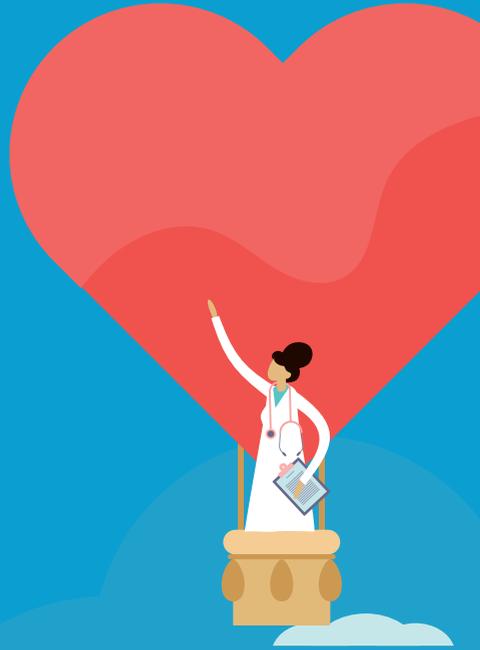




National
Friendly



Performance Summary 2020

Putting our members at the heart of what we do



Chair's Review



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.

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
30 June 2021



Chief Executive's Summary

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.

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 Requirements (SCR) 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:

	31st 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

Business Performance (continued)

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.

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 on page 5.

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.

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.

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.

Graham Singleton
Chief Executive Officer
30 June 2021

Contact us

For information or to request a copy in Braille, large print, or audio, please:

Call us on:

0333 014 6244 Calls from UK landlines and mobiles cost no more than a call to an 01 or 02 number and will count towards any inclusive minutes. Lines are open 8am-6pm, Monday to Friday excluding bank holidays. Calls are recorded for training and quality purposes.

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