



Annual Report & Financial Statements
For the Year Ended 31 December 2020

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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

Introduction

2020 was a challenging year for the Society as it was for many people. The year ended with particular sadness with the sudden passing of our Chief Executive, Jonathan Long. Jonathan made a significant contribution over 14 years with the Society, nine of these as Chief Executive, overseeing the Society as it returned to writing new business and the development of new products and services to meet the health, welfare and protection needs of our members.

COVID-19

The COVID-19 pandemic has affected all of our lives, by not only generating a year of economic uncertainty but also prompting long-term changes to how we live and work. We have had robust business continuity processes in place for many years and these were activated in March 2020. Colleagues across all teams were able to work from home to help meet the needs of both our existing and new members.

The pandemic has been a stark reminder of the importance of protecting our health and welfare needs. National Friendly was founded on the principle of helping people to help themselves. All of our products, services and benefits ensure our members are prepared for life's uncertainties and we believe this is now more crucial than ever.

Performance

Even during these difficult times, due to the hard work and commitment from my colleagues, we saw growth in both newly issued policies and annualised new business premium income, which grew to £9.5 million, compared to £8.0 million in 2019.

Our Guaranteed Life Assurance product continued to be an important driver for new business in 2020 as was the further advancement for our Immediate Care Plan product. The Immediate Care Plan was launched in 2019 and in 2020 we launched a variant with a deferred period. The innovative nature of our product design led to increased interest with Financial Advisers. Due to this positive feedback, customer demand and its profitability; in early 2021 we expanded the number of Financial Advisers who are able to recommend it to their clients. This has propelled us into the top four national providers for this type of product.

Capital strength

The COVID pandemic seriously disrupted the financial markets in the first half of 2020 causing the Society's Solvency Capital Requirement (SCR) coverage to fall to 92% of the regulatory prescribed required level as at 31 March 2020, as disclosed in the Society's 2019 Strategic Report.

The Society immediately took a number of measures to improve its financial strength, restoring 100% coverage of the SCR by 30 June 2020. Additional measures completed in the second half of 2020 (principally some changes to the Society's and the Society's pension scheme investment portfolios – investing in less risky assets), coupled with a strong financial markets recovery, restored the Society's SCR coverage ratio, to 143% at 31 December 2020, and further actions continue to be taken to improve the ratio further.

Award success

I am also proud to report that we have won a national award for the work we do in the local community. We achieved success at the Protection Review Awards 2020, winning the award for 'Doing it Better'. We were nominated alongside other insurers such as Zurich and Vitality. The award recognises companies with initiatives that have made a genuine difference to the lives of vulnerable people in the local area. The judges were impressed with our support for The Bristol Hippodrome's social events for the over 60s that help address loneliness in later life. The award also recognised our fundraising partnership with Southmead Hospital Charity.

Your Society

I would like to welcome all the new members to the Society and may I take this opportunity to remind both new and previous members of the value of mutuality. We have no shareholders to answer to, your membership represents a commitment from myself and the Board that every decision we make will always have your best interests at heart. Many of our members have been with us for a long time and I would like to thank you all for your loyalty and trust in us. This organisation would not exist without you and to us, your opinion is the most important. I therefore strongly urge you to vote in our Annual General Meeting (AGM). You can pose questions to the Board at the AGM by sending them through to us before the meeting. You can also have your say by joining our Focus Group. You can find out more about our AGM and Focus Group on page 16.

Looking to the future

At the time of writing, we are approaching the halfway point of the second year of the pandemic. We will continue to ensure we have adequate provision in place to protect us against any potential future financial impacts. With the COVID-19 vaccination programme well underway, I believe we can all be optimistic about a return to some level of normality and look ahead with hope.

As we continue our drive to create innovative new products, in April 2021 we were proud to launch an Accident Only Income Protection policy. The policy is designed to pay out a regular benefit to people who have had an accident and suffered a loss of earnings as a result. Initial interest and sales of the product have been very positive.

Board and Governance

I was invited by the Board to take on the role of the Chair of the Society in May this year following Tracy Morshead's decision to step down from the Board. I welcome the opportunity to lead the Society, and confirm our strategy resolutely remains being a "forward thinking and trusted mutual that meets the health, welfare and protection needs of our members."

I thank my predecessor, Tracy, for all of his hard work, dedication and commitment over the past 12 years, seven of which he served as Chair. Under his stewardship we re-opened to new business and we have firmly established a sustainable and growing stream of new policy sales to provide the financial support and protection that our members need for their health and welfare.

In 2020 the Society started the process of reviewing the composition of the Board to include the appointment of new non-executive directors to replace long-serving non-executives. Non-executive

directors Peter McIlwraith, the senior independent director, and Mark Jackson resigned from the Board at the AGM in 2020 after serving for 17 years and 11 years respectively. I thank them on your behalf for their devoted service. New non-executive directors Mark Searles and Mary Gavigan joined the Board in 2020.

Mark Searles has been appointed as senior independent director. Mark will also be assuming the Chair role for our subsidiary company, National Friendly Financial Solutions. He has an extensive background in financial services distribution which will be essential in his new role.

Graham Singleton stepped in as Interim CEO in early 2021 having previously joined the Board in 2019 in a non-executive director capacity. Graham subsequently applied for the permanent role and following a competitive search process, recognising Graham's very extensive industry knowledge and experience, the Board offered him the permanent role.

Julian Ellacott has joined the Board and will be assuming the Society's Chief Actuary role which is currently undertaken by an external actuary. He joined National Friendly last July and has already made an impact, contributing to the improvement of our capital strength and ensuring that our products are priced competitively whilst also being technically sound.

Thank you

I am grateful to you, our Members, who place your trust and welfare with the Society and to the Financial Advisers who recommend the Society to their clients.

Finally, I would like to give a big thank you to the Board and to all my colleagues for their dedication and commitment to transitioning to a new way of working during such difficult circumstances. Their hard work ensured the impact was minimal to the service we provide to you as members and I am grateful for their continued efforts in driving the Society forward and achieving our strategy.

Geoff Brown

Chair Elect

30 June 2021

Strategic Report

Overall Strategy

The Society's vision is:

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

The Society's aim as an organisation is to provide for its members products and services that look after their health and welfare to give certainty and control over their wellbeing both now and in the future. These are fundamental needs which are as valid today as they were when the Society was first established by Reverend Canon Portal in 1868.

Our service is and will be delivered in a timely, personal and friendly manner using technology wherever appropriate. There will always be someone who you can speak to whatever the query or need.

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

- Expanding the current product proposition with further new products delivering benefits and services where there is a clear need and market opportunity
- Promoting member retention, offering alternatives when products mature or reach trigger points such as a price and benefit review – ensuring that we continue to meet members' needs where we are well placed to do so

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

Business Performance

The Society's business plan and key performance indicators ('KPIs') for 2020 established at the start of the year continued to focus on developing and launching new products in line with its strategy. The COVID-19 pandemic however meant that plans to launch an income protection plan had to be deferred until 2021 (an accident only version being launched in April 2021).

As noted in the Chair's statement in March 2020 the Society's Solvency Capital Requirement (SCR) coverage briefly fell below 100% (92% as at 31 March 2020). There are however two regulatory capital thresholds and the Society's coverage of the absolute minimum permitted capital requirement (MCR) remained very strong as noted in the table below.

The main actions to improve the Society's SCR coverage over the balance of the year were an adjustment to the level of property and equity assets the Society was invested in as well as negotiating with the Society's closed final salary pension scheme to similarly reduce its exposure to riskier asset classes.

Strategic Report (continued)

Business Performance (continued)

Despite the challenges introduced by the COVID-19 pandemic new business sales grew by 19% during 2020 – a very credible performance in challenging business development conditions.

The following KPIs are used to measure ongoing success and have been measured throughout the year

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

Solvency Coverage Requirement (SCR) coverage ratio – This is a measure of how much surplus capital is available after the solvency capital requirement (a risk-based calculation, based on the actual risks on the balance sheet) that an insurer is required to hold. The regulatory requirement is for this ratio to exceed 100%, and the Society has a Solvency Risk Appetite that targets a higher ratio, in order to provide additional security to our customers.

