptions. The overarching process for setting assumptions has not changed for the 2021 year-end. 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. Lapse experience is monitored on a monthly basis throughout the year. Allowance is made for significant non-recurring events in experience, but which are unlikely to influence subsequent experience. The Audit Committee is satisfied of the reasonableness of this approach.
Assessment of assumptions relating to expenses	Renewal expenses are determined using per policy expenses equal to the level of expected administration costs in 4.5 years' time divided by the expected volume of business in force at that time. An Additional Expense Reserve is held on top of this, to cover the shortfall in expense margins over a 4.5-year period, until the volume of business reaches scale. The projection of the expected volume of business is based on the most recent sales projections, as well as demographic and lapse assumptions. The Audit Committee is satisfied that, considering all material factors, the approach is reasonable and one that reflects its best estimate of future experience.
Assessment of expense inflation assumption	The methodology for deriving an expense inflation assumption for the 2021 year-end has been updated relative to that applied in previous years. The updated methodology incorporates separate assumptions for salary related and non-salary related inflation, taking into account the fact that the Society has greater control over the former than the latter. These assumptions are then applied to the respective renewal expenses and projected into the future. Following challenge of the Chief Actuary and management on this key assumption and consideration of the Bank of England monetary policy reporting, the Audit Committee is satisfied of the reasonableness of this approach.

Mary Gavigan
Chair of the Audit Committee
13 April 2022

Investment Committee Report

The purpose of the Investment Committee is to oversee compliance with the terms of the Principles & Practices of Financial Management ("PPFM") 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-profit and non with-profit policyholders.

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

Membership

The Committee comprises all members of the Board and met four times during the year.

Progress in 2021

The Committee's main focus on during the year was to support the improvement of the capital position through the de-risking of the asset portfolio, specifically:

» Reviewing the Society's property portfolio, and authorising the sale of properties to the extent that there was minimal property exposure in the Society's Own Funds (with remaining properties backing with-profit liabilities).

» Authorising the sale of equity assets to the extent that there was little or no equity exposure in the Society's Own Funds (with remaining properties backing with-profit liabilities).

» Authorising the sale of corporate bonds backing non-profit liabilities, with proceeds reinvested in gilts, to reduce the capital requirements in respect of credit spread risk within the SCR.

» Approving a comprehensively revised Investment & Liquidity Policy, setting out investment limits for assets backing different components of the solvency balance sheet, and linked to the Society's Solvency Risk Appetite.

» Seeking (and obtaining) an improvement in the matching policy of the Society's pension scheme, enabling the Society to reduce its own risk.

The Committee also received regular updates from the investment managers.

Risk and Compliance Committee Report

The Risk and Compliance Committee assists the Board in its leadership and oversight of risk. This includes the understanding and, where appropriate, optimisation of current and future risk strategy, overall risk appetite and tolerance, risk management including risk policies, process and controls and the promotion of a risk awareness culture throughout the Society. It is also responsible for the oversight of regulatory compliance including conduct risk and the policies and procedures within the Society.

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

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

Membership

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

At each meeting, a comprehensive risk management report is reviewed featuring dashboard reporting of the current risk assessment versus appetite and a legal and compliance functional report.

During 2021 the Risk and Compliance Committee also received the Society's:

- Annual Risk Management Report
- Annual Operational Compliance Report, including a regulated complaints trend analysis report.
- Annual Money Laundering/Financial Crime Report
- Annual Whistleblowing Report

Risk and Compliance Committee Report (continued)

Progress in 2021

The Society continued to refresh and strengthen its approach to risk management during the year and will further embed this capability within the business.

Whilst the Society continued to place significant risk management focus on the pandemic, with a particular emphasis on the safety and resilience of our people and members, it has maintained focus on the wider risk management agenda, including:

- Refreshing the Society's risk appetite, reporting, MI, statements and policy, including the articulation of the associated measures and triggers for action
- Review of emerging and horizon risks as they arise in the external environment; focusing on specific areas of risk for our health and protection businesses
- Review and update of the intermediary and other third party due diligence onboarding and ongoing monitoring processes
- Review and update of the compliance reporting to the Committee
- Review and update of the regulatory developments process to ensure the Committee is aware of the regulatory rule changes that will affect the Society's business
- Review of our strategic and emerging risk profiles
- Conduct risk policy and process review
- Review of our climate change risk profile and evaluating our approach to enhancing climate change risk management and disclosures
- Improved risk reporting to the Board to assist in its effective oversight
- Continued improvements to our wider information technology capabilities and IT operational resilience controls.

Risk management

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

We review the risk management framework at least annually and receive regular reports from the Executive Risk Committee.

Risk is assessed and managed under the following risk categories:

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

The Board has identified key threats to business strategy and mitigation plans have been put in place so that the Society can remain sustainable and continue to operate in the best interests of its members. These risks are summarised on pages 11-13.

Geoff Brown

Chair of the Risk and Compliance Committee
13 April 2022

Nominations Committee Report

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

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

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

During the year, the Committee oversaw the search and selection process leading to the appointment in September of Julie Hansen to the Society's Board and Mike Hughes to the Board of the wholly owned subsidiary, National Friendly Financial Solutions. Following Julie's resignation from the Board in November for personal reasons, the Committee recommended to the Board that Mike should join the main Society Board. Ratification of this appointment by members will be sought at the 2022 AGM.

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

Mark Searles

Chair of the Nomination Committee
13 April 2022

Directors' Remuneration Report

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

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

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

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

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

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

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

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

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

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

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

Mary Gavigan
Chair of the Remuneration Committee
13 April 2022

Directors' emoluments for the year ended 31 December 2021

	Salaries & Fees	Performance Related Pay	Other Benefits[1]	Payment in Lieu of Notice	Total 2021	Total 2020
	£	£	£	£	£	£
Chair						
Tracy Morshead[2]	21,867	-	-	4,373	26,240	51,200
Geoff Brown[3]	51,216	-	-	-	51,216	34,085
Executive Directors						
Julian Ellacott[4]	83,535	-	15,552	-	99,087	-
Jonathan Long[5]	-	-	-	-	-	199,982
Sandy Richards[6]	50,505	1,000	9,724	68,295	129,524	159,000
Graham Singleton[7]	129,835	-	21,348	-	151,183	-
Non-Executive Directors						
Mary Gavigan[8]	37,250	-	-	-	37,250	10,487
Julie Hansen[9]	8,125	-	-	-	8,125	-
Mike Hughes[10]	9,567	-	-	-	9,567	-
Mark Jackson[11]	-	-	-	-	-	23,595
Peter McIlwraith[11]	-	-	-	-	-	31,725
Mark Searles[12]	40,646	-	-	-	40,646	18,352
Graham Singleton[7]	39,563	-	-	-	39,563	31,460
Total					**592,401**	**559,886**

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

[2] Tracy Morshead provided Non-Executive support and was Chair of the Board plus Chair of the Board of National Friendly's subsidiary company, National Friendly Financial Solutions Limited. He resigned on 20 May 2021.

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

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

[5] Jonathan Long deceased on 14 December 2020.

[6] Sandy Richards resigned as Executive Director on 5 April 2021. The performance related pay relates to a one off £1,000 payment, made to all employees in lieu of a bonus in respect of their work in 2020.

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

[8] Mary Gavigan was appointed as a Non-Executive Director on 1 September 2020.

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

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

[11] Mark Jackson and Peter McIlwraith resigned as Non-Executive Directors on 30 September 2020.

[12] Mark Searles was appointed as a Non-Executive Director on 1 June 2020.

Directors' Remuneration Report
(continued)

At the 2021 AGM, members voted on the resolution to approve the 2020 Directors' Remuneration Report. The Society is committed to on-going member dialogue and takes an active interest in voting outcomes. Where there are substantial votes against the resolutions in relation to Directors' remuneration, the reasons for any such vote would be sought and any actions in response detailed in the next Directors' Remuneration Report.

The following table sets out the actual voting in respect of the approval of the 2020 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
2303	94.81%	72	2.96%	2429	54

Executive Directors

Base Salaries

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

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

Performance Related Pay

The Executive Directors are eligible for 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.

Other Benefits

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

Directors' Contract

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

Non-Executive Directors

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

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

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

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

Independent Auditor's Report

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

Opinion

In our opinion:

- National Deposit Friendly Society Limited's Group and Society's financial statements (the "financial statements") give a true and fair view of the state of the Group's and of the Society's affairs as at 31 December 2021 and of the Group's and the Society's income and expenditure for the year then ended;
- the Group and Society's financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Friendly Societies Act 1992.

We have audited the financial statements of National Deposit Friendly Society Limited (the 'Society') and its subsidiaries (the 'Group') for the year ended 31 December 2021 which comprise:

Group	Society
Consolidated balance sheet as at 31 December 2021	Balance sheet as at 31 December 2021
Consolidated income statement for the year then ended	Income statement for the year then ended
Consolidated statement of comprehensive income for the year then ended	Statement of comprehensive income for the year then ended
Related notes 1 to 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 (other than the sections of Note 2 marked as unaudited)

The financial reporting framework that has been applied in the preparation of the Group's and Society's financial statements is applicable law and United Kingdom Accounting Standards, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" and FRS 103 "Insurance Contracts" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the group and parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the directors' assessment of the group and parent company's ability to continue to adopt the going concern basis of accounting included:

- confirming our understanding of management's going concern assessment process and obtaining management's assessment which covers the period through to 31 December 2023;
- assessing the accuracy of management's analysis by agreeing figures to audited or publicly available information where applicable;
- evaluating the liquidity and solvency position of the Group and Society by reviewing base case liquidity and solvency projections;
- obtaining and reviewing the latest Board approved Own Risk and Solvency Assessment (ORSA), assessing whether the stress testing included in the ORSA were reasonable stress tests and considering the solvency position under each stress scenario;

» evaluating management's forecast analysis to understand how severe the downside scenarios would have to be to result in the elimination of liquidity headroom;
» assessing the plausibility of available management actions to mitigate the impact of the key risks by comparing them to our understanding of the Group and Society;
» performing enquiries of management and those charged with governance to identify risks or events that may impact the Group and Society's ability to continue as a going concern. We also reviewed management's assessment approved by the Board, minutes of meetings of the Board and its committees, and made enquiries as to the impact of COVID-19 on the business; and
» assessing the appropriateness of the going concern disclosures by comparing the consistency with management's assessment and for compliance with the relevant reporting requirements

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group and parent company's ability to continue as a going concern for the period to 31 December 2023.

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

Overview of our audit approach	
Audit scope	» We performed an audit of the complete financial information of the Society and audit procedures on specific balances for a further two components. » The components where we performed full or specific audit procedures accounted for 100% of the Long Term Business Provision 100% of Gross Written Premiums and 100% of Total assets.
Key audit matters	» Inappropriate actuarial demographic assumptions for morbidity, mortality longevity and persistency. » Inappropriate actuarial expense assumptions
Materiality	» Overall Group materiality of £720k which represents 1% of the Long term Business Provision.

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

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

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

Climate change
There has been increasing interest from stakeholders as to how climate change will impact companies. National Deposit Friendly Society Limited's Group and Society has determined that the physical and transition risks from climate change do not currently pose a material risk to the Group. This is explained on page 12 in the principal risk and uncertainties section within the Strategic report, which form part of the "Other information" rather than the audited financial statements. Our procedures on these disclosures therefore consisted solely of considering whether they are materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appear to be materially misstated.

Our audit effort in considering climate change was focused on challenging management's risk assessment of the impact of physical and transition risks and the resulting conclusion that there was no material impact from climate change and the adequacy of the Group's disclosures on page 54 of the financial statements which explain the rationale.

Independent Auditor's Report
(continued)

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

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 (2021 Long Term Business Provision: £72,534k, 2020 Long Term Business Provision: £80,977k) *Refer to the Audit Committee Report (page 32); Accounting policies (page 55); and Note 20 of the Financial Statements (page 88)* The assumptions underpinning the valuation of the long-term business provision as at 31 December 2021 are disclosed in note 20 to the financial statements. The valuation of the long–term liabilities the Society holds is inherently uncertain due to the dependency on a number of key assumptions, including morbidity, 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 the demographic actuarial assumptions. We tested that the policy records data used in the process for setting and updating demographic and expense assumptions was complete and accurate by agreeing back to the policy administration system. We audited the results of management's experience analysis to assess whether this justified the adopted assumptions, checked that the assumptions used are consistent with the experience analysis and reviewed the judgements made (such as the weight put on recent years' experience), and explanations provided by management as to why experience had changed, to ensure they were reasonable. In respect of longevity improvements, we have evaluated the use of the chosen industry standard Continuous Mortality Investigation ('CMI') model and the parameters used to validate that it was appropriate relative to the industry and Society experience. We concluded on whether the final assumptions were within a reasonable range based on our expert judgement, management's internal experience analysis and benchmarking to peers. We audited the additional judgements made in respect of the COVID-19 pandemic. This consisted of considering the appropriateness of any adjustments, or lack of adjustments, to long term assumptions or short term provisions via manual reserves. We reviewed the disclosures that have been made regarding the sensitivity of the valuation of the Long Term Business Provision to changes in the key actuarial assumptions.	Based on the analysis of experience, industry practice and the financial and regulatory requirements, we determined that: The persistency assumptions used by management are in the middle of a reasonable range; The longevity assumptions are towards the optimistic end of a reasonable range; The morbidity assumptions are outside of our reasonable range; The mortality assumptions are towards the lower end of our reasonable range; and On an aggregate basis, the demographic assumptions were outside the lower end of a reasonable range by an amount that is not material

Risk (continued)	Our response to the risk (continued)	Key observations communicated to the Audit Committee (continued)
Inappropriate actuarial expense assumptions (2021 Long Term Business Provision: £72,534k, 2020 Long Term Business Provision: £80,977k) *Refer to the Audit Committee Report (page 32); Accounting policies (page 55); and Note 20 of the Financial Statements (page 89)* The assumptions underpinning the valuation of the long term business provision as at 31 December 2021 are disclosed in note 20 to the financial statements. Whilst less significant than the demographic assumptions referred to as part of the key audit matter above, we consider expense assumptions to be a key part of the actuarial valuation. Expense assumptions are set based on the anticipated costs associated with administering the business, including expenses inflation as well as the split between acquisition / maintenance and between different classes of business.	To obtain sufficient audit evidence to conclude on the appropriateness of actuarial assumptions, we engaged our actuarial specialists as part of our audit team and performed the following procedures: We obtained an understanding and tested the design and operating effectiveness of key controls over management's process and governance for setting expense assumptions. We compared the methodology and assumptions with market practice. We tested that the expense inputs into the model including the future expected costs savings agreed to the forecast expense paper approved by the Board. We tested whether the split between maintenance and acquisition expenses and whether the allocation of expenses between various product types and between new business and in–force business was reasonable by agreeing to actual data as well as future business plans. We assessed the business planning decisions which affect the expense assumptions for example new business growth and sales force expansion in response to COVID-19 risk. We reviewed the disclosures that have been made regarding the sensitivity of the valuation of the Long Term Business Provision to changes in the key actuarial assumptions.	We determined that the expense assumptions used by management are towards the optimistic end of a reasonable range based on industry practice and the financial and regulatory requirements.

In the prior year, our auditor's report included a key audit matter in relation to Potential contingent liability in respect of internal control breakdown. This risk is non-recurring in nature and therefore is not included in the current year.

Our application of materiality

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

Materiality

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

We determined materiality for the Group and Society to be £720k (2020: £400k), which is 1% (2020: 0.5%) of Long term Business Provision. We believe that Long term Business Provision is the key driver of own funds which are then used to calculate the solvency coverage ratio.

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% (2020: 50%) of our planning materiality, namely £360k (2020: £200k). We have set performance materiality at this percentage based on our assessment of the risk of misstatement.

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the Group as a whole and our assessment of the risk of misstatement at that component. In the current year, the range of performance materiality allocated to components was £72k to £360k (2020: £40k to £200k).

Independent Auditor's Report
(continued)

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

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 £36k (2020: £20k), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

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

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

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on 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.

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; or
» The annual accounts are not in agreement with the accounting records.

We have no exceptions to report arising from this responsibility.

Voluntary reporting relating to the AFM Corporate Governance Code

In accordance with the terms of engagement from the Society, our responsibility is to report on the extent of the Society's compliance with the AFM Corporate Governance Code dated January 2019 as disclosed in the Annual Report and on whether the disclosure is consistent with the requirements of the Code.

Based on the work undertaken as part of our audit, we have concluded that the Society has complied with the provisions of the AFM Corporate Governance Code dated January 2019 other than the areas disclosed on page 20 and that the disclosure in the Annual Report is consistent with the requirements of the Code.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 28, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

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

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

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

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

- We assessed the susceptibility of the Group and Society's financial statements to material misstatement, including how fraud might occur by considering the controls that the Group and Society has established to address risks identified by the Group and Society, or that otherwise seek to prevent, deter or detect fraud. We also considered areas of significant judgement, performance targets, economic or external pressures and the impact these have on the control environment. Where this risk was considered to be higher, we performed audit procedures to address each identified fraud risk, including the procedures over the demographic and expense assumptions noted under the key audit matters section above. With regard to revenue recognition fraud risk we tied back all but an immaterial amount of the gross premium income to cash received during the year and additional procedures included testing a sample of manual journals. In addition we tested controls and reconciliations performed by the Customer Services and Finance Teams with regards to generation and collection of gross premium income via direct debit. We have also tested the monthly journal upload of investment income into the general ledger to investment managers reports. These procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. For direct laws and regulations, we considered the extent of compliance with those laws and regulations as part of our procedures on the related financial statement items. For both direct and other laws and regulations, our procedures involved: making enquiry of senior management and the Audit Committee for their awareness of any non-compliance of laws or regulations, inquiring about the policies that have been established to prevent non-compliance with laws and regulations by officers and employees, inquiring about the Group and Society's methods of enforcing and monitoring compliance with such policies, inspecting significant correspondence with the FCA and PRA and reviewing minutes of the Board and its committees and the complaints log.
- The Group and Society operates in the insurance industry which is a highly regulated environment. As such the Senior Statutory Auditor considered the experience and expertise of the engagement team to ensure that the team had the appropriate competence and capabilities, which included the use of specialists where appropriate.