New Business Premium Income – The target is sustained profitable growth, in parallel increasing membership numbers whilst maintaining strong control over costs.

Key Performance Indicators:

	31 st December	
	2020	2019
Absolute Level of Own Funds	£16.00m	£18.27m
SCR coverage ratio		
• With Transitional Measures Relief ¹	143%	140%
• Without Transitional Measures Relief ¹	131%	129%
MCR coverage ratio		
• With Transitional Measures Relief ²	479%	561%
• Without Transitional Measures Relief ²	442%	515%
New Business Gross Written Premium	£9.47m	£7.95m

Notes

1. As at 31st March 2020 SCR coverage was 92% & 85% with and without transitional measures relief
2. As at 31st March 2020 MCR coverage was 369% & 340% with and without transitional measures relief

Capital Management KPI Commentary

The Society’s capital position is assessed in accordance with the Solvency II regulations and the Society manages its business on this basis. This is a risk-based approach to the assessment of capital requirements whereby Technical Provisions are calculated as the sum of the best estimate of liabilities plus a risk margin. The Society is required to hold sufficient Own Funds (assets less technical provisions) to meet the SCR, which represents the amount of risk capital required to withstand a set of events at the 1/200 confidence level which covers market, underwriting, counterparty and operational risks. The SCR is calculated using the prescribed Standard Formula set out in the regulations.

Strategic Report (continued)

Business Performance (continued)

1. Own Funds Movement

Although liabilities reduced (owing mainly to the maturing of with profits policies), asset values fell by a greater amount, as a result of market movements during the year. This was the primary reason for the fall during the year, of £2.3m, as set out in the table above.

2. The Solvency Capital Requirement (SCR)

Actions taken to reduce the asset risk were partially offset by additional SCR resulting from the growth in new business and particularly in respect of mortality and lapse risk attributable to the Guaranteed Life Assurance products.

3. Transitional Measure for Interest rates ('TMIR')

The above SCR & 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. Before taking account of the transitional measure, the excess assets position was £3.5m (2019: £3.8m).

4. New Business Premium Income

New Business sales are measured by their annualised new business premium income ('API') and deposits to new savings and investment policies. In 2020, the Society's new business API grew by 24%.

For 2021 the aim is to introduce a KPI which measures member engagement and overall advocacy – our aim is to continuously improve how we meet our members' needs both through product design & pricing and service.

Strategic Report (continued)

Business Performance (continued)

New business

Through writing new business, the Society continues to protect and enhance the long-term interests of its members through:

- i. Writing profitable new business that strengthens Own Funds, for the benefit of all members;
- ii. Providing an affordable option for new and existing members to help fund their later life needs;
- iii. Increasing the overall membership numbers and achieving economies of scale for the benefit of all members, ensuring we have the capacity to deliver the personalised service we aspire to; and
- iv. Working collaboratively with some of the top reinsurers on both product design and risk mitigation/protection for the Society.

The Society's continued aim is to provide existing and new members with products that address their welfare and care needs at every stage of life including later life care (long-term care) supported by an excellent customer experience at each stage of the member's journey with the Society.

2020 saw further advancement for our annuity product, the Immediate Care Plan, which aims to cover care home fees for people entering into a nursing or care home, guaranteed for life, in exchange for a lump sum premium. Building on the successful 2019 pilot, in 2020 the Society launched a variant which pays out after a deferred period of one or two years. In February 2021 The Society became one of only four insurers in the UK using a common application platform for the immediate care plan, covering the whole UK market.

Our Guaranteed Life Assurance product, available to those aged 50 and over, was again the dominant new business product in 2020 in terms of numbers of policies, with increased emphasis on the partially underwritten version. From April 2021 the Society now only sells the underwritten variant of the product, materially mitigating the risk of anti-selection (i.e. the risk of attracting a disproportionate number of adverse risks).

COVID -19

At the outset of the pandemic we quickly implemented our business continuity plans enabling nearly all staff to work from home, the key priority being ensuring their safety and wellbeing whilst continuing to meet the needs of customers and business partners.

The transition to home working proved far more successful than we could have ever hoped, with the technology providing robust service together with staff demonstrating great adaptability. We were and remain concerned to ensure we support the mental health of our staff, recognising that for some the isolation of working from home was particularly challenging. Teams were encouraged to hold virtual coffee breaks throughout the day using the web conferencing facilities and specific requests for people to return to the office were actioned where and when safe to do so. As 2021 has progressed increasing numbers of our colleagues have requested a minimum time allocation to be back in the office.

Strategic Report (continued)

We continue to monitor government advice closely to carry on ensuring that we look after the health and wellbeing of our employees and the communities within which we work. Office cleaning protocols have been radically overhauled with daily deep cleans.

Such was the success of virtualising our office premises that in conjunction with our strategic business partners, who similarly had resilient contingency plans, we are able to continue to deliver the standard of service we aspire to for our customers.

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 threats to business strategy and mitigation plans have been put in place so that the Society can remain sustainable and continue to operate in the best interests of its policyholders. These risks are summarised below:

Risk	Impact	Mitigating Activities
<p>Regulatory Capital Requirements</p> <p>The Society is unable to meet its regulatory capital requirements</p>	<p>Regulatory intervention.</p> <p>Transfer of engagements or run off.</p>	<p>Close monitoring of capital management at Board level both with and without the approved transitional measure. This includes scenario analysis and key sensitivities such as morbidity, lapse and expense assumptions.</p> <p>Quarterly evaluation of SCR coverage allowing for updated market conditions, expense assumptions, change in the in-force book and new business written.</p> <p>Monthly “roll forward” estimates of the solvency position showing the latest estimate of the undiversified Solvency II capital against each of the relevant risks.</p>
<p>Insurance Risk</p> <p>Morbidity Risk</p> <p>Morbidity (claims higher than expected) experience deteriorates over and above expectations.</p>	<p>Increased reserves result in reduced Own Funds</p>	<p>Management of morbidity claims remains a key focus. Morbidity data tracking spreadsheets have been developed for the business administered by the Third Party Administrator so that they can be produced on a monthly basis. This covers all healthcare products. All other product morbidity tracking is done on a twice yearly basis.</p> <p>Any new business will be written on a reinsured basis to mitigate the morbidity risk of new policies.</p> <p>Regular audit and monitoring of claims payments as well as audit review of the claims administrator to confirm that paid claims are valid.</p> <p>Review of premiums on Healthcare policies considers actual claims experience to inform expected future claims and proposed premium changes.</p>

Strategic Report (continued)

<p>Lapse Risk</p> <p>Lapses are higher or lower than projected.</p>	<p>Lapses exceeding levels of new business result in higher per policy expenses.</p> <p>Lower than predicted lapses in some product lines could result in increased technical provisions.</p>	<p>Lapse rates are regularly monitored and reported so that sufficient reserves are held reflecting up to date lapse assumptions.</p> <p>The reasons for the lapses are examined and action taken as needed.</p>
<p>Pension Scheme Risk</p> <p>Volatility of pension scheme valuation</p>	<p>Any change in valuation is reflected in the Society's UK GAAP and Solvency II balance sheets.</p>	<p>Review the investment strategy of the pension scheme with the objective of reducing volatility (noting that any proposed changes to strategy need to be approved by the pension trustees).</p> <p>Use interest rate swaps to hedge against adverse interest rate movements on the Society's balance sheet.</p> <p>Exploring options of potential scheme buy-out to third party insurer or by the Society.</p>
<p>Interest Rate</p> <p>Lower interest rates have an adverse impact on calculation of long-term liabilities.</p>	<p>Increased value of long-term liabilities reduce SCR coverage.</p>	<p>Look to match assets against technical provisions as closely as possible.</p> <p>Use of the transitional measure to recognise the impact of low interest rates under the Solvency II regime when compared with historic Solvency I position.</p> <p>Review investment strategy to achieve the best outcomes from a Solvency II perspective whilst achieving the right return for policyholders.</p> <p>Monitor the 10-year prescribed risk-free rate versus the rate at the last full valuation.</p>
<p>Expense Risk</p> <p>Inability to sell sufficient new policies to reverse the declining book and address the expense overrun.</p>	<p>Ongoing administration costs against continued decline in policies and income result in higher net cost to administer each policy.</p> <p>Increasing per policy costs against declining book.</p>	<p>Expenses are closely monitored and organisational restructuring undertaken to ensure the right cost base.</p> <p>Writing new profitable contracts of insurance to ensure the trend of reduced per policy costs continues.</p> <p>Clear marketing strategy and development of profitable products that meet customer needs and demand against an effective and cost efficient distribution strategy.</p> <p>Close monitoring of ongoing expenses against sales volumes.</p> <p>Models have been developed showing an estimate of the per policy expenses if business volumes continue at current run rates compared to the current per policy expense assumption so that management action can be taken in the event of material variances.</p>