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

Other matters we are required to address

- Following the recommendation from the audit committee we were appointed by the Society on 6 September 2017 to audit the financial statements for the year ending 31 December 2017 and subsequent financial periods.
- The period of total uninterrupted engagement including previous renewals and reappointments is 5 years, covering the years ending 31 December 2017 to 31 December 2021.
- 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 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 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 Society and the 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
15 April 2022

Consolidated Income Statement

For the year ended 31 December 2021

		Group				Society			
		2021		2020		2021		2020	
	Note	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Gross premiums written and payments to deposit	4	22,052		16,333		22,052		16,333	
Outward reinsurance premiums		(3,631)		(2,446)		(3,631)		(2,446)	
Earned premiums net of reinsurance			18,421		13,887		18,421		13,887
Investment income	5		3,878		8,564		3,878		8,564
Other technical income	6		556		631		35		93
			22,855		**23,082**		**22,334**		**22,544**
Gross claims paid		16,248		13,843		16,248		13,843	
Reinsurers' share		(3,157)		(2,057)		(3,157)		(2,057)	
Net claims paid			13,091		11,786		13,091		11,786
Change in provision for claims			58		(55)		58		(55)
Change in long term funds Long term business provision – gross amount		(8,443)		(2,168)		(8,443)		(2,168)	
Movement in reinsurers' share		(1,016)		559		(1,016)		559	
Long term business provision – net of reinsurance amount			(9,459)		(1,609)		(9,459)		(1,609)
Investment contract liabilities			(2)		(1)		(2)		(1)
Provision for linked liabilities – insurance contracts	22		105		48		105		48
Provision for linked liabilities – investment contracts	22		(14)		(15)		(14)		(15)
Bonuses and rebates			(2)		(55)		(2)		(55)
Net operating expenses	7a								
Acquisition costs		7,446		6,015		7,148		5,603	
Administrative expenses		4,534		3,955		4,052		3,318	
			11,980		**9,970**		**11,200**		**8,921**
Other technical charges – project costs	7b		56		1,646		1		1,582
- other			81		39		79		39
Investment expenses	8		591		750		591		750
Unrealised losses on investments	5		5,226		3,781		5,226		3,781
Loss on investment in subsidiary	26		-		-		309		563
Tax attributable to long term business	11a		76		(3)		63		-
Transfer to/(from) the fund for future appropriations			1,068		(3,200)		1,088		(3,191)
			22,855		**23,082**		**22,334**		**22,544**
Balance after transfer to/(from) the fund for future appropriations			-		-		-		-

The information on pages 54 to 97 form an integral part of these financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2021

		Group		Society	
		2021	2020	2021	2020
	Note	£'000	£'000	£'000	£'000
Balance transferred from income statement		-	-	-	-
Actuarial gain/(loss) on pension scheme	21	(969)	806	(969)	806
Revaluation of occupied land and buildings	18	180	240	180	240
Total comprehensive income		**(789)**	**1,046**	**(789)**	**1,046**
Transfer to/(from) the fund for future appropriations		(789)	1,046	(789)	1,046
Total comprehensive income after transfer		**-**	**-**	**-**	**-**

The information on pages 54 to 97 form an integral part of these financial statements.

Consolidated Balance Sheet

As at 31 December 2021

		Group				Society			
		2021		2020		2021		2020	
ASSETS	Note	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Intangible assets	17		2,814		2,951		109		203
Investments Land and buildings	12	9,040		19,925		9,040		19,925	
Investment in subsidiaries	26	-		-		574		593	
Other financial investments	13	70,765		69,850		70,765		69,850	
			79,805		**89,775**		**80,379**		**90,368**
Assets held to cover linked liabilities	16		1,780		1,603		1,780		1,603
Debtors – Loans and receivables Debtors arising from direct insurance operations	3	113		160		75		118	
Other debtors	3	734		417		734		412	
			847		**577**		**809**		**530**
Other assets Tangible assets	18	3,312		3,137		3,312		3,317	
Cash at bank and in hand	14	6,384		4,357		6,278		4,328	
Deferred tax asset	11c	-		13		-		-	
			9,696		**7,507**		**9,590**		**7,465**
Prepayments and accrued income – Loans and Receivables Accrued interest and rent		1,318		1,505		1,318		1,505	
Other prepayments and accrued income		281		261		2,674		2,633	
			1,599		**1,766**		**3,992**		**4,138**
			96,541		**104,179**		**96,659**		**104,307**

The information on pages 54 to 97 form an integral part of these financial statements.

As at 31 December 2021

		Group				Society			
		2021		2020		2021		2020	
LIABILITIES	Note	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Fund for future appropriations	27		15,698		15,419		15,738		15,439
Technical provisions Long term business provision	20	72,534		80,977		72,534		80,977	
Investment contract liabilities		1		3		1		3	
Claims outstanding		2,535		2,477		2,535		2,477	
Provision for bonuses and rebates		28		30		28		30	
			75,098		**83,487**		**75,098**		**83,487**
Technical provision for linked liabilities – insurance contracts	22		1,349		1,244		1,349		1,244
Technical provision for linked liabilities – investment contracts	22		346		360		346		360
Reinsurers' share of technical provisions			843		1,859		843		1,859
Provision for other risks and charges									
Derivatives	28		1,109		74		1,109		74
Creditors Other creditors including taxation and social security		397		472		354		358	
Accruals and deferred income		1,312		1,032		1,433		1,254	
			1,709		**1,504**		**1,787**		**1,612**
Net pension liability	21	389		232		389		232	
			389		232		389		232
			96,541		**104,179**		**96,659**		**104,307**

The information on pages 54 to 97 form an integral part of these financial statements.
These financial statements were approved by the Board on 13 April 2022.

Graham Singleton
Chief Executive

Geoff Brown
Chair

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For the year ended 31 December 2021

01. Accounting Policies

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

General information

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

Statement of compliance

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

Basis of preparation

The financial statements have been prepared on a going concern basis. The Society's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report for the year. The Board has also considered the Society's financial position, its cash flows 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.

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 to 31 December 2023. Accordingly, the Society continues to adopt the going concern basis in preparing the annual report and financial statements.

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

In preparing these financial statements the directors have considered the impact of the physical and transition risks of climate change and identified this as a principal risk as set out on page 12, but have concluded that it does not have a material impact on the recognition and measurement of the assets and liabilities in these financial statements as at 31 December 2021. This is because the assets are reported at fair value under FRS102 and as set out in note 13 therefore utilise market prices at the period end. These market prices will include the current expectations of the impact of climate change on these investments. Insurance liabilities are accrued based on past insurable events so will not be impacted by any future impact of climate change. However, we recognise that government and societal responses to climate change risks are still developing and the future impact cannot be predicted. Future valuations of assets may therefore differ as the market responds to these changing impacts or assesses the impact of current requirements differently and the frequency and magnitude of future insurable events linked to the effect of climate risks could change.

LIBOR transition

The Society has largely completed its transition from LIBOR to the replacement SONIA Risk Free Rates. The programme has gone through a systematic process to identify and address balance sheet exposures with LIBOR dependencies. All derivative exposures have successfully been transitioned over the course of the programme. Insurance contract liabilities and related items have transitioned to the SONIA curve published by the PRA. There are no remaining residual exposures, therefore we do not envisage any impacts arising from the cessation of LIBOR.

Basis of consolidation

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

Premiums
Premiums are accounted for when due for payment.

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

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

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

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

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

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

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

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

Long term business provision
The long-term business provision is determined by the Society's Board and is calculated on a Solvency II basis. It is calculated to be consistent with the PRA Rulebook: Solvency II Firms Technical Provisions Instrument 2015.

The Solvency II provisions, on which the Long-Term Business Provision is based, are defined as the sum of the Best Estimate of Liabilities and the Risk Margin. The best estimate and risk margin are calculated separately. The best estimate of liabilities is calculated on a policy by policy basis for all contracts accepted on risk at the valuation date using a cash flow approach and generally accepted actuarial 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 PRA's 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 Long Term Business Provision reported in the Financial Statements does not take account of any transitional measures approved by the PRA in respect of the transition from Solvency I to Solvency II.

Notes to the Financial Statements (continued)

For the year ended 31 December 2021

01. Accounting Policies (continued)

Bonuses

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

Claims outstanding

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

Depreciation

Properties

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

Intangible assets

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

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

Computer Software is amortised on the straight line basis over its useful economic life, which is 10 years.

Software under Construction is not amortised until completed, but is reviewed for impairment at least annually. The Customer Book is amortised on the straight line basis over its useful economic life, which is 10 years.

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

Tangible fixed assets and depreciation

Land and buildings

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

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

Other tangible fixed assets

Tangible fixed assets other than land and buildings are held at cost less accumulated depreciation.

Depreciation has been provided at the following rates calculated to write off each asset over its estimated useful life:

» Computer equipment is depreciated at 25% per annum on a straight line basis;

» Office equipment is depreciated at 12.5% per annum on a straight line basis.

» Motor vehicles are depreciated at 33.33% per annum on a straight line basis.

Acquisition costs

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

Operating leases

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

Project costs

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

Pension costs

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

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

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

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

Taxation

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

Investment in subsidiaries

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

Fund for future appropriations

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

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".

Notes to the Financial Statements (continued)

For the year ended 31 December 2021

01. Accounting Policies (continued)

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

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

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

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

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

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

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

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

Derivatives
Previously the Society held some forward contracts for foreign currency exchange, these are no longer required following the de-risking of the Investment Portfolio. The Society also held some bond future contracts and continues to hold interest rate swap contracts. These derivatives are used to better match the duration of the fixed interest portfolio to its liabilities. Depending on whether the contract is in a favourable or adverse position they are classified as financial assets or financial liabilities respectively and are classified at fair value with any movements accounted for 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

Previously some fixed interest investments were held in foreign currencies. The assets were 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.

Key estimates and judgements

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

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

b) Valuation of Investment Properties

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

c) Valuation of Financial Assets

The Society holds a number of financial assets such as equities, fixed income securities, derivatives, cash, mortgages and debtors. The Society has no financial assets held for trading, all 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 details are provided in note 13.

d) Defined Benefit Pension Schemes

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

e) Valuation of Investment in Subsidiaries

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

f) Valuation of Intangible Assets

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

Notes to the Financial Statements
(continued)

For the year ended 31 December 2021

02. Capital management

The regulatory capital requirement for the Society is determined by the Solvency II regime (as incorporated into the PRA Rulebook). This is a risk-based approach to the assessment of capital requirements whereby Technical Provisions are calculated as the sum of the best estimate liabilities plus a risk margin. The Solvency Capital Requirement ("SCR") is the additional capital the Society is required to hold to withstand a set of adverse events (covering market, underwriting, counterparty and operational risks) with a 99.5% level of confidence over a 1 year time horizon. The Society aims to manage its capital to ensure that there is an appropriate level of surplus over the SCR, in line with its Solvency Risk Appetite. This is monitored formally through the Board and Risk & Compliance Committee on a quarterly basis and on an ongoing basis by the Actuarial Function.

The Society calculates its SCR in accordance with the Standard Formula. The liabilities are discounted using risk free discount rates prescribed by the PRA. These rates do not necessarily reflect the rates earned on the financial assets held by the Society.

The Society maintains a single long term business fund. The available capital for the fund is represented by the fund for future appropriations which represents the difference between the assets and liabilities of the Society and Group. For Solvency II regulatory purposes certain assets are deemed inadmissible for meeting the capital requirements. At the balance sheet date £0.5m (2020: £0.7m) 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 overleaf outlines the Society's Capital available for regulatory requirements. This is the Solvency II Own Funds. The impact of the TMIR is shown.

Capital Statement

	Society	
	(Unaudited) 2021	(Unaudited) 2020
	£'000	£'000
Fund for future appropriations	**15,738**	**15,439**
Regulatory valuation adjustment	(526)	(678)
Transitional measures adjustment	325	1,241
Own Funds available to meet Solvency Capital Requirements	**15,537**	**16,002**

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

	Society
	(Unaudited) 2021
	£'000
Available Own Funds at the start of the year	**16,002**
Model and methodology changes	83
Assumption changes	1,441
Change to the basis of the regulatory risk free yield curve	(1,549)
Capital strengthening actions	705
Inforce business movements	(157)
New business	3,876
One off/strategic expenses and expense overrun	(4,549)
Market movements	(334)
Other adjustments	18
Available Own Funds at the end of the year	**15,537**

» A large number of assumptions changes have been made which overall resulted in a positive impact to Own Funds. The most significant change was the reduction to per policy expense assumptions where the Society is expecting to write significantly greater volumes of new business in the future.

» A change in regulatory requirement to the risk free yield curve has resulted in liabilities being valued at a higher level.

» Profitable new business over 2021 has had a positive impact on Own Funds.

» A number of one off expenses and expenses being greater than expected had an adverse impact on Own Funds.

Options and guarantees

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

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

Notes to the Financial Statements (continued)

For the year ended 31 December 2021

2. Capital management (continued)

Assumptions used in the valuation of the Technical Provisions

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

Capital resource sensitivities

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

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

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

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

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

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 is largely mitigated using reinsurance for the Immediate Needs Annuity business, but the Society is exposed to residual longevity risk on this product, and on other products.

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

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

In addition, an expense stress in relation to With Profit business can be charged to asset shares, further reducing the impact.

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

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

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

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

	Society
	Impact (Unaudited)
	£'000
Property risk *Decrease in property values of 25%*	(538)
Interest rate risk *Increase in risk free yield curve as specified by the PRA (+1%)* *Decrease in risk free yield curve as specified by the PRA (c.-0.1%**)*	 (1,902) 263
Equity risk *Decrease in equity values of 38.5%*	(219)
Credit spread risk *Decrease in corporate bond values of 9.7%*	(700)
Lapse risk *** *Increase in lapse rates of 50%* *Decrease in lapse rates of 50%* *Mass lapse of 40%*	 (303) (3,264) (5,882)
Longevity risk *Decrease in mortality rates of 20%*	(1,869)
Expense risk *Increase in per policy expenses of 10% and expense inflation of 1% p.a.*	(2,478)
Morbidity risk *Increase in morbidity rates of 5% and claim inflation of 1% p.a.*	(1,287)
Mortality risk *Increase in mortality rates of 15%*	(2,458)

*** 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 Own Funds.*

Notes to the Financial Statements (continued)

For the year ended 31 December 2021

03. Risk management

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

Insurance risk

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

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

Financial risk

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

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

i. Market risk

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

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

a) Interest rate risk

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

b) Inflation risk

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

c) Exchange rate risk

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

Market Value - Equities	Group & Society	
	2021	2020
	£'000	£'000
UK pound	1,403	6,440
	1,403	**6,440**

Market Value - Fixed Interest	Group & Society	
	2021	2020
	£'000	£'000
UK pound	65,286	59,336
USA dollar	-	1,006
	65,286	**60,342**

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

d) Equity price risk

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

ii. Credit risk

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

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

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

This results in a relatively modest exposure to lower rated and possibly 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, due to the nature of the reinsurance arrangements in place. Therefore, there are no specific actions envisaged to manage the risks in this section.

Notes to the Financial Statements (continued)

For the year ended 31 December 2021

03. Risk Management (continued)

	Group	
	2021	2020
The assets bearing credit risk are summarised and analysed by credit rating below:	**£'000**	**£'000**
Derivative financial instruments	-	1,589
Listed fixed interest securities	65,286	60,341
Loans and receivables (Note 14)	2,216	2,195
Deposits with credit institutions	4,025	1,367
Cash at bank and in hand	6,384	4,357
	77,911	**69,849**

AAA	65	2,933
AA	50,372	26,157
A	21,738	29,678
BBB	4,109	7,868
Below BBB	-	490
Not rated	1,627	2,723
	77,911	**69,849**

	Society	
	2021	2020
The assets bearing credit risk are summarised and analysed by credit rating below:	**£'000**	**£'000**
Derivative financial instruments	-	1,589
Listed fixed interest securities	65,286	60,341
Loans and receivables (Note 14)	2,179	2,148
Deposits with credit institutions	4,025	1,367
Cash at bank and in hand	6,278	4,328
	77,768	**69,773**

AAA	65	2,933
AA	50,265	26,127
A	21,738	29,678
BBB	4,109	7,868
Below BBB	-	490
Not rated	1,591	2,677
	77,768	**69,773**

iii. Liquidity risk

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

The Society has a low appetite for liquidity risk and the risk is controlled by maintaining a prudent cash holding and primarily investing in liquid assets.

The Society also holds some interest rate swaps to manage the duration of the fixed interest portfolio, and in 2020 held some bond futures for the same purpose. 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.