Strategic Report (continued)

Risk	Impact	Mitigating Activities
<p>Operational Risk</p> <p>The Society's subsidiary, National Friendly Financial Solutions (NFFS), does not generate a profit.</p>	<p>The subsidiary does not provide a positive financial contribution to the Society, resulting in an increase in expense reserves resulting from lower intercompany recharges.</p>	<p>NFFS has its own business plan with stretch targets to include:</p> <ul style="list-style-type: none"> - Improvement in performance and productivity - Reducing the dependency on one key lead provider - Acquisition of new client books <p>Performance against plan is closely monitored and action taken as appropriate to control cost.</p>
<p>Governance</p> <p>Loss of key personnel and unable to recruit suitably qualified persons to fulfil key function roles including at Board level.</p>	<p>Loss of knowledge and expertise.</p> <p>Persons unwilling to take roles in highly regulated environment.</p>	<p>Competitive remuneration structure with ongoing development opportunities.</p> <p>Established agreements in place with recruitment agencies should the need for recruitment arise.</p> <p>Some functions may be outsourced.</p> <p>Use of specialist contractors as a short-term solution.</p>
<p>Pandemic Risk</p> <p>The Society impacted by a global pandemic (COVID-19) putting increased strain on its systems, staff and investments.</p>	<p>Inability to operate business critical operations at full capacity with potential detriment to customer and suppliers.</p> <p>Brokers/sales channels unable to operate at forecasted levels resulting in fewer new policy sales.</p> <p>Health & Wellbeing of staff.</p> <p>Economic downturn resulting in reduced value of Society assets and / or increase in long-term liabilities resulting in reduced solvency coverage. This potentially has an adverse impact on policyholders Own Funds</p> <p>Unpredictable impacts on demographic risks (mortality, morbidity, longevity and lapses), potentially leading to greater claims pay-outs/reduced future surpluses.</p>	<p>Operations</p> <p>The Society has implemented working from home protocols and social isolation in line with Government guidelines whilst maintaining service through homeworking. We will continue to monitor the situation and take further action as necessary.</p> <p>We are able to continue to pay customers, suppliers and staff remotely using electronic means where possible.</p> <p>There has been no material impact on sales performance as both the in-house and broker sales channels continue to operate remotely. Sales performance is monitored against targets on a daily basis</p> <p>Regular communication to staff providing guidance and directing staff to Government and NHS advice.</p> <p>Market Risk</p> <p>The Board monitors the impact of changing market conditions on the Society's regulatory solvency position, and actions to manage the risk profile are implemented as required.</p> <p>Demographic Risk</p> <p>Experience is analysed regularly, and industry sources are taken into account, in order to detect trends.</p>

Strategic Report (continued)

Viability Statement

The Directors confirm that they have a reasonable expectation that the Society is well placed to manage its business risks, including those presented by the current pandemic, and will continue to meet its liabilities, as they fall due. Financial projections for the next five years are incorporated into the Society's Own Risk and Solvency Assessment ('ORSA'), and these confirm the Directors' expectation that the Society will continue in operation over this period, Own Funds and financial resilience progressively increasing with the passage of 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 robust 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. 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.

Investment Performance

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

Property

The commercial property market in 2020 saw a downturn from the positive returns of 2018 and 2019. Values in the fragile retail sector have continued to fall but the major influence on the market has been the effects of COVID-19. The contraction of the economy since March 2020 and the first lockdown has had a detrimental effect on tenant demand and this has put downward pressure on rental levels.

With the exception of the retail sector, prime property yields have remained fairly constant for those investments that provide secure income streams. The number of properties classed as 'prime' has shrunk as many occupiers who were previously deemed to be secure covenants have sought rent concessions and deferments from landlords. The appetite for risk has reduced and more investments are being classed as 'secondary' and being down valued.

Strategic Report (continued)

Investment Performance (continued)

From the Society's property investment portfolio there was just one sale during the year; a warehouse in Chesham, Buckinghamshire. Following a successful lease extension, the asset sold at a price reflecting a premium of 29% on its December 2019 valuation. There was one purchase; a fitness/gym investment in Birmingham City Centre entirely let to David Lloyd Leisure on a new 15-year lease. Taking into account the Chesham sale, the Society's property portfolio reduced in capital value by 5.6% during 2020. This compares with a reduction of 7.6% for All UK commercial property. The portfolio was 92% let at the year-end with just two office suites remaining vacant. Total contracted income return was 6.0%.

The uptake of the COVID-19 vaccines will hopefully bring a much-awaited boost to the economy including the property market. Ongoing asset management initiatives coupled with the letting of vacant space and a higher rent collection should achieve a solid rental return from the portfolio during 2021.

Since the year-end, taking advantage of approaches from interested parties, three properties have been sold for a combined sale value of £3.83m, £205,000 above the book value as at the year-end, the sale proceeds being re-invested in fixed income securities rather than replacement properties. The reduced property portfolio however remains a strategic investment backing our with profits policies.

Fixed Income

UK Government Bonds (Gilts) generated positive returns over the year as investors flocked towards 'safe-haven' assets amid the COVID-19 crisis and its associated impact on economic growth. To combat the crisis, the Bank of England (BoE) began to buy £200 billion of assets to support the economy. They increased this by a further £100 billion at its June 2020 meeting. The BoE also cut interest rates from 0.75% to 0.1%, setting borrowing costs at their lowest point in history.

The yield on short-dated Gilts fell below zero, setting new all-time lows amid the uncertainty surrounding Brexit. In contrast, longer-dated Gilt yields did not fall as much as markets reacted to the policy shift by the US Federal Reserve, which said it would be more willing to allow inflation to rise above its 2% target for some time and would worry less about the inflationary implications of very low unemployment. Furthermore, Gilt yields were also underpinned by concerns about a new, more infectious COVID-19 strain in the UK that threatened to derail the optimism over a vaccine-fueled rebound in economic growth.

For bonds issued by companies (also known as 'corporate bonds' or 'credit'), the spread of the COVID-19 pandemic resulted in unprecedented levels of volatility, resulting in credit spreads (the difference between the yields on corporate bonds and on Gilts) widening, to levels last seen during the global financial crisis. However, the significant monetary and fiscal stimulus on a global scale helped reverse the massive volatility witnessed in March 2020.

Later in the year, the risk sentiment was further supported by positive news regarding vaccine trials, Joe Biden's victory in the US presidential elections and as Brexit took full effect. The UK and EU clinched a post Brexit trade deal, with years of talks ending in a settlement allowing tariff-free trade.

The Society's portfolio performed well in absolute terms with returns of 10% for the 12-month period.

Strategic Report (continued)

Investment Performance (continued)

UK Equity

UK equities ended the year lower as the COVID-19 outbreak and resulting containment measures caused a sharp deceleration in economic activity and put pressure on company earnings, dividends and share prices. Nevertheless, unprecedented fiscal and monetary policy responses from authorities around the world and the development of viable vaccines lifted equities later in the period. Separately, Joe Biden's victory in the US presidential election (and expectations it could signal a new round of economic stimulus) and the agreement on a post-Brexit trade deal gave markets a significant boost towards the end of the year.

With-profits Review

Following further substantial falls in interest rates and the continued market volatility and uncertainty arising from the ongoing COVID-19 pandemic, the Society made the decision to reduce annual bonus rates across its product range.