Notes to the Financial Statements
(continued)

For the year ended 31 December 2021

03. Risk Management (continued)

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

	Group				
	No maturity date	Within 1 year	1 - 5 years	Over 5 years	Total
Financial and insurance liabilities at 31/12/20	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Fund for future appropriation	15,419	-	-	-	**15,419**
Long term business provision	-	2,089	1,225	77,663	**80,977**
Investment contract liabilities	-	1	2	-	**3**
Claims outstanding	-	2,477	-	-	**2,477**
Provision for bonuses and rebates	-	8	16	6	**30**
Technical provision for linked liabilities – insurance contracts	-	1,244	-	-	**1,244**
Technical provision for linked liabilities – investment contracts	-	360	-	-	**360**
Reinsurers' share of technical provisions	-	-	1,859	-	**1,859**
Derivatives	-	74	-	-	**74**
Defined benefit pension liability	-	-	-	232	**232**
Other creditors including taxation and social security	-	472	-	-	**472**
Accruals and deferred income	-	1,032	-	-	**1,032**
Total financial and insurance liabilities	**15,419**	**7,757**	**3,102**	**77,901**	**104,179**

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

Financial assets at 31/12/20	Group				
	No maturity date	Within 1 year	1 - 5 years	Over 5 years	Total
	£'000	£'000	£'000	£'000	£'000
Equity investments	6,440	-	-	-	**6,440**
Fixed interest securities	-	-	5,852	54,489	**60,341**
Derivatives	-	1,589	-	-	**1,589**
Deposits with credit institutions	-	1,367	-	-	**1,367**
Mortgages	107	2	4	-	**113**
Assets held to cover linked liabilities	1,603	-	-	-	**1,603**
Debtors arising from direct insurance operations	-	160	-	-	**160**
Other debtors	-	417	-	-	**417**
Cash at bank and in hand	4,357	-	-	-	**4,357**
Accrued interest and rent	-	1,505	-	-	**1,505**
Total financial assets	**12,507**	**5,040**	**5,856**	**54,489**	**77,892**

Notes to the Financial Statements (continued)

For the year ended 31 December 2021

03. Risk Management (continued)

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

	Society				
	No maturity date	Within 1 year	1 - 5 years	Over 5 years	Total
Financial and insurance liabilities at 31/12/20	£'000	£'000	£'000	£'000	£'000
Fund for future appropriation	15,439	-	-	-	**15,439**
Long term business provision	-	2,089	1,225	77,663	**80,977**
Investment contract liabilities	-	1	2	-	**3**
Claims outstanding	-	2,477	-	-	**2,477**
Provision for bonuses and rebates	-	8	16	6	**30**
Technical provision for linked liabilities – insurance contracts	-	1,244	-	-	**1,244**
Technical provision for linked liabilities – investment contracts	-	360	-	-	**360**
Reinsurers' share of technical provisions	-	-	1,859	-	**1,859**
Derivatives	-	74	-	-	**74**
Defined benefit pension liability	-	-	-	232	**232**
Other creditors including taxation and social security	-	358	-	-	**358**
Accruals and deferred income	-	1,254	-	-	**1,254**
Total financial and insurance liabilities	**15,439**	**7,865**	**3,102**	**77,901**	**104,307**

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

	Society				
	No maturity date	Within 1 year	1 - 5 years	Over 5 years	Total
Financial assets at 31/12/20	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Equity investments	6,440	-	-	-	**6,440**
Fixed interest securities	-	-	5,852	54,489	**60,341**
Derivatives	-	1,589	-	-	**1,589**
Deposits with credit institutions	-	1,367	-	-	**1,367**
Mortgages	107	2	4	-	**113**
Assets held to cover linked liabilities	1,603	-	-	-	**1,603**
Debtors arising from direct insurance operations	-	118	-	-	**118**
Other debtors	-	412	-	-	**412**
Cash at bank and in hand	4,328	-	-	-	**4,328**
Accrued interest and rent	-	1,505	-	-	**1,505**
Total financial assets	**12,478**	**4,993**	**5,856**	**54,489**	**77,816**

Notes to the Financial Statements (continued)

For the year ended 31 December 2021

03. Risk Management (continued)

Fair value estimation

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

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

Equity Investments

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

Fixed Interest Securities

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

Derivatives

The Society currently holds interest rate swaps. Previously it also held bond futures and forward currency contracts. 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.

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

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

The principal financial assets held at 31 December 2020, analysed by their fair value hierarchies were:

	Level 1	Level 2	Level 3	Total
Assets 2020 Financial assets at fair value through the profit and loss	£'000	£'000	£'000	£'000
- Equity investments	6,440	-	-	6,440
- Fixed interest securities	20,195	40,146	-	60,341
- Derivatives	16	1,573	-	1,589
- Assets held to cover linked liabilities	-	1,603	-	1,603
Total assets	26,651	43,322	-	69,973

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

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

The principal financial liabilities held at 31 December 2020, analysed by their fair value hierarchies were:

	Level 1	Level 2	Level 3	Total
Liabilities 2020 Financial liabilities at fair value through the profit and loss	£'000	£'000	£'000	£'000
- Investment contract liabilities	-	3	-	3
- Investment contracts on linked liability fund	-	360	-	360
- Derivatives	-	74	-	74
Total liabilities	-	437	-	437

Notes to the Financial Statements (continued)

For the year ended 31 December 2021

04. Gross premiums written and payments to deposit

	Group & Society					
	2021	2021	2021	2020	2020	2020
	Periodic	Single	Total	Periodic	Single	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Assurance	5,433	-	5,433	3,929	-	3,929
Income Protection	40	-	40	-	-	-
Immediate needs annuities	-	8,651	8,651	-	4,209	4,209
Bonds and other single premiums	-	266	266	-	319	319
Healthcare policies	7,195	-	7,195	7,396	-	7,396
Payments to deposit	443	-	443	451	-	451
Unit linked	24	-	24	29	-	29
	13,135	8,917	22,052	11,805	4,528	16,333

All business is direct insurance

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

	Group & Society					
	2021	2021	2021	2020	2020	2020
	Periodic	Single	Total	Periodic	Single	Total
Gross new premiums written	£'000	£'000	£'000	£'000	£'000	£'000
Assurance	2,356	-	2,356	3,145	-	3,145
Income Protection	40	-	40	-	-	-
Immediate needs annuities	-	8,651	8,651	-	4,209	4,209
Bonds and other single premiums	-	266	266	-	319	319
Healthcare policies	846	-	846	1,801	-	1,801
	3,242	8,917	12,159	4,946	4,528	9,474

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

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

05. Investment Income

	Group		Society	
	2021	2020	2021	2020
	£'000	£'000	£'000	£'000
Income from land and buildings	**1,135**	**1,514**	**1,135**	**1,514**
Fixed interest stocks	1,634	2,059	1,634	2,059
Ordinary shares	201	263	201	263
Income from investments at fair value through profit and loss	**1,835**	**2,322**	**1,835**	**2,322**
Bank interest	5	10	5	10
Mortgages	2	3	2	3
Income from other investments	**7**	**13**	**7**	**13**
Income from investments	**2,977**	**3,849**	**2,977**	**3,849**
Net gains on realisation of land and buildings	39	308	39	308
Net gains on realisation of investments at fair value through profit and loss	808	4,285	808	4,285
Net gains on realisation of assets held to cover linked liabilities at fair value through profit and loss	54	122	54	122
Net gains on realisation of investments	**901**	**4,715**	**901**	**4,715**
Investment income	**3,878**	**8,564**	**3,878**	**8,564**
Net unrealised gains/(losses) on investments				
- Land and buildings	991	(2,238)	991	(2,238)
- Investments at fair value through profit and loss	(6,417)	(1,511)	(6,417)	(1,511)
- Assets held to cover linked liabilities at fair value through profit and loss	200	(32)	200	(32)
	(5,226)	**(3,781)**	**(5,226)**	**(3,781)**
Total investment return	**(1,348)**	**4,783**	**(1,348)**	**4,783**

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

Notes to the Financial Statements (continued)

For the year ended 31 December 2021

06. Other technical income

	Group		Society	
	2021	2020	2021	2020
	£'000	£'000	£'000	£'000
Insurance commission	522	539	1	1
Other income	34	92	34	92
	556	**631**	**35**	**93**

07. Net operating expenses

	Group		Society	
	2021	2020	2021	2020
	£'000	£'000	£'000	£'000
a) Included in operating expenses are:				
Fees payable to external auditors:				
Audit of the Group and Society financial statements	221	211	216	205
Fees payable to internal auditors in respect of:				
Internal audit	87	48	87	48
Actuarial fees	101	23	101	23
Depreciation of tangible assets	64	68	64	68
Amortisation of intangible assets	343	343	-	-
(b) Other technical charges – project costs:				
Capital management	-	810	-	810
Distribution	55	105	-	41
Systems and processing	1	447	1	447
Risk management	-	284	-	284
Total project costs	**56**	**1,646**	**1**	**1,582**

CHAIR'S REVIEW
CHIEF EXECUTIVES REVIEW
STRATEGIC REPORT
CORPORATE GOVERNANCE REPORT
THE DIRECTORS' REPORT
AUDIT COMMITTEE REPORT
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08. Investment expenses

	Group		Society	
	2021	2020	2021	2020
	£'000	£'000	£'000	£'000
Investment management expenses	176	253	176	253
Investment property direct costs	415	497	415	497
	591	**750**	**591**	**750**

09. Staff costs

	Group		Society	
	2021	2020	2021	2020
	£'000	£'000	£'000	£'000
Average monthly number of employees:				
Administration	41	43	41	43
Distribution	35	36	25	23
	76	**79**	**66**	**66**

The average full-time equivalent is 74 (2020: 77) for the Group and 64 (2020: 64) for the Society. Excludes Non-Executive Directors of 4 (2020: 5).

	Group		Society	
	2021	2020	2021	2020
	£'000	£'000	£'000	£'000
Wages and salaries (inc. commission)	3,398	3,350	3,051	2,947
Social security costs	370	353	338	316
Pension costs	240	239	216	218
	4,008	**3,942**	**3,605**	**3,481**

This includes Directors' emoluments totalling £592,401 (2020: £559,886). Details of Directors' remuneration are set out on page 39.

Notes to the Financial Statements (continued)

For the year ended 31 December 2021

10. Directors' Emoluments

	Group & Society	
	2021	2020
	£'000	£'000
Aggregate emoluments	592	560

There are no retirement benefits accruing for Executive Directors as at 31 December 2021 (2020: none) under a defined benefit scheme. The aggregate amount of pension contribution made by the Society to a defined contribution scheme was £16,312 (2020: £15,990).

	Group & Society	
	2021	2020
Highest paid Director	£'000	£'000
Total emoluments	191	200
Defined benefit scheme: Pension accrued during the year	-	1
Defined contribution scheme: Contributions made by the Society	-	-

11. Taxation

	Group		Society	
	2021	2020	2021	2020
(a) Tax attributable to long term business	£'000	£'000	£'000	£'000
Tax (credited)/charged in the long-term business technical account comprises: **Current tax**				
UK corporation tax	-	-	-	-
Prior year adjustments	63	-	63	-
Total current tax	**63**	**-**	**-**	**-**
Deferred tax				
Origination and reversal of timing differences	13	(3)	-	-
Total deferred tax	**13**	**(3)**	**-**	**-**
Total tax credited in the long-term business technical account	**76**	**(3)**	**63**	**-**

	Group		Society	
	2021	2020	2021	2020
(b) Factors that may affect future tax charges	£'000	£'000	£'000	£'000
The deferred tax assets which have not been recognised due to the uncertainty of their recoverability in the foreseeable future comprise: Realised and unrealised capital losses	29	218	29	218
Expenses deductible in future years	239	173	239	173
Trade losses	1,397	999	-	-
Short term timing differences	4	3	-	-
Deferred tax asset not recognised	**1,669**	**1,393**	**268**	**391**

The tax charge for the Society which pays tax on its Basic Life Assurance And General Annuity Business ("BLAGAB") is provided at a rate of 20% (2020: 20%) computed in accordance with the legislation applicable to life assurance companies whereby no tax is charged on pension business profits or permanent health insurance business profits. The Government announced in the Spring Statement on 23 March 2022 an intention to reduce the basic rate of income tax from 20% to 19% from April 2024, to be enacted in a future Finance Bill. The implications of this change for the company and for policyholders have yet to be fully assessed.

For subsidiaries of the Group, tax is provided at a rate of 19% (2020: 19%). Legislation to increase the main rate of corporation tax from 19% to 25% from 1 April 2023 was substantively enacted on 24 May 2021 and deferred taxes have been measured at 25% for temporary differences that are expected to reverse on or after 1 April 2023.

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

Unrecognised deferred tax assets may be realised, and therefore reduce future tax payable, when net gains chargeable to corporation tax are realised or when there is sufficient taxable income with which to offset carried forward expenses and/or losses. This will therefore depend substantially upon future movements in the stock market and on future taxable income which cannot be predicted with certainty. There are unused gross capital losses of £1,146,599 (2020: £1,195,248).

Expenses deductible in the Society in future periods are primarily driven by excess management expenses carried forward of £878,217 (2020: £660,803), along with expenses for which tax relief is spread over 7 years of £19,997 (2020: £10,303) and loan relationship deficits carried forward of £270,194 (2020: £nil). Future pension contributions and fixed asset timing differences make up a further £24,276 (2020: £195,674) of future tax deductions. Trade losses not recognised are made up of £5,585,472 (2020: £5,261,661) of trading losses incurred in the subsidiaries.

Notes to the Financial Statements (continued)

For the year ended 31 December 2021

11. Taxation (continued)

	Group		Society	
	2021	2020	2021	2020
(c) Balance sheet The deferred tax balance included within other assets comprises:	£'000	£'000	£'000	£'000
Realised capital losses	200	22	200	22
Unrealised capital gains	(200)	(22)	(200)	(22)
Trade losses	-	13	-	-
Undiscounted deferred tax asset balance	**-**	**13**	**-**	**-**
(d) Reconciliation of deferred taxation balances				
Opening deferred tax asset	13	10	-	-
(Charge)/credit to income statement	(13)	3	-	-
Credit/(charge) to statement of comprehensive income	-	-	-	-
	-	**13**	**-**	**-**

12. Investments
Land and buildings

	Group		Society	
	2021	2021	2021	2021
Freehold investment properties	£'000 Cost	£'000 Valuation	£'000 Cost	£'000 Valuation
At 1 January	13,225	14,215	13,225	14,215
Disposals	(7,437)	(6,940)	(7,437)	(6,940)
Net gains on revaluation	-	375	-	375
At 31 December	**5,788**	**7,650**	**5,788**	**7,650**
Long leasehold properties				
At 1 January	6,266	5,650	6,266	5,650
Additions	(4,435)	(4,350)	(4,435)	(4,350)
Net gains on revaluation	-	90	-	90
At 31 December	**1,831**	**1,390**	**1,831**	**1,390**
Freehold ground rents				
At 1 January	4	60	4	60
Disposals	(4)	(60)	(4)	(60)
Net gains on revaluation	-	-	-	-
At 31 December	**-**	**-**	**-**	**-**
Freehold and long leasehold investment properties: At 31 December	**7,619**	**9,040**	**7,619**	**9,040**

The Society's properties are included at Fair Value. The Properties are valued by Mellersh and Harding LLP as at 31st December 2021 in accordance with the requirements of the Royal Institution of Chartered Surveyors' Valuation - Professional Standards effective from 6th January 2014.

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

Notes to the Financial Statements (continued)

For the year ended 31 December 2021

13. Other financial investments

	Group & Society			
	2021	2021	2020	2020
	£'000 Cost	£'000 Valuation	£'000 Cost	£'000 Valuation
Fixed interest securities	62,712	65,286	53,322	60,341
Listed shares	1,345	1,403	7,034	6,440
Derivatives	-	-	-	1,589
Deposits with credit institutions	4,025	4,025	1,367	1,367
Mortgages	51	51	113	113
	68,133	**70,765**	**61,836**	**69,850**

Of the fixed interest securities £8,226,346 (2020: £21,212,932) relates to overseas fixed interest securities, with the remainder relating to UK fixed interest securities.

Of the listed shares £nil (2020: £nil) relates to overseas investments, with the remainder relating to UK investments.

Derivatives consist of interest rate swaps held to hedge against the change in value of the liabilities of the Society which would result from a change in bond yields. The loss in the value of these contracts has been recognised through the income statement. The interest rate swaps will mature by 2060. In 2020 they also included forward contracts for foreign currency exchange to mitigate the risk of a change in foreign currency exchange rates and futures to manage the duration of the fixed interest portfolio; these are no longer required following the de-risking of the investment portfolio.

Included within deposits with credit institutions is £1,280,267 (2020: £204,556) which relates to cash in a cash margin account which enables the Society to enter into the derivative 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.

14. Financial assets

	Group			
	2021	**2021**	**2020**	**2020**
Financial assets at fair value through profit and loss	**£'000 Cost**	**£'000 Valuation**	**£'000 Cost**	**£'000 Valuation**
Designated upon initial recognition	75,373	78,878	66,988	75,697
	75,398	**78,878**	**66,988**	**75,697**
Loans and receivables	2,216	2,216	2,195	2,195
Total financial assets	**77,589**	**81,094**	**69,183**	**77,892**
Included in the balance sheet as:				
Listed fixed interest securities	62,712	65,286	53,322	60,341
Listed shares	1,345	1,403	7,034	6,440
Derivatives	-	-	-	1,589
Deposits with credit institutions	4,025	4,025	1,367	1,367
Mortgages	51	51	113	113
Other financial investments (Note 13)	**68,133**	**70,765**	**61,836**	**69,850**
Assets held to cover linked liabilities (Note 16)	907	1,780	908	1,603
Debtors arising from direct insurance operations	113	113	160	160
Other debtors	734	734	417	417
Cash at bank and in hand	6,384	6,384	4,357	4,357
Accrued interest and rent	1,318	1,318	1,505	1,505
Total financial assets	**77,589**	**81,094**	**69,183**	**77,892**

	Society			
	2021	**2021**	**2020**	**2020**
Financial assets at fair value through profit and loss	**£'000 Cost**	**£'000 Valuation**	**£'000 Cost**	**£'000 Valuation**
Designated upon initial recognition	75,292	78,676	66,959	75,668
	75,292	**78,676**	**66,959**	**75,668**
Loans and receivables	2,179	2,179	2,148	2,148
Total financial assets	**77,471**	**80,855**	**69,107**	**77,816**
Included in the balance sheet as:				
Listed fixed interest securities	62,712	65,286	53,322	60,341
Listed shares	1,345	1,403	7,034	6,440
Derivatives	-	-	-	1,589
Deposits with credit institutions	4,025	4,025	1,367	1,367
Mortgages	51	51	113	113
Other financial investments (Note 13)	**68,133**	**70,765**	**61,836**	**69,850**
Assets held to cover linked liabilities (Note 16)	907	1,780	908	1,603
Debtors arising from direct insurance operations	75	75	118	118
Other debtors	734	734	412	412
Cash at bank and in hand	6,278	6,278	4,328	4,328
Accrued interest and rent	1,318	1,318	1,505	1,505
Total financial assets	**77,445**	**80,950**	**69,107**	**77,816**