Final bonus rates were also reduced, reflecting the market falls seen over the first half of 2020 because of the pandemic. The performance of the fund will continue to be monitored and at the relevant time, if markets have recovered sufficiently and other circumstances permit, bonus rates may increase.

Our Members

Engaging with our members

Being a mutual friendly society it is very important for us to engage with our members and we do this through our Annual General Meeting ('AGM') and Focus Group. Our Member Focus Group is made up of 45 members from across the Society and meets to discuss issues and ideas going forward usually twice a year. Our Focus Group members have a wide range of policies held with us and have diversity in age gender and national coverage.

Our Annual General Meeting (AGM)

In 2020, the AGM took place on 30th September at the Society's office, 11-12 Queen Square, Bristol BS1 4NT. As is the case for many similar organisations and in accordance with Government legislation in light of COVID-19, we made the decision not to invite attendees to the event. This was to prevent unnecessary travel and best protect our members, board and staff.

The Board and the Executive Committee were in attendance at the AGM, with some communicating remotely. The AGM gives the membership 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 our members were encouraged to contact us and submit questions ahead of the AGM and these were considered at the meeting. A summary of the questions and responses, as well as minutes for the AGM, can be viewed on our website at www.nationalfriendly.co.uk/agm.

Strategic Report (continued)

Our Members (continued)

Fair customer outcomes

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

To demonstrate our 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 our 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 point of sale.
- Make sure that any advice provided by National Friendly Financial Solutions is suitable and addresses the customer's needs.
- Use incentives for staff that reward behaviours that are consistent with the principles of fair member outcomes.
- Maintain 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.

Corporate Social Responsibility ('CSR')

Our vision

Our approach to CSR is a practical one; we look at ways in which we can make a fundamental difference to our people, the community and environment.

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

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

Community

We work with local charities to support our CSR strategic vision and in this respect, we continue to work with Ablaze who we first started supporting in 2010 and for 2020 we also supported the Children's Hospice South West as our chosen Charity of the Year.

Ablaze - Reading Buddies Programme

The Society has been a trusted partner of Ablaze for many years, the charity formed and supported by Bristol's business community to connect local firms with education and help improve the opportunities available to Bristol's young people.

Strategic Report (continued)

Corporate Social Responsibility (continued)

In normal times six of our staff members visit a local primary school during their lunch hour every week to read with the children, supporting the Ablaze Reading Buddy programme. The programme is intended to increase the amount of reading out loud opportunities pupils have, inspire them to read more and encourage them to gain a love of books.

With COVID-19 and the current restrictions in place to tackle the spread of the virus, the Ablaze Reading Buddy programme has been unable to operate as normal. At the date of this report schools are not able to welcome volunteers onto their premises and this is likely to be the case until the start of the next academic year (September 2021).

Therefore we supported Ablaze through Stories at Home, a Bristol City Council initiative which has been providing vulnerable families and disadvantaged pupils with access to books in their own homes during the COVID-19 lockdown.

We donated £1,000 to Cabot Primary School under the scheme. We were introduced to the school three years ago to help to raise the literacy attainment levels of pupils struggling with their learning and reading.

Ablaze's Primary Project manager Catherine Correia added:

"Although National Friendly's volunteer reading buddies are unable to read with their pupils at the moment, this generous donation will help to support the attainment and skill levels and make a difference to the lives of local people. It is a wonderful example of a great partnership and strong collaboration."

Bristol City Council teaching & learning consultant Debbie Miles said:

"Books are such a vital tool in every young person's life. They really do unlock doors, inspire and support as well as enhance the learning for children in a fun and effective way. This donation from National Friendly will provide books which will go on giving year after year."

As part of our ethos, we have always been enthusiastic about getting involved in projects which will help shape the future for young people. We will continue to work with Ablaze to develop a safe and successful way to deliver their impact to local schools throughout the city of Bristol.

Queen Square Association

The Society is a member of the Queen Square Association, a registered charity, formed in June 1999 comprising interested residents and occupants of Queen Square, Bristol. Its aims are to protect, maintain, repair, beautify, restore and advance the historical value of Queen Square for the benefit of its members and those visiting Bristol, and has the responsibility of raising funds along with the help of lottery funding.

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

Strategic Report (continued)

Corporate Social Responsibility (continued)

People

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

The Society recognises the importance of continuing development and supporting our staff to achieve their goals and every member of staff has agreed objectives and annual appraisals to assess performance against these objectives and demonstration of the Society's values.

The Society's values are:

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

Environment

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

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

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

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

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 our Customer Services team on 0333 014 6244 and they will update your records accordingly.

Strategic Report (continued)

Corporate Social Responsibility (continued)

Our Foundation Fund

The Society's Foundation Fund provides strong support to our approach to CSR albeit under the direction of an independent Foundation Fund Committee.

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

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

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

Members of the Society or employees can make applications by submitting a completed application form, which can be obtained by contacting the Society via www.nationalfriendly.co.uk/contact-us/. Disbursements are reviewed and agreed by the Foundation Fund Committee.

Our Charity of the Year

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

2020 has been wrought with challenges for the charity sector, in particular our charity of the year, Children's Hospice South West ('CHSW'), who have been raising awareness about the financial troubles the hospice has been faced with, since the start of the coronavirus pandemic.

CHSW's three hospices have adapted their care for children and their families since the start of the coronavirus pandemic. Now only providing symptom management and end of life care in the hospice, care teams are visiting more families at home as well as providing support virtually for children and their families who have had to continuously self-isolate.

We were given the opportunity to innovate and support CHSW throughout 2020 and strategically reach out and deepen our relationship with them.

We became the sole sponsor of CHSW's very first Virtual Memories by Moonlight event which took place on 26th September 2020, our sponsorship contributed towards the event costs ensuring as much as possible raised from the event can help to provide vital support for children with life-limiting conditions and their families. Together we raised £26,000 for CHSW.

Strategic Report (continued)

Corporate Social Responsibility (continued)

Staff raised further funds by taking part in sponsored runs and walks. All events were carried out virtually or solely completed to ensure safe social distancing.

Kiley Pearce, Fundraiser for CHSW said:

"This year more than ever we felt it was really important to still provide people with the opportunity to join together, albeit virtually, to remember and celebrate the lives of their loved ones. We are so grateful to National Friendly for all of their support in promoting the event and of course raising much needed awareness of CHSW across the region.

We aim to make a fundamental difference to local lives within our community, even with the lingering threat of the coronavirus pandemic. Our sponsorship has contributed massively to the fantastic amount of money that has been raised to help provide vital support for children with life-limiting conditions and their families."

On behalf of the Board
Graham Singleton
Chief Executive Officer
30 June 2021

Corporate Governance Report

Corporate Governance Review

The Board is of the view that good corporate governance is fundamental to the Society's operations. To comply with best practice in corporate governance it aims to adhere to the principles of the Association of Financial Mutuals Corporate Governance Code published in January 2019 ("AFM Code"). The AFM Code provides a high-level approach to corporate governance, based on six key principles, whilst providing flexibility for the Society to explain the application and relevance of its corporate governance arrangements.

The Society has applied the AFM Code and provided statements to explain how it has followed each key principle in the way that is most appropriate to its business model and objectives.

Principle One – Purpose and Leadership

The Society's long-term objective remains to protect and enhance member value through improved Own Funds and excess assets so that it continues to act in the best interests of its members. It aims to achieve this by providing policyholders with products and services that help to look after their health and welfare and provide certainty and control over their wellbeing both now and in the future.

The Board formally reviews the Society's purpose and goals, at least annually, against the latest circumstances and market factors in order to guide the ongoing strategy, decisions and culture.

The Society's mutual ethos and values are essential to its future success and as an organisation, it will endeavour to work together to embed them and to promote them. The Society's current values are customer orientated and help to define its culture through promoting fairness and innovation whilst empowering colleagues to work together, responding to our customers' needs.

The Board sets key targets and objectives, which it monitors on a regular basis throughout the year. These targets change in line with the Society's objectives and priorities. For 2020, the Board has focused on developing and launching products in line with the Society's strategy whilst managing capital to achieve long-term sustainability.