Notes to the Financial Statements
(continued)

For the year ended 31 December 2021

15. Financial Liabilities

	Group			
	2021	2021	2020	2020
Financial liabilities at fair value through profit and loss	£'000 Cost	£'000 Valuation	£'000 Cost	£'000 Valuation
Designated upon initial recognition	-	1,109	-	74
Other financial liabilities at amortised cost	2,056	2,056	1,867	1,867
Total financial liabilities	**2,056**	**3,165**	**1,867**	**1,941**
Included in the balance sheet as:				
Derivatives	-	1,109	-	74
Investment contract liabilities	1	1	3	3
Investment contract liabilities on linked liability fund	346	346	360	360
Other creditors including taxation and social security	397	397	472	472
Accruals and deferred income	1,312	1,312	1,032	1,032
Total financial liabilities	**2,056**	**3,165**	**1,867**	**1,941**

	Society			
	2021	2021	2020	2020
Financial liabilities at fair value through profit and loss	£'000 Cost	£'000 Valuation	£'000 Cost	£'000 Valuation
Designated upon initial recognition	-	1,109	-	74
Other financial liabilities at amortised cost	2,134	2,134	1,975	1,975
Total financial liabilities	**2,134**	**3,243**	**1,975**	**2,049**
Included in the balance sheet as:				
Derivatives	-	1,109	-	74
Investment contract liabilities	1	1	3	3
Investment contract liabilities on linked liability fund	346	346	360	360
Other creditors including taxation and social security	354	354	358	358
Accruals and deferred income	1,433	1,433	1,254	1,254
Total financial liabilities	**2,134**	**3,243**	**1,975**	**2,049**

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			
	2021	2021	2020	2020
	£'000 Cost	£'000 Valuation	£'000 Cost	£'000 Valuation
Assets held to cover unit linked insurance contracts	722	1,416	704	1,244
Assets held to cover unit linked investment contracts	185	364	204	359
	907	**1,780**	**908**	**1,603**

Included within assets held to cover linked liabilities is £57,481 (2020: -£1,402) representing units not yet purchased by policyholders.

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

Notes to the Financial Statements (continued)

For the year ended 31 December 2021

17. Intangible assets

	Group				
	Software under Construction	Customer Book	Website	Computer Software	Total
At 31 December 2020	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Cost/Valuation	203	429	4	3,550	4,186
Accumulated depreciation and impairment	-	(84)	(1)	(1,150)	(1,235)
Carrying amount	**203**	**345**	**3**	**2,400**	**2,951**
Year ended 31 December 2021					
Opening net book value	203	345	3	2,400	2,951
Additions	206	-	-	-	206
Amortisation	-	(42)	(1)	(300)	(343)
Transfers	(300)	-	-	300	-
Carrying amount	**109**	**303**	**2**	**2,400**	**2,814**
At 31 December 2021					
Cost/Valuation	109	429	4	3,850	4,392
Accumulated depreciation and impairment	-	(126)	(2)	(1,450)	(1,579)
Carrying amount	**109**	**303**	**2**	**2,400**	**2,814**

	Society	
	Software under Construction	Total
At 31 December 2020	**£'000**	**£'000**
Cost/Valuation	203	203
Accumulated depreciation and impairment	-	-
Carrying amount	**203**	**203**
Year ended 31 December 2021		
Opening net book value	203	203
Additions	206	206
Disposals	(300)	(300)
Carrying amount	**109**	**109**
At 31 December 2021		
Cost/Valuation	109	109
Accumulated depreciation and impairment	-	-
Carrying amount	**109**	**109**

18. Tangible assets

	Group				
	Land & Buildings	Computer Equipment	Office Equipment	Motor Vehicle	Total
At 31 December 2020	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Cost/Valuation	2,980	530	194	101	3,805
Accumulated depreciation and impairment	-	(496)	(133)	(39)	(668)
Net book amount	**2,980**	**34**	**61**	**62**	**3,137**
Year ended 31 December 2021					
Opening net book value	2,980	34	61	62	3,137
Additions	-	79	-	-	79
Disposals – cost	-	(2)	-	(56)	(58)
Disposals – accumulated depreciation	-	2	-	36	38
Depreciation	-	(18)	(22)	(24)	(64)
Revaluation	180	-	-	-	180
Closing net book amount	**3,160**	**95**	**39**	**18**	**3,312**
At 31 December 2021					
Cost/Valuation	3,160	612	194	45	4,011
Accumulated depreciation and impairment	-	(517)	(155)	(27)	(699)
Net book amount	**3,160**	**95**	**39**	**18**	**3,312**

	Society				
	Land & Buildings	Computer Equipment	Office Equipment	Motor Vehicle	Total
At 31 December 2020	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Cost/Valuation	2,980	530	194	101	3,805
Accumulated depreciation and impairment	-	(496)	(133)	(39)	(668)
Net book amount	**2,980**	**34**	**61**	**62**	**3,137**
Year ended 31 December 2021					
Opening net book value	2,980	34	61	62	3,137
Additions	-	79	-	-	79
Disposals – cost	-	(2)	-	(56)	(58)
Disposals – accumulated depreciation	-	2	-	36	38
Depreciation	-	(18)	(22)	(24)	(64)
Revaluation	180	-	-	-	180
Closing net book amount	**3,160**	**95**	**39**	**18**	**3,312**
At 31 December 2021					
Cost/Valuation	3,160	612	194	45	4,011
Accumulated depreciation and impairment	-	(517)	(155)	(27)	(699)
Net book amount	**3,160**	**95**	**39**	**18**	**3,312**

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 2021 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 (2020: £1,538,000), a useful life of 100 years and a net book value of £1,415,000 (2020: £1,430,000).

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.

Notes to the Financial Statements (continued)

For the year ended 31 December 2021

19. Capital commitments

Amounts authorised and contracted for at 31 December 2021 are £192,000 (2020: £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 39.0% to 71.0% (2020: 39.0% to 71.0%) of the AMN00 and AFN00 ultimate tables for assured lives depending on the contract.
Life contracts	Ranges from 29.7% to 1,360% (2020: 29.7% to 1,600%) of the AMN00, AFN00 and AMS00 ultimate table for assured lives depending on the contract, and for Guaranteed Life Assurance contracts CMI 2020 (2020: 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% (2020: 50.6% to 113.1%) of the PNMA00 and PNFA00 mortality tables, and for annuities CMI 2020 (2020: CMI 2018) for future mortality improvements with a long term improvement of 1.25% per annum.

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

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

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

Expenses	Solvency II Best Estimate Assumptions
Death Benefits Only (DBO) contracts	£3.26 (2020: £3.17) per annum
Non-DBO Old Deposit contracts	£25.64 (2020: £42.74) per annum
Health contracts excluding Optimum combined	£67.09 (2020: £65.19) per annum
Optimum combined contracts	£72.79 (2020: £79.44) per annum
All life assurance and pension policies	£17.09 (2020: £28.49) per annum
Immediate Needs Annuity contracts	£25.64 (2020: £42.74) per annum
Income Protection contracts	£17.09 (2020: £44.85) per annum
Per policy Expense Inflation	2.75% (2020: 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.

21. Pensions

National Deposit Staff Superannuation Fund

Nature of the Fund

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

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

The most recent actuarial valuation of the Fund indicated that the Fund had a deficit. The Society and the Trustees of the Fund have put in place a Schedule of Contributions and a Recovery Plan which detail the contributions that will be made to fund this deficit, which are monthly payments of £35,000 over the period from January 2021 to March 2021, £61,667 from April 2021 to December 2021, £65,000 from January 2022 to December 2022, £75,000 from January 2023 to December 2023, £85,000 from January 2024 to December 2024, £95,000 from January 2025 to December 2025, £105,000 from January 2026 to December 2026 and £115,000 from January 2027 to December 2027 inclusive. Along with one-off contributions of £280,000 in April 2021 and £280,000 in January 2022.

The most recent formal actuarial valuation of the Fund was carried out as at 31 December 2019. The calculations for the FRS102 disclosures have been carried out by running full actuarial calculations as at 31 December 2021.

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.