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

- National Friendly Financial Solutions Limited provides telephone based financial services: distribution of National Friendly products and an independent advice and comparison non advised service;
- 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 by the Board to management, as required by regulation and the Society's rules.

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

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 making sure that the Board acts effectively and has no involvement in the day to day business of the Society. The Chief Executive has overall responsibility for managing the Society and its subsidiaries and for implementing the strategies and policies agreed by the Board.

Appointments to the Board

The appointment and re-election of Directors is considered by the Nominations Committee (see page 30), which makes recommendations to the Board. The Society seeks to have broad experience and diversity on the Board. There is focus to increase Board diversity without compromising on the calibre of directors and therefore, Board appointments are always made on merit as well as the skills, knowledge and experience of the Board as a whole.

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

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 consisted of five Non-Executive Directors and two Executive Directors for the majority of 2020. Two long-standing Non-Executives Directors retired at 30 September 2020, replaced by two new Non-Executive Directors appointed in June 2020 and September 2020.

The Board continues to review its own balance, completeness and appropriateness to meet the complexities of the business end to ensure that there is adequate succession planning. The Board has and will continue to assess the balance of skills, experience and knowledge and as necessary will appoint individuals to meet the Society's business needs.

The Board has appointed Mark Searles as Senior Independent Director ('SID') (to replace Geoff Brown who held the SID role prior to being appointed Chair, after Peter McIlwraith resigned on 30 September 2020). 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 Officer has failed to resolve a matter or for which such contact is inappropriate.

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

The composition and effectiveness of the Board was reviewed and refreshed in 2020 and following this, a Governance health check review was completed by the Society's internal auditors, Mazars LLP.

Principle Three – Director Responsibilities**Accountability**

Board members have a clear understanding of their accountability and responsibilities.

The Directors, Committee members and the wider management team complete annual declarations on Code of Ethics and Conduct, confirming that they have behaved in accordance with the Society's expected behaviours and values.

The SM&CR provides a regulatory framework for the standards of fitness and propriety, conduct and accountability to be applied to individuals in positions of responsibility at insurers. All Directors,

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

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

Committees

The Board has established sub committees, under its overall authority, and delegated certain governance responsibilities. Further details of the responsibilities and activities of these Committees are provided on pages 29-31. A Non-Executive Director chairs each committee and all members are considered to have appropriate skills and expertise to undertake their role within the committees.

Information

The Chair has responsibility for overseeing that all Directors receive accurate, timely and clear information, which is fundamental to the effective function of the Board. The information covers all key aspects of the business including the strategy, risks and opportunities, operational matters and financial performance and market conditions.

The Society has robust systems and controls in place to ensure the integrity of the information. Key information is collated from the Society's various finance and administration systems and prepared by relevant internal functions, managed by employees that are appropriately qualified. Financial information is externally audited on an annual basis and the internal audit function provides independent assurance on the effectiveness of the system of internal control.

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 to ensure that the strategic objectives are met. The integrated approach ensures that value is created by identifying the right balance between risk and reward, whilst making sure that obligations are met and the outcomes remain in the best interest of policyholders.

The extent to which the Society tolerates risks is described by the performance indicators, operational parameters and process controls set out in its 'Risk Appetite'.

The Society's risk appetite includes the level of action/mitigation to be implemented against identified risks. There is direct interaction between the risk appetite and those risks highlighted in the risk assessment. Risks are rated on impact and probability and it has been determined that any risk with

a residual risk rating 'high' will require an action plan which will state what action is to be taken and on what timescale.

The management of risk is the responsibility of the Board and staff at all levels of the Society. The Board is supported in its role in this regard by sub-committees, who ensure that inherent and emerging risks are identified and managed appropriately and in a timely manner. The Strategic Report includes key risks that are presented at least quarterly and monitored by the 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 recognises that good governance and effective communication are essential on a day-to-day basis to deliver purpose and protect the Society's brand, reputation and relationship with stakeholders including its members, intermediaries, suppliers and employees.

The Society's strategy is aligned with long-term aspirations for sustainability and enhancing member value.

The Board is committed to maintaining good communications with members. In order to fulfil this commitment, a Members' Focus Group and Research Community have been established. Engagement with the Focus Group has been positive and feedback valued. The Board also firmly believes in the principles of Treating Customers Fairly and adheres to these in its day-to-day operation.

Communication with staff is undertaken through regular dialogue with staff, as groups, individually and through the organisation's intranet (with upward feedback positively encouraged). Open meetings are also conducted with the Chief Executive and other members of the Executive Committee.

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

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

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

The Board

Geoff Brown

(Chair)

Geoff is a qualified Actuary and had 44 years of experience in the financial services industry before retiring in late 2013. He spent most of his career in the health and care sector including 20 years with international healthcare company BUPA Limited, where he held a variety of roles and responsibilities – most recently as Chief Risk Officer of the BUPA Group and prior to this as Director of Compliance and Chief Actuary of the UK division. Geoff is also currently a Non-Executive Director of Medicover Forsakrings AB (publ.) and Chair of its Compliance and Risk Committee. Medicover is a Swedish insurer that provides healthcare insurance propositions for individuals and companies in Poland, Romania and Hungary. Geoff joined the National Friendly Board as a Non-Executive Director in June 2014, he was appointed Chair in May 2021 subject to regulatory approval.

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 Retirement (now 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 asked to act as Chief Actuary for the Society subject to regulatory approval.

Mark Searles**(Senior Independent Director)**

Mark has held senior executive and Board positions within Financial Services and Technology sectors. 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; LloydsTSB; 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. This is subject to regulatory approval.

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. She is a Non-Executive Director of STM Life Assurance PCC PLC where she is Chair of its Audit Committee as well as a member of its Risk Management Committee. Mary's charity work includes being a Trustee and Non-Executive Director of Epilepsy Research UK. Mary joined the National Friendly Board as a Non-Executive Director in September 2020 and acts as Chair of the Audit Committee, this position is subject to regulatory approval.

Committee Information

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

Audit Committee

Current Members

Mary Gavigan (Chair) – Appointed to the committee on 1 October 2020 and to Chair on 5 March 2021

Mark Searles – Appointed 1 October 2020

Other Members

Graham Singleton (Chair) – Appointed 1 October 2020; Resigned 5 March 2021

Peter McIlwraith – Resigned 30 September 2020

Mark Jackson – Resigned 30 September 2020

The Audit Committee meets at least four times a year at appropriate times in the financial reporting and audit cycle. The main function of the Committee is to assist the Board in fulfilling its oversight responsibilities, specifically the ongoing review, monitoring and assessment of:

- The integrity of the financial statements and reviewing significant financial reporting judgements contained in them.
- The effectiveness of internal control and risk management processes.
- The effectiveness of the internal and external audit functions and processes.
- The recommendation to the Board in relation to the appointment, reappointment, remuneration and removal of the external auditors.
- The objectivity and independence of the external auditor in respect of the provision of any non-audit services.
- The arrangements by which staff within the Society may raise concerns, in confidence, about possible improprieties in matters of financial reporting or other matters.

The Executive Directors and internal and external auditors attend meetings of the Committee as appropriate. The internal and external auditors may also meet separately with the Committee without the Executive Directors or any other members of staff present.

Internal audits of the regulated business are conducted by Mazars LLP and reported to the Committee.

Investment Committee

Current Members

Geoff Brown (Chair) – Resigned 30 September 2020; Re-appointed 20 May 2021

Mary Gavigan – Appointed 1 October 2020

Graham Singleton – Appointed 1 October 2020

Mark Searles – Appointed 20 May 2021

Julian Ellacott – Appointed 20 May 2021

Other Members

Tracy Morshead (Chair) – Resigned 20 May 2021

Sandy Richards – Resigned 14 May 2021

Jonathan Long – Deceased 14 December 2020

Peter McIlwraith – Resigned 30 September 2020

The Investment Committee meets as required but at least three times a year to review compliance with the terms of the Principles and Practices of Financial Management in relation to the investment strategy and review its continuing appropriateness in the light of changing circumstances with consideration to the needs of both with-profits and non with-profits policyholders. The Committee also has responsibility for:

- Appointing the Society's Investment Fund Managers.
- Determining the asset allocation and performance benchmarks.
- Monitoring the performance of the Funds and of the Fund Managers.