Notes to the Financial Statements (continued)

For the year ended 31 December 2021

21. Pensions (continued)

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

The amounts recognised in the balance sheet are as follows:

	Group & Society	
	2021 £'000	2020 £'000
Fair value of fund assets	20,355	20,774
Present value of funded obligations	(20,744)	(21,006)
Net (under) / overfunding in Fund	**(389)**	**(232)**
Liability recognised on the balance sheet	(389)	(232)
Net Defined Benefit Liability	**(389)**	**(232)**

The amounts recognised in income statement are as follows:

	Group & Society	
	2021 £'000	2020 £'000
Net Interest expense	15	20
Expense recognised in the Income Statement	**15**	**20**

	Group & Society	
	2021 £'000	2020 £'000
Interest on obligation	267	376
Interest on assets	(252)	(356)
Net Interest expense	**15**	**20**

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

	Group & Society	
	2021 £'000	2020 £'000
Return on assets (not included in interest)	(515)	979
Actuarial (Losses)/Gains on obligation	(454)	(173)
Total Remeasurements recognised in Other Comprehensive Income	**(969)**	**806**
Cumulative amount of Remeasurements recognised in Other Comprehensive Income	**(3,068)**	**(2,099)**
Actual return on Fund assets	**1,092**	**(169)**

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

	Group & Society	
	2021 £'000	2020 £'000
Administration expenses paid from Fund	114	92
Other Items	**114**	**92**

The Society contributed £940,000 to the Fund over the year from 1 January 2021 to 31 December 2021 (2020: £405,000). No contributions were paid by members of the Fund over the period.

The Society expects to contribute £1,060,000 to the Fund over the year from 1 January 2022 to 31 December 2022. 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	
	2021 £'000	2020 £'000
Opening defined benefit obligation	21,006	21,375
Benefits paid	(982)	(918)
Interest on obligation	267	376
Experience losses/(gains)	360	(404)
(Gains)/losses from changes in assumptions	93	577
Closing defined benefit obligation	**20,744**	**21,006**

Notes to the Financial Statements (continued)

For the year ended 31 December 2021

21. Pensions (continued)

The weighted average duration of the liabilities of the Fund was 13 years as at 31 December 2021.

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

	Group & Society	
	2021 £'000	**2020 £'000**
Opening fair value of fund assets	20,774	20,044
Interest on assets	252	356
Return on assets (not included in interest)	(515)	979
Contributions by employer	940	405
Benefits paid	(982)	(918)
Administration expenses	(114)	(92)
Closing fair value of fund assets	**20,355**	**20,774**

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

	%	%
Equities	**-**	-
Gilts	**68**	69
Corporate bonds	**11**	12
Property	**21**	18
Cash	**-**	1

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	
	2021 %pa	2020 %pa
Discount rate at 31 December	1.9	1.3
Discount rate at 1 January	1.3	1.8
Inflation (Retail Price Index)	3.3	2.4
Rate of increase in pensionable salaries	1.3	2.8
Rate of increase in deferred pensions	2.8	2.0
Rate of increase in pensions in payment – service pre 06/04/2005	3.2	2.4
Rate of increase in pensions in payment – service post 06/04/2005	2.2	1.9

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 £216,498 (2020: £218,250), and contributions made by the Group amounted to £239,943 (2020: £239,154).

22. Technical provisions for linked liabilities

	Group & Society					
	Insurance contracts		Investment contracts		Total	
	2021 £'000	2020 £'000	2021 £'000	2020 £'000	2021 £'000	2020 £'000
At 1 January	1,244	1,196	360	375	1,604	1,571
Payments made to policy holders of investment contracts	-	-	(35)	(34)	(35)	(34)
Change in technical provision as shown in the income statement	105	48	21	19	126	67
At 31 December	**1,349**	**1,244**	**346**	**360**	**1,695**	**1,604**

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 52 are attributable to the long term business fund.

Notes to the Financial Statements (continued)

For the year ended 31 December 2021

24. Operating lease commitments

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

Total future minimum lease payments: plant & machinery	Group & Society 2021 £'000	Group & Society 2020 £'000
Within one year	-	-
Between one and five years	1	-
After five years	24	20
Total	**25**	**20**

25. Related party transactions

National Friendly Financial Solutions Limited incurred charges of £180,000 (2020: £458,526) by the Society in respect of service charges for management, property, technology and shared support functions.

The Society paid National Friendly Financial Solutions Limited commission of £411,821 (2020: £656,619) for the sale of National Friendly products.

Contributions of £940,000 (2020: £405,000) were made to the National Deposit Friendly Society Staff Superannuation Fund, as agreed with the trustees with the objective of having sufficient assets to meet its liabilities.

During the year the Society paid licence fees of £300,000 (2020: £300,000) to National Friendly Software Solutions Limited for the policy administration system. On 22 December 2021 National Friendly Software Solutions Limited acquired £300,000 of the Intellectual Property of Phase 3a 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 eight years.

As at 31 December 2021, the Society owed National Friendly Financial Solutions Limited £46,775 (2020: £160,484) and the Society owed National Friendly Software Solutions Limited £101,464 (2020: £101,464).

Key management personnel

All Directors of the Group are considered to be key management personnel. Total key management personnel compensation is £592,401 (2020: £559,886). Director's remuneration is disclosed in the directors' remuneration report on page 39.

For a limited period during the year, Mary Gavigan, a Non-Executive Director, provided consultancy services to the Society beyond the scope of the contractual duties of a Non-Executive Director to the value of £15,967 (2020: £nil). These services were provided on normal commercial terms.

Graham Singleton, prior to his appointment as Chief Executive, whilst serving as a Non-Executive Director, provided services as Interim Chief Executive Officer, in February and March 2021 to the value of £31,500 (2020: £nil). These service were provided on normal commercial terms and are disclosed in the directors' remuneration report on page 39.

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 2021 and 2020, such transactions with the Society's directors' were not deemed to be significant both by virtue of their size and in context with the directors' financial position. All of these transactions are on normal commercial terms.

26. Subsidiary undertakings

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

National Friendly Financial Solutions Limited operates a call centre giving financial advice, it is authorised and regulated by the Financial Conduct Authority. National Friendly Financial Solutions Limited is held by the Society at a fair value of £469,000 (2020: £475,000) after a revaluation loss of £296,000 (2020: £556,000). During the year a capital contribution of £290,000 (2020: £nil) was made, no additional share capital (2020: £605,000) 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 £105,000 (2020: £118,000) after a revaluation loss of £13,000 (2020: £7,000).

The results of all subsidiaries for the year ended 31 December 2021 have been consolidated into the Group financial statements.

	Group & Society	
	2021 £'000	2020 £'000
Fair value of investment in subsidiaries at 1 January	593	551
Additional share capital provided in the year	-	605
Capital contribution provided in the year	290	-
Unrealised loss in value of subsidiaries	(309)	(563)
Fair value of investment in subsidiaries at 31 December	**574**	**593**

Notes to the Financial Statements (continued)

For the year ended 31 December 2021

27. Fund for Future Appropriations

	Group		Society	
	2021 £'000	2020 £'000	2021 £'000	2020 £'000
As at 1 January	15,419	17,573	15,439	17,584
Transfer to/(from) the fund for future appropriations from income statement	1,068	(3,200)	1,088	(3,191)
Transfer to/(from) the fund for future appropriations from statement of comprehensive income	(789)	1,046	(789)	1,046
As at 31 December	**15,698**	**15,419**	**15,738**	**15,439**

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

28. Derivatives

Included within assets are forward currency contracts with a fair value of £nil (2020: £169,000) and a fair value within liabilities of £nil (2020: £74,000). The nominal contract value of these contracts is £nil (2020: £6,588,000). These were previously 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 losses included in the income statement for 2021 in relation to the forward currency contracts amounted to £95,000 (2020: £288,000).

Bond future contracts with a fair value of £nil (2020: £16,000) are held within assets and a fair value of £nil (2020: £nil) within liabilities. The nominal contract value of these contracts is £nil (2020: £1,272,000) which are held to manage the duration of the fixed interest portfolio. Fair value losses for the year of £16,000 (2020: £93,000) are included in the income statement in respect of bond future contracts.

Interest rate swaps with a fair value of £nil (2020: £1,404,000) are held within assets and a fair value of £1,109,000 (2020: £nil) within liabilities. The nominal contract value of these contracts is £11,400,000 (2020: £30,975,000), they are held to hedge against the change in value of the liabilities of the Society 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 gains for the year of £2,513,000 (2020: gains of £1,409,000) are included in the income statement in respect of interest rate swaps.

The main driver of whether the interest rate swaps are in an asset or liability position is the SONIA rate. At 31 December 2021 the SONIA rate on which the floating leg of the interest rate swap is based was lower than the fixed rate for all the contracts held. As a result these derivative contracts are all in a liability position.

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

	Group & Society		
Derivatives held at 31 December 2020	**Contract value £'000**	**Fair value assets £'000**	**Fair value liabilities £'000**
Forward currency contracts	6,588	169	74
Bond futures	1,272	16	-
Interest rate swaps	30,975	1,404	-
Total derivatives	**38,835**	**1,589**	**74**

29. Events after the end of the reporting period

Subsequent to the Society's year-end, there was an outbreak of war between Russia and Ukraine. This has caused significant volatility in commodity prices around the world. The Society is continuing to monitor developments regarding the conflict between Russia and Ukraine. The Society's investments are predominantly in the United Kingdom, with no direct exposure to Russia or Ukraine in either its underwriting or investment portfolio.

Your Notes

Your Notes

National Friendly

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

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