Nomination Committee

Current Members

Mark Searles (Chair) – Appointed 1 October 2020

Mary Gavigan – Appointed 1 October 2020

Geoff Brown – Resigned 30 September 2020; Reappointed 20 May 2021

Other Members

Graham Singleton – Appointed 1 October 2020; Resigned 1 April 2021

Peter McIlwraith – Resigned 30 September 2020

Tracy Morshead – Resigned 30 September 2020

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) – Appointed 1 October 2020

Mark Searles – Appointed 1 October 2020

Geoff Brown – 20 May 2021

Other Members

Tracy Morshead – Resigned 20 May 2021

Peter McIlwraith – Resigned 30 September 2020

Mark Jackson – Resigned 30 September 2020

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 44-48.

Risk & Compliance CommitteeCurrent 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

Other Members

Tracy Morshead – Resigned 20 May 2021

Jonathan Long – Deceased 14 December 2020

Sandy Richards – Resigned 14 May 2021

The Risk Management Committee normally meets at least four times a year. The main function of the Committee is to assist the Board in its leadership and oversight of risk across the Society including the understanding and, where appropriate, optimisation of current and future risk strategy, overall risk appetite and tolerance, risk management framework including risk policies, process and controls, and the promotion of a risk awareness culture throughout the Society. The Committee has the additional responsibility of providing oversight of the Society's governance and regulatory compliance arrangements and their on-going effectiveness.

The Chair of the Committee meets the Head of Finance & Risk at least once a year, without management present, to discuss their remit and any issues arising from the risk and control assessments that have been carried out.

With-Profits Advisory ArrangementCurrent Members

Geoff Brown (Chair)

Mark Searles – Appointed 1 October 2020

Mary Gavigan – Appointed 20 May 2021

Other Members

Mark Jackson – Resigned 30 September 2020

The With-Profits Actuary attends meetings of the Advisory Arrangement as appropriate.

The With-Profits Advisory Arrangement meets as required and at least once a year to independently monitor and bring independent judgment on the extent to which procedures, systems and controls are adequate and effective to enable the Society to comply with the requirements of the FCA Handbook over the management and governance of with-profits business.

Executive Committee

The Executive Committee forms part of the Society's corporate governance structure. The Board is the main decision making body and the Executive Committee, whilst not a sub-committee of the Board, is charged (either individually or collectively) with running the Society's business within the delegated authority of the Board.

Attendance of Directors at Board and Committee meetings held during the year to 31 December 2020

	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	13	13	4	4	1	*	1	1
Mary Gavigan	3	3	2	2	1	1	-	-
Mark Jackson	9	9	2	2	-	-	1	1
Peter Mcllwraith	9	9	2	2	-	-	1	1
Tracy Morshead	12	13	3	*	1	1	-	1
Mark Searles	8	8	2	*	1	1	-	-
Graham Singleton	11	13	3	4	1	*	-	-
Executive								
Jonathan Long	12	13	3	*	-	-	1	*
Sandy Richards	13	13	4	*	1	*	1	*

	Investment Committee		Risk & Compliance Committee		With Profit Advisory Arrangement	
	Meetings attended	Meetings held	Meetings attended	Meetings held	Meetings attended	Meetings held
Non-Executive						
Geoff Brown	3	3	3	3	3	3
Mary Gavigan	1	1	2	*	2	*
Mark Jackson	-	-	-	-	1	1
Peter Mcllwraith	2	2	-	-	-	-
Tracy Morshead	3	3	3	3	-	-
Mark Searles	1	*	2	*	2	2
Graham Singleton	3	3	3	*	2	*
Executive						
Jonathan Long	3	3	3	3	1	*
Sandy Richards	3	3	3	3	3	*

* 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-term 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 2022. Accordingly, the financial statements have been prepared on a going concern basis.

Annual General Meeting

The 2020 Annual General Meeting was held in Bristol on 30th September 2020 and was attended by Board Members and Officers of the Society, although some were communicating remotely. As is the case for many similar organisations and in accordance with Government legislation in light of COVID-19, we made the decision not to invite attendees to the event. This was to prevent unnecessary travel and best protect our members, board and staff.

A number of resolutions were voted on including:

- The Board Report.
- The Directors' Remuneration Report.
- The Auditor's Report and the Annual Report and Financial Statements.
- Re-appointment of Ernst & Young LLP as Auditors.
- Re-election of Tracy Morshead and Geoff Brown as Non-Executive Directors.
- Election of Sandy Richards as Executive Director.
- Election of Graham Singleton, Mark Searles and Mary Gavigan as Non-Executive Directors.

The response from members submitting their postal/proxy forms was 11.1% of members eligible to vote electing to do so.

In 2021, the AGM is planned to be held in Bristol Hotel in September, members will be invited to attend the event. Members will be able to submit questions ahead of the date, in case there is further change in the Covid-19 regulations that would prevent members attending in person.

Employees

The average number of Directors and staff employed by the Group and Society is disclosed in Note 9 on page 84.

The aggregate remuneration paid to Directors and staff employed by the Group during the year amounted to £3.9m million (2019: £3.4 million).

Charitable Donations

The Society made charitable donations of £14,175 (2019: £6,672). There were no political donations (2019: £nil).

Change of Secretary

Dawn Carey resigned as Secretary on 30th September 2020. On 1st October 2020 Sandy Richards was appointed as Secretary. Sandy Richards resigned as Secretary on 14th May 2021. Keith Meeres was appointed as Interim Secretary on 20th May 2021.

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

30 June 2021

Audit Committee Report

The Audit Committee's role is to consider all audit related matters, in particular, to review the Society's financial reporting arrangements, the effectiveness of its internal controls and its risk management systems; as well as the internal and external audit processes. Through the Committee the Board has established formal and transparent policies and procedures to ensure the independence and effectiveness of internal and external audit functions and satisfy itself regarding the integrity of the financial statements. The Committee met four times during the financial year. The Committee reports its activities to the Board and makes recommendations to the Board.

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

Audit Committee Key Responsibilities	
Financial Reporting	<ol style="list-style-type: none"> 1. Monitoring the integrity of the Society's financial statements and reviewing critical accounting policies, judgements, and estimates. 2. Reviewing 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 understandable and it provides the information necessary for members to understand the Society's position and prospects, including performance, business model and strategy.
External Audit	<ol style="list-style-type: none"> 1. Reviewing the continued objectivity and independence of the external auditor, including the level and appropriateness of non-audit services. 2. Considering the appointment, removal, performance and remuneration of the external auditors. 3. Considering the planning, scope and findings of the annual external audit, the receipt of, and responses to, the auditor's management letter and reviewing the degree of liaison with internal audit. 4. Reviewing the effectiveness of the external audit process, considering relevant UK professional and regulatory requirements.
Internal Controls and Risk Management	<ol style="list-style-type: none"> 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	<ol style="list-style-type: none"> 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, removal, 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. The external and internal auditors regularly attend 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 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 page 40. The Audit Committee was satisfied that internal controls over year-end financial reporting were appropriately designed and operating effectively with one exception as described in note 30 on page 99.

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

Internal Audit is outsourced to Mazars. During 2020, the Audit Committee monitored the effectiveness of Internal Audit and the Internal Audit programme, approving the audit plan and budget, and confirming that appropriate resources were in place to execute the plan effectively.

In the year ended 31 December 2020, 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:

- Revenue Recognition
- Product Development and Governance
- Payroll
- Operational Resilience
- Outsourced Health Claims Processing (to Axa)
- Governance Health check

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 has been the Society's external auditor since September 2017 and they have carried out the external audit work for each financial year since the year end 31 December 2017. A resolution proposing the re-appointment of EY as the Society's external auditor was put to the members at the 2020 AGM and approval gained.

The Committee continues to assess the independence, the objectivity of the external audit and the effectiveness of the audit process on an ongoing basis. The external auditor is required to rotate the audit partner responsible for the Society audit every five years.

The Society has policies in place, which aim to safeguard and support the independence and objectivity of the external independent auditors. One such policy requires the prior approval of the Audit Committee for the engagement of the independent auditors for non-audit work. The external auditor (EY) did not undertake any non-audit assignments during 2020.

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	<p>The Society has in place procedures to analyse experience on its insurance contracts. Sophisticated valuation methodology is used whereby statistical analyses are used alongside available industry data to assess the best estimate demographic assumptions. The general process for setting assumptions has not changed for 2020 year-end (although some changes were made to methodology for some individual assumptions).</p> <p>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.</p> <p>Lapse experience is monitored on a monthly basis throughout the year.</p> <p>Allowance is made for significant non-recurring events in experience, but which are unlikely to influence subsequent experience.</p>

<p>Assessment of assumptions relating to expenses</p>	<p>Renewal expenses are determined using per policy expenses equal to the level of expected administration costs in 5 years' time divided by the expected volume of business in force at that time. An Additional Expense Reserve is held on top of this, to cover the shortfall in expense margins over a 5 year period, until the volume of business reaches scale.</p> <p>The projection of the expected volume of business is based on the most recent sales projections, as well as demographic and lapse assumptions.</p> <p>The Audit Committee is satisfied that, considering all material factors, the approach is reasonable and one that reflects its best estimate of future experience.</p>
<p>Impact of COVID-19 on going concern and viability.</p>	<p>The COVID-19 pandemic has had significant impact on the Society (see note 2 Capital Management on page 71) none of which have had an impact on the going concern and viability to the Society since the Society has been able to manage the circumstances that COVID19 has presented. The primary issues faced are:</p> <ul style="list-style-type: none"> - The initial negative impact on financial markets, which has largely now reversed. - The reduction in claims on health policies, which the Society has made allowance for reversing once pandemic related restrictions are relaxed. <p>Longer term impacts of COVID-19 on mortality, morbidity, lapses and financial markets are unclear. The Society does not expect there to be further impacts on its viability. After taking into account emerging industry opinion and practice, long term assumptions have not changed in response to the impacts of COVID-19.</p>
<p>Internal control breach and follow up Investigation in relation to this</p>	<p>Following a review of one of its subsidiaries, during quarter one of 2021, the board became aware on an internal control breakdown. In the circumstances advice was sought and the matter is being investigated (see note 30).</p>

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

Mary Gavigan
Chair of the Audit Committee
30 June 2021

Risk and Compliance Committee Report

Embedding a strong risk management culture is a strategic priority across the Society supported by robust risk management and controls.

The Risk and Compliance Committee assists the Board in its leadership and oversight of risk including 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.

Risk is integrated into the culture of the Society with an effective policy and a programme led by the Board, delegated through this Committee and to the Society's Operational and Conduct Risk Forum.

Key responsibilities of the Risk and Compliance Committee
Review and recommend the approval of the risk management, compliance and governance framework across the Society
Keep under review the Society's compliance with statutory and regulatory requirements
Make recommendations to the Board concerning the Society's overall risk appetite, tolerances and strategy
Monitor and review the Society's management of the financial risks of climate change
Advise the Board on proposed strategic transactions including significant acquisitions or disposals
Review, update, and test business continuity plans on a regular basis
Review the Society's procedures for the prevention and detection of bribery and corruption; and money laundering
Review and monitor management's responsiveness to the findings and recommendations of the Operational and Conduct Risk Forum

The Risk and Compliance Committee and the Audit Committee work together to cover all relevant issues and to avoid duplication.

Membership

The Committee consists of at least four members, with at least two being independent Non-Executive Directors of which one is the Chair.

The Committee met four times during the financial year, one of these being integrated into a Board meeting to consider Risk Appetite.

At each meeting we receive a comprehensive risk management report and a risk appetite dashboard report, which contributes to a Key Risk Indicator dashboard presented to the Board on a quarterly basis.

During 2020 we also received the Society's:

- Annual Risk Management Report
- Annual Operational Compliance Report
- Annual Money Laundering/Financial Crime Report
- Annual Business Continuity/Disaster Recovery Report

Progress in 2020

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

While the Society placed significant risk management focus on the pandemic, with a particular emphasis on the safety and resilience of our people and members, we have continued to focus on our wider risk management agenda, including:

- reviewing the approach of setting the Society's risk appetites, including the articulation of the associated measures and triggers for action
- reviewing specific aspects of risk as they arise in the external environment and focusing on specific areas of risk for our health and protection businesses
- reviewing our strategic and emerging risk profiles
- reviewing our climate change risk profile and evaluating our approach to enhancing climate change risk management and disclosures
- reviewing our approach to the calibration of our solvency risk appetite statement to update for changes in our risk profile
- improving our regular risk reporting to the Board to assist in its effective oversight
- continuing to improve 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 Operational and Conduct Risk Forum.

Risk is assessed and managed under the following risk categories:

Risk	Definition
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 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.
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 and financial reporting
Conduct Risk	The risk that the Society's behaviour results in poor outcomes for customers and the market as a whole.

Other Material including Pension	Any other risks that may cause loss or harm to the Society and/or its members.
Emerging Risk	Potential emerging risks to which the Society may be exposed

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
30 June 2021

Nominations Committee Report

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.

The unfortunate circumstances within the year relating to the untimely death of Jonathan, our CEO, meant that the Nomination Committee was required to undertake a greater number of assignments than the norm. The most important of these was to manage the search and selection process of a new CEO for the Society culminating in a recommendation to the Board. The committee appointed an external executive search firm to undertake a broad market search and a shortlist of quality candidates was prepared who were then subject to interviews by the committee and Board members. At an early stage, Graham Singleton indicated his desire to become a candidate and he stepped away from involvement in the assessment process to ensure there was no conflict of interest. Having undertaken a comprehensive interview and review process the committee was unanimous in its' recommending to the Board that Graham be appointed as the new CEO. The Committee was also active post the resignation of Sandy Richards as Executive Director and recommended to the Board the appointment of Julian Ellacott as an Executive Director.

Other activities of the Committee during the year included the recommendation to the Board relating to the appointment of Mary Gavigan and myself as Non-Executive Directors replacing Peter McIlwraith and Mark Jackson who stepped down from the Board in mid-2020.

At all times, the Committee has ensured 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
30 June 2021

Directors' Remuneration Report

Introduction

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

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

Remuneration Committee

The Remuneration Committee is appointed by the Board and all members of the Committee are Non-Executive Directors. The CEO and / or other relevant Executive Officers attend meetings as appropriate. Mary Gavigan and Mark Searles were appointed to the Committee on 1 October 2020 after Peter McIlwraith and Mark Jackson resigned on 30 September 2020. On 20 May 2021 Tracy Morshead also resigned and was replaced by Geoff Brown.

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 up to date with the market so that individuals are motivated and the Society is able to attract and retain key talent.
- b) Remuneration package will be competitive and recognise the relative remuneration in comparable markets through benchmarking.
- c) Remuneration will be determined fairly and objectively across the Society.
- d) Variable reward for the Directors and key function holders will be linked to strategic objectives as well as considering current and future risks.
- e) Total remuneration will include a fixed base salary as well as a variable discretionary bonus and other financial and non-financial employee benefits.
- f) The remuneration policy will be transparent and accessible to all staff across the Society.

Remuneration for Executive Directors consists of a fixed salary, variable incentive pay, pension and other benefits including company car allowance. All benefits (other than variable pay), including pension arrangements, are on the same terms as employees.

Directors' Remuneration Report (continued)

Policy (continued)

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

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

Remuneration for Non-Executive Directors comprises a basic fee plus a supplement for the Chair of the Board 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
30 June 2021

Directors' Remuneration Report (continued)

Directors' emoluments for the year ended 31 December 2020					
	Salaries & Fees £	Performance Related Pay £	Other Benefits ¹ £	Total 2020 £	Total 2019 £
Chair					
Tracy Morshead ²	51,200	-	-	51,200	49,950
Executive Directors					
Jonathan Long ³	169,760	-	30,222	199,982	243,904
Sandy Richards ⁴	133,250	-	25,750	159,000	88,713
Non-Executive Directors					
Geoff Brown	34,085	-	-	34,085	30,690
Mary Gavigan ⁵	10,487	-	-	10,487	-
Mark Jackson ⁶	23,595	-	-	23,595	30,690
Peter McIlwraith ⁶	31,725	-	-	31,725	41,260
Mark Searles ⁷	18,352	-	-	18,352	-
Graham Singleton ⁸	31,460	-	-	31,460	2,558
Total				559,886	487,764

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

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

³ Jonathan Long deceased on 14 December 2020.

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

⁵ Mary Gavigan was appointed as a Non-Executive Director on 1 September 2020.

⁶ Mark Jackson and Peter McIlwraith resigned as Non-Executive Directors on 30 September 2020.

⁷ Mark Searles was appointed as a Non-Executive Director on 1 June 2020.

⁸ Graham Singleton was appointed as a Non-Executive Director on 1 December 2019.

Directors' Remuneration Report (continued)

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

Pension Entitlement - Defined benefit retirement plan

	Years of Service	Pension accrued during 2020 £	Accrued pension as at 14/12/2020 £	Accrued pension as at 31/12/2019 £	Closing value at 14/12/2020 £	Opening value at 31/12/2019 £	Pension input amount over 2019 £
Jonathan Long	14	130	5,305	5,175	106,100	105,266	834

At the AGM, members voted on the resolution to approve the 2019 Directors' Remuneration Report. The Group is committed to on-going shareholder dialogue and takes an active interest in voting outcomes. Where there are substantial votes against the resolutions in relation to Directors' remuneration, the reasons for any such vote will be sought, and any actions in response will be detailed in the next Directors' Remuneration Report.

The following table sets out the actual voting in respect of the approval of the 2019 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
2703	91.81%	83	2.82%	2944	158

Executive Directors

Base Salaries

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

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

Performance Related Pay

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

Directors' Remuneration Report (continued)

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

Directors' Contract

The Executive Directors have service agreements 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 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 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 2020 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 2020 which comprise:

Group	Society
Consolidated balance sheet as at 31 December 2020	Balance sheet as at 31 December 2020
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 30 to the financial statements, including a summary of significant accounting policies	Related notes 1 to 30 to the financial statements including a summary of significant accounting policies

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

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group 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 Society'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 2022;
- 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;
- reading the Society's capital recovery plan and reviewing all correspondence with the Prudential Regulation Authority in relation to the plan;
- 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 Society's ability to continue as a going concern for the period to 31 December 2022.

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 or Society's ability to continue as a going concern.

Overview of our audit approach

Audit scope	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> Inappropriate actuarial demographic assumptions for morbidity, longevity and persistency Inappropriate actuarial expense assumptions Potential contingent liability in respect of internal control breakdown
Materiality	<ul style="list-style-type: none"> Overall group materiality of £400k which represents 0.5% of the Long Term Business Provision.

An overview of the scope of the Society 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 entity within the Group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account size, risk profile, the organisation of the group and effectiveness of group-wide controls, changes in the business environment and other factors when assessing the level of work to be performed at each entity.

In assessing the risk of material misstatement to the Group financial statements, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements, we selected all three reporting components 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.

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
<p>Inappropriate actuarial demographic assumptions for morbidity, longevity and persistency (2020 Long Term Business Provision: £80,977k, 2019 Long Term Business Provision: £83,145k)</p> <p><i>Refer to the Audit Committee Report (page 37); Accounting policies (page 65); and Note 20 of the Financial Statements (page 92)</i></p> <p>The assumptions underpinning the valuation of the long-term business provision as at 31 December 2020 are disclosed in note 20 to the financial statements.</p> <p>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.</p> <p>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.</p>	<p>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:</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>We concluded on whether the final assumptions were within a reasonable range based on our expert judgement,</p>	<p>Based on the analysis of experience, industry practice and the financial and regulatory requirements, we determined that:</p> <p>The persistency assumptions used by management are in the middle of a reasonable range;</p> <p>The longevity assumptions are towards the optimistic end of a reasonable range; and</p> <p>The morbidity assumptions are outside of the lower end of a reasonable range by an amount that is not material.</p> <p>On an aggregate basis, the demographic assumptions were outside the lower end of a reasonable range by an amount that is not material.</p>

Risk	Our response to the risk	Key observations communicated to the Audit Committee
	<p>management's internal experience analysis and benchmarking to peers.</p> <p>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.</p> <p>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.</p>	
<p>Inappropriate actuarial expense assumptions (2020 Long Term Business Provision: £80,977k, 2019 Long Term Business Provision: £83,145k)</p> <p><i>Refer to the Audit Committee Report (page 38); Accounting policies (page 65); and Note 20 of the Financial Statements (page 92)</i></p> <p>The assumptions underpinning the valuation of the long term business provision as at 31 December 2020 are disclosed in note 20 to the financial statements.</p> <p>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.</p>	<p>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:</p> <p>We obtained an understanding and tested the design and operating effectiveness of key controls over management's process and governance for setting expense assumptions.</p> <p>We compared the methodology and assumptions with market practice.</p> <p>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.</p>	<p>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.</p>

Risk	Our response to the risk	Key observations communicated to the Audit Committee
<p>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.</p>	<p>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.</p> <p>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.</p> <p>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.</p>	
<p>Potential contingent liability in respect of internal control breakdown</p> <p><i>Refer to the Audit Committee Report (page 38) and Note 30 of the Financial Statements (page 99)</i></p> <p>Following a review of one of its subsidiaries (NFFS), during quarter one of 2021, the board became aware of an internal control breakdown that resulted in certain transactions being entered into that otherwise may not have been. In the circumstances members of the board sought advice and the matter is being investigated. The investigation is at an advanced stage and relevant regulatory parties have been informed as appropriate.</p>	<p>Our procedures included:</p> <p>Engaging EY specialists to provide support to the audit team in understanding the fact pattern of the matter and in assessing the potential impact on the financial statements.</p> <p>Obtaining an understanding of management's response, including the scope and findings from management's investigation.</p> <p>Considering the impact on the Group's entity level controls to identify the impacts on the audit work, considering the potential for management override of controls.</p> <p>Discussing with management and those charged with governance the status of work performed and reviewing all correspondence on the matter with regulators to determine if the criteria under FRS 102 for recording a provision or disclosing a contingent liability had been met.</p>	<p>We have gained reasonable assurance that at the date of signing the financial statements, the disclosure in the financial statements is a fair reflection of the status of management's investigation and response to the matter.</p>

Risk	Our response to the risk	Key observations communicated to the Audit Committee
There is a risk that appropriate disclosure of the matter is not included in the financial statements.	Validating whether appropriate disclosure on the matter was included in the financial statements.	

In the prior year, our auditor's report included a key audit matter in relation to data migrations to the new policy administration system (Odyssey) in the year. This risk is non-recurring in nature and therefore is not included in the current year.

In the prior year, our auditor's report also included a key audit matter in relation to the impact of COVID-19 on going concern and viability. In the current year, the work performed in this area is included in the 'conclusions relating to going concern' section of this report.

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 £400,000 (2019: £540,000), which is 0.5% of Long term Business Provision (2019: 3% of the Fund for Future Appropriations). This has been a change from Fund for Future Appropriations used in the previous years due to the solvency coverage ratio breach at the end of March 2020 and our conclusion that the long term business provision was the key driver of own funds which are then used to calculate the solvency coverage ratio. As a result, we determined that the long term business provision would be a more critical concern for stakeholders.

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% (2019: 50%) of our planning materiality, namely £200k (2019: £270k). We have set performance materiality at this percentage based on our assessment of the risk of misstatement.

Audit work of the components for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of 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 £40k to £200k (2019: £54k to £270k).

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 £20k (2019: £27k), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

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

Other information

The other information comprises the information included in the annual report set out on pages 4 to 48, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained in the annual report.

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 there is 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 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 statement of responsibilities of the directors set out on page 33, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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 Society and management.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and Society and 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 complies with these legal and regulatory 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.
- 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 r 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. We also performed the specific procedures over the internal controls issue noted under the Key audit matters section above.
- 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 <https://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 4 years, covering the years ending 31 December 2017 to 31 December 2020.

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

30 June 2021

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